

Original Paper

Institutions, Complex Societies and Fiscal Policy in Economic Development in Mexico An Objective Study of How These Three Concepts Interrelate with Each other

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Abstract

We review the main characteristics of three aspects that we consider critical for economic development such as institutions, complex societies and fiscal policy, to conclude that the virtuous coordination of these elements is necessary for economic development of societies and their interaction can explain the situation that Mexico lives today. We end this work stating that it is necessary for the country to develop solid institutions, but at the same time flexible that adapt to the growth of the economy in a globalized world and simplify political systems in order to avoid unnecessary complexities.

Keywords

institutions, complex society, fiscal policy, economic development

JEL Codes: D02, E02, O43

Introduction

The fall in oil prices, the slowdown of the Chinese economy, the departure of Great Britain from the European Union, the resistance of many countries to go ahead with processes of openness and

globalization, migratory movements in Europe, the war in Ukraine and situations Geopolitical conditions of great tension have generated an unfavorable economic environment for emerging countries such as Mexico that seek accelerated growth in order to achieve a critical mass that allows better economic development for their population.

In this article we consider three fundamental aspects for countries like Mexico to achieve economic growth and development: institutions as society's instruments to induce and regulate the behavior of social actors, the complexity of societies and the danger that exists of a collapse in development if harmonious progress is not achieved and, finally, fiscal policy as the instrument that the State has to influence demand and aggregate supply. Our vision is that these three elements are critical for a country to achieve growth and economic development.

Throughout this article, we review the fundamental concepts of institutions, complex societies and fiscal policy and we end with the panorama that Mexico is experiencing in 2023 in this regard.

Institutions

The different social and economic actors in a society observe behaviors that, if not properly oriented, can conflict with each other and hinder progress and development. For this reason, it is imperative to create the means that guide the desired behavior and that is how it is understood that institutions are the foundation of social life.

Campbell (2004) asserts that institutions are made up of formal and informal rules, supervision, enforcement mechanisms, and meaning systems that define the context in which individuals and organizations operate and interact with each other. They give rise to enduring practices that are legitimized by widely held beliefs. Institutions are creations born of struggle and negotiation. They reflect the resources and power of those who develop them and, in turn, affect the distribution of resources and power in society.

Once created, institutions are powerful external forces that help determine how people become aware of their world and act accordingly. They channel and regulate conflicts and thus ensure stability in society (Allen, 2015).

Institutions are created and nourished by ideas that shape their orientation and structure. These are changing to the extent that the social dynamics are being transformed and therefore they are the essence of the institutions and can be cognitive or normative:

Cognitive level ideas are theoretical descriptions and analyzes that specify the cause-effect relationship; they are results oriented. Normative-level ideas, on the other hand, consist of values, attitudes, and identities.

We can identify four types of thoughts: paradigms, public sentiments, programs, and frames of reference. Because ideas are controversial in the foreground and, often used to challenge the status quo,

they tend to facilitate or enable change (Campbell, 2004).

The programs allow politicians, corporate leaders and other actors to chart a clear and specific course of action. Paradigms are ideas based on assumptions that limit the cognitive range of useful programs available to politicians, business leaders, and other decision makers. Mental models directly affect individual choice. Frameworks are ideas with symbols and concepts that allow decision makers to legitimize programs to their constituents. Public sentiments are ideas based on public assumptions that limit the regulatory framework of programs available to decision makers.

Two fundamental questions arise from the above:

- How do ideas affect institutional change?
- How do institutions affect ideas?

To answer these questions, the aforementioned author proposes the following hypotheses:

H01 - Institutional change can be caused by problems that are exogenous or endogenous to the institution in question.

H02 - Problems are necessary, but not sufficient for institutional change.

H03 - Problems trigger a struggle over institutional change when the actors perceive that these problems put at stake the current distribution of resources and power.

H04 - Actors are more likely to follow/resist changes in institutions that affect the distribution of energy resources, or if they perceive that their resources or power will increase/decrease.

H05 - Problems are more likely to be perceived as requiring institutional changes if there are actors who can articulate and frame these changes in clear and simple terms.

H06 - Institutional change is likely to be relatively more revolutionary than evolutionary to the extent that actors find themselves at the intersection of various social networks, organizations, and institutions, especially if their location exposes them to new ideas.

H07 - A program for institutional innovation is more likely to succeed if the actors that promote it use more resources to influence key decision makers than their competitors.

