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Teaching about inequality in Latin America

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As an experienced college instructor, but a relative newcomer to Latin American Studies, two facts have captured my attention about the discipline. First, teaching about Latin America to mostly middle class US students requires both faculty and students to make connections across a number of boundaries: culture, ethnicity, language, gender, social class, income, and political representation. Second, the characteristic of Latin America that is most different from other regions of the world is its level of income inequality. My guess is that most faculty are aware of both of these facts, but that more attention goes into the need to cross boundaries than into understanding income inequality. This short paper argues that income inequality is an essential characteristic of Latin America, and that the need for students to see things through the eyes of others is a useful pedagogical tool for teaching about inequality. This implies that income inequality is more than an economic phenomenon, and that its multiple dimensions serve as a useful basis for introducing students to authentic interdisciplinary study and research. Hence, the topic of inequality can serve as a launching pad for jumping into a variety of disciplinary perspectives, and for beginning a course of study devoted to Latin America.

How the concept of income inequality is operationalized

Inequality is multifaceted and easily lends itself to analysis from a variety of disciplinary perspectives. Quantification is useful but not essential. Its value lies in the fact that it reinforces the point that Latin America is the most unequal region in the world. Quantification usually looks at only one dimension of inequality, income, but it can be focused on any of a number of other indicators, and for the most part, income inequality is highly correlated with other forms: political, social, racial, class, educational, and so on.

Social scientists from a variety of disciplines have written extensively on the subject, and usually rely on one or both of two primary indicators, namely income ratios and the gini coefficient. Conceptually, they are similar, and the data used to produce one indicator can be used for the other. Fortunately, both are easily available from a variety of sources such, but most readily from the United Nations Development Program and its Human Development Report (http://www.undp.org; http://hdr.undp.org and http://hdr.undp.org/statistics/).

Income ratios are simply the ratio of highest to lowest incomes, with highest or richest usually defined as the top 10 or 20 percent, and poorest defined symmetrically. The calculation of a gini coefficient requires all income to be divided into at least 8 equally sized (by population count) groups, from poorest to richest. When these are cumulatively plotted in relation to cumulative population percentages, a Lorenz curve is obtained.

[Figure 1]

Looking at the Figure 1, if society's income is absolutely equally distributed, then the Lorenz curve is the same as the line that bisects the quadrant (shown) at an angle of 45 degrees. This line shows the points where horizontal values (share of population) are exactly equal to vertical values (shares of income). At the other extreme is a Lorenz curve representing a society in which one person has all the income. This hypothetical curve would lie on top of the horizontal axis, until the last person (the richest), and then would shoot up vertically to 100 percent of the income. These two cases represent hypothetical extremes, and are useful for understanding the characteristics of the gini coefficient, which is defined as the ratio of two areas: the area between the 45 degree line and the Lorenz curve (Area A) and the entire area under the 45 degree line (Areas A+B).

Thinking about the characteristics of the two extreme examples for a Lorenz curve, a gini coefficient representing perfect equality would have a value of 0 since area A would disappear entirely. Conversely, a gini for a perfectly unequal society in which one person received all of the income would be 1 since area A would occupy the entire area under the 45 degree line. Hence, the lower the gini, the more equally income is distributed.

The gini coefficient depends on a reasonably accurate measurement of household income, which can be problematic. Non-wage income, in particular, is something that people hesitate to reveal, or may not even know with much precision. In order to get around this and to obtain estimates when income is not accurately reported, many countries base their estimates on the distribution of expenditures instead of income. Expenditures tend to be less unequal, however, since most people will work to overcome temporary deficits in income in order to maintain their consumption levels. Both the databases discussed below (Deininger and Squire, and the World Income Inequality Database) provide quality assessments for each of the gini coefficients they report (Deininger and Squire, 1997; WIDER, 2005).

