



**Globalizations: Unanticipated Consequences**

<b>Journal:</b>	Professional Development: The International Journal of Continuing Social Work Education
<b>Article Title:</b>	<i>Globalizations: Unanticipated Consequences</i>
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<b>Volume and Issue Number:</b>	<i>Vol. 12 No. 3</i>
<b>Manuscript ID:</b>	<i>123059</i>
<b>Page Number:</b>	<i>59</i>
<b>Year:</b>	<i>2009</i>

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Professional Development: The International Journal of Continuing Social Work Education is published three times a year (Spring, Summer, and Winter) by the Center for Social Work Research at 1 University Station, D3500 Austin, TX 78712. Journal subscriptions are \$110. Our website at [www.profdevjournal.org](http://www.profdevjournal.org) contains additional information regarding submission of publications and subscriptions.

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ISSN: 1097-4911

**URL:** [www.profdevjournal.org](http://www.profdevjournal.org)

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# Globalization: Unanticipated Consequences

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*Michael Lauderdale*

Expanding beyond one's borders is a recurrent theme among cultures of the world. Archeologists and researchers exploring the human genome think that *Homo sapiens* began in east Africa hundreds of thousands of years in the past and then migrated over tens of thousands of years through Africa, east into Asia, and west into Europe. As early as 30,000 years ago and then again 10,000 years ago, there were migrations over the Bering Strait from Asia into Alaska and those populations spread across North and South America.

A distinctly different form of migration over the globe began with the formation of cities and associated intensive farming cultures that used the created wealth and power to subdue other cultures. This was no longer a simple migration but a movement into and control of new territory and people. Persia is thought to have been one of the first with Rome, perhaps, the greatest of antiquity. These entities spread their influence and often their control over other groups of people in an early example of globalization. Other ancient cultures that engaged in limited dominance over others would include several dynasties in Asia, Africa, and North and South America. In all, the thrust of the global or at least the relative dominance activity came from the state itself.

## **Nation-State Globalism**

After the decline of Rome in the 400's global powers were less evident, at least in Europe. But as the Dark Ages waned, the opening of the Silk Road and the desire for silk, tea, spices, china, tobacco, cotton, and other trade items spurred nascent global interests in Europe again. Like their antecedents the initiative came from the state, though business interests were present, such as the Great East India Company, Hudson's Bay Company, and other English, French, Dutch, Spanish, and Portuguese enterprises involved in shipping as well as fur trapping and mining between Europe,

Asia, and finally the New World. The globalization that began with European hegemony from the Peace of Westphalia in 1646 saw a succession of nation states -- Portugal, Spain, Netherlands, France, and England -- establish colonies in Asia, the Americas, and Africa, and created the concept of the developed and undeveloped or underdeveloped world. That serial process among European nation states exercising colonial dominance in the less developed world ended with World War I, and we saw, then, a bipolar world with two superpowers and allied states arrayed against each other. One superpower, the United States, had a lower level of state involvement and control relative to the private sector and the lives of individuals. The other superpower bloc was, first, Germany, allied primarily with Italy and Japan, and then the Soviet Union, Eastern Europe, and China. Both alliances had greater state participation and control throughout the society than did the U.S.

Modern consumerist nation states with large middle classes like the United States, Japan, Great Britain, France, South Korea, Canada, and Germany developed during the 20<sup>th</sup> century and have attributes that make them different than what they were in the 19<sup>th</sup> century or other contemporary nations of today like Russia, China, India, Venezuela, or Mexico. Germany, the last of the European colonial powers, came to nation-state conditions much later than England, France, Spain, Holland, or Portugal through the efforts of Bismarck in the last quarter of the 19<sup>th</sup> century. Through a variety of offices he welded the many separate kingdoms, cities, and principalities north and east of France into a nation-state. He used public school systems to create a common language and an understanding of cultural principles, and he advanced the concept of the responsibilities and rewards of citizenship through the creation of programs of old-age assistance, and health

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and accident insurance. Strengthening public and higher education he laid the basis for extraordinary advances in science by Germany in the 20<sup>th</sup> century and provided the most complete model of the welfare state. Thirty years later many of these state innovations were then adopted by other European countries as well as the United States and Japan. The differences associated with such states include higher per capita incomes, greater educational levels, more advanced physical infrastructure, clear definitions of citizenship, and social welfare supports. Citizenship is defined by the state and typically includes rights and prerogatives, such as voting, a national language, and a court system. It also includes state support and direction in education, health care, unemployment, and aging services. The systems of education, employment, language, taxation, and welfare are intended to create a common consensus of identity among the population. Income distribution is more even as compared to non-consumerist states and relatively less income is spent on food and shelter with more available for non-essentials such entertainment, travel, and education.

Relations between such states and those of the less developed world grew much more complex throughout the 20<sup>th</sup> century (Wallerstein, 1982). In effect much of the third world becomes a client of first world states, providing raw materials and low-cost labor. Those third world states do not develop advanced systems in areas such as manufacturing and education, and they are dependent upon the first world or hegemonic states for those products and services. Such relations are illustrated by those between Mexico and the United States.

### A New Globalization

A heightened notion of globalization coincided with the collapse of the Soviet Union and the ascendancy of American-style capitalism and democracy at the end of the 20<sup>th</sup> century. Advances in transportation, the internet, computerized credit, stock and commodity markets, and peoples' perceptions made this globalization possible. It saw the opening of China and markets in India and Southeast Asia and greater competition. It promised freer north-south trade in the Americas and general prosperity. It was additionally remarkable

in the extent that much of the initiative came from global business interests not just the designs of a nation-state.

In some ways the development of the European Common Market spurred thinking in Canada, the United States, and Mexico to consider a similar arrangement for North America. Some European thinkers saw the far cheaper labor costs that existed in southern Europe like Greece, Turkey, and Spain and in Eastern Europe such as Bosnia, Poland, and the Ukraine as a potential resource to off-load portions of the high cost of their manufactured products by using this large pool of low-cost labor. Germany especially was oriented to being an export-driven economy and was concerned with competition from Asia especially Japan, Taiwan, and South Korea, for manufactured products. While Japan and Taiwan have substantial labor costs, those countries' ability to tap the high unemployment and underemployment and associated low wages in Southeast Asia, India and China sent shudders through much of Europe. The evolving Common Market was seen as a mechanism for tapping nearby low-cost labor to survive in an emerging global economy.

