Mexico is facing an acute security crisis that, left unchecked, could eventually weaken the State beyond repair. Further deterioration of the stability of the country would result in a regional void of incalculable consequences, not only for the Mexican population but also for the region as a whole and the United States in particular.

Contrary to conventional wisdom—mostly defined by political incentives—the drug problem is a demand, not a supply, issue. Even though it is much easier to reprove those who supply illegal drugs than those who consume them, the fact remains that the former are only providing a service to the latter. The most basic law of the market dictates that demand for a product will create its own supply. It is clear that, if we were somehow able to wipe out all the cartels today, a larger number of them would arise by tomorrow.

Mexico shares thousands of miles of border with the U.S., which happens to be the largest market for illegal drugs on the planet and accounts for more than half of global demand. Mexico also constitutes the only access route to this market from the south.

The UN estimates that there are close to 55 million consumers of illegal drugs in the U.S.¹ Some extremely conservative assumptions on the average consumption per individual and the price of each drug yield a retail market size of anywhere between $55 billion and $80 billion. Assuming that the cartels only have access to the wholesale piece of the market, that would still constitute between $15 and $20 billion.² These

¹ Two million consume heroin, nine million cocaine, twenty-four million marihuana, five million methamphetamines, and three million ecstasy. Some of these consumers are double-counted between the groups, but for demand estimation purposes this double counting is desirable.
² I calculated these numbers using several methodologies, which yielded similar results. First, I used the consumption estimations prepared by the White House workgroup, which in turn based their estimates on the most conservative numbers found in reports prepared by four independent research groups. Second, as validation, I assumed that the average user consumes, per week: 30 mg. of heroin, half a gram of cocaine, three “joints”, and one dose of methamphetamines or ecstasy. In terms of wholesale/retail prices, I used the U.N.’s most conservative estimates: heroin at $87,000 per kg / $172 per gram; cocaine at $30,000 per kg / $122 per gram; marihuana at $2,000 per kg / $15 per gram; methamphetamines at $32,000 per kg / $110 per gram; ecstasy at $10,000 per thousand
numbers do not consider the Mexican or Canadian markets that, while much smaller, are still sizable. They also fail to account for the fact that the cartels are increasingly engaged in retail activities. A market of this dimension will not be left unserved. Consider also that consumers are willing to absorb considerable price increases before changing their consumption habits. This provides organized crime with a wide margin of action.

In contrast, in 2009 the programmed budget destined for security activities in Mexico amounted to Mx$102 billion pesos, which translates to some $7 billion dollars. The asymmetries are self-evident. In addition, there has been a clear increase in the cartels’ willingness to engage in open violence. It is easy to assume that this increase is a result of the deployment of the Mexican army. In fact, it is actually one of the main reasons behind it. In recent years there has been a marked increase in the number of South American cartels that have entered Mexico and have begun disputing distribution routes with the Mexican organizations. Some of the most powerful cartels experienced internal fractures, and new cartels like La Familia have emerged. In addition to this increase in the number of organizations, the local market for illegal drugs in Mexico has grown and the open confrontation with the Mexican army and between rivaling cartels has increased their atomization and competitive pressures.

**Sudden Collapse of the State?**
The ‘sudden collapse of the State’ refers to situations where a State that appeared to be solid suddenly and unexpectedly loses legitimacy and crumbles overnight. Recent examples can be found in Eastern Europe and Central Asia. In broad terms, these collapses occur when a
significant proportion of a society loses faith in its State in a *coordinated fashion*. That it must happen in a coordinated fashion is an important distinction. It is not enough for a large number of citizens to privately believe that the State cannot sustain itself. What is necessary is for enough citizens to think that *most people* have lost their confidence in the State. This is a complex but important clarification.

