

## Inequality, Economic Policies, Work and Poverty: The Latin American Protracted Malady

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### Abstract

For centuries, inequality has worried philosophers, economists, politicians, governments. The evidence that at least since the mid 1970s inequality has increased reinstated the debate about its roots, effects and policies to treat it. By focusing in income rather in wealth concentration economic theory obscured the roots of many forms of inequality, let it be income, wage, education, health inequality and hid the primary distribution of income. By doing so, economics presents the effects as causes of inequality and acts on the former leaving the latter intact. This paper presents some of the theoretical elements that have shaped the analysis of inequality since mid 20. century and have supported the economic policies to address inequality. It ends with a review of long term inequality in Latin America.

**Key Words:** *Income Inequality, Wealth, Poverty, Work, Economic Policies, Economics, Latin America*

**JEL Codes:** D63, D31, I32, E6, N16

## Eşitsizlik, Ekonomi Politikaları, Çalışma ve Yoksulluk: Latin Amerika'nın Uzun Süren İleti

### Özet

Eşitsizlik, yüzyıllar boyunca felsefecileri, iktisatçıları, politikacıları ve hükümetleri endişelendiren bir konu olmuştur. 1970'lerin ortalarından beri süregelen ve eşitsizliğin arttığına dair elde edilen bulgularla birlikte kökenleri, etkileri ve politikaları üzerine yapılan tartışmalar yeniden gündeme gelmiştir. Servet yoğun ekonomik teoriler yerine gelir eşitsizliğine odaklanılması, eşitsizliğin gelir, ücret, eğitim, sağlık gibi birçok çeşidinin ve gelirin birincil dağılımının göz ardı edilmesine sebep olmuştur. Böyle yaparak, iktisat, etkileri eşitsizliğin nedenleri olarak sunmakta ve etkiler üzerine uğraşırken nedenleri oldukları gibi bırakmaktadır. Bu çalışma, 20. yüzyıldan itibaren eşitsizliğin analizini şekillendirmiş teorik elementleri ve eşitsizliği konu alan ekonomik politikaları desteklemektedir. Çalışma, Latin Amerika'daki uzun dönemli eşitsizliği inceleyerek bitmektedir.

**Anahtar Kelimeler:** *Gelir Eşitsizliği, Servet, Yoksulluk, Çalışma, Ekonomi Politikaları, Latin Amerika*

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## **1. Introduction**

Until recently, mainstream economic theory reduced inequality to a pattern of income distribution and hid the concentration of capital, one of the main sources of income gaps. The practical effects of analyzing only income concentration is to obscure the evolution of compensation to labor and to capital which is the central topic of political economy. The diverging paths of compensation to labor and capital reflects the ways of how interest groups use formal and informal channels to gain approval for policies favoring their interests.

The 2008 crisis reiterated that, in the framework of current theories and the policies they inspired, the market does not optimize the location of resources or deliver an equitable distribution of growth. It sheds new light on the relationship between the concentration of wealth and political power that Smith talks about when he says “wealth, like Hobbes said, is power” (Smith, 1776: Book 1, Chap. V pg. 1) that is: the power to purchase and control labor and everything that labor produces and exchanges in the market. From there it is important to dissect the economic analysis of inequality and expose its theoretical and ideological assumptions that rationalize and legitimize the past and future trajectory of inequality, the functional distribution of income, and the levels of inequality that society accepts as legitimate.

This paper discusses the root elements of income gaps and their effects, the concentration of physical, financial, industrial, and intellectual capital in addition to real estate, as well as gender inequality and inequality within distinct religious, language, and gender groups. This understanding of inequality allows the examination of the theoretical and political treatment of income concentration and the trajectory of compensation to capital and labor.

## **2. Labor, The Creator of Income and Wealth**

Inequality and poverty have been classic themes in Economics and its most renowned authors have formulated explanations for their origins and effects on growth. For Smith

and Ricardo these problems affect individuals both morally and socially. Inequality and poverty make it impossible to satisfy, not only basic necessities for maintaining and reproducing life, but also the silk shirt, the pair of shoes, without which people feel publicly embarrassed or humiliated, since society establishes these extras as norms and indications of good conduct and integrity (Smith, 1776). In this regard, Ricardo adds that income depends on the means of subsistence and social habits and customs, so that no society develops harmoniously if the majority of its members live in poverty and misery, because there's no basis for mutual respect and trust, indispensable for the functioning of society and the economy, as Humboldt (1812) noted about México.

For classic economists, labor is a unit of reference. As a source of income and wealth, labor is used to deduce the classic definition of whether a person is rich or poor, depending on the amount of labor they need to offer or can buy, under the principle that wage levels are a social arrangement resulting from the bargaining ability between capital and labor. It's a continuous process of unequal haggling between numerous workers and a handful of capitalists (Smith, 1776: Book 1, Chap. V). In Smith's words, while laws prohibit workers from uniting and demanding better wages, nothing impedes capitalists from coming together to devalue labor, exacerbating inequality and the imbalance of power. Profits and rents are wrested from labor's worth in a system that for Smith is legitimate, in which capital is private property and workers do not possess the entire value of what they produce. Smith and Ricardo understood that the motor of the system is capital accumulation and investment of surplus capital, which makes "unequal productivity" acceptable. Despite condemning poverty and extreme inequality and accepting that capitalism creates inequality, they consider legitimate a distribution that favors capital while still meeting socially acceptable standards for all. They defended the idea that economic growth will ease extreme poverty and create a more benevolent society, preserving social order and property rights. For these authors, social order depends on the shared morals that are in turn used to organize the markets. However, due to the disruptive danger of competition, a State is required to integrate into society a set of parameters defining a shared social and moral order.

Smith and Ricardo distanced themselves from Marx's concept of exploitation that he developed while confronting the evidence of the impoverishment of the working class as a consequence of the industrial revolution. Marx (1887) rejected the classic value theory, and focused on capitalism's dynamic of exploiting the labor force and appropriating added value. In his proposal, inequality is rooted in the system of capital, whose driving force is the fight for the appropriation of the value created by workers. In this sense, capitalists will try to *relatively* reduce the standard of living of the working class in order to increase their earnings, even if this dynamic might stalemate the system.

In response to Marx, economists inspired by Smith reconfigured the "natural law" of labor compensation and leave to the market to determine its value, that is to say, labor's contribution to production.<sup>1</sup> This idea gradually came to dominate the orthodox thinking

1 The theoretical setback of this movement was never compensated for, neither its confused notion of

of the 20<sup>th</sup> century. For this was fundamental accepting capital as a “thing” instead of a relationship. Marshall called capital a “factor of production,” that should be compensated according to its marginal productivity a move which constitutes a double remuneration to the capitalist class: for the capital it owns and as entrepreneurs. Therefore, accumulated physical capital won participation in the production function and these arguments justified the fair compensation of the entrepreneurial sector in spite of growing inequality.

