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# Income distribution and wealth: new conceptual and methodological approaches

Summary

Miguel del Castillo Negrete



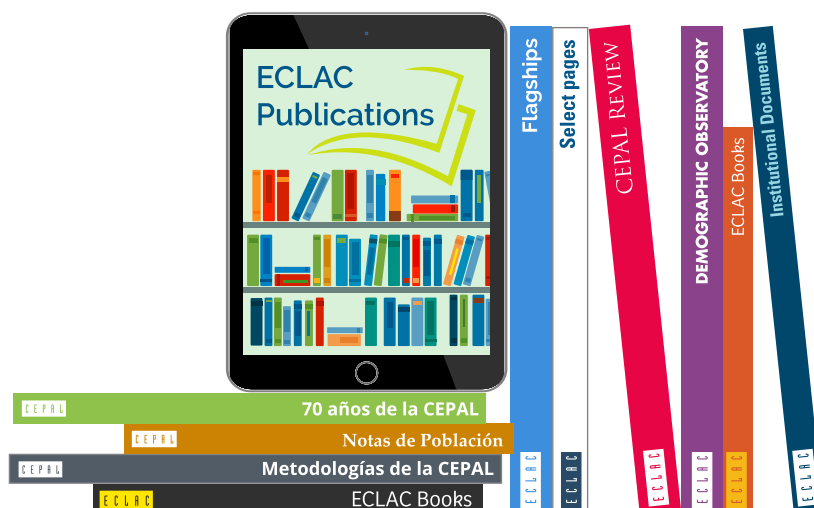
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# Income distribution and wealth: new conceptual and methodological approaches

## Summary

Miguel del Castillo Negrete



This document was prepared by Miguel del Castillo Negrete, Chief of the Social Development Unit of the subregional headquarters in Mexico of the Economic Commission for Latin America and the Caribbean (ECLAC).

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## Introduction<sup>1</sup>

Diego did not know what the sea was.  
The father, Santiago Kovadloff, took him to discover it.  
They traveled south.  
She, the sea, was beyond the sand dunes, waiting.  
When the boy and his father reached those sandy heights at last,  
After much walking, she, the sea, burst before their eyes.  
And such was the sea's immensity, such its blaze, that the boy felt dumb for beauty.  
And when at last he was able to speak, trembling, stammering, he asked his father:  
"Help me look!"

Eduardo Galeano, "La mar"

This book is a summary of Miguel del Castillo's *La distribución del ingreso y la riqueza*, to be published by the Economic Commission for Latin America and the Caribbean (ECLAC). Like the original document, this summary, which addresses a complex issue from a different approach, demands that the reader devote time to reading. The theoretical perspective from which it observes inequality requires readers

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<sup>1</sup> This book would not have been possible without the support and the opportunity given to me by Hugo Beteta, Director of the subregional headquarters in Mexico of the Economic Commission for Latin America and the Caribbean (ECLAC). Mr. Beteta gave me time to write on inequality of income and wealth and the liberty to freely express my conclusions. I am grateful for his words of support and his comments, which helped polish and improve this book. Naturally, I am solely accountable for any flaws the reader may find. For their support and comments, I am also indebted to María Castro, Junior Director, and Pablo Yanes, Research Coordinator, both from the subregional headquarters in Mexico of the Economic Commission for Latin America and the Caribbean (ECLAC).

I am also thankful for the opportunity I was given to present this book during a seminar that took place in October in the Raúl Prebisch Room of the subregional headquarters in Mexico of ECLAC. The meeting was attended by Miguel Calderón, Rolando Cordera, Fernando Cortés, Gerardo Esquivel, Alejandra Hass, Máximo Jaramillo, Pamela Jiménez, Ricardo Matamoros, Juan Carlos Moreno-Brid, José Francisco Rodríguez, Wilson Romero, Rosamaría Rubalcava, Norma Samaniego, Alexander Segovia, Ambrosio Velasco and Sergio Zermeño. I thank them all for the words of recommendation and comments they had on my study. I hope that I will have the chance to continue this fruitful dialog, to construct thought through words. As Karl Popper put it when defending rationalism: "I may be wrong, and you may be right, and by an effort, we may get nearer to the truth" (Popper, 2011).

to learn to read reality differently, in a distinct mental model, particularly if they are not familiar with national accounts and are instructed in the neoclassical theory, which dominates the syllabus of many a university. As the child who gets to view the sea in the beautiful poem by Eduardo Galeano in this section's epigraph, we must learn how to look at the reality that unexpectedly turns up. Readers are invited to take their time to read this book's pages and to refer to the larger document from which this summary was taken, where they will find the specific methodology and calculations for the figures presented here.

Unfortunately, as stated by Nicholas Carr (2010), the new information technologies are modeling our minds, making us ever less willing and ready to read an extensive and complex text. We would rather read short texts with images and web pages that let us jump from one topic to another without delving into any. In addition, academic researchers prefer to publish, in rapid succession, short articles and papers that earn them points and a reputation in the performance evaluation system. Though this system has the advantage of helping scholars quickly update the trends in their fields, it also has the peril of not letting them go deep enough into some issues. Many merely repeat the postulates of mainstream science and do not move towards the paradigm breakthrough that Thomas Kuhn spoke about, though it is so necessary for our time. We cannot do the same and expect different results. We must go beyond what we endlessly repeat about inequality and poverty in our countries. We must dare to offer solutions that go to the root of those problems.

## Pregón Mario Benedetti

Mister who won't look at me, take a peek  
I've some poverty for you  
Clean, mint new, disinfected and all  
It goes for forty, I'll sell it for ten.

Mister who can't find me, search around  
Move your hand, lift your foot  
Look in your luck, in all the nooks  
Think about those many things you were not.

I'll sell you poverty, it's a badge  
On the lapel that can convince  
How strange things go about the world  
You've water, I've not got thirst

You've your rind, your God, your devil  
Your faith in heaven and your bad faith  
You've everything but poverty  
You'll be sorry if you don't buy it.  
It goes as propaganda, as a sample  
You may like it then I'll sell you a hundred  
Poverty without the poor, of course  
Because the poor never smell nice

Abstract poverty without the rags, tidy  
Noble within, noble without  
Nice poverty for a story to be told  
After dessert and before coffee.  
Mister who won't look at me, take a peek  
I've some poverty for you  
I'd better not sell it  
I'll give it to you a one-time gift



## I. Theoretical perspectives

Most studies about income inequality and wealth implicitly assume the subjective theory of value, and their purpose is to analyse a population's welfare, as measured by the consumption that contributes utility to an individual. According to those studies, the more goods and services families purchase, the larger their utility and, thus, their welfare. Concerned with the consequences of inequality on social relationships, they propose *ex post* measures. However, our study uses the objective theory of value, which sets forth that work and nature generate value. Based on that approach, our objective is to study how the value generated in the production process is allocated, distributed and accumulated. This change in perspective enables us to go, *ex ante*, to the root of the problem of the inequality of income and wealth and to understand that it is an ethical problem and a matter of social justice that must be addressed, notwithstanding the consequences.

This study analyses how society generates, distributes and accrues value produced through work (manual and intellectual) and natural resources. Its premise is that all measurements imply a theoretical position and therefore are not impartial. Nicolas Sarkozy, President of France at the time he proposed the creation of the Commission for the Measurement of Economic Performance and Social Progress in February 2008, asserts that statistics are inseparable from our worldview, economics and our concept of the human being. However, viewing measurements as an objective is dangerous since this would create a gap between experts, secure in their knowledge, and citizens whose life experiences do not match the narrative told by data (Stiglitz, Sen and Fitoussi, 2010). Our theoretical position should therefore be made clear from the start.

Societies must organize themselves to produce the goods and services needed for their members to have material and spiritual subsistence. However, they must also decide how to distribute the benefits generated during production. Such a decision hinges on how generated value is understood. For instance, according to supporters of the subjective theory of value —initially proposed by mercantilism advocates, formalized by Alfred Marshall and defended by today's neoclassical theorists— value depends on the utility individuals obtain from a good or service.

Most studies on income inequality and wealth implicitly assume the subjective theory of value. Their purpose is to analyse a population's welfare, as measured by consumption that contributes utility to an individual. The more goods and services families purchase, the greater their utility and, thus, their welfare. While a household may choose not to consume its entire income and save, such savings are considered a deferred expenditure, according to Franco Modigliani's life-cycle hypothesis for consumption and Milton Friedman's permanent income hypothesis. Likewise, they view work as a commodity whose remuneration reflects the contribution (productivity) made by each employee to the productive process, as measured by the employer's utility. So it is that inequality in income and wealth is not considered a fundamental economic problem or an issue of power between social classes, but rather a social problem of discrimination and lack of mobility (equal opportunities).<sup>2</sup> This theoretical tradition only focuses on the analysis of the economic welfare, including the subjective welfare, that people obtain through the utility conferred to them by goods and services.

Concern focuses on granting equal opportunities for every person, so that all individuals may obtain the capabilities they want and freely choose their destinies. Freedom is a means and an end to achieve development. Poverty is considered a deprivation of capabilities caused by a loss of freedom to eat, receive an education and be in good health.<sup>3</sup> Any discrimination, be it against skin colour, gender or social and ethnic origin, must be avoided. This way, all persons could freely choose their destiny without prejudice (depending on their temperament and dedication) and take their place in their corresponding economic stratum (depending on their productivity) in a market that must function without restrictions (competitiveness). Those who reach the higher rungs will do so on their own merits in a society that would be fair due to social mobility.<sup>4</sup>

Following the logic of morality of consequences (teleological ethics), the supporters of the theory of subjective value have decided to study inequality due to the problems it generates in society and democracy. In short, as Michael Yates (2016) stated:

"[they] conceptualize the economy as consisting of independent individuals who, faced with certain constraints, make decisions aimed at maximizing their well-being. Those who want higher incomes and wealth will make the appropriate investments in their human capital, and the increased productivity that results will automatically, through the market forces of demand and supply, raise their incomes. Then, if they choose to save some of this income, their wealth will grow as well. Those who fail to make human capital investments or to save their money will naturally fall behind those who do the opposite. Everything is a matter of choice, meaning that inequality is chosen by the participants in the marketplace. Some economists admit that the constraints people face are themselves unequal, but in this case, we must vote to elect officials who will enact public policies that remove such impediments to improvement" (par. 11.10).

A government's role is thus restricted to providing the necessary resources (mainly for health and education) by hiring services from the private sector,<sup>5</sup> giving people equal opportunities that allow them to choose their destiny freely. Since governments require funds for this task, most postulate the need for *ex post* measures, such as charging higher taxes, particularly on physical assets and inheritances. However, they forget that *ex ante* measures, such as improving the distribution of the value generated in the economy, are the solution to the root of the problem.

<sup>2</sup> Exceptions are put forth in Eric Schutz's book *Inequality and Power*, where the author inserts the concepts of class and power into the study of economic inequality (Schutz, 2011), and in *The Great Inequality*, a book by Michael Yates (2016).

<sup>3</sup> Also called "social deprivations".

<sup>4</sup> Curiously, the meritocratic discourse is often used to justify the position someone reaches on the social scale and to revile those who have not been able to ascend.

<sup>5</sup> Through subrogation services, such as Mexico's *Seguro Popular* (Popular Insurance). The *Seguro Popular* offered health services (for a list of ailments) in private clinics, paid for with government resources.

The idea of welfare as consumption was one of the fundamental premises behind the change in economic policies applied by economists in Mexico during the late 1980s and, more fully, in the 1990s. They believed that a free market and economic openness with the United States and Canada would increase consumption and, consequently, the population's welfare. To increase consumption through the market, they eliminated subsidies that the government had used to provide goods and services (mainly electricity and fuel) and proposed the privatization of health services and public education under the thesis that the market would better meet those needs (Aspe and Sigmund, 1984).

Using the resources obtained by removing those subsidies, they began to issue government money transfers to the poor by launching the Progres program. These transfers would help the less favoured sectors increase their consumption and, according to this thesis, their welfare. The middle sectors, who bore the brunt of lost subsidies, were offered consumer credits (credit cards) and credits to acquire personal property and real estate. However, the banks acted irresponsibly when extending these credits. While the measure initially aided the middle classes, it caused a severe loss of welfare when the credit bubble burst during the 1994 crisis. The transit of the public debt of the 1980s to the private debt of the 1990s only "bought time," according to Wolfgang Streeck's thesis (2017).

Nevertheless, the subjective theory of value suffers from several drawbacks (acknowledged by some of its supporters but ignored by their followers), and following its premises has substantial consequences. First, all individuals' preferences (utilities) must be summed up to obtain a global welfare measurement. The theory has not solved this issue. To add up and compare individuals' different tastes and desires, such preferences would need to be given values, which is practically impossible. One would need to assume that only a single person, good or service exists and that preferences remain the same over time, which is absurd. The first attempt at a solution was to establish an ordinal calculation: even if each preference did not have a numerical value, still they could be placed in order of importance.

Ordinal utility calculation dominated welfare economics for many years and was severely criticized by Lionel Robbins in the 1930s. According to Robbins (1938), the law of decreasing marginal utility (the utility of each additional unit of a good decreases as its consumption increases) was unable to provide a basis for the social and economic policies of a country regarding distribution because its assumptions could not be verified by observation or by reflection. This law assumes we can compare how a society's individuals order their preferences. However, this is impossible because there is no way to compare the satisfaction of different people whose income increases at the same rate. Although we make those comparisons daily, we do so based on convention, not verifiable facts. Therefore, Robbins believed that the theory of welfare economics is foreign to the postulates of scientific economics. Economics should be neutral when it comes to ends and never pronounce any value judgments; consequently, economics should be set apart from ethics (1932, ch. VI). The assumptions underlying interpersonal utility comparisons do not stand on a scientific basis because they cannot be verified through observation or reflection.

Later, "new welfare economics," proposed by Paul Samuelson (1938, 1939), John Hicks (1939, 1940) and Nicholas Kaldor (1939), attempted to redress this shortcoming. Unlike Robbins, these authors claimed that economics could and should pass judgment on ends or that it should guide social policy. They used indifference curves<sup>6</sup> and the Pareto optimal<sup>7</sup> to propose the best policy option and dodge the interpersonal comparison dilemma. The Pareto optimal establishes that an alternative situation is better if the change improves at least one person's utility without worsening that of others (also known as Pareto efficiency). They focused on maximizing total utility without considering comparisons between individuals, that is, without considering distribution. However, as stated by

---

<sup>6</sup> Indifference curves represent different amounts of two goods to which a consumer is indifferent and, thus, provide the consumer with the same level of utility.

<sup>7</sup> Propounded by sociologist and economist Vilfredo Pareto (1848–1923).

Amartya Sen (2017), this “new theory of welfare economics” created a new crisis by not acknowledging distribution problems.

The lethal blow against the theory of economic welfare came from the possibility theorem,<sup>8</sup> proposed in 1950 by Kenneth Arrow (1950), who belonged to this tradition. According to Arrow, a social choice may be made in four ways: by voting, usually to make political decisions; by market, when it comes to economic decisions; by dictatorships, when one person makes all the decisions; and by agreement, that is, by a divine will or by the common will of all individuals. Arrow's analysis proved that the only possibility (possibility theorem) to move from individual preferences to social preferences was either by dictatorship or by common will (everyone in agreement) (1950, p. 342).

Since economists reject both options and only accept choice by market, the Arrow theorem eliminates the possibility of a welfare economics theory based on individual preferences known by voting or through the market. This conclusion, shared by Amartya Sen, has created pessimism surrounding the chances for a satisfactory and well-grounded welfare theory. Although ways to modify Arrow's requirements are still being explored, Sen recognizes that difficulties persist (2017, p. 42). In his introduction to the 2017 edition of his book *Collective Choice and Social Welfare*, Sen concludes, with intellectual honesty, that the welfare economics theory is in a crisis caused by the economists' conviction that it is wrong to use interpersonal comparisons (2017, ch. New introduction).

As for the consequences of taking on this way of thinking, the novel *Brave New World*, written by Aldous Huxley, helps us imagine the problems that occur in a society whose primordial goal is to make people happy through conditioning (publicity and propaganda) and consumption. In this dystopia, children were instilled with an “instinctive horror” of books and flowers: books because they may cause reflection and, hence, unhappiness, and flowers because nature does not need consumption. Children were not taught history. Misery was avoided by having no families, love or romance, thus keeping people healthy, sound and happy. A society with loving sentiments could not be stable; without individual stability, there could be no social stability. The world is stable in Huxley's dystopia. People were happy and had everything they wanted; they had no passions and did not grow old (make-up and surgery kept them “young”); there were no stable couples to avoid violent emotions. There were no parents or siblings. People were conditioned to behave as required for social order. If anything went wrong, they could take soma, a drug that immediately restored peace of mind (Huxley, 2004).

According to Michael Sandel, a philosopher from Harvard University, the fundamental problem of society is that market values have encroached on spheres of life where they do not belong. We are no longer a society *with* a market, but one that *is* a market, so we must think hard about the values promoted by our kind of society. In other words, we must reflect on the moral boundaries of the market, seeing that life has so many aspects that money cannot buy. Sandel (2012) argues that there are two reasons why we should be concerned about the monetization of life within a society (everything for sale). On the one hand, pricing all goods and services makes life complicated for those who have less (inequality); on the other, when one acquires everything one wants with money, no matter how, one opens the door to corruption.

Pricing all goods and services to measure welfare makes us prone to fall into the temptation to assume that it is right (moral) to treat all aspects of life the same as merchandise. In such a case, a good or service's essence changes (is corrupted) when it is assigned a monetary value. For instance, the nature of a union becomes somewhat different when money is a factor. Regrettably, such is the case in the State of Guerrero, where to this day some women are sold into marriage in exchange for money or cattle (Bellinghausen, 2021).

---

<sup>8</sup> Though known as the “impossibility theorem,” Arrow calls it the “Possibility Theorem” in his text.



Some may argue that this practice arises from poverty and the education lag of these populations. However, in a study published in *The Journal of Legal Studies*, Elizabeth Landes and Richard Posner, professors at Chicago University, proposed that the sale of children should be allowed in the United States. According to the authors, the market could manage adoptions better: by removing the monopoly held by agencies, selling children in a free market would lower their "price" and reduce the time taken by the adoption process, allowing for greater efficiency. The authors claim that the illegal sale of children would disappear with such a market. Instead of preventing such sales, they propose they should be allowed and regulated in the marketplace. Criticized because a market for children would maximize the well-being of buyers and sellers, but not necessarily that of minors, the authors explained that the price system would do the same work as agencies. It would require a minimal investigation of buyers' backgrounds, like licensing automobile drivers, to maximize the satisfaction of the purchased children (Landes and Posner, 1978).

The above are examples of the excesses that could be reached if all goods and services (including those that do not operate under the market at this time) were to be monetized (commoditized) to measure society's objective and subjective welfare. Indeed, this blatantly immoral<sup>9</sup> proposal for legalizing slavery is very much in line with all those who, based on value markets, argue that everything should be marketable. For instance, in the documentary *The Corporation*,<sup>10</sup> Michael Fraser, founder and honorary director of the Fraser Institute, insistently defends that everything should belong to private agents and have a price, including every square foot of air and water, to solve the pollution problems that we face (Abbott, Achbar and Bakan, 2003).

Unlike the theoretical tradition discussed above, this study is based on the definition of the objective theory of value, proposed by classical economists such as Adam Smith, David Ricardo and Karl Marx, and on recent developments of neo-Marxist and neo-Ricardian schools (Baran and Sweezy, 1968; Steedman, 1977; Hodgson, 1991; Keen, 1993a and 1993b; Cogliano and others, 2018). It also recovers the approaches, definitions and formulas posed by Michael Kalecki (1991), as well as the analysis of the absorption of the rising surplus generated by monopoly capitalism made by Paul Baran and Paul Sweezy in the mid-20th century (1968). In good measure, this study also coincides with Peter Flaschel's program of studies, which affirms that Marx's theory of value:

"[...] remains a valuable tool to understand the structure and dynamics of capitalist economies when viewed as part of Richard Stone's (1968) System of National Accounts (SNA). The connection between Stone's SNA and Marx's LTV is likely unintentional, but the implications are of interest to those active in Marxian political economy, Keynesian macroeconomics (broadly defined) and the neo-Ricardian tradition. An added benefit of the approach detailed in this book is that Marxian value theory can be shown to provide an arguably deeper analytical framework than current mainstream theory" (Cogliano and others, 2018, pp. xv-xvi).

In line with this tradition's thinking, this study considers that the value of merchandise depends on the labour and natural resources incorporated in it and that it is feasible to study the distribution of the surplus created during the production process.<sup>11</sup> Labour increases the value of the products that nature provides. The value of merchandise reflects the intrinsic value of nature's products plus the value added during the production process. However, on the one hand, nature is not retributed for its contribution, hence our severe environmental crisis. On the other, not all participants in the production process get the total value they generated, hence our acute social crisis.

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<sup>9</sup> In breach of Article 4 of the Declaration of Human Rights: "No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms." (United Nations, 1948).

<sup>10</sup> Based on Joel Bakan's book *The Corporation: The Pathological Pursuit of Profit and Power*.

<sup>11</sup> Also, environmental consequences, which are beyond the scope of this study.

Although there is unsolved controversy on how prices transform into values, this study considers this transformation unnecessary to analyse and propose a theory for the distribution of value generated in the economy. The study also considers that the transformation problem arises when the analysis includes the untested hypothesis of general equilibrium, that is, when we assume that the economy works under perfect competition conditions, thus setting prices at the junction between supply and demand. Nevertheless, the transformation problem disappears when the thesis that prices are set according to production costs (for goods and services) or by demand (in the case of raw materials), proposed by Kalecki (1956), is accepted.

Instead of measuring objective and subjective welfare inequality (happiness) by consumption, this study aims to analyse how value created by labour (intellectual and manual) and natural resources (that also provide value) is generated (gross national product), allocated (national income), distributed (disposable income), used (expenditures and savings) and accumulated (wealth) in society. In other words, its objective is to study inequality in the allotment of value generated in the economy. Although capabilities and freedom are essential, this study will move in the broader framework drawn by the duty to observe human rights (civil, political, economic, social, cultural and patrimonial). It is also vital to study inequality because it is a social justice issue. In other words, the issue would be morally relevant even if it did not have societal consequences. Finally, we give more importance to the urgent *ex ante* measures that must be taken because therein lies the solution that goes to the root<sup>12</sup> of poverty and inequality in our countries. We must fairly share the benefits generated by society and give all its members full use of their human rights. "From each according to his ability, to each according to his needs", if we are to build a fairer world.

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<sup>12</sup> We must consider the possibility of following radical measures, understanding "radical" by its etymology, which is "to go to the root" of the problem. The first two definitions of "radical" in the Merriam-Webster dictionary are: 1. (adjective) Of, relating to, or proceeding from a root. 2. (adjective) Forming an inherent or fundamental part of the nature of someone or something. (Merriam-Webster, 2022)

## II. The roots of economic inequality

To know the root causes of inequality, one must understand why wealth grows faster than income. Therefore, it is imperative to analyse the way in which value is generated, allocated (salaries and dividends), distributed (taxes and transfers) and accumulated (non-financial and financial assets). The analysis of these stages (or accounts, as they are technically known) will allow us to understand the roots of the deep inequality of income and wealth present in most countries. In summary, this inequality is due to the disproportionate allocation of salaries and dividends, as well as the obtaining of benefits that do not come from the productive process (financialization), but from speculation.

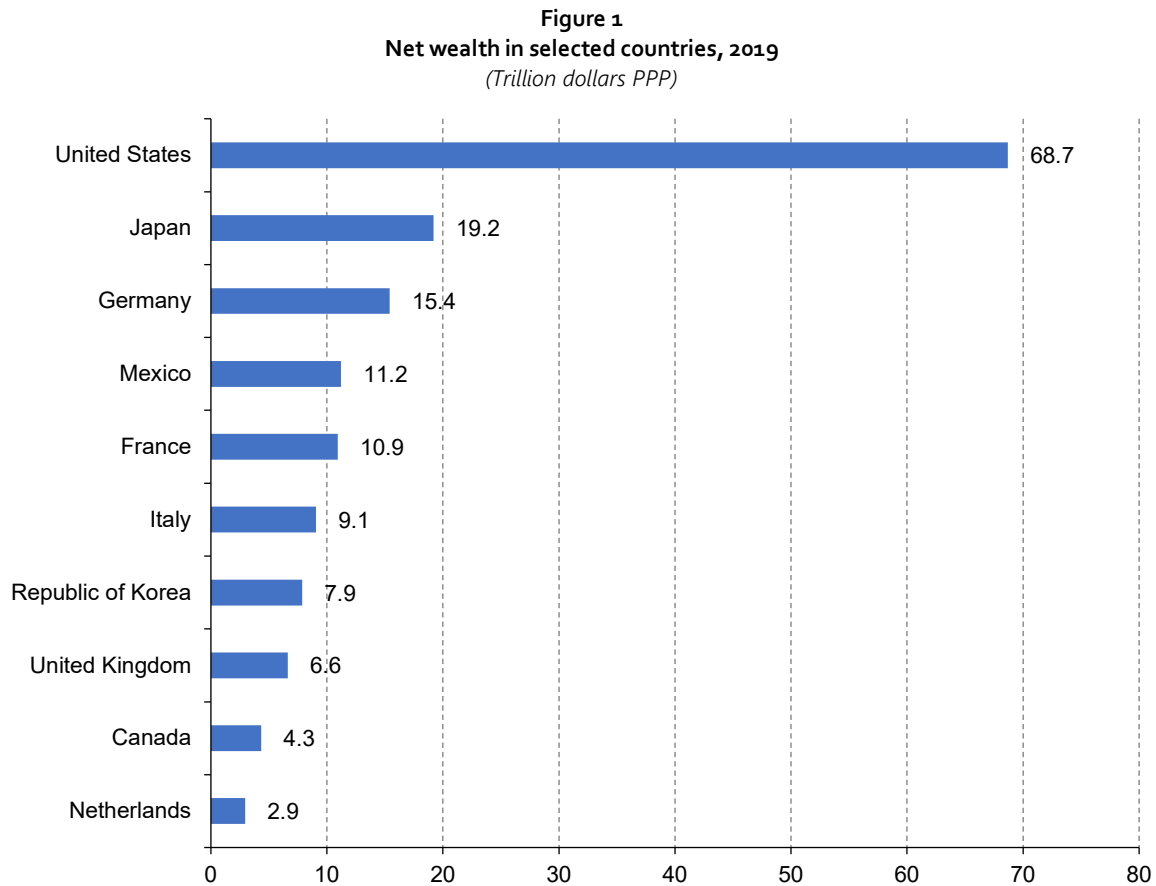
Having established its theoretical position, this study will analyse the fundamental cause of the profound and persistent economic inequality that pervades most countries, particularly those in Latin America. The high success of the development model applied in recent years to create wealth is evident. For example, Mexico's net wealth (assets minus liabilities) amounts to 11.2 trillion dollars PPP.<sup>13</sup> Nevertheless, the country, an upper middle-income according to the World Bank (2022), has a majority of poor (43.9%) or vulnerable population (32.6%),<sup>14</sup> according to the National Council for the Evaluation of Social Development Policies, (Spanish acronym CONEVAL). Net wealth in Mexico is larger than the wealth recorded for France, Italy, the Republic of Korea, the United Kingdom, Canada and the

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<sup>13</sup> Purchasing power parity (PPP) is a factor that converts different countries' currencies into a single equivalent unit of measure, adjusted to countries' price levels. As PPP assumes that a single product is the same in all countries, an excellent example of PPP is given by the McDonald Index, proposed by the British publication *The Economist*, since a Big Mac is the same in different countries.

<sup>14</sup> That is to say, if faced with an event such as illness or loss of employment, they may fall into poverty due to economic shortcomings.

Netherlands, among other countries.<sup>15</sup> However, it represents 16.3% of the wealth of the United States, 58.5% of Japan and 72.8% of Germany (see figure 1).



Source: Author's own elaboration, on the basis of Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE9B); 720. Financial balance sheets-nonconsolidated, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE720R](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE720R) and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

Unfortunately, wealth is unevenly distributed within countries. For example, in 2019, the Gini coefficient<sup>16</sup> for the net wealth of Mexican households was 0.796 (the highest among countries that take household financial surveys), followed by Chile 0.783 (2017) and 0.741 in German households (2017) (see table 1). That year, 1% of Mexico's most affluent households owned 41.2% of net wealth (see table 2), and 0.1% (about 37 thousand families) possessed 22.3% of the total wealth and almost a third of financial assets (see table 3).

<sup>15</sup> We thank LIS Cross-National Data Center, in Luxembourg, for granting access to the microdata in its harmonized database (Luxembourg Wealth Study Database). This database was built for the 17 countries that have taken financial household surveys: Australia, Austria, Canada, Estonia, Finland, Germany, Greece, Italy, Luxembourg, Norway, Slovakia, Slovenia, South Africa, Spain, Sweden, the United Kingdom and the United States. We produced the income and wealth indicators shown in this study using this source, financial surveys for Chile and Mexico (Latin American countries that have also taken financial surveys), and a base built with information from the Systems of National Accounts. Furthermore, we created such indicators using balance sheets for the institutional sectors from 36 countries. We took the balance sheets from the tables put together by the Organization for Economic Cooperation and Development (OECD, 2022) and from the tables for the gross domestic product (GDP) of 212 countries compiled by the Statistics Division of the United Nations Department of Economic and Social Affairs (DESA, 2022).

