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INCOME DISTRIBUTION IN LATIN AMERICA



United Nations

Economic Commission for Latin America

INCOME DISTRIBUTION IN LATIN AMERICA



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NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of a symbol indicates a reference to a United Nations document.

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EXPLANATION OF SYMBOLS

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the heading is not applicable.

A full stop (.) is used to indicate decimals.

Thousands and millions are separated by a space (1 234 567).

Use of a hyphen between dates representing years, e.g., 1948-1966 signifies an annual average for the calendar years involved, including the beginning and end years.

A slash (/) indicates a crop year or fiscal year, e.g., 1955/56.

Reference to "tons" indicates metric tons unless otherwise stated.

Reference to "dollars" indicates United States dollars unless otherwise stated.

Figures and percentages in tables do not necessarily add up to the totals because of rounding.

The abbreviation ECLA indicates the Economic Commission for Latin America.

Introduction

INCOME DISTRIBUTION IN LATIN AMERICA

Responding to the increasing interest in the subject, ECLA has for some time been engaged in a series of studies of the distribution of income in the region. Available data have been systematically collected and organized, there has been joint participation in an extensive special statistical study in one country, Argentina, and a number of special analyses have been undertaken for countries where the data appeared to warrant such an effort. This work is continuing, particularly in the area of income distribution policy and results are being published as they become available in finished form.*

The purpose of the present document is to present in summary form some of the information and analysis which these studies have produced, and to see to what extent this provides a basis for generalization regarding at least some of the problems related to the distribution of income in the region.

Given this objective, there are two fundamental requirements which have served as guidelines throughout this report. First, this is a presentation of what is known about the distribution of income in the region, and all aspects of the discussion are based very largely upon numerical data. This places some limitations on the scope of the analysis, as some desirable data are not available; and the discussion is at times less "interesting" than it might otherwise have been.

Despite these limitations, it is of great importance to outline what is known about the distribution of income. There is, in fact, a rather considerable amount of information available, clearly enough to identify the major features of the income distribution structure, and a number of their important implications. In part, of course, these features have been widely appreciated, even in the absence of supporting statistical data. But in part the data reveal situations which have probably not been generally appreciated, and where fairly common assumptions need to be modified.

* The results of the statistical study in Argentina have been published in: Argentina, Consejo Nacional de Desarrollo, *Distribución del ingreso y cuentas nacionales en la Argentina*. The analysis of the Argentina data is being published as the second volume in the present series. The projected third volume will contain analyses of several other countries which illustrate different aspects of the income distribution problem, and for which relatively adequate data are available. The fourth volume will be an analysis of the different aspects of income distribution policy.

It can also be important to specify areas where data are not available. Some caution must be used in discussions of these areas, and they indicate possible directions for further research.

The second basic requirement has been to keep the description, and analysis, at a rather general level, without entering into unnecessarily specific details. Only in this way could a general idea of the income distribution structure be conveyed. Thus, for example, the discussion throughout is in terms of only five major income groups. For many more specific purposes a considerably greater degree of detail would of course be required.

In line with maintaining the discussion at this general level, the many conceptual and statistical problems involved in income distribution estimates have been largely ignored. In the second part of the study, where distributions in several individual countries are analysed, there are notes setting out the sources and some of the statistical aspects of the estimates in those countries. Some of the difficulties may, however, be noted here very briefly.

First, the analysis is of the distribution of personal income, and some of what is often thought of as income — or some part of the value of production — is therefore excluded. Among other items, this means that income transferred abroad is not considered, and for many purposes this is of considerable importance in a country such as Venezuela, where a major part of the value of petroleum production is transferred abroad and hence does not accrue as personal income in Venezuela.

The estimates themselves have been made in varying ways, and no doubt vary in their reliability. The Argentine estimates are the result of a special and detailed statistical study, and are probably more reliable and informative than most such estimates, either within or outside the region. Other estimates are for the most part based on sample survey data, although in a few cases they have been built up from several partial sources. Most of the estimates take the individual income recipient as the basis for estimating the distribution, but several have the family as the basic unit, and this introduces some lack of comparability; estimates for Argentina can be made on both bases, and indicate slightly less inequality in the distribution by family. Finally, with some variation from one country to another, the estimates are for years at the beginning of the decade of the 1960s, and the situation may of course have changed somewhat since that time.

These difficulties should not require a serious modification of any of the conclusions drawn, given the general level which is maintained in the following pages. But those familiar with the problems involved will be aware of the possible qualifications which they imply at various points in the analysis.

Occasional comments will be found in the course of the discussion which refer to policy. These are intended only to point out implications

for *any* policy; that is, to pose the problem or to clarify some aspect of it. References of this sort should in no case be regarded as policy proposals, the purpose of the present study being limited to analysing existing aspects of the income distribution structure. Income distribution or redistribution policy, in its various facets, will be analysed in a later study.

The report contains three major sections. The first is a description of the principal features of the income distribution in the region as a whole. While it is of course the distribution in Latin America which is of concern here, the distinctive features can best be made clear by comparison with distributions elsewhere; and so the description is in terms of the contrasts found when compared with distributions in the Western industrial countries. The contrasts are of considerable importance; and, with respect to the distribution of income, it is probable that the differences between Latin America and other areas are more significant than differences from one country to another within the region itself.

There are, nevertheless, differences within the region, and the second section deals with these by presenting analyses of the income distribution structure in a number of individual countries. To a degree the differences can be linked to the stage of development achieved; but as will be seen, such development must be defined in particular terms, and does not mean simply an increase in total, or even per capita, production levels.

These first two chapters deal with more general aspects of the distribution. They are in terms of only five major income groups, and explanations or implications are linked directly to these groupings. The third chapter analyses several more specific aspects, although these are always linked to the over-all distribution, and serve primarily to explain that distribution more fully. The more specific aspects considered are: the importance of functional differences, rural-urban differences, regional differences, and sectoral differences.

I. GENERAL ASPECTS OF THE INCOME DISTRIBUTION STRUCTURE : A COMPARISON OF LATIN AMERICA WITH THE WESTERN INDUSTRIAL COUNTRIES

Any particular distribution of income, with the inequality which it contains, will only easily convey meaning if it is described by comparison with some other distribution. One possibility is comparison with an optimal distribution: complete equality of income, or with some degree of inequality which is judged to be desirable. There is no general agreement about what such an optimal distribution would be like, however; and a comparison of this sort would be largely conceptual, with questions arising as to the applicability of the discussion to the economic structures which actually exist.

A more interesting alternative is to compare the distribution of income in Latin America with distributions found in other regions. This not only makes possible a meaningful description of the distribution in general terms, but in the process emphasizes aspects which are not common everywhere, and which have important implications for any attempt at understanding the functioning of economic and social institutions in the region.

