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POVERTY REDUCTION IN BRAZIL AND MEXICO.  
GROWTH, INEQUALITY AND PUBLIC POLICIES

*REDUCCIÓN DE LA POBREZA EN BRASIL Y MÉXICO.  
CRECIMIENTO, DESIGUALDAD Y POLÍTICAS PÚBLICAS*

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ABSTRACT

This paper compares poverty reduction performance of Brazil and Mexico between 1990 and 2013, showing the great differences brought about by the substantial falls in Brazil and very limited results in Mexico. This paper explains these contrasting outcomes focusing on the interaction between growth and inequality reduction, and on the different public policies developed by each country. Mexico's greater openness exposed the country to external shocks (a financial shock in 1995 and another in 2008, caused by the USA crisis in 2008) and, at the same time, the rise of China as a global power had a negative impact on Mexico and a positive one on Brazil. On the other hand, labour market policies were also different (i.e. in minimum wage development) and the welfare state was less developed and less generous in Mexico than in Brazil.

*Keywords:* Poverty Reduction; Brazil; Mexico; Growth; Inequality; Public Policies.

## RESUMEN

Este trabajo compara los resultados en reducción de la pobreza obtenidos por Brasil y México entre 1990 y 2013 y pone de manifiesto la gran diferencia existente entre las importantes caídas en Brasil y los muy limitados resultados en México. El trabajo explica las diferencias de estos resultados prestando atención a la interacción entre crecimiento y equidad y a las políticas públicas desarrolladas por los dos países. De este modo, la mayor apertura de México le hizo más sensible a choques externos (el financiero de 1995 y el de la crisis de Estados Unidos en 2008), además, la emergencia de China como gran potencia global tuvo un impacto negativo sobre México y beneficioso sobre Brasil. Por otro lado, también son diferentes las políticas de mercado de trabajo (reflejadas en la evolución del salario mínimo) y en el Estado de Bienestar, mucho menos desarrollado y generoso en México que en Brasil.

*Palabras clave:* Reducción de la pobreza; Brasil; México; Crecimiento; Desigualdad; Políticas públicas.

*Clasificación JEL:* I32, O40, O54.



## 1. INTRODUCTION

The purpose of this study is to provide an analysis of the reasons for the widely differing results delivered by Brazil and Mexico in terms of poverty reduction from 1990 to 2013, the last year of recent boom cycle. Whereas poverty in Brazil became reduced, with more than 30 million people lifted out of it, in Mexico it increased by 2 million. The same could be applied to extreme poverty, which became reduced by 20 million in Brazil, while increasing by 2 million in Mexico (ECLAC, 2015a). The picture, therefore, is one of highly disparate, even opposite, behaviours in countries that share many features. This provides a solid basis for the issue that drives this study on poverty reduction, a goal that, since the Millennium Summit, is central to all post-Washington Consensus development agendas (World Bank, 2000; Williamson, 2003; Palma, 2003; Ocampo, 2005), becoming one of the three pillars of the new agenda for Sustainable Development Goals (World Bank, 2015a).

Moreover, the significance of this issue derives from the fact that Brazil and Mexico are the two largest Latin American countries in terms of population and GDP. Together, they cover more than a half of the region, Brazil with a land area of over 8.5 million square kilometres and Mexico with almost 2 million. With 323 million inhabitants in 2014 (202 million in Brazil and 121 in Mexico), both countries account for 53% of the Latin American population, and with a joint GDP of 3.4 billion dollars in 2013 (at prices of 2010), they account for 63% of the region's GDP.

The similarities between the two major countries of Latin America are considerable. Both are middle-income countries, Mexico with a higher GDP per capita of 16,710 PPP dollars in 2014 against Brazil's 15,900, although not according to the World Bank Atlas method (Mexico's GDP per capita was of 9,980 dollars on the same date against Brazil's 11,760). Both are also countries with similar human development levels (high), as Mexico's 2014 value is 0.756 and Brazil's 0.755. Both countries have followed orthodox policies where stability took precedence over growth. Both have independent central banks with monetary policies aimed at controlling inflation, beyond the political needs of the government in power. Within this framework, there are floating exchange rates and freedom of capital movements. Both have received substantial amounts of foreign direct investment (Mexico 208 billion between 2004 and 2014, and Brazil 399 billion, which together make 53% of the regional FDI), and both have leading multinational companies (Multi-

latinas) such as América Móvil, CEMEX or Bimbo in Mexico and Odebrecht, Bradesco or Itaú in Brazil.