<sup>16</sup> Statistic measurement for dispersion; inequality is low when near zero and high when near one. For example, when a Gini coefficient is 0.70, it means that 70% of households in a given population have no assets (or income) and that the other 30% splits the total.

**Table 1**  
**Selected countries: Gini coefficient for the net wealth of households and its components, 2016-2019**

| Country        | Year | Net wealth | Assets   |           | Liabilities |
|----------------|------|------------|----------|-----------|-------------|
|                |      |            | Physical | Financial |             |
| Austria        | 2017 | 0.719      | 0.746    | 0.721     | 0.903       |
| Chile          | 2017 | 0.783      | 0.671    | 0.964     | 0.842       |
| Estonia        | 2017 | 0.724      | 0.704    | 0.824     | 0.872       |
| Finland        | 2016 | 0.687      | 0.603    | 0.804     | 0.773       |
| Germany        | 2017 | 0.741      | 0.726    | 0.819     | 0.867       |
| Greece         | 2018 | 0.707      | 0.562    | 0.882     | 0.934       |
| Italy          | 2016 | 0.698      | 0.579    | 0.852     | 0.933       |
| Luxembourg     | 2018 | 0.702      | 0.621    | 0.813     | 0.807       |
| Mexico         | 2019 | 0.796      | 0.698    | 0.997     | 0.880       |
| Norway         | 2019 | 0.683      | 0.475    | 0.787     | 0.593       |
| Slovakia       | 2017 | 0.600      | 0.513    | 0.797     | 0.859       |
| Slovenia       | 2017 | 0.644      | 0.584    | 0.862     | 0.907       |
| United Kingdom | 2017 | 0.722      | 0.610    | 0.829     | 0.782       |

Source: Author's own elaboration, on the basis of LIS Data Center, Luxembourg Wealth Study Database (LWS), LWS Database [online database] <https://www.lisdatacenter.org/>, Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/index.aspx?DataSetCode=SNA_TABLE9B), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

Note: Estimated with the proposals of E. Raffinetti and E. Siletti, "On the Gini coefficient normalization when attributes with negative values are considered", *Statistical Methods & Applications*, vol. 24, 2015 and E. Raffinetti, E. Siletti and A. Vernizzi, "Analyzing the effects of negative and non-negative values on income inequality: evidence from the Survey of Household Income and Wealth of the Bank of Italy (2012)", *Social Indicators Research*, vol. 133, 2017 (Gini RSV).

**Table 2**  
**Selected countries: percentage of wealth owned by 1% of the richest families, 2016-2019**  
*(Number of households and percentages)*

| Country        | Year | Households | Net wealth | Assets                    |                            | Liabilities<br>(percentages) |
|----------------|------|------------|------------|---------------------------|----------------------------|------------------------------|
|                |      |            |            | Physical<br>(percentages) | Financial<br>(percentages) |                              |
| Austria        | 2017 | 39 297     | 22.9       | 21.6                      | 19.2                       | 2.8                          |
| Chile          | 2017 | 48 685     | 30.3       | 8.9                       | 62.2                       | 4.8                          |
| Estonia        | 2017 | 5 907      | 26.1       | 23.4                      | 24.9                       | 4.7                          |
| Finland        | 2016 | 26 771     | 18.1       | 8.6                       | 27.8                       | 3.4                          |
| Germany        | 2017 | 415 520    | 21.1       | 14.4                      | 25.5                       | 6.4                          |
| Greece         | 2018 | 41 485     | 21.5       | 5.0                       | 38.3                       | 0.2                          |
| Italy          | 2016 | 254 879    | 22.9       | 6.6                       | 38.5                       | 3.0                          |
| Luxembourg     | 2018 | 2 264      | 22.2       | 18.1                      | 22.6                       | 2.8                          |
| Mexico         | 2019 | 366 447    | 41.2       | 20.5                      | 87.9                       | 2.9                          |
| Norway         | 2019 | 22 945     | 24.1       | 4.7                       | 37.7                       | 3.0                          |
| Slovakia       | 2017 | 18 362     | 15.4       | 10.6                      | 20.5                       | 0.3                          |
| Slovenia       | 2017 | 8 199      | 16.9       | 12.8                      | 23.0                       | 3.9                          |
| Spain          | 2017 | 185 320    | 27.2       | 14.3                      | 42.0                       | 2.8                          |
| United Kingdom | 2017 | 258 580    | 23.1       | 14.8                      | 28.0                       | 2.2                          |

Source: Author's own elaboration, on the basis of LIS Data Center, Luxembourg Wealth Study Database (LWS), LWS Database, 2022 [online] <https://www.lisdatacenter.org/>; Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/index.aspx?DataSetCode=SNA_TABLE9B), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

This inequality has caused patrimonial poverty in 64.2% of Chilean households and 63.3% of Mexican households,<sup>17</sup> that is, the sum of their physical and financial assets (minus debts) is less than 50% of the country's average net wealth (an indicator proposed by this study to measure patrimonial poverty). This figure is slightly higher than in the United Kingdom (58.0%) and Germany (57.2%) (see table 4). If countries that clearly do not follow the trend (Mexico, Chile and Luxembourg) are excluded, a correlation between an increase in net wealth and the growth of patrimonial poverty becomes evident (see figure 2). In short, much wealth is produced at the cost of profound inequality and poverty.

**Table 3**  
Selected countries: percentage of wealth owned by 0.1% of the richest families, 2016-2019  
(Number of households and percentages)

| Country        | Year | Households | Net wealth | Assets   |           | Liabilities |
|----------------|------|------------|------------|----------|-----------|-------------|
|                |      |            |            | Physical | Financial |             |
| Austria        | 2017 | 3 930      | 10.4       | 9.4      | 9.4       | 2.3         |
| Chile          | 2017 | 4 869      | 20.1       | 14.0     | 26.7      | 8.2         |
| Estonia        | 2017 | 591        | 13.9       | 12.3     | 14.3      | 4.5         |
| Germany        | 2017 | 41 552     | 9.7        | 7.5      | 10.5      | 3.1         |
| Greece         | 2018 | 4 148      | 4.0        | 2.3      | 5.0       | 0.1         |
| Italy          | 2016 | 25 488     | 11.3       | 7.2      | 14.5      | 2.4         |
| Luxembourg     | 2018 | 226        | 11.0       | 8.5      | 12.7      | 3.6         |
| Mexico         | 2019 | 36 645     | 22.3       | 17.3     | 31.9      | 5.8         |
| Norway         | 2019 | 2 295      | 8.6        | 4.0      | 10.4      | 1.7         |
| Slovakia       | 2017 | 1 836      | 6.3        | 4.8      | 7.8       | 1.9         |
| Slovenia       | 2017 | 820        | 8.0        | 6.1      | 10.8      | 2.0         |
| Spain          | 2017 | 18 532     | 13.3       | 9.7      | 16.1      | 3.2         |
| United Kingdom | 2017 | 25 858     | 11.1       | 7.6      | 13.3      | 2.7         |

Source: Author's own elaboration, on the basis of LIS Data Center, Luxembourg Wealth Study Database (LWS), LWS Database, 2022 [online] <https://www.lisdatacenter.org/>; Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/index.aspx?DataSetCode=SNA_TABLE9B), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

**Table 4**  
Selected countries: patrimonial poverty, 2016-2019  
(Percentage of households whose wealth is under 50% of the median or average)

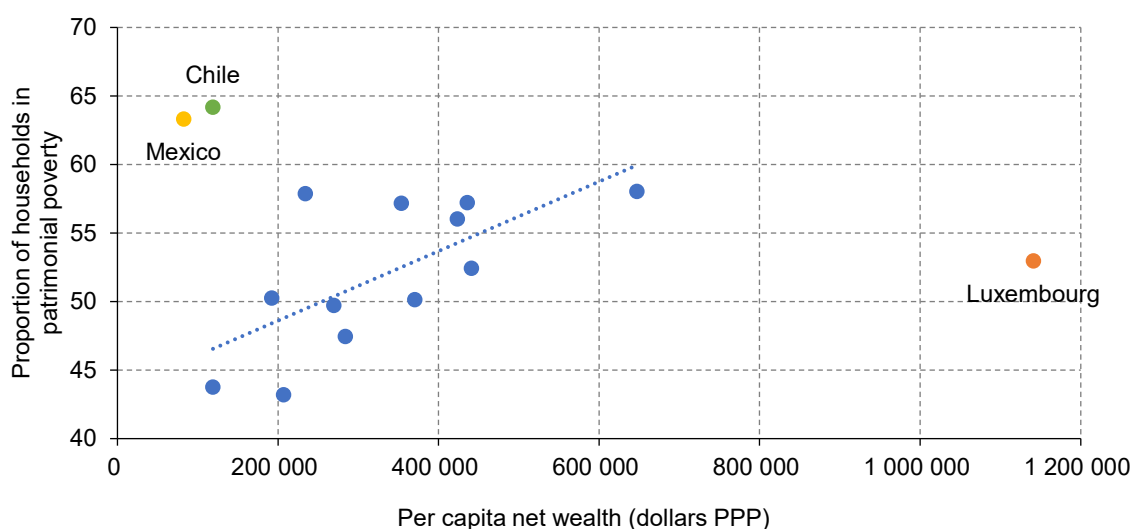
| Country    | Year | 50% of median |                 | 50% of average |                 |
|------------|------|---------------|-----------------|----------------|-----------------|
|            |      | Net wealth    | Physical assets | Net wealth     | Physical assets |
| Austria    | 2017 | 38.1          | 47.1            | 56.0           | 56.4            |
| Chile      | 2017 | 37.1          | 34.9            | 64.2           | 52.0            |
| Estonia    | 2017 | 34.7          | 36.7            | 57.9           | 52.8            |
| Finland    | 2016 | 37.6          | 34.1            | 49.7           | 39.7            |
| Germany    | 2017 | 42.0          | 46.2            | 57.2           | 56.0            |
| Greece     | 2018 | 34.6          | 30.9            | 50.2           | 40.0            |
| Italy      | 2016 | 34.9          | 33.4            | 52.4           | 40.1            |
| Luxembourg | 2018 | 36.3          | 31.1            | 53.0           | 39.8            |
| Mexico     | 2019 | 39.5          | 38.9            | 63.3           | 54.7            |
| Norway     | 2019 | 35.8          | 25.7            | 50.1           | 28.6            |

<sup>17</sup> This study proposes an estimate for patrimonial poverty. We use Peter Townsend's concept of relative poverty (Townsend, 1979) for this purpose. We consider that families in a situation of patrimonial poverty cannot reach the physical and financial assets that the society they inhabit could and should provide, thus lowering their development and well-being levels. Specifically, the indicator is defined as the proportion of families with noticeably less wealth produced in the country. After their liabilities have been subtracted from their assets, these families are below 50% of the average. This estimate was also made for 50% of the median. However, given the high levels of inequality observed in all countries, the average gives a better comparison than the median.

| Country        | Year | 50% of median |                 | 50% of average |                 |
|----------------|------|---------------|-----------------|----------------|-----------------|
|                |      | Net wealth    | Physical assets | Net wealth     | Physical assets |
| Slovakia       | 2017 | 28.6          | 23.3            | 43.2           | 35.3            |
| Slovenia       | 2017 | 31.1          | 29.1            | 47.4           | 40.1            |
| Spain          | 2017 | 34.3          | 29.6            | 57.2           | 44.7            |
| United Kingdom | 2017 | 38.3          | 34.2            | 58.0           | 42.6            |

Source: Author's own elaboration, on the basis of LIS Data Center, Luxembourg Wealth Study Database (LWS), LWS Database, 2022 [online] <https://www.lisdatacenter.org/>; Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/index.aspx?DataSetCode=SNA_TABLE9B), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

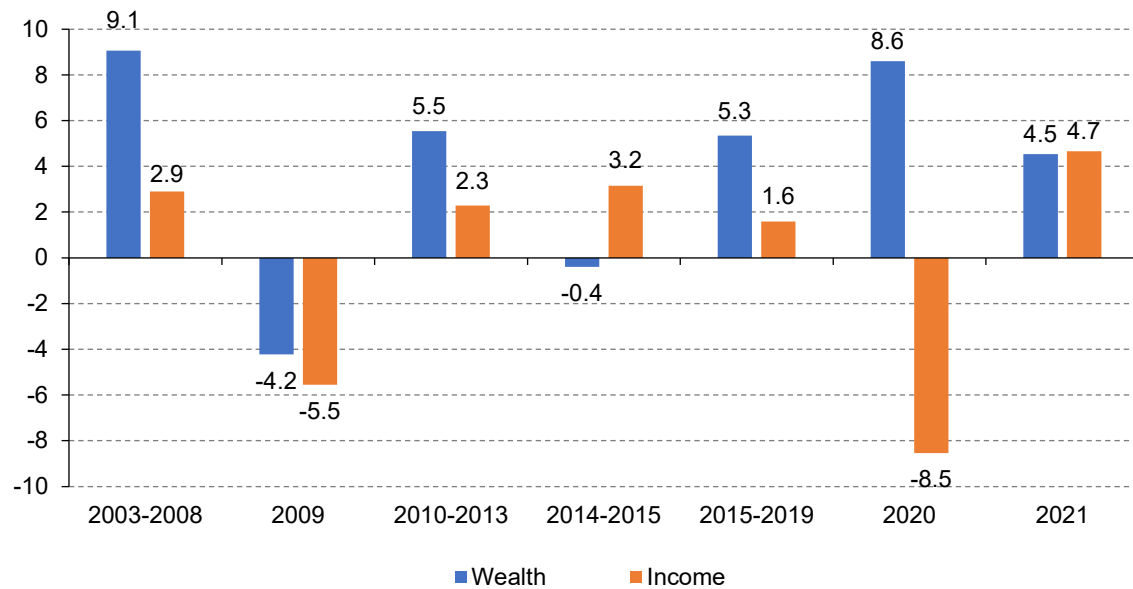
**Figure 2**  
Selected countries: relation between per capita net wealth and patrimonial poverty, 2016-2019  
(Dollars PPP and percentages)



Source: Author's own elaboration, on the basis of LIS Data Center, Luxembourg Wealth Study Database (LWS), LWS Database [online database] <https://www.lisdatacenter.org/>.

Not only have countries generated great wealth, but its growth rate is higher than for income, as established by Facundo Cabral, Lucas Chancel, Thomas Piketty, Emmanuel Saez and Gabriel Zucman, from the World Inequality Database Project. For instance, in 1960-2019, the net wealth to national income ratio grew from 2.9 to 6.1 in Germany; 3.9 to 6.0 in India; 4.1 to 6.8 in Spain; 3.3 to 5.2 in the United States; 3.3 to 6.1 in France; and 3.2 to 5.7 in the United Kingdom (World Inequality Lab, 2022). Mexico is no exception. Before the global financial crisis (2003-2008), its national income grew by 2.9%, though its net wealth grew at an average yearly rate of 9.1% in real terms. After the 2008 crisis (2010-2013), net wealth increased 5.5% a year on average in real terms, whereas income did so at a 2.3% rate. Most recently (2015-2019), wealth grew at an annual average of 5.3%, but income by only 1.6%. In 2020, despite the economic hardship caused by the year's health crisis, wealth grew an annual 8.6%, and income fell an annual 8.5% in real terms (see figure 3). Thus, the wealth-to-income ratio climbed from 3.9 in 2003 to 7.7 in 2020.

**Figure 3**  
**Mexico: total net wealth and gross national income, 2003-2021**  
*(Real terms average annual percentage increase)*



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, Aguascalientes, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

When wealth grows faster than income, drastic inequality is created. Families that own physical and financial assets increase their wealth and, consequently, their income. In contrast, families that depend on wages find it difficult to meet their basic needs, and since they have minimal savings, they cannot increase their assets. But why does wealth grow faster than income? Let us analyse how income transforms into physical and financial assets to answer this question and get to the root of economic inequality. In other words, we will study how, in society, the value generated by labour (intellectual or manual) and natural resources (that also provide value) creates product (gross national product), and how that value is allocated (national income), distributed (disposable income), used (expenditures and savings) and accumulated (wealth).

This analysis will delve into the fundamental and essential aspects of the extreme economic inequality found throughout the world, particularly in Latin American countries. This diagnosis will enable us, if so desired, to propose public policies that, though considered extreme by some, will help us make decisions and start reducing the poverty and inequality that pervade our countries. We cannot keep doing the same and expecting different results.

We will analyse the flow of value by carefully examining the Mexican System of National Accounts. Mexico is the only country in Central America and the Caribbean whose statistics institute (National Statistics and Geography Institute, Spanish acronym INEGI) tabulates accounts by institutional sectors (since 1999 with data from 1993) and complete balance sheets (since 2010 with input from 2003). This analysis will enable us to build an entire database for the 2003-2020 period—from 1993 to 2020 without balance sheets—and then compare its results with the information from national accounts from 36 countries at a balance sheet level (using the database compiled by the Organization for Economic Cooperation and Development, the OECD). The analysis of Mexican Distributive National Accounts will also help us understand the impact of neoliberal policies and the feasibility of the neoclassical theory that has been applied in the country since the mid-1980s.



We must study six account sequences to understand how the production process generates value and how income and wealth are distributed:

- (i) Generation account. Production of goods and services, with two accounts: the production account and the primary distribution of income account; in both cases, the balance is the gross domestic product.
- (ii) Allocation of primary income account. The allocation of income implied in the production of value added, whose balance is gross national income.
- (iii) Secondary distribution of income account. The secondary redistribution of income through taxes and transfers, whose balance is the national disposable income.
- (iv) Use of disposable income account. Use of disposable income, whose balance is gross saving.
- (v) Accumulation accounts. Accumulation of physical and financial assets, whose principal balance is the change in the value of physical and financial assets (through savings and by the increase or revaluation of assets).
- (vi) Balance accounts. Balance sheets from the beginning and the end of the period, whose final balance is closing net worth (the sum of non-financial plus financial assets minus financial liabilities), that is, net wealth.

The initial proposal of the United Nations Statistical Sub-Commission expert team led by Richard Stone (1947) and the 1958 report of the United Nations Statistical Commission at the Department of Economic and Social Affairs (DESA)<sup>18</sup> (1958) recommended countries to disaggregate national accounts into four institutional sectors: (i) corporations (including public companies and financial institutions); (ii) households and institutions serving households; (iii) government; and (iv) the rest of the world. This number was raised to five sectors in the manual written in 1993 by the Inter-Secretariat Working Group on National Accounts, coordinated by the United Nations: (i) public and private non-financial corporations (S.11); (ii) financial corporations (S.12); (iii) general government (S.13); (iv) households (S.14); (v) non-profit institutions serving households (S.15); and (vi) the rest of the world (S.2). This disaggregation remains valid (United Nations, 1993 and 2009). The report also recommended countries to use balance sheets to keep records of their physical and financial assets. Unfortunately, governments have delayed in following these recommendations. As a result, only a few have information from each account (flows and stocks) and for all six sectors.

## A. Generation of primary income

In 2019, Mexico's total production of goods and services was valued at 40.9 trillion pesos. However, intermediate consumption must be subtracted before obtaining value added to prevent bookkeeping duplication. Gross value added (GVA) at basic prices<sup>19</sup> is obtained when the 17.9 trillion pesos purchase of required consumables (intermediate consumption) is subtracted from production. In so doing, GVA amounted to 23 trillion pesos in 2019. The gross domestic product (GDP) at acquisition prices<sup>20</sup> is obtained by applying taxes on products (value added tax, VAT and special tax on production and services, Spanish acronym IEPS) and import duties to the GVA and then subtracting production subsidies. The GDP equalled 24.5 trillion pesos in 2019 (see table 5).

<sup>18</sup> Initially called the Department of Economic Affairs.

<sup>19</sup> The amount the producer charges the buyer of a good or service. It does not include product taxes, subsidies or transportation expenses incurred by the buyer.

<sup>20</sup> The amount paid by the buyer, including the transportation prices the buyer paid to receive the good where required.

**Table 5**  
**Mexico: generation, distribution and use of income by institutional sectors, 2019**  
*(Million pesos)*

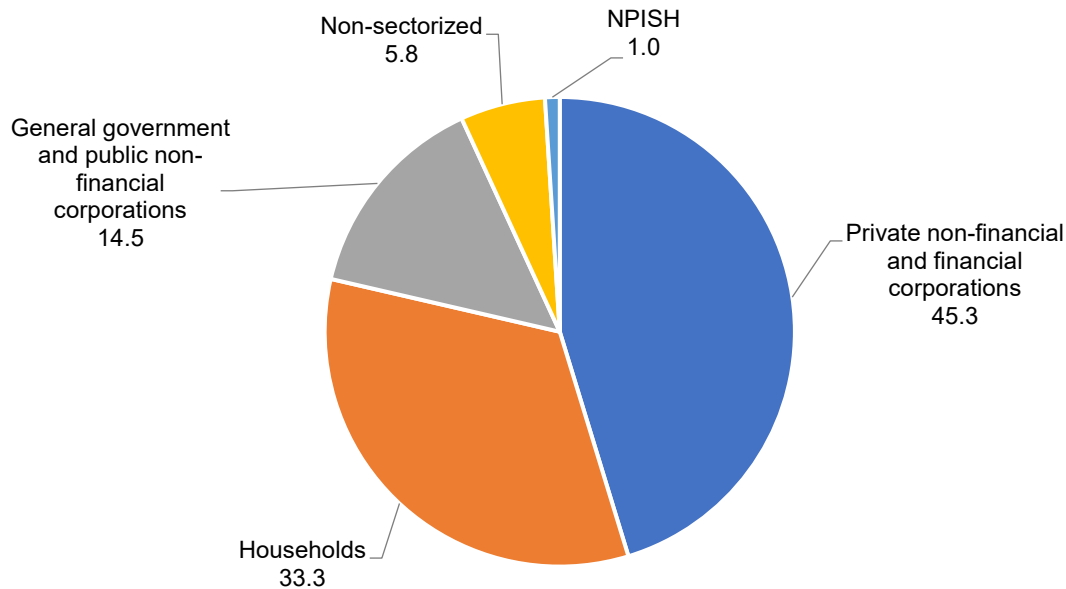
| Sectors and balancing items                    | Generation of income | Allocation of income | Secondary distribution | Use of income            |           |
|--|----------------------|----------------------|------------------------|--------------------------|-----------|
|  |                      |                      |                        | Consumption expenditures | Saving    |
| Public non-financial corporations              | 1 519 489            | 694 800              | 683 860                | -                        | 683 860   |
| Private non-financial corporations             | 10 045 705           | 2 686 660            | 1 302 444              | -                        | 1 302 444 |
| Financial corporations                         | 1 027 562            | 1 099 706            | 1 719 622              | -                        | 891 936   |
| General government                             | 2 033 704            | 1 424 433            | 1 888 037              | 2 785 212                | -897 175  |
| Households                                     | 8 150 524            | 17 916 050           | 18 572 397             | 15 564 168               | 3 835 915 |
| NPISH  | 246 610              | 134 535              | 486 984                | 302 053                  | 184 931   |
| Non-sectorized                                 | 1 429 702            |                      |                        |                          |           |
| S.1 Domestic economy - Balancing items         |                      |                      |                        |                          |           |
| B.1b - Gross National Product                  | 24 453 296           |                      |                        |                          |           |
| B.5b - Gross National Income                   |                      | 23 956 183           |                        |                          |           |
| B.6b - Gross Disposable Income                 |                      |                      | 24 653 343             |                          |           |
| P.31_32 - Consumption expenditures             |                      |                      |                        | 18 651 433               |           |
| B.8b - Gross Saving                            |                      |                      |                        |                          | 6 001 910 |
| S.2 - Rest of the world - Balancing items      |                      |                      |                        |                          |           |
| B.11 - External balance for goods and services | 66 903               |                      |                        |                          |           |
| D.1 - Compensation of employees                |                      | -49 729              |                        |                          |           |
| D.4 - Property income                          |                      | 546 842              |                        |                          |           |
| D.7 - Other current transfers                  |                      |                      | -701 781               |                          |           |
| B.12 - Current external balance                |                      |                      |                        |                          | -137 765  |

Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, Aguascalientes, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

When the System of National Accounts refers to a *gross* value, the figure includes the depreciation of equipment and facilities, that is, the consumption of fixed capital. For example, if we subtract the consumption of fixed capital (4.3 trillion pesos in 2019) from the GDP, Mexico's net national product would only be 20.2 trillion pesos that year. While the general norm is to use GDP for economic analyses, we must bear in mind that production required the depreciation of fixed capital, that must be restored, or else the economy's capability to generate value in the future will be undermined.

Private corporations (national and foreign-controlled financial and non-financial private corporations) contributed 45.3% of the GDP, while household businesses and self-employed workers contributed 33.3%. The government and government companies contributed 14.5%. However, 5.8% consisted of net taxes (minus subsidies) on products (under the non-sectorized heading), mainly VAT paid by households; in other words, strictly speaking, this value was transferred, not generated (see table 5 and figure 4).

**Figure 4**  
**Mexico: distribution of the gross domestic product (GDP) per institutional sector, 2019**  
*(Percentages)*



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, Aguascalientes, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

Employees receive compensation as part of the generation of value added within corporations. Likewise, the government collects payment of net production taxes (taxes minus subsidies). The difference is called a gross operating surplus, which may be considered a proxy of the profits gained by corporations.<sup>21</sup> The distribution of value added between labour (compensation of employees) and capital (gross operating surplus) is the distribution of functional income. In 2019, the compensation of employees in Mexico equalled 6.5 trillion pesos (28.2% of gross value added, GVA), but the gross operating surplus (profits) amounted to 11.3 trillion pesos (49.0% of GVA). Nevertheless, these figures present a bias that we must analyse.

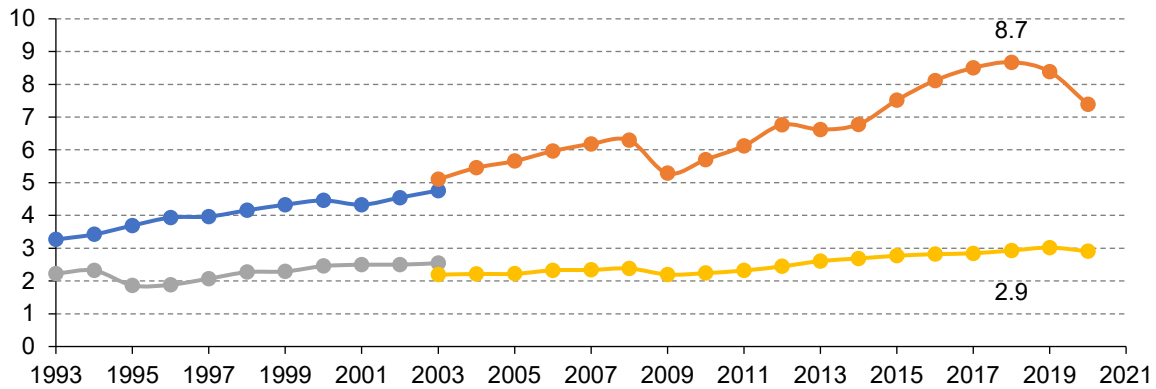
In addition, there is a third sector comprised of self-employed workers and household businesses that received an income of 5.1 trillion pesos in 2019. Partly consisting of wages and salaries and partly of profits, for this reason is called mixed income. Countries with a small portion of self-employed persons and family businesses include mixed income in the operating surplus item, but many developing countries, such as Mexico, keep it in a separate account to emphasize its importance. Analysts of functional income distribution point out that mixed income must be split between labour and capital and propose several methods for countries where mixed income has a relevant amount (Gollin, 2002; Samaniego Breach, 2014). However, a different proposal is presented here. Instead of searching for a justifiable methodology to disaggregate mixed income, we compare the income obtained by labour and capital in institutional sectors where these terms make sense: financial corporations and enterprises.

<sup>21</sup> Later, we will explain why we consider that gross operating surplus differs from the profits obtained by financial and non-financial corporations.

