

# Income Disparities in Latin America

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## Abstract

Inequality among human beings has been an issue of concern from the ancient times. It has been considered ethically undesirable and many great thinkers in human history have sought to narrow the gap between the haves and the have-nots through their philosophy, teachings and efforts. Yet disparities amongst different groups of people have continued to exist in almost every country and society of the world. The last few centuries, especially since the dawn of the industrial revolution, have seen unprecedented growth in the creation of wealth. Unfortunately, this wealth has been divided most unequally, both within and across countries and regions with the result that vast sections of the world population have been deprived of the benefits of the creation of wealth and development. (UN Human Development Report, 2002. pp. 2-4) Latin America is one region where inequality is particularly pronounced in almost all respects—in terms of income, access to education, health services, water, electricity, political influence (voice), assets and opportunities. This paper focuses on the income disparities in Latin America<sup>1</sup> and includes a discussion of the background and history of inequality in the region, its main causes, a review of the data about inequality in different Latin American countries and the trends, the consequences of high-income disparities, and the possible solutions for reducing the persistent inequality. Disparities in incomes on the basis of ethnicity and gender are also discussed.

**Key words:** Income Disparities, Latin America, Emerging Markets, Inequality Measurement.

## MEASURING INEQUALITY: SOME RECENT STUDIES

Several studies have been conducted over the last ten years that have computed inequality measures across countries and over time in the Latin American region. For example, Deininger and Squire (1996) have put together a large set of data regarding Gini coefficients for most countries since World War II. This data was updated and extended in 2000 by the World Income Inequality Database, a joint project of the United Nations University, WIDER, and the United Nations Development Program. Other significant work on income distribution has been done by Milanovic (2002), Bourguignon and Morrison (2002), and Sala-i-Martin (2002). Bourguignon, Ferreira, and Leite (2002) and Székely and Hilgert (2001) have

compared Latin American countries with some developed countries at the microdata level.

The World Bank Report, “Inequality in Latin America & the Caribbean: Breaking with History?” by Guillermo Perry et al released in October 2003 is the latest and most comprehensive current report on Inequality in the region and is the major source of this paper.

### *Latin America: How Unequal?*

All of the above-mentioned studies are unanimous in their conclusion that Latin American region has the highest level of inequality in the world. Just how unequal the income distribution is in Latin American countries is reflected by the following data: The richest one-tenth of the population of Latin America and the Caribbean earn 48 % of total income, while the poorest tenth earn only 1.6 %. In industrialized countries, by contrast, the top tenth of the population earns 29.1 %, and the bottom tenth earns 2.5 %. (Bourguignon and Morrison-2002, p.

<sup>1</sup>Most of the information has been drawn from the World Bank Report, “Inequality in Latin America & the Caribbean: Breaking with History?” released in October 2003

731) The Gini coefficients<sup>2</sup> for Latin American countries averaged 0.522 in the 1990s, while the averages for the OECD (0.342), Eastern Europe (0.328), and Asia (0.412) during the same period were much lower. The data shows that inequality in Uruguay, the least unequal Latin American country, is higher than in the most unequal country in the industrialized countries or Eastern Europe, i.e., the lowest 10/1 ratio<sup>3</sup> in the region in for the year 2000 was 15.8 in Uruguay, which was still higher than the highest 10/1 ratio in Europe— 12.2 in Italy. (Perry, et al, p.1) As mentioned earlier, the present figures of income disparity in the region are not a new phenomenon. In all the Latin American countries, the share of total income held by the poorest 10 percent of the population has been always less than 2 percent, while the share of the richest 10 percent has been always higher than 30 percent from the time such figures have started to be gathered. (Ibid. p.42)

### ***Income Disparity in Latin America: Getting Worse?***

The income inequality in the region has, on average, tended to get worse in the last decade<sup>4</sup> but there have been individual differences in some countries. The income disparities in the most equal countries, such as Argentina<sup>5</sup>, Uruguay and Venezuela, have tended to worsen in this period, while the most unequal country— Brazil has experienced improvement. (Ibid., p. 1) The improvement in income disparity in Brazil, however, was not enough to change its position as the most unequal country in the region. The income distribution has also become more unequal in Bolivia, Chile, Ecuador, Peru, Uruguay, and possibly Paraguay in the 1990s. On the other hand income inequality in the Central American countries and the Caribbean has shown relative stability over the last decade. Hence, on average, inequality has increased in South America and remained stable in

Central America and the Caribbean in the last ten years.

