

Chapter 1

MAGNITUDE OF INEQUALITIES

Latin America and the Caribbean have the greatest disparities in income distribution in the world. A quarter of all national income is received by a mere 5 percent of the population, and the top 10 percent receive 40 percent. Such proportions are comparable only to those found in some African countries, whose per capita income levels are half those of Latin America, and they are considerably higher than those of any other group of countries (Figure 1.1). In Southeast Asian countries, the wealthiest 5 percent receive 16 percent of all national income on average, while in the developed countries they receive 13 percent.¹

The counterpart to the great concentration of income in the hands of the wealthy is found at the other end of the income scale in Latin America: the poorest 30 percent of the population receive only 7.5 percent of total income, less than anywhere else in the world, where it is over 10 percent. (Figure 1.2). This income concentration applies more to Latin America—which is the focus of this study due to the availability of information—than to the English-speaking Caribbean, where disparities are more moderate.

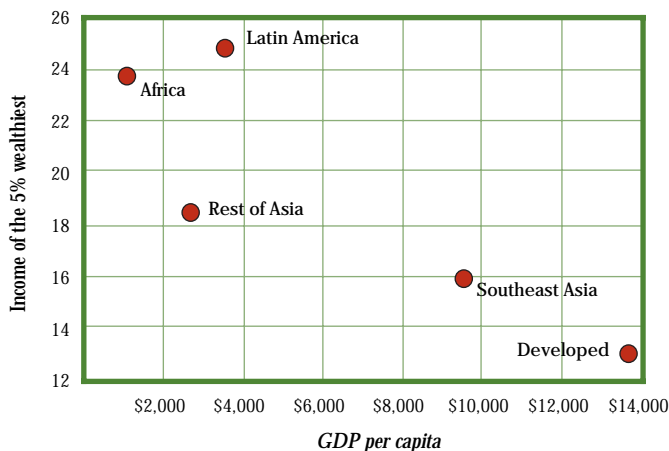
The indicator most commonly used to measure income inequality is the Gini index, which draws together information about the breakdown of income among all

population groups (Box 1.1). The Gini average for all the countries in the world for which there is reliable information on income distribution is 0.4. A perfectly equal distribution would produce an index of zero, but in fact the best instances of distribution such as Spain, Finland and some other European countries show Gini indices of between 0.25 and 0.3 (Figure 1.3). At the opposite extreme, the indices of greatest income inequality are around 0.6, which are found almost solely in Latin America and the Caribbean. With the exception of Jamaica, whose inequality index of 0.38 is closer to European than to Latin American patterns, the other countries in the region for which there is reliable information for the 1990s show inequality levels higher than the world average, and 11 of them have indices higher than 0.5.²

¹ The source for these comparisons is the database in Deininger and Squire (1996), which has information on income distribution based on reliable household surveys in 108 countries. Southeast Asia includes only Hong Kong, Korea, Singapore and Taiwan.

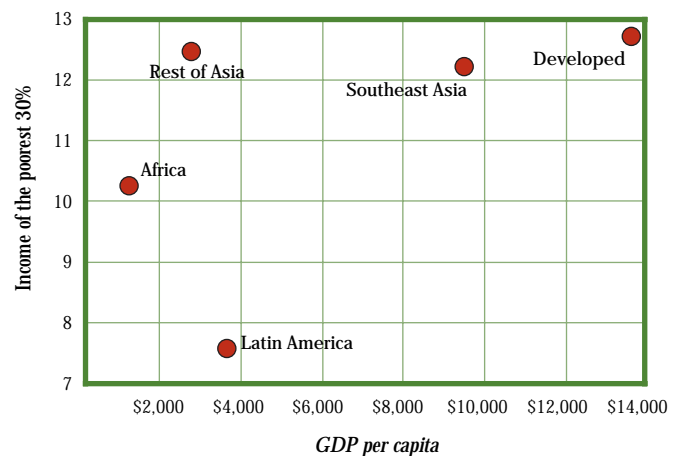
² Henceforth, the IDB's own calculations based on the most recent household surveys are used, except for Colombia, Guatemala, Jamaica and the Dominican Republic, for which the most recent findings according Deininger and Squire (1996a) are used. Appendix 1.2 describes the characteristics of the surveys and the main socioeconomic indicators by income deciles and country.

Figure 1.1. Income Received by the Wealthiest 5 Percent of the Population
(Percent of total income)



Source: IDB calculations based on Deininger and Squire (1996).

Figure 1.2. Income Received by the Poorest 30 Percent of the Population
(Percent of total income)



Source: IDB calculations based on Deininger and Squire (1996).

Box 1.1. Gini: A Simple Way to Measure Income Inequality

If incomes were distributed in a fully equitable manner, each person would receive the same share of income. The Gini index measures how far real distribution is from such a hypothetical reference point.

Real income distribution (or that of any other variable) can be represented as a cumulative curve showing what percentage of total income is received by each percentage of the population, lined up with its income level (which is called a Lorenz Curve). Consider points A and B in Figure 1. Point A indicates that the poorest 20 percent of the population receive 4 percent of income and that 90 percent receive 60 percent, which is actually more or less what happens in Latin American economies. Inasmuch as the diagonal represents the case of perfect distribution, the Gini coefficient is simply the area separating the Lorenz curve from the diagonal, divided by the area under the diagonal.

In theory, the Gini coefficient can vary between zero—perfect distribution—and one—complete concentration in a single person. In practice, Gini coefficients of per capita income vary between 0.25 and 0.60. Of the 100 countries for which comparable information is available, only five have Gini coefficients outside of this range. Inequality indices in Latin America are on average 0.52, with a minimum of 0.43 for Uruguay and a maximum of 0.59 for Brazil.

There are other measurements of income inequality, such as the Theil index or the logarithmic income variance. Each inequality measure assigns a different weight to observations by income level, which can be interpreted as a way of aggregating individuals in order to obtain an overall measurement of social welfare. The empirical evidence shows that all the usual measurements of inequality produce highly correlated results, and hence for purposes of comparative analysis between countries, either one is adequate.

Instead of the Gini or one of the other measurements of concentration, some economists prefer to refer simply to the income gaps between the groups at either end, such as between the wealthiest 20 percent and the poorest 20 percent of the population (called the first and fifth quintiles, respectively), or between the wealthiest and poorest 10 percent (tenth and first deciles). This measurement is easy to understand, and it relates quite closely to the Gini coefficient (Figure 1). It is, however, a rather crude measurement, for it is based simply on comparing two points in the distribution curve, and that can be deceptive. For example, Ecuador and Panama have income gaps greater than Brazil's, but their Gini coefficients are better because the distribution among their middle groups is better.

Figure 1. Typical Lorenz Curve in Latin America (In percent)

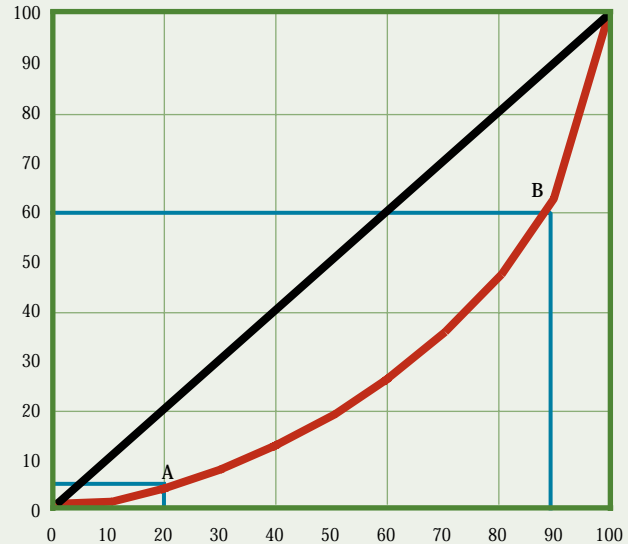
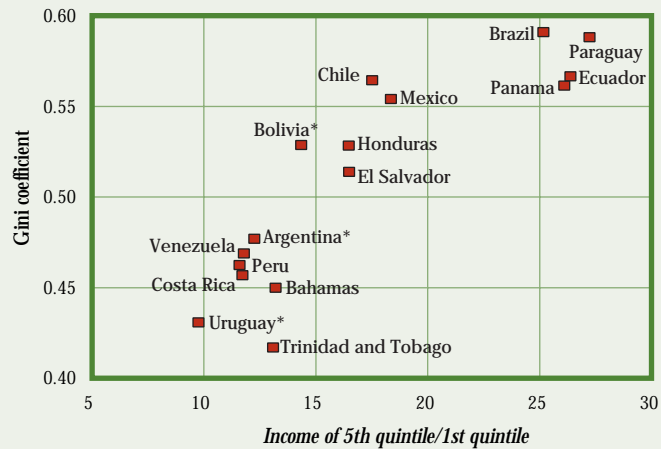


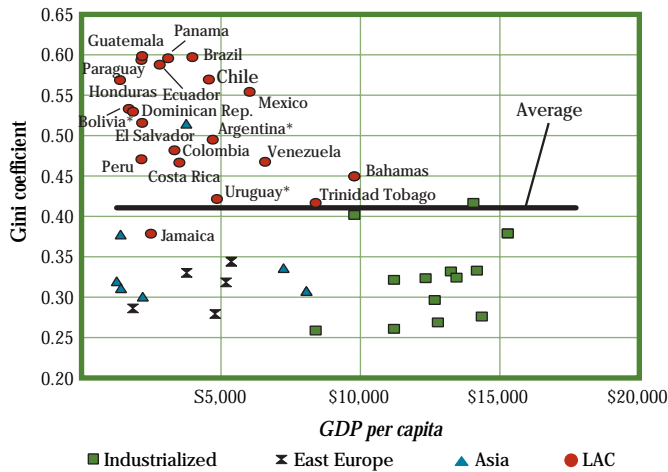
Figure 2. Gini Coefficients and Income Gaps



*Countries with urban data only.

Source: IDB calculations based on recent household surveys, and Deininger and Squire (1996a).

