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The evolution of inequality in Latin America in the twenty-first century: Patterns, drivers and hypotheses

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Abstract:

The paper analyses the evolution of inequality for the largest economies of the Latin American region in the 21st century, separately considering income and wealth. The drivers of change in inequality and possible underlying hypotheses are examined, including the role of the new wave of leftist governments.

The evidence revealed that income inequality decreased, although wealth inequality displayed a much less homogeneous pattern. Statistically, the decrease in inequality is associated with labour market changes, and with state redistribution through social expenditure. Wealth inequality is mainly correlated with a change in the share of financial wealth. A possible causal interpretation is that the (new) left threat may have inflated social pressures, mostly in the presence of rents generated by the commodity boom.

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Unequal societies display less social cohesion (Wilkinson and Pickett, 2009) and are more prone to the elites capturing the political system (Stiglitz, 2012). The study of inequality has recently regained a key role in economics, a phenomenon reinforced by new systematic data-collection efforts (Milanovic, 2005; 1998; Piketty, 2014; Galbraith, 2009, Atkinson and Morelli, 2015, among others). Within this context, Latin America presents a very interesting case: on one hand, it represents the world's most unequal region; on the other, during the twenty-first century a significant and relatively uniform reduction in income inequality has occurred. This

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stylised fact has not gone unnoticed in the literature (Alvaredo and Gasparini, 2015; Gasparini and Lustig, 2011; Cornia, 2010; Gasparini et al., 2009; Gasparini, 2005).

The 2000s, the decade in which these changes occurred, saw left-wing governments occupy the centre of the political stage; this placed inequality as a key element in the political agenda. As a result, it has become crucial to ask whether the policies set by these governments played a causal role in the observed inequality reduction. This is the primary aim of the present work.

Another reason for this research is that economic policy in the region has always followed certain phases of relatively homogeneous recipes (compared to other countries), as in the case of state industrialisation or market-oriented reforms after the 'lost decade' of the 1980s. Historically, these paradigms tend to characterise the whole region, with some heterogeneity. However, experience shows that in many cases such paradigms were imposed by objective elements (e.g. a wide range of macroeconomic shocks). They started more as a set of pragmatic responses than as a real plan designed by the elite (Bértola and Ocampo, 2012), and this initial phase of implementation has usually been followed by learning, theorisation and consolidation, as was the case for the inward development theory (Sunkel, 1991) or the Washington consensus (Williamson, 1990). Thus, we attempt to characterise the policies of the first fifteen years of the twenty-first century to determine if they respond to a theoretical or political paradigm and/or if they are driven by a logic of material interests in the economic structure.

In this article, we first describe the trend in both income and wealth inequality. Secondly, we examine the first and the second decades of the twenty-first century separately, because the latter is associated with both political and economic changes. Thirdly, we engage in an in-depth analysis of the impact of left-wing governments in the region. Fourthly, following Bogliacino and Maestri (2014), we discuss proximate determinants and causal hypotheses of the observed patterns.

1. The new Latin American left

The beginning of the twenty-first century was marked by a series of left-wing electoral triumphs – on the municipal and national levels – in several Latin American countries. This period has been deemed the "left turn" in Latin America (Panizza, 2005; Castañeda, 2006; Schamis, 2006; Arditi, 2012). During these years, Argentina, Chile, Bolivia, Ecuador, Peru, Uruguay, and Venezuela have witnessed the establishment of left-wing governments.

This turn can be considered a response to new political and economic contexts. With regard to the political or geopolitical dimension, it is necessary to look at the dissolution of the Soviet Union, which marked the end of the political stigmatisation of left-wing parties, insofar as positioning in the political spectrum had no longer implied a positioning for or against the United States (Castañeda, 2006). In other words, the fall of the Soviet Union broadened the margins of manoeuvre for the region's regimes. With regard to the economic dimension, this turn can be partly ascribed to the failure of the policies of the Washington consensus (Panizza, 2005; Arditi, 2012). In fact, the leftist discourse of this period was characterised by opposition to neoliberalism, whose political and economic principles define the measures promoted by the Washington consensus (Panizza, 2005).

Besides the new geopolitical scenario, the freshness of the twenty-first century Latin American left is characterised by a new economic paradigm and social contract since, despite the criticism to the neoliberal model, most of the left governments pursued macroeconomic stability, targeting inflation and debt (Cornia, 2011). Regarding the social contract, new left governments incorporated new political actors, whose historically marginalised demands now fit into government agendas.

The new Latin American left shares certain characteristics inherited from its liberal-republican, populist and democratic ideological roots, which gravitate towards the principles of social justice and equality (Panizza, 2005). However, the various trajectories followed by left-wing countries have been classified according to different historical and political taxonomies, whereas more homogeneity is considered to occur within the economic agenda.

From a historical point of view, Castañeda (2006) claims the existence of two lefts in the region. The first is derived from the Bolshevik Revolution and the Communist International, but this left is currently modern, reformist and internationalist. The second is populist, traditionalist and inward-oriented, and reinvigorates elements of Latin American populism. Castañeda places Chile, Uruguay, and Brazil in the first group, and Venezuela, Argentina, and Bolivia in the second.

From a political science point of view, Schamis (2006) builds on the classification proposed by Castañeda (2006) and adds further qualifications in terms of each country's party system. The author argues that party systems can be classified into two groups: *i*) institutionalised or functioning; and *ii*) disarticulated or collapsed. Countries such as Chile, Brazil, and Uruguay would be classified in the former group, whereas Argentina and Peru would be classified in the latter. In the disarticulated or collapsed group, the political process is determined by the business cycle, meaning that under periods of economic upswing the Prime minister (or the executive branch in general) manages to accumulate power and establish a particular institutional routine. As for the second group, Schamis proposes the category of the "petro-left" to refer to countries such as Venezuela and Bolivia, i.e. oil- or gas-exporting countries which maintain consensus through budgetary control and in which authority is characterised as arbitrary, unstable and directly linked to the availability of economic resources.

From an economic point of view, taxonomies are difficult to establish; countries of the new left follow similar policies. In short, these countries accept capitalism as the only viable mode of production (Puyana, 2009), but propose that the state performs an expanding role in terms of market regulation and resources redistribution (Arditi, 2012).

Beyond this common economic framework, although the failure of the Washington consensus caused these countries to expand the role of the state (Arditi, 2012), the need for larger political coalitions to attain and maintain power, the binding external constraint, and financial markets' disciplinary role (which can punish radical discourse through capital flights) may have moderated (relatively) the economic reforms implemented (Panizza, 2005) – with the exception of Venezuela, Bolivia, and Argentina. As a result of the balance of power, the economic policies of the new left have been characterised by a complex compromise between tension and convergence between neoliberal and progressive reforms, giving rise to the implementation of prudent fiscal policy and measures oriented towards controlling inflation. The market has been recognised as a suitable mechanism for determining prices, the inefficiency of certain state interventions has been acknowledged, and economic openness and regional integration have remained a fundamental axis of economic policy (Panizza, 2005). In

fact, Cornia (2011) finds that the economic model of these governments belongs to the liberal paradigm, except for Bolivia and Venezuela; he labels the latter countries "radical-populist" largely due to large-scale redistributive efforts.

Beyond the national specificities, countries that turned left implemented redistributive measures, especially in favour of the left tail of the income distribution. In Argentina, income policies were enacted to strengthen the purchasing power of the low- and middle-income families, policies such as an increase in the minimum wage, public employment programs, expansion of formal sector coverage and union strengthening (Cornia, 2010). In Brazil, during the Lula government, efforts were made to strengthen the bargaining power of workers through unions and collective wage negotiations (Morgan, 2017), and policies were implemented to raise the minimum wage, which increased by 40% between 2002 and 2006 (Turra, 2007). In Bolivia, during the Evo Morales administration, wages were augmented 11% in 2006 and 7% the following year. In addition, Morales taxed the private companies' profits in the hydrocarbons sector by an 82% tax rate through the "Héroes del Chacho" decree (Moldiz, 2007). In Ecuador, former president Rafael Correa proposed the Financial Justice Law in 2007 to regulate bank earnings (Ramírez and Minteguiaga, 2007). In Uruguay, the Frente Amplio administration reinstated a collective bargaining body composed of representatives of the business sector, unions, and government in order to negotiate salaries in the main industries (Pribble and Hubber, 2011). It is expected that this body would strengthen unions and boost their growth (Lanzaro, 2011). In addition, a tax reform with more progressive direct taxes was approved in 2006. In Venezuela, one of the most representative countries of the 'pink tide' in the region, various redistributive measures were implemented, ranging from salary increases to the nationalization of companies in the hydrocarbon sector, telecommunications, and others (Reygadas and Filgueira, 2011).

2. Inequality: stylised facts

2.1. Income

The Latin American region is characterised by very large levels of inequality in many socio-economic indicators. In figure 1, we report the Gini coefficient of household net equivalised income for a group of Latin American countries and a selection of developed countries for the year 2000. The countries included[1] were the most important regional economies and most of the OECD countries for which data is available.

The following are some of the clarifications in order here. First, the data source (SWIID version 5.1; see Solt, 2016) includes a methodology for data imputation and harmonisation. As a result, these measurements have a confidence interval. In figure 1, we plot the confidence interval at 95%.

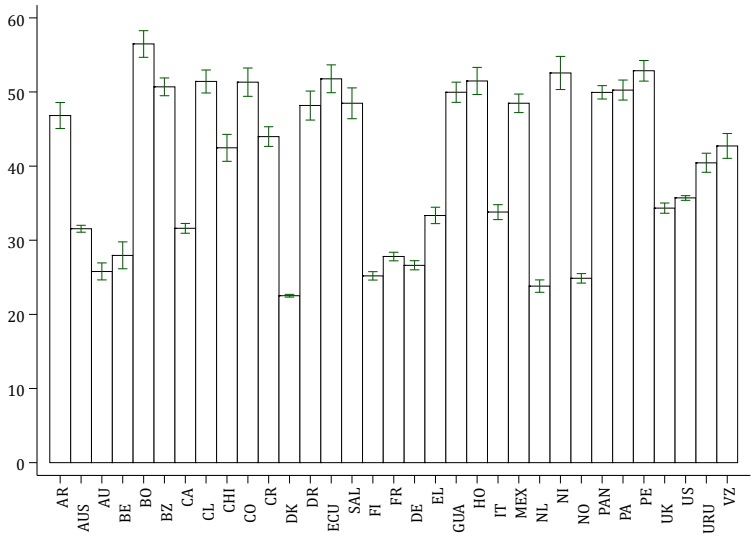
Second, the Gini coefficient (expressed here in percentage points) exhibits certain undesirable properties, e.g. aggregate inequality is not the sum of the inequalities within

[1] The full list of countries (abbreviation in parentheses) is: Argentina (AR), Australia (AUS), Austria (AU), Belgium (BE), Bolivia (BO), Brazil (BZ), Canada (CA), Chile (CL), China (CHI), Colombia (CO), Costa Rica (CR), Denmark (DK), the Dominican Republic (DR), Ecuador (ECU), El Salvador (SAL), Finland (FI), France (FR), Germany (DE), Greece (EL), Guatemala (GUA), Honduras (HO), Mexico (MEX), Netherlands (NL), Nicaragua (NI), Norway (NO), Panama (PAN), Paraguay (PA), Peru (PE), the United Kingdom (UK), the United States (USA), Uruguay (URU), and Venezuela (VZ).

different subgroups, and the Gini assumes implicit distributive weighting, i.e. increasing by a dollar the income of a person one quartile from the bottom has three times the impact of the same increase for a person one quartile from the top (Atkinson, 2015). Yet, this measure is the most commonly used, and therefore it favours comparability the most. In what follows, we will discuss robustness with regards to other indicators commonly used.