This was coupled with the concept of "just in time manufacturing" where manufacturers utilized the comparatively cheap cost of oil-based transportation to hold very low inventories of raw materials at the manufacturing site. Then, the factory would utilize the transportation system to bring in the raw materials as orders appeared for the manufactured product. This reduced the amount of capital that would be tied up in raw inventory, thereby enhancing profits. As communication systems improved both within countries and across countries, manufacturers also found that not only could they avoid holding large amounts of raw materials, but they could also "out-source" some of the components in a manufactured item. Rather than simply acquiring raw materials, like metal ores, wood, or plastics, the manufacturer would acquire components, actually specifying manufacturing standards of components, and start a process of "out-sourcing" components and then doing the final assembly near the purchaser.

Here is an example that helps to illustrate the

“out-sourcing” process. Early in the 1980’s several garage tinkerers began to use the new integrated computer chips, placing them on small circuit boards and creating “homebrew computers.” Several brands began to get traction and the Apple II was among them. After two or three years, this fad began to get the attention of main-line computer companies, such as IBM, Control Data, NCR, Honeywell and other names no longer extant. IBM doubted the fad would become a trend but to safeguard a position in this new market, they set up a quiet operation in Boca Raton, Florida, far from its main manufacturing sites to prepare a desktop computer. One of the components in the desktop computer was a device to read in data and programs, a floppy disk mechanism. Rather than building their own factory to create floppy disk mechanisms, IBM turned to Control Data, which was building these devices for their own machines. In the 1970’s Control Data built the mechanisms in Minneapolis-St Paul. Its labor costs ran about \$25 an hour that included the wages to the employee, contributions to insurance, company overhead, and taxes. Sometime in the early 1980’s Control Data moved much of this manufacturing to the Dallas area where it cut these costs in half to between \$12 and \$13 an hour.

IBM misjudged the importance and size of the desktop computer market and it exploded as IBM brought its desktop, the PC, to market. It increased its contracts with Control Data for floppy mechanisms, and Control Data looked to expand its factory.

This is where a small factory I visited in the summer of 1986 along an alley on an unpaved street three miles south of downtown Juarez showed me an early view of the maquila concept. The factory was in an old cinder-block building and had two assembly lines running with equipment brought across the Rio Grande from the States. Work stations on these assembly lines were completely filled with young Mexican women from 15 to 25 years of age. I talked with one of the American owners (then the maquillas would have joint Mexican and American owners) of the factory and he said that all of the “girls” came from small towns and ranches in rural Chihuahua. They had come to the big city to have jobs rather than be

mothers and housewives in some isolated, small, dusty village. The women were dressed in new jeans, many decorated, and brightly colored blouses. When I asked them about their work they spoke excitedly about the future and that they would not be trapped with children in poverty in some distant village. They spoke of missing family but felt as if they were building a better world than their mothers and sisters who had not come to the city. They chatted animatedly and worked quickly as the line moved computer mechanism components along, the same mechanisms that I had seen being built at a Control Data factory in St. Paul and then in a later visit in Arlington, Texas. When we sat down in the management offices I told the Mexican partner I had seen the same items manufactured in other sites in the States and asked him how his workers’ productivity compared to those in Arlington or St. Paul. He said they were about half as productive but improving. He said one of the problems was that “the girls drink too much coffee in the morning and then have to stop the assembly line when they need to go to the bathroom.” He said that the company now provides breakfast at the factory and works to limit the amount of coffee drunk. He also said that by Mexican Federal law management is required to provide six months paid leave if a female employee is or becomes pregnant. He explained that they had a female physician on staff who provided medical exams including assistance in birth control. He said that they gave exams upon hiring and avoided hiring pregnant women. I asked what the full hourly labor costs were per employee including wages paid to the worker, taxes, and insurance. He said with pride that they were 50 cents an hour per employee. The employee was paid 35 cents and there were 15 cents for taxes, overhead, and insurance. I ran the math in my head: 25 dollars an hour in St. Paul, then 12 dollars an hour in Arlington and now 50 cents an hour in Juarez! This meant no more jobs in either American city making computer components and that the maquillas of Mexico would explode in number.

But none knew the consequences this globalism would have for either country, including workers and what it might mean for some of the

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lives of these young women drawn from rural homes to the big city on the border. It surely included a great change with far more freedom, financial independence, and mobility than has ever been true for lower income Mexican women. Postponing marriage and children and shopping at the malls in El Paso would likely make them far different women than their mothers, and they might be unsettling to their male peers. When I asked the managers of maquilas why I always saw a significant preponderance of female employees the answer was always that women would follow directions better. The males were not compliant to the requirements of factory work. This spoke volumes about the readiness of Mexico to make the jump to factory work. The arithmetic would be compelling for manufacturers, but few knew the consequences for the lives of these young Mexicans now becoming factory workers. Aspects of that are another one of the sad stories of Juarez.

### Platform Companies

The arithmetic of global manufacturing has transformed many companies. Some manufacturers, such as Nokia in Finland, and Dell and Apple in the United States, moved toward becoming “platform companies” that did design work in the home country and then crafted a web of suppliers and transporters across the globe, always searching for the cheapest combination of raw materials, including manufactured components. At the retail level rather than manufacturing, Wal-Mart has a similar strategy. Such platform companies are very nimble and profitable. They choose their multiple locations across the globe with an eye to where their markets are, the relative tax benefits in any jurisdiction, and multiple sources of supply for raw materials, components, and labor. They are nearly immune to organized labor, which might pressure for higher wages and benefits, as much of the labor force is not where the corporate home is. Moreover by using an out-sourcing model, if labor problems start to occur in one manufacturing site, they move assembly to a different labor market.

