

CONSPICUOUS CONSUMPTION
AND DRUG TRAFFICKING:
THE MEXICAN CASE

BY

RODOLFO ACOSTA PEREZ, B.S., MBA.

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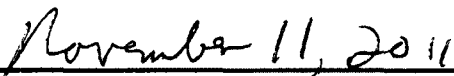
“Conspicuous Consumption and Drug Trafficking: The Mexican Case,” a project paper prepared by Rodolfo Acosta Perez in partial fulfillment of the requirements for the degree Doctor of Economic Development, has been approved and accepted by the following:



Linda Lacey
Dean of the Graduate School



Richard V. Adkisson
Chair of the Examining Committee



Date

Committee in charge:

Dr. Richard V. Adkisson, Chair

Dr. Kevin B. Boberg

Dr. Carl E. Enomoto

Dr. Yu-Feng L. Lee

DEDICATION

A Dios, por darme tantas cosas sin merecerlas y por concederme el privilegio de haber nacido en el país más maravilloso del mundo, mi México. Gracias por permitirme vivir en esta época, darme una nueva oportunidad cada día, acompañarme en mis horas más oscuras y darme la paciencia de terminar una más de mis metas.

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A todas aquellas personas cuyas almas y cuyos cuerpos han sido envenados por las drogas, a los que de alguna u otra manera han sido víctimas de la violencia que aqueja a nuestro país, a los que han dado su vida tratando de acabar con el delito en México y a aquellos que por diversos motivos han quedado atrapados en el laberinto del narcotráfico.

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It is worth mentioning that at the time this project was conceived, Mexico was experiencing a social, economic, and political crisis. It seems like we forgot our ideals and principles and surrendered to the “so-called happiness” that material goods can provide. Because of our pursuit of an identity through conspicuous consumption, we ended up paying a steep price for trying to obtain either real or perceived social and economic power. Poverty, social and economic inequalities, lack of education and employment opportunities, and greed has led some people to believe that narco-trafficking is the way to wealth and prosperity.

Because of this, Mexico is experiencing unprecedented levels of violence and social unrest that downgrade Mexicans’ quality of life. These claims do not imply that every Mexican is involved in narco-trafficking but our indifference and unwillingness to demand our elected public officials to fight it have contributed to this problem. By not doing anything to fight corruption, and not trying to be part of the solution, we are accomplices.

Based on this, the goal of this project does not consist in providing a magic solution to Mexico’s problems; it strives to make people realize how dangerous and detrimental narco-trafficking and conspicuous consumption are to society. Since this project portrays one of the darkest eras in Mexican history, the reader should be aware that Mexico does not live in total anarchy or chaos.

The country is suffering but that does not mean that future generations have to suffer too. Mexico is a country with a lot of potential and it is filled with individuals who are eager to make a difference and build a better future.

With this in mind, it is time to thank every person who helped make this project a reality. Either through direct contact or by reading other people's books, experts led me in the right direction. The masterpieces put together by Ricardo Ravelo and Diego Enrique Osorno (and many others) helped me get a precise overview of the narco business. Andres Roemer's book, *Economics of Crime*, provided me with data sources that helped me put together my project.

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VITA

December, 1979	Born in Chihuahua, Chihuahua (Mexico)
1998	Graduated from Colegio de Bachilleres de Chihuahua #3 Chihuahua, Chihuahua
2002	Graduated from Instituto Tecnológico de Chihuahua Chihuahua, Chihuahua
2002-2003	Assistant Manager and Production Supervisor Coca Cola
2003-2004	General Electric Environment, Health, and Safety Leader
2004-2006	Research Assistant Arrowhead Center
2006	Graduated from New Mexico State University Las Cruces, New Mexico
2006-2007	Institutional Research New Mexico State University
2007-2008	Economic Promoter Chihuahua State Government (Economic Development)
2008-2011	Research Assistant Arrowhead Center
2011 to date	Director of Strategic Initiatives Community Action Agency

Field of Study

Major Field: Economic Development

ABSTRACT
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BY
RODOLFO ACOSTA PEREZ, B.S., MBA.

Doctor of Economic Development

New Mexico State University

Las Cruces, New Mexico

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Dr. Richard V. Adkisson, Chair

The production and distribution of drugs from and within the Mexican territory, as well as its social and economic consequences, have been strongly embedded in the Mexican psyche for many decades but it was not until December 11, 2006 when things took a dramatic turn.

Soon after President Felipe Calderon declared a “war on the drug-cartels”, drug-related violence has escalated in Mexico leaving more than 30,000 deaths in less

than 5 years. It is often argued that this war is the cause behind increased drug activity and the large number of drug-related executions.

However, this paper explores an alternative hypothesis. Drawing upon Thorstein Veblen's theory of conspicuous consumption and a combination of case stories, historical facts, and statistics on drug trafficking in Mexico, this paper tests whether there is a positive correlation between executions rate, conspicuous consumption of visible goods, the retail value of cocaine in the U.S., the index of impunity in Mexico, and control variables such as the share of young males, average years of school completed, and asset-based poverty.

By using data from Mexico's 31 states plus the nation's capital (the Federal District), over 4 years (2007 to 2010) and a cross-sectionally heteroskedastic and timewise autoregressive model (Kmenta 1986, Section 12.2, pp. 616-625), it is concluded that conspicuous consumption does have an impact on the increase of drug-related executions. Control variables such as the cost (probably of being incarcerated) and benefit (retail price of cocaine) of working for the drug-trafficking industry, asset-based poverty, and age are also correlated with drug-related homicides. Out of the border states, Chihuahua, Baja California Norte, and Sonora show a positive and significant correlation with executions.

All of the variables above account for 77% of total variation in executions. Thus, the model used herein is very effective in and can be extended to other areas or countries that are experiencing increased levels of drug activity.

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CHAPTER 1

INTRODUCTION

It is well documented that narco-trafficking¹ and the fight against it are not a new episode in the history of Mexico². The production and distribution of drugs from and within the Mexican territory, as well as its social and economic consequences, have been strongly embedded in the Mexican psyche for many decades but it was not until the implementation of “Operation Interception”, imposed by President Richard Nixon to President Gustavo Díaz Ordaz in 1969, that the drug trafficking industry became a hot topic in binational relations between Mexico, the United States, and the rest of the world.

It is worth noting that it was not until December 11, 2006 when things took a dramatic turn. By using every available resource at his disposal, the newly-elected President Felipe Calderón decided to declare “the war on the drug cartels”: a war that has caused more than 30,000 deaths in less than 5 years. Just like many of their predecessors, President Calderon’s decision to fight organized crime was based on political motivations. There was a lot of doubt whether his triumph in the 2006 elections was legitimate, so Calderon tried to get back the trust he lost in the polls by declaring a war on the drug cartels. Several examples like the one above are present in Mexican history.

¹ This term is the same as drug-trafficking and is used indistinctly throughout this paper.

² For detailed examples see: Aguilar V, Ruben. Castañeda, Jorge G. El narco: La guerra fallida.

Throughout his book, El Cártel de Sinaloa, Diego Enrique Osorno states that the combat against narco-trafficking has always had political motivations. In the past, Mexican presidents often used narco-trafficking as an excuse to get rid of the regime's enemies; for instance, political adversaries and guerrilla movements.

While using different and controversial methods, every Mexican president carried out strategies to fight drug-trafficking to the full extent of the law. Echeverría carried out "Condor Operation" in Sinaloa. López Portillo named a criminal known as "El Negro Durazo" as the chief of police. Through his campaign of moral renovation, De la Madrid had "El Negro Durazo" arrested and focused his efforts on solving the international crisis caused by the homicide of undercover DEA agent "Kiki" Camarena. Salinas de Gortari tried to bring down the Sinaloa cartel while hunting down corrupt cops and army officials, while also bringing to justice the killers of priest Posadas Ocampo and political leaders. Zedillo confronted Juan García Ábrego, Mario Villanueva (the former "narco-governor"), and General Gutiérrez Rebollo. Despite the escape of Joaquín "Chapo" Guzmán from prison, it is argued that Fox was able to put behind bars more drug lords than any other president.³

Popular belief suggests that former Mexican presidents as Luis Echeverría, José López Portillo, Miguel de la Madrid, Carlos Salinas de Gortari, Ernesto Zedillo and Vicente Fox (either by greed, fear and weakness, or a combination of all) allowed organized crime to grow to unprecedented levels while being accomplices to the drug lords.

³ Source: Aguilar V, Rubén. Castañeda, Jorge G. El narco: La guerra fallida.

Due to the absence of hard evidence, it would be irresponsible and misleading to state that these presidents succumbed to the temptation of the drug business and became accomplices to the drug lords.

Despite the strategies carried out by the Mexican government, it has not succeeded at eliminating the drug cartels. A plausible explanation is that it has never addressed the causes and roots behind this phenomenon. In other words, are income inequalities, poverty, and social and economic deprivation responsible for the rise of drug-trafficking in Mexico?

Drawing primarily upon Veblen's work on conspicuous consumption and a combination of case stories, historical facts, and statistics, this paper will estimate a cross-sectionally heteroskedastic and timewise autoregressive model. Further discussion is in Kmenta (1986, Section 12.2, pp. 616-625)

By using data from Mexico's 31 states plus the nation's capital (the Federal District), over 4 years (2007 to 2010)⁴, the model above will test whether there is a positive correlation between executions rate, conspicuous consumption of visible goods, the retail value of cocaine in the U.S., the index of impunity in Mexico, and control variables such as the share of young males, average years of school completed, and asset-based poverty.

⁴ All variables in this model include the period 2007-2010 except the variable called asset-based poverty; this variable was only available for the year 2005 and since this index does not change considerably from year to year, it was used for all the years in the period of interest.

Including the 32 states in the Mexican territory, will provide insights on whether the drug business is highly concentrated in the border states of Baja California Norte, Chihuahua, Coahuila, Nuevo Leon, Sonora, and Tamaulipas; or if it has spread all over the country.

The main goal of this paper is to help the reader answer the following questions. To what extent is narco-trafficking associated with people's obsession with material goods (conspicuous consumption), states location (border, non-border), age, expected benefits and costs of narco-trafficking, poverty, and education? The answers to these questions can help understand Mexico's past and present, but most importantly, it can help craft a vision of a better and brighter future.

The structure of the paper is as follows. Chapter 2 provides a literature review on conspicuous consumption as well as its evolution. Chapter 3 presents a brief description on Mexico and a timeline of its history. Chapter 4 discusses conspicuous consumption in the Mexican context. Chapter 5 focuses on the relationship between drug-trafficking and conspicuous consumption. Chapter 6 discusses the origin and evolution of drug-trafficking in Mexico.

Chapter 7 and Chapter 8 provide a brief description of the major drug organizations in Mexico and a profile on Mexican drug dealers respectively. Since drug-trafficking is a complex topic, it is recommended to pay special attention to these three sections because they provide a detailed explanation of how the drug-trafficking industry became what it is today while discussing the most important characters who were involved in it and every major event associated with it.

The information in these sections will provide the reader with invaluable knowledge on drug-trafficking in Mexico, which will allow the reader to better understand the relationship between conspicuous consumption and drug-trafficking and their implications for economic development.

Chapter 9 presents the data, methods, and model used. Chapter 10 discusses finding and results. Chapter 11 addresses the economic impact of drug-trafficking in Mexico. Chapter 12 concludes and presents policy recommendations.

CHAPTER 2

BACKGROUND AND PAST EFFORTS

Across the globe, subject matter experts on crime and economic theory have studied the impact of income inequality and poverty on crime (Demombynes and Ozler 2005; Fajnzylber et al 2002a; Kelly 2000). However, they fail to acknowledge that income is a subjective measure at the individual level. Instead, the “act of consumption and the display of opulence drive home the reality of social and economic inequality within a community” (Hicks & Hicks, 2010).⁵

This brings into play the concept of conspicuous consumption coined by Thorstein Veblen. In The Theory of the Leisure Class (1899), Thorstein Veblen introduced the concept of “conspicuous consumption” to show that individuals often purchase certain goods and services, not to survive, but rather to portray themselves as wealthy persons with superior social and economic status. Veblen argued that status goods (cars, jewelry, expensive houses, etc.) send a signal for unobserved income; owning such goods is often perceived by others as social and economic status.

Individuals try to maximize their utility by displaying wealth and social status through their consumption habits (Charles et al 2009; Corneo and Jeanne 1997; Heffetz 2010). According to Veblen, the need to emulate is by far a more important aspect of utility maximization: “*with the exception of the instinct of self-preservation,*

⁵ Hicks and Hicks state that individuals are seldom aware of their neighbors’ income. Instead, individuals often form estimates of this income based on the physical manifestations of inequality: consumption of visible goods.

the propensity for emulation is probably the strongest and most alert and persistent of the economic motives proper” (Veblen, 1899, p.85).

This statement is aligned with the consumer demand theory of Duesenberry (1949) and Liebenstein (1950), in which individuals derive their utility not only from their own consumption levels, but also from the level of their consumption compared to others. Along the same lines, the “Easterlin Paradox” ‘states that people care more about their relative than their absolute position in society. That is, survey based measures within a country show individuals with higher income reporting greater happiness, yet corresponding increases in national income show no effect on happiness’ (Easterlin 1995; Luttmer 2005).

This emulation effect and individuals’ failure to obtain pecuniary success through legal activities translate into a feeling of disenfranchisement with societal standards and forces individuals to view crime as an alternative way to reach their goals (Merton, 1938, Strain Theory). Under Strain Theory, “when inequality rises, feelings of relative deprivation heighten, increasing the motivation for criminal behavior” (Hicks & Hicks, 2010, p.2.).

Gary Becker (1968) was the first one to relate economic theory to criminal behavior. He argued that individuals critically assess the benefits and negative consequences of committing crimes and then pick the best course of action. Under this theory, the gap between the poor and the wealthy, along with the probability of getting arrested and convicted, allows determining the net benefits of engaging in illegal activities. Then, when inequality rises, the motivation to commit crimes also

increases. In a similar vein, a high level of income inequality or extreme levels of poverty and deprivation translate into a low opportunity cost of committing crimes because choosing crime over legal activities would entail giving up a lower legal source of income.

A History of Conspicuous Consumption and Related Literature

Spending money to show off one's success and prestige is not a new trend. The need and the desire to consume conspicuously can be traced back to ancient times when men pertaining to the higher classes used the women and slaves they owned as symbols of their wealth and status (Veblen, 1912). Since then, although the players and their consumption patterns have changed, the game of ostentatious ownership has not, with the winners obtaining status, prestige, and honor (Page, 1992).

During early times, only the wealthy could play. However, events such as the Industrial Revolution allowed the nouveau rich, and even those individuals of little or no success to play the game. Some subject matter experts consider that conspicuous consumption is one of the negative results of capitalism (Galbraith 1984; Marx 1848; Toynbee 1973; Stanfield & Stanfield 1980; Veblen 1912), and others state that material ownership helps individuals define their identity (Belk 1988; Goffman 1952; Levy 1959; McCracken 1987; Solomon 1983).

McCracken (1987) emphasizes that "conspicuous and competitive consumption are especially important to the study of the history of consumption because they play such an important role in the growth of a consumer society" (p.50).

He also proposes that the study of ostentatious display of wealth between and within social groups may help better understand the hidden motives behind society's obsession with material things.

There are several theories that analyze people's need to consume conspicuously. The first work was put together by Thorstein Veblen in his book *The Theory of the Leisure Class*, published in 1899. According to Veblen (1912), the strength of one's reputations is in direct relationship to the amount of money possessed and displayed; i.e., the basis of "gaining and retaining a good name, are leisure and conspicuous consumption" (p.4). Veblen states "pecuniary strength" bestows "invidious distinction" as well as status, honor, prestige, and esteem within the community.

He associated "lavish spending" with the conspicuous lifestyle of the wealthy. Wearing expensive jewels and throwing feasts with expensive foods and alcohol were customary practices of "men of gentle breeding" whose lavish spending "redounded to their glory" (Diggins, 1978, p.17). It is worth noting that for Veblen, the objects of conspicuous consumption must be wasteful or possess no useful value, in order to reflect credibly on one's reputation (1912, p.97-98).

Drawing upon Veblen's theory, Duesenberry (1967) crafted his theory called the "demonstration" or "bandwagon" effect, which is related to the "keeping up with the Joneses" syndrome that tries to preserve one's self-esteem (McCormick, 1983). Duesenberry argued that the pursuit of material goods has become a "generally recognized social goal". Therefore, a vertically-oriented society sees success as

accumulation of material possessions, which has resulted in “the drive for self-esteem into a drive to get high quality goods”. In sum, individuals care more about relative economic success and consumption than the absolute level. Along these lines, people consuming the same bundle of goods will feel worse off when compared to those neighbors who increase their consumption of higher-quality goods.

These individuals will see themselves as falling behind in the success race and will experience low levels of self-esteem. To minimize or eliminate this loss of self-esteem, individuals will try to compete with their peers while “keeping up with the Joneses”. This means that individuals will increase their consumption expenditures in high quality goods to try to eliminate altogether the real or perceived level of inferiority created by other people’s consumption habits. This is better known as Duesenberry’s demonstration effect.

The main difference between Duesenberry and Veblen is that the former argued that the reduction of income inequalities would reduce consumption goods expenditures. The demonstration effect would no longer hold because an equal distribution of income would not allow “invidious comparisons between consumption standards”. In sum, Duesenberry considered that people would be happy as long as they were able to be at the same level than their peers, while Veblen had the firm conviction that people would always try to move up the economic ladder.

A contemporary consumer behavior theory opposing the demonstration effect is the “snob” effect (Mason, 1981). This theory states that individuals pursuing social and economic status dislike goods that can easily be obtained by the masses.

Therefore, the “snob” consumer looks for products that are scarce or hard to get. According to Mason (1981, p.128), this behavior translates into a higher social standing.

These three theories show how conspicuous consumption has evolved from being an elite “invidious distinction” behavior (Veblen 1912, p.26) to being common behavior among the masses (demonstration), despite the efforts of those trying to keep it out of reach (snob). In addition to these theories, several authors have contributed to the field of conspicuous consumption. Galbraith (1984) concurs with Veblen that people consume conspicuously to send a signal of their success in order to attain status. However, he argues that flagrant consumption is seen as vulgar; what is needed is a display of “obtrusive good taste”. Unlike the conspicuous behavior of ancient times, this demands “a certain measure of artistic and even intellectual effort” (1984, pxxii).

Marx often associated social motivations with the need to conspicuously consume while stating that this behavior was the effect of “commodity fetishism”, whereby goods are inaccurately perceived to grant honor, respect, deference, and authority to those who acquire such objects of status (Marx, 1848). Additional theories providing alternative explanations for conspicuous behavior include: social class identification (Belk 1988; Goffman 1952; Levy 1959; McCracken 1986; Solomon 1983); social class mobility (Goffman 1952; Solomon 1983); and peer or aspirant group influence (McCracken 1986; Rassuli & Hollander 1986).

There are subject matter experts who fail to acknowledge the relevance of social factors in conspicuous consumption behavior; they often argue that personality or innate human desires are responsible for such behavior. Marshall (1890) said that “the desire to conspicuously consume comes with us from the cradle and never leaves us till we go the grave”. He also emphasizes that such desire is the “most powerful of human passions” (1890, p.73). On a similar vein, Rae (1905) considered that it was a human innate desire to be self indulgent in order to express vanity. He argued that if “consumption is not conspicuous (it is) incapable of gratifying this passion of vanity” (p.247).

In the next section, each societal period of conspicuous consumption is presented to show how this behavior has evolved over time and through societies.

Evolution of Conspicuous Consumption

The periodization scheme used in this project is based on the work of Christine Page (1992), *A History of Conspicuous Consumption*, which was adopted from Mason’s (1981) work, *Conspicuous Consumption: A Study of Exceptional Consumer Behavior*. In his book, Mason classifies conspicuous consumption in three eras: **traditional societies** (feudal Europe to 1700 A.D.); **achieving societies** (1860s to World War II); and **affluent societies** (post-World War II through the 1970s). Drawing upon Mason’s work, Page includes a fourth period, **the post-affluent society** which covers the 1980s and early 1990s in America. Building upon this work, the author adds a fifth period (**the ambivalent society**) covering the late 1990s and

the first decade of the 21st Century.⁶ Even though this section does not discuss the Mexican society, it provides examples of behaviors that Mexicans have adopted as their own.

Traditional Societies

This period is associated with the European society from 1000-1700 AD (Mason, 1981). Such societies were characterized by hierarchical social structures, small changes in population, and an unequal distribution of wealth and social, economic, and political power (p.59). Social status was given at birth, not earned. Thus, vertical mobility and conspicuous consumption were limited to those who had prestige, status, and power (members of the clergy, the military, aristocracy and politicians). This way, the wealth could be concentrated among the few but powerful members of the elites. The only form in which underprivileged individuals could enjoy this wealth was in the form of “feasts, ceremonies, gift exchange or alms giving” as a strategy for guaranteeing obedience to those at the top of the social pyramid (Mason, 1981).

The deliberate conspicuous practices of the political and military leaders could be classified as Veblenesque because they were used to display “prowess and distinction” over the rest of the population. As Finlay (1973) noted, leaders from the Roman Empire often spent large sums of money on gladiator feasts lasting as many as three days, all to keep the people entertained. Rae (1905) also noted this behavior by

⁶ Additional studies not discussed in this paper which provide appealing hypothesis explaining the evolution of this consumption behavior are those of McKendrick (1982) and Mukerji (1983).

looking at Cleopatra, who once had their servants dissolve a pearl so that she could drink it, with the intent to display her capacity to waste her wealth. Numerous examples like this include but are not limited to: the Egyptian pyramids used as fancy temples, the Mayan pyramids, the British kingdom royal practices, etc.

According to Veblen (1912) and Mason (1981), conspicuous behavior centered around servants, food, clothing, and housing. McCracken (1985) argued that the nobility of the Elizabethan Era engaged in a riot of consumption of such items with the intent to promote the self, even at the expense of the society at large and even the family. This ostentatious behavior is often associated with ancient and feudal societies, but Mason (1981) argues that we can find examples nowadays in primitive communities in Africa, Asia, Australia, and South America.

Achieving Societies

The Industrial Revolution gave rise to these societies in the 19th and early 20th centuries, while giving them access to jobs, income, and geographical mobility opportunities. This resulted in a new middle class with the financial and political capital to compete in the exclusive game of ostentatious display. The nouveau rich obtained the necessary means to demand social and economic recognition from those at the top of the social hierarchy, which ended up in an endless conspicuous consumption battle between the two groups.