In some respects, a State can be compared to a bank. No bank can resist a run on deposits. If enough clients suspect that a bank could fail and, in anticipation, decide to withdraw their deposits, they will in fact generate the bank’s collapse *through their own actions*. What is important here is that, for a client to decide to withdraw her deposits, she need not privately believe that the bank is too weak to survive. She only needs to believe that *enough other clients* believe so. The self-fulfilling prophecy of bank runs thus begins. State institutions operate in a similar manner. Like a bank, no State can sustain itself if enough citizens act on a *generalized* belief that it will fail. This explains why even the most authoritarian States are terrified of public information. As long as an illusion of absolute power is maintained, the State can sustain itself, but if enough citizens coordinate their disapproving views they can bring it down.⁵

Put differently, institutions function through expectations, but these expectations operate at different levels of beliefs. For example, a driver who sees a red traffic light knows he should stop. He would prefer not to stop, but he expects the driver who sees a green light to drive through and, as a result, knows it is better for him to stop. Moreover, the driver who sees the red light knows that the driver who sees the green light is expecting him to stop, which explains why it is reasonable for her to simply drive through. For her part, the driver who sees the green light thinks that the driver who sees red will stop, partly because he expects her to continue, and so on.⁶ This simple coordination of expectations of the expectations of others is what allows an institution to function. Anybody who has attempted to drive in a developing country can attest

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⁶ This example, as well as the reflection that follows, is mostly taken from Chwe (2001) op cit.
to the symbolic nature of traffic lights when these simple second-order expectations are not coordinated.

The power of the State, to a great extent, is the result of a self-fulfilling prophecy. The citizens grant power to the State as the State accumulates this power through its own actions. Accordingly, the power of the State has two components, one real and one illusory. The real sources of power lie in the State’s institutions and its resources for exercising power, such as public force and the law. The illusory components lie in the trust that citizens place the State and the power that they bestow through that trust. This interaction between real and illusory power explains the need for and existence of institutional rituals – all those rituals where the State displays its power publicly and the citizenship publicly acknowledges it, thus coordinating their mutual expectations. The balance between these two sources of power, however, can at times be quite fragile, which explains why authoritarian regimes tend to rely much more on institutional rituals, as China’s recent celebrations of 60 years of communism nicely illustrate.

As long as an individual citizen – even one who privately believes the State should collapse – thinks that the majority of her fellow citizens support the power of the State (or at least are not willing to challenge it), she has no incentive to question that power. The real power of the State can easily subdue any small subgroup of citizens. The problem, therefore, does not occur when a large enough number of citizens privately doubt the power of the State. It occurs when enough citizens doubt the general trust in the power of the State – it occurs when enough people believe that everybody believes the State will collapse. At such a time, if a strong enough mechanism coordinates those general doubts, the power of any State can crumble. Like a bank, no State can withstand a run on the deposits of trust.

Let’s turn to the case of Mexico. A very basic definition of the State is the holder of the effective monopoly of force. In today’s Mexico we observe a State that is openly challenged on this monopoly. In some specific cases, battles have been lost and organized crime has imposed its own force in parallel to public force. President Calderon has been partially truthful in stating that the State controls all parts of the national territory, since the army’s forceful response has prevented organized
crime from prevailing in any city. His remarks are only partially true since control is openly disputed in several places.

Organized crime in Mexico has clearly based part of its strategy on armed confrontation on the streets. However, it is also engaging in a deeper, systematized effort to weaken the state. How else can we explain a clandestine organization that actively seeks to draw attention to its criminal acts? What other purpose could the symbolic and strategic nature of some of the executions serve? How can we possibly understand a criminal organization that chooses to display billboard-size announcements of its latest crimes? Or that openly blocks streets and highways? Is it not the case that criminals normally seek to remain clandestine? Not when the objective is to destabilize existing institutions. Not when the objective is to end or change legality so that crime can operate with no restraint. Not when the objective is not simply to avoid capture but to engage in illicit activities openly. Today, organized crime seeks to create the generalized impression that the Mexican State no longer holds the monopoly of force. It seeks to create the generalized belief that no public force can protect Mexican citizens from an overpowering organized crime. It seeks to create a general level of uncertainty that can weaken the State’s real legitimacy and, as a result, its ability to impose the rule of law. It is irrelevant whether crime indices are objectively superior or inferior to those in other countries. If enough citizens believe that trust in the State’s institutions is misplaced, the State will indeed be weakened, perhaps irreversibly so. In that sense, those who have criticized the Mexican government for “stoking a hornets’ nest” by launching the war on organized crime are naively assuming that other options were available. When the legitimacy of a State is openly and directly questioned, there is no alternative but to respond with all the elements at the State’s disposal.