Thus the “platform company” has the world as its oyster once it identifies or creates a market for

its wares. Unencumbered with commitments and attachment to the local community, it sees itself as a citizen of the world, free to roam to its advantage. The home, manufacturing, and assembly sites are chosen with regard to relative labor costs, freedom from government restrictions, and lower taxation levels. Advances in communications, transportation, and factory manufacturing make this new creature of globalization possible. It thwarts organized labor by being able to move its manufacturing away from situations where labor organizes. It thwarts environmental controls on manufacturing and resource mining by moving to areas where it finds less restrictive governments. It thwarts taxation by declaring its profits in subsidiaries in low-tax havens. Unlike traditional farming and heavy industry, it is not tied to a specific location. Consequently, it moves the balance of power between itself and the state much in the direction of the company. One of the characteristics of the new globalization is the greater relative power of the global company, which has the ability to get various states to “bid” for its presence.

There are inherent flaws in the platform model in terms of the cost of transportation, the impact on the low-cost provider countries, the domestic labor market of the home country, the enhanced power of “public service unions,” control of intellectual property (Barboza, 2009), the middle class, and the local currency (Olson, 1982), but little of this was seen or understood in the opening years of the 21<sup>st</sup> century. Out-sourcing and perhaps the platform company became the model for world capitalism. Where it thrives, competition must take a similar form or perish.

### The New Globalization in North America

Some features in North America make arrangements such as this new sort of globalism provocative. Canada has productive fisheries and vast and still untapped resources in petroleum, natural gas, and many other minerals. It lacks manpower, access to world markets, and capital. Mexico has substantial natural resources and extensive manpower. It lacks many forms of capital including educational capital, physical, and world-class manufacturing expertise. Other countries in

Central America have conditions similar to those in Mexico though they are much less developed. The United States has the world's best system of higher education, sophisticated networks of capital development, and deployment through banks, brokerages, and markets. It has world-class manufacturing expertise but is hampered by high labor costs and increased depletion of natural resources in petroleum and some minerals. A North American common market was visualized by the elites of business enterprise and government.

The ending years of the 20<sup>th</sup> century saw experiments across the globe in freer movements of capital, labor, and ideas, and the United States was an intellectual and political leader in much of this activity including that on the North American continent. The United States-Mexico border provides a field laboratory to examine some of the effects of globalization, particularly at the margin of a hegemonic state and a low-cost provider of labor and some raw materials, especially petroleum.

#### **The Clash of Cultural Tectonic Plates**

Borders between great societies are not narrow political or geographical lines but are often zones that shade back toward the core of each society. Metaphorically they are like the zones that are created when two of earth's tectonic plates meet and collide. Much of California resides on top of such an east-west zone where the Pacific Plate meets the North American Plate. As these two great slabs of earth and rock that float on molten substrata meet and grind against each other they generate immense pressures, produce upwellings that create mountains, plastic flows of volcanic magma, and quakes. Living in these zones is often exciting, unpredictable, and sometimes dangerous. One zone created by these two tectonic plates extends from Alaska to South America. In the last thirty years it has generated powerful pulses such as the great earthquakes in Alaska, San Francisco, and Mexico City that exceeded both the human ability to predict or control.

Such conditions also describe the social and cultural zone that extends about 150 miles to the south and north of the international boundary between Mexico and the United States with about two thirds of the distance of the entire border

formed by the Rio Grande River. These two countries can be seen as two cultural tectonic plates pushing against each other along the Rio Grande and then west through the desert from El Paso to San Diego. Quakes do occur along this cultural tectonic and in the last year on the Mexican side Nuevo Laredo, Juarez, and Tijuana have been epicenters of such social quakes leading to very high levels of violence and death.

#### **Border Zones and Change**

Using another analogy, this time from biology, when two species come into contact at a border heavy stresses occur in the margin zone. This zone is where the greatest rate of innovation and adaptation is. Biologists observe that speciation change is the result of the competitive pressures as well as the environmental differences when life is on the margins.

Contact in border zones between cultures has similar consequences. The contact can be very beneficial. The success of ranching in the west was first an innovation for arid lands created by Spanish and Mexican experiments with raising cattle, including importing breeds that adapted to these lands. Ranching techniques, including the cowboy, derived from the Mexican vaquero and other skills associated with free-ranging cattle in the demanding climate. American foodstuffs today include tomatoes, beans, corn, and chilies that originated south of the American-Mexican border. Centers of higher education were established in Mexico City a hundred years before colleges in New England, and Catholic orders spread written languages long before they were common in the eastern United States. The Spanish crown created highways, a Camino Real, which became patterns for highways and railroads in the American Southwest two hundred years later with the evidence reaching San Antonio in Texas, Santa Fe in New Mexico, and San Francisco in California.

Americans have similarly affected Mexicans and the effects are most notable in the north of Mexico where English is commonly spoken and there is a strong spirit of individualism, entrepreneurship, and even lavish shows of personal accomplishment. Today factories, shopping centers, and electronic media with an emphasis on enter-

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tainment that shows the influence of Hollywood permeate all of Mexico.

Cultures are fundamental rules and patterns of behavior developed from contact with the environment and other cultures. The Border Lands are the zones where the rates of change and innovation are the highest. They are lands of violence, beauty, and innovation.

### Major Changes in the United States

Since the 1980's great changes have been underway in each society that have altered each and now are generating pressures that are flowing out of the collision zone between the two great cultural plates. From 1980 the United States has seen the collapse of the Soviet Union but not an easing of the burden of maintaining large standing military forces at many points in the world. The country is engaged in two active wars in the Middle East and still bears heavy military obligations in Europe and Asia. The U.S. has "status of force" agreements with more than 90 countries spending billions to maintain its position as the sole superpower on the globe. It has, furthermore, undergone great shifts in its economy, moving from a manufacturing nation to one that imports much of its manufactured needs.

The shifts away from manufacturing are remarkable. "Today the United States ranks behind every industrial nation except France in the percentage of overall economic activity devoted to manufacturing — 13.9 percent, the World Bank reports, down 4 percentage points in a decade" (NY Times, 2009). The two-year recession has contributed noticeably to this decline. Industrial production has fallen 17.3 percent, the sharpest drop during a recession since the 1930s, and similar comparisons are available when levels of unemployment are calculated.