As a result of the above mentioned changes in income disparities, the average Gini coefficient across countries increased almost one point in the last ten year period (from 50.5 to 51.4). The population-weighted average, however, shows a small decrease (from 51.9 to 51.5) because of the positive performance of Brazil and Mexico and the stability of Colombia, the three most populated countries in the region. Another factor worth mentioning in this context is that in terms of ethnicity, culture and politics, Latin America has been one of the most homogeneous regions in the world. The trend of unequal countries becoming more equal and the relatively equal countries becoming less equal over the last decade has made it more homogenous in terms of income distribution as well. (Perry et al. p 43)

If we go further back in time, the picture regarding the extent of inequality and income disparities becomes hazier. This is because, until as recently as in the 1970s, national surveys or household surveys about incomes had not been conducted in most Latin American countries. Even in countries outside the region, household surveys and computation of inequality statistics were started only after the World War II. Mexico and some Caribbean countries were the first Latin American countries to start household surveys in the 1950s. However, most countries in the region introduced household surveys in the 1970s and it is only in the period hence, that income disparity figures for the region become clearer. (Ibid. p.45)

If we review the inequality trends since the 1970s, we get the following picture: Inequality increased significantly in the 1970s only Argentina, Chile, and Uruguay<sup>6</sup>, inequality decreased in several countries like the Bahamas, Colombia, Mexico, Panama, Peru, and Venezuela and remained stable in others.

The 1980s were the worst for the region as most countries suffered a significant increase in the level of income inequality during the period. Although the pace of increasing inequality slowed down in the 1990s, the net result is that inequality (and income disparities) in the region have become more pronounced since the 1970s. Reliable data before 1970 is unavailable, but the trends indicate that most countries in Latin America have experienced increase in income disparity since the Second World War.

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<sup>6</sup>Also known as the “Southern Cone” countries

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<sup>2</sup>The “Gini coefficient” is a standard measure of inequality in a distribution. It ranges from 0 to 1, and increases with inequality. The Gini coefficient ranges from 0 (complete equality) to 100 (all national income concentrated in the hands of one individual).

<sup>3</sup>10/1 ratio refers to the income of the top tenth of the population to the bottom tenth

<sup>4</sup>The comparison is based on survey of household incomes in 20 Latin American countries from the early 90s and the years 2000 and 2001

<sup>5</sup>The rise in income disparity has been most dramatic in Argentina—a jump of 7.7 Gini points between 1992 and 2001, followed by an increase of 4 Gini points in Venezuela

### ***Is Poverty and Income Disparity Related?***

Poverty and income disparity are not the same concepts. Poverty may decline in a country or region where income disparity is increasing. However, experience has shown that such a situation occurs rarely and inequality and poverty are closely related. This is because in a growing economy with stable levels of inequality, poverty invariably falls. As a result the Latin American region showed significant reduction in poverty levels in the 1970s, when its economies were growing with a corresponding drop in inequality. On the other hand, the 1980s saw fall in incomes and more unequal income distribution—resulting in accelerated increase in poverty.

The poverty levels have increased in Argentina and Venezuela in the recent past due to increase in inequality, even in times of a growing economy. This illustrates the nexus between poverty and inequality.

But just to emphasize that inequality is not the same as poverty, Latin America, despite its high levels of income disparity and inequality, has performed better in terms of poverty than some other less developed regions of the world such as South Asia, Eastern Europe and Sub-Saharan Africa due to its higher per capita income.