Keynes (1983), unorthodox in many ways, focused on the effect of inequality on effective demand in an economic system, where the markets cannot automatically achieve a full employment equilibrium and the State might need to step in to avoid economic stagnation.<sup>2</sup> After the 1950s, the translation of his ideas into the neoclassical synthesis put price flexibility center stage. Samuelson (1947) proposed that with competitive markets and flexible wages there would never be loss of output or “involuntary unemployment,” - meaning that economic crises would disappear and that any attempt to increase the level income would only create further unemployment. It turned out that the models of general equilibrium and automatic adjustment inspired by Samuelson dominated economic thinking in the second half of the 20<sup>th</sup> century and they established themselves as the sole scientific economic models of the time. The epitome of this rationalization is Lucas and Sargent’s (1979) challenge to the Phillips Curve, and their rejection of restraining the market.

### **3. Inequality of the Masses, the Welfare State and the Developing Countries.**

Regardless of the aforementioned, worrying over poverty and inequality within large social strata is relatively new in the history of economic thought and political action. It is a query that fades in and out of the spotlight depending on the economic cycle, the political atmosphere and the dominant paradigms. It became a concern in the developed world when, after India’s independence and that of various African and Caribbean countries in which colonial powers had not noticed the poverty of the masses nor the gap between the rich and poor, these new countries become increasingly important as markets. The need to combat poverty and inequality resulted vital in creating global stability, avoiding new wars, and fighting socialism, in the context of the Cold War. (Galbraith, 1974). During the 1970s, emerging alongside Rostow’s Manifesto (1960), there were modernization proposals, the World Bank’s programs to cover basic needs, and Kennedy’s Alliance for Progress, among others. To reduce inequality across and within nations, there was at times an explicit objective, but definitely an implicit one in the majority of the programs. Alongside the

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value that oscillates between subjectivism and a theory of costs, nor the error of not distinguishing between labor and the labor force, or the objectification of capital (confused with means of production). On this last point, the Keynesian tradition raised great debate (Cambridge versus Cambridge), when Piero Sraffa proposed the theory of the consequent value.

2 Even though it was outside of the central theme of his work, Keynes was worried about inequality and its political effects, as is demonstrated in *The Economic Consequences of the Peace*, a concise presentation of his thinking.

strengthening of the welfare state in developed countries, civil rights and the notions of economic and social equality were extended to citizens in developing nations, as such Latin American countries embarked on import substitution. This expansion of rights seemed an essential element for the modernization enhanced by industrialization and urbanization. Also, newly independent countries required the institutionalization of these rights for their nation building efforts. In both, the real or rhetorical solution for inequality was imperative. And even in Europe the defense of the ideal of democracy and liberty based on fully functioning free markets was considered necessary in order to avoid war and confront socialism. However, to the peripheral countries, a devaluated version of the welfare State, poorly imbedded in their social policies, turned out to be their reality.

At the end of the seventies, three factors encouraged the abandonment of the welfare state at the global level. The inflation created by the accelerated growth of the postwar global economy, the dwindling supply of cheap natural resources, and the debt crisis at the beginning of the eighties. Behind these factors was a loss of capital gains in the central countries that demanded new, profitable economic arrangements. This scenario brought the retreat of Keynes and the structuralist economic arguments about economic management and the role of the State, and opened the way to the advancement of neoliberal ideas and the establishment of a new guiding axis for capital accumulation at the global scale due to the liberalization of capital, labor and goods markets. In this setting, economic policy-making was centered around reducing inflation, expanding the argument for austerity adjustments. As a result, Friedman's concept of a non-accelerating inflation rate of unemployment (NAIRU) enhanced labor flexibility and the treatment of wages only as costs, and not as a component of demand (Friedman, 1976). These theoretical insights constituted the basis of the Washington Consensus and supported the structural reforms and the liberalization of the economy that led to the instrumentation of the neoliberal economic model. The reforms exacerbated inequality and many developing countries were drown in the Lost Decade (Ocampo et al., 2003).

The devastating effects of the adjustment programs and structural reforms applied to solve the debt crisis and to establish the neoliberal economic model, led to inequality and stratification becoming part of the international political agenda under initiatives of multilateral organizations. In 1987, under the leadership of the United Nations, the report "Adjustment with a Human Face" presented measures to alleviate the impact of adjustments in the lives of the poorest (Cornia and Stewart, 1987). More than on inequality, attention was placed on poverty with programs of conditioned cash transfers and focused on combating extreme poverty, measured by the income baseline of one dollar per capita. This strategy simultaneously satisfied various, somehow disparate requirements, such as the reduction of transfer costs, maintaining the fiscal objectives of keeping taxes low and having a deficit close to zero, and maintaining the rate of profit. In the liberal credo the state is the guarantor of distributive justice, on the basis of humanity shared by all human beings and individual merits. Further more, liberalism states that no one must endure disrespect or limitations to their social performance solely because of their poverty. Hence, the need

to move from the equal distribution of respect to the meritocratic distribution of resources, provided that it does not perpetuate inequality. However, because of the causality between poverty (lack of resources) and inequality (lack of opportunities), programs that focus on the eradication of poverty, while ignoring the concentration of income, suffer from a morally narrow conception of equity, as highlighted by Sen (Sen, 1993).

## **4. The Great Moderation and Its Crisis**

During the Great Moderation (the period from the end of the seventies until the 2008 crisis) mainstream macroeconomic policy created toned-down growth, with price stability and tepid jobs creation. In this scenario, price stability replaced employment and income policies on the agenda and subjected the economy and society to the expansion of globalized financial capital.

The rise of inequality in the last quarter of the century reinserted poverty and inequality into the political debate indicating as the first worrisome signs: the regional disparity within globalized society, the commitment to human rights, the possibility that inequality would encourage terrorism and general unrest; and finally, and most relevant, the intensification of the income gap in developed countries where the disintegration of the welfare state created concerns almost to the level of the developing world (Grusky and Kanbur, 2006; Piketty, 2014; Milanovic, 2016).<sup>3</sup>

The recognition of the multifaceted nature of poverty and inequality and the need to measure it with more complex methods acknowledged this reality (Grusky and Kanbur, 2006). This also encouraged global initiatives like the projects *Millennium Development Goals* and the *2030 Agenda for Sustainable Development* that by proposing to chip away at poverty using trickle-down methods, require growth rates that are environmentally unsustainable and unachievable without distributive policies (NEF, 2010). Trickle down was fully embraced to legitimize structural reforms and the liberalization of trade regimes in Latin America in the 80's and 90's (Puchet et al., 2018; Bértola, 2018; Bértola and Ocampo, 2012).