H08 - A program for institutional innovation is more likely to precipitate change than another, if the actors behind it show that it has worked effectively in other places.

H09 - Institutional change is more likely to be initiated by decision makers, if social actors can present innovation programs that can translate into a benefit for the environment.

North (2010) assumes that institutions are constraints that arise from human inventiveness to limit political, economic, and social interactions. They include informal constraints, such as sanctions, taboos, customs, traditions, and codes of conduct, as well as formal rules (constitutions, laws, property rights). In the course of history, institutions have been inventions of human beings to create order and reduce the uncertainty of exchange. Together with the usual restrictions of the economy, they define the choice set and therefore determine the transaction and production costs and, consequently, the

profitability and feasibility of carrying out the economic activity. They evolve incrementally, establishing a connection between the present and the future; consequently, history is primarily a story of institutional evolution where the historical behavior of economies can only be understood as part of a sequential story. Institutions facilitate the incentive structure of an economy; as the structure changes, they shape the direction of economic change toward growth, stagnation, or decline.

According to Acemoglu (2001), the key to prosperity lies in institutions, not in culture or geography. History also makes it clear that bad institutions have not emerged because of the mistakes of political leaders, but because they have been designed that way, because they have played a useful political and economic role for the benefit of the politically powerful in society. This author considers (Acemoglu, 2013) that there are two types of institutions that can be political or economic, each having an extrusive orientation if they are designed to extract resources for the benefits of power groups, or intrusive if what is sought is the development and benefit of society and its members. Combining these two types of institutions, a matrix like the one shown in Figure 1 can be seen.

		Political Institutions	
		Extrusive	Intrusive
Economic Institutions	Extrusive	1	3
	Intrusive	4	2

Figure 1. Political/Economic Institutions

Source: Own elaboration based on Acemoglu (2012).

Figure 2 shows the alternatives that a society has that has developed political and economic institutions with an extrusive orientation, as is the case of the African or Latin American colonies, and that wishes to move towards economic and political institutions with an intrusive orientation. The alternatives may be to gradually change the institutions or start with one type of institution, strengthen it duly, and then strengthen the other type of institution until reaching an economic development that favors the population in general and not privileged groups. This explains why some countries are successful and others fail depending on how the institutions pursue the common good or, failing that, a social and economic order that benefits a few.

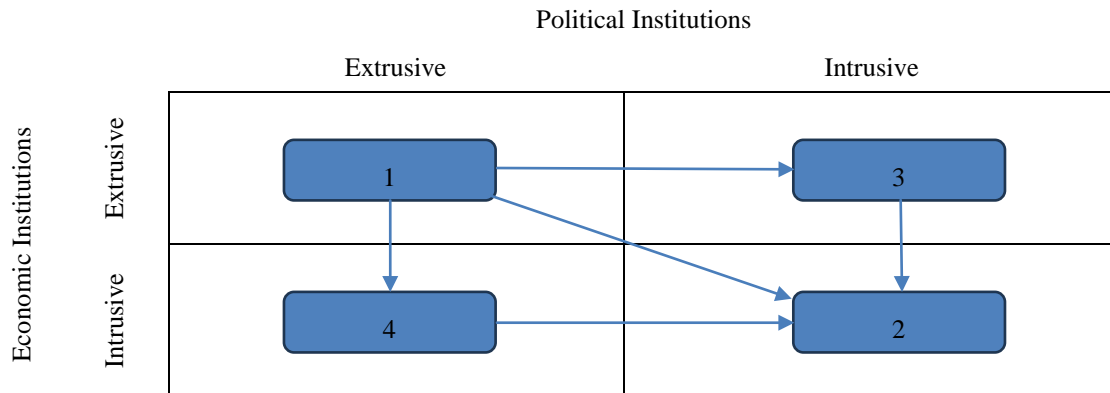


Figure 2. Extrusive/Intrusive Institutions

Source: Own elaboration based on Acemoglu (2012).

Bremmer (2006) postulates a theory called “The J Curve” or “La Curva J”, which assumes that countries with strict political controls transit in their opening to the exterior (x axis), from stability to instability, which in turn leads to a new stability (y axis) but more solid and permanent. In this way, the J Curve tries to explain how societies achieve stability with totalitarian regimes with institutions designed in a manner and lose it, as countries move towards democracy and create new institutions, which give them greater stability to society in the long term.