### ***Historical Roots of Inequality in Latin America***

The roots of the current, extreme inequality and large differences in the income distribution in the region can be traced back to its colonization by the European powers about 500 years ago. The basis for the initial inequality in the initial period of European colonization of Latin America is not hard to find. The Europeans were very few in number as compared to the large populations of indigenous people and slaves, but there was a vast difference in their knowledge of technology, legal and economic systems, and most importantly—military strength. Once, the European settlers were able to establish their supremacy over the native populations of Latin America, they proceeded to consolidate their position and built institutions that served the interests of the elite.

Another reason why the European colonizers were able to establish their long-lasting elitist institutions was that the native culture of Latin America already had an elitist tradition in which the Native American elite

exploited the general population by extracting tribute from them. In a way, the Europeans simply followed in the footsteps of their elite predecessors.

The climate and soil of countries such as Brazil were suited for agriculture and the colonizers saw and seized their opportunity to exploit the large native populations as slave labor for farming. The European population was relatively small and it acquired large land holdings, ruthlessly exploited the indigenous people as slave labor on the mainly sugar growing farms and mines. They further institutionalized their exploitation by putting in place laws that gave them<sup>7</sup> the right to use forced labor on the farms and in the mines, and allowed the forced sale of goods at highly inflated prices. (Perry et. al. p. 172) The small group of European elites in Latin America jealously guarded their privileged position by putting restrictions on trade routes and on further immigration from Europe. Such restrictions also prevented regions with smaller native populations, such as Argentina and Uruguay to compete with colonial centers in Bolivia, Mexico, and Peru until late in the 18<sup>th</sup> century. The net result of the elitist hold on the economy and culture of Latin America was the perpetuation of extreme inequality that has persisted even after the independence of the colonies as the elite maintained their hold on the reigns of power and continued to perpetuate inequality.

#### Comparison with Colonization of North America

It is interesting to compare the results of colonization of North America and Latin America, *visa a vie* inequality. The North American countries, i.e., the United States and Canada, were also colonized by the Europeans around the same period, but the levels of inequalities in the North did not develop to the same extent as in the South. The reasons behind the different directions taken by colonization of the two regions lay in the relatively less fertile lands of North America where cash crops like sugar cane could not be grown, and the scarcity of native populations that could be exploited to run profitably the farms. Hence in a situation where land was cheap but labor was expensive, a more equitable society with relatively lesser income disparity developed.<sup>8</sup>

The difference in inequality between the North and South America was in no way related to the fact that

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<sup>7</sup>The Spanish conquistadors

<sup>8</sup>This relatively lesser inequality, however, did not extend to the Native American and African American population, but these groups represented a much smaller percentage of the total population as compared to the population of Native Americans in Latin America.

the north was mainly colonized by the British while the Southern colonizers were mainly Spanish. For example, while setting up their earliest colonies in North America, the Spanish colonies of Latin America were the primary models for the English, and they tried the same tactics that were employed by the Spanish when they started their conquest of South America. It was only when the English realized that the policies applicable in Latin America<sup>9</sup> did not apply to North America, did they change tactics. Hence, the source of inequality was not inherent just in the Spanish way of colonization, nor was the British way of colonization inherently egalitarian. The difference was in the conditions faced by the colonists in different parts of America, which determined their degree of inequality. As a result, British colonies such as Guyana, British Honduras, and Jamaica developed degrees of inequality, economies, and institutions similar to those in neighboring colonies established by the Spanish and other European powers. In the same way, Spanish colonies that had small populations of Native Americans, followed patterns of inequality and other developments that were similar to some of the British colonies having comparable demographics and economies. (Ibid. p. 174)

#### Persisting Patterns of Inequality

It is noteworthy that the initial conditions of a region at the time of its colonization and the institutions developed in the early stages tended to persist even when the conditions changed later on. For instance, the indigenous population of Latin America declined by almost 90% in the century following the initial conquests by the Spanish. However, the institutional pattern of exploitation of native labor remained unchanged, and the colonists only developed methods, which are more efficient, for the remaining indigenous people.