Figure 1.3. Income Concentration Index



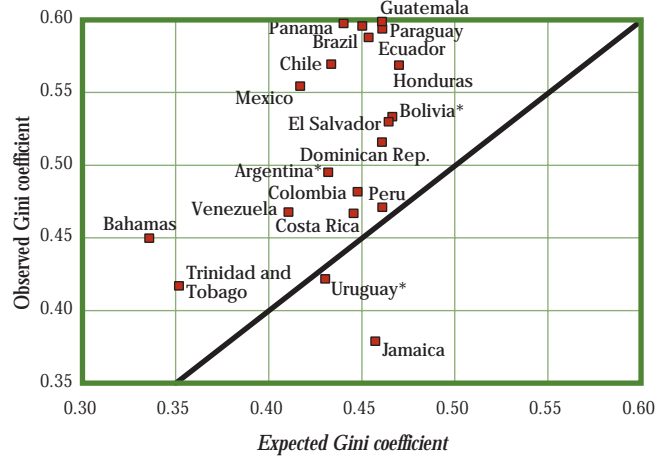
*Countries with urban data only.
 Source: IDB calculations based on recent household surveys, and Deininger and Squire (1996a).

It could be argued that comparing income inequality levels of countries that have very different levels of development is deceptive because economic development can go hand in hand with better distribution, whatever the causality between the two phenomena may be. In fact, all countries with high Gini coefficients belong to the medium- or low-income group (Figure 1.3). Nevertheless, admitting that there is a relationship between the level of development and income distribution, one finds that most Latin American countries are located above the level proper to that relationship, which is the same as saying that they have *excess* inequality, even after making allowance for the relationship between development and distribution.³ The extra inequality in the region is 12 Gini percentage points, on average. The greatest excesses are found in Brazil, Chile, Guatemala, Ecuador, Mexico, Panama and Paraguay, while only Jamaica has a level of inequality significantly below the world pattern. Other countries in the English-Speaking Caribbean—the Bahamas and Trinidad and Tobago—also have income concentration indices that are modest compared to those of Spanish-speaking countries. Nevertheless, given their high income levels, they are also very unequal. (Figure 1.4a).

CONCENTRATION OF INCOME IS HIGH IN BOTH URBAN AND RURAL AREAS

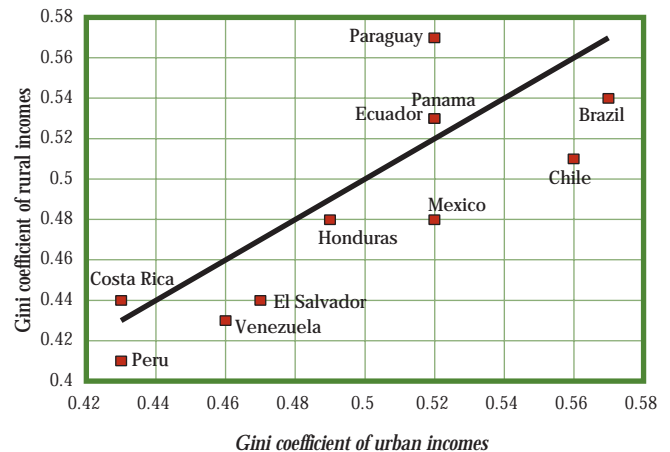
Indices of income inequality in urban and rural zones resemble one another in almost all countries. Only in Paraguay is inequality substantially greater in the country-

Figure 1.4a. Observed and Expected Income Concentration by Level of Income



*Countries with urban data only.
 Source: World regressions based on IDB household survey data and Deininger and Squire (1996a).

Figure 1.4b. Urban and Rural Income Concentration

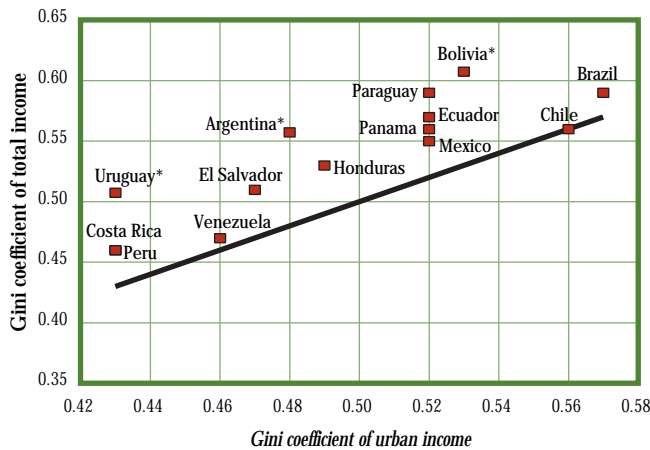


Source: IDB calculations based on recent household surveys.

side than in the cities (Figure 1.4b). In Brazil, Chile, Mexico and El Salvador, the differences go in the opposite direction, and are between three and five points. For all countries taken together, the urban and rural Ginis are practically identical, with an average value of 0.497.

³“Excess” or “extra” is defined here in relation to a worldwide pattern in which only income level is taken into account. As considered in Chapter 4, the stage of development is a determinant of inequality, particularly in the areas of capital accumulation, education, urbanization, demographic structure and the degree of formalization of employment.

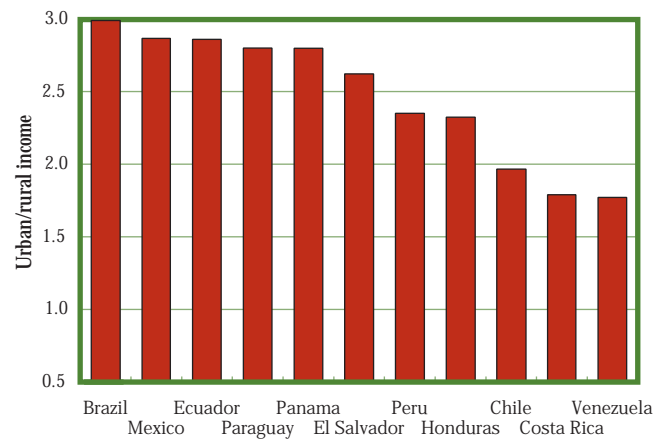
Figure 1.5. Total and Urban Income Concentration



*Actual data cover urban incomes only. Gini for total incomes are estimates.
Source: IDB calculations based on recent household surveys.

Note that inequality of total income is greater than the average of the urban and rural inequalities taken separately, except in Chile, where the total and the urban Gini are the same (Figure 1.5). If the average income levels in the countryside and the city were similar, the inequality of total income would be located at some point between the separate concentrations of one region and the other. But urban incomes are substantially higher than rural ones, which means that, taken together, income inequality will be greater than in each region taken separately. The largest gaps are found in Brazil, where per capita income in urban areas is three times what it is in rural areas, and the smallest in Costa Rica and Venezuela, where urban incomes are 75 percent higher than rural ones (Figure 1.6). Due to these great differences in per capita income, total income inequality is greater than the separate concentration in the countryside and in the city. On average, the total Gini indices are 3.3 points higher than separate Ginis for rural and urban areas. It is important to keep this difference in mind, inasmuch as for three of the countries analyzed in this study—Argentina, Bolivia and Uruguay—information is not available on rural income distribution (and hence they do not appear in these comparisons). For example, the Ginis reported for countries that cover only urban areas (and only Greater Buenos Aires in the case of Argentina) tend to be underestimated. In Figure 1.5, we have assumed that the underestimate is by these 3.3 points. With this correction, Uruguay displays the same inequality index as Costa Rica, Argentina comes close to El Salvador, and Bolivia remains at inequality levels similar to those of Chile or Panama.

Figure 1.6. Urban-Rural Income Gap



Source: IDB calculations based on recent household surveys.

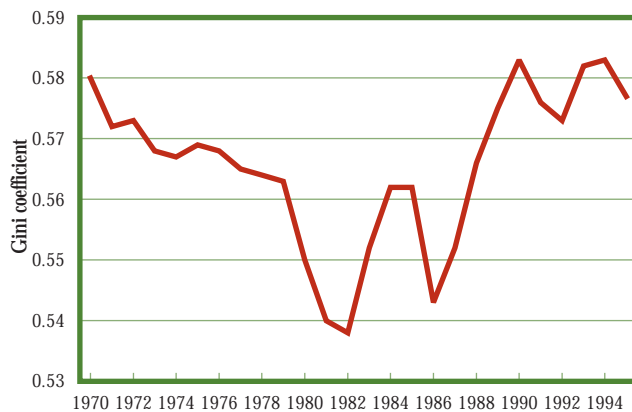
AS BAD AS BEFORE

Regardless of the measurement used, Latin America stands out among all regions for its high inequality. Income distribution has not improved during the 1990s, and according to the limited information available, it is as high today as it was two decades ago (Figure 1.7).

The period of rapid growth in the region, which began in the 1960s and lasted until the outbreak of the debt crisis in 1982, led to a notable improvement in income distribution. Between 1970 and 1982 the region's Gini coefficient⁴ fell by 5 points (that is, by 10 percent), and the income ratio gap between the wealthiest 20 percent of the population and the poorest 20 percent fell from 23 to 18 during that same period. While low-income groups apparently improved their income share by around 10 percent, the highest groups stood still or fell, especially between 1980 and 1982 (Figure 1.8). The wealthiest 10 percent saw their share of income fall by 6 percent during this period and middle groups gained significantly. But these improvements in distribution were short-lived. During the 1980s, the decile with the highest incomes increased its share by over 10 percent at the cost of all other income deciles. The poorest 10 percent in Latin

⁴ Approximations based on available information for the population of 13 countries that together make up 83 percent of the Latin American population (Londoño and Székely, 1997). Note that the Gini inequality index for the entire region is not the same as the average of Ginis by countries, since it is based on the incomes of all individuals combined. The Gini for the region is higher due to differences of average income between countries. Since these estimates are based on partial evidence of the evolution of distribution in each country, they should not be considered an exact description of the behavior of this variable over time.

Figure 1.7. Income Concentration in Latin America, 1970-95



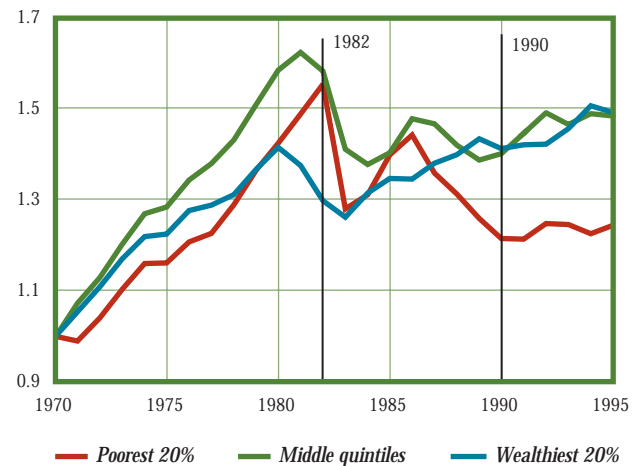
Source: Londoño and Székely (1997).

