Strengthening institutions to improve the prosperity of all Mexicans
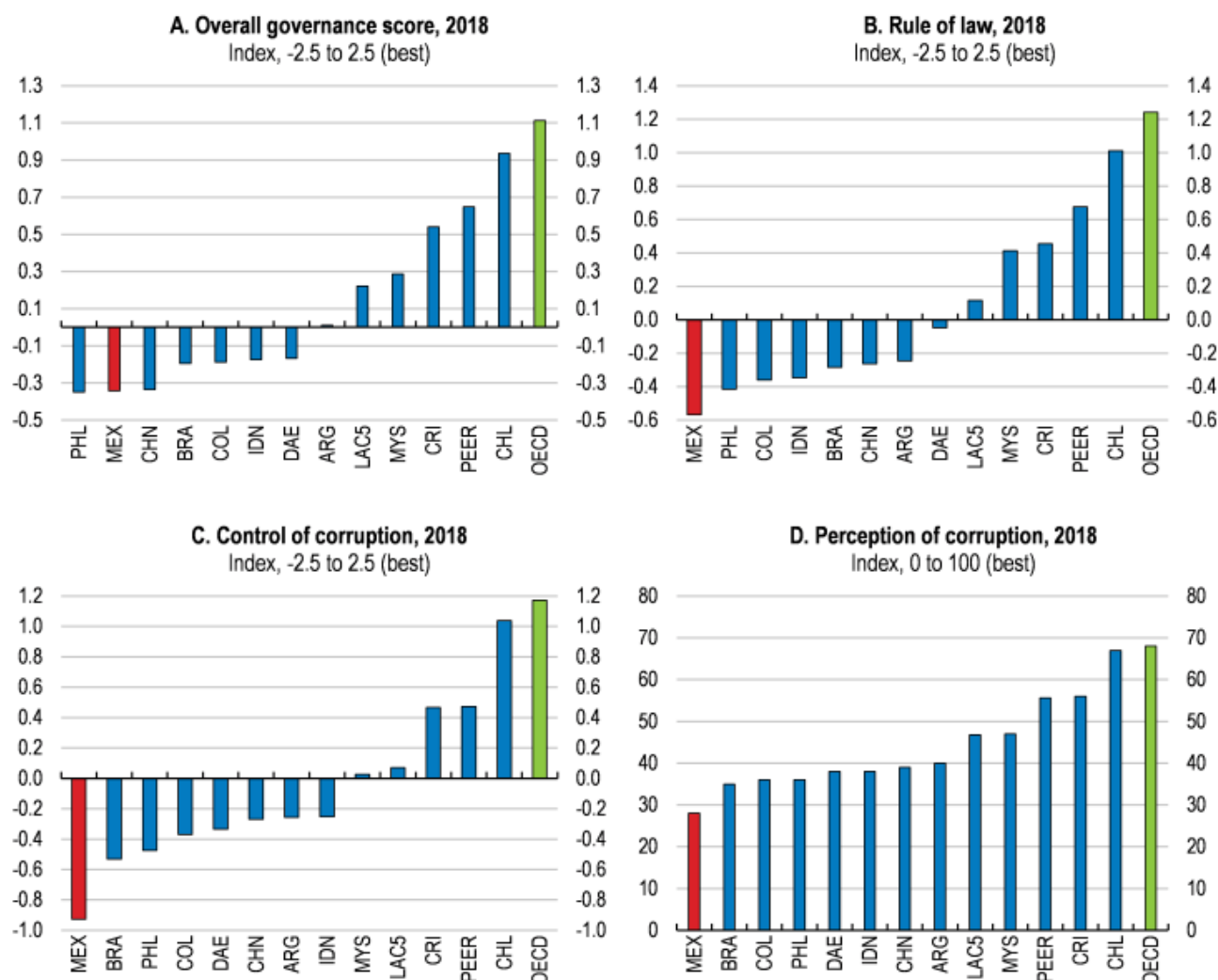
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Why are some countries wealthier than others? There is
increasing recognition that the economic success of nations
depends on well-functioning
institutions (see, for example, Acemoglu and Robinson, 2012).
Institutions
provide a framework that shape economic incentives, thus
influencing decisions
in a multitude of areas, such as whether to become educated,
start a business,
invest and so forth. The success of policy reforms in all
areas therefore
hinges on the ability of institutions to create the right
incentives. Quality
institutions also create certainty and a level playing field
on which people
can build, thus bringing more fairness and greater access to
opportunities. Overall,
quality institutions are of fundamental importance to economic
outcomes.