Third, the definition of income considered includes all sources of primary income and state redistribution through taxes and subsidies (excluding imputed rents and in-kind benefits, which may be important equalisers in some countries; Marx and Verbist, 2014). In calculating the per capita level, our definition corrects for scale economies inside the household through an equivalence scale, which allows for the comparison of adults and children (in this case, the scale is the square root of household size).

Figure 1 – *Gini coefficient of household net equivalised income, year 2000*



Sources: based on SWIID 5.1 data (Solt, 2016).
Notes: confidence intervals at 95% are shown.

The figure confirms that the region is very unequal. All Latin American countries reach Gini coefficient levels that are significantly larger than those in developed countries, not only with respect to the egalitarian Nordic (such as Finland, Denmark, Netherlands, and Norway) or Central European (Germany, France, Belgium) countries, where income tends to be more evenly distributed, but also with respect to the Mediterranean (Italy and Greece) and Anglo-Saxon (Australia, the United Kingdom, the United States) countries, where there tends to be more inequality. In comparative terms, Latin American countries exhibit a level of inequality around one-and-a-half to two times larger than that of high-income countries. This stylised fact is robust to country selection (Alvaredo and Gasparini, 2015; Gasparini et al., 2009).

However, if we observe the evolution of inequality in the first decade of the twenty-first century, there is a general tendency towards reduction, which is in sharp contrast to the situation for the rest of the world (OECD, 2012; Bogliacino and Maestri, 2014; Alvaredo and Gasparini, 2015). This pattern is robust to the choice of the indicator.[2] In figure 2, we plot CEPAL data for the Gini coefficient of per capita net household disposable income. These coefficients were calculated from household surveys, with correction (imputation) for under-declaration or no response. In the figure, we show the initial level in 2000 as well as the 2000-2010 and 2010-2013 variations. The distinction between these two periods is important. The decade of 2000-2010 is characterised by global growth, whereas the 2010-2013 period encompasses the so-called "Great Recession" (Krugman, 2012) in the wake of the financial crisis of the United States and the Euro Area, and the stabilisation and subsequent decline of commodities prices. In the figure, we also plot the median value of the Gini coefficient of income in 2000 and the median change between 2000 and 2010. The use of the median values[3] as a threshold allows us to inductively group the countries into four clusters according to the level of inequality (at the regional level) and the extent of its variation. We clarify that this grouping is purely descriptive and does not imply any theoretical criterion.

Considering the variation between 2000 and 2010, the only countries in which inequality grew were Costa Rica, the Dominican Republic, and Guatemala. Of the three, only Guatemala started from a level of inequality above the median. However, there is not a conclusion for Guatemala because the data availability meant the figures were computed over the period 1998-2006 only.

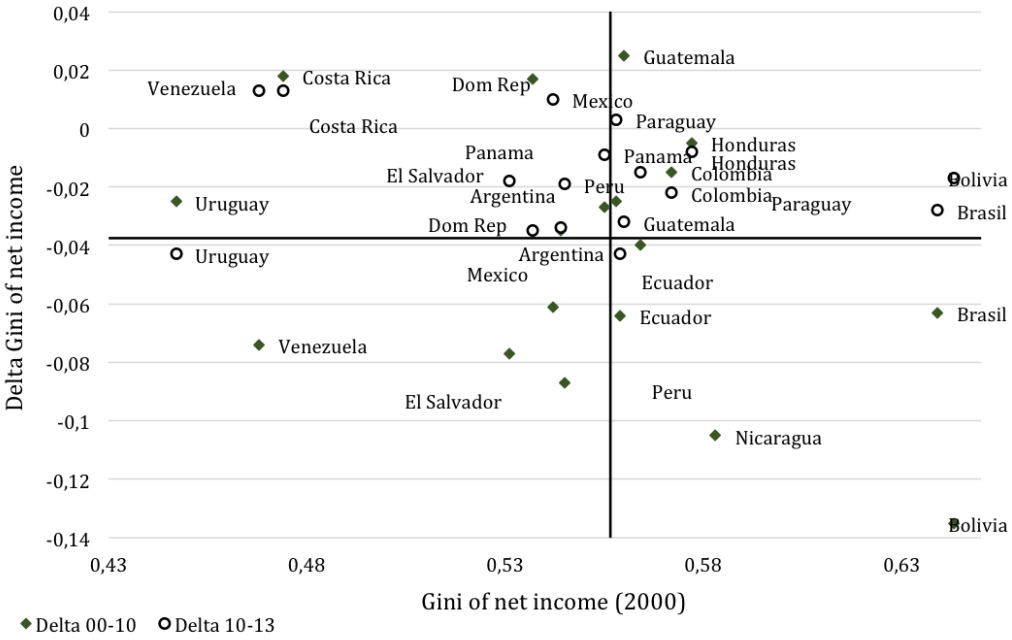
As mentioned, we can classify the countries in four groups according to the median split:

1. countries with relatively high initial inequality and low reduction or increase: Guatemala, Colombia, Paraguay, and Honduras;
2. countries with relatively high initial inequality with large reduction: Brazil, Nicaragua, Bolivia, Ecuador, and Chile;
3. countries with relatively low initial inequality and low reduction or increase: Costa Rica, Panama, Argentina, Uruguay, and the Dominican Republic;
4. countries with relatively low inequality and large reduction: Mexico, Venezuela, El Salvador, and Peru.

[2] We measure correlation through Pearson's *rho*. We use three alternative inequality indicators: Theil, Atkinson, and Palma. For the Atkinson index we use a 0.5 coefficient of inequality aversion. Correlation with the Gini is respectively: 0.89, 0.96, and 0.76, in all three cases significant at less than 0.001. The data come from the following sources: Theil and Atkinson: CepalStat for Brazil (2001-2014), Colombia, Guatemala (2002-2014), the Dominican Republic (2002-2013), Honduras, Panama, Paraguay (2001-2013), Peru (2001-2013), Mexico (2000-2014), and Uruguay (2007-2013); Palma: Sedlac for Argentina (2003-2013), Brazil (2004-2013), Colombia (2001-2013), Ecuador (2003-2013), Honduras (2001-2013), Mexico (2000-2014), Paraguay (2001-2013), Peru (2003-2013), and Uruguay (2006-2013); CepalStat for Costa Rica, the Dominican Republic (2002-2013), Guatemala (2002-2014), Panama (2001-2013), and Venezuela.

[3] As argued by one of the referees, one could claim that, for the rate of change, zero is a better threshold than the median. We agree from a theoretical perspective, but from a descriptive point of view, this threshold would not be very informative since only three countries were not able to reduce the Gini of income. The choice of the median instead of other statistics such as the mean, is to reduce the role of outliers, which would influence the latter but not the former. This would not be a problem for the level of Gini in 2000 (median 0.556, mean 0.549), but it would for the rate of change (median –0.0375, mean –0.0432). Since we must adjust due to the different periods over which the rate of change is calculated, we prefer to minimize the risk of mismeasurement by controlling for the impact of outliers. Had we taken the mean for the Gini instead, we would observe some marginal changes in figure 2 because we have data concentrated around the median, in terms of rate of change, and we would reclassify three cases (Chile in the first period, and Uruguay and Ecuador in the second period).

Figure 2 – *Gini coefficient of income in year 2000, and variations in the periods 2000-2010 and 2010-2013 for a sample of countries in the region*



Sources: based on data from CEPAL-STAT.

Notes: the black lines indicate the median values for the 2000 Gini of income and the 2000-2010 variation of the Gini of income. The data for Argentina refer to the urban population, and the same holds for the 2000 data for Uruguay. The 2000 data for Brazil refer to 2001, for Colombia to 1999, for Honduras to 2001, for Guatemala to 1998, and for the Dominican Republic to 2002. The 2010 data for Bolivia, Brazil and Chile refer to 2009, for Guatemala to 2006 and for Mexico to 2008. The last data point for Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Paraguay, Peru, the Dominican Republic and Uruguay is 2014; for Argentina, it is 2012. See footnote 2.

It is important to note that the groups emerging through these median splits do not reproduce the taxonomies of governments proposed by the literature and discussed in section 2. For example, in Group 1, there are countries that did not have left-wing governments in the study period, such as Colombia or Honduras,[4] or that witnessed short-lived leftist governments, such as Paraguay or Guatemala. Moreover, the supposedly populist government of Bolivia is matched with the moderate left of Brazil and Chile, whereas the "petro-government" of Venezuela is matched with that of Mexico (right wing) and Peru (a country that has followed the orthodoxy of financial institutions and where the left was only in power at the end of the first decade of the twenty-first century).

If we consider the change post-2010, there is a subset of countries that changed their inequality trend in the aftermath of the world crisis. All the countries of Group 4 weakened the

[4] The Database of Political Institutions (Cruz et al., 2016) registers the political orientation of parties according to their name and label. Whenever the latter criterion was insufficient, a database was used which classified parties according to the ideological roots. Zelaya reached Honduras Presidency in 2006 with the Liberal Party that has always been classified as center-right, whereas its closeness to Chavez brought some analysts to include its 2006-2009 presidency as belonging to the left turn. Data and analysis in section 4 are robust to this potential measurement error. Colombia and Venezuela are classified as missing values thus we imputed the two cases respectively as right and left over the entire period, since we found no alternative classification in the literature.

size of the reduction, moving towards Group 3. For its part, Uruguay displayed an opposing tendency, strengthening its reduction. Among the countries in Group 2, there was a tendency to move towards Group 1, with the exception of Ecuador, for this Andean nation softened the intensity of the variation and yet maintained a strong egalitarian tendency.

It is apparent that the response to the global crisis cannot be easily predicted by the political orientation of the government (see section 2), as shown by the very similar quantitative variations in Venezuela, Mexico and Costa Rica, on the one hand, and in Colombia, Bolivia and Brazil, on the other. In this context, the cases of Argentina, Costa Rica, Colombia, and Honduras are noteworthy insofar as they exhibited few changes between pre- and post-2010.

In total, the correlation between the share of years under left-wing governments over the period 2000-2015 and the variation in the Gini in the same period is negative and close to 50% (Pearson's *rho* = –0.457).

