

INEQUALITY IN LATIN AMERICA: AN INTRODUCTION

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During the 2000s, the reduction of income inequality in Latin America received ample attention in regional and international circles. The region's decrease of the Gini coefficient -from 0.54 in 2003 to 0.47 in 2012 according to Gasparini *et al.* in this special issue- stands in stark contrast with growing inequality in many other parts of the world. The improvement took place across the region: Costa Rica and Honduras were the only exceptions between 2002 and 2014.

Yet was the recent trend a true “break with history” -to use the terminology of an influential World Bank regional report (World Bank, 2004)? Is it likely to be sustained in the future? The contributions to this special issue provide some preliminary answers to these questions, giving several reasons for pessimism. First, concentration of income at the top remains extremely high and persistent. Second, some countries have had a more mixed record than often assumed: Mexico, where the minimum wage has lost purchasing power steadily since the early 1980s, is a case in point. Third, as the analysis of Gasparini *et al.* demonstrate, the sustainability of the recent reduction is unclear- in fact, the Gini coefficient has expanded again since 2010 in several countries.

This brief introduction brings together some of the evidence presented in the five papers to raise doubts about Latin America's recent success and future trajectory. At the end, we suggest a future research agenda that can also better contribute to policy design.

1. HOW IMPRESSIVE WAS THE REDUCTION OF INEQUALITY?

Latin America has historically been one of the most unequal regions of the world. Starting either in colonial times (Acemoglu, Johnson and Robinson, 2001; Engerman and Sokoloff, 1997) or in the late 19th century (Coatsworth,

2008; Williamson, 2010), it developed an exclusionary socio-economic model with high concentration of income and wealth at the top. Astorga's contribution to this special issue illustrates the extent of the problem. Based on estimations of income trends for four occupation skill groups, he compares the income share of the top 10% and the bottom 40% in the six largest Latin American countries for the period 1900-2011. His innovative evidence is astonishing: during this period the richest 10% controlled more than one half of total income while the bottom 40% received less just 13%. Moreover, the gap expanded over time: during the period 1990-2011, the share of the top 10% was between 51% (Argentina and Venezuela) and 60% (Chile) of the total.

Things started to change in the early 2000s in a shift that according to Astorga "has no precedent in the 20th century." Other contributors offer ample evidence of the apparent recent success. According to Gasparini et al, the positive performance was particularly impressive in Argentina (-1.1% decrease per year between 2002 and 2010 and -0.5% per year between 2010 and 2014), Brazil (-0.7% and -0.4%), Ecuador (-0.8% and -0.9%), El Salvador (-0.9% and -0.7%) and Peru (-1.0% and -0.5%). Solimano and Moreno-Brid *et al.*'s contributions offer similar numbers.

These improvements in income distribution were totally unexpected, particularly when considering negative trends in the previous decade and concerns about informal labor markets, weak institutions and powerful elites. Yet did they amount to a significant change in the region's structural problems? Were they as positive as many observers claim? Are the improvements sustainable over time?

2. HOW SUSTAINABLE WILL THE REDUCTION OF INEQUALITY BE?

Gasparini et al's paper questions the sustainability of recent trends: in fact, the annual average reduction of the Gini coefficient slowed down significantly between 2010 and 2014 across the region. In their view, part of the problem is that some of the changes in the 2000s "had a considerable equalizing impact in the short/medium run, which tended to peter out over time."

Their paper shows that recent positive trends simply compensated an overshooting of inequality in the 1990s. During that decade, trade liberalization together with privatization and deregulation, increased unemployment and led to skilled-biased technological change, thus affecting unskilled workers more than any other group. By the 2000s, companies had already restructured their production process and the economy had stabilized: employment growth then benefited all groups equally. Their interpretation coincides with Miguel Szekely' and Claudia Sámano-Robles' recent econometric study, which finds that trade liberalization had a negative effect on inequality in the 1990s that disappeared subsequently (Szekely and Sámano-Robles, 2014). The drop in fertility among poor families also contributed to the reduction in the Gini coefficient, but it has also reached its limits.

The improvement in the distribution of income in the 2000s also resulted from commodity-driven economic growth and the policy space it created. The recent economic slowdown is likely to reverse all these positive trends. First, job creation will stagnate leading to an increase in unemployment rates. Second, maintaining the expansion of minimum wages in countries like Argentina, Brazil or Ecuador will be hard both politically and economically. Third, the growth of conditional cash transfers and other social programs faces severe fiscal constraints, which are particularly evident in the Brazilian case.

The role of education requires special attention. For authors like Cornia (2010) and López Calva and Lustig (2010) the increase in the years of education of the labor force was behind the reduction of the skill premium in the 2000s.¹ Other authors like Gasparini *et al.* (2011) disagree with this conclusion, emphasizing the role of demand factors instead.