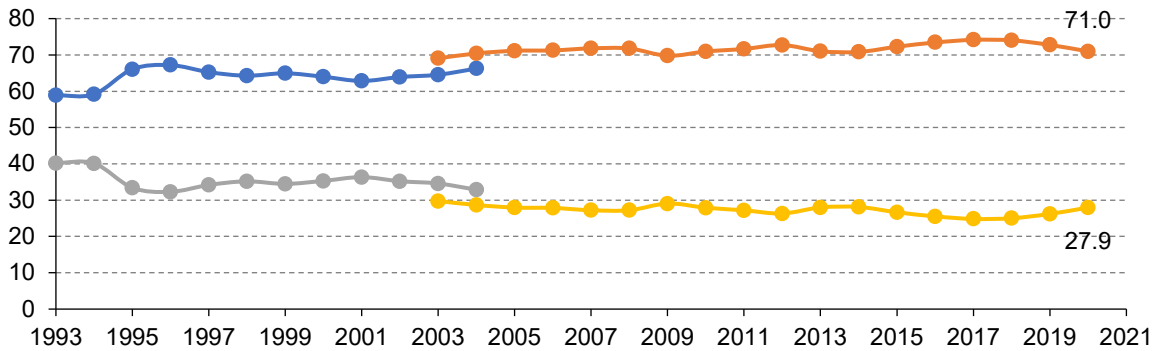
In 2019, Mexico’s profits (gross operating surplus) gained by corporations (S.11002 and S.11003, national and foreign-controlled non-financial private corporations, together with S.12, financial corporations) represented more than two-thirds (72.8%) of the gross value added of both sectors. This proportion is exceptionally high and has kept growing in recent years, considering that it was 59% in 1993-1994. While compensations grew 35.3% in real terms between 1993 and 2019 (an annual average of 1.1%), corporation profits have multiplied 2.6 times in real terms (4% per year on average) (see figure 5).

**Figure 5**  
**Private financial and non-financial corporations: compensations (plus social contributions) and gross operating surplus, 1993-2020**

(Trillions of pesos 2020)



(Proportion of value added)



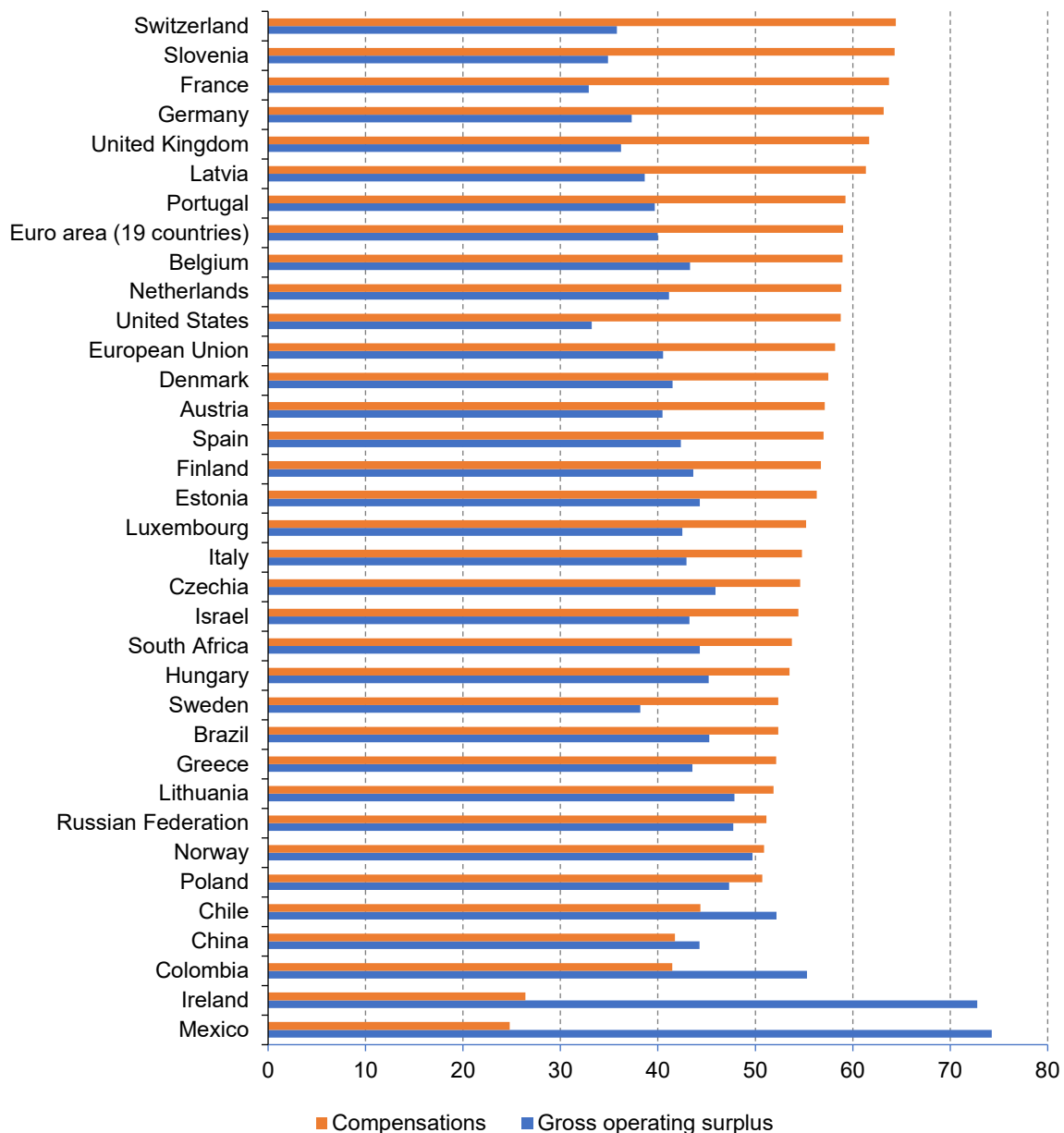
- B.2b Gross operating surplus (base 1993)
- B.2b Gross operating surplus (base 2013)
- D.1 Compensation of employees (base 1993)
- D.1 Compensation of employees (base 2013)

Source: Author’s own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, Aguascalientes, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

Mexico’s financial and non-financial corporations (including the public sector) stand in first place with the proportion of value added for operating surplus (profits) with 74.3% of gross value added. Ireland, an offshore financial centre, follows with 72.8% (primarily due to its financial sector), Colombia with 55.3% and Chile with 52.2% (2019 figures). However, in other countries on which we have data, the compensation of employees (including social contributions) is higher than profits (gross operating

surplus). For example, in Switzerland, Slovenia, France, Germany, the United Kingdom and Latvia, the labour factor gets paid more than 60% of the value added; the average in the European Union (27 countries) is 58.2% (see figure 6).

**Figure 6**  
**Non-financial corporations (S.11) and financial corporations (S.12): gross operating surplus and compensation of employees, 2019**  
*(Proportion of value added)*



Source: Author's own elaboration, on the basis of LIS Data Center, Luxembourg Wealth Study Database (LWS), LWS Database [online database] <https://www.lisdatacenter.org/>; Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 720. Financial balance sheets – nonconsolidated, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE720R](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE720R); and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

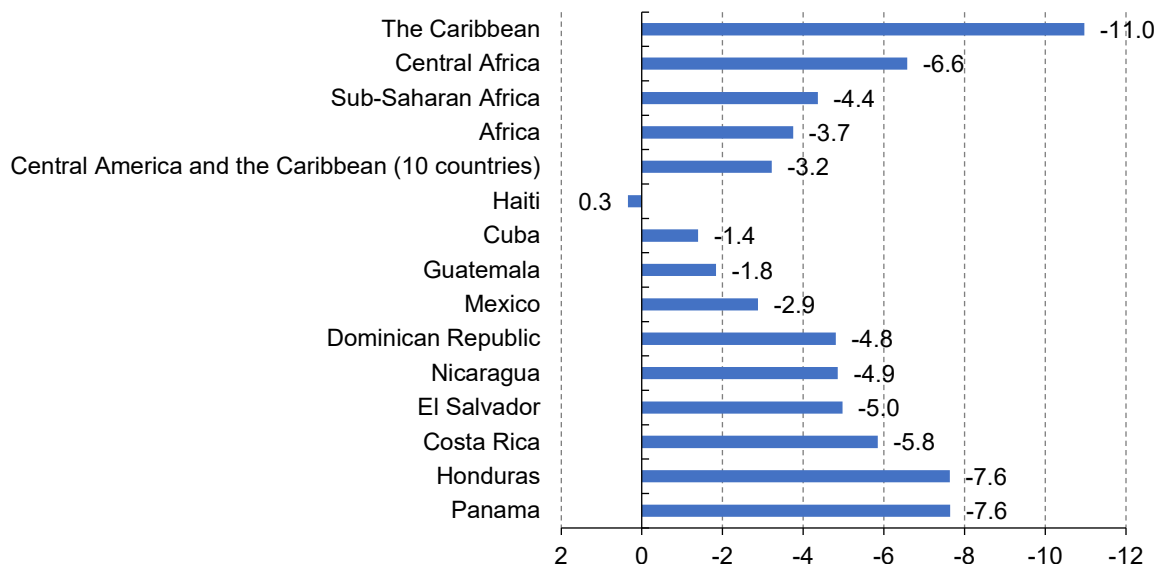
Note: These figures include public sector non-financial corporations. Compensations of employees include social contributions.

## B. Allocation of primary income

Gross national income (GNI) is obtained by adding the income from compensations and property income earned by national residents in foreign countries to gross domestic product (GDP) and then subtracting what exits the country under the same two items. In Mexico, GNI is lower than GDP because the amount that flows out (primarily due to interests and dividends) is larger than what flows in. In 2019, the country had a negative external balance of about half a trillion pesos (497 billion). For that reason, GNI decreased to 24 trillion that year, 2% lower than GDP (see table 5).

In most developed countries, national income is larger than the gross value added generated by their domestic economies (S.1). This occurs because they receive substantial flows from abroad, thus producing a positive balance despite the resources they release. In this stage of globalization, different types of exchange occur between practically all countries. Nonetheless, GNI is smaller than GDP in less developed countries because a good part of the internally generated resources exits the nation. In some cases, the difference represents a high proportion of value added. Examples are Congo Brazzaville (-21.5% of GDP), Liberia (-11.5%), Mongolia (-11.2%), Bhutan (-9.1%), Angola (-8.8%), the Iraq (-8.3%) and Nigeria (-8.0%).<sup>22</sup> In the Caribbean, the difference between national income and GDP reaches -11.0%. The average for Mexico and Central America is -3.2%, with high figures for Honduras (-7.6%), Costa Rica (-5.8%), El Salvador (-5.0%), Nicaragua (-4.9%) and the Dominican Republic -4.8% (see figure 7).

**Figure 7**  
**Central America and selected regions: difference between gross domestic product (GDP) and gross national income (GNI), 2019**  
*(Proportion of GDP)*



Source: Author's own elaboration, on the basis of United Nations, Department of Economic and Social Affairs, Statistics Division (UNDESA), National Accounts-Analysis of Main Aggregates (AMA), Basic data selection, 2022 [online database] <https://unstats.un.org/unsd/snaama>.

Note: Calculations using data from the United Nations Statistics Division show a larger proportion for Mexico than those from the Mexican System of National Accounts, published by the Mexican National Institute of Statistics and Geography (Spanish acronym INEGI). To maintain methodological comparability with other countries, we used the figure obtained with information from the Statistics Division.

<sup>22</sup> Calculations by the author based on United Nations, Department of Economic and Social Affairs, Statistics Division (DESA, 2022).

Most developed countries have positive percentages. For example, in 2019, national income was 1.5% larger than GDP in the countries in the Group of Seven (G7);<sup>23</sup> namely, it was 3.2% in Germany, 2.1% in France, 2.0% in Japan and 1.6% in the United States, though it was negative in Canada (-1.3%) and the United Kingdom (-0.6%). The net number of resources received by G7 countries represents more than a third of Sub-Saharan Africa's GDP (33.9%), almost half of Mexico's (47.5%), 3.2 times Central America's (221.3%) and 3.6 times Central Africa's (261.5%). If those resources were to be funnelled into the development of countries in these regions, world poverty and inequality would be very different.

After accounting for exchanges with other countries, national income is allocated among different institutional sectors. The household sector (S.14) is the principal recipient of primary allocations, receiving 73.3% of the total value added. The corporations and government sectors allocate income by paying wages and salaries to workers and employees. Private sector corporations also pay dividends and profits. Therefore, their national income is lower than their added value. For example, in Mexico in 2019, private corporations (S.11002 and S.11003, National and foreign-controlled financial and non-financial private corporations) generated a value added of 10 trillion pesos, of which 73% was distributed (primary allocation) among other sectors: 7.2 trillion pesos went to the domestic economy (S.1) and 164 billion to the rest of the world (S.2). Consequently, its national income dropped to 2.7 trillion pesos. The government pays interests for debt taken from the financial sector, national or foreign, though it is the creditor of taxes on products (mostly VAT). Households (S.14) received 9.8 trillion pesos, so their value added went from 8.2 trillion to a national income of 17.9 trillion (see table 5).

The analysis of the disaggregation of the primary allocation received by the household sector (S.14) points to the first aspect of the roots of Mexico's economic inequality and poverty. In 2018, 15.4 million families (44.3% of the total) earned a mixed income, of which 4.7 million had no other earnings. For this reason, the main source of income for families was the income generated by the households themselves<sup>24</sup> (30.3% of the national income of families), followed in importance by the dividends granted by companies to their shareholders (18.2%), and the compensations for corporations' employees (16.2%) (see figure 8).

In 2019, the participation of approximately 14.5 million workers<sup>25</sup> earned Mexican families 2.7 trillion pesos issued by non-financial private corporations as compensation of employees. However, a mere 300 thousand households<sup>26</sup> received 3.3 trillion pesos in dividends (21.7% more than compensation of employees), thus creating deep inequality in the country. Most workers and employees generate value, but only a small sector collects rents for an average of 11 million pesos a year per family, solely because it owns financial assets. Thus, once adjusted to national accounts, the Gini coefficient reached 0.78 in 2018-2020, displaying a slight upwards trend (being an asymptotic measure, it increases less and less as it approaches 1) (see figure 9).

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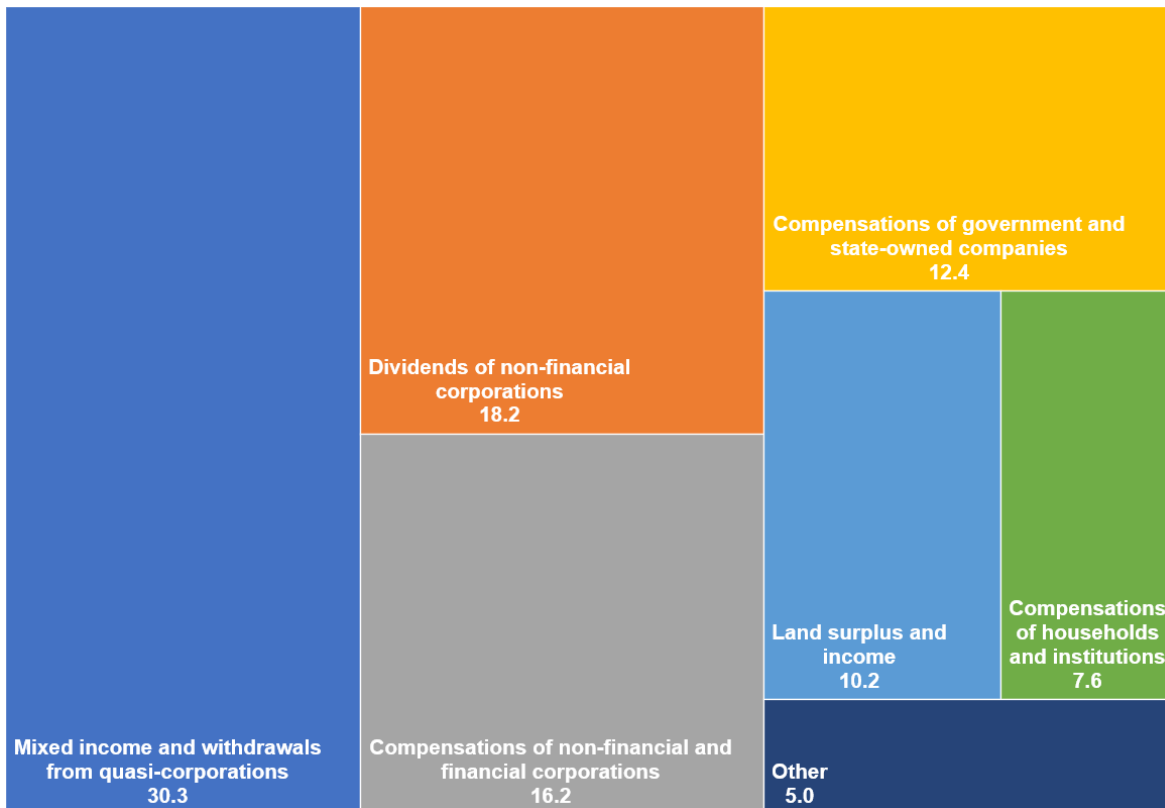
<sup>23</sup> Formed by Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

<sup>24</sup> Given the lack of formal jobs and since most of the job offers in the private sector do not correspond to the educational level of the people, on one hand, and are alienating, that is, they demand to carry out repetitive tasks while it is not required (in fact, it is penalized), initiative or self-judgment, and offer low pay and precarious working conditions, on other hand, people have had to seek their livelihood by their own means.

<sup>25</sup> Based on the National Occupation and Employment Survey (Spanish acronym ENO) for the 4th quarter of 2019 (INEGI, 2022b).

<sup>26</sup> Estimate based on the number of contracts for trading shares in the stock exchange (CNBV, 2022).

**Figure 8**  
**Mexico: allocation of national income (primary) in the household sector (S.14) by type of income, 2019**  
*(Proportion of national income)*



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH), Microdatos de la muestra, 2022a [online] <https://www.inegi.org.mx/programas/enigh>, and Sistema de Cuentas Nacionales de México. Cuentas por Sectores Institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

**Table 6**  
**Mexico: primary allocation, distributive national accounts for the household sector (S.14), 2019**  
*(Million pesos and proportions)*

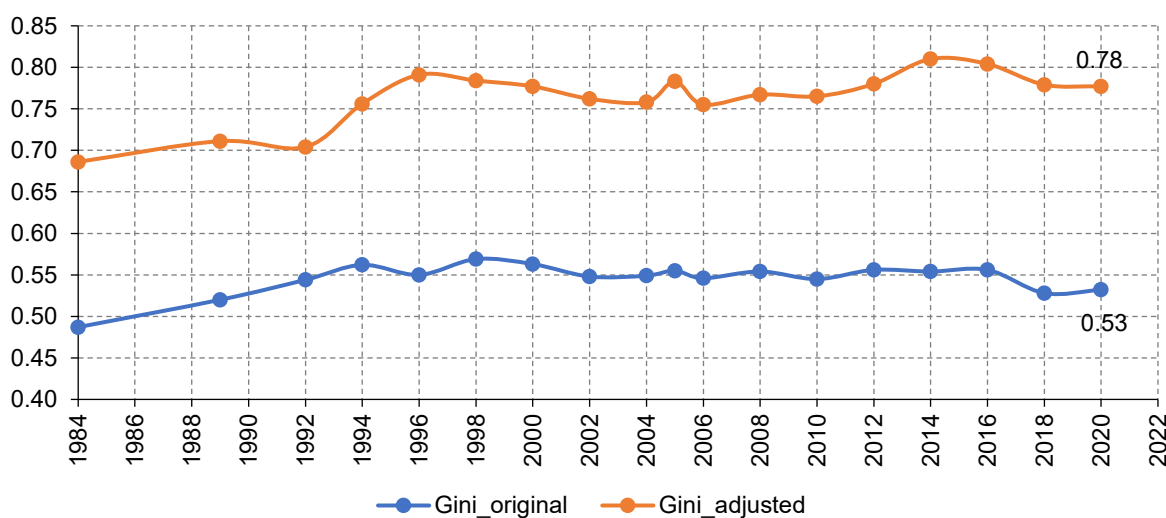
| Item  | Million pesos    | Percentage of national income |
|---|------------------|-------------------------------|
| <b>Generated in households</b>                  | <b>8 150 524</b> | <b>45.5</b>                   |
| Compensations paid by household businesses      | 1 256 182        | 7.0                           |
| Gross surplus                                   | 1 783 775        | 10.3                          |
| Mixed income                                    | 5 110 568        | 29.9                          |
| <b>Allocated by other institutional sectors</b> | <b>9 765 525</b> | <b>54.5</b>                   |
| <b>Compensations</b>                            | <b>5 287 538</b> | <b>29.5</b>                   |
| Public non-financial corporations               | 222 124          | 1.2                           |
| Private non-financial corporations              | 2 681 090        | 15.0                          |
| Financial corporations                          | 220 151          | 1.2                           |
| General government                              | 2 002 223        | 11.2                          |
| NPISH   | 112 221          | 0.6                           |
| Rest of the world                               | 49 729           | 0.3                           |



| Item   | Million pesos | Percentage of national income |
|--|---------------|-------------------------------|
| Property income                                    | 4 477 987     | 25.0                          |
| Interest   | 244 415       | 1.4                           |
| Dividends and investment funds                     | 3 348 310     | 18.7                          |
| - Non-financial corporations                       | 3 263 958     | 18.4                          |
| - Financial corporations and the rest of the world | 84 352        | 0.5                           |
| Withdrawals from quasi-corporations                | 319 462       | 1.8                           |
| Investment income                                  | 519 602       | 2.9                           |
| Real estate rents                                  | 46 198        | 0.3                           |
| Gross national income                              | 17 916 050    | 100.0                         |

Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

Figure 9  
Mexico: official and adjusted Gini coefficient of national income, 1984-2020



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH), Microdatos de la muestra, 2022a [online] <https://www.inegi.org.mx/programas/enigh>, and Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

This Gini level corresponds to a society where 78% of families do not have any income, while the other 22% receive all the generated value. On the highest end, 0.1% of the wealthiest families in Mexico hoard almost 40% of the allocation of primary income (37.6% in 2014). Between 1984 and 2020, the national income they received doubled, climbing from 15.5% in 1984 to 30.8% in 2020 (see table 7). This biased allocation of primary income is chiefly responsible for Mexican families' poverty and underdevelopment problems.

**Table 7**  
**Mexico: national income of Mexico's richest families, estimated with the Pareto function and adjusted figures, 1984-2020**  
*(Proportion of total income of households)*

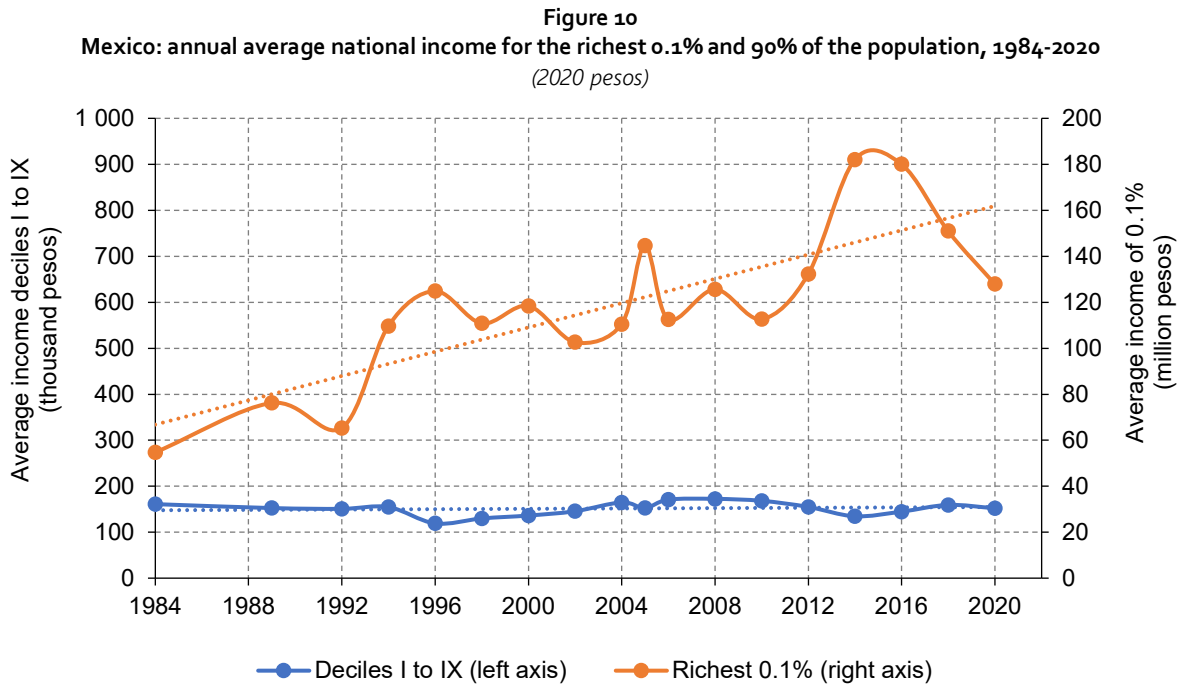
|      | Richest households |      |      |      |       |
|------|--------------------|------|------|------|-------|
|      | 5%                 | 2%   | 1%   | 0.1% | 0.01% |
| 1984 | 48.2               | 37.0 | 30.2 | 15.5 | 7.9   |
| 1989 | 53.0               | 42.6 | 36.0 | 20.8 | 11.9  |
| 1992 | 51.4               | 40.4 | 33.7 | 18.5 | 10.1  |
| 1994 | 58.5               | 48.1 | 41.4 | 25.3 | 15.5  |
| 1996 | 64.0               | 54.5 | 48.3 | 32.3 | 21.6  |
| 1998 | 61.3               | 51.0 | 44.4 | 28.0 | 17.6  |
| 2000 | 61.5               | 51.4 | 44.8 | 28.5 | 18.2  |
| 2002 | 58.6               | 48.0 | 41.2 | 25.0 | 15.1  |
| 2004 | 57.7               | 47.2 | 40.5 | 24.4 | 14.7  |
| 2005 | 62.4               | 52.9 | 46.6 | 30.7 | 20.3  |
| 2006 | 57.5               | 46.9 | 40.2 | 24.1 | 14.4  |
| 2008 | 58.9               | 48.5 | 41.8 | 25.6 | 15.7  |
| 2010 | 58.0               | 47.1 | 40.3 | 23.9 | 14.2  |
| 2012 | 61.2               | 51.0 | 44.5 | 28.2 | 17.8  |
| 2014 | 67.5               | 58.9 | 53.1 | 37.6 | 26.7  |
| 2016 | 66.3               | 57.5 | 51.6 | 36.1 | 25.3  |
| 2018 | 62.4               | 52.9 | 46.7 | 30.8 | 20.4  |
| 2020 | 60.8               | 50.9 | 44.5 | 28.4 | 18.2  |

Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH), Microdatos de la muestra, 2022a [online] <https://www.inegi.org.mx/programas/enigh>, and Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

The figures at the upper tail of the distribution were estimated using national income information adjusted to national accounts and the Pareto function. Comparing this estimate to the salaries of Chief Executive Officers (CEOs) in Mexico's major corporations can help envisage how plausible they are. The Corporate Governance rules of corporations listed on the stock exchange include remunerations, making such a comparison possible.<sup>27</sup> For example, the CEO at Citigroup Mexico earns 219.2 million pesos a year (18.3 million pesos per month), including salary and performance bonuses and premiums (Citigroup, 2022, p. 99). This figure is higher than the Pareto function estimate for the 0.1% of the wealthiest families: 130 million pesos a year per family.

Between 1984 and 2016, the average income of 0.1% of the wealthiest households grew yearly in real terms by 3.8%. When a number grows at that rate, it doubles every 18.6 years. For that reason, the average earnings of that 0.1% went from 54.8 million pesos per year in 1984 to 102.7 million pesos in 2002. These figures are expressed in 2022 pesos to disregard inflation. However, the average earnings of 90% of households (deciles I to IX) suffered a slight decrease in real terms, falling an average of 0.3% each year between 1984 and 2016 (see figure 10).

<sup>27</sup> The purpose of Corporate Governance rules and practices is to control corporations through the decisions made by their officers. They protect shareholders (especially small ones), clients, suppliers, communities and the government.



