

A Report for
The Department of
International Development

The State of Poverty in Mexico:
The Macro Policy Context

John Weeks & Hulya Dagdeviren
Centre for Development Policy and Research
School of Oriental and African Studies
March 2000

Deadline: 6 March 2000
Word count: 9100 (approx)

Table of Contents

Executive Summary	3
1. Introduction	4
2. Poverty in Mexico	5
Analytical Framework	5
Trends in Poverty in Mexico	7
3. Links: Macro Trends, Structural Reforms and Poverty Reduction	12
Economic Structure and Performance	12
Growth and Poverty: Foreign Investment	14
Growth and Poverty: Exports	19
Liberalisation, NAFTA and Growth	23
4. Government Expenditure, Social Programmes and the Poor	24
References	29
Diagrams	31-35

The State of Poverty in Mexico:
The Macro Policy Context
Executive Summary

Mexico is a middle-income country with a high degree of income and asset inequality. As a result of this inequality, poverty levels are quite high despite the country's per capita income. Poverty reduction is achieved, by definition by economic growth and improved distribution. This report considers the former: what are prospects that Mexico can grow at a rate that would make a substantial contribution to poverty reduction? Thus, the discussion presumes that growth would be distribution neutral, even though limited evidence suggests there is a poverty-increasing bias to the country's growth strategy.

The main conclusion is that the present development strategy seems to imply a rather modest rate of growth. At the end of the 1990s, about one-third of households were in poverty. This report takes the target of twenty percent by 2015 as a nominal poverty reduction target. Given population growth, the GDP growth rate to achieve this target is a modest 4.2 percent. The main drivers of the country's development strategy are foreign investment and exports. An analysis of these indicates that they are unlikely to foster the growth rate that would allow poverty reduction to closely approach the target. This is because: 1) statistical analysis indicates a crowding out of domestic investment by foreign investment in the 1990s, such that foreign investment has a limited impact on the aggregate growth rate; and 2) in the 1990s it appears that increases in exports were associated with a decrease in production in non-export sectors.

Contrary to expectations, Mexico's entry into the NAFTA has not resulted in its growth rate being more sensitive to that of its large northern partners. One also finds that entry into the NAFTA has been coincident with a fall Mexico's share of foreign investment to Latin America (though foreign investment rose absolutely after entry).

1. Introduction

This paper provides an economic analysis of the present state of poverty in Mexico, focussing upon the macroeconomic context. While not historical in the strict sense, the study considers the relationship among growth, distribution and the well-being of the poor over several decades. Following the terms of reference for this report, the text does not review past or present poverty alleviation programmes. This report deals with a number of issues, but focuses upon a central question: does the evidence suggest that the present growth trajectory of the Mexican economy is adequate to achieve a substantial reduction in poverty?

Mexico is a middle-income country with relatively high inequality, even for Latin America, and, as reported by the World Bank, almost one-third of the country's households suffer in poverty. Independent estimates in this report confirm that statistic. A rigorous analysis of the causes and remedies for poverty in Mexico is made particularly problematical because of the major structural changes that have occurred in the economy and society. In the 1970s, Mexico became a major exporter of petroleum, and briefly enjoyed a major economic boom that was virtually unconstrained by foreign exchange earnings. This boom came to a dramatic and sudden end with the debt crisis of the 1980s, whose proximate timing was the result of a suspension of debt service payments by Mexico itself. Recovery from this crisis proved protracted, and its assessment is rendered complex by the country's entry into the North America Free Trade Agreement in 1992. Thus, there are at least three aspects of adjustment that affect one's interpretation of the current macro climate: 1) the transition away from an oil-dependent economy; 2) transition to a relatively liberalised economy in the context of 'Washington Consensus' stabilisation and structural adjustment; and 3) re-structuring of the economy *via* increased integration with two considerably more developed neighbours, Canada and the United States.

It is unlikely that any formal model could disentangle these aspects of adjustment, much less provide clear casual links to poverty. However, policymakers face unavoidable decisions, be the world simple or complex, so the unlikelihood of rigorous modelling cannot absolve one from venturing into analysis. This report seeks at the minimum to identify the major forces, and interactions of those forces, that can guide policy towards poverty reduction in Mexico.

2. Poverty in Mexico

Analytical Framework

This section reviews the relationship between growth and poverty, including the main factors fostering growth ('drivers'), and prospects for the near future, and how these prospects might affect the poor. The section also considers how and the extent to which the poor participate in the gains from growth. It begins with a conceptual discussion, then turns to a presentation of the relevant macroeconomic statistics. The purpose of the discussion is to assess whether recent policy-driven changes in the economy have enhanced growth potential. *If this is the case*, it has created the possibility of faster reduction of poverty.

No description of a complex social phenomenon can be complete; space and time dictate a selective presentation of arguments and evidence. Therefore, it is necessary to be explicit about the framework that is the basis of the selectivity. This report begins with a definition, which it expands into a behavioural (causal) discussion. The framework is summarised in Table 1. Throughout this report the term 'poverty' refers to an absolute income measure, such that households, adjusted for the number of members, age and other factors, are 'in poverty' if the household income falls below a pre-determined baseline. In any country, the proportion of households in poverty is by definition determined by three elements: the poverty line itself, the country's average per capita income, and the distribution of income around that average. For example, assume that for a given poverty line, twenty percent of households fall below it. If per capita income grows and the distribution of income is unchanged, then poverty falls. By how much it falls depends on the distribution of incomes below the poverty line.¹ On the other hand, if there is no income growth, a more equal distribution of income will reduce the number of households in poverty. These definitional results exclude two behavioural possibilities. First, the change in per capita income may induce a change in distribution. In the benign case, they reinforce each other: institutions and power relationships are such that rising per capita income generates a more equal distribution of income,

¹ For example, if all income grow by two percent, more households will be raised out of poverty if relatively more households are close to the poverty line. More households will be close to the poverty line if the distribution of income among the poor is more equal.

enhancing the effect of income growth. Alternatively, growth may generate greater inequality, in which case, for any increase in per capita income, the decline in poverty is reduced. In the extreme case, growth may increase inequality such that poverty is unchanged or even increases.

As shown below, on the basis of limited but consistent evidence, it appears that growth in Mexico has been at its best distribution neutral, and in some periods biased towards greater inequality. As a result, it appears that economic growth alone has not been an effective vehicle for reducing poverty, and slower growth would be even less effective.

Table 1: Conceptual Decomposition of Changes in Poverty at the Macro Level

<p>Percentage of households in poverty = [poverty measure, PL] x [per capita income, PCY] x [measure of distribution of income, DY]</p>	
<p>Changes in the portion of households in poverty (with the poverty measure constant) =</p>	<p><u>Some determining factors:</u> << Macro policy, supply side policies, trade policies</p>
	<p>(income growth effect) [DY below the PL] x [growth of PCY]</p>
	<p>(income distribution effect) + [change in DY]</p>
	<p>(distribution>>growth effect) + [change in PCY growth due to change in DY]</p>
	<p>(growth>>distribution effect) + [change in DY due to change in PCY growth]</p>
	<p><< Fiscal policies (expenditure & taxation), asset redistribution, targeting</p>
	<p><< The character of the interaction depends on institutions and distribution of political power</p>
	<p><< As above, the character of the interaction depends on institutions and distribution of political power</p>

Trends in Poverty in Mexico

Mexico has become a predominantly urban country, with the rural population declining from about half of the total in 1960 to approximately a quarter. While at the end of the century poverty remained concentrated in rural communities (and particular regions), it became increasingly an urban phenomenon and a condition suffered by urban and rural wage earning households. Some degree of macroeconomic stability was recovered in the 1990s, though inflation during the decade stood well above the level of the 1960s (see Table 7, below). Table 2 indicates that the changes in the labour force have been more complicated than merely a rural-urban shift. The table compares the distribution of Mexico's labour force to that of six other Latin American countries for 1980 (before the debt crisis depression) and 1992. The statistics show two important changes. First, an increase in the relative size of the non-agricultural labour force occurred in all the countries, in Mexico from sixty-four to seventy-one percent. At the same time, there was a rise in 'self-employment' from eighteen to thirty percent, with a corresponding decline in wage employment from three-quarters to sixty-four percent of the non-agricultural labour force. If these statistics are accurate, that is, they do not merely indicate a change in definitions, they suggest a dramatic 'informalisation' in the labour market. This would be consistent with the major structural changes in the labour market that occurred during the depression-affected 1980s.

