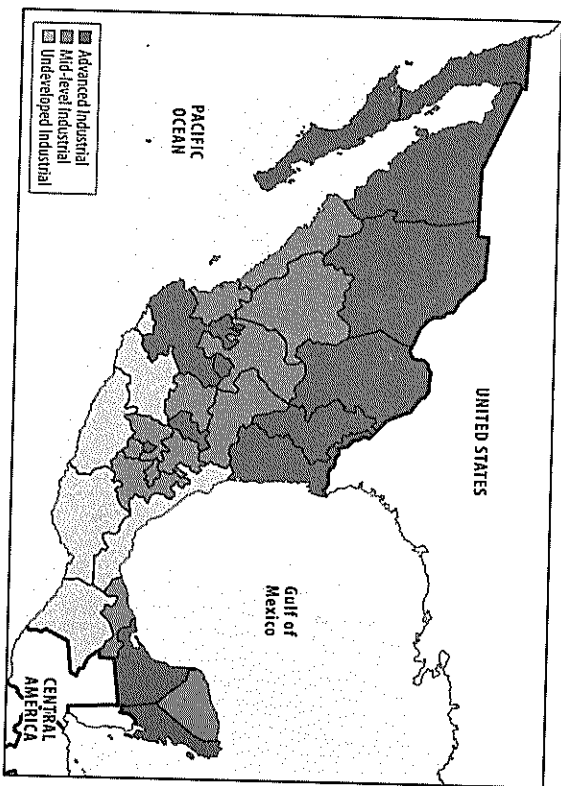


sifying inequality. In Mexico, one can find that contrast in Mexico City or Guadalajara. But one can also see it regionally, contrasting the relative wealth of Mexico's north with the poverty of the south. Inequality does not mean lack of development. Instead, it is the inevitable by-product of development.

It is interesting to note in this map, of course, that the areas bordering the United States and the tourist regions in the south—as well as Mexico City—are at the highest levels of development. As one moves away from the U.S. frontier, the HDI declines. This indicates the importance of the United States in Mexican development. It also reveals the real danger facing Mexico—which is an insurgency in the south fueled by its inequality. This inequality will intensify as Mexico develops.

There is one other important factor driving Mexico's growth: organized crime and the drug trade. In general, there are two types of crime. One is simply distributive and consumptive—someone steals your television and sells it. The other creates large pools of capital. The American Mafia that



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dominated bootlegging used that money to move into legitimate business, until, at a certain point, the original money had been merged into the general flow of capital such that its origin in criminality was no longer relevant. When this happens inside a country, it stimulates growth. When the transfer is between two countries, it really stimulates growth. The key is that the cost of the product is artificially inflated by its illegality. This encourages the emergence of cartels that suppress competition, maintain high prices, and facilitate the transfer of funds.

In the case of the contemporary drug trade, the sale of drugs at artificially high prices to American drug consumers creates huge pools of money available for investment in Mexico. The amount of money is so large that it must be invested. Complex money-laundering operations are designed to allocate the funds legally. The next generation becomes heir to a fairly legitimate pool of money. The third generation becomes economic aristocrats.

This obviously oversimplifies the situation. It also neglects the fact that in many cases, dealers located in Mexico will not repatriate the money to Mexico but will instead invest it in the United States or elsewhere. But if Mexico is becoming increasingly productive, and if the government can be corrupted to provide a degree of protection while the money is being laundered, then reinvesting drug money in Mexico makes a great deal of sense. Listen closely: the giant sucking sound you hear is investment capital leaving the United States and going to Mexico via the drug cartels.

The problem with this process is that it is politically destabilizing. Because the authorities are complicit in the process, and the courts and police ineffective, the situation creates instability from the street to the highest reaches of government. A society can rip itself apart when this much money is involved. Yet societies that are sufficiently large and complex, and in which the amount of money represents a relatively small fraction of available capital, can eventually stabilize themselves. The United States, where organized crime has played a critical role since the 1920s and did destabilize entire regions, ultimately rechanneled criminal money into legal activities. It is my view that this is the most likely path for Mexico and that this activity will ultimately contribute to Mexican economic growth.

This is not to say that there will not be a fearsome period of instability in Mexico. During the coming years, the ability of the state to control the car-