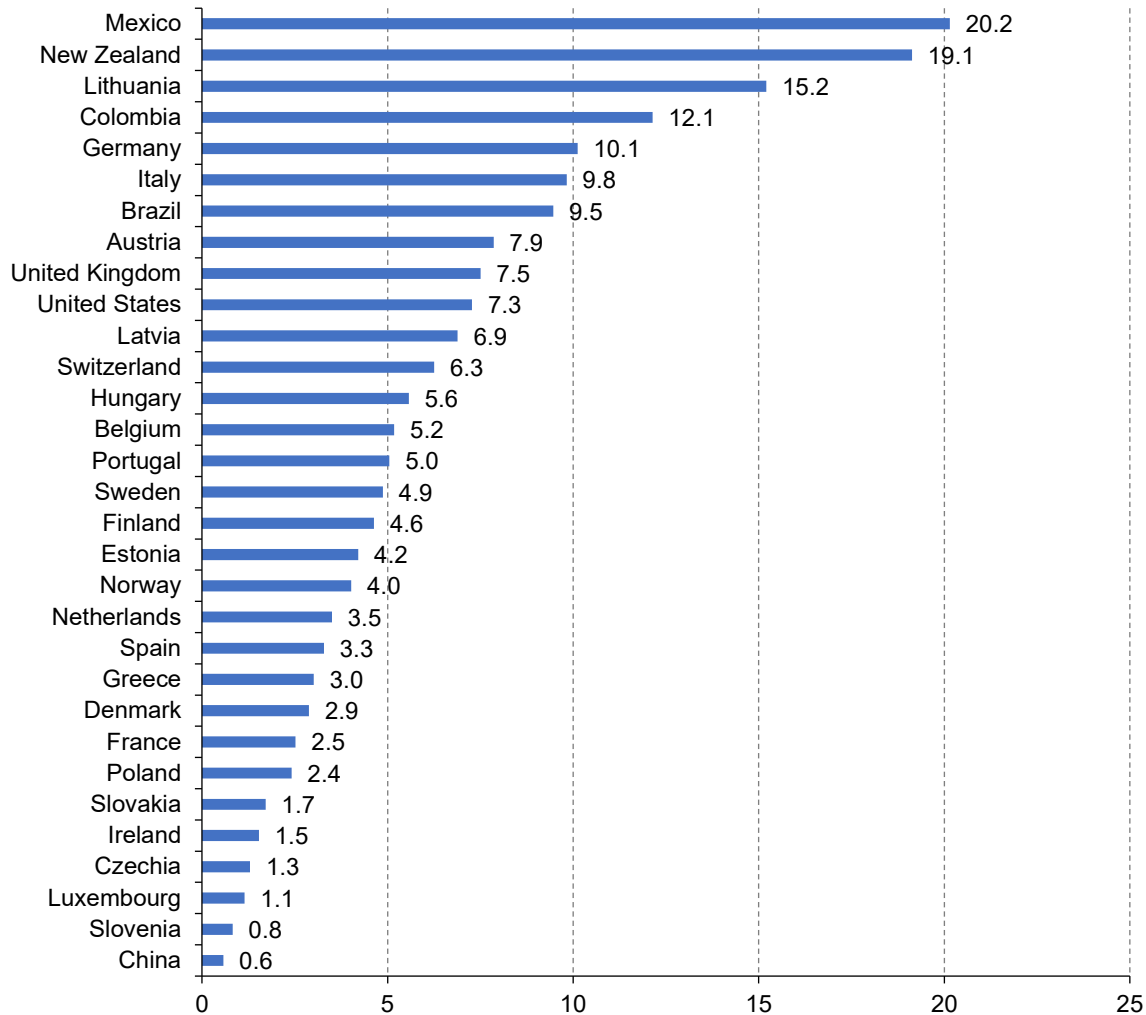
Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía/Banco de México (INEGI/Banxico), Encuesta Nacional sobre las Finanzas de los Hogares (ENFIH), Microdatos de la muestra, Aguascalientes, 2019 [online] <https://www.inegi.org.mx/programas/enfih/2019/#Microdatos>.

The families in the wealthiest 5%, 2% and 1% also had real positive gains, raising their incomes between 2.1% and 2.8% from 1984 to 2016. Market earnings of the wealthiest 1% were 840 times those of 90% of the population (deciles I to IX) in 2020, representing 1,350 times the average income of 90% of people in 2014. As Joseph Stiglitz stated in his recent book *People, Power and Profits*, everything seems to point out that we are evolving “towards an economy and a democracy of the 1% for the 1% and by the 1%” (Stiglitz, 2019, para. 4.6).<sup>28</sup> Mexico is a fine example of this because its economic policies and elementary democracy serve 1% of its population.

The high level of inequality in the country results from a disproportionate distribution of income allocation, unparalleled by countries on which we have information. In 2019, Mexico headed the list of nations with the largest proportion of value added used by corporations (financial and non-financial) to pay dividends. In 2019, this figure reached 20.2% in the country, followed by New Zealand (19.1%), Latvia (15.2%), Colombia (12.1%), Germany (10.1%), Italy 9.8% and Brazil (9.5%). Luxembourg and Ireland have the lowest percentages, very likely because, as offshore financial centres, they receive dividends from the rest of the world (see figure 11).

<sup>28</sup> The author gave the same title to an article published in *Vanity Fair* (Stiglitz, 2011). There, Stiglitz paraphrases a few lines of the 1863 Gettysburg Address, given by President Lincoln during the Civil War, in Pennsylvania. At the end of that short speech, Lincoln said: “that this nation, under God, shall have a new birth of freedom—and that government of the people, by the people, for the people, shall not perish from the earth.”

**Figure 11**  
**Financial and non-financial corporations: paid dividends in selected countries, 2019**  
*(Proportion of gross value added)*



Source: Author's own elaboration, on the basis of Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE9B); 720. Financial balance sheets - non consolidated, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE720R](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE720R), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

In Mexico, the rest of the world sector (S.2) (the second recipient of the allocation of generated value) received almost half a trillion pesos in 2019, setting the country's negative net balance at 497 billion pesos, given that 778.6 billion exited and 231.7 entered the country. Two-thirds of the outgoing resources (65.5%) consisted of interests; a bit over a third of those (37.8%) was paid by the federal government;<sup>29</sup> the rest was split between dividends (17.2%) and reinvested profits of foreign investment (17.2%). In 2013- 2018, 32 billion pesos on average left the country each year; this amount was higher than the family remittances that entered.

<sup>29</sup> In 2019, interests paid to service the external debt amounted to 10 billion dollars, according to the 2021 Third State of the Union Address (*Tercer Informe de Gobierno*) of President Andrés Manuel López Obrador (Presidencia de la República, 2021, p. 508).

## Entrepreneurial income

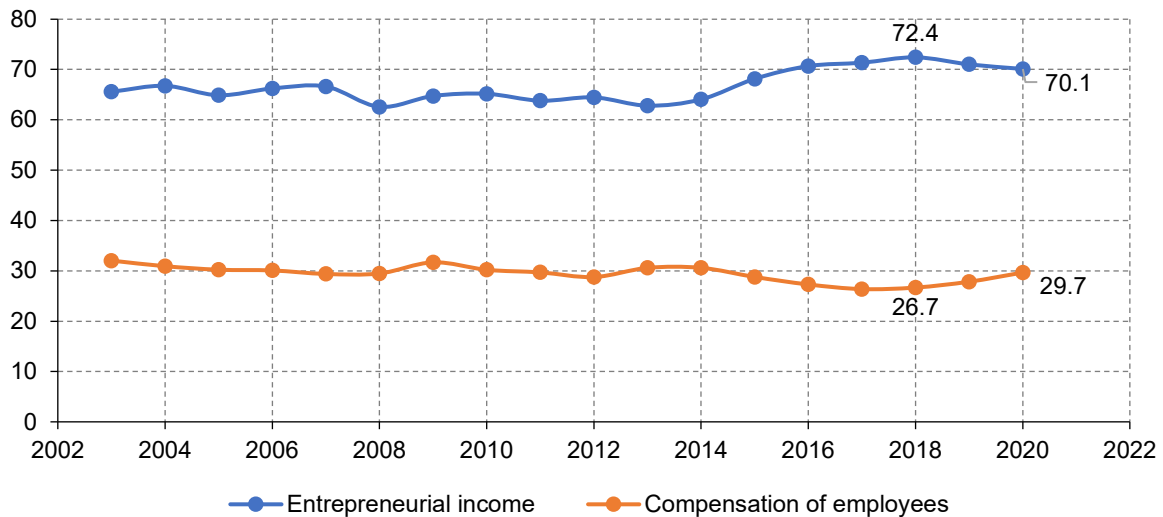
The allocation of primary income provides us with a sharper estimate of the earnings ultimately made by corporations (financial and non-financial). Those earnings are calculated by subtracting the interest paid and land rent from the operating surplus while adding the property income generated by company-owned assets, which enters company treasuries. The result of this calculation is known as entrepreneurial income. For example, in Mexico, the entrepreneurial income of corporations amounted to 8.9 trillion pesos (96% of the gross operating surplus) after paying 2.9 trillion in interest and land rents. However, their treasuries helped offset such payment using the 2.5 trillion obtained from the property income of financial assets (see table 8). In Mexico, the entrepreneurial income of corporations in 2018 was 72.4% of the value added, while the compensation of employees was only slightly over a fourth of value added (26.7%) (see figure 12).

**Table 8**  
**Mexico: entrepreneurial income of financial and non-financial corporations (S.11 and S.12): 2003-2020**  
*(Million pesos)*

| Year | B.1b Gross value added/<br>gross domestic product | B.2b Gross operating surplus (resource) | D.4 Property income (resource) | D.41 Interests (use) | D.45 Rent (use) | Entrepreneurial income |
|------|---|---|--------------------------------|----------------------|-----------------|------------------------|
| 2003 | 3 849 713   | 2 746 301                               | 441 223                        | 397 717              | 265 408         | 2 524 398              |
| 2004 | 4 487 692   | 3 294 247                               | 511 548                        | 442 425              | 367 729         | 2 995 640              |
| 2005 | 4 886 256   | 3 615 332                               | 695 283                        | 662 517              | 478 106         | 3 169 992              |
| 2006 | 5 577 343   | 4 160 867                               | 706 183                        | 633 951              | 539 544         | 3 693 554              |
| 2007 | 6 039 368   | 4 530 280                               | 779 478                        | 718 308              | 568 147         | 4 023 302              |
| 2008 | 6 626 184   | 4 991 478                               | 836 517                        | 760 982              | 920 844         | 4 146 169              |
| 2009 | 5 779 303   | 4 193 524                               | 847 381                        | 772 012              | 527 845         | 3 741 048              |
| 2010 | 6 469 250   | 4 792 686                               | 864 740                        | 750 028              | 691 610         | 4 215 789              |
| 2011 | 7 379 362   | 5 536 629                               | 849 236                        | 780 835              | 897 772         | 4 707 257              |
| 2012 | 8 230 037   | 6 219 425                               | 1 103 002                      | 1 038 852            | 979 081         | 5 304 494              |
| 2013 | 8 214 412   | 6 036 091                               | 925 885                        | 884 766              | 918 278         | 5 158 931              |
| 2014 | 8 761 429   | 6 423 180                               | 1 065 304                      | 1 034 488            | 841 849         | 5 612 147              |
| 2015 | 9 166 418   | 6 705 179                               | 960 116                        | 959 621              | 459 070         | 6 246 604              |
| 2016 | 10 057 232  | 7 449 597                               | 1 318 085                      | 1 322 984            | 335 933         | 7 108 765              |
| 2017 | 11 348 721  | 8 551 693                               | 2 194 098                      | 2 182 067            | 465 194         | 8 098 530              |
| 2018 | 12 211 674  | 9 178 652                               | 2 231 120                      | 1 981 798            | 582 798         | 8 845 176              |
| 2019 | 12 592 757  | 9 351 913                               | 2 523 263                      | 2 454 204            | 477 465         | 8 943 507              |
| 2020 | 11 708 378  | 8 463 648                               | 2 576 924                      | 2 586 372            | 244 218         | 8 209 983              |

Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

**Figure 12**  
**Mexico: entrepreneurial income and compensation of employees in financial and non-financial corporations, 2003-2020**  
*(Proportion of gross value added)*

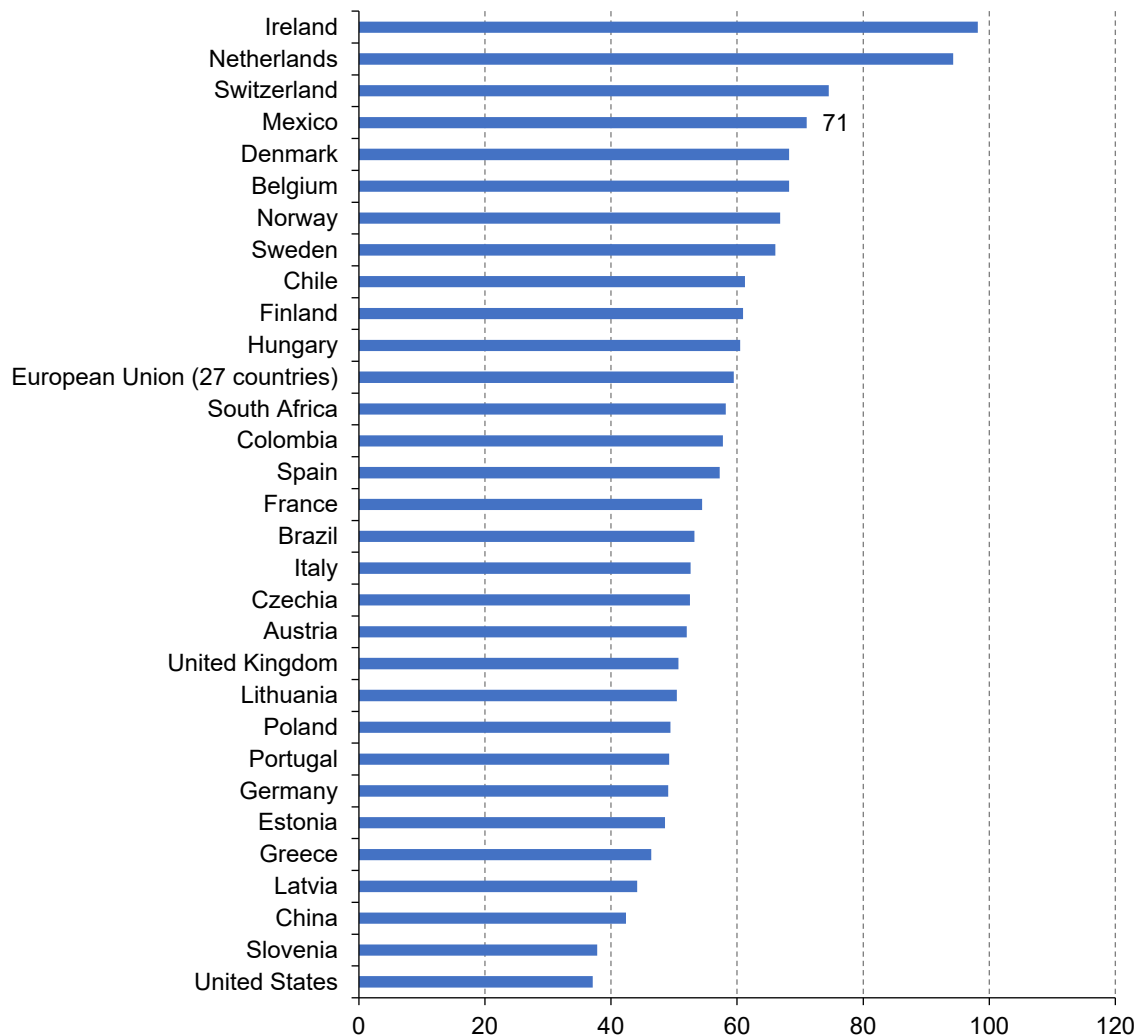


Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

Among the countries on which we have information, Mexico ranked fifth for the largest proportion of value added destined to the entrepreneurial income of corporations. Only Luxembourg, Ireland, the Netherlands and Switzerland, considered offshore financial centres, ranked higher (see figure 13). These entrepreneurial incomes allow corporations to pay hefty dividends to shareholders. In 2019, Mexico, despite its largely poor or vulnerable population (according to CONEVAL), ranked eighth among the major emerging economies in the Janus Henderson Global Asset Manager list of dividends paid by the 1,200 largest corporations (by market capitalization). This spot was lower than China, the Russian Federation, India, Poland, Brazil, South Africa and Thailand (Janus Henderson, 2019). In 2019, private non-financial corporations in Mexico sent 134 billion pesos (7 billion dollars) in dividends out of the country.

Estimating the sources of entrepreneurial income takes us closer to understanding the financialization of the economy. In this study, financialization is defined as any accrued benefits that do not proceed from the primary production process, that is, from the generation of value. Financialization has two levels. The first is when corporations receive revenues from the (mostly financial) assets they possess, aside from their production process. The second level is when those assets are revalued, that is, when their value rises through speculation. Both levels feed each other. Greater levels of assets produce a more considerable income, which can be used to obtain more assets (as we will see below).

**Figure 13**  
**Selected countries: entrepreneurial income of non-financial corporations (S.11) and financial corporations (S.12), 2019**  
*(Proportion of gross value added)*

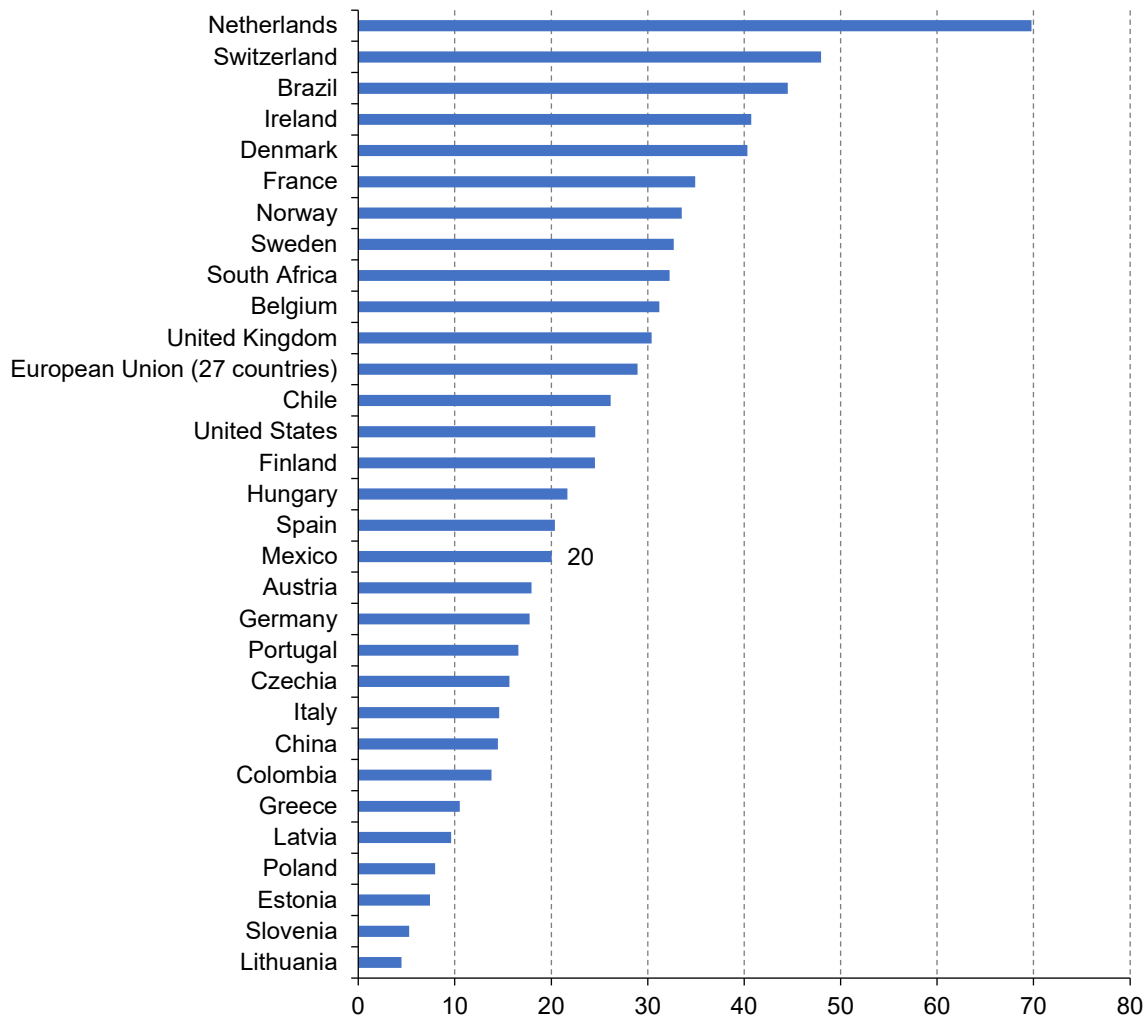


Source: Author's own elaboration, on the basis of Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE9B); 720. Financial balance sheets - non consolidated, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE720R](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE720R), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

Note: Luxembourg, with a property income of 571.8%, is excluded from the figure.

For corporations (financial and non-financial) in Mexico, the sum of financialization, or the proportion of entrepreneurial income not proceeding from a business's production process (that is, generated by property income), reached 20.2% of value added in 2019. Luxembourg, the Netherlands, Switzerland, Ireland and Denmark have property incomes above 40% of the value added of financial and non-financial corporations, and all are at the head of the list because of the greater extent to which their corporations are financialized. However, we must consider that several countries at the top of the list are considered offshore financial centres and very likely receive dividends from abroad, as already mentioned (see figure 14).

**Figure 14**  
**Property income (financialization) of financial and non-financial corporations for selected countries, 2019**  
*(Proportion of gross value added)*



Source: Author's own elaboration, on the basis of Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE9B); 720. Financial balance sheets - non consolidated, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE720R](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE720R), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en). Note: Luxembourg, with a property income of 571.8%, is excluded from the figure.

### C. Secondary distribution of income

After the primary allocation process, several exchanges take place among institutional sectors. Companies, financial corporations and households pay taxes on income and wealth, the government issues transfers (pensions and social benefits), resources arrive from abroad (family remittances), and social insurance schemes receive deposits (social contributions) on behalf of households. Mexico's balance during this stage is positive if we include the rest of the world (S.2), largely due to family remittances. Therefore, disposable income (this account's balance) is 2.9% larger than national income. In 2019, the country's balance with the rest of the world amounted to 697.2 billion pesos, mostly comprised of current transfers (transfers that are not capital) between resident and non-resident



households (family remittances). That same year, resident households received 701.8 billion pesos and sent 18.9 billion abroad. The addition (resources) and subtraction (uses) of the total exchanges with other countries gives us a positive balance, increasing gross disposable income to 24.7 trillion pesos (see table 5).

As in the prior stage of allocation of primary income, the household sector (S.14) is the major net recipient of the reallocation within the country during secondary distribution, followed by non-profit institutions serving households (NPISH, S.15) and the government (S.13). Disposable income in these three sectors is larger than national income.<sup>30</sup> Item D.759, Other current transfers, is the largest sum redistributed to families: 1.7 trillion pesos (see table 9). Unfortunately, the INEGI puts the amounts from federal government social assistance programs, fines and penalties, inheritances and lotteries into this SNA account. It should instead place them in item D.623, Social assistance benefits in cash, as recommended in the manual for international institutions (United Nations, 2009, ch. 8). However, based on the country's national accounts tables, we can infer that most households receive proceeds from federal government programs. The uses of the government sector's account D.759 amount to a sum (1,666 billion pesos in 2019) that almost matches the resources in the household's sector same account (1,669 billion pesos in 2019).

**Table 9**  
**Mexico: secondary distribution, distributive national accounts for the household sector (S.14), 2019**  
(Million pesos and proportions)

| Item   | Million pesos | Percentage of disposable income |
|--|---------------|---------------------------------|
| Gross national income                                | 17 916 050    | 96.5                            |
| Taxes on income and wealth                           | -1 004 208    | -5.4                            |
| Social contributions                                 | -1 526 563    | -8.2                            |
| Social benefits                                      | 1 047 678     | 5.6                             |
| Net insurance premiums                               | -67 734       | 0.4                             |
| Non-life insurance claims                            | 112 317       | 0.6                             |
| Transfers from households to institutions            | -234 056      | -1.3                            |
| Transfers between households (remittances)           | 682 863       | 3.7                             |
| Other current transfers (donations and inheritances) | 1 646 050     | 8.9                             |
| - Resources  | 1 669 139     | 9.0                             |
| - Uses   | -23 089       | -0.1                            |
| Gross disposable income                              | 18 572 397    | 100.0                           |

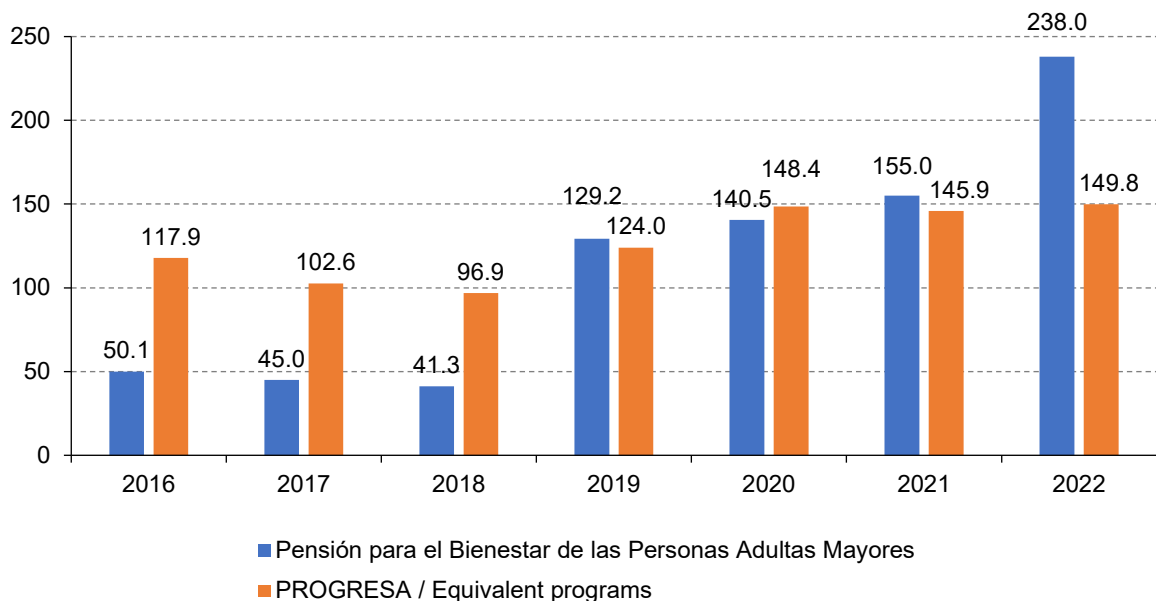
Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

Government transfers to households (D.759, Other current transfers) have experienced considerable growth. In 2003, they represented only 2.4% of the disposable income of households, or 1.5 percentage points less than pensions (D.62, Social benefits, 3.9% of disposable income). However, starting in 2011, the transfers from the government to households have had significant increases, such that by 2021 they represented 9.5% of disposable income (1.9 trillion pesos), which was 3.4 percentage points higher than social benefits.

<sup>30</sup> In the financial corporation sector (S.12), there is also an increase in disposable income (as compared to national income). However, it is due to social contributions (pensions) made on behalf of its employees.

The main social assistance program of the last federal administration, known as *Prospera* (launched in the 1990s under the name *Progresa*, later called *Oportunidades*), suffered reductions in real terms in 2017 and 2018 of 13.0% and 5.5%, respectively. The current administration substituted this program for a set of different benefits: *Beca Universal para Estudiantes de Educación Media Superior Benito Juárez*, *Programa de Becas de Educación Básica para el Bienestar Benito Juárez*, *Sembrando Vida*, *Jóvenes Construyendo el Futuro*, *Pensión para el Bienestar de las Personas con Discapacidad Permanente*, *Jóvenes Escribiendo el Futuro* and *Programa de Becas Elisa Acuña*. The total budget for these programs increased in real terms by 27.9% in 2019 and 2.6% in 2022 (see figure 15). On the other hand, the amount from Mexico's federal expense budget (Spanish acronym PEF) assigned to the *Pensión para el Bienestar de las Personas Adultas Mayores* (flagship program of the current administration) tripled in the administration's first year of government (2019). By 2022, it was assigned a sum that was 53.5% larger than the previous years; in both cases, the amounts increased in real terms (see figure 15).<sup>31</sup>

**Figure 15**  
Mexico: main government programs, 2003-2029  
(2022 billion pesos)



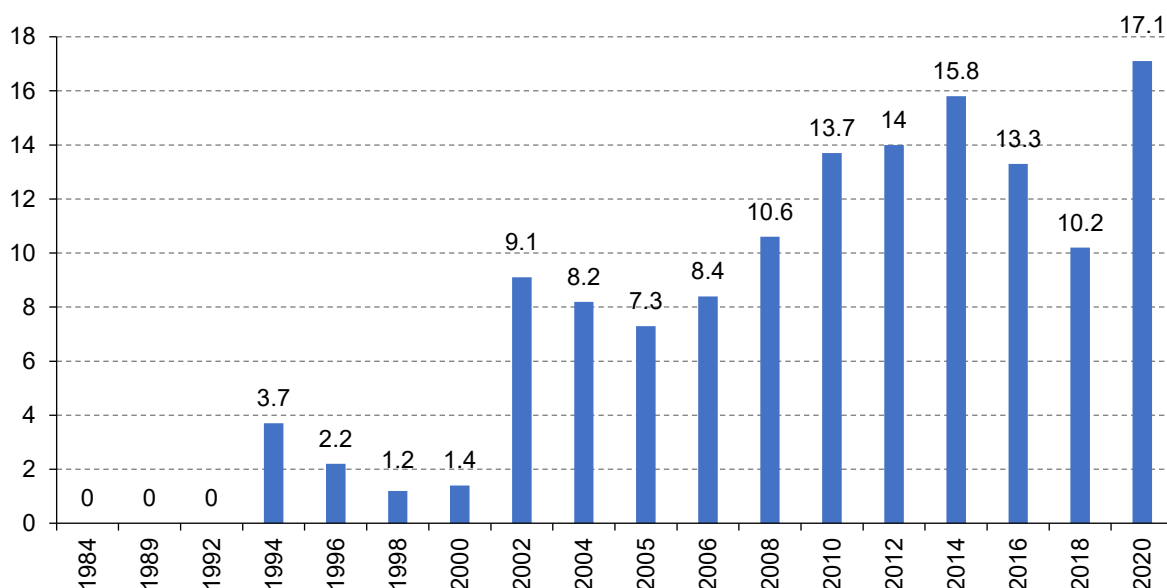
Source: Author's own elaboration, on the basis of Mexico's Secretary of Finance (Spanish acronym SHCP), *Transparencia presupuestaria, Observatorio de gasto, Datos abiertos, Gobierno de México, 2022* [online] [https://www.transparenciapresupuestaria.gob.mx/es/PTP/Datos\\_Abiertos](https://www.transparenciapresupuestaria.gob.mx/es/PTP/Datos_Abiertos) [consultation date: 30 August 2022].