Table 2: Distribution of the Labour Force in Selected Latin American Countries, 1980 and 1992

Country	1980:	Non-agric employment		1992:	Non-agric employment	
	Percent of labour force non-agric	Wage employment (publ&priv)	Self-employed	Percent of labour force non-agric	Wage employment (publ&priv)	Self-employed
Argentina	87.0	73.7	20.4	92.4	66.3	25.9
Brazil	68.8	76.0	22.9	75.1	68.3	22.5
Chile	83.6	63.9	27.8	86.9	69.4	23.0
Colombia	65.8	54.2	25.3	71.8	68.5	25.4
Costa Rica	69.3	77.6	16.3	75.5	73.3	20.9
Mexico	63.5	75.6	18.0	71.0	64.0	30.5
Venezuela	<u>79.2</u>	<u>74.2</u>	<u>21.2</u>	<u>90.5</u>	<u>72.7</u>	<u>23.6</u>
Latin America	68.2	74.4	19.2	73.4	68.2	22.5

Note: Non-agricultural labour force percentage from Food and Agricultural Organization, AGROSTAT. Division of non-agricultural employment from Thomas (1996, p. 88), based on ILO data. The residual is given as 'domestic service' in the original source.

Long term analysis of poverty in Mexico is a difficult task, mainly due to the lack of adequate data to measure poverty. In the case of Mexico, it is relatively easy to obtain various poverty measures for the 1990s, but more difficult for earlier periods. In assessing the performance of an economy in relation to poverty, a long-term view is unambiguously superior to a short-run perspective as it provides the basis for a comparative analysis. The exercise below is an attempt to create a rough picture of social welfare in Mexico since the end of 1960s.

There are various measures of poverty. The most popular ones include the proportion of population earning less than a benchmark income level.² In this section, we use a similar method to assess the performance of Mexican economy in relation to poverty. Income distribution data provided by WIDER is employed to construct a proxy measure for poverty in Mexico. The data covers all households in Mexico. The estimation involves distributing annual GDP for each year among five average income groups (quintiles) by their income shares, and then dividing average income level for each quintile by the size of corresponding population.³ We use the standard international measure of poverty as households with incomes equal to or less than two US dollars per day (1995 prices, *World Development Indicators* 1999). Within each quintile it is assumed that income is distributed linearly.⁴ This will tend to slightly under-estimate poverty, since distribution is typically log-normal. However, the resulting bias would be small for quintiles. The result yields Table 3, and the 1995 estimate for poverty is quite close to that found in other studies.

² Although poverty has many facets, it is most often explained and measured on the basis of a minimum income or consumption level. Earnings or consumption of individuals or households below this minimum are considered as an indication of poverty. For instance, in *World Development Reports of the World Bank*, \$1 per-day is used as a benchmark. Some studies use a certain percentage of GDP per capita (e.g. 75 per cent) as the minimum income. The cost of a basket of goods and commodities to attain a minimum living standard is another way of measuring poverty.

³Let $y_{ti} = \left(\frac{Y_t q_{ti}}{p_t} \right) \div 365$ where Y_t is the annual total national income. q_{ti} is the coefficient of the size distribution of income. y_{ti} is the average per capita income per day of the i th quintile and p_t is an annual constant corresponding to one-fifth of population. The numerator of the term in parenthesis gives the annual average income accruing to the population in the i th quintile.

⁴ For example, if there are 100 households in the bottom quintile and the income of the top household is 100, then, the income of the 99th is 99, etc.

Table 3: Estimation of Households in Poverty in Mexico, Entire Country, 1968-1995

<u>Year</u>	<u>PCY</u>	Hshlds in Poverty <u>(prct)</u>
1968	2166	28
1970	2368	25
1977	2885	31
1984	3177	30
1989	3091	35
1995	3139	34

Source: WIDER Database on income distribution.
 Note: PCY is per capita income in 1995 US dollars.
 See text for method of calculation.

In Figure 1, the poverty estimates are graphed in relation to per capita income for the country as a whole. Given the relatively few observations, only six, one must be cautious in drawing conclusions. However, it would appear that poverty has been rather invariant with respect to growth. For 1970 to 1977 there is an increase in poverty, even though per capita income rose substantially. This may have been the result of dynamics of the emerging petroleum-based economy. For the subsequent years, 1984, 1989, and 1995, there is no manifest relationship, with poverty remaining almost constant to 1984, then rising as per capita income fell to 1989, then slightly declining as income per head rose marginally to 1995.

These broad findings are supported by the data produced by other bodies. For example, according to the 1993 Human Development Report (HDR), 30 per cent of the population in Mexico lived under absolute poverty conditions between 1980 and 1990. The incidence of poverty for the same period among the rural population was 51 per cent and 23 per among the urban. The conditions did not improve significantly in the following years (HDR, 1994, 1996). A consensus seems to exist on increased incidence of poverty and inequality since the financial crisis in 1994 and oil price decline in 1997. Despite that the Mexican economy largely recovered from the adversities created by the financial crisis in 1994-95, similar improvements have not been achieved on the poverty front. Indeed, DFID's poverty profile indicates that the poor constituted 32.1 per cent of total population in Mexico and around a third of the poor were in extreme poverty in 1999.

Table 4: Rural and Urban Poverty

A. Households Below Poverty Line

	<u>1984</u>	<u>1989</u>	<u>1992</u>	<u>1994</u>	<u>1996</u>
Total	34	39	36	36	43
Urban	28	34	30	29	38
Rural	45	49	46	47	53

B. Households in Extreme Poverty

	<u>1984</u>	<u>1989</u>	<u>1992</u>	<u>1994</u>	<u>1996</u>
Total	11	na	14	12	16
Urban	7	na	9	6	10
Rural	20	na	23	20	25

Source: Economic Commission for Latin America & the Caribbean (website).

The extent of poverty in Mexico, as in many other developing countries, is much greater in rural areas than in urban ones. In Table 4 poverty levels are given for both rural and urban areas for a number of years in the 1980s and 1990s. These figures show that almost half of the households in rural areas were under conditions of poverty throughout the 1980s and 1990s. More serious, about half of the households below the poverty line were under extreme poverty (ie, incomes insufficient to cover their food needs alone). In urban areas, the percentage of households below the poverty line is lower and in extreme poverty is considerably lower. The total poverty levels seem to have increased by about 20 per cent from 1994 to 1996. The bias in poverty levels towards the rural population is also indicated by other indicators, such as access of population to safe water, health services and sanitation (Table 5). Although both the rural and urban populations enjoyed an improvement in their access to these facilities, the rural differential remained. There was, however, a deterioration in urban sanitary facilities in the 1990s.

Table 5: Access to Basic Needs Services

Access to:	<u>1988-90:</u>		<u>1990-95:</u>	
	<u>rural</u>	<u>urban</u>	<u>rural</u>	<u>urban</u>
Safe water	49	89	62	91
Sanitation	12	98	17	70
Health services	na	na	60	80

Source: UNDP, *Human Development Reports*, 1993, 1996

Finally, Table 6 shows the prevalence of poverty among different sectors of the working population. The first part of the table indicates that the public employees seem to be better off than those in the remaining three categories. Poverty is most prevalent among those employed by establishments with more than 5 workers and among domestic employees, both in urban and rural areas. However, the distribution of poverty among the working population reflects a different picture. Employees in small enterprises have a larger share in the poverty of working population in urban areas while those in medium and large enterprises hold the larger share in rural areas.

