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Regional Industrial Informality and Efficiency in Mexico, 1990-2013

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Abstract

The impact of electricity consumption on aggregate regional Mexican industrial labor productivity is examined using a stochastic production function. Electricity consumption is also used to gauge macroeconomic informality that varies greatly across regions with no geographic advantage in reducing it. Unlike prior research, persistent regional technical inefficiency is found that has little impact on reducing informality but may help reducing corruption. Although electricity consumption contributes positively to industrial labor productivity over time, Mexican industry has yet to transition to a much lower consumption/output ratio found in other countries. Regional policies supporting returns to human capital accumulation being better kept by workers while technical inefficiency is reduced are recommended.

Keywords: Electricity Consumption, Informal Economy, Corruption, Mexican Industry

JEL Codes: O14, O17, O47, O54

1. Introduction

Dynamic regional Mexican development like world development has been characterized by a movement from physical to human capital accumulation. When human capital accumulation becomes the driver of growth rather than physical capital accumulation, the inequality that drives physical capital investment through increased savings fades and equality becomes more

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