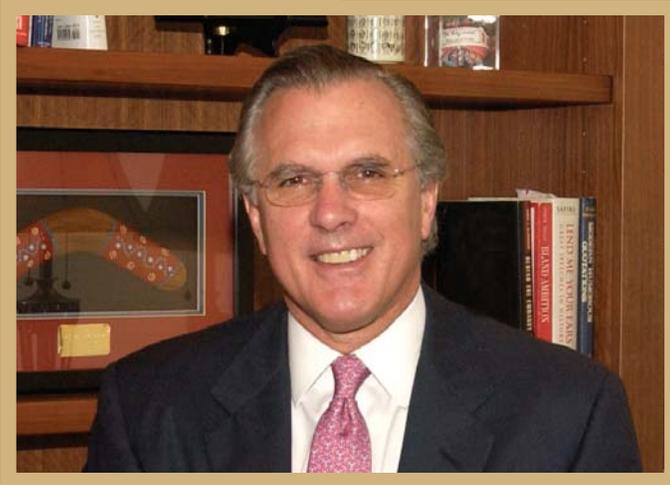


President's Perspective



“By focusing on fundamental reforms, Mexico’s economy will grow faster and stronger, providing greater opportunities for Mexicans to learn, work, innovate and compete in the global marketplace.”

I keep a watchful eye on Mexico. Part of the reason is my upbringing, which included several years as a boy living in Mexico City. And part of it is my job: Understanding Texas’ economy requires an appreciation of Mexico’s. The two are joined at the hip.

I am encouraged by much of what I see in Mexico. Its economy has been growing strongly for three years now. Inflation has declined to about 3 percent, its lowest level in 30 years. Public sector debt is no longer rising. More than a decade ago, Mexico quit the fool’s errand of trying to fix the value of its currency, and a free-floating peso has been a source of stability, not only in Mexico but in South Texas as well.

Investors look favorably on these signs of stability, and they are offering Mexico access to capital at lower interest rates and for longer terms than at any time in memory. Mexico’s government, limited to short-term debt in 1995, is now able to issue 20-year fixed-rate bonds, denominated in pesos.

Mexico is reaping the rewards of two decades of economic reform. The country reduced barriers to trade and investment, freed its central bank from political influence and privatized banks and other state-run businesses. By 1994, 80 percent of government-owned firms had been sold off.

Despite these accomplishments, Mexico continues to rank among the world’s least competitive nations. Here are some reasons:

- More than half of adult Mexicans drop out before reaching secondary school. Per-pupil spending has increased 20 percent since 1996, but Mexico’s education system needs more than money. It needs better administration, updated curricula and teaching techniques. Just as important, the economy needs to provide the incentives for students to work hard and finish school—namely, an efficient labor market to enter when they graduate.

- Mexico’s complex labor regulations are among the world’s most rigid, imposing significant disincentives to operating in the formal sector. As a result, the informal sector includes about half of Mexico’s labor force and most of the country’s entrepreneurs. They do not bother with tax and labor regulations. Being on the fringes, however, limits access to capital, restricts opportunities to grow businesses and hinders innovation.

- Mexican legal institutions are outdated and ineffective. Too many government institutions are susceptible to corruption, eroding public confidence in Mexico’s ability to enforce contracts, property rights and the rule of law.

I know many Mexicans share my concerns about the need to address the country’s structural and institutional shortcomings—both economic and legal. By focusing on fundamental reforms, Mexico’s economy will grow faster and stronger, providing greater opportunities for Mexicans to learn, work, innovate and compete in the global marketplace.

A handwritten signature in gold ink that reads "Richard W. Fisher".

Richard W. Fisher
President and CEO
Federal Reserve Bank of Dallas