INEQUALITY IN PERSPECTIVE:

RETHINKING INEQUALITY MEASUREMENT, MINIMUM WAGES AND ELITES IN MEXICO

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Abstract:

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The role of inequality in development has been the subject of long-standing debates in academic and policy circles. Notwithstanding disagreements about exactly how the two are linked, conventional wisdom agrees that inequality is an objective 'fact' that can be measured free from ideological considerations. New data detect trends towards higher inequality, weaker economic positions for those at the bottom, and a concentration of wealth at the very top of the distribution in most regions. Inequality studies as currently practiced are ill-equipped to accommodate the empirical changes and the resulting theoretical implications. Putting an end to over half a century of mainstream consensus assuming that inequality would automatically recede with developmental progress, the discipline needs rethinking.

My thesis proposes a new research agenda for studying inequality that is not only able to integrate these empirical developments, but which also challenges what has been taken for granted: that inequality just *is*, independently of context, time and observer. Instead, it proposes that along with its objective existence, inequality is a relational phenomenon subjectively experienced relative to a particular context. In five interconnected Sections, my dissertation challenges conventional views of how inequality looks, how it is seen, and what can be done about it, especially in developing countries.

The study focuses on the ways in which inequality is perceived, and how it is perpetuated. After an introduction to the subject in Section I, Section II investigates how inadequate measurement perpetuates inequality, proposing a new indicator that shows that inequality is largely defined in the extreme ends of the income distribution. Section III examines the reproduction of inequality at the bottom, contrasting minimum wage policies over recent decades in Mexico with those of other countries in Latin America. In light of a political economy resistant to change, Section IV scrutinises Mexican elites, exploring how inequality is perceived from the very top of the income distribution, how this affects policy-making and, subsequently, measured inequality levels. Section V concludes by outlining the theoretical and practical implications of my findings.

Preface

Declaration

This dissertation is the result of my own work and includes nothing which is the outcome of work done in collaboration except where specifically indicated in the text.

It is not substantially the same as any that I have submitted, or, is being concurrently submitted for a degree or diploma or other qualification at the University of Cambridge or any other University or similar institution except as declared in the Preface and specified in the text. I further state that no substantial part of my dissertation has already been submitted, or, is being concurrently submitted for any such degree, diploma or other qualification at the University of Cambridge or any other University or similar institution except as declared in the Preface and specified in the text

In accordance with the Department of Politics and International Studies guidelines and the *Guidance for Thesis Submission in Three Connected Article Format (Centre of Development Studies) October 2017*, this thesis has more than 40,000 yet does not exceed 80,000 words in total.

I have received formal approval by the POLIS Degree Committee to include three co-authored papers (Chapters 1, 2, and 3 of Section III), which are marked as such in the text. All three of my co-authors have signed a Declaration of Consent for me to include the material in my thesis.

Signed:

Alice Krozer

Date: 05.03.2018

Cambridge

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The Mawson Collective — a collaborative, solidary, egalitarian, anarchic, inspiring, annoying, provocative, loud, loving, amazing living space and community.

Eduardo for finding me and bringing me home. Without you everything would be less exciting. Viktor and Catharina, for being extraordinary human beings and role models. Your light shines bright.

Dedicated to those pursuing equality and a better future.

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I. The Agenda

Introduction to this Thesis

Tremendous inequalities afflict most of the world today. This thesis re-conceptualises income disparities and the way such inequality is studied. After an introduction to the topic in Section I, Section II looks at the international income distribution to investigate how inadequate measurement can perpetuate inequality. It proposes a new indicator that establishes how inequality is largely defined at the very extremes of the income distribution. The next two sections focus on these extremes: Section III looks at the bottom of the distribution, and Section IV scrutinises the top. More specifically, Section III is composed of three chapters, which examine the interaction of inequality and minimum wage policies, contrasting the case of Mexico with other Latin American countries. Considering the resistance to change on this question among the Mexican elite, and the country's political economy more generally, Section IV delves into the elite world, exploring how inequality is perceived at the very top of the distribution, and how this affects measured inequality levels by way of informing policy preferences. Together, the investigations and findings that make up this thesis challenge conventional wisdom in inequality studies, and provide a foundation for rethinking the way we conceive of inequality itself.

Before explaining my concrete propositions in more detail, I will provide some thematic and historical context for my research area in Part 1 of this Introduction. In Part 2, I lay out a revised agenda for the study of inequalities. In Part 3, I discuss the connections between the three main Sections of my thesis, to then present a summary of the contents of each of these Sections in Part 4. I close in Part 5 with some methodological considerations.

1. Research Context

The role of inequality in development has been the subject of long-standing debates in both academic and policy circles. In scholarship, inequality can be traced back to the founding principles of economics.[1] Key debates in the political economy of development revolve around the alleged existence of an underlying trend defining inequality levels, and the role the state might assume to ensure long-term development goals via an 'efficient' distribution of incomes and resources. For more then four decades, debates have been dominated by an increasingly neoliberal school of

[1] David Ricardo (1817) considered the distribution of income and wealth the original concern of the political economy. Although he was referring to the relation between the factors of production capital and labour, as long as virtually all property holders were rich and almost all labourers poor, the functional and interpersonal distributions resembled each other (Milanovic, 2011). Once the relations of income between capitalists and labourers changed, interpersonal inequality could increase accordingly, and became an area of research in its own right. Marxian distributional analysis relies on this kind of functional inequality. However, "in an ironic twist of fate", real wages in the industrialising countries began to rise precisely around the publication of *Das Kapital* in 1867 (Milanovic, 2011, p. 110), leading to the rise of the middle classes, whose main income source was labour.

economic thought. Its adherents believe these goals to be increasing growth and decreasing the role of the state, and thus push for a privatisation and 'liberalisation' agenda.[2] The 'inventor' of the standard policy package recommended to 'developing countries'[3] that came to be known as the *Washington Consensus,*[4] John Williamson, stated that he "deliberately excluded from the list [of recommended policies] anything which was primarily redistributive" due to a general spirit at the time being "essentially contemptuous of equity concerns" (Birdsal and de la Torre, 2001, p. 3). Thus, the discipline that had taken it upon itself to focus on the efficient distribution of resources became remarkably quiet about the very distribution of resources.

Two recent events have given these debates new impetus: the 2008 Global Financial Crisis, which has brought inequality back into the public spotlight; and the publication of new data in the aftermath of the crisis, which give empirical support to popular concerns about inequality. Three stylised developments documented in the data form the backdrop to an incipient reconceptualisation of inequality in the mainstream discourse: a general trend towards higher inequality levels in most regions; a stagnation of wages and shift of returns from labour to capital, weakening the position of those at the bottom of the distribution; and a polarisation and concentration of incomes at the very top. With inequality looming large, questions about the actual and desirable distribution of local and global income are *en vogue* again.

At this critical juncture in academia and policy-making, and in the context of wider debates, my thesis will shed light on how inequality looks today, how it is perceived, and why this matters. Based on three separate yet interconnected parts, it proposes a new research agenda for studying inequality, highlighting neglected aspects and questioning what we have taken for granted: namely, that inequality just is, independent of context, time, and perspective. The studies comprising this thesis are part of a larger body of research rethinking the way inequality is conceptualised. I selected those presented here to explore the persistence of inequality in the context of development. They attempt to answer the following overarching question: *How do we see*

[2] Rather than a 'small' state, this agenda implied a shifting of state activities towards protecting particular private rights; see for instance Chang (2002) on the implications for development. For a comment on why 'liberalisation' is a problematic term in this context, see also Naqvi (2015).

[3] The terms 'developing' versus 'developed', although still widely used, carry with them the problematic connotations of inferior *developing* countries aspiring a final destination already achieved by *developed* countries. To avoid this association, where possible, I prefer using the terms high, middle and low-income countries in this section. For lack of more suitable alternatives, I do recur to the former at times; however, I explicitly denounce this view of developmental progress and hierarchy they may convey.

[4] The 10 original 'commandments' from Williamson (1990) were mostly intended for post-dept crisis Latin American countries, although deemed largely "uncontroversial" in more general terms in the economics profession (Williamson, 2002). Later, a broader, less context-dependent reading of this 'consensus' became popular among economists and donor institutions, informing standard World Bank/IMF policy package recommendations to countries in other regions as well; it is now widely considered the epitome of neoliberal development thinking (Woo, 2004).

inequality, and what difference does it make? Concretely, as an empirically-grounded, three-part argument, they present: an international examination of inequality levels and their measurement, followed by an inquiry into minimum wages and the bottom of the distribution in the historically unequal region of Latin America, and a case study of the Mexican elites at the top of the distribution.

1.2. Revisiting Historical Debates

Inequality and its significance to social debate has changed over time. Accordingly, and in line with changing political and economic currents, academic thinking on these questions has witnessed dramatic swings. For instance, Plato thought that any disparity greater than a 5:1 income ratio between the rich and poor Athenians would trigger political imbalance and lead to social ills (Groom, 2014). By current standards, this might be considered a rather modest disparity. Notwithstanding, ancient Athens with its large slave population would be perceived as highly unequal by most contemporary observers. To understand where the debate stands today, and why rethinking the subject to account for such differences in perception seems pertinent, it is useful to contextualise the topic by briefly revisiting recent historical definitions of inequality in economic thought.

In the beginning of the 20th Century, the US financier John Pierpont Morgan held that anything beyond a ratio of 20:1 was inappropriate; Morgan went on to become one of the richest men in history (Wilkin, 2015). One century later, pay differences between chief executives and their employees exploded. Top earnings outpacing average salaries by several hundred times became common: in multinational companies like Coca-Cola and Disney, top executive compensation has reached levels of 427 or 653 times their employees' median pay, respectively (Groom, 2014).[5]

In the meantime, inequality had experienced dramatic change. After a steep fall in many world regions in the first half of the century, inequality levels have returned to historic heights. How was this change in inequality theorised? The initial decrease was explained at the time as a consequence of the distribution undergoing ‘natural’ changes related to increases in GDP.[6] Following Kuznets (1955), a rise and fall of income inequality accompanied a country's development process of increasing average income. Although Kuznets himself cautioned that due

[5] For intracompany inequality see also Bloom (2017).

[6] In hindsight, consequential events like the Great Depression and two World Wars left their own equalising marks on a highly unequal income distribution (Piketty, 2014), but where supported in no small part to the New Deal, Marshal Plan and Welfare State programs implemented in their aftermath in many of todays’ high-income countries, and the influence of the developmental structuralist school and their strongly egalitarian discourse in what was then referred to as the Third World.

to data limitations this interpretation was largely based on conjecture, the belief in developmentally determined inequality peaks spread quickly. The assumption inherent in his argument made inequality seem like an indispensable, and not necessarily negative, side-effect of the development process (Justino, Litchfield and Whitehead, 2003). In this reading, inequality promised incentives for the individual (Rawls, 1971), and freedom and future progress at the collective level (Friedman, 1980). Dubbed the 'Kuznets Curve', it lent (involuntary) empirical vindication to a belief in 'automatic' adjustments of the income distribution under a 'free market' regime (Friedman, 1948). A combination of political convenience (in a Cold War context, the prospect of capitalism leading to equality was a powerful argument against state intervention) and lack of better data meant that the 'inverted U-shaped curve' became the accepted norm of inequality trajectory. As a result, inequality came to be seen as an integral component of a just, efficient and prosperous society (Mann, 2007).

Beginning in the 1970s and accelerating in the 1980s, a notable rise in inequality started accompanying an increasingly neoliberal policy environment both at the domestic and international levels. Again, Kuznets' postulations helped smoothen the transition to increasing inequalities. Developing countries around the world were advised to not worry about inequality, since governments could only worsen the income distribution if they interfered with its natural trajectory (Stiglitz, 2002). Based on assumptions of a balanced economy in which wages and profits rise equally in the long run, politicians and researchers alike could instead turn their attention to the distresses of business cycles (Porter, 2014); the expectation became that once growth was assured, inequality would automatically fall to acceptable levels. Where inequality remained 'excessive' (as in much of Latin America), the pursuit of equal opportunities and 'meritocracy' replaced redistributive ideals in the policy arena, leading to calls for broader access to education, (palliative) poverty reduction programs, or reliance on pro-poor growth. These remain the foremost mainstream policy prescriptions today, despite widespread empirical evidence testifying to their failure in significantly reducing inequality.

Over time, the inverted U-shaped curve has been 'proven' theoretically (Galor and Tsidden, 1994) and empirically (List and Gallet, 1999; Higgins and Williamson, 1999; Thornton, 2001; De Gregorio and Lee, 2002) many times. It has also been challenged repeatedly, often from the margins of the economics discipline, both theoretically (Alesina and Rodrik, 1994) and empirically (Fields, 1989; Deininger and Squire, 1996; Matyas, Konya and MaCquarie, 1998; Palma, 2006). Notwithstanding inconclusive evidence (in no small part due to incomplete data accounts), the Kuznets Curve remained the foremost analytical tool used by inequality economists to theorise inequality dynamics for more than half a century.[7] Moreover, the determination to conclusively (dis)prove it also diminished the theoretical and practical interest of mainstream economics in other aspects of income inequality.

It was the economic turmoil following the 2008 Financial Crisis that forced income inequality back into the collective consciousness, and the mainstream academic discourse, as popular movements, especially in the rich countries, took up the slogan of the 99% against the 1%. Instead of portraying inequality as beneficial and incentive-creating, these mobilisations highlighted its negative impacts. Alongside public outcries, the proliferation of large datasets led to a wealth of research increasingly challenging the academic and policy consensus.

Among the most prominent research institutions collecting and analysing these datasets, and putting them at the disposal of a broader research community, feature the large-scale collaborative project of the World Wealth and Income Database (WID) launched in 2011 by Facundo Alvaredo, Anthony B. Atkinson, Thomas Piketty, and Emmanuel Saez, and since extended by numerous researchers across the world; the (ongoing) expansion of the LIS (formerly Luxembourg Income Study) database; the collection and harmonisation efforts by Branko Milanovic and the World Bank; UNU-WIDER, OECD, SEDLAC and other regional entities. Their efforts were facilitated by both technological (storage, protection and sharing) capacities and methodological innovation, and often the results of years of negotiation with public data collection agencies. Their enormous reach has meant that these datasets could be used to empirically rectify assumptions of automatic inequality adjustments over longer periods and at an unseen scale. Consequently, the research brought forward by these projects has imposed a compelling case for reconsideration of the theoretical foundations underpinning the literature on economic inequality of income and wealth (Atkinson, 2015). As such, it is the empirical 'proof' that has forced many economists to acknowledge that inequality was greater than expected, that it has grown in most places, and that its effects have largely been detrimental to development and growth (Ostry, Berg and Tsangarides, 2014). Another novelty of this body of research was the investigation of wealth (Zucman, 2015) and top earners (Alvaredo et at., 2013; Anand and Segal, 2017).[8] Moreover, it has also led to a larger acceptance of methodological variety within economic research, in many cases building on historical analyses and descriptive statistics (instead of a previously prevailing focus on regression analysis).

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[7] Moreover, the 'inverted U-shaped Curve' related to Kuznets has been extended to many other areas of economic and social concern, far beyond Kuznets' original claim, including, for instance, a political economy explanation (Acemoglu and Robinson, 2002), hypotheses of financial (Nikoloski, 2012) and environmental (Stern, 2004) Kuznets Curves, as well as its application to intra-household inequality (Haddad and Kanbur, 1992).

[8] For a survey of the top income share literature see also Atkinson, Piketty and Saez (2011).

This dual development of crisis and data put conventional economics wisdom into question. The association of high inequalities with financial instability (Galbraith, 2012) and deregulation (Philippon and Reshef, 2012); social and economic exclusion (Barry, 2002); impediments to social cohesion, governability, and poverty reduction (Goñi et al., 2008; López and Servén, 2006);[9] insecurity and distrust among economic agents jeopardising economic growth (Bourguignon, 2004; ECLAC, 2010)[10] and social development (Justino, Litchfield and Whitehead, 2003); increases in crime (Fajnzylber, Lederman and Loayza, 2002), mass migration (Milanovic, 2011) and other forms of social and political conflict moved into the foreground. Moreover, the unambiguously rising inequality in high-income countries as documented in the new data provided further grounds to reject the 'inverted U-shaped curve'. Without dismissing the idea of a 'secular' trend altogether, Piketty (2014) instead found a "fundamental economic law" according to which return on capital exceeding economic growth rates in contemporary capitalist societies forced inequality to rise continuously. Meanwhile, Milanovic (2016) postulated the existence of 'Kuznets waves', induced by technological change and globalisation. These argumentatively reversed inequality's 'natural' tendency towards prolonged automatic *in*creases, rather than *de*creases, or reshaped them into perpetual cyclical movements — in either case, a worrying scenario for an inequality-averse public. Besides the ethical arguments against inequality,[11] these instrumental reasons made an economic case for more equitable distributions.

Although inequalities affect all contemporary societies in multiple ways, the problem is especially acute for middle-income countries, which tend to display some of the highest inequality levels in the world. Compared to high-income countries (which have received a lot of attention for their increasing inequality levels recently), middle-income countries remain under-explored. However, in parallel to the unravelling of western post-war 'Welfare Consensus' policies[12], distributions elsewhere deteriorated largely due to developmental programs imposed from the outside. Washington Consensus policies, including those on state retraction, privatisation and liberalisation of trade and finances left middle-income countries, particularly in Latin America, stuck

[9] In fact, the majority of poor people now live in middle-income countries rather than poor ones (70% according to ECLAC, 2010).

[10] Researchers had repeatedly challenged dominant beliefs proposing instead a negative correlation between growth and inequality, due to the unproductive nature of investment by the rich; low levels of human capital held by the poor; demand patterns of the poor being biased towards local goods; political rejection of the masses caused by rising inequality, etc. (see, for instance, Datt and Ravallion, 1992; Aghion, Caroli and García-Peñalosa, 1999; Kanbur and Lustig ,1999).

[11] Ethical arguments against inequality in political philosophy include the concept of 'duty of justice': the responsibilities felt towards relations between members of 'in-groups' like country or ethnic group, etc. that impose rules of conduct and have significant effects (good or bad) on individuals (Nagel, 2005; Rawls, 1971; Van Parijs, 1995). Alternatively, a 'cosmopolitan view' holds that we must feel responsible for everybody just for being humans.

[12] After 1945, and roughly through the 1970s, much of post-war Europe was rebuilt on the foundations of Keynesianism, broad welfare-states and a mixed economy.

in high inequality positions. Compared to low-income countries, they have a high inequality potential (Milanovic, 2013). For them, the original economic problem of resource allocation does not depart from a situation of scarcity, but one of abundance, even though this abundance remains concentrated in very few hands. In such a context, 'efficient' economics becomes the reorganisation of existing assets, particularly under conditions of slow economic growth, as in Mexico. This relates virtually all political economy decisions to questions of the income distribution on some level. In light of the spectacular costs imposed by inequality (Stiglitz, 2012) this calls for a conceptual shift in economic development thinking, away from abstract 'natural' (Pareto-efficient) equilibria of distributions, towards very concrete (and normative) power struggles.

Mexico can serve as a paradigmatic case for the re-examination of inequality in middle-income, high inequality countries. It has historically been an extraordinarily rich, as well as an abjectly poor country. It had been economically and socially unequal in Prehispanic times, and even more so during the 300 years of Spain's colonial reign, during which thousands of tons of gold and silver where shipped out of a territory whose local population starved under *encomienda* and slavery systems (Turner, 1910). Social inequality was one of the main inspirations for the independence struggles, and persisted throughout the subsequent period of liberalism, and even through the Mexican Revolution in 1910 (Joseph and Buchenau, 2013). In recent decades, where comparable countries in the region seem to have experienced significant inequality decreases (López-Calva and Lustig, 2011; Cornia, 2012), Mexican inequality persists. Today, the World Bank (2016) ranks Mexico as the 15th richest country in the world, yet over half its population continues to live in poverty. This juxtaposition illustrates the serious problem afflicting the country: its resources, rather than lacking, are very unequally distributed.

1.3. The Mexican Policy Environment

This situation is owed in large part to decades of disregard for progressive redistribution policies, thanks to austerity programs implemented during recurrent crises, and the public policy objective of budget balance (which meant limited budgets for, e.g., social policy programs). A long-cherished yet misguided belief that anti-poverty policies, including prominently large-scale conditional cash transfer programs implemented since the 1990s, would automatically lead to decreases in inequality, further helped justify the lack of comprehensive tax reform or significant appreciation of labor compensation. Even after a half-hearted tax reform increasing top taxes due on earned income by about 2%, Mexico remains one of the countries with the lowest tax incomes in the world (Campos, Chavez and Esquivel 2014).

In the early-2000s, for a short while, it looked like the long-awaited decrease in inequality might be around the corner: after decades of unflattering records, scholars including Nora Lustig, Nancy Birdsall, Luis Felipe López-Calva, Darryl McLeod, Andrea Cornia, and Gerardo Esquivel observed a decrease in inequality levels post-1996 (see e.g. Esquivel, Lustig, Scott 2010; or López-Calva and Lustig, 2010, for a Latin American comparative perspective). Others, including Fernando Cortés (2011) and Miguel del Castillo (2012), challenged this observation early on: for Cortés, from a theoretical point of view, economic opening and its consequences would have dispersed productivity levels, and thus led to *increases* in inequality; del Castillo, from an empirical standpoint, referred to massive underreporting in the surveys, meaning that actual inequality would be significantly higher than the reported numbers (as high as a Gini of 0.65 in 2008 compared to an official 0.48).

Nonetheless, the Gini coefficient from official data presented an annual decrease of 1% for the decade of 1996-2006. While this is by no means a revolutionary decrease (with levels remaining above those of the 1980s), the trend inspired hope that a general turnaround of inequality patterns in Mexico, akin to that observed in many other Latin American countries at the time[13], was imminent. For Lustig and collaborators—at the time the prevalent discourse—the alleged decreases in inequality were broadly attributed to: higher relative wages for low-skilled workers/at the bottom end of the income distribution; social policy, particularly an expansion of government transfers to the poorest; and remittances.

The decreasing trend abated shortly after, and in the late-2000s inequality started rising again. The "decade of progress" (López-Calva and Lustig, 2010) did not relieve Mexico of its defining feature of extreme inequality, and reexamination of the evidence—including new data available today—can help understand the mechanism at work.

Much has been written about all three of the determinants—remittances, wages and social policy—identified by Lustig and collaborators as contributing to the fall in inequality in Mexico. Research on the effects of remittances on inequality remains inconclusive, but recent contributions stress their inequality-reducing effects for Mexico (see for instance Stark, Taylor and Yitzhaki, 1987; Taylor et al., 2009; Keskin 2009; Esquivel, 2010). However, as the issue of remittances—although an important factor in the case of Mexico where they reach 2.7% of GDP in 2017 (World Bank, 2018)—considers private transfers between members of households and therefore do not

[13] Some scholars hold that the inequality decreases in the region are very small, and "so far [are] not clearly related to substantial policy changes nor to permanent modifications in the fundamentals" but rather results of favorable external environments, and seemingly parts of an overall convergence trend (Gasparini et al. 2008)The convergence tendency would be the result of formerly low-inequality countries such as Uruguay, Costa Rica and Venezuela have seen their distribution deteriorating, while high inequality countries as for instance Brazil have improved their indicators between the 1990s and 2000s. Also Martorano and Cornia (2011) and Palma (2011) attest the region an inequality convergence trend since the 1980s.

directly involve public policy, I will not analyse it in depth in this context (see, for instance, Koczan and Loyola, 2018, for a recent overview).

It is important to keep in mind that *all* public policy has intended or unintended redistributive effects, also where incidence is not the principal, or any, policy objective. Notwithstanding, in principle, two types of policy measures can address income inequalities directly: those aiming to reduce market inequalities and those that try to “correct” market inequalities, adjusting disposable income. Depending on local conditions, countries use different sets of policies to deal with their particular situation.

Wage improvements, identified by Lustig and others as inequality deterrent, concern the former type, i.e. those labor policies addressing market incomes. The relationship between wages, particularly those at the low end of the income distribution, and inequality is the main subject of Part III of my thesis. Therefore, at this point, I will reflect on the effects of redistributional programs, i.e. tax and transfer policies, on inequality in Mexico. In continuation, I will provide a brief overview over the fiscal landscape in Mexico, which will hint at some of the factors preventing inequality from decreasing significantly and sustainably.

Overall, the redistributive potential of a country is determined predominantly by the size and composition of its budget, and how government spending is financed. In the richer countries, particularly those of the EU, relatively low inequality is the result of fiscal redistribution on a large scale: although market inequalities tend to be significant there, too, direct taxes and transfers (including social insurance pensions) manage to reduce the EU Gini coefficient by around 21 points (Lustig, 2016). In Mexico, on the other hand, redistribution via fiscal means is small relative to its GNI per capita level, and compared to other, ‘similar’ countries. Moreover, in contrast to other middle-income countries (not to mention high-income countries) Mexico’s fiscal capacity, excluding oil, has remained stagnant around 10% of GDP (and often below) between 1974-2014, while social spending increased from 6% in 1982 to 10% in 2015. Since then, social spending in fact declined to 8.3% in 2017 in the context of recent austerity measures (Scott, de la Rosa, and Aranda, 2017). The small impact redistributive policy has on inequality in Mexico is therefore partly owed to the comparatively low budget of such social policies (Palma, 2011; Scott et al., 2017): total social spending in Mexico only reaches about half the average level of 26.7% of GDP achieved by the OECD. And while comparable countries’ health systems tend to be pro-poor, per capita health benefit in Mexico is neutral, and contributory pension systems are even unequalizing (Lustig, 2016). These weak redistributive capacities combined with limited progressive allocation effects are the more problematic, considering Mexico’s high redistributive demands—i.e. comparatively high levels of market inequality and income poverty relative to the country’s income level—and the wide range of literature evaluating fiscal redistribution instruments in Mexico, i.e. awareness of the problem (Scott, 2014 and 2017; Parker and Todd, 2017; SHCP, 2001–16).

On the other hand, the low impact is due to the fact that Mexico relies heavily on non-tax revenues (from the state-owned oil company), thus disregarding the potential redistributive effect of progressive taxes. Consequently, and unsurprisingly, UNDP (2012) declared that per capita income growth differences between the 10% highest income earners and the 10% with the lowest levels, continued to further diverge between 2008-2010.

How has the Mexican fiscal system evolved over time? Important work on the impact of fiscal policies, particularly by Nora Lustig and collaborators within the Commitment to Equity Institute at Tulane University (Lustig et al., 2014; Lustig, 2015a, b; Scott, 2014) has explored the nexus between fiscal and social policies on the one hand, and poverty and inequality reductions on the other. Before the 1990s, most social spending was probably regressive, i.e. unequalizing (Scott et al., 2107). Data based on simulations (Solt, 2009) shows that the redistributive capacity of the Mexican fiscal system has declined considerably since the 1960s. However, these data remain fairly speculative, and for lack of more accurate availably data it is difficult to make strong claims in this regard. It is possible to look at the more recent composition and redistributive capacity of fiscal system though.

Scott et al. (2017) present some results for the last three decades. While market inequality as measured by the Gini has decreased somewhat in recent years (although not reaching its levels from the early 1980s yet), the redistributive system's capacity to 'correct' market inequalities has not improved at all. Where other countries with not markedly dissimilar market income distributions manage to almost halve their disposable income inequality after the application of fiscal policies, the Mexican redistributive capacities are not only significantly less effective, they seem to be declining. The net effect of the fiscal system as a whole, i.e. taxes and transfers combined, has been modest to begin with, but turned increasingly less progressive in the recent decade, and by 2014 inequality in disposable income (with respect to market income) was reduced only by 2 percentage points (and consumable income by less than 2%). This does not point towards far-reaching effects of the currently implemented programs in terms of inequality reduction. Indeed, while progressivity increased over the 1990s, this trend disappears in the following decade, when health and direct transfers start becoming regressive, adding to the regressive contributory pension system (particularly after 2006, when the progressive impact of education stops increasing). Since transfers have become less progressive over the last decade, at the same time that indirect taxes have increased, the redistributive effect of the fiscal system as a whole has declined considerably.

What is more, as of 2014, if in-kind transfers are excluded, the overall effect of the cash components of the fiscal system is to increase income poverty.

In general, of the different transfer categories in Mexico, in order of decreasing progressivity, direct transfers are most progressive, followed by in-kind transfers (like education or healthcare) which, in absolute terms are close to neutral. These are followed by indirect subsidies, pension subsidies, and finally pension income (Scott et al., 2017). Direct taxes have a slightly progressive impact. However, if the tax system as a whole is considered, i.e. adding indirect taxes (mainly value-added tax), its effects in fact become regressive. Although Mexico is the only OECD countries that does not publicly report tax accounts, based on adjustments to household survey data Campos, Chavez and Esquivel (2014, 2016) have argued that current top tax rates are far below optimum rates. Overall, they estimate these could lie at over 50% (compared to the current levels of 35% since the latest reform).

The complexity of the fiscal system means that its overall effects are difficult to determine, since, for instance, “special taxes on products and services (i.e. IEPS) vary from quite progressive (alcohol) to quite regressive (petrol taxes as they affect public transport, and the recent ‘sin’ taxes on sugary sodas and calories)” (Scott et al., 2017). Nonetheless, this brief analysis shows that current fiscal policies constitute a missed opportunity in Mexico with regards to the struggle against consistently high inequalities.

Moreover, it can be costly to deal with inequality only in an ex-post manner, because some of the damage will be done already: at the low end of income earners distribution, some people are likely to fall through the safety nets of the ‘slim’ welfare states of the Latin American countries. This is particularly likely in Mexico, where program access is based largely on “deservingness” in terms of complying with certain—highly selective—criteria. At the same time, on the high end, and throughout the distribution, tax evasion and elusion becomes a problem, not only because it limits the state’s capacity to redistribute (resource they don't have) but also because it makes the process of redistribution less efficient (and fair) to begin with. In short, relies on a policy of fixing, instead of preventing. So why do we have to let inequality become so blatant in the first place? Instead of (or rather, complementary to) redistribution ex post, i.e. once inequalities have occurred already, it is useful to consider the options of decreasing market inequalities, i.e. those before taxes and transfers accrue. This option has received considerably less attention among scholarship in the Mexican context. Part III of my thesis will turn to this knowledge gap.

2. New Research Agenda

The fact that inequalities are large and rising shows that the current orthodoxy in treating inequality is ill-equipped to accommodate the above-mentioned empirical developments and the resulting theoretical implications. This thesis proposes a revision of priorities in the discipline, condensed into an agenda along five axes, which will be addressed in each of the chapters.

Inequality's Relative Nature. A first issue for reconsideration is the question about inequality's core nature. The increasing recognition of multiple dimensions of inequality (Therborn, 2006) that interact in different ways (Galster and Sharkey, 2016) is a welcome development. Notwithstanding, what scholarship rarely questions even in these debates is the understanding of inequality purely as an objectively existing 'fact' external to the observer, which can therefore also be measured free from ideological considerations. I argue that inequality is defined in relation to a direct reference group. Besides being multidimensional, it necessarily has to be understood as something intrinsically relative, and the way it is seen can diverge significantly from official estimates, depending on the observer's perspective. How perceptions influence inequality has been under-researched.[14] I address this research gap in the studies presented within this thesis: Section II looks at the link between inequality underestimations and urgency to address its consequences in general, while Section IV scrutinises perceptions of inequality among the elites. Moreover, in Section II, I argue that inequality studies need to pay more attention to the normative assumptions underlying indicators for inequality measurement.

Affluence Studies. Secondly, my research tackles one of the major blind spots in academic inequality studies: the dearth of research into the very top of the income (and wealth) distribution. While the relevance of poverty studies is broadly recognised, 'affluence studies' remains all but non-existent. However, there is a close relation between an excess of income and power on the one hand, and pervasive poverty on the other.[15] Economic hardship of the masses becomes the necessary flip-side of an elite's prosperity in middle-income countries, particularly in the slow growth/high inequality regimes characterising much of Latin America over recent decades. In fact, the latter depends on the existence of the former. Therefore, and in opposition to widespread assumptions, inequality cannot be understood nor reduced sustainably by addressing low income groups only. This point has been overlooked in most of the academic debates, at least until the

[14] Perceptions have played some role in connection with poverty, notably perceptions by the poor themselves about poverty (for instance, World Bank, 1999). More recently, Reis and Moore (2005) and collaborators started looking into elite perceptions of poverty and inequality, including, in the geographic context of Latin America, studies on Brazil and Haiti. The only publications on elite perceptions — mainly of poverty — in Mexico seem to be Medrano (2013) and Medina Ortiz (2008).

[15] I elaborate on this relationship, and the crossover between economic and political power, in '*For Richer or Poorer: The Capture of Growth and Politics in Emerging Countries*' (Krozer, 2016a), not included in this thesis.

recent WID-related research, and continues to be ignored in most policy-making (despite large public interest in this topic). My thesis turns the attention to the very top of the income distribution, examining how we adequately measure inequality so it accounts for concentration at the top (Section II), how elites affect policy debates and political economy (Section III), and how top earners relate to inequality and thereby affect its perpetuation (Section IV). While the 'WID cluster' has mostly focused on mapping and measuring top shares, my research goes beyond the mere level of their income, to add the perspectives on inequality held by the very rich themselves.

Mundane Mechanisms of Inequality Reproduction. The third aspect of inequality studies that needs revision in light of the new data available is the question of a distribution's underlying dynamics. Despite a significant reshuffling of the debates in the aftermath of the 2008 crisis—which reversed the direction of inequality's 'natural' trend from automatically *de*creasing with increasing economic development, towards *in*creasing if left to itself—the search for a generalising 'law' continues unabated. In my thesis, I challenge the assumption of the existence of such a law, arguing that there is nothing 'natural' about inequalities: inequality trends are never 'natural' because no policy-neutral space exists in human interaction in complex modern societies built on elaborate legal frameworks, cultural conventions, social codes, and habitual customs. Rather, inequality outcomes will always be the result of particular political decisions, power constellations and negotiations, but also more structural aspects of the social system we live in. Instead of focusing on the direction of an alleged 'natural' tendency, it seems pertinent to reexamine those structures reproducing inequalities which remain 'hidden in plain sight'. These include the way in which implicit ideological considerations affect how we measure the very concept of inequality (addressed in Section II); how we can prevent inequalities at their origin, decreasing the fiscal burden of reducing inequalities later (proposed in Section III); and how we, and those in decision-making positions, perceive inequality and the effect this in turn has on measured inequalities (examined in Section IV). Arguably, one of the most neglected structures perpetuating inequality is spatial segregation. Galster and Sharkey (2016) discuss the cumulative impact of segregation for poor neighbourhoods. In my thesis, I argue that similar mechanisms also apply for wealth enclaves, albeit with the opposite effect.

Pre-distributive Policy Tools. Fourthly, and following from this perception/measurement feedback loop that perpetuates unequal distributions, the approach to treating inequality needs refocusing. Despite some questioning of dominant theories and their related policy responses at the academic level, policy-making remains thoroughly orthodox, especially in developing countries, where often inequality is treated as a secondary concern to be addressed, indirectly, via anti-poverty programs at best. As the empirical evidence shows, these are ill-suited to lastingly curb the unequal distribution of incomes. Meanwhile, redistributive responses centred predominantly around tax policies remain formidable challenges in the context of shrinking tax bases and reach.[16] Under such conditions, policies addressing 'market inequalities', i.e. income distributions prior to fiscal redistribution, particularly those labour policies relating to minimum wages, are an under-utilised, relatively inexpensive complementary set of measures. Reducing the need for later redistribution by addressing 'pre-distributions', they are well suited to countries with limited tax resources and high poverty levels, as explored in more detail in Section III.

Epistemology of Distributional Studies. Fifth, besides the topical refocusing, there is also a need to revisit the epistemology underlying distributional studies. Rather than exclusively regressing inequality against all sorts of potential determinants, the WID-research cluster has returned credibility to historical-institutional research. In my thesis I deliberately choose different methodologies with mixed-methods approaches for each Section that all refer to respective 'ways of knowing', depending on the aspect to be explored, including an overwhelmingly qualitative approach in Section IV. The usage of empirical qualitative data, although relatively uncommon, can be highly complementary in economic research on questions involving the elites, perceptions, and other subject areas where quantitative data is even more difficult to obtain, and/or unreliable.

The major challenge for all inquiries into inequality to date remains the often patchy and unreliable empirical data. While this is a general concern, it is especially acute for middle- and low-income countries. Therefore, I have collected primary data and built my own quantitative, international (Sections II and III) and qualitative, Mexican (Section IV) datasets to inform the conclusions drawn in this thesis.

3. Research motivations and links between the sections

All else equal, people prefer more egalitarian distributions (Norton and Ariely, 2011; Dawtry, 2015, World Bank, 2017). The increasing awareness of the detrimental effects of inequality exacerbates the concern with the problem. Debates over (natural) tendencies in inequality are therefore at the core debates about the degree, and kind, of intervention needed to control inequality. For instance, effective solutions to inequality differ depending on whether dispersions are largest among white-collar workers, caused by income polarisation, or due to widespread poverty and narrow elites (Chakravarty and D'Ambrosio, 2006). Knowing the basic features of a distribution enables us to tailor solutions that attack the problem at its origin. To this end, Section II traces general

[16] Vast informal sectors and inefficient enforcement in lower-income countries, and decreasing top tax rates in high-income countries, exacerbate this development. For new approaches to tax systems see for instance, Saez and Stantcheva (2016). Interesting proposals for reforming taxation in Mexico have been brought forward recently by Campus-Vázquez, Chávez and Esquivel (2014; 2016).

distributional dynamics. Due to the salience of what occurs at the bottom and top of the distribution for inequality outcomes, Sections III and IV look in more detail at the top and bottom of the distribution, respectively.

There are two main underlying themes in this thesis that feed into each other in a circular fashion: one is focused on understanding the way in which inequality is perceived; the other examines how it is perpetuated. As explained in Section II, how we measure inequality can affect our perceptions of it. At the same time, perceptions can also vastly differ from reality as measured by researchers (who themselves perceive it in their distinctive ways), yet play an important role in shaping ideology and political action. Social consensus-building, and consequently policy-making, is heavily dependent on actors' perceptions, thereby affecting inequality's persistence (closing the circle). This is explored in Sections III and IV, which respectively analyse elite positions towards minimum wages, and elite perceptions of inequality more generally.

The three distinct sections presented here, though different in their scope and focus, all embrace aspects of these underlying themes. They are tied together through the joint aim to reduce inequality, and prevent it from reemerging. They highlight systems of cumulative disadvantage at the bottom (Galster and Sharkey, 2016), accumulation of rarely questioned privileges at the top, and a lack of interaction of the respective societal layers, all of which make inequality a particularly 'sticky' problem. Breaking this circle of inequality production and reproduction would be desirable in economic, social and political terms, compared to the contemporary approach of mitigating inequality (through redistributive struggles) once it is there, and doing damage, already.

As Section II argues, to move towards 'acceptable' inequality levels requires better data, more suitable forms of measuring inequality, and increased awareness about its extension.[17] Cross-national studies of inequality are useful for testing the suitability of proposed indicators. However, they cannot capture important aspects of inequality that require a historical and contextual understanding to fully comprehend the experience of inequality, let alone contemporary struggles against it. Therefore, while Section II explores the general features of inequality on an international scale, Section III shifts to a regional perspective, comparing the experiences of a set of countries within Latin America, as one of the most unequal regions of the world.

[17] In a follow-up paper not included in this thesis, I have developed this idea further, suggesting a maximum 'inequality line' (much like a poverty line), which would work as a threshold to keep inequality in check (Krozer, 2016b).

In Section III, I look at minimum wage policies as a means of 'pre-distribution'.[18] This section is composed of three related chapters. The first chapter explores the relation between inequality and different sets of policy (fiscal versus labour policy) on the one hand, and the vehement resistance among elites to pro-equity policies in general, on the other. The second chapter examines the close relationship between inequality and the development of minimum wages in more detail, finding that the obstacles to changes in minimum wage levels, and its predicted improvements in the income distributions, are political rather than technical. The third chapter further scrutinises the Latin American comparative perspective to show that the Mexican case is rather exceptional in this respect.

Section IV of the dissertation takes a closer look at potential obstacles to inequality reduction in Mexico's political sphere; considering elite influence on policy-making, it delves into their exclusive environment. This case study highlights the difference between elite perception and measurement of inequality, and how the mechanisms leading to this discrepancy affect the social construction of inequality.

Essentially, each section makes explicit a particular way of (not) 'seeing' inequality. At the same time, each describes a determinant, more or less visible, of inequality perpetuation: inadequate measurement and insufficient data; extraordinarily low labour income and minimum wages; elite (self-)segregation resulting in perceptions of relative affluence.

At its core, my dissertation questions the assumption that inequality is a context-independent, objective number that can be quoted, and measured, uninfluenced by underlying ideological considerations. It instead proposes an updated research agenda within which inequalities, on top of their objective existence, are relational, and thus a relative phenomenon, fundamentally embedded in the context within which they are subjectively experienced.

This is not to say we should succumb to relativism or indifference concerning inequality calculation. On the contrary, I argue for a need to sharpen our lens and focus in on neglected aspects such as the supposedly neutral 'technicality' of how we measure inequality, including the normative features of the indicators used; the option of addressing inequalities at their origin to reduce the need for later redistribution via labour policies; and the mundane structures which enable the accumulation of advantages undermining equal outcomes.

In sum, the major theme running through the three sections presented here concerns the twin issue of the persistence and perception of inequality, with each main section addressing a

[18] The chapters build on work produced in co-authorship with Juan Carlos Moreno-Brid, and either Juan Cristóbal Rubio Badan (Chapter 1) or Stefanie Garry (Chapters 2 and 3).

particular thematic (and methodological) aspect of this revised research agenda on inequality. While my thesis focuses predominantly on inequality in middle-income countries, both rich and poor countries have been susceptible to the distributional shifts described. Therefore, though many of the conclusions reached in Sections III and IV of the thesis are discussed in the context of the case of Mexico, they can inform similar studies elsewhere, including in higher-income or lower-income countries.

4. Summaries of the Three Main Sections[19]

Section II: Measuring Inequality[20]

The question about the 'correct' way to measure inequality is much less trivial than it might seem. Besides concerns about which part of the distribution to prioritise, or at what level inequality would start being considered as too high, in Section II, I discuss some of the main methodological and data issues related to measuring inequality.

To explore the income distribution's basic features, I gathered raw data on income levels from a variety of sources and compiled the information for 116 countries (covering roughly 90% of the world population) spanning the period of 1988-2008 into a unique large-scale dataset.[21] I calculated income shares for deciles, ventiles, and smaller top fractals where data was available. This new quantitative dataset is at the core of the empirical analysis.

Based on a statistical analysis of the data, this section argues that a key aspect defining the contemporary income distribution is the increasing share that the top holds compared to the rest. It shows, moreover, that income concentration increases towards the very top of the distribution, while the shares of the middle- and upper-middle-income groups remain stable across countries and over time. Since *differences* in inequality level at any particular point therefore seem determined largely by how the top and bottom divide the remaining income share amongst themselves, *changes* in inequality level would originate from the top share increasing (decreasing) at the cost (to the advantage) of the bottom's share. Traditional indicators for inequality measurement less sensitive to changes at the extremes of the distribution might obscure the full

[19] Note: references will not be given in the three section summaries, as the chapters themselves contain all the relevant references.

[20] Versions of this section have been published as Krozer (2015a; 2015b; 2017).

[21] Built with raw data from a then-unpublished income dataset by Milanovic from 2014 — the WYD 2008 — and new indicators I constructed from LIS metadata. In Krozer (2016b) I updated my analysis to include the benchmark year 2011, data for which had not been available at the time.

dimension of inequality, and thereby help perpetuate it (for instance, the Gini, with its overemphasis on changes in the middle, might not be a reliable indicator of overall inequality on its own).

To avoid this, I propose and discuss a complementary indicator for the measurement of inequality: the ratio of the income share of the top 5% over that of the bottom 40%. The indicator is conceptually related to the 'Palma ratio', which divides the income share of the top 10% income earners by that of the bottom 40%. I test the robustness of such an indicator and lay out its advantages over, and complementarity to, other indicators, including the Gini, Palma, and top 1% share.

Section III: The Bottom[22]

As it appears that inequality is mostly defined in the extremes of the distribution, it is pertinent in the following, to scrutinise the top and bottom, respectively, in Sections III and IV. As such, Section III explores the relationship between inequality and minimum wages in three chapters.

The first chapter examines the evolution of economic inequality in Mexico in the last three decades, both in terms of the personal distribution and the functional distribution of income, exploring the question of how much of its evolution is determined by economic or social policies. Establishing that fiscal redistribution policies overall leave the income distribution all but unchanged, I move to analyse the relation between the evolution of the functional distribution of income and labour policy, with special emphasis on minimum wage policy.

The importance of minimum wage policies in Mexico requires contextualisation. Despite being one of the wealthiest countries in the world by GDP measures, more than half of the Mexican population lives below the national poverty line. The 2015 income of the country's richest man corresponded to 470,623 times the country's average income. At the same time, the family of a worker earning the official minimum wage of then MXN$73.04 (less than US$5) per day remains in conditions of poverty. Against the backdrop of such extreme disparities, a passionate debate over increasing the minimum wage emerged in May 2014, when the Governor of Mexico City launched a national discussion on the urgent need and ways to renovate minimum wage policy in Mexico.

[22] The chapters presented here are based on the collaborative research papers ‘Inequality and minimum wage policy: Not even talking, much less walking in Mexico’ (Krozer, Moreno-Brid and Rubio Badan, 2015), ‘Minimum wages: An Embarrassing Inequality in Mexico from a Comparative Perspective with Latin America’ (Moreno-Brid, Garry, and Krozer, 2016) and ‘Minimum Wages and Inequality in Mexico: An Example (Not) to Follow’ (Krozer, Garry, and Moreno-Brid, forthcoming).

At the time, this debate constituted the only expression in Mexico of the renewed interest in inequality on a global scale in recent years. Nonetheless, the attempt to bring the debate back to the forefront of the political agenda triggered fierce opposition from different sectors within the Mexican elite. To make sense of these developments, I set out to examine the institutional context as well as the ideological and political economy considerations that have marked minimum wage policy in Mexico over recent decades.

Mexico's minimum wage has experienced a persistent decline in real terms since the 1970s. At the same time the share of wages in national income has declined steadily, while inequality remains one of the most pressing socio-economic challenges. Raising the minimum wage in a sustainable manner to meet the constitutional mandate and support a reduction in inequality in the country would require significant policy change. Although the debate has gained momentum in the public discourse since then, the campaign to raise the minimum wage was met with remarkable resistance from an unlikely alliance of certain private sector actors, politicians, and even union leaders across a broad spectrum of political ideology. They often use technical pretexts, such as alleged lags in productivity, to justify their opposition to minimum wage increases. Therefore, the second chapter in this section further examines the context of the debate taking hold in Mexico. It also shows that productivity, though below desirable levels, has risen vastly compared to wage levels, thereby debunking 'technical' arguments against minimum wage increases.

The second chapter presents a brief analysis of the minimum wage in Mexico from a Latin American comparative perspective. As in other parts of the world (US, Germany, UK), the trend in labour policy in much of this region seems to point in the opposite direction compared to Mexico: while countries around the world are increasing their minimum wages, the Mexican minimum wage remains stagnant. I examine whether this could constitute a foregone opportunity in the struggle against inequality, since the minimum wage can be a powerful tool to combat inequality, as for instance indicated by the Brazilian experience.

To further elaborate on this idea, the third chapter juxtaposes the Mexican experience regarding minimum wage dynamics and how these relate to income inequality with the cases of Brazil, Argentina and Chile – three countries in the same region, with roughly comparable economic development levels, which however pursue labour policies diametrically opposite to those of Mexico. I document the inverse relationship between inequality and minimum wages. In this regard, Mexico, proves to be an exception in the region: in contrast to other countries, which have used their minimum wages proactively to improve the country's income distribution, increasing inequality is accompanied by deteriorating minimum wages in Mexico. Exploring these divergent minimum wage paths in more detail leads to a better understanding of the correlation and potential links between persistent inequality and labour policy, with the aim of providing some recommendations to policy makers. Besides documenting the status of inequalities in Mexico, the section also provides a brief outline of the historical development of the country's significantly diminishing labour share in gross national income.

Moving away from an overwhelmingly quantitative analysis, methodologically, this section combines quantitative data over the past three decades[23] with an historical-institutional analysis of the countries under consideration.

Section IV: The Top

The research on minimum wages in Mexico presented in Section III provides evidence that the problem of persistent inequality in the country is not a technical problem, but a question of political will. To explore the realm of political decision-making in more detail, Section IV dives into the world of the elites. To achieve a more subtle understanding, it shifts from the regional analysis to a concrete case, namely that of Mexico.

Elites play an important role both in decision-making and in giving legitimacy to proposed policies, by establishing standards, influencing ideological debates, and defining the set of solutions up for discussion. Contrary to common views of elites as evil strategists, or alternatively as 'superhumans' with special capacities — perspectives that remain dominant in relevant literatures — this study argues that instead a third variable, context-dependent perceptions, is just as, if not more, important.

Despite the variety of methodological and conceptual approaches attempting to explain the mechanisms of production and reproduction that lie behind contemporary inequalities, the role of perception and relative measures remains under-explored, not least because data on elites, many of whom are shy of being in the public eye, is exceptionally scarce. For this study I therefore went to collect original data over the course of more than a year in the field.

Based on over 40 in-depth interviews with members of the Mexican elite, this section examines how the dissonance between elite perception and measured economic status matters for the social construction of inequality. This unique empirical data reveals that the 'wealth bubbles' within which elites exist lead to an experience of relative affluence: although elites acknowledge

[23] These include a different set of new indicators constructed from LIS metadata, as well as data from the ILO and ECLAC databases.

being privileged compared to the majority of the population far removed from their own lives, they simultaneously feel 'deprived' vis-à-vis the exceptionally wealthy peers that they share their social space with. As a result, despite showing significant concern about inequality and its negative effects, elites underestimate their own position in the overall income distribution. The re-centring of the income distribution around their own incomes illustrates relational aspects of wealth.

