

# THE SECURITY CRISIS IN MEXICO AND ITS IMPACT ON BUSINESS MANAGEMENT

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## ABSTRACT

*In Mexico, antisocial behavior affects and concerns the population. This behavior has produced a vicious circle involving a high rate of criminality. This, in turn discourages investment, and reduces economic growth, it causes unemployment and increases poverty and economic inequality. Official databases reveal that during the last five years, the number of people murdered by organized criminals has increase to more than sixty thousand. With a population of over 112 million residents, Mexico has 52 million people living in poverty conditions. Seven million young people called “ninis” (ni estudian, ni trabajan) don't work or study. Business executives have reduced production levels with the purpose of reducing losses and criminal acts. Companies have closed because of antisocial acts and because of a lack of funds. During 2011 over one hundred and sixty thousand companies shut down in Mexico because of organized crime, according to the Employers' Confederation of the Mexican Republic (Coparmex).*

**JEL:** F52, H56, L25, N6, N86

**KEYWORDS:** Legal Economic

## INTRODUCTION

The federal government has postponed many subsidized programs such as education and health, to reallocate funds to combat antisocial behavior. Antisocial behavior has a negative effect on companies, which must spend funds on security guards and alarms. Funds are used to pay for kidnappings, stolen electrical equipment, clothes, groceries, equipment, and seeds. The underground cost of paying extortion has become a taxing load for enterprises. Criminal behavior has caused companies to reduce their production standards. This leaves less for reinvention and other employment.

The purpose of this research is to identify methods to invest more public funds on education and create more employment solutions. We wish to encourage creation of a true democracy with active participation within an organize society. We hope to include citizens isolated and individually idle. We encourage passage of an article of the democratic constitution. We hope to improve the way of living based on social, economic and cultural betterment.

The organization of this paper is as follows: The literature review section discusses ideas, arguments, facts, figures and statistics, supporting the use of prediction models for the failure of the government's security policy. Information given to official sources and to the organization of business owners comes from business and economic sectors including. offices for mediation and rating markets. International experts and specialists, and accounting firms also contributed. Next, we present the methodology used. We highlight key areas of the problem. We also develop an analysis that allows us to identify mechanisms and procedures for proposals. We hope to support further research that offers companies a way to confront and resolve this dispute. Finally, we present the results of the investigation, proposals, conclusions and future research.

## LITERATURE REVIEW

Plato, the Greek philosopher the founder of the Theories on the Ideal State (Organicism). Plato compared the structure of political domination within a living organism (polis). In a sense, the current Mexican State as a living entity is "ill", and the prognosis of its illness is critical. Mexico Mexico is affected by one of the largest disorders that impacts political organizations, public insecurity. Because of the extent and seriousness, of this illness it is threatening.

In Mexico the social problem that most affects, and concerns citizens is not poverty, unemployment, nor political, economic, or cultural. Rather, organized and not organized crime is the primary concern. This circumstance and its impact on the business industry have an alarming overtone. There is a vicious circle in which high crime rates discourage investment, curbs economic growth, exacerbates unemployment and increases poverty and economic inequality. All of which, creates more crime and violence. Data show that during the past five years, the number of people killed by gangs of organized crime has risen to more than fifty thousand. The number of missing persons has risen to over ten thousand. The innocent victims include around nine hundred dead children, called "collateral damage".

Criminals operate with a degree immunity. Some 95% of murders go unpunished. An estimated 90% of these deaths are of members of the mafia (López-Dóriga, 2011). To add fuel to the fire, as the adage says, another phenomenon that integrates the triad of the crisis is corruption. Research carried out by a prestigious institution of higher education, shows that companies spend 5.1 percent of their income on administrative bureaucracy corruption. They purchase favors from politicians, (bribery) so they transcend laws. This benefits their interests by bringing them contracts, concessions, permits or licenses.

This research shows some of the impact of crime's aggression on the productive sector. This analysis provides deeper, methodological rigor and integrity. The problem that harms the collective fabric and inhibits developing the society's potential has various causes and effects. We analyze economic progress and income distribution. We reference investments losses, damage to the state, society, and especially the productive areas during the growing criminal crisis.

Criminal behavior causes distortion in earmarking funds, both public and private. The Government channels huge amounts of money, goods and services to combat crime. These funds could be allocated to other areas such as welfare and social improvement. The private sector are transferring of a portion of their income and property to those engaged in illegal activities. This situation results in reduced profit margins for firms and implies less funds being directed to productive projects. Employers have reduced their production levels to lessen losses by criminal acts. Because of insecurity caused by crime closures have occurred, as well as suspension or diversions of investments to other destinations.

To reinforce the previous argument, we note that insecurity has a negative effect on enterprises. Enterprises have to spend more for buying instruments to guard, hiring private security and surveillance services for prevention. Companies lose from paying for kidnapping, theft of goods like, electrical appliances, clothes, groceries, machinery, grain, and pets. Underground extortion payment prices become a tax on the company. Many entrepreneurs would prefer to pay criminals than the Government. Economic and social costs are high and, in the end, all Mexicans pay for them.

### Conceptual Framework

Quasi-leaders hire professional specialists in media of mass communication and public relations. They take advantage of the particular political situations, directing them to their own goals, to gain the support of the population. They do this through advertising, dramatic and psychological, and publicity arenas.

