

The Economics of Poverty, Inequality and Wealth Accumulation in Mexico

Miguel Szekely

Research Economist

Inter-American Development Bank

Washington, DC



in association with £
ST ANTONY'S COLLEGE, OXFORD

Contents

<i>Acknowledgments</i>	x
<i>Introduction</i>	1
1 The Problem: Income Distribution and Poverty in Mexico During Economic Liberalization	7
1.1 Poverty and Inequality in Mexico Between 1950 and 1992	8
1.2 A Macroeconomic Overview of the Shift Toward Economic Liberalization	14
1.3 Inequality in Mexico During Liberalization	19
1.4 Poverty in Mexico Between 1984 and 1992	22
1.5 The Distance to Eradicate Poverty	31
1.6 A Hypothesis	36
2 How Much Inequality Can be Explained?	41
2.1 Decomposing Inequality	42
2.2 Inequality by Population Characteristics	53
2.3 Inequality by Income Source	54
2.4 Conclusions	56
3 Decomposing the Changes in Inequality	59
3.1 Some Explanations to the Change in Inequality	61
3.2 The Effects Over the Payments to the Factors of Production	63
3.3 Inequality and Government Policy	75
3.4 Inequality and Education	77
3.5 Conclusions	82
4 Explaining Poverty	85
4.1 Explaining Poverty	86
4.2 Explaining Poverty in Mexico	98
4.3 Conclusions	110

5	Explaining Changes in Poverty	115
5.1	Explaining Changes in Poverty	116
5.2	Explaining Changes in Poverty in Mexico	123
5.3	Conclusions	131
6	The Effect of Poverty Alleviation Programmes on Poverty	135
6.1	Theoretical Issues on Poverty Alleviation	136
6.2	Economic Growth and Poverty Alleviation in Mexico	147
6.3	Poverty Alleviation in Mexico: The Case of Pronasol	150
6.4	A Wider Set of Options for Poverty Alleviation	155
6.5	Conclusions	160
7	Restrictions on the Accumulation of Human and Physical Capital: Traditional Explanations	166
7.1	The Estimation of Household Savings	167
7.2	Who Saves in Mexico?	169
7.3	The Life-Cycle Hypothesis	171
7.4	The Permanent Income Hypothesis	180
7.5	Conclusions	183
8	Savings, Poverty and Uncertainty	187
8.1	Theoretical Aspects of the BST	188
8.2	The 'Impatience' Assumption	190
8.3	Household Savings and Uncertainty	192
8.4	Household Savings and Liquidity Constraints in Mexico	199
8.5	Buffer Stock Savings in Mexico	208
8.6	The Theory of Investment Driven Savings	211
8.7	Conclusions	217
9	An Alternative Approach	222
9.1	Household Savings in a Heterogeneous Population	222
9.2	Tests for Mexico	229
9.3	Wealth Accumulation and Economic Liberalization	233
9.4	Conclusions	236

Conclusions	239
<i>Appendix I Data and Definitions</i>	251
AI.1 The Data	251
AI.2 Some Definitions	254
<i>Appendix II Accounting for Interest Payments</i>	259
<i>Appendix III Estimating the Value of Household Assets</i>	261
<i>Bibliography</i>	263
<i>Author Index</i>	279
<i>Subject Index</i>	281