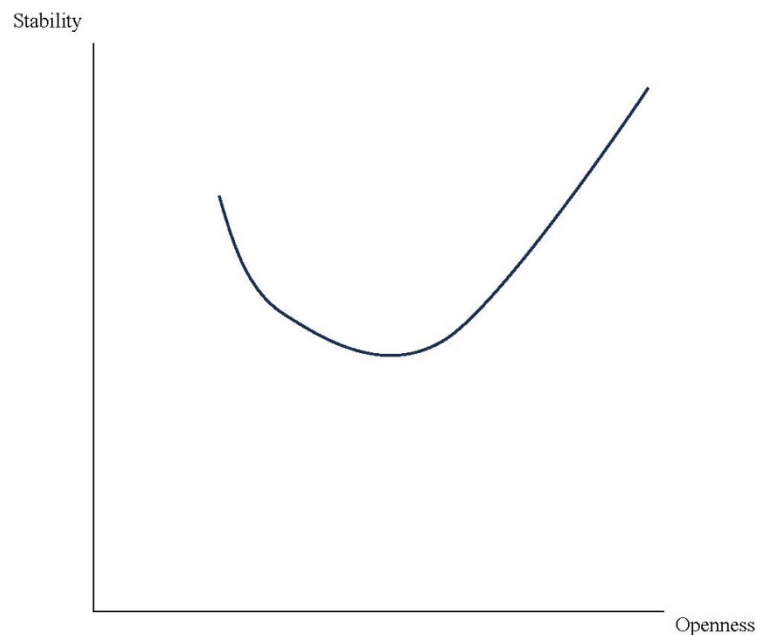


Figure 3. J Curve

Source: Own elaboration with data from Bremen (2006).

As a result of the above, we can conclude the following regarding the institutions:

- 1) A society that is not properly organized does not prosper in the long term
- 2) Institutions are the rules, norms, regulations, laws, among others to regulate behavior of people within an organization, therefore, we are talking about institutionalized organizations
- 3) Institutions transcend individual wills
- 4) Well planned and coordinated institutions ensure a desired environment
- 5) They are the object of study of the social sciences
- 6) Institutions can be formally defined or informally observed or assimilated
- 7) The quality and orientation of the institutions allow or inhibit the economic development of the countries

Complex Societies

The history of humanity as a whole has been characterized by a seemingly inexorable trend towards higher levels of complexity, specialization, and political-social control, the processing of greater amounts of energy and the formation of ever larger settlements, as well as the development of more complex and capable technologies (Tainter, 1987).

The collapse of complex societies is a political process, it has consequences in areas such as the economy, art and literature, but it is fundamentally a matter of the sociopolitical sphere. A society shows a rapid and significant loss of a set level of sociopolitical complexity (Willke, 2006; Susen, 2010; Morin, 2004).

The collapse happens quickly (it can take no more than a few decades) and must imply a substantial loss of the sociopolitical structure. Losses that are less severe, or take longer to occur, or may result in cases of weakness and decline.

Having weak institutions (laws, regulations are not formally enforced) and harsh governments (political elites that have hijacked government administrative structures in favor of their personal interests, enjoy impunity and are rarely punished, commit acts of corruption) can be considered as part of the social collapse.

Collapse is a recurring feature of human societies. In popular thought, civilization is what stands between humanity and the chaos of nature.

In the process of collapse, the distribution of wealth in the population decreases and external challenges become increasingly threatening. The population becomes increasingly discontented when the government seeks to mobilize resources to meet the challenge. With disintegration, central leadership is no longer possible. The former political center suffers a significant loss of prominence and power. Small states arise on the previously unified territory. Very often these states compete for dominance, so a period of constant conflict ensues. The protection of the population law is removed.

In a complex society that has collapsed, the global structure that offers support services to the population loses capacity or disappears altogether. You can no longer rely on the external defense of the population and internal order, maintenance of public works, or the delivery of food and material goods. The administration reduces its operations to the lowest level that is economically sustainable, so there is a wide variety of contending political systems, where peace and unity had occurred.

The rest of the population must be locally self-sufficient to a degree not seen in several generations. Groups that had previously been economic and political partners now become antagonists. The state of affairs is significantly reduced and the unknown threatens on the horizon.

The nature of complexity is used to refer to such things as the size of a society, the number and distinctiveness of its parts, the variety of specialized social roles it embodies, the diversity of social personalities, and the variety of mechanisms for organization of these into a coherent whole that works. Increasing any of these dimensions increases the complexity of a society.