Replacing jobs in manufacturing have been contributions from the service sector. These jobs range from ones in banking, brokerage, and finance that pay amounts running into millions of dollars yearly for the wage earner to jobs in food service and retailing. Unfortunately most of the jobs in the service sector are not the sort found in high finance but rather they are at or near the minimum wage and offer few or no benefits, in-

cluding those for health care and retirement.

Initially the recent economic crisis seemed to be about houses that did not sell. It has now broadened. With Americans experiencing the longest periods of unemployment after losing a job since the 1950's and with many high school and college graduates facing the prospects of few employment opportunities, while seniors postpone retirements or are forced back to work, the economic crisis is being felt across the nation.

### Mexico's Efforts to Build a Different Economy

Mexico's social changes since 1980 have been to fully urbanize and attempt to develop an economy that is industrial rather than agricultural. For much of the 20th century Mexico was a land of small villages and subsistence farming; yet the nation was self-sufficient in food production. However, decisions made as early as the 1930's changed the fundamentals of Mexican society and economy. In the 1930's Mexico expropriated foreign ownership of oil production and flirted with alliances with Germany during World War II.

Driving some of Mexico's foreign policy in the 19<sup>th</sup> and 20<sup>th</sup> centuries were a fear of conflict with the United States and action by the U. S. to appropriate Mexican land or to conduct military actions, such as those that had occurred in 1846, 1854, 1914, and 1917. Mexican leadership felt that its northern states, with their sparse population density, were particularly vulnerable, and national policies were created to subsidize food and medical costs to encourage population growth. In poverty and rural climes where most work is agricultural and poor health conditions mean high infant mortality and shorter lifetimes, high birth rates are needed for the survival of family units and the society. Industrialization and increased educational levels are usually accompanied by far smaller family sizes.

The fact that this did not occur in Mexico was partially because of this national policy consideration to create a much more populous country. It was felt that larger indigenous populations would thwart American expansionist intentions into Mexican lands, and if they occurred, would make occupation difficult. This resulted in rapid population increases in Mexico and by 1980 the

median population age was under 20. Mexico moved from a country of about 30 million in 1960 to 110 million today far outstripping the ability of the society to provide education, jobs, health care, and homes. Exploding population and urbanization are two of the most important narratives of the Mexican experience in the last 50 years.

Mexico also sought to build a stronger and more prosperous economy by increasing the size of its industrial sector. Like other countries it realized that manufacturing is an essential pillar of a powerful economy. Manufacturing, unlike modern farming or tourism, can generate millions of well-paid jobs for those with only a high school education, a huge segment of the population in every country and certainly in Mexico. No other sector in the economy contributes more to the nation's overall wealth. But as manufacturing weakens, the country becomes ever more dependent on imports of tools, food, computers, machinery and the like — running up a trade deficit that in time could undermine the peso and the nation's capacity to sustain imports.

By the 1980's Mexico saw that its own national manufacturing sector would not or could not expand rapidly enough and the country did not have sufficient numbers of innovative persons to create companies, nor the skilled managers and trained workers to achieve its desired manufacturing goals. Mexico then took a risky gamble given its experience with foreign powers, including the United States, and began to create manufacturing partnerships with companies from other countries. The largest and most numerous ventures were with companies from the United States. These ventures were often in geographical zones where partially completed products could be imported into Mexico without tariffs, the products could be completed through the manufacturing and assembly process, and then sent back to the United States again without tariffs. These duty free zones became in time the North American Free Trade Agreements (NAFTA). Thus, manufacturing through the boosting of expertise and capital of foreign firms became a growing source of jobs, pride, promise, and income for Mexico.

A second unanticipated source of wealth came from the discovery of oil reserves in the Gulf of

Mexico in 1976. The first discoveries appeared to be on the order of those in the Middle East, and Mexico used the export earnings from this oil to increase public salaries, hire more teachers, police officers, government workers, expand the physical infrastructure of roads, airports, rail, water, and electricity. Coincidentally it created some very great wealth for people in the know with the oil discoveries and the operations of PEMEX, the state oil production monopoly.

The third source of wealth, coming from the improving transportation infrastructure, was the expansion of tourism on both the most southern beaches of the Gulf of Mexico and areas all along the Pacific. Remote fishing villages were transformed into models of the Acapulco of the 50's where large hotels, restaurants, and shops were built to draw tourists and revenues from the United States, Canada, and Europe. But as is true for most such service jobs in any country, the wages were just above the poverty level. Yet with a young and growing population every job and any job was an important added national resource.

The last source of wealth, given the surplus population created by Mexican national policy, were Mexican legal and illegal immigrants who worked in the United States, especially in construction, who remitted earnings back to families in Mexico. The number of migrant workers is very great and likely is larger than ten million. At any point in time, one tenth to as much as one fifth of the Mexican laboring population is out of the country.

Thus in the early 1980's Mexico had surplus labor but also had new jobs being created in contract manufacturing (maquillas), vast earnings from the discovery of oil, expanded revenues from tourism, and huge remitted earnings of Mexicans working in the United States.

### **Bright Prospects but Darkening Skies**

But events were to change by 2000 in both countries. The world economy began to slow and the United States endured a sharp drop in its stock market with the popping of an investment mania called the dot.com bubble. Even greater cultural changes were ushered into Mexican society with the election of Vicente Fox and the PAN party to



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the Presidency of Mexico. In a burst of democratic participation the oligarchy of the PRI was broken and Mexico looked forward to dynamic multiparty democracy for the first time since the period after the 1915 Revolution. Until Fox's election one party had controlled all of Mexico from Mexico City to the smallest village and had powerful interests in most businesses. Even shadowy or illegal activity, such as gambling, prostitution, and the drug trade, was felt to be at least partially under the control of the PRI.