Even though growth alleviates poverty, it also affects inequality (Chen and Ravallion, 2013) as growth is not neutral in regards to distribution. In effect, technological progress is unevenly divided among sectors, generating distributive inequalities.<sup>4</sup> If technology is scale-neutral, this is not the case of these policies favoring the substitution of labor for capital, such as currency revaluation, subsidized interest rates, or tax exemptions. Those are policies that, generally speaking, cause the substitution of labor for capital and the transfer of income from wages to profits and from low to high wages (Fitoussi and Rosanvallon, 1997; ILO, 2012; Palma, 2011; Plunkett, 2011; Piketty, 2014). All in all, these rules allowed the intensification of global inequality, as recognized by neoclassical authors

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3 This work includes an exhaustive biography of empirical research on inequality, distinguishing between central and peripheral countries.

4 This point is debatable (Hanlon, 2011).

(Atkinson, 2013; Friedman, 2012).<sup>5</sup> Even the World Bank (2014; 2016) accepted the fact that achievements in reducing poverty and inequality have been meagre, although they don't discuss the reasons for this evident paradox of their paradigm. The Bank calculated that by the year 2000 10% of the world's population controlled 85% of the global wealth, data that pales in comparison to that of Credit Suisse (2016) which indicated that while, in 2015, the richest 1% of the world owned half of the world's wealth, half of the world's adults hold only 1% of total wealth. In fact, the same year, 87.7% of the world's assets were owned by the richest 10% of the global population. According to Milanovic (2017), Gini's concentration of capital income in all rich countries is astonishingly high, between 0.85 and 0.95, almost double the Gini of labor income.

The concentration of income is similar: while the poorest 20% receive 1.4% of total income, the richest 20% obtain 82.7% (Credit Suisse, 2016) and if half of the world's poor receives 7% of total income, the world's richest 9% retains half of global income. Eyzaguirre (2013), commenting on recent discoveries in this area, says that the global Gini is above 0.7, a historically high level. These results are consistent with the growing income inequality in the United States (Domhoff, 2013) and the United Kingdom (Plunkett, 2011). The only geographical area where a reduction of inequality has been detected is in Latin America, which continues as the upmost unequal region on the planet (Lindenboim, Kennedy and Graña, 2011; Lustig, 2012; Bértola, 2018; OECD, 2015). Nevertheless, in recent years this trajectory has stagnated (Cord et al, 2017; World Bank, 2014).

The 2008 crisis exposed that during the years of the Great Moderation<sup>6</sup>, regardless of economic growth, trade expansion or productivity improvements, inequality had been dramatically on the rise and that the market was not the best indicator for locating productive factors. Markets failed to guarantee an equative distribution of growth benefits during boom years nor costs during times of crisis. The financial crisis has intensified wealth inequality at the top of the distribution, at least in the United States, the United Kingdom, the Netherlands and Italy, where information is available. In the United States, 1% of citizens appropriated 93% of additional income created in 2010, in comparison to 2009, and the average income of a full-time job is less than it was four decades ago (OECD, 2015; Milanovic, 2017).

Within this framework, the problem of global inequality has resurfaced, led by developed countries and multilateral organizations: The Organization for Economic Cooperation and Development (OECD), the World Bank, the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), International Labor Organization (ILO) and the Economic Commission for Latin America and the Caribbean (ECLAC), among others. The increasing inequality in the developed world, which finances research agendas, has led to the issue being classified as globally urgent and explains the favorable reception of

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5 To justify a reduction in inequality, gadgets are used such as shortening the research period. Milanovic (2006; 2016) has made important efforts to produce reliable data on global inequality, always advocating neoliberal structural reforms.

6 The period from mid 1980s to 2007, characterized by high economic growth and relative stability

Piketty's Capital (Piketty, 2014) and the awarding of the 2015 Nobel Prize in Economics to Angus Deaton for his work on poverty.

## **5. What Goes Unrecognized**

We can find commonalities in the research on inequality of the multilateral organizations, especially the OECD (2011).

First, the acceptance of the emergence of inequality as a central issue and little certainty about what causes it, which policies would avoid making it worse, and what actions should be taken to reduce it, in agreement with Lucas (2004, p2):

Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution. The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production.

The World Bank's manual on poverty and inequality, for professionals and bureaucrats, states that the research doesn't prove causality, which makes it impossible to design policies to deal with the causes of these two issues. Nevertheless, the Bank insists on two solutions: labor market flexibility and education, to which it subordinates its national and international conditional transfer programs. The WB, the OECD and IMF place the blame for the 2008 crisis with financial de-regulation and tepid control (FMI, 2010) and, along with the ILO, call for action on the structural causes of the crisis: the increase in income inequality.

(...) in advanced countries, the short-term impacts of the crisis on average incomes must be considered within the context of a long-term decline in the participation of wage earners in GDP before the crisis and a prolonged period of wage moderation (ILO, 2012: 3)

These reports don't fully contemplate the new organization of capital -- into networks and financial funds -- nor do they examine financial deregulation, the fall of real wages, and the contraction of the welfare state and its compensation through the progressive indebtedness of the majority of the population (Madi, 2016). This process, while concealing the impoverishment of families, increased social imbalances: the lower the household income, the greater their indebtedness. Thus this scenario tossed out the basis for the financial crisis.

Economic policies to manage the 2008 crisis differ according to diagnosis. Some emphasize the political causes and effects of economic downturns, others points to institutional factors or low growth. The IMF and OECD insist on austerity and economic liberalization, and accept changes to the financial system and a push for aggregate demand increasing wages, formalizing employment, and improving collective bargaining, because labor organization affects productivity and wages. These so called labor market rigidities

help to smooth the crisis by shortening the phase of downturn within the cycle (Piketty, 2014; Milanovic, 2016).