Hunter/gatherer societies (by way of illustrating a difference in complexity) contain no more than a few dozen distinct social personalities, while modern European censuses recognize 10,000 to 20,000 unique occupational or roles, and industrial societies may contain in general more than a million different personalities in social life.

Two important concepts for understanding the nature of complexity are inequality and heterogeneity. Leonardo da Vinci mentioned that inequality is the origin of all social movements. Inequality can be understood as vertical differentiation, classification or unequal access to material and social resources (Tilly, 2000). Heterogeneity is a more subtle concept, it refers to the number of distinctive parts or elements of a society, and at the same time to the ways in which a population is distributed among these parts. A population that is equally divided among the occupations and roles of a society is distributed homogeneously. The reverse situation brings increasing heterogeneity and complexity. A society with great heterogeneity is one that is complex (Murmi & Feldman, 1993; Capdevielle, 2005).

Inequality and heterogeneity are interrelated, but partly respond to different processes, and are not always positively correlated in sociopolitical developments. In early civilizations, for example, inequality tended to be initially high and heterogeneity low. Over time, inequality decreased and heterogeneity grew with the development of multiple hierarchies with a greater amount and variety of information that required greater social complexity.

Complex societies once established tend to expand and dominate, so they control most of the land and people on earth and are constantly tormented by what is beyond their reach.

Leadership in the simplest societies tends to be minimal. It is personal and charismatic and exists only for special purposes. Hierarchical control is not institutionalized, but is limited to specific spheres of activity at specific times and relies heavily on persuasion. Equality in these societies lies in direct individual access to life-sustaining resources, in mobility and the option to simply withdraw from an

untenable social situation, and in conventions that prevent economic accumulation and enforce sharing. Leaders are limited in the exercise of authority, the accumulation of wealth, or the acquisition of excessive prestige.

Personal political ambition is restricted. When there are several ambitious individuals, there is constant competition for power and social position. The result is an unstable, fluctuating political environment in which short-lived leaders rise and fall, and in which the death of a leader brings the demise of his faction and wholesale political regroupment.

Social conditions in these more complex societies tend to be more established and continuous. As the complexity and the number of members grow, individuals must be more and more classified socially, so appropriate behavior between people is required to observe an impersonal structure in society and not for kinship issues.

The boss concept is developed, which is now a true trade that extends beyond the life of any individual fork. Command authority in these cacicazgos is not unlimited. The ruler is limited in his actions by kinship ties, and by possessing a monopoly on force, but only as a marginal advantage. Follower requests force a boss to respond positively to them. Generosity is primarily the basis of politics and economics: the downward distribution of accumulated resources ensures loyalty. Membership is determined, at least in part, by birth or residence in a territory, rather than by kinship relationships, real or fictitious.

The ruling class supplies the staff for the government, which is a specialized decision-making body with a monopoly on force and with the power to draft, for war or at work, levy and collect taxes and enforce laws.

The government is legitimately constituted, that is, there is a common ideology of the entire society that serves in part to validate the political organization of society. And states, of course, are generally larger and more populous than tribal societies, so social categorization, stratification, and specialization are both possible and necessary. Occupational specialization is a main characteristic.

By virtue of their territorial extent, states are often distinct both economically and ethnically. Economic and cultural heterogeneity appear to be functionally related to centralization and administration. Legitimacy is the belief of the population and the elites that the rule is correct and valid, that the world of politics is as it should be.

Legitimacy is a recurring factor in the modern study of the nature of complex societies and is relevant to understanding their collapse.

As the development of complexity is a continuous variable, so is its reverse. Collapse is a process of decreasing complexity. Although collapse is often thought of as something that affects states, in fact it is not limited to any "type" of society or "level" of complexity. Collapse is nothing more than the fall of empires or the expiration of states. Nor is it limited to phenomena such as the decentralization of

chiefdoms. Collapse can also manifest in a transformation from larger to smaller states, from more to less complex chiefdoms, or in the abandonment of village life to settle for mobile foraging (where this is accompanied by a drop in complexity). .

Several authors (Fernández, 1997, Gándara, 1992; De Malberg, 1998) have synthesized the different theories formulated to explain the origin of the State:

- 1) Management. As societies are under stress, or as populations increase in number, integration requirements may arise that can be resolved by the leadership of administrative hierarchies.
- 2) The internal conflict. Theories within this school (Entelman, 2002; Bilbao & Dauder, 2003; Concha, 2009; Maldonado & Velásquez, 2016) postulate that class conflict is the engine behind complexity.
- 3) External conflict. In external conflicts tensions lead to conflict, while success in war necessitates the development of institutions to manage conquered groups.