America suffered a 15 percent drop in their share of income. Thus the gaps widened again and the improvements in distribution from before the debt crisis were wiped out.

The economies of the region have undergone great changes in the 1990s. High inflation rates have been halted, deep economic reforms have been adopted to facilitate market operations, and productivity and economic growth have been restored. All these changes have brought about shifts of wealth and income. Concentration, however, has remained practically unchanged: the region's Gini has stood at around 0.58. What explains this apparent contradiction is that the changes have affected some groups differently from others. The poorest 10 percent in the region saw a 15 percent loss of their share in income between 1990 and 1995, and the next 10 percent a loss of 4 percent. The richest 10 percent also suffered a relative setback, while those who gained were the remaining groups in the middle. Hence, although the indicators of average concentration for the region have changed very little during the 1990s, distribution has by no means stood still.

Moreover, movement has not been homogeneous between countries. In Brazil, Chile and Mexico, income inequality worsened in the 1980s, but that was halted in the 1990s. In Colombia and Costa Rica, distribution patterns have remained quite stable, and indices of concentration in the 1990s have stood at levels similar to what they were a decade ago. In Honduras and Jamaica, income distribution worsened in the early 1990s, but in recent years it has been better than in the 1980s. In Venezuela, there have been periods of sharp decline, but they have been transitory.⁵

Figure 1.8. Participation of Each Income Group in Total Income, 1970-95
(Percent of normalized income)



Source: Londoño and Székely (1997).

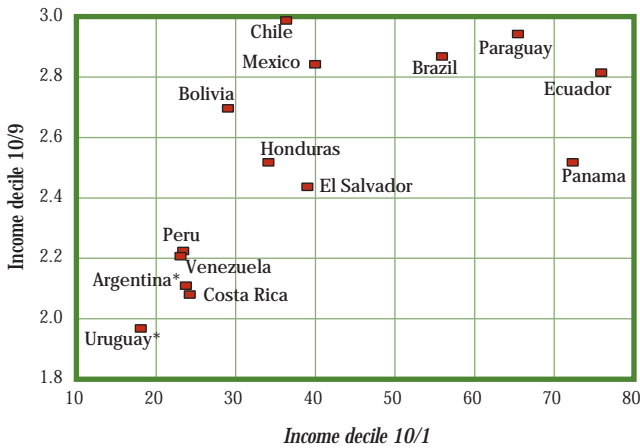
WHERE INEQUALITY IS FOUND

One of the most striking features of the poor income distribution in Latin America is the huge gap between the families in the highest income decile and everyone else. In relatively egalitarian societies such as Sweden or Canada, an individual who belongs to the wealthiest decile of the population earns on average 20 to 30 percent more than someone in the next decile. The succeeding differences in the next deciles are also lower, and hence there are no sharp gaps between social strata. In Latin America, the gaps within the middle-income groups are not so pronounced, but between the wealthiest decile and the next one there is an abyss: in the Dominican Republic or Chile, to cite the two most critical cases, the income of someone who belongs to the tenth decile is three times as great as in the previous decile and more than 30 times greater than that of the poorest decile (Figure 1.9a). These differences are possibly even greater, because income from capital, which is more important in the richest decile of the population, is most certainly underreported in the income surveys from which these calculations are taken (Box 1.2).

At the other end of the income scale there are also major gaps: because the incomes of the poorest 10 percent of the population are really quite low, the next 10 percent receive twice as much income in most countries, and in Ecuador and Panama close to triple the income of

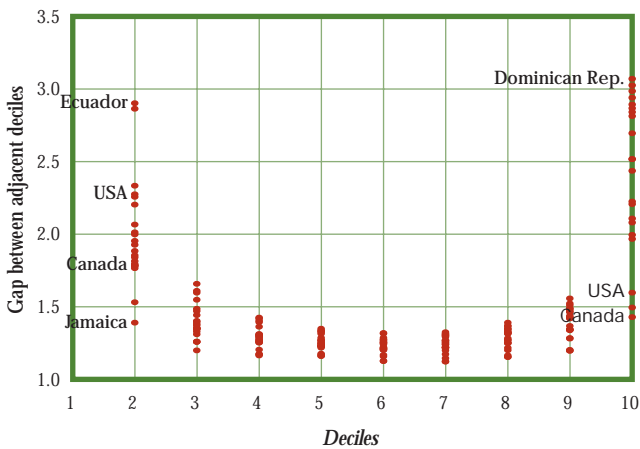
⁵The countries mentioned are those for which there are at least five original observations since 1980. The interpolations and calculations used in the figures are by Londoño and Székely (1997).

Figure 1.9a. Income Gap



*Countries with urban data only.
Source: IDB calculations based on recent household surveys.

Figure 1.9b. Income Gap between Adjacent Deciles

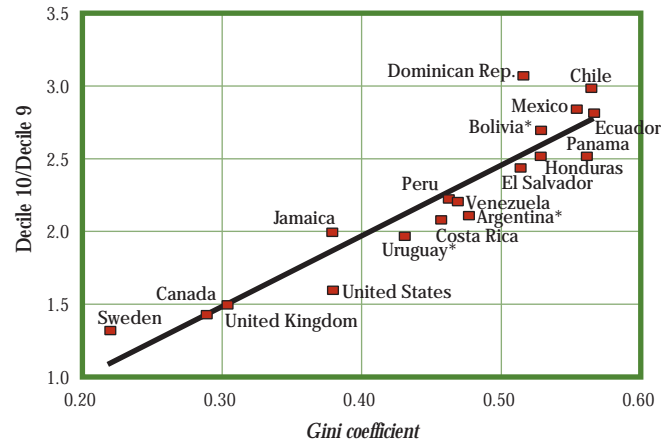


* Countries with urban data only.
Source: IDB calculations based on recent household surveys, and Deininger and Squire (1996a).

the previous decile (Figure 1.9b). However, the existence of relatively significant gaps between the poorest groups is a phenomenon that is also seen in developed countries with better income distribution that have pockets of acute poverty, such as the United States or the United Kingdom.

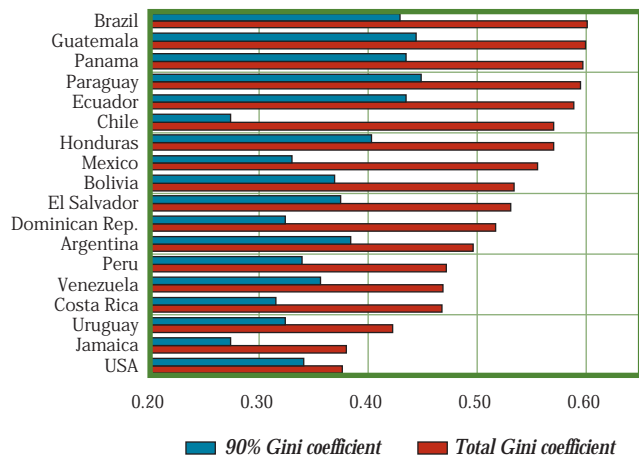
Hence, the high income inequality is reflected in large income gaps between adjoining groups at both extremes of the income scale, but the gaps between the wealthy are sharper and more characteristic of countries with poor income distribution, such as those in Latin America. Indeed, the indices of overall income inequality in Latin American countries are closely associated with the size of the income gaps between the two richest deciles of the population (Figure 1.10). There is no equally

Figure 1.10. Income Concentration and Income Gap among the Rich



*Countries with urban data only.
Source: IDB calculations based on recent household surveys, and Deininger and Squire (1996a).

Figure 1.11. Total Income Concentration Excluding the Wealthiest 10 Percent



Source: IDB calculations based on recent household surveys.

close connection with the gaps between the poorest deciles, or any other income gap.

Furthermore, the extra income inequality in Latin America is due to the gap between the highest incomes. If the Gini indices are recalculated without including the wealthiest decile, one finds that the income inequality of Latin American countries does not differ systematically from that of the United States (calculated in a similar manner). The Gini for 90 percent of the population would be on average only 0.36 instead of 0.52, and in six countries income inequality would be less than that of the United States (Figure 1.11). What makes the richest 10 percent of Latin America so different from the rest of the population? The answer offers the keys to factors explaining the extra inequality in the region.

Box 1.2. Household Surveys: A Basic Source of Information on Inequality

Information on income distribution comes mainly from the surveys made regularly by governments of representative samples of households on a national level. Besides information on the income of each household, such surveys provide information on education, age, occupation and other characteristics of each household member. They are therefore a rich source for studying the relationship between income distribution, work activity, participation in the education system, and the size and make-up of households. Hence, they are currently the most effective instrument for designing and evaluating all kinds of social programs. Even though this tool is now used around the world, surveys are still not carried out in some Latin American countries (Guatemala, Guyana and Haiti), while others perform surveys that leave out rural or nonmetropolitan areas (Argentina, Bolivia and Uruguay).

For the sake of studying income distribution, the most common shortcoming in some Latin American surveys is the lack of information on nonlabor sources of income (such as renting out of housing, noncash incomes, etc.) and on complementary variables that help establish the socioeconomic level of families (access to services, for example).

Because nonlabor incomes are often reported at less than their true value, especially among upper-income families, surveys tend to underestimate the level of real inequality in countries. If adjustments are made to correct this shortcoming, the results are subject to the arbitrary character of the method used. For Mexico in 1994, for example, Gini coefficients ranged from 0.477 to 0.60, depending on the adjustment method used.

The household surveys used in this study are of high quality and in keeping with international standards (Deiningner and Squire, 1996a). Nevertheless, they do not all apply the same methodology for data gathering and sampling, and in a few cases with regard to the observation unit.¹ Since it is never possible to attain perfect comparability between surveys of different countries, differences in methodology do not necessarily invalidate the making of comparisons (Atkinson, 1995). In this study we have used reasonably comparable surveys, avoided any kind of subjective adjustment to the primary information, and applied identical methods of processing and statistical analysis to all surveys used. (See the Appendix to this chapter for the main features of the surveys used.)