In America, this competition took place during the Gilded Age (1860-1914), an era characterized by the self-help doctrine. This era can be associated with vertical mobility, which has its roots in Americans' strong belief that vertical mobility is

possible as well as their sense of class identity. Compared to people from other wealthy countries, Americans do not think their social status is inherited. They have the firm conviction that their efforts, dedication, and perseverance can improve their economic conditions and lead them to the highest levels of social status.

As opposed to consumption, these virtues are not visible, so they do not serve as an indicator of how hard one has worked to succeed. Since Americans think they are the only ones responsible for their destiny, they feel the need to show their status and class identity through consumption. Income and wealth inequalities present in vertically mobile societies often lead humans to imitate the consumption patterns and lifestyle of the reference group above them (people with higher income).

This type of behavior can be related to the “era of status revolution” presented by Hofstader (1962), in which individuals spent on bath tubs cut from solid marble, artificial waterfalls, garden trees decorated with artificial fruit made of fourteen carat gold (Lord, 1960). In sum, the middle class was lavishly spending to attain the social status and prestige they desired; they were buying their acceptance into the higher circles of society.

It is worth noting that this behavior was not frowned upon in the United States. To clarify this point, Brogan (1941) stated:

... In a truly class-conscious and caste –dominated society, the marks of difference are universally recognized even if resented. In America, they must be stressed or they might easily be forgotten, and they must be added to, as the old standards of distinction cease to serve their purpose. Apart from the simple economic

criterion of conspicuous display, there are no generally accepted marks of social difference in America (p.116-17).

The rise of the department store during the 19th century along with department store credit provided middle class individuals with the financial means to buy distinction, status, and prestige. This “changed the culture of consumption by allowing the purchase of status goods, regardless of the true status of the buyer (McCracken 1985; Rassuli & Holander 1986). Veblen (1912) noted that women of that time, purchased clothing or vanity items such as high heels, impracticable bonnets, and corsets in order to “put into evidence their master’s ability to pay for their expensive lifestyle” (p.182). This gave the head of the household a good reputation among other people. In the end, as more people became part of the conspicuous consumption game, goods were purchased to attain social status.

In summary, the Veblen effect was very much alive during this era but it gradually started losing terrain to the new bandwagon and snob effects. Even though invidious comparison was seen during the period above, the rise of the Industrial Revolution and the economic growth associated with it gave average individuals the ability to be part of the conspicuous consumption wave.

Affluent Societies

Based on Rostow’s (1971) stages of economic development, wealthy societies may be defined as those in the “age of high mass consumption” (p.10). These societies often exhibit technological savvyness, are highly globalized, and use state of the art communication methods. Compared to achieving societies, affluent societies

are characterized by offering increased educational opportunities which in turn produce better job prospects with higher incomes (Mason, 1981).

Historical records identify the 1950's as the first affluent society decade in America (Mason, 1981). After looking at consumers' buying habits during this period, Converse (1959) crafted the concept of the "gadget economy". He said that after World War II, the United States saw a decrease in income inequalities which provided more individuals with the ability to buy things such as: cars, homes, appliances, airplanes, etc.(p.83). The gadget economy is still present nowadays but conspicuous spending has become a common practice, which have forced the rich to find new ways to display their success. They have done this by acquiring expensive and exclusive material goods that are out of the reach of the masses. This behavior is associated with the snob effect because the wealthy do not buy those products that are available for the "average individual".

As affluent individuals gained access to educational opportunities, they stopped using conspicuous consumption as a tool for achieving status. Instead, they based their self-esteem and identity on their professional and academic achievements (Mason, 1981). Therefore, "the man of wealth was forced to compete with the rest of society for this status (Galbraith, 1984, p78). Lavish spending in these societies turned into more "educated or tasteful expenditures than through flagrant exhibitions of wealth" (Page, 1992). According to Mason (1981), anyone who owned the necessary financial resources could play the game of conspicuous consumption.

Subject matter experts on consumption such as Sartre (1956) and Solomon (1983) emphasized the critical role that material goods play in building self-esteem while giving individuals the confidence, the power, and the ability to move in the social hierarchy. With the advent of more players and their ability to compete with the rich, the ownership game turned into a middle class event. As a result, people's consumption habits were based on the values and the spending patterns of the reference group usually above them; they often tried to emulate those above them. This gave rise to the "keeping up with the Joneses" or bandwagon effect.

By taking advantage of this, marketers and advertisers pursue a dual purpose: promoting "socially acceptable" goods that convey an attractive lifestyle to exclusive buyers. At the same time, they also try to sell these products to middle class individuals who dream about being part of the higher social spheres.

Galbraith (1984) believed that this aggressive advertising campaign was responsible for inventing unnecessary wants, while increasing personal debt levels. In his analysis of advertising's role on changing consumption behavior, he concluded that "advertising and emulation, the two dependent sources of desire, work across society. They operate on those who can afford, and those who cannot"(p. 147). This he argues is the unfortunate result of capitalism. In the end, conspicuous consumption became a middle class matter in affluent societies due to the promotion of "socially superior and socially acceptable" goods (Mason, 1981) as tools for building a person's social identity.

Post-affluent Societies

The most striking feature of post-affluent societies is the persistent obsession with material goods of the 1980s, which had not been seen since the early 1920s. The main difference between these two periods is that conspicuous consumption in the 80s was (for the most part) a middle class event, in the 20s this was a wealthy class behavior.

The consumption habits of the “pretentious” members of the baby boom generation, or yuppies (young urban professionals), as the media called them, were responsible for the materialistic reputation of the 80s. According to a Newsweek article, yuppies are defined as those individuals born between the period 1945-1960 making more than \$40,000 in a professional or managerial position (Andler, 1984). While often buying different visible or status goods, Yuppies were constantly striving to impress others and identify themselves as members of an exclusive, competitive, one of a kind, and successful professional group.

Even though yuppies comprised only 4.6 million, more than fifty percent of the 76 million boomers tended to act like this cohort (Marketing News 1985; Rice 1989). Since yuppies were not hesitant to display their conspicuous consumption habits, they were perceived as successful; therefore, the generations that followed emulated them. Common status goods purchased by this generation included BMW cars, cellular phones, Rolex and Cartier watches, Japt apartments (Andler, 1984), CD players, and expensive designer clothing (Belk, 1986).

Perhaps one of the most significant examples of conspicuous consumption seen in the 80s was cosmetic surgery. That is, healthy individuals were willing to pay large amounts of money to undergo an unnecessary, painful, and sometimes risky medical procedure just to “fix” an unwanted, either real or perceived imperfection of their body. According to Findlay (1989), the number of individuals having a cosmetic procedure increased 150% during the 80s. Liposuction was the most popular procedure increasing from 1,000 procedures in 1981 to 250,000 in 1989 (p.69). Indeed, cosmetic surgery became the way to feed people’s vanity while getting the right looks in order to obtain social status.

The conspicuous and excessive consumption habits of the baby boomers, their competitive nature, and their thirst for material goods and social prestige resulted in severe negative consequences. Despite a decrease in real income, consumer debt doubled from 10 years prior to the 80s (Statistical Abstract of the United States 1980-1990).

In sum, Belk (1986) argued that “compensatory consumption” explained the ostentatious spending during this era. Some baby boomers resorted to hedonist practices to compensate for the lack of a rewarding and fulfilling job. Due to limited job mobility resulting from a large number of qualified workers, a stagnating economy, and decreased incomes, baby boomers found a way to display their professional success. While filling their houses with expensive status symbols and even changing their personal appearance to send a signal of “social perfection”, flamboyant baby boomers gave conspicuous consumption a new meaning in the 80s.

The Ambivalent Society

Several authors argued that the ostentatious consumption seen in the 80s, like many other fads, would end by 1990. First, Boutilier (1990) stated that economic crises would make aging baby boomers realize that family, community, and the environment were more important than the endless quest for status. Second, Sherry (1985) said that “flagrancy was out, and philanthropy was in. Status would be bestowed to those who did rather than those who had”. Last, Inglehart (1990) stated that “a shift in priorities from excessive self-indulgence to community welfare would reflect a move toward post-materialism, or a concern for quality of life”.

It is the author’s opinion that philanthropy might be an example of conspicuous consumption. When actors, businessmen, and others share their wealth with underprivileged individuals and advertise their “good deeds” around the world, they are displaying their ability to give away their money.

Despite the fact that some individuals and businessmen have become more frugal, society is still very status-oriented. Although marketers, political leaders, human rights activists, and society in general are advocating for a more egalitarian and humane world, money and material possessions are still perceived as indicators of success throughout the world.

People still try to move up the social ladder by engaging in conspicuous consumption. As a result, between 1980 and 2003, real per capita income in the U.S. increased by 59%. However, real outstanding consumer debt per adult over age fifteen (revolving debt, 2003 dollars) increased from \$712 in 1980 to \$3,261 in 2003,

an increase of 358% (Adkisson & McFerrin 2005)⁷. These trends along with the fact that 40% of Americans live above their means (Federal Reserve Bank of Dallas) suggests that individuals still try to “keep up with the Joneses”. Only time will tell if this trend will persist or it will come to an end in the upcoming years.

An Alternative Structural Analysis of Conspicuous Consumption

In their article, “*Of Diamonds and Desires: Understanding Conspicuous Consumption from a Contemporary Marketing Perspective*,” Chaudhuri & Majumdar (2006) present an alternative periodic-structural analysis of conspicuous consumption behavior, illustrating its evolution, nature, and character. Table 1 shows this structural analysis.

Table 1

A Structural Analysis of Conspicuous Consumption Behavior

Social Structure	Primary Objects of Consumption	Drivers of Behavior	Consumers	Main Behavior Dimensions
Precapitalist-feudal	Slaves, women, food	Military and political powers	Nobility	Pure ostentation
Modern-capitalist	Expensive products (diamonds)	Social power and status	Nobility and upper-middle class	Ostentation and signaling and uniqueness
Post-modern	Image and experience	Self-expression and self-image	Middle-class and the “masses”	Uniqueness and social conformation

⁷ Statistics presented in this paragraph are based on data from the 2004 Economic Report of the President, the Federal Reserve’s Survey of Consumer Finances, and the American Bankruptcy Institute.

CHAPTER 3

A BRIEF DESCRIPTION OF MEXICO

Mexico is a democratic and federal republic that has a Federal District (Mexico City) and 31 administrative divisions known as states (for a graphical depiction of the country refer to Figure 1). It is located in North America, bordering the Caribbean Sea and the Gulf of Mexico (east); it also borders the Pacific Ocean (west); the northern states Baja California Norte, Chihuahua, Coahuila, Nuevo Leon, Sonora, and Tamaulipas share 3,141 km of the borderline with the United States; and the southern and southwestern states Chiapas, Tabasco, Campeche, and Quintana Roo border Belize (250km) and Guatemala (962km)⁸. Total population is approximately 112,336,538 (INEGI-Instituto Nacional de Estadística y Geografía-Mexico: The National Institute of Statistics and Geography –Housing and Population Census; June 12, 2010) and total area comprises 1,964,375 km₂; with 1,943,945 km₂ of land and 20,430 km₂ of water (CIA World Factbook).

Spanish is the official language but there are different indigenous dialects that have been officially recognized by the Mexican government. The Mexican constitution defines the country as a multi-cultural nation founded upon the principles set by the indigenous civilizations. Today, Mexico is a “mestiza⁹” nation and it is one of the countries with the largest number of Catholics in the world (only after Brazil).

⁸ Source: CIA World Factbook.

⁹ A mestizo is the result of a union between a native indigenous from Mexico and a Spanish individual.

During the first half of the 20th Century, the country experienced solid economic growth as a result of increased oil revenues and the diversification of the country's economy through industrialization policies.

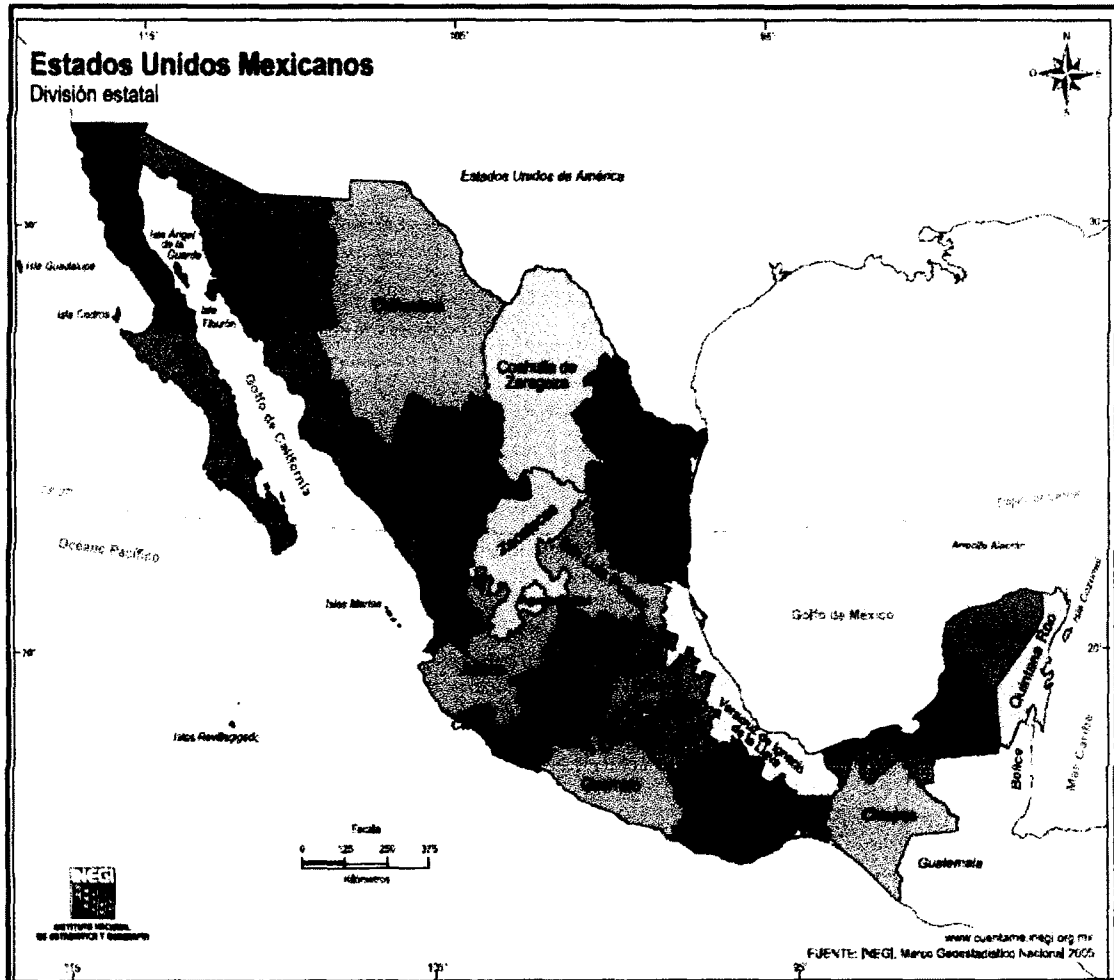


Figure 1-Map of Mexico

Source: INEGI

As of 2010, Mexico's Gross Domestic Product-purchasing power parity (\$1.567 trillion- U.S. dollars) ranked it as the 12th largest economy in the world¹⁰, the second largest economy in Latin America (only after Brazil), and the fourth largest in the whole American continent; per-capita GDP was \$13,900 (2010 U.S. dollars), which ranked Mexico 85th in the world. Income inequality and unequal distribution of wealth is very present in Mexico. There are municipalities that have human development indices similar to those of Germany and Burundi but there are rural communities that live on less than \$2 dollars per day.

Since the mid-80s, the country has based its development policies on a neoliberal economic development model with a strong emphasis on free-trade agreements. Having signed more than 12 treaties with 40 different countries, Mexico has become the world leader in this category. The most important of these agreements is the North-American Free Trade Agreement (NAFTA) with the U.S. and Canada. It also has a free-trade agreement with the European Union through the block called EFTA (Luxemburg, Switzerland, Liechtenstein and Norway) and it has a similar one with Japan.¹¹

The highway infrastructure is one of the largest in Latin America and its railway industry serves the commercial sector transportation needs. The oil industry is wholly –owned by PEMEX (Petróleos Mexicanos: Mexican Petroleum), the largest

¹⁰ The 11 largest economies in the world include the European Union, the U.S., China, Japan, India, Germany, Russia, United Kingdom, Brazil, France, and Italy.

¹¹ Source: Estudio de Mercado, Sector Indumentaria (Moda y Diseño) en Mexico. RGX, Red Global de Exportación (May 2010).

company in Latin America, the third largest oil producer in the world and the sixth largest producer worldwide in terms of its sales.¹²

Tourism is an important sector in Mexico and since it enjoys from a mild weather, it is ranked as the 8th destination worldwide in terms of visits by international tourists and it is the top destination for foreign tourists coming from America. The most popular tourist attractions are the ancient ruins of the Mesoamerican culture, colonial cities, and beach destinations. Its mild weather and its climatic diversity place it among the top 12 most diverse places in the planet; it is home to 12% of the world bio-diversity and it hosts more than 12,000 species.¹³

A Timeline of Mexican History

Since this analysis uses case studies and historical facts to explain the rise of narco-trafficking of Mexico, this section provides a condensed timeline of Mexican history so that the reader can identify the most important individuals and events that will be mentioned in subsequent sections.

Mexico has a rich cultural background because it was home to the most advanced American civilizations like the Mayans. Mexico was conquered by Spain and it was under Spanish rule for three centuries before becoming an independent

¹² Source: Estudio de Mercado, Sector Indumentaria (Moda y Diseño) en Mexico. RGX, Red Global de Exportación (May 2010).

¹³ Source: Estudio de Mercado, Sector Indumentaria (Moda y Diseño) en Mexico. RGX, Red Global de Exportación (May 2010).

country in September 16, 1810.¹⁴ Mexico was not recognized as an independent nation until 1821 when General Agustin de Iturbide signed the “Plan de Iguala” (Iguala Plan).

Soon after (1823) General Antonio Lopez de Santana overthrew Iturbide and declared a republic. As a result of Santana’s policies, Texas declared its independence from Mexico in 1836. This event led to a war between Mexico and the United States, which did not end until 1848 when Mexico lost more than half of their territory to the U.S.

In 1857, a new constitution was created and in 1858 Benito Juarez became Mexico’s interim president. He served 5 terms in office and he was the first Mexican president who did not have a military background and the first indigenous national to become Mexico’s president. He managed to deter the French invasion, overthrow Maximilian’s empire, and keep the country on its way to prosperity until he died in 1872.

In 1877, Porfirio Diaz became Mexico’s president and it is often argued that Mexico reached unprecedented levels of economic activity during his administration. However, he accomplished this by encouraging the exploitation of Mexico’s wealth by foreign countries and his era was marked by conspicuous parties and superfluous activities that displayed income disparities and wealth inequalities present in Mexico. His 34 years dictatorship led to the 1910 revolution led by Francisco Madero and

¹⁴ The fight for independence began on September 16, 1810 but independence was not recognized by Spain until 1821.

others such as notorious Pancho Villa, Emiliano Zapata, Venustiano Carranza, and Victoriano Huerta. The 1910-1920 era was filled with treasons, political assassinations, a dispute between Mexico and the U.S., and social and economic inequalities that the Mexican revolution could not eliminate.

Plutarco Elias Calles was elected president in 1924 and he nationalized the oil industry. On March 4, 1929, Elías Calles founded the PNR (Partido Nacional Revolucionario: Revolutionary National Party). Lázaro Cardenas del Rio was elected president in 1934 and one of most notable accomplishments was the expropriation of the oil industry on March 18, 1938; and on March 30, 1938, Lázaro Cardenas changed the PNR name to PRM (Mexican Revolution Party). In 1940, Manuel Avila Camacho was elected as president and in 1946 he renovated the PRM to the PRI (Partido Revolucionario Institucional: Institutional Revolutionary Party).

The list of PRI members who served as presidents in Mexico include: Miguel Alemán Valdés (1946-1952), Adolfo Ruiz Cortines (1952-1958), Adolfo López Mateos (1958-1964), Gustavo Díaz Ordaz (1964-1970), Luis Echeverría Álvarez (1970-1976), José López Portillo (1976-1982), Miguel de la Madrid (1982-1988), Carlos Salinas de Gortari (1988-1994), and Ernesto Zedillo Ponce de León (1994-2000).

The PRI had absolute control of Mexico from 1929 to 1989, when it lost the state elections in Baja California Norte and it lost the state elections once again in 1992 in the state of Chihuahua. There were several devaluations of the peso from 1929 to 1989 but the crisis of 1994 and the devaluation of the peso led Mexico into an

economic recession, the worst in over half a century. The worldwide financial crisis of 2008 resulted in an economic slowdown the following year. As the economy is slowly recovering, the country is experiencing economic and social problems such as: low real wages, unemployment and underemployment, income inequality, and limited educational and advancement opportunities for the under-privileged segments of the population.

The 2000 national elections represent an important milestone in Mexican history because it was the first time, after 70 years of rule by the PRI, that an opposition party won the presidential election; this man was Vicente Fox from the PAN (Partido Acción Nacional: National Action Party).

After a controversial election, Fox was succeeded in 2006 by another PAN candidate, Felipe Calderon. Since December 2006, when President Calderon declared a “war on the drug cartels”, Mexico’s drug cartels have been fighting a bloody battle against each other and against police forces and the army. This has resulted in more than 30,000 drug-related homicides.

It is often argued that the narco-trafficking problem is the result of the war between the federal government and the cartels, but since this paper explores the role that conspicuous consumption plays in this phenomenon, the following section provides a description of conspicuous consumption in the Mexican context.

CHAPTER 4

CONSPICUOUS CONSUMPTION IN THE MEXICAN CONTEXT

Everyone who has had a chance to study the Mexican culture knows that Mexicans have a passion for luxury. But, is this the result of fashion trends or the quest for status or an identity? Or, has this behavior need embedded in the Mexican psyche for many centuries?

A comprehensive study on conspicuous consumption per se and the role it plays in Mexico is non-existent or limited at best. Perhaps the work of Octavio Paz¹⁵ (Nobel laureate), Labyrinth of solitude, represents the most accurate description of the Mexican society. Even though his masterpiece is a unique analysis of the Mexican culture and it is not based at all on Veblen's work, Paz inadvertently discusses conspicuous consumption but from a sociological or philosophical perspective. It is imperative to emphasize that Paz does not try to replicate Veblen's findings because he was never influenced by him; he simply tells a true story based on historical facts while also presenting his very own view of things. Having that said, the following section is based off the book Labyrinth of solitude.