Gini coefficients have been estimated for a few countries as far back as 1890 (Japan), but clearly, the methodology depends on the development of national income accounting techniques which developed after World War II. The earliest estimate for a Latin American country is for Guatemala (1948), while Mexico has a 1950 estimate. The Inter-American Development Bank provides a guide to estimates by country and has initiated the MECOVI project to improve the quality of household survey data throughout the region.[1] More useful and easily accessible are two world-level datasets. In 1997, Deininger and Squire released a publicly available data set containing all known estimates for all available countries as of 1996.[2] Their work has been updated through a partnership between the United Nations Development Program (UNDP) and the World Institute for Development Economics Research (WIDER) and has resulted in the World Income Inequality Database (WIID). The latest version (2.0a) of this work was released in 2005.[3] Probably the easiest source of best quality current values is the annual *Human Development Report* produced by the United Nations Development Program (UNDP), cited above. In addition, the World Bank's Poverty Net has a section on inequality as well as links to a number university and other sources of information and analysis.[4]

Is Latin America really the most unequal region of the world?

Using the gini coefficient as our standard for measurement, ten of the twenty countries that are the world's least equal are in Central or South America. These ten include more than 408 million people, while the nine African countries included in the 20 least equal, contain less than 85 million people total. The ten Latin American countries among the world's least equal, include the largest countries of the region, Argentina, Brazil, Colombia, and Mexico, and success stories like Chile (UNDP, 2005).

Tables 1 and 2 show comparative data by region. Table 1 contains the income shares of the bottom and top deciles and quintiles. In most regions of the world, the poorest ten percent have between 2 and 4 percent of total income, while the poorest

[1] Available: http://www.iadb.org/sds/pov/site_19_e.htm.
[2] Available: http://www.worldbank.org/research/growth/dddeisqu.htm.
[3] Available: http://www.wider.unu.edu/wiid/wiid.htm.
[4] Available: http://povlibrary.worldbank.org/webguide/category/7#10617.

quintile has between 6 and 8.5 percent of income. Sub-Sahara Africa is slightly outside these ranges, although it is closer to them than it is to the figures for Central and South America. In the later regions, the bottom decile has about 1% of total income, and the bottom quintile between 3 and 3.5 percent. The pattern for the top deciles and quintiles is similar, with the rich of Latin America owning more than 10% more of total national income than in any other region except Sub-Sahara Africa.

[Table 1]

Table 2 offers more direct measures of inequality, in ratio form and the gini coefficient. The income ratios of richest decile to poorest is about 4 times greater for Latin American countries, and about 3 times greater for the quintile ratios, again with the exception of comparisons with Sub-Saharan Africa. The world's gini coefficients tend to range between about 30 and 40, again with the exceptions of Africa and Latin America, with the later higher and over 50 on average.

[Table 2]

An interesting comparison is Latin America with the most equal countries, those in Central and Eastern Europe that were formerly part of the Soviet empire. While the redistributive policies of Soviet communism Central European socialism definitely resulted in a high degree of egalitarianism, the long and deep depressions that these countries experienced in the wake of the disintegration of the Soviet system, along with their transition into capitalist states, did not lead to high levels of inequality, such as are found in the Americas, including the US.

Why inequality matters

It is useful to ask ourselves why we care about inequality, and whether our concern is simply an expression of personal values or whether the phenomenon of extreme inequality as found in Latin America has a wider social meaning. In this section, I argue that there are at least four reasons why extreme inequality is harmful and detrimental to the entire region and not only to the segment of the population that finds itself at the bottom of the heap. First, inequality in Latin America poses a serious obstacle to sustainable economic growth. Second, and beyond growth, inequality is an obstacle to human development, particularly for individuals suffering from social exclusion and with the least access to resources. In Latin America, this includes many members of society well up into the mid-ranges of income distribution. Third, extreme inequality makes it difficult-to-impossible to consolidate democracy as excluded groups see little value in an existing order that does not admit them entrance. And fourth, the ability of governments or the private economy to reduce poverty is limited when inequality is present in an extreme form. Each of these consequences is developed in what follows.

