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Understanding the Problems and Obstacles of Corruption in Mexico

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Corruption is an ancient and complex phenomenon. It has been present in various forms since the earliest ancient Mesopotamian civilizations, when abuses from public officials for personal gain were recorded.[1] Discussions on political corruption also appeared in the writings of Greek philosophers, such as Plato and Aristotle.[2] For centuries now, philosophers, sociologists, political scientists, and historians have analyzed the concept of corruption, usually in the context of bribery. More recently, in the face of globalization and political and financial integration, the study of corruption has broadened to include many different manifestations. Even so, there is not a single definition of corruption accepted by scholars and institutions working on this issue. The concept is broad and difficult to define and measure. Yet, corruption is everywhere, and it is the most corrosive social behavior of our time. To deter and abolish it, it must first be understood and then addressed using the right strategies. This issue brief deals with the complexities involved in defining, understanding, and measuring corruption—first steps in dealing with this pervasive problem—and uses the case of corruption in Mexico, where corruption has increased in recent years, to illustrate these complexities.

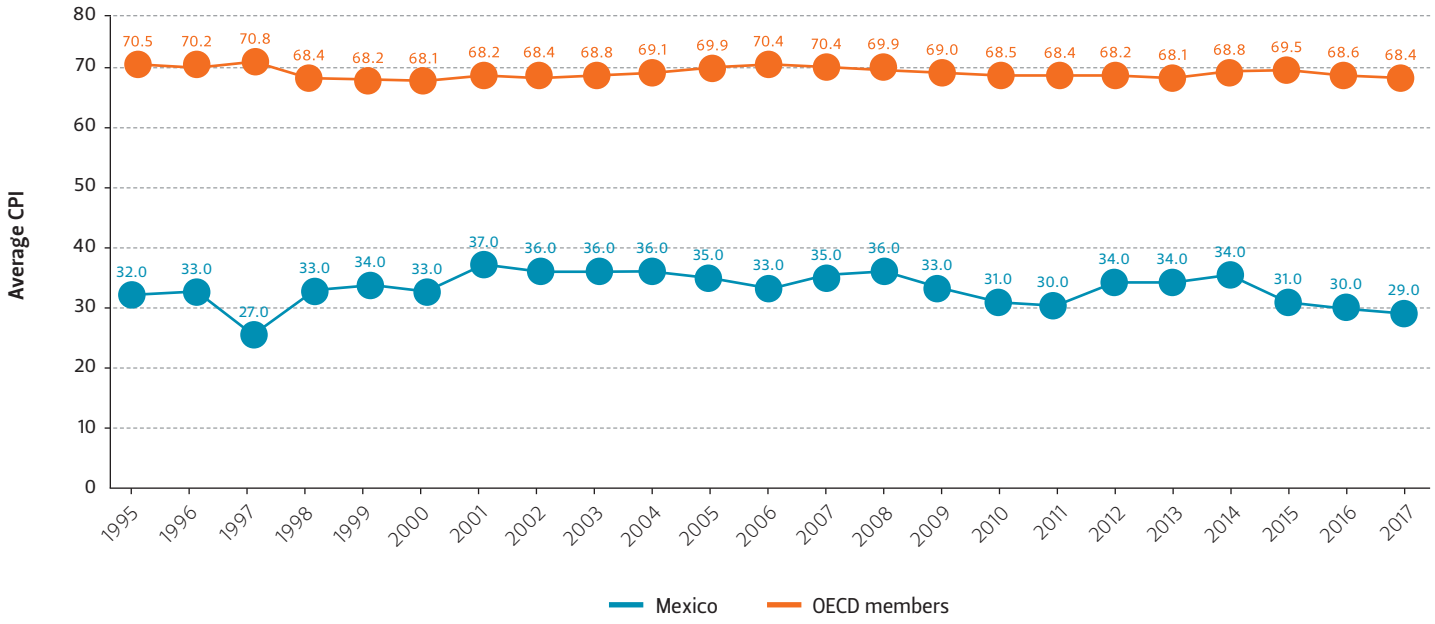
DEFINING CORRUPTION

Defining corruption has been a challenge for academics and institutions around the world. Some view it as an individual, moral, and cultural issue; others view it as a structural and public issue. Some focus on it in the public sector; others examine it in the private sector. Of the various approaches to defining corruption, the most controversial approach is that of the so-called moralists. From the moralist perspective, an act of corruption should not be defined as wrong or illegal, as it is contextual and depends upon the norms of the society in which it occurs. This perspective, though important, has been largely avoided by modern social scientists in favor of an institutional approach to defining corruption, which is based on legal norms that resolve conflicts between different sectors of a society that are affected by corruption. This institutional approach may better help in measuring and combating corruption.

