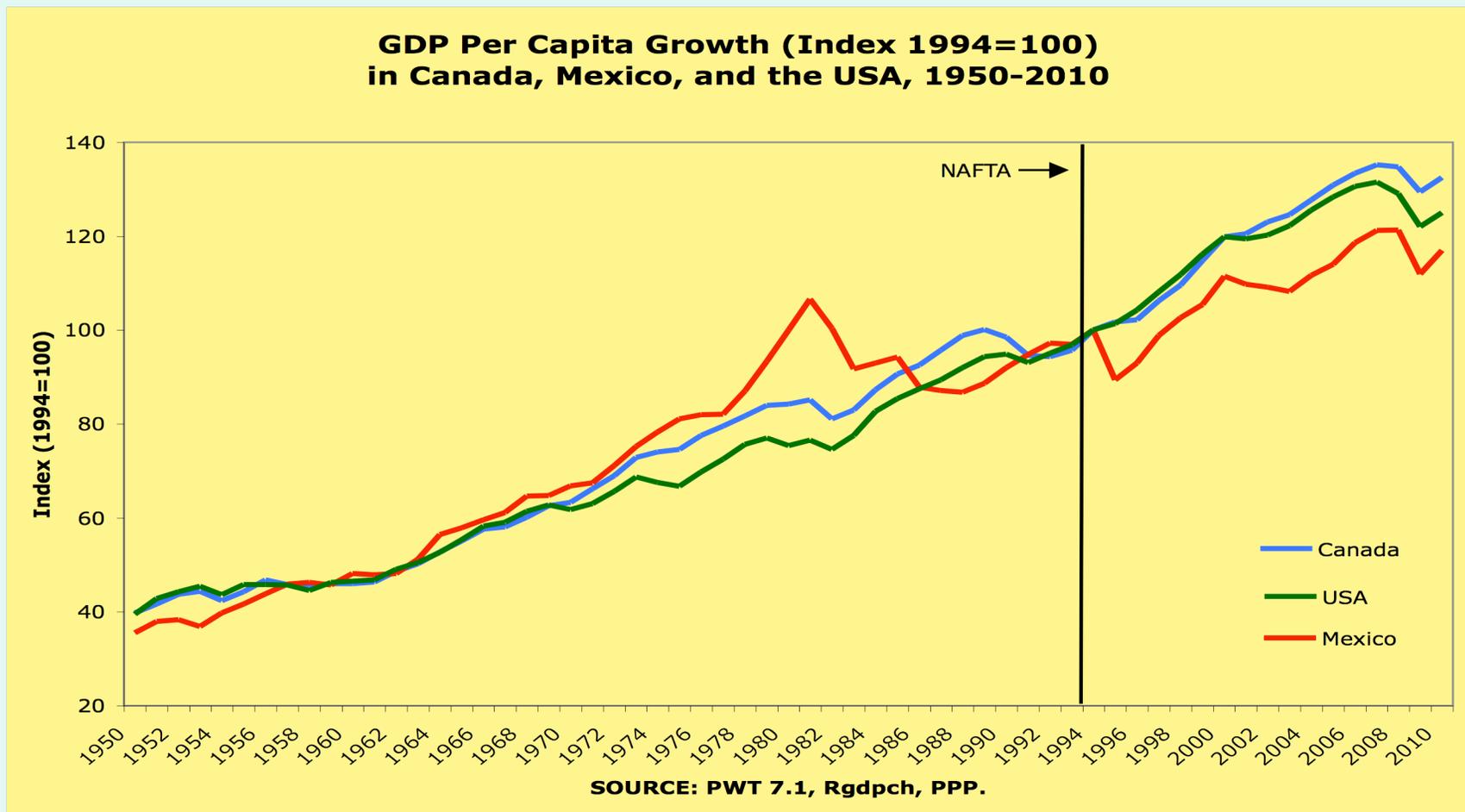


Mexico: The Long Reach of Authoritarianism and Inequality

Stephen Haber
Stanford University

Presented at Federal Reserve Bank of Dallas,
Nov 2, 2012

The Puzzle: Why has Mexico grown more slowly than its richer NAFTA partners?