Economic growth is an means to an end, not an end itself. Without growth, the goal of a long and healthy life, filled with choices and opportunities, is not possible for most people on the planet. The current era of Latin American growth economics can be characterized as the Neoliberal Era, reflecting a return to classical economic values of open economies, fiscal and monetary conservatism, and minimal regulations of private markets. This period is the result of the strong economic reforms that swept across Latin America and much of the rest of the world between the mid-1980s and the end of the 1990s. The reforms did a number of positive things, such as ending hyperinflation, strengthening the capacity of the export sector in a number of countries and thereby making them more resilient to the buffeting of world events, and restoring growth after the stagnation of the Lost Decade. While the quality of the reforms and the specific steps taken in each country can be debated, there is little or no debate that some sort of reform was necessary after the stagnation, hyperinflations, and unsustainable budget and trade deficits of the 1980s. In the aftermath of stabilizations and structural adjustments, Latin America returned to positive economic growth in the 1990s, but growth that was insufficient to address the most fundamental needs of most countries for poverty reduction. Hence, as the 1990s drew to a close, the rhetoric—if not yet the policies—of many leaders has become an echo of the economic populism of the 1970s.[5] While the constraints imposed by the need for external financing may have limited the implementation of economic populist policies, at least so far, the appeal of demagogues who have a "new economics" based on a supposed discovery of new economic principles, cannot be far behind. It is not surprising that many people feel a sense of frustration about growth that does not cure poverty or bring equality. Nor is it unhealthy to look for alternatives when the current situation is completely inadequate for so many people. The danger is that the without an alternative, charismatic leaders will propose alternatives that are warmed-over versions of crowd-pleasing measures taken by economic populists of the 1960s and 1970s. It would be a great mistake to not remember the sad histories of the regimes that left their citizens worse off than they found them when the came to power.

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[5] Dornbusch and Edwards (1991) defined economic populism as "an approach to *economics* that emphasizes growth and income redistribution and deemphasizes the risks of inflation and deficit finance, external constraints, and the reaction of economic agents to aggressive nonmarket policies."

The goal of economic development is human development, defined as an expansion of choices and freedoms for individuals, including freedoms to enjoy a long and healthy life, education, and income to make one's choices effective. Inequality that keeps people in poverty denies them the ability to lead healthy lives that are filled with choices and opportunities. The problem of social exclusion and severe limits on access to health care, education, jobs, and political participation, maintain poverty, but also guarantee that inequality in a more extreme form continues.

A third reason why inequality matters is that it makes it hard-to-impossible to consolidate democratic forms of government. When there are large gaps between the status of different groups, whether the gaps are based on social standing, income, ethnicity, or a combination of all three, excluded groups have little or no stake in the status quo, and may reasonably come to believe that governments that do not address their situation have no claims to legitimacy, regardless how they came to power.

And finally, inequality creates obstacles to poverty relief. Empirical studies (De Ferranti, et. al., 2004) show a strong and significant reduction is the poverty reduction elasticity of growth as inequality increases. That is, a given amount of economic growth has an increasingly smaller impact on poverty reduction as inequality grows. Hence, a GDP growth rate of 5% will pull more people out of poverty in Costa Rica than in Mexico given that income in the former is more equally distributed than in the latter.

Current thinking about the causes of inequality

It is dangerous for scholars to step outside their disciplines, because when we do, we often sound amateurish and ill-informed. Economists, for example, are the group that I owe my professional formation to, and we usually sound like amateur sociologists when we speculate about social forces, ethnicity, or class. I mention this because I want to recognize that economists do not have a monopoly over explanations for inequality, while pointing out that the abnormally high levels of inequality in Latin America has consumed a great deal of economist's time and thought, and has lead to a few insights that are worth sharing. These are not particularly surprising as insights, but they do have empirical support and have led to a relatively strong consensus within the profession. First and foremost, inequality is a predictable outcome when segments of society do not have access to the resources they need in order to improve their condition in life.[6] The strength of this observation is that it provides a clear set of goals, even if the objectives for obtaining them are not easy or certain. Lack of access to education, to health care, to jobs, to financial capital, to land, to business opportunities, and other tools for living, can all be lumped among the causes.