At about the same time the United States elected a President from a western state that appeared to have close friendships with Mexico, George W. Bush. Both Mexico and the United States felt that these two Presidents seemed to come from similar backgrounds and this would promote favorable conditions and greater understanding between the two countries. Since World War I foreign policy in the United States has been dominated by an activist east-west perspective. Presidents and the Washington establishment were focused upon Eastern Europe, the Middle East, and Asia, and huge garrisons of military, trade, and embassy personnel based around the world focused upon this perspective. Some people, especially Mexicans and to some extent Canadians, were hopeful that the United States would now have a greater focus upon a north-south perspective with the possibility the United States might be looking as well toward South America.

Such hopes were not to be. Bush's election, unlike Fox's, was viewed by many Democrats as a stolen election. For the first time in the history of the country the election was not settled by counting votes but by a ruling of the Supreme Court. This event would prove to be a warning of deep divisions among the American people and Bush took office with bitterness and distrust between the two parties. The dust had scarcely settled from the election when there was the strike on the Twin Towers in New York City by persons from the Middle East using commandeered passenger planes, killing over three thousand people. Thus whatever the potential promise of improved relations with Mexico might have been, President Bush's attention reverted to traditional concerns

and moved to the Middle East, Europe, and Asia, and American foreign policy returned to the historical neglect with regard to Mexico.

Yet while American attention was directed to Afghanistan and Iraq, a growing cancer was exploding in Mexico. That cancer was the movement of drugs from South America through Mexico and into Texas, California, and other border states.

Since the summer of 2007, sharper calamitous events have been manifested in economies throughout the world. The events began with the popping of real estate bubbles in several states of the United States, and in England, Iceland, and Spain and then the discovery of excessively leveraged financial institutions in these same countries. Soon it was evident that similar leverage problems in banks existed in Japan, most of Europe, Russia, China, and India. The leverage does not stop with banks but extends to millions of families, state and local governments, and many businesses. Real estate continues to be a burden for more than 20 percent of all persons with mortgages as that group has loans greater than the appraised value of the home. Some forecast this situation to reach about 48 percent in 2011 (Shenn, 2009). Loss of home valuations and drops of savings and retirement holdings have significantly decreased the wealth of most Americans.

Put simply many American public and private organizations and families are finding that they have been living beyond their means with incomes or sales and tax receipts falling below expenditures. It is most visible in California where one city, Vallejo, has even been forced to declare bankruptcy, and the state issued IOU's (warrants) to individuals and companies, and furloughed state employees three days a month. Municipalities in other states are finding that revenues will not meet expenditures, and recently Jefferson County, the site of Birmingham, Alabama, has suggested it might follow its sewage district into bankruptcy. Equally visible is the situation in Michigan where two of the nation's most iconic manufacturers, General Motors and Chrysler, have plunged into bankruptcy and are now being bailed out by the U. S. government. Both Califor-

nia, which if measured against nations has the world's 7<sup>th</sup> largest economy, and Michigan, formerly two of the most promising American states, now serve as a warning of decline, and they must make critical decisions that may likely be faced by all states and in time the federal government.

The overall result of these economic reversals has been the sharpest decline in worldwide economic activity and severe unemployment levels matched only by periods during the Great Depression. In America, federal bailouts have produced government involvement in the economy matched only by government activity during the Depression and in World War II. Household and government budgets are on tenterhooks, and all income classes are facing difficulties.

#### **Near Depression Conditions and the Impact on Mexico**

These global events have had sharp repercussions in Mexico and along the Border. With official unemployment statistics in the United States now reported to be 9.5 percent (if part-time and discouraged workers are computed the U.S. rate is close to 20 percent), far higher levels exist in Mexico. The collapse of Chrysler and General Motors have had dire consequences for northern Mexican cities like Monterrey and Saltillo where major assembly plants exist for these and other auto manufacturers to serve the American auto market. The maquila experiment is moving into reverse.

Home and commercial construction across the United States and restaurant and food production work have been large absorbers of surplus Mexican labor and one of the fourth or fifth highest sources of foreign currency earnings for Mexico. Now those employment areas are shrinking rapidly, sending many workers back to Mexico where even fewer jobs exist. Earnings returned from workers in the United States, petroleum exports, assembly manufacturing, and tourism are the four pillars of the Mexican economy.

In the popular mind in both Mexico and the United States, Mexico is a rural economy, but that has not been true for two decades. It is predominantly an urban and young society. Significantly in the last two decades it has gone from an exporter of agriculture to a net food importer. No longer

able to feed itself Mexico must depend on foreign export earnings, which grow more and more problematic, to purchase food from growers in other countries. While Mexico does not have the heavy individual household and government debt levels of the United States, both countries face immense problems in generating sufficient jobs for their populations, and especially jobs that provide incomes beyond subsistence existence. These are the kind of jobs that can sustain the middle class and that are so important to the economic and cultural health of any nation.

#### **Refugee Outflows from Tensions in the Interior**

Three consequences for the growing poverty in Mexico are of concern for the U.S. One is an increasing flow of desperate refugees from the cities and countryside into the United States. With a population of approximately 110 million and a median age of about 20, Mexico has a relatively large number of dependent children; yet incomes are low for the average wage earner. To house, feed, clothe, provide health care, education, and ultimately jobs is a huge task for the nation. With its foundering educational system even as public safety is collapsing, one must anticipate large sectors of a largely uneducated and semi-skilled Mexican workforce.

Such workers will earn little and are in great oversupply around the world. The initial impact is felt in the states of Texas and California. The size of the current immigrant population is quite large, likely greater than ten million, and is extending out along the Interstate highway system to other states. The second consequence is greater recruitment activity by the drug and human trafficking cartels in Mexico among the growing ranks of unemployed in Mexico and the border cities. The third consequence is increased dissension among unemployed and underemployed American workers who see illegal immigrants as threats to jobs and community services. In time in Mexico and in the United States, this unemployment process coupled with homelessness and hunger will mean civil disruptions.