This special issue makes two contributions to this debate. On the one hand, Gasparini *et al.* echo their previous claim about the minor role of education. The improvement in schooling had already begun in the 1990s, when inequality was actually increasing. In their view, future efforts in education are also unlikely to drive the evolution of the Gini coefficient. They surprisingly fail to discuss the poor quality of secondary education in much of the region and the negative implications that this can have on semi-skilled workers in the future.

Campos-Vazquez *et al.*'s contribution could be read in more positive terms. They explore the evolution of wages for college-educated workers of different cohorts in Mexico to determine the reason behind the 2000s drop in the skill premium. Their detailed statistical analysis shows that the relative decline in the wages of college-educated workers was driven by old workers -due maybe to skills-obsolescence- and not by young people. This could mean that bad quality education at the tertiary level is not as problematic as we thought -something that should be further explored for all levels of education in the future.

Additional factors also question the sustainability of the recent improvement in income distribution but were not explored in this special issue. The end of the progressive political cycle, which led to the election of parties that were particularly sensitive to social demands, could trigger policy reversals. In particular, the future of expansionary tax policies, which were important in the 2000s, is in question. Will the "New Fiscal Pact" that Cornia *et al.* (2011) identified survive in the future? And will direct taxes and social spending maintain its redistributive effect? Clifton *et al.* (2016) have already questioned some of the positive effects of fiscal policy in rural areas and highlighted the asymmetric impact of different interventions -negative trends that may intensify in the future. Martínez Franzoni and Sánchez-Ancochea (2016) criticize the segmented character of social policy (with better benefits for high income groups than for the poor) in the recent past and in the future. The political and economic

¹ The wage differential between workers with some college education and those with primary or less increased by 1.8% per year in the 1990s and decreased by 2.8% per year in the 2000s (Gasparini *et al.* 2011).

influence of the elite remains high and shapes political trajectories across the region from Central America (Martínez Franzoni and Sánchez-Ancochea, 2015) to Brazil.

3. MAJOR CHALLENGES IN GOOD AND BAD TIMES

Part of the problem may be related to the fact that the 2000s were not as positive in several areas as many observers believe. Contributors to this special issue emphasize two negative trends in particular. Solimano's analysis focuses on the role of high-income groups. According to the author "the strong influence of economic elites and oligarchies in policy-making and their resistance to progressive social change has been at the root of the persistence of Latin American inequality" and changed little in the 2000s. Solimano reviews empirical evidence based on household surveys, personal net wealth and tax-data. He shows that the concentration of income and wealth of the top 1% persisted and, in some cases, actually increased. Despite a positive growth of the middle class, Solimano's paper thus demonstrates that structural inequality sadly remains in the region.

Moreno-Brid *et al.*'s contribution is particularly critical of the Mexican management of the labor market. According to their calculations, the labor income share in Mexico is currently only 27% - the lowest recorded level in history. This low share is partly caused by the low minimum wage, which in real terms is less than 30% of that in 1980 and does not cover the national basic food basket. The minimum wage has not kept up with labor productivity growth and its mediocre performance may partly explain Mexico's growing Gini between 2010 and 2014. Moreno-Brid and his collaborators conclude that "a substantial reform in the minimum wage policy is necessary, especially if Mexico is to comply with its constitutional stipulations to ensure a decent income standard."

It is true that, as we mentioned before, the minimum wage expanded rapidly in other countries like Argentina and Brazil. Nevertheless, the Mexican experience was by no means unique; the evolution of the minimum wage was also disappointing in countries like the Dominican Republic, El Salvador and Venezuela. In times of crisis, this negative evolution is likely to extend across the region and demonstrates the limits of state regulation of low incomes.

4. CONCLUSION

At a time when the gap between rich and poor has intensified across the world, the improvement in income distribution during the 2000s was particularly welcomed. A better management of the commodity boom and the creation of new social policies, which together contributed to the emergence of a new middle class, undoubtedly reshaped the region's political economy.

Yet the region's success may have been exaggerated. As contributors to this special issue shows, some structural problems - particularly dependence

on commodities and the economic power of the elite -remain untouched. The new recessionary environment could reverse recent gains unless new policies are implemented and the new middle class becomes an active political actor.

More policy-aware research on the last ten years is required. We need to better understand the reduction of the skilled premium and the extent to which it resulted from lack of innovation. We need to study the income share of the top 1% and link it to the political power of the elite -an effort that may require multidisciplinary and multi-method collaborations. We should also compare the evolution of social policy across the region and evaluate the extent to which more redistributive architectures can be developed in the future. We hope that this special issue inspires many others to undertake new studies.

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