

# Growth and Poverty Two Persistent Faces of Mexico

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Macro-economic data shows up the contradictory trends that have affected Latin American countries differently over the last decade. Mexico did not escape the impact of a regional slow-down in economic growth. This, together with well-known specific national developments, had an impact on foreign in-

vestment in 1994 and 1995,<sup>1</sup> created volatility in labor markets and escalated the rate and intensity of poverty in the mid-1990s. On the other hand, the state not only maintained, but tendentially increased social spending as a percentage of gross domestic product (GDP) in the years 1999-2000, stabilizing the achievements with regard to some indicators linked to the satisfaction of the population's basic needs. However, on-going national economic inequality, expressed in the concentration of income in few hands, continues to hinder higher growth rates that could be beneficial if their results

were distributed in a balanced way among the population.

## DEVELOPED MEXICO

The Mexican economy is growing. Recent evolution of national GDP shows how the country has recovered from the 1995 crisis, achieving its largest increase in 1999-2000 (see table 1).

With the exception of the intermediate period of 1994 to 1996 when it subsided, Mexico's GDP has grown, and in 2000 was 28 percent higher than the 1993 figure. Concretely, per capita GDP

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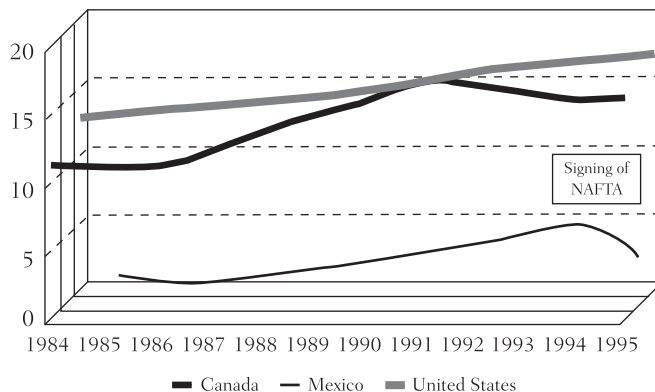
**TABLE I**  
**EVOLUTION OF MEXICO'S GDP AT CONSTANT 1993 PRICES**  
**SERIES: 1993-2000**

TOTAL NATIONAL PERIOD	VARIATION GDP*	(BASE YEAR, 1993 = 1)
1993	1,155,132,188	1.00
1994	1,206,135,039	1.04
1995	1,131,752,762	0.98
1996	1,190,075,547	1.03
1997	1,270,744,066	1.10
1998	1,334,586,475	1.16
1999	1,382,935,488	1.20
2000	1,474,725,467	1.28

\* Millions of pesos at constant 1993 prices.

**Source:** INEGI, *Sistema de cuentas nacionales de México: Producto Interno Bruto por entidad federativa, 1993-2000.*

**GRAPH 1**  
**HOURLY WAGE IN MANUFACTURING**  
 U.S. Dollars



**Source:** Based on data from Secretariado de la Comisión para la Cooperación Laboral (ACLAN), *Los mercados de trabajo en América del Norte: un análisis comparativo* (United States: 1997), p. 13.

There is a clear tendency to improvement with regard to the satisfaction of basic needs: education, housing, electricity, drainage and running water.

growth rate between 1999 and 2000 was a respectable 5.4 percent, U.S.\$5,080 per capita in absolute terms, maintaining Mexico's status as a country with an upper-middle income according to World Bank classifications.<sup>2</sup>

According to the famous "trickle-down" theories that sustain that benefits will sooner or later be transferred to the less privileged sectors of the population, we must think that in the medium term, growth, even with the tendency to concentrate wealth in a small part of the population, will bring with it an improvement in the quality of life for ordinary citizens. This suggests that Mexico's evolution implies substantial, sustained improvement in the lives of its people in general.