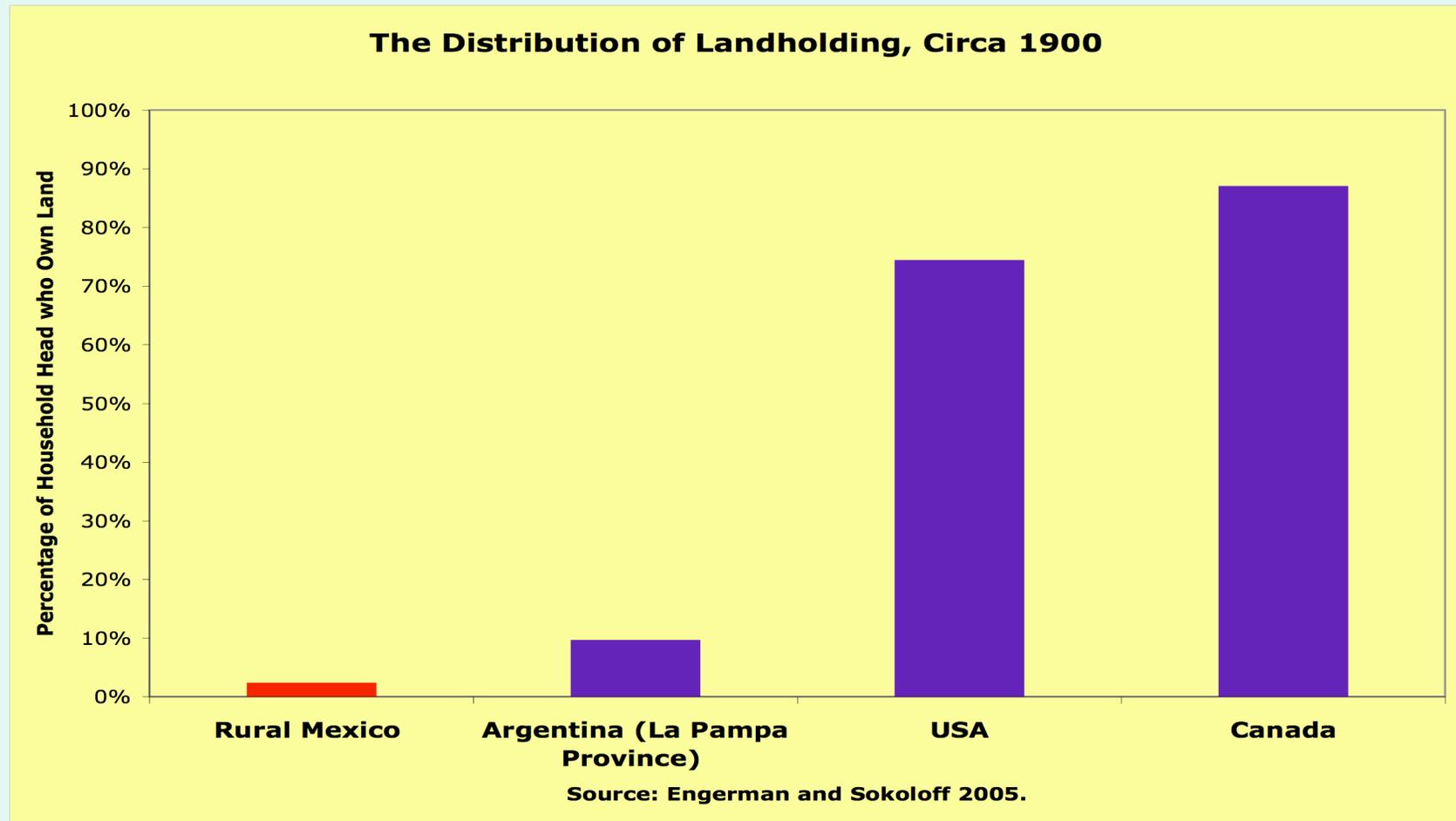


The answer in one slide

Two fundamental features of Mexico weigh heavily on economic growth

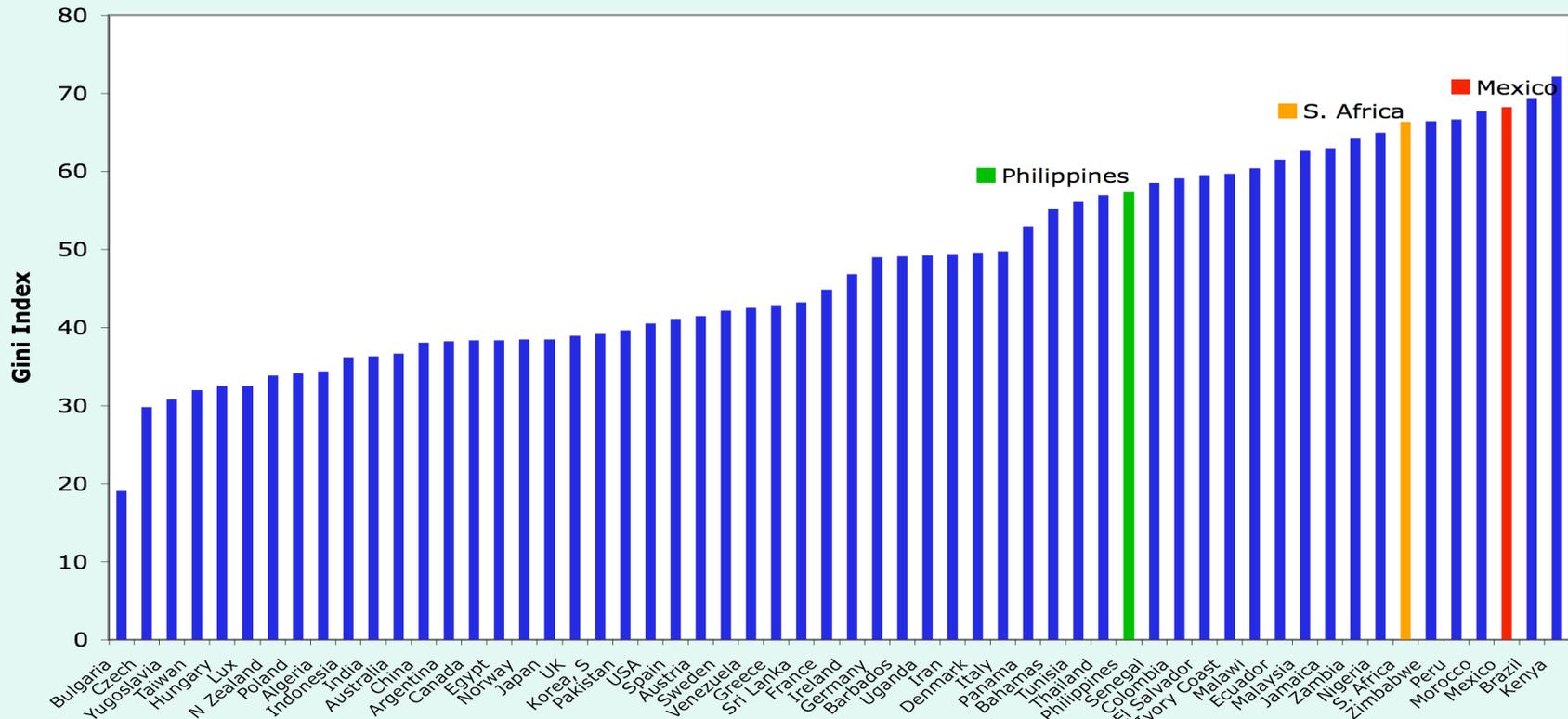
1. A long history of authoritarian government
2. A long history of inequality

