1 The Problem: Income Distribution and Poverty in Mexico During Economic Liberalization

The purpose of this first Chapter is to analyse the changes in poverty and inequality that occurred in Mexico since the initial stages of economic liberalization. Our main aims are to generate information on the size of the shifts involved, to explore some of their causes from an aggregate perspective, and to verify if any structural change with implications for long-run poverty and inequality trends has taken place. This will enable us to set the hypothesis we will work with in the rest of the book.

The question concerning the existence of a structural change in the economy is particularly relevant for our purposes because if economic liberalization leads to sustained high growth rates as is believed, an increase in inequality could perhaps be justified as the short-term cost of achieving greater efficiency and higher living standards in the longer term. However, if not only a further concentration of economic resources, but also a structural shift towards a more unequal distribution of economic opportunities accompanied these programmes, their possibilities of raising the standard of living of the whole population would be undermined. Although this does not imply that the strategy is inappropriate, it would suggest that modifying it in some way to guarantee that the benefits of growth accrue to the lower tail of the distribution, is necessary.

One interesting feature of the case of Mexico, is that ten household surveys, spanning more than 42 years (from 1950 to 1992) are available. This allows to examine some long-run relationships, and permits us to verify if the welfare changes that occurred since the initiation of the liberalization process are simply a continuation of long-run trends. The fact that the latest three surveys, held in 1984, 1989 and 1992 are strictly comparable among each other, make it possible to analyse the transformation period in some detail.
The chapter is organized as follows. Section 1.1 discusses some methodological aspects and presents a consistent series of poverty and inequality estimates for the country for the whole 1950–92 period, to set the problem we are dealing with in an adequate historical context. Section 1.2 provides some background on the Mexican economy and discusses the introduction of the liberalization measures. Section 1.3 takes a closer look at the changes in inequality during liberalization, while Section 1.4 concentrates on the changes in poverty. Section 1.5 deals with the question of whether it is likely that future growth will lead to substantial improvements in the standard of living of the whole population in the near future, while Section 1.6 sets the hypothesis we will work with throughout the book.

1.1 POVERTY AND INEQUALITY IN MEXICO BETWEEN 1950 AND 1992

Some Methodological Aspects

To place the problem we are dealing with in an appropriate perspective, we should first determine if the welfare changes between 1984 and 1992 are simply a continuation of long-run trends, or if there has been a turn-point in the inequality–development or in the poverty–development relationships in Mexico since the initiation of the liberalization process. To do so, we will need to produce some estimates because despite the existence of ten household surveys held in 1950, 1956, 1958, 1963, 1968, 1975, 1977, 1984, 1989 and 1992, a consistent series of poverty and inequality indexes for Mexico is not available.

Before engaging into the discussion, we need to select some summary measures to draw the comparisons, and explain how we will compute the indexes. In the case of inequality, we will restrict our attention to the Gini coefficient, which is the most widely used indicator, but for poverty, there are several commonly used measures that can be used to examine aggregate changes. As noted by Blackwood and Llynch (1994), most applied work on poverty measurement has used the head count ratio \( H \) (the proportion of the population below the poverty line), the average income gap of the poor \( I \) (the distance from the incomes of the poor to the poverty line), the combination of \( HI \) labelled the poverty gap, and