Are Mexicans Lost in a Labyrinth of Conspicuous Consumption?

The lonely Mexican loves going to parties because they use any excuse to stop time while celebrating at social gatherings and ceremonies. The Mexican society is

¹⁵ Octavio Paz (1914-1998) was a Mexican poet, writer, diplomat, and the winner of the 1990 Nobel Prize for literature.

filled with rituals and few places in the world can enjoy colorful parties, dances, religious ceremonies, unique outfits, and a never-ending waterfall of surprises.

Mexican calendars are filled with parties and both urban and rural communities pray, yell, eat, get drunk, and even kill in the name of the Virgin of Guadalupe or General Zaragoza (the man who is attributed the victory on May 5th). On Independence Day (September 16), every single plaza in the country welcomes thousands of individuals who are eager to party and yell for a whole hour but who prefer to be silent during the whole year.

It is hard to calculate the number of parties that Mexicans celebrate and it is even harder to compute the resources and time used in such celebrations. According to Octavio Paz, a mayor once told him that his budget did not exceed \$3,000 pesos (\$230 USD) and the federal and the state government helped him every year meet the town's expenses. It is shocking to know that the mayor spent his entire budget in parties and had nothing left to meet the town's needs.

Having that said, poverty in Mexico can be measured by the number and conspicuousness of public parties or celebrations organized by the government. According to Paz, the most advanced countries have few parties because there is no time or willingness to do so. These parties are not deemed necessary because people have more important things to do and when they party, they do it in small groups. But how could the poor Mexican live without those annual parties that make him forget his misery? Parties are their only luxury; they serve as a substitute for going to the movies, the theater or vacation.

During these parties, Mexicans sing, play with firecrackers, fire their guns in the air, and open up their hearts. Just like firecrackers, they rise up to heaven to explode and show red, blue, and green patterns, which eventually fall down to earth, leaving nothing but sparks.

The waste of money and energy confirms the collectivity's opulence because luxury is an exhibition of abundance and power. According to Paz, "this is a trap because waste supposedly brings true abundance and money brings more money." In the end, Mexicans hide behind masks that liberate them from themselves, from their impulses and their fast temper.

In sum, parties provide utility because the expenses incurred attract abundance and they represent an investment just like any other. But, profits are measured in the form of power, status, and abundance. These parties show how Mexicans' inability to talk and speak up prevents them from communicating with the rest of the world. There is nothing better than a Mexican party but based on this discussion, there is nothing sadder.

Mexicans' Obsession with Status Goods

Based on a report by A.C. Nielsen consulting company, the luxury products market is constantly increasing its sales in developing countries. Mexico is the 4th largest consumer of luxury items in the world and it is the top consumer in Latin America¹⁶.

¹⁶ El consumidor ante las marcas de diseñadores. A.C. Nielsen (June 2006).

Luxury goods are not exclusively for millionaires and celebrities; middle-class individuals, those who marketing specialists call “aspiring consumers” buy these goods too and this segment represents 80% of total clients for department stores like “El Palacio de Hierro”¹⁷.

According to Alain Coutonlenc, marketing director for A.C. Nielsen, “Mexicans are willing to pay a lot of money for luxury items because of the image they display and the acceptance feeling associated with them. Even though Mexicans think that designer clothes are overpriced and overrated, they are still willing to spend half of their monthly salary on high-end products. But this does not matter because a Mexican is not hesitant to buy a Hermes tie even if he has to ride the subway to come home. What matters are the display and the feeling of being different”¹⁸.

As an example, in Europe, fashion’s headquarters, people consider that using a luxury product is an obligation. On the contrary, in the U.S., consumers are more skeptical when it comes to buying these goods. Only 18% of consumers think that they are worth paying for and 36% thinks that counterfeit products are as good as the original.

In the end, “when Mexican consumers buy designer clothes¹⁹, they feel they resemble those whom they admire and want to be unique and differentiate themselves

¹⁷ This is a high-end department store similar to Dillards but more expensive.

¹⁸ El consumidor ante las marcas de diseñadores. A.C. Nielsen (June 2006).

¹⁹ These include Gucci, Versage, Hermenegildo Zegna, Louis Vuitton, Dior, Chanel, Ralph Laurent, etc.

from their peers”²⁰. In sum, conspicuous consumption is a way of saying, “I made it and I am successful”.

²⁰ Verónica Baz, Centro de Investigación para el Desarrollo, A.C.

CHAPTER 5

DRUG-TRAFFICKING AND CONSPICUOUS CONSUMPTION

“There are enough resources for everybody’s needs but not enough for everybody’s greed”
- **Mahatma Gandhi**

In the Mexican legal system, drug trafficking falls under the category of health crimes. In his book, Narcotráfico-Un punto de vista Mexicano (Narco-trafficking-A Mexican point of view), Mexico’s former General Attorney (1988-1994), Sergio Garcia Ramirez states that “drug-trafficking entails the production, growing, harvesting, and industrial fabrication of drugs. It is also related to the transportation and/or storage of illicit drugs with the intent to distribute them to retail or wholesale consumer markets and suppliers or sellers. It involves all the activities that facilitate the commerce of drugs such as corruption, intimidation, violence, and complicity. It also includes the collection and sharing of profits, the planning and financing of these activities, and its related consequences such as: smuggling, violation of immigration laws, gun trafficking and alliances with other criminal organizations” (Garcia Ramirez, 1988, p.30).

The Economic Motivations behind Drug-Trafficking

Even though drug trafficking translates into violence, homicides, and social unrest, these are negative externalities caused by its primary motivation: the pursuit of economic profits. As opposed to killers or rapists, the drug dealer does not intend (purposely) to hurt or kill drug consumers; instead, he is trying to get rich. He is

aware that expenses must be incurred in to accumulate wealth and he is also aware this wealth has to be shared. This translates into new illegitimate businesses that provide individuals with an “easy” and fast way to make money.

A common practice incurred in by drug lords is that of money laundering, which encourages an underground economy. This dirty money is “cleansed” through a series of transformations that let it rise to the surface. This money is recycled and passed on to the formal sectors of the economy (industrial, commercial, banking, tourism, services, etc.). Laundering practices often take place in wealthy and urban communities experiencing high levels of economic activity. It is precisely in these places where drugs have a higher retail value.

As a result of the concentration of economic activity in these places, rural communities are slowly disappearing: since employment, health services, entertainment, etc. are located in the city people often migrate there. Those who stay try to escape poverty by doing the only thing they can: get into the drug business. Because of this, “50% of retail drug-trafficking is managed by housewives” (Osorno, 2011, p.52).

How is Drug-Trafficking Connected to Conspicuous Consumption?

In 1968, Gary Becker presented his work titled “Crime and Punishment: An Economic Approach”, in which he first described an economic model for explaining criminal behavior. He concluded that all criminals behave like rational economic agents because they (sometimes inadvertently) carry out a cost-benefit analysis. That is, the decision whether to pursue a career in crime or in any legal field will be

dependent on the expected returns of each activity. Under the same line, Robert Cooter and Thomas Ullen argued that “criminals weigh the marginal benefits of crime against its expected punishment”.

It is obvious that poverty, unemployment, population, age, etc., play a critical role in explaining the rise of the drug business but even during times of economic prosperity both rich and poor individuals still decided to participate in the drug industry. A plausible explanation is that individuals are constantly comparing themselves to their peers (keeping with up the Joneses). When they fail to keep up with their immediate reference group (though legal activities) there is an incentive to choose illicit and profitable activities that will help them achieve the status they are looking for.

It would be irresponsible and misleading to state that comparison alone is the only reason for this behavior. The main reason is that society is obsessed with material possessions because they serve as an indicator of how hard one has worked to succeed: they serve as a proxy of a person’s income. Therefore, people, especially teenagers want to “live it up” and want to build wealth in a couple years; wealth that took their parents many years, even decades to build.

Unless you are an accountant, there is no way to know how much your peers make. But, the constant display of wealth through conspicuous consumption sends a clear signal for those people down in the social and economic ladder. When these individuals do not have the means to keep up with the Joneses, they feel resentment because they do not get a piece of the pie.

This often results in an identity crisis that can only be resolved by getting the means to behave conspicuously while buying status symbols.

Out of all criminals, drug lords are the ones who behave more conspicuously. They are known for showing off their wealth by buying flashy and expensive jewelry, custom made clothes and cars, gold guns, etc. Therefore, they often impress the most gullible segment of the population: teenagers. Because of their strong propensity to emulate others, these teenagers are the ones who are usually recruited by the drug cartels.

In sum, it is hypothesized that people's need to survive as well as people's greed are the main factors behind the increase in drug-trafficking crimes. In addition, the retail price of cocaine in the U.S., the probability of being convicted or impunity, education, and population are also important variables to consider when analyzing this phenomenon. Subsequent sections will illustrate how these variables are included into the model to assess the relationship between conspicuous consumption and the increase in drug-trafficking activities.

How are Conspicuous Consumption and Drug-Trafficking Related to Social and Economic Development?

Conspicuous consumption diverts resources from their productive uses (i.e. health, education, etc) while further contributing to real and perceived income and consumption inequalities. According to the literature discussed above, these real and perceived inequalities often lead individuals to pursue a life of crime in the drug-trafficking business.

Thus, the drug-trafficking industry (fueled by conspicuous consumption) is worth studying because it affects economic development in the following ways.

First, the war against the drug cartels consumes a lot of resources that could be put to better uses such as the construction of more schools, infrastructure development, creation of health services, etc. Second, it creates a violent environment characterized by killings, assassinations, kidnappings, and extortions. This translates into fear and social unrest, which changes individuals' behavior who try to minimize the probability of being a victim. When faced with the persistence of crime, individuals stop trusting police, their political leaders, and even some institutions. It is not uncommon to see some these individuals take justice within their own hands, which further eliminates social cohesion and community life.

Third, the drug trafficking industry halts economic development in two fronts. At a microeconomic level, it discourages the creation of human and social capital because it provides an incentive to those underprivileged members of society (as well as ambitious and greedy members of the middle and upper classes) to engage in socially unproductive illicit activities. At the macroeconomic level, the country loses credibility by being perceived as a region with potential social and political upheaval. This results in the outflow of people, the lack of foreign and domestic investment. It also hurts tourism, which is a big component of a country's economy.

In the end, drug-trafficking reduces countries' productivity, halts social and economic progress, creates a violent climate, and downgrades quality of life for citizens.

This issue should not be overlooked because it does not respect social hierarchies; it affects the rich by making him an easy target for criminal activity and it affects the poor by denying him access to the services and resources needed for his development.

CHAPTER 6

A HISTORY OF DRUG-TRAFFICKING IN MEXICO

Narco-trafficking has existed for more than a century in Mexico and it has evolved during the last decade. The inability of the Mexican government to stop it has resulted in a large, profitable industry able to provide individuals with unimaginable amounts of money. Due to its economic impact in the nation, narco-trafficking represents a large sector of the economy and many individuals identify themselves with the narco-culture. Creating a model to estimate the impact of conspicuous consumption and other socio-economic variables on narco-trafficking would be impossible without understanding its origins, its evolution, actions carried out to stop it, and its consequences. Thus, this section provides a detailed timeline that describes narco-trafficking past, present, but most important, where this industry is headed.²¹

Criminal activity can be traced back to ancient times and, like everything else, is often evolving. Niceforo, an Italian sociologist, criminologist, and statistician, was among the first one to provide an explanation for the evolution of crime. He stated that crime seems to follow the patterns of social evolution. Based on the First Law of Thermodynamics, he coined the concept known as the laws of criminal activity. "Crime, like energy, can transform from one state to another, but it cannot be created or destroyed."

²¹ The historical timeline presented in this section is based on several sources. But the majority of the information herein comes from Diego Enrique Osorno's best seller, El Cártel de Sinaloa.

He stated that crime transitions from violence to cleverness. The most common offense used to be homicide. Nowadays, drug-trafficking entail more astuteness. The drug-trafficking industry is recruiting individuals from two “untapped segments of the labor force” (teenagers and women). As time goes by, criminals start their careers at an earlier age and an increased number of women have been recruited by this industry. Thus, drug organizations adopt the business models and strategies used by military, economic, and social organizations. This way, crimes can be committed in more efficient and profitable ways while being extended across international boundaries.

As opposed to other criminals who evade police and law enforcement agencies, drug cartels try to neutralize policemen by bribing them or killing them, or they even try to overthrow them by using “all necessary means.” In sum, drug-trafficking is perhaps the global offense of our time; it respects no one, it combines cleverness and violence, and it accomplishes its objectives through the use of lethal force and intelligence.

Overview

The origin of drug-trafficking in Mexico can be traced to the northern state of Sinaloa and it dates back to the 19th Century. However, security analysts from Mexico City argue that the current levels of violence can be attributed to recent events; in particular, the end of the implicit agreement between drug lords and local or state governments, especially those headed by the Partido Revolucionario Institucional (PRI), which lost the presidency in 2000 leading to the alleged disputes over the drug

routes.²² The supposed government-drug lords agreement allowed the free and uninterrupted flow of drug shipments (generally by land) from South America to the United States by using pre-established routes on the Mexican territory.

It is also argued that every drug cartel was assigned an exclusive area or territory, which was not subject to discussion or debate. In exchange for bribes, which varied according to the government official rank, Mexican authorities allowed the production of drugs like marihuana and poppy and they were grown primarily in the states of Sinaloa, Guerrero, Chiapas, and Veracruz.²³

Since ancient times, Mexicans consumed different types of drugs that were used in their religious rites; the shamans were the primary users of drugs (hallucinogen mushrooms) up until the fall of the great Tenochtitlan and the abandonment of Chichen-Itza.²⁴

The 19th Century

Luis Astorga, who was born in Sinaloa, is a Mexican researcher who has analyzed the drug industry and drug dealers' behavior throughout the years. His

²² German Martinez, national chairman of the Partido Acción Nacional (PAN). March 2009, El Universal.

²³ Bussey, Jana (15 de Septiembre de 2008). «[Institutional Revolutionary Party Drug lords rose to power when Mexicans ousted old government]». *McClatchy Newspapers*. Institutional Revolutionary Party. Consultado el 16-09-2008.

²⁴ <http://culturamayablog.blogspot.com/>

books analyze the narco corridos²⁵ and the drug dealer mythology. Because of his findings on the drug business, Astorga is considered by his peers as one of the most knowledgeable, objective, and trustworthy researchers. According to him, there are statistical data proving that poppy, marihuana, and Indian cannabis already existed in 1886 in Sinaloa but they were used in the textile industry.

Towards the end of the 19th Century and the beginning of the 20th Century marihuana cigarettes were not illegal; they were already being sold in the country and popular songs known as “narco corridos” were being written. In 1919 a movie called “Puño de Acero” (steel fist), portraying the consumption of heroine, was filmed.²⁶

The 1900-1930 Era

According to Astorga, early during the 20th century, the Chinese minorities living in Sinaloa were often seen as opium-addicted individuals. During the first Mexico-China migration treaties, the first Chinese who settled in Mexico took opium with them because it was a natural substance in their country. They soon found out that the weather in Sinaloa allowed the growing of opium and they started using it for other purposes: this is how the first Mexico narco-routes to the United States were created. Official records from that time show that there existed several establishments that allowed smoking opium. Some of these places were located in Mexico City,

²⁵ Mexican songs that usually portray drug lords as successful and intelligent individuals. Because of their lyrics these songs encourage people to get into the drug business.

²⁶ <http://www.lamarihuana.com/foro/mexico/31645-historia-de-la-mariguana-en-mexico.html>

Ciudad Juarez, Mexicali, Tampico, and Tijuana. Opium farms were located in Xochimilco, Sonora, Michoacán, Guanajuato, and Jalisco. However, Sinaloa was the state with the majority of opium farms.

On July 28, 1922, *El Demócrata Sinaloense*, one of the most important periodicals of that time, published the following article: "Growing opium will not be allowed in Sinaloa". The article indirectly talked about the Chinese because it stated that the government would fight certain foreign individuals that made a living by growing and selling illegal and toxic substances like opium and marihuana (Osorno 2009, p.60).

It was not uncommon for Sinaloans (especially merchants) to gather in the plaza and yell that the Chinese were going to doom Culiacan, Sinaloa, and Mexico. Most Sinaloans considered that the Chinese were an inferior race that threatened national prosperity. However, the Chinese, who arrived in Sinaloa through the port of Topolobampo and Mazatlán, brought new scientific discoveries, techniques, art, and philosophy from a different and ancient civilization. Despite all this, the hatred kept growing and their culture was used as an excuse to form the Anti-Chinese Committee of Sinaloa on April 1924 (formed by wealthy merchants).

One of the committee's objectives consisted in creating a law that obligated the Chinese to live on certain city neighborhoods, far from the community. The Chinese community lived on the area know today as Las Quintas de Culiacan and their crops fed a large amount of the population. Ironically, nowadays this residential area is seen as a place where drug traffickers live.

Members from the committee used to go out at night to “hunt down” Chinese citizens. The anti-Chinese caught them and put them in cages until they were sent (by train) to Nayarit and Chiapas. This way, the powerful merchants of Sinaloa, who argued that opium-addicted Chinese men were a threat to society, got rid of them. However, they never expressed their true motivations: to eliminate the competition that productive Chinese merchants represented. In the end, drugs, which were indeed consumed by some Chinese, became the perfect excuse to avoid the economic competition posed by Asian citizens.

In 1925, the Mexican government ordered the arrest and deportation of 200 Chinese. Since former president Plutarco Elias Calles was an avid supporter of the anti-Chinese movements of 1931 he formed protest groups in the country’s capital and his son, former Governor of Sonora, Rodolfo Elias Calles, supported these policies throughout his state.²⁷

By 1926, *El Demócrata Sinaloense* announced the existence of an illegal drug joint that was under police protection so that the addicts could gather and smoke opium. Because of this, people no longer envisioned the end of the drug business. Despite the claims against the Chinese, there is no doubt that the Sinaloans played the main role in the drug industry during 1920 and 1930.

²⁷ El Barrio Chino. Rodríguez Barrón, Daniel. September 23, 2010.

The 1930-1950 Era

In his book, Una vida en la vida Sinaloaense (A life in the Sinaloa life), Manuel Lazcano y Ochoa²⁸ discusses the history of Sinaloa and analyzes the social consequences of the drug business. He states that even though the Chinese brought opium to Sinaloa and participated in the drug business, they were not the only foreigners involved in it. According to Lazcano y Ochoa, a lot of Americans traveled to Mexico to buy drugs and the trafficking business was closely related to the war industry.

Due to the existence of peasants who produced drugs, drug dealers who had connections inside the government and American drug consumers with enough money, the drug-trafficking business was spreading all throughout Sinaloa without any problems. At the same time, in August 12, 1937, the United States Congress approved a Federal law named the Marihuana Tax Act. This law, up until today, prohibits the consumption, possession and commercialization of marihuana throughout the country.

In order to support this anti-drug campaign, Harry J. Anslinger, the FBI director, crafted some reports in which he argued that when the US decided to be part of World War II a group of American gangsters led by Benjamin Siegel (a.k.a. “Bugsy”) tried to promote the drug industry in Nayarit, Sinaloa, Sonora, and Baja California. To accomplish his objective, Bugsy (along with Virginia Hill, a famous

²⁸ General Attorney of Sinaloa (1945, 1963-1968, 1987-1992) and Secretary of State during Francisco Labastida’s administration (former Governor of Sinaloa and 2000 presidential candidate).

actress of that time) tried to convince Mexican politicians to support his drug campaign by throwing the most conspicuous parties ever recorded in Mexico City.

In his book, El Siglo de las drogas (The century of drugs), Luis Astorga cites news articles from that time that suggest that Bugsy hired a powerful mafia to produce illegal drugs in Mexico (Sonora and Sinaloa). He also took advantage of the 20,000 Chinese who lived in Baja California, which resulted in the rise of two new mafias led by Chinesemen Chie Kung Tong and Know Ming Tong.

Luis Astorga also presents historical evidence saying that Victoriano Huerta liked marihuana and the elegant people and young writers of that time bragged of being possessed by the “Asian vice”. Following the anti-drug strategies implemented by the US government, and due to the increase in drug-addicts, the Mexican government decided to hunt down not only the Chinese but every “junkie at large”.

When asked about the origin of drugs in Sinaloa, some people think that the United States government allowed and promoted the harvesting of drugs during World War II. It is argued that during the late 30s and early 40s, President Roosevelt promoted and financed the drug industry in Mexico. Since WWII left a lot of injured soldiers in extreme pain and in need for drugs, the US were forced to foster drug production in Mexico. Due to its weather conditions that favored the harvesting of marihuana, the state of Sinaloa was chosen through an official agreement between President Roosevelt and President Manuel Avila Camacho²⁹.

²⁹ El Cártel de Sinaloa: Una Historia del Uso Político del Narco. Osorno, Diego Enrique, 2011.

Carlos Resa Nestares³⁰, a professor and researcher at the Universidad Autónoma de Madrid, considers the above statement to be a myth for the following reasons. First, there is no scientific evidence proving that marihuana and opium can grow more easily in the mountains of Sinaloa than in other regions with flat areas, more fertile, and with better access to water and fertilizer.

Second, the US did not have the need to go to another country to grow the drugs they needed because WWII provided them with the legal precedent to grow and harvest them. Third, Harry Anslinger himself had signed an agreement with the governments of Turkey, Iran, and India to guarantee a steady supply of opium. Fourth, Anslinger and the whole US State Department tried to discourage the production of opium in Mexico by giving financial rewards to those Mexican agents who provided information leading to drug producers' arrests.

Finally, official records from WWII prove that the US government was less than happy with the Mexican government because it was unable or unwilling to stop the production and export of drugs. According to Resa Nestares, perhaps an intelligent and ambitious intermediary told the previous conspiracy theories to peasants to convince them to grow marihuana in their farms.

Perhaps ignorance and extreme poverty forced peasants living within the Drug Golden Triangle (Sinaloa, Durango, and Chihuahua) to be part of the drug industry.

³⁰ Carlos Resa Nestares worked as a consultant for the PGR in Mexico during the 90s.

An industry that that became a gold mine for the drug cartels but it also brought serious consequences for these regions due to the violence it unleashed.

Rodolfo Valdes, a.k.a. el Gitano, can be considered as one of pioneers in the drug business in Sinaloa and Mexico. He already had a bad reputation in the southern part of the state, where he worked as a paid assassin for the landowners who were against the agrarian reform promoted by President Lázaro Cardenas del Rio. But el Gitano became “a legend” in Sinaloa on February 21, 1944 when he assassinated Sinaloa’s governor, Rodolfo T. Loiza.