June 6th to 10th of 2011 the National Autonomous University of Mexico (UNAM) and the Ibero-American Institute of Constitutional Law (IIDC) gathered for a conference on International Security and Justice in Democracy. They composed a document called "Elements to construct a State Policy for security and justice in a Democracy". At that Conference 88 Specialists took part in eighteen panels, which discussed various the topics at length. The participants were national and foreign experts. They drafted and recommended a proposal as follows:

*"From previous information, we consider that current public policies in security, present problems that could be explained in the following way:" The theoretical and conceptual support is insufficient. There is in Mexico and abroad academic and professional production that offers a framework of analysis. In general, the Government's policy is detached. Official documents where the reasons for the rules, institutional designs, programs, strategies and actions being displayed. They only appeal to related policy which does not reflect knowledge of the specialized literature. This weakness is showed in the general confusion of ideas for "Homeland Security", "Public Security", "Public Safety" and "Human Security". "Given the inertia in this confusion, it overloads the concept of National Security. As if it was a bag where all the risks and threats are put into it and contained there. It even ignores the Constitution makes reference to "Homeland Security", "National Security" and "Public Security", assigning each of them a scope and responsibility clearly defined." (UNAM-IIDC, 2011).*

Information presented by UNAM, and critics from all areas of the community, imply the Mexican government hasn't clearly defined insecurity. When the government doesn't want to talk, for example of the "war" against delinquency, ambiguity occurs. Referring to it as "combat", it uses euphemisms, which tries to cover the sun with a finger. It thinks that by expressing softly or decently an idea it can avoid the population's worries. Because of the half-truths in their language the situation cannot be well defined, so Mexicans live with a resulting anxiety. Examples of the use of euphemisms suitable for children are pure or innocent souls or mentally handicapped. In the same way laws don't precisely say what a fiscal credit is, or doesn't present the idea of a tax or duty. When there is not a definition, everything fits.

Article 42 of The Fiscal Code of the Federation says it can practice home visits to taxpayers for the following reasons: 1. To collaborate taxpayers or third parties jointly liable with them have complied with the related fiscal terms. 2. Where fitting, to identify omitted contributions or tax credits, to check tax offenses and to provide information to other tax authorities. 3. To collaborate compliance with tax duties about issuance of tax receipts and filing applications or notices in the Federal Register of taxpayers. 4. To fulfill duties from Customs permits, licenses and registration, or established in the rules related to that matter. 5. And to verify the electronic systems and records.

Addressing the subject of this research, several ideas need theorizing. In its original and etymological sense of observation and in detail this analysis gets to the root of the issues. It is known that public insecurity includes attacks and assaults with impunity, damage on the physical integrity of people, their goods, their properties and their rights. In Mexico, this social cancer public insecurity has the State in crisis. The state is not able to effectively insure public security. Security is a state of mind, a feeling, an intangible quality. It can be understood as a goal and an aim which any person as a human being, constantly longs for. It is a primary necessity according to Maslow's pyramid.

Safety is a human being's longing to be safe from all danger, harm or risk coming from nature, fate or fellow human beings. Safety is a value in which people sacrifice part of their original rights and freedoms in order to enjoy peaceful living. Additional rights are property and. Luciano Parejo and Roberto Dromi (1997) state: Security is a founding value. Security is a value engraved in the catalog of human rights as set up in the Universal Declaration of Human Rights of December 10, 1948. Article 3 states everyone has the right to security, and all other civil and political rights stated in it. (ONU, 2011)

Security is a need. In this sense the Spanish Baroque Francisco Alonso Pérez (1994) notes the need for security is innate in man since he leaves the mother's womb and faces life. "Man needs to be safe in all the acts of his existence. Those related to labor issues and health care, whose protection is specifically entrusted to the forces and bodies of security."

Drawn from the doctrinal of a legislative analysis different security models register including: Legal Security, Individual Security, Public Safety, Social Security and National Security. Each of these are integrated and interconnected by the state organization with the purpose of achieving public stability which requires functioning and fulfillment of goals.

Next we turn to the contrary argument, and ask, "What do we mean by insecurity?" Insecurity is the difficulty to select between different choices, to achieve a certain objective. There is always doubt if what has been done or said, either by us or others, is right or wrong. This allows us to formally define Insecurity as "lack of security". Public safety should not be confused with other types of security. Security is not a state role or public service. It is a *sine qua non*; priori state. It provokes and forms public order and social peace, and this is an inseparable pair setting up the prior and essential elements for achieving stability (Aguilar, 2006). The objectives of public safety granted by the State are the following: 1. to preserve liberties; and 2. to preserve public order and peace.

We should not forget the subject, object and purpose of public security, the human being. The person is the creator and fundamental element of any human organization, its creation, its agent and its end. When you incorporate people, as the priority, preeminent, first part of the organization, the people of the state emerges as proto-nationalist. Therefore, the term "*people*" has a legal and political scope. Namely people are the holders of constituent power, as the electorate, and the national body as a sovereign subject. The people legitimacy can exercise power on its behalf. It is required by the law, to articulate the role of the people in the composition and dynamics of the state with clear diagrams. The people receive a new dimension that transcends its factual and natural aspects, and coexistence is rendered possible.

The law says the people, not as the disorganized crowd, the masses, or the Hobbesian state of nature, form an organizational perspective. The people are holders of public power, as subject of rights and duties. Jellinek (1954) wrote: "The people, in their subjective quality, form, because of the unity of the State, are a corporation". That is, all individuals are united, linked among themselves as subjects of the State. They are members of the State therefore; they are both corporate Association and Association of authority at the same time. These two elements are resolved in the necessary unity of the State Corporation. Because of the authority of the State, the people are subject to *imperium*. It is from this belief in subordination, individuals of the State, finds themselves members in this situation and is subjects. Individuals are members and are therefore subjects. In this sense, they live in a coordinated fashion. Individuals, as objects of state power are subject to duties, and as members of the State are, by contrast, subjects of law.

