GROWTH WITH EQUITY FOR THE DEVELOPMENT OF MEXICO: POVERTY, INEQUALITY, AND ECONOMIC GROWTH (1992–2008)

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Abstract

How to decrease poverty has been extensively analyzed in the last two decades but, especially so, after the adoption of the millennium declaration (United Nations, 2000), which recognizes the elimination of poverty as one of the most important development goals. There are two important factors contributing to poverty reduction: economic growth and decrease in inequality. This paper constitutes an attempt to determine the relative contribution of changes in those variables to changes in poverty in Mexico by applying standard decomposition techniques and other methodologies that have been proposed to analyze the, sometimes, overlooked and underestimated impact of inequality on poverty. Our findings clearly indicate that growth with redistribution (lower income inequality) was indeed the key to reducing poverty continuously and in an important manner during 2000–2006. However, after 2006, decreasing per-capita income, and the persistently high inequality (Gini of 52%) in the country, caused the reversal of the favorable trend observed since 1996, raising poverty to pre-2002 levels. It follows that, for Mexico, a middle-income country exhibiting quite low growth rates and high inequality levels, the further improvement in its distribution of income is essential if Mexico's 57% of the population (61 million people in 2008) is ever to be raised out of poverty. Consequently, the *implementation* of an *active pro-poor growth policy* should be strongly encouraged.

Keywords: Poverty; inequality; redistribution; pro-poor growth; Mexico; Latin America.

JEL Classification: D31, I32, I38, O12, O54.

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