They are also countries with great diversity within their territories. In Brazil, there is a polarity between the richer south and the poorer north, and in Mexico, the north is rich, while the south is poor, with differences between the richest and the poorest regions respectively representing a factor of 6.07 and 9.22 (ECLAC, 2016). Both are highly urbanized (86% of Brazil and 79% of Mexico), with some of the largest megacities in the world (Sao Paulo and the Federal District, each with a population of over 20 million), but also with a strong presence of slums, the best known being the *Favelas* in Brazil and Neza-Chalco-Itza in Mexico, which is the largest in the world with a population of almost 4 million). Both countries are affected by high levels of violence, with over 20 murders for every 100,000 inhabitants (25.5 for Brazil and 21.5 for México in 2012, according to data from the UNODC).

In the light of the above parallelisms, the purpose of this study is to examine the reasons for the differences between the two Latin-American giants in terms of poverty reduction. Besides this introduction, the study is arranged in four sections: number two offers a detailed presentation of the data on the evolution of poverty; number three consists of a theoretical discussion on the factors that influence its reduction, with special emphasis on growth and the decrease of inequality, which are in turn defined by the public policies in force; number four addresses the difference in growth between the two countries and the evolution of inequality; and number five focuses on the differences in the public policies implemented in each country that could explain such disparate results. The last section sets forth the main conclusions of the article.

## 2. POVERTY REDUCTION IN BRAZIL AND MEXICO

According to the data provided by the ECLAC (2015a) in its task of homogenising national sources, between 1992 and 2013 poverty rates in Brazil fell by more than 25 percentage points (going from 45% to 19%), while the drop in Mexico was of only 4 points (from 42% to 38%). Both of them countries with a growing population, these percentages resulted in a fall in the poverty rate in Brazil of more than 30 million people lifted out of it (from 71 to 39 million), while Mexico suffered an increase of more than 2 million individuals (from 39 to 41 million) (Figure 1).

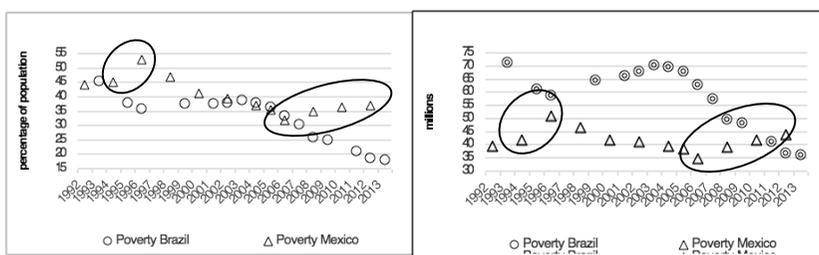
The same trends can be observed for extreme poverty: a fall of almost 15 percentage points in Brazil (from 21% in 1996 to 6% in 2013), against a fall of only 2 points in Mexico (from 16% in 1992 to 14% in 2012). In people, this means more than 20 million fewer destitute individuals in Brazil (from 32 to 12) and 2 million more in Mexico (from 14 to 16) (Figure 2).

This different behaviour can be framed within a general trend towards poverty reduction in Latin America, which in percentage went from 48.4 out of 100 in 1990, to 43.9 in 2002 and 28.0 in 2014. Such a drop in the percentages masks an increase in the number of impoverished individuals between

1990 and 2002 (from 204 million to 225 million), and a subsequent sharp fall to 167 million in 2014. Extreme poverty followed a similar trend, its percentage going from 22.6 to 19.1 between 1990 and 2002, and subsequently to 12% in 2014, while the number of destitute individuals slightly increased during the first period (from 95 million to 99 million), to subsequently fall to 71 million in 2014 ECLAC, 2015a).

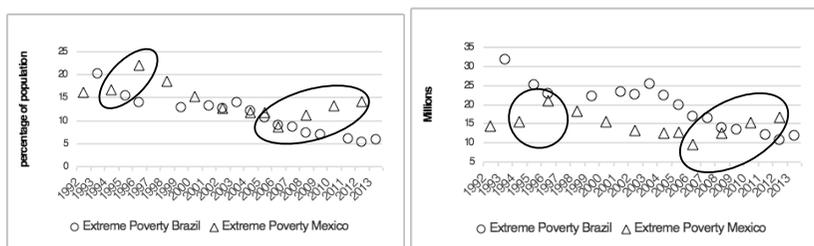
Therefore, it may be stated that Brazil has made a significant contribution towards poverty reduction in Latin America, since more that 80% of the reduction in the number of impoverished and destitute individuals in Latin America between 1990 and 2014 was a result of Brazil's efforts.

FIGURE 1: POVERTY REDUCTION IN BRAZIL AND MEXICO, 1992-2013.



Source: Compilation based on data from the CEPALSTAT.

FIGURE 2: EXTREME POVERTY REDUCTION IN BRAZIL AND MEXICO, 1992-2013.



Source: Compilation based on data from the CEPALSTAT.