According to an article published in Excelsior by Luis Spota on June 13, 1944, an anonymous source told him the reason behind the governor’s assassination: Governor Loiza was killed because he received 80,000 pesos from some opium traffickers who wanted immunity but Loiza did not keep his end of the bargain and paid with his life.³¹

When el Gitano was arrested he claimed that the new governor in charge, Pablo Macias, was the one who ordered Loiza’s assassination. Even though there seemed to be enough evidence for Macias arrest, he was never in prison because he had a lot of political and personal connections and he was able to finish his term in office.

El Gitano pleaded guilty in a court of law and was sent to Mexico to serve this sentence. However, when Leopoldo Sánchez Célis was sworn in as governor, he had

³¹ Manuel Lazcano y Ochoa argues that Loiza’s assassination was an act of vengeance by the family of Alfonso “Poncho” Tirado, a wealthy businessmen and landowner who could have ran for governor and affected Loiza’s interests.

el Gitano brought back to Mazatlán. Officially, he died in prison but el Gitano lived in Culiacan up until his death (Lazcano & Ochoa, 1991).

During those years, poor peasants still had the 1910 Revolution fresh in their minds and they were still looking for “Tierra y libertad” (Land and freedom). However, wealthy landowners were willing to “use all necessary means” to avoid giving up their land. Under a perpetual war between landowners and peasants the Sinaloan mafia was born.

The wealthier landowners often created their own laws to keep their privileges intact and their enemies got the death penalty in the hands of hitmen like el Gitano. Because of this way of living, the mafia capitalized on government corruption and was able to inflict pain and fear while exploring other economic activities such as the harvesting and commercialization of marihuana and other illegal drugs.

In other note, German Nazis also tried to benefit from the rise of drug-trafficking in Mexico during WWII. Following Adolf Hitler’s orders, they managed to get into the country as spies while blending in the Mexican political class. Nazi soldiers tried to learn as much as possible about the existing narco-routes with the intent to invade the US while supplying narcotics to the American people. When intelligence reports provided by the US NAVY in 1942 alerted Mexico of this situation, the Mexican government started hunting down the Nazis arguing that a German invasion was imminent.³²

³² Los Nazis en México. Cedillo, Juan Alberto. México DF, December 2007.

Advised by the US government, Mexico immediately began a xenophobic campaign aimed to stop the spreading of the nationalist philosophy adopted by the Germans. The Panamerican Campaign of Chapultepec was signed, and it prohibited the harboring of any German citizen in Latin-American countries. This forced Germans living in Mexico to flee to Argentina, where they were being discreetly protected by Juan Domingo Peron.³³

The 60s and 70s Era

During his term in office, President Miguel Alemán created the DFS (Dirección Federal de Seguridad: Federal Bureau of Security), which was the political police of the old regime. It was an elite group in charge of the President's personal security and it specialized in gathering and analyzing political information; its agents infiltrated political parties and social organizations.³⁴

Sergio Aguayo Quezada, a national security expert, says that the DFS had the authority to investigate drug-related cases but he has the evidence to support the claim that its high-ranking officials were part of the drug business or they did nothing to stop it.³⁵ Since its creation, the DFS allowed its officials to get involved in illegal activities.

³³ La ruta de los nazis en tiempos de Perón. M. Mending, Holger. Argentina Editorial Emecé, 1999.

³⁴ Cambio de Michoacán. Herrera Cornejo, Arturo. January 4, 2007.

³⁵ La Charola. Editorial Grijalbo-Raya en el agua, p.74

By the end of 1947, the United States embassy in Mexico revealed that the DFS deputy director, Manuel Mayoral García, controlled marihuana trafficking in Mexico City.³⁶

The DFS led the operation aimed to stop the student protests of 1968. On October 2 of that year, DFS agents started shooting the crowd gathered in “La Plaza de las Tres Culturas” and the result was the infamous student massacre of Tlatelolco. This agency led and practically managed every police task force in the country, including those under the jurisdiction of state and local governments. Using the drug business as an excuse, the DFS carried out the notorious operation known as “brigada blanca” (white brigade) and got rid of urban and rural guerrillas. DFS agents got rid of those people opposing the system by disappearing, torturing, and detaining them in illegal and improvised prisons.³⁷

Miguel Nassar Haro, former DFS director, was behind the grand theft auto gang operating in the Mexico-US border. It would turn out that his closest collaborator, Ruben Aguilar Guajardo, was the founder of the Juárez cartel.

During this period, Mexican President Gustavo Díaz Ordaz and U.S. President Lynden Johnson signed a treaty called the “unique convention on narcotics”. Despite this joint strategy, President Johnson held the Mexican government responsible for the flow of drugs (mostly marihuana and LSD) to the United States. In response, President Díaz Ordaz told President Johnson: “Mexico is the trampoline that

³⁶ Crimen organizado y la organización del crimen. Astorga, Luis.

³⁷ Cambio de Michoacán. Herrera Cornejo, Arturo. January 4, 2007.

transports drugs to the United States: close your swimming pool and the trampoline will no longer be used".³⁸

On September 20, 1969, President Richard Nixon implemented an inspection program across the Mexico-US border through "Operation Interception". The main objective was to stop the flow of drugs and undocumented individuals to his country but it was a total disaster. The inspection measures adopted resulted in delays and protests because they were offensive and invasive for Mexican nationals and international visitors from other countries. This unilateral operation hurt the binational relations between the US and Mexico. Since the number of drug shipments seizures and arrest of drug leaders was lower than expected, on October 10, 1969, the US government finally decided to substitute "Operation Interception" for "Operation Cooperation". Under this operation, both countries agreed to fight against the production, trafficking, and consumption of illegal drugs. The US government promised to change their inspection procedures and Mexico confirmed this intention to implement an aggressive program aimed to eliminate the drug business.³⁹

In 1976, Jose Lopez Portillo was sworn in as president and he immediately called a childhood friend who beat up the bullies who gave him a hard time as a kid. To pay this favor, he appointed Arturo "El Negro" Durazo as the General Director of Police and Transit in Mexico City. Durazo soon converted this agency into a symbol for corruption; he got rich by allowing and collaborating in arms and drugs trafficking

³⁸ *Período del presidente Gustavo Díaz Ordaz, informe de la procuraduría de México.*

³⁹ http://www.cronica.com.mx/nota.php?id_notas=61919

and by ordering his police officers to rob banks and extortion every person they could. This is how he got the money to build his notorious Parthenon (shown in Figure 2) in the Southern area of the nation.⁴⁰



Figure 2-Durazo's Parthenon

Source: <http://www.jornada.unam.mx/2010/04/06/fotos/a02n1cie-3.jpg>

The large-scale growing of marihuana in the state of Guerrero began in the 70s, when the army carried out "Operation Condor" in Badiraguato, Sinaloa and destroyed marihuana farms. During those years, new places to grow drugs arose with the intent to supply the European and American markets: Michoacán and Guerrero were those places.

In Guerrero, drugs were introduced by Alberto Sicilia Falcon, the Cuban-American drug lord, who used his connections in the Mexican ARMY to create a new marihuana monopoly in this region. He was able to do this because the government was focused on carrying out the most important anti-drug operation of that time in

⁴⁰ <http://www.alaingarcia.net/conozca/partenon.htm>

Sinaloa, strategy that was also used as an excuse to eliminate those groups that were against the PRI regime.

The 80s Era

In 1982, several communist members of former Cuban President Fidel Castro's regime were accused of being drug dealers in Mexico and were sentenced in the United States.⁴¹

During his presidential campaign, Miguel de la Madrid Hurtado promised to eliminate corruption and build a better country through a "moral renovation" program. Soon after being elected, in 1983, President de la Madrid, just like many other presidents, used the war on drugs as a political maneuver and brought "El Negro" Durazo to justice on drug charges. He was sentenced to 16 years but he only served 6 because he died in 2000.⁴²

José Antonio Zorrilla Pérez, another former DFS director who was also involved in illegal activities, ordered his agents on May 30, 1984 to kill a famous journalist Manuel Buendía because he had found out that the DFS was involved in the drug business. Soon after Buendía's killing, in November 1984, a 12 squared kilometers farm was discovered in the state of Chihuahua. The ranch had modern irrigation systems and 12,000 employees grew and harvested marihuana; a production

⁴¹ <http://radiomambi710.univision.com/noticias/article/2010-05-17/narcotráfico-la-conexion-cubana>

⁴² <http://www.alaingarcia.net/conozca/partenon.htm> (September 7, 2003)

of 11,000 tons of drugs were stored and packed in a big warehouse. The owner of this ranch was **Rafael Caro Quintero, who was the most wanted man of that time.**

Despite this, on February 7, 1985, Caro Quintero did not hesitate to send his men to kidnap DEA agent, **Enrique Camarena Salazar** right off the stairs of the United States embassy in Guadalajara; Camarena's body, which showed signs of torture, was found on March 6, 1985 nearby a ranch called "El Mareño". It is worth noting that Caro Quintero has denied these allegations up until today.

Even though the United States government pressured their Mexican counterpart to find and arrest Caro Quintero, he managed to flee to Costa Rica but he was arrested on April 1985. Apparently, Caro Quintero traveled under the name of **Pedro Sánchez Hernández** by using a DFS badge.

Caro Quintero was part of the Guadalajara cartel along with many others such as: **Miguel Ángel Félix Gallardo, Juan Ramón Matta Ballesteros, Ernesto Fonseca Carillo, Manuel Salceda Uzeta, Javier Barba Hernández, Rafael Emilio and Juan José Quintero Payan, Pablo Acosta Villareal, Manuel Bravo Cervantes, Juan José Esparragoza, Gilberto Ontiveros, and Amado Carillo Fuentes.**

These drug lords supposedly had an agreement with the DFS and several of its officials were part of the drug business: **Rafael Aguilar Guajardo, Rafael Chao Lopez, Daniel Acuña Figueroa, Felipe Aparicio Nuñez, and Galo Gutiérrez.** The commander

of the 5th military zone that was located in Guadalajara, Federico Amaya Rodriguez was also in the drug leaders' payroll.⁴³

Several other public officials were being investigated by the United States: a former secretary of defense, a former director of the Policia Judicial Federal (Federal Judicial Police), and a former Interpol Director. The list does not end here: Leopoldo Sánchez Célis, former governor of Sinaloa, was related to Miguel Ángel Felix Gallardo, the man who started it all.

Since 1987, United States Central Intelligence Agency (CIA) officials were convinced that the Institutional Revolutionary Party (PRI) presidential candidate, Carlos Salinas de Gortari, and his brother Raul were connected with the Gulf cartel and its leader Juan García Ábrego (Rojas Alba, 2006).

According to former CIA director for Latin America, Brian Latell (2006), Democratic Revolution Party (PRD) presidential candidate Cuauhtémoc Cardenas Solórzano beat Salinas de Gortari in the 1988 presidential election, but Salinas became president due to a fraud. These allegations could never be confirmed.⁴⁴

The origin of all Mexican drug cartels is traced to ex Mexican Judicial Federal Police agent Miguel Angel Felix Gallardo, "El padrino" (The godfather), who in the 80s was in charge of all illegal narcotics trade in Mexico and the areas across the

⁴³ Andrade Bojorges, José Alfredo. *La historia secreta del narco. Desde Navolato vengo*. Editorial Océano, p. 61-66.

⁴⁴ The general population, reporters, and subject matter experts on politics in Mexico also share this point of view.

Mexico-USA border.⁴⁵ He made a name for himself by smuggling marihuana and opium into the U.S., and he was the first Mexican drug lord to connect with Colombia's cocaine cartels in the 80s. By using his connections, "El padrino" became the point of contact for the Medellin cartel, which was controlled by Pablo Escobar (Beith, 2010).

There were no cartels back then in Mexico; Felix Gallardo was the lord of Mexican drug lords, "Jefe de jefes" (boss of bosses). He ran and managed all transactions; there was just him, his friends, and the government officials who protected him in exchange for bribes (Beith, 2010).

Felix Gallardo preferred to keep a low profile and in 1987 he moved to Guadalajara. According to Peter Dale Scott, the Guadalajara cartel thrived because it had the protection of the DFS, commanded by Miguel Nassar Haro.⁴⁶ "Felix Gallardo then decided to divide up the trade he controlled as it would be more efficient and less likely to be brought down in one law enforcement swoop (Beith, 2010, p.47)." In some way, he was privatizing the Mexican drug industry and keeping a low profile by letting drug lords who were not in the DEA's radar run the business.

In his book, El cártel (The cartel), Jesus Blanco Ornelas⁴⁷, one of the most knowledgeable journalists on narco-trafficking in Mexico, claimed that "El padrino" gathered the country's top drug lords at Acapulco and assigned the "plazas" (or areas

⁴⁵ "The Border Monsters". *Time Magazine*. 2001.

⁴⁶ Peter Dale Scott (2000), Washington and the politics of drugs, *Variant*, 2(11).

⁴⁷ He passed away on November 23, 2006 at the Hospital Del Prado in Tijuana.

of operation). The assignment of “plazas” is as follows. The Tecate plaza would end up in the hands of Joaquin “El Chapo” Guzmán Loera; Juarez and Nuevo Laredo would go to Rafael Aguilar Guajardo; San Luis Rio Colorado would go to Luis Hector “El Güero” Palma; Nogales and Hermosillo (Sonora) would end up with Emilio Quintero Payán; Jesus “Don Chuy” Labra Aviles would run Tijuana; and Mexicali would go to Rafael Chao (a DFS agent).⁴⁸

Manuel Beltran Felix, Rigoberto Campos and Javier Caro Payán had the authorization to work in all the “plazas” as long as they did not cause any problems and acted only as a liaison. The distribution of territories entailed that other domestic and foreign drug dealers could sell their drugs within these “plazas” as long as they paid a “fee”. The “plaza” commissioners were in liberty to get the drugs into the market or the renters could do it themselves. If this were the case, they could not take advantage of the commissioners’ connections (Osorno, 2011, p.239)

After having been protected by Guillermo Gonzalez Calderoni⁴⁹, “El padrino” was arrested on April 8, 1989. President Carlos Salinas de Gortari wanted to convince people that he was a legitimate president and wanted to prove Mexicans that he was willing to fight drug lords to the full extent of the law.

In an interview conducted by Diego Enrique Osorno, Felix Gallardo said that the Mexican government attributed him the creation of cartels as they are known

⁴⁸ Blanco Ornelas, Jesús. *El Cártel* (cited by Osorno 2011)

⁴⁹ Police chief at the beginning of Carlos Salinas’ administration

today. However, Felix Gallardo argued that it was Guillermo Gonzalez Calderoni and not him who assigned the “plazas” to each criminal group (Osorno, 2011, p.240-241).

In 1989, Jesus Gutierrez Rebollo, who was the head of the 9th military zone, arrested Amado Carrillo Fuentes, a well-known member of the Juarez Cartel. Due to this triumph, he was awarded the rank of General and he was later appointed as the anti-drug czar. But he was arrested during President Zedillo’s administration (1997) because he was accused of working for Carrillo Fuentes; he was found guilty and sentenced to serve 31 years in the Altiplano federal prison.⁵⁰

The Connection between Colombian and Mexican Drug Cartels

Historically, Colombian cartels have controlled the drug-trafficking business. During the 80s and early 90s, Pablo Escobar⁵¹ was the largest exporter of drugs in the world due to his connections with other criminal organizations around the globe. When authorities succeeded in stopping the flow of drugs across southern Florida and the Caribbean, Colombian drug cartels started working with Mexican drug lords to transport cocaine to the United States (DEA, 2008). This was not hard at all because Mexican drug dealers had a lot of experience producing marihuana and heroin; they had already established an infrastructure that immediately served the interests of their Colombian allies.

⁵⁰ García, Carolina. El Universal. Mexico City, November 21, 2008.

⁵¹ He was the head of the Medellin cartel and he relied on George Jung to sell his drugs on the United States.

Initially, the Colombians paid the Mexican gangs in cash for their transportation services rendered, but in the late 90s they decided to pay the Mexican distributors in kind; between 35 and 50% of every cocaine shipment. With access to this merchandise, Mexican distributors saw a profitable market niche and decided to stop being an intermediary and developed their own distribution network. Nowadays, the Gulf and the Sinaloa Cartels are the ones that transport cocaine from Colombia to any market in the world.⁵²

Mexico, a key drug producing and transshipment nation, is the major supplier of marihuana and a large supplier of methamphetamine to the United States. Even though Mexico is a small heroine producer, it is a major supplier of the heroine consumed in the US.⁵³ The U.S. State Department estimates that approximately 90% of all cocaine shipments entering this country are sent from Mexico. "In the US, wholesale illicit drug sale earnings estimates range from \$13.6 to \$48.4 billion (USD) annually."⁵⁴

Besides drug-trafficking, Mexican cartels have been involved in human and arms trafficking, grand theft auto, extortion, torture, and kidnapping. Mexican drug

⁵² "Mexico, U.S., Italy: The Cocaine Connection". Stratfor Intelligence. September 18, 2008.

⁵³ Department of State Bureau of International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report 2007*, March 2007, hereafter INCSR 2007.

⁵⁴ U.S. Department of Justice National Drug Intelligence Center, *National Drug Threat Assessment 2006*, January 2006.

dealers smuggle the drug money back into Mexico by using cars and trucks, perhaps due to the success of the U.S. government in tracking suspicious wire transfers.⁵⁵

The 90s Era

Based on the events that took place during this decade, it is safe to say that the drug-trafficking business penetrated every sphere of Mexico. On May 1993, Juan Jesus Posadas Ocampo, a Catholic priest was killed at the Guadalajara International Airport. The official version given by the General Attorney's Office (PGR) stated that his death was the result of a shootout between the Arellano Felix brothers and "El Chapo" Guzmán. Several conspiracy theories abounded as well. First, it was said that the religious leader was involved in the drug business.⁵⁶ Second, it was said that Posadas Ocampo had proof that several political leaders in the country were working side to side with the drug cartels. This case was never solved.⁵⁷

During the 1994 presidential race, Luis Donaldo Colosio (the PRI's presidential candidate) was assassinated in Tijuana by a lone killer named Mario Aburto, who was apprehended right on the spot. According to Jorge Alejandro Medellin, a reporter from "El Universal", drug lords might have ordered the hit on Colosio.

⁵⁵ "Atrapados por las mafias," *Reforma*, August 7, 2005; CRS interview with DEA officials, November 8, 2006; and, CRS interview with Federal Preventive Police (PFP) official, November 14, 2006.

⁵⁶ It is imperative to emphasize that this statement does not reflect the author's opinion. The author just makes reference to comments made by the press.

⁵⁷ <http://www.aciprensa.com/Docum/posadas.htm>

“El Financiero” published an article that said that the CIA was convinced that the drug traffickers wanted Colosio dead because he would finish them once and for all once he were in office.

During that same year, Jose Francisco Ruiz Massieu, former governor of Guerrero, was also killed but it was determined that there was a political motivation behind the attack.⁵⁸ His brother, Mario Ruiz Massieu, who was the Deputy General Attorney at that time, accused Raul Salinas de Gortari of killing his brother. President Carlos Salinas accused Mario Ruiz Massieu of receiving bribes and being part of the drug cartels. He was under house arrest in New Jersey, where he committed suicide in 1999 (Ortega, 1999).

Soon after being sworn in as president (1994) Ernesto Zedillo Ponce de Leon, had Raul Salinas arrested on several charges (corruption, drug-trafficking, fraud, etc). President Zedillo also confronted Mario Villanueva (the narco governor from Quintana Roo), Juan García Ábrego (the Gulf cartel boss), and General Gutiérrez Rebollo.

Amado Carrillo⁵⁹, “El Señor de los Cielos” (the lord of the skies), worked as an agent in the DFS and it is argued that he had former DFS director Ruben Guajardo killed to gain control of the Juarez cartel.⁶⁰ In the 90s, he became the primary

⁵⁸ <http://www.etcetera.com.mx/1999/347/jaj347.html>

⁵⁹ The official version is that he supposedly died while having surgery in Mexico City. Some conspiracy theorists say that he is still alive.

⁶⁰ Ravelo, Ricardo. Los Capos: Las Narco-rutas de México.

distributor of cocaine to the United States while using high capacity aircraft to transport drugs. It is said that Carrillo made Cuernavaca his primary residence during the administration of Cuernavaca's governor Jorge Carrillo Olea.

One of the most striking events during the 90s is that of the Anahuac bank. Federico de la Madrid Cordero, son of former President Miguel de la Madrid, served in the board of directors of the bank and both his dad's and his reputation were severely hurt when it was revealed in 1997 that the bank was owned by the Juarez cartel.

As the new millennium was approaching, Mexicans considered that it was time for a change in power; citizens elected a new president originating from a long-time opposition party, the National Action Party (PAN). The triumph of Vicente Fox Quezada brought people hope because he was supposed to be the leader able and willing to change the country by bringing down corrupt officials. Time would soon prove people wrong.

The 2000s Era

There was a brief period of peace during the late 90s but the violence has escalated since 2000. Vicente Fox Quezada was sworn in as president in 2000 and security analysts in Mexico have often argued that he did nothing to stop drug-trafficking in the country, inaction which contributed to today's security crisis.

After the terrorist attacks on September 11, 2001, the United States strengthened enforcement activities along the Mexico-US border so stop the flow of criminals, drugs, and terrorists. This made the transit of drugs into the U.S.

increasingly more difficult and forced Mexican drug cartels to sell their products in Mexican territory; from being a transit country Mexico became a consumers one. According to SSP (Secretaría de Seguridad Pública: Public Safety Secretariat) estimates, 260,000 people consumed cocaine in Mexico in 2002; 1.7 million people were cocaine addicts by 2010.⁶¹ Nowadays, the cartels turn kids and teenagers into drug addicts by offering them free doses of drugs, which helps them increase their profits by having a captive market.⁶²

One of the few actions of former President Fox consisted in sending a small troop to Nuevo Laredo, Tamaulipas (a town on the Mexico-US border) to combat the cartels but there was no success. Estimates suggest that the turf fight between the Gulf and Sinaloa cartels left Nuevo Laredo with 110 people dead during the January-August 2005 period.⁶³ In 2005, there was another surge in violence as “La Familia Michoacana” tried to gain control of Michoacán.

Even though fighting between drug cartels had been happening decades before the “war on drugs” began, President Calderon argues that the Federal government did not take strong and definite action in the 1990s and early 2000s. On December 11, 2006, newly sworn in President Felipe Calderon declared the “war on drugs” and sent 6,500 troops to his home state of Michoacán to eradicate violent drug activities.