The general aspects of the distribution are described, then, by comparing Latin America with several Western industrial countries. These have been selected so as to represent the range of inequality found in this type of economy, Norway being representative of the minimum inequality achieved, and the degree then increasing to France, where the inequality is greatest. The comparison is made with the Western industrial countries, first, for the simple reason that data are most readily available for those countries.¹ But the comparison is also convenient because those countries are at a more advanced stage of development and so contrasts found may throw some light on possible links between growth and the distribution of income; and as they have economic systems similar to those found in most of Latin America, the comparison is more meaningful in this respect.

Nevertheless, it should be noted that the contrasts found do not result only from the choice of countries with which the comparison is made. As will be seen, the central difference is that income is more un-

¹ The figures shown here for the Western European countries have been taken from the recent study by the United Nations Economic Commission for Europe, *Incomes in Postwar Europe: A Study of Policies, Growth and Distribution* (Geneva, 1967). Figures for the United States of America are from the United States Department of Commerce, *Survey of Current Business*.

equally distributed in Latin America, and this difference would remain if comparisons were made with other areas. Available figures indicate that income is less unequally distributed in the centrally planned economies than in the Western industrial countries,² so that a comparison with those countries would show an even greater contrast; and partial data indicate that in a number of the less developed countries of Asia the inequality is also less than in Latin America.

There are various ways of describing, in numerical terms, the distribution of income and the inequality which it contains. In the following pages a number of these different measures are discussed, for it is only by combining these that a reasonably meaningful idea can be conveyed of what the inequality means in human and economic terms. In each case data are given for eight Latin American countries for which reasonably reliable estimates are available, and for the five Western industrial countries which serve as a basis for comparison. Although the discussion in this section is primarily in terms of the contrast between Latin America as a whole and the industrial countries, the range of variation within the region in any particular respect can be readily seen.

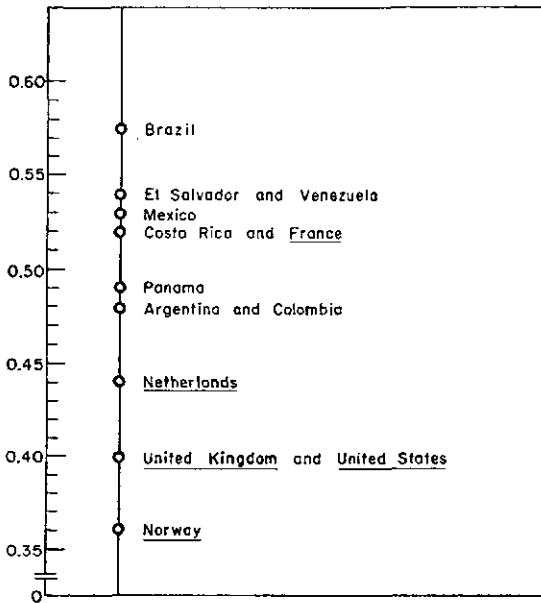
1. THE OVER-ALL INEQUALITY

Figure I shows the coefficient of concentration for each of the countries being compared. The advantage of such a measure is that it gives, in a single figure, an estimate of the over-all inequality in the distribution of income in a country; and these estimates show the inequality to be clearly, and substantially, greater in Latin America than in most industrial countries. The coefficient of concentration is much larger in Latin America than in a country like Norway, or even than in industrial countries with a middle degree of inequality such as the United States or the United Kingdom.

But it is important to note that there is considerable variation in the coefficients of concentration calculated for the industrial countries — more than the variation found among the Latin American countries themselves — and that the coefficient for France is fully as high as those found in Latin America. It has sometimes been implied that economic growth will more or less automatically reduce income inequalities, and therefore that excessive inequality need not be dealt with directly, but rather can best be corrected by promoting development. While, as will be seen, there are major reasons for anticipating such a link, it is very useful to keep in mind from the outset that among the already developed countries there are large differences in the degree of inequality still to be found.

² *Incomes in Postwar Europe*, op. cit., especially chapter 9.

Figure I. Coefficients of concentration ^a



Note : In this and the following, the names of the Western industrialized countries have been underlined so as to make them stand out from the Latin American countries.

^a These coefficients are based on the formula

$$r = 1 - \frac{\sum_{i=1}^n f_i (g_i - 1 - g_i)}{10,000}$$

where n = the total number of income groups

i = the ordinal number of each group

f = the percentage of the total population in each income group

g = the cumulative percentage of income received

Further, the rapid growth achieved by the European countries during the 1950s and early 1960s was not accompanied by any consistent trend toward greater equality; in several countries there was a significant increase in inequality over the period.³

But the use of a single figure to describe the income distribution cannot go beyond giving an over-all, and rather vague, idea of the degree of inequality. Even this indication can be ambiguous, as different measures can give different results, even in the ranking of countries. Rather than review these much discussed problems, it will be preferable to proceed to other ways of looking at the distribution, to try to describe in more meaningful terms what the income distribution structure is like.

³ *Incomes in Postwar Europe*, op. cit., chapter 6.

2. RELATIVE SHARES OF THE DIFFERENT INCOME GROUPS

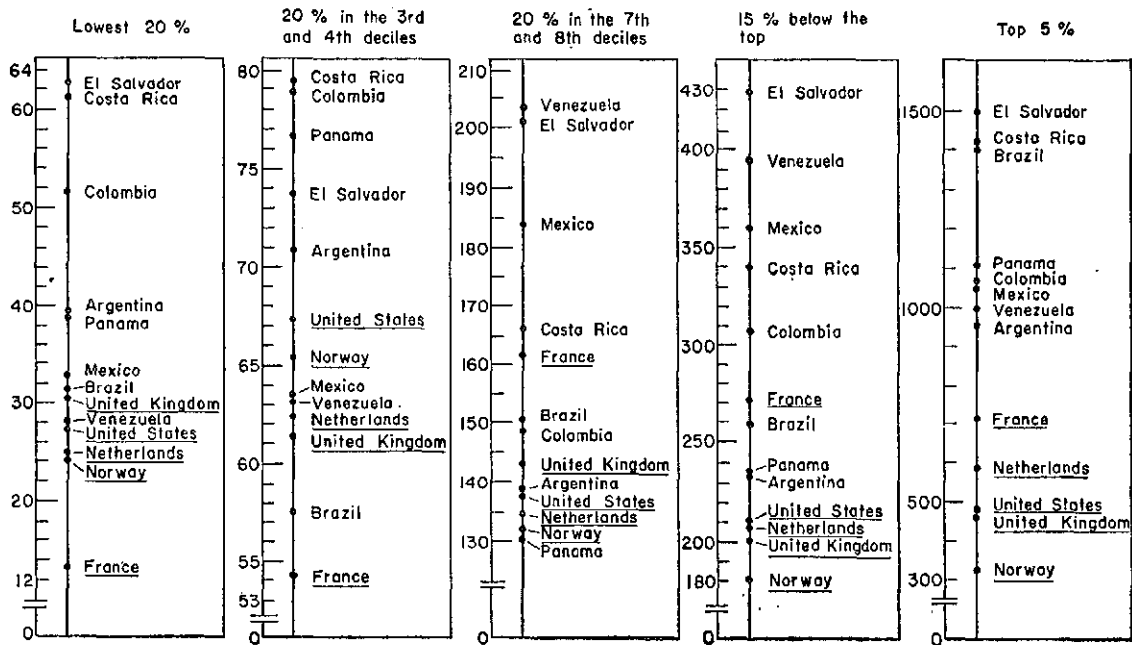
The most common way of describing the distribution of income somewhat more fully is in terms of the share of total income received by different income groups, and data of this sort is shown in figure II. In terms of differences between Latin America and the industrial countries, it is useful to distinguish four parts of the distribution.