2.2 Wealth

To obtain a detailed picture we cannot limit ourselves to income (the flow of resources at households' disposal during the year); we also must consider the accumulation of wealth, which constitutes households' stock of net assets at a certain point in time. Wealth is important because it allows households to cope with negative shocks and maintain their standard of living. Although data on the distribution of income are sufficiently large, with increasing levels of comparability both across countries and over the years (e.g. the data of the Luxembourg Income Study, the harmonised database of the OECD, or the SWIID of Solt, 2016), data sources for the distribution of wealth are more limited (Maestri et al., 2014). Furthermore, there are a series of methodological problems that deserve attention (Maestri et al., 2014; Bogliacino and Maestri, 2016). In many cases, the data are incomplete because liabilities are recorded but corresponding assets are not, as is the case of durable consumption goods or in the case of human capital and the debt accrued to access higher education. In addition, public pension entitlements are often not computed. Finally, measurement problems exist, as net wealth can be negative, causing the Gini coefficient not to be bounded by the unity or not making it computable in certain cases. Moreover, equivalence scales are seldom used, thereby reducing comparability.

To wit, comparative studies on wealth are scarce (OECD, 2008; Davies, 2009; Maestri et al., 2014). It is also necessary to clarify that, even though the distinction between gross and net income refers to pre- and post-government intervention, when it comes to wealth, the distinction between gross and net refers to total assets and assets net of liabilities, respectively.

Wealth data usually come from three sources: survey data, which tend to be biased because wealth is extremely concentrated and the richest are complicated to sample and interview; tax data, which are especially suited for studying the top wealth shares, as in Piketty's approach (Atkinson et al., 2011; Piketty, 2014); and data computed through regression and imputation from secondary sources. The last one allow for comparability, but at the price of less robustness. They also avoid the problem of negative wealth since estimations and imputation are based on data at quantiles levels, minimizing the risk of finding negative values.

To get a picture of the region, we relied on a source based on the estimated distribution of wealth through the regression and imputation technique (Shorrocks et al., 2010; 2015). Due to

data availability, we used 2010 and 2015 as the two temporal reference points. According to Shorrocks et al. (2010; 2015), data for most of the countries are of poor quality, with some exceptions: Colombia and Mexico's data are classified as satisfactory; Chile's as fair; Brazil's as fair in 2015 yet poor in 2010; and Paraguay and Venezuela's as poor.

We build on Maestri et al. (2014), and Bogliacino and Maestri (2016). Maestri et al. (2014) plot the level of the Gini for both income and net wealth in order to group countries according to their inequality regime. They show that the rank in terms of income inequality does not predict the rank in terms of wealth inequality among comparable countries (as the case of Nordic countries in Europe show). In their follow up study, Bogliacino and Maestri (2016) show how the impact of the great recession and the policy responses to it partly changed the grouping defined according to the median split of the Gini coefficients of wealth and income. Looking at two points in time and the implied evolution, we could provide a suggestion on both the cross-country comparison, which obey to structural differences, and the change over time (over a short time span), which is mainly explained by national histories (Maestri et al., 2014). Following their approach, we plot the data for the Gini coefficients of income and wealth in 2010 using a median split to identify four groups of countries (figure 3) and then show the value for the end of the period.[5]

Using the median split, we identify the following groups (we make clear that low and high should be interpreted as relative concepts):

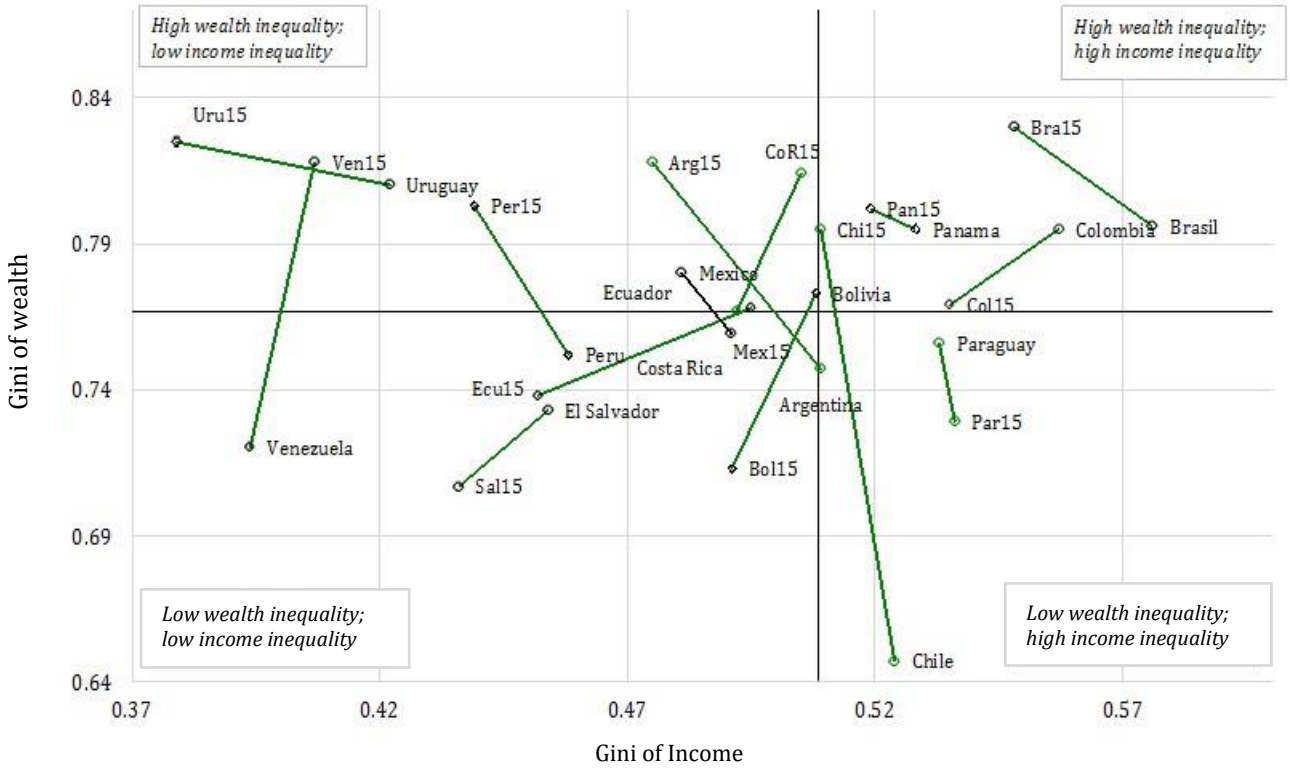
1. countries with low income and low wealth inequality: Costa Rica, El Salvador, Peru, and Venezuela;
2. countries with high income inequality but low wealth inequality: Argentina, Chile, and Paraguay;
3. countries with high income and high wealth inequality: Colombia, Brazil, and Panama;
4. countries with low income inequality but high wealth inequality: Mexico, Uruguay, Ecuador, and Bolivia.

It is striking that the group with low income and low wealth inequality (Group 1) includes both Venezuela and Peru, for the two countries' governments belong to opposite poles of the political spectrum.[6] Equally striking is that the group with low income and high wealth inequality (Group 4) includes the populist Ecuador and Bolivia, the conservative Mexico, and the progressive Uruguay.

Maestri et al. (2014) claim that the differences in wealth inequality can be explained by structural differences, whereas the trend can be explained by national histories. Given that we are dealing with the same region, perhaps the structural characteristics determine the relatively high level of inequality but not the cross-country (within-region) differences, which are probably due to national idiosyncrasies.

[5] For the Gini of income, we used the last available year.
[6] According to the *Ease of Doing Business Index* (World Bank, 2016), Peru was ranked 54th and Venezuela 187th.

Figure 3 – *Change in the Gini coefficient of income and wealth for selected countries, years 2010-2015*



Sources: based on income data from CEPAL-STAT, and wealth data from Shorrocks et al. (2010; 2015).
Notes: the axes cross at the median values for the year 2010. The data for Argentina refer to the urban population. The 2010 data for Bolivia, Brazil and Chile refer to 2009, and for Mexico to 2008. The final data point for Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Paraguay, Peru, and Uruguay is 2014; for Argentina, it is 2012. The median wealth is calculated including Nicaragua, but since we have no income data after 2009 for Nicaragua, it was not included in the chart.

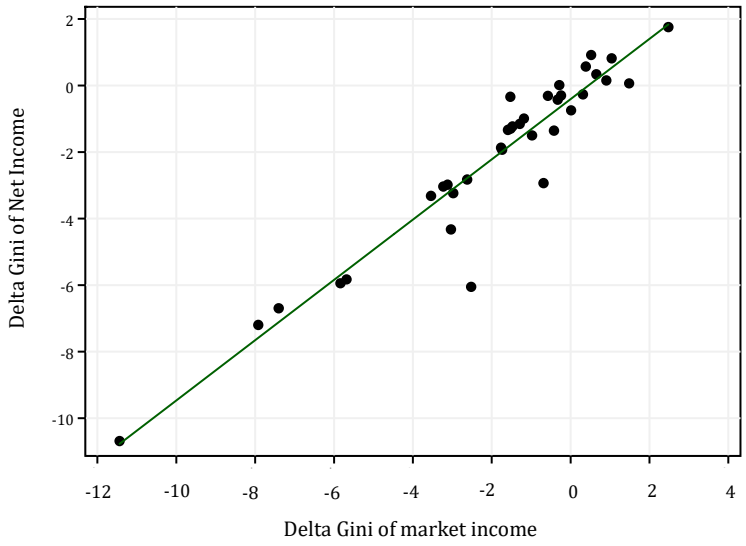
Between 2010 and 2015, the following countries shifted groups: Costa Rica, Venezuela, and Peru became classified as low income and high wealth inequality (Group 4); Argentina moved towards the low income inequality, but still in the high wealth inequality group (Group 4); Chile entered the high income and wealth inequality club (Group 3); Mexico, Bolivia, and Ecuador became countries with low inequality in both income and wealth (Group 1); Colombia reduced both inequalities yet stayed in the most unequal group (Group 3).

In summary, our diagnosis is that the region is characterised by sizeable income inequality, although it managed to reduce the Gini coefficient during the first decade of the twenty-first century. The rate of reduction has generally slowed down in the aftermath of the global crisis, with some exceptions. Commonly, wealth is more unevenly distributed than income (Maestri et al., 2014). Between 2010 and 2015, of the fourteen countries considered, six have reduced the Gini coefficient of wealth, whereas eight have increased it (the population weighted average returns an increase by 2.2%). As a result of these disparate findings and regional diversity, it is difficult to identify patterns permitting a regional taxonomy.

3. Proximate drivers

Given the composition of household income over which the Gini is calculated, we may investigate whether it was public intervention ex post, or market factors ex ante, which led to reduced inequality. In figure 4, we plot the SWIID data for market income and net income, which tend to be highly correlated. In particular, the intercept of the linear interpolation (OLS with robust standard error, $n = 64$) would be –0.51, and the slope would be 0.83 ($p < 0.001$), and the regression would be highly explanatory (R-squared 0.83; $F = 226.62$, $p < 0.001$). This is in line with Atkinson's (2015) claim that both factors, market income and redistribution, play a role in determining the change in inequality in Latin America.