1. Elitist Control: The institutions that perpetuated inequality during the colonial period in Latin America were so entrenched that they persisted even after most of the region became independent by the early 19th century. The reason for this and the continuing

disparity in incomes was the undiminished control of the elite over the economy and politics of the countries. The elite, as always, devised policies favoring the status quo, which were heavily tilted in their favor. These policies also prevented the majority from unfettered access to equal economic opportunities and ensured the survival of inequitable distribution of income and other assets.

2. Lack of Democratic Institutions: Unlike North America, representative democratic institutions had also failed to develop in Latin America, mainly because the majority of the population was indigenous<sup>10</sup> and any democratic development would not have suited the minority, privileged Europeans.<sup>11</sup> Although most of the governments in the Americas after independence were nominally democratic republics, the Latin Americans failed to develop a system of secret ballot<sup>12</sup> until much later and a majority of the elections was fraudulent with the elite exercising disproportionate direct and indirect power to protect their interests.
3. Lack of Literacy Levels: Apart from the elitist hold on power and its propensity to devise policies that are first and foremost in its own interest, the low levels of literacy<sup>13</sup> have also contributed to the continuing high levels of inequality in the Latin American countries. For instance, most Latin American countries did not achieve high levels of literacy until well into the 20<sup>th</sup> century<sup>14</sup>. This was also due to the elitist policies that lacked governmental support for primary education but provided generous endowments for university level education which was designed to cater for the children of the elite<sup>15</sup>.
4. Land Policy: The land policy of the Latin American governments also greatly influenced the distribution of land which ultimately led to the lop-sided patterns of income distribution in the region. Most of the land in the Latin American countries belonged to the government until the 19<sup>th</sup> century and beyond

<sup>9</sup>There was no gold and few indigenous people to exploit as slave laborers.

<sup>10</sup>Despite the massive reduction in indigenous population following the European colonization, primarily due to the lack of resistance in the natives to foreign diseases introduced by the Europeans.

<sup>11</sup>On the other hand, the European settlers were in majority in North America and democratic development in the region did not threaten transfer of power into non-European (i.e., native) hands.

<sup>12</sup>Apart from a lack of secret ballot, the poor and the illiterate were not allowed to vote. State provided ballots that ensure secrecy were only introduced in Chile in 1958, and in 1988 in Columbia

<sup>13</sup>It is now widely recognized that a society's levels of schooling and literacy is related to many socioeconomic changes conducive to growth, including higher labor productivity, more rapid technological change, and higher rates of commercial and political participation. It also contributes to distribution of the benefits of growth.

<sup>14</sup>This contrasts sharply with the situation in North America where primary education was emphasized virtually from the start of the earliest settlements

<sup>15</sup>Even the supposedly 'progressive' states of Argentina and Uruguay among Latin American countries lacked far behind the US and Canada in support for primary education

and the land distribution policy had a crucial impact on how it was utilized. The importance of land distribution was even more crucial since all countries in the region were agricultural countries and measures such as the availability of land, setting of land prices, establishing minimum or maximum acreages, provision of credit, and tax systems were particularly important. (Perry et al, p. 183). In the United States, for instance, the Homestead Act of 1862 made it very easy for families to acquire land for family farms. Canada followed similar policies<sup>16</sup> in this regard. Although, Argentina and Brazil also established land distribution policies much later in order to attract immigrants, their policy was not geared towards small land holdings and only catered to the elite.

While countries such as Argentina and Brazil had vast stretches of land and scarcity of population, other countries in the region such as Mexico had a shortage of good land and much greater populations. In these countries, although the indigenous people had controlled most of the land since long, they did not possess property rights. This provided the excuse to governments controlled by elitists in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries to take away the land from the indigenous people and to give it away to large non-indigenous land holders.<sup>17</sup> The policies of land allocation, thus, played a big role in sustaining the tradition of income disparities in several such Latin American countries. The figures for land holdings in four Latin American and North American countries<sup>18</sup> in the early 1900s as depicted by Engerman and Sokoloff (2002) reveal an astonishing amount of disparity. For example, the figures show that only 2.4% of the households in Mexico owned land in the year 1910. In sharp contrast, the figures show that about 75% of the households in the United States owned land in the year 1900. The figures for land-owning households in Canada are even higher, with nearly 90 percent of household heads owning the agricultural lands in 1901.

