

Inequality in Mexico*

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For decades in Mexico, like in many developing countries, inequality was of little interest for economists. It was recognized as a challenge for social policy makers, but not as relevant as poverty, and in any case, it was seen as having no impact on economic growth. Those that were concerned with equality conceived it as a by-product of the specific developmental stage through which countries underwent in line with Kuznets' inverted U path. Given Mexico's traditional fiscal weakness –a tax burden under 12% of GDP, among the lowest in Latin America- inequality and poverty were tackled through income transfers and public expenditure on health, social security and education. This approach to poverty and inequality marked the radical neo-liberal reforms put in place since the mid 1980s to reduce State's intervention in the economy and open domestic markets to foreign competition. This agenda was assumed to put the Mexican economy in a path of strong expansion. And, to the extent that its engine of growth would be the exports of manufactured goods, produced with intensive use of non-qualified labor (Mexico's abundant resource), it was supposed to lead to systematic and major reductions in poverty and in inequality.

Today, Mexico has a GDP of US \$1.178 trillion and ranks as the 14th largest economy in the world (World Bank 2014). Its GDP per capita of US\$9,750 puts it just beneath the world average (US\$10,300). However, more than thirty years down the road since the launch of the neoliberal reforms and notwithstanding its extraordinary boom in exports of manufactures, Mexico's economic growth -an annual average of 2.4%- has been disappointing. In 1980-2013 the economy expanded at such a slow pace that the gap of Mexico's GDP per capita vis-à-vis the United States is larger today than thirty years ago. It should not be surprising that today more than half of its population is poor (CONEVAL, 2014), a proportion similar to the one prevailing three decades ago. Thus, more than 55 millions of Mexicans live in conditions of poverty.

In these years, what happened to inequality? Well for anyone that visits Mexico, the words of Alexander Von Humboldt (1811), more than two hundred years ago, still ring true:

“Mexico is the country of inequality. Nowhere does there exist such a fearful difference in the distribution of fortune, civilization, cultivation of the soil, and population. ...The capital and several other cities have scientific establishments, which will bear a comparison with those of Europe. The architecture of the public and private edifices, the elegance of the furniture, the equipages, the luxury and dress of the women, the tone of society, all announce a refinement to which the nakedness, ignorance, and vulgarity of the lower people form the most striking contrast.”

As the writer Augusto Monterroso wrote in 2002 (p.60): “the unique, truly hyper-real characteristic of Mexico is its social inequality; the misery that marks the everyday life of the immense majority of Mexicans.”

The figures corroborate this image. As Table 1 shows there is an almost 27-fold difference between the average incomes of the top and the bottom deciles. This difference is in stark contrast with the average ratio of 10 to 1 in the OECD ([OECD 2014](#)). More worrying, the top 1% of Mexico's distribution has an

average annual income 47 times that of the poorest 10% (del Castillo Negrete Rovira 2012). It is very likely that, were there numbers for smaller slices at the top, the ratios would be astronomical.

Table 1: Income share and per capita in Mexico, by deciles in 2012 (in pesos, Mx)

Deciles	1	2	3	4	5	6	7	8	9	10
Per capita, \$	461	887	1180	1488	1843	2216	2742	3505	4906	12412
% total income	1.5	2.8	3.7	4.7	5.8	7.0	8.7	11.1	15.5	39.2
Ratio Ypc to previous decile	–	1.9	1.3	1.3	1.2	1.2	1.2	1.3	1.4	2.5

Note: the Gini Coefficient for 2012 was 0.49, the “Palma indicator” –i.e. the ratio of the top 10% income earners to that of the bottom 40%, was 3.09; the mean income was Mx\$3,164 and the median one Mx\$2,030. Source: authors’ calculations based on data from SEDLAC 2014.

Table 2: Mexico, indicators of income inequality, 1968-2012

	<i>Gini</i>	<i>Palma</i>	<i>D1-D4</i>	<i>D10</i>
1968	0.586	5.963	8.1	48.3
1977	0.518	3.856	10.4	40.1
1984	0.501	3.663	10.4	38.1
1989	0.512	3.377	12.2	41.2
1992	0.535	3.839	11.2	43.0
1994	0.541	4.009	10.8	43.3
1996	0.543	4.155	10.3	42.8
1998	0.531	3.843	10.8	41.5
2000	0.536	3.963	10.8	42.8
2002	0.510	3.387	11.9	40.3
2004	0.507	3.273	12.1	39.6
2005	0.509	3.342	12.0	40.1
2006	0.495	3.079	12.7	39.1
2008	0.502	3.172	12.2	38.7
2010	0.472	2.713	13.6	36.9
2012	0.491	3.055	12.8	39.1

Note: the last two columns show the share of income of the deciles 1 to and 4 and of the decile 10. Source: Authors’ calculations based on SEDLAC 2014.

Table 2 illustrates the evolution of income inequality in Mexico, in terms of the Gini coefficient, [the Palma ratio](#) and the relative shares of the first four deciles and of the top one. It shows that, with some fluctuations, there have been three phases. The first one goes from the late 1960s to the mid 1980s, with income becoming more evenly distributed. The Palma ratio fell from nearly 6.0 to close to 3.5, and the GINI went from 0.59 to 0.50. The second one covers from then until the early 2000s, with income becoming more concentrated. Thereafter, there is an overall improvement until 2010; later deteriorating. All in all there has been a, in our view, insufficient reduction in income inequality. Indeed, by 2012 the overall picture depicts an economy where income is highly concentrated. If the calculations had been carried out focusing on the top 1%, this conclusion would be even more evident.