National sources of Brazil and Mexico show the same trends, although the specific data on poverty levels are different. On the one hand, the IPEA, using a poverty line based on caloric needs, estimates the reduction of extreme poverty in Brazil at 15 percentage points (from 20% in 1993 to 5.5% in 2013) and 30 million people (from 60 to 30 for the same period). On the other hand, for

Mexico, the CONEVAL reports a slight drop in the percentage of population living in food poverty (from 21.4% in 1992 to 19.7% in 2012), which means that there is a slight increase in the number of poor people (from 19 to 22 million).

The results for the two countries also differ widely in terms of multidimensional poverty, although the available data are fewer. Nevertheless, the ECLAC (2015a), using the indicator adapted to the regional level on the basis of the OPHI's multidimensional poverty index, estimated that multidimensional poverty in Brazil between 2005 and 2012 fell from 28% to 14%. On the other hand, in Mexico, despite its higher income level, values were much higher, with a very limited fall from 43% to 41% for the same period.

### 3. EXPLANATORY FACTORS FOR POVERTY REDUCTION

#### 3.1. GROWTH AND EQUITY IN POVERTY REDUCTION

Serving as the ideological basis for the recommendations of the main international economic bodies of the 80s and 90s, the monetarist and neoclassical mainstream theories did not include poverty reduction as an explicit part of their targets. Indeed, the policies of the so-called Washington Consensus (Williamson, 1990) were mainly focused on the recovery of economic growth. GDP would serve as an adequate proxy of welfare, and its growth was supposed to ultimately benefit all the inhabitants of a country through a spillover or trickle-down process. Therefore, the key to poverty reduction was the growth of GDP, and a direct relation between GDP growth and poverty reduction was expected (Saad-Filho, 2010; Dollar *et al.* 2013; Farina, 2015).

Further on, because of the poor results obtained by these policies in terms of growth, stability and, especially, poverty reduction, since it continued to increase until 2002 (Naim, 2000; Stiglitz, 2003; Altimir, 2008; Birdsall *et al.*, 2010), this “paradigm” was questioned and the role of inequality in modelling the effect of growth on poverty reduction was revealed. Thus, the World Bank suggested that Latin America's excessive inequality was both one of the obstacles to the region's growth, and a reason for the high and persistent poverty levels (World Bank, 2003). Similarly, the ECLAC assessed the interaction between growth, equity and poverty to achieve the Millennium Development Goals (ECLAC, 2002). In the case of Brazil, an annual per capita income growth rate of 2.5% between 1990 and 2015 was considered necessary to halve the poverty rate, although if a Gini drop by 5% could be achieved, the growth rate needed would become reduced to 1.3%. This would be accomplished by reaching a compound annual growth rate of 2.6% in Mexico, although a drop of 5% in the Gini coefficient would mean that a growth rate of 1.9% would be enough.

This led the centre-left governments of the region to adopt strong pro-poverty growth strategies (Medina and Galván, 2014a), called “cautious redistribution with growth” by Cornia (2010), to characterize the inequality reduction

paradigm as a formula to accelerate the impact of growth on poverty reduction. Thus, while in Brazil between 2001 and 2009 decile 1 of households (the poorest) increased their income by 11.8 per 100 annually and decile 10 (the richest) by 1.6 per 100 (the national average was 5.9), in Mexico between 2000 and 2010 decile 1 of households increased their income by 12.1 percent and decile 10 by 4 percent (the country's average was 6.9). This means that the growth incidence curve for inequality reduction was more negatively-sloped for Brazil than for Mexico, since for the former, the differential growth rate of D1/D10 was of 7.3%, while for the latter it was of 3% (Lopez-Calva, 2012; Lustig *et al.*, 2012), the mean for Latin America (between 2003 and 2010, D10/D1 = 6.2/1.9) being 3.2% (Cord *et al.*, 2017; see also Tassara, 2015).

For this reason, several statistical procedures have been proposed to measure the impact of growth and inequality reduction on poverty reduction. Medina and Galván (2014b) break down poverty reduction in Latin America during the 1997-2007 period and obtain opposite results for Brazil and Mexico. In Brazil inequality reduction explains 90% of poverty reduction (-5.8 percentage points) over such period, while in Mexico, growth explains 90% of its respective reduction (-21.2). On the other hand, Neri *et al.* (2013) estimate that poverty reduction in Brazil for the 2002-2012 period (Brazil's highest growth period) could be explained in equal measure by income growth and inequality reduction<sup>1</sup>.

Although the results are sensitive to the chosen periods and methodologies applied (ECLAC, 2016; Duryea and Robles, 2016; Gasparini, Cruces and Tornarolli, 2016), they appear to show that growth in Brazil, despite its having been relatively low (1.67% annual per capita between 1991 and 2013), has been accompanied by a significant inequality reduction, while in Mexico, the even lower growth (1.21% annual per capita) has not undergone such a sharp drop in inequality, which began to increase again after 2010 (Cord *et al.*, 2017). The different behaviour of inequality and the different impact of growth on poverty are influenced by public policies. For example, Neri *et al.* (2013) draw attention to the importance of minimum wage policies and conditional cash transfers in the correction of inequality in Brazil, as well as to other longer-term policies such as the one leading to greater equity in the distribution of the years of education of those engaged in the labour market, while social policies in Mexico have been less effective at reducing inequality (Cord *et al.*, 2017).