These fundamental features of Mexico did not emerge independently of one another



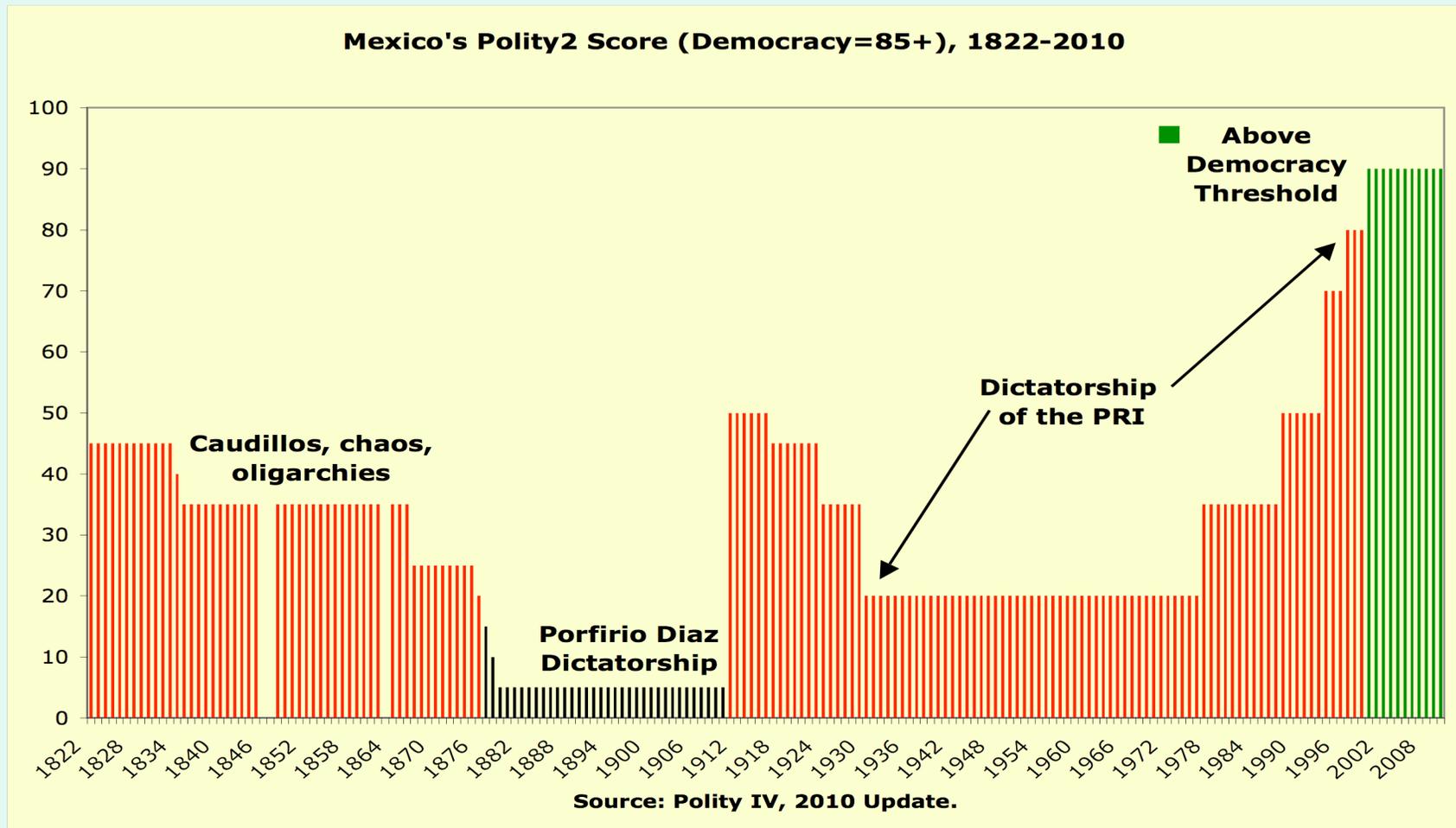
Mexico's high levels of income inequality are an enduring feature

Income Inequality Around the World, 1970



Source: SWIID, Gross Household Income Gini (pre-tax, pre-transfer).

Democracies tend not to emerge easily out of highly unequal societies



Income inequality and authoritarianism reinforced each other, and pushed Mexico down a path of institutional development associated with...