Multilateral organizations (FMI, 2013) introduced anti-poverty programs, along with those of economic liberalization, fiscal discipline, financial deepening and open trade, because even though they tend to increase inequality, they can accelerate growth and reduce poverty in the long run. These recommendations deepened policies put into place in the last three decades and assume meritocratic societies that can guarantee all individuals and nations can succeed according to their own individual effort. However, to mitigate inequality, even the WB and CEPAL suggested stimulating labor-intensive growth and complementing investment in human capital with a reformulation of the structural bases of economic expansion. (CEPAL, 2012; Galor, 2005; 2011). In our opinion, it is necessary to reverse the deregulation of the labor market and the resulting loss of unionization, the regressive tax system, and the lag in minimum wages in the face of inflation. In addition, it is necessary to create measures to compensate for the effects of China and Indian as competing players in international markets and the oligopolization of the global economy. It's necessary to respond to the general anti-poverty and anti-labor attitude. Mexican manufactures with Chinese and Indian lower costs and low and medium technology exports both in the USA and in domestic markets (Romero, 2016).

Second, inequality and poverty studies suffer more from an ideological rather than epistemological problem: defining inequality (and poverty) by the indicators used to measure it and assess its effects. Determining impacts by causes is circular reasoning that weighs the effects of inequality, conceals its causes and leads to a potentially infinite chain of cause and effect. Income inequality stems from the wage inequality related to the type of work performed and the labor category of the worker. These factors emerge from poor education, low school performance, malnutrition, and poor health, all leading to low productivity and low salary jobs. The poor cannot be entrepreneurs, because they do not have access to credit because they are poor, so their main or in many cases only income, is wages. That line of causality results in the so-called poverty and inequality "traps" out of which deserving individuals can escape but not entire social groups or classes. The existence of these traps is the effect of poverty being limited to the endowment and individual flow of monetary resources, the only way to obtain the necessary goods for life. Thus, all public, state and collective forms of non-monetary provision of assets are devalued.

A third argument is the effect of technological change on job creation. New technologies shift work, first in regards to the least qualified and then for others with higher qualifications. The effect is a reduction in the income elasticity of the job creation and the fall in the wage bill affecting mainly lower income groups. To this, there can be added two observations. The idea that technological development is the main cause of inequality is to imply that this is a technical problem far outside of policy and human decision-making and denies inequality's political and social roots, which in their most extreme forms in Latin America could be considered a "social ill." If technological advance is necessary for society's progress, economic inequality becomes an innate problem, unexpected collateral damage resulting

from a necessary process. It is indispensable then to consider the nature of subsidies for labor-saving technologies that reduce the cost of production and alter the relative prices of capital and labor and hence, the production function (Hémous and Olsen, 2014). The displacement of labor by capital would not occur if increased output at a faster rate rather than productivity growth was encouraged and wages were linked to productivity. Secondly, the increase in inequality and poverty has to do with the productive process itself, with the production function resulting from the relative prices of capital and labor, dislocated by policies that favor the former and discriminate against the latter and with the abandonment of the objective of full employment in the interest of inflation control. Through labor reforms labor's bargaining power has been undermined and wages have been decoupled from productivity and final demand. The liberalization of capital accounts increased the mobility of capital in relation to labor and its relative profitability. These factors have frozen wages and increased the participation of capital in the functional distribution of income to a degree not seen since the 1930s. Finally, the permanent specialization in commodities, has been signaled as the mayor explanation of the deceleration of Latin America Economies which seems to be locked in the medium income trap, the stagnation or decline of manufactures in GDP, employment, technological dependence and stale poverty and inequality (Bértola and Ocampo, 2012; Puchet et al., 2018).

## **6. The Debate over the Connection Between Inequality and Economic Growth:**

The controversy is lively and inconclusive, like all things in economics, and centers around the direction of causality, meaning the impact of growth on inequality and vice versa. The evidence doesn't settle the debate. Here are a few of the debate's basic elements.

### **6.1. The Kuznets Curve**

Kuznets contributed significantly to the debate when, through studying industrialized countries he confirmed that in the first stages of development inequality reaches its maximum and from there begins to drop. He explained his limited empirical discovery as the transferal of the agricultural and rural workforce to factories and cities, generally more unequal in the first stages of industrialization. In later stages, with the integration of migrants into urban industry and modern employment, inequality diminishes. Kuznets, as well as other research of the time, highlights an idealization of the modernization theories in regards to the path of industrialized countries. His "inverted U", the graphic representation of the trajectory of growth and inequality, supported economic policies that concentrated on growth as the mechanism for reducing inequality, despite the fact that Kuznets himself confirmed that his theory, widely accepted among academics and policy makers, was based on 5% data and 95% speculation, even wishful thinking, (quoted in Lee, 2012). This generalization of a specific case, without instruments of control, let loose an extensive empirical controversy about the rationality of these efforts of aggregation (Sumner, 2012) and made evident the political intention of the inverted U theoretical argument: to offer

the developing countries an optimistic perspective on capitalism (Piketty, 2014).

More recent work offers contradictory results. On one side, they confirm the inverted U (Roubini, 2011) and treat the intensification of inequality as a necessary effect of economic expansion, a position that supports the Chinese and Indian experiences as demonstrating that accelerated growth reduces poverty and increases inequality. Forbes (2000), breaks down the relationship, isolating growth's effects on inequality and proposing that causality has been poorly assigned, that the negative impacts aren't direct.

Numerous authors question the existence of the curve.<sup>7</sup> In establishing the growing inequality within developed countries they negate the "egalitarian" stretch by demonstrating a recurrent rise in equality. Controlling for the inequality-growth relationship among groups of countries at different income levels, the divergence grows. The impossibility of consensus is blamed at times on the quality of information, at times on the econometric techniques used, the temporal horizons examined, or the lack of integrated theoretical frameworks. Now, the inverted U has mutated into an elephant, whose trunk rises and then descends to the ground (Milanovic, 2016) and it's been confirmed that the Kuznets Curve, a discovery limited to a handful of cases, is not a law nor a established empirical norm and therefore should not be thought of as one (Riggs et al., 2012).

## 6.2. The effects of inequality on growth

It is often repeated, in arguing for a direct relationship between inequality and growth, that the cornering of the market by higher income groups increases savings and with that, investment and growth (Lee, 2012). This reasoning, dear to the neoclassical focus, confuses the *ex post* accounting identity of savings and investment with an *ex ante* economic mechanism, ignoring Marx's critiques (1981) of the English classics, and Keynes's (1983) of the marginalists, according to which Say's Law didn't hold up, neither logically nor empirically.

Recently, research has been re-initiated about the hoarding of resources without productive investment as a characteristic of the current era. Financialization is the result of the deregulation reforms of the past decades (Stiglitz, 2012; Stockhammer, 2012).

The destiny of savings to be applied unproductively impedes our ability to equate savings and investment; the largest profits (source of savings) don't increase investment but do increase inequality, as is indicated by the economic stagnation of the OECD countries. Income concentration has been recognized as the main problem along with globalization, deindustrilization, and the reorganization of production on a global scale (CEPAL, 2012).