### 3.2. ECONOMIC POLICIES AND THEIR EFFECT ON INCOME GROWTH AND DISTRIBUTION

Against the simplified view of the Washington Consensus of a direct relationship between income growth and poverty reduction, in 2000, the World

<sup>1</sup> The data gathered by Lustig *et al.* (2012) for Mexico during the 2000-2008 period, where the US crisis and poverty increase were already present, provide lower figures for growth, which only contributes 40% against the 60% of inequality reduction.

Bank suggested a more complex discourse, without denying the significance of growth, the stress was placed on the difficulties of poor people to benefit from this growth (World Bank, 2000). Thus, on the one hand, poor people are more vulnerable to health problems, natural catastrophes and economic crises. On the other hand, the job, investment, etc. opportunities created by growth, either do not reach poor people, or cannot be used by them to their advantage because they lack the necessary physical and human capital and savings capacity. Finally, people living in poverty are often ignored by public powers, lacking the capacity to influence politicians' priorities and agendas. In the light of this, the World Bank defended policies to provide the poor with security, opportunities and voice. In other words, it acknowledged the fact that the impact of the different policies on poverty reduction was not the same and, instead of endorsing development models, it began to emphasize "the virtues of experience, selective reforms, eclecticism, experimentation, the middle-ground and learning-by-doing" (Saad-Filho, 2010).

Conversely, Birdsall *et al.* (2001) and the World Bank (2006) broke with the big trade-off between efficiency and equity in the struggle against poverty, and returned to Nurske's idea of the vicious circle of poverty, suggesting the possibility of virtuous circles of poverty reduction (in absolute terms) and growth, or a weak definition of inclusive growth (Saad-Filho, 2010; UNDP, 2013; Medina and Galván, 2014a). Thus, anticyclical policies (Stiglitz, 2003; Ocampo, 2005) and crisis-proofing policies (Williamson, 2003) to prevent economic crises resulting from openness would be on the axis of providing poor people with more security, formalization of the economy and extension of basic health coverage to all the population. Conditional cash transfers (CCT) would be aimed at the accumulation of human capital of the poorest people, which would allow them to better benefit from growth opportunities and microcredit programmes (Tassara ed., 2015). Finally, the programmes launched by the government for transparency and the empowerment of the poorest would give them greater influence on the public agenda and the allocation of public resources.

#### 4. GROWTH AND EVOLUTION OF INEQUALITY IN BRAZIL AND MEXICO

##### 4.1. GROWTH

As mentioned, growth plays a crucial role in poverty reduction. In fact, Medina and Galván (2014b) estimate that the participation of growth in poverty reduction in Latin America between 1997 and 2007 was of 73%, against only 27% of the participation of redistribution. Nevertheless, with the onset of the 2008 crisis, the relevance of growth became almost halved (Lustig *et al.*, 2013).

The arithmetic mean of GDP growth in Brazil and Mexico between 1991 and 2013 was very similar, 3.0% for the former and 2.8% for the latter. How-

ever, there are significant differences in population growth, which is higher in Mexico, that increase the gap between the GDP per capita growth rates in each country: a gap of almost 0.5 points between the arithmetical growth rate means of Brazil (1.67) and Mexico (1.21).

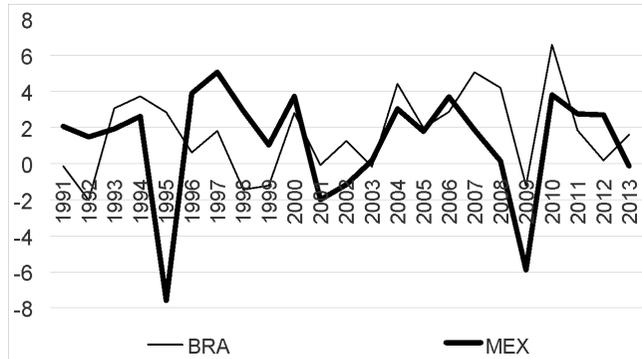
Much literature has been produced in recent years using different approaches aimed at explaining why a country that has firmly embraced economic orthodoxy in many areas of its economic system obtains such negative results when compared to other emerging countries and developed ones (for example, Moreno-Brid and Ros, 2009; Levy and Walton, 2009; Hanson, 2010), the emblematic question being: "Why have economic reforms in Mexico failed to create growth?" (Kehoe, 2010).

