López-Calva, Luis F. / Lustig, Nora (ed.): Declining inequality in Latin America. A Decade of Progress?

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♦ In debating income inequality in Latin America, most of the scholars are searching for explanations for the roots and causes of the persistence of this phenomenon. Nora Lustig and Luis F. López-Calva, two economists from Tulane University and UNDP, try it the other way around. In their edited volume *Declining Inequalities in Latin America: A Decade of Progress?* they focus on the rather unusual period in the Latin American history of declining income inequality between the years 2000 to 2007. Via country studies of Argentina, Brazil, Mexico and Peru they and their collaborators try to identify "proximate factors" which can explain the decline in the region, where out of 17 countries, 12 (Ecuador, Paraguay, Brazil, Bolivia, Chile, Dominican Republic, Mexico, Peru, El Salvador, Argentina, Panama, Venezuela) experienced declines in income inequality after the year 2000. Moreover, as the main product of a project launched in 2007 by the UNDP's Bureau of Development Policy and the Regional Bureau of Latin America and the Caribbean (RBLAC), the authors also try to develop policy recommendations that governments can apply to deepen the path of income inequality reduction.

The book is organized in eight chapters. Whereas the first chapter serves as introduction and synthesis, the following two chapters debate conceptual approaches to income inequality followed by a discussion on the evolution of top incomes in advanced and developing countries. Chapter five to eight consist of four country studies (Mexico, Argentina, Brazil, Peru) using country-based household surveys and varying parametric and nonparametric methods to decompose changes in household income inequality.

In the first chapter, the editors present the evolution of (income) inequality and its determinants, anticipating the main findings of the country studies. They state that the decline in inequality "was quite widespread" (p.1) in Latin America, independent of specific national economic contexts, political parties in power, social policy preferences, societal cleavages or national economic history. In average the Gini coefficient (the main measure for inequality used in the volume) declined 1.1 per cent a year in the 12 countries. While inequality may be a result of different factors such as elite's state capture, capital market imperfections, inequality in opportunities, labor market segmentation or discrimination against women and non-whites, the authors tell us that two principal factors most notably caused the decline in the countries under study. First, a decrease in the earnings gap between skilled and low-skilled workers which resulted from the expansion of basic education, and the phasing-out effect of the trade-induced skill-biased technological change, although differences remain among the countries. In Argentina, Leonardo Gasparini and Guillermo Cruces (chapter five) show that an increase in nominal wages went hand in hand with higher demand in the labor market. Furthermore, the change in relative prices due to devaluation benefited industries that relied on unskilled labor. Moreover, the rate of technological adoption and capital investment was slower than during the 1990s. On the other hand, Barros et. al calculate for Brazil (chapter six) that the decline in wage differentials by education levels was caused by the accelerated expansion of the educational level of the labor force. While the expansion of education is a consequence of public policy, the reductions in earnings differentials and greater spatial and sectorial integration of labor markets were a consequence of market forces. Esquivel et. al. describe a similar pattern for the fall of income inequality after the mid 1990s in chapter seven for the Mexican case. Higher relative wages of low-skilled workers and a reduction in the skill premium appears to explain the loss in the relative position of the upper deciles (particularly in urban areas). Again the change of the composition of the labor force is crucial, although the effects of out-migration are not studied.

The second crucial factor to explain inequality reduction mentioned in the book is social spending. Non-labor income increased due to the increase in government transfers, first and foremost with the implementation of large-scale conditional cash transfer systems in Argentina (Jefes y Jefas de Hogar), Brazil (Bolsa Escola/Bolsa Familia and BPC), Mexico (Progresa/Oportunidades) and in-kind transfers in Peru. Nevertheless, some specific national characteristics exist. For example, the increased minimum wage may also play a role in Argentina (chapter five) and the rise in the share of remittances in rural areas in Mexico should not be underestimated (chapter seven). Moreover, in Peru as Miguel Jaramillo and Jaime Saavedra (chapter eight) demonstrate the decline in non-labor income inequality contributed more than labor earnings to the fall in household per capita income equality.

Will inequality continue to decline? The editors (chapter one) are skeptical out of two reasons. On the one hand upgrading of educational attainment will face a tough barrier. Although all cases have reached nearly full primary school enrolment in the past years, the differences in the quality of schools are severe. Because of this, the poor and middle ranges of the income distribution receive an education of significantly lower quality than the top ten per cent, consequently reproducing economic differences between social groups and "betraying the role of public education of an opportunity equalizer" (p.237). To improve the quality of education will not be an easy task, especially if one considers the decentralized nature of education in countries like Peru, where already today *every* public service is biased towards urban areas (chapter eight).