Leff, for example, avoids the moral definitions of corruption and instead defines it as a set of norms and extra-legal institutions used by people to gain influence over the actions of the bureaucracy.[3] Institutional approaches to corruption such as Leff's, however, have their own problems. One is identifying the norms and extra-legal institutions and specifying how they operate to cause and incentivize corruption. Nye realizes this problem and argues that a primary task in defining corruption is to specify the standards used to evaluate a corrupt act. Nye therefore defines corruption as "behavior which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence."[4] In this

Corruption negatively impacts major variables such as poverty, inequality, economic growth, social welfare, skilled emigration, expenditure on education and health, and civil and political rights.

FIGURE 1 — THE AVERAGE CPI OF OECD MEMBERS COMPARED TO MEXICO



SOURCE "Corruption Perceptions Index Overview," Transparency International (TI), last modified February 21, 2018, https://www.transparency.org/research/cpi/overview.

definition of corruption, Nye includes bribery, nepotism, and misappropriation. Following Nye, Huntington defines corruption as the deviation from accepted norms to serve private ends by public officials.[5] This definition considers the existence of two parties—corruptor and corrupted—in any exchange of resources, but fails to consider the negative externalities of their actions. For example, corruption diverts resources intended for public works and infrastructure into private hands and therefore causes indirect negative impacts on a society, such as unsafe buildings or environmental degradation.

Rose-Ackerman emphasizes the corrupt links between the state and the private sector. She defines corruption as the misuse of public office for economic or political gain.[6] Similarly, for Klitgaard, corruption occurs when public officials make special arrangements for private gain.[7] In both of these definitions, agents are disloyal to the public interest or common good and pursue private interests. Bhargava adds the private sector to the definition of corruption, arguing that corrupt acts can also occur in it.[8] Finally, Johnston adds that corruption is the "abuse of a trust, generally involving public power, for private benefit that often, but by no means always, comes in the form of money."[9] The variations in these definitions of corruption show a common theme: scholars continue to struggle with defining this concept.

Given the many issues with defining corruption, researchers have crafted a "thicker," more robust description of it. Corruption, they argue, does not depend on individual behavior but on collective or systemic behavior. This systemic definition eliminates the restrictive personal gain component in previous definitions and broadens the discussion of corruption as a social issue. According to this definition, limits to state power must be established that apply to individuals beyond public officials. Along similar lines, Warren expounds on the idea that corruption reduces the effectiveness of public action because it affects institutions and state power.[10] Sandoval-Ballesteros further conceptualizes corruption as a "specific form of social domination characterized by abuse, simulation, and misappropriation of resources arising from a pronounced differential in structural power."[11] This systemic approach differentiates between individual and institutional corruption, depending on the benefits obtained and by whom in a corrupt act.

International agencies have also analyzed and defined corruption. The United Nations Convention against Corruption (UNCAC) does not have a specific definition of corruption as such, but it categorizes different acts of corruption according to Chapter III of the convention.[12] These acts include bribery and embezzlement, as well as money laundering, concealment, illicit enrichment, trading in influence, and obstruction of justice. Furthermore, the United Nations Office on Drug and Crime (UNODC) developed the International Classification of Crime for Statistical Purpose (ICCS) to classify all types of criminal offenses into categories with a common framework for all countries. The ICCS includes the following as corrupt acts: bribery (passive or active), embezzlement, abuse of functions, trading in influence, and illicit enrichment, among others.[13] The World Bank (WB) includes nepotism, theft of state assets, and the diversion of state revenues as corrupt acts. The WB, along with the Organisation for Economic Co-operation and Development (OECD) and Transparency International (TI) define corruption in essentially the same way for policy purposes, as "the abuse of entrusted power for private gain."[14] This definition is widely used by decision-makers, despite its vagueness. Its strength, however, is that it accounts for the extent, impact, and various causes of corruption, as well as the fact that corrupt acts are recognized and sanctioned differently across all societies. For example, nepotism in one country may not be considered an act of corruption in another. Hence, countries can exhibit different levels of corruption and be advised accordingly.