First, the lowest income group. The first section of the graph shows the percentage of total income received by the poorest 20 per cent of all income units in each country. This share is low everywhere, but differences in absolute income levels and in the composition of this low income group give this a different meaning in Latin America from what it has in the industrial countries. These aspects are discussed later. Here it need only be noted that there is no sharp split between the share received by this group in Latin America as compared with the industrial countries. In most Latin American countries the share received by this group is rather more than in the industrial countries, but there are also Latin American countries towards the bottom of the ranking.

Secondly, there is the bulk of the population in the middle range of the distribution. This group is represented by the second and third sections of the figure which, combined, account for 60 per cent of the population. Here the split is marked: this large middle group receives a substantially smaller part of total income in Latin America than the same group receives in the industrial countries. For the 30 per cent represented in the second section of the figure, the share received in France is relatively low, but in each of the other industrial countries it is significantly above the figure for any Latin American country. In the following 30 per cent represented in the third section of the figure the contrast is even greater: the share received in every industrial country is well above the figure for any country in Latin America. Combined, this middle 60 per cent of the population receives 37-38 per cent of total income in an average Latin American country — and there is relatively little variation from this average — while in countries such as the United States and the United Kingdom the share of this group is 50 per cent, and in Norway it is 55 per cent. This substantially smaller share of total income in the hands of the middle 60 per cent of the population in Latin America has major economic as well as social implications.

Thirdly, there is the 15 per cent just below the top — the upper-middle income group shown in the fourth section of the figure. As can be seen, there are considerable differences among the Latin American countries themselves, but these will be discussed later. Except in France, there is almost no variation in the share of total income received by this group in the industrial countries; and the Latin American countries range on both sides of this figure. Here, as with the poorest 20 per cent, there is no marked contrast between Latin America and the industrial countries.

Figure II. Percentage of total income received by the different income groups



Finally, there is the 5 per cent at the top of the income scale shown in the last section of the figure. Here again there is a sharp contrast between Latin America and the industrial countries: this high income group receives a much larger share of total income in Latin America. In Western industrial countries with a middle degree of inequality, such as the United States or the United Kingdom, the share of the top 5 per cent is about 20 per cent of total income, and in Norway it is slightly more than 15 per cent (in the centrally planned economies it is 12-13 per cent). In most of Latin America, by contrast, this high income group receives more than 30 per cent of total income. It is this marked concentration of income in the hands of the small group at the top of the income scale in Latin America which is the essential factor in the greater inequality in the distribution of income in the region.

In terms of relative shares, then, the distinctive features of the distribution of income in Latin America are a much larger share of total income in the hands of the high income group, and a correspondingly smaller share in the hands of the bulk of the population in the middle ranges of the distribution. The poorest groups and those just below the top have shares similar to those received in the industrial countries.

3. INCOMES IN RELATION TO THE NATIONAL AVERAGE

One of the most commonly used economic indicators is the average income, and this can further clarify the significance of the income distribution in Latin America. The two somewhat different ways of relating the national average income to its distribution are shown in figures III and IV.

Figure III shows the percentage of the population with incomes in different categories, when compared to the national average, and here too there is a notable contrast between Latin America and the industrial countries. In Latin America the great bulk of the population — 70 to 80 per cent — has an income less than the national average; while the proportion with incomes below the average in the industrial countries is substantially smaller (see the first section of figure III).

The counterpart of this situation is shown in the second section of the figure. In the industrial countries a substantial proportion of the population — from a quarter to well over a third — has an income exceeding the national average, but less than double that figure; that is, a relatively good but still not extremely high income. In Latin America the percentage of the population in this income range is very much smaller.

The proportion receiving more than double the average national income is shown in the last section of the figure, but while this tends to be somewhat larger in Latin America, it is of less significance than the

Figure III. Percentage of the population in income groups expressed in terms of the national average