Since the evidence shows that a substantial number of waged employees were in poverty in the 1990s, it is relevant to review trends in unemployment and real wages. Due to methods of collection and calculation, Mexican statistics tend to show unemployment rates far below those in other Latin American countries (Weeks 1999). For this reason, and to include real wages in the same diagram, the urban unemployment rate is presented as an index in Figure 2. As a nominal benchmark, the official unemployment rate for 1995 (6.5 percent) is shown in the diagram. The unemployment index displays a virtually continuous decline from 1983 through 1992 (entry into the NAFTA). The subsequent sharp increase peaked with the so-called pesos crisis, after which unemployment fell for four consecutive years. This considerable decline in unemployment was not associated with any increase in real wages. In 1994, real wages reached their post-debt-crisis peak, 129 with 1990 as the base year. In 1999 they had fallen back to the 1990 level, far below the thirty-year peak of 150 in 1977. While evidence shows a 'tightening' of the labour market at the end of the 1990s, this was not transmitted to workers on average higher wages. Limited evidence suggests that the virtual stagnation of real average earnings hides important changes, rises in the wages of skilled workers and falls for unskilled workers (see Alarcon & McKinley, 1997a and 1997b). The apparent upward inflexibility of real wages in the second half of the 1990s partially explains why growth had a limited effect on poverty reduction. This upward inflexibility may reflect the decline in the influence of Mexican trade unions (see Foweraker, n.d., Richardson, Wise & Smith 2000, p. 4), and the absence of unions in many of the new export-oriented enterprises, both foreign and Mexican owned.

We can conclude that poverty is concentrated in rural areas, though the majority of the poor are urban. Further, poverty is a phenomenon of employees, in urban and rural enterprises, as well as of rural smallholders. Thus, poverty elimination requires a

complex mixture of programmes at the micro level. At the macro level, the heterogeneity of poverty households may explain why the reduction in the numbers of the poor has been relatively insensitive to economic growth.

Table 6: Poverty and Types of Employment in Mexico, 1996

<u>Category</u>	<u>Households in Poverty (%):</u>		<u>Distribution of Poverty (%):</u>	
	<u>Urban</u>	<u>Rural</u>	<u>Urban</u>	<u>Rural</u>
Public employees	19	23	7	3
Private sector, establishment size:				
Less than five employed	41	57	36	20
5 or more employed	59	67	23	22
Domestic workers	63	64	6	4
Others	<u>na</u>	<u>na</u>	<u>na</u>	<u>na</u>
Total	38	53	59	41

3. Links: Macro Trends, Structural Reforms and Poverty Reduction

Economic Structure and Performance

Economic growth in Mexico was dramatically lower during the last two decades of the twentieth century than in either the 1960s or 1970s (see Table 7). GDP expanded at close to seven per cent per annum, generating an increase in per capita income of about forty per cent in each decade. While the economy recovered in the 1990s, the pace of growth was quite slow by historical comparison, roughly half the rate of 1960-1981. It was also well below the average for other Latin American countries (see Table 8, below). The slowdown is shown graphically in Figure 3, which highlights the difference in economic performance between 1961-1981, when the growth rate average 6.3 per cent, and 1982-1999, when it averaged 2.3 per cent per annum. The difference for per capita income is demonstrated in Figure 4, with average rates of 3.5 per cent for the earlier period and .8 per cent for the later. For the 1990s, the rate of increase of per capita income was only slightly higher, at 1.3 per cent per annum. Further, during the 1990s inequality at best remained the same or marginally increased. We estimate that about thirty-four per cent of households in Mexico were in poverty in the mid-1990s. With a growth of per capita income of the average of the 1990s, it would take thirty years to

reach a twenty per cent target. Were the growth rate to double, to 2.6 per cent per annum, it would take fifteen years. This latter outcome is proposed as a target for poverty reduction, based upon the assumption that growth is distribution-neutral. Given that the rate of population increase over the next two decades will be about 1.6 per cent per annum, a 2.6 growth rate of per capita income implies a GDP growth rate of 4.2 per cent. This is a modest rate, equal to the average for the other seventeen Latin American countries. *We take this as an illustrative target: a distribution-neutral GDP growth rate of 4.2 per cent per annum, to reduce poverty to twenty per cent of households by 2015.* To the extent that growth generates greater inequality, the target for poverty reduction would require either a higher growth rate or purposeful redistribution policies. Below, it is concluded that even achieving the modest GDP growth rate of 4.2 appears problematical under present economic structures and policies.

Principle point:

Poverty reduction is achieved through growth of per capita income and redistribution of assets and income. If growth alone is to make a substantial contribution to poverty reduction in Mexico, there must be an improvement upon the performance of the 1990s.

Table 7: Mexico: Basic Economic Indicators, 1960-1999

<u>Decades</u>	<u>GDP grw</u>	<u>PCY</u>	<u>Inflation</u>	<u>Prct Urban</u>	<u>Gini</u>	<u>(year)</u>
1960-69	6.5	2205 (+42.3)	3.9	54.5	.53	(1963)
1970-81	7.2	3008 (+36.4)	17.3	62.4	.45	(1970/77)
1982-89	.2	3113 (+3.5)	78.1	69.2	.48	(1988)
1990-99	3.4	3405 (+9.4)	18.9	73.1	.50	(1992/95)

Notes: GDP grw is the annual average growth rate for the decade. PCY is per capita income at the end of the decade (eg., average of 1969-69). The number in parenthesis is the increase over the previous decade's figure (eg. 1969-71 compared to 1959-61). In the last decade, 1998-99 is used. Inflation is the average annual rate for the decade. Prct urban is the average for the decade. Gini is the Gini coefficient for household income, entire country, for the year given in parenthesis to the right. Where there are two years, it is the average for those years.

There is little difficulty in accounting for the slow growth during the 1980s, which was a decade when per capita income fell in virtually every Latin American country due to the debt crisis and the associated demand compression policies designed to facilitate debt servicing. The debt-associated decline was particularly severe for Mexico. In this context, it can be noted that it is now recognised that, whatever one's judgement about the causes of debt accumulation and the pre-1980s development policy of the Mexican government, the demand compression policies of the decade were excessive.⁵ This view is supported by a statistical exercise based on a simple growth model which indicates that if Mexico's ratio of debt service to exports during the 1980s had been the same as during the 1970s, per capita income would have grown at two per cent rather than at the actual rate of 0.2 per cent. This would have generated a GDP per capita in 1990 twenty per cent higher than the actual figure (Weeks 2000).

It is more difficult to account for the relatively slow growth in the 1990s. Yet, it is important to do so in light of the foregoing discussion of the determinations of poverty at the macro level, growth and distribution. Any attempt to project, much less plan, for poverty reduction requires a judgement as to the sustainable growth rate that the economy could achieve over the medium-term future. To begin this assessment, Figure 3 provides, along with GDP growth rates, the annual deviations from the average for 1961-1999. During 1961-1981, growth was below the long-term average in only three of nineteen years, while for 1990-1999, it fell below that average in three of ten years. The question can be posed as follows: should one expect the economy in (say) the present decade to regain a growth rate of six per cent (about four percent per capita), or to continue at the much lower rate of the 1990s? This implies a further question: was the growth rate of the 1990s a 'transition' from stagnation to a higher sustained rate, or what one should expect under the present development strategy?

⁵ See DePines (1989), who characterises these policies as 'over-adjustment', and Stiglitz (1998), who argues that within Washington Consensus policy packages too much emphasis was placed on repression of inflation and not enough on stimulating growth.

Growth and Poverty: Foreign Investment

Insights to these questions can be obtained by identifying the main engines or ‘drivers’ of growth. It is typically asserted that in the 1990s the growth of the Mexican economy was determined largely by the inflow of foreign investment and export orientation. First, we consider foreign investment. Inspection of Table 8 shows that foreign direct investment flows into Mexico were virtually the same as the average for the other Latin American countries, and Mexico ranked tenth out of eighteen in this league table. Only two major countries ranked below Mexico, Brazil (less than one percent of GDP) and Argentina (1.5 percent). Foreign investment may have been a major driver of Mexico’s growth, but given the level of inflows, the speed was moderate (a full percentage point below the average for the other countries). One can note that along with being ranked tenth for foreign investment inflows, Mexico ranked twelfth for the rate of growth of total investment.

Inspection of the evidence suggests that the relationship between growth and the modest level of foreign investment was considerably more complicated than a simple formulation of positive causality suggests. Figure 5 shows foreign direct investment as a percentage of GDP (fdi/gdp) and foreign portfolio capital as a percentage of GDP (PtC/gdp). Direct investment in the 1990s, while rather unstable, was substantially above the level during the high-growth 1970s (when the data begin). Portfolio investment, largely of purchases of short-term government bonds, rose from near zero to about four per cent of GDP for 1992-1996.