Figure 4 – *Variation in the Gini coefficient of market income and net income for the region, years 2000-2010 and 2010-2013*



Sources: based on data from SWIID 5.1.

In table 1, we report data for the main drivers of household net income inequality. Data are in absolute change over the period 2000-2013 (or more recent data if available). As explained by Bogliacino and Maestri (2014), this type of analysis does not permit causal inference, as the income sources and net inequality are co-determined. In other words, it is not possible to isolate the causal effect by any of these sources because they cannot be freely variated, and we do not dispose of enough credible instruments. However, if we limit our concern to the proximate causes, i.e. those that statistically have a larger explanatory power, we can rely on the very definition of net household per capita disposable income to identify an entire list of plausible sources of change. Referring to the definition provided above, we compute the net household per capita disposable income as: the sum of all market incomes (from capital, formal employment, and mixed income) aggregated at family level, summing and subtracting subsidies and taxes, and divided by the number of household members. Thus, by

definition, inequality in net household income reflects: the relative importance of primary income sources (e.g. capital versus labour), the distribution within each source (particularly the earnings distribution, for the labour market represents the main source of income for most of the households) and the redistributive intervention of the state through taxes and subsidies. To guarantee comparability we rely on the CEPAL database as a primary source, but we complement the series with information from other sources to add data, based on the same methodology, where the database was lacking. We will later discuss the rationale of the relationship between each source of income and total inequality, but usually when a source becomes more unequal and its correlation with the Gini is positive, it will increase total inequality.

A first driver is the functional distribution between labour and capital; in table 1, we report the variation of the share of labour over total value added. Generally speaking, capital is more unevenly distributed, for accumulation is very sensitive to demographic factors (e.g. age) and has high inertia because of inheritance (Cowell et al., 2012; Piketty, 2014). Therefore, a reduction in the labour share worsens income distribution.[7] For all countries in the sample, the labour share was relatively stable, but with a slightly negative trend. The only countries in which it increased were Costa Rica, Honduras, and Brazil, whereas there was no variation in Ecuador and Paraguay; in the remaining countries, it decreased.

To detect changes in the labour market that statistically explain the largest part of the aggregate changes in the Gini coefficient, we consider four variables: change in educational attainment (human capital), change in minimum wages, change in the share of wages accruing to the top 20%, and change in the share of informal work.

According to the data, the average number of years of the educational attainment of the economically active population grew, and this can be identified as a factor in the reduction of inequality. The correlation between the variation of Gini and this measure is negative and close to 50% (Pearson's *rho* = –0.48). According to Gasparini et al. (2009), the Gini of years of education has also decreased.

Nine out of the seventeen countries show a reduction of the share of earnings accruing to the richest quintile, implying that the labour market improved the distribution of income in these countries. Statistically, this variable shows the highest degree of association with the delta of the Gini coefficient, with a correlation of 92.2 per cent. More robust econometric studies, such as that of Gasparini et al. (2011), have shown that the evolution of the terms of trade benefitted unskilled labour in the region.

[7] Technically, we also need a high correlation between asset holdings and income level, which is generally the case. For a technical discussion, see Milanovic (2017).

Table 1 – *Drivers of the change in income inequality, 2000-2013*

	Gini of income	Labour share	Educational attainment	Top 20% wage distribution	Social expenditure per inhabitant (USD 2010)	Direct taxes / GDP	Indirect taxes / GDP	Minimum wage (real)	% Informal workers	Percentage share of years under left-wing governments
Argentina	−0.069	−0.02	1.2	–	933	4	5.3	2.64	−4.3	75
Bolivia	−0.152	−0.1039	2.5	−9.8	62	2.9	2	1.19	−6.4	62.5
Brazil	−0.091	0.0199	2	−5.4	1327	1.5	1.9	1.03	−8.1	100
Chile	−0.055	−0.007	0.9	−3.5	743	2	−1	0.49	−2.5	78.6
Colombia	−0.037	−0.0124	1.3	0	448	4.3	1.2	0.18	−1.1	0
Costa Rica	0.031	0.0356	1.3	3.2	931	2.1	−0.4	0.17	−6.2	56.3
Ecuador	−0.107	0	1.2	−8.7	315	−0.8	0.8	0.96	−2.6	75
El Salvador	−0.095	–	1.3	−8.2	135	1.8	2.2	0.13	1	37.5
Guatemala	−0.007	−0.041	0.2	4.9	53	1.4	−0.9	0.41	−1.1	25
Honduras	−0.013	0.0502	1.1	2.8	111	1.3	−0.7	1.17	0	0
Mexico	−0.051	−0.0421	1.6	−2.7	287	1.8	−1.4	0.04	−4.3	0
Panama	−0.036	−0.0589	1.3	2.3	414	1.4	1.1	0.41	−2.6	0
Paraguay	−0.022	0	2.1	1.9	244	0.9	1.9	0.03	−23.5	31.3
Peru	−0.106	−0.0274	1.5	−8.4	247	4.9	−0.8	0.27	−6.8	56.3
Dom. Rep.	−0.018	−0.0745	1.1	0.3	147	2	−0.4	0.1	0.7	25
Uruguay	−0.068	−0.0724	0.9	−6	989	2.1	−3	1.73	−8.6	68.8
Venezuela	−0.061	−0.0059	1.7	−6.5	485	0.8	2.4	−0.06	−2.9	100

Sources: CEPAL-STAT, BID, International Centre for Tax and Development, Latin America Welfare Dataset (1960-2011), SEDLAC, and Cruz et al. (2016).

Notes: for the labour share, the last data point is 2011, except for El Salvador, Honduras, Peru, and Venezuela, for which it is 2012. For the average educational attainment of the economically active population (15 years old and older), the data refer to: Argentina, 2000-2014; Brazil, 2001-2014; Colombia, 2002-2014; Costa Rica, 2000-2014; Ecuador, 2000-2014; El Salvador, 2000-2014; Guatemala, 2002-2014; Honduras, 2001-2013; Mexico, 2000-2014; Panama, 2001-2014; Paraguay, 2001-2014; Peru, 2001-2014; the Dominican Republic, 2002-2014; and Uruguay 2007-2014. For the change in the highest quintile of the labour income distribution: Brazil, 1999-2014; Colombia, 1999-2014; Costa Rica, 2000-2014; Ecuador, 2000-2014; El Salvador, 2000-2014; Guatemala, 1998-2014; Honduras, 1999-2013; Mexico, 2000-2014; Nicaragua, 1998-2009; Panama, 2001-2014; Paraguay, 1999-2014; Peru, 1999-2014; the Dominican Republic, 2002-2014; and Uruguay, 2007-2014. Social expenditure was calculated in 2010 dollars per inhabitant (for Bolivia, until 2009; Ecuador, until 2012; El Salvador, since 2004; Honduras, since 2010; Mexico, until 2012; Paraguay, 2003-2011; Peru, until 2012; the Dominican Republic, until 2011; and Uruguay, until 2011). For direct and indirect taxes (general government): for Colombia, El Salvador, Panama, Peru, Dominican Republic, and Venezuela, the years are 2000-2012; for Ecuador, 2000-2005; for Honduras, 2003-2012; and for Paraguay, 2005-2012. Real minimum wage (base year 2000 = 100, percentage change reported): for Argentina, until 2011; for Venezuela, until 2014; for the other countries, until 2015. For the share of informal workers, a worker is considered to be in an informal occupation if he or she receives a salary from a small business (less than five employees), is a non-professional self-employed worker, or is a zero-income worker; the variation is 2000-2014, with Argentina and Ecuador since 2003, Brazil since 2004, Chile until 2013, Colombia since 2008, Honduras and Paraguay since 2001, Uruguay since 2006, and Venezuela until 2006. For the last column, the differentiation between left, centre and right is determined by the orientation of the party in power: the left refers to parties defined in the database as “communist”, “socialist”, “social-democratic” or “left wing”.

The change in minimum wage was associated with an improvement in the income distribution. The only case in which it decreased was Venezuela (where inflation was so high to counteract the robust increase in the nominal wage). The correlation with the delta of the Gini is negative and close to 30 per cent (Pearson's *rho* = –0.318).

Informality decreased in all countries except the Dominican Republic, El Salvador, and Honduras, but the correlation with the change in income inequality is close to zero.

The increasing role of the state is clearly displayed in table 1. Social spending increased significantly in every country. In the table, we report the sum of all instalments of social expenditure in real terms and per inhabitant. Redistributive efforts were implemented in all countries, including Colombia, Mexico, and Peru, which were not ruled by – or were only fleetingly controlled by – left-wing governments. Taxation also played a role, for direct taxes grew more than indirect taxes as a share of GDP during the period considered (in eleven of the seventeen countries). Curiously, Venezuela was an exception, although it is often considered the leader in state-driven large-scale redistribution.

In Appendix table A1, we show each country's data for the 2010-2013 sub-period (or more recent data if available), covering the aftermath of the global crisis (sub-prime and euro crises) and the stabilisation of the prices of commodities. In this sub-period the variation of the Gini was no longer negative in all countries; instead, it became positive in Bolivia, Costa Rica, Mexico, and Venezuela. On the whole, it exhibits a low and negative correlation with the change in the previous period (Pearson's *rho* = –0.11).

The average educational attainment continued to rise during the 2010-2015 sub-period, yet the correlation with change in the previous decade is negative. Wage distribution became more equal for nine of the countries, as it did in the previous decade, though the list of countries is different.[8] The reduction of informality and the growth in minimum wages were maintained (with correlation coefficients of 0.78 and 0.62, respectively, between the two periods).

Social policy continued its expansion. In particular, growth in social expenditure between the two sub-periods showed a correlation of 0.93. For direct and indirect taxes, the values were 0.63 and 0.75, respectively.

All the variables, except for social expenditure, had a positive association with the change in Gini. The highest values were for those of the top labour share and indirect taxes (0.85 and 0.51 respectively), for which the expected correlation was either positive or unclear.

The results for the post-2010 period suggest that the egalitarian trend lost its strength and that its drivers have partly stagnated.

Regression analysis confirms qualitatively the results. In Appendix table A2, we report ordinary least squares (OLS) regressions with heteroskedasticity-robust standard errors, with the change in Gini over the entire period as dependent variable and the proposed drivers as independent variables. We stress again that the regression is unidentified and there is a limited amount of data, thus we interpret this as qualitative evidence: the main explanatory factors are the change in minimum wage and the change in the distribution of wages. Results are robust to the use of alternative indices of inequality, except for the Palma index.

