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**THE REDEFINITION OF THE MEXICAN STATE: ESSENTIAL  
PUBLIC POLICIES FOR THE DEVELOPMENT OF MEXICO**

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**Abstract**

This paper draws on Iniguez-Montiel (2010, 2011a, 2014), providing a summary of the main research findings as well as making policy recommendations directly following from them. Particularly, the study discusses the income-distributional and growth-enhancing policies that are required to create a virtuous cycle of inclusive development in Mexico. Moreover, it is argued that, for the Mexican economy to develop and grow at considerably higher (potential) rates and, eventually, succeed in reducing and eradicating absolute poverty, the intervention of the state is indispensable. However, based on the successful experiences of the East-Asian economies (World Bank, 1993) and an overall assessment of more than three decades of development outcomes for Mexico as an open-market economy, the paper suggests the urgent redefinition of the Mexican state as an impartial referee that “leads the market” and looks after the interests of the entire population, so that Mexico can grow at its full potential and a truly inclusive model could ever become part of the Mexican society.

**Keywords:** inclusive development, government intervention, pro-poor growth, public policies, state redefinition, Mexico.

**JEL Classification:** H11, H50, O10, O21.

## 1. INTRODUCTION

Mexico underwent dramatic structural and economic changes in the 1980s and 1990s, mainly related to the 1982 debt crisis and the insertion of the economy into the global market. Those changes represent the adoption of a radically different, development strategy (from an import-substitution, state-led to an export-oriented, market economy), which is associated to a process referred in the literature as globalization.<sup>1</sup> However, despite the multiple efforts and reforms to revitalize and modernize the economy as well as the geographic advantage of being located next to the largest economy in the world, economic growth has been quite low among emerging markets (OECD, 2009)<sup>2</sup> and much slower than the one achieved during the import-substitution years (Chiquiar and Ramos-Francia (2009), Heston et al. (2011), Rodriguez-Arana (2010)).<sup>3</sup> Therefore, it has been argued that Mexico's development

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<sup>1</sup> Globalization began in the 1980s and has largely been driven by multilateral and national policy reforms. As a result, many developing countries have adopted policies of liberalizing trade and capital account flows combined with domestic privatization and deregulation. These reforms have been based on a fundamental shift in strategy from state-led import substitution philosophy to a market-oriented, export-led approach to development, often in the context of stabilization and structural adjustment programs under the pressure of the IMF and the World Bank (Kohl, 2003).

<sup>2</sup> Mexico has made some progress in boosting growth but not enough for satisfactory catch-up. Although Mexico's GDP per capita growth in the last decade is around the OECD average, it is too low to allow rapid convergence to living standards in the higher-income OECD countries (OECD, 2009). Moreover, according to the Organisation for Economic Cooperation and Development, Mexico exhibits a divergent, development path (OECD, 2009).

<sup>3</sup> According to the Penn World Table 7 (Heston et al., 2011), Mexico's GDP per capita growth (average) between 1980 and 2009 was only 0.658%, while that in 1951–1979 was 3.47%. Even if the years of the so called “lost decade” are subtracted from the post-1970s

model change is behind the country's underdevelopment problems (Hernandez-Laos & Velazquez-Roa (2003), Bayon (2009), Rueda-Peiro (2009), Rodriguez-Arana (2010)) and has affected negatively several of its socio-economic outcomes in an important manner (Lustig (1992), Szekely (1995, 1998, 2005), Hernandez-Laos and Velazquez-Roa (2003), Bayon (2009), Rueda-Peiro (2009), Arias et al. (2010)).