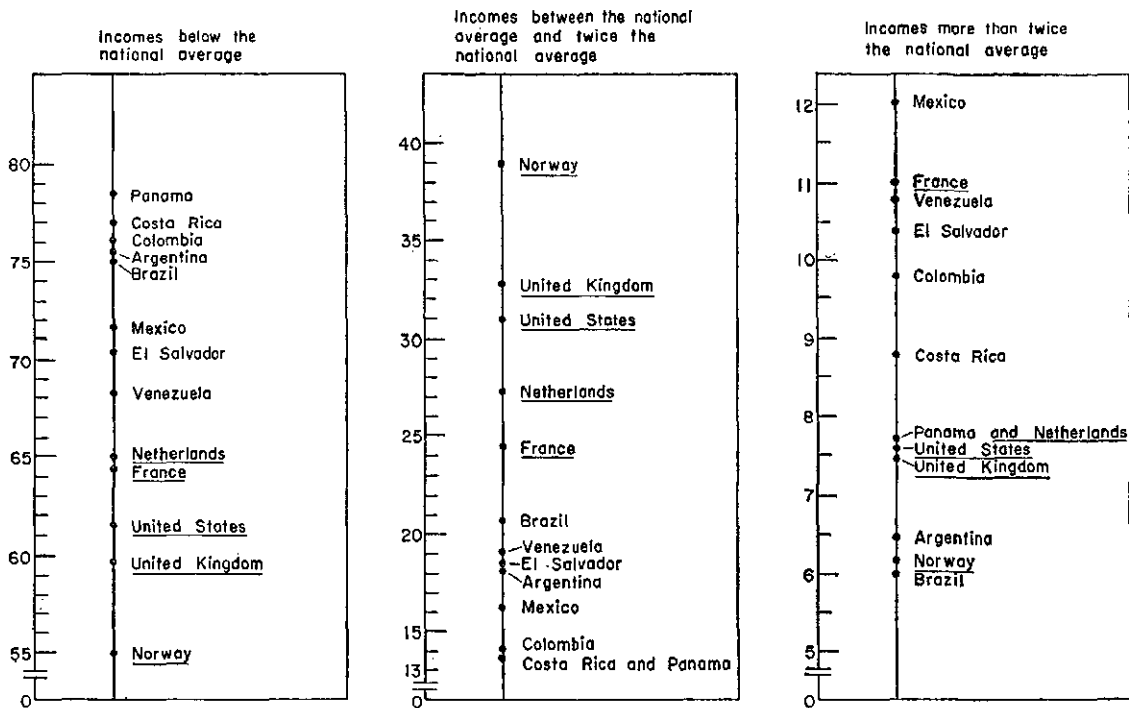
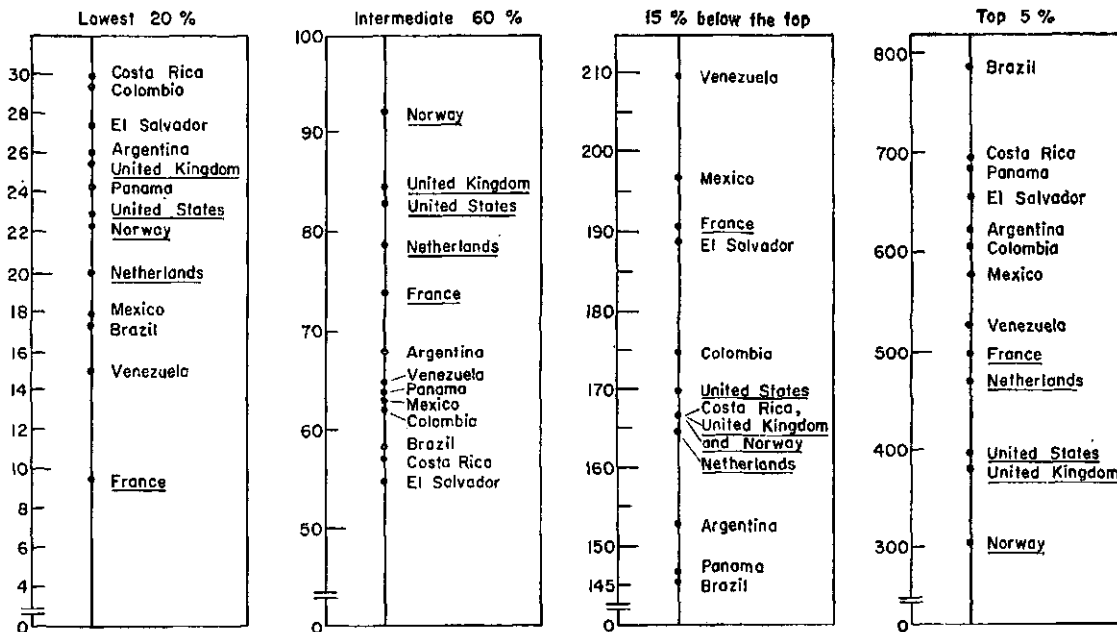


Figure IV. Incomes of various groups compared with the national average
 (Arithmetical average income in each country = 100)



differences shown in the first two sections. The contrast is less clear-cut, and the numbers involved are much smaller.

Figure IV presents an alternative way of relating the income distribution to the average income: it shows the income level of different groups expressed as a percentage of the national average. For the poorest 20 per cent of the population incomes are everywhere only a fraction of the national average. They tend to be somewhat higher, in relative terms, in Latin America, but there are Latin American countries toward the bottom of the ranking too, and so the contrast with the industrial countries is not a clear one.

The second section of the figure shows the relative position of the middle 60 per cent of the distribution, and here there is a marked contrast. In the industrial countries this middle group has an income fairly close to the national average — varying around 85 per cent of that average. But in Latin America the same group has a much lower relative income — less than two-thirds the national average in most of the region.

The 15 per cent just below the top have, on the whole, incomes about 75 per cent above the national average, and there is less variation among countries here than at most other income levels (see the third section of figure IV). Relative incomes of this group tend to be somewhat higher in Latin America, but there are Latin American countries in all parts of the ranking.

The top 5 per cent is shown in the last section of the figure, and again the favourable position of this high income group in Latin America is clear. Relative incomes of this group are high everywhere, but much higher in Latin America than in the industrial countries. In Norway this group has an income triple the national average, and in the United States and the United Kingdom about four times the national average. But in most of Latin America the income of the same group is from six to seven times the average national income. This again emphasizes the extreme inequality produced by incomes at the top of the scale in Latin America.

One implication of relating the average income to the distribution of that income is to make clear the limitations which exist in the use of the average income concept itself. The average income is of course only the result of dividing a total income by the number of persons involved; but it tends to convey the idea that large numbers of persons receive this income, or something close to it, and that there are roughly similar groups on either side of the average. This is never exactly the case, but while it is perhaps a reasonable approximation for the industrial countries, it is very far from describing the situation in Latin America.

In the industrial countries the middle 60 per cent of the population has an income fairly close to the national average; there are large numbers on both sides of the average with incomes not too far from it; and both at the top and at the bottom there are groups with incomes very far from

the average — the national average is four to five times the income of the poorest 20 per cent and that of the top 5 per cent in turn is three to four times the national average.

In Latin America none of this is true. The income of the middle 60 per cent is far below the national average; and the incomes of the great bulk of the population fall below that figure so that there is no similarity in the numbers just above and below the average. At the extremes there is also much more dispersion at the high income levels — while the national average tends to be less than four times the income of the poorest 20 per cent, the 5 per cent at the top have incomes six or more times that average. In Latin America the average income is only a numerical result, and cannot be regarded as a typical income. Most people have incomes well below the average, only a small proportion have incomes close to the average itself, and this is offset by a small group at the top with incomes very far above the average.

4. INCOMES IN RELATION TO THE MEDIAN AND BETWEEN SPECIFIC GROUPS

Given the limitations of the average income concept, a supplementary and perhaps clearer, way of looking at the distribution is by comparing incomes of different groups with the median income and also directly with each other. This type of information is shown in figures V and VI.

Figure V shows incomes in different parts of the distribution in relation to the median income (that is, the income at the mid-point of the distribution) and in this form it is easy to see where the greater inequality in Latin America is concentrated. The first section of the figure shows the income of the poorest 20 per cent of the population as a percentage of the median, and the second section the income of the following 20 per cent: for both groups incomes are considerably closer to the median in Latin America than in the industrial countries. This means that for the entire lower half of the distribution there is considerably less variation in incomes — that is less inequality — in Latin America than in the industrial countries.

The third section of the figure shows the relative position of a group which stands above the median, but still below the highest parts of the scale. Here most of the countries considered are quite closely grouped, but the figures tend to be somewhat higher in Latin America, and in several countries they are markedly above those of the industrial countries. This is the transition area, where relative incomes begin to rise and hence where the inequality begins to be greater in Latin America.