The negative impacts of inequality on growth stem from causal mechanisms, accepting -but not without debate- that; a) it limits aggregate demand, at the very least the spending habits of the rich and their reluctance to invest (Murillo, 2008; OIT, 2012; Roubini, 2011); b) it promotes underinvestment in human capital, as the poorest citizens don't

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<sup>7</sup> Puchet and Puyana (2018), which provide an ample and fresh bibliography on inequality in the region, both from a historical and actual perspectives

have the resources to invest in assets with future payoffs (Atkinson, 2013); c) it induces underinvestment in productive projects in the presence of imperfect capital markets; d) it encourages redistribution, affecting capital gains and, in reducing investment, restricts innovation and technological adaptation (Sachs, 2003); e) it pushes tax hikes and an increase in public debt in order to attend to unmet basic needs (Sachs, 2003); f) faced with dropping wages, it encourages entering into excessive debt to maintain consumption and health levels.

It's assumed that some mechanisms create vicious circles of inequality and poverty (Sachs, 2003) and increased uncertainty about the value of scarce assets diminishes investment and growth, impeding the procurement of the resources needed to overcome poverty and inequality. This somewhat tautological idea confuses inequality with its effects, and turns out "big push" policy recommendations, not applied to industrialization, but to health or education, to accumulate human capital and rescue the economy from an equilibrium of poor performance (Atkinson, 2013; Lee, 2012; Roubini and Mihm, 2010). The insistence on investing in human capital was transformed into a mantra which avoids the problem of the occupation of qualified factors, the sectoral orientation of the economy and its insertion in international trade, as well as long-term financial problems.

To explain the empirical divergences several integrated methods have been developed that signal a positive effect of inequality on growth, in the short term, prioritizing economic factors such as increased savings and incentives for innovation. They warn that, in the long term, inequality has negative effects because sociopolitical factors like education and those related to the concentration of power dominate (Oechslin et al., 2009). This integrated explanation highlights the diverse effects of inequality depending on the time period and causalities considered.

## **7. On the stubbornness of Latin American Inequality.**

A new strand of historical studies have shed light on the state of today's income and wealth concentration in Latin America, a topic relatively new in economic history and economics analysis. These studies suggest social and economic segregation in Latin America is a permanent phenomenon, drawing on history and demonstrating marginal changes as an important conclusion in contextualizing the fall in inequality in the last decade, as recorded by short term analysis. With a longer time perspective and different measures, the reality looks rather different.

In effect, in the early 19th century, the concentration of wealth and social discrimination in the Latin American Spanish colonies was of a magnitude not found in any British dominions (Humboldt, 1812: 276). It made respect, trust, sociability, and the reasoned dialogue between social classes impossible, all things indispensable to the functioning of society and the economy (ibidem). The Spanish Conquest introduced into the existing inequity, the modern types of segregation of early capitalism, see table 1.

Table 1: New Spain 1790

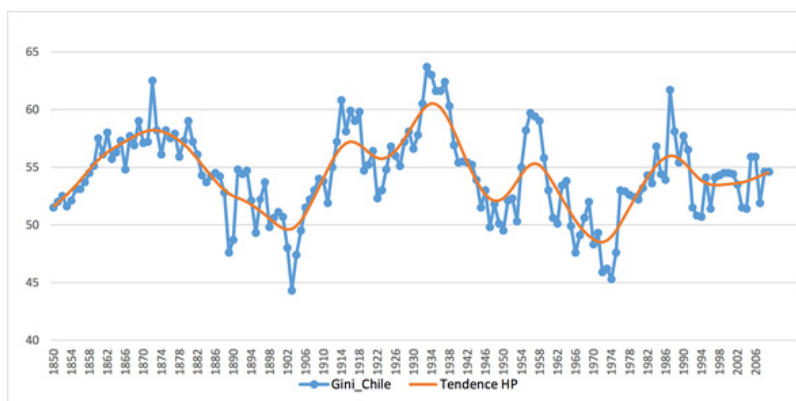
	Percentage of population	Avarage Annual income in Mexican Pesos		
		Per family	Per capita	In relation to the Media
Spanish upper class	10	1.543	309	6,12
Mestizo middle class	18	300	60	1,14
Indigenous peasant	72	61	12,2	0,24
TOTAL*	100	252	50,4	1

Source: Milanovic et al., (2007)

For Humboldt and for many others, two centuries later (Bertola and Ocampo, 2012; Milanovic, 2010; Deininger et al., 2000), land ownership still is a key element of contemporary exclusion. They note that the concentration of land and capital, inherited from the Spanish colonial era, rather than that of income, slows growth and discourages capital investment, and may even cancel the growth effects of investment on education. This conclusion is alarming considering, first, the concentration of land in Latin America, which with Gini of 81.5 in 1990 is the largest in the world and by far exceeds the 51,6 Gini Index of income concentration. Secondly, eight of the ten countries of the world with the highest concentration of land ownership are Latin American, and the Gini of land concentration in these 8 countries is 87, a value 6 points higher than the Latin American average, and 17 points above world average, and thirdly, that land ownership is a source of political power with the strength to influence an entire range of public policies.

A formidable effort has been deployed to unveil and explain, for some Latin American countries, the path of inequality since independence to the current era. We can observe, how, from 1850 to 2009, inequality evolved around a GINI index of 54, as illustrated in figure 1.

Figure 1: Chile, Index of Income Concentration. 1850-2009



Source: Figure own elaboration based on Rodríguez Weber (2014), table No.A.E1.

The Chilean example is important since in the decades from 1950 to 1970 Chile was one of the most equal nations in Latin America, and turned out to be one of the most unequal after 1974. The path of the Chilean Gini Index demonstrates that inequality has a non-linear tendency. In effect, in the long 156-year period illustrated in Graph No 1 we find five periods of approximately 30 years each: (1) 1852-1882 in which inequality tends to increase; (2) 1883-1910 (minimum inequality in 1903); (3) 1911-1941 (maximum inequality in 1933); (4) 1942-1974 inequality decreases, minimum Gini 45 in 1974; (5) 1975-2009 inequality remains on average equal to 54 (with a maximum in 1987, Gini= 62). It emerges that after a continued decline from 1942, inequality in 2009 was 10 points above the minimum level of 1974. The increase in inequality since 1974, up to 1987, is amongst the highest ever recorded (Scott, 1997). As elsewhere in Latin America, the transition to the liberal economic model implied a worsening of inequality and poverty, in many cases this economic transition was founded on a political transition to undemocratic regimes (Bulmer-Thomas, 1996). The author adds that the curtailing of human rights and political freedoms was accepted as the way to discipline labor. Up to a point the Chilean experiences repeat in other Latin American countries (Bertola, 2017; Prados de la Escosura, 2016). For a shorter period, 1960-2016, we find a similar trajectory in 13 Latin American countries with the inequality index revolving around the level registered in 1960, Table 2. In Mexico the value of the inequality index revolved around a 50% (Cortés, 2017),