The state is a political organization of a popular community. The people have personal limits to executing state standards. No one can conceive a state without the personal element. In short, there is no state without people. The key to understanding politics, government power, and sovereignty, is people. We focus and refine this conceptual treatment. We define the task of achieving and keeping state public safety. This focuses on the exercise of police work, whose main objective is to combat crime. The objective is to prevent misconduct of any type, thereby avoiding harm to people. Thus, *police* is a broad idea, and has several legal and political meanings, 1. An agency or organization responsible for ensuring and preserving the peace and public safety. 2. Monitoring the behavior of individuals for them to conform to the rules of public order. A) Monitor and preserve peace and social security (strict sense). B) Monitor that individuals comply with the provisions of the rules of public order (broadly speaking). 3. Regulatory rules of restrictive nature of the activity of individuals (Aguilar, 2006). The police task does not refer

only to the agent or agency to oversee peace and order. It is a task that includes identifying and planning for social needs. It contributes to identifying critical aspects of social, economic and cultural well-being. It provides the basis for developing policies, programs and public actions. It also prevents private and social reverse repetition and the deepening or triggering of violence. Finally, the task of the police covers supervision and inspection of social activities so they conform to legal rules and prevent unlawful acts.

The concepts expressed so far, are of a legal doctrine, which can be interpreted, as a little baroque. Certainly Mexicans have gained by direct experience, the right to make individual definitions of insecurity. There are various definitions that apply from the ordinary Mexican's view, depending on their role in society. A youngster would define insecurity as the fear of growing up in a society submerged in terror, without confidence in a promising future. Parents could define it as the fears of seeing their children grow and mature in a society without moral and ethical values, without a hope of seeing them grow up to be successful in the future. There are many definitions, depending on the feelings of those who live the problem.

### Mexico in Numbers

To try to understand the damage that insecurity causes to the productive sector we examine data and statistics. Mexico is a country full of cultural, economic, social and political contrasts. On the one hand there is a country with vast wealth, which faces, paradoxically, one of the highest percentages of poor people. The nation is one of several that have seen wide discrepancies between a few people who have everything and a huge crowd that has little. The gap between the holders of wealth and those without minimum welfare widens daily. Mexico has one of the greatest inequality levels on a global scale. Northern Mexico includes the town of San Pedro, Nuevo León. It has the highest Human Development Index (HDI). It is almost on par with Norway, which is the leading country in this category. In southern Mexico, we find the opposite. The town of Metlatónoc, Guerrero has an HDI similar to Sierra Leone. It placed 158 in the world ranking, published by the United Nations Development Program (UNDP, 2011).

Mexico is a multicultural mosaic. Evidence of this is the fact there are 56 national indigenous groups of about 8 million Mexicans, in a total population of just over 112 million people. Of that number, 40% live in poverty and 20% in extreme poverty. These poverty stricken individuals are almost all indigenous. There are fifty-two million people living in poverty (INEGI). Mexico ranks 13<sup>th</sup> in world based on Gross national income in 2010 (GNI) at 1,012,316 million US dollars (World Bank, 2011). According the Bank of Mexico, on April 8<sup>th</sup> the international reserves were estimated to be \$150 million (Verdusco, 2012). Having said this, foreign Nongovernmental Organizations (NGO), according to various international indexes, notes that Mexico has overwhelming violence. It is regarded as having a high rate of corruption. Similarly, they classify it as a nation with low signs of democratic development and see it as a country with one of the lowest levels of prosperity.

Among its population of 112 million inhabitants are a number of young people aged 12 to 29 years who are neither studying nor working. The so-called "ninis" are increasing and currently constitute 8 million individuals, according to data from the employers' Confederation of the Mexican Republic (COPARMEX, 2010). UNAM shows there are only 7.5 million young "ninis" (Olivares & Paul, 2010). The Organization for Cooperation and Economic Development (OECD), says Mexico is number 3 of 34 with this condition. Turkey, Israel and Brazil which belong to the G-20 overtook them. Mexican women represent the highest average since they represent nearly 40% of the country. The report spread among the media on Tuesday, September 13, 2011. It said there are 7.212 million people with no education and are unemployed. From this group 38% (more than 2.6 million) are women and 1.930 million are between 15 and 19 years. The Government reported 70% (nearly 1.350 million) who are in a training plan for a job but are formally not considered students or employees (Sánchez J. , 2011). These overwhelming figures

contrast the fact the federal Government has decreased the percentage of the funds for priorities such as education and health, to be used to combat crime.

NGO Transparency International (TI) is dedicated to combating political corruption. They disclosed information described under 3.1 to Mexico in its annual report for the year 2010. In 2009 it won a 3.3 rating on a scale of zero to ten. A rating of zero represents a perception of higher corruption levels and 10 a perception of low corruption levels. Thus the results suggest a serious problem with corruption. This assessment reveals that Mexico went, in one year, from 72nd to 98th place among 178 analyzed Nations.

Mexico went from 49th to 53rd, from 110 countries in the measurement of the prosperity by the Legatum Institute of the United Kingdom organization. Mexico ranks below Latin American Nations of Uruguay, Chile, Costa Rica, Panama, Argentina, Trinidad and Tobago and Brazil (Legatum Institute, 2011). Meanwhile, the German Konrad Adenauer Foundation presented the Demographic Development in Latin American Index 2011. The index shows that Mexico fell from the 5th to the 7<sup>th</sup> place, partly because of problematic condition caused by increasing violence and organized crime (Konrad Adenauer Stiftung and Poli-Lat, 2011).

The central problem of public finances in Mexico is low tax collection. Taxes represent 18.1% of GDP (including social security contributions and oil taxes). This is less than half of the earnings of the European Union (40.6%) and the OECD member countries (36.3%). It is less than what is raised by our commercial partners, Canada (33.9%) and the United States (26.4%).

The paper "Mexico a comprehensive development agenda for the New Era" elaborated by the World Bank in 2001 provides an interesting viewpoint. While this paper is aged, its considerations continue to be valid. The paper identifies the following problems of the Mexican tax system: 1.) Evasion is easy, and sparsely discovered or punished; 2.) The payment, even for those willing to pay, is difficult; 3.) The tax laws are complex; 4.) Their application by those who govern them is inconsistent (discriminatory) between taxpayers and time; 5.) The system collects inadequate information and fails to use it well. This report, made by the World Bank and intended for Vicente Fox Quesada, incoming president of México, consisted of diagnosing and a series of recommendations of policies for the sectors which contribute to the country's development. The six big areas structured by the report were: 1. Fiscal sustainability, 2. Development, 3. Competitiveness, 4. Poverty, 5. Inequality, and 6. Sustainable future and demand for quality government. All one of them covered several chapters about policies for the specific sectors (Giugale, Lafourcade, & Nguyen, 2011).