The literature on defining corruption has also focused on rent-seeking behavior as a main cause. This behavior is present in different corrupt acts, such as bribery, embezzlement, extortion, and fraud. Klitgaard uses the rent-seeking idea and develops corruption as a linear function of monopoly, discretion, and accountability.[15] He argues that corruption emerges when a firm or person has a monopoly of power over a good or service that generates rent, has the discretionary power to decide who will receive it and how much that person will benefit, and is not held accountable. Tanzi agrees that rent-seeking behavior is a key element of corruption, and he recognizes a country's social and cultural history, along with its political and economic development, as the roots of corruption. Given these factors, Tanzi further classifies corruption into two categories: petty and grand.[16] Similarly, TI also classifies corruption into grand, petty, or political corruption depending on where it happens and the quantity of money lost.

When defining corruption, Tanzi further separates the causes of corruption into direct and indirect factors. Direct factors are carried out by the state under monopoly conditions and discretional power, and include activities such as regulation, authorization, taxation, and the provision of goods and services at below-market prices. Indirect factors include the quality of bureaucracy, level of public sector wages, penalty systems, institutional controls, and transparency of rules, laws, and processes. Lambsdorf further identifies similar causes of corruption: government size, institutional quality, absence of competition, salaries, press freedom, democracy, gender, and cultural determinants.[17]

Recently, researchers have proposed economic models to explain corruption using different causes, such as economic freedom, economic growth, globalization, income distribution, inflation, poverty, trade openness, political competition, political instability, property rights, education, ethics, and religion. Some of these factors are highly related to corruption in that they might be not only the cause but also the consequence of corruption. Hence, the direction of causality for some of these variables (economic growth, inequality of income, inflation, etc.) is controversial. If these variables cause corruption and at the same time are the result of it, economies become trapped in a vicious circle. Governments must then implement efficient public policies to break this cycle and improve the welfare of their societies.

Developing countries do not have specific strategies or legal systems to deter corruption and, in some cases, it has already been established as normal behavior that has significant negative impacts on economic growth.

MEASURING THE COSTS AND CONSEQUENCES OF CORRUPTION

Beyond defining corruption, its consequences have also been analyzed by scholars in various disciplines. They have found that corruption negatively impacts major variables

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such as poverty, inequality, economic growth, social welfare, skilled emigration, expenditure on education and health, and civil and political rights.[18] Hence, corruption can negatively affect institutional, social, political, and economic development. In addition, as corruption becomes more pervasive in society, perceptions of injustice, waste of public resources, and political instability increase. These negative impacts are exacerbated under specific conditions, including in developing countries with higher levels of poverty and inequality and less transparency in their institutions and legal systems. Such negative consequences of corruption are especially prevalent in societies under a monopoly, monopsony, or large government with multiple welfare programs. All scholarship points to the fact that these nations must prevent corruption from becoming systemic, as it reduces the ability of economies to grow. Worse, in such countries, corruption works as a regressive tax that affects the income of the poor people more than the income of other groups.