Subjective experiences also inform participants' insistence on education as the key to overcome inequality. However, considering the stratified opportunity structures in the country, such measures perpetuate privileges rather than equalise opportunities. Understanding elites as embedded in their particular sociality helps explain how perception influences actual inequality levels, as the accumulation of advantages assures persistently high inequality in the country. Meanwhile, experiencing relative affluence distorts elites' perception of the majority's wellbeing, threatening social cohesion and obstructing the implementation of effective policy to sustainably decrease inequality.

Section IV uses mainly qualitative data from my interviews and participant observation of the Mexican elites, supplemented by secondary literature and cross-checked with quantitative data from international and national organisations such as the World Bank, or the Mexican national statistics office INEGI.

Taken together, these three sections explore perspectives of inequality persistence in different ways, covering international and domestic dimensions of resource allocation, ways of measuring it, obstacles preventing equalisation and different responses to unequal distribution, as well as the impact of inequality perceptions on its measured levels. In sum, the chapters making up the three main sections problematise the role perceptions play in the persistence of inequality in different ways.

5. Methodological Considerations

5.1. Conceptual Challenges

One of the main conceptual challenges faced by inequality studies today is having to take into account the many ramifications and intrinsic complexity of inequality. Following Therborn (2006), inequality should more correctly be conceptualised as inequalit*ies*: a plethora of overlapping and interacting dimensions of exclusion, grounded in their intellectual history. Different disciplines have emphasised different aspects of inequality, and economic dimensions such as income, wealth or consumption inequalities have at times sidelined socio-political and cultural aspects, constraints and effects of inequality, like social position, access to political power, education and health care, gender differences (Gornick, 2004) and ethnic discrimination, etc. (Justino, Litchfield and Whitehead, 2003), opportunities, capabilities and individual freedoms (Sen, 1980), as well as the 'horizontal', between-group component of inequality (Stewart, 2009). How we define inequality today diverges from its historical shape, whether this concerns the geographical scope (local, global, etc.) or the analytical dimension considered (interpersonal, functional, spatial), and what we deem 'acceptable' levels is constantly in flux.[24] Moreover, what we think inequality looks like can differ from its scholarly defined levels (both due to measurement and perception effects).

However, income remains one of the best-documented indicators, and the easiest to compare over time and geographic space, or as a token across programs and policies. It also reasonably well proxies other dimensions of economic inequality; for instance, the generally less well-documented dimension of asset inequality is closely associated with income inequality across countries (Goñi, López and Servén, 2008), and social dimensions like life expectancy or violence often dovetail economic inequality (Pickett and Wilkinson, 2009). Therefore, unless otherwise specified, when writing 'inequality' I mean differences in the income distribution, while 'inequalities' refers to the broader phenomenon of interrelated dimensions of inequality. To account for this diversity throughout, my thesis draws on literatures from a variety of disciplines including economics, sociology, psychology and anthropology to allow for cross-fertilisation of research areas. The resulting interdisciplinary, mixed-methods approach is context-aware, both in terms of taking into account spatial particularities, and data availability and reliability issues.

The methodological approach of the sections comprising this thesis is driven by the research question, and based on the underlying premise that context matters for the choice of methods and data, insofar as the desire to understand reality has precedence over a particular established methodology. For instance, although mainstream economists often assume econometric modelling to be applicable for all economic inquiry, regardless of its subject of investigation, indicators that are difficult to quantify (such as perceptions in my thesis) merit qualitative analysis. As its complex historical-institutional framework plays a key role in a society's income distribution, it needs to be included and carefully scrutinised in the analysis. In line with a heterodox economics worldview of necessary and desirable pluralism in the social sciences (Lee, 2009), and due to the multifaceted nature of the phenomenon of inequality, my research deliberately covers a broad spectrum of methods, datasets (qualitative and quantitative) and themes (each paper contains its own distinct methodology, data and literature review section). Besides a geographical 'zooming in' (starting on the international level, moving through the

[24] On the importance of metrics and measurements see the *Report by the Commission for the Measurement of Economic Performance and Social Progress* (Stiglitz, Sen and Fitoussi, 2009).

regional, and ending at the local), a second transition concerns the methods and data used, which change from a more quantitative to a more qualitative approach.

5.2. Quantitative Data

One of the main constraints for rigorous inequality studies are data limitations. These concern availability and accuracy of both quantitative and qualitative data. Even widely quoted parameters such as income are imperfectly measured and reported. I therefore had to collect and analyse my own empirical data for this study, to complement and juxtapose existing accounts, as well as close gaps where I encountered simply a data void. The chapters in this thesis make a contribution by producing original primary data that could be of interest to other scholars in the field, generated through interviews, observations and calculations, respectively. This includes both the large-scale quantitative dataset of income by ventiles, and the in-depth interviews with the Mexican elite. To my knowledge, this is the first time such data has been collected, analysed and presented. In continuation, I mention a few of the most notorious issues to address, first as to the quantitative data compiled, and in the following section for the qualitative data collected.

Existing quantitative accounts of inequality present challenges both at the measurement and at the presentation level. Having resolved the conceptual issues discussed above by focusing on economic inequality as the main dimension analysed, particularly on the distribution of income, we then have to choose an adequate data source for the objective of comparing income inequality dynamics across a maximal number of countries over the longest possible period of time. While Part II further describes the actual data, a short account on the long way to a reasonable dataset for the purpose at hand helps illustrate some of these challenges.

In general, income inequality data can be collected from a variety of sources and indicators of population characteristics, including fairly exotic measures like records of individuals' grip strength (Bowles et al., 2010), geographical distribution of nightlight intensity measured via satellites (World Bank 2010), accounts of seeds or market exchanges in ancient populations and any number of other sources reporting on differences between members of a group that can serve as proxies for income (or wealth). These are particularly important for analyses over longer time periods (centuries or millennia) but inherently difficult to obtain, quantify and compare. Much more straightforward are datasets based on household surveys, tax records and/or national accounts, that are increasingly available over recent years. While they are much less complicated to compare across space and time, and include a growing number of countries, their availability only reaches back to the moment they were first collected, which is a few decades in the case of the surveys, to a maximum of a century for tax records in some cases. This inevitably limits the timeframe, but increases the number of countries that can be considered, as well as comparability across those countries.

At the time of starting the research, the dataset options available comprising large-scale international comparisons of income by population group were rather limited, both in terms of data type and source. The best-developed series were drawn from household surveys, which do a reasonable job in reporting income except for the very top, but vary widely in methodology, concepts used (income versus expenditure; with or without including imputed rent) and application frequency, and are thus inherently difficult to compare. Tax accounts, preferable for estimating incomes at the very top (albeit far from perfect themselves) were only available for a very limited number of countries, and those mostly richer countries. Besides, they often lack crucial information at the low end of the income scale (where many countries apply tax exemptions). Additionally, although such fiscal sources give less leeway to individuals' answering preferences, they are constrained by the prevalence of vast informal sectors; exclusion of non-taxable subjects; massive underreporting and tax evasion or elusion at all income levels and particularly at the very top, especially in developing countries (for instance, only about 30% of Mexican workers pay taxes).[25] Therefore, until the 2011 launch of the tax records-based WID, income data was chiefly collected by national statistics institutes through household surveys. Since then, the WID has expanded its set of countries continuously. The project has also increased coverage of, and attention to, the top income groups. Although the quality and extension of published data has improved, availability is still limited and coverage incomplete. Importantly, in 2013 at the outset of my research, most of the developing world was not included in the database yet.[26]

The main datasets available at the time were those by the international institutions of the likes of World Bank (povCal) and the OECD; regional programs supported by the UN, like Cepalstat (ECLAC's database); regional public research institutions like Eurostat, or academic counterparts such as Sedlac (by the Argentinian Universidad de la Plata); research institutions like UNU-WIDER with its WIID, and LIS with its income and wealth studies; and national statistics bureaus. I started working with all of them. As a research assistant to Dr. J. Gabriel Palma who wished to further test his new inequality measure—the income share of the top 10% of a population divided by that of the bottom 40% of the population, which came to be known as "the Palma" later that year—I was tasked to find the most comprehensive, internationally comparable income dataset available.

[25] Although some scholars had started to work on combining fiscal and survey data, these efforts had not led to much success yet.

[26] Other databases like Solt (2009) are based on simulations and hence did not serve my purpose well.

The more I familiarised myself with the respective databases, the more struck I was by the nuances differentiating them, as well as the 'patching' necessary to achieve complete data coverage. Even 'basic' measures of inequality like the Gini coefficient varied across institutions. Digging deeper into the numbers, I found that these discrepancies were due to the fact that most of these data sources combined different types of data in the spirit of pragmatism, not always clearly specifying what the original input was exactly.

Of course, for most institutions, these data came from household surveys (the most widely available input data). However, due to the different definitions adopted for the concepts presented, indicators often varied substantially across institutions, and over time, and even where indicators were the same, different organisations would report different values in their publications. Therefore, besides the usual caveats for self-reported data (Lakner and Milanovic, 2013), the diversity in methods applied for data collection, variation in choice of indicator (income, consumption, expenditure), and a lack of 'universal' coverage (many countries do not publish survey data at least once a year), made these institutions relying on their household surveys an imperfect source for large-scale and cross-country comparisons of inequality dynamics. They do remain a good (and until recently, the only) starting point for a comparative analysis of inequality patterns nonetheless.[27]

On top of this comparability challenge, the other main issue concerned coverage, with institutions covering subsets of countries with similar/available survey methodologies: while the World Bank had a reasonably complete set of information on the African countries, OECD and Eurostat only covered its member countries, and Sedlac the Latin American region (the WIID had attempted to combine all of the existing data, and many estimations and models, making it difficult to distinguish between simulations, estimations, and reported data, which also was not harmonised across countries or over time). This would prove a major obstacle for compiling a comprehensive dataset, especially as not all sources were equally diligent about publishing accompanying metadata and methodological accounts. Often, data would be published in quintiles rather than deciles (some only provided quartile ranks if disaggregating shares at all), losing crucial information in aggregation (Palma, 2006), and a lack of appropriate historical data makes time series testing difficult (Palma, 2011). Efforts towards comprehensiveness and harmonisation of datasets by several of these institutions improve comparability between different countries and

[27] Alternative empirical approaches that try to circumvent these shortcomings, as James K. Galbraith's (2012) usage of manufacturing data, suffer from additional severe limitations, particularly the difficulty to account for informal labour. This is problematic in a developing country context, where often over half of the working population works informally, and large shares of the labour force remain in agricultural (or services) sectors with entirely different income structures. To quote Atkinson (1983) quoting Kuznets: "[T]he approach adopted here 'is needed not only to warn against uncritical reliance on the estimates as they are usually shown but, perhaps even more, to counter their complete dismissal because of the serious errors and biases in them'".

over time. At the time, LIS was the only datacenter seriously committed to harmonisation for comparability, harmonising all its datasets in a transparent and well-documented manner; however, its coverage then was much more limited than it is today.

In short, comprehensive (i.e. including at least 90% of the global population) *and* harmonised (i.e. comparable across countries, and over time) databases comprising at least a few decades of income shares by decile groups, let alone ventiles, did not exist at the time of research. This meant that I had to 'custom-build' our set.

The final results were preceded by much trial and error. Early attempts to combine sections of the respective institutions' databases failed for lack of comparability and transparency in the calculations they used. However, due to a serendipitous follow-up on a methodological paper for a so-called 'All the Ginis'-file among the World Bank data of the 1990s, I came across information on a dataset named 'WYD' compiled by Branko Milanovic (at the time when he was at the World Bank, although the 'WYD' was his personal project) which supposedly listed income levels for over 90% of the world's countries, organised according to benchmark years (where countries did not conduct surveys in the same year, Milanovic would average income levels from the closest year a survey was available around the chosen benchmark, so as to have common years for comparison for all countries). I convinced Milanovic to kindly share his (unpublished) dataset with me. Upon receiving and studying the sheets, I learned that Milanovic had combined income and expenditure data, besides applying other pragmatic choices of methodology (ignoring differences in quality and quantity, as well as indicators applied, in the original data); however, his' was the most complete existing dataset for information on international income differences, disaggregated for population deciles and in many cases ventiles, and common survey (benchmark) years, with datapoints every 3-5 years from 1988-2005 (later adding 2008, and eventually 2011–the latter after completion of my study).[28]

Milanovic' data recorded average income by population group of 113 countries. The sheets included five columns of relevant information (plus the country code, and a dummy variable indicating whether the original national survey had recorded income or expenditure): the year the survey was conducted; the total population of the country at the time of surveying; the number of subgroups the population was divided into (i.e. numbers from 1-10 for deciles, 1-20 for ventiles, for most cases, although in some country-years 'odd' divisions like 1-12 complicated calculations); the average income of each of those population subgroups (in local currency); and the size of the population subgroup. The key information for my purpose were in columns three and four: knowing

[28] For methodological details on the processes of harmonising and benchmarking, see Milanovic (unknown year).

the number of population subgroups, I could add average incomes of all groups together (creating a new column of 'total country income'), and by dividing by a particular subgroup's average income, produce a value for the income share held by that subgroup. Clearly, average income of a ventile—especially the top one—is only an approximation to actual income of the people grouped together, and considering the high inequality within top shares probably underestimates final results of any top-bottom comparison of incomes. Besides, as their underlying sources were national household surveys (and I learned later, that in some cases these were complemented in a non-systematic fashion by other available information making the tracking of 'suspicious' values—typing or recording errors or undisclosed methodological amendments—the more difficult) these data face some of the same limitations as mentioned above.

The process was long and tedious. While the calculations themselves were reasonably straightforward, the process as a whole was still considerably labor-intensive due to incomplete disaggregation for some countries for some years (e.g. country x in year y would present income for 12 population groups instead of 20 but 15 in year z, or Switzerland registering 0 income for the poorest 5%, or computational errors in the case of Guinea Bissau in the original datasheet, etc…). Due to the changing number of subgroups for a country's population, I therefore conducted the calculations manually for thousands of rows. After many months, finally, I was able to present income shares of 20 population subgroups from the poorest to the richest 5% for 112 countries over roughly 20 years. With those potential caveats, the resulting dataset became the most comprehensive information on the distribution of international income share by population subgroup available at the time. This dataset forms the backbone of the study presented in Part II.

Parts II and III make use of additional datasets, custom-made for the respective investigations. As I was interested in testing patterns for different top shares of income, I turned to LIS data, which can be summarised at any percentile level required (even if that meant that the number of countries available dropped to less than a third). The other main advantage of LIS data is that total income can be disaggregated by source, i.e. split into parts of total income received from wages, rents, transfers, etc. Part III makes use of that feature for its analysis of labor incomes and inequality.[29]

5.3. Positionality and Reflexivity of the Researcher

Since "research is a process, not just a product" (England, 1994, 82), in which the researcher and the subjects alike are actively participating, their respective personalities, identities and choices

[29] The underlying LIS datasets for Parts II and III were build directly from LIS microdata, with the kind and patient support of Marco Lilla and other LIS staff.

impact on and influence its outcomes. Some reflexivity about the role of the researcher vis-à-vis the research subjects, i.e. myself with the participants of my study, is therefore in order before delving into the actual investigation. How I perceive my 'subjects', what they think of the project (and of me) as well as our interaction play a crucial role in determining both questions and answers during interviews, as well as my later analysis of the collected data—even what to consider data at all: a participant's office location, dress or post-interview side comment may function as additional data points consciously or inadvertently.

The importance of the individual researcher in interview situations is well-established in the literature; personal characteristics, appearance, behaviour, etc. play an important role. As "[t]he nature of qualitative research sets the researcher as the data collection instrument", "[i]t is reasonable to expect that the researcher's beliefs, political stance, cultural background (gender, race, class, socioeconomic status, educational background) are important variables that may affect the research process" (Bourke, 2014). This must not be a disadvantage 'biasing' research outcomes; although it makes replicability of results especially for qualitative data extremely difficult, the 'uniqueness' of interpretation through a particular researcher's lens can provide new, innovative interpretation of data based on the particular skills, perceptivity and background knowledge of the researching individual. It was therefore important for me to be well-prepared, aware and considerate of my role during data collection and interpretation alike, cross-checking my results with those of other researchers for validation, while allowing for events to unfold at times singularly 'tainted' by my particular person, thinking and acting. Thus, although the information obtained is uniquely related to me as the person collecting it, my results closely fit the experiences of scholars from a variety of disciplines and countries investigating elite perceptions (Hecht 2017 for the UK; Sherman, 2017 and Khan, 2015 for the US; Reis, 2005 for Brazil, Schaigorodsky unpublished, for Argentina, etc.).

Besides theoretical preparation of studying the particularities of the methods I was to apply, I prepared myself for the interview situation both in the role of interviewer and interviewee in practical terms by participating in several other researchers' projects within diverse disciplines, including psychology, anthropology and sociology. I was interviewed for projects where I did not beforehand know the specific aim, and sometimes even post-conversation was not disclosed the 'real' research objetive. In others I could somewhat control the topic of conversation as I knew what the interviewer was looking for. Some of these interviews were audio- or video-recorded, others took the form of more informal conversations. All of them helped prepare me to be more empathetic towards participants' concerns and raise my awareness for potential pitfalls or situations of discomfort.

A few of the issues arising are worth highlighting. Some of these are general concerns with interviews as data collection methods, others are specific to my particular sample. Of the latter, an important aspect is the question of power and 'authority'. Due to the disproportionally powerful position participants of an elite sample hold in society (compared to, e.g., poor, illiterate farmers in a remote village of a developing country) an interesting power constellation arose, where it was not always clear who was supposed to be 'in control' of the interview situation. In such instances, I mostly let participants retain (perceived) control, which led to instances of paternalistic 'mansplaining' at times, but also provided extremely interesting subtext. Most participants were very accommodating however, and many felt flattered to be included in such an important sample category. To balance power relations somewhat, I moreover provided most participants with information about the research project and aims beforehand, if requested including the specific questions of interest.

To establish trust, where possible, I researched the person I was about to interview before: in the cases of public personae this was mostly internet-based, where lesser known individuals were recommended by their peers I asked them to explain why they would recommend me talking to that particular person, and to tell me something about her. The peer-to-peer recommendation I used for the sampling meant that I benefitted from additional 'pre-trust' thanks to our 'mutual friend'. To create the informal atmosphere where participants would feel comfortable enough to open up about topics as private as money (one of the last taboo topics it seems, compare Sherman 2017) the interviews were set up to first include small talk, e.g. about my background, the political situation, topics of the day, or their job, followed by a demographic section, definitional questions, and then particular content.

From the first contact and through the actual interview situation and post-interview contact, a number of important characteristics I present presumably played a significant role in my ability to secure data. Beyond personal traits such as being patient, keenly and honestly interested in my participants' stories, and basic requirements like fluency in the local language, the most important characteristics include 'visual identity markers', such as being white and a woman, a foreigner (well-familiar with the context), my employment history and the institutions I was affiliated with at the time of data collection. I will shed some light on each of these factors in turn.

Being a (White) Foreigner

The Mexican elite is both surprisingly White considering the majority of the phenotype of the country's population and very classist in that it is 'less suspicious' for somebody light-skinned and blond to 'infiltrate' them—as I was repeatedly told directly by participants during and after the data collection phase. My foreign origins caused considerable curiosity among interviewees, and thus provided a good conversation starter and warm-up for the interview situation. Latent (and sometimes more overt) racism may have played a role, but my background also puzzled them, as they often encountered difficulty placing me appropriately in a specific context: on the one hand, I spoke their language (both Mexican Spanish, and their particular slang and tone[30]), on the other, confusingly, I don't look very 'Mexican'. Explaining my multinational family story and personal trajectory proved a useful conversation starter and bonding device.

Considering that i came from a different context, I did not pose a threat to diminish their elite status or power. However, at the same time I was intimately familiar with their context, being able to pick up references of, e.g., current press, typical idioms. This provided for a curious insider/outsider paradox that I learned to employ accordingly. Foreigners from 'developed countries' are often received with some respect (in marked contrast to, e.g. Central American foreigners generally speaking): they come from contexts where "things work"; many members of the elite wished their country was more like those countries (or at least claim they do). This veneration improved access to elite members, since it gave me a certain clout.

In terms of being able to relate to their particular sociality (language, codes, references, appearance) I was generally perceived as an insider to most participants. At the same time, my obvious and stated condition of foreigner made me an outsider to their *Mexican* elite ingroup, though not necessarily—in their eyes—to the *elite* ingroup. This "interesting" constellation resulted advantageous in many occasions, where participants felt they could trust me to understand their particular concerns, while at the same time eager to explain their contexts to someone from abroad.

Being a Woman

The vast majority of my participants were male. In a profoundly gender-stratified and male-dominated society, including the elite social space, I perceived it as somewhat an advantage to be an—'inoffensive'—female researcher: often, interviewees would let their guard down since they didn't feel particularly threatened (as such, in need of defending their territory for instance). Also, they sometimes felt the need to explain more thoroughly (in patriarchal, fatherly or 'mansplaining'-kind of ways). The fact that my capacities and person were at times underestimated (especially if the participants were older), could normally be assumed to be a disadvantage in other settings (and I would probably be outraged about it). However, it proved an asset in this context in that their own unquestioned authority (and my keen interest) let them feel comfortable and talk a lot. Some felt flattered by a young woman visiting and being interested in *them*–and hence willing to share

[30] I thoroughly trained my language capacities during almost 10 years in Mexico (and with a Mexican partner), after many more years in Spanish-speaking countries. This means that I do not only speak like my participants in terms of (national) language, but I can identify social group-specific "accents", intonation, terms and references.

their “expertise”. As opposed to these more paternalist or traditional male-dominant perspectives, for the interaction with women, it was clearly an insider “you-know-what-I-mean” situation, referring explicitly to the lack of women ‘at the top’ and relating to those few that had to “stick together”.

Quite conceivably, the same attributes (of being white, a foreigner and a woman) could also have been working against me. Particularly the gender question in some instances quite possibly did, in a context of often overt sexism and *machismo* where men still seem more trustworthy dealing with complex problems of science, while women tend to be seen as accessories in the research process. Although I can think of two cases were I attributed participants’ reservations to my gender, in most cases I did perceive my personal characteristics as an advantage.

Professional Trajectory

The institution(s) I came from at the moment of data collection gave me solid credentials, and raised my status in the eyes of my participants: the University of Cambridge, and possibly even more so Stanford University (considering widespread admiration for everything US-American) are considered institutions ‘worthy’ of response, generally facilitating access to potential participants. I was lucky to encounter participants early on that were so enthusiastic about the project they would recommend me with personal contacts. Moreover, living in Mexico for almost 10 years, I had the chance to interact with various elite circles on both a professional and private level. I had worked in a number of institutions that gave me access, directly or indirectly, to different sets of elites in the country: through my work at the United Nations Economic Commission for Latin America, I had met key academic and political figures in the country and region; at the Austrian Embassy I interacted with political and diplomatic, but also (importantly for this project) cultural elites; work with the National University UNAM granted further access to academic and intellectually powerful groups and individuals. While access to and interaction with my elite participants overall was fairly smooth, the most difficult question turned out to be that of allegiance: as a researcher, what is, or should be, my responsibility, and to whom? St. Louis and Barton (2002) describe how these concerns turn into a struggle between wanting to establish a trusting bond with the participants (in their case parents of small children) and positioning oneself as “other”, the researcher. Considering the frank and generous responses and availability of my participants, I am very grateful both on a personal and professional level for the experience they have provided me with. I do not wish to betray their trust, and thus aim to represent their perspectives as truthfully and genuinely as I can.

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II: Measuring Inequality

The Inequality We Want: How Much Is Too Much?

Abstract: A key aspect defining the contemporary income distribution is the (increasing) share the top holds compared to the rest. This paper shows that income concentration increases towards the very top of the distribution, while the shares the middle- and upper-middle-income groups hold remain stable across countries and over time. Traditional indicators less sensitive to changes at the extremes of the distribution might obscure inequality's actual dimension, and thereby help perpetuate it. To avoid this, the present paper discusses a complementary indicator for the measurement of inequality: the ratio of the income share of the top 5 per cent over that of the bottom 40 per cent. The indicator is conceptually related to the recently suggested 'Palma ratio' dividing the income share of the top 10 per cent income earners by that of the bottom 40 per cent's.

Keywords: inequality, income distribution, poverty, Palma, Gini coefficient

JEL classification: D31, D63, I3

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1. Introduction

A casual look at the world income distribution reveals large and persistent inequalities, both between rich and poor countries, and within countries. The severity of the problem is illustrated with a few numbers, for example, that the top 1 per cent of income earners owns roughly 40 per cent of global income, and the 85 richest individuals in the world own as much wealth as the bottom 3 billion (Oxfam, 2014). In order to make more specific statements about inequality levels within certain countries, however (such as whether they are rising or falling, how they compare to each other, etc.), we have to measure income differences and where they lie along the distribution according to some indicator.

Conventionally, this indicator would be the Gini coefficient. However, one of the crucial questions the Gini has difficulty answering is about what happens at the extremes of the distribution: how does the income of the poor develop and what happens to the share the rich hold, especially the very rich? Most of the general public on the other hand is interested exactly in this aspect of inequality; rather than weighting changes to the income distribution equally, whether they happen at the top, at the bottom or in the middle of the income scale (Hasenheit, 2014), a majority of people intuitively oppose extreme concentrations (Oxfam, 2014). In fact, most people are willing to tolerate certain discrepancies in incomes (and find these justified), as long as the differences between the top and bottom ends of the distribution are held in check. Because of the way it is constructed though, the Gini overemphasises changes in the middle of the distribution, and cannot account for changes that happen in the extremes (Cobham and Sumner, 2013a).

To counter this shortcoming, Gabriel Palma (2011) recently suggested a different indicator to measure inequality particularly in the tails of the distribution. What Cobham and Sumner (2013b) came to term 'the Palma', is the ratio of the share of total income held by the top 10 per cent of income earners over that of the bottom 40 per cent, concentrating thus on the tails of the distribution while 'ignoring' the middle. Concretely, the measure states that the top 10 per cent of income earners own a share x times the size of that of the bottom 40 per cent of the population. Besides the simplicity of calculation, the additional advantage of such an indicator is this intuitiveness in its interpretation, making it a persuasive tool for policy-making.

However, it would be difficult to accept such an indicator comprising nominally only half of the population as a measure of inequality over the entire income distribution—if it were not for the fact that the actual income distribution supports this 'exclusion' of the middle- and upper-middle-income groups. When looking at countries' income patterns according to deciles of the population, Palma (2006) found that across the world, the middle-income groups consistently held about 50 per cent of a country's total income independently of the country's developmental status, income level, political regime, location, or other particular condition. Since at the same time inequality levels across countries are vastly different (ranging from a Gini of 24.6 in Slovenia to 65.4 in South Africa), this means that these differences are determined almost entirely in the extremes of the distribution, i.e. the degree of polarisation of incomes between the top and the bottom ends of the distribution differs markedly across countries (see Palma, 2006; 2011; 2014).[31] Palma named these diverging dynamics the centrifugal and centripetal forces of the income distribution, creating heterogeneity in the tails while homogenising the middle. For measuring inequality, it is thus not only important to focus on the extremes because this is what most people care about, but even more so because this is what characterises the actual distribution, with the opposing forces conditioning 'its' behaviour.

The intuition of this concentration of income in the top decile compared to the rest of the distribution has one wondering almost inevitably as to what would happen to an indicator if this upper fraction was sliced up even more, reduced to but a few percentiles—to the 'real' elite of the proverbial 1 per cent. Considering the simultaneous stability of their income share in the middle groups, inspiring Palma to propose his eponymous indicator, an intriguing question becomes: how are these dynamics affected when the top is reduced to 5 per cent (1 per cent)? How is the world income distribution developing with regards to Palma's hypothesis of the 'diverging ends' and 'converging middles' where smaller shares at the top are distinguished, i.e. is the middle consolidating its stable share while the rich and poor drift further apart?

This paper aims to address these questions, on the premise that concern over inequality would be greater if the actual dimension of concentration at the top was made explicit (via an adequate indicator). Until recently, it has been impossible to 'look inside' the high end of the distribution, for lack of available data. The creation of new datasets now allows us to take a fresh look at this issue. In this vein, the present paper aims to: (i) analyse a specially designed global dataset dissecting the income distribution into ventiles and looking for a potential homogenous middle and heterogeneous tails in a cross-sectional manner; (ii) peek into the distribution according to the top 1 per cent via a smaller subset of countries for which data is available; and (iii) tentatively test the hypothesis of a trend towards divergence of the tails and stabilisation in the middle over time. It will introduce additional ratios for measuring inequality levels to supplement the Palma

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[31] Palma dubs this phenomenon the 50–50 rule, where 50 per cent of the population holds about 50 per cent of total income. At the same time, the diversity in inequality levels is explained by the way the other half of the population, i.e. the top decile and the bottom four deciles, divides the remaining 50 per cent of total income amongst its constituents. The vast differences can be observed between the Latin American and Southern African countries on the one hand, where the top income groups make multiples of the share the low income population secures -- over six times again in the case of Honduras and up to nine times in South Africa – and the Nordic and Eastern European countries on the other hand, where the elites' share is actually smaller than that of the poor groups (between 70–80 per cent of the latter's in the cases of Slovenia or Sweden for example).

indicator, namely the 5/40 ratio and the 1/40 ratio, and argue for why especially the 5/40 version seems a useful add-on to the portfolio of existing inequality indicators.

The paper is divided into five sections. Section 2 will discuss why we should be concerned about inequality, and particularly about the current high levels of inequality.[32] Section 3 will briefly outline the methodology and describe the datasets used. Section 4 will scrutinise the results obtained from the empirical data and present some answers to the question posed above. The final section will summarise the findings and discuss the implications for policy-making, as well as sketch out some lines for future research.

Before proceeding to the contextualisation of inequality, it is important to bear in mind that income is only one dimension of economic inequality, which itself is only one aspect of inequality alongside with e.g. social, political, and personal inequality dimensions. A focus on that aspect necessarily relegates other important determinants – like wealth, with a significantly less equal distribution – to lower ranks. However, labour income is still the most important source of income for the vast majority of people. Even among those in the top 10 per cent of the distribution, earnings from work account for shares of 70–85 per cent (OECD, 2014), making it one of the most important components of economic inequality. Moreover, asset inequality and income inequality are closely associated across countries (Goñi et al., 2008). Finally, data on wealth accumulation in developing countries is very patchy, making large-scale analyses on wealth distribution difficult at this point.

The second caveat of this paper is its focus on a comparison of the Palma to the Gini coefficient only, rather than including other inequality measures such as the Theil, Atkinson or Concentration Indices. This is both for reasons of scope and because the Gini is the most commonly employed inequality indicator, especially in the non-academic discourse (for a comparison of the Palma with a variety of decile and quintile ratios see: Palma 2006, 2011).

[32] The paper largely omits the important discussion about the determinants of inequality for reasons of scope. The long list of causal factors and the resulting, at times conflicting theories, as well as inequality's ubiquitous appearance, prompted Atkinson (1983, p.206) to state that '[t]he determination of the share of wages and profits in national income is a difficult problem. [...] it involves the whole economic system, and typically everything depends on everything else.' Some of the most prominent factors mentioned to influence inequality levels include, by themselves or in combination, growth, trade liberalisation, globalisation, public social spending, political regime-type, minimum wage, conditional cash transfer programmes, diminished skill-premium, taxation, education, broader labour market policies (job creation), history and path-dependence, remittances, or the emergence of specific sectors such as the maquila-manufacturing in Mexico or the rise of a massive financial sector.

2. Contextualisation

Concern with the unequal distribution of resources has existed for a long time. However, the concept of what is considered unequal depends on the beholder and her (historical) context. For instance, Plato (427–347 BC) thought that any disparity greater than a 5:1 income ratio between the rich and poor Athenians would trigger ethical imbalance and lead to social ills; George Orwell claimed that an income ratio between the top and bottom of the population's pay above 10:1 was the threshold; and the US financier, John Pierpont Morgan, held that anything beyond a ratio of 20:1 would be inappropriate (Groom, 2014). Nonetheless, in 2013, the actual pay difference between the top Financial Times Stock Exchange companies' (the "FTSE 100") chief executives' and their employees' average pay lay at around 120 times,[33] while that of some multinational companies' chief executive officers (CEOs) reached 427 or 653 times their employees' median pay. How do we accept these levels? Has our preference for or acceptance of inequality changed that dramatically, or are we just ill-informed about the actual levels of inequality and the harm it is inflicting on our societies? While the first option could be partially responsible for the current circumstances, it is likely that the latter plays a large role as well, i.e. we are not aware of the full extent of today's inequality.

This is at least partially because the conventional inequality measure of the Gini coefficient, an index number between 0 and 1, is difficult to interpret for the lay person without training in comparative inequality analysis. The enigma of an inequality level of 42 lowers the sense of urgency to act.

The mainstream economic literature has long viewed inequality as an indispensable, not necessarily negative, side-effect to the development process (Justino et al., 2003), since it was assumed to recede automatically once the country's income level increased. This conviction largely built on the observation of an inverted-U shape trajectory of inequality dynamics along a country's development path that Simon Kuznets made in the 1950s when analysing tax return data from the U.S. for the early decades of the 20th Century. Many researchers have challenged this dominant belief, suggesting instead that there is a negative correlation between growth and inequality (Bourguignon, 2004; ECLAC, 2010; Palma, 2011; Piketty, 2014).

There is mounting evidence of the harmful impact that high inequality has on a number of aspects of societal well-being. These include the adverse effects it can have on economic development through its association with social and economic exclusion and instability (Galbraith, 2012), imperilling poverty reduction social cohesion and governability by leading to increases in crime, mass migration, and other forms of social and political conflict and instability. The latter then

[33] Up from 47 times in 1998, though down from a peak of 151 times in 2007.

creates insecurity and distrust amongst economic agents, which could jeopardise economic growth and social development (Justino et al., 2003). Moreover, the complex relationship between inequality and growth (and societal development) acts through a great number of diverse channels, making the disentangling of causal factors extremely difficult. Besides the ethical arguments against inequality, these instrumental reasons speak of an economic case for improving the distribution.[34]

The recent availability of new and better datasets on inequality has sparked renewed interest in the topic (the interest in Piketty's 2014 book Capital in the Twenty-First Century illustrates this beautifully). The datasets show that inequality is much greater than it was assumed to be and, contrary to the belief that inequality was a problem affecting only poor, developing countries, increasingly it is the rich countries that suffer its consequences as well.

This renewed interest in distributional dynamics returns to the forefront two related controversies about, on the one hand, the efficient level of inequality and adequate policies for potential redistribution, and on the other hand, on a more basic level, the actual trends and directions of inequality. In other words, and coming back to the above question: how much inequality do we have, how much do we want to have, and how do we get from the one to the other? In this paper I concentrate chiefly on the first part of this question, revisiting world income distribution and discussing meaningful ways to measure it. However, the debates are intrinsically interlinked, since the way inequality is measured has profound implications for policy-making. Let me illustrate briefly how the measurement question transcends a mere 'technical' level.

Palma (2006; 2011) argued on the basis of empirical data that inequality levels are defined by changes in the share of total income held by the extremes of the distribution (i.e. top and bottom) only, whereas the middle-income groups of a population are rather homogenous across countries. Accordingly, Palma (2006; 2011) identifies three population 'groups' that are subject to distinct dynamics depending on their income level: (i) the bottom 40 per cent, which in most countries live in continuous poverty in spite of (massive) poverty alleviation programmes, unable to increase their share of the total income; (ii) the middle 50 per cent that defend theirs without being able to increase it significantly though, despite efforts to increase their (human) capital via education, etc.; and (iii) the top 10 per cent, who are drifting away from the rest in stratospheric heights because their share of total income is large and increasing.

[34] Political philosophy departs from the concept of duty of justice, according to which the responsibilities individuals feel towards their important relations for sharing the same country, ethnic group, etc. impose rules of conduct and responsibility; the cosmopolitan view stresses that we must feel responsible for everybody just for being humans.

The implications these findings bear for policy responses in high-inequality countries are wide-reaching. Globalisation has been thought to lead to convergence of incomes, which would make interference with distributional levels unnecessary.[35] Nevertheless, the empirical data does not confirm this prediction. Middle-income countries highly interconnected in terms of international trade, 'graduate' to the high-income club being still highly unequal. In the Latin America of the 1990s, income inequality was growing as per capita income increased, moving, therefore, in the opposite direction predicted by the trade-related factor-price-equalisation theorem (Palma, 2011). Moreover, middle-income countries with comparable gross domestic product (GDP) per capita levels (for example, Tunisia and Ecuador) now display a wide array of distributional outcomes, undermining the conclusion of a predictable inverted-U shaped pattern à la Kuznets.

Is it then 'too much' if, looking at world inequality, the income of the poorest 5 per cent of United States (US) Americans situates them at the 68th percentile of the world income distribution? Where should we draw the line if, while India's richest ventile[36] does not even reach the poorest US percentiles, Brazilian rich are as rich as those in the US, and their poor are as poor as those in India or China? This overlap of global, between- and within-country inequalities, illustrated by Milanovic (2011), starkly contrasts with the picture of income convergence, showing instead that inequality in the world is alive and well.[37] If the consequent inequality is accepted as a threat, laissez-faire is out of the question, now that evidence of inequality increasing, if left to itself, is ubiquitous (Piketty, 2014).

Alternatively, proponents of the human capital accumulation theory have long argued for increases in education as a weapon against inequality. However, differences and improvements in educational outcomes are unable to explain differences in inequality levels. Palma (2006) hence challenges these mainstream policy prescriptions as ill-suited to tackle the inequality challenge:

> 'the top income decile is made up of individuals with relatively advanced levels of education, while those in the bottom four deciles have relatively low levels of formal education [...]. So why do these two relatively homogeneously educated groups have such great distributional diversity? In turn, if significant educational diversity is found among the population in deciles 5 to 9—e.g., in

[35] The Stolper-Samuelson theorem postulates that a rapid increase in international economic integration should have a positive effect on both inequality within and between countries.

[36] Dividing the total population into 20 equally sized groups, the richest ventile comprises the five per cent top income earners of a country.

[37] As opposed to Kuznets-like expectations of receding inequality levels above certain income thresholds, it is the rich countries that are currently experiencing a backlash in their inequality levels, as if emulating the notoriously unequal middle-income countries of Latin America. See also Lakner and Milanovic (2013) for an estimate of the global Gini.

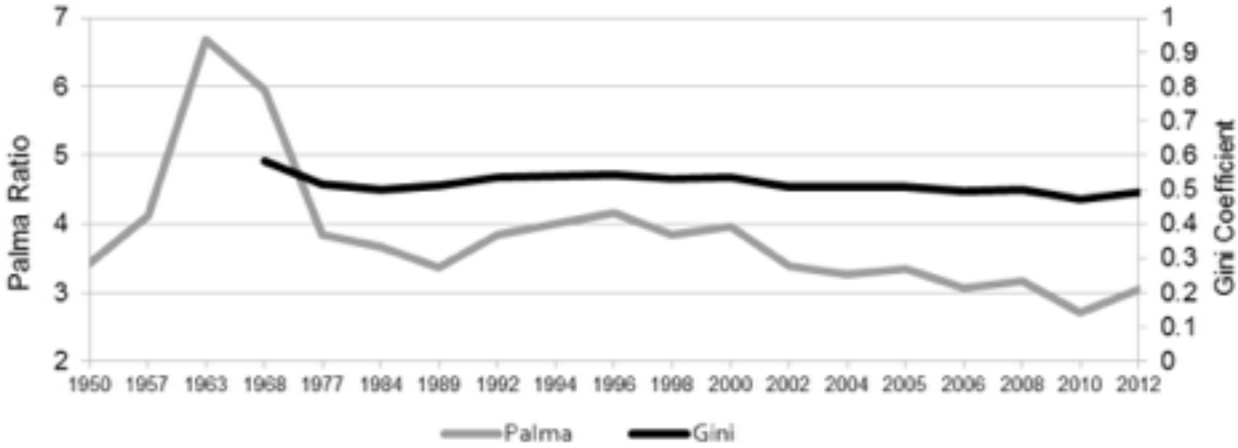
> terms of the share of the population with secondary and (especially) tertiary education—why does one find such extraordinary similarity in the shares of national income of this educationally highly heterogeneous group?' (Palma, 2006, p.11)

Hence, the discussion about adequate means to deal with inequalities is reopened. However, as the errancy of the human capital theory exemplifies, in order to design an 'adequate' policy response, it is necessary to know where exactly inequalities lie along the income distribution. But also, what would constitute a threshold to take action in the first place. Those means applied without paying attention to where inequalities are perpetuated along the income distribution increase their chances of failing in the attempt to improve it, for addressing the 'wrong' income groups. The evidence about the high end of the world income distribution presented here is to support the search for an adequate measure that might indicate a threshold of inequality signalling a 'too much', or provide a benchmark against which to measure 'success' in decreasing inequality levels.

A look inside the distributional dynamics also cements the need for a complementary measure to the Gini, which is unable to detect such distribution-internal dynamics as the 'stable middle' and which lacks sensitivity in the extremes. As an example, Figure 1 shows the development of inequality in Mexico, a notoriously unequal country, over the past 60 years according to the Gini coefficient, compared to how the Palma interprets it. The figure shows that where the Gini might have us thinking that nothing actually happens, large distributional changes can occur within the distribution, that are picked up upon by the Palma. The capacity of the Palma to better account for extreme inequalities makes it especially pertinent for high-inequality countries (such as Mexico). Its current proliferation as an alternative to commonly used indicators is therefore to be welcomed (for a discussion about its advantages over the Gini, see Cobham and Sumner, 2013a).[38]

[38] Some international institutions, such as the UN economic commissions in Latin America and Asia, and also Oxfam, have adopted the Palma into their portfolio already.

FIGURE II.1: INEQUALITY IN MEXICO 1950–2012 (DEVELOPMENT OF THE PALMA RATIO AND THE GINI COEFFICIENT)



Source: Constructed with data from Sedlac (2014) and Tello (2010).

In sum, far from being an objective 'technicality', the general usage of the Gini indicator as an inequality measure obscures developments in the high and low ends of the income distributions, where most of these changes occur. Moreover, this focus exacerbates the image of inequality as a static, unchangeable fact (which it is not). Drawing attention to the location of these changes within the income distribution is important for successful redistribution, as well as to increase people's sense of urgency to act upon inequality. If policies address those parts of the population where changes are least likely to occur, as happens with the human capital theory addressing the middle groups, the effect on inequality is likely to be minor. Hence, the choice of inequality indicator can be decisive for studying the outcome of how high inequality is. Each option entails a value statement based on the underlying assumptions the measure is constructed upon: do we care mostly about changes in the middle of the distribution, or in the extremes? Transfers between which groups of the population? As indicated at the outset, most people worry about (and underestimate[39]) concentration of incomes at the top, advocating for further scrutiny of that part of the population, and an indicator able to display this. The introduction of the 10/40 ratio is a decisive change in this regard. I will show in continuation that it could be complemented by another ratio, even more sensitive to what happens at the very top. Following Palma's lead, it shall be denominated here as the '5/40 ratio'.

[39] Interestingly, in a 2011 poll about inequality perceptions in the US, where people were asked to place themselves in the bottom 99 per cent or top 1 per cent of the income distribution, 68 per cent of respondents said they were part of the 99 per cent, while 13 per cent thought of themselves as part of the top 1 per cent of money makers (19 per cent had no opinion on the question). This strikingly indicates common misperceptions, both about the actual level of inequality, and the relative position of the different income groups (Jordan 2011).

3. Methodological Considerations

The world's relative distribution of disposable income[40] can be scrutinised by looking at the shares of total national income within any country that a subgroup disposes of. For the purpose at hand, these data had to be disaggregated for population ventiles (20 equal-size population groups) or higher. Two main datasets, each assembled from national household survey data, fulfil this condition.

3.1. The Datasets

The first is the World Income Distribution Database (WYD) compiled by Milanovic (2014). It combines data for developing countries from the World Bank's PovcalNet database with LIS (formerly Luxembourg Income Study) data for the rich countries.[41] This dataset covers about 90 per cent of the world population, and 93 per cent of its GDP in 2008 (Lakner and Milanovic, 2013), justifying generalisations about the world income distribution. The WYD-2008 dataset comprises data on household per capita income (or expenditure) for individuals, where all household members are assigned the same (average) income/expenditure, i.e. any economies of scale in household consumption and within-household inequality are ignored (Milanovic, 2009).[42] While some earlier versions of this dataset disaggregate the population by ventiles, only the benchmark year of 2008, the latest year available, publishes all 116[43] countries' income according to ventiles, thus allowing for the calculation of the top 5 per cent's income share. Consequently, the findings from this dataset inform the issue of distributional dynamics when the income share of the richest 5 per cent income earners is considered, and how this information could help measure inequality.

The second dataset is the LIS (2014)[44] household survey microdata for a subset of 41 upper- and upper-middle-income countries reporting shares of household disposable income for the top percentile. Here, this source is utilised for the investigation of the richest 1 per cent, as well as the comparison over time. No top-coding is applied, but household members' incomes are weighted according to the equivalent adult scheme. Since LIS data is harmonised to allow for time-

[40] Relative income distribution as a proxy for inequality has the benefits over most other measures in that it is relatively easily comparable across programmes, policies, time, and geographic space, as well as reasonably well-documented.

[41] See also Milanovic (1999) for details on the sources for the surveys and (Lakner and Milanovic, 2013) for further details on the construction of the dataset.

[42] This is because per capita incomes have the advantage that they are simple to compute and have natural counterparts in the national accounts (which do not compute equivalent incomes) (Lakner and Milanovic, 2013).

[43] In 2008, Switzerland's bottom decile had an average income of zero. The WYD reports this as missing. It is therefore not included in this sample, since the bottom 40 per cent share cannot be calculated without the first decile.

[44] Considering that approaches to harmonisation differ between the two datasets, the resultant estimates for countries may differ accordingly. These discrepancies are small though and do not affect the results of the investigation.

series comparisons,[45] although much smaller than the WYD-2008, this sample hosts the largest compilation of income distribution data for developments over time for the whole population, yet disaggregated up to the top 5 or 1 per cent. Since surveys do not exist for all years and countries, and to maximise the sample of countries for the subsequent comparison over time, two year-points are chosen, the first point ('1990') includes all countries that present a survey in the early 1990s, while the later point ('2010') essentially includes all surveys from the late 2000s and 2011.[46]

3.2. Data limitations

Consciousness about the limitations of available data is opportune. While household survey data is no perfect source for comparative studies over time and/or space (diversity in methods applied for data collection; variation in choice of indicators and measures used, e.g. between income and expenditure; changing periodicity of surveys), it remains a good starting point for a thorough investigation of world inequality patterns. However, while the quality of published datasets has improved, availability is still limited and comprehensiveness increased only very recently, when attempts have been made to improve comparability between different countries and over time. Nonetheless, due to the lack of appropriate historical data, time-series testing is difficult for larger samples (Palma, 2011). Besides, there are intrinsic problems with household survey data when it comes to reporting top incomes. The difficulty of reaching these households (considering that they are rare and often difficult to access) creates sampling issues leading to the understatement of incomes at the top (Lakner and Milanovic, 2013).

However, at least three reasons speak for using the available data anyway. Firstly, the problem of under-reporting is intrinsic to all self-reported information, and likely to affect (to varying degrees) any kind of data we are able to collect on the income distribution, and at all levels of income. Alternative empirical approaches try to escape these shortcomings through usage of industrial data (Galbraith, 2012) but suffer from additional severe limitations, including the difficulty to account for informal labour, rendering them less suitable for the purpose at hand.[47] Other types of research, such as Piketty's and Kuznets' that rely on tax accounts, might appear to be more

[45] For details on the harmonisation of the microdata see the LIS webpage at http://www.lisdatacenter.org/our-data/lis-database/documentation/ [20 Mar. 2015].

[46] A minimum of 15 years is guarded between the two data points, except for the case of Australia, Austria, and Slovenia, where the difference is 8, 11, and 14 years, respectively.

[47] Reliance on manufacturing data proves highly problematic in a developing country context where often over half of the working population is employed in the informal sector of which few accounts exist, and large shares of the labour force remain in agricultural (or services) sectors with entirely different income structures. Furthermore, it can be argued that manufacturing is not representative for the whole breadth of incomes, again making it difficult to extrapolate to the rest of the population.

accurate at measuring top incomes. While arguably more reliable as to their objectivity (giving less leeway to individuals' disclosing income at their own discretion), they are constrained by the same informal sector problem, as well as by massive under-reporting and tax evasion, especially in developing countries.[48] Besides, it is quite likely that especially the highest income groups will have the knowledge and capacity to deduct large sums from their incomes ('income minimisation', a problem likely to be particularly acute in developing countries too; see Lakner and Milanovic (2013)) exposing this data to a bias as well. Moreover, few countries make these numbers available. For the purpose at hand, even if they were available, they would not be suitable, since they do not report incomes for the lower-income groups.

Secondly, this information is what we have. Pragmatically, just because we do not have better data so far does not mean we should completely dismiss those we have. While critical awareness of their shortcomings is necessary, they can still tell us important stories that might further our knowledge about the state of the world we live in.[49] Thus, until, for instance, efforts were to be made to combine tax report and household survey data to represent both the lower- and upper-income groups more adequately, household surveys seem to be the most reliable source we have for the purpose at hand. In this sense, the updated WYD-2008 dataset by Milanovic used in this study, which includes data by ventiles for a large part of the world, is an important improvement.

Thirdly, considering that even the limited data we have, with all its understating, shows such stark income polarisation, it is likely that the 'real' distribution is even worse, only accentuating the argument. Nonetheless, it is bearing all of the above shortcomings in mind that the conclusions proposed here should be approached.

4. Analysis

Not only is there a high concentration of income in the shares of the very top percentiles of the distribution, but concern over inequality levels would presumably be higher if its actual dimension were more readily accessible. To create such awareness, the measuring indicator must be able to make high levels of concentration explicit. Palma (2006) suggested the usage of the ratio now known as 'the Palma', whose key feature is its focus on the tails of the distribution where change is

[48] In Mexico, for instance, only about 30 per cent of workers pay taxes, restricting the representativeness of the sample and the predictive capacity of such numbers.