However, these increases do not necessarily indicate that foreign investment was a driver of growth.⁶ The first cause for doubt comes from the relationship between foreign direct investment and the trade balance. Typically, foreign investment inflows are associated with a rise in a trade deficit. This is because foreign investment normally finances the imports required by the capital projects associated with those investments. Indeed, a typical rule of thumb is that a trade deficit equal to (‘covered by’) direct foreign investment inflows is sustainable and requires no policy adjustment. In this context, Figure 6 comes as a surprise. For 1970-1985 one finds the expected relationship: the trade balance (negative for 1970-1981) approximately tracks direct foreign investment

⁶ Most of the discussion below will refer to *direct foreign investment*, a term which was typically used in the past to refer to the creation of capital assets by foreign companies and individuals.

flows.⁷ However, after 1990, the two series are *positively* correlated; ie, a rise in direct foreign investment is associated with a decline in the trade deficit.⁸ This suggests that direct investment did not finance imports. If not, what was the motivation for its inflow? One possibility is that the reported investment was not ‘direct’ in the usual sense, but was used to purchase existing assets, either through privatisation or purchases of assets from Mexican nationals. If this hypothesis is correct, it implies that the foreign investment did not for the most part create new productive capacity; and, thus, did not stimulate an increase in the sustainable growth rate.

The hypothesis that direct foreign investment in Mexico has not in the recent past made a major contribution to increasing aggregate investment is supported by Figures 7 and 8. Figure 7 shows total fixed investment in the economy and foreign direct investment, both as a proportion of GDP. Casual inspection suggests the former has been relatively invariant with respect to the latter. This, in turn, implies a trade-off or negative relationship between investment by foreigners and investment by Mexicans; ie, a ‘crowding out’ of domestic investors by foreign investors. Figure 8 shows that there is strong *prima facie* evidence for such a negative relationship. Foreign investment as percentage of GDP is measured on the vertical axis, and investment by domestic agents as a percentage of GDP on the horizontal axis. Visual inspection yields an obvious negative relationship, and a simple regression line confirms this, though apparently the relationship changed over time. If one divides the period, for the years 1970-1984 the relationship is strongly positive. That is, for these years, before the major liberalisation reforms of the 1980s, the statistics indicate that more direct foreign investment was associated with more investment by nationals. This implies that the two types of investment were ‘crowding in’ each other over this fifteen year period. For the subsequent thirteen years the statistics indicate the opposite, a strong ‘crowding out’. The statistics suggest that after 1984 there *was almost complete crowding out* of domestic investment by foreign investment.⁹

⁷ For 1970-1985 the correlation between the two is negative as expected, and movements in FDI levels explain about thirty percent of the movement in the trade balance.

⁸ There are only eight observations, but the correlation coefficient of approximately forty per cent is significant at two per cent probability.

⁹ The statistical relationships are as follows, where *mfi* is domestic fixed investment and *fdi* is foreign direct investment, and *ln* indicates the natural logarithm is used. Both variables are measured as their percentage of GDP. The significance of each coefficient is given in parenthesis below the relevant coefficient. This number gives the probability that the coefficient is actually zero (less than one chance in one hundred in all cases).

A negative relationship between foreign and national investment may not be undesirable. The Mexican government may be indifferent as to the origin of investments; indeed, if it judges foreign investment to be the vehicle for modernisation and increased efficiency, it may prefer it to investment by nationals. However, a negative relationship implies that foreign investment is a ‘driver’ of growth only in a quite limited sense. While the growth rate of GDP may be positively affected by the putative greater efficiency of foreign management, this will be a minor influence compared to increases in the *share* of investment in GDP. If foreign investment does not substantially contribute to raising the investment share (as the statistics suggest), its impact on growth rate in the medium term will be small.

Several reasons might be suggested for the change from crowding in to crowding out for the two types of investment. The shift after 1984 might reflect the higher real interest rates associated with the stabilisation policies of the Washington consensus. High real interest rates and monetary austerity in general in Mexico would have discouraged domestic investors, but had little impact on foreign investors, who would have access to borrowing abroad, especially in the United States. Once the capital account was liberalised in Mexico, which occurred in the 1980s, domestic investors in principle also had access to borrowing abroad. However, in practice their access was restricted, by perceived credit-worthiness and the lending preferences of overseas banks. If this were the main factor accounting for the trade-off, one might be optimistic that the tendency would be reduced as Mexican interest rates fell. It may be that this conclusion is too optimistic. In the 1990s, the Mexican economy displayed notable instability despite some recovery of the growth rate. If this instability is a structural characteristic of the reformed economy, substantially lower real interest rates cannot be anticipated. Further, it may be that Mexican investors suffer from competitive disadvantages with

1970-1984

$$\ln(\text{mfi}) = .137 + 7.049[\ln(\text{fdi})]$$

(.00) (.00)

R-square = .628, F = 21.93, degrees of freedom = 13

1985-1997

$$\ln(\text{mfi}) = .175 - 1.167[\ln(\text{fdi})]$$

(.00) (.00)

R-square = .622, F = 18.11, degrees of freedom = 11

Because the estimations use logarithms, the coefficients on foreign direct investment are the elasticities between the two variables.

respect to foreign investors, associated with corporate size and market access. If this be the case, liberalisation of the capital account may have embedded a trade-off into the market for investments.¹⁰ A recent ECLAC report on foreign investment in Mexico concurs with the general thrust of our observations, which concludes that, ‘The dynamism of the sector of the economy dominated by FDI has not been enough to raise the economy’s long-term global growth rate significantly’ (ECLAC 2000, p. 37).

Principle conclusion:

While Mexico has been moderately successful in attracting foreign capital, it appears that there was a one-to-one trade-off between FDI and national investment over the last fifteen years. This goes far in explaining the relatively modest growth rate over that period.

This relationship between foreign and domestic investment casts doubt upon whether the economy can in the near future substantially reduce poverty via growth alone.

Table 8: Economic Indicators for Mexico, Compared to Other Latin American Countries, 1990-1999

<u>Growth Rates</u>	<u>Annual Averages</u>		<u>Mexico's Rank (of 18)</u>
	<u>Latin America (w/o Mexico)</u>	<u>Mexico</u>	
GDP	4.2	3.4	15
(coef var)	(.79)	(1.28)	(16)
Agriculture	3.0	2.1	12
Manufacturing*	3.2	4.2	5
Exports	9.1	12.8	4
Investment	8.6	7.3	12
FDI/GDP (%)	2.0	2.1	10

*Bolivia and Paraguay omitted due to insufficient data. Coef var is the coefficient of variation of the growth rate (standard deviation divided by the mean), and measures the instability of the growth rate. The seventeen other Latin American countries are all the Spanish-language countries except Cuba, plus Brazil.

¹⁰ For a review of the impact of capital flows on the poor and on income distribution, specifically for Latin America, see (Griffith-Jones 1996).

Growth and Poverty: Exports

We now consider whether export growth has contributed to the reduction of poverty. Reference back to Table 8 indicates that, as for foreign investment, the relationship of exports to growth is not straight-forward. While Mexico ranked fourth for export growth, it was fifteenth for GDP growth. This suggests an interaction similar to that found for total investment and foreign direct investment. Export growth is relevant to our discussion of poverty because it is potentially one of the drivers of growth. Our interest is in whether over recent years export performance has enhanced growth, and, thus, contributed to the potential for poverty reduction. Rapid export growth is not a policy end, but a means. To treat it as an end would be to adopt a mechanistilist development strategy. At a very general level, one can set the following criterion: export growth is desirable in as far as it facilitates raising the welfare of the population. It may do this in several ways. First, increased exports can foster general growth of the economy through linkages to other sectors. Second, faster export growth may be associated with increased efficiency, either static or dynamic.¹¹ Thus, the crucial issue is whether the growth of exports is transmitted to other sectors, either directly through demand linkages, or indirectly through the spread of more efficient techniques and practices. This is especially important for poverty reduction, because most of the poor in Mexico, especially the rural poor, do not produce export products. If export growth will reduce poverty *via* income growth, it must have a positive impact on non-export GDP.