One could argue that demographic factors may play a role. In fact, a more healthy population and a relatively smaller household size may favour the performance in the labour market.[9] In the period under investigation, life expectancy increased in all countries, with the

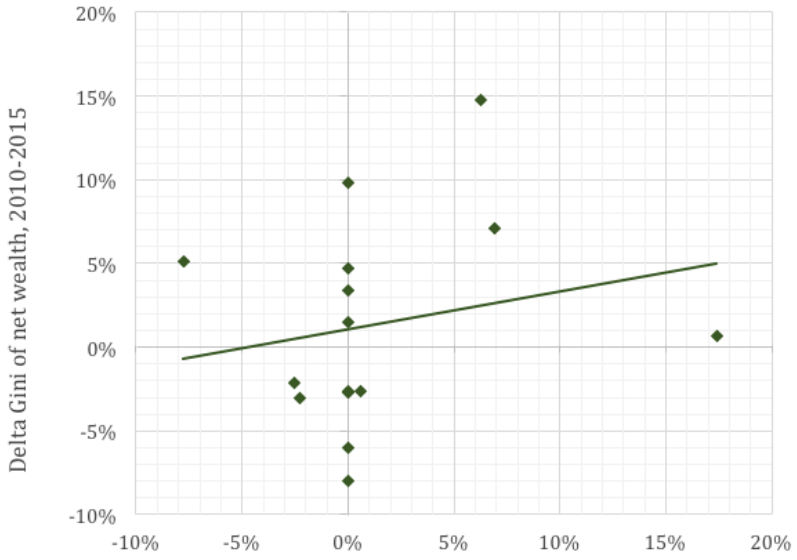
[8] The correlation of the variation was barely 15%.

[9] Marriage segregation according to income level (assortative mating) may also play a role (Salverda and Haas, 2014), but we do not have a reliable measure.

largest increases in Brazil (2.9), El Salvador (3), and Guatemala (3.6) (CEPAL). The average household size decreased in all countries, according to CEPAL, except for Uruguay (where no change is observed), and Argentina (missing data). The largest explanatory factor is the former, whose correlation with the variation of the Gini is –0.51 (for household size, the Pearson's *rho* with the variation of the Gini of net income is barely 0.10). A counterargument is that these indicators are mainly associated with poverty reduction, which is also taking place in these countries, and not really with inequality levels. But the common trend may explain the correlation. In Appendix table A3, we re-run the regressions of the drivers using demographic factors as further controls, showing that qualitatively the results still hold.

Regarding the drivers of wealth inequality, there are two potential explanatory factors. We rely on the definition of wealth as the difference between assets (financial and housing gross wealth) minus debt.[10] On the one hand, financial wealth is more concentrated than housing wealth; thus, when the quantitative importance of the former increases, wealth becomes more concentrated. The correlation between the change in the share of financial wealth in gross wealth and the change in the Gini coefficient of net wealth is positive as shown in figure 5, but the change was negligible for a number of countries, and the share was relatively stable for financial wealth. On the other hand, access to debt may favour or reduce inequality, depending on the gradient of the access to debt across the support of the distribution. The correlation between the change in the share of debt in gross wealth and the change in the Gini coefficient was barely negative, as shown in figure 6.

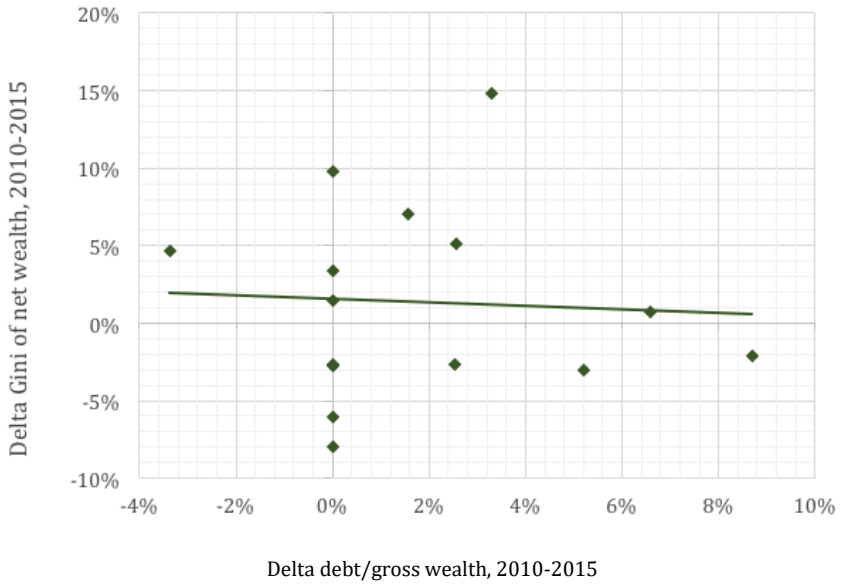
Figure 5 – *Financial wealth and wealth distribution*



Sources: based on data from Shorrocks et al. (2010; 2015).

[10] Again, we emphasise that this is not an identified regression, because we do not have free variation of potential causes (neither direct nor instrumented).

Figure 6 – *Debt and wealth distribution*



Sources: based on data from Shorrocks et al. (2010; 2015).

4. Some hypotheses

Identifying causal factors behind the evolution of inequality is a particularly demanding task for two reasons. On one side, the complexities and interrelations within the economy require a general model, which allows for the incorporation of the effects of aggregation, but the need for an in-depth treatment of the distributive effect of governmental intervention and structural heterogeneity (e.g. the presence of informality) essentially proscribes the use of standard models of general equilibrium, where homogeneity assumptions prevail. On the other side, standard regression techniques are not very informative, because we have to deal with social interaction, spillovers, and general equilibrium effects, which require the estimation or computation of a full structural model.[11] Thus, we used a comparative method, seen in the other sections of this article, which rely on historical reconstruction to shed light on possible causal mechanisms.

At the beginning of this century, the countries of the region were characterised by typical underdevelopment features in terms of industrial structure, labour relations, access to public goods and very high levels of concentration in many dimensions. The subsequent decade and a half featured a significant reduction in income inequality that was rather homogeneous across the countries studied. By all means, this is a trend that must be acknowledged.

[11] The point is not always captured in the literature, and goes beyond standard problems of non-random assignment of causes to units, or the impossibility to freely vary causes. In this case the problem is that if we deal with a cause at this level of aggregation (e.g. minimum wages or other social policies), the lack of treatment would rarely equal a control condition because the effect of policies affects untreated units as well, through the three possible channels of spill-overs, social interaction or general equilibrium effects (see Heckman et al., 1999, for a discussion and possible solution, which are far beyond the scope of this essay).

In fact, it does not cease to surprise that as the world became more unequal (OECD, 2012), South America went towards a different direction. In the same decades, we did not observe any homogeneous pattern among other countries of the Third World (Cornia, 2010) nor did the data suggest a convergence that might be consistent with the regional trend. Globally, distribution continued deteriorating in very unequal countries such as the United States.

Based on the data in table 1, we can see that the most important explanatory factors are the changes in the labour market (Alvaredo and Gasparini, 2015) and more generous social policies (Cornia, 2010).

A possible interpretation is that the symbolic victories of the new left may have inflated social pressures, mostly in the presence of rents generated by the commodity boom. Some pieces of data are consistent with this hypothesis. The statistical association between left government and change in inequality is robust even when we control for the change in the Gini coefficient in the 1980-2000 period ($t = -3.49$, $p < 0.01$, OLS regression with robust standard errors), for the total amount of social expenditure from column 6 in table 1 ($t = -2.96$, $p = 0.01$), for the change in the labour share from column 3 in table 1 ($t = -3.60$, $p < 0.01$), and for the change in educational attainment from column 4 in table 1 ($t = -2.78$, $p = 0.01$). Results of these regressions are in Appendix table A4.

It is likely that the presence of Venezuela, the popular support inflated by its achievements in certain areas (e.g. infrastructure and social housing) before they appeared to be unsustainable, and its leading role in foreign policy (e.g. with the Petrocaribe[12]) induced a redistributive response in the region as a way to placate the pressing popular demands for political representation (which often take the form of populist movements), especially in the presence of a commodity boom that fed governmental budgets directly (through royalties or public enterprises) or indirectly (export taxes).

An alternative interpretation to the 'left threat' is that the origin of this new political climate may be the reaction to the adjustment plans of the 1980s and 1990s, which increased social pressure and political support for redistribution policies.

This is one of the possible mechanisms of the overshooting hypothesis, which holds that the reduction in inequality in the twenty-first century is a natural reversal that follows the excessive increase of inequality witnessed during the decades of the reforms (1980s and 1990s), or the claim that the observed changes are the result of a rebound from the effects of the macroeconomic crises at the end of the twentieth century.

The evidence for this overshooting hypothesis is mixed, at best. In fact, the regional pattern for the first decades of the twenty-first century is much more homogeneous than the tendency observed in previous decades (Gasparini and Lustig, 2011; Gasparini, 2005). In Appendix figure A1, we plot both the 1980-2000 and 2000-2013 changes. The trend line is negatively sloped, but the correlation is minimal, and not statistically significant ($t = -0.76$, $p = 0.457$, OLS regression with robust standard errors, results in column 1 of table A4 in the Appendix). The average share of the vote towards the left in the general elections during the first decade of the twenty-first century is also not correlated with the previous change in the Gini ($t = 0.97$; $p = 0.349$, OLS regression with robust standard errors, results in column 6 of

[12] Petrocaribe is an agreement signed in 2005 under the Chávez administration in Venezuela. The agreement guarantees preferential payment conditions for the purchase of oil by participating Caribbean countries. Its signatories are: Venezuela, Cuba, Dominican Republic, Antigua and Barbuda, Bahamas, Belize, Dominica, Granada, Guyana, Honduras, Jamaica, Suriname, Saint Lucia, Guatemala, El Salvador, San Cristobal and Nieves, and Saint Vincent and the Grenadines.

table A4 in the Appendix). One would expect it to be significant if the underlying cause was a pure reaction to the adjustment plan.

Of course, the presence of similar redistributive policies by right-wing and left-wing governments (Atkinson, 2015) would be consistent with the overshooting hypothesis, but it is equally in line with the idea of the pressure for a political alternative in the region, which creates pressure for redistribution through either ideological closeness or fear of the loss of consensus (Lavinas, 2013; Rojas-Lozano, 2018).

It is also very unlikely that the set of policies impacting inequality is explained exclusively by a sort of policy cycle. Worldwide, or even among developing countries, there are no systematic trends consistent with the aforementioned overshooting or rebound hypotheses (Alvaredo and Gasparini, 2015). On balance, as stressed by Atkinson (2015) and Piketty (2014), the evolution of inequality is generally explained by the set of policies adopted within the margins defined by macroeconomic and microeconomic constraints.

Nevertheless, this change in distribution has barely altered the balance of power prevalent in these societies. For example, the richest 1% of the population has not reduced its share of income. Unfortunately, from the data gathered by Alvaredo et al. (2016) we can only extract information for three countries in the region: Argentina saw a growth in the share of income accruing to the 1% from 14.3% in 2000 to 16.8% in 2004; in Colombia it went from 17.3% in 2000 to 20.5% in 2010; in Uruguay there was a negligible reduction from 14.2% to 14% between 2009 and 2012. The coexistence of a more equitable income distribution and a substantial invariance in the share of the richest 1% should not be surprising given that the Gini index is very insensitive to the extremes of the distribution (Atkinson and Morelli, 2010). This insensitivity can be explained both by statistical reasons and by the scarcity of data deriving from the wealthiest people, caused by sampling design or insufficient survey collaboration.[13]

Moreover, we see that the region's countries promoted active redistribution without addressing the structural weaknesses of the economy. It is significant that Bértola and Ocampo (2012) suggest that even in Venezuela nationalisation packages have been limited in comparison to the models of the developmental state of the past. Also, they suggest that even where there was an interventionist bias, e.g. in the oil and gas sector (Ecuador, Bolivia) or in industrial policy (Brazil), the macroeconomic policy mix of left-wing governments was relatively orthodox, especially given the strict restrictions stemming from a high degree of openness.

