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Poverty Assessment in Mexico, 1998-2004 (Quantitative Policy Case #1)

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# 1. Critical review of the Mexico Poverty Assessment

## 1.1. In not more than a couple of pages, indicate:

*What issues motivated the report?*

The desire to understand poverty, assess attempts to address poverty, and inform future work...

### *What analytical tools did the report use to analyze poverty and inequality?*

linear regression of data obtained from surveys, including quantile regression; tests of statistical significance; calculation of Gini coefficient; frequency and conditional distributions; comparison of various income groups to base group, in "normal" times and during a shock; spatial analysis based on region and ethnicity

### *What are the main results of the poverty assessment?*

A. Trends in education, health, and basic infrastructure services - "Both education and health stats, and access to social services, remain highly unequal. However, there has been a substantial improvement in the participation of the poorest income groups in lower-secondary education and health services for the uninsured" (39). Gender gap in education has "virtually disappeared for younger cohorts" (40). "significant improvements in the health status of the population, a broadening of access to basic services, and growing public support for important public health measures" (43). "Coverage of the formal insurance system remains limited, especially for the poor. It appears to be particularly inequitable in the quality of provisioning for catastrophic health risks...For the poor living in rural areas, poor states, and marginal urban areas, access to basic care remains limited and of low quality" (45). "The expansion of basic infrastructure services has included the poor. This is particularly notable for the gains in water and electricity for the extreme poor in rural areas. Progress in sanitation has improved much less" (47).

B. Structure, correlates and trends in income poverty - "Income poverty remains both broad and deep in 2002...This reflects high levels of inequality, with the bottom 20% of the population receiving just over 3% of total income, while the top 10% receive over 40%...the extreme poor...are more likely to live in rural households in which the breadwinner's main occupation is agriculture...and have primary education or less. Indigeneous groups suffer disproportionately from extreme poverty" (48-49). "Education is associated with a lower probability of being poor after controlling for other factors" (52). "Households in urban areas have an average 20% higher per capita income compared to those in rural areas...being indigeneous reduces per capita income by 15% in rural areas and has no significant impact in urban areas" (53). "pattern of slow long-run progress in the reduction of income poverty...although the proportion of poor individuals fell between 1996 and 1998, the depth and severity of poverty increased, indicating that the poorest individuals did not benefit initially from the economic expansion in this period" (55). "Total transfers...account for an important share of total transfers for all income quintiles, but particularly for the bottom 20% of the national income distribution, and even more so for rural areas" (69).

C. Vulnerability - covariate (aggregate, economy-wide, common) vs. idiosyncratic (individual) shocks

"rural households with less educated household heads have higher income variation with respect to the base group than their urban counterparts" (77). "range of consumption changes is less than income changes (shocks) -- especially for largest falls and rises" (78). "Less educated tend to suffer greater shocks in consumption across the board...high variance in incomes that we find in both the rural and urban areas does not appear to translate into high consumption variance" (79). "the results suggest (i) that the impact of macroeconomic shocks -- which by and large hit high urban areas hardest -- have been relatively equally distributed across the urban population, and (ii) that in rural and even in poor areas there is at least some smoothing of consumption in the face of idiosyncratic income shocks" (79).

D. Regional and ethnic differences in well-being - The states are characterized by more variation within them than between them. "among the municipalities where poverty is high, there are more that have a low share of non-agricultural employment than there are with a high share" (90). "Indigenous peoples account for about a fifth of the extreme poor, [which] is over twice their population share" (91). "Net enrollment rates for educational levels beyond primary decrease dramatically for indigenous groups particularly in the south part of the country...the main cause for dropping out of school is lack of financial resources to continue studying" (91). "Municipalities with a high percentage of indigenous improved faster than the rest in terms of illiteracy, piped water, electricity, and material of the floor of the dwellings" (93). "Municipalities where population grew fast seem well endowed in terms of geographic characteristics and assets but they are not necessarily performing better in terms of the evolution of their socioeconomic indicators over time" (e.g. illiteracy, access to piped water and electricity) (96). "overall regional differences hide a great deal of spatial heterogeneity within states both in terms of levels of well-being and patterns of change. In terms of numbers, there are large groups of the extreme poor living outside the poorest states...Indeed, all parts of Mexico have steep gradients in conditions of living from more developed urban areas, through peri-urban areas and smaller towns, through to the more remote rural areas. There is an overlap between indigence and spatial indexes of well-being especially for rural indigenous groups...There has been some long-term [regional] convergence in most indicators of services and social conditions but a tendency toward divergence in income and wage measures in the 1990's that appears to be associated with the differential effects of heightened international integration both before and after NAFTA" (98).

### *What are the main policy recommendations?*

- Increase taxes and direct revenues into targeted poverty programs
- Increase programs for the extreme poor and the middle of the moderate poor, two groups that are slipping through the cracks
- Increase quality of services through results-based incentives
- Improve efficiency of civil infrastructure, cut regulations, increase access to loans, provide "technical assistance" to urban firms
- Increase accountability of public programs at all levels (local to national)
- Continue program evaluation and adapt management based on results

**1.2. With a focus on the heterogeneity of poverty, indicate which aspects of poverty appear to be most in need of detailed analysis when making a poverty assessment for Mexico.**

## **2. Macroeconomic context for your 1998-2004 poverty assessment**