[49] Atkinson (1983, p.206) quotes Kuznets: 'the approach adopted here "is needed not only to warn against uncritical reliance on the estimates as they are usually shown but, perhaps even more, to counter their complete dismissal because of the serious errors and biases in them".'

happening, particularly at the top decile.[50] This indicator thus comes much closer to describing actual income dynamics (compared, for instance, to the Gini). However, it is very likely that the distribution within this decile is highly unequal as well. So what happens if we disaggregate the top decile and look at the top 5 per cent instead? How does its share compare between countries and over time?

4.1. Looking Inside the Top Decile

Using the WYD-2008 dataset, let us look at the comparison between countries first. Panel A in Figure 2 shows the cross-sectional comparison of the 116 countries in the sample, ranked according to the share of total income the lowest income groups of their populations' hold.

Two features are pervasive: firstly, Palma's stable middle is easy to appreciate; across the sample, the middle 50 per cent of the population hold on average 52 per cent of total income, while differences in the shares of bottom and top deciles are large. This contrast between the homogenous middle and the heterogeneous extremes of the income distribution is reproduced in Table 1.

Before turning to that, though, Figure 2 has a second salient feature: that the second highest ventile is extremely stable across the countries in the sample, and that differences in the top decile are defined almost entirely by the size of the highest ventile. Just to visualise this homogeneity in the 19th ventile, Panel B inverts the image, aligned now according to the size of the richest 5 per cent.

[50] Since other advantages of the Palma over the Gini and other traditional measures of inequality have been analysed in Cobham and Sumner (2013a; 2013b) and Doyle and Stiglitz (2014), here the focus shall lie on the complementary features of related ratios to the Palma rather than comparing them to the Gini again.

FIGURE II.2 A: INCOME DISTRIBUTION IN 116 COUNTRIES, BY POPULATION SHARE (2008)

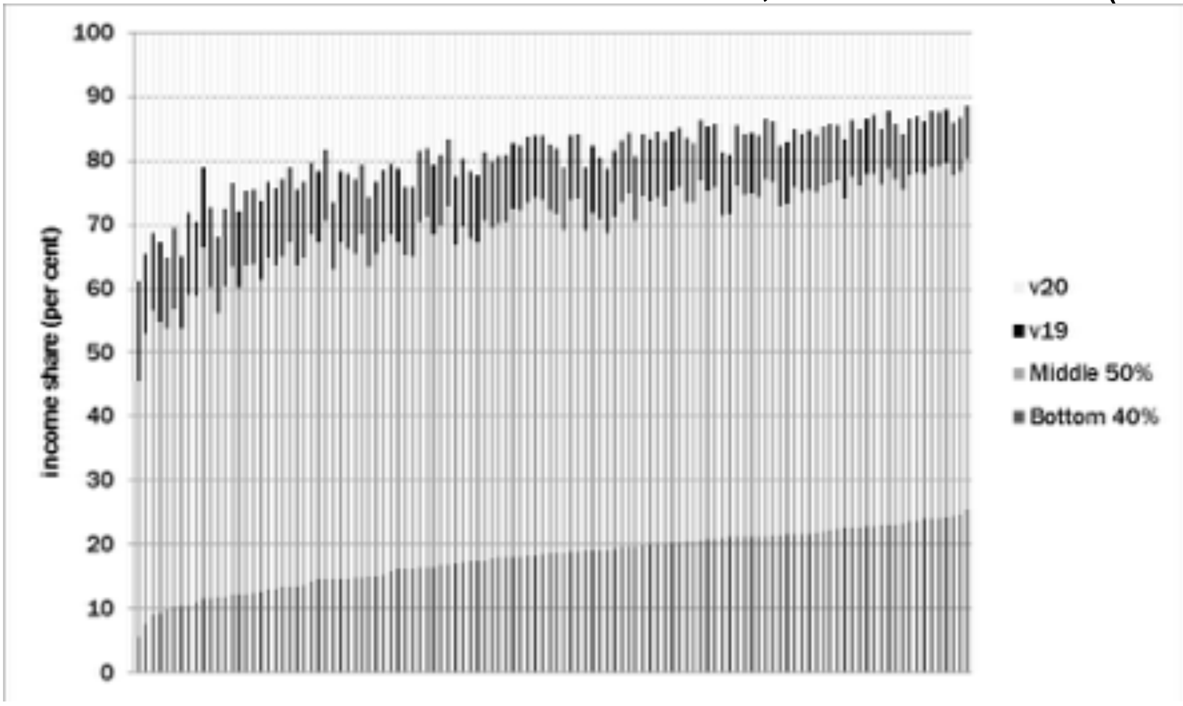
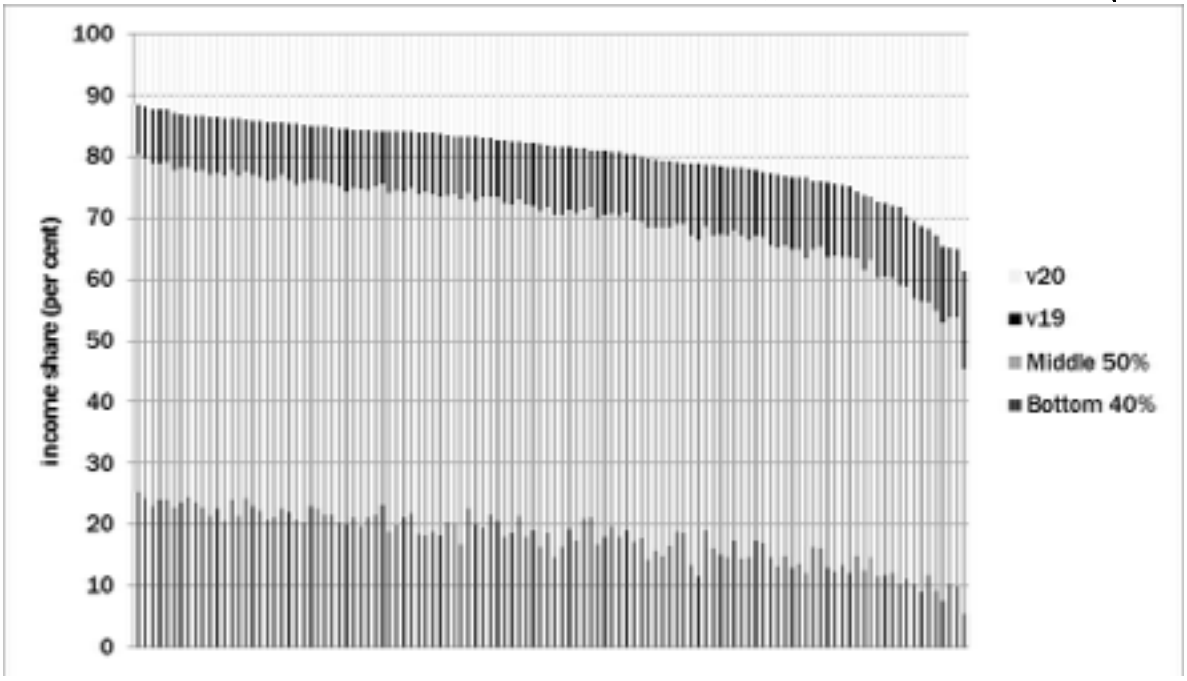


FIGURE II.2 B: INCOME DISTRIBUTION IN 116 COUNTRIES, BY POPULATION SHARE (2008)



Panel A: Countries ordered according to the size of their bottom 40 per cent's income share: the tails define the inequality level, while the middle remains 'stable' across countries.
Panel B: Countries ordered according to the size of their top 5 per cent's income share: the diversity of the top ventile across countries contrasts with the homogeneity of the 19th ventile.
Source: Constructed with data from Milanovic (2014).

This reversed view emphasises how in those countries where the last ventile is extraordinarily large, the 'extra' part cannot be taken from the low-income groups anymore, and hence the share of the middle in these countries is somewhat smaller than that of the rest. But this extra part is not distributed equally within the top decile—the benefits accrue almost exclusively to the top 5 per cent, while the second-to-last ventile increases only marginally. For most of the other countries there is a direct relationship between the bottom 40 per cent's share increasing where the top 5 per cent's decreases, while the middle 50 per cent and the second-to-highest ventile remain overall fairly stable. Differences in the level secured by the top ventile in the respective countries are vast: shares here range from 11.5 per cent (in Slovenia) to almost 39 per cent of total income (in South Africa)—more than three times the size. Analogously, the bottom 40 per cent of the population hold on to a mere 5.5 per cent at the low end (South Africa) compared to a maximum of almost 5 times this share (25.5 per cent in Slovenia). These large differences contrast sharply with the relative homogeneity in the upper-middle-income groups, where the augmented upper-middle 55 per cent differs less than 20 per cent between the highest (China) and lowest (Central African Republic) share.

TABLE II.1: MEASURES OF CENTRALITY AND SPREAD FOR DIFFERENT INCOME GROUPS IN 116 COUNTRIES, LATEST YEAR

	Hmean	Median	Average	St Dev	C of V
D10	28.546	28.444	29.881	6.811	0.228
v19	10.179	10.217	10.328	1.282	0.124
v20	18.197	18.237	19.553	5.682	0.291
D1–4	16.535	18.654	17.890	4.348	0.243
D5–9	52.042	53.014	52.229	2.995	0.057
M55	62.466	63.072	62.557	2.342	0.037

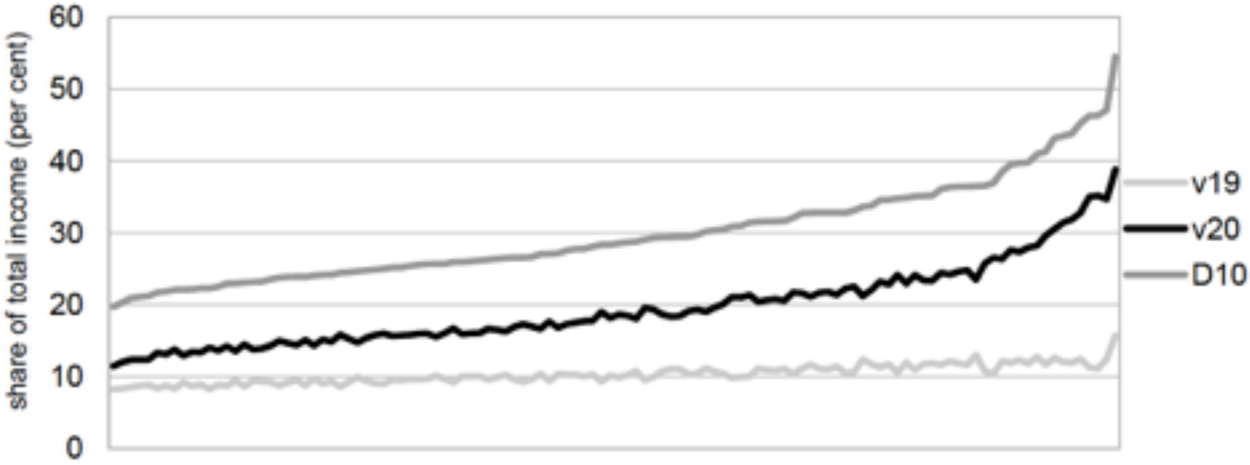
Note: Hmean = harmonious mean; St Dev = standard deviation; C of V = coefficient of variation; M55 = augmented middle 55 Per Cent.
Source: Constructed with data from Milanovic (2014).

Table 1 shows that the coefficient of variation for such an augmented middle (including arguably very upper-middle 19th ventile) is very small; such a population share would be even more homogenous than the middle 50 per cent. Variations of the bottom and top groups, on the other hand, are a lot larger—especially that of the highest ventile. These observations are in line with Palma's proposition according to which differences in inequality levels in the world are explained overwhelmingly by the differences in the shares of the extremes, while the middle-income groups own a similar share of total income all over the world. Palma found this relationship to hold when using the top decile as the delimitation of the elite income group. The new data analysed here shows that this relationship holds more, i.e. the middle becomes more homogeneous, when a smaller fraction at the top is considered (top 5 per cent), and analogously the middle is 'augmented' to encompass 55 per cent of the population.

If it is the case that the most stable sub-part of the population is the augmented middle, while the most diverse part is the top percentiles, such findings would warrant the usage of a sort of 'higher order' Palma ratio—a '5/40 ratio'. For such an indicator, smaller shares of the elite's income, for example, the highest 5 (or 1) per cent, are divided over that of the poorest 40 per cent of the population.

What speaks for the usage of a 5/40 ratio, as a complementary measure to the Palma, is the extraordinary concentration of income within the top decile, which in itself is much more unequal than any other decile. Whereas the 90th to 95th percentiles receive only somewhat more than the 18th ventile, which lies just below it (20 per cent more on average), for all 116 countries, the last ventile secures on average almost double compared to the one preceding it (10.3 per cent of total income for the 19th ventile and 19.6 per cent for the last one). For 34 countries, its share is more than double, and three countries—Guatemala, Central African Republic, and Honduras—more than triple that of the 5 per cent just below. No other ventile is marked by such drastic difference between the ones just next to it (whether that is above or below). Figure 3 below illustrates the relationship between the 20th ventile and the tenth decile, and the 19th ventile, respectively. As can be observed, the trajectory of the top 10 per cent and the top 5 per cent is not only in close alignment, but also very diverse across countries. Meanwhile, the 19th ventile remains remarkably constant across countries, and does not display the same shape of large variance between countries.

Figure II. 3: The Top of the Income Distribution for 116 Countries (2008)



Note: Income shares held by the 10th decile, and the 19th and 20th ventiles individually.
Source: Constructed with data from Milanovic (2014).

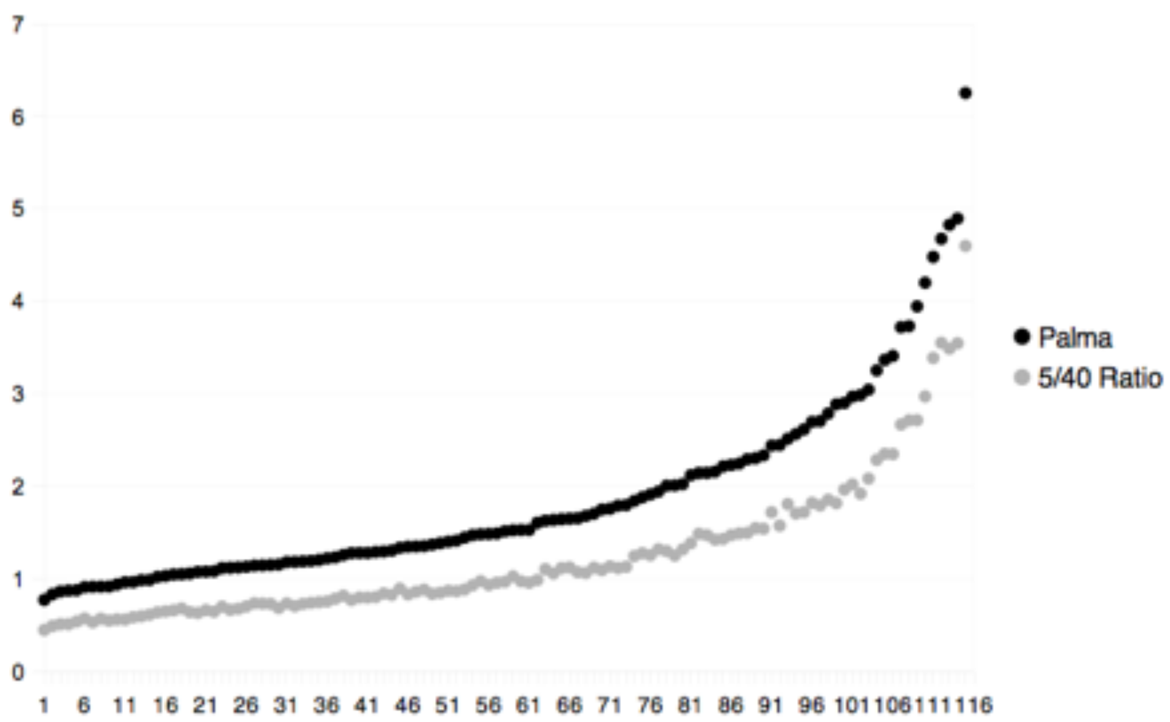
On the basis of these findings, we can construct a 5/40 ratio, which, on a world average, takes the value of 1. This is a very interesting feature, since it shows the unity of the top 5 per cent (keep in mind that this is not the global 5/40 ratio though, but a country average) defending the same share of total income as the 40 per cent with the lowest incomes. This translates into a person in the top ventile owning eight times the share of a person in the bottom 40 per cent of the population. Moving away from the average, at the low end this difference shrinks to a 5/40 ratio of 0.45 times in Slovenia, whereas at the other extreme, in South Africa, this indicator reads just over 7, meaning that a person in the top 5 per cent owns on average 56 times the share of total income a person in the bottom 40 per cent can hope to have! Such absurd inequality seems to be a unique trademark of some Southern African and the Latin American countries. The latter region, for instance, features a 5/40 ratio of 2.7 when isolated from the rest. Of the top 20 most unequal countries within the sample, 15 are Latin American, and only Uruguay, Argentina, and Venezuela are located further down (rank 26, 27, and 34 respectively[51]).

The 5/40 ratio shares characteristics with the Palma: The most stylised features of the income distribution, as measured by the Palma, which cannot be observed by the Gini-inequality ranking, are, in Palma's (2014, p.4) words, that inequality across the world, as measured by this ratio, "increases relatively slowly at first, and almost linearly, only to switch gear when Latin American countries enter *en masse* (around ranking 100) – and then increases rapidly and geometrically." Palma (2014) continues to assert that, had the 'steady pace' of the first four-fifths continued, the maximum Palma ratio should be around 3, rather than triple this amount. A similar

[51] Considering high inflation in Argentina and Venezuela, there might exist measurement challenges in these two countries though (Palma, 2014).

pattern can be observed with the 5/40 ratio, which is slightly more linear in its lower rankings, and increases even more steeply once 'the usual suspects' enter the ranking (shortly after rank 100) (see Figure 4). Data points for South Africa are off the chart, literally (with a Palma of 9.9 and a 5/40 ratio of just over 7) – is this 'too much'?

FIGURE II.4: THE PALMA AND THE 5/40 RATIOS (116 COUNTRIES, 2008)



Note: For the sake of readability, South Africa, with a Palma of 9.9 and a 5/40 ratio of just over 7, is excluded from the chart.
Source: Constructed with data from Milanovic (2014).

Just like the Palma, a 5/40 ratio would lie fairly close to the Gini at levels of lower inequality. However, in countries with higher inequality, the difference between the two (three) indices increases dramatically, testifying to the higher sensitivity of the Palma and 5/40 ratio to highly polarised distributions. Figure 4 also shows that the rankings ordered by the Palma do not in all cases coincide with those of the 5/40 ratio: Guatemala, Uruguay, or Uganda for instance rank higher in the 5/40 ratio than their corresponding position along the Palma scale would have us assume. Israel or Thailand, on the other hand, display a lower 5/40 ratio ranking than their Palma implies. This shows that the concentrations at the very top are not necessarily predictable by the look of their top decile, increasing thus the two measures' complementarity.

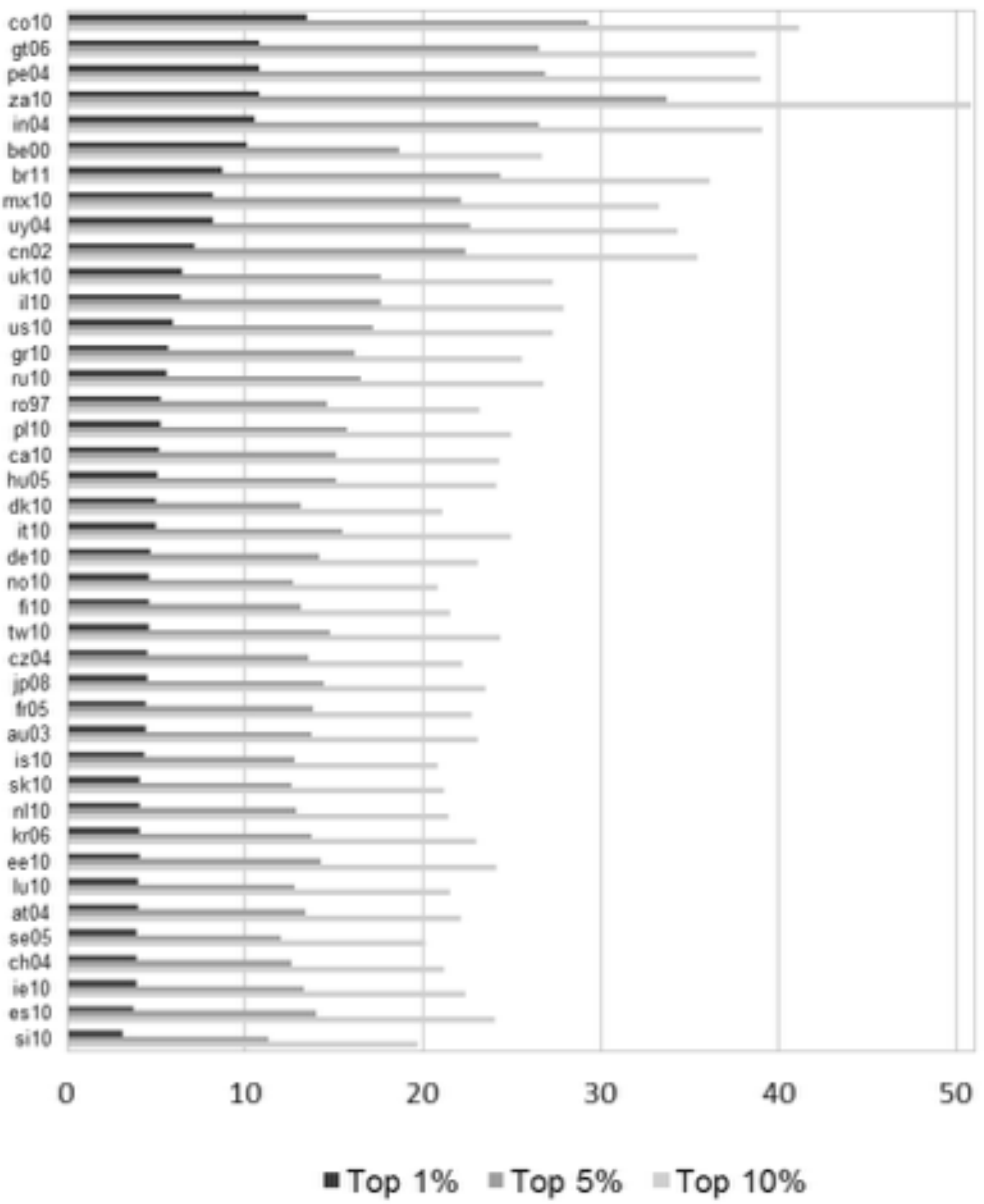
Summing up, the 5/40 ratio could be a useful supplement to the Palma, offering some unique features beyond the attributes of the Palma (of which many are shared by the 5/40 ratio, such as its intuitiveness and simplicity, making it easy-to-interpret, and suited for policy-making). It is even more sensitive to changes in the upmost ranks of the income distribution, while accounting for the fact that the top decile in itself is highly unequally distributed. The elegance of the 50/50 rule makes the Palma uniquely suited for policy purposes; however, the 5/40 ratio's unity-relation make the latter a good ally for measuring what most people care about when inequality is the concern: the concentration of income at the very top, at the expense of the low-income groups. But how do these traits feature when the top is disaggregated even further?

4.2. Disaggregating the Top Ventile

Unfortunately, comparable data for the top 1 per cent of the income distribution is even sparser. The LIS database hosts 41 countries for which such numbers are available for at least one year. Figure 5 displays their richest populations' share of income and how this ranks them relative to the remainder of countries. It thereby illustrates the importance of dissecting the top decile. While the top rankings are no surprise to a scholar of inequality, some of the middle positions run counter to expectations based on Gini rankings (or even Palma).

Considering the data limitations introduced above, results are indicative rather than exact. Notwithstanding, the figure shows that scoring relatively well in terms of inequality according to measures such as the Gini does not necessarily coincide with less concentration of incomes at the very top end of the distribution, as the cases of Belgium or Denmark (Gini of 26.2 and 25.2, respectively, in 2010) illustrate.

FIGURE II.5: 41 COUNTRIES RANKED ACCORDING TO THE INCOME SHARE OF THEIR TOP 1 PER CENT

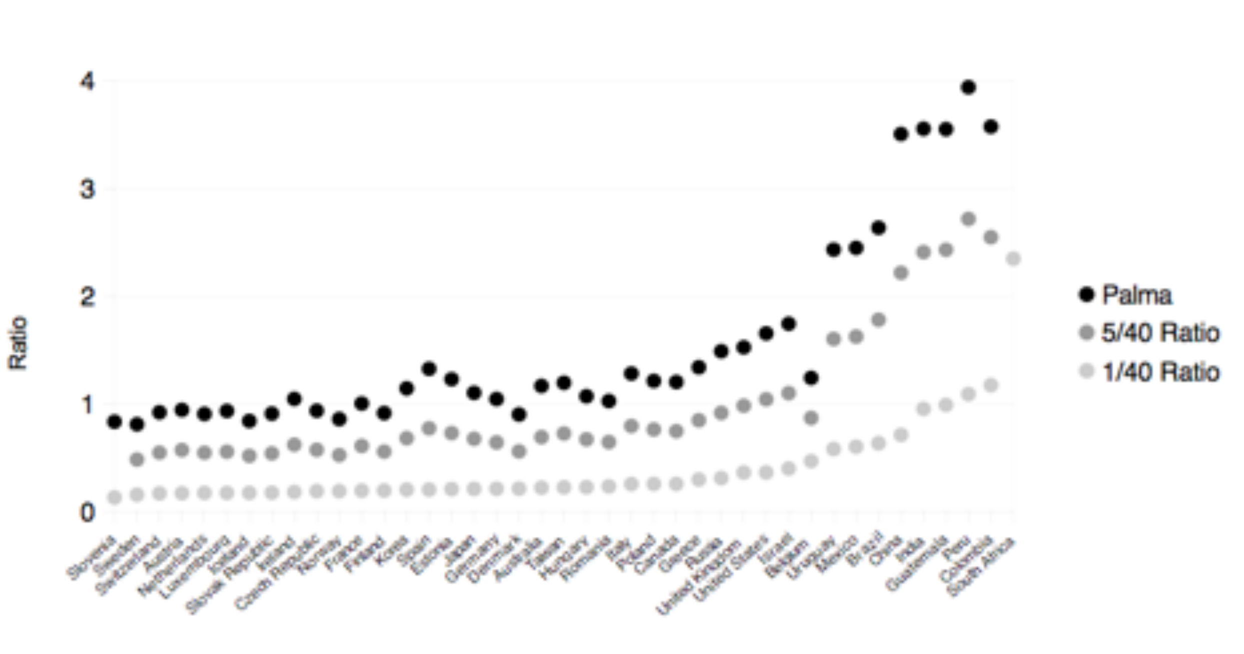


Source:Constructed with data from LIS (2014).

While five countries (Colombia, Guatemala, Peru, South Africa, and India) compete for the top positions amongst themselves and lead the table in all three disaggregated groups, beyond these top five, the lines become more blurred. The strong regional dynamics discernible when analysing the top 10 per cent of the income distribution are less marked when looking at the top 5 or even 1 per cent. This is especially so when it comes to those countries perceived as more equal according to other measures of inequality – namely, the Northern European ones, and especially the Nordic countries, where Denmark, Finland, and Norway lie exactly in the middle of the 41 countries presented when measured by their top 1 per cent income holders. Nonetheless, it is also clearly noticeable that all the Latin American countries included remain faithful to their reputation and make the top ten.

Interestingly, some of the Asian countries (Japan and Korea) rank significantly more equal according to their highest percentile than when the 20th ventile or top decile is considered, and the same is true—and even more pronounced—for Spain, which has the second smallest share for the top 1 per cent in the sample (though not when the top 2 or 3 per cent is considered), and Estonia and Ireland. This shows a distributional diversity within the elite, which does not necessarily run along the same lines as the rest of the distribution. Such could either be an indicator of more 'flat' structures within the elite in these countries, or a sign that the concepts used do not capture the existing concentration (for example, a 0.1 per cent or smaller share would be necessary to see further divergence). An interesting case warranting further investigation for its consistently low inequality is Slovenia, ranking last (i.e. most equal) in terms of its top 1, 2, 3, 5, and 10 per cent's share, as well as Palma and Gini (incidentally, the country also features the second highest minimum wage in relative terms in the world).

FIGURE II.6: COMPARING THE ORIGINAL PALMA WITH THE 5/40 AND 1/40 RATIOS (41 COUNTRIES, LATEST YEAR)



Note: For the sake of readability, South Africa's Palma and 5/40 ratios, which exceed 4 by far, are excluded from the chart.
Source: Constructed with data from LIS (2014).

Combining the information the 'Palma-family' can provide, Figure 6 shows two interesting dynamics comparing the three Palmas: on the one hand, the 'original' Palma seems to capture more movement for the rich, middle-inequality countries compared to its derivatives. On the other hand, especially at higher inequality levels (South Africa is off the chart again), the three indicators lose the fairly strong correlation they display for countries with low inequality.

Clearly, the set of countries for which data on the top percentiles is available is too small and regionally biased (it cannot account for most of Africa and large parts of Asia) to make definite statements about this issue on the world scale. However, considering that it comprises a number of the notoriously most unequal countries, as well as the most equal ones in terms of most indicators, it allows for the formulation of some tentative conclusions. In this sense, the same phenomenon observed above, describing the difference between the 19th and 20th ventile, can also be identified when comparing the 100th and the 99th percentile of income: in many cases the former is more than double the size of its closest neighbour, this distance being far larger than that to the next-lower, 98th, percentile.

While it seems difficult to change the fact of high concentration at the very top, apparently some countries are nonetheless able to significantly enlarge their bottom part's share. For instance, even though the Scandinavian countries still maintain a large top 1 per cent share, their bottom deciles appropriate approximately 23–25 per cent of total income—compared to the lowest four deciles of the Latin American countries getting only about half of that. That this is not an intrinsic feature of their income distribution but the result of conscious policy-making becomes clear when comparing the pre-tax and transfer distribution of the Nordic with that of the Latin American countries.

Unfortunately, the information about pre-tax and transfer income distributions is even more limited than that of disposable income, and difficult to compare. Hence, a direct comparison between two countries (based on simulations), rather than a larger sample, must suffice to point to the policy importance in this instance. In the example presented in Table 2, the level of inequality according to market income (as measured by the Gini) in Mexico and Denmark is not that different, but the latter manages to reduce its disposable income Gini to almost half its size, whereas the Mexican Gini remains almost intact. While we cannot compare the market income of the top percentiles to their disposable income due to the lack of available data, it seems that, unsurprisingly, redistributive policies in Denmark have a larger equalising impact than those in Mexico, even if this leaves the hegemony of the top 1 per cent untouched.

TABLE II.2: INCOME DISTRIBUTION IN MEXICO AND DENMARK, DIFFERENCES IN BEFORE AND AFTER TAXES GINI COEFFICIENTS,1968–2010

Year	Mexico	Denmark
1968	0.030	0.310
1970	0.029	0.297
1975	0.030	0.250
1980	0.022	0.177
1985	0.014	0.156
1990	0.012	0.176
1995	0.016	0.215
2000	0.016	0.198
2005	0.022	0.198
2010	0.023	0.214

Source: Adapted from Krozer and Moreno-Brid (2014).

Such comparison shows that the high inequality levels observed in certain countries are not unchangeable in principle. With the right policy application, they could be diminished significantly—at least insofar as the share of the poor groups could be augmented. However, this table scarcely discloses any information about the concentration at the top. As Figures 5 and 6 showed, depending on the choice of indicator, inequality rankings will be altered. This alludes to the importance of choosing the 'right' indicator for the purpose at hand.

However, as we just saw when disaggregating the very top, the highest percentile in Denmark is also significantly higher than we would expect from the size of its top decile, or ventile even (and certainly compared to its Gini). Nonetheless, with 23.4 per cent of total income, its bottom 40 per cent of income earners secure one of the largest shares for their group in the sample. At the same time, its middle groups (deciles 5 to 9) own more than 55 per cent of total income, placing it above the sample's average. This must mean that the country manages to redistribute from its top decile towards the bottom, yet leaving its highest percentile as well as middle groups relatively intact. Accordingly, a 1/40 ratio would place Denmark exactly at the middle of our sample, while the Gini, Palma and even 5/40 would place it in the top ten of most equal countries. Were there data available for smaller fractions of the elite (0.1, 0.01 per cent etc.), it is conceivable that rankings would look yet different again.

It becomes clear from the empirical data presented that the different inequality measures rank countries differently. While in itself this is not a revolutionary finding, it does mean that the undifferentiated usage of the Gini coefficient to describe and compare inequality levels among countries has serious shortcomings as to its accuracy when the distributional extremes are scrutinised. However, indeed any one (summary) measure will potentially face problems when attempting to describe every change in a distribution where different forces are at work at the same time and prioritise diverse aspects of inequality. Depending on the stated objective of the investigation it then becomes paramount to choose the adequate corresponding indicator(s). The impact of this choice is accentuated in high inequality countries, where a similar Gini coefficient compared to another country can mask large differences that are captured by a Palma ratio or its derivatives instead: for instance, comparing Portugal and Sierra Leone, both feature a Gini of 34.4 in 2010—however, their Palmas of 1.38 and 1.73, respectively, position them more than 20 ranks apart from each other on a global scale.

4.3. 5/40 or 1/40 ratio?

Taking into account the vast inequality within the top decile of the distribution, it makes sense to include a 5/40 or 1/40 ratio measure into the portfolio of available indicators. This is particularly relevant in high-inequality countries, where the lower-income groups of the population feature a particularly small share of total income combined with the high concentration at the top end. Just like the Palma, the derivatives are more intuitive than the Gini in its interpretation ('the top 1 per cent earns x times what the bottom 40 per cent receive'), and simpler in its calculation. The 1/40 ratio's disadvantage compared to the other two is that its values mostly lie below 1, making interpretation slightly more cumbersome and hence less practical to manage ('in Brazil, the top 1 per cent's share of total income is 0.635 times that of the bottom 40 per cent'); it lacks the elegant feature of the Palma of offering a simple-to-handle number as a result. Notwithstanding, it could be a useful supplement for the more traditional indicators and the Palma. However, between the two concentration measures presented here, the 5/40 ratio seems more suitable than the third order Palma, not only because the top 1 per cent of income earners are hard to come by with household surveys (and most attempts to measure them anyway) and only few countries make related data available, but also because only three countries in the sample feature a 1/40 ratio above unity,[52] making interpretation of the resulting fractions less elegant.

[52] Information about this fraction of the income distribution is only available for a small subset of countries, so no generalisations about the world distribution can be made on the basis of the available evidence, especially considering that this subset is comprised mainly by the rich OECD countries, of which at least the European subset (especially the Northern European ones) are less unequal than the world average.

Therefore, the unique feature making the 5/40 ratio interesting in this context is its potential to function as a threshold of sorts. As long as its value lies under 1, numerical differences are slight. However, as soon as the threshold of 1 is surpassed, its values increase very quickly. As stated earlier, world average for the 5/40 ratio is 1. Of the 116 countries in the sample, half have a 5/40 ratio above 1 (57 countries), some significantly so (the Latin American and some Southern African countries, up to 7 in South Africa). In this sense, a 5/40 ratio of 1 could be a signalling limit for excessive inequality: when the top 5 per cent of income earners keep a larger share of total income than the bottom 40 per cent, it is 'too much' and alarming inequality and concentration levels have been reached. Subsequent thresholds might indicate the urgency with which this excessive inequality must be addressed (For example, 5/40 ratio above 2: prioritise; above 3: top priority.) While countries might have their idiosyncratic tolerance for inequality, the 5/40 ratio=1 lends itself as an upper bound to be aspired to—for example, as an objective for the forthcoming Sustainable Development Goal indicators—besides being an intuitive and 'catchy' relationship to remember also for lay persons. Considering the concentration of income at the top of even the highest decile, it seems useful to combine such a measure with the Palma ratio.[53]

It should be clear by now that inequality differences are largely decided in the extremes of the distribution, highly concentrated at the smallest fractions of the top. Is this a pattern reinforced over time, i.e. have the tails diverged over the last decades while the middle's share has simultaneously become consolidated?

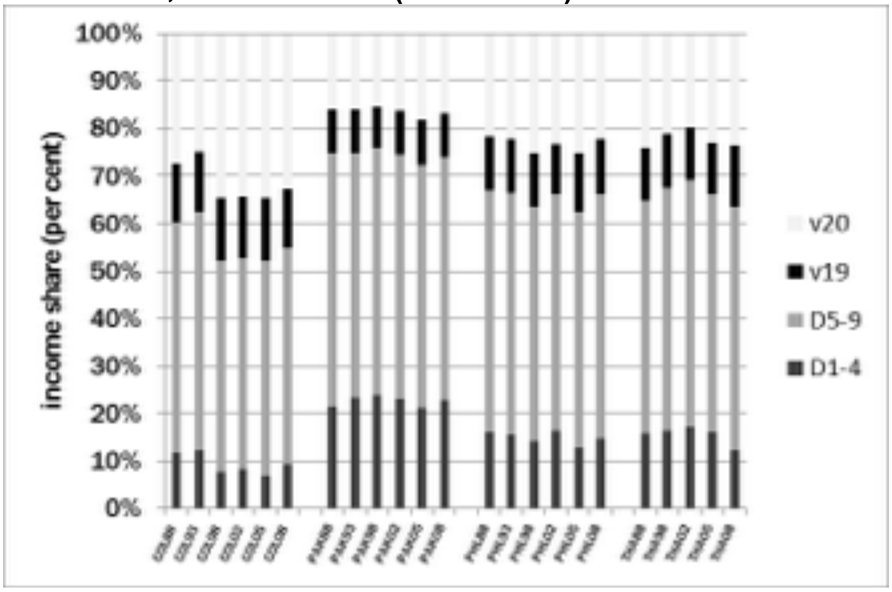
4.4. Developments within the Top Income Shares Over Time

That Lakner and Milanovic (2013) find 44 per cent of the increase of global income between 1988 and 2008 to go to the top 5 per cent of world population points towards a divergence of the tails. The four developing countries that are represented in the WYD dataset by ventiles from 1988–2008 (Colombia, Pakistan, Philippines, and Thailand) testify to these trends, as Figure 7 illustrates. Although this sample of four countries is obviously too small to make any generalisations, its income distribution develops exactly as we would expect from our hypotheses: the middle groups remain relatively stable (their share drops slightly from an average of 50.6 per cent in 1988 to 50 per cent in 2008), while the top increases its share mostly at the expense of the bottom (poorest four deciles see their share shrink from 16 per cent in 1988 to 14.7 per cent in 2008), shifting the gain mostly onto the highest ventile (from 22.3 per cent in 1988 to 23.8 per cent in 2008). The subsample's 5/40 ratio increases from 1.5 to 1.93 over the period considered. Their 19th ventile,

[53] From the WYD dataset, only 14 countries have a Palma below 1, making it an ambitious threshold to aspire to at the outset. However, considering the different concepts the two indicators measure, a combination of both Palma and 5/40 ratio below 1 as threshold for excessive inequality could be envisioned.

on the other hand, remains extremely stable, confirming that the increase at the top comes at the expense of the bottom.

FIGURE II.7: SHARES HELD BY DIFFERENT INCOME GROUPS IN COLOMBIA, PAKISTAN, PHILIPPINES, AND THAILAND (1988–2008)

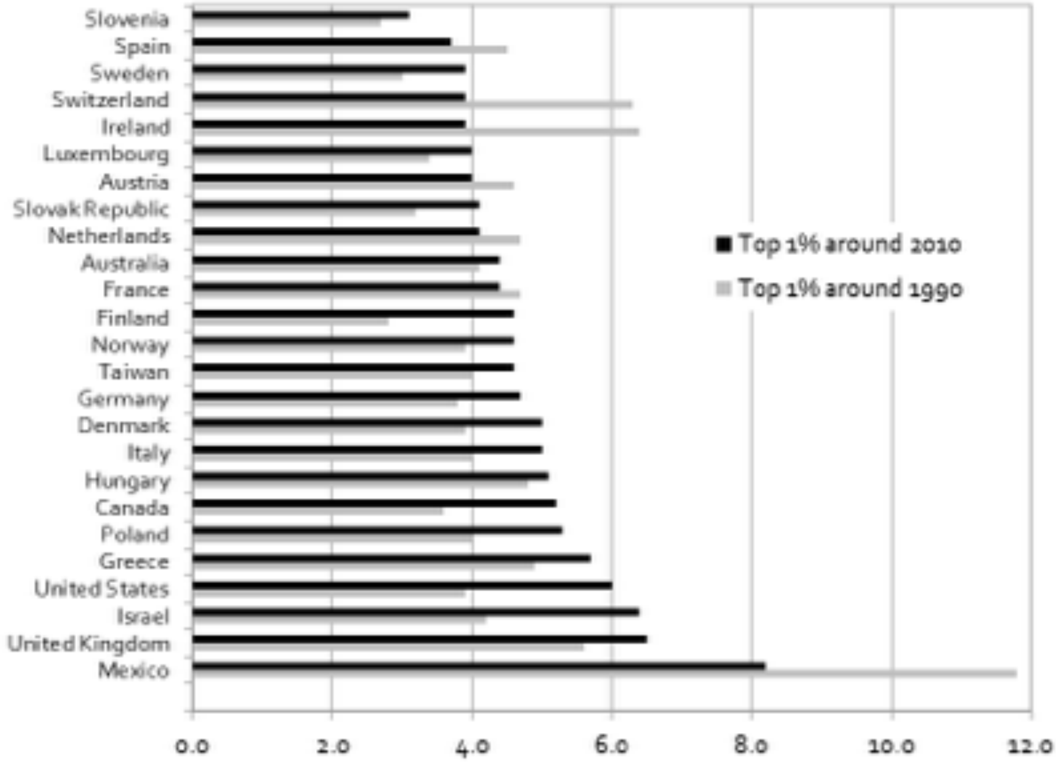


Source: Constructed with data from Milanovic (2014).

Do such dynamics hold for the top 1 per cent as well? To test a distributional trend over the last two decades, a subset of 25 countries for which disaggregated data exists for the top 5 and top 1 per cent for the early 1990s and the late 2000s is selected from the LIS dataset.[54] Although there are important exceptions, in most countries the income share of the rich increased for all three concepts of the elite (the top 10, 5, and 1 per cent of income earners).

[54] This small dataset unfortunately does not include any developing countries, making it less representative on a world level. However, it is the only comparable dataset including information about the respective countries' entire income distribution, and separately listing the top 1 and top 5 per cent.

FIGURE II.8: INCOME SHARE HELD BY THE TOP 1 PER CENT FOR 25 COUNTRIES (1990–2010)



Source: Constructed with data from LIS (2014).

Table 3 shows that, on average, the bottom deciles lost a significant percentage of their share over the period under consideration, while the largest corresponding increase accrued to the top decile. Within this highest income elite, the benefits clearly fell to the 20th ventile (0.7 per cent increase in their share of total income), as compared to the 19th (0.2 per cent increase). Meanwhile, the middle and upper-middle groups remained virtually unchanged (albeit a slight increase can be detected in the augmented middle 55 per cent). Besides, two interesting tendencies can be observed: firstly, the coefficients of variation are much smaller for the middle-income groups' shares than for the extremes (top and bottom), both in 1990 and in 2010, especially if the top percentiles are taken separately (i.e. top 5 and 1 per cent). Secondly, however, all of these coefficients decrease over the period considered (all ranges become smaller), where particularly large decreases can be observed for the deciles 5 to 9 and top 5 per cent groups.[55]

[55] However, the coefficients of variation are rather sensitive to changes in the sample of the countries (For example, if Mexico is taken out, the middle 50 per cent's coefficient decreases to 0.017 for both years, whereas that for T1 decreases from 0.227 in 1990 to 0.185 in 2010). A different subset might yield different results. Taking a conservative approach, the observed trends might thus be most useful as a starting point for further research, rather than statistically robust results.

TABLE II.3: MEASURES OF CENTRALITY AND SPREAD FOR DIFFERENT INCOME GROUPS IN 25 COUNTRIES, AROUND 1990–2010

	Hmean		Median		Average		St Dev		C of V		Change
	1990	2010	1990	2010	1990	2010	1990	2010	1990	2010	1990/2010
D10	22.2	23.3	22.3	23.1	22.7	23.6	4.2	3.0	0.187	0.129	1.11
v19	8.8	9.0	8.9	9.0	8.9	9.1	1.0	0.8	0.108	0.084	0.23
v20	13.3	14.2	13.4	13.8	13.8	14.5	3.4	2.3	0.242	0.161	0.90
P100	4.1	4.6	4.0	4.6	4.5	4.8	1.8	1.1	0.395	0.229	0.49
D1–4	21.5	20.5	22.4	21.4	22.0	20.9	3.2	2.9	0.147	0.138	-1.00
D5–9	55.2	55.3	55.3	55.2	55.2	55.3	1.9	1.1	0.034	0.019	0.15
M55	64.1	64.4	63.9	64.2	64.1	64.4	1.6	1.3	0.025	0.020	0.32

Note: Hmean = harmonious mean; St Dev = standard deviation; C of V = coefficient of variation.
The numbers provided refer to the year closest to 1990 and 2010 for which data is available.
Source: Constructed with data from LIS (2014).

Moving away from the averages into the individual countries' dynamics, the vast majority of countries saw their elites' shares increase; the same seven countries that experienced a decrease in their top 5 per cent also saw their top 1 per cent shrinking (with the largest decreases observable in Mexico and Ireland). Only in three of the seven countries displaying a decrease in the top 1 per cent does this exceed 1 per cent though (Mexico with 3.5 per cent, Ireland with 2.5 per cent, and Switzerland with 2.4 per cent, see Figure 8). As to changes in the middle groups, half of the countries in the sample experienced slight increase, the other half slight decrease; in two-thirds of the countries these changes were less than 1 percentage point of total income, and except for changes in Mexico and Spain (5.3 and 2.5 per cent increase for the middle deciles, respectively), the remaining six countries saw changes of less than 2 per cent. Developments in the low end of the distribution are less encouraging, although moving in the direction predicted by Palma's hypothesis: in two-thirds of the countries the share held by the poorest four deciles shrank, and of those countries where it increased, only in three countries did this positive change surpass the 1 per cent mark (Greece and Mexico, with 1.1 per cent increase each, and Ireland with 2 per cent). This general picture shows that in the majority of countries the bottom groups lost income share while the top groups gained ground, whereas in the middle part no clear tendency can be discerned for this subset of countries.

It seems, thus, that indeed the middle and upper-middle groups are more homogeneous now than two decades ago. However, even the top and bottom parts in our sample are 'converging' according to their diminished spread (if less so). At the same time, the tails seem to be drifting apart, albeit consolidating their shares. Further research would have to investigate the decisive factors behind these patterns, but it is likely that declining top tax rates and capture of the institutions via 'rigged political rules' (Oxfam, 2014) by the elites, as well as stagnating real wages in many of the countries considered, play a role.

5. Conclusion

The findings presented here confirm Palma's predictions of a homogenising middle and diverging tails within the income distribution. But they also show that it is necessary to look into the top decile to see the 'real' income distribution. While the share of the bottom 40 per cent of income earners decreased over the time period considered, that of the top shares, whether one looks at the top 1, 5, or top 10 per cent, increased—i.e. the tails drifted apart. Meanwhile, the middle- and upper-middle-income groups (deciles 5 to 9, augmented middle 55 per cent, upper-middle 35 per cent, even percentiles 90 to 95 to some degree) not only remained stable but homogenised insofar as their spread decreased (with deciles 5 to 9 and the augmented middle 55 per cent showing the lowest internal divergence, and top 1 per cent the highest, followed by the 20th ventile, for both years–just as expected).

This concentration at the very top speaks for the usage of an indicator that can account for this pattern. The empirical evidence points to a lack of fit into either the Gini-world of a broad variety of incomes experiencing changes around the middle of the distribution, or the simple concentration of incomes at the top of the distribution—rather, it seems to indicate two different, co-existing worlds within each distribution: one of decreasing inequality within the middle groups, and one where the poor and rich continue to drift apart (with the top percentiles living in a world of their own—and surely, if we could look into the top 1 per cent, distances would increase even more). Which one do we want to live in? Do we want the kind of inequality we have? If not, how do we change it?

Two essential findings rise above all others: i) the fact that, in every country, the top 5 per cent's income share is so much larger than the next five per cent's (i.e. the distribution in the top decile itself is very unequal), at times exceeding the triple value of the following ventile; and ii) in the struggle over the remaining income, where the top 5 (rather than 10) per cent manages to increase their share, it is usually at the expense of the bottom 40 per cent, rather than the middle

50 per cent, whose share remains fairly stable at just over 50 per cent of total income. Only where the bottom is so squeezed already that they would literally be left with zero income, do gains at the top correspond to losses for the middle groups. Such patterns can hardly be considered in the interest of the majority of people, and resemble a world governed, in Stiglitz's (2011) words, "of the 1 per cent for the 1 per cent by the 1 per cent." It is likely that most people, if aware of these trends, would oppose them.

The currently widespread ignorance of these actual inequality patterns, where extreme wealth and poverty are both underestimated and the 'stable middle' does not feature at all, obstructs the application of effective remedies to improve the distribution. It also means that the choice of inequality indicator, far from being a try, technical exercise, is indeed highly (politically and ideologically) charged. Policy prescriptions to resolve the inequality crisis have evolved into the (politically cheap) increase of access to education, in combination with (financially cheap) patchy anti-poverty programmes (such as conditional cash transfers), rather than tackling the issue at its head, the high end of the distribution (via fiscal and labour market policies, such as progressive direct taxes, but also minimum wage policies.) Arguably, this has to do with the fact that the actual dimension of inequality is not stated explicitly enough in the indicators we use to describe it.

With better data becoming available to describe the actual distributional patterns, this investigation shows that the reliance on one inequality indicator, be it the Gini or another (however sophisticated) to account for the whole income distribution, is risky considering the opposing tendencies within the distribution. While the Gini, and/or Palma, is not to be substituted, in order to truly display the degree of polarisation in countries' income distribution, they should certainly be complemented by an indicator accounting for the top 5 per cent, such as the '5/40 ratio' proposed here. By combining these indicators, a more realistic picture of the income distribution can be provided.