While the flow of immigrants seeking work from Mexico into the United States has begun to

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slow as the deep economic decline has reduced available jobs in home and commercial construction, yard care, restaurant work, and food processing, a new flow is beginning. This is seen in the growing numbers of “drop houses” where Mexicans and others from Central America will pay between \$3,000 and \$5,000 to get into the United States and then face additional extortion from those who brought them into the U.S. These are desperate persons seeking escape from poverty and violence. Some of the persons involved in transporting these illegals are the traditional “coyotes,” persons who will load a pickup and bring six to ten people to a house in an American city with a local confederate who holds them. However, as the authority of the Mexican government wanes, cartels are entering this human trafficking trade even as they have come to dominate an illegal drug trade that comes to \$50 to \$100 billion annually. They are adding kidnapping to these businesses but so far they are only preying on Mexicans and Central Americans. However, there is reason to expect they will expand to Americans before long.

The wealth of these cartels means power, and their reach now goes south far beyond Mexico to Central and South America, and north deep into the American heartland. (MSNBC, July 21, 2009) The degree of reach is tellingly presented by Nick Reding in his book, *Methland* (2009). Through four years of reporting he details the changing lives and the impact of meth in Oelwein, a small town in Iowa. The story is of the vanishing of educated young males from rural Iowa, as well as the destruction of middle-class jobs at the local packing plant. The agricultural conglomerates that have gobbled up Oelwein and similar farm towns may feed the world, but they starve the folks who work for them, creating a craving for synthetic stimulants that sap the appetite while increasing the body’s capacity for toil. The author observes here in Oelwein that methamphetamine is not a recreation drug but a vocational crutch to support long working hours often at two or three jobs. In this town the impact of globalization is not prosperity but the destruction of jobs and unions that strive to have living wages but are being replaced by minimum wages and the ever present

threat that foreign workers will be brought in who are more malleable than local people. These places are the magnets for desperate immigrant laborers who, in some cases, blaze the drug smuggling trails that run up into the Corn Belt from Mexico, home to the gang lords who own the laboratories that, increasingly, dominate the meth trade.

The cartels themselves now control significant areas of Mexico and the war among them and with the Mexican government have accounted for more than 10,000 deaths in the last two years. They are exerting control over production areas of cocaine in Peru, Columbia, and Venezuela, moving products through Central America, through Mexico and then via the “plazas,” points of entry into the United States. In addition to cocaine, Mexico obtains or grows heroin poppies in states like Sinaloa, grows marijuana in several Mexican states, and brings feed chemicals from countries like China into Mexico. It creates methamphetamine for the American market. All these illegal drugs flow through the plazas at the border from Mexico and fan out from Texas and California into all of the United States.

### **Efforts to Stop the Spiral of Violence at the Border**

Both Mexico and the United States use police and now the military to control and interdict this flow but the Mexican cartels are so wealthy and powerful they not only war among themselves but with state forces. The city of Juarez across from El Paso has had about 5,000 Mexican army troops and 1,500 federal officers since late 2008 largely replacing the municipal police force, but the high rate of violence has not been staunched. With shrinking national resources, Mexico will draw many of these troops down this fall as other areas, such as Michoacán, are in play in a war between a cartel and the Mexican federal government.

Such conditions, where the cartels rather than the government control the exercise of violence, are the measure of a failed state. In many communities and some states in Mexico the government has simply lost control to cartels. In the state of Chihuahua, where Juarez is located and which has

The map below is taken from a Federal site that illustrates the presence of the Mexican cartels in almost every state (<http://www.usdoj.gov/ndic/pubs31/31379/appenda.htm#Map5> . The LA Times provides an interactive version at <http://www.latimes.com/news/printedition/front/la-111608-na-cartels-f,0,2925171.flash>



the highest murder rate in Mexico, the Mexican army has taken over municipal policing with army and federal law enforcement numbers at 6,500; yet violence in the state continues unabated or even accelerated. Recently two leaders from a Mexican community about 100 miles south of Juarez were assassinated in a warning to any that would oppose the cartels (Malkin, 2009). In the same week the killing of a border patrol officer south of San Diego, California, indicates that the war in Mexico has crossed north of the border (Davis, et al. 2009).

Federal authorities on the American side may still not recognize the determination and strength of the cartels. The following quote from the Associated Press suggests just that (Associated Press, 2009) *EL PASO — The eight bullets that leveled Jose Daniel Gonzalez Galeana outside his home just doors from the city's police chief were fired at close range and left little doubt about their message. The cartel lieutenant of Juárez, Chihuahua, was shot on his quiet El Paso cul-de-sac this*

*spring and had been working for U.S. officials as a confidential informant, sources told The Associated Press. Experts suspect his slaying may be the first time assassins from one of Mexico's drug gangs have killed a ranking cartel member on U.S. soil.*

*Experts said the murder represents a growing brazenness of the cartels on this side of the border that will probably lead to more deaths. "He got shot up close," Police Chief Greg Allen said. "Whoever did it wanted to make sure it was known that it was for payback."*

*Mexican drug kingpins, including Sinaloa cartel chief Joaquin "El Chapo" Guzman, publicly gave hit men permission this year and last to cross the border in search of targets. Gonzalez, a legal immigrant who lived with his family in a high-end neighborhood, was shot May 15. His wife, Adriana Solis, and the couple's two children fled not long after. Two federal officials and one local official said that Gonzalez was handing*

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over information about cartel activities to U.S. Immigration and Customs Enforcement, which in recent years has taken a broader role in cross-border drug trafficking investigations. One of those officials said federal investigators were monitoring Gonzalez's activities and whereabouts.

*The officials spoke to the AP on condition of anonymity because they were not authorized to comment publicly about the case. Agency spokeswoman Leticia Zamarripa declined to comment. Cartel-affiliated hit men have violently, and fatally, disciplined low-level, American-based drug dealers in the U.S. But El Paso police said Gonzalez was a lieutenant in the Juárez cartel, which traffics in marijuana, cocaine, and heroin.*

*El Paso police don't have an official motive in Gonzalez's slaying, but Allen said detectives are working on the assumption that a cartel colleague discovered he was discussing their illegal activities with federal agents. Allen, who lives behind Gonzalez's house and heard the shots from his backyard, told the AP that he and other local authorities knew Gonzalez had been involved with drugs in the past but had no idea he was a ranking Mexican gangster and federal informant. He (El Paso Police Chief) said he's angry that he wasn't briefed about a case that his department now must solve as a local homicide.*

We are also beginning to see youth and adults from the American side drawn to the business of the cartels. In July two American youths from Laredo were sentenced to life terms in American prisons for having been in the employ of a Mexican cartel and engaged in contract killings for the cartel (McKinley, 2009). Without jobs in Mexico and now with similar unemployment in much of the border areas of Texas and California, the apparent wealth and power of the cartels are attractants to poor youth. The cartels present images of power, sex, and excitement.