In order to deal with the shortcomings in coverage and quality of the surveys and make them more relevant for policy design, the Inter-American Development Bank has implemented the Improvement of Surveys and Measurement of Living Standards (Mecovi) Program, in coordination with governments and other international agencies. The program provides financing and technical assistance for carrying out household surveys.²

¹ See Berry, et al (1983), Atkinson and Micklewright (1992), and Gottschalk and Smeeding (1997).

² The program has provided funding to carry out surveys in Argentina, El Salvador, Paraguay and Peru and will expand its operations to Bolivia and Nicaragua in the near future.

Who Are the Rich?

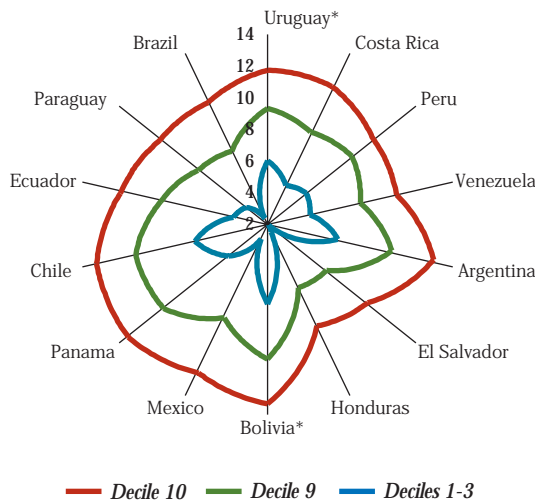
Among the many aspects that set the heads of households of the richest 10 percent of the population apart, four features in particular stand out: their level of education, the features of their work, where they live, and the number of children they have. These characteristics are valuable keys for determining the factors that cause and perpetuate poor income distribution.

Education is the main productive resource on which most people rely. This is even valid for the wealthiest 10 percent of the population. On average, in the 14 countries considered, the heads of household of the highest income decile have 11.3 years of education. Although this level amounts to slightly less than finishing secondary school (12 years in most countries), it is 2.7 years higher than the education level of the heads of household of the next decile and almost seven years higher than the heads of household of the poorest 30 percent of the population. The most pronounced education gaps between the two wealthiest deciles are found in Brazil, Mexico and

Honduras, where they are over three years, and only in Peru are they less than two years (Figure 1.12). Between the richest decile and the 30 percent at the bottom of the income scale, the average schooling gaps are over nine years in Mexico and between eight and nine years in Brazil, Panama and El Salvador, all countries with high income inequality. The lowest education gaps between rich and poor are found in Uruguay, Venezuela and Peru, countries whose income inequality is moderate when compared with patterns in the region. Thus, education is a factor differentiating the rich, not so much because their education level is so high, but rather because most others have not spent much time in school.

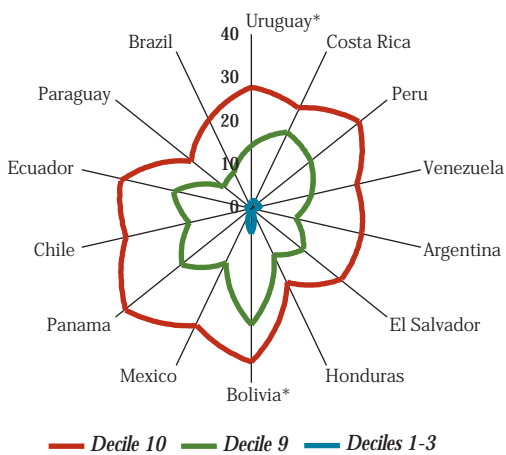
A second distinctive feature of the wealthy is the kind of work they do. A quarter of the heads of household of the highest income decile work directly as professionals, technical personnel or senior executives of companies. The portions range from 18 percent in Honduras and Paraguay to over 35 percent in Bolivia and Panama (Figure 1.13). In the next income decile, these proportions drop off noticeably in most countries, and between the

Figure 1.12. Years of Schooling in Rich and Poor Families



*Countries with urban data only.
Source: IDB calculations based on recent household surveys.

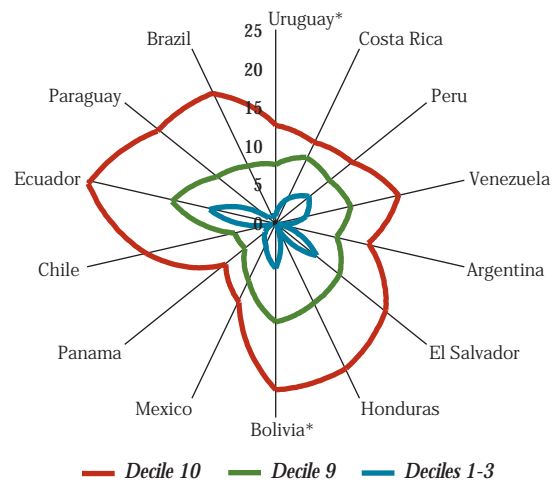
Figure 1.13. Percentage of Professionals and Executives in Rich and Poor Families



*Countries with urban data only.
Source: IDB calculations based on recent household surveys.

three lowest deciles only the tiniest number of heads of household reach leadership positions or have technical responsibilities. Most successful is Bolivia, where 6 percent of the poorest heads of households occupy such a position. Moreover, in most countries, between 10 percent and 20 percent of the population of the highest income decile are employers (Figure 1.14). Of the 14 countries for which such information is available, only in Panama is this proportion under 10 percent, while in Ecuador it represents around 25 percent of the wealthiest decile. In the next decile far fewer have the chance to employ other workers. Differences with the wealthiest

Figure 1.14. Percentage of Employers in Rich and Poor Families



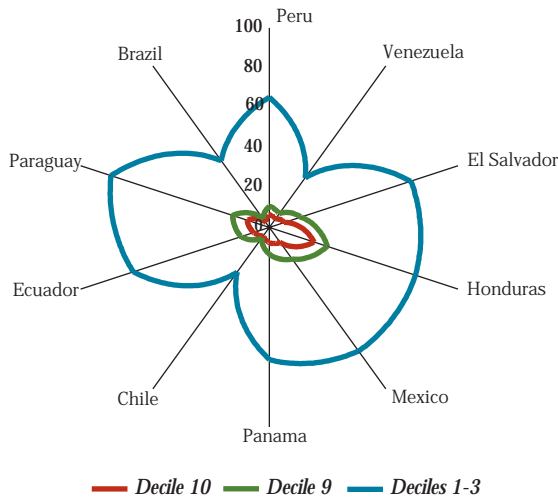
*Countries with urban data only.
Source: IDB calculations based on recent household surveys.

decile are especially marked in the countries where inequality is greatest, such as Brazil, Paraguay, Ecuador and Chile. The proportion of individuals who can employ others is considerably less in lower income groups, even though it is still somewhat significant in the lesser developed countries, such as El Salvador, Honduras, Bolivia and Ecuador.

A third feature differentiating the rich is where they live. In Latin America, poor households are found primarily in the countryside, while most of the wealthy live in cities. Among the countries in Figure 1.15, only in Brazil, Chile and Venezuela are over half of the households of the three lowest deciles in urban areas. By contrast, nine out of ten of the households of the two highest income declines are urban, except in Honduras, where the proportion falls below eight.

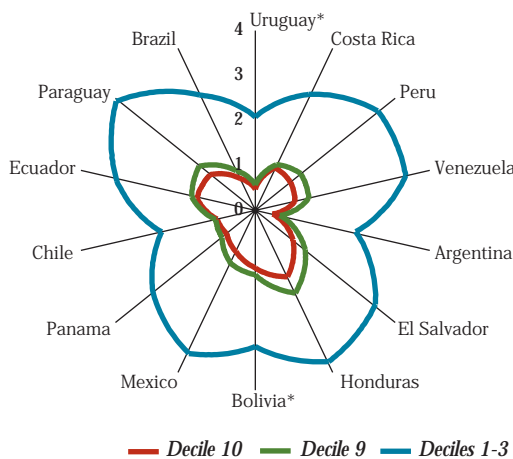
Number of children is another characteristic that varies between rich and poor households. In all the countries studied, the number of children in the highest income decile is lower than in any other decile. In Honduras, where the families of the wealthy are the largest relative to the wealthy in other countries, they do not even have on average two children under 18. In Argentina and Uruguay, only one out of two families of the highest decile has a minor child. The contrast with the poorest households is striking: the average number of children in the three lowest deciles is over two in all countries, reaches 3.5 in Mexico, Peru and Venezuela, and is four children per household in Paraguay (Figure 1.16). Hence, per capita income in each home is higher in the top decile not only because heads of household earn more, but because the number of persons among whom it must be distributed is smaller.

Figure 1.15. Percentage of Rural Families among Rich and Poor Families



Source: IDB calculations based on recent household surveys.

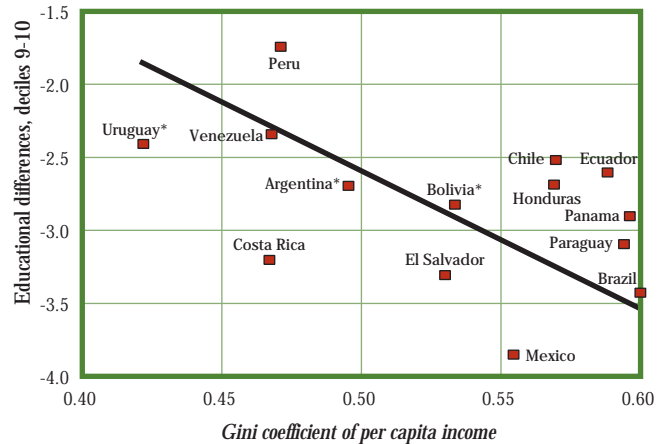
Figure 1.16. Number of Children in Rich and Poor Families



*Countries with urban data only.
Source: IDB calculations based on recent household surveys.