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III: The Bottom[56]

[56] The chapters here presented are based on the collabourative research papers 'Inequality and minimum wage policy: Not even talking, much less walking in Mexico' (Krozer, Moreno-Brid and Rubio Badan, 2015), 'Minimum wages: An Embarrassing Inequality in Mexico from a Comparative Perspective with Latin America' (Moreno-Brid, Garry, and Krozer, 2016) and 'Minimum Wages and Inequality in Mexico: An Example (Not) to Follow' (Krozer, Garry, and Moreno-Brid, forthcoming).

Chapter 1

Inequality and Minimum Wage Policy: Not even talking, much less walking in Mexico

Abstract: This paper examines the evolution of economic inequality in Mexico in the last three decades, both in terms of the personal distribution and the functional distribution of income, party exploring the question of how much of its evolution is determined by economic or social policies. The second purpose of our paper is to analyse the relation between the evolution of the functional distribution of income and labour policy, with special emphasis on minimum wage policy. Finally our third objective, closely linked to the previous two, is the examination of the institutional context as well as the ideological and political economy considerations that have marked minimum wage policy in Mexico in view of the successful attempt to bring the debate back to the forefront of the political agenda. As such, our analysis will pay special attention to events since May 1st 2014, when the Chief of the Government of Mexico City launched a national discussion on the urgent need, ways and means to renovate minimum wage policy in Mexico. In our view, this debate is perhaps the only recent expression in Mexico of the current re-found concerted focus on inequality on a global scale, an expression that has woken up fierce opposition from the Mexican elite and and highly placed government officers in the current administration.

Key words: inequality, income distribution, minimum wage, Mexico.

JEL Classification : D31, E24.

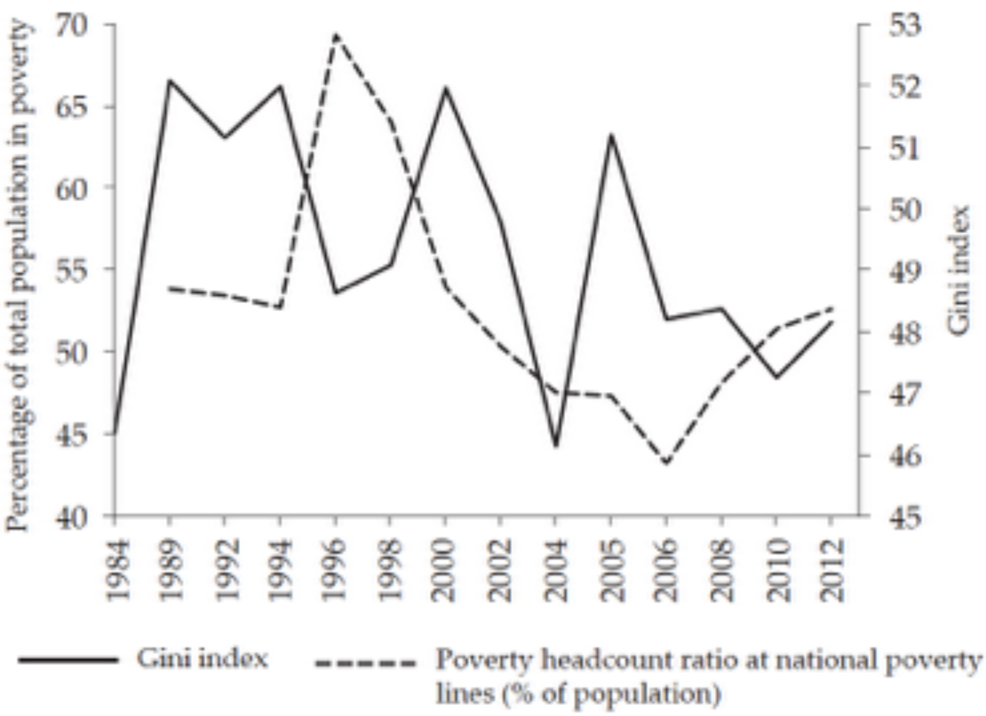
Note: This chapter is co-authored with Juan Carlos Moreno-Brid and Juan Cristóbal Rubio Badan. It has been published as Krozer, Moreno-Brid and Rubio Badan (2015).

1. Introduction

Since the mid 1980s Mexico has embarked on a process of radical macroeconomic reforms aimed — as the government has tirelessly stated — at eliminating the acute distortions in resource allocation brought about by decades of State intervention, trade protection and non-focalised poverty programs. As is well recognised, this strategy has failed to secure a path of high and sustained robust economic development. In recent years there has been a revival of empirical studies on the evolution of inequality in Mexico that follow up on the literature pioneered time ago by R. Cordera and C. Tello, F. Cortés and R.M. Ruvalcaba, E. Hernández Laos, M. Székely and G. Esquivel, N. Lustig and L. F. López-Calva, N. Samaniego and the Economic Commission for Latin America and the Caribbean (ECLAC), inter alia. Recent studies have stressed that some of the richest men in the world are Mexicans and that the country has the second highest number of billionaires in Latin America (after Brazil) (Alexander, 2014). Mexico is also the country where the richest 1% hold the highest share of Gross Domestic Product (GDP) (Oxfam, 2015).

Figure 1 shows the evolution of the percentage of the population living under the poverty line and of inequality according to the Gini coefficient in Mexico from the 1980s until 2012. A number of stylised facts can be deduced from these crude data. Firstly, poverty is still pervasive in Mexico.

FIGURE III.A.1: POVERTY AND INEQUALITY IN MEXICO, 1984-2012



Source: author's elaboration based on data from LIS (2015).

Considering that the country, with a GDP of US$1,178 trillion, ranks as the 14th largest economy in the world (World Bank, 2014), it is a disappointing result that after decades of economic stabilisation cum focalised anti-poverty programs over 52% of the population remains poor. Moreover, notwithstanding its extraordinary boom in exports of manufactures, in 1980-2014 the economy expanded at such a slow pace that the gap of Mexico's GDP per capita vis-à-vis that of the United States is larger today than in the early 1980s, a ratio actually similar to the one prevailing in the 1950s. It should not be surprising then that today more than 55 million Mexicans live in conditions of poverty. The figure also shows that, despite some advances in the late 1990s and early 2000s, since 2006 poverty has been on the rise again. Recent data from *Consejo Nacional de Evaluación de la Política de Desarrollo Social* (CONEVAL) confirms that the incidence of poverty and of extreme poverty —measured in the traditional form of comparing income to poverty lines— increased from 2012 to 2014.

Secondly, inequality remains outrageously high, independently of small changes over the turbulent past quarter century. Unfortunately, for decades in Mexico like in many developing countries, inequality was of little interest for government officers, and also for the majority of economists. Typically, it was recognised more as a challenge for social policy makers than as a key element that could have any important influence on economic growth. Those that were concerned with equality conceived it as a by-product of the specific developmental stage which countries underwent in line with Kuznets' inverted-U path.

Given Mexico's traditional fiscal weakness —a tax burden under 12% of GDP, among the lowest in Latin America— inequality and poverty were tackled through income transfers and public expenditure on health, social security and education. This approach to poverty and inequality marked the radical neoliberal reforms put in place since the mid-1980s to reduce states intervention in the economy and open domestic markets to foreign competition under the assumption that economic growth and focalised cash transfer programs would pari passu ensure systematic poverty and inequality reduction. Also here we must note that in recent years, inequality is on the rise again.

Thirdly, inequality and poverty do not necessarily move in tandem. While poverty levels fluctuate significantly, our inequality line remains strangely flat. This implies that the strategy of attempting to improve the income distribution via poverty reduction alone —even when the latter is effective— may not necessarily be sufficient recipe for success. For instance, the late 1990s saw a massive increase in poverty with a parallel decrease in inequality, while in the mid 2000s increases in inequality went hand-in-hand with a decrease in poverty. Clearly, therefore, explicit anti-inequality policies would be required as well, which so far have not been on the policy agenda in Mexico.

It seems thus that the goals of poverty reduction and of achieving high and robust economic growth have been very elusive in Mexico. Progress has been limited and far from sustained. Judging the evolution of inequality, on the other hand, requires taking a closer look at the distribution of the gains through GDP growth over recent years. This is what we set out to do in this paper. Its aim is thus threefold. The first is to examine the evolution of economic inequality in Mexico in the last three decades, both in terms of the personal distribution and the functional distribution of income (Section 2). For this purpose we build and analyse alternative indicators, among them the Gini coefficient, the 'Palma' ratio, as well as the share of wages relative to rents/ profits. The second purpose is to analyse the relation between the evolution of the functional distribution of income, employment and labour policy, with special emphasis on minimum wage policy (Section 3). Finally our third objective, closely linked to the previous two, is to examine the institutional context as well as the ideological and political economy considerations that have marked the recent struggle to raise the minimum wage to a level sufficient to at least meet basic needs, as stated by the Mexican Constitution of 1917 (Section 4).

2. The evolution of income inequality in Mexico in the last three decades

Let's first consider the personal distribution of income.

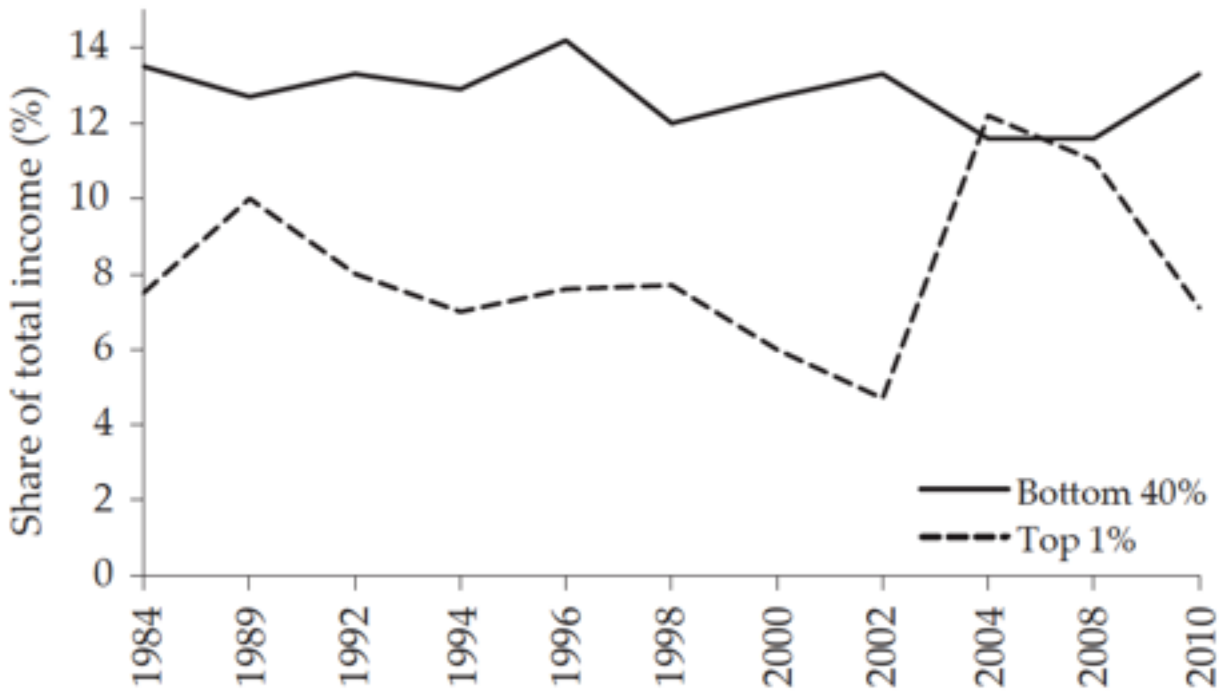
TABLE III.A.1: INCOME PER CAPITA IN MEXICO, 2012 (IN LOCAL CURRENCY UNITS)

Deciles	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Income (MXN)	461	887	1180	1488	1843	2216	2742	3505	4906	12412
Share (%)	1.5	2.8	3.7	4.7	5.8	7.0	8.7	11.1	15.5	39.2
Relative size, compared to decile above (%)	52.0	75.2	79.3	80.7	83.2	80.8	78.2	71.4	39.5	—
D1-D4 (%)	12.69									
D5-D9 (%)	48.14									
D7-D9 (%)	35.25									
D10/D1	26.92									

Note: the Gini Coefficient for 2012 was 0.49, the 'Palma' indicator —i.e. the ratio of the top 10% income earners to that of the bottom 40%— was 3.09; the mean income was MXN$3,164 and the median one MXN $2,030.
Source: Krozer and Moreno-Brid (2014).

Today, there is an almost 27-fold difference between the average incomes of the top and the bottom deciles in Mexico. This difference is in stark contrast with the average ratio of 10 to 1 in the Organisation for Economic Co-operation and Development (OECD) countries (OECD, 2014). More worrying, the top 1% of Mexico's distribution has an average annual income 47 times that of the poorest 10% (del Castillo Negrete Rovira, 2012). How has this relation been affected by the far-reaching reforms of the last three decades? Mapping out the income share of the top 1% against that of the bottom 40% (see Figure 2), we find that both the bottom 40% and the top 1% maintain the same share of total household income in 2010 as they had in 1984. Thus, any potential increases in returns to education, or transfer income, for the lower income groups must have been matched by income increases in the top, keeping inequality levels high. Moreover, it is remarkable how close the top and bottom dynamics mirror each other, i.e. when the top percentile gains in share, it is to the detriment of the bottom group, while increases in the bottom translate into losses at the top.

FIGURE III.A.2: INCOME SHARES BOTTOM 40% AND TOP 1% IN MEXICO, 1984-2010

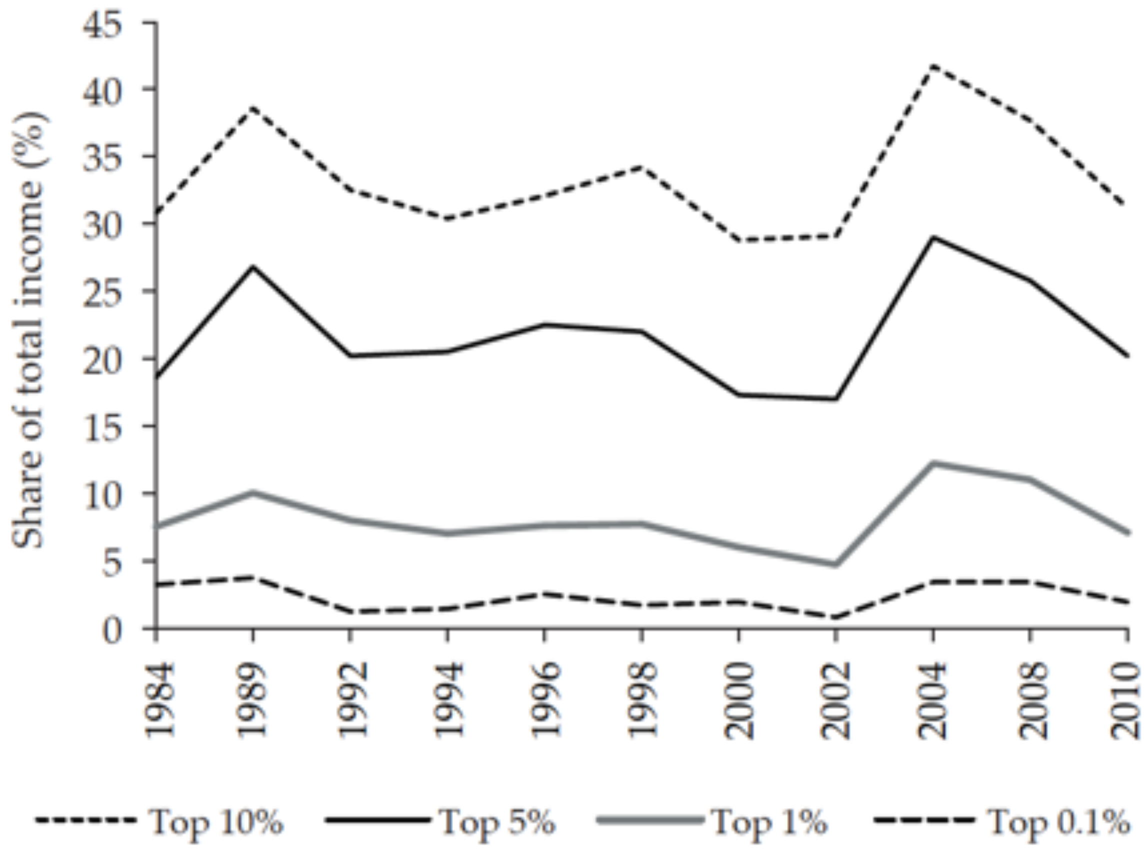


Source: author's elaboration based on data from LIS (2015).

Zooming in even closer (see Figure 3), it becomes apparent that the dynamics at the high-end are driven by changes at the very top; the richest decile essentially amplifies the underlying movement of the super-elite, the richest promille, like a wave approaching the shore.

The data show that since the early 2000s, and particularly after the financial crisis in 2008, the highest decile lost some ground relative to its peak of holding almost 42% around 2004 (though never falling below 30% of total income, three times the size of their population share and a level already obtained in the 1980s). However, the loss that the very top promille had to endure was much less significant. Equally, the large changes during the last decade need to be considered against the backdrop of the official discourse of the time, stressing decreasing inequality in the country due to the spread of education and conditional income transfer programs mainly but also as a, say, aftermath bonanza of the economic liberalisation, market opening and privatisation having taken place in the two decades before.

FIGURE III.A.3: TOP INCOME GROUPS IN MEXICO, 1984-2010



Source: author's elaboration based on data from LIS (2015).

Recalling the "flat" line in Figure 1, however, it seems that the indicators used to corroborate that narrative —primarily the Gini coefficient— were unable to pick up on the more subtle movements at the very extremes. This is not the indicator's fault but due to the ready acceptance by a wider audience of a useful narrative of economically and politically cheap policy spreading the goods of globalisation and technological change to the masses, trickling down from the productive top to the persistently existing bottom by themselves – told and propagated by an elite proud of their own enrichment.

Even if there had indeed been a slight reduction of inequality in the years up to 2010, it is far from significant and the levels maybe rising again. All in all, the reduction has been, in our view, insufficient. Indeed, by 2012 the overall picture depicts an economy where income is highly concentrated, and the bottom 40% not only holding essentially the same income share as three decades earlier, but also receiving only a third the size of the share going to the top decile. Recent estimates by Esquivel and Campos trying to correct for the underestimation of income at the highest levels, suggest that in Mexico the share of the richest decile actually increased in the last ten to fifteen years (see Oxfam, 2015).

3. Functional distribution of income

We consider now the functional distribution of household incomes, which might give some insights as to the underlying drivers of this persistence in inequality. For that, we divide household income into its labour, capital and transfer components. Obviously, the distribution of capital incomes is vastly more unequal than that for labour incomes, which again is more unequal than that of transfers. Overall, the total household disposable income distribution resembles that of labour income, because this factor is by far the largest source of income for all units, with the exception of the bottom decile, where transfers are important (over 60% in 2010, up from just over 20% in 1984). Again excluding the bottom decile, in which there are numerous cases of "de-saving", labour income on average amounts to over 76% (in some years close to 100% for some groups) of total income, compared to transfer income reaching 20%, whereas capital lies between 0.6-1.5% up to the 9th decile (rising to 7.5% when the top promille is considered).

Although this general pattern is maintained, and, as Table 2 shows, the Palma index for transfer and capital income is slightly lower in 2010 compared to 1984 —i.e. the related distributions are slightly more equal— it is preoccupying that the distribution for labour income is considerably more unequal now than 25 years ago, both in terms of the Palma index and its derivative, the 5/40 ratio dividing the income share of the top 5% to that of the bottom 40%'s.

TABLE III.A.2: INCOME SHARES AND RATIOS IN MEXICO, 1984 AND 2010

2010	*Bottom 40%*	*Top 10%*	*Top 5%*	*Palma*	*5/40 ratio*
Disposable income	13.3	31.2	20.2	2.346	1.519
Labour income	10.5	32.4	20.9	3.086	1.990
Capital income	7.6	52.5	39.1	6.908	5.145
Transfer income	26.5	24.4	15.1	0.921	0.570
1984	*Bottom 40%*	*Top 10%*	*Top 5%*	*Palma*	*5/40 ratio*
Disposable income	13.5	30.8	18.6	2.281	1.378
Labour income	13	30.6	18.1	2.354	1.392
Capital income	6.8	52.6	40.8	7.735	6.000
Transfer income	22.3	22.8	14.3	1.022	0.641

Source: author's elaboration based on data from LIS (2015).

In combination with consistently low Mexican unemployment numbers (below 5%), this means that wages —the major source of income for most of the population— must increase faster at the top than at the bottom. Thereby, labour earnings are increasingly accruing to the top end of the income distribution, leaving the poor to struggle with ever smaller shares of the income pie.

How is factor income divided among the population? When ordering the factor shares according to population groups in Figure 4, we can see that the bottom decile virtually stops featuring in the labour income share all together (in fact, in 2010 it became negative 0.1%), while the top decile gains ground. The other two groups losing share are the second and second-to-last deciles. Interestingly, the distribution of transfers is much flatter in 2010 compared to 1984 —the first and fourth deciles receive a somewhat larger share, but so does the highest decile.

Thus, while both transfers and capital income are slightly more equally distributed in 2010 compared to 1984 (though inequality is still very high), labour income is more unequal now than three decades ago. Moreover, the bottom decile, which allegedly benefited most from the transfer programs, has seen its share of total income deteriorate continuously over the past three decades, to a 2010 level of but 0.8% of total income, according to LIS data.

FIGURE III.A.4A: FUNCTIONAL INCOME DISTRIBUTION IN MEXICO, 1984

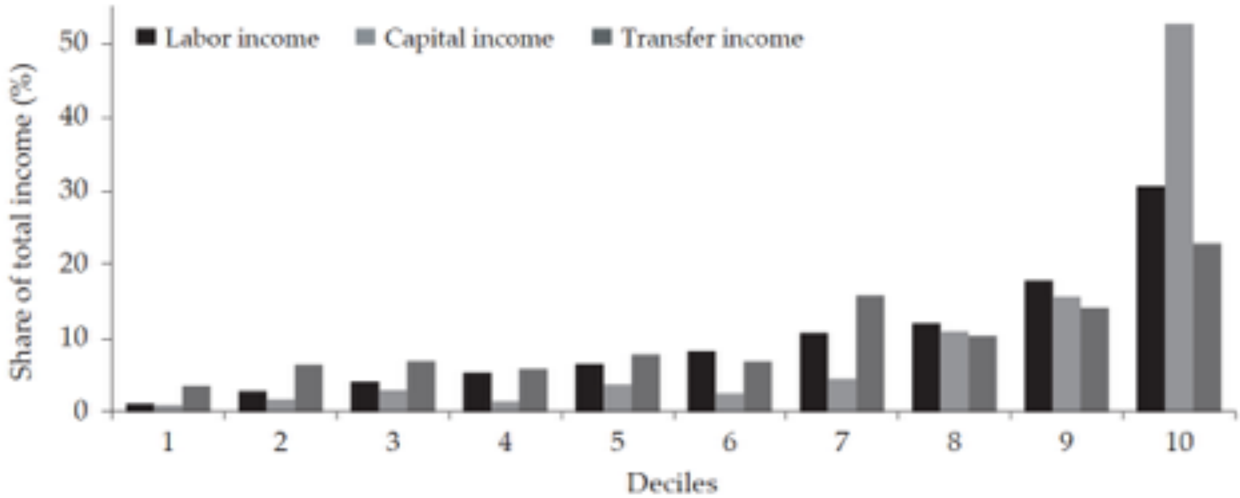
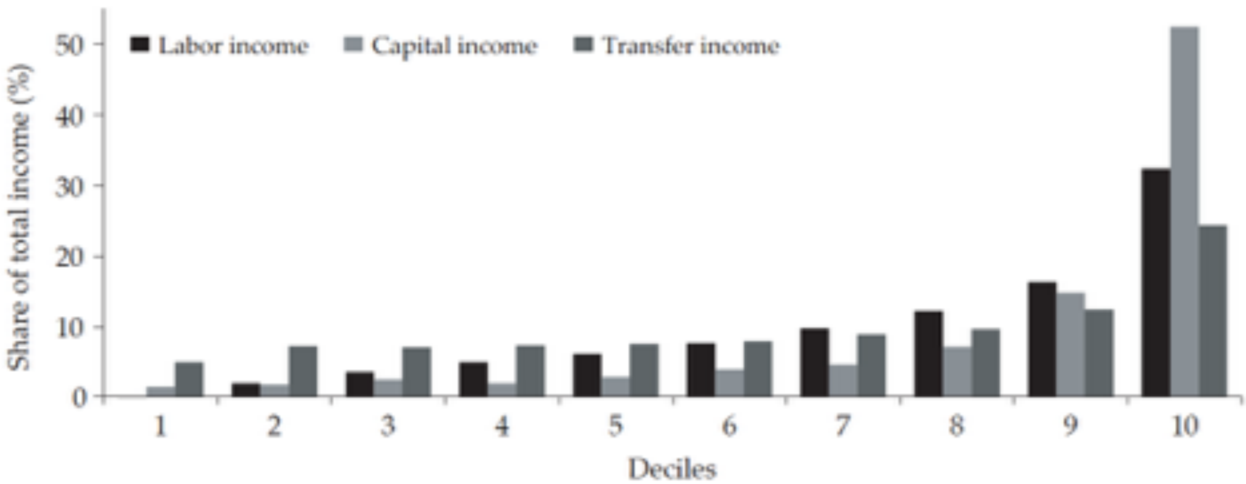


FIGURE III.A.4B: FUNCTIONAL INCOME DISTRIBUTION IN MEXICO, 2010



Source: author's elaboration based on data from LIS (2015).

4. Interactions between inequality dynamics, minimum wage and other key policies

The loss of labour income share of the bottom two deciles can be directly linked to the evolution of wages in the country, and particularly to trends in the minimum wage. Although Mexico has been historically unequal, the current distribution is by no means an outcome of a force of nature or a necessary consequence of its colonial legacy.[57] Yes, Mexico was unequal in Pre-Hispanic times,

[57] The following section is partially based on Krozer and Moreno-Brid (2014).

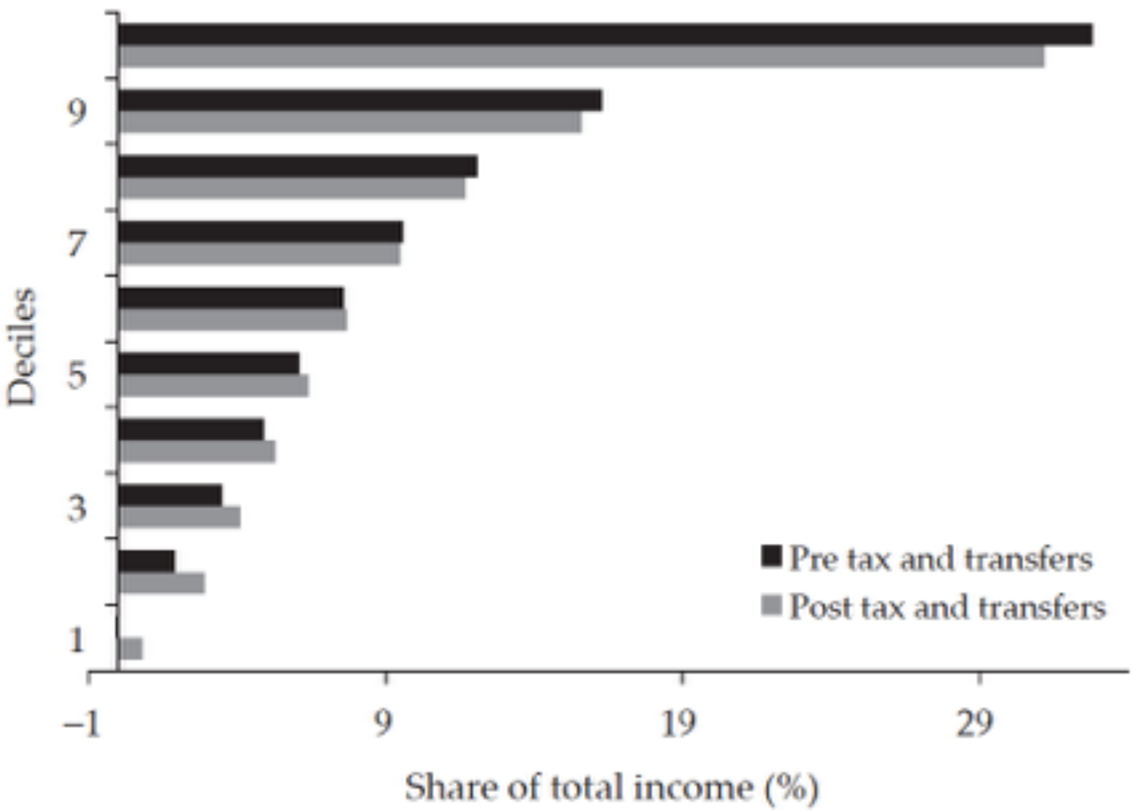
and perhaps even more so during the 300 years of Spain's colonial reign. Equality was an inspiration for independence and subsequent struggles. More economic equality for peasants and workers was a key demand of the Mexican Revolution in 1910. There have been periods towards greater equality in Mexico. For example, prior to 1976, there was a relatively stable relationship between productivity growth and wage growth in manufacturing (Palma, 2011). Their subsequent delinking under trade liberalisation meant that increasing export competitiveness had little effect on living standards (ibid). In fact, by the end of the 1990s, the average wage was only just recovering to its 1976 level, although productivity had increased by about 80% in the meantime; in the same period, the real minimum wage fell 80%, and the share of wages and salaries in GDP fell from 40% to 18.9%. Profit margins greatly increased. All of this coupled with several economic crises weakened organised labour's bargaining power. According to Palma (2011), this "liberalisation package" decoupling wages and productivity is the result of political-ideological change in the 1980s. In addition, the abrupt economic slowdown in the aftermath of the oil crisis vastly deteriorated the labour market.

The following two decades of deep reforms aligned with the Washington Consensus —the 1980s and 1990s— contributed to stabilise a tendency to reduce the share of wages in national income. The political transition from its traditional one-party ruling authoritarian regime towards a more consolidated electoral democracy has not altered this. To the contrary: as Figure 4 shows, the distribution of labour income is even more unequal today than in the early 1980s.

A number of social programs targeted to poor population were created to compensate for their lack of sufficient labour incomes. The star among them has been *Oportunidades* (now *Prospera*), a pioneer conditional cash transfer program to poor households in return for obligatory schooling and health checks. There are other programs, akin to non-contributive pension schemes such as "Seventy and More" and the Universal Elderly Pension in Mexico City to benefit the elderly. As indirect targets, they include the improvement of the income distribution; their primary and direct focus remains on poverty reduction. These programs do have a progressive, albeit small, influence on income distribution. However, their partial success seems to have managed to distract from the disaster of the wage share declines at the lower bound evidenced above. There is a consensus that this decline is to a certain extent related to the specific policy by the Mexican government —in particular since the mid 1980s— to use the minimum wage as a tool of anti-inflationary policy that has resulted in its acute reduction in real terms. Such pattern of decline in the minimum wages has tended to drag down average real wages at low scales of the labour market where labour remuneration tends to be —explicitly or implicitly- set in terms of multiples of the minimum wage.

Contrasting with these programs is the fact that tax policy in Mexico fails to have a significant influence on income redistribution. Indeed most OECD countries, with not markedly dissimilar pre-tax income distributions to Mexico's, manage to almost halve the Gini coefficient in the post-tax income distribution. However, Mexico's redistributive capacities through taxes are significantly less effective. Indeed during the last two decades, on average, they have been unable to lower the country's Gini in any conspicuous matter vis-à-vis its pre-tax levels (Krozer and Moreno-Brid, 2014). As Figure 4 shows, overall fiscal policies today are ill-suited to change this picture to any significant degree: the difference, i.e. progressive impact, between the pre- and post-tax and transfer distribution is only above 1% for the highest decile (reaching 1.6%) —although if the top 5% are considered instead, this difference shrinks to 1.1% again (0.9% for the bottom decile).

FIGURE III.A.5: IMPACT OF FISCAL POLICY IN MEXICO, 2010



Source: author's elaboration based on data from LIS (2015).

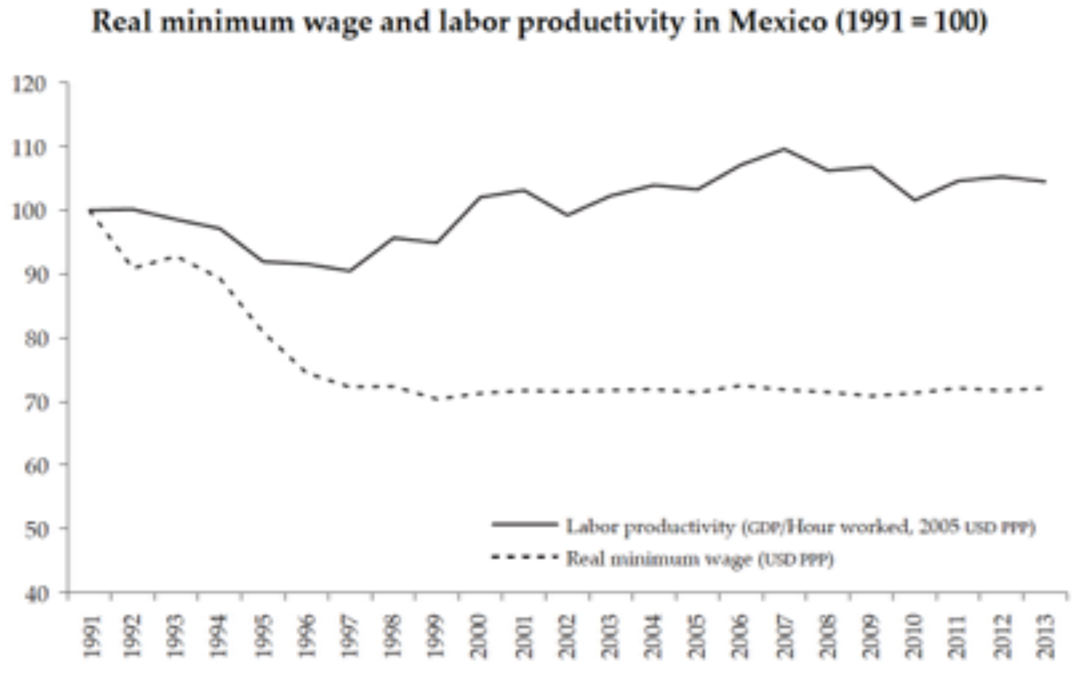
In short, despite the shift in the Presidency from the *Partido Revolucionario Institucional* (PRI) to the *Partido Acción Nacional* (PAN) and back, the massive increase in social spending as a share of GDP —including conditional cash transfers and other programs targeted to the poorest—, decades of low inflation and fiscal budgets, the implementation of North American Free Trade

Agreement (NAFTA)[58] and of a series of radical market reforms, Mexico has been unable to neither significantly reduce its high concentration of income, nor to boost its long-term rate of economic expansion.

There are certainly historical roots that explain the magnitude of the challenge but, in our view, the main reason behind the prevalence of such stark inequality is the lack of political will by relevant actors to change the situation. For some this reflects the assumption that economic growth will by itself alleviate poverty and inequality. For us it seems more likely that the economic ally and politically powerful ones —say at the top 1%, 0.1% or even lower percentages— refuse to lose in any significant way their economic and social privileges, and thus block any fiscal reform or policy measure oriented towards a significantly more progressive distribution of income.

Indeed, this may be illustrated by the focus, adopted by the business sector, key officers in the Federal Government and certain analysts, in the debate around minimum wages arguing that Mexican productivity levels did not allow for higher minimum wages. This argument can be conclusively debunked with one look at the development of labour productivity and minimum wages, respectively (see Figure 6).

FIGURE III.A.6: ANNUAL RATE IN THE REAL MINIMUM WAGE AND LABOUR PRODUCTIVITY IN MEXICO (1991 = 100)



Source: Moreno-Brid and Garry (2014).

[58] NAFTA signed in 1993. Mexico is one of the most open economies in the world, having signed over 40 free trade agreements.

As such, rather than being an inevitable and unescapable consequence, there are political, ideological and economic considerations behind the fact that labour policy in Mexico has allowed —or actually pushed for— the persistent and major deterioration in minimum wages to the extent that their value in real terms is today 70% lower than in 1980 and way below the line of absolute poverty. Looking at the average wages in the low segments of the informal sector —like house cleaners, menial workers and taxi drivers— it is safe to say that the minimum wage in Mexico currently stands below (not above) market level. Thus its existence does not create an excess supply —as claimed in Economics 101 textbooks— of job seekers. It instead produces a downward force that drags down their improvement in purchasing power in real terms.

Clearly, the evolution of labour productivity in the last decades, though far from spectacular, would have allowed for the minimum wage to remain constant or even rise somewhat in real terms. Moreover, when comparing minimum wage and labour productivity levels in Latin America it is striking that Mexico is one of the countries with the highest productivity levels (second only to Chile) but also one of those with the lowest minimum wages, surpassed only by Bolivia and Nicaragua— two countries significantly poorer (Moreno-Brid and Garry, 2014). Analogously, it has been stressed by key representatives of the private sector that raising the minimum wage would be irresponsible as it would undermine Mexico's macroeconomic stability and trigger inflation. However, the proposal to raise it was never put as an immediate three-fold hike; it was phrased as an invitation to raise minimum wages "soon" to their subsistence level (circa 20%+ raise) and to think about alternative options to place them on a path of long-term sustainable recovery. Moreover, none of the opponents to the revision of the minimum wage policy as put forward in the document "*Política de recuperación del salario mínimo en México y en el Distrito Federal. Propuesta para un acuerdo*" prepared by the academic task-force appointed by the Mexico City's Government (see GDF, 2014) have responded to the arguments there put forward, beyond finally admitting the need to revise the legislation that links the minimum wage to a number of other prices and variables not relevant to the labour market.

The debate showed that significantly more attention needs to be placed on the highly ideological and political content of the adverse reactions to changes in minimum wage policy as opposed to technical objections. Considering the applicability of a new labour policy that would put the minimum wage on a long-term sustainable route of recovery —as recommended by the technical group behind the Mexico City Government's initiative— among other measures in the labour market for income equality, the main reason behind the reluctance and failure to apply equalising policies is the lack of will by key political actors and the economic elite to reduce income inequality in any way that may affect their privileges.

5. The political economy of minimum wage setting in Mexico

Since the 2008-2009 international financial crises, the external market lost is impetus as an engine of growth of the Mexican economy. Moreover, not even in the period 1994-2008 when its manufacturing exports boomed, was Mexico able to achieve high and sustained rates of economic expansion. On the one hand a vast proportion of its manufactured exports increasingly consisted of assembly products, highly intensive in imported inputs. On the other, trade liberalisation coupled with the dismantling of industrial policies and an appreciated exchange rate, weakened backward and forward linkages in Mexico´s industrial matrix in favour of imported intermediate goods. Thus exports, notwithstanding their dynamism, were unable to pull the Mexican economy on a path of robust and high expansion. In any case, strengthening its domestic market has become a requisite to stimulate Mexico's economic expansion. Such goal is tantamount to the reintroduction of industrial policies and of a new development agenda deliberately oriented to have a more inclusive economy; to have a more progressive distribution of income and wealth. However, until May 2014, when the discussion on the minimum detonated, labour or wage policies oriented to reduce income inequalities were a non-topic in Mexico.

It was originally Mexico City's Mayor, Mr. Mancera who, in May 2014 proposed to increase the minimum wage to comply with Article 3 of the Mexican Constitution (Melín, 2012).[59] Since then, the initiative gained such momentum that, as the journalist Carmen Aristegui expressed, it can hardly be considered an idea championed by leftist or opposition parties only. Instead, forces from across the political spectrum, in apparent agreement, participated in a race to see which of them could take most credit for bringing the topic back onto the public agenda (CNN, 2014). The right-wing PAN, who designed an alternative proposal shortly after Mancera's,[60] since then made a constant effort to claim the originality of the proposal, allegedly in line with the party's founding principles. The party's leader, then Gustavo Madero, declared that the PAN had not "stolen" the idea from the *Partido de la Revolución Democrática* (PRD), (Padilla, 2014),[61] but had in fact contemplated it much earlier and at least since 2012, when it was "included in the PAN's electoral

[59] Although Mancera's was the first initiative to formally propose an increase of the minimum wage, in late 2013 the PRD's parliamentary group in Congress had promoted the dissolution of the CONASAMI, the federal Minimum Wage Commission. According to congressmen Miguel Alonso and Alfonso Raya the minimum wage was "such a mockery" that CONASAMI should have ceased to exist (Melín, 2012).

[60] The PAN differed from the PRD in suggesting that a popular referendum be carried out; the party argued they needed to do this because of their lack of a majority in congress, leaving them no alternative but to seek popular support to avoid a veto from the majority party, the PRI.

[61] "Let no one say that we are improvising or borrowing ideas from other parties", said Gustavo Madero, the party's leader. Later on he would also say that the idea of a dignified wage was part of his party's doctrine since 1939.

platform". In the recent mid-term electoral campaign, PAN was perhaps the party with most advertisements advocating minimum wage increase.

In this process, the ruling party —PRI— had to fight off allegations accusing it of joining the campaign for a higher minimum wage only belatedly. Notwithstanding, the party's president in Mexico City, Mauricio López Velázquez, denied that the PRI's or Federal Government's entrance to the discussion was overdue; on the contrary: according to him, President Peña Nieto (a PRI member) had been committed from the beginning of his administration to an "income increase for Mexican families". Mexico's Secretary of Finance and Public Credit, in turn, stated in August 2014 that the "government's stand on the issue was very clear: [to] support the debate on an increase of the minimum wage, as long as [this is not] politicised" (Gómez, 2014). All this makes for a peculiar political landscape: How often in this country does something that can be highly controversial as an increase of the minimum wage go eventually uncontested by any of the major political parties?[62] It should be noted that the PRI and the PAN were not the first to open the debate on this issue. Actually for some observers, they seemed to have jumped on this bandwagon once it was clear that a substantial critical mass of analysts and public opinion converged on the idea that the minimum wage was unacceptably low at a level far below the Constitution´s dictum on this matter. Arguably most of them had an interest in joining the discussion of a higher minimum wage in the face of the forthcoming June 2015 elections. As Javier Lozano, former Secretary of Labour and a PAN member put it: "Who wouldn't want or support a higher salary?" As such, the struggle to raise the minimum wage implied, among other things, political capital.

This becomes the more apparent when considering the moment that President Peña Nieto chose to get involved in the discourse himself. On November 27th 2014, at the two-month anniversary of the disappearance of 43 students from Ayotzinapa in the state of Guerrero (who remain unfound to this day), he disclosed a proposal to be submitted to the Legislative Powers for the de-indexation of the minimum wage, which in Mexico is tied to a plethora of administrative measures, such as the level of fines and political parties' allotments, among others. The current indexing system means that any change in the level of the minimum wage automatically brings about rises in the level of these other items as well, creating widespread discomfort among many different sectors of the population. Peña Nieto's speech on that day was intended to reassure people and guarantee justice and security after one of the worst crises of the current federal administration, but then incorporated the by then already popular demand for tackling the minimum wage issue. Eventually, despite disagreements on the particularities of how to carry out an

[62] Of course, there was some dissent within political parties. In the case of the PRI, Abraham Zamora from the Finance Ministry insisted that it is through a rise in productivity of capital and labour that workers would see sustained increases in their wages, not through decrees. Within the PAN, one notorious party member and former Secretary of Labour, Javier Lozano, called the initiatives a "trendy occurrence" or the "fad of the moment".

increase of the minimum wage in practical terms, all parties seemed to rally around the need for its de-indexation (Barrios Fuentes, 2015). This administrative-cum-legal measure is needed so that the discussion on the raise of the minimum wage could be held without the pressure generated by its coupling with other legal dispositions.

Along with a first proposal designed by scholars from Mexico's public universities, *Universidad Nacional Autónoma de México* (UNAM), *Universidad Autónoma Metropolitana* (UAM), *Colegio de México* (Colmex) and the *Centro de Investigación y Docencia Económicas* (CIDE), there were three further initiatives presented to the Legislative Powers to delink the minimum wage from administrative measures. One presented by the Executive in December, another, from the parliamentary groups of four parties (PAN, *Movimiento Ciudadano, Partido del Trabajo*, and PRD) in September, and the last one, proposed by Congressman Julio César Moreno of the PRD. The lower House of Congress approved de-indexation on December 10th 2014, borrowing from and modifying the proposals of the President, parliamentary groups and that of Julio César Moreno (Cámara de Diputados, 2014). The Senate, however, failed to vote the initiative on December 15th. The formal reason was the departure from the House of Senators from the PAN, as a sign of protest —albeit for reasons unrelated to the minimum wage. Another more deep reason may be the rejection of the elite to approve policies that favour a more equal distribution of income.

The support for the minimum wage was contested, however. There was some rejection, such as the one predictably expressed in August 2014 by J.P. Castañon, president of the Mexican Employers' Confederation, as well as that from J.M. Chaparro, a member of the Mexican Chamber of Industry (*Cámara Nacional de la Industria de Transformación, Canacintra*). Their arguments echo those expressed by most opponents: "If the goal is to improve the income of workers and employees, this should be attained through productivity (…) We industrialists are more consenting of productivity as a means for the betterment of wages than doing so by political decree" (Luna, 2014). Others expressing similar and antagonistic views include the Governor of the Bank of Mexico, who said that "non-economic solutions" to low salaries, such as an increase of minimum wage by decree, could lead to inflation, unemployment and more informal labour. Interestingly enough, from its very first days of existence, the minimum wage in Mexico is periodically fixed by a decree of the CONASAMI.

Meanwhile the chief of the Mexican Taxation Authority (*Servicio de Administración Tributaria,* SAT), Mr. A. Nuñez, stated that, to improve workers' incomes though an increase of the minimum wage would be futile, since "the only way we can obtain this is through more productivity and profitability, because if the worker manages to be more productive, and the employer acknowledges it, there will be an incentive to raise his salary" (Verdusco, 2014). We have seen above that this has not been the case: reluctance to increase the minimum wage continues despite the growth in productivity.

However, the most surprising thing about the recent political struggle concerning the minimum wage in Mexico is the fact that the debate has so far evolved with virtually no conspicuous manifestations of support from the working classes. Just a number of civic organisations have openly backed it.[63] Indeed, the struggle has been carried almost in its entirety by prominent members of the political class, and a group of academics with growing support from independent experts, and even some analysts of major financial institutions. Perhaps the most startling evidence of this is the fact that, in August 2014, the country's Secretary of Labour, along with Mexico's important trade union and entrepreneurial leaders, made a stand against Mancera's proposal and signed a joint pronouncement that stated:

> 'It is necessary for this country to undergo sustained economic growth and to remedy the problem of poverty and low income through productivity and the reduction of informal labour (…) we salute the public discussion of an increase to worker's incomes and particularly to the minimum wage but would like to make it perfectly clear that (…) this discussion must necessarily consider the increase of productivity and its benefits (…) this is the only way we can prevent the reoccurrence of certain past mistakes that taught the country, its employers and workers painful lessons.'[64]

Among those signing the statement were the leaders of the most prominent and important labour unions of the country, including the *Confederación de Trabajadores y Campesinos* (CTC), the *Confederación Regional Obrera Mexicana* (CROM), the *Conferederación Revolucionaraia de Obreros y Campesinos* (CROC), and the *Confederación de Trabajadores de México* (CTM).

This political curiosity becomes even more bizarre when looking at the related public assertions by other prominent individuals of the private sector. The influential founder of conglomerate Grupo Bimbo and one of the country's multi-millionaires, Lorenzo Servitje, for instance, is known for his previous critical positions towards left-leaning policies and the working class (Monsiváis, 2006). Nevertheless, in July 2014 Mr. Servitje wrote in a newspaper column that the Mexican minimum wage was "ostensibly low and insufficient to satisfy the needs established by

[63] Some statements can be found in the press, like a headline that reads "We will double our struggle to obtain a better minimum wage: CTM". Notwithstanding, public manifestations and rallies, have so far been an exception, if not completely absent.

[64] Alfonso Navarrete Prida, Secretary of Labour in Mexico, would reiterate these views on March 30th 2015 in the national newspaper *La Jornada*.

the Constitution —an unfair situation that should be corrected as a moral obligation", concluding that it would be both timely and fortuitous to further explore the option of raising its level by a fixed nominal amount (Servitje, 2014). In fact he explicitly proposed a gradual raise in the minimum wage, not in terms of percentage but in terms of a fixed amount of pesos to the daily wage, an image taken up by the PAN thereafter in its campaign called "dignified salary for workers" (*salario digno al trabajador*).

Other unlikely figures, such as C. Capistrán, chief economist of Bank of America-Merrill Lynch in Mexico, declared that an eventual increase of the minimum wage was "probably inevitable", although he also warned of the risks that augmenting its level might pose for inflation and unemployment rates (Migueles Tenorio, 2014). Finally, economists from the Spanish-owned bank BBVA Bancomer presented a document entitled "Considerations of BBVA Research concerning the Minimum Wage" (BBVA Bancomer, 2014), where they concluded that, although "the only way to increase worker's wages continuously is through better productivity, it is advisable, based "on ample international evidence", not only to increase the minimum wage but to do so in a single occasion, as opposed to a gradual, periodic, increase. Indeed, BBVA Research's head economist, considered in a press conference that the Mexican economy not only had the capacity to raise minimum wages without affecting job creation or causing a surge in inflation, but could use it as a tool to combat poverty (Carbajal, 2014).