⁶¹ Creció mercado de droga por blindaje en frontera. Milenio magazine. January 23, 2010.

⁶² El consumo de drogas en México: Diagnostico, tendencias y acciones.

⁶³ Marshall, Claire (2005-08-14). "Gang wars plague Mexican drugs hub". BBC News.

This strategy is perceived by many people, including politicians (mostly from the President's party PAN), security analysts, and foreign leaders as the first comprehensive operation against the Mexican drug cartels.⁶⁴ As time passed, Calderon continued to enforce his anti-drug policies by sending 45,000 troops across the country, in addition to federal, state, and local police officials. In 2010, Calderon declared that the cartels seek "to replace the government" and "are trying to impose a monopoly by force of arms, and are even trying to impose their own laws."⁶⁵

Early in 2007, before the Beltran Leyva brothers had their differences with Joaquin "El Chapo" Guzmán and stopped working for the Sinaloa cartel, the drug business in Guerrero was under the control of the Sinaloa cartel. When the Beltran Leyva brothers left the cartel, Guerrero became one of the most disputed drug-trafficking territories in the country. The Beltran Leyva formed an alliance with their old enemies, The Zetas, who had tried to control this region in the past but failed. To gain control, these two groups carried out one of their most violent and notorious operation on May 2008 in the municipalities of Iguala and La Costa.

On April 2008, General Sergio Aponte, the anti-drug campaign boss in Baja California, said that corrupt police were offering protection services to drug lords.

⁶⁴ Grillo, Ioan (December 11, 2006). "Mexico cracks down on violence". *Seattle Post-Intelligencer*. Associated Press. Retrieved November 29, 2006.

⁶⁵ Mexican cartels move beyond drugs, seek domination". Associated Press. MSNBC News. August 4, 2010. http://www.msnbc.msn.com/id/38565051/ns/world_news-americas/. Retrieved 2010-10-05.

These allegations led him to believe that Calderon's strategy has been hampered by "bribery, intimidation and corruption".⁶⁶

Today, the cartels are responsible for a ruthless, cruel, and bloody turf fight over control of key "plazas" or drug corridors from Michoacán to Baja California. According to the Drug Enforcement Administration (DEA), Mexican drug cartels carrying out operations along the Mexico-U.S. border are constantly evolving and refining their methods, making them more dangerous than any other criminal group in "U.S. law enforcement history."⁶⁷

Mexican drug cartels use "grenade launchers, automatic weapons, body armor, and sometimes Kevlar helmets. Some criminal groups have also been known to use improvised explosive devices (IEDs)."⁶⁸

The 2010-2011 Era

The drug business is very different than what it used to be. Being part of a drug cartel is no longer exclusive of individuals with experience in the industry. Kids and young teenagers, especially those without access to educational and employment opportunities ("ninis"), are tempted by the easy money that the drugs yield.

⁶⁶ Mexican general makes explosive accusations". *Los Angeles Times*. April 23, 2008. Retrieved May 12, 2010.

⁶⁷ Mexican Drug Cartels Forming Alliances with American Street Gangs". *The Right Side News*. June 15, 2008. Archived from the original on July 31, 2008. Retrieved 2010-03-15.

⁶⁸ Mexico and the Cartel Wars in 2010". *Stratfor*. Retrieved 2011-03-28.

These “ninis” are constantly being recruited by the drug cartels as watchmen (“halcones”), distributors or hitmen (“sicarios”).⁶⁹

Even though “ninis” live in both urban and rural areas, those unemployed kids living in rural areas in which the agricultural sector has declined are the ones who are more easily recruited by the drug cartels. However, they do not get to live very long (6 months on average) because they are used as “bait” or sometimes as disposable soldiers (Osorno, 2011).

In addition to the “ninis”, drug dealers still employ former army members, ex-cops, and former law enforcement officers who desert, are dishonorably discharged, or are arrested on criminal charges. Their access to inside intelligence and knowledge of arms and special tactics give them a special place in the cartels. Because of their expertise, these individuals are a unique asset for the cartels and can therefore make more money than a retail distributor.

Due to the large pool of individuals that is readily accessible to the drug traffickers, cartels have been able to form large troops that allow them to fight each other for the control of “plazas”.

As a result, violence has escalated in the states of Chihuahua, Sinaloa, Nuevo Leon, Michoacán, and Tamaulipas. According to United Nations officials, this war is far from over and they do not envision an end to this war anytime soon. The government will keep trying to defeat the cartels and these will keep trying to

⁶⁹ Becerra Acosta, Juan Pablo. Los ninis jodidos y el narco tentador. Milenio magazine. August 16, 2010.

intimidate and demoralize society while bringing the government to its knees.⁷⁰ At the same time, U.S. Secretary of National Security, Janet Napolitano, argues that the criminal group “Los Zetas” has Al-Qaeda connections. Left-wing Mexican politician, Jesus Ortega (PRD), sees this allegation as an excuse to justify a future military invasion in Mexico by the U.S.⁷¹

On other note, since President Calderon decided to declare “the war on drugs” in 2006, the number of drug-related deaths has steadily increased. According to the President’s report, the number of drug-related homicides in 2007 (2,595) more than doubled to 6,183 in 2008. The numbers escalated over the next two years from 8,906 in 2009 to 13,174 in 2010.⁷²

So, why did Felipe Calderon declare a war on drugs? Like most Mexican presidents, Calderon decided to use the war on drugs like a political weapon. When President Calderon took office in 2006, a large share of the Mexican population was convinced (and still is) that there was a fraud and he did not win the election. By making the war on drugs a priority, Calderon tried to convince voters that their government was legitimate. He thought that he would be viewed as a strong man able to lead government institutions and that no one would condemn his actions of fighting the bad guys.

⁷⁰ Otero, Silvia and Sosa, Miguel Ángel. Hampa busca atemorizar: ONU. El Universal, October 29, 2010.

⁷¹ Estados Unidos debe probar nexo de narco y Al Qaeda: PRD. El Economista, February 11, 2011.

⁷² www.presidencia.gob.mx

However, this strategy backfired due to the increased death toll, the numerous alleged violations against citizens by the police and the army, and the collateral damage in the form of killings of innocent civilians to the hands of criminals, policemen, and soldiers. Just like President Salinas de Gortari, Calderon tried to win the people's trust he could not win in the polls by launching spectacular operatives and manipulating the press.

In lieu of helping the "ninis" by promoting educational reforms, implementing an economic model able to deter crises, putting in place efficient social and economic policies aimed at eliminating poverty; Calderon wants to govern through blood. All the way throughout the presidential race, Calderon proclaimed himself as the "President of employment" but he soon forgot his promise and decided to carry out a poorly-planned operation and abandoned a country in which 50 million of poor individuals (who live on less than 2 dollars per day) and Carlos Slim, the richest man in the world, (who has sometimes earned an average of 27 million dollars per day) coexist (Osorno, 2011).

CHAPTER 7

MEXICO'S DRUG CARTELS

The division of drug cartels into clearly defined “plazas” in 1989, proposed by either Felix Gallardo or Gonzalez Calderoni does not longer hold today. Drug lords’ ambition and the lack of a leader like Felix Gallardo (who avoided confrontations and blood baths) have resulted in bloody battles between the cartels that are constantly competing with each other.

According to the Mexican government⁷³, during 2011 four new drug-related groups have risen. The new groups are the “cartel de Los Caballeros Templarios” and “sicarios” groups known as “cartel de Jalisco Nueva Generación”, “La Resistencia”, and “La Mano con Ojos”. In total, there are seven drug cartels and seven “sicarios” groups operating in the country.

The cartels are as follows: the Juarez Cartel, led by Vicente Carrillo Fuentes; Tijuana, controlled by Fernando Sanchez Arellano; Beltran Leyva, led by Hector Beltran Leyva (who also has an operation called cartel del Pacífico Sur); Sinaloa, led by “El Chapo” Guzmán, Ismael “El Mayo” Zambada, and Juan José “El Azul” Esparragoza; Gulf, led by Mario Cardenas Guillén and Eduardo “El Coss” Costilla; Zetas, led by Heriberto “El Lazca” Lazcano; and Los Caballeros Templarios, under the leadership of Enrique” El Kike” Placarte and Servando “La Tuta” Gómez Martínez.

⁷³ Intelligence reports published by the National Defense Secretariat, the Marine Secretariat, and Federal Public Safety Secretariat (August 7, 2011).

The “Familia Michoacana” cartel is no longer operating and some of its members are now working for “El Chapo”, others for “Los Zetas”, and the rest founded “Los Caballeros Templarios”.

Nowadays, the Sinaloa cartel operates on its own as it is the major cartel in Mexico. The Sinaloa cartel is currently disputing the state of Chihuahua to the Juarez cartel. The Gulf cartel and “Los Zetas” are competing for turf in Tamaulipas, and due to its strong presence in this state, “Los Zetas” have a good chance of getting into Nuevo Leon. “Los Zetas” are in control of the southeast, from Tabasco to Tamaulipas.

Meanwhile, the Beltran Leyva formed an alliance with “Los Zetas” and together they compete with their rival “Los Caballeros Templarios” over the control of Morelos, Guerrero, Michoacán and the state of Mexico. Finally, the Sinaloa cartel and “Los Zetas” are currently competing against each other for the states of Durango, Coahuila, Zacatecas, and San Luis Potosi.

Mexico’s Drug Cartels Presence in the United States

Due to their control of the U.S. illegal drug market, “Mexican cartels are the leading wholesale launderers of drug money from the United States. Mexican and Colombian trafficking organizations annually smuggle an estimated \$8.3 to \$24.9 billion in drug proceeds into Mexico for laundering.”⁷⁴

⁷⁴ U.S. Department of Justice, National Drug Intelligence Center, *National Drug Threat Assessment 2007*, October 2006. The report does not disaggregate Colombian and Mexican drug trafficking organization money smuggling data.

Mexican cartels also produce methamphetamine and marihuana in the U.S., and they have been growing marihuana for years in this country, often on federal land in California, but they are now expanding operations to the Pacific Northwest and, in a minor scale, the eastern United States.” Mexican marihuana producers in California, the Pacific Northwest, and eastern United States are interconnected to one another, which helps them synchronize their operations while transporting labor and raw materials to production sites all over the U.S.⁷⁵ The map on Figure 3, put together by the DEA, shows the areas of influence of Mexican drug cartels.⁷⁶

Street Gang Involvement in Drug Distribution

There is proof that Mexican cartels are increasing their connections with prison and street gangs in the U.S. to expand drug-trafficking within U.S. cities; including wholesale and retail distribution of drugs. In January 2006, the National Drug Intelligence Center confirmed that gangs such as the Latin Kings and Mara Salvatrucha (MS-13) purchase methamphetamine from Mexican cartels for distribution in the southwestern United States. According to the Federal Bureau of Investigation (FBI), Mexican cartels focus exclusively on wholesale distribution and U.S. gangs take care of illegal drugs retail sales. The cartels allegedly employ gang

⁷⁵ U.S. Department of Justice, National Drug Intelligence Center, *National Drug Threat Assessment 2007*, October 2006.

⁷⁶ Even though drug cartels operate in specific states, they also work in different cities across the country and the cartels’ activities usually overlap. A detailed list of these cities and a description on each cartel can be found at <http://www.fas.org/sgp/crs/row/RL34215.pdf>

members but do not get involved in U.S. gangs fights.⁷⁷ Figure 4 shows gang activity taking place in every U.S. state.

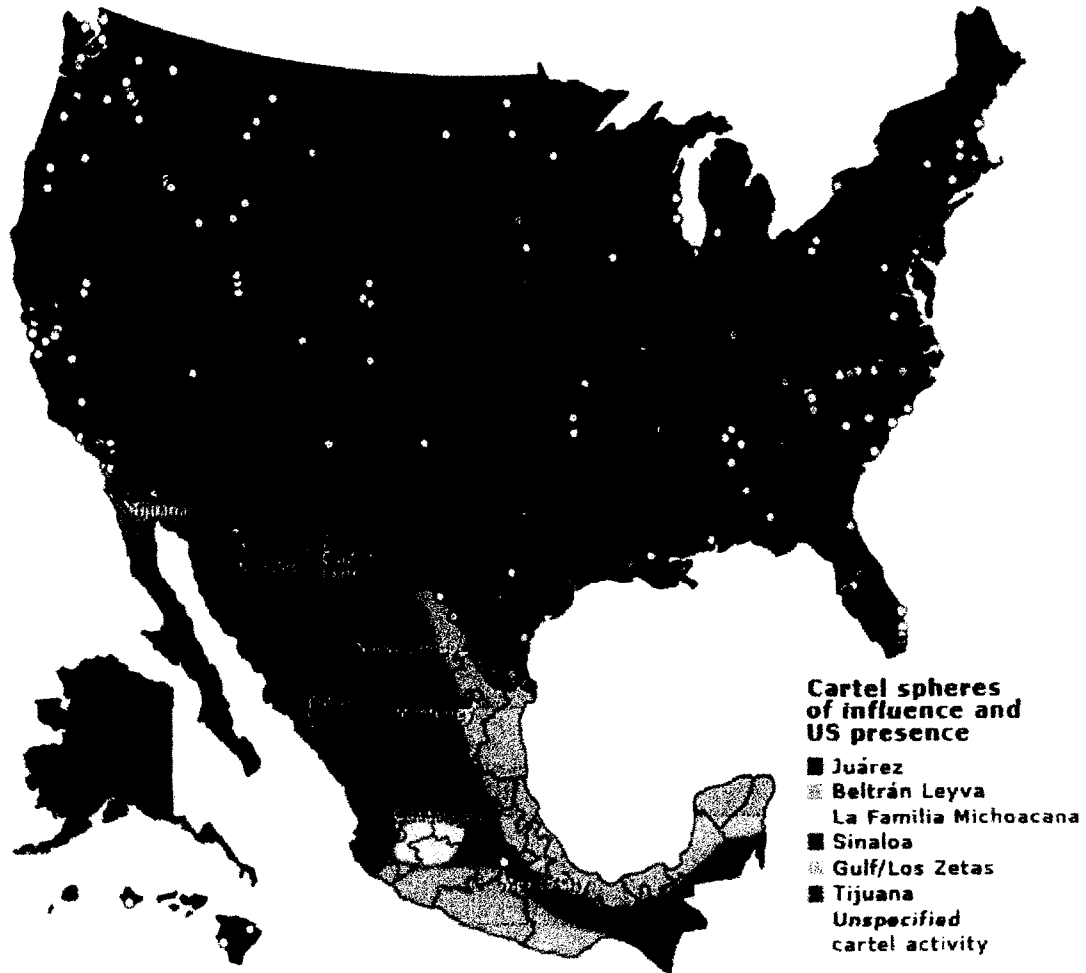
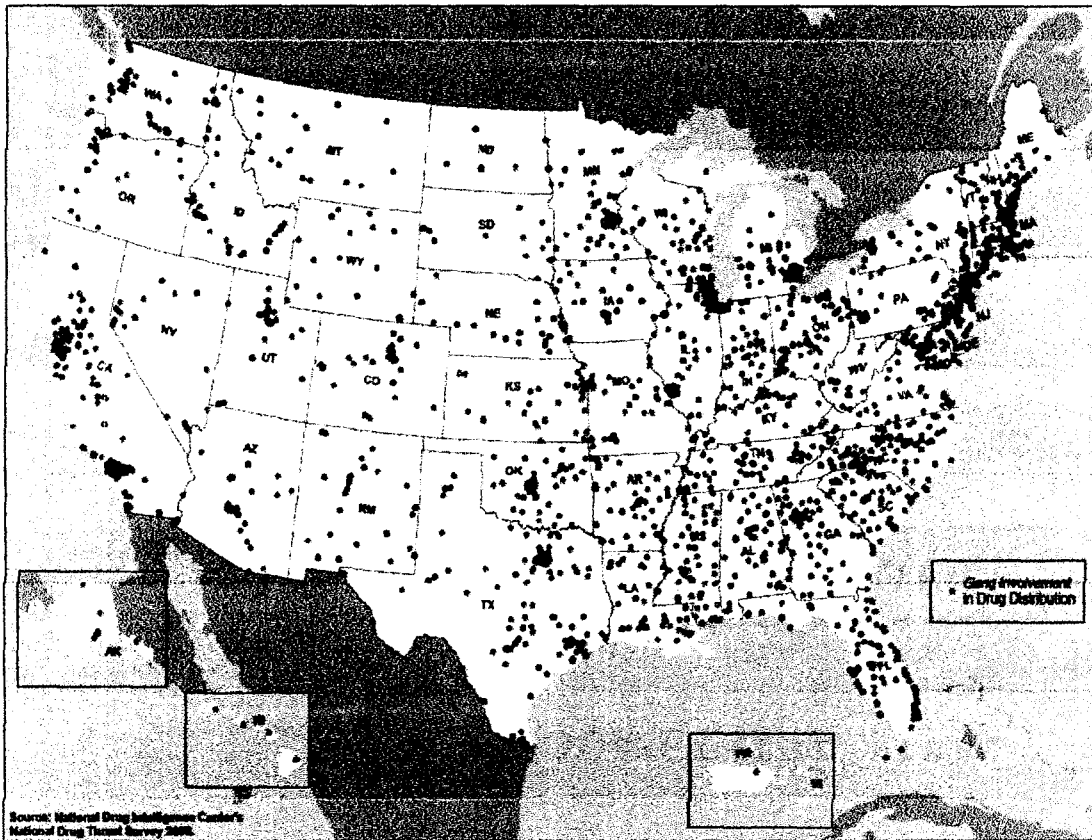


Figure 3-Mexican Cartels Areas of Influence and U.S. Presence

Source: Mexican drug cartel presence in 230 U.S. cities, DEA criminal map

⁷⁷ Congressional Research Service (CRS) interview with FBI officials, January 10, 2007 and U.S. Department of Justice National Drug Intelligence Center, *National Drug Threat Assessment 2006*, January 2006. The *2007 Drug Threat Assessment* does not include information on ties between Mexican cartels and specific gangs.

“In 2009, midlevel and retail drug distribution in the U.S. was controlled by more 900,000 criminally active gang members representing approximately 20,000 domestic street gangs in more than 2,500 cities. Their prevalence varies geographically, with the greatest concentration of street gangs occurring in the Great Lakes, Pacific, Southeast, and Southwest regions.”⁷⁸



**Figure 4-U.S. Map Showing Street Gang
Involvement in Drug Distribution for 2009**

Source: National Drug Intelligence Center’s National Drug Threat Survey 2009

⁷⁸ Direct quote from the National Drug Intelligence Center’s National Drug Threat Survey 2009.

CHAPTER 8

THE PROFILE OF THE MEXICAN DRUG DEALER

The drug business is run by “legitimate” businessmen, politicians, policemen, and powerful families which have controlled it for many years. This industry is very strong nowadays and it has converted into an economic issue since it represents a way of living in many parts of Mexico (Osorno, 2011).

Since the drug industry operates as a private enterprise, it needs individuals with expertise in different fields. It employs hitmen and bodyguards with special training who usually served in the military or the police force, it needs peasants to grow and harvest drugs, lawyers, secretaries, medical doctors, etc.

Drug lords can easily recruit these individuals by offering them money in amounts beyond those that can be obtained by working on a legal job. But, in addition to economic variables, individual tastes, preferences, goals, and risk aversion influence people’s decision to pursue a career in crime.

It is worth noting that educated people often provide support services to the drug cartels but they are not drug dealers per se. According to Farlie (2002), drug dealers are usually young men with limited formal education who come from the most underprivileged classes of society; they are on average 18 years old and they usually drop out of school at an early age (junior high). They are ambitious and they pursue economic benefits that legal jobs cannot deliver.

If these persons had the opportunity to go to school, they would acquire the skills that would lead them to get legal and rewarding jobs. However, drug traffickers

lack the patience that scholars desperately need and they are not willing to forego any wages while going to school. For them, getting an education takes a long time, is very expensive, and might not yield the expected benefits or the lifestyle they are looking to achieve.

Subject matter experts on criminology have argued that drug dealers and other criminals hate being regular employees; that is, sticking to a schedule and abiding by corporate rules and policies (Farlie, 2002). Maybe that is why close to 75% of convicted criminals have expressed their interest in creating their own company at some point in their lives (Balkin, 1993).⁷⁹

Since a substantial number of people in Mexico lack the educational and professional skills that conventional labor markets demand, they have to be part of the informal sectors of the economy. Based on this, it does not come as a surprise that Mexico has the highest number of self-employed people among the OECD member countries (Rios, 2008); 25.8% of men and 17% of women in Mexico are self-employed (Farlie & Woodruff, 2004).

Empirical evidence suggests that those individuals working in the drug industry exhibit unique traits often seen in successful businessmen; for instance, they like taking risks, are goal-oriented and they have an entrepreneurial spirit (Fields, 1986). Surprisingly, one of the most popular drug lords in the country, El Chapo Guzman, and Carlos Slim, the richest men in the world, have several things in

⁷⁹ It is worth noting that prostitution is a popular occupation among individuals who lack formal education and skills and who value professional independence (Venkatesh, 2008).

common. They both are businessmen who own and manage profitable enterprises and who also value efficiency, initiative, and independence (Rios, 2008).

So, if Mexicans have an entrepreneurial spirit, why do they end up working in the informal sectors of the economy or for the drugs cartels? First, limited access to educational and employment opportunities are responsible for this. Second, they lack the initial capital that is needed for establishing a business. Credit is extremely hard to get for people without a credit history, who are usually young people. However, informal credit is readily available but it is associated with predatory practices such as loans with excessive annual interest rates, which can be up to 360% (Houston Chronicle 2001). It is obvious that these factors inhibit and discourage the entrepreneurial spirit.

More importantly, individuals decide to become drug dealers because this venue allows them to afford the lifestyle they want. They also become criminals because they are thirsty for power and they like getting the recognition and the status that this industry gives them. Drug dealers are feared by society and they obtain satisfaction when they break the law. Having that said, young men can be kept away from the drug cartels by providing them with access to education, rewarding and fulfilling jobs, and access to credit for those individuals eager to start a business. These strategies would help minimize existing inequalities in the country, which would help minimize the negative effects resulting from people's inability to keep up with their peers. This would help deter the adverse effects of conspicuous consumption and crime.

CHAPTER 9

DATA, METHODS, AND MODEL

It might be argued that narco-trafficking leads to more conspicuous consumption and not the other way around. However, a propensity towards conspicuous consumption has always existed in Mexico and people see narco-trafficking as a venue for getting the visible goods they crave. Based on this, it is hypothesized that more people want to be drug dealers because of the profits they can obtain. During certain times, drug cartels compete over profitable drug routes or “plazas” and executions tend to increase.