Some of Mexico's development outcomes have been analyzed quite extensively in the last decades. In the recent literature, however, relatively little attention has been paid to poverty, inequality and government expenditure, and their relationship with economic growth. This study intends, therefore, to summarize the findings of three authored papers (Iniguez-Montiel 2010, 2011a, 2014), which focus on the rigorous and empirical examination of those variables as well as the interrelationship between some of them, and to provide policy recommendations directly following from them. We believe that the analysis of the aforementioned variables is of the greatest importance for the development of Mexico because, as suggested in the literature, they may be responsible, in great part, for Mexico's poor economic performance during the last three decades (Aghion et al. (1999), Addison and Cornia (2001), World Bank (2001, 2007),

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period, the average rate of growth of per capita GDP was 1.16% during 1990–2009 (Heston et al., 2011).

Thorbecke and Charumilind (2002), Easterly (2007), Levy and Walton (2009), OECD (2009), Rodriguez-Arana (2010), Hernandez-Licona (2010)). At the same time, those variables are, undoubtedly, the reflection of the great and resilient social underachievements (gaps) along with the corresponding challenges that the Mexican economy faces today as it has faced, most probably, for centuries (de Ferranti et al. (2004), Scott (2009)).

This paper is organized in two sections as follows. The next section explains briefly the objectives of each study, along with the applied methodologies, and summarizes their main findings and conclusions. Finally, Section 3 provides an interpretation of the relation between all the research findings and, based on that interpretation and the relevant literature, policy recommendations are made with the intention to address some of Mexico's most severe underdevelopment problems.

## **2. SUMMARY OF MAIN FINDINGS**

Iniguez-Montiel (2014) examines the relationship between poverty, inequality, and economic growth in Mexico by trying to harness a variety of quantitative techniques developed to analyze the, sometimes, overlooked and underestimated impact of

inequality on poverty. More specifically, the study analyzes whether Mexico's growth was pro-poor in 1992–2008 and determines its growth-inequality pattern at the national, rural and urban levels, applying the Growth Incidence Curves (GICs) of Ravallion and Chen (2003). Furthermore, by applying Ravallion and Huppi's methodology (1991), the changes in the overall poverty level are decomposed into the contribution of changes in poverty in the rural and the urban sectors, plus the impact on poverty associated with the effect of rural-urban migration. Finally, the contribution of changes in the distribution of income (inequality) and in the income per-capita level (growth) to the reduction (increase) in poverty is determined by making use of the decomposition methodology proposed by Datt and Ravallion (1992).

As suggested in the literature (Dagdeviren et al. (2004), Lopez (2006), Oxfam (2000)), it was found that improvements along the distribution of income had an important impact on the level of poverty as they were responsible for about 58 and 49% of the reduction in extreme and overall poverty in the long run (1992–2008) respectively. Moreover, in 2000–2004, the poverty decline was primarily attributed to the equalization of incomes in the country (lower inequality), while income growth played only a minor but still positive role. Additionally, it was possible to identify that the poverty reduction in

Mexico after 2000 was greatly attributed to the poverty decline in the rural sector and, to a lesser extent, to that in the urban sector, associated to a 4.2 and 1.7% pro-poor growth rate, respectively, in 2000–2008. The reduction of poverty in the rural areas, as well as its considerable rate of pro-poor growth, was mainly achieved by an impressive decline of inequality in that sector, equivalent to nine-percentage points, between 2000 and 2004. As for the contribution of the population transfer from the traditional to the modern sector of the economy, this accounted for a nontrivial impact of between 14 and 20%, which definitely puts a lot of pressure on the urban economy because its population increases in size constantly and a huge and rising portion of its labor force (59% in 2010 (Murayama and Samaniego, 2011)) is employed in the informal sector.

Thus, it is concluded that growth with redistribution (lower income inequality) was indeed the key to reducing poverty continuously and in an important manner during 2000–2006 even though the Mexican economy was in recession in 2001–2003. However, after 2006, decreasing per-capita income, and the persistently high inequality (Gini of 52% in 2008), caused the reversal of the favorable trend observed since 1996, raising poverty to pre-2002 levels. Consequently, it is argued that the implementation of an active pro-poor growth policy, which spurs growth and reduces inequality, should be

strongly encouraged if a real dent in poverty is to be made in the foreseeable future.