Note: We consider only the sum budgeted in Chapter 4000, that is, the portion of the PEF that does not include operating expenses. In comparison with the *Progresa* program, the current benefits include the following programs: *Beca Universal para Estudiantes de Educación Media Superior Benito Juárez*; *Programa de Becas de Educación Básica para el Bienestar Benito Juárez*; *Sembrando Vida*; *Jóvenes Construyendo el Futuro*; *Pensión para el Bienestar de las Personas con Discapacidad Permanente*; *Jóvenes Escribiendo el Futuro*; and *Programa de Becas Elisa Acuña*.

<sup>31</sup> This program was preceded by the *Pensión Alimentaria para los Adultos Mayores de 68 años residentes en el Distrito Federal* program, created in 2003 by Mexico City's government, and by the *Atención a Adultos Mayores* program, a federal program for very disadvantaged people over 60 years old who lived in rural areas at the threshold of food poverty, also launched in 2003. The sum and the coverage of this benefit have increased. At first, the benefit consisted of 660 pesos per month in Mexico City and 700 pesos per month in the rest of the country. However, by 2019 it amounted to 1,275 pesos per month, growing to 1,925 in 2022. Coverage is universal for all people over 65. The senior people's right to a pension was established in the Constitution on 8 May 2020 to ensure the benefit's continuance, and Article 4 now reads as follows: "People over sixty-eight years old have the right to receive from the State a non-contributive pension as provided by the Law. This benefit will be granted to indigenous and afro-Mexican people when sixty-five years old." (Gobierno de México, 2021).

Between 2018 and 2020, the weight of public and private transfers lightened for the two first deciles, an aspect that some analysts interpret as regressiveness in government support. However, it should be taken into account that, according to adjusted figures from the National Survey on Household Income and Expenditures (Spanish acronym ENIGH), in 2020, the current federal administration's main programs<sup>32</sup> represented 17.1% of the national income of 50% of the poorest households (6.9 percentage points more than in 2018), setting a record high ever since social programs were first included in the survey in 1994 (see figure 16).<sup>33</sup>

**Figure 16**  
Mexico: government transfers in 50% of poorest households, 1984-2020  
(Percentage of national income)



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH), Microdatos de la muestra, 2022a [online] <https://www.inegi.org.mx/programas/enigh>, and Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

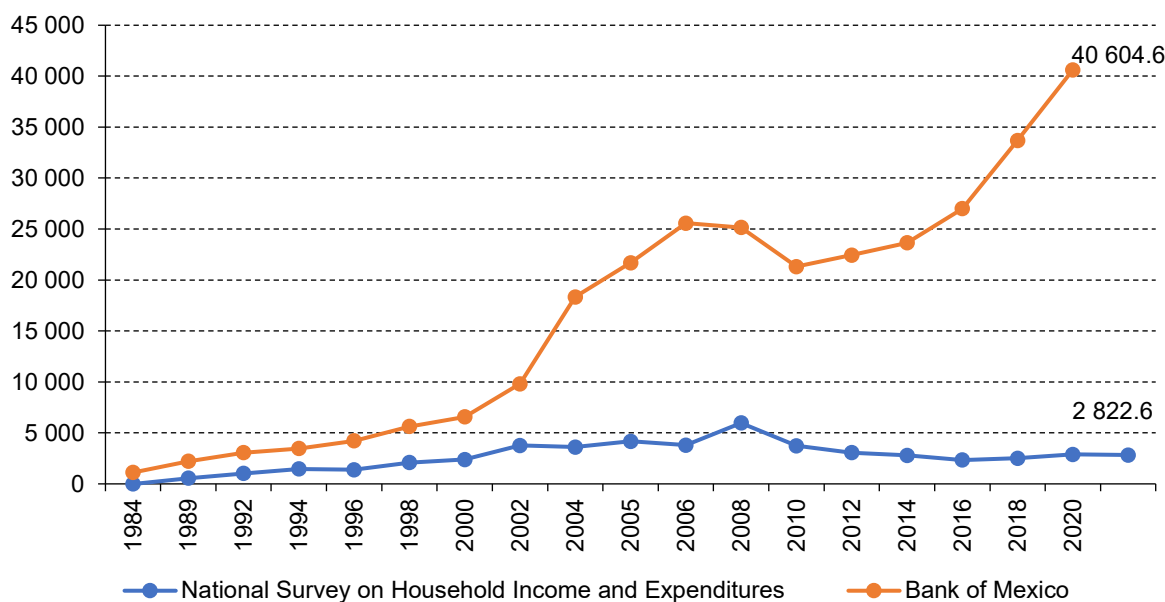
When taxes and public and private transfers are included, family earnings increase for some and decrease for others (if their taxes are higher than the transfers received), causing a change in their decile position. The change is smaller for families whose disposable income decreases, so they stay close to the decile to which they belonged. However, an important distributive effect occurs in families who increase their earnings through government transfers and family remittances. For example, in 2018, 4.6 million of the poorest families in terms of disposable income (the poorest 50%, deciles I to V) moved more than a decile when they were ordered according to their disposable income, and 3.5 million of 10% of the poorest families moved from the first national income decile to deciles III to X of disposable income (346 thousand were in decile X).

<sup>32</sup> Pensión para el Bienestar de las Personas Adultas Mayores, Pensión para el Bienestar de las Personas con Discapacidad Permanente, Producción para el Bienestar, Programa de Becas de Educación Básica para el Bienestar Benito Juárez, Beca Universal para Estudiantes de Educación Media Superior Benito Juárez, Jóvenes Escribiendo el Futuro, Programa de Apoyo para el Bienestar de las Niñas y Niños, Hijos de Madres Trabajadoras, Sembrando Vida, Programa Nacional de Fertilizantes and Programa de Desarrollo Rural.

<sup>33</sup> As we have already mentioned, according to CONEVAL, in 2020, 43.9% of people lived in poverty, and 23.7% were vulnerable due to social disadvantages; that is, they could fall under the poverty line at any moment (CONEVAL, 2022).

The family remittances sent by workers (the second most important transfer) have also increased considerably. According to data from the National Accounts System and the balance of payments of the Bank of Mexico, remittances in dollars sent from abroad grew at an average annual rate of 6.7% between 2010 and 2020. This growth is not reflected in ENIGH, a source that registered a reduction in family remittances at an average annual rate of 0.8% during the same period. Differences between household survey numbers and national accounting have significantly increased in recent years. Between 1984 and 2002, the balance of payments recorded 2 pesos and 20 cents for each peso entered into the survey, so on average, the underreporting factor stood at 2.20; however, the underreporting level of the survey started to grow in 2004, reaching a historical record of 14.39 compared to the balance of payments and of 14.40 compared to the national accounts (see figure 17).

**Figure 17**  
**Mexico: family remittances in the balance sheets of the Bank of Mexico and the National Survey on Household Income and Expenditures (ENIGH), 1984-2020**  
*(Million dollars)*



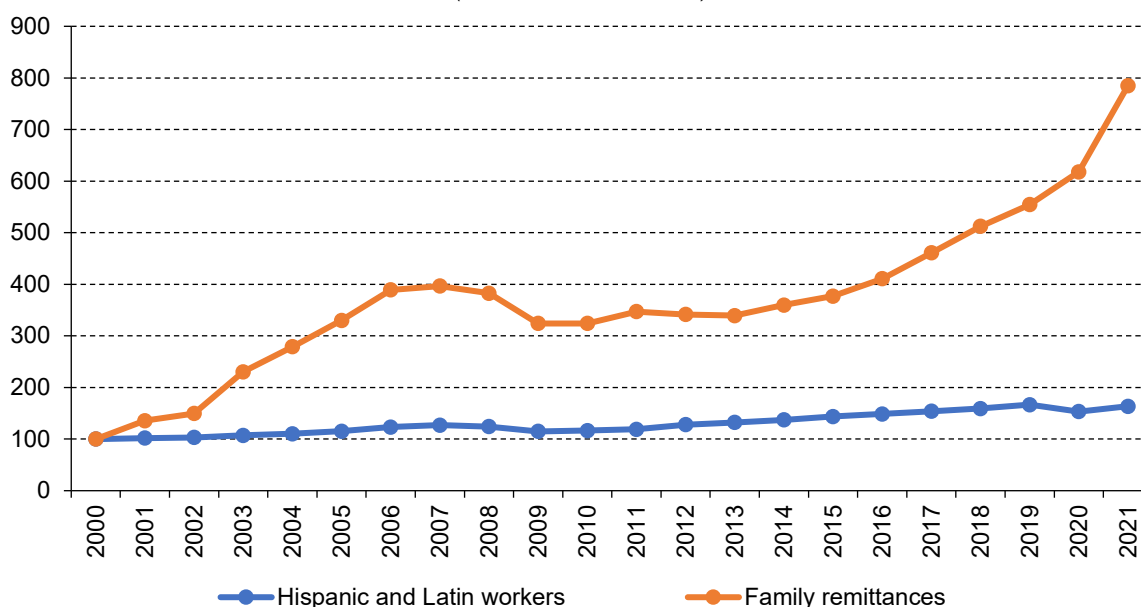
Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados> and Banco de México (Banxico), Sistema de Información Económica, Sectores de información, Mexico City, 2022 [online database] <https://www.banxico.org.mx/SielInternet/>.

However, some points must be clarified. In the first place, the figures are not precisely comparable. The Bank of Mexico's balance of payments (source of the National Accounts System) record all transactions among individuals, even those who are not family. According to the International Monetary Fund's manual (MBP6), used by the central bank to enter information, remittances are

"all current transfers sent by one person to another... thus, even when acknowledging that personal transfers are often issued by migrants who send resources back to their native economies, the definition of personal transfers used by this manual is not restricted to that activity". In a footnote, the manual says that the definition of "... remittances in the accounts on the balance sheets is somewhat broader than what corresponds to people's movements because they do not stem from concepts such as migration, employment and family bonds" (IMF, 2009, p. 294).

Second, the Bank of Mexico issued new rules in 2002 to improve remittance statistics and standardize information about them. Then, in 2012, it issued new regulations that broadened the kind of information it received. As of 2018, it also estimates direct remittances, both in cash and in kind, based on INEGI's survey on international travel. Therefore, the differences are likely due to a mix of these changes and underreporting in the survey. Also, the analysis must consider that the growth rate of Hispanic workers in the United States is less dynamic than that of family remittances (see figure 18).

**Figure 18**  
**United States: family remittances and Hispanic and Latino workers, 2000-2021**  
*(Growth index base=2000)*



Source: Author's own elaboration, on the basis of Banco de México (Banxico), Sistema de Información Económica, Mexico City, 2022 [online database] <https://www.banxico.org.mx/SielInternet/>, and Office of Economic Analysis/United States Department of Commerce, Direct Investment by Country and Industry, Suitland, MD, Bureau of Economic Analysis (BEA) [online] <https://www.bea.gov/data/intl-trade-investment/direct-investment-country-and-industry> [consultation date: 10 June 2022].

It is feasible that other aspects (in addition to the comparability of figures) exist that require a more profound analysis beyond the scope of this study, despite the survey's underreporting (likely involuntary). Therefore, we will limit ourselves to some (non-exclusive) hypotheses concerning the differences between sources. For one, the approval in 2005 of the 4437 H.R Act (or Border Protection, Antiterrorism and Illegal Immigration Control Act) and the measures it later spawned (such as the construction of a border wall) complicated the inbound and outbound flow of Mexican migrants. As a result, many decided to stay in the United States and send money electronically instead of in person. Another hypothesis, seeing that the balance of payments includes all transfers between individuals, is that the increase was caused by a boost in electronic sales by small and medium-sized enterprises in Mexico and transfers related to the illegal activities of organized crime.

In 2019, the government sector (S.13), which obtains considerable amounts from the other sectors, received 1.7 trillion pesos in income and wealth taxes, plus 1.5 trillion in taxes on products, raising almost a trillion through the VAT. On the other hand, using the programs we analysed, the government delivered a similar amount in household transfers. The same year, little more than half of all taxes on products, income and wealth were disbursed by households (57.2%), while financial and non-financial corporations contributed with one-fourth (24.5%).

In this secondary distribution of value, tax collection, particularly progressive taxation on income and wealth, and public and private transfers help improve income inequality. In 2020, the Gini coefficient decreased by 10 percentage points; the Gini of adjusted national income dropped from 0.78 to 0.68 (Gini of disposable income), and the percentage of income accumulated by the wealthiest households (decile X) fell to 60% (see table 10). This reduction was due to the 10% of households with more income contributed 84.6% of the income tax, while public and private transfers represented a little over a fourth of the income in the poorest households in the same year: 26.0% in the first decile and 28.1% in the second.

**Table 10**  
**Mexico: distribution of disposable income by deciles, 1984-2020**  
*(Proportion of total and inequality indices)*

| Decile | 1984   | 1989   | 1992   | 1994   | 1996   | 1998   | 2000   | 2002   | 2004   |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| I      | 0.6    | 0.7    | 0.7    | 0.6    | 0.6    | 0.5    | 0.6    | 0.6    | 0.7    |
| II     | 1.4    | 1.5    | 1.5    | 1.3    | 1.2    | 1.1    | 1.2    | 1.3    | 1.4    |
| III    | 2.2    | 2.1    | 2.2    | 1.8    | 1.6    | 1.6    | 1.6    | 1.8    | 2.0    |
| IV     | 2.9    | 2.8    | 2.9    | 2.4    | 2.1    | 2.1    | 2.2    | 2.4    | 2.6    |
| V      | 3.8    | 3.6    | 3.6    | 3.0    | 2.7    | 2.8    | 2.8    | 3.1    | 3.3    |
| VI     | 4.7    | 4.6    | 4.6    | 3.8    | 3.4    | 3.6    | 3.6    | 3.9    | 4.2    |
| VII    | 6.0    | 5.9    | 6.0    | 4.9    | 4.4    | 4.8    | 4.7    | 5.1    | 5.4    |
| VIII   | 8.2    | 7.7    | 8.0    | 6.9    | 6.0    | 6.7    | 6.4    | 7.1    | 7.3    |
| IX     | 13.2   | 11.5   | 12.5   | 11.0   | 9.6    | 10.8   | 10.6   | 11.2   | 11.5   |
| X      | 57.1   | 59.6   | 58.0   | 64.2   | 68.5   | 66.1   | 66.3   | 63.5   | 61.6   |
| Total  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  |
| Gini   | 0.6600 | 0.6750 | 0.6610 | 0.7130 | 0.7480 | 0.7340 | 0.7300 | 0.7060 | 0.6930 |
| Theil  | 0.9830 | 1.4600 | 1.0300 | 1.4500 | 1.9700 | 1.6200 | 1.4500 | 1.3300 | 1.6000 |
| Decile | 2005   | 2006   | 2008   | 2010   | 2012   | 2014   | 2016   | 2018   | 2020   |
| I      | 0.6    | 0.7    | 0.7    | 0.6    | 0.6    | 0.7    | 0.7    | 0.8    | 0.7    |
| II     | 1.3    | 1.5    | 1.3    | 1.3    | 1.3    | 1.3    | 1.4    | 1.5    | 1.5    |
| III    | 1.9    | 2.1    | 1.9    | 1.9    | 1.8    | 1.8    | 1.9    | 2.1    | 2.2    |
| IV     | 2.4    | 2.7    | 2.5    | 2.5    | 2.4    | 2.3    | 2.4    | 2.6    | 2.8    |
| V      | 3.1    | 3.4    | 3.1    | 3.2    | 3.0    | 2.8    | 3.0    | 3.3    | 3.6    |
| VI     | 3.9    | 4.3    | 4.0    | 4.0    | 3.9    | 3.5    | 3.7    | 4.1    | 4.4    |
| VII    | 5.0    | 5.5    | 5.2    | 5.3    | 5.1    | 4.5    | 4.7    | 5.2    | 5.6    |
| VIII   | 6.7    | 7.4    | 7.1    | 7.3    | 7.0    | 6.0    | 6.3    | 6.9    | 7.5    |
| IX     | 10.1   | 11.6   | 11.4   | 12.0   | 11.4   | 9.4    | 9.7    | 10.8   | 11.4   |
| X      | 64.8   | 60.7   | 62.8   | 61.8   | 63.5   | 67.6   | 66.3   | 62.7   | 60.3   |
| Total  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  |
| Gini   | 0.7160 | 0.6830 | 0.7040 | 0.6980 | 0.7090 | 0.7320 | 0.7250 | 0.6960 | 0.6790 |
| Theil  | 1.990  | 1.350  | 1.670  | 1.410  | 1.500  | 2.240  | 2.670  | 1.760  | 1.760  |

Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH), Microdatos de la muestra, 2022a [online] <https://www.inegi.org.mx/programas/enigh>, and Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

## D. Use of disposable income

Disposable income lets the government (S.13), households (S.14) and institutions serving households (ISH, S.15) make consumption expenditures as needed for their daily operations and activities.<sup>34</sup> The remainder of unspent gross disposable income is called gross saving, which becomes net saving when the depreciation of fixed capital (consumption of fixed capital) is subtracted. Expenditures in the government sector (S.13) may be individual or collective. Individual expenditures are those made by the government to benefit an individual or a household, whereas collective expenditures benefit the community as a whole. Examples of collective expenditures are general public services, security and defence, transportation and communications, energy, environmental protection, home utilities, street lighting and water services. Individual government expenses comprise health, education and cultural services, as well as expenses associated with social protection (except research in those areas, considered a collective expenditure).

In 2019, the individual government expenditures in Mexico represented 6.3% of gross disposable income, its highest since 2003, whereas collective expenditures were slightly smaller at 6.1%. However, the proportion of total government expenditures (12.4% of disposable income) is very low compared to the countries on which we have information. According to information from the OECD, Mexico (11.3%) is placed last regarding the proportion of disposable income used for government expenditures, whether collective or individual. Switzerland (11.9%), the United States (13.9%), Chile (15.1%), Ireland (15.5%) and Colombia (15.7%) rank higher than Mexico. Governments in Latin American countries and the United States have low expenditures because, they have let the market provide the goods and services required by families; in other words, they have chosen to privatize health and education services, among others.

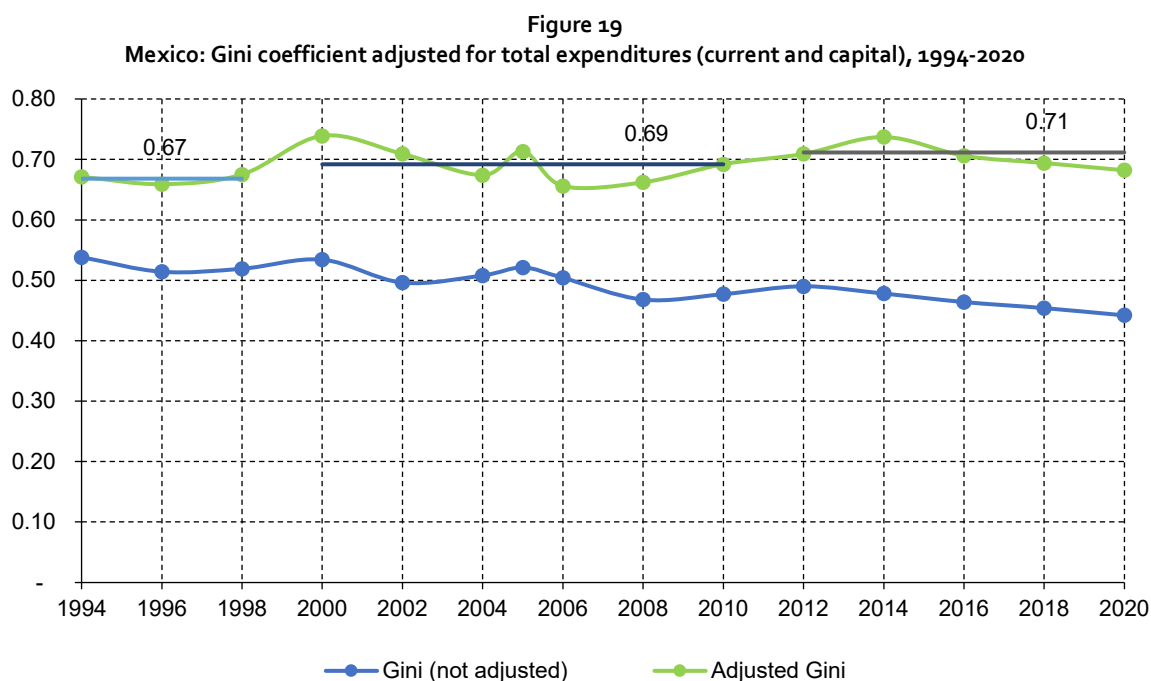
Regarding household expenditures, several analysts and researchers who follow the utilitarian line of thought have proposed that the best way to measure inequality is through expenditures because they represent consumption for families and, hence, welfare. However, in addition to the problems posed by this position, which we analysed before, a methodological issue must be considered. Though families apply most of their disposable income to expenditures (86.6% in 2018), they save whatever is left. Therefore, we need to consider current expenses and capital goods (savings) expenditures to estimate inequality based on expenditures. Since, according to ENIGH, over a third of families in Mexico (35.1% in 2018) made some financial outlay, we would underestimate inequality if we did not consider savings.

Also, as with income, expenditures are underreported because outlays made on consumer semi-durables and durables are not registered. To record daily expenses, families jot them down in a notebook for a week, enabling a sound recording of expenditures on food, drink, tobacco and transportation, which make up a large portion of the outlays of households in the lower deciles. Other household items, such as clothing, education, health, housing and vehicles, are covered by a general questionnaire, which asks respondents whether they can remember buying any of those goods in the recent past (a month, a quarter or a semester, depending on the good or service). There is a high chance that people forget this kind of goods, creating involuntary underreporting. There may also be voluntary underreporting, for instance, concerning purchased homes or cars or even financial outlays (stocks and bonds, for example). Since households in the higher deciles buy these goods, underreporting creates a significant bias when analysing distribution.

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<sup>34</sup> Outlays of the other sectors (financial and non-financial corporations) have already been considered under the intermediate consumption heading (P.2) of the production account.

When including capital outlays, expenditure figures adjusted according to national accounts show that inequality levels are similar to disposable income when measured with the Gini coefficient. This result is logical because income is disaggregated into current expenditures and savings (capital expenditures). The Gini coefficient adjusted for total expenditures (current and capital) went from an average of 0.67 in 1994-1998 to 0.69 in 2000-2012 and 0.71 in 2012-2020 (see figure 19).



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH), Microdatos de la muestra, 2022a [online] <https://www.inegi.org.mx/programas/enigh>, and Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

## E. Savings and fixed capital formation

As already mentioned, though most of the disposable income from the household sector (S.14) goes into consumption expenditures, a considerable remainder is used for savings<sup>35</sup> (heading B.8b, Gross saving). For example, in 2019, the household sector in Mexico had 3.8 trillion pesos in gross savings, which has grown each year by 7.8% on average in real terms (see table 11 and figure 20).

<sup>35</sup> In the case of the household sector (S.14), we must add the difference between pension fund payments and money received from pensions (account D.8 Adjustment for changes in pension entitlements) to savings.

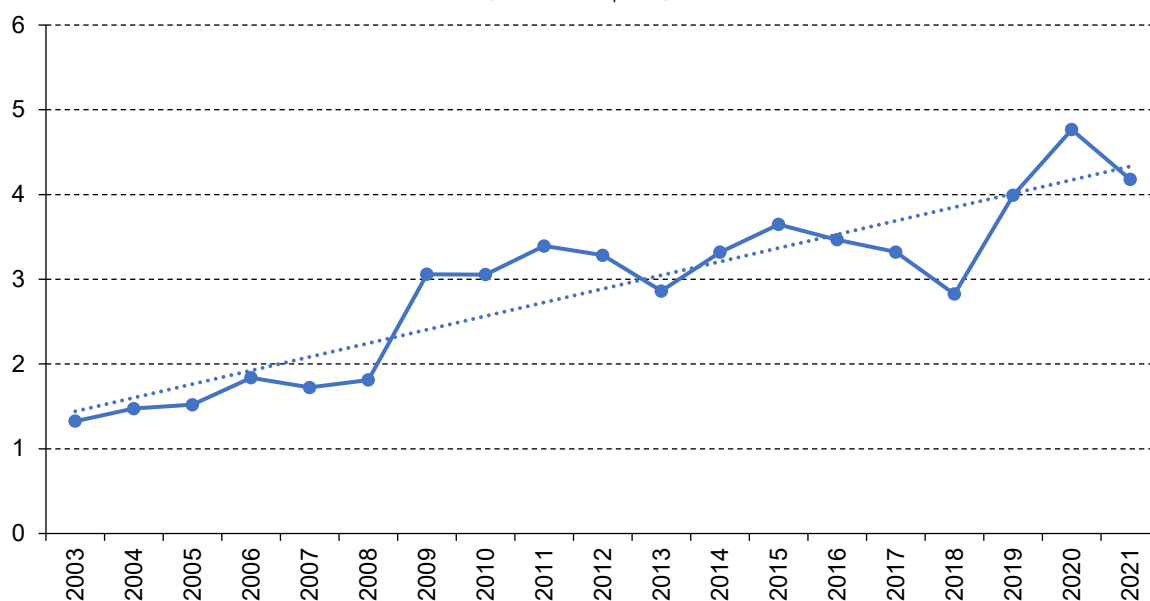


**Table 11**  
**Mexico: use of disposable income, distributive national accounts of the household sector (S.14), 2019**  
*(Million pesos and proportions)*

| Item                             | Million pesos | Percentage of disposable income |
|----------------------------------|---------------|---------------------------------|
| Gross disposable income          | 18 572 397    | 100.0                           |
| Current expenditures             | -15 564 168   | -83.8                           |
| Pension entitlements             | 827 686       | 4.5                             |
| Savings                          | 3 835 915     | 20.7                            |
| Fixed capital expenditures       |               |                                 |
| Gross capital formation          | -1 572 234    | -8.5                            |
| - Housing                        | -1 441 948    | -7.8                            |
| - Other buildings and structures | -44 058       | -0.2                            |
| - Equipment                      | -78 518       | -0.4                            |
| - Valuables                      | -1 244        | 0.0                             |
| Changes in inventories           | -6 466        | 0.0                             |
| Balance (net lending)            | 2 263 681     | 12.2                            |

Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

**Figure 20**  
**Mexico: gross saving (B.8b) of the household sector (S.14), 2003-2021**  
*(2020 trillion pesos)*



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

Unfortunately, household savings are poorly distributed in Mexico, reflecting the biased and concentrated allocation of value added generated by the economy. According to the 2021 National Survey on Financial Inclusion, just 19.1% of families stated that they have a check, savings or deposit account, an investment fund (or stock shares), a savings Internet application or any other financial

instrument.<sup>36</sup> As estimated in this study, the Gini coefficient for financial assets reaches 0.997 since only 1% of households at higher levels hoard 87.9% of total savings; this amount increases to 97.6% when considering the 10% of the wealthiest families. Furthermore, in 2019 there were only 18,239 contracts with residents in Mexico for trading shares on the stock exchange, whose balance was over 500 million pesos, totalling 22.6 trillion pesos (CNBV, 2022).

In 2019, households invested 1.6 trillion pesos in gross fixed capital formation (heading P.51b), mainly in housing (1.4 trillion), so they ended with a positive net lending of 2.3 trillion pesos (see table 11). However, according to the figures on home ownership of ENIGH, young adult households find it very difficult to buy a house. In 2020, almost a fifth (19.6%) of young adults under 40 inhabited a lent house, and almost one-third (30.6%) lived in a rented one. Although real estate rental generates an important flow of resources for property owners, it is an increasingly costlier transfer for young people. After dropping in the years following the 1994 crisis, this century's median expenditure on real estate rentals have increased 45.4% in real terms (an annual average of 1.9% between 2000 and 2020), according to ENIGH.