IMPOVERISHED MEXICO AND SOCIAL SPENDING

The truth of the matter is that even when living conditions improve, they are framed in a clear context of economic insecurity; this insecurity characterizes everyone who, even if not considered poor, can only satisfy their immediate basic needs and cannot save or invest in household assets. This means that in periods of growth, certain layers of the population just barely surpass the poverty level, so that in critical economic periods, they fall below the poverty line, catastrophically elevating poverty and marginalization figures. One of the fundamental causes of this is the characteristic volatility of Mexico's labor market. Low open unemployment only masks the high level of employment in the informal sector. In addition, low wages and their scant participation in the national product are traditional char-

acteristics of the functioning of the Mexican economy (see graph 1).<sup>3</sup>

It should be noted that the cost of labor, already cheap compared to Mexico's partners in the North American Free Trade Agreement (NAFTA), drops despite the increase in worker productivity in the same period (see graph 2). In addition, we should recognize the role to which Mexico might be relegated in the international context of globalization. We should consider whether this is not one of the stable characteristics of Mexico's development that will cause cyclical retreats in the fight against poverty given that the country has inserted itself in the world economy using cheap labor and, consequently, low production costs as its competitive advantage. The words of Ferdinand Piëch, the German president of Volkswagen, leave no room for doubt:

The workers of Volkswagen's Czech subsidiary, Skoda, discovered that from the advent of the Wolfsburg auto giant, their productivity had risen 30 percent, but their wages had hardly changed at all. "If this continues, we will not reach conditions comparable to Germany's even in 50 years," complained Zdenek Kadlec, spokesman for the Skoda company committee. But Ferdinand Piëch, president of Volkswagen, coldly blocked the satisfaction of the Czech workers' wage demands. The Skoda work force should not interfere with their local advantages, he warned. Otherwise, "undoubtedly we would have to consider if production would not be more advantageous elsewhere like, for example, in Mexico."<sup>4</sup>

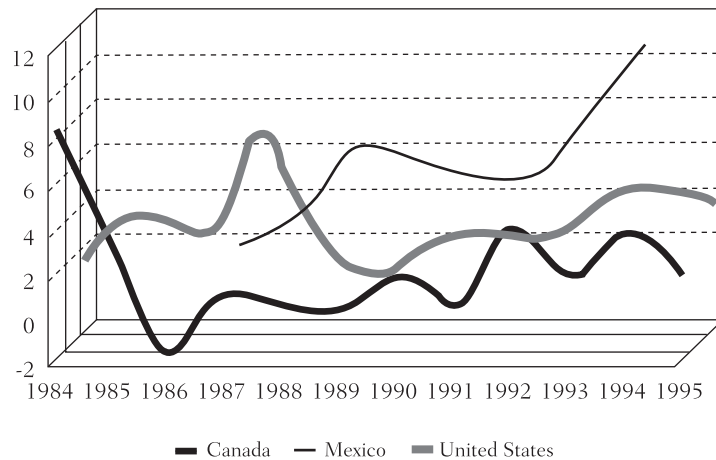
Mexico's low wages and volatile job market are associated with and

**TABLE 2**  
**POVERTY RATE IN MEXICO**

YEAR	% OF HOUSEHOLDS UNDER POVERTY LINE	% OF HOUSEHOLDS UNDER INDIGENCE LINE
1989	39.30	14.00
1994	35.80	11.80
1996	43.40	15.60
1998	38.00	13.20

**Source:** Data from CEPAL, *Panorama social de América Latina, 2000-2001* (Santiago de Chile: United Nations, 2001).

**GRAPH 2**  
**LABOR PRODUCTIVITY IN MANUFACTURING**  
Annual Growth



**Source:** Based on data from: Secretariado de la Comisión para la Cooperación Laboral (ACLAN), *Los mercados de trabajo en América del Norte: un análisis comparativo* (United States: 1997), p. 13.

