

**Inequality in Latin America:
Changes and New Perspectives**

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- Nancy Birdsall, Augusto de la Torre, and Rachel Menezes, *Fair Growth: Economic Policies for Latin America's Poor and Middle-Income Majority*. Washington, DC: Center for Global Development/Inter-American Dialogue, 2008. Bibliography, index, 216 pp.; paperback \$24.95.
- Jelke Boesten, *Intersecting Inequalities: Women and Social Policy in Peru, 1990–2000*. University Park: Penn State Press, 2010. Bibliography, index, 174 pp.; hardcover \$60.
- Roberto Gargarella, *The Legal Foundations of Inequality: Constitutionalism in the Americas, 1776–1860*. New York: Cambridge University Press, 2010. Bibliography, index, 273 pp.; hardcover \$83.67.
- Luis F. López-Calva and Nora Lustig, eds., *Declining Inequality in Latin America: A Decade of Progress?* New York/Washington, DC: United Nations Development Program/Brookings Institution, 2010. Bibliography, index, 253 pp.; paperback \$34.95.
- Rosemary Thorp and Maritza Paredes, *Ethnicity and the Persistence of Inequality: The Case of Peru*. New York: Palgrave Macmillan, 2010. Bibliography, index, 238 pp.; hardcover \$89.

Studying inequality in Latin America is important for policymakers not only because this region is one of the most unequal regions of the world, but also because significant changes on the distribution of income have occurred in the region in the last two decades. A recent report by Cornia (2012) shows that the average regional Gini coefficient (unweighted) increased from 51.01 in 1990 to 52.56 in 2000, but decreased to 49.76 in 2010. The regional Gini coefficient in 2010 is close to the one experienced in the late 1980s. The Latin American region not only has experienced a decrease in income inequality, but also has seen an improvement in equality within the political process brought by the latest wave of democratization, which started in the late 1970s.

By looking at a compendium of recent work on inequality, this review essay attempts to answer the following questions for the Latin American region: How do institutions affect inequality? How does inequality relate to ethnicity and

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gender? How did inequality change over time? What policies are associated with changes in inequality in the region? What have we learned in the last decade about effective policies that aim at decreasing inequality?

To answer the question about the relationship of inequality with ethnicity and gender, the essay focuses on the Peruvian case. It discusses the role that constitutions played when shaping institutions in Latin America in general. The case of Peru provides an opportunity to discuss the factors that have been considered possible contributors to the decrease in inequality during the 2000s.

DETERMINANTS OF INEQUALITY: THE ROLE OF THE CONSTITUTION

The seminal work of Engerman and Sokoloff (2002) posits that inequality in Latin America has been persistent because of the economic and political institutions that were put in place during the colonial period, which reinforced high inequality in the region. Resource endowment plays a key role in shaping institutions, according to their work. Gargarella's book, *The Legal Foundations of Inequality: Constitutionalism in the Americas, 1776–1860*, is related to this seminal work, in that the author emphasizes how the constitutions drafted after independence by Latin American countries set the stage for high inequality in the region.

While Gargarella recognizes several other factors, such as the interests of the elites and religious fanaticism, he contends that the legal foundations of inequality must not be overlooked. Focusing on the experience of the United States and nine Latin American countries (Argentina, Bolivia, Colombia, Chile, Ecuador, Mexico, Peru, Uruguay, and Venezuela), he provides evidence that while some constitutions can ensure political stability, liberty, and equality, others encourage the opposite and set the stage for authoritarianism. Gargarella emphasizes that constitutions are likely to shape the political life, as well as economic and social structures.

According to Gargarella, three constitutional models that led to different outcomes on equality were present in the region. The radical model is characterized by political majoritarianism and moral populism. Constitutional rights are established in this model, but they are defended only if they do not contradict the interest of the majority. Thus, economic institutions are shaped with the purpose of supporting the majority will. It is interesting that radicals were not as influential as other factions when drafting constitutions because political unrest and disorder drove people away from the radical model toward a more centralized government with national and local institutions that were less sensitive to the majority will in order to ensure stability.