1. Constraints on competition in order to compensate for expropriation risk
2. Low levels of taxation
3. Low levels of investment in public goods
 - A. In human capital
 - B. In property rights institutions
4. Low levels of financial development

Expropriation Risk

The agrarian reform

The paper industry

Mexicanization laws

Bank expropriations in 1916-18 and 1982

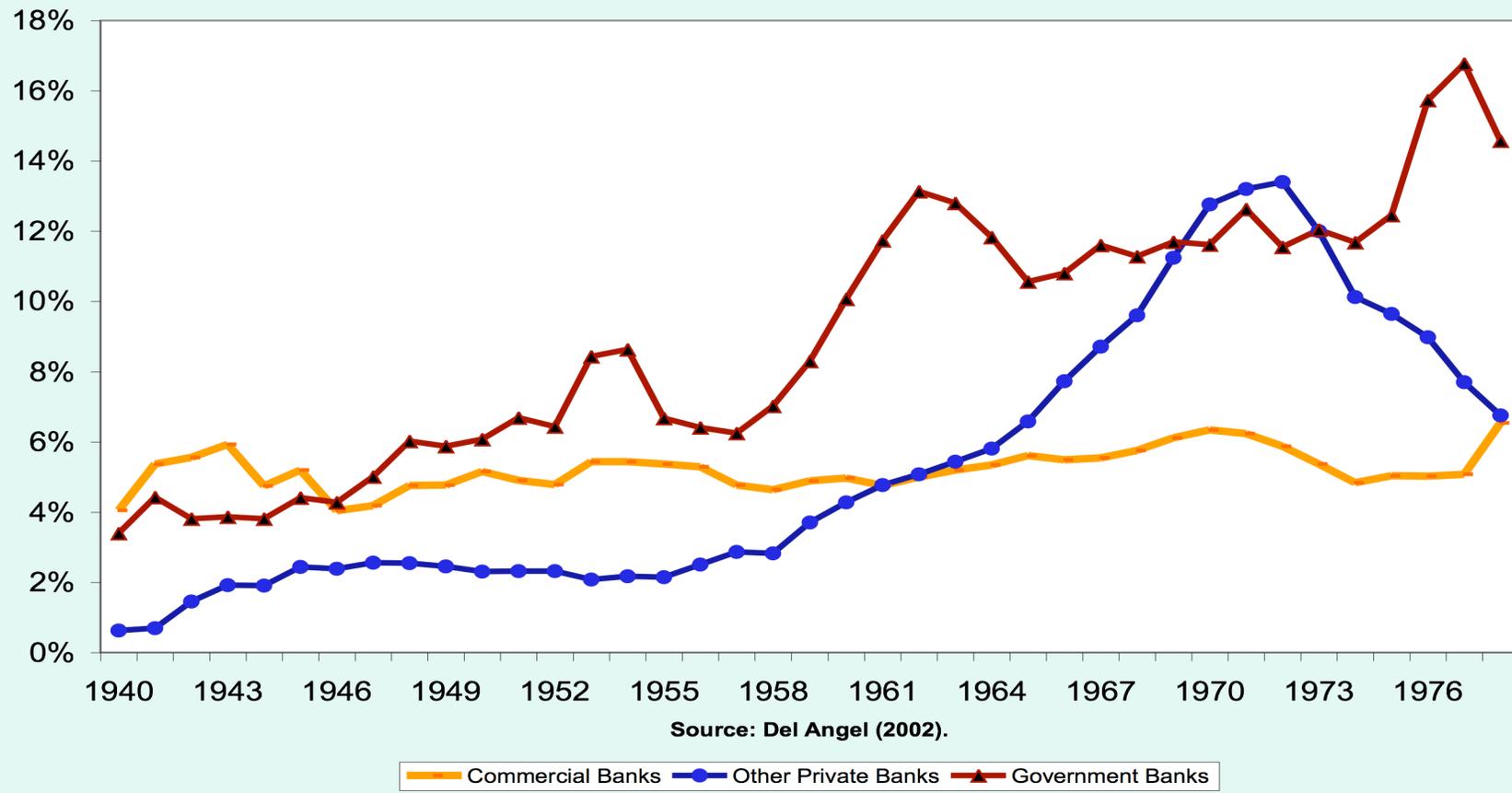
How do you encourage investment when property rights are insecure?

Raise rates of return as compensation for expropriation risk

1. Limited entry in banking.
2. Access to capital as a barrier to entry.
3. Import licenses as barriers to entry (circa 1980 100%).
4. Tax capital at low rates.