President Calderón on October 29, 2009 received the PAN Senators, at the presidential residence of Los Pinos. There he sought to seek consensus for the adoption of the regime of fiscal consolidation. That companies pay taxes deferred from 1999 to 2004. The owner of the Executive body argued that 100 consortia in the country pay 1.7 percent income tax. Most Mexicans pay 28 percent (then Secretary of finance and public credit Agustín Carstens). He noted it is one small step to stop tax havens (Vega, 2009). The president asked all the areas of the country to assume their responsibilities.

More than 400 major business consortiums in the country enjoy an exceptional privilege, the so-called tax consolidation regime. The Ministry of finance recognizes them in an official document Building major contributors. Four hundred large business groups amassed income of 4.906 trillion pesos in 2008. But they pay only 1.7% on average of income tax. They also have the benefit of postponing paying their taxes. They postponed so much that in 2008 their debt had risen to about one 132 billion pesos (Garduño, 2009).

Small and medium sized enterprises do not receive the same privileged treatment. Pedro Salcedo García, President of the Latin American Association of Micros, entrepreneurs (Alampyme), said the low sales produced by the economic crisis and tax payments stifled small industry in Mexico. Since last October, to date micro and small businesses have lowered their productivity by 15 to 20 percent of their installed capacity. About half a million small and micro entrepreneurs resorted to closure in one year. Although some of them have simply become informal businesses (SoyEntrepreneur, 2007).

Economic growth from 2007 to 2010 was only 1.1%. On the other hand unemployment rose from 3.6% to 5.2%, while informal traders grew from 11.4 to 12.9 million. (INEGI) Informal businesses do not pay taxes, and yet it receives benefits such as the popular insurance. The federal Government created this arrangement for the self-employed and people who do not have employment. This also provides for those who do not have access to health services because they are not benefactors of the social security institutions granted by the Government. This discourages those who are acting formally and causes them to engage in tax evasion and become informal.

### Facts and Figures of the Insecurity Problem

Insecurity exists everywhere. Man may be good or bad as he wishes, however, the misuse of freedom or free will sometimes occur. They deprive their fellow human beings, making him into a violent, abusive and confrontational individual. Insecurity is not new because of the situation. However it may be more alarming because of new methods of communication and the population growth. For nearly seventy years a single political party has dominated Mexico. Mexico enjoyed a seeming "*pax octaviana romanae*". But this arrangement has a cost. Mexicans today suffer the results.

The Federal Government (2011) during the President Felipe Calderón administration 2006-2011, captured 147,414 suspects with almost 70% linked to drug trafficking. They released more than 128,000 of all detainees, many of them presented to the media as dangerous criminals. Perhaps it is why the speech against judges and officers of the public prosecutor's Office do not punish criminals and release them. There is about 106,036 crime incidences reported for every 100,000 inhabitants. In Mexico the prosecution and punishment of crimes are divided into two areas, the common law and the federal jurisdiction. Drug trafficking is a criminal offense by federal jurisdiction. State and Municipal Governments have evaded their responsibility for combating crime. There are two types of organized crime, one groups of drug traffickers, and another of common crime. The first is the responsibility of the Federal Jurisdiction, while the second is the responsibility of the common law. Combating crime is up to States and City Members, which either out of fear or bribes have not fulfilled their duty.

But among federal jurisdiction Crimes (350 daily), it is striking the fiscal crimes grew by 87%, the banks, credit card fraud and similar by 46.7%; those committed by public servants, is 35.1%. There are crimes without clear victims, which undisputedly stand out from others, which are consumption, trafficking and drug production. Mexico has identified drug trafficking as the enemy to defeat.

Drug trafficking is the trade of toxic drugs in large quantities (RAE, 2001). Drug trafficking is known as a global illegal industry, which consists of the cultivation, manufacture, distribution and sale of unlawful drugs. While certain drugs are for sale and legal for possession (certain drugs containing tobacco, alcohol, etc.), in most jurisdictions the law forbids the sale, and even the offer or assignment of certain types of drugs (UNODC, 2011). Mexican Federal Criminal Code "Article 194" says there shall be imprisonment from ten to twenty-five years and one hundred to five hundred a day in fines to those who traffic drugs. This means produce, transport, traffic, trade, even free supply or prescribe any narcotic suggested in the previous article, without the authorization referred to in the General Law of health". In general terms,

drug trafficking is an illegal industry of a global nature which consists of the cultivation, manufacturing, distribution and sale of illegal drugs.

The United States is the number one market and drug consuming country and Mexico is the most important provider through the drug cartels that traffic Colombian cocaine and heroin through its territory destined for the United States. Much of the marijuana and methamphetamine sold in the United States has been produced in Mexico. This activity is carried out by air, land and maritime routes. Mexico shares a huge border area with United States of America. The border is 3.185 kilometers, 1951 miles (SRE  $\alpha$  IBWC, 2012). The drug trade operates through cartels that vary in size, consistency, and organization. The chain ranges from street dealers of low rank, who sometimes are drug users themselves, to intermediaries who transport the drugs, who can be compared to contractors. They are similar to multinational empires that rival in size with national Governments.

A renowned prestige specialist suggests Mexican organized crime has diversified. He estimates that, as well as drug trafficking, they are involved in 22 crimes or unlawful markets, in 22 countries. It has expanded in countries with Law Status such as Spain and Germany..."These groups in Mexico have not been touched because they sponsor political campaigns. Cartels have an internal government directory. There is not only a head but they have a paramilitary organization with weapons, equipment, and sophisticated communications systems. They operate based on autonomous cells.