The conservative model, the author posits, was the predominant model in Latin America after 1815. It is based on political elitism and moral perfectionism. In this model, individual rights are based on external values, such that "individuals must organize their life in accordance to what the enlightened authorities assume is the best way of life" (92). Conservatives differed significantly from radicals in relation to property rights. While radicals supported the distribution of wealth in order to promote the expansion of political rights, conservatives focused on protecting landowners with the purpose of ensuring the "best way of life." For conservatives, the protection of private property was crucial to the stability of the nation. Gargarella argues that conservatives limited people's partici-

pation in politics, which led to the underdevelopment of political institutions in the Latin American region. In his view, conservatives attacked equality at its roots by supporting exclusive political systems that precluded the participation of the majority of the population.

Gargarella presents the liberal model as the model with the most positive attributes, and the one that characterizes the experience of the United States. This model is based on political moderation and moral neutrality. It lies between tyranny and anarchy, at a point where power is limited and individual rights are protected. Liberals historically supported a *laissez-faire* environment because they believed that “state interventionism was the source of most evils” (172). To protect individual rights, liberals pushed for the separation of individuals and the state.

Gargarella notes that external conditions (a desire by the Spanish to retain power) and internal conditions (social, economic, and political disorder) made it difficult for the liberal model to shape constitutions in Latin America. Furthermore, the liberal model supported a bill of rights that was based on the idea that all men were born free and created equal, which was not popular in Latin America. In fact, leaders in Latin America tended to modify the constitution once they got elected so as to ensure their power and limit individual freedoms.

Gargarella does an excellent job of describing all the constitutional models present in the region over time and provides good examples of how different constitutions fit into the different models. In his view, constitutions led to high inequality in Latin America because they were not based on the idea that all men were equal. In the Latin American context, liberals needed support from conservatives because conservatives were able to bring stability. The alliance between liberals and conservatives led to weak constitutional models that reinforced inequality.

RELATIONSHIP OF INEQUALITY WITH ETHNICITY AND GENDER: THE CASE OF PERU

Thorp and Paredes's work, *Ethnicity and the Persistence of Inequality*, and Boesten's *Intersecting Inequalities* discuss the perpetual inequalities for ethnic and social minorities, as well as women, in Peru. The first book is eye-opening in exposing the persistence of inequality among ethnic minorities since Peru's inception, but it also exposes the researchers' struggle to define ambiguous ethnic groups. This works against the researchers' need for clear ethnic definitions to present quantitative data on inequality. Both these books draw on the same traditional and constitutional foundations for inequality in Peru, attempting to define the question of who has borne the brunt of inequality throughout the nation's history.

One of the greatest difficulties of Thorp and Paredes's book is defining the various ethnic groups present in Peru. Ethnic identities were assigned according to self-identification in three different areas of the country, though no efforts were made to show a nationally representative sample. Huanta in Ayacucho, Bamba-marca in Cajamarca, and San Juan de Lurigancho in Lima were the chosen places. The results of the survey showed 18 percent indigenous Andean, 9 percent white, 18 percent cholo, and 54 percent mestizo. Some Peruvians might describe themselves as mestizo if they came from the Ayacucho region, while a person of the same color and language characteristics would self-label as cholo in Lima. Two of the most commonly provided characteristics that Peruvians offered as bases for

discrimination against specific ethnic groups, often indigenous people, were inability to speak Spanish and proximity to inland and highland regions.

The vast majority of Peruvians, even in areas where well-developed precolonial civilizations were present, tend to speak Spanish to some degree, and the language is common among non-Peruvian minorities from Europe and Asia. Similarly, Catholicism is the common religion across many groups in the country and could not be used to differentiate. Using place of origin as an independent variable to discern specific ethnic groups seemed to the authors the best choice, since it explained some of the equality gap across national regions and at local levels, where certain social strata were separated. Citing a study by Adolfo Figueroa (2008), the authors show a simple breakdown between “indigenous,” “mestizo,” and “white” citizens. The study shows 24 percent of indigenous people to be “extremely poor,” but only 6 percent of mestizos and 2 percent of whites. Among other results noted, Spanish-only speakers were less likely to be poor, voter registration was higher among whites and mestizos than among cholos or indigenous, and, relating to Boesten’s book, indigenous women were the least likely of all Peruvians to have access to education. Unexpected findings include the pervasive inequality in the political realm, as well as discrimination among subgroups under the larger groups of indigenous, mestizo, and white.

