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Measuring Inequality and Assessing Its Relevance in Latin America

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In the United States and other developed countries, economic inequality is finally receiving the attention it deserves. But inequality can be measured in many different ways, and when measured incorrectly, it can hinder efforts to make good policy choices. As author Thomas Piketty clarified (Piketty 2015) after the publication of his highly influential book, *Capital in the 21st Century*, determinants beyond capital accumulation affect trends in inequality, such as political shocks, institutional changes, and economic development. Thus, it is important to take history into account when assessing the evolution of inequality within a country. Clearly, not all regions have experienced the same trends in income inequality over time.

LATIN AMERICA'S APPARENT DECLINE IN INEQUALITY

Studies by the Economic Commission for Latin America and the Caribbean (ECLAC) and the Brookings Institution (ECLAC 2010, 2012, and 2014; López-Calva and Lustig 2010) show that in Latin America—historically one of the most unequal regions in the world in terms of income—gaps in inequality have become smaller since 2000. One factor that is believed to have influenced this outcome is the global commodity boom, which opened opportunities for Latin American countries to export their products to new markets. In particular, the rising global demand for certain agricultural products that many Latin American nations have a competitive

advantage in producing fostered economic growth and, at the same time, reduced poverty levels.

Major political shifts have also contributed to Latin America's apparent decline in inequality. The rise of the so-called "New Left" in some of the region's countries opened the door for governments to make social development a priority. However, left-wing governments are not a necessary condition for poverty and inequality reduction. In Venezuela, for example, the socialist experiment has not yielded robust results in poverty reduction, and there has even been deterioration in the country's biological standard of living. On the other hand, Mexico—which is not a party to the rise of the New Left—has maintained its emphasis on social development and poverty alleviation for over two decades. The results of these efforts may not be enough to reduce inequality, but they have been sustained despite political alternation between the parties in power.

It is laudable that in the midst of a global tendency to adopt neoliberal free market policies that challenge the existence of a welfare state, Latin American nations have maintained their commitment to prioritize social policy. Whether or not a state should be committed to improving the living standards of its citizens is not a subject of debate in the region, as it is in some Western nations. The debates instead center on the results of the policies and how they can be improved. As the New Left is no longer new and seems to have lost momentum in



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the past couple of years, and with the end of the commodity boom, the hope remains that policymakers in the region will not lose interest in their social agendas.

MEASURING INEQUALITY

Inequality is a multidimensional indicator, and in measuring it we should not only consider the factors being examined, but also how, when, and where they are measured in order for the metrics to be relevant. A nation can have low economic growth or low levels of income per capita and yet its population may have access to optimal education, as well as sufficient nutrition and health services and therefore enjoy good standards of living. For example, a country with a low per-capita income such as Cuba can rank high in human development indicators. After decades under a U.S. trade embargo, Cubans may have fewer material possessions but they are healthier and better educated (UN Human Development Report 2016) than many citizens of other nations in the Western Hemisphere. The Cuban case successfully illustrates how the biological well-being, i.e., good health and adequate nutrition, of a population can improve even under challenging economic circumstances. This case also provides food for thought on the potential results of structural change on biological well-being in Cuba, as the country opens its economy to U.S. investments. That said, the case of Cuba cannot be included in the same category of analysis as other Latin American economies, given its unusual economic circumstances linked to the U.S. embargo and U.S. foreign policy (Pérez Jr. 2015).

Reports by various international organizations offer additional potential explanations for Latin America's decline in inequality since the early 2000s. These reasons include more effective poverty alleviation policies, the rise in the number of people with a post-secondary education entering the labor force, and profits from the commodity boom that have been allocated to social development programs that improve living standards. Still, it is too soon to know if the results of these studies were actually driven by an incorrect measurement of the

income of the upper strata of the population, which would indicate that this income inequality decline was not real or that it may not be a long-lasting phenomenon; after all inequality can be assessed if examined in a long-term perspective. This would mean that Latin American elites accumulated more wealth than the statistics and surveys originally showed, and therefore inequality was not actually reduced (Sánchez-Ancochea 2016). It could also mean that the commodity boom drove certain indicators to show that inequality was reduced (Andersson and Palacio 2016).