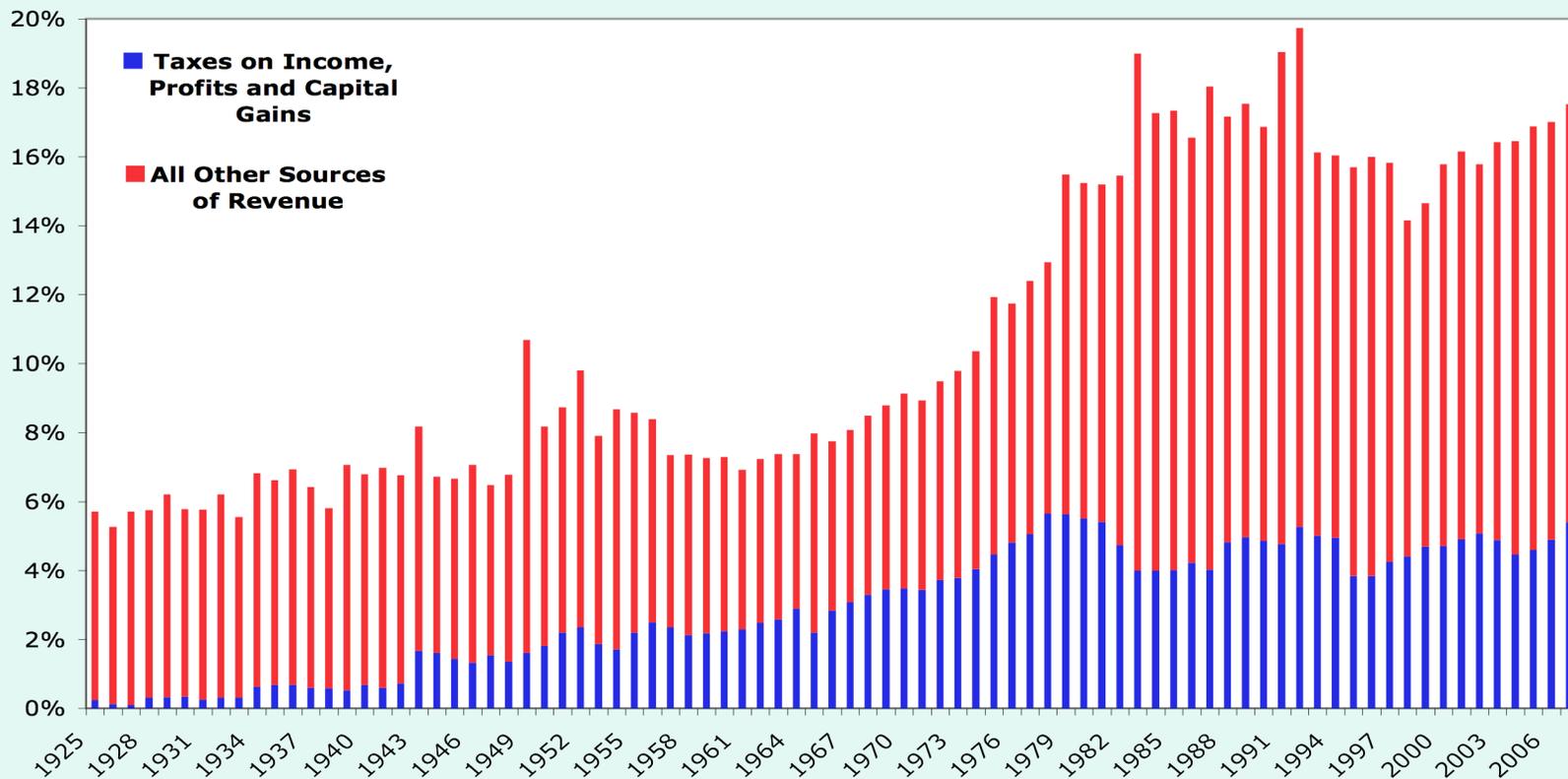
Low levels of financial development

Bank Lending, by type, as Percent of GDP, Mexico, 1940-78



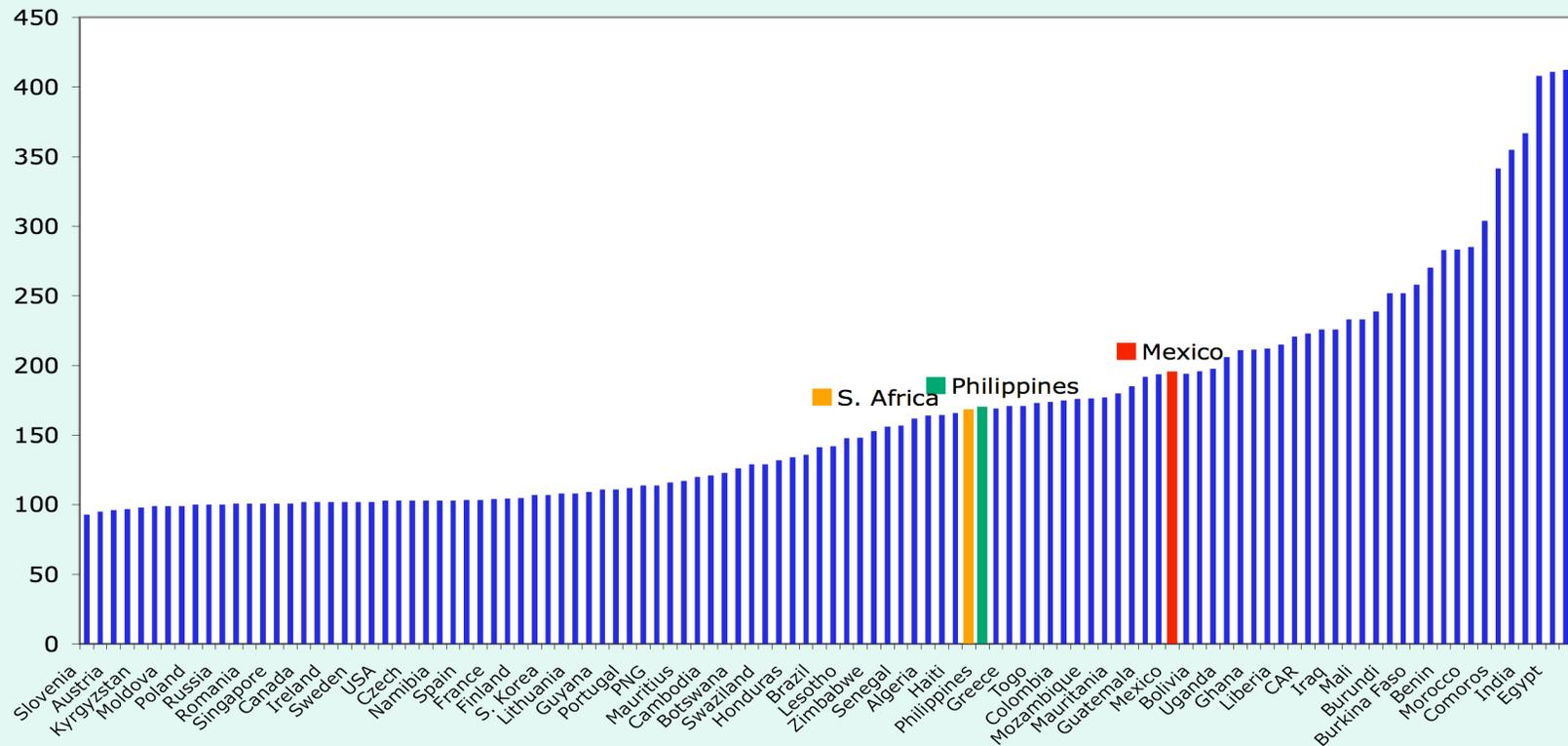
Low levels of taxation on capital in a society that had a “social revolution”