They have even spawned an admiring music following called narcocorridos that have performers wearing the clothes, driving the cars, and carrying the preferred weapons of the gang members, including the chrome-plated .45 caliber weapons of cartel leaders. They compose lyrics that romanticize smuggling, violence, and the

general cartel life. The picture on the next page identifies the major Mexican states that are the homeland of the corridos (songs) of those that traffic in narcotics. The cartels, the corridos, the clothing, the autos, the life styles of Sinaloa are powerful references for youth, particularly Mexican and Mexican American youth. They represent attractive alternatives to the life of the desert farmer or ranch hand, or rural housewife, or the student who stays in school. The outlaw image contributes to youth migrating to the cities and the very high dropout rates among Hispanic youth. A challenge for Mexico and a challenge for the United States as these cartel figures influence both youthful illegals and Mexican Americans is to provide positive reference figures for these youth as the cartel path means a sure lost generation.

The cartels have also begun a subtle corruption of law enforcement on the American side (Kraft, 2009). The forces that radiate from epicenters such as Nuevo Laredo now carry far into the American heartland. Organized crime with ties to Mexican cartels now appear in almost every American city, and the products on the street -- cocaine, heroin, high potency marijuana and methamphetamine -- originate or pass through Mexico.

### **If We Have a Dying Elephant**

These are the problems we face. Central to Mexico's challenge is the failure of the society to provide education and job structures to build a middle class. A populous nation of 110 million cannot have a middle class in the 21<sup>st</sup> century with educational levels less than 12 years. A middle class in the world today is built on knowledge, jobs, and education, and skill training is critical. As a nation, Mexico still fights cultural battles between indigenous peoples and the European, and now the cultural battles involve American-oriented elites that control its institutions and businesses. Lingering influences from now-concluded state efforts through agricultural subsidies to encourage population growth, the theology and practices of the Roman Catholic Church, and family patterns of rural society still drive fertility patterns and family roles. A modern nation state



must develop social and psychological attitudes among the citizens that promote self control and achievement, a national language, skills in civic participation, and beliefs in rational determination of one's future. That is not Mexico. Mexico has never had a sizable middle class though it saw the promise of one in the early 1980's. Oil exports, maquilas, tourism, and sharing in jobs in America were the promise. These have proven inadequate to the task.

As long as economic decline continues, conditions will worsen in Mexico. More areas will slip from being under the control of government authorities. Refugee flows will pressure American communities near the Mexican border with squatter camps appearing first in Brownsville, McAllen, Laredo, El Paso, Nogales, El Centro, and San Diego, and then far north of the border. Increased acts of violence will be directed at American law enforcement and then American citizens. Initially Texas and California will be besieged but highways and railroads will speed the desperate toward the north and east. This began in the 80's but will reach far higher levels. Illegal drugs as a ready source of money will be a vexing problem, and the associated violence will grow worse.

If Mexico remains a failed state, law enforcement personnel and their families as well as other civil authorities will become first order cartel targets in Mexico and in the United States. This is sadly illustrated by a report filed by Dudley Althaus (2009) of the Houston Chronicle from his Mexico City office:

*A senior municipal police commander, his*

*wife and four children were executed and their home torched in a predawn attack Wednesday in the port of Veracruz. Jesus Antonio Romero had only recently been appointed operations chief for the joint police force of Veracruz and neighboring Boca del Rio. Both cities have become an underworld battleground as gangs vie for control of contraband traffic through the port and drug sales in neighborhoods.*

*Romero's home erupted in flames about 5 a.m. after an unknown number of gunmen attacked it with assault rifles, witnesses told police. Investigators recovered dozens of spent shell casings in the street in front of the house. Officials offered few immediate details of the killings. But press reports from the scene indicated the family might have been shot to death and the house then set ablaze. The dead included Romero, his wife, their 8-year-old son and three teenage daughters, police said.*

*The attack is but the latest targeting Mexico's municipal and state police officers as the federal government presses its campaign against criminal gangs. Nearly 1,000 policemen have been killed since President Felipe Calderon launched the campaign in December 2006. While some local and state officers have been killed doing their jobs, others have been targeted by gangsters because they were affiliated with rival gangs, federal officials acknowledge. Gunmen on Tuesday night also killed the public security director*

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*of a small town on the Rio Grande downstream from the Ciudad Juarez-El Paso metroplex.*

Dudley further observes:

*The top federal customs official in Veracruz City, one of Mexico's busiest maritime ports, was kidnapped June 1. He has not reappeared. Federal investigators arrested scores of officers from the city's traffic police force in relation to that kidnapping. Romero's predecessor had been removed for alleged ties to gangsters following the custom official's kidnapping. Police Wednesday also recovered the body of Juan Martinez, a reporter for a leading Mexican radio network, from a makeshift grave in the Pacific Coast city of Acapulco.*

Some areas of Mexico will prove to be more capable than others. Cities like Monterrey, Saltillo, Durango, and other communities in the north may see more in common with the American Southwest than Mexico City. Already English is commonly spoken with retail shops, fast food sites, grocery stores, and restaurants similar to what one sees in Houston or Los Angeles. As violence builds and Federal power wanes separatist movements are likely.

Globalization will not provide the solutions for Mexico's needs: jobs, education, houses, transportation, energy, health care, water... all needs of existence. The United States does not have the jobs or wealth to be the solution or even an outlet any longer for Mexico's problems. Mexico is not ready to face that reality, and the United States does not understand the enormity of the challenges of Mexico, much less that of other problems building south of Mexico.