The final two sections of the figure show the higher income groups, and the contrast is marked at these income levels. For the 15 per cent just below the top, incomes fluctuate around triple the median income in Latin America, and for the top 5 per cent they are from ten to fifteen times the median. For both groups these relative incomes are sharply

Figure V. Incomes of various groups in terms of the median
(Median in each country = 100)

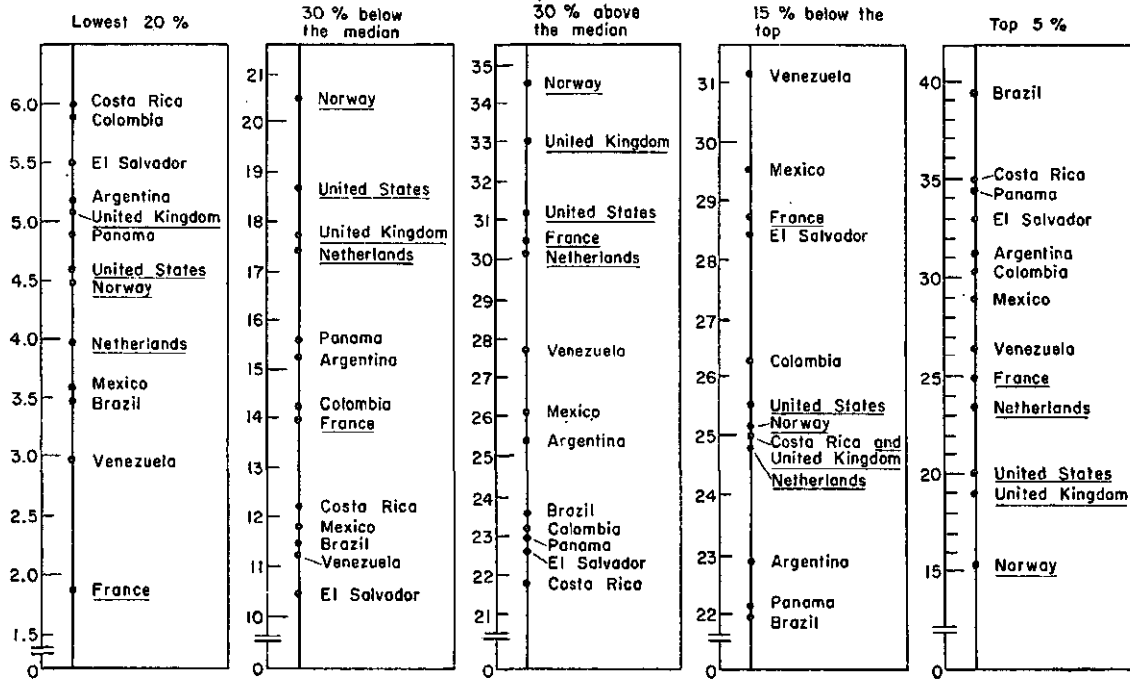
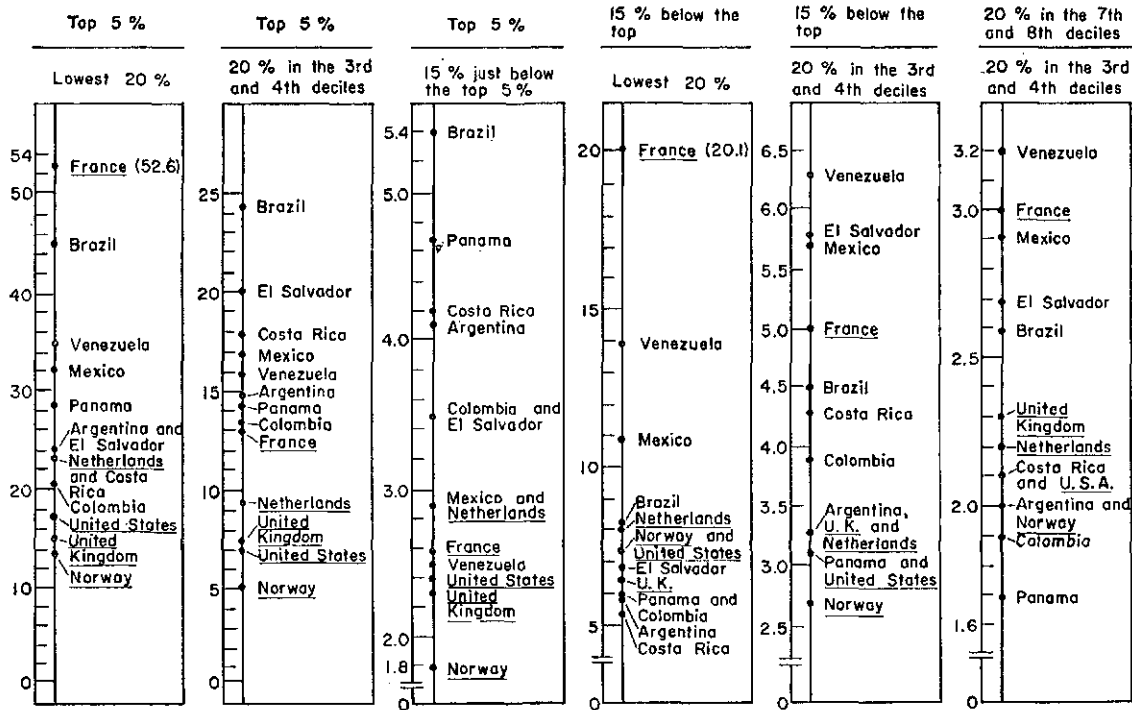


Figure VI. Direct comparison between the average income of selected income groups
(Coefficients)



higher in Latin America than in the industrial countries; incomes of the top 5 per cent in the industrial countries average only around five times the median. This means of course that the inequality in this part of the distribution is much greater in Latin America.

The greater inequality in the distribution of income in Latin America, then, can be seen to be exclusively accounted for by the extreme inequality in the upper deciles. In the lower half of the distribution there is actually less inequality in Latin America than in the industrial countries, and for that part of the distribution immediately above the median the degree of inequality is about the same in the two regions.

Figure VI shows the distance, in terms of income levels, between groups in different parts of the distribution. The rankings in the fourth and in the last sections of the figure show no consistent contrast between Latin America and the industrial countries. The comparison in the fourth section is between two groups (the 15 per cent just below the top and the poorest 20 per cent) with similar relative incomes in the two areas. The similar distance between the lower middle and the upper middle parts of the distribution — shown in the last section of the figure — reflects the similar degree of inequality in the higher middle part of the distribution.