Iniguez-Montiel (2011a) analyzes in detail the issue of the inequality in the distribution of income in Mexico from 1989–2006. Given that the importance of inequality to poverty reduction is indeed corroborated in Iniguez-Montiel (2014), this study intends to identify the microeconomic factors, along with their specific contributions, that determine the distribution of income in Mexico. In particular, the factors that were responsible for the inequality decline in the 2000s are carefully analyzed.

After applying a dynamic decomposition methodology proposed in Bouillon et al. (2003), it was found that most of the forces behind the increase in the level of inequality in Mexico in the years following 1984 are now working in the opposite direction (inequality-decreasing), and, consequently, contributing to the reduction of the high income disparities that persist in the country. Among the determinants of the inequality decline, it was possible to identify three important, equalizing factors: education, financial assets, and the bettering of the returns to living in and to household endowments in the rural areas and, particularly, in the South of Mexico. The results show that educational-related changes, which were caused by the decline of

educational inequality as well as the narrowing skill-premium gap between low- and high-skilled workers, accounted for the bulk of the inequality decrease in the long run. However, in the years following 2000, improvements in the distribution of and decreases in the rates of return to financial assets contributed in an important manner (38%) to the reduction of income inequality in Mexico, while education contributed to about 30% to the equalization process. As financial-asset changes are associated to Mexico's poor economic performance in the 2000s, the 2001–2002 recession in the USA, and the sharp decline of the national risk-free rate after 2000, it is argued that the declining trend in the income inequality in Mexico may be reversed, in the same manner that occurred in the previous decades (Cortes, 2003, 2006), once the Mexican economy recovers and the world exits the financial crisis, unless there are real, permanent changes in the structure of the economy that make the distributional gains from growth more pro-poor.

On the other hand, as implied by the net unequalizing effect of unobservables found through the decomposition exercise for the periods 1994–2000 and 2000–2006, there were particular factors that negatively affected the distribution of income and impeded its further improvement. For instance, one of the most important inequality-augmenting, unobserved factors in Mexico is its own economic and fiscal policy as suggested in the

literature (Szekely (1998), World Bank (2001, 2007), Hernandez-Laos and Velazquez-Roa (2003), Goni et al. (2008), Rueda-Peiro (2009), Iniguez-Montiel (2010) among others) and the absolutely regressive distribution of public spending (1992–2008) found in Scott (2009). Moreover, the only factor that was continuously and highly unequalizing during the three analyzed periods in between 1989–2006 was the returns to demographic characteristics, which, in the case of adults, measure the marginal effect of adding a person with no education to the household. Based on the assumption that illiterate adults earn on average the minimum salary for their labor, the previous finding suggests that the strong, inequality-increasing effect of the returns to demographics was in great part the result of the 70-percent depreciation of the minimum wage that occurred in Mexico from 1980 to 2006 (ILO, 2007).<sup>4</sup> Based on the results in Iniguez-Montiel (2011a) and the arguments of two of the most important hypotheses in the development-economics field, concerning the relationships between inequality and growth and inequality and poverty, the study is able to suggest policies aiming at more drastic inequality and poverty reduction, as well as faster growth through a more equal distribution of income and assets in the country.

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<sup>4</sup> This important finding is consistent with the results and conclusions of Bosch and Manacorda (2010), who show that the decline in the real value of the minimum salary in Mexico was able to explain most, if not all, of the rise in urban inequality at the bottom of the earnings distribution between the late 1980s and the late 1990s.

Iniguez-Montiel (2010) is concerned with the long-run relationship between government expenditure and national income in order to determine whether it is Wagner's law and/or Keynes's hypothesis the valid proposition for Mexico. It should be noted that the two hypotheses are exactly each other's inverse, both in beliefs and contents. Therefore, while Wagner's law deals with the increase in the size of the public sector as a consequence of the economic growth of a society, Keynes's hypothesis is about the growth of national income as a consequence of a rise in public-sector expenditure.