It is in this broadened context that Mexico’s current situation can be evaluated. On the one hand, Mexico has a robust, functional institutional structure that has shown an outstanding ability to wage crises.7 It also has a resilient economy. On the other hand, not all of Mexico’s institutions are equally robust, as the justice procurement system can attest. Moreover, Mexico is at a historical juncture, where recent

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7 See Enrique Krauze (2009) Op cit
political processes have shaken many of its core institutions. Recent polls, for example, reveal that the population’s trust in key institutions like democracy, congress, the political parties, and the judiciary—even the Catholic church—reached new lows after the tightly disputed election of 2006. To add to this, the country has been the hardest hit by the global economic crisis, the depth and duration of which remain unknown. The country is facing a serious fiscal crisis that has further revealed the inability of our political parties to work together. The country’s two main sources of foreign currency, oil exports and cash remittances, have been crippled. And it is precisely at this complicated juncture that Mexico faces a war that challenges more than the army, the federal police force or its municipal counterpart, or the PAN administration of president Calderon. This war challenges Mexico’s institutional structure and its sustainability as a democratic country. At any moment and for any country, a war of this dimension and complexity would present a large risk. For Mexico today, the war is a quest for its survival.

To wage this war, it is important to first define its objectives and the elements required to reach them. First, more than one hundred years have gone by since the open—and supposedly internationally coordinated—war on drugs was declared. The results speak for themselves. Demand for illicit drugs has never been higher, and not even the dramatic wars launched in Colombia and Mexico have managed to put even a small dent on distribution channels, as evidenced by the constant decline of retail prices. In consequence, if the goal of Mexico’s current war on drugs is to eradicate organized drug trafficking, then the government should surrender now and spare unnecessary deaths. The market is too large, Mexico’s geopolitical position is too critical, and the resources generated by the drug trade are limitless. More importantly, the main enemies of the war are not really the criminals yielding the weapons but the (mostly American) citizens who are funding them through drug consumption. The only plausible objective of the war, therefore, is to delimit organized crime. The goal should be to limit its margin of action so it stops threatening State institutions or public order.

Is Victory Possible?
Given Mexico’s significant strengths, the war—in this more humble definition—is winnable, but not in the terms that it is currently being fought. There is a real risk that, should Mr. Calderon’s administration bet the victory entirely on the efforts of the army and the country’s security forces, the situation may continue to deteriorate until it creates irreversible voids. The federal government does not have the resources or the institutional strength to wage this war alone. It needs to broaden its strategy on at least three fronts.

First, this war makes no sense without the full support of the U.S. and, arguably, the broader international community. Close to 95% of all the weapons used by the cartels come directly from the U.S. The North-South flow of cash—accompanied by weapons—guarantees that the Mexican government will always be overpowered in its effort to contain the cartels. This is not pessimistic or alarmist speculation. It is simply an exercise of mathematics.

Even though the recent change in rhetoric by the U.S. government—most notably displayed during Hillary Clinton’s visit to Mexico—is welcome, this change must be accompanied by much more tangible support than the $800 Million dollars and the three Black Hawk helicopters offered. Support must be provided on at least three lines. The first and most immediate is economic, logistic, and technological support. The second has to do with limiting the number of American weapons that are smuggled to Mexico. The third is an open acceptance of both the dimension of the drug problem and the inefficacy of our current rhetoric. A change in the rhetoric around the drug problem from treating it as a security issue to treating it as a public health issue is a good start to openly accept the true origins of the problem: the demand for—and not the supply of—drugs. It is not yet clear what specific solutions may emerge from this change in rhetoric, but it is clear that it would open a broader—and more honest—array of options. This increased participation by the U.S. goes beyond an ethical or moral commitment. The deterioration of the Mexican situation poses an unquantifiable risk for the U.S.