In other words, we claim that the reduction was the result of a new policy equilibrium under the combined effect of the left threat and the presence of rents to be distributed, rather than a true policy shift or a simple 'natural' correction. We have two indirect pieces of evidence in support of this claim. In table 2, we report the introduction of conditional cash transfers (CCT) schemes. It can be seen that their introduction has been rather diffuse in the region, except for Venezuela. The use of CCTs has been recommended by international organisations (in the case of Colombia, it was part of the Plan Colombia; Rojas, 2015), who claim that targeting reduces political discretionality, in turn increasing the efficacy of interventions. However, CCTs attract criticism on two grounds. On one hand, CCTs are accused of commodification and of favouring a market provision of public and social goods instead of

[13] For developed countries, the correlation between the change in top shares and the Gini is sizeable, as shown by Leigh (2009); however, more recent evidence of this correlation is less robust, as shown by Bogliacino and Maestri (2014).

direct governmental provision through in-kind benefits (Lavinas, 2013). On the other, they are said to induce a conservative bias in governments.[14] By eliminating criteria of universality and breaking the link between work and social protection,[15] whose contractualist logic is typical of social democracies, CCTs exclude labour organisations as a legitimate counterpart to government and allow for the maintenance of an economic policy under technocratic control within a substantial (neo-)liberal hegemony.

As is further seen from the last column of table 2, all countries maintain *de jure* central bank independence, which is the cornerstone of financial orthodoxy because it usually induces financial market discipline with respect to government expenditure.

Another piece of indirect evidence for this hypothesis is found in table 3, in which we report some structural indicators of the economy, such as exports of primary goods over total exports of goods; the relevance of the external constraint (percentage share of years with current account deficit); and a measure of capital account openness. With regard to openness, we constructed the variable based on the different releases of the Chinn and Ito index (2006; 2008), which captures the *de jure* liberalisation of the capital market. Although imperfect, it is standardised and mitigates the problem of endogeneity.

Table 3 can be read in conjunction with column 3 of table 1, where we report the variation of the labour share, and column 4 of table 1, with the change in educational attainment. Together, these data show that the countries of the region did not address any structural weaknesses, which characterise their status as *dependent*, with the possible exception of increased human capital, which, however, is growing everywhere in the world. The table documents a process of re-primarisation characteristic to all economies, even if the data for Guatemala, El Salvador, Honduras, and the Dominican Republic should be handled with care.[16]

[14] This mimics the discussion of transformism in Europe (Paggi and d'Angelillo, 1986). Transformism, an Italian phenomenon (*trasformismo*) in the transitional decades between the nineteenth and the twentieth centuries, was criticised by liberal figures such as Pareto and Einaudi under the assumption that it stemmed from a political elite primarily interested in holding on to power. However, from the liberal point of view, it is inscribed within the theory of modernisation and is based on certain stereotypes about the supposed superiority of Anglo-Saxon civil society. Historically, this discourse has legitimised the formation of technocratic classes of liberal inspiration, which govern under the umbrella of any power coalition (Gramsci, 1966; 1977). A very similar experience has occurred in the Brazilian, Colombian, Peruvian and related contexts within the region, where technocrats have managed the economy under very different political regimes, including dictatorships (Harberger, 1993).

[15] In many cases, they actually generate perverse incentives, such as marginal tax rates above 100%, as Atkinson (2015) explains, or act as a barrier to move out of informality.

[16] In the Dominican Republic, the share of primary goods on total exports collapsed from 65.8% to 17.1% in 2001; this change was not justified by variations in trade (which improved by 1%) or variations in the purchasing power of exports (which decreased by 1%; both figures are taken from CEPAL). Likewise, it was not an effect of the financial crisis that exploded in 2003. Given that the trend after 2002 was weakly incremental, we excluded the year 2001 (also, no explanations were given in the CEPAL metadata). For Honduras, we used 2006 because there was a change in the methodology used by CEPAL related to the inclusion of re-export. For Guatemala and El Salvador, there was a break in the series in 2004 without justification in real or financial dynamics; of course, some negative shocks, such as a decrease in the price of coffee and sugar arose (or the collapse of the export of prawns and shrimp, for El Salvador; Monje-Naranjo and Rodríguez-Clare, 2008) but they were not concentrated in 2004 and were not large enough to explain the observed difference. The signing of a free-trade agreement with the USA occurred in the same year, but the dynamics of the *maquila* industry did not reflect the observed break. Jumps were observed in items such as "unspecified consumer goods" (for both El Salvador and Guatemala), "other goods" (for El Salvador), and "other industrial input" (for Guatemala). In the absence of an explanation for these changes, which seem to reflect changes in accounting rules, we prefer to consider 2005 as a starting point for the series.

Table 2 – *Conditional transfer programs and central bank autonomy*

	Program	Year applied	Central bank independence (laws) 1989–2002
Argentina	Asignación Universal por Hijo para Protección Social	2009-	1992, 2002, (2012)
	Familias por la Inclusión Social	2005-2010	
	Jefas y Jefes de Hogar Desocupados	2002-2005	
	Programa de Ciudadanía Porteña	2005-	
Bolivia	Bono Juancito Pinto	2006-	1995
	Bono Madre Niña-Niño Juana Azurduy	2009-	
Brazil	Bolsa Alimentación	2001-2003	2000, 2003
	Bolsa Escuela	2001-2003	
	Bolsa Familia	2003-	
	Tarjeta de Alimentos	2003-	
	Programa Bolsa Verde	2011-	
	Programa de Erradicación del Trabajo Infantil	1997-	
Chile	Chile Solidario	2002-2012	1989
	Ingreso Ético Familiar	2012-	
Colombia	Más Familias en Acción	2001-	1992
	Red Unidos	2007-	
	Subsidios Condicionados a la Asistencia Escolar	2005-2012	
Costa Rica	Avancemos	2006-	1995
	Superémonos	2000-2002	
Ecuador	Bono de Desarrollo Humano	2003-	1992, 1998
	Bono Solidario	1998-2003	
	Desnutrición Cero	2011-	
El Salvador	Programa de Apoyo a Comunidades Solidarias	2005-	1991
Guatemala	Mi Bono Seguro	2012-	2001
	Mi Familia Progresa	2008-2011	
	Protección y Desarrollo de la Niñez y Adolescencia Trabajadora	2007-2008	
Honduras	Bono Vida Mejor	2010-	1996, 2004
	PRAF/BID Fase II	1998-2005	
	PRAF/BID Fase III	2006-2009	
	Programa de Asignación Familiar (PRAF)	1990-2009	
Mexico	Oportunidades	1997-2014	1993
	Prospera. Programa de Inclusión Social	2014-	
Panama	Bonos Familiares para la Compra de Alimentos	2005-	–
	Red de Oportunidades	2006-	
Paraguay	Abrazo	2005-	1995
	Tekopora	2005-	
Peru	Juntos	2005	1993
Dominican Republic	Programa Solidaridad	2005-2012	2002
	Progresando con Solidaridad	2012-	
Uruguay	Asignaciones Familiares	2008-	1995
	Plan de Acción Nacional a la Emergencia Social	2005-2007	
	Tarjeta Uruguay Social	2006-	
Venezuela	–	–	1992, 1999, 2002

Sources: based on data from CEPAL, and Carstens and Jacome (2005).
Notes: in 2012, the Argentinian Congress passed a law mandating that the central bank promote policies established by the national government.

With the exceptions of Venezuela and Bolivia (where price effects dominate, given that between 2000 and 2012 the terms of trade rose by 104% for the former and 368% for the latter, according to CEPAL data), the region's countries did not take measures to soften the external constraint (as shown by the size of the cumulative current account deficit). Since the 1970s, the financing of current account deficits established itself as a binding restriction preventing the implementation of a Keynesian macroeconomic framework (Barba and Pivetti, 2016; Panitch and Gindin, 2012).

A final item of this second piece of evidence is that instead of a reversal with respect to the liberalisation of capital movements of the 1990s, we see a prevalence of further liberalisation or a stabilisation. The exceptions are Venezuela and Argentina, and to a lesser extent Bolivia, Paraguay, and El Salvador.

Ultimately, the post-2010 change in the size and direction of inequality indicators and the drivers of inequality explain why it would have been important to address these weaknesses and guarantee sustainability of the inequality reduction.

Table 3 – *Structural indicators*

	Export of primary goods/ Total export of goods	**Percentage share of years with deficit in current accounts**	**Capital market openness**
Argentina	3.1	50	–3.25
Bolivia	22	20	–1.3
Brazil	20.3	68.8	1.06
Chile	1.8	60	2.28
Colombia	8.3	93.8	1.06
Costa Rica	12	100	0
Ecuador	2.2	43.8	0.16
El Salvador	2.4	100	–1.29
Guatemala	14	93.8	1.22
Honduras	–9.8	100	–
Mexico	0.6	100	0
Panama	3.8	100	0
Paraguay	8.8	50	–1.3
Peru	5.4	75	–
Dominican Rep.	14.7	87.5	2.99
Uruguay	16.7	80	0
Venezuela	7.3	0	–4.28

Sources: based on data from CEPAL-STAT, BID, and Chinn and Ito (2006).

Notes: the export of primary products includes: food items; live animals; drinks and tobacco; non-edible raw materials; combustibles and fuels; lubricants, minerals and related products; oils, greases, fats and waxes of animal and vegetable origin; and non-ferrous metals. The data for Honduras are for 2006-2014, for the Dominican Republic 2002-2015, for Guatemala and El Salvador since 2005, and for Venezuela until 2013. The percentage share of years with deficit in the balance of payments covers until 2014 for Bolivia, Chile, Costa Rica, Uruguay, and Venezuela. The degree of openness to external markets encompasses the variation during 2000-2013 for all countries; the higher the value, the larger the openness of the country with respect to international capital transactions.

5. Conclusions

In this article, we analysed the distribution of income and wealth for the largest Latin American economies in the twenty-first century. The evidence reveals that income inequality decreased, though wealth inequality displayed a much less homogeneous pattern.

The most important drivers of this trend are represented by increases in social expenditure and labour market changes. With regard to wealth inequality, the main explanatory factor seems to be the growing importance of financial wealth over gross wealth. The global financial crisis and the change in the prices of commodities, which sustained the boom of the 2000s, have apparently weakened the strengths of these drivers. Nevertheless, there is still a need for a larger amount and better evidence.