The features that set the rich apart also say a great deal about the degree of income inequality in countries. The greater the gap between the tenth decile and the one following, the greater tends to be income inequality in general. Consider the relationship between the size of educational gaps and income inequality: heads of household in the richest decile in Brazil, the country with the greatest inequality, have 3.5 years more education than those of the next decile. In Uruguay, Peru and Venezuela, where concentration is less, these gaps are around two years (Figure 1.17). Now note the gap in the proportion of employers between the two wealthiest deciles on the

Figure 1.17. Income Concentration and Education Gap among the Rich



*Countries with urban data only.
Source: IDB calculations based on recent household surveys.

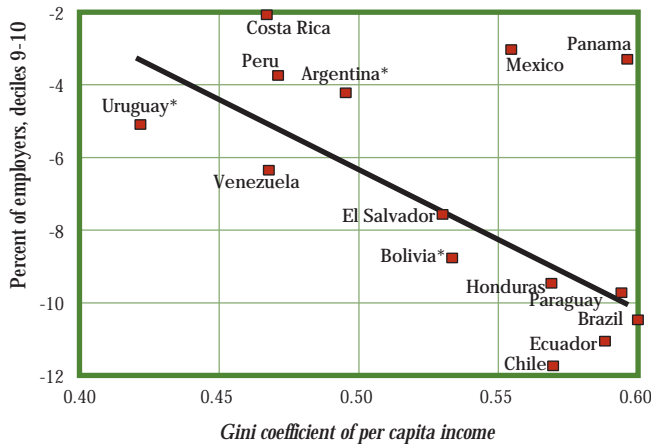
one hand and the income inequality indices on the other. In Brazil, Chile, Ecuador, Honduras and Paraguay, where that gap is most pronounced, the greatest levels of income inequality are also found. The opposite is the case in countries with less inequality, such as Uruguay or Costa Rica. (Mexico and Panama, however, are cases apart in this relationship, as shown in Figure 1.18.) Likewise, the differences in the size of rich and poor households are greater in countries of high income inequality, such as Brazil, Ecuador or Paraguay, than in more equal countries like Costa Rica, Peru or Uruguay. (Panama once more appears as an isolated case, as shown in Figure 1.19.)

Hence, inequalities in income distribution in Latin American countries are related to the features that distinguish the two highest income groups from the rest. It is the gaps at the top of distribution, more than differences between groups in the middle or the poor, that make Latin America the most unequal region in the world.

Inequality in Per Capita Income and Labor Income

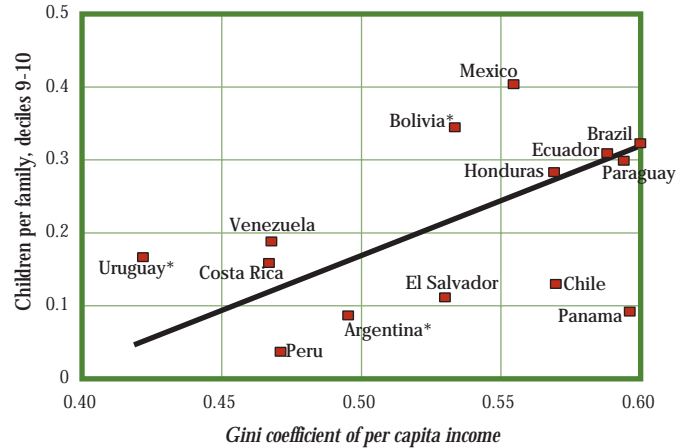
This study uses the household as the basic observation unit for analyzing income distribution, since it is the lowest observable unit of income distribution. Although household incomes derive from various sources, both work and nonwork, and although families differ in size and in the number of income earners, there is a close relationship between the inequality of the labor income of workers and household income inequality. For the average of 14 countries considered here, the Gini index of labor income inequality of workers is 0.51, similar to the

Figure 1.18. Income Concentration and Gap in the Proportion of Employers among the Rich



*Countries with urban data only.
Source: IDB calculations based on recent household surveys.

Figure 1.19. Income Concentration and Number of Children among the Rich



*Countries with urban data only.
Source: IDB calculations based on recent household surveys.

index of 0.52 that is the inequality of per capita household income. This similarity can also be seen in each country by itself, which indicates that it is not simply the result of aggregating individual cases that could be very dissimilar among themselves (Figure 1.20). The greatest differences between one coefficient and another are found in Bolivia and Panama, but even in these cases they only reach five points. Similar differences between household per capita income distribution and labor income per worker are also found in developed countries.

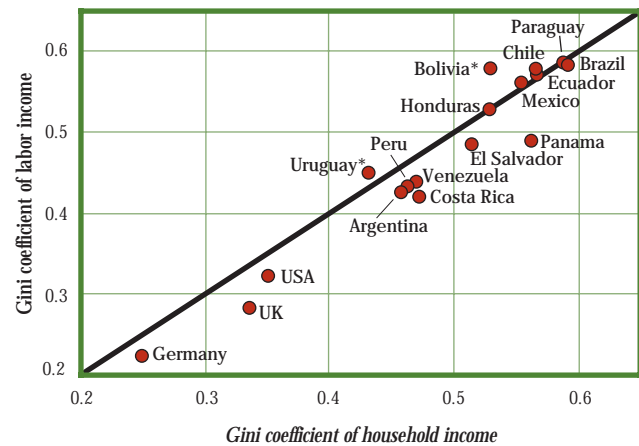
The connection between labor income inequality and how per capita income is distributed should not lead to the conclusion that the impact of income from capital (or from other sources) is secondary in income distribution. What it suggests is rather that such factors are not independent of one another. As will be seen in Chapters 2 and 4, the differences in income between some workers and others, or more precisely between workers who have greater or lesser education, can be explained by the relative demands for different types of work, which depend on the relative abundance of other factors and how they interact among themselves and with the labor factor.

WHY SHOULD WE CARE?

Social Justice

Income distribution should be a cause for concern for reasons of ethics and social justice. If income distribution reflected solely personal preferences about work, effort and savings, there would be no reason for it to constitute an ethical problem from the standpoint of distribu-

Figure 1.20. Concentration of Total and Labor Income



*Countries with urban data only.
Source: IDB calculations based on recent household surveys.

tive justice. Inequality and poverty become an ethical matter calling for outside intervention when it is acknowledged that the conditions generating them are not the choice of individuals but rather a result of circumstances beyond their control or a legacy of past problems.

Once it is acknowledged that effort and attitudes toward education, work, risk and savings are not independent of each individual's starting conditions, the way is opened for other concerns. The point is not simply to assure "equality of opportunity." If equality of opportunity is understood as equality of access (free basic education), it will not be enough to assure equality of capability of use (attendance at school), let alone equality of results (academic achievement). According to the social

Box 1.3. Equality and Growth: Partners or Adversaries?

Since Adam Smith, most economists have considered growth and equality to be largely incompatible. Only recently has a new school of theoreticians come to argue what seems plain to the eye: that high levels of economic development are found in relatively egalitarian societies where accumulating physical, human and social capital is attractive.

For classical economists, the capital accumulation needed for growth could only be obtained from the savings of capitalists, because workers would always consume their entire earnings. Equity and growth were incompatible. A similar conflict emerged within the pure neoclassical vision, but it was rooted in microeconomics: any redistribution would ultimately be at the expense of a productive factor, thereby lowering economic efficiency. Even a decade ago, these two visions had a great deal of influence on the position of economists on the issue of redistribution. Both implied that a shortage of productive resources would become sharper if a portion were set aside for redistribution purposes, thereby constituting an expenditure, not an investment. Because redistribution policies would have nothing to offer for economic growth or development according to these traditional approaches, income distribution was for a long time absent from the central agenda of economic theory and policy (Atkinson, 1997).

Over the past decade, the relationship between growth and equity has come back to the center of the academic debate, thanks to theories of endogenous growth and political economy. The central argument is that poor income distribution can weaken the pace of the accumulation of physical and human capital or affect productivity growth, which are the sources of economic growth.¹

Education can be the channel through which poor income distribution lowers the possibilities of growth: families with limited resources are not in a position to put aside money for education, even though such an effort could be socially and economically profitable. Moreover, families with little education and few possibilities for future education for their children will prefer to have more children than those in the opposite situation, thereby reinforcing the vicious circle of inequality and poverty (see Banerjee and Newman, 1991; Galor and Zeira, 1993; Aghion and Bolton, 1997; Piketty, 1997; and Dahan and Tsiddon, 1998).

Restricted access to capital markets is another channel that perpetuates poor income distribution. Because access to credit requires being able to provide guarantees, those who initially have a higher level of wealth have more opportunity to invest in physical and human capital. Hence, in societies where wealth is very concentrated, many investments that could be profitable at the individual and social level cannot be made, thereby impeding growth (Aghion and Bolton, 1992; Galor and Zeira, 1993; and De Gregorio and Kim, 1994).

The connection between inequality and growth can also take place through various political and economic channels. The first is political participation, through which voters express their preferences for policies of economic redistribution. In a society where wealth and income are highly concentrated, most people will support redistribution policies financed with taxes on capital or similar measures that will discourage investment and productivity. The "median voter" is less inclined toward such policies to the extent that wealth is better distributed (Alesina and Rodrik, 1992 and 1994; Persson and Tabellini, 1992 and 1994; Alesina and Perotti, 1993; and Perotti, 1994). A second connection is that poor income distribution causes distributional and social tensions that lead to political instability and uncertainties that hinder investment. A third possibility is that the power groups that arise in unequal societies can erode genuinely distributive policies by seizing government institutions and other income-producing activities, perpetuating inequality and low growth (Benhabib and Rustichini, 1996; and Birdsall and Londoño, 1998).

Education, restricted access to capital markets, and political and economic mechanisms conditioning government policies are thus different channels by which income distribution affects growth.

¹ Alesina and Perotti (1994), Alesina and Rodrik (1994) and Solimano (1998) contain excellent reviews of this literature.