After the 1995 economic crisis, poverty increased and, while it did decline somewhat later, it has not returned to 1994 levels.

can explain some of the extreme variations in poverty measurements (see table 2) when economic downturns occur. The increase in the percentage of households under the poverty and indigence lines immediately after the 1995 economic crisis should be noted: almost eight points in the first case and four in the second.<sup>5</sup> The improvement in living conditions in 1998, however, was not very rapid given that only 5 percent and 2 percent of the households, respectively, crossed upwards. In addition, the reader should take into account that the poverty rate is measured here in terms of a percentage of households and not individuals, which would tend to lower the rates because poor households are often the most numerous.

Poverty rates we have measured quarterly show that counter-tendencies exist with regard to the achievements in the fight against poverty. On the one hand, the rates used by the unsatisfied basic needs method are lowered and those linked to the poverty-line method show an increase (see table 3).<sup>6</sup>

The results shown in table 3 are not strictly comparable with the previous figures given that a) the 38 areas analyzed are metropolitan, which tend to have a lower poverty rate than the rest of the country; b) they are applied to the population and not households; c) goods and services have been added to the UBN method; d) the poverty lines are more demanding (they require a higher income); and e) the only income considered is what comes from work, disregarding the total income of household members. However, we should note that there is a clear tendency to an improvement in the country situation with regard to the satis-

faction of basic needs that, in addition to education, include the infrastructure associated mainly to public spending, that is: housing, electricity, drainage and running water. Clearly, after the 1995 crisis, whose impact on the satisfaction of basic needs (UBN) can be seen mainly in 1996, there was a rather negligible deterioration (from 57.66 percent to 57.92 percent) with a rapid recovery from 1997 on. Incomes do not follow the same trend, however: the results show that after the crisis, poverty increased and, while it did decline later, the poor population has not been able to return to 1994 levels.

The slow recovery of the PL rates is linked, among other things, to the labor problems we mentioned previously. The systematic drop in poverty levels using the UBN method, on the other hand, can be explained by taking into account the fact that the state did not reduce its social spending from 1990 on (except momentarily and very

that this spending is systematically lower than expenditures by other countries in the region since 1990 if taken in terms of the percentage of national GDP that it represents.

In conclusion, we can say that with greater degrees of disaggregation of the measurements, the rates have not improved in certain areas of the country nor in some sectors of the population. Thus, poverty is not the only problem that Mexico faces. One of the fundamental questions is, in fact, that Mexico continues to be a country of contrasts to the extent that the improvements derived from economic growth are only localized in certain geographical areas and strata of the population. Today, according to the United Nations Development Program (UNDP), the poorest 10 percent of the population receives 1.6 percent of total income, while the richest 10 percent receives 41.1 percent.<sup>8</sup> We should remember here, just as a footnote, that Mexico is in fifty-first place in the world

### The improvements due to economic growth are localized in certain geographical areas and strata of the population.

relatively). Despite this the achievements are overshadowed by the magnitude of the problem, in which economic contingencies make a historically precarious situation more serious. If we examine Mexican government social spending per inhabitant, we will see that it rose from U.S.\$250 in 1990-1991, to U.S.\$402 in 1998-1999.<sup>7</sup> This is an important increase which is slightly greater than that of Latin America as a whole. We should add, however,

in terms of its per capita GDP, according to the UNDP itself. However, Carlos Slim, with his U.S.\$11.7 billion fortune, occupied seventeenth place on the last *Forbes* list,<sup>9</sup> and he is only one of the 12 billionaires the country has produced: in 2002, their combined fortunes came to U.S.\$31.6 billion.