In order to analyze the relationship and causality between the abovementioned variables, a time-series analysis approach (including unit-root tests, cointegration analysis, error-correction modelling and Granger causality tests) was used. Accordingly, it was found that government-spending and national-income variables are nonstationary and cointegrated, thus satisfying a long-run equilibrium condition. Moreover, uni-directional causality, running from GDP to government-expenditure variables, could be established between the variables and, therefore, only Wagner's law was found to be valid in Mexico's case for the period of study.

Given the unequivocal rejection of the Keynesian hypothesis, indicating that the

stabilization function of the Mexican government is not supported by the data, it was possible to conclude that government expenditure was not a good policy instrument to encourage and lead growth in the Mexican economy during the last fifty years of the twentieth century.

### **3. CONCLUSIONS AND POLICY RECOMMENDATIONS**

The results of the studies (Iniguez-Montiel, 2010, 2011a, 2014) summarized above are clearly interconnected and indicate that there is a fundamental need for increased and effective public-policy intervention to address the overriding issues that affect so deeply the Mexican economy under its current development model and which the market by itself has been unable (or unwilling) to solve during the past three decades.<sup>5</sup> Existing studies point out that the government is failing to fulfill its stabilization function properly in order to enhance (influence) economic growth (World Bank (2001), Hernandez-Laos and Velazquez-Roa (2003), Chiquiar and Ramos-Francia (2009), Levy and Walton (2009), OECD (2009), Arias et al. (2010), Iniguez-Montiel (2010)). Besides the failure of the government's stabilization function, our study also suggests that the

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<sup>5</sup> An interesting hypothesis is proposed in Levy & Walton (2009), who suggest that the problems of low growth and high inequality in Mexico are the result of a self-sustaining, rent-sharing political equilibrium that, in a context of inherited high inequality, translates into behaviors that are both efficiency reducing and wealth concentrating. According to the authors, this equilibrium evolves and changes in form, but its inherent properties are persistent and resilient (Levy & Walton, 2009).

redistribution function of the Mexican state has not been conducive to reducing the high inequalities that permeate across the country, so that an adequate floor is provided for the low-income families (Musgrave and Musgrave, 1989) to allow them to satisfy their basic needs and engage in productive, potentially-profitable activities.<sup>6</sup> Probably, the most recent proof of this important fact of the Mexican economy is found in Iniguez-Montiel (2014), who, while confirming that extreme poverty is less prevalent in Mexico in relative terms, confirms that the same statement does not apply to moderate poverty or the absolute number of the poor regardless of the poverty line that is used, estimating that more than 58 million people live in poverty in the country since 2008, from which no less than 22 million lack the most basic necessities of food, health and education (Iniguez-Montiel, 2014).<sup>7</sup> Additionally, it is also shown in the same paper that moderate poverty increased by 21%, from 29.5 to 35.6 million people in 1992–2008. Therefore, the evidence clearly indicates that the government's effort to combat poverty, as well as putting the economy on track to narrow the huge gap in living standards with

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<sup>6</sup> According to the literature, a high level of inequality constrains the poor, through capital market imperfections, to undertake profitable, investment opportunities and acquire the necessary level of human capital to compete in the market (Aghion et al. (1999), Bardhan & Udry (1999), Thorbecke & Charumilind (2002), Dagdeviren et al. (2004), Culpeper (2005)). For instance, there is evidence of a low human-capital development trap in Mexico, which forces a large part of the population (low-income families) to stay poor for generations (Mayer-Foulkes, 2008).