In terms of causal hypotheses, the data seems to support the idea that the new left had an indirect impact on the whole region insofar as it induced redistributive policies. This suggests that the left threat overcame the political orientation of the governments in charge. However, countries did not address their structural weaknesses and maintained a relatively orthodox framework of macroeconomic policies, with limited exceptions; this responded to (domestic) political and (regional) geopolitical equilibria. Obviously, the less favourable external environment is consistent with the change of direction in the years 2010-2015 given that, without structural change, the end of the commodity boom narrows the margin for redistribution through austerity in spending.

The alternative hypothesis of a rebound effect, subsequent to a growth in inequality at the end of the past century, seems less coherent with the data. Further analysis is clearly needed, but the analysis of Rojas Lozano (2018) seems to confirm the intuition put forth in this essay.

The experience of these decades teaches us that a social agenda should be implemented within a framework of alternative macroeconomic policies that deal and soften macroeconomic constraints as well as a reform of political systems towards a contractualist/social-democratic model that allows for conflict management within institutional rules.

Appendix

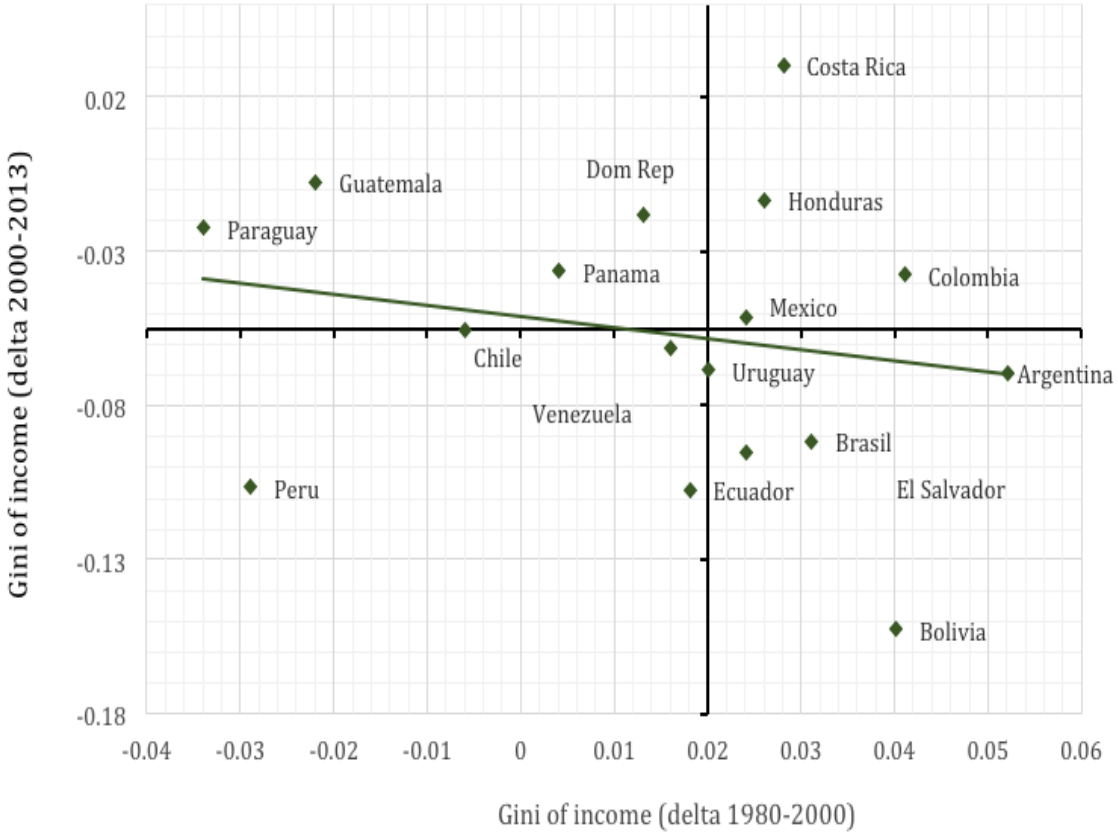
Table A1 – *Determinants of variation in the Gini index (from 2010 to the last year available)*

	Gini	Educational attainment	Top 20% share in wage distribution	Social expenditure per inhabitant (USD 2010)	Direct taxes / GDP	Indirect taxes / GDP	Minimum wage (real)	Percentage share of informal workers	Percentage share of years under left-wing governments
Argentina	−0.019	0.2	–	375	1.8	1.4	0.43	0.8	100
Bolivia	0.021	0.1	1.7	30	1.4	1.9	0.99	1.1	100
Brazil	−0.013	0.5	−0.8	346	0.7	1	0.21	−1.3	100
Chile	−0.015	0.6	−0.2	335	0.3	0.7	0.21	1.3	50
Colombia	−0.02	0.6	−1.7	88	2.3	−0.2	0.07	−2.9	0
Costa Rica	0.004	0.4	0.9	265	0.4	−0.2	0.11	−1.1	100
Ecuador	−0.037	0.6	−3.5	42	0.4	–	0.35	−1	100
El Salvador	−0.027	0.7	−2.4	80	–	–	0.12	−2	100
Guatemala	−0.036	2.2	−2	−4	0.7	−0.1	0.19	−3.1	33.3
Honduras	−0.03	0.7	0.5	14	0.06	0.14	0.03	−1.6	0
Mexico	0.017	0.4	3.7	4	0.7	−0.4	0.09	0.6	0
Panama	−0.012	0.6	-0.5	156	0.6	0.3	0.27	−1.9	0
Paraguay	−0.002	1	1	54	0.53	0.43	0.00	−18.2	67
Peru	−0.021	0.2	−2.6	46	1.1	−0.5	0.17	−0.6	100
Dom. Rep.	−0.032	0.5	−4.1	−9	1.3	−0.5	0.17	−1.7	0
Uruguay	−0.037	0.6	−3.1	371	−0.6	−0.5	0.77	−5.2	100
Venezuela	0.013	0.7	0.7	133	0.2	1.7	0	–	100

Sources: based on data from SEDLAC, Cepal, BID, ICDT, and Cruz et al. (2016).

Notes: for the Gini, the variation is 2010-2014; for Bolivia, Brazil, and Guatemala, since 2011; for Chile, 2009-2013; and for Venezuela until 2013. For the average educational attainment: for Argentina, Honduras, and Mexico, until 2014; and for Bolivia, Brazil, and Chile, since 2011. We did not include the variation in the labour share because data is only available until 2011. For the top 20% share in the wage distribution, the variation is 2010-2014: for Bolivia and Chile, 2011-2013; for Honduras and Venezuela, until 2013; for Brazil since 2011, and for Guatemala 2006-2014. For social expenditure per inhabitant, the time window is 2010-2014: for Bolivia, 2008-2009; for Colombia, El Salvador, Panama, and Venezuela, up to 2013; for Ecuador, Mexico, and Peru, until 2012; for Paraguay, the Dominican Republic, and Uruguay, 2009-2011; and for Honduras, 2008-2010. For direct and indirect taxes over GDP, the source is CEPAL for Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, and Panama; ICDT for the rest of the countries. The variation is 2010-2013: for Colombia, Panama, Ecuador, Honduras, Paraguay, Peru, the Dominican Republic, and Venezuela, until 2012; and for Uruguay, 2011-2012. For the real minimum wage, the base year is 2000, and we report the percentage change; note that Argentina's data were recorded until 2011, and Venezuela's until 2014. Informal workers are those who receive a salary from a small business (less than five employees), are self-employed non-professionals, or are zero-income workers. Their variation covers the period 2010-2014, with Bolivia, Brazil, and Guatemala from 2011, and Chile from 2011-2013; data for Venezuela are missing. For the last column, the differentiation between left, centre and right is determined by the orientation of the party in power. The left refers to parties defined as "communist", "socialist", "social-democratic" or "left wing".

Figure A1 – *Change in the Gini of income between the end of the twentieth century and the beginning of the twenty-first century*



Sources: based on data from SEDLAC, and CEPAL (for Colombia, El Salvador, and Guatemala).

Notes: Argentina, 1992-1998 (Gini for 15 principal cities); Bolivia, 1992-1997 (Gini for urban areas); Brazil, 1981-1990; Chile, 1987-2000; Colombia and Honduras, 1991-1999; Costa Rica, Mexico, Panama, Uruguay, and Venezuela, 1989-2000; the Dominican Republic, 1996-1997; Ecuador and Paraguay, 1995-1999; El Salvador, 1995-2000; Guatemala, 1989-1998; and Peru, 1997-2000.

Table A2 – *The role of proximate drivers in the change of the Gini 2000-2014*

	(1)	(2)	(3)	(4)
	Gini	**Theil**	**Atkinson 05**	**Palma index**
Labour Share	0.118	−0.168	0.0857	11.31
	(0.1)	(0.224)	(0.103)	(10.26)
Educational attainment	0.0034	−0.0691	−0.019	−0.443
	(0.0164)	(0.0422)	(0.0174)	(0.825)
Top 20% share in wage distribution	0.0075***	0.0151***	0.0055***	0.0615
	(0.0011)	(0.0039)	(0.0011)	(0.0905)
Social expenditure per inhabitant (USD 2010)	1.93e−05	3.42e−05	5.65e−06	0.00092
	(1.40e−05)	(3.55e−05)	(1.10e−05)	(0.00068)
Direct taxes / GDP	−0.0035	−0.013	−0.0035	−0.0702
	(0.0029)	(0.0076)	(0.0028)	(0.141)
Indirect taxes / GDP	−0.0076	−0.0207	−0.0061	−0.363
	(0.0056)	(0.012)	(0.0059)	(0.279)
Minimum Wage (real)	−0.0224*	−0.098**	−0.0291**	−0.937
	(0.0109)	(0.0285)	(0.0107)	(0.524)
Percentage share of informal workers	0.0003	0.0016	−0.0003	0.0094
	(0.0008)	(0.0019)	(0.0008)	(0.0498)
Constant	−0.0239	0.0945	0.0228	0.515
	(0.0169)	(0.0538)	(0.0156)	(0.757)
Observations	15	15	15	15
R-squared	0.944	0.933	0.935	0.715