There is a turning point. The failed Fast and Furious Operation planned and carried out by the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) of the United States Government. They sent more than two thousand weapons to drug cartels in Mexico in 2009. To place this in context, the 75 U.S. Army Rangers regiment has about two thousand five hundred soldiers. This means that because of this failed operation, the Sinaloa cartel may have received nearly as many weapons as those needed to assemble a complete Regiment. In Mexico, individuals note the Americans sell their weapons to both sides, government and criminals. The Mexicans have the deaths.

The border between the United States of America and Mexico has the largest number of legal crossings in the world, with 50.23 million pedestrian crossings each year (Spolaore & Wacziarg, 2002). It is considered the border with the most illegal crossings in the world with almost 12 million in 2007 (Zhang, 2010), of which about 250,000 on average die each year (EFE, 2010). They are mostly of Mexican nationality, and in descending order, Central American, South American, Caribbean and Asian.

In this sense the V Presidential Report shows the number of complaints for violation of the laws of the people (migrants) decreased 4.4%. This is because of the flow of undocumented Central Americans, up by 70% from five years ago. They no longer venture to the United States in search of the American dream. Also the terror of abduction, torture, extortion, murder, and women raped, in their transit through Mexican territory dropped dramatically.

The fifth report of President Calderon shows the arrest of 6,560 kidnappers. He does not specify the number sent to prison in the five years. From September 2010 to July 2011 there were 1,774 people in captivity released and 1,410 kidnappers captured. Many Public Ministries (prosecutors) and judges colluded or threaten with the words: What do you prefer silver or lead? They do not do their homework. Prison overpopulation, according to the presidential report, is at 21.7% and there is lack of physical space for more than 40,000 inmates. The report does not explain the reasons why in 2007 there were 445 detention centers in the country and currently only 429 (16 fewer).

On the other hand, the number of prosecuted and sentenced inmates grew to 224,246, a ratio of 20 to 80 among the federal jurisdiction and the common law crimes, respectively. To quantify the prison problem



we note that if they had condemned only half the detainees in the six-year term, the number of inmates would have risen to 300,000. But there would not be a physical place to detain them.

The financial intelligence of drug trafficking has found various ways to introduce and invest, wash money product of unlawful activities in the country. Every year between nineteen to twenty-nine million dollars comes into Mexico from United States from unlawful activities. Although most enters as cash by land, another part does enter by more sophisticated methods that seek to avoid confiscation (Sánchez & Mosso, 2010). Estimates assure that 37% of companies infiltrated illegal money.

As noted earlier, the dollar in cash is one of the main monetary instruments used to transfer the profit from the sale of drugs in US cities. In Mexico traffickers launder nearly \$25 billion each year. The Department of State, of the United States, details this in its annual report on drugs, called International Narcotics Control Strategy 2010. Despite these profits, the U.S. Government considers that for the first time cartels face an existential threat from the State because they cannot win with bribery or intimidation.

From 2007 to 2010, the number of intentional homicides increased 96%; kidnapping, 188%; extortion, 101%; robbery with violence, 47 percent, and cars theft with violence 123%. UNAM gave these figures in the publication Elements for the construction of a State Policy for security and justice in democracy. *"In 2007 only 53 cities had an average of at least one monthly execution." "For 2010, 200 cities meet that condition. This concentration of violence was in 17 cities in 2008 and 24 in 2010". "In reality, funds available from public security under the Executive Secretariat of National Public Security System figures grew from 1998 to 2011. This equals almost 350 percent."* (UNAM-IIDC, 2011). The index of *visible and invisible victims* and the organization "Mexico Evaluates" presented figures from the National Public Security System. It states "Crime has not been contained even with the presence of Federal Forces, but to the contrary". "Crime extends to other entities where an increase of at least one crime in the last 5 years is observed" (México Evalúa, 2011).

The Secretary of Finance and Public Credit, (La Secretaría de Hacienda y Crédito Público) unveiled its proposal for the Federation's budget, which needs approval by the Chamber of Deputies. It's one of two bodies that are members of the General Congress of legislature. The sought authorization to grant 13 percent more than in 2011 to combat crime. Mexico's 2012 budget would be the highest of its history. Security would go over \$800,136,000 pesos as compared to \$700,154,000 pesos proposed by the Federal Executive. That implies an increase of 13.1 percent, according to the economic package presented to Congress by the Secretary of Finance and Public Credit (SHCP) Ernesto Arroyo Cordero.

### Corruption and Public Service

Paraphrasing Aristotle, politics is the most sublime of human activities. Aristotle justified this assertion on the fact a professional seeks for excellence, not for the welfare of a particular group, but the common welfare, the welfare of the polis. (Aristóteles, 1994). The small bourgeois attitude has set up camp in Mexico depicting some sayings: With money the dog dances, So you have, so you are worth, Who doesn't cheat, doesn't progress. These are the Mexican ethical standards, because the illiterate way of living and the attitude that confuses them. The reflection is serious. Most Mexicans are ethically illiterate. Corruption affects the viability of the social structure. It transforms the nature of the relationship between Government and citizens. A relationship where civil servants do not do what they should do, and do not give what is expected of them. For this reason citizens lose confidence in authorities.

Jorge Fernández Ruiz says that corruption is the essential framework of insecurity. Politically it destroys the credibility of authorities. Economically, corruption distorts the supply, the demand, the prices, and general market. It discourages investment, increases distrust to perform banking transactions, stock

market transactions and commercial transactions, and in general increases the transaction's costs of enterprises. This results in damage to sustainable development. (Fernández, Reflexiones en torno a la Seguridad Pública, 2008).