On the other hand, despite the introduction of cash transfer programs, a large share of public spending continue to be regressive in Argentina (chapter five), Brazil (chapter six), Mexico (chapter seven) and Peru (chapter eight). As Barros et. al. show in their case study on Brazil, poverty is still ten times greater among children than among the elderly, but the average non-contributory public transfer for an elderly person is at least twenty times greater than the average non-contributory public transfer for a child (p. 170). If public spending will not be reformulated in a pro-poor and new inter-generational fashion, Brazil will need at least two decades of similar progress like the one experienced between 2001 and 2007 to align with the world average inequality level.

But what are the political explanations behind the “political economy of redistribution”? James A. Robinson tries to shed light to this question in his theoretical contribution (chapter three). For him “it is the political system, […] that determines the nature of property rights and how free the market is“, therefore it is not possible to talk about “the market distribution of income” (p.39). Crucial for the nature of the political effect on the distribution of income is the distribution of power. Especially two Latin American political anomalies concern him the most: clientelism and populism. Thus, he asks what determinates clientelistic policies and what makes populist strategies more likely. In six contested features of the political system, he finds the answer: the quality of democracy; the constitution and electoral rules; state capacity; modernization; factor endowments and natural resources and political competition. In the end, the typical unequal middle-class country for him will be a recent democracy with a presidential system and a proportional representation electoral system; it will experience volatile fiscal policy with a pronounced electoral cycle and does not have a very effective state apparatus.

But have such political institutions played an important role in the ‘western’ country’s historic path of income inequality reduction? This is not so certain. As Facundo Alvaredo and Thomas Piketty show, using income tax statistics (chapter four), the inequality decline was hardly a result of good government policies. The main driver of income inequality reduction was the *decline* in capital income of the top income percentile after the capital shocks caused by the Great Depression and the two world wars. Public policy in form of highly progressive income and estate taxation can, in their argument, only explain why capital concentration did not regain the high levels of the pre-war years. Does that mean that Latin America will first need a world war to finally become more equal? Certainly not, but a redesign of the tax structure and enforcement of existing progressive taxation - a reform upon which most of the authors insist - would definitely be an essential point of departure. This means that in the end, the golden key to inequality reduction may be found in fiscal rather than in social policy.

Although the volume summarizes highly sophisticated quantitative case studies, some doubts remain about the importance of the results, especially if some policy advice is to be drawn from the contributions. Perhaps this doubt explains why a concluding chapter is missing. It seems that the volume is just a first step to understand the political economy of the fluctuating income inequality in Latin America. For instance, although Robinson gives some interesting hints about the role of political institutions in the reproduction of inequalities in Latin America, his contribution does not go beyond a literature review. Departing from the detailed quantitative case analyses present in the volume, one must also dig deeper to understand the political process and the power structures which underlay education policy, social spending decisions and fiscal policy. With only quantitative approaches, it is still unclear why social spending has remained primarily regressive in Latin America, even though left governments came to power in the recent years? Answers to this question bring immediately historical and international factors to mind, which are unfortunately almost absent in this volume.

Entering in such a debate would lead directly to more fundamental issues. Could it be that the economic model of the Latin American countries, mainly based on export-oriented growth and extraction of natural resources, is promoting a distribution of power that upholds or even requires high rates of inequality? From such a perspective further research should also ask which groups benefit from this development path and which have to pay the economic, ecological and social costs, in order to provide a more adequate explanation for why income inequality reduction is unlikely to prevail. Following such reasoning, one may also doubt whether small scale political action, such as targeted social spending really helps the Latin American vulnerable populations, (*prekariat)* or just serves as a placebo to control social unrest and to increase political popularity.

Moreover, although this is a volume by economists, one should not forget that income inequality, measured in GINI variations, can only hold as a very simplistic proxy for inequality in general. Ethnic, gender or ecological inequalities hardly find their way into income statistics, although they are stunningly persistent in Latin America as well. And what about the political inequalities? It is hardly enough to assume as the authors do that more or less free and fair elections fully guarantee political participation in the Latin American countries. To fully understand why Latin America is persistently unequal one should address these questions as well. Taking these inequalities into account one should add at least another question mark after the subtitle of the volume – was it really a decade of progress? ♦