The basic information to assess the impact of exports growth on income growth is given in Figure 9 and Table 9. Figure 9, which measures exports in constant prices on the vertical axis and an estimate of non-export GDP on the horizontal axis (both in logarithmic values),¹² is quite striking. From 1960 through 1981, the two variables are

¹¹ Static efficiency refers to 'welfare' gains that result from a more efficient allocation of resources. Efficiency gains may also have dynamic implications if they result, for example, in a higher level of investment. Static gains are predicted by economic theory. Most arguments for dynamic gains must be empirically verified.

¹² Non-export GDP is estimated as follows. By definition, GDP is

$$Y = C + I + G + (X - M) + (\Delta inv), \text{ where } C = \text{private consumption, } I = \text{private investment,} \\ G = \text{government expenditure, } X = \text{exports, } M = \text{imports,} \\ \text{and } (\Delta inv) = \text{inventory change}$$

If inventory change is zero, then Y is equal to value added. If the value added in exports is αX , then non-export GDP is,

$$Y_{nx} = Y - \alpha X$$

almost perfectly correlated (see Table 9). Over these twenty-two years, export production and non-export production moved in step with each other. The ratio of GDP growth to export growth was not significantly different from one, and, therefore, the elasticity between the two was unity. This might be explained by production and demand linkages between export and non-export sectors in the 1960s; and, for the 1970s, the expenditure of petroleum-generated state revenues in non-export activities. The result was a relatively high rate of export growth by world market standards of the time, and a correspondingly high rate of GDP growth.

During the 1980s the relationship changed dramatically, which is not surprising given the country's debt crisis. While exports grew slightly faster, non-export GDP declined at an annual rate of just over one per cent. During this period demand compression policies created a depression in the internal market, such that producers had to sell abroad, if at all. In statistical terms, the negative relationship between the two variables is marginally non-significant.¹³ Given this statistical result and the transitory nature of the debt crisis, it might be concluded that the negative relationship was a conjunctural phenomenon rather than a structural change. However, the negative relationship is also manifest in the 1990s, when the economy recovered. Despite a growth rate of aggregate GDP of 3.4 over the 1990s, non-export GDP marginally declined, at minus 0.1 percent per annum. At the same time, exports grew at the fastest rate for any of the four decades, almost thirteen percent per annum. The elasticity between exports and non-export GDP was negative, minus .14. That is, during the 1990s, a ten per cent increase in exports was associated with a 1.4 per cent decline in non-export production.

It is important to clarify the implications of this statistical finding. In the 1980s and 1990s, the Mexican government pursued a policy designed to shift incentives in favour of exports. Any such shift in incentives will always provoke a negative substitution effect, in which producers shift resources from non-export products to export products. This is not a failing, but the purpose of policy. At the same time, there may be a positive income effect, as increased export production stimulates, *via* demand, greater non-export production. During 1960-1980, the positive income effect far out-weighted

If over time α is constant, then the annual percentage changes in $(Y - X)$ equal the annual percentage changes in $(Y - \alpha X)$, and the two series differ only in level.

the negative substitution effect. During 1981-1999, the substitution effect overwhelmed the income effect. For the 1980s, this can be explained by contractionary monetary and fiscal policy, which depressed domestic demand. This explanation does not apply to the 1990s, when the economy expanded at over three per cent per annum. Thus, the negative relationship between exports and non-exports in the 1990s may represent a structural change, reflecting an over-emphasis on export promotion. Two possible causal mechanisms come to mind. First, it may be that the manufactures that account for much of the country's growth of export volume have relatively few linkages to non-export sectors. Lack of linkages has been pointed out by an ECLAC report, '...these [foreign] firms, which make intensive use of capital and intra-industry trade [ie, outside Mexico], generally create few jobs for skilled works, and their linkages with the rest of the economy are still minimal' (ECLAC 2000a, p. 37). In addition to this problem, the non-export economy may be demand constrained as the result of the substantial decline in public expenditure during the 1990s (see below). This second possibility can be considered structural in the sense that the development strategy of the government calls for a reduced public sector.

This analysis of export growth produces an obvious conclusion. During the 1990s the export growth did not serve as a driver for the economy as a whole. On the contrary, increased export growth reduced the rate of aggregate GDP growth. This implies that export growth did not serve as a vehicle for achieving a target rate of growth that would increase the rate of poverty reduction. The interaction may be even more prejudiced against poverty reduction if, as seems the case, the poor tend to be concentrated in non-export sectors. These points taken together suggest that Mexico's specific form of an export-oriented development strategy may have the structural characteristic of increasing poverty through generating greater inequality as the economy grows.

¹³ The standard guideline for calling a relationship 'significant' is that there be a ten percent or less probability that it is random. For 1981-89, the probability of randomness is thirteen percent.

Principle conclusions

1. Mexico has been notably successful in raising the rate of growth of exports. However, faster export growth in the 1990s appears to have been at the expense of growth in non-export sectors. This may have dealt a double blow to poverty reduction:

- export growth would not serve as an effective vehicle for achieving a target rate of growth appropriate for poverty reduction; and
- by its negative impact on non-export sectors, where the poor are concentrated, faster export growth increases inequality.

2. Even were growth distribution-neutral, given the apparent interactions of foreign investment, exports, and GDP growth, it would appear unrealistic to project a GDP growth rate with could have a major impact on poverty levels (eg, reducing the share of households in poverty to twenty per cent by 2015).

Table 9: Growth of Exports and Non-Export GDP (value added), 1960-1999

<u>Statistics</u>	<u>1960-81</u>	<u>1981-89</u>	<u>1990-99</u>
Growth rates:			
a. NxGDP	6.6	-1.1	-0.1
b. Exports	6.8	7.4	12.8
Analytical Statistics:			
Ratio a/b Elasticity, NxGDP-exports	.98	-.13	-.01
Correlation	.96	.22	.40
Significant @	.00	.13	.03

Notes: NxGDP is GDP minus exports. The correlation is between the level of NxGDP and level of exports, in logarithmic form. The last line gives the statistical significance of the relationship for each period. The 1999 values are through the third quarter, adjusted as annual rates.

Liberalisation, NAFTA and Growth

Mexico began a process of economic liberalisation in the mid-1980s, and in the midst of its adjustment to the major structural changes associated with this, joined the NAFTA in 1992. Neither of these policy shifts would be difficult to disentangle from conjunctural factors. The task of identifying the effects of each separately is virtually impossible. With this in mind, a few tentative observations can be ventured.

With regard to trade and capital account liberalisation, it would appear that the reforms have created a relatively low-growth outcome. This is suggested by Mexico's relatively poor performance compared to other Latin American countries. This does not imply that liberalisation results in low growth in general, but it casts doubt on the effectiveness of the particular combination of policies applied in Mexico. The proximate causes of the low growth are the apparent crowding out of domestic investors by foreign investment, and the negative interaction between export growth and non-export sectors. Neither of these is general to Latin America, though it is beyond the scope of this report to consider evidence for other countries.

With regard to poverty, the NAFTA is relevant in as far as it impacts on distribution directly, or affects growth *via* influencing the overall growth rate of the economy. What might be speculated about its impact on distribution has been covered in other sections, in the discussion of foreign investment and exports. With regard to growth, one can assume that the mechanism by which the NAFTA would stimulate growth would be *via* the transmission of the robust growth of its large northern neighbour, the United States, to Mexico. Therefore, it must come as some surprise to discover that Mexico's GDP growth rate was correlated positively to that of the United States during 1960-1981, but not subsequently.¹⁴ More surprising still, the growth rate of Mexico's exports were not significantly correlated with the growth of US GDP except during the 1970s. This does not imply that the NAFTA did not stimulate exports from Mexico to the United States, which it obviously did, as bilateral trade statistics show. Rather, it indicates that this stimulation was the result of the lowering of trade barriers,

¹⁴ The correlations are given below. The statistics refer to the US rate lagged one period.

1960-1970	positive, significant, elasticity of .55
1970-1981	positive, significant, elasticity of .69
1981-1990	positive, non-significant
1990-1999	negative, non-significant

rather than generated through the transmission of the rapid US growth of the 1990s to the Mexican economy. This, in turn, raises the possibility that the one effect of NAFTA was to divert Mexican exports into the United States from other markets.