It is therefore concerning that numerous indicators suggest
that institutional quality is low and declining in Mexico
(Figure). For example, symptomatic of weak institutions,
perceived corruption is the highest in the OECD and has not
improved over time. Also worringly, the already high levels of
crime and violence have been increasing. Mexico has the
highest homicide rate in the OECD, and the number of murders
has risen sharply in the past decade (OECD, 2019; Figure).

Impunity is also high, with over 90% of crimes going unreported, and just a small fraction of reported cases making it to the court system (Le Clercq and Rodríguez Sánchez Lara, 2016).

The quality of Mexico's institutions is low

A. Overall governance score, 2018
Index, -2.5 to 2.5 (best)

B. Rule of law, 2018
Index, -2.5 to 2.5 (best)

C. Control of corruption, 2018
Index, -2.5 to 2.5 (best)

D. Perception of corruption, 2018
Index, 0 to 100 (best)

Note: Panel A: Simple average of the six World Governance sub-indicators: control of corruption, government effectiveness, political stability and absence of violence/terrorism, regulatory quality, rule of law, and voice and accountability. PEER is a simple average of the 10 non-Latin American OECD members with the lowest GDP per capita: Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovak Republic, Slovenia and Turkey. LAC5 is a simple average of Argentina, Brazil, Chile, Colombia and Costa Rica. DAE is a simple average of People's Republic of China, Indonesia, Malaysia, Philippines, Thailand and Viet Nam.

Source: World Bank World Governance Indicators; Transparency International Corruptions Perception Index.

Corruption is a serious drag on the prosperity of all Mexicans and tackling it features high in the new government's agenda. Corruption is a drain on fiscal resources, undermines the ability to deliver public services and also has an adverse effect on political stability, the business environment, private investment and inclusive growth . The OECD Economic Survey of Mexico 2019 highlights that improving institutional

quality would have the largest growth benefits among all structural reforms and would also facilitate the effective implement of all other policy reforms

To fight corruption and improve transparency, Mexico's ambitious National Anticorruption System (NACS) was enacted in 2016 (OECD, 2019). As well as establishing a federal anticorruption system, it requires states to create local anticorruption systems. However, implementation is behind schedule. For example, local anticorruption systems were supposed to be in place by mid-2017, and while important progress has been made, not all states have fully completed this process. The current administration is committed to accelerating the implementation of the NACS and has taken immediate actions. For example, key positions are now being filled – in particular, the first Special Anticorruption Prosecutor was recently appointed.

The experiences of other countries highlight that it is very challenging to successfully tackle corruption in a wholesale manner. Going forward, it will be important to monitor and evaluate the outcomes of NACS, and address identified weaknesses, especially at a regional level, in order to avoid exacerbating already stark geographic disparities, and take further action if necessary.

Mexico has also undertaken other reforms in recent years to move the quality of institutions and economic oversight towards international best practice. This included the

creation new independent sector regulators were created as part of the 2013 energy reforms and two new autonomous competition authorities and specialist competition courts were established in 2014. Ensuring the independence and adequate resourcing of these autonomous entities will be crucial to the continued strengthening of competition in Mexico.