The authors believe that perhaps the most inhibiting factor for ethnic minorities in Peru trying to achieve the level of success that whites and mestizos have is the inequality of opportunity resulting from lack of education. Furthermore, indigenous and chola women are significantly overrepresented among illiterates. The authors criticize this not necessarily as a lack of quantity of education for indigenous peoples, but rather a lower quality that is available to them.

The authors’ historical arguments put the onus of today’s inequality mainly on institutional and legal factors during the first seven decades of the twentieth century. The richer coastal regions gained an economic, social, and political upper hand during the period by installing economic policies that kept food prices low, harming the Sierra region’s largely agricultural economy and failing to improve Sierra education opportunities. The higher indigenous population of the Sierra explains some of the inequality across ethnic groups. The export-led growth model employed by Peruvian governments in this period led to a lack of investment in certain mining regions and overfishing on the coast, eventually creating a supply crisis. Reasons for hope in the last three decades of the twentieth century, such as lower-class organizations’ demanding more political rights for farmers, were frustrated by frequent turnover of governments and violence on both sides of the political spectrum.

The book concludes with a case study of the Fujimori administration through the 1990s and its efforts to resolve former class conflicts and economic crises. Fujimori’s initial efforts to attract foreign capital and improve investment in Peruvian resources succeeded at the macro level. But they did nothing to improve the status of certain ethnic groups, argue the authors, because of those groups’ already disadvantaged position. Indigenous ethnic groups were among those most likely to form social movements for collective action, and fear and violence did not dissipate with the promise that Fujimori brought to Peru in the early 1990s. Much like politicians before and after him, he found it too easy to accept the support of the richer coastal citizens, and did not persist in efforts to achieve true institutional reform for the citizens of the Sierra.

Boesten's book on the state of inequality for Peruvian women addresses some themes that overlap with Thorp and Paredes's work. While she praises former president Fujimori for being the only male head of state to attend the World Conference on Women in 1995 and notes that he enacted a number of social programs aimed at improving the lives of women, her criticism echoes that of the other work on Peru; namely, that he failed to address longstanding social inequalities engrained in the society. Boesten is highly critical of what she considers a disconnect between the discourse on solving social issues and policies that fail to address underlying principles of inequality. Later in the book, the author laments what she sees as a privileged, improved class of urban, professional women who are almost as likely as their male counterparts to exhibit the same efforts to maintain unfairly high living standards compared to lower-class, rural women.

In her first case study, Boesten looks at food aid to Peruvian families. Aimed at reducing poverty and helping mothers to provide certain necessities for their children's nutrition, such as milk and grains, the programs instead became a sort of political weapon to garner support from rural and poor groups. Government clientelism, especially during the Fujimori years, became rampant, as government workers at all levels achieved their economic and occupational security by issuing demands to women's organizations responsible for distribution of the food aid. Women organized quite capably in defending their right to these aid packages and fought back against the hierarchy that tried to label them as poor mothers.

The second case study addresses questions about Fujimori's aggressive population policies. Boesten notes that women in Peru are often seen as entirely responsible for the number and quality of their children. Because of this, men and health care providers aimed to control the birth rates of Peruvian women in all classes, but primarily in rural areas. Women became vilified as the creators of families doomed to poverty because they had given birth to seven children, on average. Fortunately, international and local NGOs, such as *ReproSalud*, helped slowly to bring more contraceptive options to women in all regions of the country. Perhaps the greatest move for women's reproductive rights during the Fujimori era was the legalization of voluntary sterilization by women of all classes.

The third case study centers on the use of violence by men to maintain authority in their households. Women who participate in activities or organizations outside the home are labeled as irresponsible mothers or worse. Boesten claims that women's rights have perpetually been subjugated to the family structure, granting men the power to keep the family together. This is significant to consider, given that when Fujimori's regime passed several women-friendly laws, they were well received but misunderstood by many Peruvians, after decades of few rights for many citizens, let alone women. The decision by government workers, police officers, and even husbands to grant respect to women is still dependent on a women's social, economic, and ethnic group.