There is considerable variability between the two countries' growth, although Mexico shows a higher standard deviation in growth rates than Brazil, 3.05 against 2.27, respectively, which yields a coefficient of variation of 2.52 for Mexico against 1.36 for Brazil. This means lower growth in Mexico that adds to greater variability and volatility. Although there are also drops in GDP per capita in Brazil in 1998, 1999 and 2009, they are relatively moderate. However, Mexico has already experienced three crises in 1995, 2001 and 2009, all of them more severe than Brazil's, especially the ones that took place in 1995 (almost -8%) and 2009 (-6%) (indicated with ellipses in Figure 1), which led to severe poverty increases, in line with the proposal of the World Bank concerning the greater vulnerability of poor people to economic crises (Figure 3).

These Mexican crises are directly related to the open economic policies implemented in the country, which have resulted in its becoming more dependent on USA's economy (with a correlation coefficient of the GDP growth rate for both countries during the 1997-2013 period of 0.79). Thus, while the gradual economic recovery in the USA during the early years of this decade is boosting Mexican economy, the 2008-2010 recession had a strong impact on it, leading to a severe increase in poverty.

Consequently, Mexico would be the perfect example to explain the globalization-poverty link as proposed by Nissanke and Thorbecke (2010): greater integration in global economy creating greater openness results in the positive effect of such openness on growth and poverty reduction being strongly countered by the negative effect of such openness on distribution (the balance between winners and losers in the globalization process). Consequently, inequality works as a filter between growth and poverty reduction.

FIGURE 3: GDP PER CAPITA GROWTH, 1991-2013.



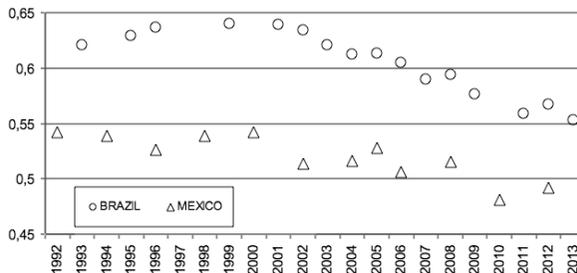
Source: Prepared based on data from the World Bank.

#### 4.1. EVOLUTION OF INEQUALITY

Inequality decreased over the entire analysed period, although the reduction is concentrated in the last decade prior to 2013. Indeed, when inequality is conventionally measured using the Gini index, the data provided by the ECLAC show a greater fall in Brazil over the last decade, from 0.634 in 2002 to 0.567 in 2013 (a 0.067-point decrease), against Mexico, which goes from 0.542 in 2000 to 0.492 in 2012 (a 0.050-point decrease) (Figure 4). Indirectly, this trend is reflected in the evolution of the weight of the middle class, which increased 10.3 points in Brazil by only 6.9 in Mexico between 2001 and 2011 (Solimano, 2016).

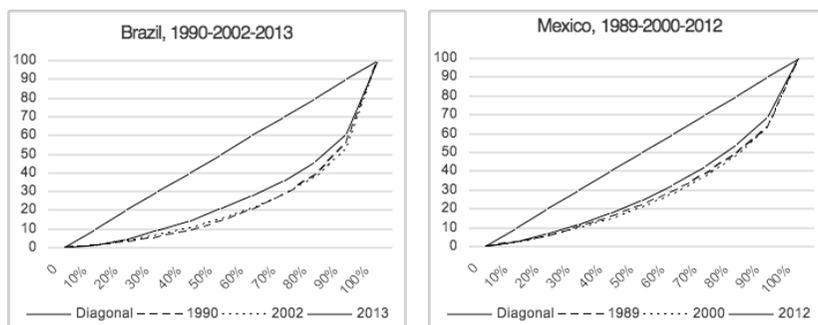
FIGURE 4: EVOLUTION OF THE GINI INDEX, 1992-2013.

Source: Prepared based on data from the ECLAC.



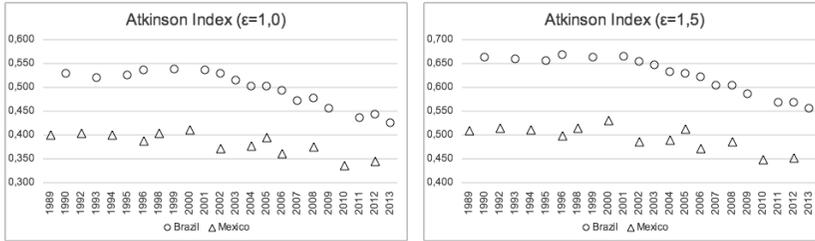
Nevertheless, although differences do not seem too sharp, the Lorenz curves help us to better understand each path. The closest curves to the diagonal, express less inequality. For both countries, the curves corresponding to the early 90s and the beginning of the millennium are very close, meaning that there were no improvements in distribution. In the case of Brazil, the distance between the curves corresponding to the beginning of the millennium and the latest available is not only greater, but special attention should be paid to the fact that it becomes more marked in the lowest part of the curve, meaning in the poorest deciles, while, in the case of Mexico, it is sharper in the second half of the distribution (Figure 5). This explains the greater reduction of the D10/D1 quotient in Brazil (which went from 15.2 to 10.6, a drop of 4.6 points) over Mexico (which went from 10 to 8.5, a drop of 2.5 points) (Cord *et al.*, 2017).