The second front that the Mexican government must address is institution strengthening. While it is true that the government did not have an option other than to respond to the open challenges on its
power with full force, it is important to remember that this war goes beyond an exercise of public force. The cartels are challenging the State’s legitimacy. As a result, it is an irresponsible bet to base the entire response strategy on the army—which, incidentally, is the only institution in Mexico that unequivocally retains the citizens’ trust.

Mexico’s government is using the totality of its real power to counter organized crime but has not been overwhelmingly superior. If the federal government does not couple the army’s efforts with a clear and recognizable effort to strengthen other State institutions that have lost credibility it will run a double-edged risk. On the one hand, it will legitimize some of the most direct attacks launched by organized crime. For example, when a cartel displays a set of “narco-signs” in a city suggesting that a chief of police or a particular judge is supporting a rivaling cartel, is it not building upon a strong foundation in the collective conscience? How much can the mistrust of state institutions grow before it reaches a point of no return? On the other hand, Mexico’s citizens support the government’s efforts in large part due to their trust in the army. As the battle drags on, the army may appear vulnerable or fallible, which increases the risk that the citizens may lose their faith in their most respected institution.

This is why it is hard to overstate the need to strengthen the institutional landscape in Mexico. It also makes it even harder to understand Calderon’s lukewarm response to challenges launched at Mexico’s institutions by some actors in the public and private sectors. Throughout the present administration, there have been numerous opportunities to act with visible institutional might. Each of those opportunities has been wasted. The government has appeared at best hesitant in its response to the direct challenge of media companies against the electoral law and other state institutions, it has shown extreme weakness in its negotiations with the teachers’ unions, and it was been cowardly in curtailing the monopoly power exercised by Telmex. Cabinet members have been named exclusively along party lines. These are only a few examples of the many opportunities that Calderon’s government has lost to boost the legitimacy of its institutions. They show a myopic understanding of the depth of the current crisis and what is required to surpass it. It is not a coincidence that Carlos Slim and El Chapo Guzman are both in the Forbes list of most
powerful men. Both amassed their power in Mexico taking advantage of Mexico’s institutional weaknesses.

The third broad front is derived from the second and has to do with an increased coordination between the Mexican government and the other political and economic actors in the country. The federal government has not been alone in its myopia. The shortsightedness, pettiness, and irresponsibility shown by the political parties and the largest economic actors of the country—including the media—are inadmissible. It is clear that many private and public actors have bet on a weakened—or defeated—government to advance their own objectives. Whoever makes this bet is playing Russian roulette and is displaying a thorough ignorance of recent history. Countries that have experienced sudden institutional collapses have found it practically impossible to build a new institutional infrastructure and have edged on in deep chaos or have had to resort to a mutant—and deeply flawed—version of their previous institutional arrangements. There may be cases where the brutality of an authoritarian regime or the flaws of an existing institutional arrangement may merit the costs of a transition through collapse. The functionality and viability of the Mexican system certainly place the country outside this group.

Mexico’s institutions have the foundations required to wage this war. At the same time, we cannot underestimate the gravity of the situation or naively assume that the army’s efforts will suffice. We did not choose this war, we did not choose to be the sole route of access to the American drug market. We have chosen to remain passive as our institutions crumble, blinded by our shortsightedness.

The only exit is to present a united front that includes the federal government, civil society, the media, the main political and economic actors, and Mexico’s international allies—most notably the U.S. This can only be achieved through the—so far absent—leadership of a federal government with unquestionable institutional convictions. Such a display of force would unquestionably send organized crime back to the fringes, delimiting its activities. We should always remember that drug dealers are, in the end, business people with an acute understanding of costs and benefits.
It is conceivable that the situation will begin improving on its own and the army will indeed dent the cartels. It is more likely, however, that without additional support and weakened by current circumstances, the government will continue presenting a divided front. That could prompt organized crime to become bolder in its offensive to increase instability, seeking to push the State’s legitimacy beyond the point of no return. That strategy has yielded visible results. The risk is there, small as it may now seem. A collapse of the Mexican state is highly improbable today, but it is at least conceivable in the future should the situation continue on its present path. The consequences of this would be unimaginable for the American Continent as a whole and for the U.S. in particular. We must seriously ask ourselves if we are willing to take that risk.