Households in Mexico have the lowest debt levels compared to countries on which we have information. The low salaries and high prices of property in large cities keep young families from borrowing to purchase homes. According to the Federal Mortgage Society (Spanish acronym SHF),<sup>37</sup> the price of apartments grew on average 8.1% a year nationwide between 2015 and 2021. In contrast, the base salary of people insured by the Mexican Social Insurance Institute (Spanish acronym IMSS) grew on average 1.9% a year in real terms during the same period. In 2021, the average home price in Mexico City was 2,956,057 pesos (SHF, 2022). An upfront payment of 295,606 pesos (10% of the house's value) and monthly payments of 29,006 pesos would be required to buy such a house using credit from a commercial bank (20-year mortgage), considering an annual interest rate of 10.5% (not including the 12.4% VAT). Banks would lend that money only to customers who earned 78,624 pesos a month.<sup>38</sup>

According to adjusted figures from ENIGH, in 2020, only 417 thousand households in the whole country had a primary earner under 40 years old whose income was at least high enough for such a credit. If we look at the places where the middle classes aspire to live, for example, the so-called Condesa-Roma corridor, the price of a new 80-square-meter one-bedroom home stands above 7 million pesos. Under similar conditions (20 years, 10% upfront payment, 9.5% annual fixed interest rate), a banking institution would require a monthly salary of 174,877 pesos to face monthly amortizations of 64,338 pesos. The number of households with a sufficient income and whose primary earner is under 40 then drops to 140 thousand. Therefore, young families in the lower and middle classes find it challenging to build patrimony. If this is not corrected, even greater inequality in the ownership of physical assets will exist in the future.

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<sup>36</sup> So-called "transactional" accounts are not included. Workers and employees deposit their paychecks in those accounts, whose balances tend to drop to zero as payday moves further away. Created by the author with data from the 2021 National Survey on Financial Inclusion (Spanish acronym ENIF) (CNBV and INEGI, 2021).

<sup>37</sup> A development bank whose mandate is to foster the housing market through credits for the construction and improvement of housing.

<sup>38</sup> Estimates made using the BBVA simulator for fixed-rate mortgages at <https://www.bbva.mx/personas/productos/creditos/credito-hipotecario/simulador-credito-hipotecario.html>.

## F. Changes in the value of assets

Households with physical and financial assets obtain revenues from their assets. In a self-feeding circuit, those revenues allow them to increase their incomes and buy even more assets. But this is not it. These households also benefit from the second moment of financialization: an increase in wealth without the creation of new wealth. For the household sector (S.14), this study defines the second moment of financialization as the sum of changes in value caused by changes in volume (account B.10.2 Changes in net value due to other changes in the volume of assets) plus changes caused by variations in nominal holdings (B.10.3 Changes in net value due to gains/losses in nominal holdings).<sup>39</sup>

For instance, in 2019, household savings went from 3.8 trillion pesos to 6.7 trillion pesos; that is, it increased by 75.7%. Most of that growth (72%) came through the revaluation of nominal holding gains, which amounted to 2 trillion pesos in 2019, 1.6 trillion through the revaluation of physical assets, and about half a trillion (478.5 billion) through the revaluation of financial assets. The increase of changes in value due to changes in volume was mostly caused by what is known in national accounts as the economic appearance of assets. This occurs when valuable objects (gemstones, antiques and other pieces of art) acquire a value greater than their original purchase price because they gain more relevance, when subsoil resources are discovered on family-owned land (K.1, Economic appearance of assets account) or when entitlements to life insurance, annuities or pension funds grow (K.5, Other changes in volume account). In 2019, the wealth of households increased by 405 billion pesos due to the economic appearance of assets and 423 billion pesos due to other changes in volume (see table 12).

**Table 12**  
**Mexico: changes in total net value, distributive national accounts for the household sector (S.14), 2019**  
*(Million pesos and proportions)*

| Item                                      | Million pesos | Proportion of closing net worth |
|---|---------------|---------------------------------|
| Gross saving                              | 3 835 915     | 56.9                            |
| Changes in value due to changes in volume | 827 788       | 12.3                            |
| Economic appearance of assets             | 405 514       | 6.0                             |
| Catastrophic risks                        | -867          | 0.0                             |
| Other changes in volume                   | 423 142       | 6.3                             |
| - Physical assets                         | -2 067        | 0.0                             |
| - Financial assets                        | 425 209       | 6.3                             |
| Nominal holding gains                     | 2 077 272     | 30.8                            |
| - Physical assets                         | 1 598 811     | 23.7                            |
| - Financial assets                        | 478 461       | 7.1                             |
| Total changes in net value                | 6 740 975     | 100.0                           |

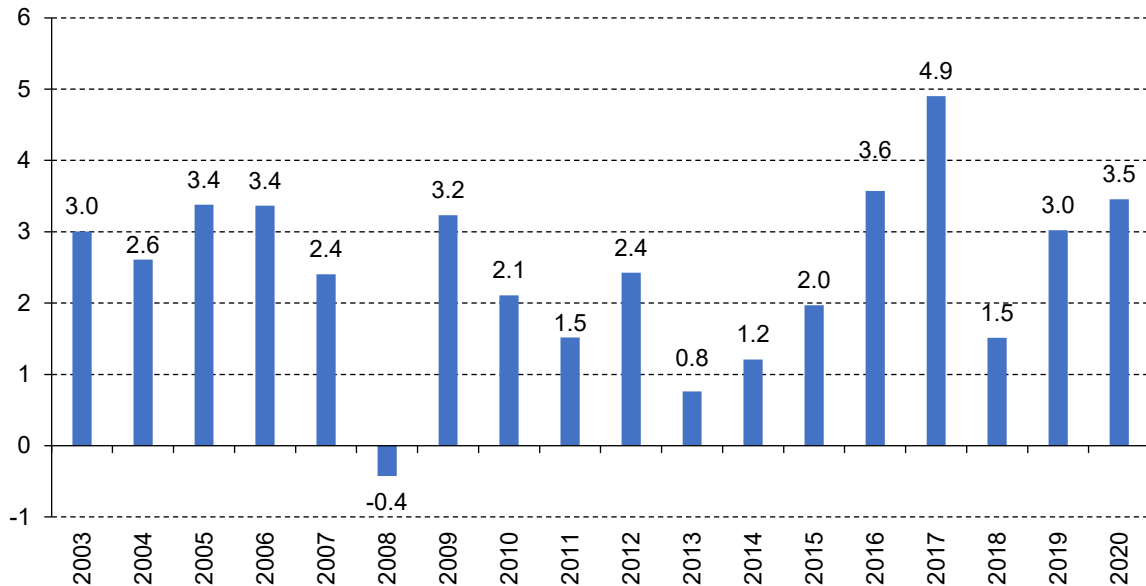
Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

In total, the sum of financialization in the country reached 3 trillion pesos in 2019. In 2020, when many families went through difficulties because of the measures taken by the federal government to deal with the SARS-CoV2 pandemic, financialization reached 3.5 trillion but benefited very few families.

<sup>39</sup> For the rest of the sectors, received capital transfers (account D.9r) and paid capital transfers (account D.9p) should also be taken into consideration.

The 2008 crisis certainly had negative financialization; that is, the nominal holdings of financial assets suffered a loss. However, this loss was made up in the following years (see figure 21).

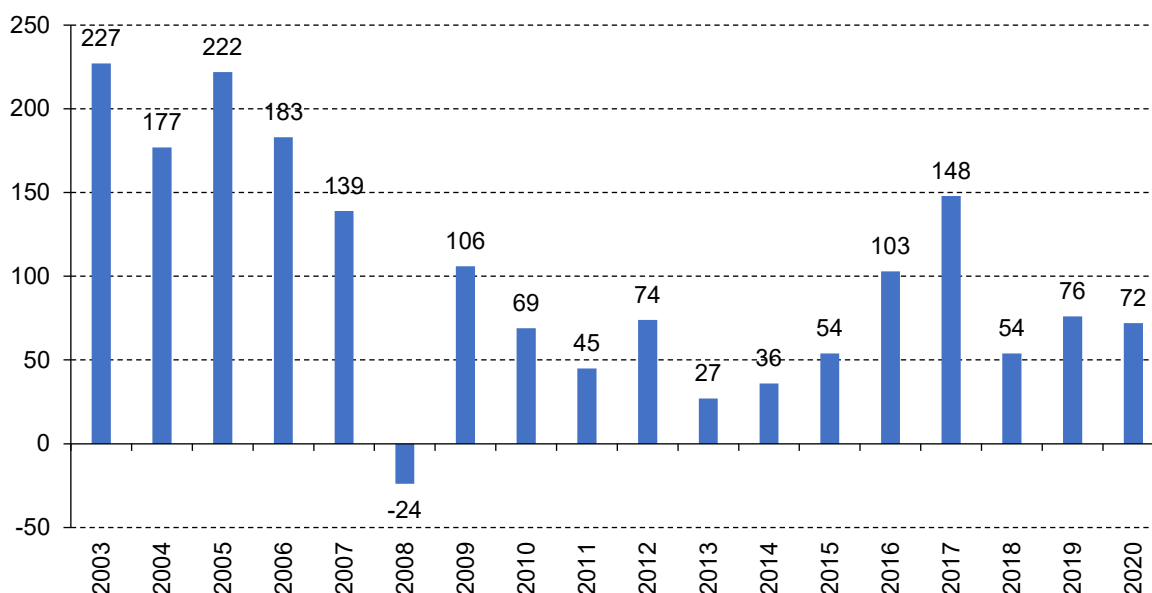
**Figure 21**  
Mexico: financialization of households (S.14), 2003-2020  
(2020 trillion pesos)



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

This study proposes an indicator to measure the relative weight of financialization by using an index calculated by dividing the addition of changes in the value of assets (K.1 to K.6, Other changes in the volume of asset accounts) and the revaluation of nominal holdings (K.7, Nominal holding gains/losses account) by gross saving (not including net capital transfers). In the years leading up to the 2008 crisis (2003-2007), Mexico's household sector financialization index (S.14) remained near 180% on average, chiefly because of the revaluation of financial assets brought on by the period's banking speculation, which sparked the problems that came later. In 2008, the index was negative because of the financial crisis. It recovered considerably (73.3% on average) from 2009 to 2012, then fell again from 2013 to 2014 because of the Mexican economy's low performance. However, it regained its pace in 2017, reaching nearly 150% (see figure 22). Financial assets mostly drove financialization during the pre-crisis 2003-2007 period, whereas speculation with physical assets did so from 2015 to 2020.

**Figure 22**  
**Mexico: financialization index for households, 2003-2020**



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

## G. Changes in wealth (physical and financial assets)

Now we step into the final stage, where we analyse the level of net wealth (physical and financial assets minus financial liabilities) at the period's beginning and end. By late 2019, the net wealth of all the institutional sectors in Mexico totalled 155.2 trillion pesos (B.90c, Closing net worth). After subtracting the financial assets owned by the rest of the world (S.2) from this figure, which reached 12 trillion pesos that year, net wealth in the domestic economy (S.1) diminished to 143.3 trillion pesos (see table 13). The increase in wealth was fundamentally due to the two moments of financialization previously analysed in this study: (i) the growth of savings through the ownership of physical and financial assets (dividends), and (ii) the increase in value, mainly through asset revaluation, produced by speculation.

Net wealth in Mexico has grown at a faster rate than national income. Thus, the ratio between wealth and income has moved from 3.9 in 2003 to 7.7 in 2021, slowing slightly in 2021 (see figure 2020). Half of that wealth (50.9%) is in the hands of the household sector (S.14), and almost one-fourth of it (23.9%) is owned by private non-financial corporations (S.11002-003).

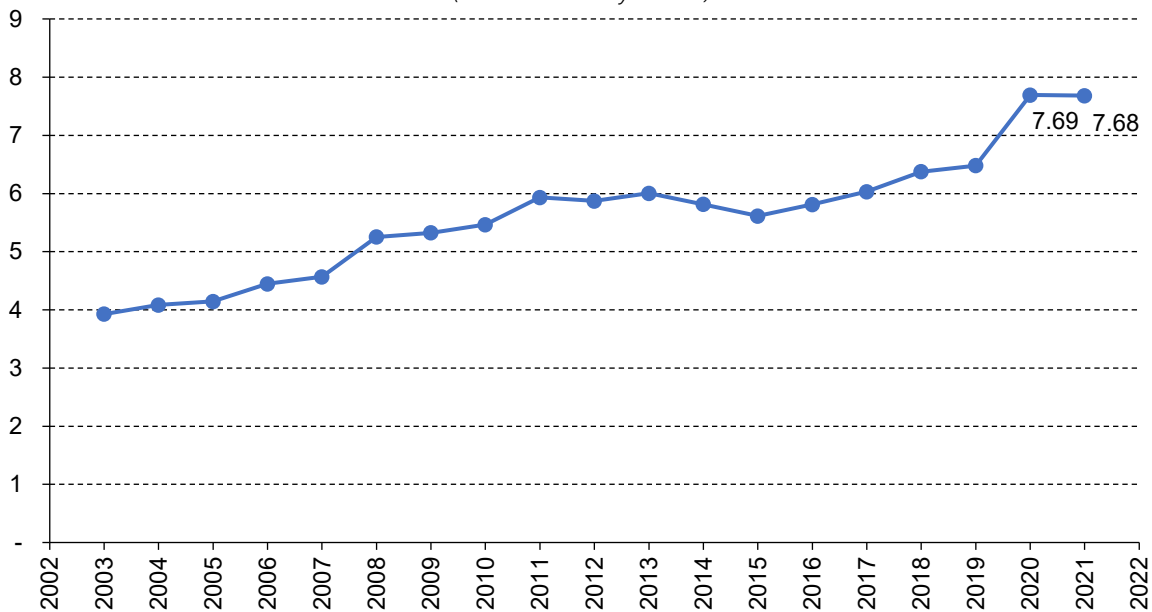
**Table 13**  
**Wealth by institutional sectors, 2019**  
*(Million pesos)*

| Sectors and balancing items                          | Opening balance | Variations in balance |                   |                  | Closing balance |
|--|-----------------|-----------------------|-------------------|------------------|-----------------|
|  |                 | Savings               | Changes in volume | Changes in value |                 |
| Public non-financial corporations                    | 10 812 173      | 685 928               | -442 146          | 423 450          | 11 479 404      |
| Private non-financial corporations                   | 32 133 268      | 999 086               | 184 653           | 979 413          | 34 296 418      |
| Financial corporations                               | 5 999 888       | 891 169               | 2 213             | -1 007 464       | 5 885 805       |
| General government                                   | 18 311 386      | -596 193              | 2 936 283         | -3 651 610       | 16 999 866      |
| Households   | 66 141 103      | 3 835 915             | 827 788           | 2 077 272        | 72 882 078      |
| NPISH  | 1 518 805       | 184 931               | 225               | 18 311           | 1 722 272       |
| <b>S.1 Domestic economy - Balancing items</b>        |                 |                       |                   |                  |                 |
| B.90a - Opening net worth                            | 134 916 622     |                       |                   |                  |                 |
| B.8b - Gross saving                                  |                 |                       |                   |                  |                 |
| B.10.1 - Changes due to saving and transfers         |                 | 6 000 835             |                   |                  |                 |
| B.10.2 - Changes in value due to volume of assets    |                 |                       | 3 509 015         |                  |                 |
| B.10.3 - Changes in value due to nominal holdings    |                 |                       |                   | -1 160 628       |                 |
| B.90c - Closing net worth                            |                 |                       |                   |                  | 143 265 844     |
| <b>S.2 - Rest of the world - Balancing items</b>     |                 |                       |                   |                  |                 |
| B.90a - Opening net worth                            | 10 993 883      |                       |                   |                  |                 |
| B.12 - Current external balance                      |                 |                       |                   |                  |                 |
| B.10.1 - Changes due to saving and capital transfers |                 | -136 690              |                   |                  |                 |
| B.10.2 - Changes in value due to volume of assets    |                 |                       |                   |                  |                 |
| B.10.3 - Changes in value due to nominal holdings    |                 |                       |                   | 1 110 529        |                 |
| B.90c - Closing net worth                            |                 |                       |                   |                  | 11 967 722      |
| <b>S.1 and S.2 Total economy – Balancing items</b>   |                 |                       |                   |                  |                 |
| B.90a - Opening net worth                            | 145 910 506     |                       |                   |                  |                 |
| B.8b - Gross saving                                  |                 |                       |                   |                  |                 |
| B.10.1 - Changes due to saving and transfers         |                 | 5 864 145             |                   |                  |                 |
| B.10.2 - Changes in value due to volume of assets    |                 |                       | 3 509 015         |                  |                 |
| B.10.3 - Changes in value due to nominal holdings    |                 |                       |                   | -50 099          |                 |
| B.90c - Closing net worth                            |                 |                       |                   |                  | 155 233 566     |

Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

Note: Savings include the capital transfers of corporations (S.11 and S.12) and the government (S.13).

**Figure 23**  
**Mexico: relation between total net wealth and gross national income**  
*(Wealth divided by income)*



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

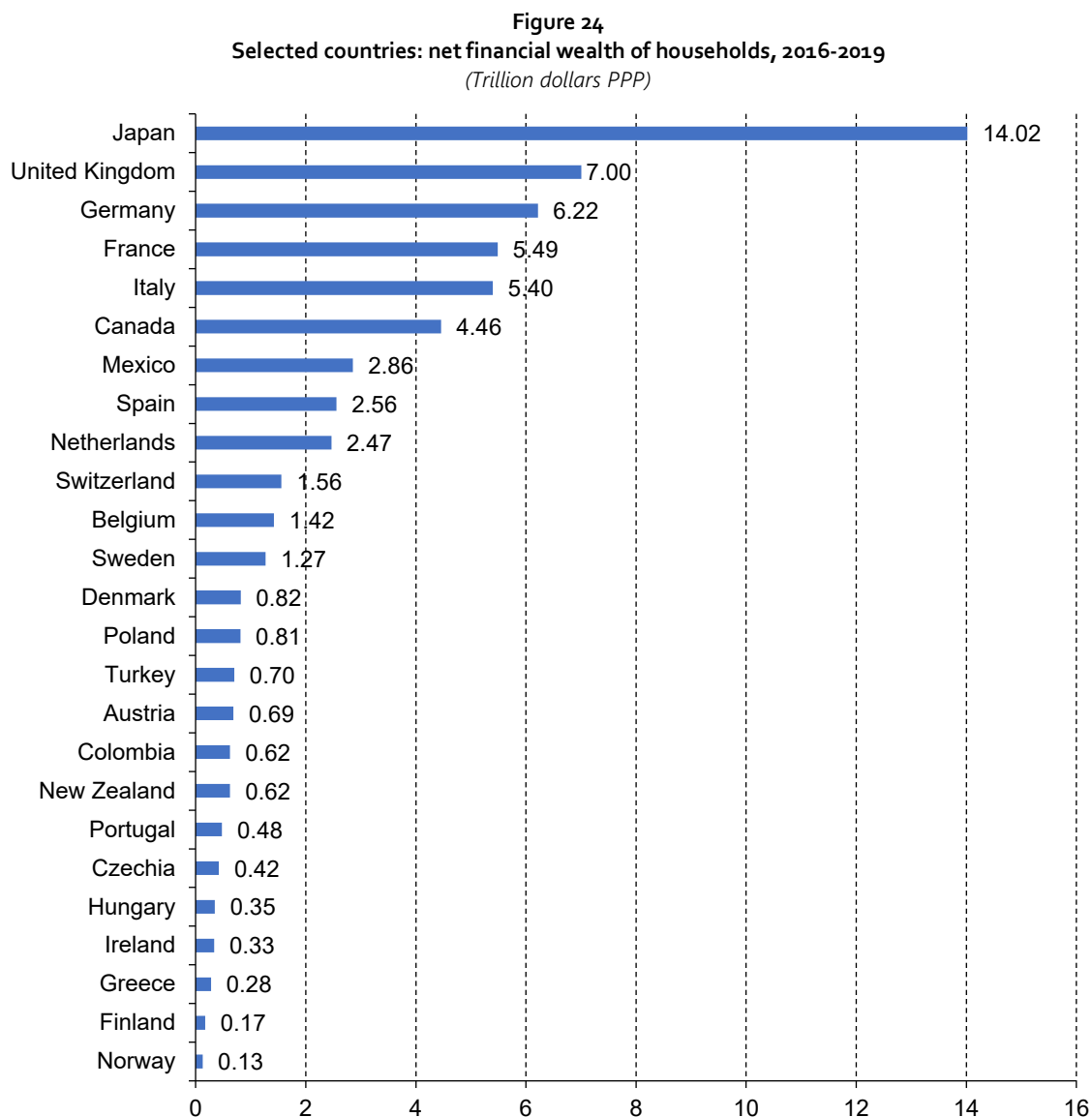
In 2019, the net financial wealth of households in Mexico (financial assets minus debt) reached 2.9 million dollars (PPP), placing the country in seventh place among countries on which we have information. The net financial assets of 6.4 million households in Mexico (19.1% of the total)<sup>40</sup> were larger than those in the Netherlands, Switzerland, Belgium, Sweden, Denmark, Poland, Turkey, Austria, Colombia, New Zealand, Portugal, the Czech Republic, Hungary, Ireland, Greece, Finland and Norway; little more than half of the assets held by households in Italy and France; and almost two-thirds (64.1%) of households in Canada (see figure 24).

Given the concentration of wealth and financialization, some households in Mexico (19.1% of the total) increased their assets from 66.1 trillion pesos early in 2019 to 72.9 trillion pesos by late 2019. This amount represented three times that year's gross domestic product (GDP). While the net wealth (B.90c, closing net worth) of the household sector (S.14) grew an annual 6.1% in the period between 2003 and 2021 (12.1% in 2021), wages and salaries only grew an annual 0.6% on average during the same period, in real terms in both cases (see figure 25). Thus, the net wealth/labour income ratio rose from 6.8 times to 16.2 times. In other words, in 2021, the sum of household physical and financial assets (minus debts) represented 16.2 times the total wages and salaries paid to households.

As we have already mentioned, individuals and families who own physical and financial assets increase their wealth and, thus, their earnings. In contrast, households whose welfare depends on labour income and do not have assets receive a small portion of the value added that they generate and face severe difficulties in achieving well-being. In order to address the root of human rights issues, especially economic, social, cultural and patrimonial rights, we must do away with the unfair distribution of the benefits generated by the country. To this effect, we must increase the work income of those who

<sup>40</sup> According to 2021 information from ENIF, only 19.1% of households had a bank account or a financial instrument other than "transactional" accounts (accounts where employee paychecks are deposited). The balance of transactional accounts tends to drop toward zero as payday is left behind. (CNBV and INEGI, 2021).

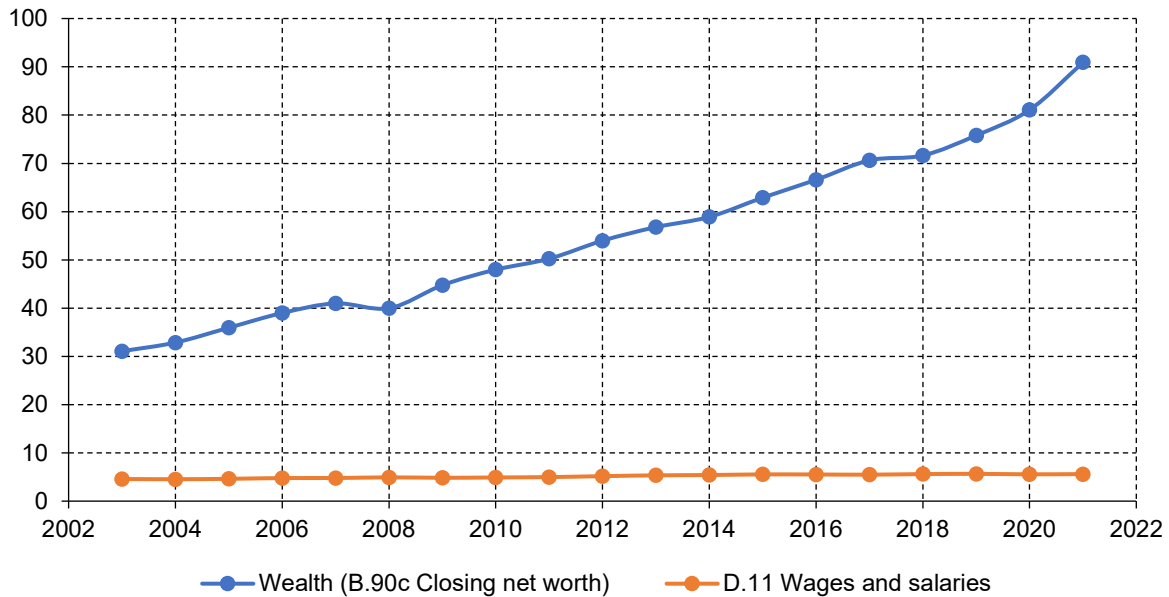
earn less and reduce the dividends given to a few families (*ex-ante*). Taxes and transfers are not enough to remove the profound inequality (*ex-post*).



Source: Author's own elaboration, on the basis of Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE9B); 720. Financial balance sheets - non consolidated, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE720R](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE720R), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).



**Figure 25**  
**Mexico: net wealth (B.90c, Closing net worth) and wages and salaries (D.11) of the household sector (S.14), 2003-2021**  
*(2020 trillion pesos)*



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

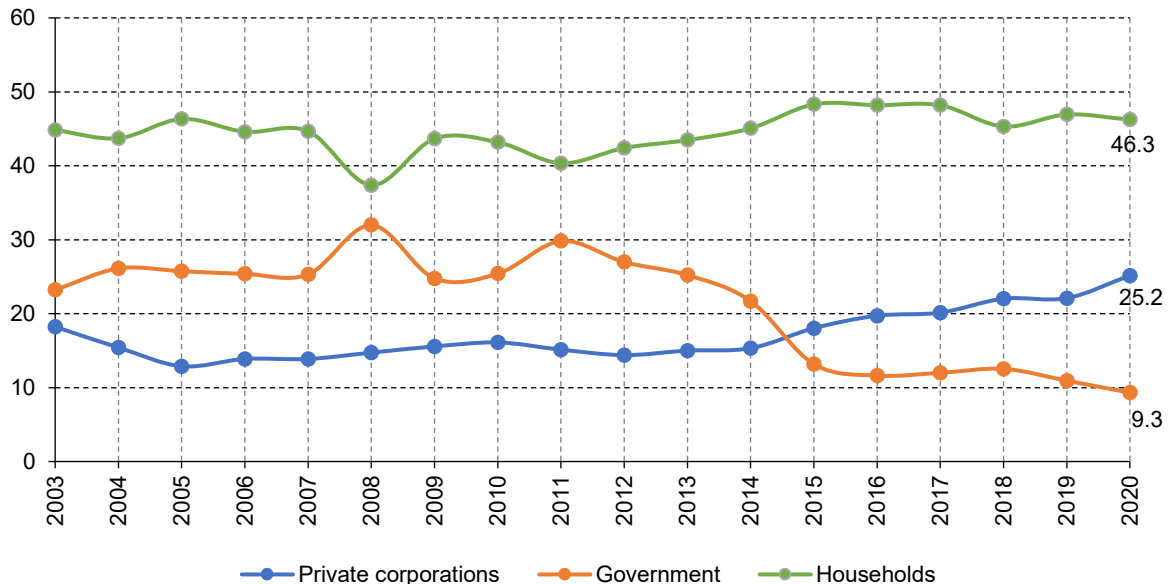
In Mexico, the participation of private corporations (S.11002-03) in national wealth rose from 18.2% in 2003 to 25.2% in 2020. In contrast, that of the government (S.13) fell from 23.2% to 9.3% in the same period. Households' proportion ranged from 43% to 47% in most years (see figure 26). The increase in the private sector's assets has been chiefly due to the privatization policies followed by the different administrations since the 1990s, when public assets were transferred to private control. This change underscores inequality since families now must pay for private services they used to receive for free or at a small cost (subsidized). The growth in private corporations' assets, brought about by privatization, caused working families' income to transfer to families owning the private corporations, directly or indirectly, through shares (which produce dividends).

Social inequality is impacted in different ways. Those with money avoid traffic and can park (paying for parking meters and elevated highways). Those with ample means have access to private health services, can buy a house, attend exclusive schools (that reinforce social differences without creating a sense of community and nation), practice sports and entertain themselves. In contrast, workers' families must rent a home (often precarious), deal with city traffic and content themselves with public schools and health services which, in many cases, are severely deteriorated because of a lack of resources that, ultimately, is meant to favour the private solution.

The proportion of private wealth increased because subsoil resources (mines and oil wells) were granted to private agents. This impacted intergenerational inequality because it reduced the availability of non-renewable resources for future generations, not to mention its environmental impact (soil degradation and water use). Also, some corporations that acquire this kind of assets use financialization to obtain resources without producing. For example, when a private oil company includes subsoil resources in its accounting books (that it has not yet extracted and may not even plan to), it may contract liabilities that, through financialization and manoeuvring its treasury, will increase its income.

As a result, the total liabilities of private corporations, both national and foreign controlled (S.11002-03), grew at an annual average of 4.6% in the years following the financial crisis (2009-2020), reaching 56 trillion pesos in 2020, that is, 130% of the value added they had generated.