This cross-cutting panorama of support and resistance to changes in the minimum wage policy beyond the traditional positions (including, prominently, the lack of support by unions, at least at first) is peculiar, considering the fact that Mexico's minimum wage is among the lowest in Latin America. As stated above, in 2011 its monthly rate in dollars (US$112) was similar to Nicaragua and Bolivia (US$117), and equivalent to only one-third that of Brazil, Chile, Uruguay and Ecuador (Moreno-Brid and Garry, 2015). This corresponds to only 15% of Mexican GDP per capita —the lowest proportion in nearly all of Latin America, and far from the 30% of GDP per capita in Chile and Brazil and the nearly 50 % of GDP per capita in Peru, Colombia and Costa Rica (ECLAC, 2014). Moreover, Mexico is the only country where at the end of the previous decade, the value of the minimum wage is below the poverty line(ibid.), and according to the International Labour Organisation's (ILO) *Global Wage Report* 2013, undercuts market levels, even for unskilled workers.

6. Conclusions

Mexico's quest for high and sustained economic growth during the last three decades has been elusive. As we showed in this paper, Mexico´s income gap *vis-à-vis* the Unites States is wider today than three decades ago, poverty affects a substantial proportion of the population, and inequality has not declined in a significant way from its alarmingly evident levels. In this regard, the market reforms put in place in the aftermath of the oil bust in 1982 have been a success in stabilisation, leading to a low inflation and a small fiscal deficit —but a complete failure in boosting Mexico´s long term economic growth. The slowdown in foreign trade and growth in the OECD brought about by the international financial crisis of 2008-09 poses a major challenge to Mexican development and, in fact for Latin America more generally. Indeed, given the weak external demand, Mexicans cannot expect that an export-led growth strategy has any probability of success unless it is complemented by a strategy to expand and exploit the domestic market. This option is simply out of the question in societies with such an acutely unequal distribution of income and wealth. However, the ruling elite in Mexico is reluctant to face this reality, and seems unwilling to put in place policies explicitly oriented to having a more progressive distribution of income. Moreover, the country's institutional system has been marked for some time by the remarkable capacities of the ruling classes to co-opt union leaders away from any political movement or even fiscal initiative to create a more equal economy and society. They have so far succeeded in the last 17 months in blocking the de-linking initiative on the minimum wage. Such result is regretable not only on social and economic, but on ethical grounds, too.

Raising the minimum wage significantly would have been a great step towards placing inequality as a major concern, as a key priority in Mexico's policy making agenda. Sooner or later this will have to happen if Mexico's struggle for growth and equality is to materialise. One would like to think that now that the mid-term elections have taken place in Mexico, the Senate House will finally approve the minimum wage initiative and start tackling seriously the enormous challenge that inequality poses for our future as a civilised society and for our economy in its struggle to have a strong engine of growth on its domestic market. Time may be running out to just wait and see.

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Chapter 2

Minimum Wages: An Embarrassing Inequality in Mexico, From a Comparative Perspective With Latin America

Abstract: Mexico's minimum wage has experienced a persistent decline in real terms since the 1970s. At the same time the share of wages in national income has declined steadily, while inequality remains one of the most pressing socio-economic challenges. Despite some important recent progress in Mexican policy, raising the minimum wage in a sustainable manner to meet the constitutional mandate and support a reduction in inequality in the country requires a more profound policy change. This paper present a brief analysis of the minimum wage in Mexico from a Latin American comparative perspective.

Keywords: Minimum wages, salaries, inequality, Mexico, Latin America.

JEL Classification: J31, J38.

Note: This chapter is co-authored with Juan Carlos Moreno-Brid and Stefanie Garry. It has been published as Moreno-Brid, Garry and Krozer (2016).

1. Background

After centuries of being considered practically synonymous with inequality,[65] in the early 2000s Mexico received significant recognition for improvements in its income distribution (e.g., López-Calva and Lustig, 2011). This positive news emerged in a context of almost two decades of inequality reduction in Latin America. Despite remaining the most unequal region in the world, significant improvements were seen in many Latin American countries, including Mexico.

At the same time, however, its minimum wage has stagnated. It is widely acknowledged that the current Mexican daily minimum wage of MXN$73 (US$ 4.90) is insufficient to cover the costs of even the country's basic food basket. For decades the minimum wage has been far removed from the "adequate remuneration to meet the normal material, social and cultural requirements of a head of household, and to provide for the compulsory education of their children" as mandated by Article 123 Ap.VI of the Constitution. In May 2014, the Governor of Mexico City sparked a national debate about the adequate minimum wage level among journalists, academics, entrepreneurs, workers and employers' representatives and senior officials including the chief of the Mexican National Minimum Wage Commission (CONASAMI), the Governor of the Bank of Mexico, the Secretaries of Finance and of Labour, and even the President of the Republic.

The debate made it evident that the minimum wage in Mexico has for years been among the lowest in Latin America, not to mention among members of the OECD (OECD, 2015). More importantly, it showed that since the 1980s the labour policy of the Federal Government, implemented through annual decrees issued by CONASAMI, has pushed the minimum wage into sharp deterioration. Mexico became the poster child of liberal macroeconomic reforms in the region, and its minimum wage an instrument to fight inflation, even if this meant that its level would deteriorate relative to the cost of living. According to 2014 estimates by Mexico's National Council for Policy Evaluation (CONEVAL), the daily minimum wage was 29% below the amount necessary to afford the national basic food basket—i.e. the extreme poverty line—and 60% below what is necessary to cover the enlarged basket of food and household services. In 2015, the situation did not improve significantly, as a nominal wage increase was eroded by inflation.

The minimum wage is important in efforts to reduce inequality in Mexico for at least three reasons. First, its low level has contributed to the reduction of the labour share of national income. After a steady and persistent decline over recent decades, today this figure stands at 27%, an all-

[65] In the early XIXth Century, Alexander Von Humboldt viewed Mexico as, "…the country of inequality. Nowhere does there exist such a fearful difference in the distribution of fortune, civilisation, cultivation of the soil and population". In the 1960s Victor Urquidi stated that inequality was most likely Mexico's crucial challenge for both ethical as well as economic reasons. In the present Century, the poet Tito Monterroso proclaimed that "The unique, truly hyper-real characteristic of Mexico is its social inequality; the misery that marks the everyday life of the immense majority of Mexicans" (Monterroso, 2003).

time low in Mexico's modern history, and far below levels seen in the 1970s (Del Castillo, 2012). This means that not only are wages more unequally distributed, but the share of national income accruing to wage earners is also shrinking. Since the mid-1970s, inflation has become a policy priority. As a result, Mexican authorities began to use the minimum wage as a price stabilisation tool, inducing a persistent decline in its level in real terms. By the early 2000s the minimum wage had lost more than 70% of its purchasing power relative to 1980.

Second, low overall wages also partly explain the high concentration of income at the top of the earnings distribution. As the relevant literature has shown, the minimum wage can have a strong influence on average wages, and thus on both the functional distribution of income and inequality (Bosch and Manacorda, 2010; Campos-Vasquez et. al, 2014). Cornia (2012) also highlights that for Latin American countries over the last decade, an increase in the legally mandated minimum wage has reduced the disparity between minimum and average earnings, with equalising effects on the distribution of earnings across the labour market. This influence was particularly strong in Brazil. In addition, López-Calva and Lustig (2011) demonstrate the benefits of increased minimum wages on income equality in both the formal and informal sectors.

Third, stagnant minimum wages are particularly worrying in a context of increasing inequality in a number of Latin American countries in recent years. This is especially acute for Mexico, where after important gains in the 1990s and 2000s, inequality as measured by the Gini coefficient has increased at an annual rate of 0.4 points from 2010 to 2014. As Table 1 illustrates, Honduras has seen a similar trend toward increasing inequality in recent years. Progress has also stalled in Venezuela, Bolivia, Costa Rica and Paraguay.

TABLE III.B.1: ANNUAL CHANGES IN GINI COEFFICIENTS, 1992-2014

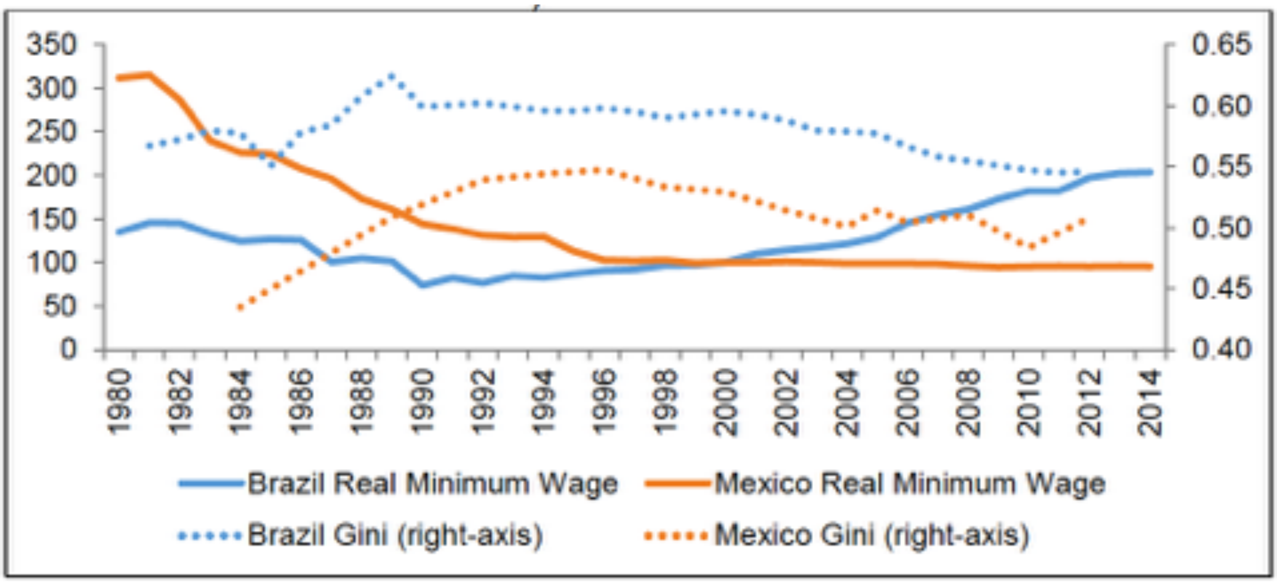
	1992-2002	2002-2010	2010-2014
Argentina	0.8	-1.1	-0.5
Bolivia	0.6	-1.5	0.1
Brazil	0.1	-0.7	-0.4
Chile	0.0	-0.4	-0.2
Colombia	0.6	-0.3	-0.5
Costa Rica	0.5	0.0	0.1
Ecuador	0.0	-0.8	-0.9
El Salvador	-0.1	-0.9	-0.7
Honduras	0.6	-0.5	0.4
Mexico	-0.3	-0.5	0.4
Panama	0.1	-0.6	-0.1
Paraguay	0.5	-0.7	0.0
Uruguay	0.6	-0.1	-0.9
Venezuela	0.6	-1.1	0.0
Latin America	0.3	-0.7	-0.3

Source: Gasparini, et. al. (2016).

Moreover, recent work by Esquivel (2015) confirms that inequality as measured by the income share of the top 1% of earners in Mexico has actually risen throughout much of the 1990s and 2000s. The share of the top 1% is now among the largest in Latin America, not to mention the OECD (Esquivel, 2015). At the same time, inequality in Mexico is higher today than it was in the 1980s. In 2012, according to OECD (2015), the average income of the top decile was more than 30.5 times higher than that of the bottom 10%. In comparison, this ratio among top and bottom decile incomes was 22 to 1 in the mid-1980s.

Evidence from Mexico and Brazil supports the literature with regard to the benefits of the minimum wage as an active policy tool for reducing inequality. As Figure 1 displays, after a sharp increase in the Gini coefficient during the mid-1980s in Brazil (reflecting increased inequality), it has decreased steadily. This trend has mirrored the persistent rise in the national minimum wage over the same time period. The Mexican case, in contrast, shows that while the country appeared to make strides in inequality reduction in the 1990s, from the mid-2000s inequality appears to be on the rise again, with sharp increases since 2010. When we examine the parallel evolution of the minimum wage over the past three decades, we note a steep decline from the early 1980s through the mid-1990s, with a subsequent stagnation which persists through today.

FIGURE III.B.1: MEXICO AND BRAZIL REAL MINIMUM WAGE AND GINI COEFFICIENTS, 1980-2014 (REAL MINIMUM WAGE INDEX 2000=100)



Source: Authors' own elaboration based on CEPALSTAT (2016) and SEDLAC (2016).

In light of these observations, and given Mexico's far from successful quest for high and steady growth and a more progressive income distribution, in this article we analyse the evolution of its minimum wage from a Latin American comparative perspective. We examine the policies that determine its trajectory, as well as the results of the recent national debate to improve the minimum wage level in the long-term. We believe that key lessons can be derived from this case to help the design and implementation of better, more effective policies to reduce inequality. The paper is organised according to the following structure. The next section will look at the evolution of the minimum wage in Mexico and Latin America in more detail. Thereafter, the third section will discuss the relationship between minimum wage developments, productivity and competitiveness in Mexico. The fourth and final section concludes with some policy recommendations.

2. The minimum wage in Mexico and Latin America

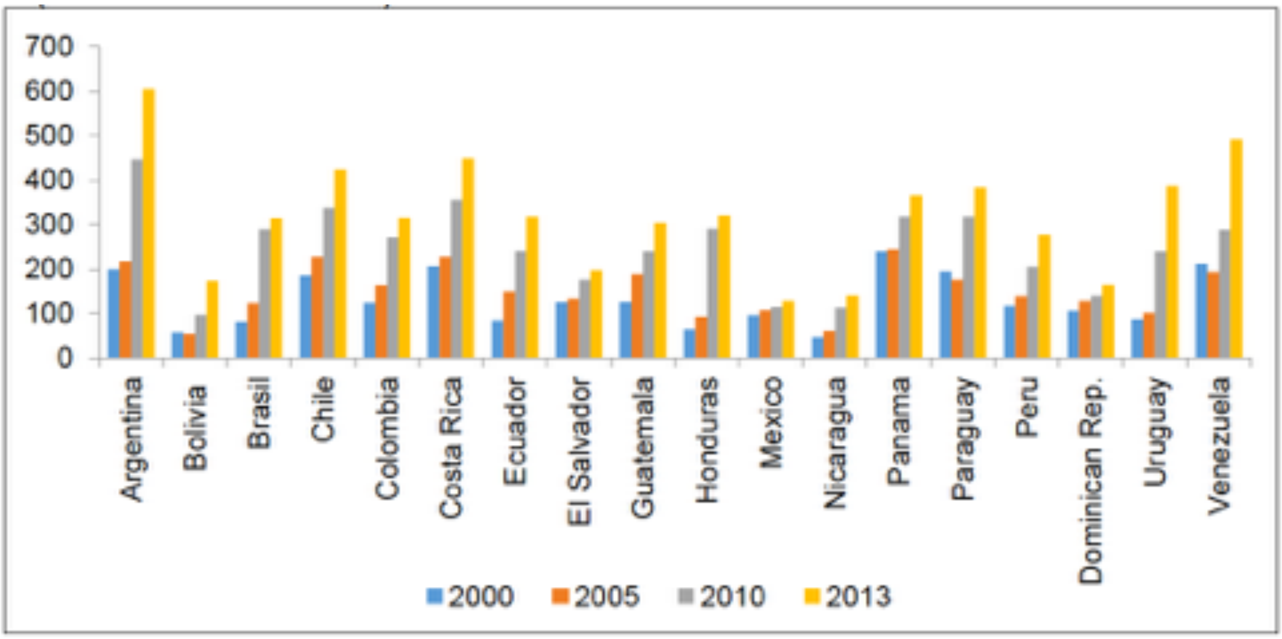
The evolution of the minimum wage in Mexico has followed three distinct stages. In the first, ranging from the 1950s to the second half of the 1970s, the minimum wage quadrupled in real terms. This rise occurred while the Mexican economy experienced its golden age when real GDP expanded at an average annual rate of 6% and preserved low levels of inflation. The real minimum wage lost strength from the balance of payments crisis that Mexico experienced in 1976. During the oil boom years the minimum wage lagged slightly due to inflation. Later, when the oil boom collapsed in 1981-82, the stabilisation policies adopted to manage this crisis launched a phase of sharp deterioration in the minimum wage. Indeed, as part of efforts to contain inflation, government policy was set to manage the adjustment of the minimum wage below the increase in consumer prices. The depreciation of the exchange rate, and a decline in the influence of trade unions in a weakened labour market context led to a sharp deterioration in the minimum wage. Reduced levels of economic activity and the government's focus on strengthening public finances and lowering inflation drove the minimum wage into further decline.

In the late 1980s—after the lost decade—productive activity in Mexico began to recover and inflation started to stabilise at a low level. But minimum wage policy continued to be used as an instrument of anti-inflationary policy, and did not fulfil its original mission to ensure income protection in the labour market. Instead of placing it at a dignified level, CONASAMI sanctioned insufficient wage adjustments with respect to inflation that led to recurrent falls in value in real terms. By 1995 the minimum wage had lost 66% of its purchasing power compared to levels fifteen years prior.

The ensuing third phase in the evolution of the minimum wage, which lasts until today, is characterised by a stagnation in real terms. The rate of decline has slowed, and the fall in real purchasing power appears to have stabilised in recent years. However, this policy which has been followed for nearly 40 years by CONASAMI, or more precisely by its supervisory institution the

Secretary of Finance and Public Credit (SHCP for its acronym in Spanish), has failed to follow through on the minimum wage's mission to protect citizens' rights. This systematic deterioration has for some time set the minimum wage as one of the lowest in dollar terms in Latin America (see Figure 2).

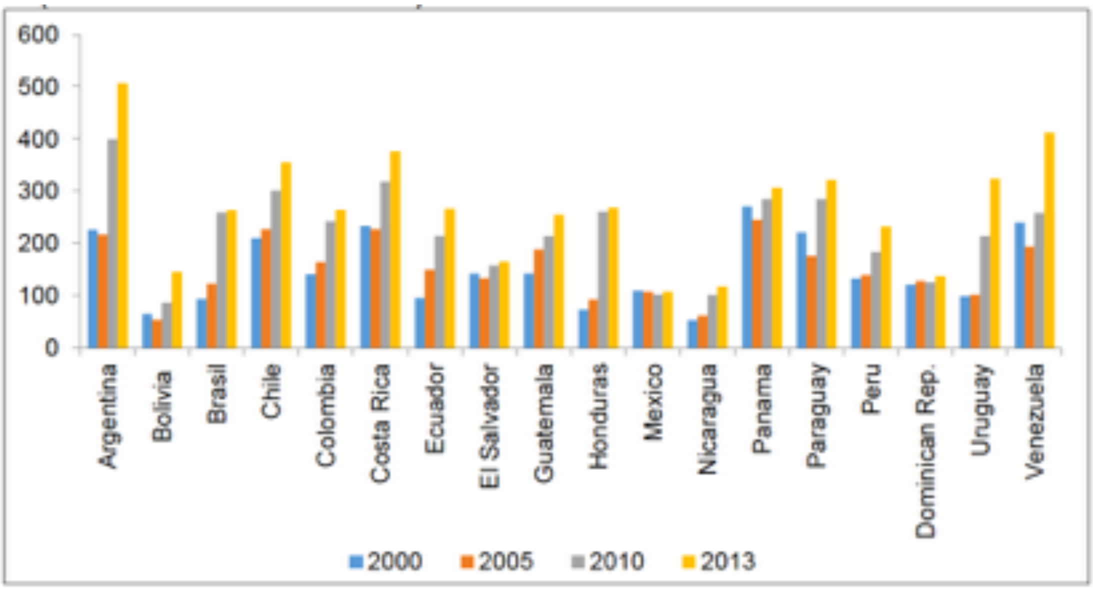
FIGURE III.B.2: MONTHLY MINIMUM WAGE IN MEXICO AND OTHER LATIN AMERICAN COUNTRIES, 2000-2013 (CURRENT US DOLLARS)



Source: ILOSTAT (2015).

Among Latin American countries with more recent (2013) comparative and reliable statistical information on the monthly minimum wage, the Mexican level equivalent to US$112.2 per month was the lowest, slightly exceeded by that of Nicaragua (US$117.5) and Bolivia (US$117.5). This level is equivalent to 40% of the minimum wage in Guatemala or Honduras, countries whose per capita GDP is well below that of Mexico. In dollar terms Mexico's was less than one-third of the minimum wage in Costa Rica and Argentina. Unlike in the vast majority of Latin American countries, the minimum wage in Mexico recorded only a very slight nominal increase between 2000 and 2013. Its low level compared to the rest of the region is manifested most acutely by taking into account its purchasing power in constant prices as shown in Figure 3. When measured in constant 2005 dollars, the minimum wage in Mexico again positions itself by far as the lowest in the region.

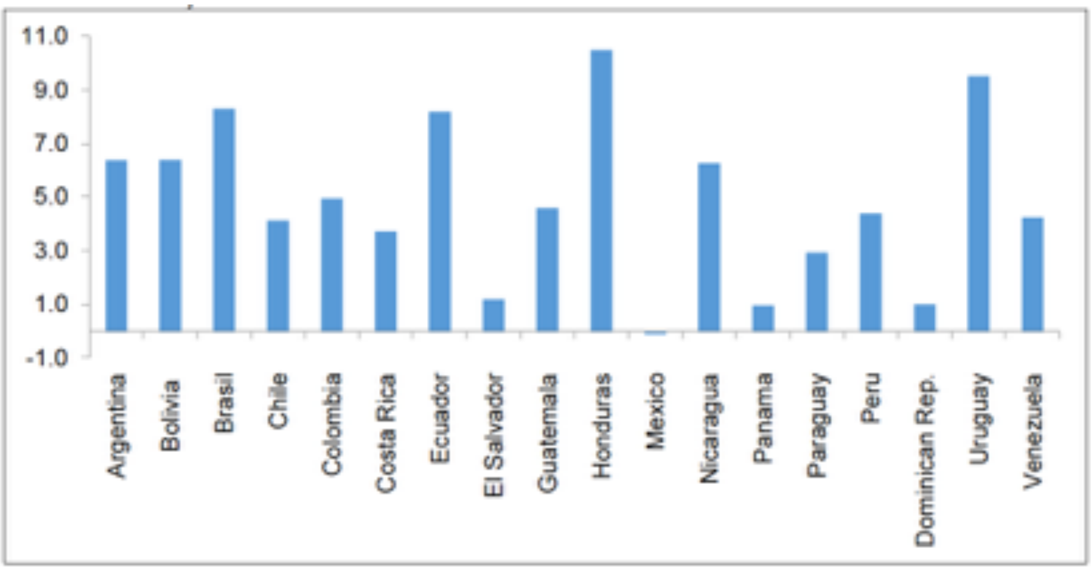
FIGURE III.B.3: MONTHLY MINIMUM WAGE IN MEXICO AND OTHER LATIN AMERICAN COUNTRIES, 2000-2013 (2005 CONSTANT US DOLLARS)



Source: ILOSTAT (2015) and CEPALSTAT (2015).

Figure 4 reports the real rate of change in local currency for several countries in Latin America. This makes the dismal performance of the minimum wage in Mexico even more obvious. As noted, in many countries minimum wages rose strongly in real terms in the 2000s. For example, Argentina and Uruguay saw substantial increases of on average more than 10% per annum, while in Brazil, Honduras and Nicaragua wages grew by more than 5% annually. Mexico, therefore, remains a notable exception in the region.

FIGURE III.B.4: LATIN AMERICA: AVERAGE ANNUAL VARIATION OF THE MINIMUM WAGE, 2000-2013 (IN PERCENTAGES)

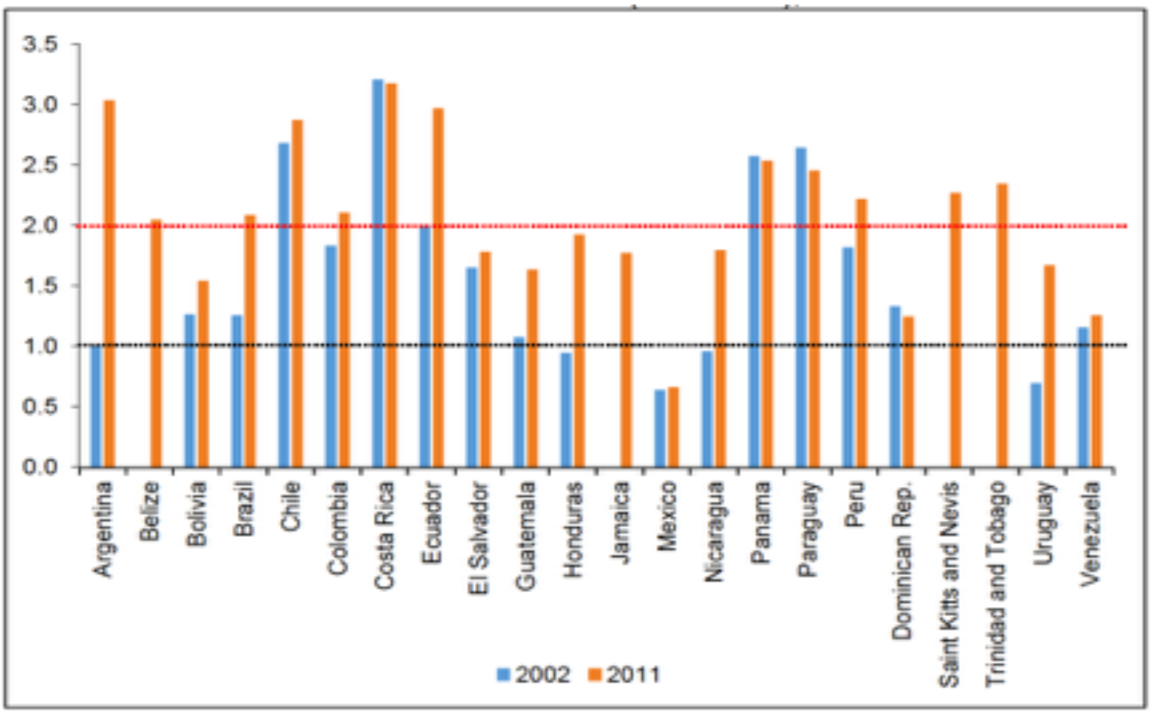


Source: ILOSTAT (2015) and CEPALSTAT (2015).

Strong growth in Argentina, Uruguay, Ecuador and Brazil in recent years is explained by the rise to power of governments committed to more inclusive development agendas. This commitment led them to use various instruments of economic and social policy to better distribute the benefits of growth to their citizens. On the one hand, they ceased to consider the minimum wage as a mere accessory to anti-inflationary policy, and on the other hand they restored its function as an instrument of labour policy (Marinakis and Velasco, 2006). In contrast, the Mexican policy of minimum wage containment perhaps reflects the fact that despite a shift in the ruling party of the President, social inclusion and equality are still not considered national priorities. This containment, more implicit than explicit, was needed to support a reduction in inflation and limit government spending on benefits, pensions and other expenses related to the minimum wage. At the same time, it served to compress labour costs via prices rather than productivity.

Perhaps the most dramatic indicator of the minimum wage's deterioration is manifested when compared to the per capita poverty line (see Figure 5). In 2011, Mexico was the only country in the region where the minimum wage was below the poverty line, and its ratio lies well below that of the rest of the region.

FIGURE III.B.5: LATIN AMERICA AND THE CARIBBEAN (22 COUNTRIES): RELATIONSHIP BETWEEN THE MINIMUM WAGE AND THE PER CAPITA POVERTY LINES (1.0 AND 2.0), 2002 AND 2011



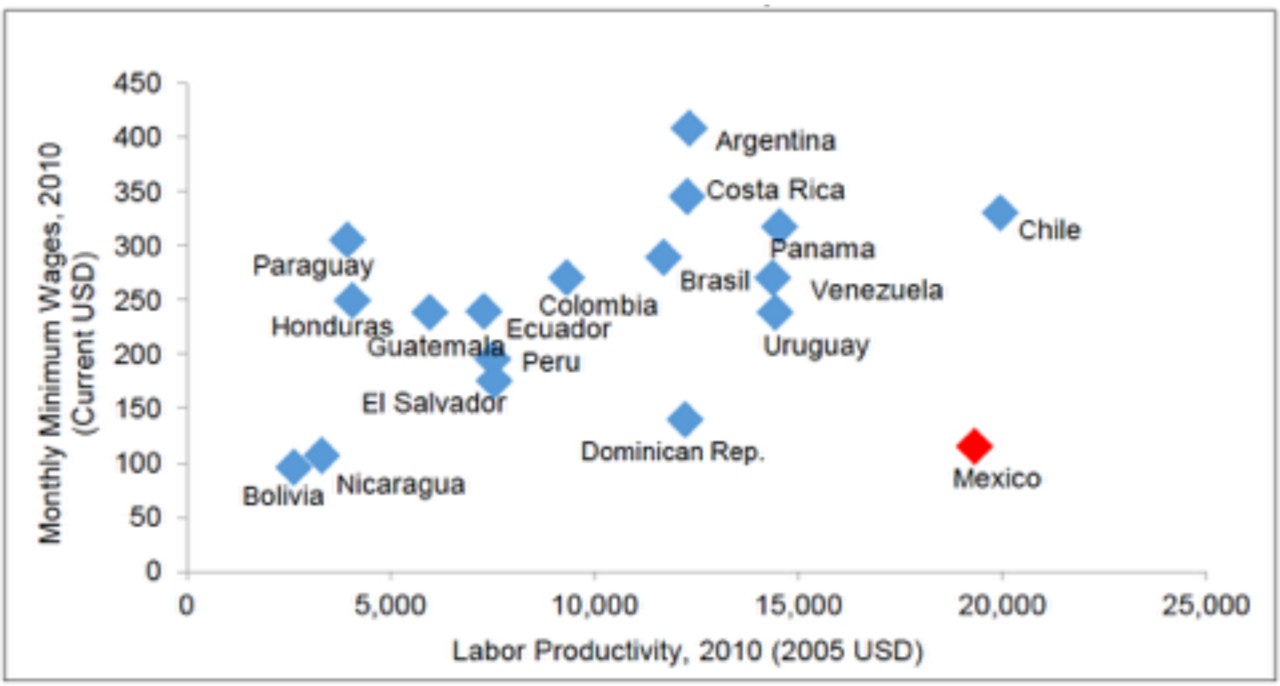
Source: CEPAL, Pactos para la Igualdad (2014). Based on data from CEPALSTAT. Note: The black line at 1.0 represents the per capita poverty line. Assuming that for every household member who works, there is one dependent who does not work, it is considered that the minimum wage should be rebased to the red line (at 2.0) so that the minimum wage earners receive an adequate income that will allow them to overcome poverty.

Having illustrated the extremely low level of the minimum wage in Mexico, both compared to other countries in the region, and as compared to basic national poverty lines, in the next section we briefly analyse the relationship between the minimum wage and the evolution of labour productivity. We present the Mexican case and compare it to other countries in the region. This analysis seeks to determine whether, as some experts and Government officials argue, the low level of the minimum wage in Mexico is correlated with the performance of labour productivity.

3. The minimum wage, productivity and competitiveness

As documented in the previous section, the minimum wage in Mexico is the lowest in Latin America by any measure: in current prices, constant dollars, or in terms of purchasing power parity. Its relative level compared to GDP per capita is also very low. Mexico's level of 15% of per capita GDP is the lowest ratio in most of Latin America, and is far from the 30% of GDP per capita in Brazil or Chile and the 50% of GDP per capita in Peru, Colombia and Costa Rica. The Mexican minimum wage is equivalent to only 19% of the average national wage, again one of the lowest proportions in the region. In the *Global Wage Report 2012-2013*, the ILO stressed that in Mexico "the minimum wage is below market levels, even more so for unskilled workers". In addition, according to ECLAC, "Mexico is the only country where at the end of the previous decade the value of the minimum wage was less than the per capita poverty threshold".

FIGURE III.B.6: THE MINIMUM WAGE AND LABOUR PRODUCTIVITY, 2010

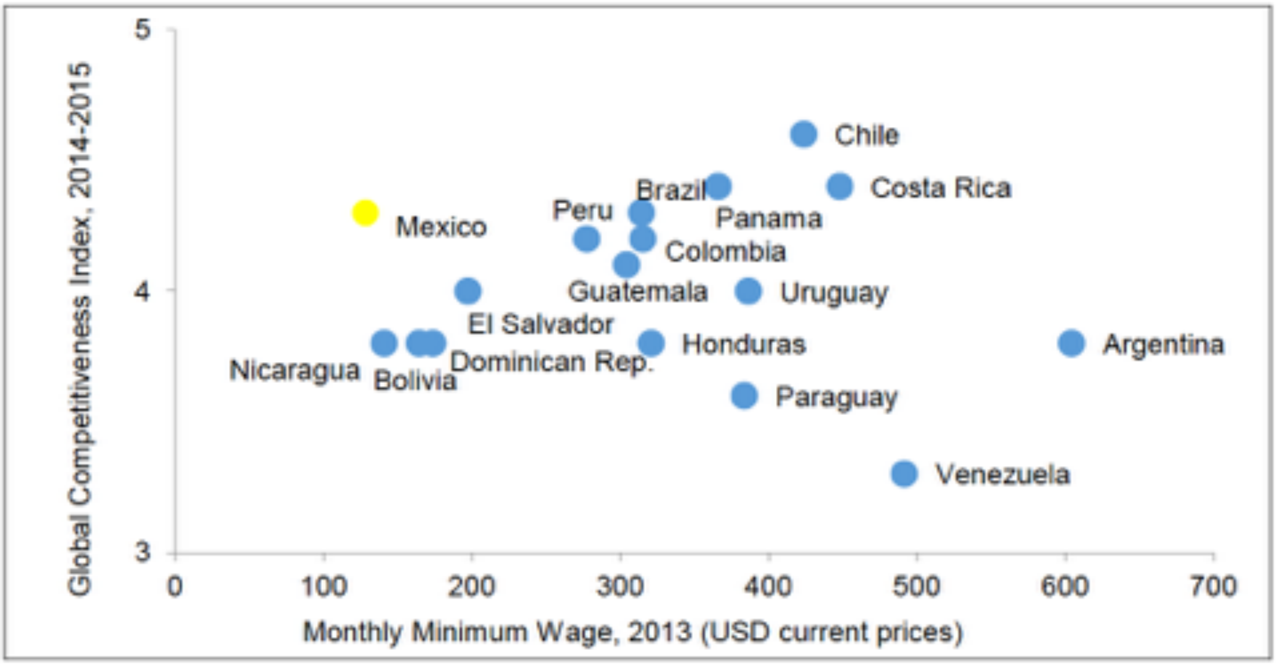


Source: ILO and Key Indicators of the Labour Market (KILM, 2013). Productivity data for Argentina refer to 2006, the last year available in the source.

The debate in Mexico has placed a great deal of emphasis on the dependency that the minimum wage has or should have to productivity. This argument raised the hope that Mexico's minimum wage might at least have a poor comparative regional performance for good reason. However, this is not the case. As the ILO (2013) has shown, for more than 20 years the average labour productivity in Mexico—as measured in constant US dollars—has been and continues to be among the highest in Latin America (see Figure 6). In 2012 it was the second highest, only 3% lower than Chile, and widely overtook Uruguay (30%) and Brazil (60%). Furthermore, labour productivity was more than double that of the average of the rest of the region.

The conclusion is very similar if instead of comparing labour productivity in the countries of the region, the Global Competitiveness Index compiled by the World Economic Forum is considered (see Figure 7). Here, Mexico appears among the highest in terms of competitiveness, yet with the lowest minimum wage. Within Mexico's institutional framework and given the objectives of national economic policy and labour market regulation, the (limited) gains in productivity and competitiveness have not spilled over into improvements in the minimum wage. Rather, they have concentrated themselves in other factors of production or in different labour strata.

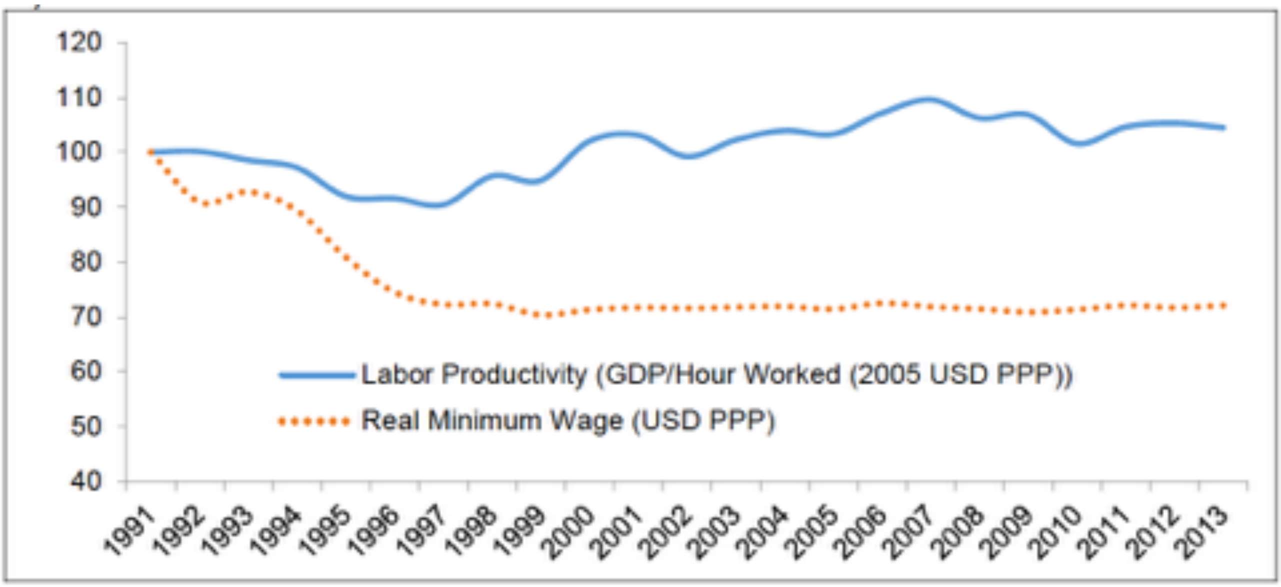
FIGURE III.B.7: MINIMUM WAGE RATES AND COMPETITIVENESS IN LATIN AMERICA, 2013, AND 2014-2015



Source: ILO QUIPUSTAT Database and the World Economic Forum Global Competitiveness Index (2015).
Note: the Global Competitiveness Index has a classification from 1 to 7 (the highest).

The Mexican minimum wage in dollar terms is similar to that of Bolivia and Nicaragua, whose productivity is the lowest in Latin America, but average productivity in Mexico is four times higher. In Chile where labour productivity levels are as high as in Mexico, the minimum monthly salary of US$366 is triple that of Mexico. These observations point to relevant unknowns in the current debate in Mexico: Why does the country have one of the lowest wages in the region when labour productivity is among the highest? Why do we see an association between the level of labour productivity and the minimum wage at the regional level, while in Mexico this relationship does not hold true? To answer these questions, let us now examine the co-evolution of labour productivity and the real minimum wage in Mexico.

FIGURE III.B.8: MEXICO: ANNUAL RATE OF REAL MINIMUM WAGE AND LABOUR PRODUCTIVITY (1991 = 100)



Source: OECD (2015).

As shown in Figure 8, average labour productivity in Mexico has performed poorly between 1990 and 2013. After falling throughout much of the 1990s, it began a tepid recovery in 1998. By 2013 it had recorded a cumulative increase of 15%, reaching a level 4.5% above that seen in 1991. This disappointing performance seems to be a reflection of sluggishness of the formation of fixed, private and public capital in the country. But the real minimum wage has performed even more miserably since 1990. In the 1990s it fell, continuing the downward pattern begun in the previous decade. Since 2000 it stabilised, and by 2013 it registered an accumulated increase of 2.6%, which still stands 30% below its 1991 level.

While both variables have performed poorly in the past three decades, the evolution of labour productivity and the real minimum wage in Mexico are far from correlated. Indeed, at the regional level Mexico has displayed some of the highest levels of labour productivity for years. Its minimum wage, however, is the lowest in Latin America. From 1998-2013, when productivity rose 15%, the real minimum wage remained stagnant. In 2013 labour productivity was 4.5% above, and the minimum wage 30% below their levels in 1990. If the real minimum wage in recent years would have grown at the same rate as labour productivity, its current level would be 50% higher, above $100 pesos a day. In summary, in Mexico during the periods in which labour productivity has fallen, the real minimum wage has plummeted even more sharply. And during phases in which labour productivity has risen, the benefit is null or hardly reflected in the minimum wage in real terms.

As the *Global Wage Report 2012-2013* (p.42) summarised, "… In Mexico, the minimum wage policy has been strongly influenced by efforts to achieve a fiscal balance (as the minimum wage determines many social security benefits) and increase export competitiveness. As a result, the minimum wage is below market levels, even for unskilled workers. " Beyond the often expressed concerns about inflationary pressures created by allegedly “artificial” and “arbitrary” increases in the minimum wage, for instance by Secretary of Finance Luis Videgaray,[66] a 1999 paper by Agustín Carstens, the current Governor of the Banco de Mexico and former Secretary of Finance, and Alejandro Werner, explicitly recognises the practice of setting minimum wages according to budgetary requirements:[67] The authors acknowledge that, “since 1996, all the monetary programs that Banco de México has implemented are fundamentally based on […] [a] yearly annual inflation objective. This objective is established jointly by the Federal Government and the Banco de México, and it is perceived as the result of a concerted effort to coordinate fiscal and monetary policies. Based on such objective the fiscal and monetary policies are designed, and it also *helps for the determination of the minimum wage*” (p.17, emphasis added).

4. Conclusion

What can we conclude from this analysis? Although labour productivity and competitiveness should not be irrelevant in the evolution of the real minimum wage, for years their improvements have not been reflected. In fact, an increasingly wider cleavage has been opened between these concepts. In this regard, a substantial reform in the minimum wage policy is necessary, especially if Mexico is to comply with its constitutional stipulations to ensure a decent income standard, as well as transfer the benefits of labour productivity and competitiveness to its minimum wage workers. This transfer is far from automatic unless solid macroeconomic and labour market policies apply specific measures to do so.

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[66] See for instance, http://www.milenio.com/politica/salario_minimo-aumento_salario_minimo-apoya_gobienro_aumento_salario-Luis_Videgaray_0_352764937.html or http://www.informador.com.mx/economia/2014/542491/6/incremento-a-salario-minimo-aumentaria-inflacion-carstens.htm.

[67] For further information see, Carstens and Werner (1999). “Mexico’s Monetary Policy Framework under a Floating Exchange Rate Regime”: https://www.imf.org/external/pubs/ft/seminar/2000/targets/carstens.pdf

The outrage over the forgone opportunity to improve the economic situation of poor workers via a new policy for the minimum wage led to a national consensus that the minimum wage needs to be increased to its constitutionally mandated level. However, advances have been slow, and important political and technical hurdles remain. For years, the minimum wage in Mexico played a role as a reference point for other transactions including fines, financial operations, and even budgetary allocations for political parties. An essential initial administrative step in the right direction was to de-link the minimum wage from these multiple transactions outside the scope of the world of work. After nearly two years of discussions, by late November 2015 both legislative chambers in the Mexican Government finally approved a reform to end such practices, effectively de-linking the minimum wage from penalty payments. This was an important achievement; however, raising the minimum wage in a sustainable manner requires a more profound policy change.

In that sense, a concrete action to "Democratise Productivity" as expressed by the current Presidential administration could be to support a strategy such as the proposal for a “National Agreement for a Policy to Recover the Minimum Wage”. Such a program would rapidly and significantly raise the minimum wage rate to cover the cost of the national basic food basket. Moreover, it would send the minimum wage on a path of sustained and responsible real recovery, with an aim to at least cover the enlarged food basket.

After all, the movement to improve the national minimum wage goes beyond a purely technical issue. It is a political economy issue that reflects the priority (or lack thereof) that society gives to the reduction of inequality. It touches upon the core of different perspectives that actors have on the factorial distribution of national income, its determinants, and its relationship with the pace of economic expansion.

Furthermore, the minimum wage is an important issue on the civil rights agenda of all Mexicans. The minimum wage is a powerful policy tool, that when set at just levels and applied in a context of fair wages and appropriate labour market regulation, can make strides in reducing the acute levels of inequality that persist in Mexican society. Putting into place a roadmap to recover the minimum wage is still a wish rather than a reality in Mexico. Ultimately, improving the wellbeing of its citizens requires a commitment to a development strategy in which equality and economic growth are not seen as antagonistic or as sequential objectives. Unfortunately, this commitment has thus far been absent in the Government.

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Chapter 3

Minimum Wages and Inequality in Mexico: An Example (Not) to Follow

Abstract: Inequality in Mexico is extreme: the 2015 income of the country's richest man corresponded to 470,623 times the country's average income, while the family of a worker earning the official minimum wage of MXN$73.04 (less than US$5) per day remains in conditions of poverty. In the context of such extreme disparities, a multi-stakeholder campaign to raise the minimum wage emerged. However, it was met with remarkable resistance from an unlikely alliance of certain private sector actors, politicians and even union leaders across a broad spectrum of political ideology. Although international trends in labour policy seem to go towards increasing minimum wages (US, Germany, UK, Brazil), the Mexican minimum wage remains stagnant. The paper investigates whether this could constitute a foregone opportunity in the struggle against inequality, since the minimum wage can be a powerful tool to combat inequality, as the Brazilian experience shows. To that end, we examine status and dynamics of the Mexican minimum wage and its relation with income inequality from a Latin American comparative perspective, particularly with respect to the cases of Brazil, Argentina and Chile – three countries of roughly comparable economic development in the region pursuing labour policies diametrically opposing those of Mexico. We explore what lessons Mexico could 'learn' from these other countries, with the aim of providing some recommendations to policy makers. Besides documenting the status of inequalities in Mexico, the paper provides a brief outline of the historical development of the country's labour share of gross national income. The role of productivity in the development of the minimum wage is explored showing that the often used argument that minimum wages should not rise due to lagging productivity does not hold for Mexico. To better understand the interactions between the countries' respective minimum wages and levels of inequality, the paper scrutinises the cases of Brazil and Mexico more closely, and concludes with a brief outlook on the likely developments in the minimum wage discourse, proposing some steps to be taken to improve its perspective.

Keywords: Minimum wages, salaries, inequality, Mexico, Latin America.

Note: This chapter is co-authored with Stefanie Garry and Juan Carlos Moreno-Brid (publication forthcoming as Krozer, Garry and Moreno-Brid). It has received the SASE Early Career Award 2017. The authors would like to dedicate this text in memory of Giulio Regeni.

1. Introduction

Mexico is a country full of contradictions: despite ranking as the 15th most wealthy country in the world by GDP, more than half of its population continues to live below the poverty line (World Bank, 2016a and 2016b). As the Mexican National Council on the Evaluation of Social Development Policy (CONEVAL, 2015) reports, this share is increasing: in 2014 more than 53.2% of the population was poor, whilst in 2008 the figure was 49.0%. At the other extreme, the country's richest man, Carlos Slim, in 2015 owned wealth equivalent to almost 6% of the country's GDP – more than the federal government's average annual health care expenditure (Krozer, 2016). His income over the last year corresponds to almost half a million (470,623) times the country's average income. At the same time, the family of a worker earning the official minimum wage of MXN$73.04 (less than US$5) per day remains below the country's national poverty line.

In the context of such extreme disparities, a passionate debate over increasing the minimum wage was sparked in 2014 by Miguel Ángel Mancera, then mayor of Mexico City. Although it has gained momentum in the public discourse over the past year, the campaign to raise the minimum wage at the national level was met with remarkable resistance from certain private sector actors.[68] Despite a nominal increase in the minimum wage in January 2016, related policy proposals to invoke deeper changes remain stuck in the legislature. This curious resistance is interesting for at least four reasons. For one, Mexico is currently the most (or second-to-most, depending on the indicator used) unequal country in the OECD (OECD, 2015), and among the top 25% of the most unequal countries in the world, yet it lacks any consistent policy to address its inequalities. However, while acknowledging the potential benefits for poverty reduction, the debate has rarely considered the impact minimum wages may have on the income distribution.

Secondly, at the same time, Mexico's notoriously high levels of inequality are matched by infamously low levels of minimum wages. Mexico continues to be the only country in the Latin American region with a minimum wage below the poverty line. Since the 1980s the labour policy of the Mexican Federal Government has pushed the country's minimum wage into sharp deterioration. For decades its amount has been far below the level of "adequate remuneration to meet the normal material, social and cultural requirements of a head of household, and to provide for the compulsory education of their children" as required by Article 123 Ap.VI of the Mexican Constitution. In fact it is insufficient to even cover the basic food basket, not to mention the enlarged basket including non-food items such as shelter. The deterioration of the minimum wage went hand in hand with a reduction of the share of wages in national income and an increase in

[68] For instance Juan Pablo Castañon, president of the Mexican Employers' Confederation, Juan Manuel Chaparro, a member of the Mexican Chamber of Industry, Canacintra, but also Aristóteles Nuñez, chief of the Mexican Tax Administration Service (SAT) (Krozer, Moreno-Brid and Rubio Badan, 2015).

inequality. These features are particularly problematic upon recognition of Mexico's historically unequal income distribution.

The third surprising element to this resistance is its timing. Despite significant steps by other G20 countries, including Mexico's northern neighbour and long-standing role model with regard to economic policies, the United States, South American countries including Brazil, and many European Union members such as Germany and the United Kingdom to introduce or significantly increase minimum wages at both local and national levels, Mexico appears to be stuck with policies to only very marginally increase real wages. This trend across many advanced economies recognises increases in minimum wages as an explicit anti-inequality policy, acknowledging an association between, or at least evidence of the effectiveness of the minimum wage as a tool to decrease inequality. Similar steps are also being taken across the Latin American region. As this article will demonstrate, across the majority of Latin American countries, the trend to increase minimum wages, often occurs in combination with decreasing levels of income inequality.

A fourth remarkable facet of the Mexican discussion concerns the locus of resistance. The debate has triggered an unusual alliance of supporters and adversaries crisscrossing traditional institutional lines. On the one hand, the National Minimum Wage Commission (CONASAMI), and some large unions and employers' organisations staunchly oppose a significant increase in the minimum wage, while on the other side civil society representatives, academics, and senior bankers, among others are in support of a rise. Paradoxically in Mexico, partisan lines have been rather blurred on this issue.