How can such inequality be perpetuated and collectively accepted in face of vast poverty? Well, Mexico was unequal in Pre-hispanic times, and even more so during the 300 years of Spain's colonial reign. Equality was an inspiration for independence and subsequent struggles. More economic equality, for peasants and workers, was a key demand of the [Mexican Revolution in 1910](#). Notwithstanding, there have been periods towards greater equality in Mexico. For example, prior to 1976, there was a relatively stable relationship between productivity growth and wage growth in manufacturing ([Palma 2011](#)). Their subsequent delinking under trade liberalization meant that increasing export competitiveness had little effect on living standards (ibid). In fact, by the end of the 1990s, the average wage was only just recovering to its 1976 level, although productivity had increased by about 80% in the meantime; in the same period, the real minimum wage fell 80%, and the share of wages and salaries in GDP fell from 40% to 18.9%. Profit margins greatly increased. And, all this coupled with several economic crises weakened organized labor's bargaining power. According to Palma (2011), this "liberalization package" decoupling wages and productivity is the result of political-ideological change in the 1980s. In addition the abrupt economic slowdown in the aftermath of the oil crisis vastly deteriorated the labor market.

Two decades of deep reforms –the 1980s and 1990s- aligned with the Washington Consensus contributed to consolidate a tendency to reduce the share of wages in national income. The political transition from its traditional one-party ruling authoritarian regime towards a more consolidated electoral democracy has not altered this.¹ Indeed, a number of social programs were created targeted to poor population. The star has been Oportunidades, a pioneer conditional cash transfer program to poor households in return for obligatory schooling and health checks. There are other programs, akin to non contributive pension schemes such as "Seventy and More" and the Universal Elderly Pension in Mexico City to benefit the elderly. These programs do have a progressive, albeit small, influence on income distribution. Contrasting with them is the fact that tax policy in Mexico fails to have a significant influence on income redistribution. Indeed, most OECD countries with not markedly dissimilar pre-tax income distributions manage to almost halve the GINI coefficient in the post-tax income distribution. However, Mexico's redistributive capacities through taxes are significantly less effective. In addition they have declined considerably since the 1960s, to the extent that during the last two decades, on average they have barely been able to lower the country's Gini by more than .02 points vis-à-vis its pre-tax levels. To illustrate this point we compare it with Denmark, where the decline in the GINI coefficient before and after taxes is ten times higher.

¹ Cornia et al. (2012) argue that a lagged democratization effect does exist. If this is the case, we will still have to wait for quite some time to see any results.

Table 3 Income Distribution in Mexico and Denmark, Differences in GINI coefficients before and after taxes, 1968-2010

Year	Mexico	Denmark
1968	0.030	0.310
1970	0.029	0.297
1975	0.030	0.250
1980	0.022	0.177
1985	0.014	0.156
1990	0.012	0.176
1995	0.016	0.215
2000	0.016	0.198
2005	0.022	0.198
2010	0.023	0.214

Source: Authors' calculations adapted from Solt (2009).

According to, inter alia, Cornia, Esquivel, Lustig, and Montecino the decline of inequality in the 2000s is the result of various factors, including changes in the skill premium, social policies and hours worked. But, income inequality in Mexico is still very high. The bottom decile, that allegedly benefited most from the transfer programs, has maintained a stable share of between close to 2% of total income since 1992.

In short, despite the shift in the Presidency from the PRI to the PAN and back, a massive increase in social spending as a share of GDP, including conditional cash transfers and other programs targeted to the poorest, low inflation and fiscal budgets, the implementation of NAFTA² and of a series of radical market reforms Mexico has been unable to significantly reduce its high concentration of income. As mentioned above there are certainly historical roots that explain the magnitude of the challenge, but in our view, the main reason behind the prevalence of such stark inequality is the lack of political will by relevant actors to change the situation. For some this reflects the assumption that economic growth will by itself alleviate poverty and inequality. For us it seems more likely that the ones on top, the 1% or even lower percentage, refuse to lose in any significant way their economic and social privileges, Thus they block any relevant measure oriented towards a more progressive distribution of income.

Since the 2008-09 international financial crises, the external market stopped being a dynamic engine of growth of the Mexican economy. Thus, strengthening its domestic market -i.e. a more even income distribution- has become a requisite to stimulate Mexico's economic expansion. In addition, the commitment to build a more equal society and economy in Mexico with human rights being fully respected and impunity is finally eliminated is, in our view, the only long-term solution to eradicate the

² North American Free Trade Agreement signed in 1994. Mexico is one of the most trade liberalized countries in the world, having signed over 40 free trade agreements.

alarming, deplorable violence by drug cartels that has taken thousands of lives in Mexico in the last years and the tragic disappearance of many men and women; the most recent and notorious being the still missing 43 young students in Ayotzinapa who wanted to become teachers to show children that a fair, just and prosperous Mexico is possible. Our hope is that they will soon appear, safe and sound, to keep working to make their dream come true.

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