**Figure 26**  
Mexico: distribution of total net wealth by institutional sectors, 2003-2020  
(Proportion of total wealth)



Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

### 1. Distribution of wealth in households

The unfair distribution of the wealth generated in the economy, together with the two moments of financialization that we have analysed, produce a profound inequality in the wealth of households. According to adjusted national account figures from the 2019 National Survey on the Finances of Households (Spanish acronym ENFIH), prepared by the Bank of Mexico in collaboration with INEGI, the Gini coefficient of net wealth is 0.796<sup>41</sup> and the Theil index is 2.62. Financial assets display a higher concentration (Gini 0.997 and Theil 7.149) since 1% of the wealthiest households (366 thousand families) accumulate 87.9% of those assets (see table 14).

If we use the Pareto function to estimate the proportion of net wealth held by the upper tail of the distribution, we find that 18 families concentrate 3.5% of the country's total wealth; that is, on average, each one of them owns 111.2 billion pesos, the equivalent of 5.8 billion dollars. These billionaires (as *Forbes* magazine calls them, though Credit Suisse refers to them as High Net Worth, or HNW)<sup>42</sup> possess an accumulated wealth of 103.9 billion dollars, which represents 78.5% of what *Forbes* reported for 17 Mexican billionaires: 132.5 billion dollars (*Forbes*, 2019).<sup>43</sup> Credit Suisse, which uses a

<sup>41</sup> As per the calculation proposal of Raffinetti, Siletti and Vernizai (Gini RSV).

<sup>42</sup> According to Credit Suisse, HNW must own one million dollars or more wealth and UHNW 50 million or more.

<sup>43</sup> The methodology used by *Forbes* needs to be clarified. The editors offered some clues in the magazine's 25th-anniversary edition in 2012. They asked over 50 journalists from 16 countries to meet with possible candidates. They interviewed their administrators, lawyers and rivals. Some cooperated, but others did not. They followed up on their financial operations and purchases of luxury articles. Using this information, they estimated the net worth of their assets: shares, real estate, yachts, works of art and cash. In some cases, they referred to an individual and, in others, to a family, provided that family bonds could be traced (Dolan, 2012).

more robust methodology, found 173 thousand adult individuals (older than 18 years of age) whose wealth was above one million dollars and 37 adult individuals whose wealth was over 500 million dollars (Credit Suisse, 2019). These amounts are similar to what this study estimated (see table 15).

**Table 14**  
**Mexico: adjusted distribution of net wealth of households by decile, 2019**  
*(Pesos and proportion)*

| Decile                              | Net wealth                    | Physical and financial assets | Physical assets | Financial assets | Liabilities |
|-------------------------------------|-------------------------------|-------------------------------|-----------------|------------------|-------------|
|                                     | Average per household (pesos) |                               |                 |                  |             |
| I                                   | -114 473                      | 145 595                       | 142 801         | 2 795            | 260 068     |
| II                                  | 13 355                        | 34 945                        | 32 565          | 2 380            | 21 590      |
| III                                 | 48 928                        | 73 943                        | 70 811          | 3 132            | 25 014      |
| IV                                  | 138 808                       | 209 273                       | 202 864         | 6 409            | 70 465      |
| V                                   | 309 937                       | 404 856                       | 394 965         | 9 891            | 94 919      |
| VI                                  | 528 704                       | 625 036                       | 616 041         | 8 995            | 96 331      |
| VII                                 | 859 475                       | 966 214                       | 953 538         | 12 677           | 106 740     |
| VIII                                | 1 281 612                     | 1 384 596                     | 1 361 796       | 22 800           | 102 985     |
| IX                                  | 1 980 421                     | 2 105 190                     | 2 062 710       | 42 480           | 124 769     |
| X                                   | 10 812 251                    | 11 006 593                    | 6 523 230       | 4 483 363        | 194 341     |
| Total                               | 1 586 338                     | 1 696 026                     | 1 236 407       | 459 619          | 109 688     |
| 5.0%                                | 18 183 309                    | 18 438 802                    | 9 739 985       | 8 698 817        | 255 493     |
| 1.0%                                | 64 792 604                    | 65 106 833                    | 25 112 816      | 39 994 017       | 314 228     |
| Decile                              | Percentage distribution       |                               |                 |                  |             |
|                                     |                               |                               |                 |                  |             |
| I                                   | -0.7                          | 0.9                           | 1.2             | 0.1              | 23.7        |
| II                                  | 0.1                           | 0.2                           | 0.3             | 0.1              | 2.0         |
| III                                 | 0.3                           | 0.4                           | 0.6             | 0.1              | 2.3         |
| IV                                  | 0.9                           | 1.2                           | 1.6             | 0.1              | 6.4         |
| V                                   | 2.0                           | 2.4                           | 3.2             | 0.2              | 8.7         |
| VI                                  | 3.3                           | 3.7                           | 5.0             | 0.2              | 8.8         |
| VII                                 | 5.4                           | 5.7                           | 7.7             | 0.3              | 9.7         |
| VIII                                | 8.1                           | 8.2                           | 11.0            | 0.5              | 9.4         |
| IX                                  | 12.5                          | 12.4                          | 16.7            | 0.9              | 11.4        |
| X                                   | 68.2                          | 64.9                          | 52.8            | 97.6             | 17.7        |
| Total                               | 100.0                         | 100.0                         | 100.0           | 100.0            | 100.0       |
| 5.0%                                | 57.7                          | 54.7                          | 39.5            | 95.5             | 11.7        |
| 1.0%                                | 41.2                          | 38.8                          | 20.5            | 87.9             | 2.9         |
| Inequality and polarization indexes |                               |                               |                 |                  |             |
| Gini                                |                               | 0.774                         | 0.698           | 0.997            | 0.880       |
| Gini (RSV)                          | 0.796                         |                               |                 |                  |             |
| Theil                               | 2.622                         | 2.504                         | 1.088           | 7.149            | 1.289       |

Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI)/Banco de México (BANXICO), Encuesta Nacional sobre las Finanzas de los Hogares (ENFIH), Microdatos de la muestra, Aguascalientes, 2019 [online] <https://www.inegi.org.mx/programas/enfih/2019/#Microdatos>, and Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

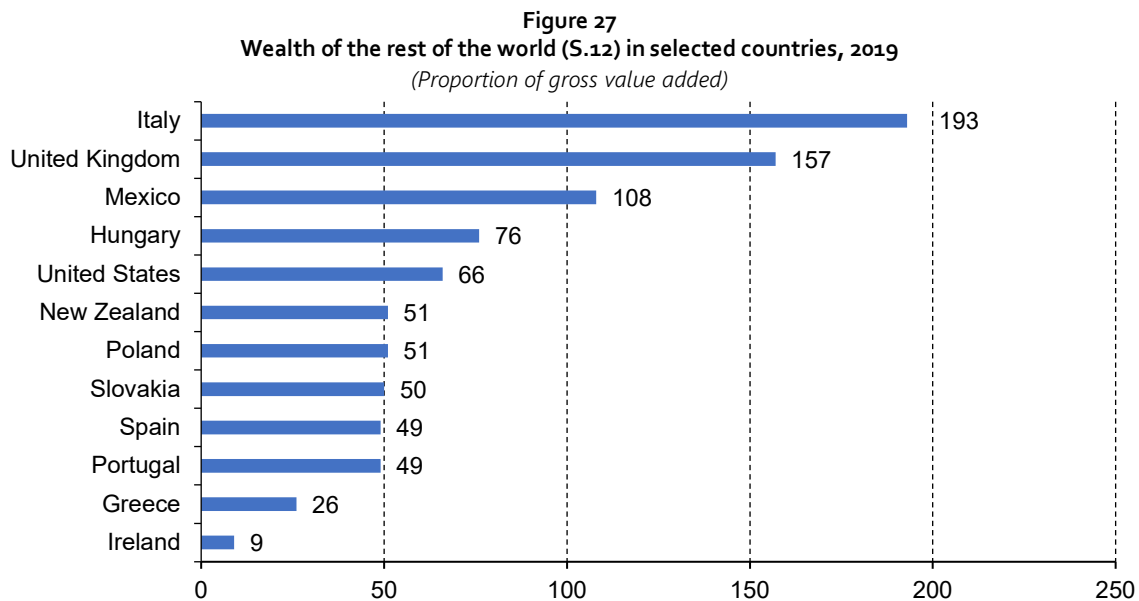
**Table 15**  
**Mexico: adjusted distribution of net wealth of households in the upper tail, 2019**  
*(Pesos and proportion)*

| Richest percentage | Families  | Net wealth       |                    |            |
|--------------------|-----------|------------------|--------------------|------------|
|                    |           | Average in pesos | Average in dollars | Percentage |
| Sample microdata   |           |                  |                    |            |
| 5.0                | 1 832 234 | 18 183 309       | 944 073            | 57.7       |
| 1.0                | 366 447   | 64 792 604       | 3 364 018          | 41.2       |
| Pareto function    |           |                  |                    |            |
| 5.0                | 1 832 234 | 18 280 572       | 949 123            | 57.6       |
| 2.0                | 732 894   | 36 587 135       | 1 899 596          | 46.1       |
| 1.0                | 366 447   | 61 841 820       | 3 210 814          | 39.0       |
| 0.1                | 36 645    | 353 613 303      | 18 359 524         | 22.3       |
| 0.01               | 3 664     | 2 021 971 023    | 104 980 285        | 12.7       |
| 0.005              | 18        | 111 216 900 463  | 5 774 356 673      | 3.5        |

Source: Author's own elaboration, on the basis of Instituto Nacional de Estadística y Geografía (INEGI)/Banco de México (BANXICO), Encuesta Nacional sobre las Finanzas de los Hogares (ENFIH), Microdatos de la muestra, Aguascalientes, 2019 [online] <https://www.inegi.org.mx/programas/enfih/2019/#Microdatos>, and Instituto Nacional de Estadística y Geografía (INEGI), Sistema de Cuentas Nacionales de México, Cuentas por sectores institucionales, Año base 2013, Serie 2003-2020, 2020 preliminar, 2021 [online] <https://www.inegi.org.mx/programas/si/2013/#Tabulados>.

## 2. The rest of the world

The rest of the world sector (S.2) owns 12 trillion pesos in Mexico. In 2019, the value of foreign financial assets grew by 1.1 trillion pesos. This increase was entirely due to financialization, given that the sector had negative savings: incoming family remittances were larger (682.9 billion pesos) than outgoing property income (546.8 billion pesos, mostly in dividends and interests paid). However, in 2019, the financial assets that the rest of the world had invested in Mexico represented a little under 50% of gross added value, which is low compared to other countries where we have information. For example, the proportion of foreign assets represents over 100% of gross added value in Ireland, Greece and Portugal and about 50% in the United States, New Zealand and Poland (see figure 27).



Source: Author's own elaboration, on the basis of Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE9B); 720. Financial balance sheets - non consolidated, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE720R](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE720R), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

Despite the substantial transfer of resources from developing countries to rich ones, some economists propose that economic inequality is fundamentally a domestic issue and that exchanges of capital between countries do not affect it. They base this opinion on the low proportion of the GDP representing the net income developed countries receive from abroad. For instance, in his book *Capital in the Twenty-First Century*, Thomas Piketty (2014) states the following:

“Contrary to a tenacious myth, France is not owned by California pension funds or the Bank of China, any more than the United States belongs to Japanese and German investors. The fear of getting into such a predicament is so strong today that fantasy often outstrips reality. The reality is that inequality with respect to capital is a far greater domestic issue than it is an international one. Inequality in the ownership of capital brings the rich and poor within each country into conflict with one another far more than it pits one country against another.” (p. 53).

It may be true that France does not belong to pension funds, as Piketty affirms. However, we should analyse, for instance, the case of Honduras, where national income is 7.6% lower than GDP and which established Employment and Economic Development Zones (Spanish acronym ZEDE). In these zones, the government granted foreign investors functional and administrative autonomy, together with the faculty to set norms and courts of their own, which may adopt legal traditions or systems from other parts of the world (República de Honduras, 2013).<sup>44</sup> We should also consider the impact that austerity measures taken by governments to finance foreign debt have on welfare, poverty and inequality.

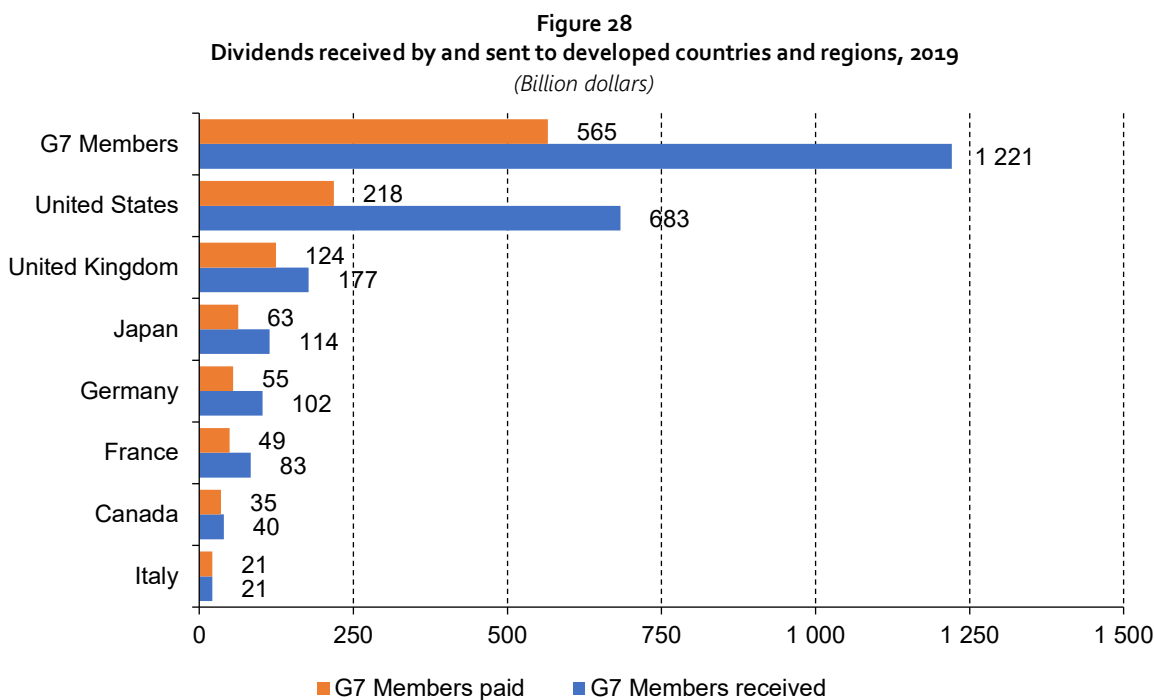
The analysis that we have undertaken shows that the situation is more complex than what the French economist thinks. The role of dividends sent abroad by multinational enterprises must be considered when we reflect on how inequality and poverty are affected when resources exit underdeveloped countries. For instance, in 2019, G7 countries received 1.2 trillion dollars in dividends, of which half was sent to the United States (683 billion dollars) (see figure 28).

Though such amounts are only a small proportion compared to the total economy in some receiving countries, they are quite considerable for the issuing countries. For example, Honduras' GDP reached almost 25.1 billion dollars in 2019. Unfortunately, it is not easy to identify the country of origin of dividends extracted from countries, a common practice of multinational enterprises using offshore financial centres. For example, according to figures from the United States Bureau of Economic Analysis, 80% of the dividends sent into the country in 2018 by American enterprises came from these centres, mostly Bermuda (27.2% of the total dividends), the Netherlands Antilles (Aruba, Bonaire and Curaçao, with 18.9% of the total), Ireland (17.7%) and Singapore (6.2%).<sup>45</sup>

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<sup>44</sup> Article 1 of the Organic Act for Employment and Economic Development Zones (Spanish acronym ZEDE) sets forth that although the zones are “an inalienable part of the rest of Honduras and subject to the Constitution of the Republic and to the national government in matters related to sovereignty, rule of law, territory, national defense, foreign relations, elections and the issuance of identity documents and passports,[...] they have a legal personality of their own and are authorized to establish their own policies and norms, [as to] facilitate the conditions that allow the insertion of the country into world markets under highly stable and competitive rules... within framework of transparency that is attractive to foreign investment...” This article establishes that the zones “can be created in order to develop National and International Finance Centers, International Logistics Centers, Autonomous Cities, International Commercial Tribunals, Special Investment Districts, Renewable Energies Districts, Special Economic Zones, Zones Subject to a Special Judicial System, Social Forestry Areas or any other special regime not explicitly included under this Article” Article 8 sets forth the legal hierarchy that will apply in the Zones: “(1) The Constitutions of the Republic in all matters applicable; (2) the international treaties entered into by the State of Honduras in all matters applicable; (3) this Organic Act for Employment and Economic Development Zones (ZEDE)” (República de Honduras, 2013).

<sup>45</sup> Calculations by the author based on BEA, 2022.



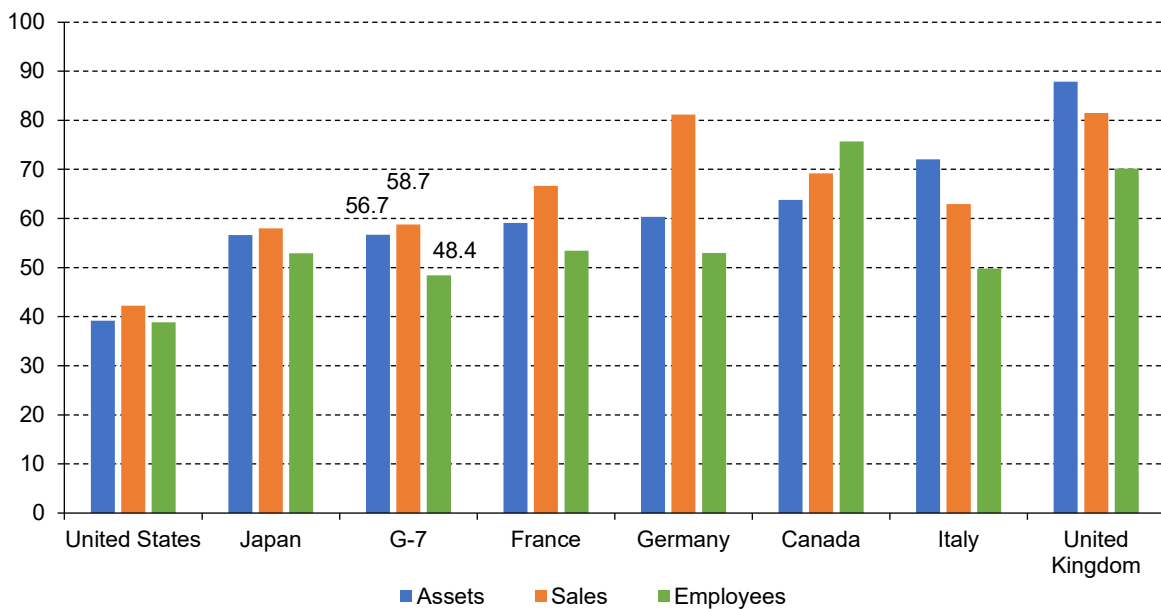
Source: Author's own elaboration, on the basis of Organisation for Economic Co-operation and Development (OECD), 14A. Non-financial accounts by sectors, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE14A](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE14A); 9B. Balance sheets for non-financial assets, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE9B](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE9B); 720. Financial balance sheets - non consolidated, 2022 [online database] [https://stats.oecd.org/Index.aspx?DataSetCode=SNA\\_TABLE720R](https://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE720R), and OECD National Accounts Statistics, 2022 [online database] [https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics\\_na-data-en](https://www.oecd-ilibrary.org/economics/data/oecd-national-accounts-statistics_na-data-en).

The mechanism, as illustrated by Emmanuel Saez and Gabriel Zucman using a technology firm as an example, is as follows: Google sells its search and marketing technologies to the Google Holding Company at a meagre price to avoid paying sales tax in the United States. Google Holding is a subsidiary whose fiscal address is in Bermuda (where corporate taxes are 0%), even though it is in Ireland. Google Holding provides a license to use its technology to its affiliates in different countries. The affiliates in each country pay royalties to use Google Holding's technology and services (Saez and Zucman, 2019, ch. 4). Finally, Google Holding sends its dividends to the United States via Bermuda, to be split up among shareholders.

We should also consider that, on the one hand, the dividends that enter developed countries in large measure come from: (i) value generated by workers that receive low wages and poor benefits (precarious employment); (ii) the market power that these companies exert in the countries where they operate, which enables them to extract value from consumers too; and (iii) in the case of extractive industries, value appropriation that comes through spoiling the environment, exhausting natural resources and miserable working conditions (for example, of miners), not to mention the low rights and taxes that countries get paid for the exploitation of their resources. On the other hand, we must also consider who receives the generated value (not retributed to those who originated it), in other words, who gets the dividends. Both in countries that receive flows and in countries that emit dividends, recipients at the end of the chain are the individuals who own the financial assets (shares and stocks) of corporations (financial or non-financial), which entitles them to receive those benefits. In developing countries, such individuals are the minority of the population. All these aspects have an undeniable impact on inequality and poverty.

If we focus on the upper tail, the incomes of the wealthiest families in the G7 countries, the “billionaires,” as *Forbes* magazine calls them, would likely be lower without the income they get from abroad. In 2019, the one hundred most prominent companies of the world (Multinational Enterprise or MNE) owned 9.6 trillion dollars in assets in countries other than their own, where they sold 5.3 trillion dollars; 70% of these corporations had headquarters in a G7 country. Out of the list of the hundred largest companies, most were in the United States (19 MNEs), while 13 were in France, 12 in Germany and 12 in the United Kingdom (UNCTAD, 2021, fig. web table 19). Most of the sales of those corporations (58.7%) occurred in foreign countries; the percentage of sales made abroad went as high as 81% in the United Kingdom and Germany and reached over 60% in Canada, France and Italy (see figure 29). In 2019, the proportion of foreign sales as part of the total was 60.2% for Apple, 53.7% for IBM, 53.4% for Google (Alphabet Inc.) and 48.8% for Microsoft (UNCTAD, 2021, fig. web table 19).

**Figure 29**  
Physical assets, sales and employees of G7 multinational enterprises in foreign countries, 2019  
(Proportions of total physical assets, sales and employees)



Source: Author's own elaboration, on the basis of United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2021*, New York, 2021, fig. web table 19 [online] <https://unctad.org/webflyer/world-investment-report-2021>.

Thus, everything seems to point out that, contrary to Piketty's assertion, the income that wealthy countries receive from the rest of the world has a substantial impact on economic inequality, both in the receiving and in the emitting countries.<sup>46</sup> The wealth of oligarchies in less developed countries and of affluent families in developed ones is due, in large measure, to the appropriation of generated value and to the interests and dividends sent abroad, as well as to the poverty and the inequality that the latter causes in less developed countries. Besides, less developed countries also have multinational enterprises that produce considerable resources for those few that own their shares and stocks. For

<sup>46</sup> The latest report of the research team led by Lucas Chancel, Thomas Piketty, Emmanuel Saez and Gabriel Zucman incorporated over four years of work published by one hundred researchers worldwide. The report does not analyze the economic inequality caused by the world's status quo (it only postulates the redoubtable thesis of Branko Milanovic on the growth of the middle classes in emerging countries). It ignores the impact of entry flows from the rest of the world (S.2) into other countries. The economic analysis of the status quo only considers domestic inequality (Chancel and others, 2021).

example, out of the list of the one hundred major multinational enterprises of developing and transition economies, seven are in Latin America: Brazil's Vale (mining and oil), Mexico's América Móvil (telecommunications) and CEMEX (cement) followed by JBS from Brazil (food and beverages), FEMSA from Mexico (beverages), Ternium from Argentina (metal products) and Grupo Bimbo from Mexico (food) (UNCTAD, 2021, fig. web table 20).



### III. Conclusions and recommendations

#### A. Conclusions

Our analysis shows that inequality and poverty stem from a few households' appropriations of the value generated by the production process. These households accumulate most of the wealth obtained during both financialization moments: (i) earnings that do not proceed from the production process (an increase in the entrepreneurial income, which translates into dividends due to treasury handling) and (ii) a change in the value of physical and financial assets (speculation). The transfer of income and wealth from less developed to highly developed countries also create inequality and poverty. Thus, we must consider the possibility of taking radical measures to address the problem's causes. "Radical" should be understood by its etymology, to "go to the root" of the problem.<sup>47</sup>

Mexico is a good example of the impact that so-called neoliberal policies have had on income inequality and poverty. In 2019, the country's economy generated a total value added (GDP) of 24.5 trillion pesos, one third (8.2 trillion pesos) produced by households and by those who worked independently (15.3 million people, approx.) The salary of the employees amounted, in that year, to 6.5 trillion pesos, delivered to 35.9 million workers (15,000 pesos per month per worker on average). National and foreign-controlled private companies paid 40% of salaries, where about 14.7 million people worked.<sup>48</sup> On the other hand, only approximately 1.5 million households received 4.5 trillion pesos in income from non-financial and financial property (on average 3.1 million pesos per year), and close to 300,000 households received 3.3 trillion pesos in dividends (11 million pesos per year on average).<sup>49</sup> When the figures are adjusted and dividends are included in the ENIGH statistics, the Gini coefficient of gross national income grows, in 2020, from 0.532 to 0.777. The country shows deep inequality as a result of the uneven distribution of added value: a small amount for those who generate it (workers) and a great amount for those who live by rent-seeking, the first stage of financialization.

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<sup>47</sup> The two first entries for "radical" in the Merriam-Webster dictionary define the word as 1. (adjective) Of, relating to or proceeding from a root. 2. (adjective) Of or relating to the origin. (Merriam-Webster Dictionary).

<sup>48</sup> The figures for family businesses and workers (independent and salaried) are from Encuesta Nacional de Ocupación y Empleo (ENOE), fourth quarter 2019 (INEGI, 2022b).

<sup>49</sup> According to Encuesta Nacional de Inclusión Financiera (CNBV and INEGI).

However, there is a secondary distribution that slightly reduces inequality. On one hand, the government collects taxes on income and wealth for one trillion pesos, mainly to the 20% of households with the highest primary income (71.7% of total taxes). On the other, households receive government transfers (for more than one trillion pesos) and private transfers (mainly remittances from family members for 682,863 million pesos in 2019). The collection of taxes and the receipt of transfers have a redistributive impact. The Gini coefficient of adjusted disposable income is reduced by 10 p.p. to reach 0.679 in 2020; however, its level continues to be very high. Most of the disposable income is spent on consumer goods (15.6 trillion pesos), and only 4% of households (approximately 1.5 million) allow themselves to have savings, which in total adds up to 3.8 trillion pesos (2.6 million per year on average per household). With this savings, plus the acquisition of liabilities, some households have the possibility of acquiring a home, with a total investment of 1.4 trillion pesos.

In addition, thanks to what has been called the second stage of financialization, household savings went from 3.8 trillion pesos to 6.7 trillion pesos, that is, an increase of 75.7%. Most of the growth (72%) is due to revaluation (nominal holding gains), which amounted to 2 trillion pesos in 2019; 1.6 trillion pesos for revaluation of non-financial assets and close to half a trillion (478,461 million) for revaluation of financial assets. This process allowed a few households to increase their wealth and end up with a net wealth equivalent to 72.9 trillion pesos in 2019, an amount that represented three times the gross domestic product (GDP) for that year. While the net wealth (B.90c closing net worth) of the household sector (S.14) has increased by an annual average of 6.1% during the period from 2003 to 2021 (12.1% in 2021), wages and salaries of employees have registered only 0.6% annual average in the same period, in both cases in real terms.

For this reason, the wealth/labour income ratio has gone from 6.8 times to 16.2 times, that is, household wealth represented, in 2021, 16.2 times the amount of wages and salaries paid to households. Individuals and families who have non-financial and financial assets increase their wealth and, therefore, their earnings, while households whose well-being depends on labour income, and who do not have assets, receive a small part of the added value they generate, and face serious difficulties to achieve their well-being. If the issue of human rights is sought to be addressed at its root, especially economic, social and cultural ones, it is urgent to put an end to the unfair distribution of the benefits generated by the country. To do this, the labour income of those who earn the least must be increased and the payment of dividends that are delivered to a few families must be reduced; the payment of taxes and transfers are not enough to eliminate the deep inequality present in the country.

## B. Recommendations

The first course of action is to reverse the commodification of political and social life to lessen the impact it has on inequality and for ethical reasons (the humane is not merchandise). Human rights cannot be addressed if we leave them to the unrestricted actions of market forces. As stated by the United Nations Secretary-General, António Guterres:

“COVID-19 has been likened to an X-ray, revealing fractures in the fragile skeleton of the societies we have built. It is exposing fallacies and falsehoods everywhere: the lie that free markets can deliver healthcare for all; the fiction that unpaid care work is not work; the delusion that we live in a post-racist world; the myth that we are all in the same boat. Because while we are all floating on the same sea, it's clear that some of us are in superyachts while others are clinging to the floating debris” (Guterres, 2020).