**Mexican Government Revenues,
as a Percentage of GDP, 1925 to 2007**



Investments in human capital were low in the 19th century

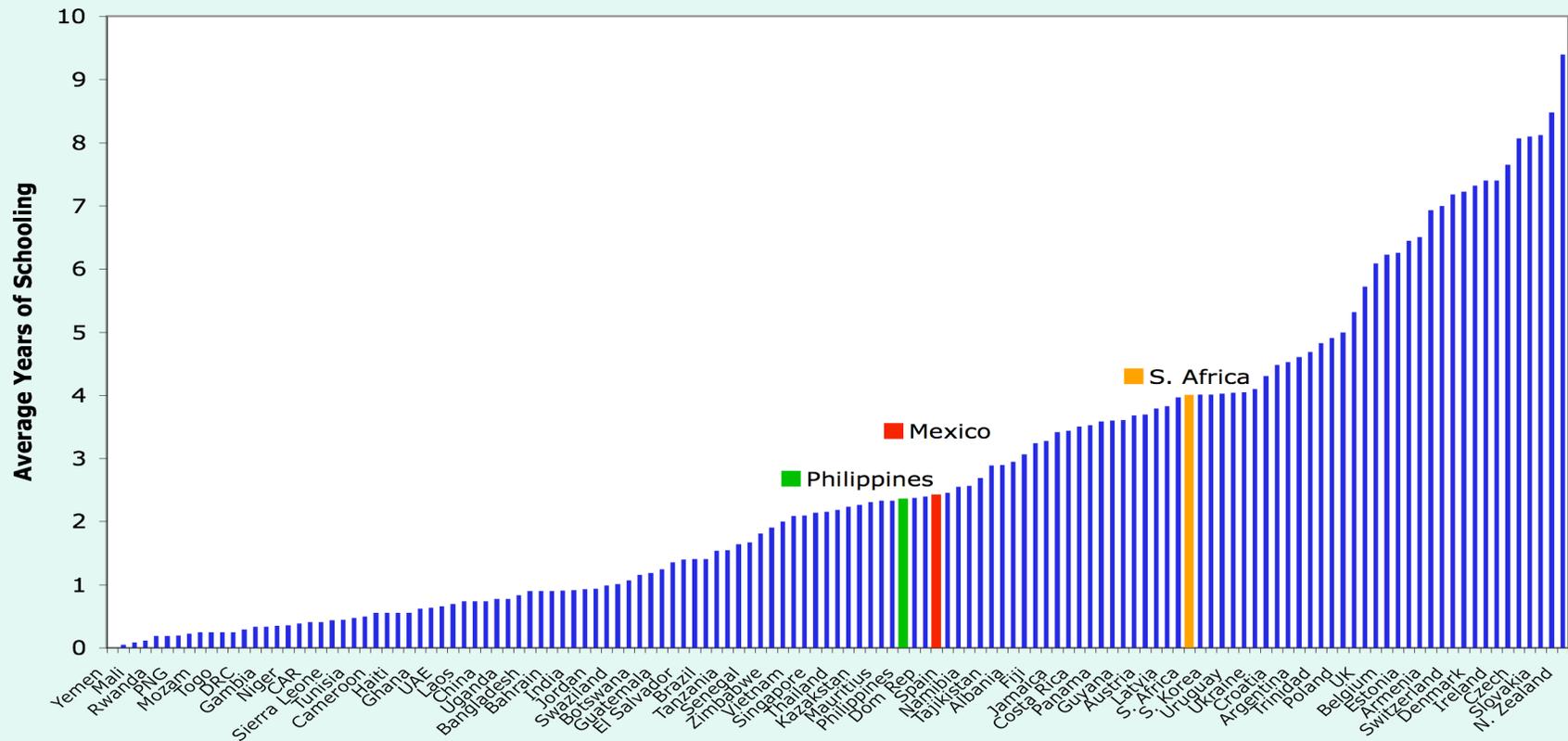
**Age Heaping Innumeracy , Adults in 1910
(Whipple Index, Higher numbers indicate increasing innumeracy)**