Based on this, the dependent variable that was considered for this analysis included the executions (or drug-related homicides) rate for every state because executions serve as a proxy for drug-activity. This increased activity is the result of more people trying to enter the drug market.

The socio-economic factors discussed in previous sections that impact drug-activity were included as regressors and they are: (1) GDP location quotients for commerce or retail activity, (2) the number of inhabitants per private use cars registered, (3) the retail value of cocaine (proxy for benefits of drug-trafficking), (4) the probability of being convicted (cost of narco-trafficking), (5) average years of school completed, (6) the share of young males, (7) the percentage of people suffering from asset-based poverty, (8) and dummies variables for the border states (1 for border-states, 0 for non-border states).

The data used in this study were obtained from several sources and they are shown in Table 2. Since Mexico has 31 states and the Federal District (Mexico City), there were a total of 128 observations (32 states times 4 years of annual data).

Table 2

Data Sources

Drug-related homicides rate (per 100,000 people) for every state from 2007-2010	Base de datos de fallecimientos (Deaths database)- President's office.
Conspicuous consumption 1(retail lqs) 2007-2010	Economic sectors GDP from the 5 th annual President's report (2011)
Conspicuous consumption 2(Inhabitants per number of cars registered for private use)2007-2010	INEGI (Instituto Nacional de Estadística y Geografía-Mexico: The National Institute of Statistics and Geography) Statistics on motor vehicles registration). CONAPO (Consejo Nacional de Población-Mexico: National Population Council)
US retail price of cocaine (2006 prices per gram)2007-2010	Drug Enforcement Administration – System to retrieve information from drug evidence (STRIDE)
Share of people suffering from asset-based poverty (2005)	CONEVAL(Consejo Nacional de Evaluación de la Política de Desarrollo Social-Mexico: National Council of Evaluation of Social Development Policies)
Average school years completed per inhabitant (2007-2010)	Fifth annual President's report (2011)
Share of young males aged 12-35(2007-2010)	CONAPO
Probability of being convicted (2007-2010)	Various issues of INEGI's publication: Anuario estadístico por entidad federativa (States statistics yearbook). SESNSP (Secretariado Ejecutivo del Sistema Nacional de Seguridad Pública: Executive Secretariat of the National Public Safety System).

It is expected that increased levels of conspicuous consumption will send a signal for unobserved income while displaying opulence. This will lead to more executions. The efficiency of the legal system is a subjective measure because the actual number of crimes can never be obtained because a lot of crimes go unreported. But if Becker's hypothesis is correct, a high probability of being apprehended and the severity of the punishment will discourage criminal activity. Thus, it is expected that executions and the probability of being convicted exhibit an inverse relationship: the higher the probability of being punished, the fewer executions.

When individuals do not have access to the assets they need or desire, they will try to find a way to subsist. Since narco-trafficking represents a way of getting "easy" money for those individuals who do not have another choice, it is expected that higher levels of poverty will translate into more people getting into the drug business and more people getting killed.

It is expected that the larger the share of young males (12-35) the more executions there will be. Young teenagers who are gullible and eager to live up to their wants and expectations can find in narco-trafficking a venue for being all they can be.

Individuals who have access to educational opportunities will be less inclined to be part of the drug industry. The higher the average of school years completed, the fewer executions there will be. Because of their proximity to the largest drug market (U.S.), it is hypothesized that the border-states will show increased levels of drug activity compared to the non-border states.

Definitions and Limitations

Various Mexican newspapers such as *Reforma* gather the number of drug-related homicides on a monthly and annual basis. However, this info is presented at a highly aggregated level and it only represents an informal and subjective count of violent homicides, which may not be drug-related. On the other hand, the deaths database put together by the President's office (just released in 2011), follows a well-structured methodology for identifying drug-related homicides.⁸⁰

According to the drug-related homicides database, a violent death (execution) is defined as an intentional homicide whose victim or offender is presumably a member of a criminal group. This definition does not include a shootout or aggression toward police officers or army soldiers or their participation. For a comprehensive definition of executions please refer to Appendix C.

Table 3 shows that 85% of the executions take place in the states of Chihuahua, Sinaloa, Guerrero, Baja California Norte, Durango, Michoacán, Mexico, Sonora, Jalisco, Tamaulipas, and Nuevo Leon. However, the violence is concentrated in two states: Chihuahua and Sinaloa, with 32% and 13% of the total executions. This makes sense because the Juarez cartel and the Sinaloa cartel are fighting over the most important "plaza" in Mexico; Juarez. Table 4 shows the executions rate per 100,000 habitants for every state.

⁸⁰ Source: <http://www.presidencia.gob.mx/base-de-datos-de-fallecimientos/>

Table 3*Drug-Related Homicides 2007-2010*

State	2007	2008	2009	2010	Total	Freq.	Ac. Freq.
Chihuahua	235	2,034	3,277	4,246	9,792	32%	32%
Sinaloa	411	963	1,020	1,720	4,114	13%	45%
Guerrero	284	365	782	957	2,388	8%	53%
Baja California	194	721	452	526	1,893	6%	59%
Durango	89	216	595	709	1,609	5%	64%
Michoacán	291	253	516	428	1,488	5%	69%
México	110	338	422	591	1,461	5%	74%
Sonora	104	205	343	424	1,076	3%	77%
Jalisco	70	136	230	505	941	3%	80%
Tamaulipas	73	69	48	571	761	2%	83%
Nuevo León	117	94	67	401	679	2%	85%
Distrito Federal	182	139	131	178	630	2%	87%
Coahuila	17	58	157	328	560	2%	89%
Morelos	29	42	95	311	477	2%	90%
Guanajuato	48	65	208	144	465	2%	92%
Oaxaca	54	104	83	157	398	1%	93%
Veracruz	60	52	124	143	379	1%	94%
Nayarit	11	25	28	275	339	1%	95%

Table 3 continued

Chiapas	54	66	79	67	266	1%	96%
Tabasco	23	29	61	69	182	1%	97%
Quintana Roo	26	26	32	64	148	0%	97%
Hidalgo	43	37	18	45	143	0%	98%
San Luis Potosi	5	34	6	96	141	0%	98%
Aguascalientes	32	29	27	40	128	0%	99%
Colima	2	11	33	78	124	0%	99%
Puebla	6	18	22	44	90	0%	99%
Zacatecas	5	18	24	23	70	0%	100%
Querétaro	5	6	13	11	35	0%	100%
Campeche	5	7	6	9	27	0%	100%
Yucatán	4	18	1	2	25	0%	100%
Baja California Sur	6	2	1	9	18	0%	100%
Tlaxcala	-	3	5	3	11	0%	100%
Total	2,595	6,183	8,906	13,174	30,858	100%	100%

Note. Author's calculations based on the executions database
<http://www.presidencia.gob.mx/base-de-datos-de-fallecimientos/>

Table 4*Executions Rate*

Aguascalientes	3	3	3	4	3
Baja California	7	25	15	17	16
Baja California Sur	1	0	0	2	1
Campeche	1	1	1	1	1
Chiapas	1	2	2	2	2
Chihuahua	7	63	99	129	75
Coahuila	1	3	7	14	6
Colima	0	2	5	17	6
Distrito Federal	2	2	2	2	2
Durango	7	18	43	54	31
Guanajuato	1	2	5	3	3
Guerrero	9	13	28	36	22
Hidalgo	2	2	1	2	2
Jalisco	1	2	4	8	4
México	8	7	15	13	11
Michoacán	1	2	3	4	3
Morelos	2	3	7	20	8
Nayarit	1	3	4	39	12

Table 4 continued

Nuevo León	3	2	3	14	6
Oaxaca	2	3	2	5	3
Puebla	0	0	0	1	0
Querétaro	0	0	1	1	1
Quintana Roo	2	2	2	5	3
San Luis Potosi	0	1	0	5	2
Sinaloa	16	41	40	68	41
Sonora	6	10	15	20	13
Tabasco	1	2	3	4	3
Tamaulipas	3	3	3	37	12
Tlaxcala	0	0	1	0	0
Veracruz	1	1	2	2	2
Yucatán	0	1	0	0	0
Zacatecas	1	2	4	3	3

Note. Author's calculations based on the executions database
<http://www.presidencia.gob.mx/base-de-datos-de-fallecimientos/>

Increased car purchases in the border-states could be attributed to higher incomes or a more stable economy in these states or their proximity to the U.S., which makes cars cheaper. Perhaps it is hard to imagine that a car can grant power

and social status but Baudrillard was right when he stated that “a car is more than a mere material good because it sends a signal and it is an effective method for manipulating symbols and human relations (Baudrillard, 1988).

In this regard, the increased purchases of cars and other visible goods imply that Mexican individuals use these goods to gain acceptance and social status. By having these goods, one can “climb up the ladder of success” while obtaining power and money. This allows individuals to keep up with people they admire.

According to Manuel Valenzuela, “a good example of this could be a narco-trafficker who feels the need to consume conspicuously and likes to “show off”. He thinks it is important to make his conspicuous goods visible to everybody. The ‘art-narco’ is surrounded by items that translate into ‘social success’, like jewelry, cars, airplanes, clothing, big houses, and trophy-women” (Valenzuela, 2002, p.194).

Border states, with a lot of drug activity, such as Baja California Norte, Nuevo Leon, Chihuahua, Sonora, and Tamaulipas have more cars per inhabitants compared to the rest of Mexican states. This number was calculated by dividing total population for a given year by the number of cars registered for the same year. For a detailed list, refer to Appendix D.

Regions with a high concentration of retail activity encourage individuals to gather in commercial venues to acquire goods and services. These places could be malls, shopping, or business districts that allow conspicuous consumption to arise.

Visible consumption may help people find the identity they are looking for; people will be able to differentiate from their peers and this is where Veblen's conspicuous consumption becomes important.

These GDP location quotients help determine the significance of the local retail industry relative to the national economy while serving as proxies for conspicuous consumption. An LQ greater than 1.0 indicates that a particular industry or sector has a higher GDP locally than it does at the national level. Conversely, an LQ of less than 1.0 signifies that the industry of note has a smaller GDP locally as compared to the national average (Popp & Peach, 2007)

The formula used to calculate location quotients is shown in equation (1), where X is the economic variable of interest (2003 state retail or commerce GDP at basic prices), i is the economic sector to analyze (retail), r the state, and n the nation (Peters: revisiting industry cluster theory and method).

$$LQX_{ir} = \frac{(X_{ir}/X_r)}{(X_{in}/X_n)}$$

Some states with the majority of drug-related homicides exhibit an LQ greater than 1; Sinaloa, Baja California Norte, Sonora, and Nuevo Leon. So, there seems to be a connection between increased retail activity and drug-related homicides. Please refer to Appendix E for a list of location quotients for every state.

The share of young males (12-35 years)⁸¹ is important because “criminological research suggests that regions with high concentrations of young males experience higher crime rates than regions where this group does not make a significant contribution to total population” (Gottfredson, 1981). Refer to Appendix F for the share of young males.

The asset-based poverty variable represents the share of people who are not able to meet their expenses on clothing, housing, and transportation; even if they allocated their total income to such categories. It is worth noting that this poverty index was only available for 2005 and the same observations were used across all years. This should not affect the results in a meaningful way because poverty indices do not exhibit significant changes from year to year.

The U.S. retail price of cocaine (per gram) gathered by the DEA in the STRIDE database does not reflect national market trends but reflects the best information currently available on changes in cocaine price and purity. The limitation of this variable is that it assumes that the profits stay in Mexico, which may not be the case. Also, the earnings are most likely distributed among a lot of people and the drug lords keep the largest percentage.

The education variable represents the average school years completed for those individuals aged 25-64. Appendix G shows a breakdown of educational achievement by state.

⁸¹ It is well known that the majority of individuals involved in narco-trafficking are in this age cohort (INEGI- Judicial statistics yearbook)

The impunity variable refers to the extent to which law enforcement institutions are able to punish those who break the law. By definition, impunity is the absence of punishment when a crime is committed (Mexico Evalúa). An impunity index measures the percentage of criminals who are punished and differentiates them from those who are not brought to justice. It is critical to understand the stages of the Mexican legal system in which impunity can be present before constructing this index.

Impunity can arise when crimes are not reported by the victims. It can also exist when a crime is reported but an investigation is never conducted (i.e., due to lack of evidence, work overload, etc). In Mexico, an “averiguación previa” (preliminary investigation) is the investigation carried out when a crime is reported to the authorities and it is handled by a representative from the General Attorney’s Office (called *ministerio público*). This process is over when the investigation leads to an arrest and there is enough evidence to send the suspect to trial.

However, impunity can be present when the authorities do not issue a warrant soon enough and the suspect escapes. It is worth noting that once a suspect goes to trial, the probability of getting a conviction in Mexico is extremely high (88%). Appendix H shows the impunity indices for every state. With this in mind, Figure 5 is a graphical representation of how the impunity index can be calculated:

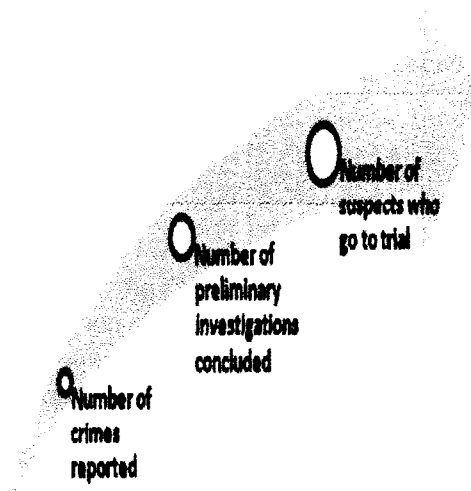


Figure 5- The Path to Impunity

Source: CIDAC (Centro de Investigación para el Desarrollo A.C: Research Center for Development

This methodology was adapted from the report (Crime Rates and Violence) published in 2009 by CIDAC (Centro de Investigación para el Desarrollo A.C: Research Center for Development). Impunity indices are calculated by multiplying the percentages in every stage. This is better illustrated by an example:

- ✚ Only 10 out of every 100 crimes are reported
- ✚ Only 40 out of every 100 investigations are concluded
- ✚ Only 50 out of every 100 suspects go to trial

The probability of a person committing a crime and going to trial is $.10 * .40 * .50 = .02$. Therefore, the impunity index is $100 - .02 = 99.98\%$ It is obvious that a large percentage of crimes are not reported to the authorities due to fear of retaliation, distrust, etc. Therefore, the actual number of crimes reported would be calculated by

subtracting the real number of crimes (which can only be obtained through a crime victim survey) and those reported in official statistics. The difference is known as the black number of crime.

The number of preliminary investigations concluded can be obtained from INEGI and the number of people who go to trial (alleged offenders in a court of first instance) can also be obtained from INEGI (judicial statistics yearbook).

Even though various crime victim surveys have been published in Mexico, they do not include drug-related crimes because respondents are hesitant to report them; they only include those crimes inherent to the local jurisdiction and the results are given on a nationwide scale.

The percentage of completion of preliminary investigations is not available for every state but the number of alleged offenders who go to trial are readily available. In the end, lack of data prevents the author from using this valuable method.

Using data from the judicial statistics yearbook, the probability of being convicted can easily be calculated by dividing the number of convictions by the number of total sentences (a sentence can convict someone or exonerate him) and even though this variable does not reflect exact impunity indices, it is a good proxy for them.

Finally, dummies were used to identify the border states of Baja California Norte, Chihuahua, Coahuila, Nuevo Leon, Sonora, and Tamaulipas.

Model

The variables employed to estimate the model for the executions rate came from Mexico's 31 states plus the nation's capital (the Federal District), over 4 years (2007 to 2010)⁸², and a cross-sectionally heteroskedastic and timewise autoregressive model was used. Further discussion is in Kmenta (1986, Section 12.2, pp. 616-625). The program used in the estimation of the parameters was Shazam.

Descriptive statistics for all the variables are presented in Table 5. The model to predict the impact of the variables mentioned in the previous section on the drug-related homicides rates was specified as follows:

$$\begin{aligned} \text{Executions}_{it} = & \beta_1 + \beta_2 (\text{LQ}_{it}) + \beta_3 (\text{Cars}_{it}) + \beta_4 (\text{Benefit}_{it}) + \beta_5 (\text{Cost}_{it}) + (\beta_6 \text{Education}_{it}) \\ & + (\beta_7 \text{AssetPov}_{it}) + ((\beta_8 \text{Age}_{it}) + \beta_9 (\text{BCN}_t) + \beta_{10} (\text{Chih}_t) + \beta_{11} (\text{Coah}_t) + \beta_{12} (\text{NL}_t) \\ & + \beta_{13} (\text{Son}_t) + \beta_{14} (\text{Tam}_t) + \beta_{15} (\text{LQ2}_{it}) + U_{it} \end{aligned}$$

Where:

Executions_{it} = Number of executions per 100,000 habitants in state i and year t

LQ_{it} = Retail location quotient for state i and year t

LQ2_{it} = Squared retail location quotient for state i and year t

Cars_{it} = Number of cars per inhabitants in state i and year t

Benefit_{it} = U.S. retail price of cocaine (per gram)

Cost_{it} = Probability of being convicted in state i and year t

⁸² All variables in this model include the period 2007-2010 except the variable called asset-based poverty; this variable was only available for the year 2005 and since this index does not change considerably from year to year, it was used for all the years in the period of interest.

$Education_{it}$ = Average years of school completed in state i and year t

$AssetPov_{it}$ = Share of people suffering from asset-based poverty in state i and year t

Age_{it} = Share of young males in state i and year t

BCN_t = 1 if Baja California Norte, 0 otherwise

$Chih_t$ = 1 if Chihuahua, 0 otherwise

$Coah_t$ = 1 if Coahuila, 0 otherwise

NL_t = 1 if Nuevo León, 0 otherwise

Son_t = 1 if Sonora, 0 otherwise

Tam_t = 1 if Tamaulipas, 0 otherwise

U_{it} = Stochastic disturbance term for state i and year t

Table 5

Summary Statistics

Variable	Observations	Mean	Std. Dev.	Minimum	Maximum
Executions	128	9.09	18.32	0.00	129.00
LQ	128	0.98	0.21	0.15	1.44
LQ ²	128	1.01	0.37	0.02	2.08
Cars	128	7.03	4.03	1.80	25.90
Benefit	128	146.93	21.99	111.35	166.38

Table 5 continued

Cost	128	87.88	7.56	59.00	100.00
Education	128	8.88	1.66	4.70	14.70
AssetPov	128	47.25	13.66	9.20	75.70
Age	128	21.25	1.09	19.51	24.42

Note. Author's calculation based on the data sources in Table 2

CHAPTER 10

RESULTS

The variance inflation factors (VIF) associated with most of the independent variables were below five, thus multicollinearity among the independent variables was not a problem. VIFs are presented in Table 6.

Table 6

Variance Inflation Factors (VIF)

LQ	0.9405	16.81
LQ ²	0.9436	17.73
Cars	0.5923	2.45
Benefit	0.1001	1.11
Cost	0.577	2.36
Education	0.5313	2.13
AssetPov	0.7795	4.54
Age	0.4301	1.75
BCN	0.6421	2.79
Chih	0.4266	1.74

Table 6 continued

Variable Name	Regression coefficient on other variables	VIF
Coah	0.2521	1.34
NL	0.2482	1.33
Son	0.1027	1.11
Tam	0.0618	1.07

Note. Author's calculations based on the formula for determining VIFs: $(1/(1-R))$, where R is the correlation coefficient (R-square of an independent variable on the other variables used in the model). The software used to calculate the correlation matrix was Shazam.

The regression results are presented in Table 7. Overall, the variables included in the model account for 73.36% of the total variation in executions. Even though additional variables could lead to more precise estimators, this model has the ability to predict the impact of conspicuous consumption and additional socio-economic variables on executions in a very reliable manner.

The coefficient of the independent variable LQ was negative and significant at the 5% level, which suggests that for every unit increase in LQs, there will be 21 less executions. After looking at this relationship, it was determined that there was a non-linear relationship between LQs and executions. For an explanation, please refer to Appendix I. When squaring LQ, the coefficient became positive and significant, proving that for every one unit increase in the concentration of retail activity, there will be 18.7 additional executions.

Table 7*Regression Results for the Executions Equation*

Intercept	--9.4712
t-statistic	-0.6622
*p-value	0.508
LQ	-21.509
t-statistic	-2.530
*p-value	0.011
LQ ²	18.742
t-statistic	3.406
*p-value	0.001
Cars	-0.30636
t-statistic	-2.068
*p-value	0.039
Benefit	0.49266E-01
t-statistic	2.668
*p-value	0.008
Cost	0.21873
t-statistic	2.995
*p-value	0.003
Education	0.57700
t-statistic	1.142
*p-value	0.254
AssetPov	0.17585
t-statistic	2.615
*p-value	0.009

Table 7 continued

Age	-1.0689
t-statistic	-2.310
*p-value	0.021
BCN	25.0
t-statistic	6.595
*p-value	0.000
Chih	65.356
t-statistic	14.39
*p-value	0.000
Coah	5.3735
t-statistic	1.199
*p-value	0.230
NL	3.8150
t-statistic	1.564
*p-value	0.118
Son	7.6571
t-statistic	2.241
*p-value	0.025
Tam	3.4465
t-statistic	1.017
*p-value	0.309
Buse R-square	0.7336
Buse raw-moment R-square	0.7730

Note. Shazam output

a. At the 5% significance level

A higher inhabitant-to-cars ratio will lead to fewer executions. For every one citizen increase per cars registered, executions will decrease by .30 units. Even

though the impact is very low, it is significant. This impact is confusing and needs additional clarification. From 2007-2010, a state with a lot of drug activity like Chihuahua averaged 4.4 citizens per every car registered. Oaxaca, a state with less drug activity averaged 23.3 citizens for every car registered. This implies that people in Chihuahua buy more cars or that there is a car for every 4.4 citizens, and in Oaxaca, there is a car for every 23.3 individuals.

Regarding the benefit of narco-trafficking (the price of cocaine), the impact is very small but it is significant. For every one dollar increase in profits, there will be a $.49 * 10^{-1}$ increase in executions.

Contrary to the author's expectations, Mexican alleged drug-traffickers are not risk-averse because a high conviction rate does not deter individuals from getting into the drug business. This result can also be attributed to the fact that some offenders who are convicted keep giving orders and running their business from prison. It is argued that these offenders retaliate against their enemies. So, executions keep taking place. The cost variable exhibits a very small yet positive and significant coefficient meaning that a one percent increase in the conviction rate will result in an increase of .21 executions.