**Table 2: Gini Index of income concentration in Latin American Countries.  
1960-2016**

	Value					Country averages		
	1960	1970	2000	2014	2016 <sup>^</sup>	1960-2000	2000-2016	1960-2016
<b>Argentina</b>		36.1	50.4	42.7	38.6	43.3	43.9	42.0
<b>Bolivia*</b>		53	59.1	48.4	43.5	56.1	50.3	51.0
<b>Brazil**</b>	54	57.6	58.5	51.5	44.9	56.7	51.6	53.3
<b>Chile</b>		45.6	55.2	50.5	45.9	50.4	50.5	49.3
<b>Colombia***</b>	62	52	57.2	53.5	48.9	57.1	53.2	54.7
<b>Costa Rica***</b>	50	50	45.8	48.5	45.7	48.6	46.7	48.0
<b>Ecuador</b>		38	56	45.4		47.0	50.7	46.5
<b>Honduras</b>		61.8	54.3	57.2	48.3	58.1	53.3	55.4
<b>Mexico****</b>	53	58	53.6	51	45.9	54.9	50.2	52.3
<b>Panama***</b>		57	55.5	51.9	46.1	56.3	51.2	52.6
<b>Peru</b>	61	55	56.7	44.1	45.4	57.6	48.7	52.4
<b>Uruguay</b>		41.8	44.4	43.4	37.0	43.1	41.6	41.7
<b>Venezuela</b>	42	47.7	44.1	38.8		44.6	41.5	43.2

Source: Own elaboration based on: for 1950-2012 World Bank (2013) =All the Ginis data set”, for and World development Indicators 2016 for 2014 information. \*Bolivia de 60 a 85, Morley, S.(2000); \*\* Brasil 1960 Morley, S.(2000); \*\*\* Colombia, Costa Rica y Panamá 1960-70, Morley, S.(2000); \*\*\*\*México 2014: Cortés, 2017. <sup>^</sup> With data from the World Economic Forum, these are Ginis of 2016 or latest.

The distribution of income by deciles reveals how resilient Latin American inequality is. In 2014, the share of the 10th decile is 19 times larger than that of the poorest decile, decil 1 and Latin American countries are more unequal than all the developed countries presented in Table No. 3. Amongst them, Argentina is relatively more equal, since the ratio of the poorest to the richest decile is the smallest of them all. Nevertheless, Argentina's ratio is 2.7 times larger than the German one (see column 4<sup>th</sup>, Table No 3). Colombia is the most unequal society with a ratio of 10 to 1 of 38.3. Table No. 3 presents the GINI and Palma ratios of 8 Latin American countries and 4 developed countries. The values of both measures of income inequality in 2017, was in 8 Latin American countries, higher than in 4 developed ones<sup>8</sup>. The Palma Ratio, the newest and broadly accepted measure, contrasts the income captured by the 5<sup>th</sup> and 9<sup>th</sup> deciles of distribution vs 10% of the richest. This ratio illustrates a fact that the GINI does not capture: that the changes in income concentration tends to happen in the lowest and highest deciles of income while the middle groups, those in the fifth to ninth deciles manage to maintain their share of the pie.

**Table 3: Income distribution for some Latin American countries. Deciles. 2017**

	Income share by			Ratio		Ratio (Palma) for each country			
	Decil 1 (A)	Decil 10 (B)	Decil 5 to 9 (C)	(B/A)	Palma (B/C)	Argentina	Germany	United States	Denmark
Argentina	1.9	29.4	55.1	15.47	0.53	1.00	1.25	0.94	1.32
Brazil	1	41.9	45.9	41.90	0.91	1.71	2.14	1.61	2.26
Chile	1.9	37.9	48.9	19.95	0.78	1.45	1.82	1.37	1.92
Colombia	1.4	39	48.2	27.86	0.81	1.52	1.90	1.43	2.01
Costa Rica	1.6	37	50.2	23.13	0.74	1.38	1.73	1.30	1.83
Ecuador	1.6	33.8	51.9	21.13	0.65	1.22	1.53	1.15	1.61
Mexico	2.2	34.8	51.2	15.82	0.68	1.27	1.60	1.20	1.68
Peru	1.7	32.3	52.8	19.00	0.61	1.15	1.44	1.08	1.52
Spain	1.9	26.2	56.8	13.79	0.46	0.86	1.08	0.82	1.14
United States	1.7	30.6	54.1	18.00	0.57	1.06	1.33	1.00	1.40
Germany	3.1	24.8	58.2	8.00	0.43	0.80	1.00	0.75	1.06
Denmark	3.7	23.8	59	6.43	0.40	0.76	0.95	0.71	1.00

Source: Own elaboration based on: for 1950-2012 World Bank (2019)

The percentile distribution of income reveals an even more dramatic picture of inequality. We calculated Mexican income distribution at the levels of 1984 to 2016 and applied the Palma ratio and other ratios Palma suggests in his 2011 paper. Table No. 4

8 Selected Latin American Countries accounts for %83 of total region's GDP and population and the developed countries selected are some very equal and others are main trade and investment partners

illustrates the results which confirm the Palma conclusions. There appears to be a relative stability of the Palma ratio which revolves around 0.8 with the lowest standard deviation of all the ratios. The 10<sup>th</sup> decile has both the highest value and standard deviation. Only the Palma ratios and the 100/0.99 have a positive value.