As can be seen, societies observe a natural evolution that becomes complex as they grow in number of people (parts) and the social roles (processes) that each person performs, developing institutions that guide behavior and ensure certain conditions that are considered necessary for a balance of power and development in accordance with preconceived ideas.

Consequently, we can conclude from complex societies the following:

- 1) All human societies grow and become increasingly complex in this process (Figure 4).
- 2) Complexity generates increasing costs that society must face in order to maintain balance, social peace, and economic growth and development (Figure 7).
- 3) The marginal benefit of the higher cost of complexity is less and less and is causing pressure and questions that the way in which society is organized is not correct, generating divisions and gestating the possibility of a collapse (Figure 5).
- 4) The collapse of complex societies occurs when they move towards strata of a previous order due to unresolved crises among their members (Figure 6).
- 5) The economic and social cost of a collapse in societies is very high.
- 6) Institutions are the mitigation of collapses in complex societies.

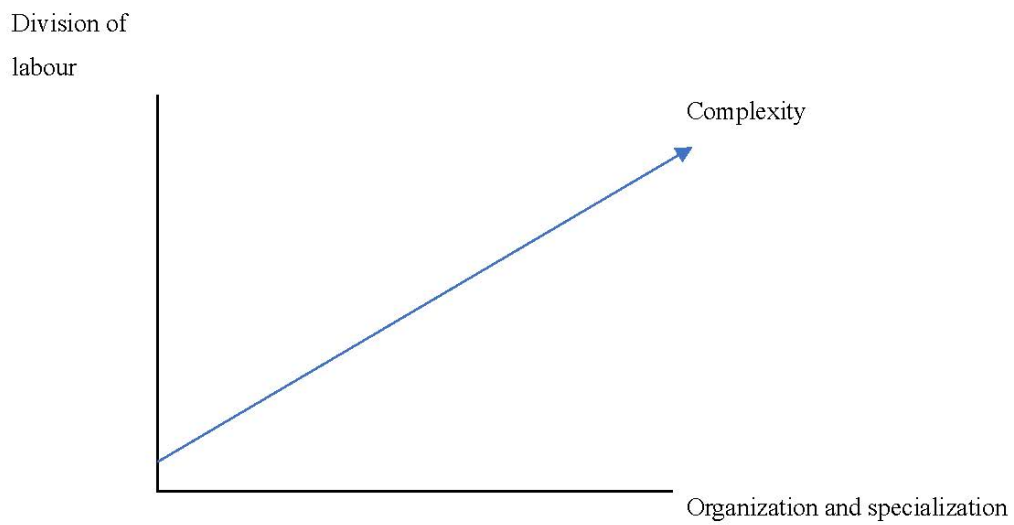


Figure 4. Complexity

Source: Own elaboration based on Tainter (1987).

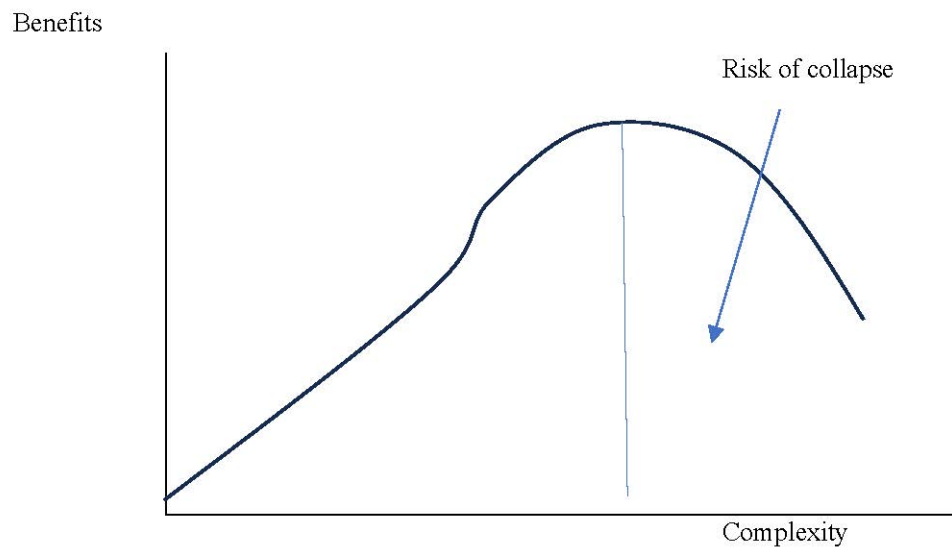


Figure 5. The Risk of Collapse

Source: Own elaboration based on Tainter (1987).