FIGURE 5: LORENZ CURVES FOR BRAZIL AND MEXICO.



Source: Prepared based on data from the ECLAC.

The difference between the evolution of these countries (Figure 6) grows when using a measure of inequality that is more sensitive to the evolution of the lowest income deciles, such as the Atkinson index ( $\epsilon = 1$  o  $\epsilon = 1.5$ ), than the Gini index. Inequality fell in both countries, although the fall was sharper in Brazil, where its reduction was more closely linked to an income increase in the lowest deciles. Thus, the fall in inequality in Brazil had a much higher impact on poverty according to the strong definition of inclusive growth, the one that also reduces poverty in relative terms (Saad-Filho, 2010, UNDP, 2013; Medina and Galván, 2014a), this strategy being increasingly used by the IMF in recent years (Berg and Ostry, 2011; Ostry *et al.*, 2014; Dabla-Norris *et al.* 2015).

FIGURE 6: ATKINSON INDEX ( $\epsilon = 1$  AND  $\epsilon = 1,5$ ).

Source: Prepared based on data from the ECLAC.

## 5. DIFFERENCES BETWEEN PUBLIC POLICIES

The purpose of this section is to highlight the main differences between the public policies followed in Brazil and Mexico that have had a real impact on the differences in growth, and inequality and poverty reduction.

### 5.1. OPENNESS

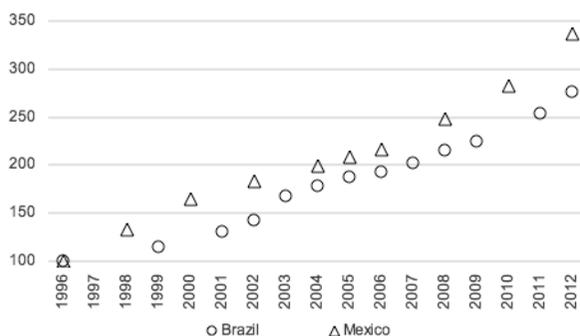
The first major difference between these countries' economic policies concerns openness in a broad sense, so that it includes trade and capital flows. Although both countries are characterized by economic orthodoxy, Mexico has more strongly embraced openness policies (Aspe, 1993; Popli 2010; Cornia 2010). This is clear in terms of trade, since Mexico's unilateral liberalization begins in the 80s, with the eventual signing of the Free Trade Agreement with Canada and the USA (NAFTA). Thus, the weight of exports in GDP in Mexico went from 15% in 1992 to 31% in 2013, while openness in Brazil was more limited, with exports rising from 11% to 13% over the same period (World Bank 2015b). In this regard, Mexico is shown as more dependent on foreign demand and, therefore, more exposed to its changes. The trade specializations of both countries are also different, Mexico being more integrated with the North American market, which receives over three quarters of its exports, and having a higher percentage of manufactures; while Brazil's exports are more diversified by destination, China being its first destination with 19% of its exports in 2013, and its raw materials and resource-intensive manufactures bear greater weight on its exports.

Mexico's dependence on the US market and its greater exposure to international economic development has resulted in two shocks that are essential to understand the disparate development of both countries, the first related to China's growing role, and the second to the economic crisis whose epicentre was the USA.

On the one hand, attention should be paid to China's emergence as a global actor and big player in world economic growth in recent decades. This

impact has been much more positive for Brazil, propelling a growth of more than 10% in its export of agricultural products, and of more than 30% in that of minerals between 2001 and 2011 (World Bank, 2015b). Conversely, China has competed against Mexico to place its products on the USA market, causing a drop of over 14% in the latter's manufactured exports, while the rise in the price of food has had a greater impact on cost of living in Mexico, whose market is more open and exposed to international prices (Figure 7). Therefore, it can be concluded that the role of China has been more beneficial for Brazil than for Mexico.

FIGURE 7: EVOLUTION OF THE COST OF THE BASIC FOOD BASKET OR EXTREME POVERTY LINE, 1996-2012 (1996 = 100).



Source: Prepared based on data from the ECLAC.

On the other hand, Mexico's economy is increasingly integrated with, and dependent on, that of the USA. Already in 2001, Mexico was seriously affected by the bursting of the technology firms' bubble, since the slowdown in US growth started a recession where Mexican GDP became reduced by 2%. Mexico was later very adversely affected by the US recession, with a GDP drop of 6% in 2009. This had a direct impact on poverty growth in Mexico (Figure 1). It can be said that, as a result of trade openness, Mexico has definitely come to be a more competitive country, with exports amounting to almost 400 billion dollars in 2013. Nevertheless, it has also become more exposed to the ups and downs of the world economy, and most especially to the USA's, and, by extension, to the competition of emerging countries aspiring to increase their share of the USA market.