**Table 4: Mexico. Income Distribution by percentiles and Palma ratio. 1984-2016.**

	1984	1989	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014	2016	Changes 2016-1984		
	Percentiles															2016-1984	Average	Desvest
1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.01
10	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.0	0.2	0.02
40	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.6	0.6	0.0	0.5	0.02
10 Richest	37.5	40.3	42.1	41.0	40.0	40.7	42.3	38.8	39.0	38.5	39.2	36.4	37.5	38.0	38.1	0.6	39.3	1.73
(Palma) 51th to 99th	49.4	47.5	46.3	47.0	47.3	47.5	46.3	48.7	48.3	48.3	48.2	50.1	49.1	48.2	49.7	0.3	48.1	1.17
99	5.2	5.1	5.6	5.5	5.3	5.3	5.1	4.9	4.8	5.1	4.9	4.8	4.8	4.7	4.2	-1.0	5.0	0.35
100	9.5	12.0	11.8	9.9	11.2	10.4	10.2	8.9	10.3	9.7	11.0	8.3	9.2	10.4	11.9	2.3	10.3	1.10
	Ratios																	
0.10%/40%*	0.8	0.8	0.9	0.9	0.8	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.8	0.0	0.8	0.06
0.10%/0.01%	3.0	2.8	3.1	3.0	3.1	2.6	3.0	3.2	3.1	3.3	3.0	3.1	3.1	2.7	0.3	-2.7	2.8	0.72
100%/0.01%	130.2	196.3	166.2	132.8	144.0	158.1	153.9	116.2	142.8	133.1	146.7	111.7	101.3	106.8	149.9	19.7	139.3	24.93
0.40%/0.01%	7.4	8.8	6.9	6.8	6.6	7.9	7.3	6.8	7.4	7.5	7.0	7.6	6.0	5.8	7.0	-0.4	7.1	0.74
100%/0.40%	17.6	22.3	24.2	19.5	21.7	20.1	20.9	17.1	19.2	17.8	21.1	14.7	17.0	18.5	21.4	3.7	19.6	2.48
100%/0.99%	1.8	2.3	2.1	1.8	2.1	2.0	2.0	1.8	2.1	1.9	2.3	1.7	1.9	2.2	2.8	1.0	2.1	0.27

Source: Own elaboration base on INEGI Encuesta de Gasto e Ingresos de los Hogares 1984-2016.

\*Palma ratio = 10 richest/(Palma) 51th to 99th

For the Mexican case assessment, there are many explanations for the stability of the Palma ratios either divided by deciles or percentiles. For all these scenarios the income participation of the middle class should be clearly stated. The explications for the stability of the Palma ratios are many, confirmed in the case of Mexico, in the division of deciles and percentiles. All deserve clear answers to why the middle classes are able to defend their share of income. Palma results point to political factors such as the capacity of low and high middle classes to cement alliances with the highest income groups and to block any political attempts to deep income distribution. Palma insists that his findings contradict arguments which identify external factors, education gaps and labor saving technologies as the main reasons for the resilience of Latin American inequality. He agrees with several authors that neoliberal reforms, at least in part, are responsible for that (Cobham et al., 2015). A similar negative track between growth and inequality was found in Brazil that was reversed by distributive and employment oriented growth during Lula presidency (Tabosa et al., 2016).

Information on wealth concentration, besides the concentration of land previously mentioned, is not abundant. Nevertheless, some new studies have emerged which allow for some analysis. In 2014, 63 percent of total wealth was concentrated in the richest 10% of the Mexican population, and the top 1% of the very rich accounted for more than the 37 percent. Therefore, the Gini coefficient of wealth is 0.791. The concentration of financial assets is even more unequal, since 80% is owned by the richest 10% (Del Castillo, 2017). Del Castillo found that between 2003 and 2014 Mexican's real wealth increased at 7.9%, per year while the GDP only 2% leading to greater inequity.

The reasons for the persistence of the intense inequality of Latin American are many. Birdsall (2005) points to the destructive character which reverses instead of triggering emulation and savings. Other factors are lower rates of GDP growth, since the 80s, technical progress and globalization (Cord et al, 2017; CEPAL, 2017; Amarante, 2016; Fernández, 2016; Tabosa et al., 2016). CEPAL (2017) summarizes several studies and concludes that the liberal model is the main cause of the changes in the productive structure and the abandonment of active fiscal, sector and employment policies.

Besides all these factors, a powerful catalyst of inequality is the sustained decline of the labor income share in total national rent, a phenomenon linked to the reasons presented above and registered all around the globe. In Latin America the decline was severe, departing from a relatively low level if compared with the USA and Canada and other developed countries, which implies a sustained transference from wages to capital profits (see Table 5).

**Table 5: Functional Distribution of income in selected countries. Share of payments to labor as percentage of GDP. 1970-2017**

	1970	1980	1990	2000	2010	2011	2012	2013	2014	2015	2016	2017	2014-1970
Canada	53.2	53.3	53.4	50.1	50.4	49.9	50.7	50.7	50.2	51.5	51.3	50.7	-2.5
United States	58.1	56.8	55.9	57	53.3	53.3	53.3	53.0	53.2	53.6	53.7	53.5	-4.6
Brazil	34.2	34.7	45.4	45.4	41.6	42.2	42.8	43.2	43.5	44.6	44.7	s/n	10.5
Chile	42.7	38.1	33.8	39.8	36.1	37	38.7	38.4	38.3	38.3	s/n	s/n	-4.4
Colombia	39	41.6	37.4	32.8	32.7	31.4	32.2	32.7	33.1	33.5	33.6	33.9	-5.1
Mexico	35.7	36	29.5	29.7	27.6	27	27.1	27.9	27.4	27.3	26.6	26.1	-9.6

Source: Own elaboration based on, for 1970-1990, CEPAL, cepalstat. For years 2000-2017 OECD. Stat.

In Latin America and other countries, the fall of labor income in national rent is an effect of the productivity growth being lower than wage growth, which increases the gains of capital and intensifies the concentration of income and wealth, making it more difficult to reduce both poverty and inequality, Birdsall, N. (2005). This diverging path is caused by the negative and strong relationship between, on the one hand, inequality and the decline of total labor incomes and, on the other hand, the positive link between poverty

and inequality. This relationship is stronger the more intense inequality is (OECD, 2008; Dao et al., 2017; Abeles et al., 2017).

For the drop in income wages to take place, three conditions must be met which are very common in advanced economies: (i) the rate of return to capital must be higher than the rate of income growth; (ii) capital income must be more concentrated and captured by higher income groups; and (iii) the most inequitably distributed source of income must shape the distribution of total income (Milanovic, 2017). The author adds that the third condition is not fatal and can be prevented by sound fiscal policies: higher tax rates on capital income, increased provision of public services, especially health and education, which are inversely related to income and opportunity inequality. In Latin America there is a large margin to change primary distribution of income in favor of labor. Those are actions intended to reduce the capital intensity of the production function by enhancing the provision of public services and integrating policies to reduce inequality into growth strategies (Abeles et al., 2017; Santos de Farias et al., 2017). Another policy option is to stimulate the diversification of production by reversing the drop of manufacturing and agriculture in total GDP and total employment while reducing dualism in both agriculture and manufacturing.