An ample body of literature has discussed the role of labour income as a key determinant of household resiliency in Latin America (see ECLAC, 2014). However, much of this research on the effects of minimum wages has focused on its impact on poverty, and poverty reduction. As such, in Mexico, the relationship between poverty and the insufficient capacity of the minimum wage to provide a decent standard of living has been clearly captured, yet the relationship between inequality and the minimum wage has not been fully explored. Overall, little attention has been focused on the precise relationship between the minimum wage, a key component of labour and household income for many workers in Latin America, and its relationship to inequality trends over recent decades.[69]

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[69] Unfortunately not all data sources have information available up to the latest year. Depending on the source used, we are thus able to look at time series spanning between two and three decades, lying somewhere between the early 1980s to the mid-2010s. Due to diverging methodological decisions in their respective definitions of "income", moreover, quoted results such as Gini coefficients or shares tend to diverge slightly across institutions.

In light of these puzzles and research gaps, the purpose of this chapter is to examine the status and dynamics of the minimum wage in Mexico and its relation with income inequality from a Latin American comparative perspective. In this context, we are mostly interested in juxtaposing the Mexican experience with the cases of Brazil, Argentina and Chile, as three countries of roughly comparable economic development in the region pursuing labour policies diametrically opposing those of Mexico. What might be the relationship between minimum wages and inequality in Mexico, and could the former play a role in improving the country's income distribution? Should other countries aim to emulate the Mexican road to exceptionality in this terrain? Or could Mexico instead learn from the diverging experience of other countries? These major issues in the minimum wage debate, as outlined above, will be explored in detail in the subsequent sections, in an attempt to better understand the correlation and potential links between persistent inequality and labour policy, with the aim of providing some recommendations to policy makers.

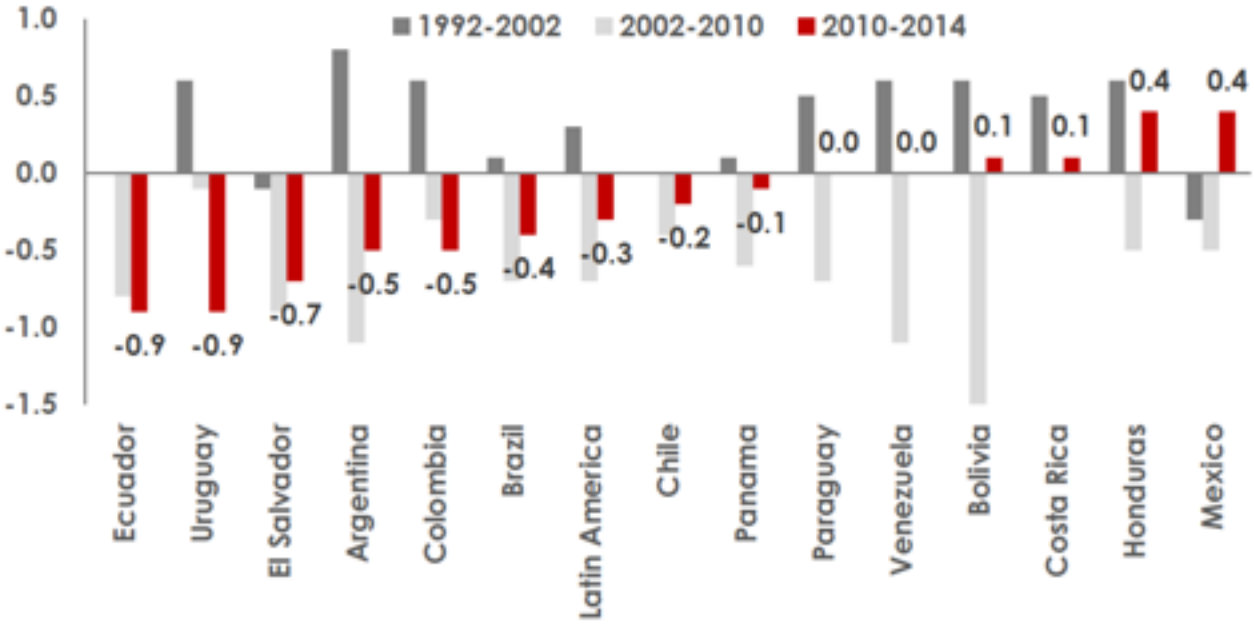
To that end, firstly a current picture of the status of inequalities in Mexico will be drawn (Section 2), followed by a brief outline of the historical development of the country's labour share of gross national income (Section 3). Subsequently, trends in the minimum wage in Mexico, including a discussion of the most recent developments in the debate will be presented, and compared to the performance of a number of relevant Latin American countries (Section 4). Thereafter, the role of productivity in the development of the minimum wage will be explored (Section 5); as will be shown, the often used argument that minimum wages should not rise due to lagging productivity does not hold for Mexico. Next, the cases of Brazil and Mexico will be scrutinised more closely to better understand the interactions between their respective minimum wages and levels of inequality (Section 6). Finally, Section 7 concludes with a brief outlook on the likely developments in the minimum wage discourse and proposes some steps to be taken to improve its perspective.

2. Interpersonal income inequality in Mexico and Latin America

Many Latin American countries managed to achieve (sometimes significant) reductions in inequality in the 2000s,[70] prompting scholars to celebrate “Latin America's inequality success story” (Lustig, 2013), which was to end the growth of inequality in the region. However, since 2010 this decline has slowed markedly, and in a number of countries inequality levels now seem to be on the rise again (Gasparini, Cruces and Tornarolli, 2016).

[70] See, e.g., Lustig (2013), Lustig, López-Calva and Ortiz-Juárez (2012), and López-Calva and Lustig (2010).

FIGURE III.C.1 ANNUAL CHANGE IN GINI COEFFICIENTS, 1992-2014



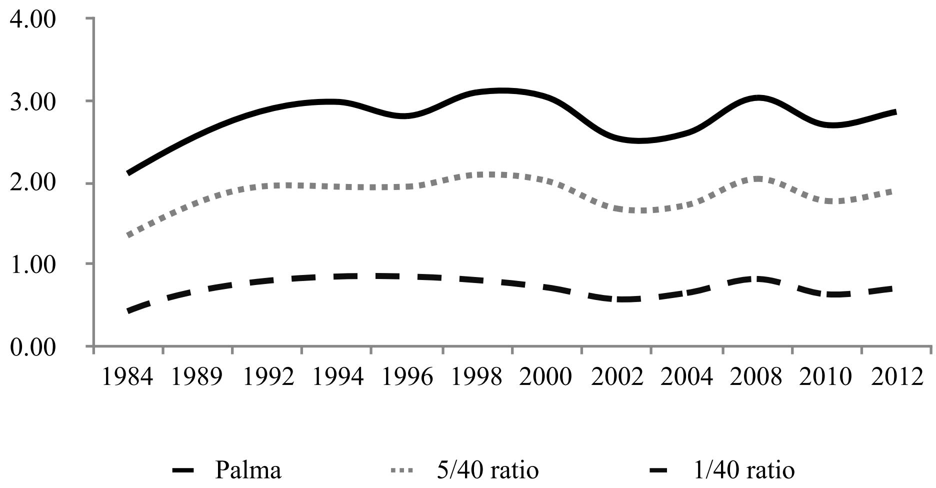
Source: Authors' own elaboration based on Gasparini, Cruces and Tornarolli (2016).

This is especially acute for Mexico (and Honduras), where inequality as measured by the Gini coefficient has increased the most over the period from 2010-2014, at an annual rate of 0.4 points (see Figure 1). Inequality dynamics in Argentina, Brazil, and Chile, on the other hand, display the exact opposite pattern: while inequality was increasing in the 1990 (stagnating in Chile), all three countries saw their levels improve in recent years (though at a slower pace than in the 2000s). Although Mexico's current Gini coefficient rank of 49 places the country within the middle ranks of the region (and ahead of Brazil and Chile), Latin America by itself remains one of the most unequal regions in the world, placing Mexico among the highest inequality countries on a global level. Moreover, Mexico's preoccupying trend of increasing inequality has it stand out even in a Latin American comparative perspective.

The extent of the country's persistent inequality is illustrated with a few stark numbers. For instance, the difference between average incomes in the top and bottom deciles of the Mexican population is almost 27-fold; a stark contrast in comparison to the average ratio of 10 to 1 that prevails in the OECD (OECD, 2014). And the extremes of the income distribution keep becoming more unequal: today the top 1% of Mexico's distribution has an average annual income 47 times that of the poorest 10% (del Castillo Negrete, 2012), while the share of total income the richest 1% commands is estimated at 21% - the highest in the OECD (Esquivel, 2015).

To properly estimate inequality though, two additional technical aspects need to be considered. For one, as has been well explored in the literature, the household survey data that these estimates are based upon consistently underestimate the true level of inequality (Lakner and Milanovic, 2013). Latest estimates accounting for the underreporting of top incomes in household survey data have shown that inequality in Mexico, rather than displaying a decreasing trend, has been rising over recent decades.[71] Additionally, it may be much higher than currently measured by the Gini coefficient (Esquivel, 2015).

FIGURE III.C.2: MEXICO, EVOLUTION OF SELECTED INCOME RATIOS, 1984-2012



Source: Authors' own elaboration based on data from LIS (2014).

Secondly, by way of its construction, the Gini coefficient cannot account as explicitly for changes in the extremes of the distribution. Yet, as Esquivel (2015) explains, the dichotomous events of per capita income growth and stagnating poverty levels in Mexico over recent years can only be explained if growth occurs at the top of the distribution. To account for this observation, Figure 2 depicts the evolution of Mexico's income distribution as measured by the Palma and related income ratios, which divide the top income shares by the bottom income share to gauge developments specifically in the extremes of the distribution.[72] Even given the underestimations of the household survey data, it can be appreciated that the underlying trend in the very top of the distribution drives the overall pattern of inequality, i.e., the tendencies displayed by the top 1%

[71] Unfortunately, most data sources have yet to adjust their figures to these more realistic levels, forcing the authors to work with the currently available unadjusted numbers throughout this paper.

[72] The Palma ratio measures the share of total income held by the top 10% of the income distribution relative to that of the bottom 40%; the 5/40 ratio divides the share of the top 5% over that of the bottom 40%, and The 1/40 ratio uses the top 1% over the bottom 40%. For more information on the Palma ratio see Palma (2006, 2011), Cobham and Sumner (2013), and Krozer (2015) for its derivatives.

income share over bottom 40% income share are mimicked and consecutively amplified by the 5/40 ratio (top 5%) and the Palma (top 10%), respectively. Whether we compare the top 10%, top 5% or top 1% share to that of the bottom 40%, inequality in Mexico remains higher today than three decades ago, and has at no point since come to approach its 1984 level.

How do these tendencies in the overall income distribution differ from the dynamics of its individual components: labour, capital and transfer incomes when we disaggregate disposable income? It is particularly the income from labour that we are interested in in this context, not only because wages, like few other sources of income, tend to be associated with "worthiness" in a society organised around remunerated labour, but mainly because people continue to receive most of their income from wages: if the bottom decile in which there are numerous cases of de-saving is excluded, labour income per decile on average amounts for over 76% (in some years close to 100% for some groups) of total income, compared to transfer income reaching 20%. The exception is the bottom decile, where transfers are important (over 60% of income in 2010, the latest available data year, up from just over 20% in 1984). Meanwhile, capital returns lie between 0.6-1.5% up to the 9th decile (rising to 7.5% only when the top segment is considered), showing that even at considerably high levels of the income distribution, the largest income source remains labour income. This importance of wages in total income explains why the overall household disposable income distribution resembles that of labour income, as Table 1 below shows.

In Table 1, we explore the evolution of disposable income, as well as the functional distribution of income, i.e., the trends in the shares of its key components: i) labour remunerations, ii) returns and profits accruing to capital and iii) transfers received. The distribution of disposable income in 2010, although slightly more unequal than in 1984, is not markedly different compared to a quarter century earlier. However, this aggregation masks some important divergence across income components. Unsurprisingly, considering the unequal distribution of wealth, the distribution of capital incomes is vastly more unequal than that of labour income, which again is more unequal than that of transfers. Despite a slight decrease in the Palma and related ratios for transfers and capital income in 2010 compared to 1984, and the frequent attribution of much of the 2000s inequality decline to decreases in labour income inequality,[73] the preoccupying trend observable in Table 1 is that the distribution of labour income is considerably more concentrated at the very top now than it was 25 years ago, both in terms of the Palma and its derivative, the 5/40 ratio, at the expense of the bottom deciles' shares.

[73] "The decline in labour income inequality was by far the most important proximate determinant of the observed decline in overall inequality" Campos Vázquez, Esquivel and Lustig (2012, p. 3).

TABLE III.C.1: INCOME SHARES AND RATIOS IN MEXICO, 1984 AND 2010

2010	*Bottom 40%*	*Top*	*Top*	*Palma*	*5/40 ratio*
Disposable Income	13.3	31.2	20.2	2.346	1.519
Labour Income	10.5	32.4	20.9	3.086	1.990
Capital Income	7.6	52.5	39.1	6.908	5.145
Transfer Income	26.5	24.4	15.1	0.921	0.570
1984	*Bottom 40%*	*Top*	*Top*	*Palma*	*5/40 ratio*
Disposable Income	13.5	30.8	18.6	2.281	1.378
Labour Income	13	30.6	18.1	2.354	1.392
Capital Income	6.8	52.6	40.8	7.735	6.000
Transfer Income	22.3	22.8	14.3	1.022	0.641

Source: Krozer, Moreno-Brid and Rubio Badan (2015) based on data from LIS (2015).

However, not only is labour income more unequal now than it was three decades ago; the bottom decile, which allegedly benefited most from the transfer programs implemented since the 1990s, has actually seen its share of total income deteriorate continuously since the mid-1980s. In 2010 disposable income for this group declined to just 0.8% of the nation's total income, according to LIS data. Accounting for the importance of wages in overall income for most of the population, and the consistently low unemployment in Mexico (below 5%), this means that wages must increase faster at the top than at the bottom, further exacerbating inequality. The increasing share of labour earnings that accrue to the top end of the income distribution in Table 2, where simultaneously the poor struggle to remain afloat with ever smaller shares of the total income pie, testifies to this development.

All of the above would be less critical if a progressive system of redistribution was in place that could ameliorate the impact of labour income concentration. However, in redistributive terms, the combined effects of overall fiscal policy, i.e., both tax and transfer policies, in Mexico are virtually zero. Tax policy in Mexico fails to have any significant influence on the income redistribution (Wang and Caminada, 2011). Although many OECD countries have high pre-tax income inequalities as well, they manage to almost halve their Gini coefficients in the post-tax income distribution, as the example of the Netherlands in Table 2 shows.

TABLE III.C.2: GINI INDICES OF PRIMARY INCOME AND DISPOSABLE INCOME AND FISCAL REDISTRIBUTION

Country	Year	Gini Primary Income	Gini Disposable Income	Absolute Fiscal Redistribution	Relative Fiscal Redistribution
Brazil	2006	0.570	0.486	0.084	15%
Mexico	2004	0.476	0.458	0.018	4%
Netherlands	2004	0.459	0.263	0.196	43%

Source: Authors' own elaboration based on data from Wang and Caminada (2011).

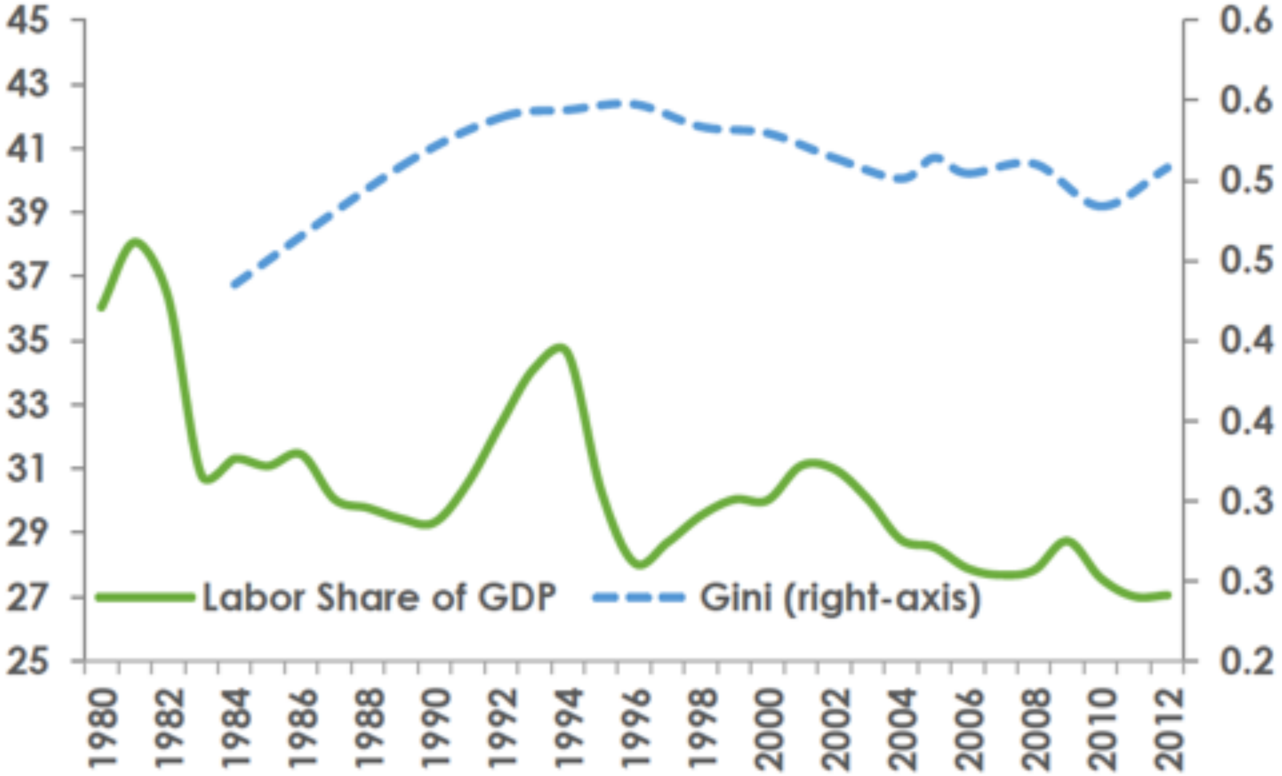
Critically, Mexico's redistributive capacities seem to have declined considerably since the 1960s, to the extent that during the last two decades, on average they have been unable to lower the country's Gini vis-à-vis its pre-tax levels (Krozer and Moreno-Brid, 2014). Moreover, the progressive impact from the pre- to the post-tax and transfer distribution remains below 1% for all but the highest decile, where it reaches 1.6% – although if the top 5% are considered instead, this difference shrinks to 1.1% again (0.9% for the bottom decile).

Considering the country's low, and compared to earlier decades, decreasing redistributive capacities paired with the polarisation in the distribution of labour income, the wage distribution becomes even more decisive in determining households' final disposable incomes. Before looking more closely at the minimum wage as determinant of the lower boundary of the (formal) wage distribution, we will briefly consider how the totality of incomes in the economy, i.e. the labour share, has fared in Mexico, both in a comparative regional perspective and over time. This will show that not only are incomes distributed more unequally now than three decades ago, the overall amount of wages compared to capital as proportion of GDP has also significantly decreased since the early 1980s.

3. Labour share and minimum wage in Mexico and Latin America

In 2012, the share of wages in Mexican GDP had fallen to about 27% from over 38% in the early 1980s. This long-term trend of a decreasing labour share of total income coincides with the increasing inequality trends in Mexico described above. As Figure 3 shows, especially during the last decade, the evolution of the Gini coefficient and the labour share seem to exactly mirror each other, i.e., when the labour share decreased, inequality went up (and vice versa).

FIGURE III.C.3: MEXICO, LABOUR SHARE OF GDP AND GINI COEFFICIENT, 1980-2014
(Percentage of GDP and Percentage Points)

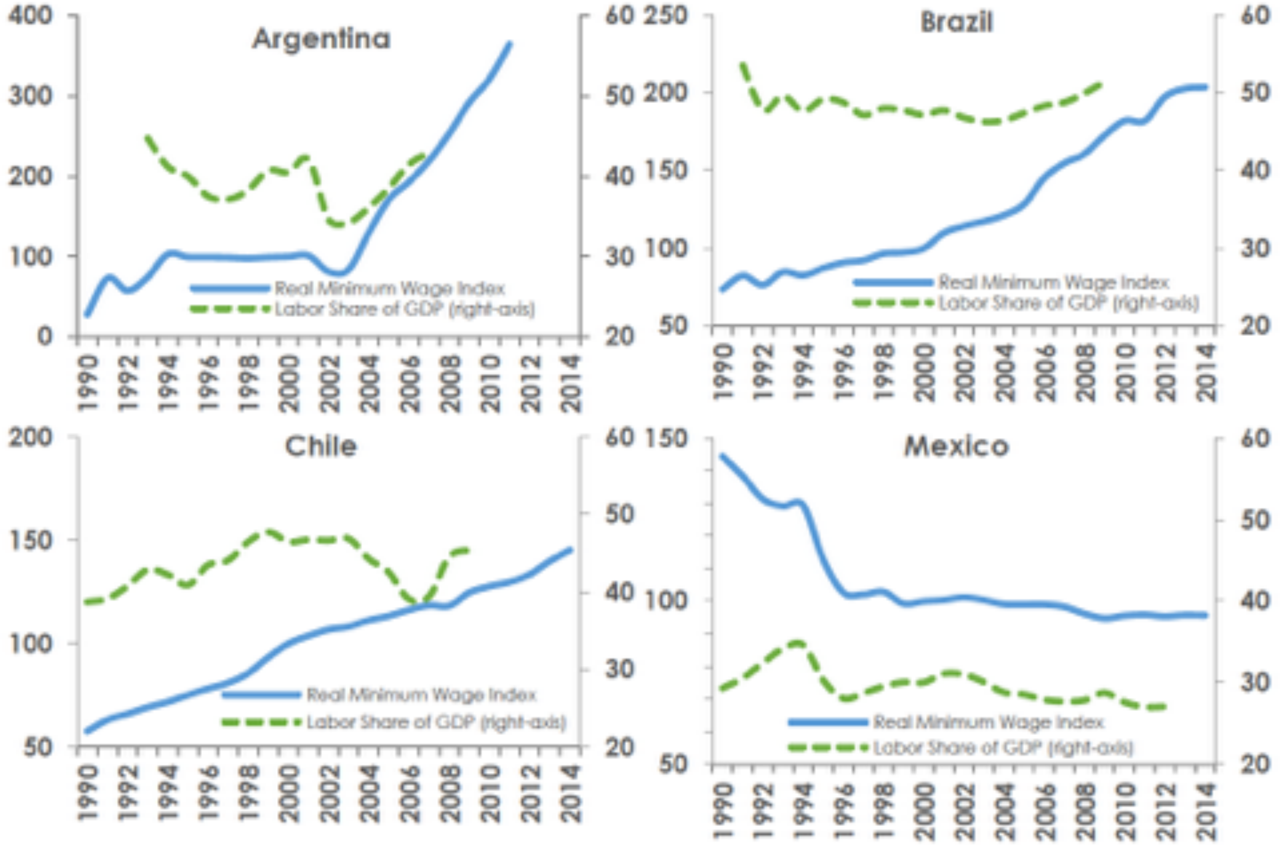


Source: Authors' own elaboration based on Samaniego (2014) and data from INEGI (2015) and CEPALSTAT (2016).

How does this development fit into the regional dynamics experienced in Latin America over this period? Placing Mexico within a broader comparative context, as done in Figure 4, generates two key messages: firstly, the labour share of income in Mexico is significantly below the share in other large Latin American economies throughout the two decades for which data is available – twice as small as Brazil's, for instance. Secondly, and in contrast to Brazil, Chile, and Argentina, particularly over the recent decade, Mexico has shown a disturbing tendency to reduce its share of labour income as a percentage of GDP.

The increase in the labour share in Brazil, Chile and Argentina over recent years, on the other hand, in all cases follows an increase in their respective minimum wages. As Figure 4 shows, Mexico is also the only country among these four major Latin American economies that has not seen a substantial increase in its minimum wage in recent years. Instead, real minimum wages plummeted in the early 1990s, and have continued to stagnate, albeit at a somewhat slower pace since 1995. This trajectory makes Mexico an exception in the regional context of increasing minimum wages.

FIGURE III.C.4: SELECTED LATIN AMERICAN ECONOMIES, EVOLUTION OF THE REAL MONTHLY MINIMUM WAGE INDEX AND THE LABOUR SHARE OF GDP, 1990-2014
(Index 2000=100 and Percentages of GDP)



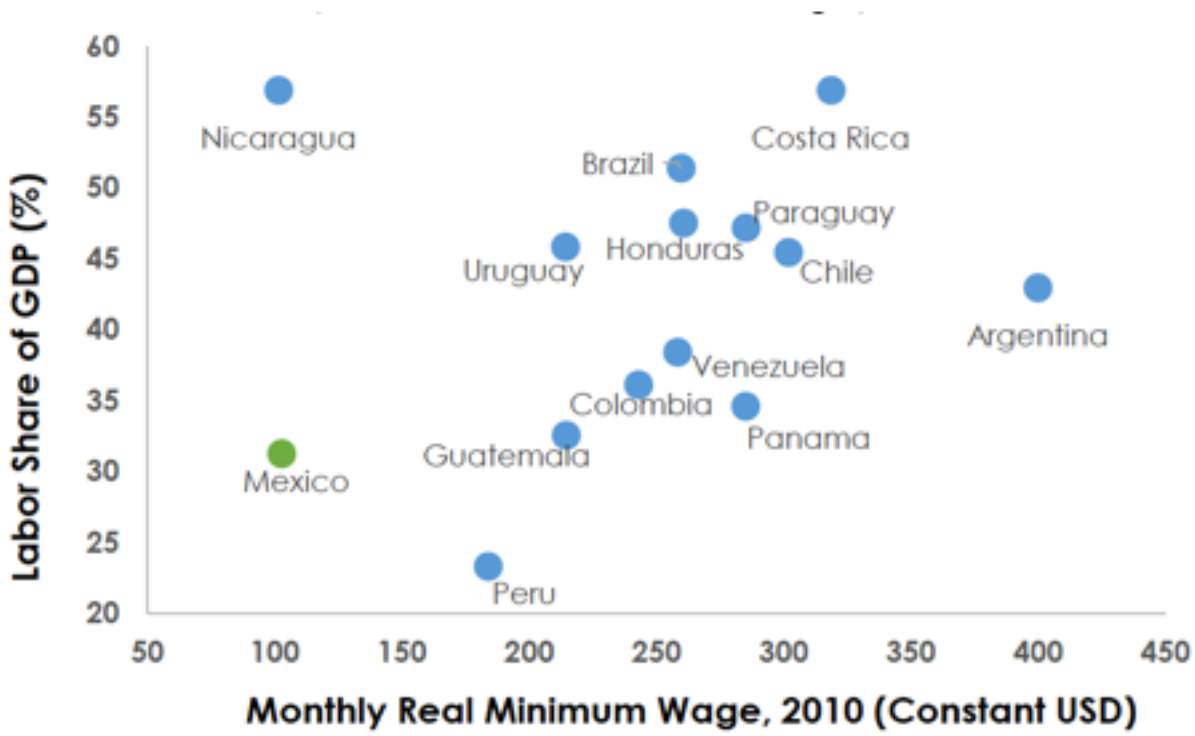
Source: Authors' own elaboration based on data from Abeles and Vega (2014) and ECLAC (2016).

Partly as a result of a more interventionist policy approach, but also as a consequence of stronger labour markets, many countries in Latin America expanded labour policies in the 2000s (Gasparini, Cruces and Tornarolli, 2016). A particularly strong contrast between the virtually flat minimum wages in the 1990s and the strong rise in the 2000s can be observed for the case of Argentina, one of the countries with more ambitious active labour market policies in the 2000s. By helping to increase the earnings of low-income workers, the increasing real value of the minimum wage in these countries contributed to the reduction in earnings inequality (Bosch and Manacorda, 2010; Maurizio, 2014; Maurizio y Vazquez, 2016).

Likewise, in Brazil, raising the minimum wage – in combination with improvements in labour protection through measures such as formalising jobs, and government-investment policies for the creation of jobs – lead to a positive impact on the income distribution (ILO, 2013). Brazil has even accelerated its two-decade-old revaluation strategy of minimum wages over the past five years. In a countercyclical manner, the strategy to boost domestic consumption saw regular adjustments of the minimum wage level to rates matching inflation plus GDP growth. This improved inequality levels 'from below' by increasing gains for those at the bottom of the income distribution (Krozer, 2016). This policy effort contrasts sharply with the case of Mexico, where minimum wage levels lie below the poverty line, with a real-term value that is 70% below its 1980 level (Krozer, Moreno-Brid and Rubio Badan, 2015).

But Mexican exceptionality does not stop here. It also holds a unique status when considering the actual minimum wage level in the country. In Figure 5, only Nicaragua seems to be able to compete with Mexico in terms of the lowest regional monthly real minimum wage level in 2010 US dollars. Brazil, Chile, and Argentina on the other hand, have levels up to more than 7 times Mexico's level. In 2013, its salary was equivalent to US $ 112.2, slightly exceeded by that of Nicaragua (US $ 117.5) and Bolivia (US $ 117.5), and equivalent to 40% of the minimum wage in Guatemala or Honduras, whose per capita GDP is well below the Mexican per capita GDP.

Figure III.C.5 Monthly Real Minimum Wage and the Labour Share of GDP, Selected Latin American Countries 2010
(In constant USD and Percentages)



Source: Authors' own elaboration based on data from ILO (2016) and CEPALSTAT (2016). Note: Labour share of GDP refers to 2010 or the most recent year available in the data set (Nicaragua refers to 2004; Argentina and Paraguay refer to 2007; and Brazil, Chile and Colombia refer to 2009).

To get a better picture of the disparate experiences of countries such as Brazil, on the one hand, which have seen their rising minimum wage levels accompany continuously decreasing inequality levels, and Mexico with its stagnated minimum wage level paired with increasing inequality, on the other hand, let us take a closer look at the recent history of the minimum wage in Mexico.

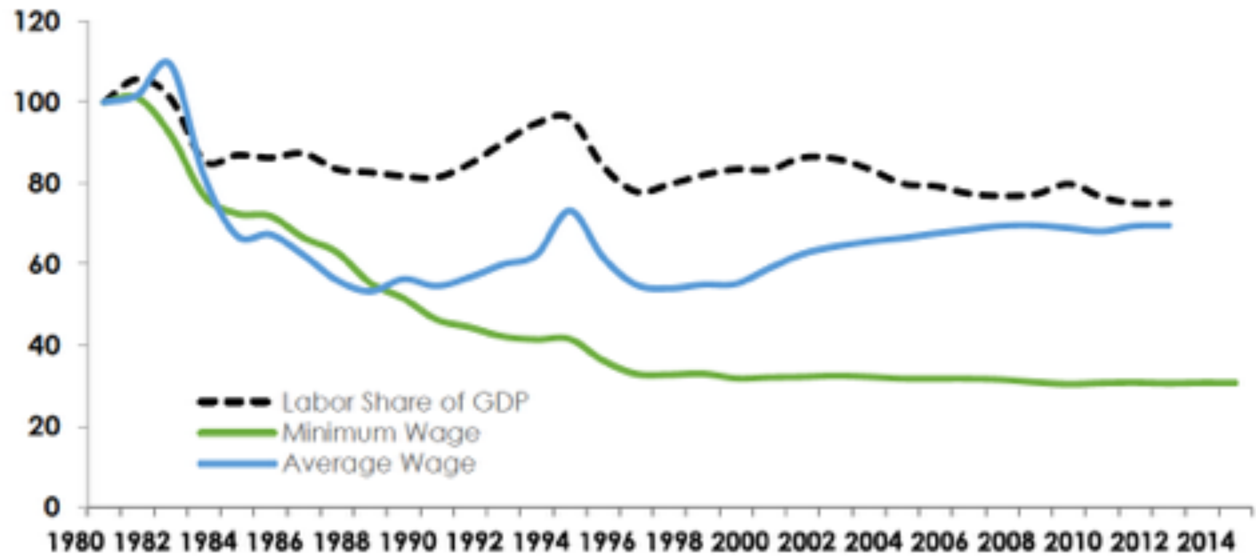
4. The recent history of minimum wages in Mexico

In May 2014, indignation over the low level of the Mexican minimum wage, putting it in flagrant violation of the Mexican Constitution, exploded. The call to correct this unacceptable situation by the Governor of Mexico City sparked a national debate among journalists, academics, entrepreneurs, workers' and employers' representatives and senior officers at the Federal and the local governments, the CONASAMI, the Central Bank, the Tax Administration Service (SAT), the Ministries of Finance and of Labour, and even the President. The ensuing debate led to the consensus that the minimum wage needs to be put on a sustainable path of growth in real terms so that it reaches its constitutionally mandated level.

Throughout the past half century, the evolution of the minimum wage in Mexico has followed three distinct stages. In the first, ranging from the 1950s to the second half of the 1970s, the minimum wage quadrupled in real terms. This rise occurred while the Mexican economy experienced its golden age when real GDP expanded at an average annual rate of 6% and preserved low levels of inflation. The increase in the real minimum wage lost strength from the balance of payments crisis that Mexico experienced in 1976. In fact, during the oil boom years the minimum wage lagged slightly due to inflation. Later, when the oil boom collapsed in 1981-82, the stabilisation policies adopted to manage this crisis launched a phase of sharp deterioration in the minimum wage. Indeed, as part of efforts to contain inflation, government policy was set to manage the adjustment of the minimum wage below the increase in consumer prices. The depreciation of the exchange rate, the decline of trade union influence in a context of a weakened labour market due to reduced economic activity, and the government's concern to correct public finances and lower inflation above all other objectives led to a sharp deterioration in the minimum wage.

In the late 1980s—after the lost decade—productive activity in the country began to recover and inflation started to stabilise at a low level. But the minimum wage policy followed virtually as an instrument of anti-inflationary policy, and did not fulfil its original mission in the labour market to ensure income protection. As shown above, this coincides with deteriorating income distribution levels. Instead of placing it at a dignified level CONASAMI, with its formal decrees on nominal increases in the minimum wage in the country, sanctioned insufficient adjustments for inflation that led to recurrent falls in value in real terms. By 1995 the minimum wage had lost 66% of its purchasing power against its value fifteen years prior, as Figure 6 shows.

FIGURE III.C.6: MEXICO, INDICES OF THE LABOUR SHARE OF GDP, THE MINIMUM WAGE AND THE AVERAGE WAGE, 1980-2014
(Index 1980=100)



Source: Authors' own elaboration based on Samaniego (2014) and data from INEGI, SNCM, and ECLAC (2016).

The following third phase in the evolution of the minimum wage, which lasts until today, is characterised by a further downward pattern in real terms, although the rate of decline has slowed, and the fall in real purchasing power appears to have stabilised in recent years. However, this policy, followed for nearly 40 years by CONASAMI, or more precisely by the Ministry for Taxation and Public Debt as the institution to which it answers, has failed to follow through on the minimum wage's mission to protect citizens' rights established by the Constitution of 1917, and has had a serious detrimental effect on their purchasing power. This systematic deterioration has for some time set the minimum wage as one of the lowest in dollar terms in Latin America and influenced the average wage in Mexico to remain among the lowest across countries. Incidentally, the national statistics institute INEGI (2015) reported a 3.2% decrease of real average wages over the period from 2012-2014. In fact, among those countries in the region with more recent comparative and reliable statistical information on the monthly minimum wage, Mexico now ranks last on both real minimum and average wage accounts, as illustrated in Figure 7.

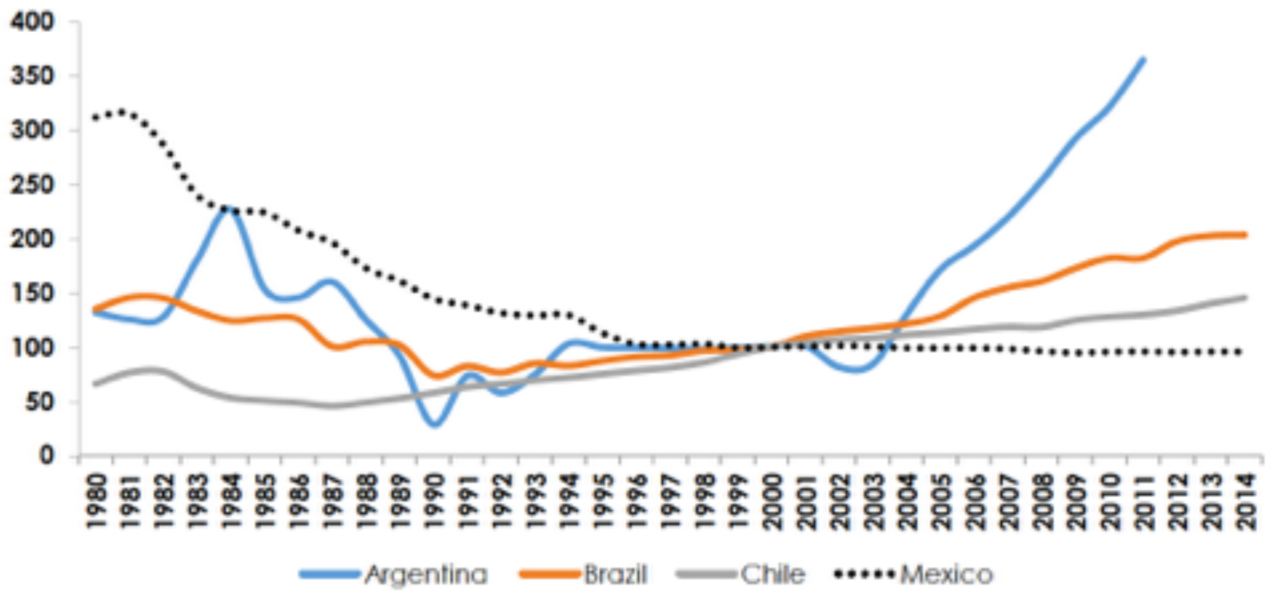
FIGURE III.C.7: REAL MINIMUM WAGE AND AVERAGE REAL WAGE INDICES IN SELECTED LATIN AMERICAN COUNTRIES, 2014

Source: CEPALSTAT (2016) Note: Data for Argentina refer to 2010.

How can low minimum wages translate into a compressed average wage? While the relationship between minimum and average wages is complex, Maloney and Mendez (2004) show that the minimum wage has impacts on wage setting far beyond those usually contemplated at the bottom end of the formal income distribution, showing effects both higher up in the wage distribution and in the unregulated or "informal" sector. As Fairris, Popli and Zepeda (2008) find, instead of merely setting a lower bound on the wages of formal sector workers, minimum wages serve as a norm for wage setting more generally throughout the Mexican economy. This translation mechanism, or lighthouse effect, is of crucial importance in a context like the Mexican one, where nearly 60% of workers have informal jobs (ILO, 2014). The authors also show that wages are commonly set at multiples of the minimum wage, and that changes in minimum wages influence wage changes across the occupational distribution, thus also affecting average wage levels. These findings have them conclude that "declining real minimum wages and stabilisation programs that strengthened the link between wage levels, wage changes, and minimum wages, might account for a portion of the growing wage inequality in Mexico over the period of the late 1980s and early 1990s" (Fairris, Popli and Zepeda, 2008). We will return to this conjecture below, but let us first take a brief look at how Mexico's minimum wage developments over time compare to those of other countries in its region.

As evidenced by Figure 8, the evolution of the minimum wage in Mexico contrasts with the experience of, for instance, Brazil and Argentina. Both countries have seen a consistent increase in their minimum wages over the past decades, over and above inflation adjustments. They have followed a policy of explicit minimum wage appreciation, often directly targeting inequality.

FIGURE III.C.8: REAL MINIMUM WAGES IN SELECTED LATIN AMERICAN COUNTRIES, 1980-2014
(Index 2000=100)



Source: CEPALSTAT (2016).

This strong growth in Argentina and Brazil in recent years is explained by the rise to power of governments committed to more inclusive development agendas. This commitment led them to use various instruments of economic and social policy to better distribute the benefits of growth in output to their citizens. On the one hand, they ceased to consider the minimum wage as a mere accessory to anti-inflationary policy, and on the other hand they restored its functions as an instrument of labour policy (Marinakis and Velasco, 2006). In contrast, the Mexican policy of minimum wage containment perhaps reflects the fact that social inclusion and equality, despite a shift in the ruling party of the President, still were not priorities of economic strategy. This containment was needed to support the reduction in inflation and limit government spending on benefits, pensions and other expenses related to the minimum wage. Beyond the often expressed concerns about inflationary pressures created by allegedly "artificial" and "arbitrary" increases in minimum wages, for instance by finance minister Luis Videgaray,[74] a 1999 paper by Agustín Carstens, the current governor of the Mexican central bank and former minister of taxation and public debt, explicitly recognises the practice of setting minimum wages according to budgetary

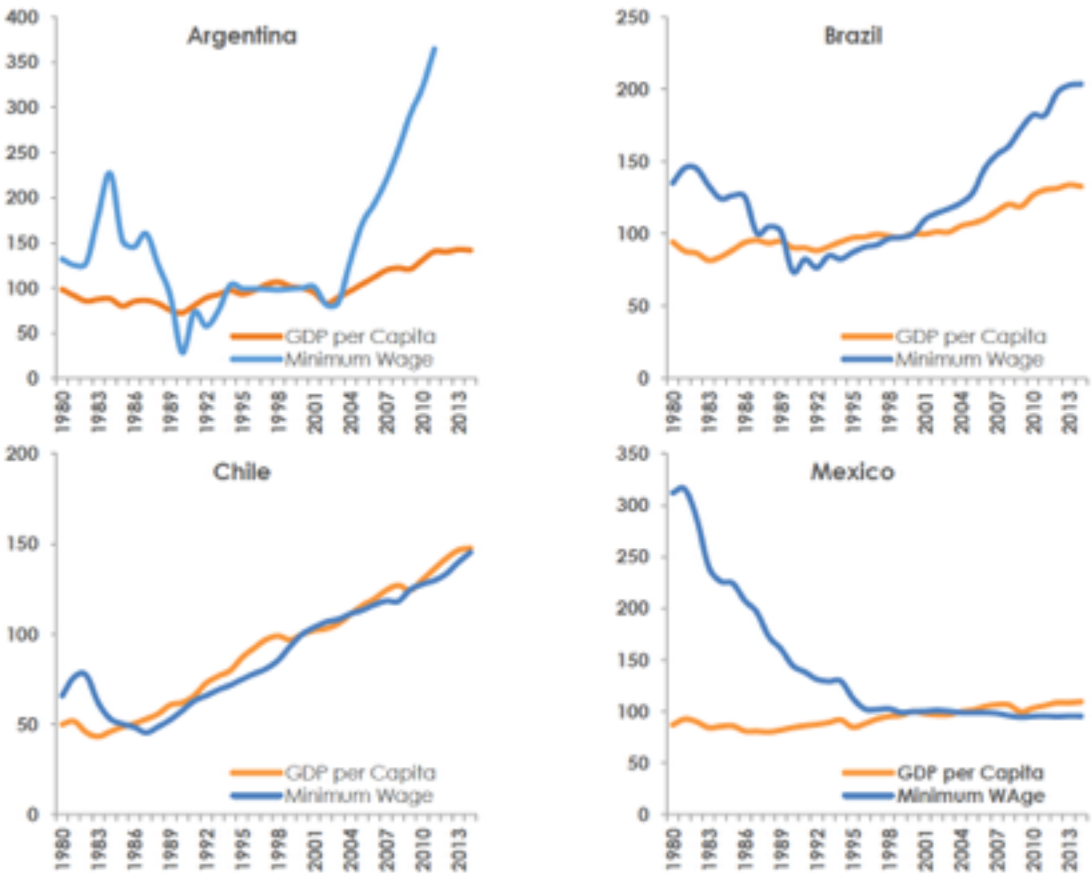
[74] As widely quoted in the daily press, for instance, by Milenio Digital (2014) or Informador.mx (2014).

requirements.[75] At the same time, the lag served to compress labour costs via prices rather than via productivity, a competitive advantage of the inclusion of Mexico in the global economy.

5. The minimum wage and productivity in Mexico and Latin America

It has often been argued by analysts and officials alike that the low level of the minimum wage in Mexico is correlated with the development or performance of labour productivity. Having examined the trends in inequalities and wages separately above, we can now test this claim, proceeding to a brief analysis of the relationship between the minimum wage and the evolution of labour productivity in Mexico and other countries in the region.

FIGURE III.C.9: EVOLUTION OF THE REAL MINIMUM WAGE AND GDP PER CAPITA IN SELECTED LATIN AMERICAN ECONOMIES, 1980-2014
(Index 2000=100)



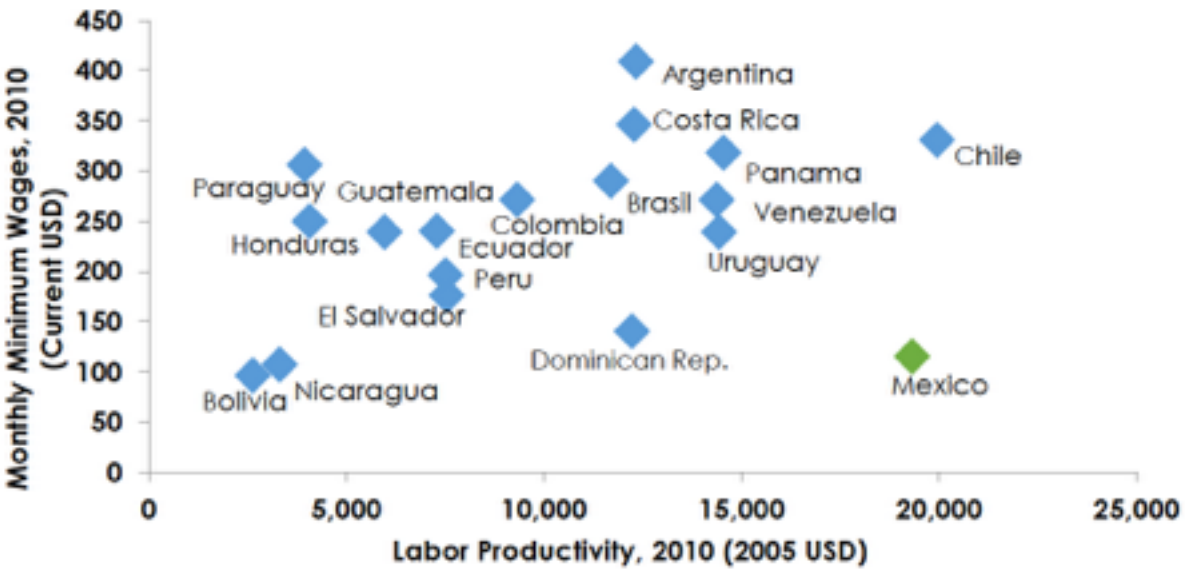
Source: Authors' own elaboration based on CEPALSTAT (2016) and World Development Indicators (2016).

[75] "Since 1996, all the monetary programs that Banco de México has implemented are fundamentally based on […] [a] yearly annual inflation objective. This objective is established jointly by the Federal Government and the Banco de México, and it is perceived as the result of a concerted effort to coordinate fiscal and monetary policies. Based on such objective the fiscal and monetary policies are designed, and it also *helps for the determination of the minimum wage.*" (Carstens and Werner, 1999, 17; our emphasis).

As documented above, the minimum wage in Mexico is the lowest in Latin America by any measure: in current prices, constant dollars, or in terms of purchasing power parity. Also its relative level compared to GDP per capita is very low, and decreasing – as opposed to the Argentinean, Chilean and Brazilian cases (see Figure 9). Mexico's minimum wage amounting to 15% of per capita GDP is the lowest ratio in most of Latin America, and far from the 30% for Brazil and Chile and about 50% for Peru, Colombia and Costa Rica. Its minimum wage is 19% of the average national wage, also one of the lowest percentages in the region. In one of the latest editions of the Global Wage Report, the ILO stressed that in Mexico "the minimum wage is below market levels, even more so for unskilled workers". In addition, according to ECLAC (2014), "Mexico is the only country where at the end of the previous decade the value of the minimum wage was less than the per capita poverty threshold".

The debate in Mexico related to the relative position of the minimum wage as compared to the rest of Latin America has placed a great deal of emphasis on the dependency that the minimum wage has or should have on productivity. This argument gave hope that at least Mexico's comparatively poor minimum wage performance in the region had a good reason. However, this is not the case. The ILO's (2013) Key Indicators of the Labour Market (KILM) show that for more than 20 years the average labour productivity in Mexico—measured in constant US dollars—has been and continues to be among the highest in Latin America. In 2012 it was the second highest, only 3% lower than in Chile, and far ahead of Brazil (60%). Furthermore, labour productivity was more than double that of the average of the rest of the region (see Figure 10).

FIGURE III.C.10: MINIMUM WAGES AND LABOUR PRODUCTIVITY IN SELECTED LATIN AMERICAN COUNTRIES, 2010



Source: ILO and Key Indicators of the Labour Market (KILM, 2013). Productivity data for Argentina refer to 2006, the last year available in the source.

While both variables have performed poorly in recent decades, the evolution of labour productivity and the real minimum wage in Mexico are not closely correlated, but rather contrasting. Indeed, at the regional level Mexico has displayed some of the highest levels of labour productivity for years. Its minimum wage, however, is the lowest in Latin America. During 1998-2013 when productivity rose 15%, the real minimum wage remained stagnant. In 2013 the labour productivity was 4.5% above and the minimum wages 30% below their levels in 1990. If the real minimum wage in recent years would have grown at the same rate as labour productivity, its level today would be 50% greater, at about MXN$100 a day.

In sum, in those periods in the recent experience of Mexico in which labour productivity has fallen, the real minimum wage has plummeted even more sharply. And during phases in which labour productivity has risen, the benefit is null or hardly reflected in the minimum wage in real terms.