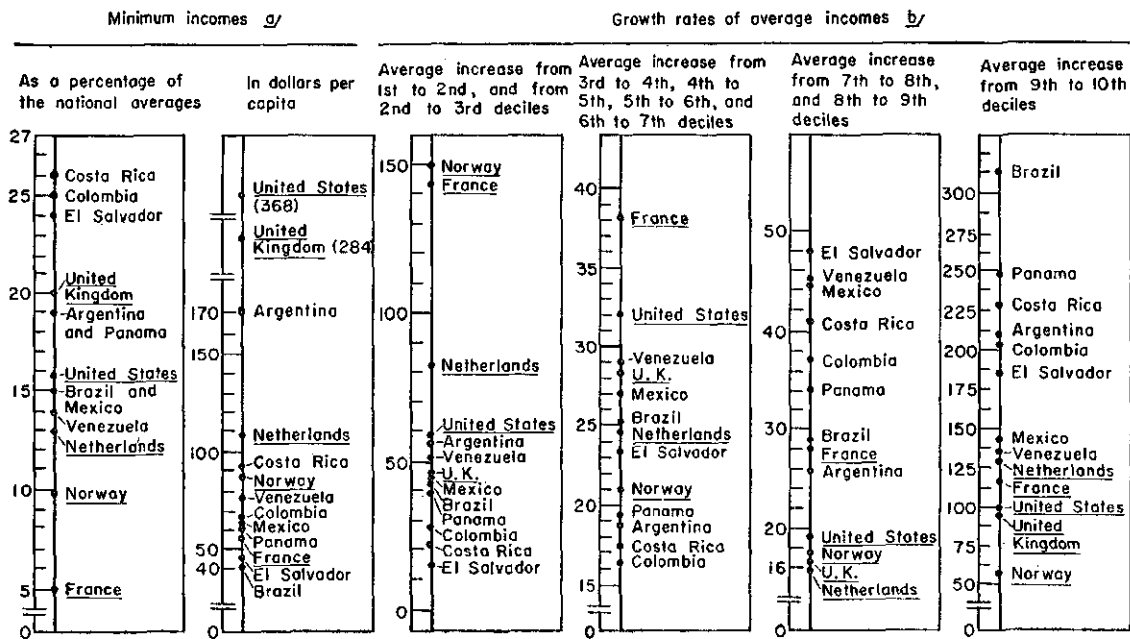
In the other four sections of the figure the ratios are higher in Latin America than in the industrial countries, and they illustrate the marked contrasts in income levels often found. For example, the income of the top 5 per cent averages more than fifteen times the income of those in the lower middle part of the distribution in Latin America. Except for France,⁴ the corresponding multiple is less than ten in the western industrial countries, and is only five in Norway (in the centrally planned economies it is less than four). Such distances are of course a major factor in maintaining class distinctions in the region. Incomes, and hence patterns of living, are so different as to constitute quite separate social groupings.

5. SUMMARY OF THE INCOME DISTRIBUTION STRUCTURE, AND MAJOR IMPLICATIONS

With the above discussions of various aspects of the distribution as a background, a simple summary can be presented of the principal differences between Latin America and the industrial countries, and some of the implications of these differences can be seen. Such a summary is shown in figure VII. The figure shows minimum income levels in each country

⁴ As can be seen from the figure, several of the ratios in France are extremely high. This results from an almost unique combination of incomes at the top which are quite high and incomes at the bottom which are extremely low, in relative terms. While this would be important in any analysis of France, it should not be given much weight in the regional-type comparison discussed here as it is not typical.

Figure VII. Minimum incomes and growth rates in different parts of the distribution



^{a/} Minimum incomes are the average for the first decile (the poorest 10 per cent of the population) in each country. The figures in dollars are only very approximate and were obtained from parity exchange rates and estimated family budgets in low-income brackets in Latin America. For the industrialized countries, only official exchange rates were used.

^{b/} The growth rates shown are the percentage increases from the average income of one decile to the average income of the decile immediately above it.

— taken to be the average income of the poorest 10 per cent of the population — and the relative increase in income from one decile to the next through the rest of the distribution.

The distribution in the Western industrial countries can be described as follows. Minimum incomes are very low, even if the abnormally low French figure is excluded. In relative terms they range only from one-tenth to one-fifth of the national average; in absolute terms they are much higher in the United States and the United Kingdom than elsewhere, but in the other industrial countries they are not a great deal higher than in Latin America (see the first and second sections of the figure). From this low minimum, however, incomes rise very rapidly (see the third section of the figure); except for the United Kingdom, where the minimum is relatively high, the average income in the second decile is already double or more the minimum. The relative increase from one decile to the next then tends to decline in each of the industrial countries throughout the distribution — until it sharply increases again at the very top. Through the middle part of the distribution, the increases average somewhat less than 30 per cent (see the fourth section of the figure), and for the group just below the top (the eighth and ninth deciles shown in the fifth section) only slightly over 20 per cent. The increase at the top is then again large; the average income in the top decile tends to be double that of the decile group just below (see the final section of the figure).

There are then two focal points of inequality in the distribution in the industrial countries. Those at the bottom are very poor, not only with respect to the national average, but also by comparison with the income received by those just above them in the scale. Second, those at the top have high incomes, *vis-à-vis* both the national average and the incomes of those just below them in the scale. The inequality in the broad range between the extremes is much less.

In Latin America the distribution is different. In relative terms minimum incomes tend to be somewhat higher, although they are lower in absolute terms. Incomes then rise rather slowly from the minimum; although the relative increase is greater than through the middle deciles of the distribution, there is nothing comparable to the sharp rise from the minimum characteristic of the industrial countries. Through the middle deciles the rate of increase is also less than in the industrial countries (see the fourth section of the figure). But with the group just below the top, incomes begin to rise at a much more rapid rate — around 40 per cent from one decile to the next, or double the rate for the same group in the industrial countries (see the fifth section). And at the very top the increase is extreme: whereas in the industrial countries the average income in the top decile is double that of the preceding decile, in Latin America it is about triple on the average.

There is thus only a single focus of inequality in the region — towards the top of the scale. Throughout the entire lower and middle part of the

distribution incomes rise relatively slowly. But beginning at about the seventh decile of the distribution the rise is progressively more rapid, and the inequality reaches a peak with the very high relative income of the 5 per cent at the top of the distribution; although not shown in the figure, this group has an average income nearly triple that even of those in the lower half of the top decile.

These differences have numerous implications — social and political as well as economic — and a few of these can be conveniently noted here. The meaning of the differences at the bottom of the distribution is clearer after specifying the social and economic groups which characterize that part of the distribution. In the industrial countries the very low income group is mostly composed of what might be called “special cases”. The most important are elderly persons, but there are also the temporarily unemployed, the sick or injured, the very young worker, etc. In Western Europe about half those in the first and second deciles are not active members of the labour force. On the basis of family incomes the two major groups at the bottom are the old and families with a female head. The very rapid rise from the minimum income level in the industrial countries is for the most part a reflection of moving from these special cases to those who are normal members of the labour force. Even the lowest incomes received as active, full-time members of the labour force tend to be sharply higher than the minimum.