While it is true that Mexico was a land-short country with a relatively higher population, the example of Argentina, which had large surpluses of agricultural land,

proves the point that elitist policies, which restricted the disbursement of government owned land, made a huge difference in the way land ownership developed in Latin America. It also had a big role in continuing or even enhancing income disparities in the region.

### ***Social, Economic and Political Changes in the 20<sup>th</sup> Century***

It is easier to explain the high level of inequality that existed in Latin America at the start of the 20<sup>th</sup> century due to the legacy of European colonization and subsequent elitist policies prevented the spread of mass education or a more egalitarian land distribution. It is more difficult to explain the apparently unchanged inequality levels in the 20<sup>th</sup> century. More so, because of the fact that most Latin American societies experienced significant social, political, and economic changes in the last century. For instance, significant urbanization took place in Latin America that reduced the role of agriculture. Since typically large landholdings were one of the reasons for extreme inequality, urbanization ought to have made a dent in income disparities. Secondly, education, which had been grossly neglected previously, began to pick up in the 20<sup>th</sup> century. Politics, too, made some progress towards democracy and openness, although authoritarian rule still remained the hallmark of some countries. (Meyers, “Globalization and Inequality in Latin America”) Similar socio-economic and political changes also occurred in other parts of the world during the last century, including Europe and North America. However, while these regions exhibited large changes in the levels of inequality and income disparity,<sup>19</sup> the situation in Latin America largely remained unchanged. Limited research is available on the reasons behind Latin America’s stubborn and the somewhat puzzling continuance of its traditional inequalities. The World Bank study offers some possible reasons for this:

The low quality of public education is cited as one of the reasons. A study by Pritchett has been quoted in the report (p. 187) that finds no co-relation of mass expansion of educational enrolment during the last 40 years with economic growth. It is hard to accept the extreme inference from the study that education has

<sup>16</sup>The Dominion Lands Act of 1872 governed the distribution of public land in Canada

<sup>17</sup>Between 1878 and 1908, these regulations resulted in a massive transfer of public lands (more than 10.7 percent of the national territory) to large holders, such as survey and land development companies

<sup>18</sup>(i.e., Argentina, Mexico, United States and Canada)

<sup>19</sup>At least until the 1960s in the United States

absolutely no positive effect on the economy of a society. However, it is possible that the level of education will be so hopelessly low that it does not leave any impact on development. It is also possible that other negative factors in a society counter the effects of increased education. Both these factors seem to be at work in Latin America—the quality of education available to the common man is of sufficiently low quality and the deeply entrenched patterns of social exclusion prevent the marginalized groups to break out of their poverty even when educated.

Another possible reason suggested by the report for the continuing income disparity in the region is the type of development strategy that was adopted in the Latin American countries from 1930s onward. The strategy was largely based on inward looking policies, import substitution, and isolation from the world markets. Most countries that adopted a contrary development policy, i.e., export oriented and integrated to the world markets have exhibited falling inequalities.

In addition, the dependence of a number of Latin American countries on export of primary commodities such as oil (Venezuela), coffee (Brazil) and bananas (Central America) nullifies, to a large extent, the effect of increased education. The underdeveloped, tightly controlled and monopolized financial markets of Latin America prevent the poor from gaining access to capital that would alleviate their poverty and lower inequalities. (World Bank Report, p. 188)

Finally, persistent Authoritarianism is identified as one of the political reasons for continuing inequality in the report (p. 188). Despite some progress towards democracy in Latin America, the culture of recurring authoritarianism has often stunted the effects of social and political reforms. This is probably because authoritarian rule is by its very nature elitist.

### ***Roles of Race, Ethnicity and Gender in Income Disparities***<sup>20</sup>

Latin America is a racially and ethnically diverse region, where the main racial/ ethnic groups<sup>21</sup> are Afro-descendants, Euro-descendants (whites) and the people

of indigenous descent<sup>22</sup>. Inter-racial and inter-ethnic inequality is particularly pronounced in the region<sup>23</sup>, which is not surprising in view of the colonial background and history of Latin America.