There are also differences in the area of financial openness, where Mexico is again ahead of Brazil, the weight of international banking, for instance, having a decisive influence on the Mexican market. Capital account openness in Mexico, in line with the recommendations of the international financial institu-

tions of the time, begins in 1989-1990, during the six-year office of Salinas de Gortari. Mexico was also the first emerging market to suffer a balance-of-payments crisis brought about, first, by strong inflows of capital and, later, by a sudden stop in capital flows (Calvo, 1998). Although crises of this type also took place, with different degrees of severity, in South Korea (1997), Thailand, Turkey and Russia (1998), and Brazil (1999), Mexico was the first warning of the dangers of capital account openness and of the negative impact this kind of episodes could have on the battle against poverty. As a result of the 1995 crisis in Mexico, GDP per capita fell by 8%, while in Brazil, as a result of the 1999 crisis, the fall did not reach -2%. At the same time, poverty in Mexico rose by almost 10 million people, while Brazil only added 5 million. In line with the World Bank's proposal, in both instances, the economic crises come as powerful obstacles in the struggle against poverty that, within short periods of time, can reverse the hard won gains.

Finally, it should be noted that Mexico is also more open in terms of departure of its citizens to work in other countries, with more than 30 million Mexicans or individuals of Mexican descent in the USA. This is revealed by the weight of the remittances received compared to GDP, which in Mexico amount to 1.8% of GDP per year, against only 0.1% in Brazil. However, neither the safety valve created by Mexico-to-USA migration, nor the strong inflow of remittances, have lowered the incidence of poverty in Mexico since, because of the migrants' origin, they did not go to the poorest population groups.

## 5.2. THE WELFARE STATE AND SOCIAL POLICY

The second political area is concerned with the State's weight in the economy and the government's involvement in social policy. Here there are again marked differences between Mexico and Brazil. According to data from the ECLAC, Brazil's capacity to collect taxes (of about 25% to GDP) is far above Mexico's (10%), whose weak fiscal pressure not only places it close to the development trap of low tax collection that prevents the adequate provision of public goods (Cornia, 2010), but also makes it largely dependent on revenue from the PEMEX state-owned petroleum company and, therefore, on oil prices. Public spending levels are also different: 35% of GDP in Brazil against 25% in Mexico. Thus, although social expenditure in both countries follows an upwards trend in the two decades under analysis, according to the ECLAC, while in Mexico it was around 10% of GDP in 2012-2013, in Brazil it was over 25%, so that social protection mechanisms in Brazil were much stronger than those in Mexico. Proof of this is that beneficiaries of pensions over the age of 65 represented 86.3% in Brazil in 2009, while in Mexico they only covered 25.7% of this population in the following year (Rofman and Oliveri, 2011). To a large extent, these differences are related to the weight of the informal economy, where Mexico's non-agricultural informal employment rate was of 53.8% in 2013, whereas in Brazil it amounted to only 36.5%, according to

the ILO. Likewise, since the Constitution of 1988, Brazil is more advanced in terms of policies aimed at universal health insurance than Mexico, where they were commenced in 2004 with the extension of the Seguro Popular (People's Insurance). Universal health coverage prevents impoverishment resulting from diseases that are not covered by charitable insurance, also in line with the World Bank's vulnerability considerations.

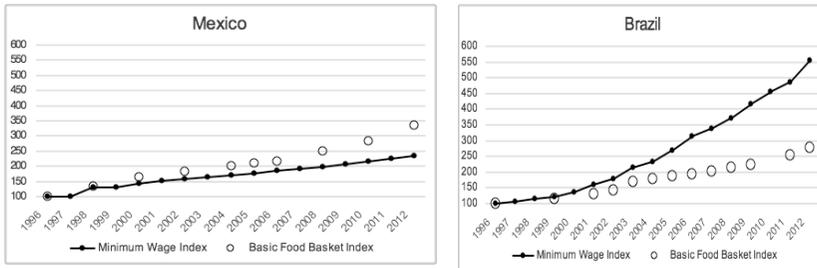
The coverage of the non-contributory pensions system of the Continuous Cash Benefit Programme (BPC) is also significantly higher in Brazil, and its pensions are much more generous than those of the Mexican "70 and more" programme (Rofman *et al.*, 2013), so that Brazil is more effective at reducing poverty in old age.