In Latin America, in contrast, the minimum income level represents low incomes received by active members of the labour force — mostly those in rural areas, but also important urban groups. These groups represent a substantial proportion of the population in most of the region, and so there is no break in continuity, no movement to another economic grouping in the lower part of the distribution. As a consequence, there is no sharp rise from the minimum income level.

Two implications of this situation should be stressed. First, in the industrial countries the receipt of a very low income is for the most part not a permanent situation. In many instances these individuals will have received substantially higher incomes in earlier years, and may have savings or accumulated durable and semi-durable consumer goods which make their real standard of living higher than it otherwise would be. At worst, the low income level reflects only a part of their life, and their children in turn can probably aspire to much higher incomes.

In Latin America this is not the case. Low incomes generally reflect a permanent situation — for the individual and probably for his children as well. As such, the real privation involved is considerably greater than that indicated by minimum income levels in the industrial countries.

Secondly, since most very low incomes in the industrial countries are special cases, it has been appropriate to seek improvement through social security or welfare programmes: pensions, unemployment and sickness or accident benefits, welfare payments to women with dependent

children, etc.⁵ Since most of the very poor in Latin America are not special cases the adoption of programmes of this sort will do little or nothing to raise minimum income levels. Most of those at the bottom are active members of the labour force and so do not qualify for benefits of this kind.

The bulk of the population in the wide middle ranks of the distribution has two distinguishing features in Latin America: incomes rise relatively slowly in this range, and the group as a whole receives a much smaller share of total income than the same group receives in the industrial countries. Both features have significant economic implications.

The more important is the smaller share of total income received, as this means a reduced potential for the mass markets associated with higher levels of development. The principal limitation to the size of the market in the region is the relatively small size of even the largest national economy. But within this limitation, the small proportion of income received by the bulk of the population restricts potential mass markets even further.

Mass markets can only exist for products consumed by very large numbers of individuals (or for intermediate goods required for products of this sort). They cannot be based on a small number of individuals with higher incomes, since as incomes rise expenditures tend to be increasingly diversified rather than to involve larger purchases of the same items. Mass markets for this reason can almost never be based on the high income group; they depend upon the purchasing power in the hands of the mass of the population.

It is worth noting that this difficulty would not be overcome if the markets of all the American countries were to be considered as one. Even supposing a single Latin American market equal in aggregate size to that of the United Kingdom, for example, the potential mass market would still be substantially smaller. In the United Kingdom slightly over 50 per cent of total income is in the hands of the middle 60 per cent of the population, while in Latin America this group only has at its disposal about 35 per cent of the total.

The relatively slow rate at which incomes rise in the lower and middle parts of the distribution is probably a significant factor in discouraging higher productivity and in maintaining existing social and economic structures. One of the motives for trying to do a better job is the prospect of receiving a higher income, and this motive is probably particularly important in the lower and middle parts of the scale; economic needs are greater, and so there is more incentive if the gain seems worth while. But, more important, it is here that improvement is possible for most

⁵ The very low minimum incomes in the industrial countries are an indication of the limited extent to which such programme have provided adequate income support even in those countries.

people. It can be achieved through profiting from experience, relatively simple on-the-job training, or studying on one's own or brief training courses which are within the reach of many. At the higher income levels, by contrast, there are much more substantial barriers to entry. Training requirements become steadily greater, and depend on factors largely outside the control of the individual; or more remunerative self-employment depends increasingly on the availability of capital.

In the industrial countries incomes rise relatively rapidly in the lower and middle parts of the distribution.⁶ These countries are characterized by a relatively high level of training and technical capacity, not just of the professionally trained, but also of the great bulk of the labour force. The principal reason for this is the higher levels of general education which prevail. But an important consideration is the fact that acquiring more training pays off in the form of relatively large increases in income.

In Latin America incomes rise more slowly in relative terms and (much more so in absolute terms, of course) in the lower and middle part of the distribution. In addition, the variation in incomes which exists often depends more on personal or random factors than on differences in skill or levels of training. As a consequence there is less incentive for self-improvement, with the rising levels of productivity which this would imply; and the existing social and economic structure among these groups has a greater tendency to remain unchanged.

Incomes rise very rapidly towards the top of the scale in Latin America, and it is here that the inequality is concentrated. The 5 per cent at the top control a much larger share of total income than is the case in the industrial countries and have incomes much further above the groups below them in the scale. The major implications here relate to possible savings levels and to the social structure such a situation promotes.

It has generally been accepted that, to the extent saving depends on voluntary individual decisions, it is promoted by income inequality. This is one of the major justifications advanced for inequality in private enterprise economies. It has also, however, often been pointed out that the level of saving in Latin America tends to be low — despite the inequality which exists. This apparent contradiction cannot be explored here; the volume of saving depends on too wide a range of social and economic

⁶ The extent to which this is the case may be illustrated by the figures for the United Kingdom. The percentage increase in the average income from one decile to the next throughout the distribution is as follows:

	<i>Decile</i>	<i>Percentage</i>
From	1st to 2nd	55
	2nd to 3rd.	35
	3rd to 4th	43
	4th to 5th	25
	5th to 6th	21
	6th to 7th	21
	7th to 8th	17
	8th to 9th	16
	9th to 10th.	97

factors. But it can be observed that the inequality at the top of the scale may well be so great that it does not promote saving — even if some degree of inequality might do so.

Inequality is expected to foster saving because those with higher incomes will be able to satisfy their consumption requirements without spending their entire income and hence be able to save. These consumption requirements are not absolute, but depend on standards set by convention. Implicit in this argument is the belief that these conventions are national ones and that the consumption level they require is in line with national realities. That is, the consumption pattern of those at the top is related to the consumption pattern of those below them in the scale. It is this which enables them to live somewhat better than those below them and still be able to save.