These two books focus on different Peruvian minorities, but agree in placing the blame for unequal political and social conditions on legal or constitutional choices made long ago and reinforced more recently. The books are also in agreement about the inability, to date, of public policy to account for and fairly correct these earlier decisions, though they note that politicians such as Fujimori seem finally to be trying to right the ship.

CHANGES IN INEQUALITY AND PUBLIC POLICY

The first part of the edited volume by López-Calva and Lustig contains an extensive discussion of the evolution of income inequality in the last decade and the factors explaining how inequality has changed. In the second part of the book, the cases of Argentina, Brazil, Mexico, and Peru are discussed in detail. The book edited by Birdsall, de la Torre, and Menezes presents a good overview of the economic policies that might be related to the decreasing inequality in Latin America. The approach taken by Birdsall et al. is qualitative, while López-Calva and Lustig's work is quantitative.

Using data from SEDLAC about the Gini coefficients between 2000 and 2006, López-Calva and Lustig in chapter 1 show that income inequality decreased in 13 out of 17 Latin American countries for which there are consistent data over time. For the four country cases, the authors argue that two main factors explain the decrease in inequality: the decrease in the earning gap between skilled and low-skilled workers and the increase in government transfers to the poor.

According to the authors, the market-oriented reforms of 1990s, openness, and technological change contributed to an increase in the relative returns to tertiary education, which led to a large wage gap between skilled and unskilled workers. This large income gap was reflected in higher income inequality in the 1990s and early 2000s. (Inequality reached its highest level in either the late 1990s or the early 2000s, depending on the country). The authors use parametric and nonparametric methods to determine what factors explain the decrease in inequality experienced during the 2000s for the four countries. They find that a greater human capital stock (increase in the average years of schooling) led to a decrease in the wage gap between skilled and unskilled workers; they argue, "the effects of technological change are unequalizing at first but not in the long run" (13). In this view, as firms become more efficient with the new technology, low-skilled workers will replace high-skilled workers. These labor market adjustments, due to this worker replacement process and to the increase in the number of people with tertiary education, are equalizing forces. Jaime Kahhat, in chapter 2, also does a good job of explaining how the labor market adjustments relate to the decrease in income inequality.

A decrease in nonlabor income inequality is the other main factor explaining the decline. López-Calva and Lustig claim that redistribution through government programs that had good targeting methods, such as conditional cash transfers (CCTs), helped to decrease inequality in several Latin American countries. Ricardo Barros, Mirela de Carvalho, Samuel Franco, and Rosane Mendonça, in chapter 6, review the case of Brazil and provide an analysis of how public transfers contributed to the reduction of inequality in the 2000s. Barros et al. look at the evolution of different categories of nonlabor income from assets and the private and public sectors. They find that nonlabor income represented 25 percent of total income, where 90 percent of transfers came from the public sector. According to this study, coverage of government programs increased significantly between 2001 and 2007, and 49 percent of the decline in inequality during that period can be attributed to the changes in nonlabor income. They also find that a reduction of education inequality contributed significantly to the decrease in inequality during that period.

The case of Mexico, which is evaluated by Gerardo Esquivel, Nora Lustig, and John Scott (chapter 7), relates to the case of Brazil. Using a nonparametric decom-

position, Esquivel et al. find that the decrease in income inequality experienced during the 2000s was due to three main factors: higher relative wages of low-skilled workers, an increase in remittances in rural areas, and an increase in government transfers to the poor. The authors also evaluate the CCTs program *Progresa/Oportunidades* and find that it contributed significantly to the reduction of inequality. Leonardo Gasparini and Guillermo Cruces in chapter 5 and Miguel Jaramillo and Jaime Saavedra in chapter 8 also provide interesting insights into the Argentine and Peruvian cases, respectively.

