

Reducing Inequality and Poverty:  
The Latin American Experience  
and What Can be Learned from It

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# Background of Last Several Decades re Inequality

- The Kuznets hypothesis
- Latin America countries always high, tending to rise over 1980s and early 1990s
- Taiwan the lowest inequality market-based economy
- African countries-less known but some evidence that inequality high or rising: were they moving towards the Latin pattern of dualism and inequality?

# Giving up Hope on the Kuznets Hypothesis?

- Until the last 15 years, no confirmed significant drop in inequality in any market-oriented developing country
- Was it globalization?
- Was it the prevalence of inappropriate technology?
- Was Kuznets simply wrong?

# Light at the End of the Tunnel?

- The evidence of falling inequality in the majority of LA countries at some period over the last 10-15 years.
- Also for some African countries, according to some studies, but evidence much less reliable
- For LA, is it true, why is it happening and how transferable are any lessons?

# One Shot Decrease or Beginning of a Trend?

- The Gini coefficient gap between Taiwan and Brazil has been about 30 percentage points—Taiwan about 0.30, Brazil about 0.6.
- The analyzed declines are mostly of 4-6 points, i.e. not trivial nor probably due to statistical bleeps, but only say one sixth of the way from extreme inequality to relative equality
- So it matters that they continue

# How Trustworthy is the Evidence of Decline?

- The income data are incomplete through failure to capture much of capital income, concentrated at the top of the income hierarchy
- The data also fail to account for the monetary value of directly provided public services
- They capture labour income, monetary transfers plus miscellaneous other sources

# Where Does This Leave us?

- Might overall inequality not be falling?
- It is possible that if trends at the top have paralleled those of industrial countries, where the top tenth of one percent have been getting much or even most the fruits of growth, e.g. Carlos Slim and the now numerous billionaires in the developing world
- This could be a product of globalization, liberalization and freer (but imperfect) markets
- We will not know for perhaps 5-10 years, even if research moves expeditiously

# But a Form of Inequality Reduction has been Happening

- Inequality outside the world of high-level capital incomes has been falling in many LA countries
- Such declines are unlikely to be simply a return to the norm after some phenomenon raised inequality temporarily.

# Factors That May Be at Work

- Falling inequality due to extreme differences in educational attainment (e.g. earlier Brazil figure of 13:1, tertiary vs. none); a somewhat predictable source of decline
- The rise of cash transfer to lower income families—now over 1% of GDP in a number of countries
- Falling demographic effect of poorer families having more children

# How Far Can these Processes Go Towards Reducing Inequality?

- Education: somewhat farther but hard to say how much; the education quality issue (better quality for higher income families) will be hard to resolve
- Rate of returns to education are estimated to be higher for higher quantiles in the income distribution, so simply proportionate advances in the “quantity” of education may not help, or may even worsen inequality
- Test scores vary widely by income level for a given stage of education
- Relative rates of return to higher education have been increasing vis a vis those to lower levels (perhaps the IT revolution), which helps the better off
- Powerful social forces resist a levelling of the education field, related to recognition that it is a key source of both income and employment success as well as prestige—is the bifurcation widely commented on for the US present in LA as well?

# How Far Can these Processes Take us?

- Transfers: many countries have biting budget constraints—can they rein in the over-generous transfers (especially pensions) to the middle class?
- Certain public services, (e.g. in health) can be very high benefit/cost; an area of experimentation

# Poverty and Inequality Policy as Employment Policy

- The key is a strong demand for labour
- Very few countries have serious employment policies, including those in Latin America

# A Broader Policy Package for Poverty and Inequality Reduction

- Land reform and support for small farms—is it too late and/or politically impossible, which tends to lock the economic structure into one that generates inequality; the Taiwan outcome a distant dream
- Support for micro, small and medium enterprise and generally for labour absorbing firms; technically much harder to pull off than land reform, but politically easier. Microfinance one element in this
- Anti-trust: is it necessary and where is it feasible? Mexico's recent move against Carlos Slim's monopoly.

# Most Likely Outcome

- Most cases of large inequality declines in the industrial countries have been the result of either
  - i) wars and/or depressions
  - ii) high enough and progressive enough taxes to slow medium and long-run wealth accumulation
- Absent both of these factors (the second of which requires major political changes), inequality will probably level off at a still high level for the medium run