The high levels of crime and violence continue to grow

A. Age-standardised homicide rate per 100 000 people
2014 or latest available year
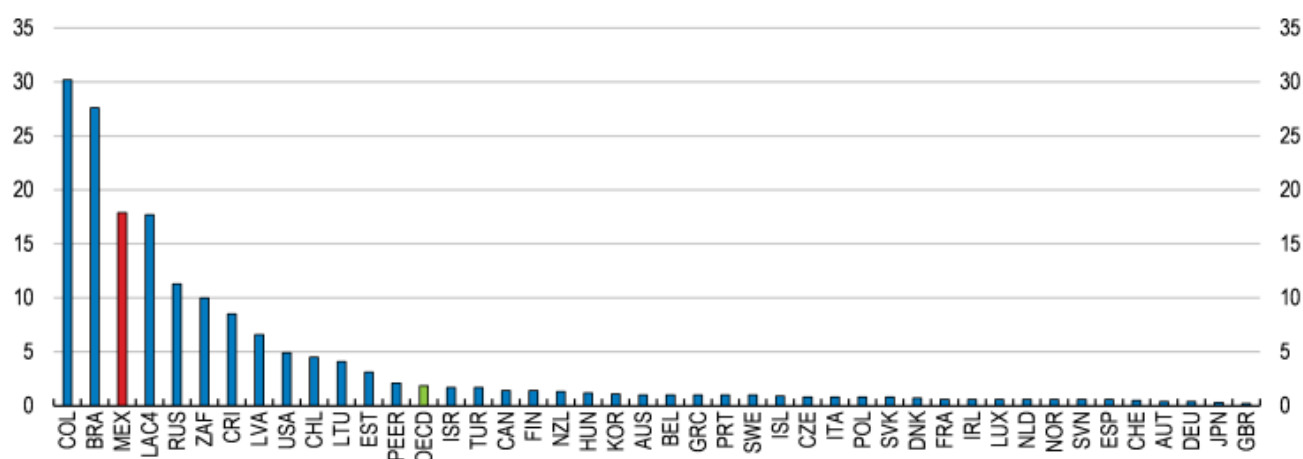
B. Number of homicides
Thousands
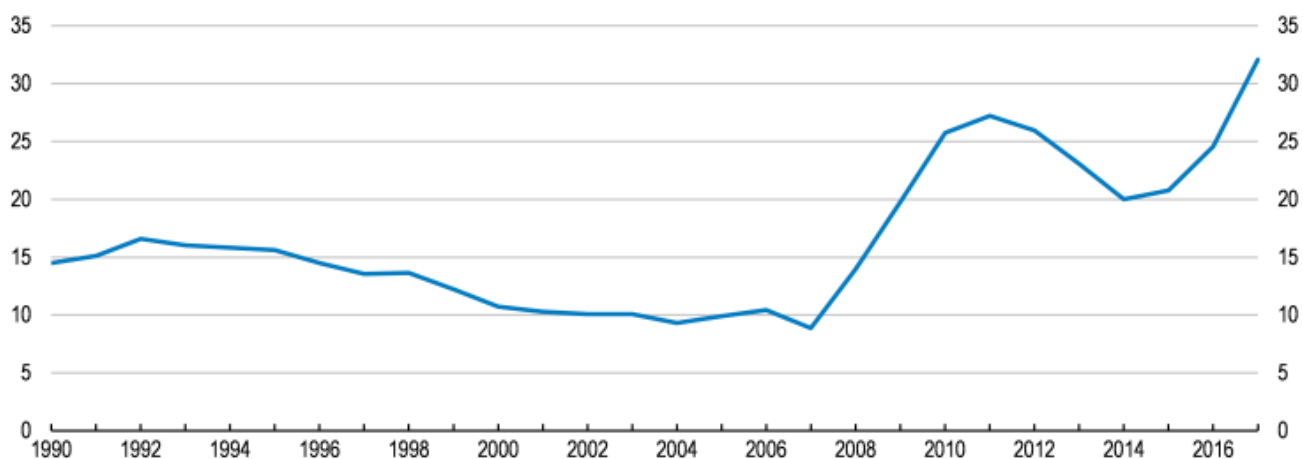
Note: Panel A: OECD is a population-weighted average of member countries. PEER is a weighted average of the 10 non-Latin American OECD members with the lowest GDP per capita: Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovak Republic, Slovenia and Turkey. LAC4 is an unweighted average of Brazil, Chile, Colombia and Costa Rica.
Source: OECD Better Life Index, November 2017 update; INEGI.

References:

Acemoglu, D. and J.A. Robinson. (2012). *Why nations fail: The origins of power, prosperity, and poverty*. New York: Crown Publishers.

Le Clercq, J. and G. Rodríguez Sánchez Lara (2016), Global Impunity Index Mexico IGI-MEX 2016, Center of Studies on Impunity and Justice (CESIJ), http://www.udlap.mx/cesij.

OECD (2019), *OECD Economic Surveys: Mexico 2019*, OECD Publishing, Paris. https://doi.org/10.1787/a536d00e-en