Policies can lead to questionable outcomes when the measure of success fails to take into account the whole picture. For instance, Mexico developed an effective poverty alleviation program, *Prospera* (previously known as *Pronasol*, *Progresá*, and *Oportunidades*), that has improved the living standards of those it has served. It consists of offering mothers conditional cash transfers in exchange for sending their children to school and making regular visits to health clinics. Despite the program's success and international recognition, it cannot guarantee that these children will have jobs once they reach a working age. It is not effective enough to reverse the poverty and inequality that continue to be at the root of social problems such as violence and organized crime.

Prospera and its earlier versions have been constantly evolving to better serve their beneficiaries, but they are insufficient. Looking at the evolution of poverty and inequality throughout Mexico's economic history, this does not come as a surprise. We can infer explanations for the disappointing efforts to reduce inequality by considering all the factors that have prevented Mexico's economy from growing at a faster pace. These factors include the country's demographic dynamics, such as rapid urbanization, high fertility rates, and low levels of education among lower-income groups; domestic economic challenges like the pending implementation of structural reforms in the energy, education, and the fiscal sectors; and external factors such as the decline in world oil prices and the changing fortunes of the U.S. economy,

to which the Mexican economy is closely attached. Mexico's disappointing results in poverty reduction should shed light on the magnitude of the social problem and encourage a social policy agenda that adequately addresses this issue. Mexico is changing rapidly, and the nature of income inequality in the country is changing, too.

FORMS OF INEQUALITY

There is a need to specify the different forms of inequality as well as what they mean for a given society. Trends in inequality could be taken as cautionary tales. In the United States, the extent to which the government should be responsible for providing health care or welfare services to the population at large has been an ongoing debate for decades. Economic historian John Komlos has shown that over the course of the 20th century, the American population went through a metamorphosis from being the tallest in the world to being among the most overweight. In spite of their high income per capita, Americans today are far from achieving their highest biological standard of living. Over time, the U.S. population has become more affluent, but their quality of life in terms of health, longevity, and height has stagnated. This transformation can be attributed to the result of rising social inequality, an inferior health care system, and fewer networks of social assistance to prevent people from falling into poverty when they lose their jobs or get sick while they lack health insurance compared to Western European countries.

It is important to keep measuring the evolution of inequality in Latin America and perfecting methods for conducting surveys and gathering statistics, which are relevant in assessing short-term variations and long-term changes. It is necessary to have a plan that addresses more immediate concerns without losing sight of the fact that the causes of inequality are better understood from a long-term perspective. It is no accident that development economists consider Angus Maddison's statistics as a valuable reference source. It would be a mistake to lose sight of the evolution of living standards in the long term, since the study of the *longue durée* sheds light on

determinants of well-being that have long-lasting consequences, such as adequate nutrition and health services for children. To fully understand trends and causes of income inequality, we should be familiar with the evolution of living standards in Latin America in order to have a better handle on the similarities and differences across each national experience, given the great diversity in the region.

CONCLUSION

As Latin American economies begin to revise their welfare and social development policies, they should pay attention to the U.S. experience with inequality to avoid replicating America's mistakes. Latin American countries may need structural reforms to foster economic growth, since the commodity boom of the past two decades has ended. However, it is key to keep in mind the potential social costs of these reforms, which often increase over time and create challenges to the well-being of a nation's population. To this day, it is not clear that free-market policies like those in the U.S. are conducive to creating more equal societies, or that they enhance the standard of living of their populations. Moreover, even if the decline in inequality in the Latin American region were to be confirmed, as Giovanni Andrea Cornia asserts, it cannot be further reduced if the nations in the region do not address some structural biases such as the absence of an industrial policy, low savings, and dependence on foreign capital remain unaddressed.

While it is important to have standard measurements of current trends in inequality to assess short-term variations and to draw international comparisons of global trends, it is also important not to lose sight of inequality as a process that should also be examined from a long-term perspective, and the fact that this process is the result of social, political, and cultural, as well as economic, changes. Economists and policymakers could enrich their studies by incorporating historical research findings into their analysis. Fortunately, policymakers in Latin America thus far have not discounted the importance of the lessons that can be learned from history and applied to understand the present.

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