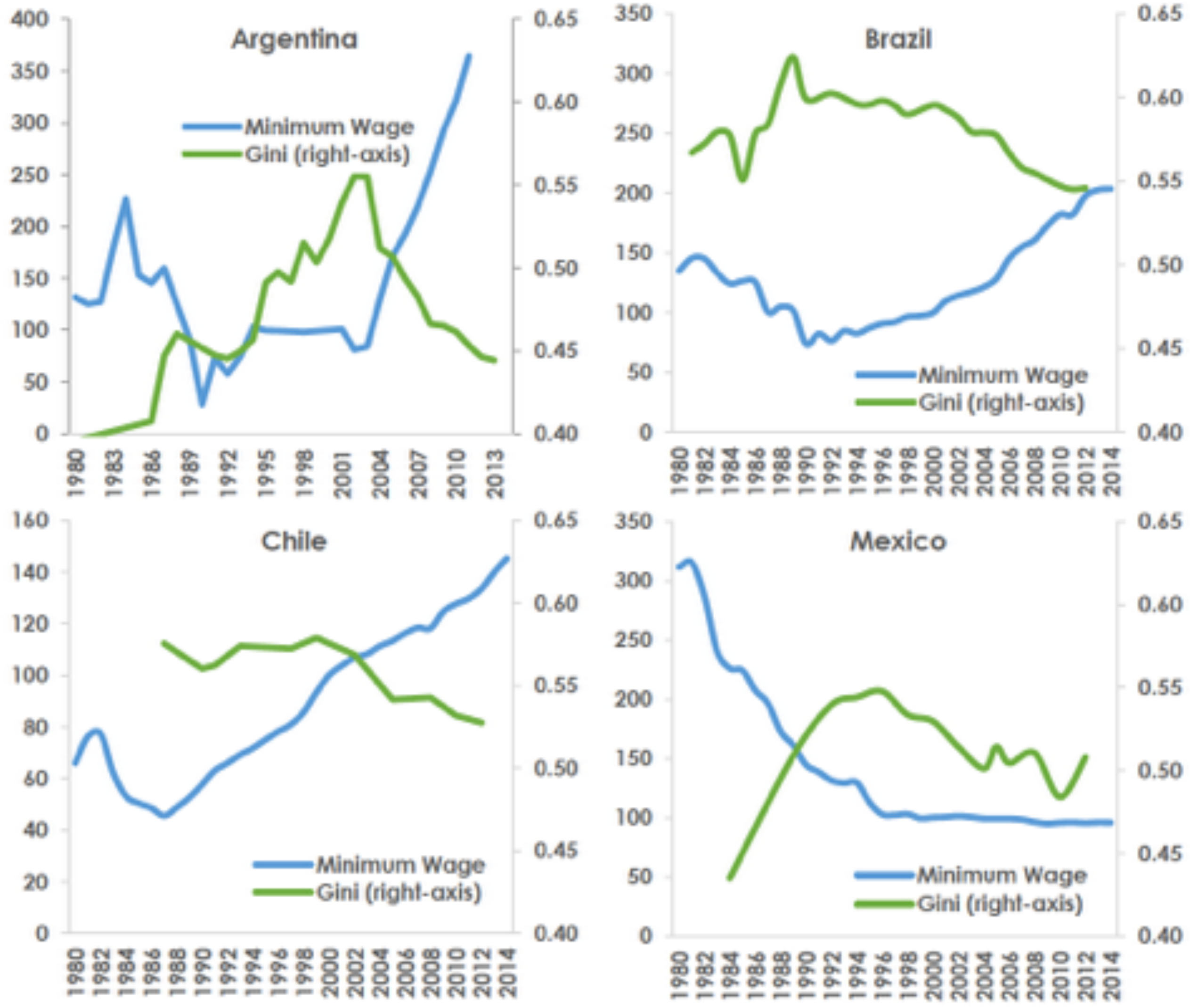
6. Interactions between inequality dynamics and minimum wage: lessons from Mexico and Brazil

Although Mexico has been historically unequal, the current distribution is by no means an outcome of a force of nature or a necessary consequence of its colonial legacy. There have been periods towards greater equality in Mexico, for instance prior to 1976, when the relationship between productivity growth and wage growth in manufacturing was relatively stable (Palma, 2011). Their subsequent delinking under trade liberalisation meant that increasing export competitiveness had little effect on living standards (ibid). In fact, by the end of the 1990s, the average wage was only just recovering to its 1976 level, although productivity had increased by about 80% in the meantime; in the same period, the real minimum wage fell 80%, and the share of wages and salaries in GDP fell from 40% to below 19%. Profit margins greatly increased – with the result that, as Figure 2 above showed, the distribution of labour income is even more unequal today than in the early 1980s.

At the same time, the wage and productivity developments in the country coincide with the loss of labour income share of the bottom two income deciles, as outlined above. Instead of addressing this problem directly, via concerted labour policies, successive Mexican governments have opted to mitigate the impacts of increasing inequality almost exclusively through targeted social programs. Created to compensate the poor population for their lack of sufficient labour incomes, these programs include *Prospera* (formerly *Oportunidades*), a pioneer conditional cash transfer program to poor households in return for obligatory schooling and health checks, as well as other programs, akin to non-contributive pension schemes such as “Seventy and More” and the

Universal Elderly Pension in Mexico City to benefit the elderly. As indirect targets, they include the improvement of the income distribution; their primary and direct focus remains on poverty reduction however. These programs do have a progressive, albeit small, influence on the income distribution. However, their partial success seems to have managed to distract from the disaster of the wage share declines at the lower bound evidenced above.

FIGURE III.C.11: SELECTED COUNTRIES, REAL MINIMUM WAGE AND GINI COEFFICIENTS, 1980-2014
(Real Minimum Wage 2000=100)



Source: Authors' own elaboration based on CEPALSTAT (2016) and SEDLAC (2016).

This contrasts strongly with the case of Brazil, which also features large scale social redistribution programs, such as *Bolsa Familia* and rural pension schemes, but additionally pursues explicitly progressive minimum wage policies, and has seen its inequality decline considerably over recent years. As Figure 11 shows, in the four countries Argentina, Brazil, Chile and Mexico, the Gini coefficient and minimum wages tend to be negatively correlated. While in Argentina, Brazil and Chile the fast rise of the latter juxtaposes a fall in inequality levels, the Mexican case shows stagnating wages and, after some erratic developments in the Gini, a rebound in inequality levels. Rather than with productivity, it seems, minimum wages correlate with inequality in these countries.

7. Conclusion

Our analysis shows that Mexico continues to face high and recently increasing inequality levels. Moreover, the country still lacks a clear strategy to address its persistent inequalities, in terms of both functional and interpersonal inequalities, woefully neglecting one of the most promising tools to improve the income distribution: Minimum Wages. In this sense, the Mexican case differs markedly from those of other countries in the region, such as Argentina, Brazil or Chile, which all have successfully implemented labour policies, particularly raising minimum wages, to decrease inequality. In our view, this makes Mexico an exemplary case for further study of the (negative) relationship between minimum wage and inequality, though not necessarily an example to follow for other countries aiming to decrease their inequalities.

While the causal mechanisms underlying the correlation between minimum wages and inequality trends are not explicitly explored in this chapter and will have to be addressed in future research, our analysis shows that, contrary to an often-held view in Mexico, a rise in labour productivity and international competitiveness by itself will neither automatically guarantee a significant and persistent rise in the real minimum wage, nor a consistent decline of inequality levels. It is not reasonable to expect such outcomes in the future without a significant reform in the minimum wage policy; considering recent trends in the distribution of its wages, the preoccupying levels of inequality in Mexico will not decrease substantially or sustainably if the increase in its labour inequality is not addressed explicitly. A new policy, then, needs to consider the country's unequal income distribution, rather than be strictly oriented towards achieving a fiscal balance and increased competitiveness, as has so far been the case in Mexico. It will require a shift away from the government's exclusive objective of inflation-targeting, and instead focus on designing economic policy so as to transfer the benefits of labour productivity and competitiveness to minimum wage workers.

An initial administrative step in this direction was the recent decision to de-link the minimum wage from multiple transactions far outside the scope of the world of work - a role as reference point that it has played for years. Examples of these transactions include fines, certain payments of mortgages and financial operations as well as the budget allocations to political parties. After nearly two years of discussions, finally by late November 2015 both legislative chambers approved a reform to end such linkages practices. This step, though important, can only be the starting point to recover the salience of minimum wages. In an attempt to reinstall the minimum wage as a meaningful labour policy to counter not only poverty but also income inequalities, besides de-indexing the minimum wage as a unit of account for transactions outside the labour market, its rate would have to be raised significantly so that it at least covers the cost of the national basic food basket, in line with constitutional requirements and social objectives of more equal distributions. This would simultaneously improve the country's poverty and inequality levels.

After all, the debate over better national minimum wages goes beyond being a purely technical issue. It is a political one, in a political economy that reflects the weight of equality in the society we want and we can build. It touches the heart of the different perspectives that actors have on the factorial distribution, its determinants and its relationship with the pace of economic expansion. This glaring issue in the agenda of civil rights and respect for the Constitution that should govern the design of macroeconomic policy, and its evolution, showcases the political decision to ignore the acute social problems of the most vulnerable workers. In practice Mexico's Federal Government and Legislature had blocked or frozen efforts to ensure the formal separation of the minimum wage from other variables outside the labour market that are tied to its levels for nearly two years. Reversing this opposition is the first necessary step to set the minimum wage on a recovery journey. All of these are political, rather than technical problems. Ultimately, improving the wellbeing of its citizens beyond a mere minimum (wage) level and towards a dignified remuneration requires a commitment to a development strategy in which equality and economic growth are not seen as antagonistic or as sequential objectives, and where gains in productivity, rather than being skimmed by the very top, are shared across the distribution.

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IV: The Top

Seeing Inequality? Relative Affluence and Elite Perceptions in Mexico

Abstract: Despite a variety of methodological and conceptual approaches attempting to explain the mechanisms of production and reproduction behind contemporary inequalities, the role of perception and relative measures remains under-explored. Based on over 40 in-depth interviews with members of the Mexican elite, this paper examines how the dissonance between elite perception and measured economic status matters for the social construction of inequality. This unique empirical data reveals that the 'wealth bubbles' within which elites exist lead to an experience of *relative affluence*: although elites acknowledge being privileged compared to a majority of the population far removed from their own lives, they simultaneously feel 'deprived' with regards to the exceptionally wealthy peers that they share their social space with. As a result, despite showing significant concern about inequality and its negative effects, elites underestimate their own position on the overall income distribution. The re-centring of the income distribution around their own incomes illustrates relational aspects of wealth. Subjective experience also informs participants' insistence on education as the key to overcome inequality. However, considering the stratified opportunity structures in the country, such measures perpetuate privileges rather than equalising opportunities. Understanding elites as embedded in their particular sociality helps explain how perception influences actual inequality levels, as the accumulation of advantages assures persistently high inequality in the country. Meanwhile, experiencing relative affluence distorts elites' perception of the majority's wellbeing, threatening social cohesion and obstructing the implementation of effective policy to sustainably decrease inequality.

Keywords: inequality; elite; income distribution; perceptions; Mexico.

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1. Introduction

High inequalities are an acknowledged feature of contemporary reality. Scholars across disciplines have considered many methodological and conceptual approaches in the exploration of the apparently intractable problem of their constitution. Common to most of these approaches is the assumption of an *objectively* existent inequality, independent of the eye of the beholder, that would be collectively agreed upon once uncovered. Since this premise is rarely questioned, research has not given substantive consideration to the role that perception and relative measures play in the social construction of inequality. Focusing on Mexican elites, this paper considers how the dissonance between perception and measured economic status matters.

Little is known, both empirically and theoretically, about elites' conception of distributional dynamics. Although new studies are starting to explore related subjects, so far no research seems available specifically targeting these questions in Mexico.[76] However, at times of increasing distance between top incomes and the rest, improving livelihoods for the latter depends on fairer income distributions. Perceptions inform political behaviour and policy preferences, and elites enjoy disproportionate power over policymaking. Thus, identifying their views can give new insights to illuminate the old debate about the persistence of inequalities.

Since information on the elite is scarce, its members are often mystified as either a group of self-interested individuals oppressing and manipulating the rest, or as different 'kinds' of people whose higher incomes are justified by their special abilities, preferences or personal characteristics.[77] Both of these perspectives hold some truth to them. However, neither the explanations regarding actors as puppets and their (evil) masters, nor those proclaiming individual attributes as determinants of all outcomes, do full justice to elites' status. On the one hand, extreme agency and coherence ascribed to elites borders on conspiracy theory and disenfranchises the masses. A convenient ex-post explanation to justify non-action, it cements the status quo. On the other hand, attributing social position to individual level characteristics of those within these positions is inconsistent with decades of poverty research establishing structural institutions like state, market, family, and their interaction, as obstacles to social mobility that produce interpersonal and factorial inequalities.[78] Notwithstanding, the 'fundamental attribution error', believing that rich individuals come to be rich on the sole basis of their own efforts, remains prevalent.

[76] Both Medrano's (2013) study on elites and poverty, and Medina Ortiz's (2008) report on Latin American elites and democracy touch upon the subject without making it their main concern.

[77] See Khan (2015) for a detailed description of these traditional views.

[78] See e.g. Bayón (2016).

In this paper, I will advance a third, complementary and largely overlooked explanation of understanding elites and their role in inequality perpetuation. It is both simpler and has a better logical and empirical fit. It does not need recurrence to conspiracy, meritocracy or fatalism. This perspective only requires a shift in the frame of reference. Where current research on inequality presupposes a context-independent, 'objectively' existing inequality of which all actors within society are aware, I suggest to turn instead towards one embedded in individuals' necessarily differing social worlds.

With my analysis, I attempt to contribute towards an 'economics of the rich' by bridging empirical and theoretical knowledge gaps concerning elite perceptions on the one hand, and inequality perpetuation on the other. To that end, I triangulate findings that emerge from my empirical data with insights from the psychology and sociology literatures which have extensively dealt with perceptions and questions of class and privilege, respectively. Before immersing ourselves in the analysis, the next section will provide a brief overview of the literatures and theoretical arguments employed with regards to elite perceptions and contextualise inequality in Mexico. The subsequent Section 3 outlines the methodology applied. Section 4 thereafter presents the empirical results that Section 5 aims to explain. Section 6 discusses their implications and Section 7 concludes.

2. Elites and Inequality in Mexico

Increasing inequality and extraordinary income concentration at the top afflict many regions of the world (Alvaredo et al., 2017), making research into distributional dynamics a timely issue. These trends not only raise questions of distributional fairness, they also feed a circle of production and reproduction of inequality. High levels of inequality tend to depress economic performance (Ostry, Berg and Tsangarides, 2014), and large concentrations of income at the top tend to drive overall inequality levels (Palma, 2011), not least through the interaction of high incomes with wealth accumulation. Such concentration gives a very small part of the population disproportionate economic power compared to the rest, which additionally often translates into political power (Petach, 2017). This feedback loop reproduces structural inequalities over time and undermines democracy.[79]

Many factors may have contributed to the rise of top incomes and the concomitant increase in income inequality observed in Mexico (Esquivel, 2015) and elsewhere. Proposed determinants

[79] Considering its negative consequences in the social and economic realms, even Mexico's own elites recognise inequality as the most pressing threat to democracy (Medina Ortiz, 2008).

include macrolevel drivers such as globalisation and skill-biased technological change[80] (Katz and Goldin, 2008); class dynamics (Bourdieu, 1987; Wright, 2015; Harvey, 2014), specifically declines in unionisation (Western and Rosenfeld, 2011); the importance of institutions (Piketty, 2014) or historically shaped institutional path dependencies (Acemoglu and Robinson, 2012); increasing financialisation (Galbraith, 2012; Flaherty, 2015); “shocks”, like wars and crises, as sudden ‘equalisers’ (Piketty, 2014; Diamond, 2005); as well as straight luck (Frank, 2016).

In most of the more economistic explanations, with the possible exception of policies as drivers (Stiglitz, 2012; Alvaredo et al., 2013), change in the astonishingly agent-less structures is presented as (inevitable) technical outcome conditioned by exogenous factors. However, the political science literature on a politics heavily skewed towards the rich (Bartels, 2008) challenges such technocratic views by highlighting the role that regulatory modifications play for the distribution of resources (Gilens, 2012; Wedel, 2009). Given the privileged position that elites occupy, both macro trends and cultural changes conditioning elites’ understanding of inequality will have significant implications for public policy (Clarke and Sison, 2005), and hence inequality perpetuation.

Although elites have thus long been ascribed important parts in multidisciplinary inequality research, alternatively blaming them for maintaining unfair distributions by conspiring against the rest (Dorling, 2014; Mount, 2012) or hailing them for driving top incomes thanks to their individual specialness (Rosen, 1981; Kampfner, 2014), little light has been shed on the role that their perceptions play in the persistence of inequality.

What supports the shift of frame of reference towards inequality *as perceived* by individuals is the fact that, in general, people have a poor understanding of inequality. For instance, in a study in Spain, only 14% of participants correctly identified the decile in the national income distribution they fell into (Fernández-Albertos and Kuo, 2015). Given how difficult it is to correctly estimate the distribution of income and wealth for skilled professionals, it is reasonable to expect that most “time-constrained, statistically unsophisticated citizens” have little *exact* knowledge about inequality levels (Gimpelson and Treisman, 2015).[81] Instead, inconsistencies between inequality levels and people’s perceptions appear regardless of methodological setups (Dawtry, Sutton and Sibley, 2015). However, rather than being randomly misinformed, respondents seem to systematically underestimate inequality levels and trends across countries (Norton and Ariely, 2011; Chambers,

[80] The idea that shifts in production technology have tended to favor skilled over unskilled labour, thereby increasing its relative productivity, and hence relative demand, and thus income.

[81] For lack of reliable data on top incomes, researchers’ statements about inequality levels and trends often diverge widely; technical discussions about data sources, ways of measuring inequality, etc. are not always easy to comprehend for laypeople (Krozer, 2016).

Swan and Heesacker, 2014). Moreover, subjective social position, i.e. people's self-placement in a social hierarchy, seems particularly difficult to estimate: respondents in Argentina (Cruces, Perez-Truglia and Tetaz, 2013), Indonesia (Hoy, 2017) or the UK (TUC, 2009) tended to place themselves closer to the median than their income actually implies. Despite significant country-specific variation as to the degree of misperception (Bublitz, 2017; Lindemann, 2004), poor people tended to overestimate their ranks in the income distribution, while rich individuals underestimate theirs. In Uzbekistan, almost two thirds of households in the top decile thought their incomes below the national median, and only 3% located themselves in the top two deciles (Gimpelson and Treisman, 2015).

Why are individuals' estimates so far off from measured income rankings, and what do they base their statements on? People make sense of the world based on their experience, mediated by beliefs of fairness, expectations about social mobility or other societal norms, and backed by the existence, or lack of, mobilising institutions for the poor or unifying organisations such as religious platforms (Gimpelson and Treisman, 2015). Individuals thus make their inferences about inequality, poverty and affluence in society based on cues the environment affords. This process of "social sampling" (Dawtry et al., 2015) means that elites, like everybody else, have to be understood in "the social worlds within which they are embedded" (Khan, 2015).

Such assertions have been tested in a burgeoning 'social psychology' literature on perceptions of inequality (Hecht, 2017, for the UK, or Sherman, 2017, in the US). For instance, individual's redistribution preferences relate to inequality *perceptions* rather than actual inequality levels (Alesina, Stantcheva and Teso, 2018; Bublitz, 2017; Gimpelson and Treisman, 2015).[82] Particularly, beliefs about inequality, even where they are incorrect, are decisive for policy preferences on criminal justice, the welfare state and income redistribution (Mijs, 2017). In the US, for example, misestimations of inequality lead individuals to see less need for redistribution (Dawtry et al., 2015). Political (as most other) behaviour depends more on "how a person feels socially than on one's position according to objective characteristics such as education, occupation or income" (Lindemann 2004; see also Dawtry et al., 2015). Thus, any debate over the distribution of society's assets is always "driven as much by perception and symbolism as by substantive argument" (Levick, 2014).

If inequality ultimately depends on how we view the world, our perceptions - whether correct or not - are a powerful driver of inequality. More to the point, it is *elite* perceptions about inequality that play a large role in enacted policies and preferences (Reis and Moore, 2005). In the

[82] The same seems to hold for other measures: perceived social mobility better gauged redistributive preferences than actual social mobility (Gimpelson and Treisman, 2015).

attempt to fathom the nature of inequality, it will thus matter greatly to understand perceptional particularities, their origins, and the standpoints of elites more generally.

Incidentally, evidence mounts that the richer people get, the more their views differ from those of everyday citizens (Khan, 2015). What makes especially rich people perceive inequality so differently from experts' calculations? As I will show below, elites' perceptions differ from those of other groups because the social worlds of elites and non-elites differ markedly.

Mexico City is a suitable location to examine these propositions: as the country's capital, it hosts most of the federal political elite and is one of the regional hubs for international institutions, businesses and global NGOs. At the same time, the city is the place with both the highest income threshold for the top 1% (Castañeda, 2016) and the highest millionaire density in the country.[83] But inequalities in other dimensions are also particularly large within Mexico City. For both quality and quantity of public goods provided, including water, electricity, sewage, or transport, fault lines run along the same divisions as resident income clusters. The absolute (and growing) difference between income levels leads to richer boroughs being able to afford more and better public provision of basic services, alongside private supply by and for its rich residents. This exacerbates differences in experiences in every aspect of life between residents of different sections of the city. Intersectionality of inequality dimensions means that, depending on the neighbourhood inhabited, citizens might experience water shortage or not, public security or lack of, housing appropriate or inadequate for environmental circumstances, etc.[84]

Mexico - a resource rich, globally integrated, middle income country - has long been among the most unequal countries in the world, and recent studies show the situation is worse than previously estimated (Esquivel, 2015). Adjusting official results with national accounts and fiscal data, Bustos and Leyva (2016) recalculate the Mexican Gini to be 63 (rather than the 44 suggested by household surveys), with a top 1% income share of 17.3% of total income - equivalent to what the lowest six deciles collectively own (17.2%).[85] Average net household income of the top 1% corresponded to 253 times that of the bottom 10% in 2010, or 729 times if market income is

[83] Moscow, Seoul, and Mexico City have the highest concentration of millionaire residents as a share of the country's millionaires in the world: 70% (compared to 41% in London and 7% in New York) (Arriagada Cuadriello, 2015).

[84] Although the rich are able to shelter themselves from many of the negative aspects of extreme inequality, criminality, violence and lack of public security, air pollution and traffic-induced restricted mobility affects all residents. Arguably, it's not the same being trapped for 45 days a year (Arredondo, 2017) in the private space of a SUV with A/C though, as travelling with the other 5.5 million people per day at 38C in the metro (Excelsior, 2016; 2017).

[85] Disagreement on the exact level of the share, and comparability problems due to different data sources, years and indicators used, remain. Sandoval Olascoaga (2015) for instance estimates its share to be 'only' 13.6% in 2012, whereas Esquivel (2015) puts it at about 21%. Uncontroversially, wealth inequality is even higher than income inequality: Mexico's Gini for assets is 79; two thirds of physical and financial assets belong to the richest 10% of families in the country (80% for financial assets alone), one third going to the top 1% (ECLAC, 2017). Besides, offshoring is disproportionately more likely among the superrich (Alstadsætter, Johannesen and Zucman, 2017).

considered instead (del Castillo, 2015). Accuracy and comparability of data remains an issue, but all sources concur that income inequality and concentration at the top is vast, and growing: top 1% incomes have increased 1.6% annually between 1992-2012 (Campos Vázquez, Chávez and Esquivel, 2016) and those of the 0.01% saw real income growth of over 33% between 2009-2012 (Sandoval Olascoaga, 2015). Meanwhile, average real incomes during this period *fell* by almost 12% (Arriagada Cuadriello, 2015), indicating further polarisation of incomes and accumulation of advantages in recent years.

Therefore, just as understanding the concerns of the poor helps to deal more adequately with poverty, discerning the perceptions of the rich can provide valuable insights into the social construction and dynamics of wealth, and consequently inequality, and the kind of responses needed to tackle it. To address these issues, I scrutinised Mexican elites' perceptions and social environments. After briefly explaining who I studied and how, I will present and discuss my findings.

3. Data and Research Methods

I conducted 43 in-depth, semi-structured interviews with members of the Mexico City elite between October 2015 and October 2016. Combining definitions of Reis and Moore (2005) and Khan (2015), I understand 'elites' as members of a loose group that comprises individuals within the top 1% of the country's income distribution in positions of potential influence, i.e. those with vastly disproportional access to, or control over, both economic resources *and* at least one other source of capital (political, social, cultural, symbolic).[86] I thus selected participants from within the highest social and occupational classes: 10 officials in public sector decision-making positions, including ministers and deputies; 25 private sector managers or directors; and 8 opinion-shaping academics, intellectual leaders or media professionals. Compared to the population as a whole, participants are extraordinarily well-educated. All of them have a first university degree; 21 hold a Master's and/ or MBA degree; an additional 13 have, or are in the process of acquiring, a doctoral degree. At the national level, less than 1% of Mexican students hold a PhD (OECD, 2015). Participants have attended the most prestigious - overwhelmingly private (except UNAM) - national (ITAM, Tecnológico de Monterrey [Tec]) and international universities ('Oxbridge' and US Ivy league).

[86] For accounts of different typologies of elite see e.g. Centeno and Maxfield (1992).

TABLE IV.1: PERSONAL CHARACTERISTICS OF PARTICIPANTS

Sector	Gender		Age Group			Political Orientation		Education		
(Total number of participants: 43)	*male*	*female*	*20-35*	*35-60*	*60-80*	*left-leaning*	*right-leaning*	*Licenciatura (BSc)*	*Masters /MBA*	*PhD*
Public	9	1	1	7	2	9	1	2	4	4
Private	24	2	6	17	3	3	23	7	15	4
Other*	5	2	—	5	2	6	1	1	1	5
TOTAL	38	5	7	29	7	18	25	10	20	13
*this includes academia, media and NGO sectors										

According to the National Statistics Institute INEGI, the top 1% in Mexico earned a total monthly average household income of MXN$133,221 (~US$7,512) in 2014 (del Castillo, 2015).[87] This compares to MXN$46,902 for the richest 10% of the Mexican population, a mean income of MXN$13,240 and MXN$2,572 for the poorest 10%.[88] However, inequality *within* the top 1% is very high: average income for the top 0.01% is over 30 times that of the lowest top group (99.00-99.90%) (Campos Vázquez et al., 2016), compared to a ratio of 27 between the Mexican top and bottom deciles (Krozer, Moreno-Brid and Rubio Badan, 2015). In absolute terms, Campos Vázquez et al. (2014) recalculate average income for the lowest 90% of the top 1% to lie between a slightly more modest MXN$112.000-127.000, the next 90% (excluding but the top 0.01%) as 'only' MXN$437.000-651.000 and the top 0.01%, depending on the methodological assumptions used, as MXN$2.5-6 million. Since these denote *average* incomes, the threshold for top 1% household incomes would lie just above MNX$100.000.[89] Accordingly, just over half of the interviewees fall within the 99-99.9%, whereas the remainder belongs to the top 0.1% and above

[87] Household surveys underestimate top incomes due to underreporting and underrepresentation (see e.g Lakner and Milanovic, 2013). For new research using different methodologies to improve estimates, see Campos Vázquez et al. (2014; 2016); del Castillo (2015); and Bustos and Leyva (2016). Their results differ significantly, but all of them apply large upward corrections to official accounts.

[88] Regional inequality across Mexican states means that the threshold for the top 1% in Chiapas is MXN$43,000 - below the national average for the 10th decile - compared to MXN$122,000 in Mexico City (Castañeda, 2016). Two participants did not reach this income threshold; one was dropped, the other included for holding a particularly powerful position. I have insufficient information on 5 participants' incomes to place them accurately within the top 1-3%.

[89] Del Castillo's estimates are higher, but his income concept includes estimated monetary income, imputed rent, and monetised non-monetary incomes (with the related methodological implications).

(up to MXN$2 million monthly), as indicated in Table 1.[90] At least half of the participants additionally have high levels of wealth placing them in the top percentiles.

TABLE IV.2: DISTRIBUTION OF INCOME AMONG PARTICIPANTS

Monthly Income (MXN)	Income Percentile Mexico	Number of Interviewees	Percentage sample
120K - 250K	1%	22	58
250K - 1Mio	0.1%	11	29
1Mio - 2Mio	0.01%	5	13
TOTAL		38	100
Note: excludes participants below threshold or where available income information is imprecise			

Interviews are suitable and enlightening methods for the investigation of the socio-psychological processes and cultural patterns shaping perceptions (Lamont, Beljean and Clair, 2014). Considering their established potential shortcomings (Saunders, Lewis and Thornhill, 2002), and the particularity that many of the participants are avid public speakers and personalities used to press contact, I cross-checked some accounts against secondary sources including, where available, tax declarations, media reporting and informants in participants' environments. Nonetheless, as with all self-reported data (including household surveys), there remains a degree of potential inaccuracy for participants' declarations. However, since my concern is with their *perceptions* rather than discerning discrepancies between participants' accounts and their actions, this is mostly inconsequential.

I identified potential interviewees via a snowballing sampling, since peers are best able to access hidden populations like the elite (to avoid 'community bias', I started out with several independent chains). Moreover, thanks to the personal referrals, I am perceived as a trustworthy peer in most situations. This increases reliability of participants' declarations and provides internal validation. Although deliberate sampling efforts were made to diversify the sample, women and ethnic minorities remain underrepresented. This is however also a defining feature of the top, of which for instance at the global level 87% is male (WealthX, 2016), a similar percentage as in my sample. Only two participants explicitly refer to themselves as 'brown', compared to over 80% at the country level (Peralta, 2017). Age within the sample ranges from 28 to 77 years; its average

[90] These amounts are current incomes only, not taking into account material or financial wealth held by the individual or her family, spouses' income, government transfers or other incomes not related to the individual's primary activities. Sandoval Olascoaga (2015) decomposes income sources of Mexico's top 1% earners, finding that only around the top 0.05% wages and salaries stop accounting for the main income source, falling beneath 40%.

age of 45.6 years is well above the national average of 28. I did not aim to collect a representative sample of what constitutes 'the elite'. Instead, my sample represents a variety of personal characteristics, including different political ideologies, religious beliefs, sexual orientation, ethnicity and migrational history, family status, and socio-economic backgrounds.[91] Interviews were conducted in Spanish, recorded and transcribed verbatim;[92] direct quotes are indicated by double quotation marks.

4. Elite Perceptions of Inequality

To better understand how Mexican elites perceive inequality, I asked participants where they would locate themselves on the country's income distribution. In line with the above-cited studies, most of my participants placed themselves on lower ranks than their income level would suggest. An income within the top *percentile* of the country was a criterion for inclusion in the sample, yet only just over one third located themselves in the highest *decile*, including the group of intellectual leaders (many of which work with inequality-related topics), and three other participants. The remainder placed themselves anywhere between the upper-middle ranks and as low as the median, fifth decile. Despite a tendency for those with higher incomes to situate themselves in a higher decile, no linear correlation exists between actual income level and perception. Instead, a marked mismatch between the two occurs at all income levels included in the sample, particularly in the private sector.

How can this phenomenon be meaningfully explained? In the following, I will give an account of inequality in Mexico according to its elites, to then proceed placing these perceptions within their particular social world, and bring forward a theoretical explanation for the observed mismatch.

Against stereotypes of elite indifference (Sherman, 2017), participants are aware of, and concerned about, inequality and its negative consequences, which they blame for the country's violence epidemic and its endemic corruption.[93] They refer to inequality as a "ticking bomb [and] we don't know when it will explode" (#4). Despite a unanimous agreement that current inequality levels are too high, understanding of what exactly inequality is, and what it looks like in Mexico, differs among participants. This matters since, although inequality's different dimensions often co-

[91] Elites might differ by location, therefore I restricted participation to Mexican nationals born, or residing for most of their life in, Mexico City.

[92] Three interviews were not recorded.

[93] Mexico ranked 123rd on the Corruption Perception Index 2016 (Transparency International, 2017).

develop, level and dynamics may vary by subgroup.[94] Thus how inequality is experienced will depend on how it is defined, and what groups along the income distribution are referred to.

Asked to define the problem, two distinct groups emerge in the sample. On the one hand, academics and some public officials assert that maldistributed resources are the core feature of a multidimensional Mexican inequality. On the other hand participants, particularly in the private sector, mainly worry about access to education (and, to a lesser extent, to cultural goods, political rights or legal guarantees) and see individual responsibility as the main determinant of outcomes. Accordingly, the first group emphasise the policy decisions underlying inequality's extreme level, whereas the second overwhelmingly sees inequality as something "natural" and persistent, but not negative *per se*, even "to a certain degree just" (#17).

Whether considered fair at some level or not, reaching extremes, inequality in its various forms is seen as socially harmful, because it foments shrinking of the middle classes, excesses at the top and deprivation at the bottom, an entrepreneur asserts:

> "I mean there will always be [inequality] because people are different, everybody does different things and markets don't value and compensate all activities in the same way. […] It's human nature for there to be inequality. Because some people are more intelligent than others. Or have more luck. And it's good that it exists; what you want to ensure is that nobody is so poor that they'd starve to death." (#7)

This 'cut-off' point beyond which inequality will allegedly be too extreme - when people die of hunger - normalises the existence of much inequality and blurs the distinction between inequality and *difference*, common among (private sector) participants. The resulting "naturalisation" of inequality predominantly worries the first group above, as this international sector director states:

> "These apartments right in front, they cost about US$4000 per square meter. But when we go out for lunch, you will find all the workers eating on the bare ground. If that isn't inequality - *caramba*! - tell me what *is* inequality! But it is already assumed as something natural for the workers to eat on the ground. We came to internalise, naturalise, invisibilize the problematic of inequality so profoundly already. They are building luxury things in very precarious working conditions. But it's seen as something natural." (#22)

[94] For instance, for a given distribution, income inequality might decrease at the bottom, and simultaneously increase at the top, e.g. after an expansion of public education accompanied by skill-biased technological change.

Although all sectors agree that Mexico is currently facing excessive inequality, a repeated insistence that Mexico has "always" been highly unequal seems sufficient justification for inequality's existence (where "always" may start with the *Conquista* 500 years ago, refer to Prehispanic caste societies, or participants' own lifetime). Accordingly, although participants are aware of inequality, it seems they don't know just *how* big the gap between the poor and the rich really is. Similarly referring to unfair working conditions, a CEO explains:

> "There could be somebody on that side [poor] that would say: wait a minute, what's happening - this guy is earning 10 times what we are making, why does he pay us 0.5?" (#6) This reference compares to actual ratios of over 500:1 in one company included (#33).

Indeed, participants tend to underestimate actual inequality both in terms of total range and earning expectations along the distribution:

> "At [private university X], I think we were people from the seventh to the tenth decile. You end up being closest with those that are like you, eighth-ninth decile more or less [because] aspirations and expectations about lifestyle [differ]. That is, in Mexico, somebody from the sixth, fifth decile expects to earn around 20.000 pesos. Somebody from, say, my level couldn't even pay my children's school fees with 20.000! So my aspirations are much higher than theirs." (#4)

While it is probably true that aspirations differ, the thresholds suggested overestimate real income levels significantly. According to INEGI (2016), a - typically 3.9 member - household in the sixth decile can expect an average monthly income of MXN$11,622; MXN$9,492 for the fifth. Arguably, it can be difficult for non-experts to provide correct estimates of median values. However, the estimates are too low even if the reference to the "fifth-sixth decile" were meant as an estimate of *average* incomes instead, a value presumably more handy, and certainly higher than the median. While some participants do not dare to venture into any concrete figures - "Average income? I have no idea. You?" (#9) - numerical guesses are invariably overestimating actual levels. A participant placing himself between eighth and ninth decile (equivalent to a monthly income of MXN$18.046-24.417) suggests a mean "20.000 pesos in a household of two" (#1). This compares to an *actual* average monthly household income - again, for the typical family of four - of just over MXN$15.000 (including imputed rent).

Estimates of low incomes, and perceptions of poverty more generally, often lack empirical accuracy, as exemplified by this director romanticising rural poverty:

> "We don't have this kind of poverty, our country doesn't permit extreme death. I mean extreme poverty does not lead to death. Why? Because it isn't snowing, people won't die in the streets as it happens in other countries. And then there is the sea, and I can go fish, and there are mango trees and I just grab a mango and eat it, so I can eat, live - what should I worry about, right? In other countries it is very difficult, there is no food; or in countries where there is war, where there are shortages, situations that we are not experiencing here. [Shortages] used to exist here, yes. But we never died of hunger. Never. In other countries they do. This lack of having lived such extreme things makes us see everything as very easy, right?" (#6)

Although poverty is routinely mentioned as consequence of inequality (and indeed there is a tendency to conflate inequality with poverty), the social reality that participants are exposed to differs from that of the majority in the country. Salaries for low-income public employees like police officers are overestimated by a factor of 3.[95] In the majority's Mexico, 15% of the population is chronically malnourished (Tourliere, 2017). The country spearheads world homicide-rankings (only surpassed by war-torn Syria in 2016), experiencing its highest homicide level ever recorded in June 2017 (Paullier, 2017).

More than participants' awareness of (relative) poverty, however, it is a frequent reference to a far-away top when explaining inequality that is particularly revealing:

> "The thing is that the gap is really big - I mean the rich people are *very* rich! They live in ridiculous opulence, unimaginable." (#10)

To better understand this statement we need to first take a closer look at the world inhabited by my participants.

5. The Mexican Elite's (Small) World

Describing the social worlds that Mexican elites live in requires exploring both how their spatial environment is set up, and whom they share this space with - or don't. All participants report low levels of interaction with people outside their own socioeconomic layers. Those downward relations reported are overwhelmingly low-intensity relations: most participants only interact with their

[95] Participants working in the construction and manpower sectors, who pay their workers at (multiples of) the minimum wage, and those working in media and politics, are aware of the devastatingly low minimum wage levels though.

domestic employees and workers in their companies, who, if towards the low end, remain far from the bottom. This explains partly why they consider income levels around the ninth decile as 'poor'.

A self-aware wealthy entrepreneur explains that escaping his "bubble" would require a rebellion against the powerful social structures in place in his environment:

> "I think it's too easy to settle into our own comfort; it's more comfortable. I mean, it takes effort to get out of the bubble you live in and reach out, and establish relationships with other people […] despite the filters and paradigms you have as an adult. The way we have constructed society in Mexico, everything works against this sort of thing to happen." (#19)

Getting out of one's 'comfort-zone' might seem difficult enough, but these "constructed" societal obstacles referred to by many participants are decidedly harder to overcome. A young CEO summarises the most frequently named factors inhibiting interaction:

> "In Mexico, [classes] are completely separated. It's not just a question of money. It's a cultural, racial and social issue. Yes, I mean I am not like that, but the majority of people in the high social strata don't like to interact with people they consider indigenous or Indio. Look, I think this happens in any society - people's relationships get constructed over shared activities, which is related to economic income: if I like to play golf, just to say something, well, I'll interact with people that can play golf. Another way of relating, I think, is to be able to talk, to have topics of shared interest. This might not be money as such, but it implies a vision, a shared way of understanding life. So, I think that when I say 'culture', the topics of interest between the two [groups] are different. And I think you tend to associate with people that have similar interests and activities. Somebody from a completely different world […] wouldn't be compatible socially or family-wise." (#1)

This statement encapsulates the predominant mechanisms through which socioeconomic in-groups are created and upheld. On the one side, discrimination is used as a tool to identify whom, where and how to *exclude*, enacted for example through structural racism. On the other side, segregation restricts with whom, where and how to *interact*, using vehicles of classism and cultural norms. These all-pervasive gatekeeping institutions often mutually reinforce each other, raising the barriers between groups, and over time further strengthening identification with the respective peer groups. Their intimate entanglement often makes it difficult to distinguish them. The classification shorthand developed by a participant upon arriving to Mexico City as a child approximates the inequality-reproducing micro channels of privilege transmission: social heritage/ family background, connected to geographic/spatial environments of upbringing, and educational institutions:

> "With the *chilangos* [inhabitants of Mexico City], I understood how I had to classify them: what does the father do? In which school did he study? In which neighbourhood did he grow up?" (#11)

The trinity of this categorisation system ensures an accumulation of opportunities which selectively grant entry to the exclusive and exclusionary spaces they protect. In the following I will illustrate the efficacy of these mechanisms and their entanglement permeating the physical, social and cultural spaces, as experienced by participants. I will first consider spatial and social discrimination, and thereafter turn to educational institutions.

5.1. Spatial Patterns of Separation and Discriminations

Increasing levels of income inequality and segregation over recent decades have meant that people grow up in less economically diverse environments. This prevents those on either side of the divide to grasp the full extent of inequalities (Mijs, 2017). Channels through which inequality breeds (self-)segregation in the physical spheres include grand-family residential clustering; participants report buying up real estate in spatially confined areas to keep family members close. In the 1920s, this custom led to the 'invention' of the high-end *Polanco* or *Lomas de Chapultepec,* in response to processes of reverse gentrification in more central, formerly affluent neighbourhoods like *Santa María de la Ribera* (Adler and Perez, 1987). Separation extends far beyond the issue of housing though. Besides residing within a small number of upscale neighbourhoods, participants also move within a very narrow range of largely overlapping areas within the City (exclusively in private transport). These comprise the western corridor *Santa Fe-Lomas-Polanco-Condesa*, southern *San Angel-Coyoacan,* and possibly the *Centro Historico*, where all work, play, and study are concentrated. The creation of "Slim City" (the Carso Blocks) north of *Polanco*, referred to above by the international official (#22), meant a colonisation of formerly popular *barrios* and wasteland for their conversion into new upperclass neighbourhoods. Building projects with prices like those quoted here further contribute to the creation of rich enclaves, where relatively affluent people tend to inhabit a wealthier space.

This urban restructuring also affects the social and cultural planes by conditioning the provision of infrastructure (members-only clubs), driving up prices of groceries and education (luxury stores and private schools), altering symbolic references (personal drivers), and flaunting new residents' conspicuous consumption (vacation destinations abroad, ostentatious penthouses with rooftop pools).[96] The resultant commodification of public goods and restriction of social spaces to predominantly private spheres are no accidents, as this director narrates:

> "The rich try to separate themselves. In [upscale] Santa Fe - well, there is a *pueblo* [poor area] close by. But the more they can separate themselves and say 'look, it's only rich and educated people living here', they seem to prefer that; they wouldn't like their neighbour to be a very poor person. It makes them feel uncomfortable." (#7)

Geographical separation seamlessly connects to a sentiment of 'merit', often bordering on 'peniaphobia' (fear of the poor). To avoid the "discomfort" of coexisting with poor people, the wealthy attempt to remain amongst their likes. Indeed, participants almost unanimously agree that interaction between the rich and poor is virtually inexistent, unless "the rich one wants to […] because the poor one wouldn't have access [to these private] spaces" (#9). Since the social circles of wealthier individuals include fewer low earners and more high earners compared with those of poorer people (Dawtry et al., 2015), social sampling would, for instance, induce wealthier people to perceive higher mean incomes in society, as shown above.

Additionally, "spaces" of interaction are not confined to geographical proximity: participants often identify more with other countries' elites than with their own country's poor. Even where elites may be proximally close to non-elites, in effect there is little overlap in the social worlds they occupy, and capacity to relate to each other decreases proportionally with decreasing opportunities for encounters with the respective Other. To fend off outsiders, "the issue in Mexico is that often those that have money will degrade those that have less" (#7). Among insiders, habits of assortative mating consolidate patterns of cultural and social segregations:

> "Families marry within their same educational levels, same cultural levels, even similar socioeconomic levels - similar among the couple, and the parents. This way they reaffirm these levels, this stratification." (#31)

Participants frequently mention childhood friends from poorer backgrounds, but feel that these relationships are difficult to maintain in practice. They are not compatible (anymore) with particular lifestyles and within their sociality seem frowned upon, discouraged or else-wise made impossible:

[96] See Turati (2014) for social consequences of *Nuevo Polanco*, and Osorno (2015) on the founder's perspective.

> "There are certain contexts where I can be with [friend from a low social class background] easily, but what if I want to invite him to a restaurant with my friends? (*Me: What happens?*) Nothing *should* happen, except if I worry about how my friends will judge me, what the other clients in the restaurant might think, the people working in the restaurant… and that scares me, so I tend to not invite him. (*How will others notice, does he wear a sign saying…?*) I don't know, probably because it's a place where you have to wear a suit, and this person doesn't own a suit… There are cultural differences between socioeconomic groups. They speak differently, they look different." (#19)

Appearance and speech are recurrent themes. Often they are sufficient indicators to establish individuals' position in the social hierarchy, participants assure. This facilitates the constitution of systematic catalogues of insiders and outsiders. Interviewees, like this director, explain the resultant discrimination with the 'classist' nature of Mexico:

> "This classism; it's easy to notice, starting from the way you speak! It's obvious. There are all those checkpoints, you know, like: he studied there, so I put him into this box; studied, lives there, speaks like that…" (#20)

All these markers, moreover, reinforce each other. They increase distance between those that speak, dress and look 'appropriately', and those that don't. I will come back to the education "checkpoint" in a moment. Meanwhile, as a mechanism for stratification, systemic discrimination is not limited to the poor. Racial stereotyping is pervasive in the country. For many participants, how much the above categories run along racial lines seems so obvious and natural that it is scarcely acknowledged as worth elaborating upon:

> "You would always think that somebody with caucasian features is from economically medium-high or high universes. That's normality in Mexico. I think it's something that on a sociological level stems from colonial times in Mexico." (#4)[97]

Participants feel the 'special' treatment goes both ways. Consider the very different stories of two participants exposed to these stereotypes. Asked about whether he uses public transport, a public sector official responds:

[97] Adler and Perez (1987) observed that in Mexico, Spaniards were often perceived as blond and blue-eyed, while most Europeans would doubtlessly describe them as dark-haired types.

> "No; because of my face it's not so easy, it doesn't help me much. The other day I asked the security guard at my new office where I could buy a soft drink or something, and she said: 'No, you'd better not get out'. Just here! And me: 'That bad?' And she said: 'Rather not'. Yep. It's a complicated zone, a tough area, and if they see a guy like this they think he surely must be a multimillionaire! Blondie ['güerito'], you know. I mean my hair is white now, but I am obviously a blondie." (#9)

One of the few participants that did not comply with the expected "obvious" features gives his personal account confirming such preconceptions but also pointing out that, in his experience, social standing seems to trump even ethnic prejudice:

> "I am very brown. This is what I experienced: in my youth, there were environments or issues where there was certain segregation. This has decreased. I'm not sure whether this is because it actually disappeared, or rather because your position became more influential. I mean, it's not the same to snub a brownie ['morenito'] like me that comes walking along, or the one arriving at a high-end restaurant in a fancy car accompanied by four bodyguards, right? As a teenager, if we went to a club for example, all my friends that look like you [blond] just went in, and to me they said: 'no, this one doesn't pass.' And today wherever I go it's the opposite, they even say 'you, come!', right? Mexico has changed in this regard, I think classism is *much* stronger and more predominant today than racism." (#20)

A conclusive statement about the prevalence of one sort of discrimination over the other must remain pending considering the intimate entanglement of racist and 'classist' prejudices. Nonetheless, the related experience permits a peak into the shaping of 'homogenous' social contexts. Since having friends and contacts from more diverse backgrounds reduces biases in misperceptions of inequality (Bublitz, 2017; Cruces et al., 2013), social sampling can be seen as a case of reference group effect (the result of comparing oneself and one's own behaviour with a particular group) combined with availability biases (the tendency to generalise based on nearby information). The resulting manifestation of false consciousness, independently of political or self-serving motivation, informs individuals' judgements and preferences (Dawtry et al., 2015). These interact with cultural references "typical of our stratum" (i.e. "those higher class backgrounds"), like "being used to reading Shakespeare" (#15), to constitute easily identifiable barriers to elite membership.

Reference groups are necessary and useful heuristics (mental shortcuts to make sense of a complex reality) to inform judgements about the world. But availability biases become problematic “when nearby information is significantly different from other information and related, when such experiential bases of information are particularly concentrated across lines of difference” (Khan, 2015). This happens under conditions of segregation. The mutually reinforcing trend towards both physical and sociocultural separation creates stacked layers of reality precisely along lines of difference, diminishing the overlap between the respective ‘worlds’. The resultant cultural reference patterns are deeply engrained and predictive of ‘class’ belonging. Participants’ extraordinary emphasis on education, scrutinised in the following, corroborates this.

5.2. Formal and Informal Education

Relatively high social mobility spurred by urbanisation and industrialisation during the country’s boom period in the 1960s-70s sparked a firm belief in education as *the* means of socioeconomic ascent (Solís, 2012). For most of society these patterns have long ceased to exist. Today, overall intergenerational mobility is low: chances to move from the lowest quintile to the highest are just 4% (CEEY, 2013). Notwithstanding, many participants’ blind faith in “education” as a necessary and, combined with personal effort, sufficient requisite for success persists, as this CEO relates:

> “Effort, work and education, that’s my line. […] I am privileged, because I can give my children education. And my children’s children will be even more privileged than my children. That’s what I expect, what I aspire to.” (#3)

This seemingly neutral statement encapsulates the consequences of accumulation of privileges. Despite a monolithic belief in meritocracy, educational equality of opportunities does not exist in contemporary Mexico (INEGI, 2017). The increasing bifurcation of formerly public goods into a public-private dichotomy of services shifted perceptions towards the superiority of its - expensive - private component. According to one CEO, “in Mexico everybody from the 4th to the 10th [decile] will send their children to private school” (#4). Though a real phenomenon, the actual number is closer to 20% of high school students in private education (OECD, 2015).