The education variable yields an unexpected outcome; even though this variable is not significant, for every additional year of education, executions increase by .57 units. A plausible explanation for this is that the drug business is somewhat different from the past because it now recruits educated individuals who are simply

looking for a way to satisfy their conspicuous consumption needs. Perhaps the more educated an individual gets, the more ambitious he gets.

Sometimes, these educated individuals want to climb the status ladder very fast without any efforts at all. Perhaps, they do not have a job and start looking for a way to cash on their education. It is worth noting that overall educational level in Mexico is still very low. For instance, during the 2007-2010 period Chihuahua averaged 13.3 years of school completed, which makes it the top state in this category. But this represents only the first year of college.

Like expected, asset-based poverty had a positive and significant (yet small) effect on executions. A one percentage increase translates into .17 additional executions.

Age resulted in a negative and significant effect on executions. A one percentage increase on the share of young males, executions will decrease by 1 unit. Even though, more kids are working for the cartels, it is argued that the drug industry still relies on adults for their critical operations. Kids are only used as bait and disposable soldiers.

Border-states such as Baja California Norte, Chihuahua and Sonora had a large and significant impact on executions. Even though Sinaloa is not a border state, and the model did not include the state it as a dummy variable, it is assumed that it would also have a significant and positive impact on executions. This should not come as a surprise based on the state's history and the fact that the Sinaloa cartel has

engaged in a violent battle against the rest of Mexican drug cartels, especially with the Juarez cartel.

CHAPTER 11

A DISCUSSION ON THE ECONOMIC IMPACT OF NARCO-TRAFFICKING

It is well-known that cultural, social, and economic factors have a significant influence on those individuals who decide to work for narco-traffickers. Growing up on an unstable family environment, extreme poverty, unemployment, might lead people to become criminals but it is a fact that a lot of young teenagers want to be narco-traffickers because this industry allows them to get access to goods or services that enhance their quality of life.

The Mexican government does not accept that some of these teenagers identify themselves with the narco-culture because being a narco-trafficker allows them to be “successful” while intimidating other individuals and inflicting fear in society. They can also buy anything they crave, especially very expensive luxury items.

According to Jose Igor Gonzalez (2010), an academic in the social affairs department from the University of Guadalajara, impressionable teenagers are not in the business for the mere desire of owning material goods; they want to gain respect and build an identity through the power that money grants them. This has a symbolic connotation that implies that everything can be achieved by using economic resources.

For some people, narco-trafficking represents a matter of ambition and desire, for others a matter of power and respect. Some young adults are there exclusively for

the money, other under-privileged individuals like the idea of controlling the society that gave up on them and made them feel like outcasts.

Popular belief suggests that narco-traffickers drive certain cars (big pick-ups, i.e. escalades, etc) and dress a certain way (cowboys boots, expensive belts with gold buckles, expensive hats, etc.). They are often perceived as people who feel powerful and above the law. However, not every person who dresses this way is a narco-trafficker and not all who are drug-traffickers dress this way. The new narco wants to be discrete and are different from narcos from the past. Jose Igor Gonzalez (2010) argues that today's narco-traffickers who have been sent to prison no longer drive the big pick-ups; they prefer smaller and more discrete cars (yet expensive) and they no longer have those big gold chains hanging from their neck. New narcos want to blend in society and wear expensive designer clothes such as Gucci, Ralph Laurent, Prada, etc.

As stated throughout this paper, conspicuous consumption diverts valuable resources from their most socially productive uses (i.e. health, education, saving, etc.) and makes even more visible and persistent wealth inequality. These inequalities, along with many other factors, might lead individuals to pursue a life of crime in the drug-trafficking business because it allows them to get the money they need to satisfy their conspicuous needs. The results presented in the previous section suggest that conspicuous consumption has the largest impact on the rise of narco-trafficking.

It is a fact that the drug industry represents one of the largest sectors in the Mexican economy. If narco-trafficking is one of the largest industries in terms of

revenue (Chabat as cited by Anderson 2007), does it make sense to get rid of it? After all, the drug industry creates jobs, encourages consumption and infuses cash into local economies. For instance, the automotive, clothing, jewelry and the housing sectors benefit from the conspicuous habits of narco-traffickers. So, does this industry hinders or fosters economic growth in Mexico?

Before answering this complex question it is necessary to quantify the benefits and the costs of the narco-trafficking industry. According to Viridiana Rios (2008), economic benefits can be grouped in three categories: employment, cash flows, and investments.

Based on this, drug-related agricultural employment has increased exponentially over the last 40 years. By the mid-1970s, 50,000 peasants were considered “narcotics entrepreneurs” (Craig 1980 as cited by Rios 2008). By the 80s, this number had gone up to 200,000 (Toro, 1995). The latest estimate showed that close to 300,000 peasants⁸³ were working for the drug cartels (Andreas, 1998). In addition to peasants, narco-traffickers demand other occupations such as chemists, attorneys, businessmen, merchants, distributors, drivers, doctors, bodyguards, etc.

⁸³ Independent from the many incentives created by the labor-intensive drug industry, the more compelling reason to get into the business of producing drugs is a very simple one: revenues. While one kilogram of corn has a market value of four pesos, drug smugglers pay up to 10,000 pesos for one kilogram of opium. In fact, marijuana is six times better business than vanilla (the most well-paid agricultural product of Mexico), and sixteen times better than almond (the second-best legitimate product) (Resa Nestares 2003 as cited by Rios 2008).

In terms of employment, bodyguards and hitmen represent the most important professions in the drug industry.⁸⁴

According to Rios and Sabet (2008), narco-trafficking is the 5th largest employer in Mexico, employing approximately 468,000 people; which is five times the number of people employed in the wood industry and three times the number of people working for Petróleos Mexicanos (PEMEX). Figure 6 shows the number of people working in the drug industry compared to those working in legal economic sectors.

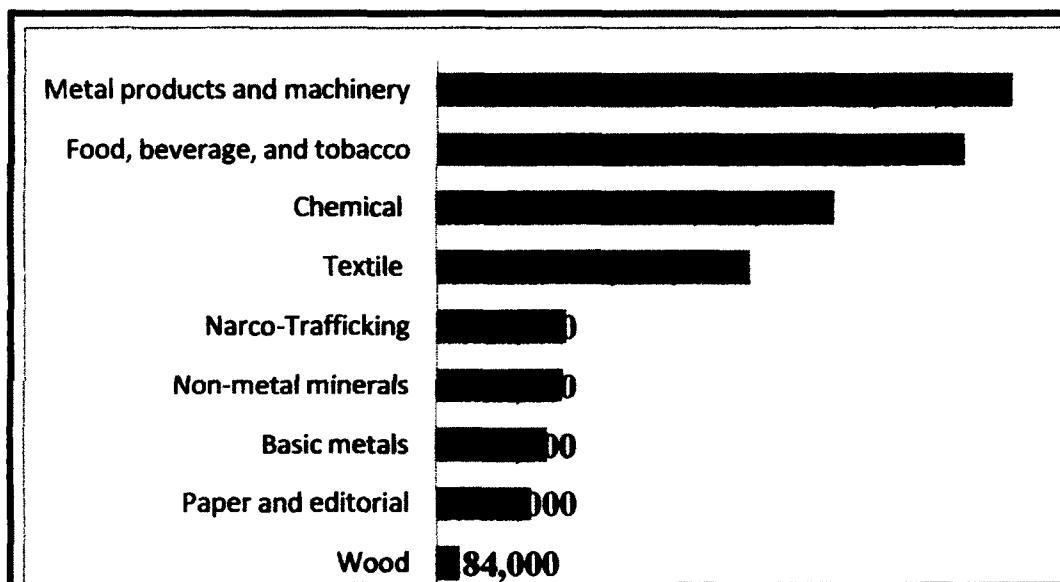


Figure 6-Drug-Trafficking Employment

Source: Rios and Sabet (2008). Number of narco-trafficking industry employees calculated by using Procuraduría General de la República (PGR) data (Andreas, 1998) and research on the business structure of organized crime (Lee, 1989).

⁸⁴ This scheme of private security has been well documented in other criminal organizations such as the Sicilian Mafia (Van Duynes, 2003).

Narco-trafficking also infuses significant cash flows into the Mexican economy; it generates between 9.9 and 3.2 billion dollars annually (Resa Nestares, 2003). This translates into illegal but in the end increased economic activity in the form of increased salaries (\$10- \$12,000 pesos)⁸⁵ for young watchmen who are usually from urban areas⁸⁶ (halcones), higher incomes for corrupt public officials and law enforcement officers, etc. But since this is an underground economy, the measured real economic impact is lower than one would imagine.

Narco-trafficking also benefits the Mexican economy by generating investment. Mario Arango (cited by Lee 1989) interviewed Colombian drug smugglers and he found out that drug traffickers invest 45% of their profits in real estate, 20% in cattle, and 15% in different legal business ventures. Official records show that high ranking narco-traffickers buy expensive and luxurious houses (sometimes palaces), which increases the housing and construction industries revenues (Lee, 1989). Andrade Barajas (2007) research reports similar findings for Mexican drug-traffickers investments. Those who are at the bottom of the drug industry ladder, like investing in productive assets. They build houses, buy cattle, save, and go to the U.S. looking to increase their wealth (Fernandez Menendez & Ronquillo, 2006).

In sum, there is no doubt that the increases in employment, cash flows, and investment promote economic activity by creating multiplier effects. However, the

⁸⁵ Corchado, 2007

⁸⁶ Ravelo, 2007

true impact cannot be measured because the profits generated from narco-trafficking do not stay in its totality in Mexico and a reliable number is hard to generate.

Several subject matter experts have carried out extensive research on this regard. Anderson (1981), cited by Resa Nestares (2003) calculated that Mexican marihuana revenues could total up to 2 billion dollars a year in the 1970s. In the 1980s, Nadelman (1988) stated that marihuana and cocaine revenues could go up to 2 billion dollars per year. Reuter and Ronfeldt (1992) estimated total marihuana and heroin revenues to be approximately 2.2 and 6.8 billion dollars. In 1995, Toro concluded that the marihuana and cocaine market generated 700 million dollars a year. During the same year, Coone (as cited by Fazio 1998) estimated the same markets at 15 billion dollars and affirmed that “if drug dollars flow happens to stop, Mexico’s economy could experience a severe destabilization.”

According to Rios (2008), the most exact estimate on the Mexican drug market is that of Resa Nestares (2003). He included fluctuations in drug prices, demand, and potential losses resulting from seizures of shipments destined to the U.S. market (also taking into consideration the European and Canadian market). He concluded that the profits ranged between 3.2 and 9.91 billion dollars. Based on this, narco-trafficking is considered one of the top 100 businesses in Mexico, with a better performance than legal international companies like American Express Mexico (CNN 2007).

Narco-trafficking might generate a lot of money but in the end it fosters an underground economy that is detrimental to society. For instance, individuals living

in some rural communities without access to employment, educational opportunities, and health and social services are the ones who are recruited by the drug cartels.

People “with nothing to lose” are looking for a way to survive. But on the other side of the spectrum, ambitious and educated individuals desperate to “live it up” wanting to become rich without any effort at all are also targeted by the drug cartels. The costs are obvious: a never-ending spiral of violence and deaths. Because of this and many other factors, the costs of narco-trafficking will always be much greater than the so called benefits.

Narco-trafficking generates more crime because drug cartels kidnap people, extortion businessmen, steal companies’ products to further finance their illicit activities. On the other hand, drug addicts also engage in criminal activities to buy the drugs they desperately need.

In the end, the Mexican government should fight narco-trafficking to the full extent of the law but it should base its strategies on intelligence reports and not just random operations. The day the Mexican government stops using the fight against narco-trafficking as a political maneuver aimed to manipulate society, better results can be obtained and the negative externalities associated with this industry can be eliminated or at least minimized.

Drug-trafficking affects economic development in the following ways. First, the war against the drug cartels consumes a lot of resources that could be put to better uses such as the construction of more schools, infrastructure development, provision of health services, etc.

Second, it creates a violent environment characterized by killings, assassinations, kidnappings, and extortions. This translates into fear and social unrest, which changes individuals' behavior who try to minimize the probability of being a victim. When faced with the persistence of crime, individuals stop trusting police, their political leaders, and even some institutions. It is not uncommon to see some these individuals take justice within their own hands, which further eliminates social cohesion and community life.

Third, the drug-trafficking industry halts economic development in two fronts. At a microeconomic level, it discourages the creation of human and social capital because it provides an incentive to those underprivileged members of society (as well as ambitious and greedy members of the middle and upper classes) to engage in socially unproductive illicit activities. At the macroeconomic level, the country loses credibility by being perceived as a region with potential social and political upheaval. This results in the outflow of people, the lack of foreign and domestic investment; and it also hurts tourism, which represents a large share of Mexico's economy.

In the end, narco-trafficking reduces Mexico's productivity, halts social and economic progress, creates a violent climate, and downgrades quality of life for its citizens. This problem does not respect social hierarchies; it affects the rich by making him an easy target for criminal activity and it affects the poor by denying him access to the services and resources needed for his development. With this in mind, the following section will discuss several recommendations and policies that can help lead the way to a more peaceful and prosperous society.

CHAPTER 12

CONCLUSIONS AND POLICY RECOMMENDATIONS

As discussed throughout this paper and confirmed by the model and analysis used herein, conspicuous consumption does have a large and significant impact on the number of drug-related homicides. It is hard to design policies that hinder conspicuous consumption but even if this were a possibility, this is not the objective of this research.

After all consumption (conspicuous or not) makes up more than 60% of GDP in most countries, and it is beneficial because it creates employment, cash flows, and increased economic activity. The purpose of this paper is not trying to tell people what to do. If a person's level of utility increases with conspicuous consumption, so be it. The problem comes when such persons do not have the means to "keep up with the Joneses", get frustrated, and do whatever it takes to get ahead in the consumption game; in this case become a narco-trafficker.

No single policy should eliminate consumption all together but in the case of Mexico, the existent caste system that fosters distinction through the display of opulence generates more inequalities than should exist. Thus, individuals should learn to live within their means and stay out of illicit activities. This will be hard to accomplish since this conspicuous behavior has been embedded in the Mexican psyche for centuries. The only valid argument against this behavior is that intentional display of wealth with the intent to be unique and distinguish oneself while making one's peers feel inferior will bring nothing but resentment, which sometimes lead to

crime. The result is a dual society struggling to survive and be all they can be through the acquisition of material and unproductive goods. But in the end, this is an individual choice.

The narco-trafficking problem can be addressed in a variety of ways. In instead of implementing policies aimed to end drug supply while fighting the drug cartels who have unlimited funds, specialized equipment and a large army willing to die for them, government policies should focus on keeping people out of drugs; focus on the demand side. After all, drug consumers are the ones who provide economic incentives for people to become drug dealers. Once individuals become drug addicts, their demand for drugs is inelastic, which means that they will buy the drugs they need even if the price is high. The same example applies to a diabetic who will buy insulin despite price increases. When these addicts can no longer buy drugs, they might steal or even kill to get the drugs they desperately need. Based on this, it is worth fighting the demand side.

It is well-known that black markets and prohibition make drugs more expensive and they serve as an incentive for people to get into the drug business. Thus, a viable option might consist in legalizing drugs. This policy would minimize violence associated with drugs commercialization and competition, but it would translate into more addicts who will do anything to buy the drugs they need. In sum, this would result in more drugs-related deaths. As an example, the legalization of alcohol in the U.S. stopped the levels of violence produced by the alcohol black

market, but the number of liver disease deaths increased in the years following legalization (Roemer, 2008).

It is not unusual for kids living in a single parent household to hang out on the street all day and do drugs or be a drug dealer. Thus, the provision of social assistance in the form of institutional arrangements such as daycare for low-income working parents could help overcome this problem.

It is often argued that more severe punishments can make an example out of those who decide to become narco-traffickers. However, this does not seem to end with the problem. As long as people do not have a high probability of being both arrested and convicted, people will continue their life of crime.

Another viable option might consist in increasing the number of policemen who patrol the city. Based on the current levels of violence seen in Juarez, the increased presence of the army and police officers has not helped at all; it has made things worse and people do not feel safer. It comes as a surprise that Mexico is one of the countries with the highest police to inhabitant ratio and the Federal District is the entity with the highest ratio in the country.

Mexico City has 1,005 police officers per 100,000 inhabitants, which puts it above Spain and the U.S., with 303 and 330 respectively⁸⁷. Based on this, the answer lies in training police officers, providing them with the right equipment and resources, and perhaps paying higher wages.

⁸⁷Source: Índice de desempeño del sistema penal. Mexico Evalúa 2010.

Since the probability of being convicted in a court of law is very high, impunity is present in other phases of the legal system. Crime victims are hesitant to report crimes because they fear retaliation, do not trust the authorities, take for granted that public officials will not take care of their case, see it as a waste of time, etc.

This could be fixed by granting individual states the authority to prosecute certain types of crimes while creating specialized agencies. The judicial system work load could be minimized by implementing reforms and putting in place oral hearings. This is already happening in Mexico and the pioneer was the state of Chihuahua. Of course, this is a long process and there is a learning curve. Again, training for the people in charge is essential for such policy to succeed.

Regarding those educated individuals who cannot get a job, elected officials argue that these persons can make a living while working for law enforcement agencies such as the state General Attorney's Office. It is the author's opinion that this would not work because most of the people without a job did not pursue a career in law enforcement. Such programs are non-existent in Mexico, at least in those states with a lot of drug activity. Thus, if these persons do not consider this job to be a fulfilling (professionally) and rewarding experience (economically), they might end up working for the cartels. They would be the perfect recruits because of their education and training on special weapons and law enforcement techniques.

Another option would be placing these persons in the maquiladoras⁸⁸. But again, these companies are looking for the cheapest way to do business, and their owners do not hesitate for a minute to move operations overseas without notice. This leaves a large pool of both high-skilled and low-skilled people without a job in a heartbeat. In instead of providing financial incentives exclusively to maquiladoras, the government can sponsor an economic development program based on clusters of economic activities that support local industries. This is aligned with the principle of “economic gardening”, which states that a region’s economy does not need to import jobs; it needs to create them by helping small and nascent entrepreneurs succeed. If tax breaks and financial incentives were offered to local businesses, local entrepreneurs would be even more committed to create additional jobs. Again, this would create the community’s buy in and would keep people out of the street.

Finally, the government efforts should be aimed at seizing the drug cartels financial resources. This way, they would not have a way of funding and sustaining their operations. The government can kill as many drug lords as it pleases but it will never stop new people from taking over the organization. Perhaps destroying the drug cartels’ financial infrastructure and keeping kids out of drugs would be the most efficient strategies.

⁸⁸ A maquiladora is a labor-intensive assembly operation. In its simplest organizational form, a Mexican maquiladora plant imports inputs from a foreign country—most typically the United States—processes these inputs and ships them back to the country of origin, sometimes for more processing and almost surely for marketing. (NAFTA and Maquiladoras-Is the Growth Connected? Gruben, William and Kiser, Sherry).

Since narco-trafficking is an obscure event in Mexican history, it will be hard to eradicate it. However, people are starting to realize that violence is not the way to do things. Every time disaster strikes, Mexicans are willing to fight and rise once again from the ashes. The good part about the climate of violence in Mexico is that families and individuals are going “back to basics”. They stay out of the street, which translates into more family time and more social cohesion.

Perhaps in the near future, today’s generations will look back and see narco-trafficking as a distant event. It is the author’s expectation that this paper will convey a message of hope and not fear. Perhaps the facts presented herein can misguide the reader and make him think that people sold their soul for money and that everything in Mexico is bad. But those of us who were lucky to be born in Mexico know that it is a beautiful country that has all the resources needed to become a prosper nation. After all, some of the most important products that the world enjoys nowadays were “Made in Mexico”: rocket belt, anti-earthquake buildings, color television, GNU-network model environment (graphic design environment for Unix/Linux), the mousepad, a printer called instabook that is able to edit a book in 17 seconds, high-protein corn, transparent concrete structures, birth control pill, hydrating fluid used to identify corpses, wipers, the discovery of the number zero, etc.

So, the author would like to leave the reader with a final reflection. Are we Mexicans going to stand still and remain indifferent while Mexico burns down in flames or are we going to demand our public officials to do something about it? Are we willing and able to start taking responsibility for our actions and work side-to-side

with the government towards the construction of a better nation? Until when are we going to do our part by working hard and educating our children to be honest and productive citizens? In sum, will we rise up to the challenge and live up to our founding fathers principles and ideas?

APPENDICES

APPENDIX A

MEXICAN CARTELS HITMEN

In order to aid them in their operations, Mexican drug cartels employ groups of enforcers, known as “sicarios”. In August 2006, Mexico’s Deputy Attorney General for Organized Crime, Jose Luis Santiago Vasconcelos, reported that these hitmen are extending their dominance as they take the place of drug lords who are arrested.⁸⁹ Figure A1 provides the “sicarios” groups operating in Mexico.⁹⁰

The Juarez Cartel	•La Linea
The Sinaloa Cartel	•Los Negros and Los Pelones •EL Cartel de Jalisco Nueva Generacion
Beltran Leyva Cartel	•La Mano con Ojos •Los Zetas (some areas)
The Gulf Cartel	•Los Zetas
	•La Resistencia
The Tijuana Cartel	•No specific group

Figure A1-Sicarios in Mexico

Source: Congressional Research Service Report (CRS)

⁸⁹ Source: Congressional Research Service Report
<http://www.fas.org/sgp/crs/row/RL34215.pdf>

⁹⁰ According to the Mexican government (August 7, 2011), in addition to being an enforcer group, the Zetas have recently become a cartel. Since they work hand to hand with the Gulf cartel, they are only included here as an enforcer group.

APPENDIX B

A BRIEF HISTORY OF COCAINE⁹¹

In 1972, cocaine produced in South America started bringing down the production of marihuana in Mexico, but contrary to popular opinion, worldwide commercialization of cocaine was not started by the Sinaloa or the Medellin cartels; and it was not started by the Peruvians either.

Based on Paul Gootenberg's extensive research⁹², the first cocaine smugglers were from Chile and their biggest customers were executives from the U.S. and Europe who were looking (and still are) to be more productive at work. Because of these "attributes", cocaine has been considered by many as "the drug of neoliberal capitalism".

