Reviews

How to Escape from the Trap of Slow Growth and High Inequality?
Jaime Ros Bosch, Mexico, El Colegio de México-UNAM, 2015.

Somewhat unlike what its title might suggest, the central thesis of How to Escape from the Trap of Slow Growth and High Inequality?, a stimulating and persuasive contribution by Professor Jaime Ros to understanding Mexico’s lackluster growth over the past few decades and reflecting on proposals to improve it, is that the Mexican economy has fallen into a “slow growth trap,” meaning a vicious cycle in which slow growth is related to its drivers and these drivers are in turn tied to slow growth. This book by Ros is worthy of study for various reasons. First, it offers numerous persuasive arguments to solidly justify the principal thesis. Second, the book provides measured and carefully considered recommendations for the economic policy needed to escape from this trap. Above all, regardless of whether or not readers agree with Ros’ analysis, they will certainly come away better informed after reading this book, an alternative proposal to what the current Mexican economic policymakers advocate. However, critical readers are the most likely to try to move forward with a suitable alternative agenda, which Jaime Ros defends. For this reason, even though the majority of Ros’ proposals are solidly justified (for reasons of space, it is not possible to delve into these positive aspects), this reviewer firmly encourages readers to study this stimulating text with a critical eye. This review comments on it with a crucial discussion of this book, whose discussion (forgive the redundancy) would seem to be open to future theoretical and empirical reflection about the vicious cycle between high inequality and slow growth that the book title suggests.

Before beginning this critical discussion, it would be useful to provide a brief summary of the book. Ros asserts that the fundamental reason behind the slow growth in Mexico is low investment in physical capital, not low total factor productivity, which he considers to be more of a consequence than a cause of low growth. Low investment is in turn tied to low public investment, the appreciated exchange rate, the dismantling of industrial policy, the credit market in which there are severe credit restrictions for productive projects, high interest rates, and low real wages that undermine the domestic market. This is aligned with the idea that slow growth co-evolves with its determinants. Ros attempts to (and succeeds in many cases) justify why these factors reinforce and are reinforced by low investment and slow growth. In Chapter I, he argues that lagging development in the southern region of Mexico both determines and is determined by slow growth. In Chapter II, he describes how a low tax burden is related to economic stagnation, and this stagnation in turn to a low tax burden, because this low burden prevents the government from increasing public spending and improving public services. Chapter III argues that the lacking credit market also determines and is determined by stagnation. Chapter IV persuasively addresses how the dismantling of the industrial policy has been tied to the fact that the undeniable export boom has not laid the groundwork for widespread growth. Chapter V argues that the conduct of Banco de México, which focuses almost exclusively on controlling inflation, is biased towards appreciating the exchange rate, which has negatively affected the tradable goods sector. It is important to note, of course, that for Ros, manufactures and modern tradable goods play, or should play “a decisive role in the growth process” because they ensure that “productivity rises endogenously with investment and production.” In Chapter VI, he argues partially in favor of a "gradualist" approach to increasing the minimum wage, because doing so could strengthen the
domestic market. It is important to note, however, that Ros is cautious, as he writes that there is merely a possibility (albeit high) that the domestic market would be strengthened (not a certainty). It is also essential to note that the call to make the policy to raise the minimum wage "gradualist" is also related to the fear of pushing up costs for the manufacturing and modern tradable goods sectors, which, as I already noted, Ros considers to be decisive for growth. Now, the tension between, on the one hand, arguing in favor of redistribution and, on the other, calling for this redistribution to be moderate in order to prevent undermining the profits of sectors decisive to growth is related to the topic of the book, which I wish to discuss critically here.

In the conclusions of the book (Chapter VII), Ros almost asserts that high inequality and slow growth have formed a vicious cycle. The position that slow growth does not favor equality is (almost) universally accepted by economists. But the idea that inequality also has a negative impact on growth is much more controversial, as the very fact that Ros does not defend it unequivocally shows. On the one hand, there is some textual evidence to contend that Ros believes that more equality would boost growth. As already noted, in Chapter VI, he defends modest redistribution. There is also some textual evidence to interpret that Ros believes that high inequality has negatively affected growth. In Chapter VII, he writes that "perhaps" the vicious cycle that affects is Mexico is that "low growth perpetuates or exacerbates inequality and inequality conspires against growth." However, Ros is careful in his choice of words, because he writes that this is "perhaps" the case and that it is "possible" to fall into this trap.

The book mentions some empirical research that, without explaining the mechanism, provides evidence to suggest that rising inequality has curbed growth. Moreover, Ros writes that "perhaps" in Mexico, the mechanism by which inequality perpetuates slow growth is crime and violence, and refers to an empirical study that may offer evidence in this regard.

On the other hand, there is also reason to believe that Ros holds that more inequality would promote growth, because he unequivocally defends the idea that a less appreciated exchange rate would improve earnings and, as such, would likely worsen the income/wealth gap.

In summary, the text can be interpreted to believe that better distribution would favor the domestic market, but not the crucial manufacturing and modern tradable goods sectors. If this is so, which effect would be greater? Clearly, the topic of a vicious cycle or trap between high inequality and slow growth in contemporary Mexico is open to future theoretical and empirical reflection. Naturally, it would be unfair to ask a single book (or a single author) to resolve it. Nor does this contribution from the eminent economist Jaime Ros resolve it. However, the book demonstrates the importance of engaging with this

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1 The suggestion to reorient the development strategy to a certain extent towards the domestic market appears frequently in the book.


4 From an ethical perspective, if it were true that inequality boosts growth, which should be prioritized? I recall the ethical thesis of A Theory of Justice, by John Rawls: the principal characteristic of social and economic institutions must be justice, and efficiency should come second.
topic; it also shows, incidentally and moreover, that thinking about this topic will likely require sectoral analysis.

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