<sup>7</sup> It should be noted that both the proportion and the number of the poor in Mexico rose even more after 2008 (CONEVAL, 2011) due to the negative impact of the world financial crisis, the increase in food prices, and the continuous fall in per-capita incomes (CONEVAL, 2012).

respect to developed countries has been rather insufficient.<sup>8</sup>

These particular issues definitely signal important weaknesses on the part of the state, which are impeding social and economic progress and, therefore, should be tackled in order for Mexico to develop and grow at potentially higher and sustained rates that could situate the country in a new and convergent development path, while eliminating gradually the dual economy that exists in the country (Hernandez-Laos and Velazquez-Roa (2003), World Bank (2007)).

According to our study, among the most important distributional policies that could yield a doubly-beneficial impact in terms of equity and efficiency are those concerned with: 1) increasing the educational-attainment level of low- and middle-income households so that the huge educational gap between those classes and the rich is gradually eliminated and, consequently, the strong and positive correlation between poverty and low-educational levels, documented in Iniguez-Montiel (2014) and McKinley and Alarcon (1995), decreases over time as well. In this matter, it is also of extreme importance that the new educational policy incorporates the quality of public

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<sup>8</sup> According to the OECD (2009), if Mexico continues growing at the same speed (1.91% growth rate in real per capita GDP in 1997–2007), it will reach complete converge towards living standards in the United States of America (USA) in 1,848 years. However, if Mexico's current speed of converge is increased by only 1%, then it will take 321 years to reach converge with the USA (OECD, 2009).

education as one of its main pillars; 2) the further development of the financial system so that the benefits provided by this important sector could be capitalized upon by all people and firms in the country. Iniguez-Montiel (2011a) indicates that it is the households at the upper-tail of the income distribution (particularly those at the top percentile) the ones who are mostly able to take advantage of the opportunities available through the financial market, and this is also true in the case of the private sector, where large firms and corporations are the main receivers of credit (Moreno-Brid et al., 2005); and 3) increasing the over 70% depreciated minimum wage, which remains below subsistence levels and affects mostly individuals at the lower tail of the income and educational distributions, therefore, contributing to the high levels of inequality and poverty that are observed.<sup>9</sup> Moreover, although indirectly inferred from our results, our study suggests that policies aimed at developing the human-capital of low-income households, like the Oportunidades and Popular Health Insurance programs, and increasing the purchasing power of the poor, including the elderly, through direct monetary transfers contribute greatly to improve the distribution of income and assets in Mexico and, consequently, to reduce poverty. This type of polices,

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<sup>9</sup> It should be noted that the sharp and continuous reduction in the minimum salary, occurring since 1978, is the policy that has been followed to control inflation and spur the competitiveness of the country through the abundance of cheap labor (Lustig (1992), Hernandez-Laos and Velazquez-Roa (2003)).

therefore, should be strongly encouraged as well.<sup>10</sup>

On the other hand, while equity issues are indeed essential to overcome poverty in the medium term in a more realistic and effective manner, Iniguez-Montiel (2014) also suggests that economic growth in Mexico is equally important to reduce poverty at all levels. Therefore, the second set of policies that should be pursued is the one that encourages a faster and sustained growth rate of the Mexican economy so that poverty can be eliminated at a faster pace. This issue is particularly relevant for the development of Mexico because its economic performance has been sluggish since the 1980's despite the numerous reforms and structural changes to insert the economy into the global market and increase its efficiency, its rather impressive record of fiscal discipline since the late 1980's, as well as the achievement of macroeconomic stability since the late 1990's. According to the literature, among the most important policies to promote higher growth rates in Mexico, it is possible to mention those that could: 1) turn

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<sup>10</sup> There are two important issues to be considered when implementing this type of policies. First, it is important that some resources are made available to expand the supply of the services and, at least, maintain the quality of them, so that overall quality is not sacrificed at the expense of the quantity provided. Second, even though these policies are greatly conditional on financial constraints and political considerations, more effort should be made to increase the amount of money that is transferred to low-income households so that the impact of the programs on inequality and poverty is more significant. As a reference, it should be noted that Oportunidades, the largest government cash-transfer program in Mexico to aid the poor, represented 0.3% of GDP or 1.8% of total government expenditure in 2008 (Scott, 2009), benefiting 5 million households or 26 million people. As documented in Scott (2009), the redistributive efficiency of the Oportunidades program is remarkable. However, despite its expansion to benefit about 24% of the population since 2004 (Levy, 2006), the program still represents a relatively small drop in the ocean of social spending (Scott, 2009).