The unchecked meritocratistic ideology leads to a mantra-like call for increased education to fight inequality. However, these perspectives often miss that this way, rather than being a social equaliser, education works as a mechanism of stratification: it effectively contributes to increasing inequality when the children of the privileged will become yet more privileged. Moreover, a creeping “elitization” of private services cements not only the hierarchical nature of this dualistic social system, but creates one within the private sector itself. Participants are acutely aware of this phenomenon:

> "There is a segmentation within private education and health: it is not the same to go to the *Hospital ABC* or just any low-level private hospital. It is not the same to go to the *ITAM*, where I studied, or any unrecognised private university. For starters, the quality of teachers differs. So there is an elitization of education." (#4)

This means that private education institutions catering to the elite specifically function as places of non-interaction with different strata. They offer practical applications of 'othering' that combine meritocratic ideals with classic 'classist' structures, as laid out by a young lawyer:

> "I think there is a lot of prejudice, this idea of 'us' against 'them'. I'll give you an example: I am from [University X]. Very few lawyers make it through because it is very complicated and the exams are really tough, and those that make it say: 'us from the [X] we are super close and will help each other'. I mean, if you are able to help somebody from [X] and somebody from [University Y], you will help the one from [X]! Even if the guy from [X] is the worse lawyer of the two. It's a sort of groupism." (#15)

The connections forged by elite attendees of private institutions are lasting, productive and reliable. The important skills acquired tend not to be those in the academic curriculum, but seemingly mundane aspects of survival in their world. Aspiring lawyers are taught about status-adequate haircuts and suits; 'correct' behaviour in interview situations; estimating economic background from appearance; successful self-promotion, etc. The resultant system of opportunity structures conditions the outcomes for individuals within its confines by creating a 'fail-safe'. Akin to the accumulation of disadvantages in Galster and Sharkey's (2016) spatial opportunity structure framework among the poor, this gatekeeping mechanism accumulates privileges, thus multiplying inequalities. In a context where English is not taught at public schools, learning second and third languages, and then being able to spend a year at a British (or US) elite boarding school, are advantages taken-for-granted that are rarely factored into the equation of personal hard work equalling (economic) success.

A naturalisation of granted privileges gives many participants a strong sense of merited standing. Rather than a structural 'push factor', they consider taking advantage of the opportunities presenting themselves as an intuitive talent, as this public official (from well-situated family background) proves:

> "Throughout my life I have always done whatever I wanted. It has cost me a terrible amount of work, I mean nobody just handed it to me. It wasn't a gift. But I knew how to take advantage of opportunities. I knew how to do that somehow intuitively, naturally." (#9)

If inequality is mostly understood as a question merely of (equal) opportunities that have to be taken advantage of "intuitively", this specific definition will taint the perceptions of existing inequality. Such perceptions contrast sharply with a reality of belonging to the in-group in possession of a 'golden key' to unlock cumulative advantage. Access to its codes supersedes nominally equal qualifications and tilts the playing field in favour of already better equipped players. A participant's casual statement - perceived as obvious - concisely exposes this amalgamate of structural discriminations:

> "Somebody descending from the *Sierra Tarahumara* [i.e. indigenous] wouldn't be able to become president of *Televisa* [the largest broadcasting company]." (#4)

The respective opportunities of the poor indigenous person in the Northern mountains and the *Televisa* CEO, one of the richest individuals in the country, differ from the very outset. They live in different worlds. These are literally governed by different laws, because "if you have money you can buy justice" (#13A).[98] One director comments on these multiple "Mexicos":

> "[T]his disparity, I suppose, it also means disparity in the national identities of the different socioeconomic groups because they have different realities. Surely the identity of those people living up here in *Lomas* or *Santa Fe* is not the same as that of the people living in *Iztapalapa*. And this mosaic of cultures and identities creates this really quite peculiar reality, right. In Mexico it creates… several Mexicos! Right? Really. I don't know, I have never thought about this, but I imagine this would again have implications for society and culture, right, and for how we conceive of ourselves as a country." (#16)

After describing some of the mechanisms creating these dissimilar parallel universes, we can now turn to the implications of this phenomenon, to explain why elites perceive inequality as they do.

[98] See also Raphael (2014) about the '*lords/ladies'* phenomenon.

6. Relative Affluence: Re-centring the Distribution

Spatial and social separation thus mean that elites live in their 'own' particular Mexico. Their exclusive bubbles of sociality condition how they make sense of inequality. Rather than misperceiving reality, elites seem to understand their own experiences quite well. Where many fail though is in the assumption that the reality, or 'world', of others is similar to their own (Khan, 2015). This peculiarity can explain participants' overestimations of middle and low incomes, and enthusiastic focus on 'meritocratistic' solutions to inequality. However, there is still a missing piece in the puzzle: why do elites seem to worry about inequality, if their environment is just wealthier than average?

Despite elites experiencing a truncated inequality structure with regards to the left tail, they do in fact experience large inequalities. Theirs just looks different from others' - because it is in a fraction of the distribution the rest rarely peeks into. Effectively, neither elites nor the rest see the whole picture. While elites cut off the lower end, the rest usually has little insight into how the top looks 'on the inside'. The particularity of top income earners' perceptional framework is that those they are in social contact with, although not representative of the entirety of the income distribution, represent a relatively broad income range compared to other socioeconomic fractions - simply because differences between top incomes are so large. This leads to a perceived lack of upwards relations "all the way up in the tenth decile" (#2, #4), as expressed by this manager in an international company:

> "I do know people that have really a lot of money. But I don't know [wealthy businessman Carlos] Slim. I don't know the tenth decile, or the ninth. No." (#10)

As I have shown above, a fractional relationship of multiples of income seems to characterise the high end of the distribution. Differences within the top are almost comparable to those for society as a whole. Due to the massive absolute distance between incomes of MXN $120,000 and several million, as in my sample, members at the lower end of the elite universe feel relatively "poor" compared to those even higher up.

The more unequal the overall system gets, the stronger these effects become as a consequence of the physical and social compartmentalisation defining their daily lives. Participants do appreciate the quality of life they enjoy. They also consider themselves well-off compared to those that work poorly-paid jobs out of necessity rather than having the privilege to choose their activities freely:

> "I don't lack anything, I do what I like to do. I don't much like talking about this, because everybody says 'how I would love to be able to live like you do!';

> for example, a year ago I said: 'Let's build a flower nursery for a million dollars.' And look at these pictures they just sent me! Orchids, only orchids. We have capacity to produce 90.000 orchids. Yes, it's a hobby, but one that will start making money. Yes, I am fortunate in that I am happy with what I do, but I am not at the level where I stop worrying about money; there are so many things to pay!" (#14)

From the outside, therefore, it looks like elites are just unaware of quite *how* privileged they are vis-à-vis the majority. But the amount of 'exceptional' peers in their surrounding (successful co-students at university, excellent entrepreneurs at work, ultrahighnetworth individuals as neighbours) is much larger than random. This strengthens the immediate comparison, conditions the reference group, and shifts the baseline of what constitutes average. It normalises the extraordinary and reorients the self with respect to this new 'normal'. From their own perspective, considering the affluence they observe around themselves, their universe extends so far upwards that most cannot realistically place themselves at the very top. This leads to a 'rescaling' of the distributional universe around one's own position.

This re-centring of the distribution can be broken down into three elements. I have already explained how the low end is cut by lack of exposure to the poor, and how the self is 're-situated' into the middle due to disproportionate exposure to other wealthy people. The missing third element particular to the elite is the extension at the top, which we will turn to now.

Being torn between the appreciation of own privilege compared to those worse off and awareness of the existence of others infinitely richer, is a constant feature in participants' accounts of their lots:

> "I have been observing this over the past ten years with my friends, there is a level of *very* rich people that live in another world. I might earn well [monthly 0.5 million], but I never made *real money*. I mean, I live very well, I can't complain about anything, I got my assets, all that. Still, life is expensive; I don't have a plane, I don't have a yacht, and I don't go to stay at the Ritz in Paris or nothing like that. Like these guys that can decide tomorrow: 'let's go to Paris', they get their stuff, and they go! Right?" (#31)

This ambivalence also accompanies a participant stating personal income levels (admittedly, at the low end of the included spectrum), when pronouncing, only half jokingly, "very low, don't you think?" (#26). Although they would clearly be perceived as rich by the rest of society, within their own world and frame of reference, they are doing well, but not excessively so.

Participants recognise their *relatively affluent* position compared to the "poor" that did not have, or were not able to take advantage of, opportunities. However, relative to the pecuniary exuberance they are surrounded by, even those participants earning very high incomes do not actually feel all that wealthy. One participant characterises himself as "the poor one of the group":

> "I mean, it's not that we cannot go to a restaurant with them [friends], but if they come and say let's make a trip to Siam [Thailand] or god-knows-where - how pretty! But I cannot do that, that's a different level." (#31)

With few exceptions, this extravagance does not relate to their own "reality", which many perceive as less glamorous. Explaining his surprise upon finding out that his income placed him in the richest 10% of society, another participant pointed to the attractive high-end lifestyle options unavailable to him:

> "Do you know why I didn't think that I was in the tenth decile? Because those in the tenth, they *really* live; I mean, I don't. Chauffeurs, bodyguards, I mean they have a luxury watch for every day of the week! I mean it's a completely different level, that I don't, no - I would never see that." (#13B) (It might be worthwhile to point out that those participants that *did* move around with bodyguards and "live this life" placed themselves in the seventh decile).

One of the consequences of the seemingly limitless top and the associated lifestyle layers is that the 'real' rich's lifestyle is described with awe and sometimes incredulity, even within the top 1%:

> "They have their own planes. So they take their stuff and say: 'let's go to our house in [Mexican beach resort] where they have 8 rooms. And we stay there. It doesn't cost me anything. Nothing! I just have to arrive with my suitcase in Toluca [private airstrip], get on the plane, and we go, to their house; we spend an extraordinary weekend, they take us back, and we go home. I consider myself very well off, very fortunate, but nothing to do with these guys. And I am not talking about the [Carlos] Slim sort of fortunes, noooo, I'm talking about people that have 200, 300 million dollars of wealth. Me, I have like ten, ok." (#31)

In their own universe, many therefore do not count themselves as part of the very top echelons. And they seem to experience similar 'status anxiety' looking up to their "rich" friends, as might be expected from relatively poor groups:

> "So we are friends, but suddenly they invite to something where I can't go, *I* cannot do that. The other day it happened to me: 'hey, you guys should join for a cruise on the Nile' - no, not the Nile, we went there already, the Donau. 'Well, it's leaving from this to that day, we already reserved the cabins for everybody'. 'How much does it cost?', 'Well, it's US$50.000 or whatever. But don't worry, we already put down the deposit, everything is ready.' But I will have to pay it! I had to tell them, 'listen guys, I can't, I don't have (enough) money to do that'. But they don't care." (#31)

Thus, while segregated from a large part of society in virtually all aspects of (daily) life, members of the elite still live in a very heterogenous environment of high inequality at the top. Their self-placements, rather than a misperception, reflect a reality within this reference frame. The social sampling effects in such an institutionally streamlined social construction lead to results that might seem surprising if the context, and perception of it, are not taken into consideration. Participants clearly use a different, recentered reference scale for their estimates, where the poor earn incomes around the national average, while the rich are far removed from their own - comfortable, but not outrageous - level. In the words of one participant:

> "The problem is not the absolute but the relative. If some poor people live way better now than 20 years ago, they will still feel poor if they are next to a mansion and a Ferrari, [even if] you might earn a thousand times more than somebody else." (#7)

This means that rather than an absolute level to be achieved beyond which an individual is unambiguously 'rich', wealth itself needs to be conceptualised as a relative concept.[99] Affluence is multidimensional, dynamic and socially constructed - analogous to the acceptedly multidimensional, dynamic and socially constructed concept of poverty. The complex puzzle of differentiated perceptions of inequality can thus be resolved by resorting to a rather mundane explanation: we have to speak of inequality *as perceived by*, rather than something existing independently of reference. An elite's perception of inequality differs from that of the rest, because elites inhabit a different world - but one full of inequality nonetheless.

In short, theirs is a *relative affluence.*

[99] Prince and Schiff (2009) show that average earners consider a million well-off, while millionaires believe multiple millions are necessary.

7. Conclusion

I have shown in this paper that perceptional differences between the elite and the rest of society can be explained without resorting to arguments that rely upon error, ignorance, manipulations, or difference in individual character. Both elites and others accurately understand *their* worlds. It is not the rich themselves that are different from you and me (and have the money), but the dynamics of the material worlds they inhabit tend to be different from those of the rest's, particularly in high inequality contexts. While less spectacular than an evil conspiring elite, or even a group of superstar individuals whose income potential knows no bounds, such a mundane explanation is much more in line with the empirical evidence. The problem is, the effects of social sampling in a distinct elite environment based on particular reference groups and availability bias have them mistake *their* — wealthier — world with *the* world, and thus hiding the reality of the many.

Consequently, the spatial clustering of wealth that comes with increasing inequality threatens social cohesion and prospects of wellbeing for the majority because it can lead to "dissociated enclaves of political perception and preference" that align with elite members' political power (Dawtry et al., 2015). This explains why the status quo is unlikely to improve significantly if the current course is maintained.

The findings presented here have several theoretical and practical implications. Firstly, while the study of economic inequality traditionally presupposes a known, commonly accepted societal inequality level, this is not confirmed in my study. Wealth, as poverty, is a relational concept: it is always relative to some reference that we identify as meaningful and these references can differ significantly. Consequently, inequality perceptions differ. Elites might exclude the low end of the distribution from their mental maps. However, whereas for the rest of society 'the 1%' represents a blackbox, elites actually look inside. Referring to the high end of the distribution being its most unequal part, one manager jokingly calculates: "Of course, if they put 100 of us here together with Carlos Slim, we will all be multimillionaires on average, right?" (#16). Members of the elite, like everybody else, tend to compare their income and social standing to those of their social environment, i.e. to other wealthy individuals in their surroundings rather than to the country mean or general population. And since they *experience* a different, wealthier world, they are constrained in their ability to make overall references for society at large.

Secondly, therefore, the chasm between the merely rich and the superrich also means there is a need to understand much more about the differences within the top, and to differentiate the experience of these 'groups'. Generalised conceptualisations of 'the rich' as the top quintile, top 10%, or even top 1%, are not necessarily illuminating due to the fractional nature of top incomes. Instead, economistic explanations will have to be supplemented by the study of (elite) perceptions to adequately understand the inequality dynamics. Moreover, extreme wealth and its multidimensionality needs to be acknowledged as a social problem that leads to side effects like diminished empathy on the individual level and suboptimal distributional policy for society. Consequently, the mere existence of extreme wealth bubbles constitutive of particular social worlds must be studied as a 'problem'[100] (analogous to poverty pockets) rather than being taken as part of a natural order of things. This can help uncover the puzzle of inequality perpetuation against economic expectations of factor equalisation in open market economies.

Starting from the premise that perceptions, and resulting preferences, are embedded in a particular social context which for elites differs from that of the rest can thus also help make sense of how they might come to better understand the conditions of others. This will provide valuable insights into the social construction and dynamics of poverty and wealth, ultimately necessary to address inequality. Since perceptions of inequality - accurate or not - correlate with political preferences, in a context of perceived lower inequality, direct redistribution might seem less urgent and indirect solutions like the proposed education and poverty relief can be perceived as sufficient, making the processes observed here antagonistic to political efforts to reduce inequality.

A first necessary intervention to tackle inequality, thus, is the creation and dissemination of better data on inequality. Then, space in its physical, social and cultural spheres has to be desegregated to improve interaction. This includes tailoring public space to purposes of integration, rethinking urban planning to dissolve particularistic enclaves and encourage usage of public services including transport. Education and health care systems have to become more inclusive, which will require investments in infrastructure — itself subject to availability of funds and political will. Such measures might make inequality perceptions more accurate on the societal level and create pressures across social sectors to decrease inequality. Achieving this will take time and other scarce resources in a context of deeply engrained structural obstacles and cultural references. It will require concerted efforts by public, private and civil sectors of society. Although costly, such interventions will nonetheless be a lesser price to pay for society than letting the status quo unleash its full centripetal forces. Future research will have to determine the optimal policy responses to the results presented here. What can be concluded from this research is that elites live in their own, unequal worlds of relative affluence.

[100] "Inequality, income concentration, the behaviour and influence of the super-rich tend to be treated as part of the natural order of things, warranting no more than marginal social science attention. We have a 'poor economics' but no 'rich economics'." This disequilibrium leads to biased and incomplete understanding of these phenomena, Wade (2014) argues.

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V: Ways Forward

Conclusions and Ways Forward

On August 5th 2014 Mr. Basilio González Núñez was very angry. Red-faced, he stood up from his seat in the audience of the Conference on Minimum Wages in Mexico City[101] and vehemently argued against a substantial rise in minimum wages as proposed by the panelists. He accused them of ignoring the grave danger of uncontrollable inflationary pressures that such an increase could lead to. According to him, the researchers were fabricating their numbers and inflating the importance of the issue, since, really, very few households lived on minimum wage level incomes and were therefore impacted by a potential increase.[102] Disregarding the theoretical contradictions of his argument, and the personal insults, dismissing a rise in minimum wages on the grounds of a limited amount of potential beneficiaries is both ethically dubious and factually mistaken. On the national level, according to household surveys, 14% of wage earners have total incomes below one minimum wage (ECLAC, 2014), and over 70% earn less than three minimum wages (Chertorivsky, 2015). Their wages, and probably even those of higher income earners, are likely affected by minimum wage setting due to the established lighthouse effects.

However, the most interesting aspect of Mr. González' intervention was his outrage at what could be mistaken for just another academic deliberation. In reality, this short exchange amounts to an overt power struggle about the definition of inequality and its importance among the elite. This is because Mr. González was not just any spectator at the conference and hardly a newcomer to the debate. Basilio González Núñez is, and has been for more than 26 years, the president of the National Commission on Minimum Wages (CONASAMI) in Mexico.[103] This makes him the longest-serving public official of the 'high bureaucracy' in Mexico (Flores, 2017) and, somewhat counterintuitively, one of the most significant bastions against increases in the minimum wage.

Mr. González' opposition is insightful in the context of this thesis because it is representative of a larger dynamic in the country, and beyond. When the Governor of Mexico City launched a national discussion on the urgent need and means to renovate minimum wage policy in Mexico in May 2014, optimism spread among the proponents of higher wages. They began to believe that, finally, the moment had come when inequality was no longer just an indirect concern but would be addressed head-on. Debates in the larger public, the press, and both Chambers of the Congress, reinforced this sentiment, as did the first legislative steps that were taken to free the minimum wage from its restricting ties to fines for administrative offences.

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[101] The *Foro Internacional: Salarios Mínimos, Empleo, Desigualdad y Crecimiento Económico,* co-organized by ECLAC, UNAM, the Socio-Economic Council of Mexico City, the Friedrich-Ebert-Stiftung and the Federal District Government, took place on 5-6 August 2014 at the Museo Nacional de Antropología.

[102] Part of the exchange between Mr. González and Miguel Reyes Hernández is documented on pp. 40 ff of the event minutes (Sedeco DF, 2014).

[103] Since 1991 (Gobierno de México, 2018).

However, almost four years into the debate, the state of minimum wages is as dire as it was when the discussions began. After some initial positive developments, 2017 saw the greatest loss of purchasing power and deterioration of wages in a decade. Growth in minimum wage levels, which were already below the official poverty line, remained below inflation (González, 2018). The same Senate that has authorised minimum wage levels which resulted in a net loss of income at the bottom accepted increases in the bonuses for high-ranking public representatives (Jiménez, Alcántara and Villa y Caña, 2017), leading to further income polarisation and concentration at the very top.

Meanwhile, Mr. González, who has negotiated the minimum wage with five presidents and never succeeded in raising its level to meet basic welfare requirements, has a monthly income above MXN$173,000 at least since 2014 (Flores, 2017), placing him among the top 1% income earners of the country.[104] These contradictions are indicative of the struggle over who gets to define the terms of the inequality debate, and how this directly affects policy recommendations.

This dissertation has made a case against inequality perpetuation, and for a renewed research agenda on the subject; in the process, I have argued that this requires changing the framework of how inequality is understood and addressed. The figure of Basilio González Núñez exemplarily draws together the multiple threads laid out in this dissertation, while simultaneously highlighting the practical relevance of the endeavour.

Before unraveling the conclusions drawn from these threads, this final section of the dissertation provides a concise summary of the main findings. Thereafter, it presents the implications these findings hold for the theoretical debates on inequality. The thesis concludes with a brief outline of a policy framework towards a more egalitarian society.

1. Summary

New data has demonstrated empirical developments resulting in greater inequality and income concentration at the top. I have documented these changes and proposed an indicator equipped to explicitly detect them. In the thesis, I have argued that these developments force scholarship to tackle new theoretical challenges which require a fundamental rethinking of inequality studies more generally. My proposed research agenda is built around five axes: 1) a reconceptualisation of inequality as relational and the corresponding importance of inequality perceptions; 2) a redirection of focus towards the top of the distribution and the role of elites; 3) a reconsideration of the

[104] He has never agreed to publicly disclose any accounts of his wealth, but just over that period he has accumulated over MXN$ 10 million.

mundane structures recreating inequality instead of considering inequality as a 'natural' phenomenon; 4) a revision of policy responses to inequality, including labour policies; 5) a revaluation of epistemological choices, prioritising diversity of methods and better data. The three independent but interrelated sections composing the main body of my dissertation have addressed all of these aspects in various ways. They were united by the overarching objective to investigate the persistence of inequality, focusing on middle-income, high inequality contexts. Concretely, they have addressed the issues of inequality measurement, developments of minimum wages at the bottom and elite perceptions of inequality at the top of the distribution, respectively.

As such, the first part has taken a fresh look at inequality patterns across the world, and how to measure them appropriately. Based on a custom-built comparative international dataset, I have proposed and tested a new indicator for inequality, the 5/40 ratio. The rationale behind this ratio is that it accommodates the main empirical features of income distributions around the world: an augmented middle part of the population holds a roughly comparable and remarkably stable share of total income (just over 60%) across all countries and for the timespan under consideration, while the bottom and top of the distribution divide the rest among themselves. This means that the continuously large differences in levels of income inequality across countries are almost entirely due to the income shares held by the richest and poorest parts of their populations, respectively. Although data is sparse, there is some evidence that this pattern has consolidated over recent years.

Discourses like the 'human capital accumulation' prove unable to correctly explain the rise and potential demise of high income inequality. My observations therefore imply that we should reconsider the theoretical bases of policy choices. Moreover, my findings mean that the most commonly used indicator today, the Gini Coefficient, underestimates inequality levels, especially of more unequal distributions. I therefore show that it is recommendable to use a variety of indicators in parallel in order to understand the subtleties of each (country's) distribution, since no indicator is quite neutral in its implications for policy making. In practical terms, the results imply that relying on social policy to decrease inequality - the current policy preference in Mexico and elsewhere - is insufficient. Instead, shares of the top would have to be decreased to benefit those at the bottom, e.g. through a redistributive tax policy.

With the recognition that inequality is largely defined in the extremes of the distribution, I go on to take a closer look at its lower end in Section III, where I examine the evolution of economic inequality in Mexico in the last three decades, both in terms of the personal distribution and the functional distribution of income. To that end, I analyse the relationship between income and minimum wages, and compare the developments observed with those of other relevant Latin

American countries. Mexico, with a minimum wage level below the poverty line and a markedly anti-egalitarian policy environment in general, proves to be a sort of outlier in the region compared to, for instance, Brazil, which has successfully used minimum wage increases as explicit anti-inequality policy.

This showed that the obstacles to improving wages at the bottom of the distribution are predominantly political, not technical. I examined the Mexican institutional context as well as the ideological and political economy considerations that have marked minimum wage policy in Mexico in view of recent attempts to bring the debate back to the forefront of the political agenda. At the time, the debate was the only expression of the renewed global interest in inequality in Mexico. Notwithstanding this 'niche' existence, the discourse has triggered fierce opposition from an unlikely consortium within the Mexican elite, criss-crossing political and ideological factions. To explore what kind of environment foments such antagonism, the third part delved into the world of the Mexican elites.

Despite their influence on the persistence of inequality, little is known about the exact role of elites in perpetuating unequal outcomes. Addressing this empirical and theoretical gap, the paper finds that elites both underestimate the overall extent of inequality and display a consistent inability to place themselves accurately on the income distribution, at times locating themselves as low as the 5th-6th decile. Instead of discarding these perceptions as cynical, false, or necessarily *mis*informed, I consider how the particular context within which they exist informs these perceptions. While challenging traditional views of elites as evil oppressors or special types of people, this explanation is both simpler and has a better theoretical and empirical fit. Since the social space inhabited by elites is different from that of the rest, elites experience reality differently from non-elites, underestimating poverty and overestimating average income levels, but correctly assessing inequality at the very top.

Reflecting their wealthy frame of reference, elites experience relative affluence: they acknowledge privilege compared to the masses, but simultaneously experience 'want' when looking around in their immediate environment. This can be problematic for the struggle against inequality, because it leads to policy preferences concerned with increasing access to education and minimal poverty relief programs. Although other parts of the distribution, particularly the low end, suffer from comparable perceptional biases (TUC 2009; Bayón 2016), elite views tend to have particular sway in policy circles and thus impact inequality reduction or perpetuation more directly. Therefore, if we hope to understand the mechanisms of inequality perpetuation, we need to address resource concentration and the resulting pockets of both poverty *and wealth*, rather than accepting them as part of a natural order of things.

Besides their influence on policy making, there is another, more indirect but no less important channel through which inequality is perpetuated by elites' perceptions of their social placement and the distribution more generally. It has to do with ideology as a means to reveal power relations in the creation of meaning and symbolic systems, and inversely, the shaping of ideology by experience. I will turn to this mechanism now to pull the threads of this discussion together, before briefly outlining some directions for future research and proposing a set of policy implications that emerge from my thesis.

2. Theoretical and Practical Implications

The making of meaning in a social context is always highly contested. For the social production of meaning, both ideology and power relations, and the symbolic systems they produce in their interaction, are crucial. Power relations tend to obscure and deform reality, constructing treacherous interpretations that can contribute to the legitimation and acceptance of forms of power and domination that weaken the perception of inequalities or injustices (Iturriaga, 2018). In that sense, social struggles for hegemony and those over the dominance of meaning run in parallel; ideology not only describes hidden power relations in a Marxian sense of State and doctrines, but also on a symbolic level, in the attempt to impose socially legitimised meaning (Margulis, 2009). The emerging symbolic forms are not only representations that serve to express or hide social relations and interests, but also participate actively, continuously and creatively in the construction, establishment and perpetuation of concrete social relations, in many cases of domination and subordination (Iturriaga, 2018). Similarly, the display of power relations in the above account of Mr. González and the Mexican political economy of inequality more widely can be useful to reveal aspects of the predominant ideology underlying the creation of the meaning of wealth and poverty, and hence inequality and its implications for social relations.

Useful as they are, these interpretations are incomplete, as they miss the important aspect of how existing inequality—i.e. context, and how it is experienced on a daily basis—affects the creation of meaning, and thereby influences ideology (and power relations). They thus fail to acknowledge the reiterative dynamics of this process, where once meaning is established, it affects ideology and power relations as well. Among other effects, this feedback loop foments institutional inertia, which makes changes in both reality and its interpretation slow and cumbersome. However, of more immediate concern in the context of this thesis looking at inequality *perceptions*, is the fact that context thereby acquires an active role in the shaping of discourse. Surely, underlying ideology, as well as power relations, play a crucial role in the production and reproduction of inequality discourse among the elite, as well as its trickle-down to society at large. However, 'reality' in the form of personal context, turns out to actively shape perceptions, and to be highly subjective.

The qualitative research undertaken for my thesis has shed more light on these issues. Its rich fabric composed of dense layers of meaning fills some of the gaps left by the holes in the quantitative accounts presented before, and brings us closer to understanding the obstacles to a substantial and sustainable decrease in inequality under current circumstances. In this way, qualitative and quantitative data are highly complementary, and indeed depend on each other to reveal the whole picture. The firsthand accounts of the wealthy about their own position in society, as perceived by themselves, reveal aspects of inequality perpetuation that are difficult to get to when exclusively relying on quantitative data. They transcend the realm of negotiation of power relations or establishment of ideology observable via secondary information, to touch on sense-making on a very personal level: questions of identity and self-worth, reflexivity and negation, legitimacy and privilege. The inner conflicts arising from experiencing a reality in which these question often produce contradictory answers are best approximated by scrutinising the wealthy participants' experience of richness.

To most people, 'the rich' represent mystery and fascination; they are the objects of resentment and admiration alike, often simultaneously. But how do they see themselves? What does it mean to be rich in a country of extreme inequality like Mexico—a country, where the richest 1% own the same share as the entire bottom 60% together (17%), and where their average income corresponds to 253 times that of a person in the poorest 10%? What does living in a context where the average income of a monthly MXN$13,240 is matched by a monthly half million pesos for somebody within the top 0.1% mean for the lucky latter?

Little is known about how the rich feel about wealth, poverty, and their status of privilege vis-à-vis such inequality. Yet exploring this question bears relevance beyond pure scientific curiosity. Thanks to their income, status and social position, the elite holds disproportionate power not only on the formulation and implementation of public policy, but in the framing of the discourse on inequality more generally: to what degree it should be considered an (urgent) problem, which measures could be considered appropriate to address the issue, and who might be held responsible: all of these questions are at the heart of the discourse propagate by Mr. González, related above. Therefore, elites' perceptions about these topics have an important direct and indirect impact on the level of inequality in the country.

Does a rich person recognise himself as rich? Where would he locate himself on the income scale of the country? Numerous studies on perceptions of inequality have established how little accurate people's estimations of their self-placement on the income distribution tend to be at any income level. For example, 89% of US Americans classify themselves as middle class (7% as lower class and only 2% as upper class) (Payne 2017); in Argentina, Indonesia, Uzbekistan or the UK people interviewed consistently placed themselves closer to the middle than their income level would imply. Although relevant at all income levels, this tendency is particularly developed at the extremes of the distribution.

My study of the Mexican elites confirms these tendencies for the case of Mexico. The limited understanding rich individuals have of the level of their own wealth relative to that of the societal majority is in line with the literature on the subject: most of my participants had difficulties in estimating correctly their position on the social hierarchy, underestimating their position significantly. Although participants were selected purposefully on the basis of belonging to the 1% of the population with the highest incomes in the country (at least), only about a third of them considered themselves part of the richest 10% (and of those most work with topics of inequality in one way or another). The remainder positioned themselves among the middle and upper-middle ranks, and as low as the median. Not one of them assumed himself more economically privileged than his actual position implied. The average estimation was close to the 80th percentile.

Where do these discrepancies come from? Although there is a tendency for those with higher incomes to locate themselves in richer deciles, there is no linear correlation between income level and perceptions. On the contrary, marked discrepancy exists between the two at all income levels included in the sample, particularly among participants from the private sector. However, the gap does not disappear when considering their professional affiliation to a specific sector, or any other personal characteristic for that matter. Participants belong to the highest social and occupational classes, yet their origins are quite diverse. Half of them hold managerial positions in the private sector, the other half comprises executive officers in the public and intellectual sectors (media, academics, arts). Similarly, neither gender, not age or socioeconomic background of the family of origin prevail as explanatory factors: both men and women, younger and older people, those raised in families with limited resources and those growing up in spectacular abundance all consider themselves less wealthy than they are.

Surely, some people might not answer such questions honestly. However, there is no reason to think that the group as a whole would be less honest than other groups: if they answer other questions truthfully, what would be their motive to lie about this one? As I have additional information on them and on their incomes, it is easy to verify their real position, which would make them look rather ignorant, or bad-intentioned, if lying.

What could be the reason for this collective ‘ignorance’ then? Compared with the total population, participants are extraordinarily well-educated. All of them finished a first university degree, half hold a Masters or MBA degree, and another quarter coursed doctoral level studies (at the national level, less than 1% have doctorates). They attended the most prestigious universities at the national and international levels. Neither are they ignorant towards the existence of inequality as such. They explain that “the gap is very large”, and that “the rich are *very* rich”, living in “ridiculous” and “unbelievable” opulence (#10).

Far from a supposed indifference towards inequality (Sherman, 2017), participants are conscious of, and worried about, inequality and its negative consequences. They describe it as a threat, a “ticking bomb” that could explode any time (#4), and as the foremost culprit of the widespread violence and insecurity afflicting the country, as well as its endemic corruption. Although definitions vary, there is unanimous agreement that current inequality levels in Mexico are too high.

In sum, neither income, nor occupational sector, personal characteristics or a lying conspiracy can really explain the divergence. As the tendency of the rich to locate themselves lower on the income distribution than their actual income would suggest is well-documented in the literature, and they do recognise inequality to exist, discrepancies cannot be attributed to ignorance or particular evilness. Rather, to properly understand this phenomenon requires taking a closer look at the particular shape of the inequality they experience.

The social reality my participants are exposed to differs from that inhabited by the rest of society, of which almost half live in conditions of poverty. Although poverty is routinely mentioned as a consequence of inequality (and in fact there is a tendency to conflate the two), accounts of the nature of poverty in the country depict rural poverty as an almost idyllic state, where climate conditions and nature’s plenty ensure survival and guarantee existence at a low, but carefree level where “nobody ever dies of hunger” (#6). In the Mexico of the majority, 15% of the population suffer from chronic malnutrition, and murder rates are among the highest in the world (only surpassed by war-torn Syria in 2016), and at their highest level ever recorded in the country. Even though the idea that the poor don't actually live that poorly is not shared by all participants, salaries of lower-level public employees, such as traffic police officers, are overestimated significantly. Such confusion has to do with the particular environment that wealthy people inhabit.

Unequal societies tend to be characterised by high levels of socioeconomic segregation. Indeed, all participants report staggeringly low levels of interaction with people outside their own socioeconomic strata. For the majority of participants, the only low-income individuals they interact with on a more regular level are their domestic employees, or workers in their companies. However, although vastly less rich compared to themselves, most of these do not live in extreme poverty. Due to the limited substantial interaction that exists between people of different socioeconomic strata in segregated societies like Mexico, their actual knowledge of the worlds inhabited by the respective others is critically limited. This factor helps explain why many rich people consider incomes around the ninth decile (~MXN$ 20,000) as "insufficient" to even pay for their children's education (#4), and as lying below the *median* income of a Mexican family (the actual amount is less than half this estimate).

Participants' worlds are typically dominated by wealth—often far superior to their own: peers that made "real money", own private jets and use them to fly to Paris over the weekend (#31). This means that their social environments are not only very rich, but also very unequal. The difference *within* the top 1% is almost equivalent to that between the bottom 10% and the top 10% of the overall income distribution. A "good income" of a monthly half Million pesos thus makes a director the "poor one of the group [of friends]" as his wealth of 10 Million compares to the "200, 300 Million dollars in assets" accumulated by his peers (#31).

According to the Mexican National Bureau of Statistics INEGI, his income places this person among the select 0.1% highest income earners of the country. The self-classification as "poor" compared to his surroundings arises from the fact that people only base about 20% of their status estimation on graspable factors like income, education and occupational status—the rest comes from subjective experience (Payne 2017). Although everybody knows (at least approximately) how much they earn, it is very difficult to know how much is 'enough' to be rich. The only way to estimate how much is 'enough' is by comparison with others; social comparison is inevitable. As the environment inhabited by the rich is wealthier, the comparative scale is adjusted, making somebody with an income above MXN$150,000 claim she "didn't know anybody in the tenth decile" (#10).

Being surrounded by so much wealth changes the way we see the world. Even confronted with the actual data, and thus 'real' location on the distribution, a participant was not convinced he was part of the top decile, where he assumed people to "really live the life" of luxury he would never see, full of bodyguards and conspicuous consumption (#13B). Incidentally, those participants that do live in the way described by this account, placed themselves in the seventh decile—as he did himself initially, before offering a doubtful "8th…?" when his colleague exclaimed, "noooo, of course not, he is a *Lomas* [wealthy neighbourhood] boy! He is ten [decile] but feels seven" (#13A).

Before labelling them as delirious for living in a bubble, it is important to understand that, on the one hand, it is extremely difficult to know one's exact location on the income distribution, even for inequality experts, as data is limited and often unreliable. On the other hand, *we all* live in our respective bubbles of a delimited social environment that influences our perspective of the world, no matter how conscious we are of this fact. This process of 'social sampling' arises from the effects of psychological phenomena like the reference group and availability biases. According to Kahnemann (2011), we can only partially control these subconscious mechanisms generated by our brains to make sense of the world. They are utterly useful to organise highly complex information into manageable schemes. However, they also mean that we attach excessive relevance to those references available to us from our immediate environment (due to the confirmation bias). The segregation that exists in unequal societies makes it particularly difficult to accurately estimate what happens in those other parts we don't experience, and our capacity to relate to others decreases proportionally with the decrease in opportunities to interact with the respective ‘other’.

What is it that inequality does to people then? While poverty means a lack of resources, even when the person affected is unaware of her situation, one of the key consequences of inequality is that that it makes people *feel* and *act* poorly, even when they are not. This is because feeling rich is more related to the level of inequality in ones environment than to the objective level of wealth of the individual (Payne 2017). Rather than an absolute level above which a person is unambiguously rich, knowing that one is ‘rich’ is relative. Just like poverty is a multidimensional, dynamic and socially constructed concept, so is wealth. Neither poverty nor wealth exist independently of reference.

Inequality, thus, has to be understood as *perceived by*, rather than as a concept disconnected from who experiences it. It affects people, their acts and feelings, in a systematic and predictable way: elites’ perceptions of inequality differ from those of the rest, because they inhabit different worlds, with different experiences and references. To better understand each other, people from different backgrounds would have to share more spaces to familiarise themselves with the realities of others. Space has to be desegregated to substantially decrease inequality. While the lack of opportunities to interact is not itself detached from existing power relations and ideology, it constitutes a separate and additional factor in perpetuating inequalities. Acknowledging this factor can give hope for change in a system of institutional inertia, where ideology changes slowly and power relations can seem (even though they effectively are not) inmutable, as it presents a more manageable task on the individual level in the short-run. This does not deny a larger responsibility to advocate and push for deep structural change, but can be a starting point for immediate action in a situation often perceived as static in its institutional-historical rigidity by people of all income levels.

Drawing together the threads laid out in my dissertation, a number of interdependent conclusions emerge from the findings documented in its papers. They all represent important aspects neglected in the broader contemporary debates on inequality and therefore form the backbone for a new approach to the study of inequality as described in Part I, in line with empirical findings and revised insights from the historical and contemporary debates on distributional dynamics. The recent interest in improving data quality and quantity has started to address one of the major challenges in the field. It has established that inequality matters and that it is much more pervasive than had been thought (both within and between countries). This increases the urgency to further engage with the issue. I have shown in Part II of my thesis that for this task, the indicators we use for measurement matter greatly. Relying on current indicators might conceal important aspects of the income distribution and thus lead to misguided policy response. Far from being a simple technicality, selecting the right indicator, or set of indicators, has important normative and political consequences in attempts to reduce inequality. For instance, the abstract nature of common indicators makes it difficult to fix clear and intuitive objectives for inequality reduction. However, without such clear objectives the fight against extreme inequality is likely to remain vague in terms of policy responses, timelines and results.

Inequality itself is not a static concept and its dynamics change over time. Any objective for reduction must thus attune to the particular context under consideration. While certain institutional 'path dependency' does emerge, this does not imply that there must be a 'natural' tendency of any kind. Instead of accepting high inequalities as a given, the context should be actively influenced. To that end, understanding contextual particularities is key, as their differences are not only real, but also perceived differently. As I have shown, these perceptions matter for inequality levels both on a direct and indirect level, because it influences both policy preferences and the dominant discourse on inequality.

How inequality is experienced on the individual and/or group level can diverge from how it is measured. This perceptional gap becomes the more relevant in contexts of segregation along lines of difference. The relation between perceptions and inequality levels will require further scrutiny. It is clear already, however, that policy can and does have an impact: both its presence and absence influences the income distribution, for better or worse. Investing in educational opportunities alone will not significantly affect the income distribution for the better. A set of policy objectives will be needed, where pre-distributive policies can prevent incomes from diverging unduly as discussed in Part III, reducing the costs of treating inequality *ex post*, among other policy areas.

Finally, Part IV of my thesis has turned to the importance of elites in the perpetuation of inequality, including their direct and indirect roles in the social creation of the concept of wealth. Trying to fix inequality by fixing poverty, the poor, or even just their environment, will not work. Instead, it is necessary to focus more on the top part of the distribution, both in terms of research and policy making, if inequality is to be diminished sustainably. To this end, although important, it is not enough to accurately measure and report their income or wealth levels. Rather, scrutinising the underlying social processes that lead to the construction of concepts like wealth and poverty will give important hints as to how inequality can be tackled. This requires a more profound understanding of elites'—contextualised—perceptions. The remainder of this final Part V takes a brief look at what can be done about this situation.

2.1. Future Lines of Research

This set of conclusions has both theoretical and practical implications. The renewed research agenda on inequality proposed here needs to be both interdisciplinary, grounded in an understanding of the concepts' multidimensional nature and based on a mixed-methods approach. Concretely, this means that scholarship should promote, first and foremost, the collection and creation of better data. This would facilitate both the study of general tendencies of income inequality dynamics on a local and global level, and allow for more empirically grounded investigation of other dimensions of inequality.

One of the least-researched of these dimensions is arguably that of inequality perceptions. Inequality by definition is a relative concept, relating societal poles in some way, and more research is needed on how inequality is experienced, and how the resulting perceptions directly or indirectly impact on inequality levels as measured by scholarship. This concerns perceptions of inequality in most countries as such, as well as comparative studies to find out potential differences and commonalities across societies. As I argue in my thesis, the perceptions of elites are of particular interest in this context.

This is due to the fact that, despite first efforts to remedy this situation, elites and the top of the income distribution remain the least explored part of the distribution, although arguably the most consequential for determining inequality outcomes. Again, better data and more adequate indicators for measurement would be beneficial for overcoming this gap. The rich primary data gathered for my thesis on elite perceptions of inequality in Mexico, which I intend to complement with further research within and beyond the country context in the near future, can only be the beginning of this endeavour. The barely nascent field of 'affluence studies' will require a lot of research in order to increase understanding of the dynamics at the top of distributions, the mechanisms of inequality perpetuation, and effective ways to break the cycle of its reproduction.

Correspondingly, research on responses to inequality will need to broaden beyond palliative and/or indirect measures to counter inequalities, and instead focus on the problem in an explicit, immediate, and systemic fashion. Comparative studies could work out best-practices with regards to policy responses, and detailed case studies would account for contextual particularities. The complexity of the inequalities phenomenon calls for a combination of tried-and-tested and innovative solutions. Future research will have to resolve this formidable task. While the exact design of an optimal policy portfolio will need to be explored in more detail elsewhere, I will end by outlining a rough programmatic roadmap to reduce inequalities and prevent them from reappearing. Far from an exhaustive list, these suggestions gathered from the results presented in my thesis might serve as inputs to stimulate ongoing debate.

2.2. Policy recommendations[105]

Instead of growing ever-more accustomed to accepting the enduring nature of inequality following a presumed natural c(o)urse, we should grow accustomed to searching for systemic solutions to inequality that can address all of its dimensions. This will require a change of governing institutions and economic models, adjustments in development agendas and research focus alike. Recognising this need was the underlying motivation driving this study, and remains one of the major challenges facing many societies today, including most of the region of Latin America, and certainly Mexico.

The first issue is with the developmental paradigm as such. In light of the spectacular disparities and their consequences which I have outlined elsewhere (Krozer, 2016), policy responses to inequality have been rather timid. The perception of inequality as a necessary byproduct of the development process that would in time decrease naturally, biases development objectives towards growth, even where this has negative effects on the income distribution. Moving away from growth as the primary objective to prioritising, instead, the public good and societal prosperity constitutes an important step in reducing inequality. A sustainable anti-inequality strategy demands a developmental framework geared towards equality. Identifying the ‘right’ set of measures to achieve this requires rethinking of developmental issues on several levels, and beyond the realm of my thesis. These include, for instance, the fundamental question about what the objectives of development should be; how to conduct monetary policy in a more egalitarian way; whether we can afford unlimited growth (socially and environmentally); the kind of distribution of assets, and consequently, power, we collectively aspire to; and how those that nominally benefit from the status quo can be persuaded to participate in the necessary change. Ultimately, improving the wellbeing of citizens requires a commitment to a development strategy in which equality and economic advancement are neither seen as antagonistic nor sequential objectives.

[105] The following section builds on Krozer (2016), *For Richer or Poorer: The Capture of Growth and Politics by the Elite* (Oxfam).

Second, a reduction in inequalities will require reforming the regulatory environment, particularly around transparency and accountability in government, to mitigate the link between economic and political power, and thus limit the perpetuation of inequality via the accumulation of privileges. A narrow elite can influence executive government through a variety of strategies, including campaign finance, rent-seeking, high mobility and constant shifting between positions of political and economic influence (i.e. revolving door strategies). Therefore, changing distributional patterns requires a consideration of both the legal framework and the application of the rule of law in a just manner. Unless these institutions are changed, policies targeting inequality will continue to address the *consequences* of inequality rather than its root causes, and will thus remain palliative. The reproduction of inequality can only be interrupted by changing the framework within which it currently exists. Historical and socio-cultural conventions favour those already in privileged positions. They include, on a more formal level, the likes of subsidies, tax treatment, and legal protection, and more informally, mundane mechanisms like ways of speaking, dress-codes, etc. These conventions are mouldable despite an alleged 'iron grip' of extractive elites. What is needed are programmes restricting conflicts of interest, decoupling business from election campaign financing (for instance through provision of public funds for political campaigns), cooling periods to close revolving doors in both directions, i.e. from and to decision-making positions in business and politics, and binding disclosure of personal gains and contributors —-as well as the proper enforcement of these regulations.

Third, achieving an increasingly equitable and inclusive society will only be possible if and when *pre-distributive policies* (i.e. those measures that correct the so-called market distribution, including, importantly, labour policies), and *redistributive policies* (such as progressive taxation and transfers) are applied in parallel. As to the former, the weakening of unions over recent decades, the proliferation of trade agreements that prioritise the interests of corporations over workers' rights, the tightening of intellectual property rights and the rise of finance, as well as a consolidation of strategic industry reducing competition across the economy, constitute some examples of negative pre-distribution policies that fail to protect the majority of citizens. These policies and their consequences have weakened the bargaining power of workers, while entrenching a legal framework with rules that lock in inequality. Hence, the reversal of these processes, which have been widespread and popular in policy circles over recent decades, could yield some significant advances. Reforming institutions like the Mexican CONASAMI to effectively protect low income earners, raising the minimum wage, improving labour protection through measures such as formalising jobs, and government-investment policies for the creation of jobs are all examples of how pre-distribution policies could lead to a positive result on income distribution.

Fourth, regarding fiscal measures, both tax and transfer policies have their role to play. Currently, the tax system in Mexico, as in many middle-income countries, plays a smaller role in easing market-driven inequalities than it could. Besides a tax structure of limited progressivity, fiscal policies are infested with evasion and administrative bottlenecks due to high levels of unregistered self-employment and informal sectors that limit the capacity of tax authorities to verify taxpayers' declared income. Although income non-disclosure is widespread at low income levels, in terms of fiscal budgets the more consequential evasion occurs at very top of the distribution (Zucman, 2015). Closing loopholes for tax evasion and elusion, increasing top income-tax levels and making the tax structure more progressive, and revising tax incentives for foreign investors and corporations are only some possible steps to reduce inequality. Additionally, in view of the particular problem of rapidly increasing wealth inequality, the application of a high-threshold wealth tax, in the form of an inheritance tax or a tax on capital gains, could have considerable redistributive impacts. All of these would have the beneficial side-effect that not only do they improve the distribution from above, but they are also a way to fill the public accounts. This provides resources for more progressive social policies and, importantly, protects the state from capture by narrow interest groups through decreasing its resource dependence. Conveniently, it would also improve registers of wealth held, thereby potentially helping to curb illegal outflows of capital and producing better data for research purposes.

Fifth, the consequences of inequalities can be ameliorated more effectively if they are smaller to begin with (thanks to pre-distributive policies) and a functioning progressive tax system is in place which redistributes resources towards greater equality. By providing resources to be distributed, an active tax redistribution mechanism additionally allows for a more generous transfer system towards the provision of public goods for everybody. Quality public healthcare, social protection and education must ensure access for everybody to enable citizens' full participation in public life and a level playing field, i.e. equality of opportunity. Universal access to unconditional transfers should be the aim to mitigate remaining market inequalities. A basic income[106] can ensure a safety net for all citizens, improve the income distribution and finally end extreme poverty.

Sixth, segregation and the spatial clustering of wealth that comes with increasing inequality is currently an important impediment to the application of these measures. It leads to the problem of the perceptional bias of relative affluence among those in (political) power, and thereby threatens social cohesion and prospects of wellbeing for the majority. However, the existence of spatially constituted wealth enclaves is not a natural given. Rather, they are the consequence of both deliberate and unintentional structures and strategies. One of the most neglected of these

[106] I have explored the idea of a universal basic income to fight inequality in more detail elsewhere (Krozer 2010; Krozer and Lo Vuolo 2013).

structures perpetuating inequality is spatial segregation, and the mechanisms that lead to an accumulation of privileges among the inhabitants of wealthy districts (and a corresponding opposite effect in poor neighbourhoods). As a policy area, this idea needs further exploration. To begin with, physical, social and cultural space has to be desegregated to improve interaction. This includes tailoring public space to purposes of integration, rethinking urban planning to dissolve particularistic enclaves and encourage usage of public services, also among the elites. Such measures might make inequality perceptions more accurate on the societal level, and create pressures across social sectors to decrease inequality. Among many other consequences, unequal societies are characterised by higher stress levels among individuals and the breakdown of social support networks *at all socio-economic levels,* including the wealthy (Graham, Pinto and Ruiz, 2015). This provides an 'ego'-case against inequality, for those who might find altruism, ethics, empathy, or solidarity concerns unconvincing: *everybody* suffers the consequences of inequality. Thus, although achieving greater equality will require concerted efforts by public, private, and civil sectors of society in a context of deeply ingrained structural obstacles and cultural references, it will be less costly than letting the status quo unleash its full centripetal forces.

Seventh, finally, since both state and non-state actors play a fundamental role in supporting and promoting local and global inequality, they also all have a responsibility to address its effects. Moreover, considering limited public sector powers and commitments in Mexico, as in many 'developing' countries, reliance on state action alone can easily turn into a dead-end expectation. Progress towards a societal consensus for equality therefore requires discussion of politically and intellectually uncomfortable questions among all sectors of society: How much inequality is too much? Which distributional alternative, of both assets and power, would be desirable, and how do we get from one state to the other? To talk about inequalities beyond the realm of the state is the first step to a fairer, more equal, and more inclusive future. Assessing the situation helps find solutions appropriate for the circumstances and contexts under consideration. Now is a good time to have these conversations: the space for civil society and academia to participate in framing such discourse is opening.

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