Birdsall, de la Torre, and Menezes's qualitative work complements López-Calva and Lustig's quantitative work. Birdsall et al. devise an "equity toolkit" for Latin America (see page 30 for a good table presenting a brief discussion of each tool). Each chapter describes one of the following 12 equity tools in detail:

1. Rule-based fiscal discipline
2. Smoothing booms and busts
3. Social safety nets that trigger automatically
4. More taxes on the rich and better spending on the rest
5. Giving small businesses a chance
6. Protecting job mobility
7. Repairing rural markets
8. Tackling corruption head-on
9. Schools for the poor too
10. Dealing openly with discrimination
11. Consumer-driven public services
12. How the United States can help: opening markets and more

A relevant aspect of this book is the authors' emphasis on rule-based fiscal discipline as an important factor that led to the decrease in inequality in Latin America during the 2000s. Latin American countries moved toward fiscal discipline with the structural market reform implemented during the late 1980s and 1990s, and this shift seems to have paid off in terms of income distribution. The poor have benefited significantly from the price stability that countries in the region have experienced in the 2000s as a result of fiscal discipline. Fiscal discipline is also associated with lower interest rates, where lower interest rates result in greater investment and job creation. The use of countercyclical fiscal policy in Latin America (a decrease in government spending during an expansion and an increase during a recession) helped diminish volatility by avoiding the boom and bust business cycle.

The contribution of good fiscal policy to the decrease in inequality is not discussed by López-Calva and Lustig. Perhaps they did not explore this issue because it would be hard to measure quantitatively the impact of fiscal discipline on income distribution. Birdsall et al. contribute to the discussion by providing other policy recommendations, such as protecting small businesses, increasing labor market flexibilities, improving rural markets, and diminishing corruption, all of which López-Calva and Lustig do not cover because of the difficulty of demonstrating empirically the effect of these policies on income distribution.

Both these books emphasize the importance of social safety nets and education to reduce inequality in the Latin American region. Birdsall et al. note that social safety nets are needed in order to protect vulnerable populations (espe-

cially during economic downturns) and to deal with major problems associated with extreme poverty, such as malnutrition and lack of access to education. They recommend that emergency government programs be permanently available and have efficient targeting mechanisms and exit clauses to ensure fiscal feasibility. Birdsall et al. also present the CCTs programs in Mexico and Brazil as successful programs that helped diminish inequality. In relation to education, Birdsall et al. note that education is unequally distributed and that there is a large quality gap between public and private schools in Latin America. They recommend reforming the school system toward a performance-based system, so that the poor have access to better schools.

NEW PERSPECTIVES ON INEQUALITY IN LATIN AMERICA

This review of recent work on inequality in Latin America has attempted to highlight several important things. While inequality seems to be ingrained in the political and economic institutions of Latin American countries, the 2000s have brought a rosier picture of income distribution and poverty.

It is interesting to note that while government programs contributed to the decrease in inequality, market forces were also important. The labor market adjustment that led to the decrease in the wage gap between skilled and unskilled workers shows that there are market forces that affect the distribution of income over which policymakers have no control. While policymakers could make changes to the educational system in order to increase human capital, they cannot do anything to stop a skill-biased technological shock. It is also important to note that the market reforms implemented during the 1990s contributed to more stable economic systems, which provided better conditions for economic growth. While those market reforms brought some fiscal constraints that were painful when first implemented, the Latin American experience shows that the long-term effect of market reforms on income growth and distribution might be positive.

From these books, we also learn that government transfers to the poor helped diminish inequality and poverty in Latin American countries. Nevertheless, government programs that are most effective in doing that are those that have good targeting mechanisms, such as CCTs. We need to be aware that not all categories of public spending will lead to improvements in the distribution of income and poverty reduction.

Inequality is the result of shocks, and its effects on other macroeconomic variables, such as growth, are debatable. In addition, there are subjective values associated with the notion of what the best distribution of income should be in Latin America countries. While there might be a disagreement in regard to the use of policies addressing inequality, few could argue against programs that efficiently target the poor and reduce poverty levels. Therefore, policy in the region must emphasize poverty and not inequality. Further research ought to focus on evaluating how specific programs help to diminish poverty. To do this, the use of randomized controlled trials for evaluating programs that target the poor is crucial.

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