Race and Ethnicity have a unique history in Latin America since the European settlers in the region, as a matter of deliberate policy, tried to achieve ethnic unity by trying to assimilate the non-white population with the indigenous people. The theory was that such ‘assimilation’ would help the ruling Europeans (who were in minority) to control the majority population of non-whites. The legacy of the policy of ethnic mixing was that racial and ethnic differences were largely denied at the governmental level until recently and led to “racially blind” policies at the national level. Such policies resulted in avoidance of poverty-reduction policies for the disadvantaged racial and ethnic groups by a majority of Latin American governments. From the mid-seventies onward, however, various studies have emphasized the pronounced differences in the income levels as well as non-income socio-economic indicators such as education and access to services between various racial and ethnic groups. (Graham)

#### Racial Identification

The policy of ‘racial and ethnic’ assimilation and racial mixing mainly between the European settlers and the native populations has resulted in some blurring of the racial lines. Such ambiguity is particularly apparent in self-identification by people of different racial groups in the region. Such ambiguity is reflected in the fact that, although a majority of the Latin American population is indigenous, only 10% identify themselves as such. (Perry et al. p. 82) The World Bank Study observes that there was a high degree of disagreement on racial classification by Brazilian individuals and the interviewers who conducted demographic surveys. While identifying their own racial category, there is a clear tendency to be “whiter” than that identified by the interviewers. The report shows that those individuals who were identified as “black” by the interviewer, only 57.9 percent also identified themselves as black, whereas 39.8 percent replied that they were of mixed race and the remaining 2.2 percent identified themselves as white. (Ibid., p. 87) The results of self-

<sup>20</sup>This Section is largely based on Chapter 5 “Group-Based Inequalities: The Roles of Race, Ethnicity, and Gender” (pp. 81-126) of the World Bank Report

<sup>21</sup>Individuals are commonly classified into race by phenotype (skin color, hair type, facial features), & into ethnicity by language, customs, and dress.

<sup>22</sup>Other ethnic groups in Latin America and the Caribbean are Indo- and Afro-Guyanese, Afro-Creole and non-indigenous

<sup>23</sup>The most notable study on indigenous groups, is a 1994 study by Psacharopoulos and Patrinos (Quoted in “Inequalities in Latin America...” p. 81)

classification also reveals that “race” has a partly social meaning in Latin American societies as the wealthier classes are more prone to identify themselves as “white” even when they do not seem to be so to others. This, perhaps, reveals a hangover from the colonial era and partly explains the continuing discrimination against people of Afro and indigenous descents.

#### Ethnic Identification

Ethnic identification is even more difficult than racial identification since the characteristics that determine one’s ethnicity, i.e., linguistic or cultural practices, may change over a lifetime while the biological features (used for racial identification) are relatively fixed. In case of Latin America, ethnic identification of so-called ‘indigenous’ people is particularly problematic as there are a number of such groups present.<sup>24</sup> Hence, there is a greater difference in self-categorization of ethnicity vs. interviewer perception in case of ethnicity as compared to race identification.

#### Identity Formation & Discrimination

All individuals tend to conform to their biological, demographic, and social groups. They, thus, start to think of themselves as males and females, rich or poor, immigrant and non-immigrant etc.. This further leads to the formation of collective identities and assigned roles for different individuals in a group. If we add the phenomenon of ‘discrimination’ that “inadvertently or otherwise, ...sets up systems of social closure, exclusion, and control.” (Tilley, quoted by Perry et al p. 89) to ‘identity formation,’ it would help us to understand the data that is presented below which shows vast differences in the assets and incomes of the ‘dominant’ ethnic and racial group in Latin America (the Euro-descendants) and the ‘dominant’ groups (the Afro-descendants and the indigenous populations). It also explains the ‘identities’ that the ‘dominant’ group may assign to themselves and the ways in which they would be subject to ‘discrimination.’