The Instituto Tecnológico de Estudios Superiores de Monterrey conducted a study on the connection between corruption, business and government. The study entitled, *Index of opinion of corruption of enterprises in Mexico*; cataloged the following types of corruption: A. Captured by the State. Payments paid in the private-sector to legislators aiming to influence the definition of the rules of the game. Thirty-nine percent of companies recognized companies similar to theirs pay unofficially to influence new laws, policies and laws. B. Administrative-bureaucracy corruption. Payments made by businesses to public officials to distort the prescribed implementation of laws, policies and laws. Sixty-two percent of companies recognized companies similar to theirs pay unofficially to public officials of lower rank. From their prospective, these companies spend 5.1 percent of their income on Administrative-bureaucracy corruption (ITESM, 2009).

### The Economic Cost of Delinquency

The Citizen Institute for Studies on Insecurity (ICESI) declares the cost of insecurity in Mexico during 2009 represented little more than one trillion pesos. This represents 8.9 percent of Gross Domestic Product (GDP) PIB. (ICESI, 2011) By the year 2010, according to a study by the Inter-American Development Bank, the costs created by criminal acts in Mexico were roughly 15 percent of the Gross Domestic Product. This 15 percent is more than \$ 95 billion dollars according to estimates. The study also spoke about the lack of employment and opportunities and lack of values in the Formative Education Process. The Economic Studies Center of the Private Sector (CEESP) estimates the cost of insecurity exceeds 15% of the Gross Domestic Product. (PIB) This is equal to around \$ 130 billion. (Miranda, 2010) The official position, extended by the Ministry of Finance and Public Credit, is the doubt related to organized crime costs the country about 1.5% of GDP. This information says that in addition, the violence strips potential growth of the country by up to 1.2% of the GDP (Federal Government, 2011).

### Enterprises' Losses

The Mexican Association for the Studies of Consumer Protection states that corruption represents a cost for Mexican consumers equal to 20 percent of the gross domestic product (PIB). In other words, this is nearly 120 billion dollars (Consumers international, 2011). It states there is a theft of 31.7 billion pesos through the sale of gasoline, electricity, different telephonic services, domestic gas and others. Frauds perpetrated, for example, on 30% of the petrol stations are kept secret.

This becomes a vicious cycle that consumers take revenge on with the theft of articles in self-service and departmental stores of around 8% of sales, which translates into 17.6 billion pesos (Univision, 2010). Small theft, known as robbery Ant, causes losses of up to \$100 million a year to Mexico commercial chains, and a decline between 30% and 35% in net profits of the big corporations. These robberies lessen inventories of companies by up to 10%. Usually, it is an offense committed by the same workers, visitors, or suppliers, making early detection difficult. The problem doesn't stop there. The industries resist these losses, 10 billion pesos, plus payment of surveillance and protection services which translates into a rise of 15 percent in prices. There is a notable lack of security systems under such a problematic condition. The underground extortion payment price becomes another "tax" on the company.

Criminal acts reduce company profit margins, which results in fewer resources for reinvestment and employment generation. Entrepreneurs have reduced their production levels to reduce losses by criminal acts. There are closures and suspended investment because of insecurity. Companies point out that

investing in Mexico represents losses in several ways. These range from the economic losses to administrative problems. Some of the most important are as follows: 1.) *To interrupt operations within the company;* 2.) *Temporary loss of the market because of insecurity or the immediate supply, because of loss of raw materials;* and 3.) *The losses of material allow supplying a black market and favors unequal competition.*” (Fraser, 2001) Noting these, it is not difficult to predict the confidence the international market gives to Mexico. However, we note that Mexico has several International Treaties that want reliable platforms (SICE, 2012).

The cost the Mexican society is paying is not merely the price of insecurity, but also corruption and impunity. According to estimates, the climate of violence that shakes Mexico cost, without counting the any lost profits, 50 million pesos a year. This number represents half the total annual budget for education. Moreover, during 2011 over 160 thousand companies shut down in Mexico because of organized crime, according to the Employers’ Confederation of the Mexican Republic (Miranda, 2012).

### The Diagnosis on the Social, Economic and Cultural Reality of Crime

Mexico is part of the Group of emerging countries with dual economies with relevant differences. On the one hand it is considered a modern, industrialized State strongly linked to the needs of the global market for export and import. At the same time, large sectors of the society are lagging. They are lacking for the minimum of well-being and without the capacity or possibility of development.

The document of Mexican Manufactures gives us insight from the 80’s. The Mexican Government adopted a macroeconomic policy, little conducive to growth, productive investment and industrialization. It favored stability overgrowth, and promoted financial stability over productive and social stability. Preserving stability comes from support from an overvalued exchange rate, and less public investment. But has not raised the competitiveness of the national economy or boosted private investment.

A cloud over the spectacular growth of manufacturing exports from the automobile industry, automobile spare parts industry, and electronics is NAFTA. They focused increasingly on a few branches and target markets. One half of assembly plants (fabric) for export, with national minimum content (2%), face depressed wages and ridiculous tax contributions. The funding from commercial banks and the enterprise’s development bank drastically reduces national capital enterprises.

This situation preserves the counterproductive macroeconomic sector strategies. In times that need creativity and pragmatism, rulers oppose implementing heterodox measures. The main developed and emerging countries are adopting policies to raise their levels of employment and exports and defend themselves against predatory imports. The Brazil government launched a package of extraordinary actions for financial, fiscal support and purchases in the public sector. The goal was to promote and defend priority industries. At the same time real wages are improved to strengthen the internal market.

The Mexican Government remains committed to reducing tariffs and protection of national production to boost their competitiveness. The American technical inspection and unilateral certification of standards procedures has damaged the Mexican companies in various sectors. Now it continues its departure hacking into the domestic industry, besieged in particular by Chinese and Asian imports. Part of this attitude occurs when emerging countries and developed countries recover the role of manufacturing and generate stable and prosperous economies. It also occurs by the development of comparative advantages of knowledge and low wages that depress the domestic market (MBGE, 2011).

