NO MORE EXCUSES FOR MEXICO

Why do Mexicans only have one-third the per capita income (on a purchasing power parity basis) of Canadians and only one-fourth that of Americans?

The answer is that Mexicans are relatively poor because have been plagued by semidespotic regimes that have ignored the rule of law and often engaged in destructive economic policies.

Mexicans have been free of their Spanish colonial masters for almost 200 years (almost as long as their American neighbors and far longer than Canadians have enjoyed independence).

Mexico has a better growing climate than Canada, and it is rich in natural resources -- oil, gas, and metals.

Yet Mexican politicians frequently resort to blaming their northern neighbor for their economic woes but would not dare answer the question: "If the U.S. were as poor as Mexico, would Mexico be better off or worse off?"

Too many in the American and world press, and many left-leaning members of the global political class, are willing to buy into the myth that somehow Mexico's self-induced misery is the fault of the U.S.

Let's look at the facts. Economists of almost all political persuasions recognize the "rule of law" and a sound legal system are necessary for economic development and prosperity.

People who live in countries where property rights are insecure, contracts poorly enforced and legal and regulatory verdicts auctioned off to the highest bidder will have few productive economic opportunities.

A recent study by Professors James Gwartney and Robert Lawson published by the Cato Institute provides additional evidence for the importance of sound legal systems. They ranked 100 counties according to consistency of legal structures.

The top 24, led by Switzerland, in 2000 had an average per capita gross domestic product (GDP) of $25,716, and an average annual growth in per capita GDP of 2½ percent per year (1980-2000). On the other end of the scale, the bottom 21 countries only had a per capita GDP of $3,094 and a growth of per capita GDP of only 0.33 percent (1980-2000).

Mexico's rating has been falling in recent years and it is now in the bottom one-third because of persistent corruption in its legal system.

The 2006 Index of Economic Freedom (by the Heritage Foundation and the Wall Street Journal)

ranked Mexico 60 out of 157 countries evaluated. There is a very high correlation between the degree of economic freedom and economic prosperity. Mexico has been improving, but it has a long way to go. Its economic growth rate is about half what it should be in its stage of development and its potential.

For instance, Mexico has many state monopolies that should be abolished, the most notorious of which is PEMEX, the famously inefficient and corrupt state monopoly petroleum company.

Mexicans are not even allowed to own subsurface rights on their property, unlike both domestic and foreign property owners in the U.S. Hence, there is little incentive to explore for additional oil and gas or minerals -- which Mexico has an abundance.

This is just one example of the many ways Mexico keeps itself unnecessarily poor.

Mexico does not produce enough jobs at its current growth rates to keep up with the growth of the labor market; hence it "exports" its "excess" labor force to the U.S. Many Mexican politicians explicitly, or at least implicitly, advocate sending Mexican workers to the U.S.

People are most productive in their 20s, 30s, and 40s, and most Mexican emigrants are in these age groups, while the less productive and dependent young and old are left in Mexico. *Few seem to understand Mexico's labor export policy is an enormous drain on Mexico's economic potential*.

The U.S. cannot stop the illegal immigration from Mexico as long as the Mexican economy continues producing too few jobs. Thus, the U.S. has a strong vested interested in promoting better economic policies in Mexico.

Unfortunately, the campaign speeches of a couple of the major candidates for president of Mexico (the election will be held July 6) advocate policies that would only worsen the situation (more state involvement in the economy and more regulation).

Mexican President Vicente Fox has been slowly moving his country in the right economic direction, but even this minimal progress is in danger of being reversed.

What should be done?

- First, the U.S. needs to undertake a balanced program of increased border control and a practical guest worker program (without amnesty) which benefits U.S. employers but also makes them responsible, such as the Vernon Krieble Foundation has proposed.

- Second, the U.S. government needs to apply much more diplomatic pressure on Mexico coupled with an economic education campaign there.

- Third, companies operating in Mexico and nonprofit groups also need to aggressively push an economic education campaign in Mexico, aimed at persuading the political class to enact pro-growth reforms.

- Fourth, we need a Radio Free Mexico to explain to the people of Mexico how a free market really works and how they can create a Mexico prosperous enough so they want to stay.

That's why I'll be joining the Board of Advisors for the Radio Free Mexico project as proposed in To The Point.

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