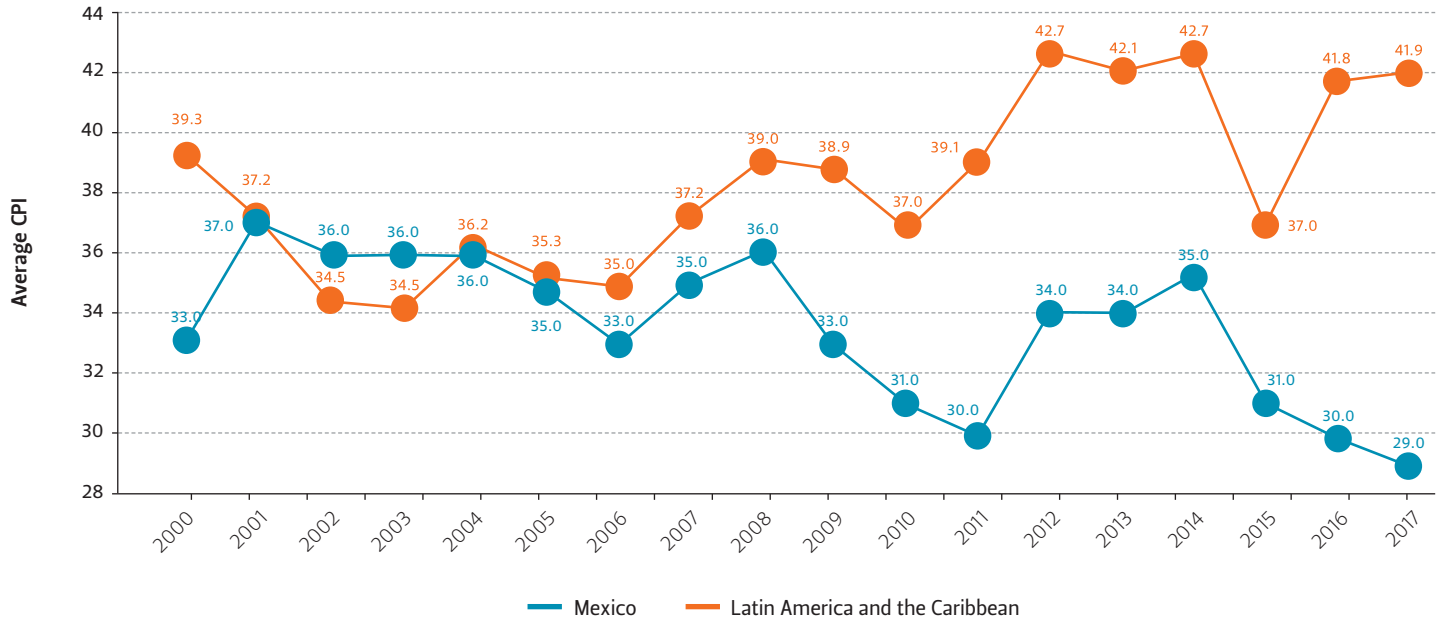
Analyzing the impact of corruption on economic growth further illustrates the complexity inherent in this issue. Corruption can occasionally be beneficial to certain individuals, but the cost–benefit calculation is complex and may vary under different economic scenarios. Three arguments have been proposed to explain the effects of corruption on economic growth: the "sand on the wheels," the "grease on the wheels," and the "gamble" arguments.[19] According to the sand on the wheels argument, corruption reduces economic growth by decreasing government efficiency, incentives to invest, and human capital formation, which act as barriers to competitive markets and cause talented people to engage in rent-seeking behavior rather than productive activities. Furthermore, this hypothesis argues that corruption diminishes public and private sector productivity due to inefficient resource allocation. The grease on the wheels argument says that corruption fosters economic growth if it removes government-imposed restrictions that affect investment and productivity. In this hypothesis, corruption is thought to enable individuals to avoid bureaucratic delays, and it is thought to also help if bribes replace the low salaries of public officials so that the government does not have to pay them. Following this argument, the government can maintain a lower tax burden that favors economic growth. Finally, the gamble argument establishes that corruption is a risk factor for economic performance. Indeed, corruption increases the variability of economic productivity and hence, the risk for the whole economy. Of these three arguments, general economic evidence is consistent with the sand on the wheels argument, in which corruption is considered to be detrimental to economic growth.

The negative consequences of corruption on key areas of society such as education, health, human rights, and national security are pernicious and more costly than their benefits. Indeed, in cases of corruption, only certain individuals obtain concentrated benefits, while the costs are distributed to the whole of society as direct and indirect costs (i.e., negative externalities). Calculating these costs is vital to identifying the most corrupt areas of a country and finding the adequate public policies that will help to reduce corruption in both the short and long term.

In terms of how corrupt activity affects economic growth, estimates show that corruption costs approximately 5% ($2.6 trillion) of global gross domestic product (GDP) per year, with costs of more than $1 trillion in bribes annually.[20] Breaking down this cost is crucial, but we have to keep in mind that the methodology used to determine it is not clear.[21] Assuming that this figure is a valid approximation of global corruption, it gives us an idea of the magnitude of the problem. If governments can eliminate corruption in their countries, they could reallocate this money to infrastructure, education, health care, and food security.

The problem of corruption is so costly and contagious that major international institutions have decided to fight against it throughout the world. Institutions such as the United Nations, WB, TI, and the World Economic Forum have developed different measures of corruption and have promoted

FIGURE 2 – THE AVERAGE CPI OF LATIN AMERICAN AND CARIBBEAN COUNTRIES COMPARED TO MEXICO



SOURCE Transparency International (TI), https://www.transparency.org/research/cpi/overview.