## METHODOLOGY

Quantitative studies work with data and figures expressed in statistical equations. They collect data from different sources to gain a diagnosis of delinquency. It comes by a situational analysis that helps explain the reality and to propose strategies. We comparing and contrast official sources with the owners' organizations, service providers and managers of companies engaged in different sectors. We examine information provided by higher education institutions, office of mediation and rating market, nongovernmental organizations and foreign-national experts and specialists in public safety. Also information were obtained from financial organizations, both public and private. Economic activities were affected by or benefited from the crisis of insecurity.

## RESULTS AND DISCUSSIONS (THE PROPOSAL)

The political class and the media try to hide reality in Mexico. Similarly many people try to pretend nothing happens. Mexico is in crisis. No person or institution will make fundamental changes unless it knows that it is in serious trouble and needs to do something new to survive. Mexicans must accept that the country is in crisis. It is at a tipping point of good or bad. It suffers from a social pain attack, anxiety, or a disorder function. There is a crisis when there is a significant event or radical change in a person's life. Here is the key moment to act. It is a time for change. The great crises are the times of great opportunity for the victorious.

Miguel Bahena Pérez (2004) said that: the largest citizen march in Mexico against insecurity, took place on June 27, 2004. It allowed space for a reemerging civil society who demands citizens' rights beyond electoral rights. Security is the demand on the state for assuming its responsibility, facing crime and corruption. However, the romantic mystification of civil society leads to the extreme. The opposition between State and society, refusing the possibility of finding areas of agreement between both define them as contradictory. The climate of political confrontation between the parties and political actors has become clear. Each of them only strives to get power for power's sake. This is further proof that Mexico is a hostage of the political class: *partycratic*.

The solution to the problems facing Mexico is a challenge. We can tackle this challenge from different angles. It can be from citizen mobilization and pronouncement of fairer and less corrupt government policies. Planning and developing alternative models with a solid social economy, through information and awareness in educational spaces among others will be useful. We need to rethink organizations and social welfare. We must also properly assess the ethical values of cooperation, solidarity, subsidiary, self-management, social development, and promote them. The goal is to achieve efficiency, productivity, competitiveness and economic growth in organizations. (Monroy, 2005)

The Mexican legal political system needs to consolidate for social participation, preparation of the budget and its review. There must be a State Ethics Policy, as well as establishing a so-called participatory budget. We need to make clear there is no institutional ways for society to oversee permanently legislators, judges and public servants. Society as a whole is distant from the indirect representation of political parties. The government oversight body called the Superior Audit of the Federation is in charge not allowing the society as a whole to interfere in the appointment or performance of public servants. This is the same for States and Cities governments.

There is an urgent need to make effective the 3rd Constitutional Article. We define Democracy in Mexico as a national project. It is a way of life, based on the constant improvement of the economic, social and cultural conditions of the people. It has not met the last three criteria. Therein follows the plot of "failed" democratic State.

Andreas Schedler says: the magic word, the key idea, is accountability. As well as other political ideas in English, is a term that has no precise equivalent in Spanish, or a stable translation. It translates sometimes as control, as inspection, others as responsibility. However, the most common translation and the nearest is (*rendición de cuentas*) accountability (Monroy, 2005).

The solution is essential for joint actions and social responsibility of the state and organized civil society, not individualists. These actions should be done through institutions and nongovernmental organizations. We stress that it is vital we carry out an integral reform, of all justice administration machinery. Only with decent wages we can count on reliable police and judges.

Richard Fowles and Mary Merva (1993) published a study that covered heart attacks, strokes, and crime. This study carried out in the U.S. proved that newly unemployed workers are especially vulnerable to diseases and epidemics. He noted that unemployed people are more predisposed to stress and depression, to consume more alcohol, cigarettes and to less healthy diets. The document points out that each percentage point of growth in unemployment affects the following rates: 1. 5.6% Increase in cardiac effects. 2. 3.1% Increase in deaths from heart. 3. 6.7% Increase in homicides. 4. 3.4% Increase in violent crimes. 5. 2.4 Percent in robbery. These results come from surveys carried out in 30 cities with more than 80 million people in the United States. How is the situation in Mexico? What impact will unemployment have? Will it be the same? Will it be smaller, bigger? How does the fact there are groups who admire the rapid and illegal money affect? Are businesses above the law? What is important is not knowing how much, but knowing how to avoid this negative impact. Perhaps the best way is the education of our children and young people at home. Teaching respect and tolerance, inculcating hard work and honesty is everyone's task.

A fairly feasible solution to the problem of insecurity would be to create a winning attitude in the youth. The attitude would be based on moral and ethical values such as prudence, strength, aesthetics and good use of freedom. We base society as a whole on its educational system, and the Mexico has failed to meet the needs to create a society with future. The proposal is to invest more public spending in education and in creating sources of employment. To set up a true democracy with the active participation of organized society. This would make Article 3 to the Constitution effective in the sense that democracy is not only political or legal. That it is a way of life based on the steady social, economic and cultural improvement of the people.

Paradoxically, setting up security conditions requires creating jobs. If there were an attractive job offer, thousands of young people would give up drug trafficking and others jobs related to organized crime. Mario Sánchez Ruiz, President of the Business Coordinator Council committed himself to creating more and better-paid jobs. However to create these "worthy and generous" posts, we must first have security. The claim makes sense. No sensible executive would want to invest if he knows that crime will not take long to extort him and ruin his business. We have to ask ourselves why there are so many people engaged in extortion and kidnapping in Mexico? Despite the fight the President of the Republic has undertaken considerable efforts against organized crime, it has not stopped. Would there be so many drug dealers, kidnappers and extortionists if the country had decent and generous jobs? In developed countries, jobs are the result of market laws and the growth of manufacturing. They are not a gesture or a commitment.