One of the primary causes of resource inaccessibility is bundled in the concept of social exclusion, a broad and therefore useful term when doing an interdisciplinary area studies program or course. Social exclusion probably first brings to mind racism or ethnic discrimination, and it certainly includes that, but it can also be used to touch on a number of other social ills (including some that may not be within human control) that bar people from gaining access to resources. For example, gender inequality is reinforced by social exclusion when we refer to a rigid division of labor which limits choice and opportunities for women; we might also want to include linguistic discrimination if people are not allowed an education in their native tongue; or the limits placed by the informal economy if small scale entrepreneurs or squatters have no viable

[6] In fact, this is usually expressed as a lack of access to "assets" (e.g., Birdsall and Lodoño, 1997). By assets, most authors mean something equivalent to resources. Given that the term resources probably resonates with a wider audience, I prefer to use it in place of assets.

way to regularize their businesses or homes. Social exclusion may also be a result of factors that have nothing to do with institutions. The primary example of this situation is physical geography, such as mountains, rivers, deserts, or other natural barriers that make it difficult for individuals, families, or communities to participate in the economic life of a region. These barriers might be overcome with infrastructure investment, as they have been in many developed countries, but at low or moderate income levels, physical geography can impose a serious set of obstacles.

A second set of issues related to institutions and the economy have been tackled by historians and economic historians. Was inequality a result of the Conquest, or did it antedate the Conquest in ways and for reasons that persist into the present? This question is probably not answerable in a meaningful way, but it relates directly to a more fertile topic of debate: What are the relative roles of institutions and economic incentives? Did economic incentives create a need for unequal power relations which became embedded in institutional relations (Sokoloff and Engerman, 2000), or was inequality an outcome of Spanish and Portuguese administrative structures that were implanted in the New World (Glade, 1996; see also Coatsworth, 1998)?

These questions do not have a clear answer and faculty and students will most likely adopt whatever approach accords most closely with their worldview. Nevertheless, questions about the role of institutions and economic incentives are useful because they begin to pull-apart some of the issues that are usually tied together so closely that they become indistinguishable. To what degree was slavery responsible? Is the history of the U.S. South instructive? Why did large production units develop in some areas, but not in others? Were coercive labor institutions an inevitable result of the factor endowments of the New World?

Methodological issues in teaching about inequality

Probably most faculty tend to apply a limited variety of methods to the research they do, as most of us are trained in a discipline (or in a program at a particular university, or under the guidance of a particular mentor) that favors certain techniques or certain perspectives over others. Furthermore, as individuals, we may be temperamentally more in tune with certain methodological approaches than others. The choices are numerous, positivism or phenomenology, science or humanism, quantitative or qualitative, and while it is desirable that students are exposed to all of it, probably few faculty consider themselves competent in every approach or on both sides of this divide.

Fortunately, a focus on inequality can be supported with any method, from the most rigidly number crunching positivist approach, to the most qualitative phenomenological case study possible. Numbers are useful for discussing the aggregate dimensions of the multiple problems of inequality, but so is an understanding of the life experiences of people when their limited choices are seen through their eyes and not our own. And while individual faculty have their own methodological preferences and strengths, the variety of literature on Latin America available across a wide number of disciplines, makes it unnecessary to stay within the boundaries of one approach.

Table 3 below is suggestive, and little more. A complete bibliography and listing of topics would be an extensive work in itself. Rather, standard disciplines that make up the core of most Latin American Studies programs are paired with a variety of sub-fields that directly address issues of inequality. The purpose is to give a feel for the wide variety of approaches, methods, and topics that are relevant. The topics overlap across disciplines, but are selected to minimize redundancy and to maximize the range of issues within which inequality can be addressed.

Conclusion

Regardless of how one views the reforms of the 1980s and 1990s, unless Latin American countries address the issue of inequality it is unlikely that they will achieve the levels of economic growth associated with what the World Bank has designated the High Performance Asian Economies (World Bank, 1993). Our understanding of the policy reforms that are necessary as a means for changing the distribution of access to resources is rudimentary at best. It is easy to imagine policies, as have economic populists, but there is no agreement about policies that might be successful without generating significant unintended negative consequences. Clearly, this is an issue that requires some humility and recognition of the limits of our knowledge.

That does not mean we should ignore inequality, however, as there are many meaningful lessons to be gleaned, even from a relatively cursory discussion of the issues. Furthermore, given that the phenomena of inequality cuts across so many methodological and disciplinary boundaries, it is an ideal topic for demonstrating the value of an interdisciplinary approach.