the economy from a primarily monopolistic / oligopolistic one into a more competitive market overall but, especially, in relation to many of its non-tradable sectors (Chiquiar & Ramos-Francia, 2009); 2) boost the rather low development of its financial market (OECD, 2009); 3) improve human capital accumulation (World Bank (2007), OECD (2009)); 4) increase infrastructure investment (OECD, 2009), which remained quite low from the late 1980's to the mid-2000's (World Bank (2004, 2007), OECD (2009)); and 5) increase the productivity of the labor force (OECD, 2012) by reducing its rather large informal economy, which is a result of the heavy burden of regulation and monopoly in which the country operates (Arias et al., 2010). Furthermore, we identified two additional types of policies, related to Mexico's economic structure, which should be seriously considered to accelerate its growth rate: 1) redesign and implementation of industrial policies to promote the development of selected industrial sectors (Moreno-Brid et al., 2005). This is particularly important in order to effectively eliminate the country's strong dependence on imports and encourage the creation of good, quality jobs that could match the large number of new entrants into the labor force each year, equivalent to 1.3 million people (Hernandez-Laos and Velazquez-Roa, 2003); and 2) policies that systematically encourage the urgent economic development of the rural sector and, especially, of the low-productivity, stagnant and greatly abandoned agricultural sector.

As pointed out in McKinley and Alarcon (1995), the revitalization of agriculture is key not only to poverty reduction, but also to the development of Mexico as a whole.

It is important to mention that the two abovementioned types of policies, which in nature pursue different objectives, seem to complement each other indeed and, consequently, through their positive interaction, could speed up the rate at which poverty is reduced. For instance, the further development of the financial system, which remains quite underdeveloped compared to emerging market peers (OECD, 2009), could yield a doubly beneficial impact on growth and inequality by expanding the investment opportunities of the poor (Bardhan and Udry (1999), Ravallion (2005), Perry et al. (2006)) and of the vast majority of small and medium enterprises struggling to survive the intensified competition from their external competitors (Moreno-Brid et al., 2005). Likewise, the economic expansion of the rural sector, which has been ignored for centuries but especially so after Mexico became an open-market economy, would certainly bring about lower levels of inequality and higher per-capita growth rates for the entire economy, gradually eliminating, thus, the dual economy in the country (World Bank, 2007). Therefore, as suggested in the literature, there is not necessarily a trade-off between equity and efficiency (Aghion et al. (1999), Thorbecke and

Charumilind (2002), Dagdeviren et al. (2004), Culpeper (2005)). On the contrary, when wealth or human capital endowments are heterogeneous across individuals and capital markets are imperfect, as in the case of Mexico, greater inequality may have a direct negative effect on growth by reducing investment opportunities for the poor, worsening borrowers' incentives, generating macroeconomic volatility (Aghion et al., 1999), creating lower levels of productivity and efficiency, and causing more instability (Stiglitz, 2012). All of these arguments certainly apply and are most relevant to Mexico. Therefore, lower levels of inequality may be translated into higher rates of growth for the economy, as well as faster poverty reduction via redistribution and growth as corroborated in this study and others as well (Bourguignon (2004), Dagdeviren et al. (2004), Iniguez-Montiel (2014, 2011b), Lopez (2006), Oxfam (2000)).<sup>11</sup>

Consequently, this study lends support to the view that for the Mexican economy to develop and grow at considerably higher (potential) rates and, eventually, succeed in reducing and eradicating absolute poverty, it is indispensable the intervention of the state (Bayon (2009), Hernandez-Laos & Velazquez-Roa (2003), Iniguez-Montiel

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<sup>11</sup> The interactions between distribution and growth should be carefully considered in the development strategy (Bardhan and Udry (1999), Bourguignon (2004), Ravallion (2005), Perry et al. (2006)) if all members of a society, but particularly the poor, are to benefit from the economic process and the objectives of rapid, equitable growth and lower inequality are to be met simultaneously.