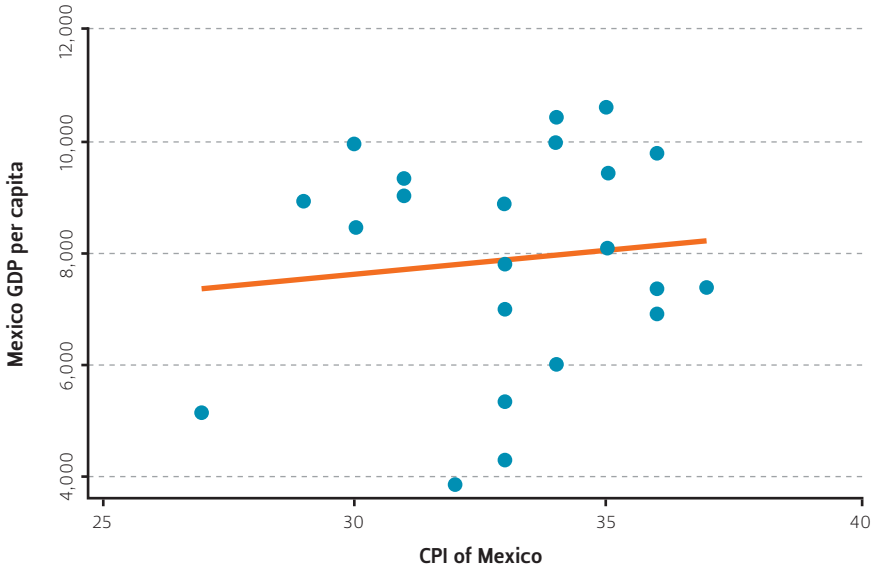
anti-corruption laws to prevent corrupt acts. The main objective of these institutions is to inform people about the negative impacts of corruption on their economies and to implement public policies to eliminate corruption in every sector.

Corruption has increased around the world in recent years, and it has particularly affected developing countries. Many of these countries do not have a clear definition of corruption or a method to accurately measure its costs. Indeed, it is very difficult to define and measure corruption as stated above, and the poor economic conditions and weak institutions in developing countries further complicate these processes, thereby creating a challenge for local academics and institutions. Developing countries do not have specific strategies or legal systems to deter corruption and, in some cases, it has already been established as normal behavior that has significant negative impacts on economic growth. If policymakers could understand, define, and measure this problem in a developing country, they could help other developing countries to combat this problem.

CORRUPTION ISSUES IN MEXICO

A key example of corruption in developing countries is Mexico. Mexico has become corrupt, with several well-known cases of corruption in the public and private sectors appearing in the last several years. For example, in 2012 Walmart paid $24 million in bribes to local government and public officials to obtain permits and zoning approvals to build new stores.[22] In addition, Petróleos Mexicanos (PEMEX), a state-owned company, signed and paid contracts to private companies that were very problematic in exchange for $11.7 billion dollars from 2003 to 2012.[23] These firms overcharged PEMEX for their work, and in some cases, the work was of poor quality or never completed. The list of firms involved in corrupt acts is extensive. This list includes Oceanografía S.A. de C.V., Hewlett-Packard, ABB, Paradigm, Zimmer Biomet, and Odebrecht. There have also been major cases of corruption within the Mexican government, wherein government officials have diverted public funds for their own benefit for many years. Javier Duarte, the governor of Veracruz from 2010 to 2016, is a prime example of the country's corrupt

FIGURE 3 — THE RELATIONSHIP BETWEEN CPI AND PER CAPITA GDP IN MEXICO



SOURCE Transparency International, https://www.transparency.org/research/cpi/overview; World Bank, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=MX.

state leaders. He diverted approximately $35 million to phantom companies and increased the state's debt by more than $5.18 billion.[24]

The Mexican Institute for Competitiveness (IMCO) reports different costs of corruption that vary depending on which national or international agency calculated them. These values range from 2 to 10 percent of Mexico's GDP per year.[25] This range is very broad, and the methods used to create these figures are unclear, so a more comprehensive calculation of the cost of corruption in Mexico is needed.