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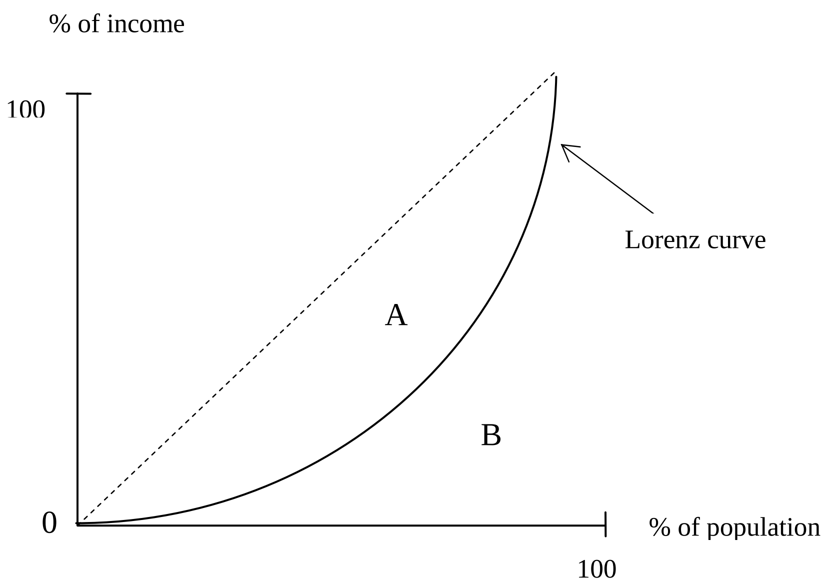

Figure 1: The Lorenz Curve

Table 1
Share of Total Income Held by Poorest and Richest Deciles and Quintiles

Region (# of countries in sample)	*Bottom 10%*	*Bottom 20%*	*Top 20%*	*Top 10%*
Africa (30)	1.86	4.76	54.39	38.75
Asia (18)	2.95	7.14	45.63	30.45
Western Europe (16)	2.88	7.71	39.83	24.83
Central Europe (17)	3.32	8.35	38.56	23.79
Central Asian Republics (10)	2.87	7.16	43.61	28.41
Middle East and North Africa (9)	2.71	6.80	45.18	29.67
North America (2)	2.20	6.20	43.10	27.45
Caribbean (3)	2.30	5.77	48.40	32.70
Central America (7)	1.14	3.36	57.19	40.87
South America (10)	0.96	3.17	56.87	40.53

Source: UNDP, *Human Development Report, 1995.*

Table 2:
Measures of Inequality

Region (No. of countries in sample)	*Top 10% to bottom 10%*	*Top 20% to bottom 20%*	*Gini coefficient*
Africa (30)	32.76	16.47	48.25
Asia (18)	11.62	6.98	37.86
Western Europe (16)	9.10	5.34	31.04
Central Europe (17)	7.51	4.73	29.85
Central Asian Republics (10)	10.36	6.27	34.58
Middle East and North Africa (9)	11.40	6.84	37.48
North America (2)	13.00	7.10	36.95
Caribbean (3)	14.50	8.57	41.87
Central America (7)	42.79	18.69	52.67
South America (10)	48.01	19.02	51.59

Source: UNDP, *Human Development Report, 1995*

Table 3
A variety of ways to address equity issues

Field	**Topics**
Economics	Quantitative measures; The informal economy; Markets and the state.
Political Science	Political representation; Institutions and the rule of law; Corruption; Justice administration.
History	Historical roots; Institutional development; Enclaves and plantations; Globalization in perspective.
Anthropology	Ethnologies; Testimonies; Ethnicity and race; Power; Food and other cultural symbols.
Women's Studies	Work and gender; Empowerment; Development and change; Women's experiences of migration; Power and oppression.
Sociology	Ethnicity and race; Class; Education; Labor and work.
Geography	Linguistic and ecological fragmentation; Natural disasters; Urban and rural settings.
Literature	Testimonies; early modern and contemporary literature.