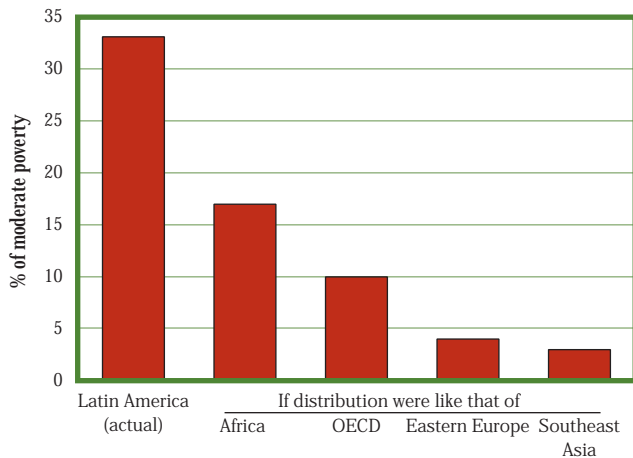
justice objectives pursued by society in each area, policy actions ought to be aimed at changing the distribution of capabilities of use (school subsidies, for example) or the distribution of results (leveling programs and other kinds of support).

Equality and Economic Development

After having been neglected for years in the academic debate among economists, the topic of income distribu-

tion has been regaining interest in recent years. The current debate centers precisely on determining whether, when governments try to improve distribution, they produce adverse consequences for the welfare of the population. Until recently, most theories on the subject presumed there was a conflict between equity and growth (Box 1.3). The usual arguments were either that greater concentration would allow for the generation of more savings, thereby facilitating investment and growth, or that concentration was the other side of the coin of effort and productivity. But empirical international evidence

Figure 1.21. Incidence of Poverty in Latin America if Income Distribution Were Different



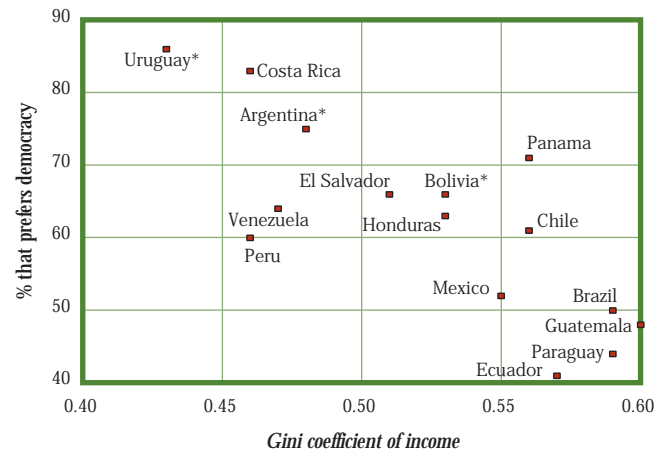
Source: Londoño and Székely (1997).

does not offer much support to such theories. Comparative studies actually point in the opposite direction: countries with lower levels of income inequality tend to grow faster, even after isolating the influence that many other factors may have on growth (Box 1.4). According to this approach, we should care about inequality not only because it is an objective justifiable in itself for reasons of social justice, but because good income distribution is favorable to growth and common welfare.⁶

Poverty and Inequality

One serious implication of income inequality in Latin America is the extent of poverty in the region. The income level of more than 150 million Latin Americans—that is, around 33 percent of the population—is under \$2 a day (corrected for differences of purchasing power of the currencies of the various countries). This is regarded as the minimum needed to cover basic consumption needs. If Latin America had the income distribution suited to its level of development by international standards, the incidence of poverty would be half of what it actually is. Other countries with similar levels of development have substantially reduced poverty. Per capita income levels of Eastern European countries are not appreciably different from those of Latin America, but poverty affects only 7 percent of their population. Although that may seem to be an extreme comparison, possibly affected by the socialist past of those countries, making comparisons with other regions of the world leads to a similar conclusion. For example, if income in Latin America were distributed as it is in the countries of Southeast Asia, poverty would

Figure 1.22. Income Concentration and Acceptance of Democracy



*Countries with urban data only.

Source: Latinobarómetro and IDB calculations based on recent household surveys.

be a fifth of what it actually is. Even taking the distribution pattern of Africa, one finds that for Latin America's higher levels of development, it ought to have half as many poor people as it actually has (Figure 1.21).

If current income distribution of Latin American countries were to remain unchanged, the pace of poverty reduction would be slow, even with relatively high growth rates. With a 3 percent a year rise in per capita income, between 15 and 25 years would be required, depending on the country, to lower poverty rates to half of their current levels.⁷

Inequality and Democracy

Besides normative considerations of social justice, economic growth and poverty that explain why equality requires attention, international empirical evidence suggests that the issue of distribution is also important because inequality and democracy are clearly connected. Inequality can affect how democratic institutions function and can impede political decisionmaking processes.

⁶ The reasons why more equal societies tend to grow more have only recently begun to be studied and understood thanks to developments in the theories of endogenous growth and of the political economy of growth (Box 1.3). The central idea is that poor income distribution may constrain the pace of the accumulation of physical or human capital or may lead to the adoption of policies and institutions that are harmful for productivity.

⁷ See Londoño and Székely (1997), Lustig and Deutsch (1998) and Morley (1998) for alternative estimates of poverty levels by countries and the impact of growth on poverty.

Box 1.4. *Inequality Hinders Growth: Summary of the Empirical Evidence*

The relationship between income distribution and economic growth has been a recurring topic of discussion among economists. In theory, arguments can be found to justify both a direct and an inverse relationship between the two variables. What does the empirical evidence say?

The prevailing conclusion in recent empirical studies is that poor income distribution harms economic growth and that therefore, instead of the conflict between equality and development that used to be regarded as a serious constraint on distribution policies, the relationship is mutually reinforcing.

Studies by Clarke (1992), Alessina and Perotti (1993 and 1994), Persson and Tabellini (1994), Birdsall, Ross and Sabot (1995), Deininger and Squire (1996b) and Perotti (1996) conclude that poor income distribution reduces prospects for economic growth. This conclusion remains valid even after taking into account the influence on development of other factors, such as initial per capita income, education levels or other economic, political or demographic variables. Such empirical studies are no doubt open to question not only because of shortcomings in the quality of information, but also because of the possibility that the relationship between growth and equality over time by countries is different from what can be seen in these cross-sectional

comparisons between countries (Forbes, 1997). Nevertheless, the empirical studies that have focused on the channels connecting distribution with growth also support the conclusion that these variables tend to be mutually reinforcing rather than in conflict.

Econometric models that simply include income distribution as an extra variable explaining growth do not shed light on the channels that can determine this relationship. But several studies have tried to fill this vacuum. Perotti (1996) shows that joint decisions made by families regarding education and number of children may perpetuate a society's high inequality and low growth. Another possible channel is political instability: poor income distribution often goes hand in hand with political unrest that affects investment and growth (Alesina and Perotti, 1993 and 1994; Perotti, 1996). On a worldwide scale there is little evidence for the thesis of the "median voter," namely that poor distribution leads to higher tax levels that hinder growth.

Hence, even though the empirical evidence is not that of complete consensus, it does tend to favor those hypotheses according to which good income distribution tends to stimulate economic growth.

Recent public opinion surveys in Latin America indicate that income inequality can in fact change the way democratic institutions operate.⁸ Income inequality can weaken acceptance of democratic institutions and principles. Where income inequality is less pronounced, as in Uruguay or Costa Rica, a high proportion of the population believes that "democracy is preferable to any other kind of government" (Figure 1.22). In the more unequal countries there is a greater tendency to accept authoritarian governments, and more people think that "it makes no difference whether a regime is democratic or non-democratic." There also tends to be less trust in these countries in the institutions proper to a democracy, such as government, civil service, political parties, the legislature, large companies and business associations.

The lack of confidence in democracy and its institutions associated with poor income distribution in Latin America could have implications for national political systems. In fragmented societies where institutional confidence is low, the process of aggregating individual preferences is more complex and inexact, and conflicts over distributing public resources are more intense. Moreover, the social and economic integration of different groups is difficult and the state apparatus is more susceptible to the influence of interest groups, corruption and inefficiencies, all of which feed inequality.

⁸These surveys have been carried out annually in 17 countries since 1996 by Latinobarómetro, a private, nonpartisan and independent agency. Presented here are results for those countries that have comparable income distribution statistics.

Appendix 1.1. Main Features of Household Surveys Used in this Study

Country	Year	Name of the survey	Coverage	Reference month	Sample size		Income					
					Households	Individuals	Labor	Property rent	Capital rent	Transfers	Non-monetary	Imputed Rent
1 Argentina	80	Encuesta Permanente de Hogares	Greater Buenos Aires	October	3,400	11,905	X	X ^a	X ^a	X	na	na
	96	Encuesta Permanente de Hogares	Greater Buenos Aires	April and May	3,459	11,749	X	X ^b	X ^b	X ^b	na	na
2 Bolivia	88	Encuesta Permanente de Hogares	Urban	1988	2,788	12,226	X	X	na	na	na	na
	95	Encuesta Integrada de Hogares	Urban	June	5,455	25,314	X	X	X	X	na	na
3 Brazil	81	Pesquisa Nacional por Amostra de Domicílios	National	September	103,961	482,611	X	X	X	X	na	na
	95	Pesquisa Nacional por Amostra de Domicílios	National	September	85,270	334,263	X	X	X	X	na	na
4 Chile	94	Encuesta de Caracterización Socioeconómica Nacional	National	November and December	45,379	178,057	X	X	X	X	X	X
5 Costa Rica	81	Encuesta Nacional de Hogares - Empleo y Desempleo	National	July	6,604	22,170	X	na	na	na	na	na
	95	Encuesta de Hogares de Propósitos Múltiples	National	July	9,639	40,613	X	X ^b	X ^b	X ^b	na	na
6 Ecuador	95	Encuesta de Condiciones de Vida	National	August to November	5,810	26,941	X	X	X	X	X	na
7 El Salvador	95	Encuesta de Hogares de Propósitos Múltiples	National	1995	8,482	40,004	X	X ^b	X ^b	X ^b	X	X
8 Honduras	89	Encuesta Permanente de Hogares de Propósitos Múltiples	National	September	8,727	46,672	X	na	na	na	na	na
	96	Encuesta Permanente de Hogares de Propósitos Múltiples	National	September	6,428	33,172	X	na	na	na	na	na
9 Mexico	84	Encuesta Nacional de Ingreso Gasto de los Hogares	National	Third quarter	4,735	23,985	X	X	X	X	X	X
	94	Encuesta Nacional de Ingreso Gasto de los Hogares	National	Third quarter	12,815	60,365	X	X	X	X	X	X
10 Panama	95	Encuesta Continua de Hogares	National	August	9,875	40,320	X	X ^a	X ^a	X	na	na
	95	Encuesta de Hogares - Mano de Obra	National	August to November	4,667	21,910	X	X	X	X	na	na
12 Peru	85-86	Encuesta Nacional de Hogares sobre Medición de Niveles de Vida	National	July 1985 to July 1986	4,913	26,323	X	X	X	X	X	na
	96	Encuesta Nacional de Hogares sobre Niveles de Vida y Pobreza	National	Fourth quarter	16,744	88,863	X	X ^a	X ^a	X	X	na
13 Uruguay	81	Encuesta Nacional de Hogares	Urban	Second Semester 1995	9,506	32,610	X	X	X	X	X	X
	95	Encuesta Continua de Hogares	Urban	Second Semester 1995	20,057	64,930	X	X	X	X	X	X
14 Venezuela	81	Encuesta de Hogares por Muestra	National	Second Semester	45,421	239,649	X	na	na	na	na	na
	95	Encuesta de Hogares por Muestreo	National	Second Semester	16,784	92,450	X	X ^b	X ^b	X ^b	na	na

^a Cannot separate between property and capital rent.