In the Mexican public and private sectors, many officials have used their positions for personal benefits via different corrupt acts (bribery, nepotism, diversion of public funds, etc.). A big problem linked with these acts of corruption is impunity. According to the IMCO, almost all corruption crimes go unpunished in Mexico. Between 1998 and 2012, only 1.75% of individuals accused of corruption faced charges in Mexico. From 2000 to 2013, 42 Mexican governors were accused of corrupt actions, but only five (11.9%) were ultimately convicted.[26]

These examples of corruption in Mexico are a small sample of many cases, yet they demonstrate the magnitude of the problem in this country. Such events have also increased the perception of corruption in Mexican society. Indeed, Mexicans consider corruption as the second-most important national concern, just below security.[27] They also rank corruption as the largest problem for doing business in Mexico, even above security concerns.[28] Furthermore, according to the World Economic Forum in 2017, Mexico's ranking in corruption fell for acts such as the diversion of public funds (ranked 127 out of 137) and irregular payments and bribes (ranked 105 out of 137).[29] In 2017, TI also ranked Mexico in 135th place out of 180 countries using its Corruption Perceptions Index (CPI).[30] Mexico has dropped 40 places on this index since 2015. Among the 35 member countries of the OECD, Mexico has the lowest CPI, far from the average level of all other members over the last 20 years (Figure 1). This pattern also holds among G20 countries, of which Mexico and Russia were the lowest ranked in 2017. Comparing Mexico's CPI with the average CPI of Latin American and Caribbean countries, it is clear that the gap between these two values has increased strongly since 2014 due to Mexico's plummeting rank (Figure 2). All of these figures point to the fact that Mexicans perceive corruption as a serious problem and it is becoming normalized in Mexican society.

Moreover, using the CPI of Mexico and its per capita GDP since 1995, a negative relationship between the CPI and economic growth emerges (Figure 3). This simple analysis demonstrates the impact of corruption on the Mexican economy and how corruption deters economic growth.[31] In this case, Mexico follows the sand on the wheels argument mentioned previously.

Given all of the above circumstances, Mexico is a good case study of corruption in the world. A deeper analysis is needed with new methods to determine the actual cost of corruption in Mexico. If we could accurately measure this cost and the actual impacts of corruption on the Mexican economy, we could better understand the causes, effects, and circumstances that promote corrupt behavior, with

the ultimate goal of "curing" this deadly socioeconomic disease in Mexico and then replicating this process in other countries.

CONCLUSION

Defining corruption is difficult and measuring it is even more so. Corruption provides benefits to certain agents but is detrimental to the common good. It also has many negative impacts because it permits certain agents to maintain or increase their power and decide who is allowed to reap socioeconomic benefits. More importantly, corruption has profoundly negative effects on economic growth. Corruption wastes resources that could be reallocated in other key economic areas. These negative impacts are greater in developing countries where poverty, inequality, and a lack of transparency in institutions and legal systems exist.

Given the negative impact of corruption on economies, the United Nations decided to face corruption through the United Nations Convention against Corruption. This convention is the most comprehensive anti-corruption instrument to date. Many other institutions have also fought against corruption such as the World Bank, Transparency International, and the World Economic Forum.

Mexico is a prime example of how corruption has expansive effects on a society and how it is subsequently normalized by society. Cases of corruption in Mexico have increased in recent years in both the public and private sectors. However, analyzing corruption in Mexico is still a new research focus, and researchers need to further investigate this topic and how to avoid further normalizing corrupt acts. The common Mexican phrase "El que no tranza no avanza," or "The one that does not cheat, does not succeed," must be extinguished from Mexican society.

Combating corruption is a titanic task. It begins with defining corruption and identifying corrupt acts and their costs. It ends with the establishment and implementation of corresponding public policies to prevent and combat corruption. The main objective should be to modify the behavior of agents so that they can realize that it is not "normal" to have corrupt acts in a society. The aim should be to prevent corruption from becoming systematized. To avoid this, countries have to increase the probability of being caught, as well as increase the penalties. Countries must also enhance transparency in their economies and reduce or regulate market power, in addition to implementing other policies depending on how they define corruption. Finally, scholars and institutions must understand and analyze corruption and inform societies about its actual cost and economic consequences. They must also identify new methods to evaluate corruption and calculate its costs to help identify new ways of facing this global problem.

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31. Perceived corruption does not necessarily measure the actual corruption in a location. In this graph, we are assuming that they are very similar or they are highly correlated.

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