#### Assets of Households

Assets can be considered a measure of wealth and well-being since they are accumulated over time, are a source of well-being and may be converted into income whenever the holder of the asset wishes to do so. The World Bank Report on “Inequalities in Latin America” reveals that households headed by white and

non-indigenous people generally own more assets than those headed by Afro and indigenous people. In addition, houses inhabited by white or non-indigenous families are larger than those inhabited by Afro- or indigenous families are. However, Afro-Brazilians are more likely to own their homes than are white Brazilians. (Perry et al, Page 104)

#### Access to Services

Inequality by race rather than gender is most notable in terms of access to services. Households headed by white or non-indigenous people have greater access to water, sewage systems, electricity, and garbage collection than Afro or indigenous-headed households. (Ibid. p. 105)

#### Average Incomes

In general, white and non-indigenous people (both men and women) earn the highest wages in Latin America. Data from across the region show that white/non-indigenous men and women have higher average earnings than Afro or indigenous men or women. White/non-indigenous men have the highest average income but within racial and ethnic groups, women have lower earnings than men do. However, all groups have high inequality in average wages.

Among 6 Latin American and Caribbean countries<sup>25</sup>, indigenous men earn 40–65 % less than non-indigenous men. The income patterns in Brazil are similar as Afro-Brazilian men earn just 48 % of the wages earned by white Brazilian men. The gap between the wages of women of different races follows a similar pattern in most countries of the region except in Guyana, where Afro and Indo-Guyanese men and women earn similar average wages. (Ibid. p. 107)

#### What do the Race & Gender Related Income Statistics Mean?

The statistics about race and gender-related income statistics shown above confirms the theory that race and ethnicity determine a person’s income as well as the access to opportunities in Latin America. Indigenous and Afro-descended people are at a considerable disadvantage as compared to whites, who earn the highest wages in the region. Access to services such as sewerage and accumulation of assets show a similar pattern. Across the region, females of indigenous or African descent are at the bottom of all asset-distribution scales and can be considered as the most disadvantaged group. While

<sup>24</sup>The Guatemalan National Living Standards survey (ENCOVI), for example, counts 23 ethnolinguistic indigenous groups

<sup>25</sup>Brazil, Guyana, Guatemala, Bolivia, Chile, Mexico, Peru

the income and asset gaps related to ethnicity and race remain un-bridged, the region has been successful in narrowing the gender gap in income and education.

The reasons for race related disparities are in the main a legacy of the colonization of the region by the Europeans that set the pattern of a dominant and a subordinate group. Apart from the discrimination suffered by the Afro-descended and indigenous people, the income gaps are indicative of the existing gaps in education and job skills between the whites and non-whites. Another reason for the continuing racial and ethnic inequality may be due to the ‘identity’ assigned by the non-whites to themselves as a group—a result of the centuries of colonization.

### ***The Consequences of Inequality***

Some economists argue that inequality is not such a bad thing per se and the main objective should be to try to make the poor richer instead of concentrating on equitable income distribution<sup>26</sup>, which is akin to the failed socialist ideal. This argument may be valid to an extent in societies that provide an equal opportunity for everyone to get rich. It does not apply to most regions of the world where the stakes are heavily loaded against the poor. Apart from the ethical argument against inequality, a number of more practical negative consequences of inequality have been identified as well:

1. **Considered Unfair**: A vast majority of people all over the world in general, and in Latin America in particular consider high levels of inequality and income disparity as highly unfair<sup>27</sup>. This should be a cause of concern for national as well as international institutions since such widespread perception results in skepticism about the usefulness of state institutions.
2. **Results in Greater Poverty**: Inequality slows down the pace of poverty reduction in the region by lowering the growth elasticity of poverty reduction. Several studies, including one conducted by Bourguignon in 2002 which studied changes in income or expenditure distributions across the developing world, confirmed that higher rates of economic growth are associated

with higher rates of poverty reduction.