In the 50s, the Chileans used the Mexican territory as a transit country to reach the U.S. market. A lot of individuals working for the Mexican mafia served as allies, especially some Turkish. But the cocaine industry exploded after 1959, due to the Cubans and their revolution. When the Cuban revolution exploded, a lot of Cubans fled to Mexico and created cocaine plants in the 60s. According to Gootenberg, some of these Cubans taught the Mexicans everything they knew about the cocaine business, especially to those living in the north.

⁹¹ This section is based on the interview that Diego Osorno did to Paul Gootenberg, which is included on the book El cártel de Sinaloa.

⁹² Gootenberg is one of biggest experts in the world in the cocaine industry.

Following World War II, the cocaine business flourished in Peru and then Bolivia but the Chileans and Turkish families still controlled the industry. Wasab Hart was a big Turkish family with representatives operating in Bolivia and it was the largest cocaine trafficker in the 50s; going from Bolivia to Chile, from Chile to Cuba, and from Cuba to the United States, via Mexican border cities. Even though Mexican families and banks were part of the business, Mexico was not a big player because the Chileans were in charge.

Chileans lost control of the business when Augusto Pinochet overthrew Salvador Allende. In a joint operation with the DEA, Pinochet launched an aggressive campaign against the cocaine industry in Chile arguing that it was a socialist thing. Ironically, oppressive regimes in Brazil, Argentina, and Chile forced drug traffickers to look for other venues, situation that encouraged Colombia to get into the cocaine business. The Colombian government was very weak at that time and cocaine producers took advantage of this situation. Trained by the Chileans, Colombians soon learned about the business and took over in the 70s.

In his book, *Andean Cocaine: The Making of a Global Drug*, Gootenberg says that a group of Germans and French arrived in Peru in the late 19th century and created cocaine. He emphasizes that a Peruvian pharmacist was the one who invented the process but cocaine in its modern form was invented by a French individual who lived in Lima.

This formula was copied by the pharmaceutical company Merck, which was the largest seller of cocaine at that time. In the end, both Germans and Peruvians

controlled the business. In 1880 and 1890, cocaine was a legal drug used for medical purposes. For instance, it served as local anesthesia because there was nothing like it.

How did Cocaine get into The United States?

By gathering information from the National Archive of the United States⁹³, Gootenberg claims that the U.S. has experienced a substantial demand of cocaine because this drug is needed to make a famous beverage: Coca-Cola. According to him, the “secret formula” has a total of seven ingredients; being sugar and “Marshall” (cocaine) two of them. Officially, the company denies these allegations and says that it does not use cocaine in its product (Osorno, 2011, p.169-170).

Cocaine arrived in the U.S. at the rise of the 20th century. The medicine business was not as regulated as it is today and it was one of the most important industries due to the thousands of users. However, drugs as heroine and morphine were more popular than cocaine and as a result of harsh laws created in the 20s, cocaine disappeared off the radar for nearly 30 years.

After World War II, a group of Peruvians and Chileans sailors started transporting small shipments of cocaine to Cuba and the U.S. The business expanded a little during the 40s and even more in the 60s. The American people did not know a lot about this drug because the FBN (Federal Bureau of Narcotics), the former version of the DEA, was trying to destroy the cocaine industry. The FBN’s effort failed and the cocaine business grew even more. Again, an authoritarian government resulted in more and more distribution networks with more clever traffickers.

⁹³ DEA data, group 170 from the general archive.

Cuba also played an important role in the expansion of the cocaine industry in the U.S. When Fidel Castro became the president, his repressive methods drove drug traffickers out of Cuba. These individuals then fled to Miami and Mexico and once again, anti-drug strategies just sent the problem to more indulgent countries.

It is quite interesting that political agendas encouraged the expansion of cocaine. Marihuana was the drug that Mexican students smoked to protest against the Vietnam War. In 1969 and 1970, the United States government began the war on drugs and suppressed the Mexican marihuana and the European heroine. This helped the Colombians commercialize cocaine because they found out that they could smuggle a drug that was not a priority for the U.S. government.

In 1970, cocaine was viewed as a “safe” drug: a conspicuous drug for the wealthy. Because of this perception, rock stars began using cocaine and by 1971, the cocaine culture was embedded in the U.S. It is worth noting that cocaine would not be what it is in the U.S. without George Jung. George Jacob Jung (born August 6, 1942), “Boston George” was the most important person in the cocaine business in the United States in the 70s and the early 80s. He was an expert in the trafficking of cocaine from Colombia, which earned him the trust of Pablo Escobar, the boss of the Medellin Cartel. This cartel distributed close to 85% of the cocaine smuggled into the U.S.

He is currently serving his sentence in a Federal prison in the U.S. The date of his release is unclear but he is expected to walk out in 2014. Jung argues that the U.S. government underestimated the cocaine industry and minimized the risks.

According to him, it was obvious that government officials did not have a clue what was going on. Even during President James Carter's administration, task forces often concluded that cocaine did not represent a threat. It was not until 1979, when President Ronald Reagan declared a state of emergency attributed to the panic caused by drugs.

By that time, Colombians, Cubans, and Dominicans supplied cocaine to the U.S. and marihuana was no longer the most popular drug. Due to the successful anti-drug operations carried out in the Caribbean, Colombians decided to transport cocaine via Mexico because the Mexican cartels had an efficient infrastructure ready to serve the interests of the Colombians.

Nowadays, "the U.S. is the largest consumer of cocaine in the world, followed by Brazil, and Europe. However, per-capita consumption in the U.S. is lower than that in Spain and Italy.

Evidence presented in Figure B1 suggests that methamphetamines are becoming more popular and therefore efforts should be aimed at stopping this problem before it gets worse (Osorno, 2011, p.173)."

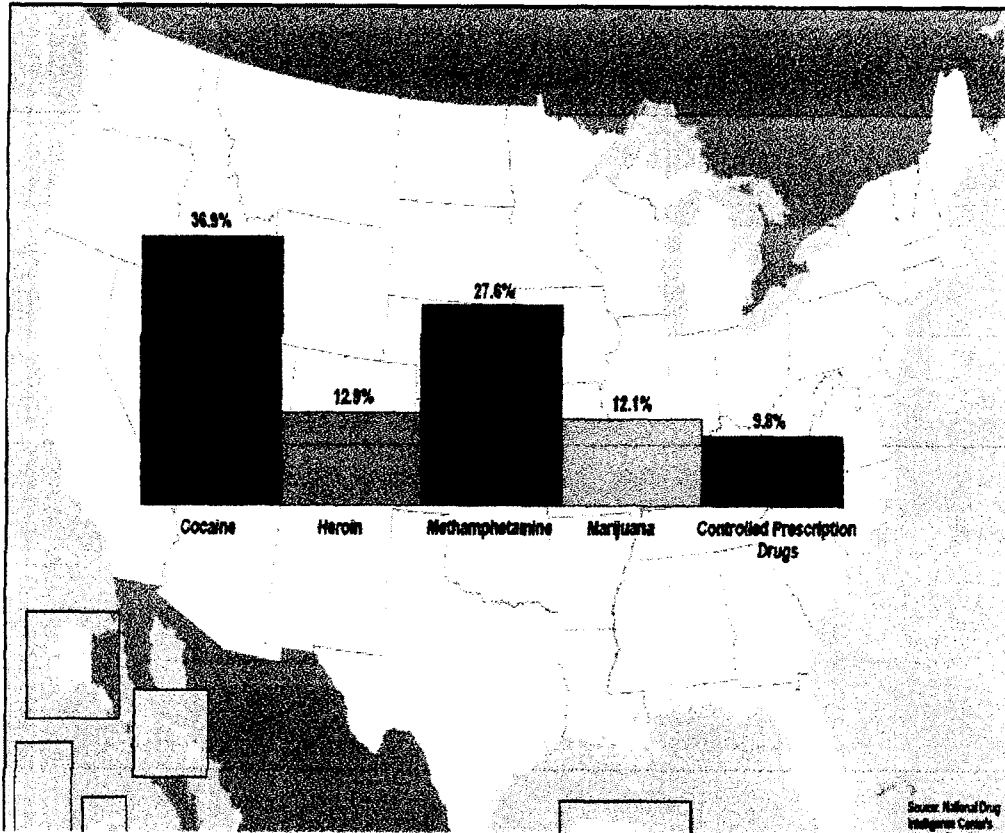


Figure B1-United States Greatest Drug Threat for 2009

Source: National Drug Intelligence Center's National Drug Threat Survey 2009.
Reported by State and Local Agencies

APPENDIX C

EXECUTIONS DEFINITION

In 2009, a taskforce formed by the Secretariats of National Defense, National Public Safety, and the State Department, CISEN (Centro de Investigación y Seguridad Nacional: Center of National Research and Security), the General Attorney's Office, CENAPI (Centro Nacional de Planeación, Análisis, e Información para el Combate a la Delicuencia: The National Information Center for Planning , Analysis, and Fight against Crime) was assigned the task of putting together the database aimed to identify the number of deaths resulting from an alleged criminal rivalry.⁹⁴

According to this database, a violent death (execution) is defined as an intentional homicide whose victim or offender is presumably a member of a criminal group. This definition does not include a shootout or aggression toward police officers or army soldiers or their participation. **Such drug-related homicide may meet two conditions:**

- 1) **Extreme violence:** the victim is beheaded, dismembered, mutilated, and/or burned.
- 2) **Multiple killings:** violent deaths involving more than two victims.

An execution meets (at least) two of the following behavior patterns:

- 1) **The victim was killed by a large firearm or a short firearm of a large caliber**
- 2) **The victim shows signs of torture and severe injuries**

⁹⁴ It is worth noting that this classification of crime does not have a legal background but it was created for statistical purposes.

- 3) The victim's remains were found after an execution, either in the place the victim was killed or in a different place.
- 4) Materials as blankets, ropes, etc., were used in the killing.
- 5) Killing characteristics
 - ✦ Alleged relationship with criminal groups
 - ✦ The victim was kidnapped (levantón)
 - ✦ Ambush or chase
 - ✦ Messages left by criminal organizations
 - ✦ Under extraordinary circumstances, those homicides taking place inside a prison and involving inmates belonging to criminal groups.

APPENDIX D

Table D1

Inhabitants per Car Registered

State	2007	2008	2009	2010	Average
Aguascalientes	4.8	4.6	4.5	4.3	4.6
Baja California	3	2.9	3	3	3.0
Baja California Sur	2.1	2	1.9	1.8	2.0
Campeche	8	7.7	9.1	8.2	8.3
Chiapas	19.3	17.8	16.8	13.9	16.9
Chihuahua	4.6	4.5	4.3	4.3	4.4
Coahuila	6.7	6.2	6.4	6.2	6.4
Colima	6.2	5.8	5.6	5.4	5.8
Distrito Federal	2.9	2.5	2.4	2.1	2.5
Durango	7.8	7.5	6.6	6.5	7.1
Guanajuato	8.8	7.9	7.6	7.4	7.9
Guerrero	10.2	9.6	8.4	7.7	9.0
Hidalgo	5.8	5.4	5.3	5.2	5.4
Jalisco	5.1	4.7	4.6	4.3	4.7
México	6.9	6	5.6	5.1	5.9
Michoacán	8.6	7.3	6.7	6	7.2
Morelos	8.3	7.3	7.2	6.6	7.4

Table 8 Table D1 continued

Nayarit	7.7	6.9	6.6	6.2	6.9
Nuevo León	3.6	3.5	3.4	3.3	3.5
Oaxaca	25.9	24.6	22.1	20.9	23.4
Puebla	9.8	9	8.5	7.7	8.8
Querétaro	8.1	6.8	6.4	5.5	6.7
Quintana Roo	6.3	5.8	5.6	5.6	5.8
San Luis Potosí	6.6	6.2	5.9	5.7	6.1
Sinaloa	6.5	5.9	5.6	5.5	5.9
Sonora	4.9	4.7	4.5	4.4	4.6
Tabasco	11.1	10	9.3	8.8	9.8
Tamaulipas	5.3	5.4	5.2	5.1	5.3
Tlaxcala	7.2	7	6.7	6.6	6.9
Veracruz	10.1	9.6	9	8.6	9.3
Yucatán	7.8	7.3	6.4	6.2	6.9
Zacatecas	8.2	7.1	6.6	6.4	7.1

Note. Author's calculations based on CONAPO population estimates and INEGI

APPENDIX E

Table E1

Retail GDP Location Quotients

Aguascalientes	0.9234	0.9142	0.8787	0.9914	0.9269
Baja California	1.0464	1.0359	1.0605	1.1461	1.0722
Baja California Sur	1.1661	1.1298	1.0593	1.2224	1.1444
Campeche	0.1530	0.1688	0.1747	0.1805	0.1693
Chiapas	1.0190	0.9988	0.9938	1.0975	1.0273
Chihuahua	0.9570	0.9510	0.9601	1.0466	0.9787
Coahuila	0.7986	0.7919	0.8377	0.8844	0.8281
Colima	0.9978	0.9845	0.9951	1.0854	1.0157
Distrito Federal	1.1075	1.1188	1.0956	1.2119	1.1334
Durango	0.8962	0.8944	0.8711	0.9709	0.9082
Guanajuato	0.9935	0.9869	0.9602	1.0729	1.0034
Guerrero	0.9636	0.9818	0.9901	1.0698	1.0013
Hidalgo	0.6761	0.6570	0.7027	0.7408	0.6942
Jalisco	1.2721	1.2877	1.3119	1.4109	1.3206
México	1.1352	1.1109	1.1574	1.2396	1.1608
Michoacán	1.1698	1.1764	1.1966	1.2909	1.2084
Morelos	0.8773	0.9148	0.8583	0.9665	0.9042

Table E1continued

Nayarit	0.8710	0.8904	0.9072	0.9718	0.9101
Nuevo León	1.0050	0.9971	1.0056	1.0973	1.0262
Oaxaca	1.0706	1.0445	0.9937	1.1343	1.0608
Puebla	0.9285	0.9119	0.9447	1.0151	0.9501
Querétaro	1.0939	1.0783	1.0898	1.1894	1.1129
Quintana Roo	1.0588	1.0832	1.1109	1.1853	1.1095
San Luis Potosí	0.9456	0.9239	0.9111	1.0143	0.9487
Sinaloa	1.2955	1.3140	1.3504	1.4423	1.3506
Sonora	1.0197	1.0276	1.0119	1.1157	1.0438
Tabasco	0.7754	0.6599	0.6011	0.7417	0.6945
Tamaulipas	0.9385	0.9153	0.9529	1.0229	0.9574
Tlaxcala	0.7096	0.7299	0.7465	0.7962	0.7455
Veracruz	0.8640	0.8523	0.8009	0.9183	0.8588
Yucatán	1.0914	1.1197	1.0881	1.2029	1.1255
Zacatecas	0.9910	0.9429	0.8912	1.0286	0.9634

Note. Author's calculations by using economic sectors GDP from the 5th annual President's report (2011)

APPENDIX F

Table F1

Share of Young Males

Aguascalientes	21.14	21.1	21.05	21	21.07
Baja California	23.67	23.61	23.56	23.5	23.59
Baja California Sur	23.83	23.68	23.52	23.35	23.60
Campeche	22.11	21.99	21.84	21.67	21.90
Chiapas	21.89	21.92	21.93	21.97	21.93
Chihuahua	21.81	21.66	21.52	21.66	21.66
Coahuila	21.52	21.37	21.37	21.23	21.37
Colima	21.81	21.7	21.58	21.45	21.64
Distrito Federal	20.71	20.43	20.15	19.86	20.29
Durango	20.93	20.86	20.79	20.71	20.82
Guanajuato	20.41	20.3	20.19	20.07	20.24
Guerrero	20.31	20.33	20.34	20.33	20.33
Hidalgo	20.1	19.93	19.75	19.57	19.84
Jalisco	21.4	21.31	21.21	21.12	21.26
México	20.16	20.05	19.92	19.78	19.98
Michoacán	21.94	21.77	21.61	21.44	21.69
Morelos	20.49	20.41	20.32	20.22	20.36

Table F1continued

Nayarit	20.88	20.71	20.54	20.35	20.62
Nuevo León	22.03	21.81	21.61	21.41	21.72
Oaxaca	20.06	20.04	20	19.93	20.01
Puebla	20.89	20.84	20.79	20.72	20.81
Querétaro	21.89	21.81	21.71	21.6	21.75
Quintana Roo	24.42	24.28	24.12	23.95	24.19
San Luis Potosí	20.32	20.24	20.15	20.06	20.19
Sinaloa	21.6	21.47	21.32	21.17	21.39
Sonora	21.62	21.48	21.34	21.21	21.41
Tabasco	21.94	21.76	21.58	21.38	21.67
Tamaulipas	21.76	21.61	21.46	21.32	21.54
Tlaxcala	21.44	21.31	21.17	21.02	21.24
Veracruz	19.93	19.8	19.66	19.51	19.72
Yucatán	22.2	22.15	22.07	21.97	22.10
Zacatecas	20.11	20.01	19.9	19.79	19.95

Note. Author's calculation based on CONAPO

APPENDIX G

Table G1

Average Years of School Completed

Aguascalientes	9.2	9.4	9.5	9.7	9.45
Baja California	9.4	9.5	9.7	9.8	9.6
Baja California Sur	9.4	9.6	9.7	9.9	9.65
Campeche	8.4	8.6	8.8	9.1	8.725
Chiapas	10.7	11.9	13.2	14.7	12.625
Chihuahua	12.1	12.9	13.7	14.6	13.325
Coahuila	5.7	5.4	5.1	4.8	5.25
Colima	5.5	5.2	4.9	4.7	5.075
Distrito Federal	10.9	11	11.2	11.3	11.1
Durango	8.4	8.6	8.7	8.9	8.65
Guanajuato	7.6	7.8	8	8.3	7.925
Guerrero	7.3	7.5	7.7	7.9	7.6
Hidalgo	7.8	8	8.2	8.4	8.1
Jalisco	8.8	8.9	9.1	9.3	9.025
México	7.4	7.6	7.8	8	7.7
Michoacán	9.1	9.3	9.5	9.6	9.375
Morelos	9	9.2	9.4	9.5	9.275

Table G1continued

Nayarit	8.6	8.8	9	9.2	8.9
Nuevo León	10.1	10.2	10.3	10.5	10.275
Oaxaca	6.7	6.9	7.1	7.3	7
Puebla	7.8	8	8.2	8.4	8.1
Querétaro	9	9.2	9.4	9.6	9.3
Quintana Roo	8.9	9.1	9.2	9.4	9.15
San Luis Potosí	8.3	8.5	8.7	9	8.625
Sinaloa	9.1	9.3	9.6	9.8	9.45
Sonora	9.4	9.6	9.8	10	9.7
Tabasco	8.4	8.7	8.9	9.2	8.8
Tamaulipas	9.2	9.3	9.4	9.6	9.375
Tlaxcala	8.7	8.9	9.1	9.3	9
Veracruz	7.5	7.7	7.9	8.1	7.8
Yucatán	7.9	8.1	8.3	8.5	8.2
Zacatecas	7.7	7.8	8	8.2	7.925

Note. Fifth annual President's report (2011)

APPENDIX H

Table H1

Probability of Being Convicted

Aguascalientes	83	90	93	89	89
Baja California	59	59	59	62	60
Baja California Sur	91	84	93	89	89
Campeche	82	80	93	85	85
Chiapas	84	80	94	85	86
Chihuahua	95	93	93	94	94
Coahuila	92	93	94	92	93
Colima	92	96	92	93	93
Distrito Federal	84	83	88	84	85
Durango	95	91	94	94	94
Guanajuato	87	88	84	87	87
Guerrero	92	94	95	94	94
Hidalgo	98	89	100	95	96
Jalisco	95	92	92	93	93
México	93	89	93	92	92
Michoacán	89	88	89	89	89
Morelos	91	79	87	87	86

Table H1continued

Nayarit	94	90	96	94	94
Nuevo León	77	82	82	81	81
Oaxaca	94	89	93	90	92
Puebla	89	86	90	86	88
Querétaro	93	87	91	92	91
Quintana Roo	89	95	95	93	93
San Luis Potosí	84	86	86	85	85
Sinaloa	91	89	93	91	91
Sonora	85	80	80	83	82
Tabasco	94	95	95	94	95
Tamaulipas	89	85	82	86	86
Tlaxcala	98	76	61	82	79
Veracruz	89	90	89	89	89
Yucatán	83	83	89	85	85
Zacatecas	89	75	79	83	82

Note. Author's calculations based on data from INEGI and SESNSP

APPENDIX I

LOCATION QUOTIENTS

The LQ and LQ^2 coefficients yield the following equation:

$$Y = \text{Constant} - 21.509X + 18.742X^2$$

When deriving with respect to X:

$$\delta y / \delta x = -21.509 + 37.484x = 0$$

$$37.484x = 21.509$$

$$X = .5738$$

Figure I-1 below shows that executions will be lower when LQs approach 0. As LQs grow, executions increase indefinitely.

Executions

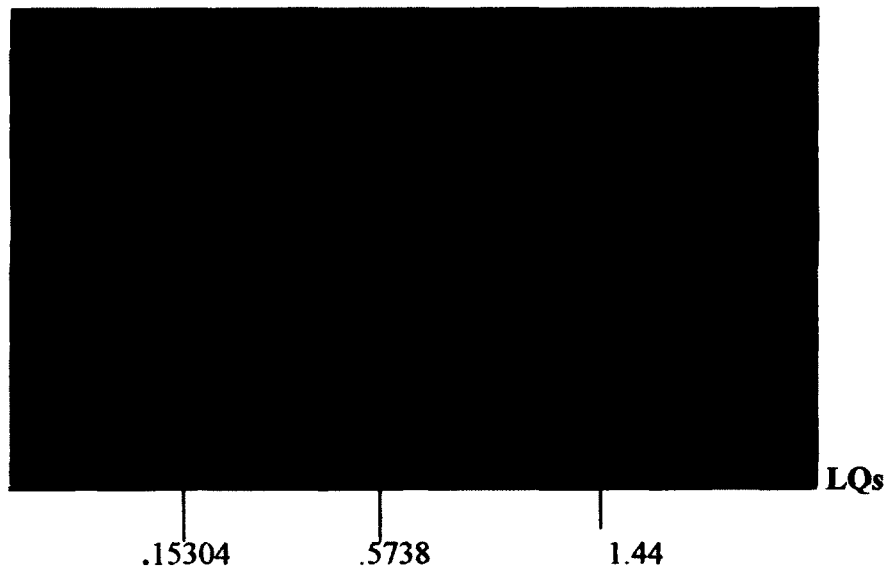


Figure I-1 Relationship Between LQs and Executions

Source: author's calculations based on output from Shazam and data on Table 4

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