Notes: OLS regression, robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$
Sources: CEPAL-STAT, BID, International Centre for Tax and Development, Latin America Welfare Dataset (1960-2011), SEDLAC, and Cruz et al. (2016), for the labour share the last data point is 2011, except for El Salvador, Honduras, Peru, and Venezuela, for which the last data point is 2012. For the average educational attainment for the economically active population (15 and older): Argentina, 2000-2014; Brazil, 2001-2014; Colombia, 2002-2014; Costa Rica, 2000-2014; Ecuador, 2000-2014; El Salvador, 2000-2014; Guatemala, 2002-2014; Honduras, 2001-2013; Mexico, 2000-2014; Panama, 2001-2014; Paraguay, 2001-2014; Peru, 2001-2014; the Dominican Republic, 2002-2014; and Uruguay, 2007-2014. For the change in the last quintile of labour income: Brazil, 1999-2014; Colombia, 1999-2014; Costa Rica, 2000-2014; Ecuador, 2000-2014; El Salvador, 2000-2014; Guatemala, 1998-2014; Honduras, 1999-2013; Mexico, 2000-2014; Nicaragua, 1998-2009; Panama, 2001-2014; Paraguay, 1999-2014; Peru, 1999-2014; the Dominican Republic, 2002-2014; and Uruguay, 2007-2014. Social expenditure was calculated in 2010 dollars and per inhabitant (for Bolivia, until 2009; for Ecuador, until 2012; for El Salvador, since 2004; for Honduras, since 2010; for Mexico, until 2012; for Paraguay, 2003-2011; for Peru, until 2012; for the Dominican Republic, until 2011; and for Uruguay, until 2011). For direct and indirect taxes (general government): for Colombia, El Salvador, Panama, Peru, the Dominican Republic, and Venezuela, the years are 2000-2012; for Ecuador, 2000-2005; for Honduras, 2003-2012; and for Paraguay, 2005-2012. For the real minimum wage (base year 2000 = 100, percentage change is reported): for Argentina, until 2011; for Venezuela, until 2014; for the other countries, until 2015. For the share of informal workers, a worker is considered informal if he or she receives a salary from a small business (less than five employees), is a non-professional self-employed worker or is a zero-income worker; the variation is 2000-2014; for Argentina and Ecuador since 2003; for Brazil, since 2004; for Chile, until 2013; for Colombia, since 2008; for Honduras and Paraguay, since 2001; for Uruguay, since 2006; and for Venezuela, until 2006. For the Theil and Atkinson indexes, the sources of data are CepalStat for Brazil, 2001-2014; Colombia and Guatemala, 2002-2014; the Dominican Republic, 2002-2013; Honduras, Panama, Paraguay, and Peru, 2001-2013; Mexico, 2000-2014; and Uruguay, 2007-2013; for the Palma index, the source is Sedlac, for Argentina,

2003-2013; Brazil, 2004-2013; Colombia, 2001-2013; Ecuador, 2003-2013; Honduras, 2001-2013; Mexico, 2000-2014; Paraguay, 2001-2013; Peru, 2003-2013; and Uruguay, 2006-2013; and CepalStat for Costa Rica and the Dominican Republic, 2002-2013; Guatemala, 2002-2014; Panama, 2001-2013; and Venezuela.

Table A3 – *The role of proximate drivers in the change of the Gini 2000-2014, controlling for demographical variables*

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Gini	**Gini**	**Theil**	**Theil**	**Atkinson**	**Atkinson**	**Palma index**	**Palma index**
Labour Share	0.0835	0.0658	0.367	–0.139	0.166	0.0498	19.43	13.7
	(0.224)	(0.164)	(0.678)	(0.345)	(0.217)	(0.149)	(15.73)	(13.38)
Educational attainment	0.0017	0.0035	-0.0438	–0.0692	–0.0152	–0.0189	–0.0582	–0.45
	(0.02)	(0.0151)	(0.0586)	(0.0448)	(0.0251)	(0.0176)	(1.139)	(0.901)
Top 20% share in wage distribution	0.0079***	0.0077***	0.0127*	0.015**	0.0052**	0.0057***	0.0255	0.0527
	(0.0018)	(0.0013)	(0.0054)	(0.0041)	(0.0015)	(0.0013)	(0.123)	(0.0986)
Social expenditure per inhabitant (USD 2010)	2.09e–05	1.30e–05	1.01e–05	3.77e–05	2.06e–06	1.36e–06	0.0006	0.0012
	(1.59e–05)	(1.52e–05)	(6.80e–05)	(4.60e–05)	(2.01e–05)	(1.39e–05)	(0.0012)	(0.0006)
Direct taxes / GDP	–0.0035	–0.0017	–0.0133	–0.014	–0.0035	–0.0023	–0.0743	–0.152
	(0.0031)	(0.0029)	(0.0068)	(0.0088)	(0.0031)	(0.0034)	(0.179)	(0.173)
Indirect taxes / GDP	–0.0078	–0.0052	–0.0174	–0.022	–0.0056	–0.0045	–0.313	–0.469
	(0.0062)	(0.0068)	(0.0174)	(0.0171)	(0.0069)	(0.007)	(0.338)	(0.412)
Minimum Wage (real)	–0.0208	–0.0145	–0.123**	–0.102*	–0.0328*	–0.0237	–1.317	–1.299
	(0.0161)	(0.0134)	(0.0367)	(0.0409)	(0.0145)	(0.0142)	(0.777)	(0.897)
Percentage share of informal workers	0.0004	0.0003	0.0007	0.0016	–0.0005	–0.0004	–0.0046	0.0118
	(0.0008)	(0.0007)	(0.0025)	(0.0021)	(0.0009)	(0.0008)	(0.0603)	(0.0542)
Household size	–0.0108		0.166		0.0247		2.514	
	(0.0634)		(0.235)		(0.0741)		(3.566)	
Life Expectancy		–0.0064		0.0035		–0.0044		0.293
		(0.0069)		(0.0188)		(0.0054)		(0.437)
Constant	–0.0289	–0.016	0.171	0.0902	0.0342	0.0282	1.673	0.154
	(0.0352)	(0.0201)	(0.112)	(0.0645)	(0.0348)	(0.0175)	(1.736)	(1.001)
Observations	15	15	15	15	15	15	15	15
R-squared	0.944	0.952	0.944	0.933	0.937	0.939	0.739	0.733

Notes: OLS regression, robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Source: CEPAL-STAT, BID, International Centre for Tax and Development, Latin America Welfare Dataset (1960-2011), SEDLAC, and Cruz et al. (2016). For the labour share, the last data point is 2011, except for El Salvador, Honduras, Peru, and Venezuela, for which it is 2012. Data on average educational attainment for the economically active population (15 and older) refer to: Argentina, 2000-2014; Brazil, 2001-2014; Colombia, 2002-2014; Costa Rica, 2000-2014; Ecuador, 2000-2014; El Salvador, 2000-2014; Guatemala, 2002-2014; Honduras, 2001-2013; Mexico, 2000-2014; Panama, 2001-2014; Paraguay, 2001-2014; Peru, 2001-2014; the Dominican Republic, 2002-2014; and Uruguay, 2007-2014. For the change in the upper quintile of labour income: Brazil, 1999-2014; Colombia, 1999-2014; Costa Rica, 2000-2014; Ecuador, 2000-2014; El Salvador, 2000-2014; Guatemala, 1998-2014; Honduras, 1999-2013; Mexico, 2000-2014; Nicaragua, 1998-2009; Panama, 2001-2014; Paraguay, 1999-2014; Peru, 1999-2014; the Dominican Republic, 2002-2014; and Uruguay 2007-2014. Social expenditure was calculated

in 2010 dollars and per inhabitant (for Bolivia, until 2009; for Ecuador, until 2012; for El Salvador, since 2004; for Honduras, since 2010; for Mexico, until 2012; for Paraguay, 2003-2011; for Peru, until 2012; for the Dominican Republic, until 2011; and for Uruguay, until 2011). For the direct and indirect taxes (general government) on GDP: for Colombia, El Salvador, Panama, Peru, Dominican Republic, and Venezuela, the years are 2000-2012; for Ecuador, 2000-2005; for Honduras, 2003-2012; and for Paraguay, 2005-2012. For the real minimum wage (base year 2000 = 100), the percentage change is reported: for Argentina, until 2011; for Venezuela, until 2014; for the other countries, until 2015. Concerning the share of informal workers, a worker is considered informal if he or she receives a salary from a small business (less than five employees), is a non-professional self-employed worker or is a zero-income worker; the variation is 2000-2014, except for Argentina and Ecuador, for which it is since 2003, Brazil, since 2004, Chile, until 2013, Colombia, since 2008, Honduras and Paraguay, since 2001, Uruguay, since 2006, and Venezuela, until 2006. For the Theil and Atkinson indexes, the source is CepalStat for Brazil, 2001-2014; Colombia and Guatemala, 2002-2014; the Dominican Republic, 2002-2013; Honduras, Panama, Paraguay, and Peru 2001-2013; Mexico, 2000-2014; and Uruguay ,2007-2013; for the Palma index, it is Sedlac, for Argentina, 2003-2013, Brazil, 2004-2013, Colombia, 2001-2013, Ecuador, 2003-2013, Honduras, 2001-2013, Mexico, 2000-2014, Paraguay, 2001-2013, Peru, 2003-2013, and Uruguay, 2006-2013; and CepalStat, Costa Rica, and the Dominican Republic, 2002-2013, Guatemala 2002-2014, Panama 2001-2013, and Venezuela.

Table A4 – *The role of the left in the change in inequality*

	(1)	(2)	(3)	(4)	(5)	(6)
	Gini	**Gini**	**Gini**	**Gini**	**Gini**	**Left vote in the elections**
Gini (1980-2000)	−0.358	−0.271	−0.575	−0.223	−0.156	184.7
	(0.469)	(0.42)	(0.363)	(0.369)	(0.434)	(191)
Percentage share of years under left-wing governments		−0.0006***	−0.001**	−0.0006***	−0.0005**	
		(0.0002)	(0.0003)	(0.0002)	(0.0002)	
Social expenditure per inhabitant (USD 2010)			6.92e−05*			
			(3.59e−05)			
Labour Share				0.5*		
				(0.278)		
Educational attainment					-0.033	
					(0.0188)	
Constant	−0.0511***	−0.0256**	−0.0337**	−0.0083	0.0131	43.46***
	(0.0119)	(0.0103)	(0.0145)	(0.014)	(0.0206)	(5.055)
Observations	17	17	17	16	17	17
R-squared	0.038	0.231	0.434	0.458	0.368	0.052

Notes: OLS regression, robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Sources: CEPAL-STAT, BID, International Centre for Tax and Development, Latin America Welfare Dataset (1960-2011), SEDLAC, and Cruz et al. (2016). The data on average educational attainment for the economically active population (15 years old and older) refer to: Argentina, 2000-2014; Brazil, 2001-2014; Colombia, 2002-2014; Costa Rica, 2000-2014; Ecuador, 2000-2014; El Salvador, 2000-2014; Guatemala, 2002-2014; Honduras, 2001-2013; Mexico, 2000-2014; Panama, 2001-2014; Paraguay, 2001-2014; Peru, 2001-2014; the Dominican Republic, 2002-2014; and Uruguay, 2007-2014. Social expenditure was calculated in 2010 dollars and per inhabitant (for Bolivia, until 2009; for Ecuador, until 2012; for El Salvador, since 2004; for Honduras, since 2010; for Mexico, until 2012; for Paraguay, 2003-2011; for Peru, until 2012; for the Dominican Republic, until 2011; and for Uruguay, until 2011). For the labour share, the last data point is 2011, except for El Salvador, Honduras, Peru, and Venezuela, for which it is 2012. The differentiation between left, centre and right is determined by the orientation of the party in power. The left refers to parties defined as “communist”, “socialist”, “social-democratic” or “left wing”.

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