Horizontal Inequality, HI, is a new concept used to measure and explain income inequality. HI refers to inequalities between culturally identified groups or between groups with shared identities stemming from religion, membership to an ethnic or racial group, or other factors that create solidarity, such as regional origin, gender or even professions or work performed; these identities are built, are fluid and change over time, to the pace of the general change in the political, economic and social environment in which they coexist. (Stewart, 2010; 2013). It has been identified as a factor negatively affecting growth and the reduction of inequality and poverty. The HI indicates “inequalities in economic, social or political dimensions, in cultural status among culturally defined groups” (Stewart, 2010). Therefore, HI is complex and multifaceted, and neither its roots nor its manifestations can be reduced to a singular aspect; for example, to income inequality (Stewart, 2002). Solutions, therefore, can not be limited to resource transfers or infrastructure provision, however important these measures may be. For analytical purposes, we can distinguish four areas of horizontal inequality that specify the trajectory and intensity of gaps between groups: (i) political participation; (ii) economic aspects; (iii) social aspects; and (iv) cultural status. In Latin America, indigenous populations suffer in these four areas (Puyana, 2017). Discrimination against indigenous and Afro-American descendants is deeply rooted in the racial discrimination that originated during the Spanish conquest and colonial dominance and was consolidated in the republican era. Despite the progress made since the late 1960-70s, inequality and discrimination prevail.

In Chile, Colombia, Mexico and Peru, the countries that make up 60% of the total Latin American population, we found large differences in main economic and social variables such as income, employment, and access to all social services, such as education, health, sanitation, electricity, social security. The indigenous labor-force works in less productive

activities such as agriculture and personal services. Regions in which the indigenous population represents the largest population percentage demonstrate lower levels of development and basic needs satisfaction. Table 6 illustrates the gaps separating indigenous populations from non-indigenous populations in education.

Table 6: Mexico, Chile, Colombia and Peru. Indigenous Population and non Indigenous Population, by educational levels. 2000-2015

	MEXICO						CHILE			COLOMBIA			
	2000			2015			2011			2005			
Educational level	Indigenous Population	No Indigenous	No Indig./ Indig.	Indigenous	No Indigenous	No Indig./ Indig.	Indigenous Population	No Indigenous	No Indig./ Indig.	Indigenous Population	Afro. D./raizal/ Palenquero	Other	No Indig./ Indig.
Without education	26.30%	7.5%	28.52%	18.97%	6.51%	34.30%	8.5%	6.40%	75.29%	28.7%	12.00%	9.20%	32.06%
Basic	67.30%	70.10%	104.16%	69.10%	60.73%	87.89%	45.70%	35.20%	77.02%	56.50%	62.20%	60.40%	106.90%
Medium and high level	3.40%	13.10%	385.29%	8.36%	19.00%	227.29%	35.40%	39.20%	110.73%	7.70%	2.40%	17.40%	225.97%
Superior	2.0%	8.60%	430.00%	3.57%	13.77%	385.44%	10.40%	19.20%	184.62%	2.60%	8.00%	12.70%	488.46%
Total	6,044,547	78,381,411	1296.73%	7,352,022	105,146,107	1430.17%	1,369,563	15,592,952	1138.53%	1,269,965	4,016,922	32,923,297	2592.46%

Fuente: Puyana Alicia (2017)

So far, and due to the lack of adequate policies of positive discrimination, gaps remain in education, as table 5 reveals, and in all other variables: social, economic and political. The intensity of disparities make it difficult to reduce general inequalities in the absence of positive discrimination measures. As Steward suggests, it's more impossible to reduce both poverty and inequality the larger the discriminated population and the deeper the gaps (Steward, 2013). The lack of effective policies to reduce HI is evident, for instance in the Mexican Central Government Budget. In effect, the proportional share of the resources allocated to indigenous peoples and indigenous regions in the total public expenditure (1.8%) is far lower than the percentage of the indigenous population in terms of total population (23%). The per capita public expenditure allocated to non-indigenous people is between 4 and 18 times that of indigenous people, according to the identification criteria used. Therefore, for per capita expenditure to be leveling it should grow in proportions greater than the proportion of the indigenous population speaking indigenous languages.

8. Concluding Remarks

Latin American inequality is deeply rooted in the colonial period and the changes in income concentration seem to be marginal, temporal and induced by changes in political regimes. Values of different measures indicate that rather than a clear downward tendency the Gini Index revolves around a value of around 50 per cent. After two and half decades of growing income concentration Latin America managed to reverse this path improving the distribution of income. This positive trend became to a stand still with the North Atlantic 2008 crisis and since then income concentration stagnated. The end of the commodity prices boom also contributed to this. So Latin America also suggests that the Kuznets curve is not a fatal trend and in the absence of distributive measures inequality tends to prevail.

The international specialization in commodities and low technology, final consumption manufactured goods has induced an economic model intensive in imported value added which has some important macro economic effects. First, a very weak link between the growth of exports and the rate of expansion of the economy; second, the reduction of the income elasticity of employment, so today the economic sphere needs a faster rate of growth to generate the same amount of jobs than before the structural reforms and the liberalization of international trade policies and, third, the reduction of the pace of the productivity of the total economy. Together all those factors, induced the contraction of the share of labor in the functional distribution of income.

Concentration of wealth is the central element determining the trajectory of income distribution and, more importantly, of the functional distribution of income in which a fast deterioration of the labor retribution has intensified since the instrumentation of structural reforms and the liberal economic model initiated in mid 1980s as response to the debt crisis of 1982. The trajectory worsened after the 2008 crisis and from the austerity policies applied to overcome it. Looking to the entire 1982-2016 period, we could suggest that Latin America has maintained austerity policies that contributed to the slowing down of economic growth, employment generation and reduction of real labor incomes, aggravating income concentration and at least keeping up wealth concentration if not increasing it. Fiscal policies aiming at preserving macro economic stability, while reducing income taxes, made it impossible to managed fiscal expenditure to improve income distributions. Up today fiscal policies in the majority of Latin American countries are regressive. One important fact is that despite clear and significant improvements in education, the education bonus has decreased indicating a slowdown in the incomes of highly educated workers.

Horizontal inequality is severe in several ways. Ethnic groups or indigenous population and Afro-American communities suffer from multifactorial discrimination evident in their per capita and household incomes, unemployment rates and lower wages. They have constrained access to good education and health service. Amongst Indian and Afro-descendents, women present even lower economic and social indicators. So it could be suggested that gender discrimination among ethnic groups reflects the general gender discrimination affecting Latin American countries.

Political, more than mere economic factors are the reason Latin American economic and social stratification continue. Powerful economic groups are able to influence the processes of policy definition and instrumentation in their favor and the upper and middle classes have the capacity to forge alliances with the richest segments of the society and have thus far been able to preserve their privileged statuses.

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