Source: Crayen and Baten 2010

Investments in human capital remained low in the 20th century

Average Years of Schooling, Adult Population (25+) in 1950

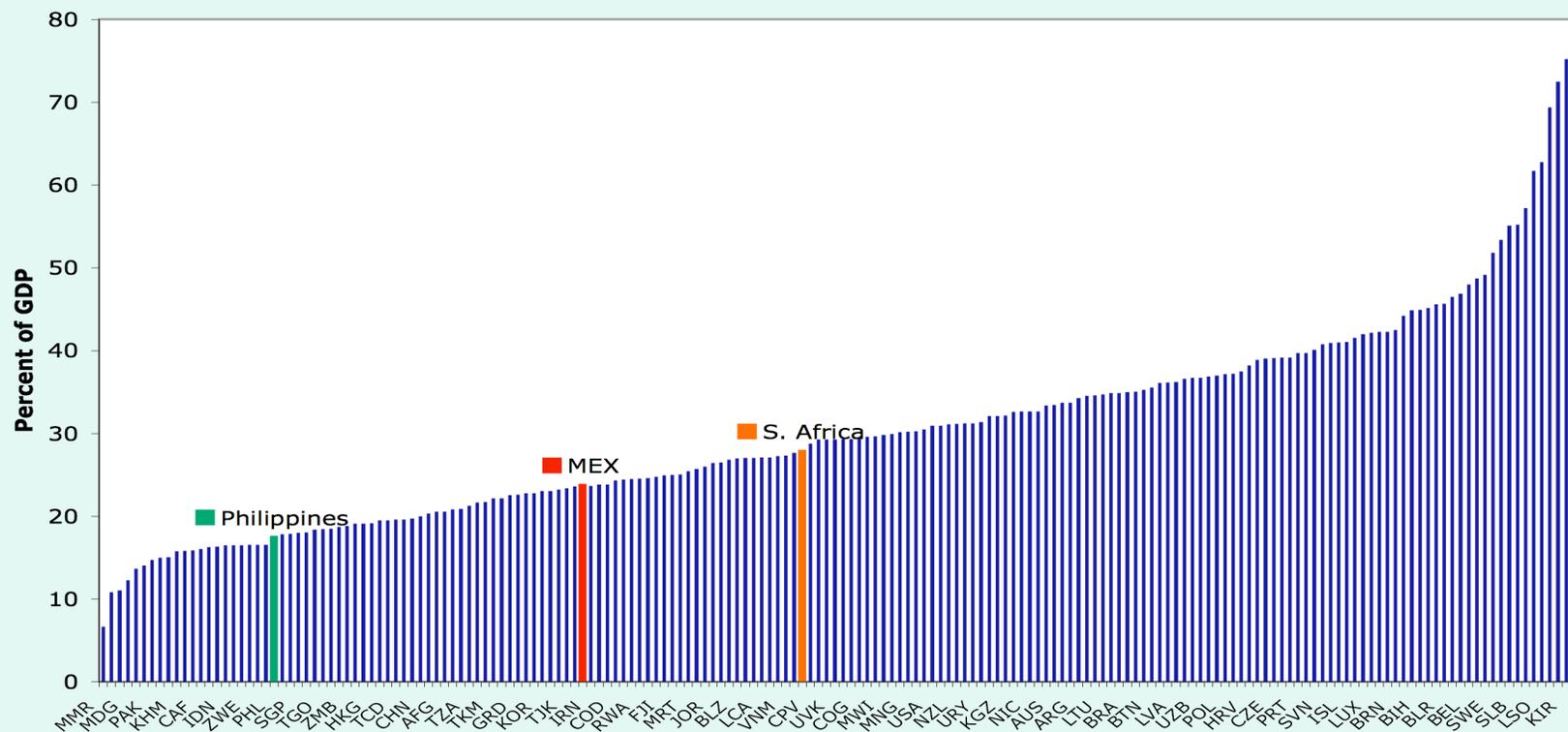


Source: Barro and Lee 2010

What are the legacies?

1. A poor state

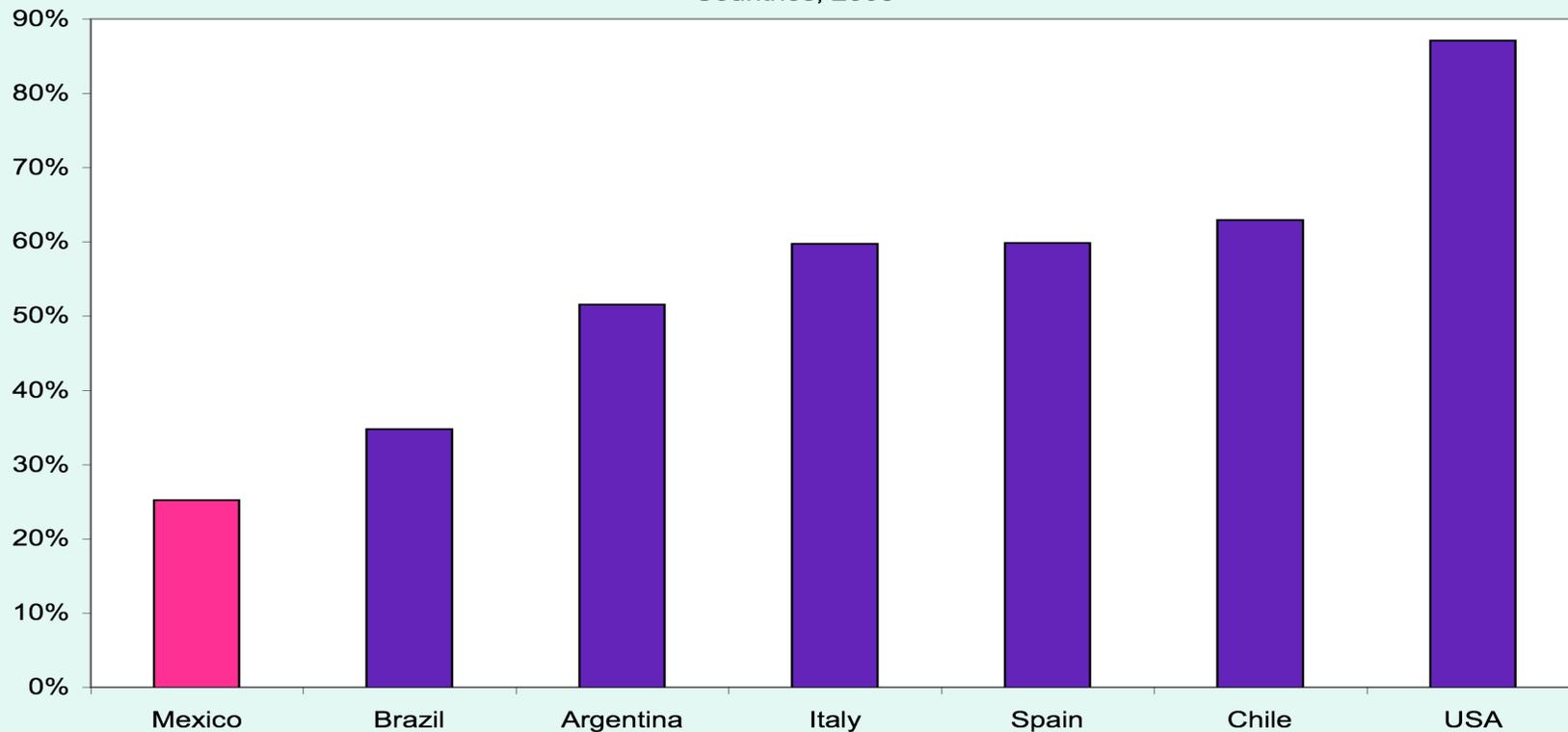
General Government Revenue, as Percent of GDP, 2009



