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Luis López-Calva and Nora Lustig (eds.), *Declining Inequality in Latin America: A Decade of Progress* (New York: United Nations Development Programme, and Washington, DC: Brookings Institution Press, 2010), pp. ix + 253, £23.99, pb.

Latin America is still the most unequal region in the world, but things may gradually be changing. Income distribution has improved in almost all Latin American countries since 2000, with particularly positive outcomes in Brazil and Mexico. *Declining Inequality in Latin America* is the first book to explore the factors behind the recent reduction of the Gini coefficient and offer some reflections on the potential sustainability of this trend over time.

The book starts with three useful chapters that review recent research on the political economy of income distribution. Jaime Kahhat discusses standard economic models of imperfect information where inequality is perpetuated by insufficient investment in education by the poor. James Robinson provides a detailed overview of the literature on the impact of politics on distribution. He emphasises the role of institutions and argues that a sustained reduction of inequality in Latin America may require radical changes in power relations and institutional design. Facundo Alvarado and Thomas Piketty review their recent research on the dynamics of income concentration among the rich in various parts of the world, including the worrying growth of top incomes in the Anglo-Saxon world. The contrast between the richness of their data and the absence of information on taxes in Latin America could not be more striking.

At the heart of the book are case studies on the recent dynamics of income distribution in Argentina, Brazil, Mexico and Peru. These four chapters use data from household surveys to measure how changes in labour and non-labour income have affected inequality since the mid-1990s. Their common methodology constitutes one of the strengths of the book: they all use a series of counterfactuals to measure the marginal impact of different income components. From the four cases, a common set of explanations for recent improvements emerges. First, the expansion of non-labour income in the bottom deciles was significant in all countries. In Brazil, non-labour income was responsible for 51 per cent of the reduction in the ratio of the top to bottom quintiles between 2001 and 2007. Social policy was behind this positive trend: in fact, social security explains 30 per cent of the reduction of inequality, while the *Benefício de Prestação Continuada* (a means-tested non-contributory pension) and *Bolsa Família* were responsible for 10 per cent each. In a fascinating discussion of the Mexican experience, Esquivel, Lustig and Scott show how social transfers – led by the *Oportunidades* programme – became ‘the largest inequality-reducing effect of all sources considered’ and were particularly important in agricultural areas. In Argentina, the public budget became more progressive thanks to changes in the tax system and a new conditional cash transfer programme. The evidence for Peru is more inconclusive and the new programmes are less generous and innovative, but ‘on the whole, improvements in access to public services have been pro-poor’ (p. 234).

Second, the skill premium, which increased sharply in almost all Latin American countries during the 1990s, has gone down in the last few years. In Mexico, for example, the ratio of skilled to unskilled wages increased from less than 2:1 in 1985 to 3:1 in 1997 but has decreased by 10 per cent since then. In Brazil, ‘the decrease in the labour earnings differentials by education level has been, unquestionably, one of the factors contributing to the recent decline in inequality’ (p. 156). Although this positive trend has likely resulted from changes in labour demand and supply, the studies only emphasise the latter. Higher education spending since the mid-1990s

contributed to an expansion in years of schooling among the poor. In fact, the Gini coefficient for years of schooling among the adult population decreased by 5 percentage points in Brazil between 1998 and 2007, by 7 percentage points in Mexico between 1996 and 2006 and by 4 percentage points in Peru between 2001 and 2007 (p. 11). The evidence is mixed in Argentina, where employment creation has been a more influential factor.

Other variables that have been stressed by other authors receive less attention in this volume. The analysis of the minimum wage in Brazil is particularly polemical. Barros et al. briefly compare a 10 per cent increase in the minimum wage with an equivalent expansion of the Bolsa Familia and show how the latter has a more positive effect on the income share of the poor than the former. They conclude that the minimum wage policy is not a particularly effective measure to combat inequality – a position that many others would not share.<sup>1</sup> While interesting, their exercise is also too simplistic: it fails to consider who pays for the policy in each case or evaluate the potential contribution of the minimum wage to reducing overall profits. More importantly, it is probably better from a psychological, social and economic perspective to expand good jobs than to expand social transfers.

*Declining Inequality in Latin America* constitutes a path-breaking contribution to our understanding of the recent distributional shift in Latin America. The rigorous statistical analysis is presented in a clear and convincing way – the Mexican chapter is particularly impressive in this regard. Yet the book leaves the reader with more questions than answers regarding the validity and sustainability of its findings. As in all other studies based on household surveys, changes in the income of the very rich are never explored. This may be an unsolvable problem unless tax information becomes available, but it is still quite damaging. Latin America's inequality is primarily caused by income concentration at the top, and we cannot really evaluate how much has changed without knowing what has happened with the rich. More importantly, the future sustainability of the recent reduction will depend on two variables seldom discussed in the book: changes in economic structure and changes in the political environment. Unless Latin America creates a larger number of well-paid productive jobs, reduces structural heterogeneity (between companies and between sectors), eliminates regressive social programs (which, as the book shows, are still quite large in countries like Mexico) and confronts the political influence of the elite, the recent trends are unlikely to be sustained in the future. The book thus highlights and explains a welcome trend, but we must now follow it with a broader research agenda on the political economy of sustainable (re)distribution.

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Richard L. Millett, Jennifer S. Holmes and Orlando J. Pérez (eds.), *Latin American Democracy: Emerging Reality or Endangered Species?* (New York and London: Routledge, 2009), pp. xxiii + 360, \$156.00, \$45.95 pb; £20.99, pb.

This volume, edited by seasoned analysts of democratisation in Latin America, is part of a wide and growing body of literature on the so-called 'pink tide' in the region.

<sup>1</sup> See, for example, Andrea Cornia, 'Income Distribution under Latin America's New Left Regimes', *Journal of Human Development and Capabilities*, 11: 1 (2010), pp. 85–114.