^b Cannot separate between property rent, capital rent, and transfers.

Appendix 1.2. Main Socioeconomic Indicators by Income Deciles
(Data from recent household surveys)

Appendix Table 1.2.I. Income Distribution (In percent)											
A. Per capita total household income											
	Deciles										Gini coefficient
	1	2	3	4	5	6	7	8	9	10	
Argentina ¹	1.5	2.8	3.8	4.8	5.9	7.3	9.0	11.8	17.0	35.9	0.48
Bolivia ²	1.5	2.6	3.4	4.2	5.2	6.3	7.9	10.5	15.6	42.1	0.53
Brazil	0.8	1.7	2.5	3.4	4.5	5.7	7.6	10.5	16.4	47.0	0.59
Chile	1.3	2.2	3.0	3.8	4.7	5.9	7.5	10.1	15.3	45.8	0.56
Costa Rica	1.4	2.9	4.0	5.2	6.3	7.7	9.6	12.2	16.4	34.2	0.46
Ecuador	0.6	1.7	2.8	3.9	5.2	6.5	8.3	10.9	15.6	44.0	0.57
El Salvador	1.0	2.4	3.4	4.5	5.7	7.1	8.9	11.4	16.2	39.4	0.51
Honduras ³	na	na	na	na	na	na	na	na	na	na	na
Mexico	1.1	2.2	3.0	3.9	5.0	6.2	7.9	10.5	15.6	44.4	0.55
Panama	0.6	1.7	2.7	3.8	5.0	6.5	8.5	11.6	16.9	42.7	0.56
Paraguay	0.7	1.6	2.4	3.5	4.6	6.1	8.0	10.7	15.8	46.5	0.59
Peru	1.5	2.9	3.9	5.1	6.4	7.7	9.4	11.8	15.9	35.4	0.46
Uruguay ²	1.8	3.2	4.3	5.4	6.6	8.0	9.7	12.2	16.4	32.3	0.43
Venezuela	1.6	2.9	3.9	4.9	6.1	7.5	9.3	11.8	16.2	35.8	0.47
B. Per capital household labor income											
Argentina ^{1,4}	1.5	2.9	3.9	4.8	5.9	7.3	9.1	11.9	16.9	35.9	0.47
Bolivia ²	1.4	2.6	3.4	4.3	5.3	6.4	8.0	10.6	15.6	42.4	0.52
Brazil	0.8	1.6	2.3	3.2	4.4	5.8	7.7	10.6	16.5	47.2	0.60
Chile	1.2	2.1	2.9	3.7	4.6	5.8	7.4	9.9	15.1	47.1	0.58
Costa Rica	1.4	2.9	4.1	5.2	6.4	7.8	9.6	12.2	16.5	33.9	0.45
Ecuador	0.6	1.7	2.8	3.9	5.1	6.5	8.3	10.9	15.6	44.8	0.57
El Salvador	1.1	2.3	3.3	4.4	5.6	7.1	8.9	11.6	16.4	39.2	0.51
Honduras ³	1.2	2.3	3.2	4.1	5.3	6.7	8.6	11.4	16.3	40.9	0.53
Mexico	0.8	1.9	2.8	3.8	4.9	6.3	7.9	10.6	15.6	45.2	0.57
Panama	0.9	2.0	3.0	3.9	5.1	6.5	8.3	11.3	16.6	42.2	0.55
Paraguay	0.6	1.4	2.3	3.4	4.7	6.2	8.2	11.0	16.1	46.0	0.59
Peru	1.2	2.8	3.9	5.1	6.5	8.0	9.8	12.2	16.2	34.3	0.46
Uruguay ²	1.3	2.7	3.8	5.0	6.2	7.8	9.6	12.3	16.9	34.4	0.47
Venezuela	1.5	2.9	3.9	5.0	6.2	7.5	9.4	11.9	16.2	35.5	0.47
C. Per capita household nonlabor income											
Argentina ^{1,4}	na	na	na	na	na	na	na	na	na	na	na
Bolivia ²	0.3	0.9	1.4	2.1	3.1	4.7	6.8	9.6	15.8	48.4	0.68
Brazil	0.5	1.4	1.9	2.6	3.4	4.7	6.3	9.3	14.9	55.0	0.66
Chile	0.2	0.4	0.7	1.5	2.7	4.1	6.3	9.6	17.3	57.1	0.72
Costa Rica	0.5	1.2	2.0	2.8	3.9	5.4	7.2	10.2	16.5	49.6	0.63
Ecuador	0.6	1.5	2.8	4.0	5.5	6.7	9.2	12.7	17.4	39.7	0.54
El Salvador	0.6	1.4	2.2	3.0	4.0	5.5	7.4	10.3	15.4	49.8	0.51
Honduras ³	na	na	na	na	na	na	na	na	na	na	na
Mexico	0.5	1.2	1.8	2.8	3.8	5.0	6.8	9.8	16.4	51.7	0.64
Panama	0.5	1.1	1.5	2.1	2.9	4.0	5.7	8.7	15.4	57.9	0.69
Paraguay	0.3	0.8	1.3	2.1	3.0	4.3	6.2	9.4	14.8	56.9	0.70
Peru	0.3	0.8	1.3	2.0	2.9	4.2	6.5	9.9	16.8	55.3	0.69
Uruguay ²	0.5	1.5	2.4	3.5	4.8	6.5	9.0	12.3	17.9	41.4	0.57
Venezuela	0.3	0.6	1.1	2.1	3.4	5.0	7.1	10.2	16.7	53.6	0.68
¹ The surveys for Argentina include only Greater Buenos Aires.						⁴ Refers to main labor income only.					
² The surveys for Bolivia and Uruguay include only urban areas.						⁵ No distinction is made between labor and non labor income.					
³ The surveys for Honduras include only labor incomes.											

Appendix Table 1.2.II. Demographics

A. Average size of household by income level											
	Deciles										Total
	1	2	3	4	5	6	7	8	9	10	
Argentina ¹	6.27	5.25	5.44	4.42	4.80	3.96	3.79	3.61	3.37	3.06	4.40
Bolivia ²	6.50	6.08	5.96	5.92	5.76	5.81	5.35	4.97	4.78	4.36	5.55
Brazil	6.49	5.93	5.49	5.10	4.66	4.79	4.37	4.25	4.01	3.59	4.87
Chile	5.63	5.25	5.24	4.92	4.88	4.76	4.46	4.27	4.08	3.87	4.74
Costa Rica	6.09	5.71	5.67	5.43	5.10	5.12	4.75	4.49	4.17	3.90	5.04
Ecuador	6.73	6.43	6.41	6.06	6.27	5.87	5.72	5.25	4.96	4.39	5.81
El Salvador	6.94	6.69	6.75	6.33	6.01	5.92	5.48	4.98	4.89	4.17	5.82
Honduras	7.22	7.53	7.09	6.87	6.77	6.39	6.48	5.93	5.65	4.86	6.49
Mexico	7.26	6.61	6.81	6.20	6.28	5.53	5.19	5.12	4.70	3.99	5.77
Nicaragua	8.37	7.59	7.69	7.49	7.33	7.06	6.53	6.80	5.98	5.17	7.00
Panama	6.32	6.17	6.06	5.56	5.26	5.29	4.92	4.62	4.22	3.57	5.20
Paraguay	7.26	7.32	6.53	6.14	6.42	5.81	5.73	5.27	4.87	4.37	5.97
Peru	7.71	7.38	6.61	6.39	6.36	6.03	5.82	5.76	5.34	4.68	6.21
Uruguay ²	5.85	5.00	4.72	4.19	4.04	3.88	3.73	3.63	3.34	3.14	4.15
Venezuela	7.16	6.79	6.86	6.40	5.99	6.23	5.56	5.42	4.97	4.29	5.97
B. Number of children under 15 in household by income level											
Argentina ¹	3.00	2.04	1.86	1.45	1.41	0.82	0.74	0.65	0.57	0.41	1.30
Bolivia ²	3.40	2.99	2.77	2.46	2.40	2.26	1.93	1.73	1.47	1.31	2.27
Brazil	3.58	2.81	2.26	1.88	1.53	1.53	1.25	1.11	0.98	0.80	1.78
Chile	2.51	2.08	1.90	1.56	1.37	1.25	1.10	1.01	0.92	0.90	1.46
Costa Rica	3.30	2.76	2.65	2.30	1.98	1.76	1.55	1.27	1.14	1.03	1.97
Ecuador	3.42	3.06	3.08	2.69	2.58	2.25	2.07	1.76	1.49	1.37	2.38
El Salvador	3.70	3.50	3.22	2.90	2.49	2.34	1.92	1.53	1.43	1.06	2.41
Honduras	4.16	4.07	3.77	3.47	3.31	2.86	2.78	2.30	2.03	1.66	3.05
Mexico	3.99	3.20	3.32	2.60	2.39	2.04	1.72	1.54	1.30	1.06	2.32
Nicaragua	4.91	4.14	4.01	3.59	3.46	3.31	2.86	2.78	2.32	1.82	3.32
Panama	3.24	2.88	2.69	2.26	1.89	1.70	1.43	1.21	0.98	0.82	1.91
Paraguay	4.30	4.10	3.52	3.10	3.20	2.66	2.43	1.90	1.61	1.31	2.81
Peru	3.73	3.60	2.99	2.63	2.39	2.16	1.93	1.70	1.42	1.06	2.36
Uruguay ²	2.78	1.89	1.59	1.14	0.92	0.84	0.76	0.70	0.56	0.49	1.17
C. Number of adults 65 or older in household by income level											
Argentina ¹	0.41	0.40	0.49	0.48	0.42	0.44	0.41	0.38	0.35	0.33	0.41
Bolivia ²	0.10	0.13	0.13	0.14	0.14	0.15	0.17	0.16	0.18	0.15	0.15
Brazil	0.06	0.12	0.21	0.22	0.26	0.23	0.22	0.21	0.20	0.21	0.19
Chile	0.15	0.16	0.26	0.28	0.28	0.32	0.34	0.27	0.27	0.26	0.26
Costa Rica	0.27	0.20	0.24	0.21	0.19	0.20	0.15	0.19	0.17	0.17	0.20
Ecuador	0.28	0.24	0.16	0.19	0.21	0.19	0.21	0.14	0.20	0.17	0.20
El Salvador	0.32	0.25	0.24	0.31	0.28	0.25	0.27	0.22	0.24	0.24	0.26
Honduras	0.22	0.23	0.22	0.23	0.17	0.17	0.20	0.18	0.22	0.14	0.20
Mexico	0.21	0.28	0.19	0.21	0.17	0.17	0.24	0.15	0.20	0.17	0.20
Nicaragua	0.16	0.20	0.23	0.22	0.23	0.17	0.24	0.20	0.17	0.13	0.19
Panama	0.24	0.26	0.21	0.19	0.25	0.26	0.21	0.25	0.28	0.21	0.23
Paraguay	0.17	0.14	0.20	0.22	0.23	0.19	0.21	0.27	0.20	0.23	0.21
Peru	0.79	0.77	0.58	0.58	0.66	0.53	0.52	0.49	0.45	0.51	0.59
Uruguay ²	0.18	0.30	0.36	0.48	0.52	0.51	0.46	0.46	0.44	0.44	0.41
Venezuela	0.22	0.18	0.21	0.20	0.23	0.22	0.22	0.25	0.22	0.20	0.21