As for exports, one would expect that entry into the NAFTA would have increased foreign direct investment to Mexico. While foreign investment increased absolutely from 1992 onwards, Mexico's inflows compared to those for the region as a whole declined. In 1990 and 1991, foreign investment to Mexico was about forty percent of the total for Latin America and the Caribbean. From 1992 onwards, the proportion fell, to about twenty-five percent for 1998-1999 (ECLAC 2000c). In as far as entry into the NAFTA had the purpose of increasing foreign investment, its promise was not fulfilled.

Whatever might be overall impact of the NAFTA on the Mexican economy, the conclusion of ECLAC, that regional integration did not raise Mexico's sustainable rate of growth, would seem sustained. The Mexican government is committed to membership in the NAFTA. In the long run this may prove a desirable element of the government's growth strategy. Evidence suggests that some policy adjustments are required to achieve this outcome.

4. Government Expenditure, Social Programmes and the Poor

Poverty in Mexico in the second half of the 1990s was accompanied by the attempts of the government to change its poverty alleviation strategy in response to new priorities. The changes follow from several concerns, which have shaped policy. The government's arrangements with the IMF and the World Bank, and the emphasis of these institutions on 'fiscal prudence', macroeconomic stability and 'deepening' the liberalisation process, imply a limitation on public sector interventions. As part of liberalisation, the government declared its intent to move away from generalised subsidies to targeted ones, in its Letter of Intent to the IMF in June 1999.

Perhaps the most important of these subsidies for the poor were those affecting tortillas and gas, which generated a budgetary cost of one-half per cent of GDP. The

announced policy was to shift this expenditure towards targeted programs. This change was part of the social support system with a three-tiers: universal programmes,¹⁵ targeted programs for poverty alleviation, and rural programs. Targeted programmes focus on poverty alleviation, and nutrition, health and education. The share of targeted programs in total social spending increased in the late 1990s. The spending on targeted health care, sewage, housing, and drinking water increased from 5.5 million pesos in 1995 to 8.2 million in 1997. As a part of nutrition, health and education programmes, the public sector provided school lunches for 4 million children, distributed tortillas to 15 per cent of population, supplied subsidised milk to 5.4 million children, granted scholarships and regular medical check-ups for one million children in 1997. Temporary employment programmes aimed to create work through generating public works with potential benefits for community. The jobs created were for the unskilled. Through this program, 1.7 million jobs in 1995 and 1996 and 1 million jobs in 1997 were generated for a three-month period.

Finally, an increasingly decentralised approach to poverty alleviation characterised the government's strategy. Decentralisation of fiscal policy in Latin America has been supported by the Economic Commission for Latin America and Caribbean (ECLAC), as well as the Inter-American Development Bank. Decentralisation is promoted mainly on the basis of higher efficiency expectations in several areas. These include the efficiency in the allocation of public goods and services, in regional and personal redistribution, and in governance. It is also expected to contribute to transparency of the management of public budget. The Fund for Municipal Social Development (FDSM) and Municipal Solidarity Fund (FSM) are instrumental in the decentralisation process. The goals of these funds are described as reinforcing the financial capacity of the municipalities, directing government resources towards targeted areas and people, and fostering social participation.

Related to these programmes, a complex system of social development has been organised to confront different dimensions of poverty, e.g. rural, urban and regional poverty, poverty of female population. Various funds function to contribute to the social and productive development in poor regions. These include Fund for Productive Development, Fund to Encourage Regional Sustainable Development, Fund to Assist

¹⁵ Education, health care, social security and job training, and housing services are included in universal programs.

Priority Groups, Fund for Social Co-investment and Community Development. Among these, Fund for Productive Development has the largest share in the Social and Productive Development Budget (Budgetary Item 26). The government specified 91 regions (in the 31 states) for priority attention. Distribution of social development funds is conducted partly on the basis of the regional poverty differentials. For example, in 1997, FDSM distributed 40 per cent of its resources to the states of high poverty such as Veracruz, Chiapas, Guerrero, Puebla, Oaxaca, and Mexico. Of the total FDSM budget in the same year, 73 per cent was devoted to basic infrastructural programs (sewage, water, electrification, etc.). There are also specific units functioning within the ministry of social development, SEDESOL, with the objective of reducing poverty.¹⁶ At this stage it is too early to assess the effectiveness of these programmes.

The behaviour of total public spending and its distribution between several social sectors are given in Table 10. Two opposite trends are observable. The first is that total public spending as a ratio of GDP increased until 1987. From that year onward, the share of total public spending declined dramatically. The second observation is that the ratio of social programmes to total government spending declined as the share of the latter in GDP rose. This decline is accounted for by the rapid rise of public sector interest payments (servicing of the foreign debt). From 1987 onwards, social spending again began to rise, as debt service fell. For the 1990s, social expenditure was about nine per cent of GDP, above the level of the 1970s (when it was about seven per cent), and virtually the same as the first half of the 1980s. Thus, sharp reductions in interest payments in the 1990s helped restore public spending on education, health and other social spending categories to previous levels.

In this context it should be noted that in the 1990s, government social spending in Mexico was relatively less than for other large Latin American countries. Given the commitment of the government to fiscal discipline,¹⁷ there is little room for the government to raise its expenditure substantially without an increase in its revenue. A major change in the tax system does not appear to be on the policy agenda. Instead, the government, according to its 'Letter of Intent' of June 1999, intends to rely only on

¹⁶ CONAZA is a commission that assists the inhabitants of marginalised communities in arid zones. DICONSA supplies basic products at lowest prices for rural poor. FIDELIST grants one-kilogram daily support of tortilla for the families earning less than 2 minimum wages. PRORESA organises education, health and nutrition programs.

¹⁷ The planned fiscal deficit for the year 2000 was one per cent of GDP.

measures to reduce tax evasion and increased efficiency of collection in general. Yet, it would appear that increased expenditure is necessary, since, as we have shown, growth alone is unlikely to be effective in substantially reducing poverty in Mexico. DeJanvry and Sadoulet's (1995, p. 16) conclusion for Latin America as a whole is appropriate for Mexico,

Growth has been ineffective in reducing inequality... [which is one of the most powerful instruments for reducing poverty, particularly urban poverty. Reducing inequalities requires special interventions...[that] are needed to link inequality reduction to growth...

This view, that growth is not sufficient to improve living standards of workers and, thus, the vast majority of the Latin American population, has been even more forcefully stated in a report for the President of the Inter-American Development Bank:

It remains a source of amazement to observe...so little being learned from experience....[E]xperience should have taught us long ago that high rates of economic growth are a necessary but insufficient condition for achieving social objectives such as the creation of higher rates of productive employment, poverty reduction, the provision of high quality education and health services, the maintenance of the quality of life in urban centers, and so on... (IDB 1994, p. 1)

A review of the evidence indicates that in the 1990s, Mexico's share of government expenditure in GDP was lower than for any other major Latin American country except Argentina.¹⁸ This suggests that poverty-reducing expenditures could be raised without Mexico being accused of fiscal imprudence.

¹⁸ The ratio for Mexico was seventeen percent, and for other major countries was: Brazil (32 percent), Chile (21), Venezuela (19).