The fight against crime is of paramount importance. You cannot understand democratic state of law without this frontal struggle. But that is not enough. Unjust monopolies should be open so that there are several TV chains, telephone companies, bread makers, cement plants, soft drink companies, and pharmaceutical companies. If employment were offered in these businesses to those who now are extortionists and kidnappers, organized crime would plummet. Having the opportunity to make more money legally and making less money illegally, few would take the second choice.

We also need to carry out labor reform, which makes flexible the working conditions and change unions into what they should be. Do not use political pressure groups and even political electoral forces for defending the union members' rights. We read in this text, from UNAM "Elements to build a State Policy for security and justice in a Democracy", there are some proposals highlighted:

"To hold a broad political and social pact this reorients the institutions of security and justice to face the violent crisis. To set up a national document this will make the account rendering operative, through integrating citizens to the National Public Security Council and to the Polices Civic Audit. To set up a national register of victims. Take to its maximum intensity prosecuting the crime of money laundering. To form a political and social consensus to give immediate changes to the security strategies. Center it on crime prevention, depressing impunity, decreasing the number of deaths and injured. Preserve people's integration and their human rights. Concentrating on a transparent and participative diagnosis which defines the problems faced. Add the course to follow and a periodic evaluation. To design a social political program which develops models to help consumers of addictive substances to accept their problem and look for treatment. To set up programs which recognize youth's heterogeneity and consider forums for their expression and their link to the community. To create programs to be conducive and reinserting young people into the educational program, with supplies for their labor development. To redesign work policies to highlight the importance of the link school and work, and foster the stability of work and the employees training. To offer fiscal stimulants to enterprises who hire young people and try to train their employees. To create a national subsystem of youth distribution and commercialization this fosters an entrepreneur culture in this part. To set up a council which will orient young people, advises and protects in the family, school, civic, criminal, labor and administrative environments. On topics related to the National University, create a formal mechanism in the National Association of Universities and Higher Education Institutions (ANUIES). Design it with a system to connect the investigation and development of security and justice (UNAM-IIDC, 2011).

Affect the neurological center of organized delinquency by breaking up the organization of illegal groups; strengthen the legal instruments for preventing and combating money laundering and terrorism financing.

1. Regulate cash operations, monetary instruments and equivalents. Bring into line those administrative subjects obligated by law to follow the procedures of preventing money laundering and terrorism financing. Focus on organizations with foreign currency, traveler's checks, prepaid cards, international money transactions and operate in high criminality zones.
2. To limit the cash payments of real state, cars and other items of high value. Impose the duty to report to SHCP the cash payments that a person receives for any idea.
3. Adjust penal types, A. Recognize new penal related to money laundering and financing terrorism. This will allow combating in an efficient way money laundering and the terrorism financing, as well as formalized specific investigation techniques. B. New subjects obliged to report transactions. Hold enterprise responsible for the prevention money laundering and terrorism financing. This should include gambling centers, nonfinancial bidders' loan, card issuers' bank payments or services. Also include real estate agencies, automotive and construction, professional jeweler. Business shielding, notary public, lawyers and accountants, transport of valuables, galleries and art auctions. We should include professional service providers to corporations, and companies at high risk of money laundering and terrorist financing schemes, as determined by the SHCP.

We need to consider the NGO (2011), proposed strategy based on national integrity to combat corruption. According to this strategy, governments alone cannot solve the problem of corruption, but need the attention of the whole society. Independent media, executives, legislature and judiciary powers, civil society organizations, private and public servants, regulatory commissions, and effective institutions should all play a role in reducing corruption. Leadership and political are important, but it takes a coalition of "people".

The Convention of Palermo notes: to prevent political corruption, a "Moncloa Pact" self-purge of political parties, following the example of Italy, to not allow the infiltration of organized crime. To set up plans for social crime prevention (it is common to hear children between 12 and 16 years old take the arms and leave school). It is essential to set up international cooperative alliances such as the Red Libera in Italy, following the example of Bari, and several others.

With no security to enjoy liberties and rights of its inhabitants, the state loses its reason for being. If the government fulfills its job then somehow the blame lies with the people. The people must not allow this to happen. In the words of Carlos Llano: people are as big as their projects. Mexico is condemned to be a world power, but making it a reality and that its benefits are shared we democratically need good governors, better political leaders, but above all excellent managers.

## CONCLUSIONS

During 2011 over 160,000 companies shut down in Mexico because of organized crime. During the last five years, the number of people murdered by organized crime has increase to more than 60,000.

This document describes the scenario of insecurity that occupies Mexico. We conduct further calculations to identify the cost companies pay because of insecurity. The methodology We highlight key areas of the problem and provide an objective view. We develop an analysis to identify the damage and loss from various types of crimes and offenses.

The government channels large amounts of money, goods and services to combat crime, resources that could go to other areas of welfare and social improvement. Companies spend extra for security for crime prevention, as well as hiring private security for surveillance. No security leads to losses in business because they pay for extortion, kidnapping, theft of goods, and other types of suffering. They transfer a part of their income and business properties to those engaged in illegal activities. It results in reduced profit margins, which results in fewer resources to channel profits to productive projects, savings, consumption of goods and services, and reinvestment or job creation. Employers have cut their production levels to reduce losses from criminal acts. The lack of security causes closures, suspension of investments and diversions to other destinations. The price they pay for extortion becomes just another tax on the company. The economic and social costs are high.

During the investigation, we noted limitations on two points. There is a lack of economic studies of losses suffered by businesses, because of crime. Estimates showed different and contrasting facts, figures, and impacts. We see this especially with regard to information provided by government agencies, who paint a picture for your benefit. This work is one of several parts of a comprehensive study. The short-term goal seeks to identify the figures and economic and social disruption on the firm. In a second stage of this research we will develop an inventory of company and government institutions needs for the fight against insecurity. The long-term goal is to develop formulas, mechanisms and procedures that serve as support to address and solve this social cancer.

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