(2011b), Levy and Walton (2009), OECD (2009), Rueda-Peiro (2009), World Bank (2001, 2004, 2007)). The required intervention should be pursued through the adoption and implementation of sound and consistent policies to promote the necessary level of economic activity in its hardly-depressed domestic market (especially that of the rural sector) and act as a real stabilizer of the economy. Additionally, it is imperative that the state fulfills its redistributive function (Musgrave and Musgrave, 1989) properly and effectively, by redistributing income and assets in the same skillful and important manner accomplished in developed countries through their government budgets (Atkinson (2004), Goni et al. (2008)) and to the level that is required for attaining a moderate level of inequality in the country.

A short parenthesis is included here to emphasize that, as stated above, there are several, well-identified policies that can clearly contribute to the development of Mexico by enhancing growth, producing a more equal distribution of wealth, and reducing poverty on a constant basis. However, on the other hand, it should be noted that there are other specific types of policies and economic reforms, like domestic privatization and deregulation, which were undertaken in the past and did not yield the benefits that were promised for all people and which actually hurt broad segments of the population,

particularly the poor (Hernandez-Laos & Velazquez-Roa (2003), Lustig (1992), Rueda-Peiro (2009)). It is therefore imperative that every major policy reform proposed by the state is well supported by a cost-benefit-analysis type of study, which proofs that the overall benefits evidently exceed the costs and that the economic/fiscal policies that are proposed will benefit not only the economic/political elite or other groups outside of the country, but especially the majority of Mexicans.

Having said this, our overall policy recommendation goes hand in hand with the recent literature on Mexico and the experiences of the high-performing Asian economies in two important aspects. First, in order to induce faster growth and reduced inequality in Mexico (and consequently lower poverty levels), the development strategy should be comprised of policies for equitable or broad-based growth (World Bank, 2007) so that all groups in the society can invariably benefit as the economy expands (World Bank, 1993). Second, which actually complements the previous statement, the Mexican state should intervene as many times as is required in order to redress the pervasive market and government failures (so characteristic of Mexico's imperfect markets), and with the main purpose of combining rapid, sustained growth with a more equal distribution of income (Chiquiar and Ramos-Francia (2009), Levy and Walton (2009),

OECD (2009), Arias et al. (2010)). In this sense, the state should be conceived as an impartial referee that “leads the market” in the domestic and international spheres and that looks after the interests of the entire population, always guided by the principle of “shared growth” (World Bank, 1993) and the legitimate goal of increased opportunities and better living standards for all.

Thus, from the perspective of this study, only when those two essential, abovementioned ingredients are accepted as the rule (rather than being just mere, demagogic expressions) and are consequently included in the country’s development strategy by heart, Mexico will be able to raise its 51.6% of the population equivalent to 61 million people in 2012 (CONEVAL, 2013) out of poverty and create a virtuous cycle of “inclusive growth” or “growth with equity”, as those exemplified by the Nordic or East-Asian economies (World Bank (1993), Scott (2009)), in this increasingly globalized and competitive world. However, this could only be possible if the Mexican state had the financial resources as well as the political will to attain those overriding goals. Unfortunately, for Mexico, and according to the literature, this is not the case (Levy and Walton (2009), Scott (2009), Arias et al. (2010), Rodriguez-Arana (2010)). It is indeed hoped that the Mexican government, including all political actors and state institutions,

redefines its economic and social role, which should be a fundamental and leading one, and improves upon the current development strategy accordingly, so that Mexico can grow at its full potential and a truly inclusive-growth model could ever become part of the Mexican society.

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