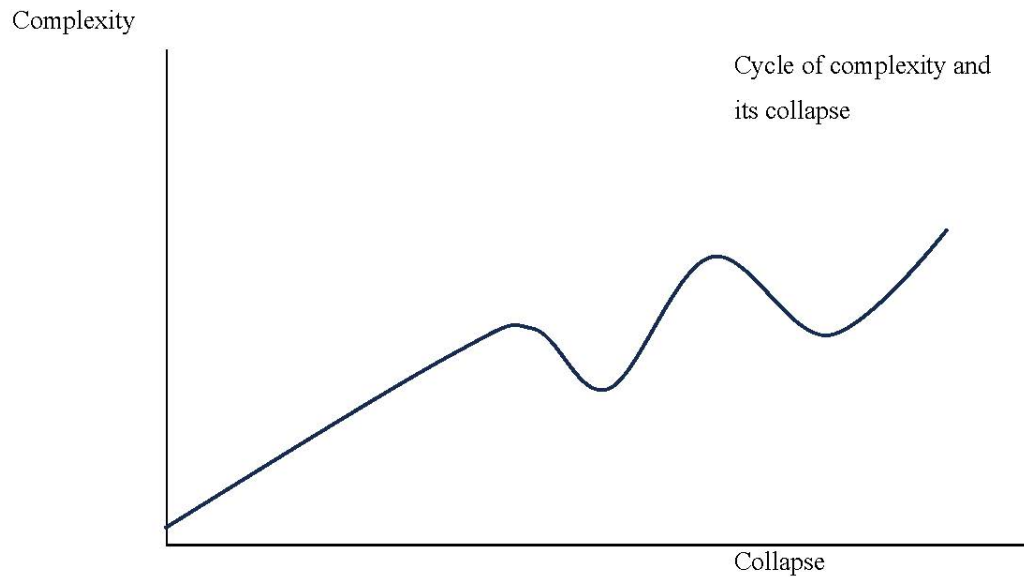


Figure 6. Cycle of Complexity and its Collapse

Source: Own elaboration based on Tainter (1987).

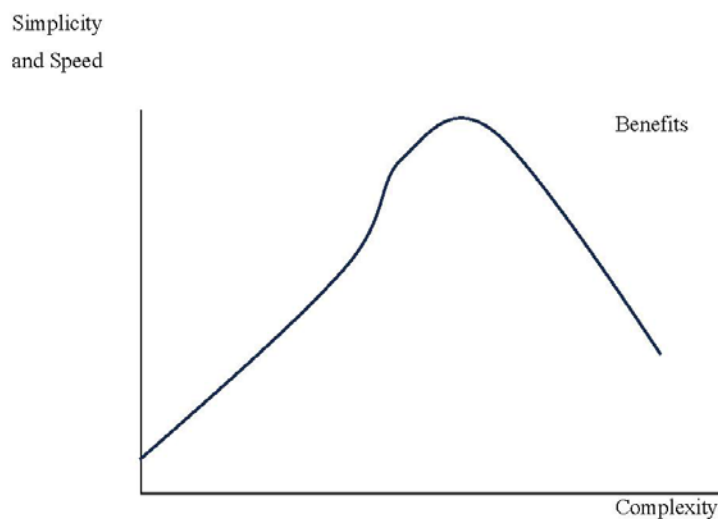


Figure 7. Marginal Benefits of Complexity

Source: Own elaboration based on Tainter (1987).

Fiscal Policy

Fiscal policy refers to government decisions on the total level of government spending and purchases and how these expenditures will be covered by taxation (Mankiw, 2004). Fiscal policy is formulated by the government in order to determine what taxes must be paid by taxpayers in order to finance their

activities and programs and thus achieve macroeconomic objectives (Parkin, 2007).

Therefore, we consider that fiscal policy consists of the series of actions tending to establish the budget of a State, fixing and collecting the necessary taxes to achieve an income that allows covering public spending and mainly intends to influence the economic environment and achieve the proposed economic objectives. It directly affects aggregate supply and demand, so it should be well valued given the impact on economic actors and activities.

