

INTER-AMERICAN DEVELOPMENT BANK

FACING UP TO INEQUALITY IN LATIN AMERICA

**ECONOMIC AND SOCIAL PROGRESS
IN LATIN AMERICA • 1998-1999 REPORT**

Distributed by the Johns Hopkins University Press for
the Inter-American Development Bank

Washington, D.C.

ECONOMIC AND SOCIAL PROGRESS IN LATIN AMERICA

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1300 New York Avenue, N.W.
Washington, D.C. 20577

Distributed by
The Johns Hopkins University Press
2715 North Charles Street
Baltimore, Maryland 21218-4319

Library of Congress Card No.: 98-75411
ISBN: 1-886938-36-9
ISSN: 0095-2850

PREFACE

A window of opportunity has opened for Latin America. Thanks to its changing demographics, the region has a chance to accelerate its development and attack one of its greatest socioeconomic ills: inequality. With the right policies, right now, there would be no tradeoff between development and equity in what has become the most unequal region in the world.

Most of Latin America stands at an opportune moment in its demographic transition. Fertility rates are falling and a large cohort of children is entering the workforce. With fewer children to care for and still relatively few old people to pay for, the present generation of Latin Americans is in a position to be a motor for economic growth and an agent for social change.

How long will this opportunity last? For the next two decades, most countries will enjoy a declining ratio of children to workers before a rising ratio of retired to active workers begins to represent a much heavier financial burden. This leaves two decades to accelerate the development process, put people to work, finance educational improvements and save for the future. If policies are enacted to further these goals, Latin America could open up its growth potential while it closes its income gap.

Clearly, economic growth and income redistribution are not new goals in Latin America. What is new is the demographic moment and the urgency to get the policies right or waste an historic opportunity. For this reason, we dedicated the 1998-1999 edition of *Economic and Social Progress in Latin America* to the study of inequality. With a better understanding of the problem, better policy responses are possible.

We begin by measuring the magnitude of the problem. How skewed is income distribution in Latin America? How does it vary within and across countries? We then paint a portrait of Latin America's rich and poor. Who are they? What are their families like? How do they make decisions about whether to go to school or to work, or to have children? With this description of individuals and families along the income spectrum, we ask why Latin America is the most unequal region in the world. We un-

cover a complicated, multidimensional story that attributes the region's poor income distribution to a complex set of factors ranging from Latin America's stage of development to its natural endowments and geography. Latin America's inequality has less to do with political exclusion—as populist diatribe would have us believe—and more to do with where these countries are placed on the map, what resources they have, and how far they are along the development time line.

Armed with this information, we look at what can be done to improve income distribution. There are a variety of policy options available to promote both development and equity and capitalize on this period of favorable demographics: labor law reforms to welcome new entrants to the workforce; improvements in public services to free up more women for gainful employment; fully-funded pension systems to generate savings; collateral, group lending and other mechanisms to deepen the credit market and make capital available to previously excluded groups; decentralized school systems to improve the quality of education; and direct subsidies for school supplies and food to keep low-income children in school. All of these policies would not only help economies grow, but allow more and more people to benefit from that growth.

In this report, we have tried to face up to the inequality that has long plagued Latin America, understand its causes, and offer policies that will make a difference. In doing so, our research and findings speak to a number of audiences: to the institutions both within and outside the region whose priorities include promoting social development and reducing poverty; to Latin American governments, fearful of the political consequences of socioeconomic stratification; to the region's policymakers, ready to translate years of good intentions into measurable results; and to the millions of Latin Americans who are anxious to share in the region's development.

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ACKNOWLEDGMENTS

Research Team

The research team of the Office of the Chief Economist was responsible for this report under the direction of Ricardo Hausmann and the coordination of Eduardo Lora. The principal coauthors were Michael Gavin (Chapters 4 and 7), Ricardo Hausmann (Introduction and Chapter 3), Eduardo Lora (Chapters 1, 2, 6 and 8), Carmen Pagés (Chapter 6), William Savedoff (Chapters 3, 5 and 8), Miguel Székely (Chapters 1 and 3) and Glenn Westley (Chapter 7). Suzanne Duryea and Miguel Székely were responsible for the processing of household surveys and for econometric analyses based on those surveys. Ricardo Paes de Barros provided technical support for that processing and analytical material based on the surveys. Background material was contributed by Mónica Barbosa, Mymon Dahan, Ruthanne Deutsch, Suzanne Duryea, Edward Leamer, Juan Luis Londoño, Nora Lusting, Gustavo Márquez, Rosane Mendoça, Phillipe George Pereira, Claudia Piras and Antonio Spilimbergo. Martín Cumpa, Marianne Hilgert, Marie Claude Jean, Mauricio Olivera, and Naoko Shinkai were research assistants. José Antonio Mejía supported the organization of the household surveys.

Data Bases

The principal source of information for this report was the household surveys generously provided by the Governments of Argentina, Bolivia, Brazil, Chile, Costa Rica, Ecuador, El Salvador, Honduras, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela. The "Improvement of Surveys and Measurement of Living Standards Program" (Mecovi) contributed to the gathering and organization of surveys. The World Bank, ECLAC, the International Monetary Fund and the Harvard Institute for International Development provided international data bases used in the report.

Comments

The study was enriched by comments and suggestions from Nelson Avila, Gregorio Arévalo, Neville Beharie, Nancy Birdsall, Euric Bobb, Luis Rene Cáceres, Xavier Comas, Ciro de Falco, Ruthanne Deutsch, Luis Fierro, Carol Graham, Carlos Alberto Herrán, Enrique Iglesias, Bernardo Kliksberg, Arianna Legovini, Ruth Levine, Nora Lustig, Miguel Martínez, Bertus Meins, Alberto Melo, Samuel Morley, Carlos Oliva, Andrew Powell, Alberto Pico, Stephen Quick, Nohra Rey de Marulanda, Inder Ruprah, Ricardo Santiago, Graciela Schamis, Carlos Eduardo Velez, and Waldemar Wirsig.

Statistical Appendix

The Statistical Appendix was prepared under the direction of Michael McPeak and the coordination of Rajindra Lalchan, with participation by Nathalie Carcenac, Augusto Clavijo, Cleary Haines and Rafael Salas.

Translation, Editing and Administrative Support

Larry Hanlon and Carlos Trípodí were in charge of the translation for the respective English and Spanish versions. Rita Funaro, Marie Claude Jean, Mauricio Olivera, and Graciela Thomen collaborated in the compilation process. Rafael Cruz, David Einhorn, and Gerardo Giannoni were responsible for the editorial revision. The cover was designed by Alejandra Luzardo. Cecilia Coder, Leticia Cuevas, and Graciela Thomen provided administrative support throughout the entire process.

The opinions expressed in this Report are those of the authors and do not necessarily represent the views of the Inter-American Development Bank or its Board of Executive Directors.

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