Thus, poverty and inequality in Mexico can be seen as two elements of a single socioeconomic phenomenon that makes growth relative as it limits the

**TABLE 3**  
**THE POOR AND NON-POOR IN 38 METROPOLITAN AREAS**  
**UBN\* AND PL\*\* ANALYSES (1994-1999)**

STRATA OF POPULATION	UBN ESTIMATE %	PL ESTIMATE %
<b>Year 1994</b>		
All Non-Poor	41.88	47.81
All Poor	58.12	52.19
<b>2nd. Quarter 1995</b>		
All Non-Poor	42.34	35.94
All Poor	57.66	64.06
<b>2nd. Quarter 1996</b>		
All Non-Poor	42.08	31.92
All Poor	57.92	68.08
<b>2nd. Quarter 1997</b>		
All Non-Poor	46.38	28.98
All Poor	53.62	71.02
<b>2nd. Quarter 1998</b>		
All Non-Poor	46.40	31.85
All Poor	53.60	68.15
<b>2nd. Quarter 1999</b>		
All Non-Poor	47.54	31.65
All Poor	52.46	68.35
<p><b>Source:</b> Data from the Encuesta Nacional de Empleo Urbano (INEGI) for the years cited. The results were originally obtained for a project commissioned by the Iberoamerican University (Santa Fe Campus) and developed out by the author of this article.</p> <p>* Unsatisfied Basic Needs.  ** Poverty Line.</p>		

access of certain strata of the population in the formal sector to micro-enterprise investment and makes it impossible for them to potentially demand collectively goods and services on a market whose development requires the existence of a middle class with relative economic security. Currently, poverty indicators have improved but greater GDP growth (of about 4.5 percent) is needed to beat poverty and inequality in the medium term. How-

ever, this is not enough in and of itself: the state must also maintain its social spending and create redistribution mechanisms that orient growth toward appropriate goals. **NM**

#### NOTES

<sup>1</sup> The author is referring to the December 1994 economic crisis that occurred a few days after Ernesto Zedillo took office as president and which produced severe social effects, among them skyrocketing unemployment and increased poverty. [Editor's Note.]

<sup>2</sup> World Bank, *Informe sobre el Desarrollo Mundial 2002* (Madrid: Mundiprensa, 2002).

<sup>3</sup> Julio López G., "El empleo durante las reformas económicas," Fernando Clavijo, comp., *Reformas económicas en México 1982-1999* (Mexico City: FCE, 2000).

<sup>4</sup> Hans-Peter Martin and Harold Schumann, *La trampa de la globalización* (Madrid: Taurus, 1998).

<sup>5</sup> The indigence line expresses the income strictly necessary to obtain enough food for survival; the poverty line adds other basic goods and services needed for a decent life.

<sup>6</sup> There are two traditional focuses for the analysis of poverty: the unsatisfied basic needs method (UBN) and the income line method (also known as the "poverty-line" method, or PL). The former is applied by identifying and proving whether the members of households possess a series of goods and services generally associated with a) public spending; b) the investment that households make in infrastructure and equipping their homes; c) the investment that households make in developing their members' human capital. That is, the traditional application of the UBN method allows researchers to observe everything from the existence or lack of a dwelling itself, including its being outfitted with drainage, electricity and running water, to whether the children go to school or not. Thus, those households that lack some of these satisfiers to a varying degree, depending on the number of goods and services not supplied, would be considered poor. The PL method is applied estimating the monetary cost of a basic basket of goods and services generally associated with normal household expenditures, an estimate that is then contrasted with whether the members have sufficient income for food, clothing, shoes, personal hygiene and transportation. Once the figure, which varies over time and according to geographical location, is arrived at, those who do not have the minimum income needed to acquire this basket are considered poor, which means that they cannot satisfy their needs, paying for the satisfiers at current market prices.

<sup>7</sup> Both figures are expressed in constant dollar amounts at 1997 rates. ECLAC, *Panorama Social de América Latina 2000-2001 Síntesis* at <http://www.cepal.org>.

<sup>8</sup> United Nations Development Program, *Human Development Report 2001* (New York: Oxford University Press, 2001).

<sup>9</sup> In 2001, he occupied twenty-fifth place with U.S.\$8 billion, and in 2000, thirty-third place with U.S.\$7.9 billion. <http://www.forbes.com>