In combination with monetary policy (control of currency), trade policy (foreign trade relations) and regulatory policy (regulations for economic activities and actors), the Government intends to exercise its economic function and achieve the objectives of employment, growth and economic development expected by society in general.

An example of how fiscal policy can influence the development of a society is the clear example of Isla del Carmen, in the state of Campeche, which, from being a fishing community, rapidly became an oil city. Headquarters for the coordination of the platform area of the Mexican oil industry (Pemex). Indeed, on August 11, 2014, the decree was published in the Official Gazette of the Federation (DOF, 2014) through which: "the Law of Coordinated Regulatory Bodies in Energy Matters is issued; provisions of the Organic Law of the Federal Public Administration are amended, added, and repealed, and the Law of the National Agency for National Security and Environmental Protection of the Hydrocarbons Sector is issued, through which the Mexican energy sector undergoes a transformation radical that essentially opens the doors to private investment through rounds or programmed bidding.

The above coincided with key aspects:

- 1) Fall in the price of crude oil that in April 2014 reached a price of up to 108 dollars and by January 2016 it was priced at 29 dollars.
- 2) The depletion of the main deposits that Pemex had traditionally been exploiting, such as Cantarel, resulting in a decline in production.
- 3) Increase in oil production in the United States of America (USA) through new fracking technology.
- 4) Lack of agreement between OPEC producers to lower production and level prices, giving the case of a constant production of Saudi Arabia, which is the main member of said organization.

Taken together, what has already been stated triggers a sudden slowdown in the economic activity of Isla del Carmen that creates a crisis situation not only in the activity of the main economic actor such as Pemex, but in all the activities of the city and the region, which by then was totally dependent on the energy sector.

Economic Development of Current Mexico (2023)

Mexico is a country classified as an emerging economy that has a considerable population size, with defined and varied economic sectors, an incipient development of its infrastructure, with political

(National Electoral Institute (2009) and economic (Banco de México (2016) institutions), the National Institute of Statistics and Geography (2014)) and with extensive legislation that establishes the regulations that are expected from the social and economic actors in society.

Despite the foregoing and the fact that there has been social peace since the Mexican revolution, the country's growth and economic development have been minimal and inconsistent, and no progress has been made in consolidating a safe country, with a defined economic vocation and with a fair distribution of wealth.

Despite the observed evolution, economic growth has been inconsistent and tax collection (tax and non-tax revenues) have not been sufficient for public finances to fulfill a function of promoting economic development.

Considering what has already been stated in this article, we can assume the following considerations:

- 1) The transition from a hegemonic system in Mexico, where a single political party maintained power, and later transition to a political multiparty system, brought important changes in political, social and economic life that have pressured the creation of institutions that little by little they have had to adapt to try to regulate behaviors and expectations.
- 2) The recurring economic crises, globalization, Mexico's entry into the North American Free Trade Agreement, technological backwardness and its consequent dependence on developed economies, have made political institutions more reactive than promoters of economic development.
- 3) Growth has been privileged over economic development as a consequence of the inconsistent economic performance.
- 4) The complexity of Mexican society, coupled with the fact that global dynamics have outpaced internal changes, are not being fully satisfied by the political and economic institutions that have been developed.
- 5) Fiscal policy in Mexico has followed a purely tax collection approach so that public finances have sufficient resources to cover growing public spending and have not been designed primarily to stimulate the development of key technology sectors.
- 6) An uncompetitive educational system, low levels of innovation and very little generation of new proprietary technology have made Mexico economically vulnerable and dependent.
- 7) The impunity and corruption of a political system that was designed to control more than to promote is being a drag on the economic progress of a country that is increasingly integrated into a world community that is waiting for a change of course so that society can be fairer, more stable and attractive so that foreign investments gain confidence and come to the country.
- 8) The constitution of new governments with little vision of the future and a large dose of ideology do not allow us to take advantage of opportunities to grow with direct foreign investment and the development of new technologies, creating unnecessary pressure on the already constituted institutions

and dividing instead of adding efforts between the population.