¹ The surveys for Argentina include only Greater Buenos Aires.

² The surveys for Bolivia and Uruguay include only urban areas.

Appendix Table 1.2.III. Education

A. Average years of education for 25 year olds by income level											
	Deciles										Total
	1	2	3	4	5	6	7	8	9	10	
Argentina ¹	7.04	7.48	7.74	7.71	8.52	8.82	8.99	9.91	11.13	13.57	9.44
Bolivia ²	5.96	6.45	7.23	7.67	7.58	8.32	9.15	9.29	10.38	13.12	8.80
Brazil	1.98	2.49	2.97	3.41	3.66	4.40	4.99	5.98	7.43	10.53	5.22
Chile	6.24	6.88	7.09	7.40	7.69	8.16	8.47	9.80	10.88	12.83	8.79
Costa Rica	4.08	4.88	5.39	5.54	5.91	6.31	6.75	7.65	8.62	11.53	6.94
Ecuador	3.39	4.39	5.07	5.61	5.64	6.85	7.74	8.23	9.19	11.83	7.12
El Salvador	1.63	2.14	2.40	2.75	3.27	3.99	4.73	5.90	7.11	10.27	4.88
Honduras	2.07	2.33	2.47	3.06	3.59	3.90	4.70	5.76	6.86	9.58	4.74
Mexico	2.14	2.95	3.78	4.15	4.78	5.66	6.06	7.24	8.89	12.13	6.23
Nicaragua	2.17	2.05	2.65	3.33	4.11	4.55	4.94	5.46	6.46	8.49	4.74
Panama	4.31	5.36	6.30	7.07	7.53	8.16	8.78	9.90	10.88	13.57	8.68
Paraguay	3.37	3.67	3.88	4.59	4.81	5.46	5.96	6.62	7.88	10.72	6.06
Peru	3.87	4.17	4.95	5.69	6.60	7.05	7.66	8.28	9.04	10.80	7.20
Uruguay ²	6.03	6.31	6.54	6.49	6.79	7.34	8.00	8.68	9.74	11.87	8.02
Venezuela	4.66	4.94	5.27	5.72	6.23	6.68	7.20	7.78	8.58	10.81	7.15
B. Primary Completion Rates for 20-25 year olds by income level											
<i>(In percent)</i>											
Argentina ¹	83	94	92	99	96	98	100	99	99	100	97
Bolivia ²	84	89	90	87	94	94	93	94	95	94	92
Brazil	19	24	33	43	48	57	67	76	85	95	57
Chile	67	75	77	84	85	89	91	94	95	96	86
Costa Rica	64	69	78	77	81	84	92	95	95	99	86
Ecuador	76	85	81	85	83	89	92	93	94	98	88
El Salvador	17	17	22	25	34	37	52	63	75	85	47
Honduras	39	48	41	46	53	58	71	76	87	87	64
Mexico	52	66	65	70	84	87	91	93	95	92	83
Nicaragua	31	31	44	53	57	62	53	75	82	90	60
Panama	75	82	89	89	93	95	96	97	98	99	92
Paraguay	49	62	51	60	64	72	75	85	90	93	74
Peru	53	52	56	71	75	78	85	90	91	95	78
Uruguay ²	88	94	92	95	97	98	99	98	99	99	96
Venezuela	76	79	79	79	89	91	91	94	96	97	88
C. Secondary completion rates for 20-25 year olds by income level											
<i>(In percent)</i>											
Argentina ¹	13	17	27	31	42	51	54	65	68	92	50
Bolivia ²	51	48	55	52	59	60	60	64	65	83	61
Brazil	2	3	6	9	12	16	22	32	46	73	23
Chile	23	31	35	44	50	56	65	74	80	83	56
Costa Rica	10	10	11	14	13	18	29	42	44	70	30
Ecuador	14	15	18	29	26	33	40	46	49	73	36
El Salvador	8	6	10	9	14	15	27	35	47	69	27
Honduras	2	3	4	4	9	11	15	23	35	50	18
Mexico	4	9	12	16	18	26	32	39	53	70	32
Nicaragua	3	2	8	8	16	14	15	22	25	43	17
Panama	11	16	30	33	41	47	57	66	72	84	49
Paraguay	0	2	3	5	4	11	20	34	41	62	23
Peru	33	32	36	48	51	60	65	75	82	87	61
Uruguay ²	16	21	24	35	35	43	46	51	63	72	42
Venezuela	15	17	26	24	31	32	44	48	53	74	40

¹ The surveys for Argentina include only Greater Buenos Aires.

² The surveys for Bolivia and Uruguay include only urban areas.

Appendix Table 1.2.IV. Labor

A. Female labor force participation rates (ages 25-45) by income level (In percent)											
	Deciles										Total
	1	2	3	4	5	6	7	8	9	10	
Argentina ¹	41	47	45	48	46	62	64	69	74	88	60
Bolivia ²	56	53	55	62	65	65	69	65	75	78	65
Brazil	48	50	53	54	58	61	63	67	70	78	61
Chile	20	25	28	37	43	49	53	63	70	76	47
Costa Rica	28	23	32	33	29	44	54	58	64	71	45
Ecuador	62	54	48	53	56	63	65	68	76	81	64
El Salvador	22	35	37	50	53	60	65	69	74	82	57
Honduras	27	39	31	39	42	48	54	58	69	77	50
Mexico	36	28	27	38	34	42	40	53	57	64	44
Nicaragua	27	36	46	52	57	51	55	66	65	72	55
Panama	28	30	32	32	39	47	59	68	77	84	52
Paraguay	69	75	70	63	66	67	68	75	79	83	72
Peru	65	68	65	64	63	68	68	69	73	74	68
Uruguay ²	49	57	65	64	70	77	79	82	87	90	72
Venezuela	32	31	34	36	48	48	59	65	73	77	52
B. Percentage of men (ages 25-45), in informal sector by income level											
Argentina ¹	68	50	42	40	47	45	39	43	41	34	44
Bolivia ²	70	57	53	54	50	46	51	49	39	35	49
Brazil	39	33	29	26	22	21	20	20	19	20	22
Chile	37	32	29	30	29	28	28	29	28	30	30
Costa Rica	75	59	50	43	44	43	33	34	34	24	41
Ecuador	88	72	66	65	50	58	44	50	51	41	55
El Salvador	87	66	61	47	49	44	46	36	33	30	46
Honduras	90	89	81	74	60	57	55	51	41	34	59
Mexico	97	83	73	73	63	56	62	52	47	42	62
Nicaragua	93	82	84	82	76	81	76	70	71	64	76
Panama	84	67	51	42	42	32	30	28	27	19	38
Paraguay	82	83	83	71	68	56	59	45	47	46	57
Peru	71	67	68	68	62	62	50	52	47	35	56
Uruguay ²	49	40	37	33	31	32	32	30	31	28	34
Venezuela	69	69	58	56	54	46	46	45	40	39	49
C. Percentage of women (ages 25-45), in informal sector by income level											
Argentina ¹	77	72	68	63	48	42	54	37	27	31	47
Bolivia ²	84	84	81	74	77	78	63	65	55	36	66
Brazil	43	30	25	27	26	21	20	21	20	20	22
Chile	47	47	52	42	47	41	36	30	32	39	39
Costa Rica	86	67	54	59	59	48	45	34	36	22	44
Ecuador	89	87	88	85	77	68	66	66	59	45	69
El Salvador	92	76	72	71	68	68	63	56	43	29	55
Honduras	93	89	88	81	72	67	64	50	50	30	60
Mexico	99	96	91	88	83	65	66	54	37	36	62
Nicaragua	99	90	87	93	90	92	89	82	86	78	87
Panama	87	80	67	58	45	34	29	20	18	10	32
Paraguay	97	97	92	90	91	73	75	64	59	56	70
Peru	70	74	78	79	75	73	69	65	62	46	68
Uruguay ²	76	68	59	54	45	39	30	29	29	30	42
Venezuela	84	73	59	54	49	42	40	35	29	27	42
¹ The surveys for Argentina include only Greater Buenos Aires.											
² The surveys for Bolivia and Uruguay include only urban areas.											

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