IMF World Economic Outlook Database.

2. Low levels of human capital

Figure 6.7: Percentage of the Population with a High School Degree, in Mexico and Selected Countries, 2003



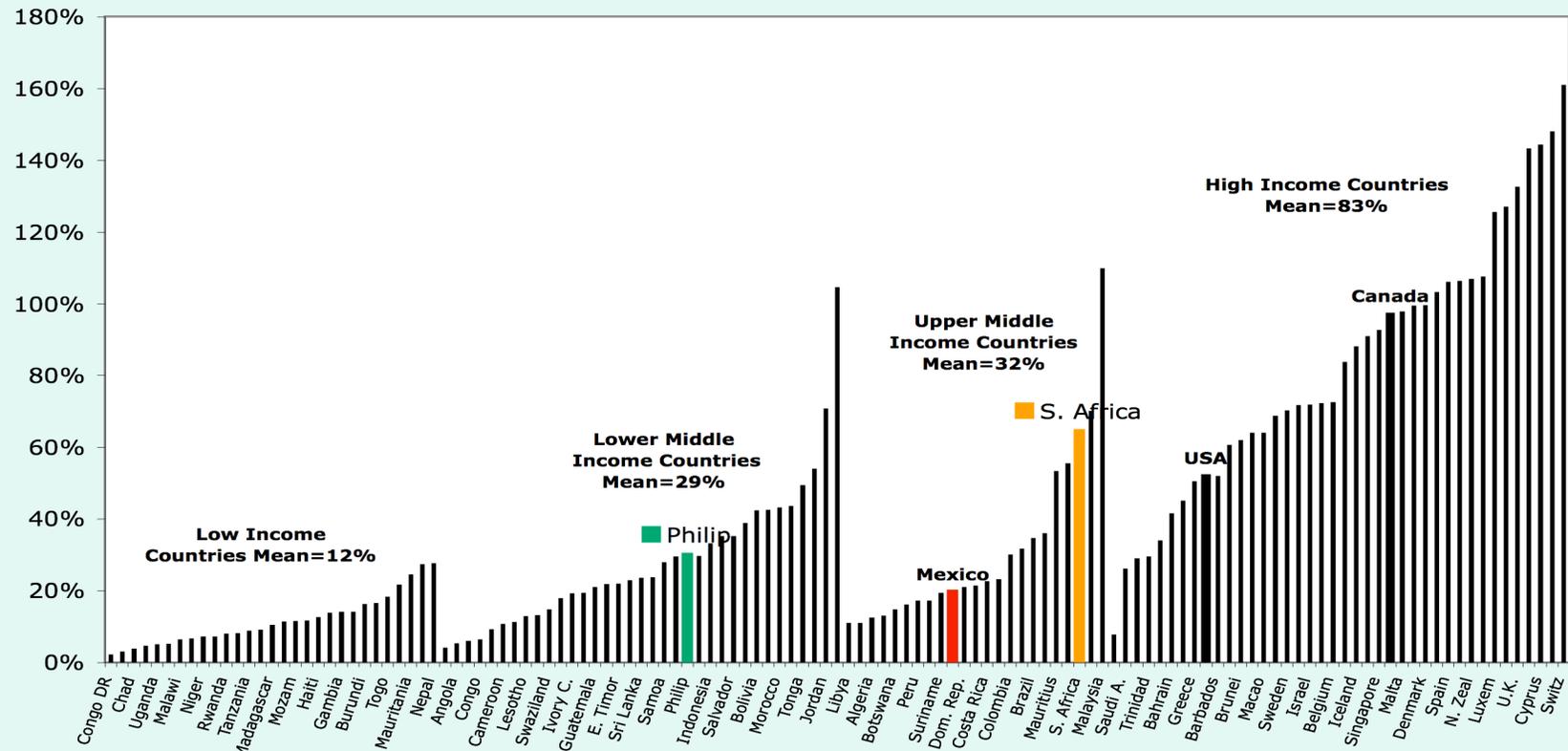
Source: Organization for Economic Cooperation and Development (2004b).

3. Weak property rights institutions

1. Inadequate property registers
2. Inefficient state courts
3. Corrupt local police

4. Inadequate finance

**Private Bank Credit as Percent of GDP,
Average 1990-2009, by Income Groups**



Source: Calculated from World Bank Financial Structure Database (2010).

Is Mexico Stuck?

1. The logic of democracy
2. The pace of institutional change
3. Strategies:
 - A. Tax property
 - B. No term limits