3. **Affects Economic Growth**: Slows down economic growth and the development process itself, and possibly hinders the region’s ability to manage economic volatility and its responses to economic shocks. Also makes violent crime more pervasive. (Hammond, “Stagnation and Conflict”)
4. **Current Backlash**: The current dark mood of the people in Latin America where a back lash against market reform initiatives is evident in a ‘left ward’ swing in politics, (Ernsberger and Johnson. Pp. 15-16) is partly due to the persisting levels of inequality that has increased poverty in the region. It underlines the urgent need for tackling inequality.<sup>28</sup>

### ***Solutions for Reducing the Inequality in Latin America***

The authors of the World Bank Report on Inequality in Latin America believe that it is possible for the region to break out of its long-existing inequality by adopting the following measures:

1. **More Open Political and Social Institutions**: The report states that many inequalities originate due to inequality of agency, voice, and power; therefore, open, democratic, transparent and participatory policies need to be adopted at central and local levels. Involvement of the historically subordinate groups, i.e., the Afro-descendants and indigenous population is necessary to make such an effort successful.
2. **More Equitable Economic Institutions and Policies**: Building of financial institutions and rules for fiscal and financial prudence is required to contain the effects of cyclical financial crises. Improvement of institutional and legal foundations, e.g., small shareholders property rights, good corporate governance and efficient prudential regulation that would allow the development of deep and solid financial markets and increase access of the poor to finance productive investments and acquisition of human capital, land, housing and other assets.
3. **Broadening of asset ownership**: Increased access to public services, especially in education, health, and infrastructure and a more equitable land policy and rural services is required. Risk management and

<sup>26</sup>“Does Inequality Really Matter?” Economist pp. 11-12

<sup>27</sup>An opinion survey conducted in 2001 by Latinobarómetro, indicates that 89 % of Latin Americans regard the income distribution in their countries to be unfair or very unfair.

<sup>28</sup>Also see Padgett and Downie “The War on Poverty.” (March 10, 2003). Time magazine

transfers, concerted efforts to increase tax collection in countries with low taxes, increased emphasis on VATs within indirect taxes, more personal income tax collection, and a special focus on property taxes also are required.

4. **Reform of the elitist welfare state:** Social security and social assistance should be more broadly spread through the society. This involves tackling existing vested interests and expanding programs that reach the poor. Cash transfers to the poorest members of society, including both conditionally on their participation in human and social capital investment programs. If well designed and integrated with expansion of provision of basic services, such conditional cash transfers may provide the basis for a truly progressive social protection and risk management system in Latin America. More and more people are now aware of the urgent need for addressing internal disparities in developing countries, especially in Latin America, and consider it essential for maintaining democratic institutions and economic development. (Chen, “Philanthropy for Global Equity”)

## CONCLUSION

Although inequality and high levels of income disparity is one of the major challenges confronting the economists and leaders in many parts of the world, the problem is particularly severe in the Latin American countries. The root of this phenomenon lies in the colonial history of the region. The Spanish conquest and its subsequent rule were largely based on exploitation of the indigenous population as slave labor for agriculture and tapping the mines. The colonization of the region thus developed differently than in North America, where the climate and soil did not suit agriculture and the indigenous population was much sparser, which partly explains the relatively less inequality in the US and Canada. The institutions and traditions developed by the colonists<sup>29</sup> became so entrenched over time that the levels of inequality have persisted after the independence of the LA countries, and even survived the social, political and economic development in the 20th century. Most studies show that inequality has remained

undiminished over the region and has even worsened in some areas during the last decade. The income disparity levels are heavily tilted against the Afro-descendants and the indigenous population along the racial and ethnic lines, which is again a legacy of the colonization and reflects discrimination against the ‘subordinate’ groups. Although some economists tend to downplay the negative effects of high levels of inequality, most people agree that it is undesirable because of the overwhelming perception about its unfairness, and its contribution in perpetuating poverty and hindering growth. The latest World Bank Report on “Inequality in Latin America”, which provided most of the information for this paper, asserts that the stubborn patterns of inequality can be overcome if determined efforts are made by the development of more open political and social policies. The countries must carrying out equitable economic reforms aimed at providing access of the social services to the poorer sections of the population. All of this and more would be needed to remove the present disappointment of the vast majority of Latin Americans at the growing poverty and persisting inequality in the region.

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<sup>29</sup>Which were mainly aimed at protecting the interests of the elite

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