This can be represented in the following graphs:

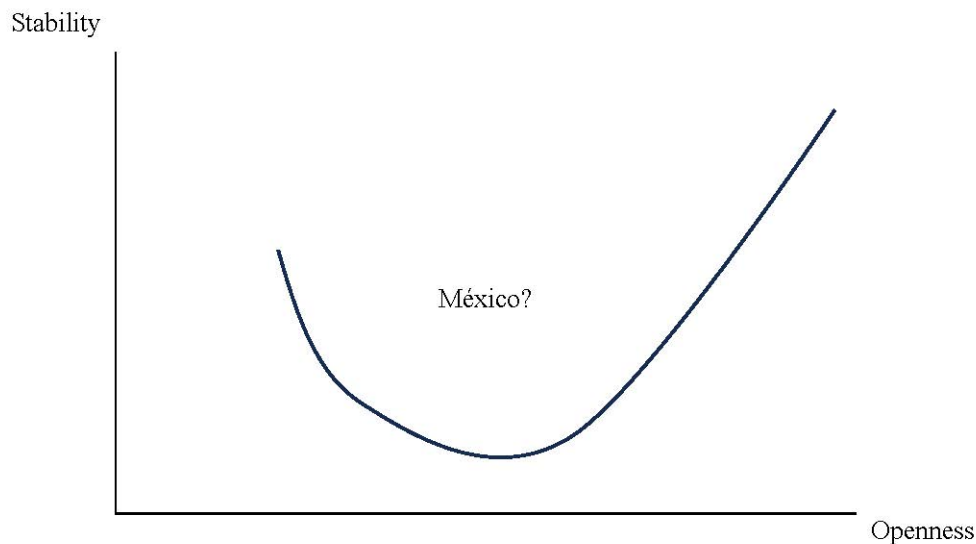


Figure 8. Position of Mexico in J Curve

Source: Own elaboration based on Bremmer, 2006.

Considering the following as alternatives to consider for Mexico:

- 1) Define concretely which should be the priority economic sectors where Mexico can be successful in the future.
- 2) Plan fiscal policy with a fundamental focus on stimulating companies that are dedicated to the defined priority economic sectors.
- 3) Gradually reduce public spending in the areas of personal services and current spending and strengthen the line of public investment as much as possible.
- 4) Simplify and deregulate economic regulations as much as possible.
- 5) Develop institutions whose operation is agreed upon and appropriate to the realities of the country and the globalized world and with a spirit of coordinating economic development.
- 6) Monitor and measure the effectiveness of social and economic institutions.
- 7) Adopt a clear and transparent methodology to measure the economic and social growth and development of the country that you want to achieve.
- 8) Governance is the product of the application of the law in an environment of certainty and simplification with solid institutions, but at the same time flexible.

Figure 9 shows a model that we believe can help explain and guide fiscal policy by detecting four possible orientations that we believe can be adopted in fiscal policy in conjunction with the institutions

and the complexity of society.

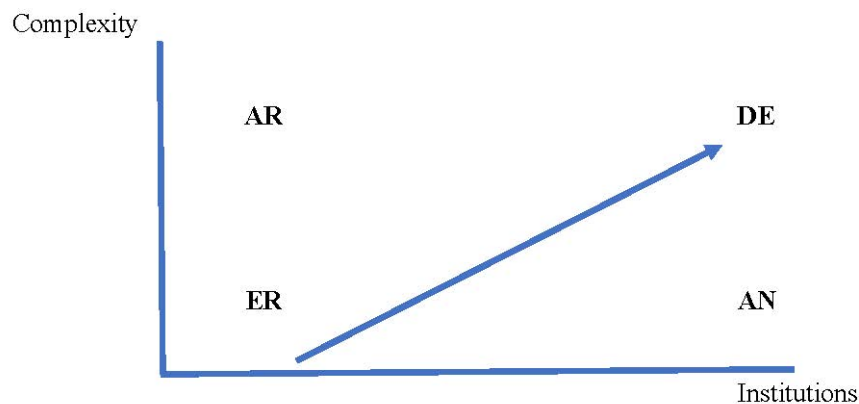


Figure 9. MDAPFIC Model

Source: self-made.

The noted guidelines are as follows:

ER or collection approach that aims to privilege public finances and the strengthening of institutions.

AN or high regulations that gives high priority to the establishment of a system of regulations that will serve as the basis for regulating future actions and sanctioning detected deviations.

AR or high regulation focused mainly on the administrative instrumentation of processes and that makes the systems very complex.

DE or economic development that seeks to find a balance between the other orientations, but implemented with a pragmatic approach that favors the future well-being of the population.

In short, economic development is seen as a skilful balance between institutions and fiscal policy that demands from society (government, companies and citizens) a full awareness that there is a risk that in order for the country to grow and be richer and more prosperous, society begins a process of complexity that will inevitably lead us to a collapse that forces corrections that can be avoided with a pragmatic and long-term vision.

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