Table 10: Public Spending in Mexico, 1972-1997

years	GEXP/ GDP	SS/ GEXP	Genrl Public Services	Def- ence	Edu- cation	Health	Social security and welfare	Housing & commu- nity amenities	Public Interest Payment /GEXP
(Shares in total government expenditure)									
1972	11.9	52.9	9.5	4.7	16.2	5.0	22.2	(-)	(-)
1973	12.4	52.5	8.5	4.7	16.4	4.9	22.7	(-)	(-)
1974	13.2	51.8	7.4	4.4	16.0	3.9	24.4	(-)	(-)
1975	14.8	52.3	8.3	4.1	17.8	4.1	21.9	(-)	(-)
1976	15.2	56.2	8.8	3.6	18.1	4.1	25.1	(-)	9.5
1977	15.4	53.0	4.3	3.2	19.9	4.4	24.4	(-)	11.0
1978	15.7	45.9	2.3	3.0	19.7	4.0	20.0	(-)	11.2
1979	16.6	42.9	1.5	2.9	18.7	3.9	18.8	(-)	10.4
1980	18.2	41.0	2.1	2.3	17.9	2.4	16.0	2.6	10.0
1981	20.8	47.8	8.9	2.5	18.2	1.9	14.7	4.1	14.3
1982	31.7	33.6	6.3	1.6	13.1	1.3	10.6	2.3	14.7
1983	27.0	32.0	7.4	2.0	11.0	1.2	10.2	2.3	35.9
1984	25.0	34.3	8.5	2.7	12.4	1.5	9.5	2.4	33.5
1985	27.6	32.1	7.8	2.5	11.5	1.4	9.7	1.7	37.0
1986	31.5	25.1	5.2	2.0	9.1	1.3	8.2	1.3	50.8
1987	33.5	19.8	2.3	1.8	8.5	1.2	7.0	0.9	60.8
1988	26.8	21.3	1.9	2.0	9.5	1.4	8.0	0.5	59.5
1989	22.2	29.4	4.2	2.4	12.5	1.6	10.3	0.8	51.4
1990	19.5	35.2	4.4	2.6	14.5	1.9	13.1	1.4	45.0
1991	16.3	48.1	5.1	3.3	19.7	2.6	18.6	2.1	30.6
1992	15.8	55.4	5.8	3.7	22.9	3.0	21.0	2.6	23.3
1993	16.0	61.2	6.3	3.9	26.4	3.1	22.6	2.8	16.5
1994	16.3	62.8	6.7	4.5	27.1	3.4	23.0	2.7	13.4
1995	17.4	55.6	5.5	3.9	24.1	3.2	20.0	2.8	18.1
1996	16.7	52.6	5.1	3.7	24.5	3.3	19.3	0.3	18.6
1997	(-)	54.0	7.0	3.5	22.1	3.4	18.1	3.4	13.7

Source: *Government Finance and Statistics* of the IMF and *World Development Indicators* of the World Bank.

Notes: GEXP; Total government spending. SS: Government social expenditure which includes the five categories given in this table.

Figure 1:

Mexico: Percentage of Households in Poverty and Per Capita Income, 1968-1995

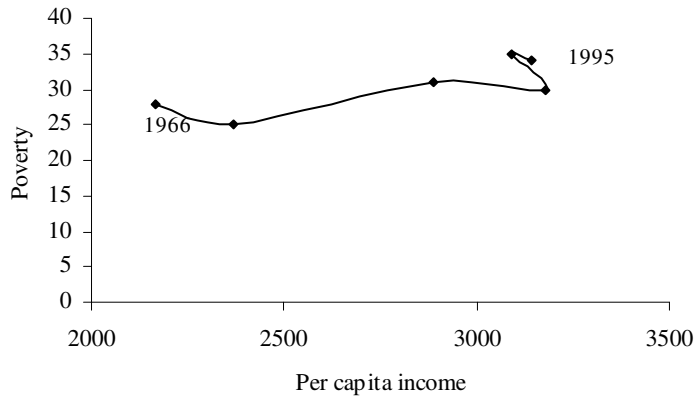


Figure 2:

Mexico: Indices of Real Wages and the Urban Unemployment Rate, 1972-1999

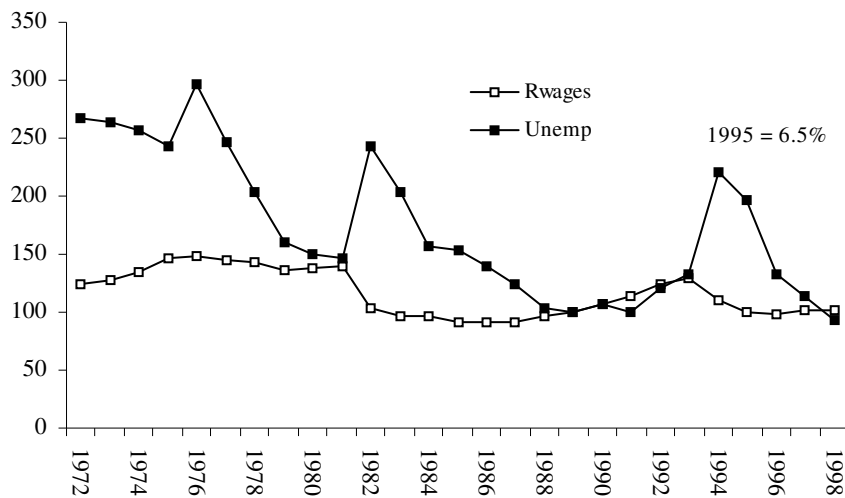


Figure 3:

Mexico: GDP Growth and Deviations from the Period Average, 1961-1999

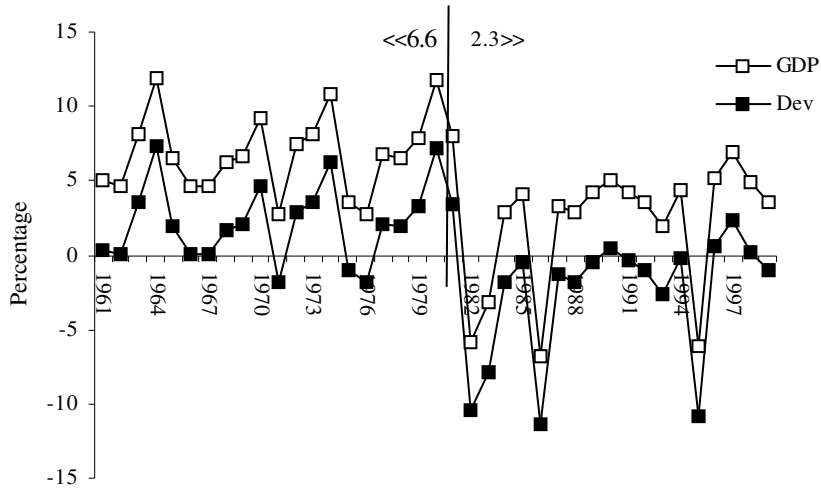


Figure 4:

Mexico: Per Capita Income in Constant US Dollars, 1960-1999

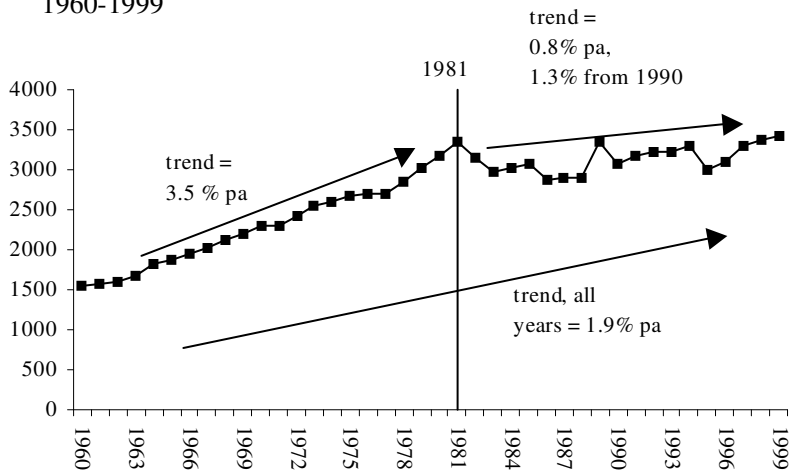


Figure 5:

Mexico: Foreign Direct Investment and Portfolio Capital, as Percentage of GDP, 1970-1997

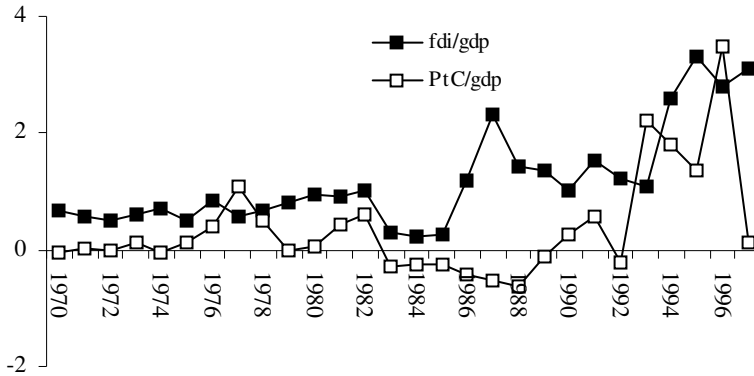


Figure 6:

Mexico: Trade Balance and FDI as Percentages of GDP, 1970-1997

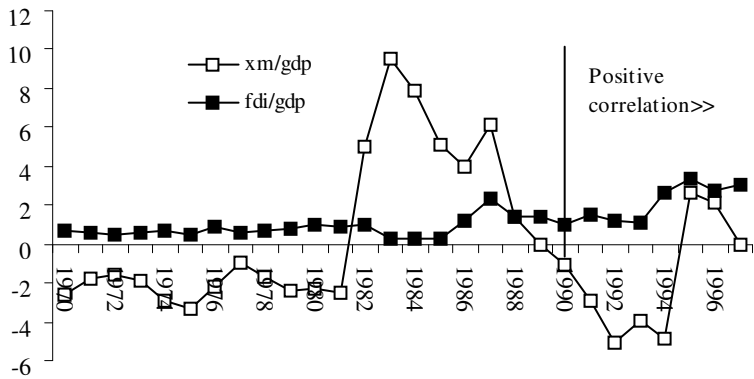


Figure 7:

Mexico: Foreign Direct Investment and Gross Fixed Investment as a Percentage of GDP, 1970-1997

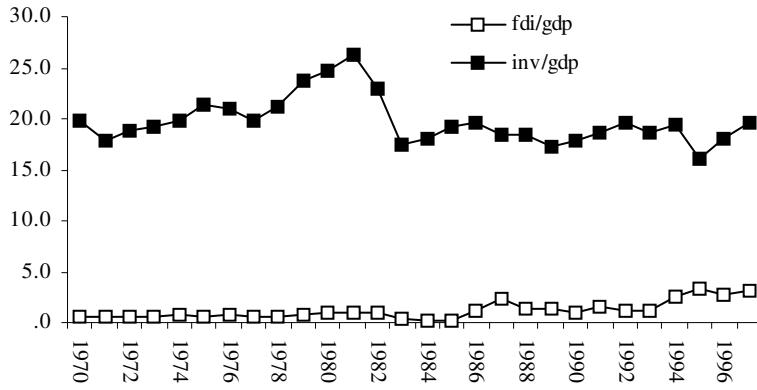


Figure 8:

Mexico: Fixed Investment by Domestic Investors and Foreign Direct Investment (percentages of GDP), 1970-1997

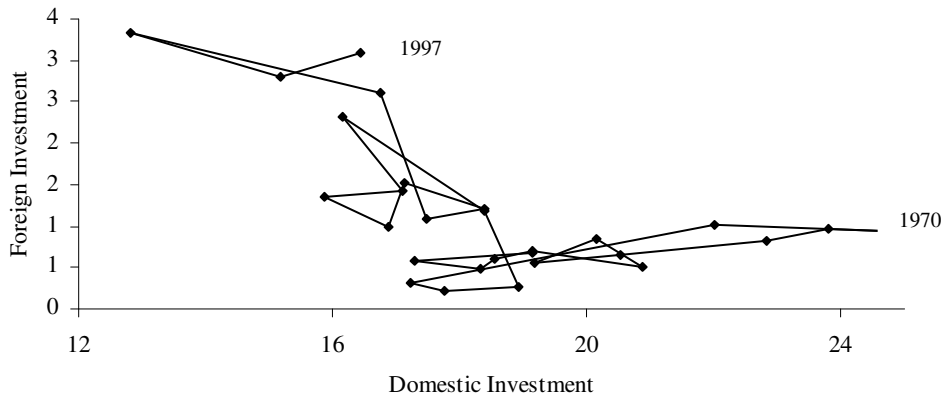
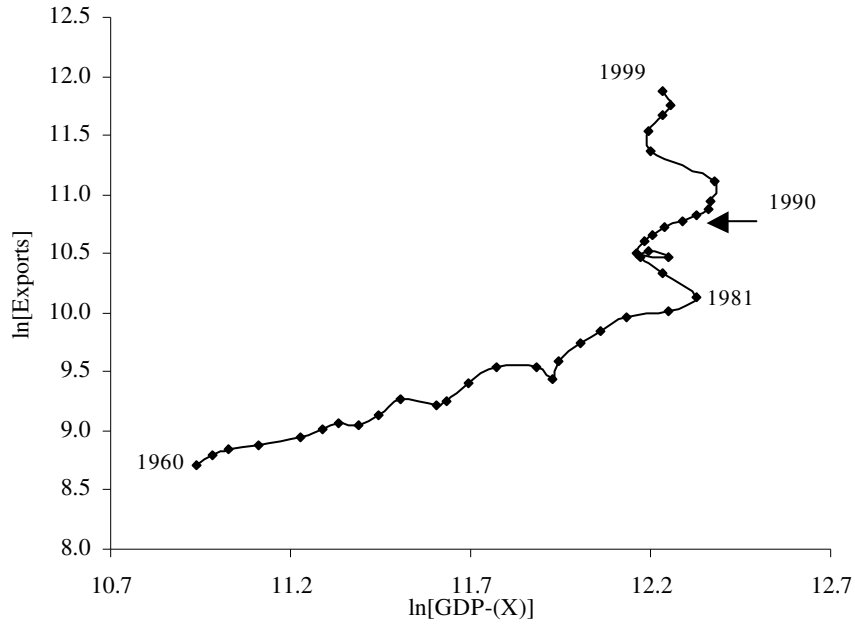


Figure 9:

Exports In Constant Prices and Non-export GDP, 1960-1999



References:

- Alarcon, D.; McKinley, T.
1997a "The Rising Contribution of Labour Income to Inequality in Mexico," *North American Journal Of Economics and Finance*, 8, 2
- Alarcon, D.; McKinley, T.
1997b "The Paradox of Narrowing Wage Differentials and Widening Wage Inequality in Mexico," *Development and Change*
- Altimir, O.
1998 "Inequality, Employment and Poverty in Latin America: An Overview" in *Poverty and Inequality in Latin America*, V. E. Tokman and Guillermo O'Donnell (eds.), (South Bend, Indiana: University of Notre Dame Press)
- deJanvry, A., and E. Sadoulet
1995 [reference to come]
- De Pinies, Jaime
1989 "Debt Sustainability and Overadjustment," *World Development* 17, 1
- Economic Commission for Latin America and the Caribbean (ECLAC)
2000a *Foreign Investment in Latin America and the Caribbean: A Report* (Santiago: ECLAC)
2000b *Statistics*, downloaded from www.eclac.cl/index1.html
2000c *A Preliminary overview of the Latin American Economies, 2000* (Santiago: ECLAC)
- Foweraker, Joe
n.d. 'Mexico: Policy Strategy Review,' (London: Department for International Development)
- Griffith-Jones, Stephany
1996 'International Capital Flows to Latin America,' in Victor Bulmer-Thomas (ed.), *The New Economic Model in Latin America and Its Impact on Income Distribution and Poverty* (London: Macmillan)
- Inter-American Development Bank
1994 *Social Tensions and Social Reform: Toward Balanced Economic, Financial and Social Policies in Latin America* (Washington: Office of the President, IDB)
- International Fund for Agricultural Development (IFAD)
1999 "Rural Poverty: A Regional Assessment", International Fund for Agricultural Development, Latin America and Caribbean Division (September)
- International Monetary Fund
various years *Government Finance Statistics Yearbook* (Washington: IMF)
- Richardson, Lydia, Bruce Wise, and David Smith
2000 'Middle Income Strategy Paper Inputs, Examples of Eight Latin American Countries: Mexico,' (London: TrilEine Consulting)
- Stiglitz, Joseph
1998 "More Instruments and Broader Goals: Moving toward the Post-Washington Consensus," *The 1998 WIDER Annual Lecture* (Helsinki: WIDER)
- United Nations Development Programme (UNDP)
1993 *Human Development Report 1993* (New York: UNDP)
1994 *Human Development Report 1993* (New York: UNDP)
1996 *Human Development Report 1993* (New York: UNDP)

Weeks, John

1999 'Wages, employment and workers' rights in Latin America, 1970-98,'
International Labour Review 138, 2

2000 (forthcoming) 'Latin America and the "High Performing Asian Economies":
Growth and Debt,' *Journal of International Development*

World Bank

2000) "Country Brief: Mexico," downloaded from www.worldbank.org (January)