

Limits to Economic Growth and the Effect of Redistribution in Mexico[☆]

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Abstract:

In this study, we examine the effectiveness of growth and redistribution in reducing poverty in Mexico during the period from 1992 to 2012, using repeated cross-section household data. We first decompose the observed changes in poverty reduction into components arising from growth, improved income distribution, and heterogeneous inflation. We find the component of inflation to be non-negligible, as the inflation experienced by the poor was higher than the national average. The decomposition also shows improvement in income distribution to be the main contributor to poverty reduction in Mexico. In the second part of our analysis, we compile a unique panel dataset at the state level from the household data and estimate a system of equations that characterize the dynamic relationship between growth, inequality, and poverty, being careful to avoid spurious correlation arising from data construction. The GMM regression results show that Mexican states are characterized by income convergence and inequality convergence, and that poverty reduction in Mexican states is highly responsible to income and inequality levels in the previous period. This implies that once a small perturbation occurs in a state that reduces the inequality level, the state is expected to experience sustained poverty reduction in subsequent periods, which is consistent with the findings from the decomposition.

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