Similarly, the Bolsa Familia and Oportunidades/Prospera are probably the best-known conditional cash transfer programmes in the world and, also the most copied, the allowances they grant are similar, measured in international prices (Tassara *ed.*, 2015; Gasparini, Cruces and Tornarolli, 2016). However, if they are considered in relation with the cost of the basic food basket, which was almost 60% more expensive in Mexico by the end of 2012, based on market exchange rates, cash transfers in Brazil are far higher in proportion. The greater relative weight of the Brazilian programme could also involve a greater impact on the accumulation of human capital and the creation of more opportunities for the poorest, in line with the policies suggested by the World Bank.

Finally, a component of social policy that should not be neglected is the evolution of the minimum wage, which also affects the labour market. The minimum wage in Mexico is far below that in Brazil (Moreno-Brid, Garry and Krozer, 2016). Thus, by the end of 2012, it was of 95 euros in Mexico against over 220 euros in Brazil, at market exchange rates. This difference is particularly marked when considering the cost of the basic food basket: 80 euros in Mexico against only 46 in Brazil. The evolution of the basic food basket and of the minimum wage after 1996, a time of crisis in Mexico and of hyperinflation in Brazil, reflects opposing wage policies for the lower layers of the labour market (Figure 8). Moreover, in Brazil the government implemented social dialogue mechanisms (Council for Economic and Social Development set up in 2003) and strengthened collective bargaining (Cornia, 2010 and 2015), a line that has been recently joined by the IMF (Dabla-Norris *et al.*, 2015).

A synthetic indicator that enables the joint analysis of the effect of all these measurements is the difference between the Gini index (expressed from 0 to 100) before and after tax collection and transfers (non-cash included). In Brazil, the difference in 2009 was of 13.4 points (Higgins and Pereira, 2014), while in Mexico, in 2010 the difference was of only 8.2 points (Scott, 2014). Data collected for 2011 yielded a difference of 16.4 for Brazil (the highest in Latin America), against Mexico's 11.7 (ECLAC, 2015b).

FIGURE 8: EVOLUTION OF THE COST OF THE BASIC FOOD BASKET AND OF MINIMUM WAGE, 1996-2012 (1996 = 100).



Source: Prepared by the authors.

### 5.3. INSTITUTIONS

Additionally, attention should be paid to several aspects of the institutional systems of these countries. Mexico is rated by Transparency International as more corrupt than Brazil: in 2015, Mexico occupied number 95 (scored 35) among the 168 countries included in the world ranking, 19 positions below Brazil, which was number 76 (scored 38). This indicates a lower corruption perception in Brazil. Mexico's democracy is also considered of lower-quality than Brazil's; in fact, in 2014, Freedom House granted Mexico the status of "partially free" country, whereas Brazil qualified as "free". This, with no intention to idealize Brazilian politics, speaks of a lower-quality democracy in Mexico with a probably lesser ability to articulate the demands of the weakest and translate them into pro-poor policies, which does seem to have happened in Brazil since 2002, under the government of the Workers Party (PT).

Mexico's weakness at the institutional level is also reflected in the advantages enjoyed by several power groups, beginning with the quasi-monopolies of television and telephony and continuing with the National Union of Education Workers (SNTE) of Mexico, and in the shallowness of its financial system. This inadequate functioning of institutions and markets has been identified as one of the explanatory factors for Mexico's poor results (Levy and Walton, 2009).

### 6. CONCLUSIONS

The lower growth rate of GDP per capita in Mexico partly helps to explain its poor results in the struggle against poverty. However, there are three other reasons for its differences with Brazil.

The first is the differences in behaviour towards inequality, which dropped more sharply in Brazil, mainly because of the better behaviour of the poorest deciles. This means that Brazil not only experienced more growth, but also

that such growth was more inclusive or strong pro-poor growth (Medina and Galván, 2014a).

The second factor is the difference in the scope of public policies. Mexico's greater commercial and financial openness made it far more sensitive to the impact of external crises (as suggested by Prebisch), revealing yet again the vulnerability of the poor to crises. The increase in poverty in Mexico following the 1995 financial crisis and the USA crisis of 2008 are crucial to understand the Mexican experience. While the differential impact of China's emergence on Brazil and Mexico has been very substantial, it has been favourable to the former but deleterious to the latter. Analogously, the welfare state is stronger in Brazil, with a more formal economy and basic contributory and non-contributory pension, universal health coverage and CCT programmes that are broader and more generous than Mexico's. At the same time, both countries follow opposing policies regarding the evolution of the minimum wage in relation to the cost of the basic food basket, which explains part of the best results obtained for the poorest of the poor in Brazil, who could better benefit from the opportunities provided by a growth that was more stable than Mexico's.

Finally, the third crucial element is institutions, where Mexico is perceived as a more corrupt country with lower-quality democracy, where the poor have been given no voice to shape the public agenda and thus achieve more inclusive growth.

It remains to be seen to what extent the different performance of the two countries after the slowdown of the Chinese economy, the economic crisis and the end of progressive governments in Brazil and the falling price of commodities alters these results from 2014 onwards.

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