It is vital to reverse the privatization of public services in health and education. Good public health and education services would slow down the draining of resources in households that have the most need but that must pay for medicine and treatments in private clinics and education at private schools,

even if these are only sometimes good quality. Moreover, additional income would give them access to better nourishment (avoiding the cheap calories that cause malnutrition) and to culture and sports, among other rights.

A second issue that demands intervention is competition and competitiveness, though it is complicated to do so given its mantra-like following.<sup>50</sup> Most economists and researchers acknowledge that the inequality of income and wealth must be addressed. They pose that the problem partly lies in the economy's lack of competitiveness and the existence of monopolies (sometimes called preponderant economic activities). They start from the assumption of perfect competition. Though they recognize that it seldom happens, they believe that is a suitable model to understand how prices work in the face of supply and demand for goods and services. They define competition as the

"rivalry between enterprises in the same market, through which enterprises are incentivized to be more efficient and attract more consumers by meeting their needs under better conditions, such as low prices, value added services, product variety, proximity, availability, specialization and innovation" (COFECE, 2022).

Competition renders better prices for consumers, while creativity and innovation require new jobs that are more productive and, thus, offer higher wages to workers and employees.

Although this seems like a solid, seamless posture at first glance, many flaws emerge when analysed in depth. For instance, it must be assumed that all enterprises possess the same information, that this information is complete, that they sell an identical product, that buyers also have complete information (perfect information on the products being sold and their prices), that capital and labour can move swiftly, and that enterprises can enter the market easily and at no cost. Curiously, a professor of business economics is the one who questioned this theory in his thesis on competitive strategy. To evaluate businesses' investment decisions and know whether they were profitable, Michel Porter, the Bishop William Lawrence Chair at the Harvard School of Economics, proposed that five aspects should be analysed: (i) number of competitors, (ii) existence of entry barriers, (iii) consumer power, (iv) supplier power and (v) risk of existing substitutes (Porter [1979], 2008).

According to Porter, enterprises not only have to compete for profits against their direct rivals but also against the other four competitive forces: clients, suppliers, potential participants and substitute products. If these forces are strong, profitability is low; if weak, profitability is very high. In other words, contrary to the perfect competition theory, if investors follow Porter's recommendations, they should invest in markets with few competitors, entry barriers for new competitors and powerless consumers. Moreover, in such a market, they should offer products without innovations (or else substitutes would appear). Based on these ideas, the investors' decision-making would lean towards an oligopolistic market (with few enterprises) with high dividends (at the expense of poorer quality products at higher prices and payment of lower wages), where suppliers are squeezed (the well-known case of a supermarket chain that pushed its suppliers into bankruptcy is an example) and where the level of innovation is low (or innovations are bought from small companies through mergers and acquisitions).

Statistics on mergers and acquisitions show that investors and large companies have closely followed Porter's advice. In the last thirty years, mergers and acquisitions have multiplied at an impressive pace, reducing the number of contenders and limiting competition. For example, according to the Federal Reserve Bank of Chicago, between 1976 and 1980, less than one thousand mergers and acquisitions (936) took place in the United States. However, the rate accelerated in the 1980s, with 25,153 made between 1981 and 2015. These peaked from 1988 to 1998 with an annual average of 1,058 bank mergers (Federal Reserve Bank of Chicago, 2022). The first goal of mergers and acquisitions

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<sup>50</sup> Which is based on precarious work, low wages, tax evasion, environmental destruction and rent-seeking.

is to win a larger market share and reduce both administrative costs and employee wages and salaries. As a result, they have played a relevant role in economic inequality.

We may better understand the function of competitiveness in inequality by analysing the indexes built to foster competition between countries. Two of such have been particularly relevant:<sup>51</sup> the *Doing Business* index (a World Bank project that was fortunately suspended in 2021)<sup>52</sup> and the *Global Competitiveness Report of the World Economic Forum*. *Doing Business* has been an important reference for decision-makers since first published in 2004. It considered that work regulations were necessary to be competitive. Although it recognized that labour laws were required to prevent market failures (for example, to avoid discrimination), it held that enterprises should be free to conduct their business as efficiently as possible. Work flexibility was therefore essential, measured by:

- Ease of hiring, that is, temporal contracts and a trial period to evaluate an employee's potential.
- Working conditions, labour contracts by the hour, flexibility in the payment of non-working days (vacations), no obligation to pay a minimum wage and labour conditions not established in a constitution.
- Ease to dismiss staff (also called facilities for dismissal) without prior notice or without compensation for being put out of work and no job security guaranteed by the Constitution (World Bank, 2004, 2020).

Undoubtedly, measures such as these undeniably impact employment and inequality, though they make companies more efficient.

The World Economic Forum, which includes more work dimensions, gets most of its information from a questionnaire answered by executives (Executive Opinion Survey): (i) costs of dismissal; (ii) facilities for hiring and dismissal; (iii) employee-company relationship; (iv) flexibility to fix wages; (v) policies to train the unemployed and job banks; (vi) labour protection (based on the *Global Rights Index* of the International Trade Union Confederation), in other words, the right to collective contracts and striking; (vii) provisions to hire foreign workers; (viii) ease of work mobility; (ix) professional management; (x) payment according to productivity; (xi) proportion between men's and women's salaries; and (xii) existence of labour taxes (Schwab, 2019, pp. 611–625).

The index has some positive dimensions, such as the right to collective contracts and striking (though, for dimension (3), it evaluates whether the relationship with the union is cordial) or equitable pay for genders and professional company management. Even so, the rest of its dimensions tend to generate a harsh environment for employees: payment by the hour without a minimum wage or the ease to terminate work relationships without compensation for dismissal (among other aspects).

Mexico has gone to an extreme and included competitiveness in its Constitution. In 1983, Article 25 was entirely modified to include that the State must steward national development to achieve the full enjoyment of liberty and dignity by fostering economic and employment growth and distributing income and wealth more fairly. However, the 2013 reform added that competitiveness was necessary, defining it as a “set of conditions required to generate a larger economic growth by promoting investment and creating employment.” The reform also added a paragraph stating that the laws

<sup>51</sup> More examples are the *Index of Economic Freedom* of the Heritage Foundation and The Wall Street Journal; *World Markets Research Center* of the World Markets Research Center of London; *Economic Freedom of the World* of the Fraser Institute; *Country Risk Service* of The Economist Intelligence Unit; *International Country Risk Guide* of the Political Risk Services of Virginia, among others.

<sup>52</sup> The World Bank chose to suspend the *Doing Business* report on 16 September 2021 after detecting “irregularities in the data” for the 2018 and 2020 reports. It was replaced by the *Business Enabling Environment* report, which is currently defining its methodology (World Bank, 2021).

“will favor and protect the economic activities of private agents and will provide the circumstances for the private sector’s actions to contribute to national economic development, promoting competitiveness and implementing a national policy for a sustainable industrial development that includes sectorial and regional vectors, in the terms set forth by this Constitution” (Gobierno de México, 2021, Artículo 25º).

The striving of companies for competitiveness has caused the country’s workers and employees to live in growing job insecurity. According to the National Survey on Occupation and Employment (Spanish acronym ENOE), in the first quarter of 2019, over 300 thousand people declared they lost their jobs in the formal sector because of staff cutbacks.<sup>53</sup> Those who had the opportunity to work for a private company in the 1970s and 1980s will remember that losing a job due to cutbacks was quite rare and exceptional. Mergers and acquisitions were not in fashion back then, and most people had never heard of them. However, they became a frequent practice in the 1990s.

In a book that tells the story of Bimbo, a Mexican multinational company, its founding member and chairman of the board narrates that an external consultancy once suggested that they should lay off 7 thousand workers, but the company decided to do otherwise (Servitje, 2003, pp. 102–103). Bimbo’s founders believed that companies have social responsibilities, following Catholic thought. However, in recent years businesspeople have followed Milton Friedman’s ideas. The American economist argued that those who defended company social responsibility defended socialism. A company’s executives should not waste their employers’ money by offering better prices, reducing pollution or giving better pay. The single social responsibility of executives and directors was to increase profits (Friedman, 1970).

Nevertheless, we must bear in mind the history of corporations. As documented by Joel Bakan, there was already widespread concern about the actions of large business corporations by the end of the 18th century. Bakan reminds us that Adam Smith himself thought that the constitution of corporations might create “negligence and profusion.” Indeed, by 1776, corporations had been banned in England for over fifty years because of the fraud that the South Sea Company, created in 1710, perpetrated against its investors after offering them extraordinary gains from silver and gold exploitation (Bakan, 2004). When the United States allowed the creation of corporations, law and culture considered them an entity subordinated to the common good (Abbott, Achbar and Bakan, 2003).

In Mexico, the exposition of the motives behind the *Ley General de Sociedades Mercantiles* of 1934, enacted to regulate commercial corporations, acknowledged a “feeling of mistrust” and “suspicion” regarding corporations. As a result, a law limiting such entities’ scope of action was proposed. This act permitted the creation of corporations under the condition that they complied “with the public order provisions of the Law.” For anonymous corporations, it set a requirement for a certain bottom level of capital so that “only companies of certain importance” could apply (Poder Ejecutivo, 1934).

We Mexicans must do as much as we possibly can to endow our democracy with real meaning and fully observe two fundamental articles of the Universal Declaration of Human Rights: (i) Article 21, “Each person has the right to take part in his or her country’s governance, either directly or through freely chosen representatives,” and (ii) Article 28, “Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized.” Unfortunately, as Nancy MacLean shows in her book *Democracy in Chains*, the United States oligarchy, using ideas from James M. Buchanan’s public election theory, has fostered a democratic arrangement that allows a minority to rule over the majority. Further, should the majority reach power, it has created laws and institutions that prevent the implementation of policies desired by the majority. In other words, the

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<sup>53</sup> Created by the author based on INEGI, 2022b.

oligarchy has chained democracy (MacLean, 2017). If human rights are to be fulfilled, representative democracy must not lose meaning, especially in developing countries, whose citizens must have a say in the international order.

Finally, a public policy that prioritizes a raise in the lowest wages must be considered to ameliorate inequality and poverty, given the wide margins existing in companies, as has already been documented. Growth in the lowest earnings would result in an increase in the GDP and more employment without further effects on inflation or the balance of payments (Bielschowsky and others, 2021 and 2022). As this study has proven, the solution to the inequality and poverty afflicting our countries is to fairly distribute the value generated in the economy, granting their fair share to those who directly help create it.

## IV. Excursus: national accounts

The history and creation of national accounts give a clear example of the impact of our ideology and stance regarding statistic constructs. National accounts in their modern form emerged after the 1929 economic crisis and were linked to the birth of macroeconomy and the ideas of John M. Keynes.<sup>54</sup> In the United States, they started with the work of Simon Kuznets at the National Bureau of Economic Research (NBER), a think tank founded in 1920. In the United Kingdom, they began with Colin Clark, a disciple of Keynes and statistician and economist at Cambridge University. In 1932, Clark published the book *The National Income 1924–1931* and co-authored one of the first methodological papers on national income for the Statistics Commission of the United Nations together with his disciple Richard Stone (Stone, 1947).

Society and politicians were aware that if a crisis like that of 1929 was to be averted, the economy should not be left to the unrestricted actions of market forces.<sup>55</sup> Thus, they needed a national system of accounting that enabled them to monitor the economy's evolution and know the effect of public policy. The goal of the national accounts was to measure the production of goods and services, without considering the intermediate consumption needed for production (to measure only value added) and capital formation. It then became possible to evaluate the impact of public policy on the economy's performance. Back then, it was clear that national accounts were not meant to estimate the welfare levels of the population.<sup>56</sup>

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<sup>54</sup> The Soviet Union pioneered national accounts when, in 1926, its Statistical Administration Central (Russian acronym TsSU), headed by Pavel Illich Popov, published *Studying the Balance of the National Economy*. The publication was based on different principles since it was produced in a country with a centrally planned economy.

<sup>55</sup> See, for instance, the essay *The end of laissez-faire*, published by John M. Keynes in 1926, after having dictated the Sidney Ball Lecture at Oxford in 1924 and another related conference at the University of Berlin in 1926 (Keynes, 1926).

<sup>56</sup> Simon Kuznets came closest to something of the like. Since the purpose of economic activities was to meet consumer needs, Kuznets took into account the satisfaction they obtained when analyzing which goods and services should be included in the national accounts estimates.

However, in the 1940s, there were some attempts to analyse the national account figures from a consumption and society utility/well-being standpoint. For example, the English economist John Hicks analysed social income (the sum of goods and services valued in money) as a measure of welfare. For this, Hicks used the ideas of Arthur Pigou, who published *The Economics of Welfare* in 1920 (Hicks, 1940). To use national income as a welfare measure, a methodology must be defined that compares the utility that each individual obtains from consumption and defines how to aggregate all individual preferences. To date, scholars in welfare economics have not been able to solve this problem. National income can only be used as a measure of welfare if one takes for granted some very peculiar assumptions and conditions that do not reflect the reality of human beings.

Even so, the growth model's crisis in the 1970s and early 1980s caused practitioners of economics (political leaders, applied economists, journalists and the public at large) to consider income/consumption once more as a measurement of welfare, forgetting the difficulty to compare interpersonal utilities and preference aggregation. These practitioners proposed modifying the national accounts and included some welfare measurements to keep their agenda. However, to find an objective, but mostly subjective, measurement of well-being, they risked falling into incoherence, going against the original spirit of national accounting.

An example of this shift is the 1990 *Human Development Report*, produced and published by the United Nations Development Program (UNDP), in which Amartya Sen and his capabilities thesis played a leading role. According to the report, the purpose of development was to give options to individuals. One of such options was access to income, but there were others, such as long life, knowledge, political freedom, personal security, community participation and human rights guarantees. Following this line of thought, the report proposed the *Human Development Index* (IDH), which includes three indicators to measure longevity, knowledge and quality of life. Life expectancy at birth was chosen as the indicator for longevity, literacy rates for knowledge, and per capita GDP for quality of life (adjusted for PPP).<sup>57</sup> The report thus added two social variables to social welfare to better measure people's welfare and happiness.

Afterward, in Palermo, the Organization for Economic Cooperation and Development (OECD) set up the first World Forum on Key Indicators Statistics, Knowledge and Policy. Its goal was "to support capacity building for all sectors of government and society in general in pursuit of better information to guide decision making and operations of major countries". Donald J. Johnston, the Organization's Secretary-General at the time, stated that GDP did not say much about social and economic progress, though many people still held to that simplistic view. At the Forum, Enrico Giovannini, Statistician in Chief for the OECD between 2001 and 2009,<sup>58</sup> declared that people want statistics that grasp the quality of their lives and measure progress according to a fuller image. He proposed three perspectives to measure global performance: (i) extend traditional GDP-based economic measurements to include, for example, environmental or social concerns; (ii) develop composite welfare indicators that combine detailed information into a single figure; and (iii) identify a certain number of critical indicators that cover the economic, social and environmental domains, without deriving any one measure (OECD, 2004).

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<sup>57</sup> Purchasing Power Parity (PPP) is a factor that converts different countries' currencies into a single equivalent unit of measure, adjusted to the countries' price levels. PPP assumes (rather absurdly, by the way) that a single product is the same in all countries. An example of PPP is the McDonald Index proposed by *The Economist*, a British magazine.

<sup>58</sup> President of the National Statistics Institute of Italy between 2009 and 2012. Currently, the Minister for Sustainable Infrastructure and Mobility of the Government of Italy.



In November 2007, the European Commission, the European Parliament, the Club of Rome, the OECD and the Worldwide Fund for Nature (WWF) organized the Beyond GDP forum. Acting on the commitments made there, in 2009, the European Commission published the paper *Beyond GDP: The Evaluation of Progress in a Changing World*. Though it recognizes the strengths of GDP as an indicator to monitor market economies, the paper emphasizes the need to complement it with environmental and social indicators that improve the formulation of effective policies. It also gives a roadmap and five actions to evaluate progress in a changing world:

- (i) To complement GDP with aggregate environmental and social indicators and, specifically, to build an environmental index that measures pollution and noxious effects on the environment, together with a quality of life and welfare index.
- (ii) To have real-time information for the indexes mentioned above, to favour timely decision making.
- (iii) To have more precise information on distribution and income, health, education and environmental quality inequalities (among regions and social groups).
- (iv) To develop a table of sustainable development indicators that considers the thresholds of environmental sustainability.
- (v) To extend national accounts to environmental and social issues (European Commission, 2009).

In February 2008, shortly before the financial crisis set loose, President Nicolas Sarkozy, aiming to extend GDP measurements, proposed the creation of the Commission for the Measurement of Economic Development and Social Progress. To this date, President Sarkozy's diagnosis is pertinent and adequate. The world, society and the economy have changed, but the statistics do not reflect the changes. The economy, measured by GDP, grows and moves forward, but people feel their situations worsen. Though we know that indicators have limitations, we use them as if they did not. We value speculation more than work and creativity. Behind the cult of data hides the worship of markets. There is the idea that markets can solve all problems and that everything has a price; if that were so, we would not be in trouble (Stiglitz, Sen and Fitoussi, 2010, ch. Preface).

Unfortunately, the commission's solution does not focus on the root of the problem and, in the end, deviates its course and takes another path. The commission does acknowledge that we take ends for means; for instance, when we see the financial sector as an end and not as a means for a more productive economy. Nonetheless, as stated by its chairman Joseph Stiglitz, its objective was to align welfare measures, which is an actual contribution to quality of life. Its purpose was to identify the limits of GDP as an indicator of economic performance and social progress. The commission recognizes the impact of environmental externalities, and its members express their concern that performance, as measured in terms of GDP before the 2008 crisis in some countries, was not sustainable because it stood on a price "bubble" that exaggerated production and profits. However, its recommendations do not necessarily target the correction of those problems.

Those who prepared the paper acknowledged that several commission members believed that one reason the crisis took them by surprise was the lack of suitable measurement systems. Also, market participants and government administrators should have focused on the right set of indicators. All members agreed that those who govern the economy and society need better metrics, which is why the report focused on indicators, not policies. They proposed a change in the orientation of measurements: instead of targeting production, it should look to the well-being of present and future generations. The recommendations proposed by the commission's work groups include the following:

- To use disposable income and consumption to evaluate material well-being.
- To place more emphasis on income, consumption and wealth distribution.
- To consider as income activities developed outside of the market, such as services provided by family members.
- To improve the measures of the health, education and environmental conditions of people and to develop robust metrics related to social connections, political participation and insecurity, which would enable us to predict satisfaction levels.
- To have quality of life indicators consider inequalities associated to socioeconomic groups, gender, generations and migrants.
- To have the measurements of objective and subjective welfare provide essential information regarding people's quality of life, so they must include evaluations of individuals' lives and hedonic experiences.
- To develop a table of indicators essentially focused on the economic aspects of sustainability and the specific follow up of climate change indicators, among others (Stiglitz, Sen and Fitoussi, 2010, ch. Executive summary).

Undoubtedly, these recommendations would help understand social life and environmental risks. Nevertheless, we likely would not have detected the 2008 financial crisis even with those indicators at hand. Neither would they have helped explain to people the gap between their personal situation (social discomfort) and the economy's performance, as discussed by President Sarkozy. On the contrary, some of the recommendations would have widened the gap. For example, if the national accounts measurements had included aspects regarding the quality of life before 2008, the growth in GDP would have been even more extensive, further separating a worsening situation in individual lives from the economy's performance.

On the other hand, according to the World Values Survey, the happiness felt by the population of the United States went from 93.7% (very happy and rather happy) in 1997 to 93.2% in 2006, shortly before the crisis (*World Values Survey*, 2022). It is hard to imagine how such a small change (which could even be explained by the survey's margin error) in such a high magnitude (nine happy Americans out of ten) could have helped detect in time the financial crisis and social discomfort of 2008.

A changed perspective and the proposal to include measurements other than GDP to consider well-being in the broader sense were not very useful for the OECD. The new orientation and the renewed indicators did not enable the organization to detect the profound crisis of 2008 or its severe social consequences. In June 2007, just before the crisis, Jean-Philippe Cotis, the organization's chief economist that prepared the *Economic Outlook* report, presented a favourable perspective. The deceleration of the United States economy, which had been observed for some time, did not presage a period of weakness in the world's economy. In fact, he declared: "Indeed, the current economic situation is in many ways better than what we have experienced in years," adding that "in line with recent trends, sustained growth in OECD economies would be underpinned by strong job creation and falling unemployment"<sup>59</sup> (OECD, 2007, p. 7). The only reasons for concern were the strong growth in the weaker OECD economies (which continued manifesting unbalances that would hamper future growth) and the increased prices and volatility of commodities.

<sup>59</sup> Full quote: "Recent developments have broadly confirmed this prognosis. Indeed, the current economic situation is in many ways better than what we have experienced in years. Against that background, we have stuck to the rebalancing scenario. Our central forecast remains indeed quite benign: a soft landing in the United States, a strong and sustained recovery in Europe, a solid trajectory in Japan and buoyant activity in China and India. In line with recent trends, sustained growth in OECD economies would be underpinned by strong job creation and falling unemployment."

The OECD did not ignore the peril of sub-prime mortgages that compensated risk by charging higher interest rates to low-income families with low credit ratings and a history of defaulted payments. It acknowledged that the correction of the housing markets in the United States had led to a GDP that grew below its potential rate. However, the GDP was expected to recover at a fast upwards pace when the adjustments in the housing markets reached completion.<sup>60</sup> According to its report, the material standards of life in less developed countries had improved thanks to economic openness, without affecting jobs in the advanced economies.

The relocation of employment in foreign subsidiaries had not caused more job insecurity<sup>61</sup> or lowered the growth of employment levels in the countries where the subsidiaries were located. According to the report, commercial openness and technological progress had accentuated the dispersion of wages and salaries in developed countries, mainly on the higher tail of the distribution. However, the wage gap was closing in developing countries, and the inequality of disposable income, including all earnings, taxes and social transfers, seemed to have stalled. Last, although it acknowledged that the growth of global production pressured some environmental resources, it also recognized that growth had helped solve local pollution problems in several places, because it promoted higher environmental standards in emerging economies. In short, the population's welfare was sailing through smooth waters, with nothing that might foreshadow a severe economic crisis.

In 2007, the development of complementary indicators and social welfare measurements (objective and subjective) was still underway, which greatly explains the organization's optimism. However, even if the OECD had a broader set of indicators, it likely would not have detected the crisis or the social discomfort. In 2011, several years after the crisis, the OECD set out the *Better Life Initiative: Measuring Well-being and Progress*, along with the work program *Measuring Well-being and Progress: Well-being Research*. As a result of those initiatives, the organization published the report *How's Life? Measuring Well-being*, and it constructed the *OECD Better Life Index*. Also, to reflect on why it did not notice the alarm signals before the 2008 crisis, the organization created the *New Approaches to Economic Challenges* (NAEC) initiative in 2012.

The first issue of the *How's Life?* report, published in 2012, states that the initiative has the following objectives: to involve citizens in the discussions about the kind of progress for which societies must strive; to identify which indicators could render a better image of people's lives; and to understand what drives welfare, in order to identify appropriate policies. While supplying objective and subjective aspects of well-being, this approach emphasizes families and individuals instead of economic aggregates, concentrating on well-being outcomes and considering the distribution of well-being among individuals, especially between different age groups, genders and social backgrounds. Specifically, it proposes to measure the following dimensions: income and wealth, employment and wages, health, life-work balance, education and capabilities, civic commitment and governance, social connections, environmental quality, personal security and subjective welfare. According to the report, these dimensions include individual capabilities (the circumstances in which individuals make decisions and the ability to transform resources into objectives) and material outcomes (income or consumption).

In this regard, as an exercise, what would have happened if the OECD had already built the indicators included in the *How's Life Index*? Would the organization have changed the statements of the *Economic Outlook 2007*? Would it have detected the crisis in time? Its social impact and the discomfort in families? According to the *How's Life Index* indicators from the years leading up to the crisis, the outlook would still have been highly positive. Between 2004 and 2007, net disposable income (in

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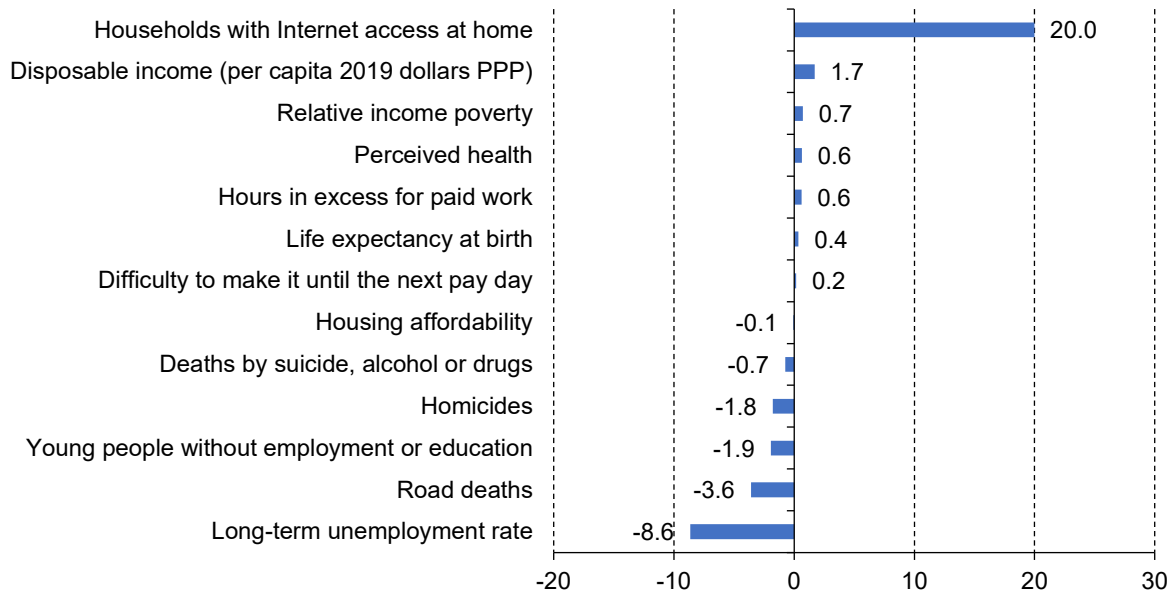
<sup>60</sup> It recognized that financial markets probably posed underrated risks even though they provided valuable support.

<sup>61</sup> According to the organization, a greater emphasis on the flexibilization of labour markets results in increased feelings of job insecurity, which feeds the demand for measures that protect incomes. When employees who were outlaid because of commercial openness are rehired, they usually receive lower wages. However, in countries with hefty unemployment benefits, dismissed workers, when reemployed, may earn a very high replacement income compared to their income perspectives.

constant dollars PPP) had grown 5.2% (annual average 1.7%), the difficulty to get by until the next payday was low (lower than in the 2008-2016 period, for instance), unemployment was down by 0.56 percentage points, and the number of young people (15 to 24) without employment or education had dropped. In 2007, job insecurity was low (at a rate that has not been recorded since), and the proportion of employees who worked excessive hours (more than 50 hours a week) was small.

The proportion of income destined for housing (housing affordability) was practically unchanged between 2004 and 2007. During that period, the proportion of households with broadband Internet multiplied by 1.7. Life expectancy at birth kept rising, as did the proportion of people who considered their health “very good” or “good”. Further, 90% of individuals declared that they had social support (the highest proportion in the 2006-2020 series was recorded in 2006) and few negative feelings and emotions (the lowest levels were recorded in 2006). The only warning signals would have been a slight increase of 0.26 percentage points in relative poverty, measured in 2004-2007 (though it recorded practically the same level in 2004-2008) and a high level of deaths caused by suicide, alcohol or drugs (between 21 and 21.5 per 100 thousand people) and by road accidents (see figure 30).

**Figure 30**  
Selected indicators from the How's Life Index, 2004-2007  
(Average annual growth)



Source: Author's own elaboration, on the basis of Organisation for Economic Co-operation and Development (OECD), *How's Life? 2020 Measuring Well-being*, Paris, OECD Publishing, 2021 [online] <https://www.oecd.org/statistics/how-s-life-23089679.htm>.

Undoubtedly, to detect a crisis like that of 2008 in time and to grasp the people's discomfort before and after such an event, we need a clear understanding of how the economy's generated value is allocated, distributed, used and accumulated. However, the national accounts system does not need to be modified to achieve this. Instead, we must approach value objectively and discard the neoclassical economic theory, which cannot predict crises because it assumes that the unproven thesis of general equilibrium under competition is the only possibility (Keen, 2022).

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This study analyses how value from labour (intellectual and manual) and natural resources (which also provide value) is created (gross national product), allocated (national income), distributed (disposable income), used (expenses and savings) and accumulated (wealth) in society.

Instead of measuring subjective welfare inequality (happiness) through consumption, this study analyses how the value created by labour and natural resources is distributed. The purpose is to study inequality in the distribution of the value created in the economy. Although capabilities and freedom are essential, this study takes into account the broader framework drawn by the duty to respect human rights.

Therefore, greater importance is attached to the urgent ex ante measures that must be taken, because they offer a solution that goes to the root of the problem of poverty and inequality. To build a fairer world, we must share the benefits produced by society fairly and ensure full enjoyment of human rights for all people.