As globalization has been a cruel promise to Mexico, it has so, too, for the United States. In the last decade we have seen the slipping away of much of the middle class that has long been the core of the American experience. Globalization has meant the loss of good jobs and benefits and substituting debt to maintain consumption. The nation today has seen income growth in the last decades only at the extremes, the very wealthy and the very poor. With 40 percent of the population paying no income taxes, the burden lies dis-

proportionately on a shrinking middle class. America is a nation with too much debt, and it is spread too thin in an effort to secure cheap oil to maintain patterns of transportation, housing, and recreation that cannot be sustained. Core American values of thrift, hard work, deferred gratification, the importance of the family, service to the community, and a belief in the ability to create a better future are being challenged. Life will become much more a confrontation to secure food and shelter, and persons will need to learn to organize to help secure these essentials and security as well.

As these events occur in the Southwest, then other parts of the world will be unstable as well. Economic decline always creates population movements, and the availability of oil is critical to modern societies. Indeed, a few missiles fired south from Iran across 80 miles of the Gulf of Aquaba could curtail oil production and shipping, and would tie the American military down. If war were to become enlarged in the Middle East such as action against Iran or by Iran, there is a prospect that the shipping lanes that move petroleum from Saudi Arabia, Kuwait, and Iraq may be interrupted, and Mexico's petroleum will be needed far more than ever for the United States.

### **American Exceptionalism and Manifest Destiny**

At the country's founding the first President, George Washington, in his farewell address warned the young country about international entanglements, cautioned prudence in alliances, and borrowing by the government. Taken as a whole, North America is sheltered from much of the world with two great oceans. It has deep natural resources in arable land, abundant rainfall, productive forests and fisheries, a river system that provides ready and economical transportation through the heartland to the Gulf and still vast deposits of minerals. This with a practical, hard-working people and deep intellectual resources have provided abundance over the decades and still can claim some of the American Exceptionalism that guided it through two centuries and made it unique among all the countries of the world. One definition of Exceptionalism is the concept

that America through its Constitution, people, and unique institutions and bountiful land offered a radically new pattern to monarchies, oligarchies, and other forms of organization found in other nations and through much of history. This exceptionalism permitted science, arts, business, and personal achievement and independence to flourish in ways beyond what occurred with other forms of government in other areas of the globe.

But since the end of World War II the United States has acted as if it had no limits to its wealth and military power, and thought it was unchallenged in its factories, science, and leadership. That was incontestably true in 1950 but that is not true today. American leaders often refer to the current economic problems as a storm that will soon pass. Add some deficits in budgets, some government borrowing, and the old system will run again. The hard but real answer is that this is not a storm to wait out. This time it is different.

It is now time for a reckoning of goals, resources, and values. The reckoning must include how we will use available resources, what will be the jobs of the future, what is the proper role of the government in relation to the local community and the individual, what can we pay for, and how much should we properly borrow. That is the implied and most important dimension of the increasing threats on the southern border.

It is now time for strategic thinking then choosing tactics. To date we have chosen tactics without careful consideration of strategies. We jump to tactics such as providing more police, creating and enlarging state and federal law enforcement agencies, using the military instead of the police, offering cities as sanctuaries to the world's poverty and violence, training and equipping the police and the military in Mexico and other countries to the south, deportation, and building a wall. These are tactics, not strategy, and some have boomeranged. For example, the equipping of Afghanistan resistance with Stinger missiles and training in the 1980's as Afghans fought a Soviet takeover of the country is now a significant factor in what we face in the Taliban and al Qaida. The Zetas, which are the most brutal of the Mexican cartels, were begun with deserters from the Mexican army that were trained in Special Forces tactics by the American

military. To date we have not had success on the border or in Mexico. When we arrive at a proper strategy then we can entertain tactical considerations.

The strategic dilemma for Mexico could be summarized in several points:

- A large, young population that has exceeded the agricultural capacity of the land to produce enough food and its institutions to educate, protect, and provide employment and civic and social security;
- Declining oil output with reduced foreign currency earnings;
- Decreased employment in factories and the maquila sector as the world economy slows;
- Decreased remittances from citizens working in the United States because of the housing collapse and general economic slowdown; Slowed tourist revenues owing partially to the slowing world economy and the perception of danger from Mexico's high crime rate.

The United States has pursued for a hundred years an east-west strategy to the globe when the best bet may be north-south. The earthquake on the border asks that question. This requires us to revisit the concepts of Manifest Destiny and the proper role of the United States on the North American continent. We have to answer the question of what are the farms, factories, cities, and communities of the future. We now have only one non-government sponsored automobile manufacturer, Ford. Banks and brokerages are heavily backstopped by the American taxpayer. Our retail stores are filled with goods manufactured abroad and China alone holds 2 trillion dollars of our borrowings. Almost 3/4s of the petroleum we require is imported and often from lands that are hostile to us. What will our work be? How will we create the jobs to meet unemployment in the double digits today and the new workers that enter the labor force each year? How well can we educate our people? What houses, travel, and health care can we afford?

Mexico must answer similar questions. Like us, they know that the best jobs, the safest communities, come from a highly educated and free



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people. Each country starts from a different point, but the fate of the United States and Mexico is jointly bound in a hundred ways. Mexico is the second source after Canada for imported oil for the United States. Saudi Arabia, Nigeria, and Venezuela are three, four, and five. These three are hardly more stable than Mexico. Mexico is a leading customer of American agriculture and the number one purchaser of Texas agriculture exports. These are only a few of the essential ties between the two countries.

What if our worst fears come true and there is a dead elephant on our doorstep? That is the topic to be addressed in the next essay. It will look at what may be the likely path for Mexico if it continues to devolve and discuss the direct consequences for the United States. The essay after that will include suggestions as to how the countries of North America might face these challenges through some ideas on building the leadership and community structures to meet the changes that are now starting to appear on the horizon.

Globalization has brought some benefits yet many surprises, the unanticipated consequences. Only when urgency is recognized and the reality faced these fundamental questions be considered.

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