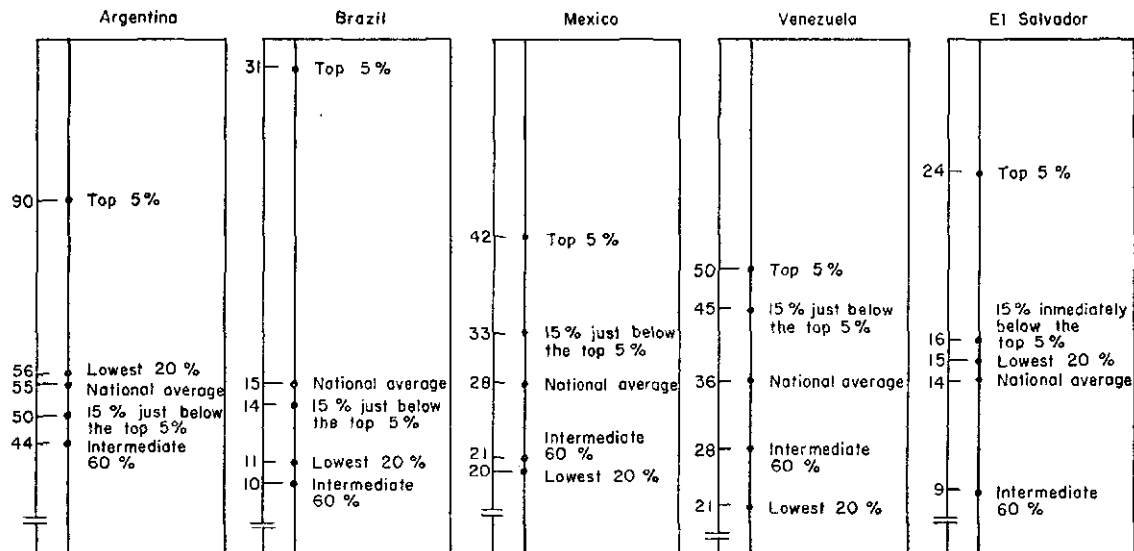
But the extreme difference in income levels between those at the top and the rest of the population in Latin America may well destroy any link of this sort, and as a consequence not even encourage saving. The average income of the top 5 per cent is ten times that of the individual at the mid-point of the distribution, and close to triple that even of the 5 per cent of the population just below it in the scale. With such enormous differences it is perhaps more likely that consumption patterns will be based on different standards and have very little relation to each other. This is of course what happens. The lower and middle income groups have a consumption pattern based on national customs and conditions. The group at the top maintains a consumption pattern based to a considerable extent on standards prevailing in the advanced industrial countries.

The fact that the inequality gives the high income group much more income than those lower in the scale is then largely irrelevant from the point of view of possible savings, as the consumption pattern has no close link to consumption patterns of those lower groups. Consumption is heavily influenced by standards in the industrial countries, and the high income groups in Latin America do not have especially high incomes when the comparison is with the higher income groups in those countries.

This point can readily be seen by reference to figure VIII, which shows income levels in several countries in terms of the income received by the corresponding group in the United Kingdom. In most countries the average income of the top 5 per cent is half or less of the income of the top 5 per cent in the United Kingdom; and the ratios would be much lower if the comparison were made with the United States. In terms of United States dollars, those in the top 5 per cent in Mexico, for example, have an average annual income of around 2 250. dollars per capita.⁷ This is

⁷ The figures should be regarded as only very approximate, and they refer to the level in the mid-1960s, expressed in 1960 dollars. It should be stressed that this is a per capita figure; that is, an average covering all persons whether or not they are income earners. In the case of Mexico the distribution is by family, and the figure can be directly interpreted as the average income per family member of those in the top income group.

Figure VIII. Selected Latin American countries: average incomes of the different income groups as a percentage of the average income of the corresponding group in the United Kingdom^a



^a National averages refer to personal per capita income in each country. The figures were converted into a common currency at parity exchange rates for the Latin American countries and at the official exchange rate in the United Kingdom, and they should be taken as only approximate. The figure given for the different income groups in the Latin American countries is the average income of that group expressed as a percentage of the average income of the same group in the United Kingdom. For example, the average income of the lowest 20 % of the population of Argentina corresponds to 56 % of the average income of the lowest 20 % in the United Kingdom.

very high in relation to incomes of other groups in Mexico, but it is not high by comparison with incomes in the industrialized countries; and when consumption patterns are linked to the standards prevailing there, the margin available for saving is severely reduced. Only in Argentina are incomes of the top group comparable to those in Western Europe (although not to those in the United States), so that the reasoning presented above should not be a major factor in determining savings ratios.

This is an aspect of the much discussed demonstration effect, but it is important to note that it is only the group at the top which is affected — because only this group has sufficient income. The income groups in the lower and middle parts of the distribution continue to live very largely by national standards. An extreme inequality produced by a large concentration of income in the hands of those at the top may, then, provide no incentive to saving, but only to the establishment of unrelated consumption patterns. A lesser degree of inequality might have forced the higher income groups to retain a consumption pattern based on national realities, and might even, as a consequence, have encouraged saving.

The social implications of this concentration of income at the top are of greater importance. The very large differences in income between those at the top and the mass of the population contribute importantly to the establishment of sharp class differences. Those at the top can live in a way which is totally different from that which is within the reach of the bulk of the population. The basing of consumption patterns on non-national standards has been noted above. There is the additional fact that the great disparity in incomes encourages the use of direct personal services. The income of the top 5 per cent averages fifteen times that of the lower middle part of the distribution and twenty-five times that of the poorest fifth of the population. Personal servants can thus be maintained on a much wider scale than in the industrial countries. The very different patterns of living limit common experiences, and personal contacts on a master-servant basis are frequent. Both contribute to the existence of sharply differentiated social groupings.

One final, and over-all, implication of the different distribution in Latin America needs to be mentioned. When comparing per capita income levels with those in the industrial countries it must always be borne in mind that the comparison will not be the same for the different income groups, as the distribution is more unequal in Latin America. The use of a single, national average, figure will not be representative. The extent to which this is the case is illustrated in figure VIII. The figure shows, for several Latin American countries, average incomes of different income groups as a percentage of the average income of the corresponding group in a representative industrial country, the United Kingdom.

The variation in these percentages for any particular country is considerable. In Argentina, for example, the middle 60 per cent of the population has an average income well under half the average income

of the same group in the United Kingdom, whereas the average income of the top 5 per cent in Argentina is fully 90 per cent of the average income of the top 5 per cent in the United Kingdom. To observe that the average personal income in Argentina is 55 per cent of the average personal income in the United Kingdom is thus not at all descriptive of the positions of these two important groups.

There is some variation from one country to another, but, in general, the relative position of the middle 60 per cent in Latin America is considerably less favourable than the national average alone would indicate, while the relative position of the top 5 per cent is very much better (see figure VIII). This of course is to be expected from the differences between the distributions in Latin America and in the industrial countries which have been discussed above.

6. POSSIBLE CAUSES OF THE GREATER INEQUALITY IN LATIN AMERICA

The distribution of income in any particular country depends upon a wide range of cultural, political, and economic conditions: those of the past, which were influential in forming the institutional framework, and also those of the present. No attempt can be made here to offer any such comprehensive explanation for the region as a whole, although in the analyses of individual countries in the following sections explanations of this sort are presented in so far as possible. Here the discussion will be limited to two factors which distinguish the region from the industrial countries, and which appear to be of considerable importance in explaining the differences in inequality observed. Both are linked to the level of development, but this is not meant to imply that growth will necessarily sharply reduce the inequality. Both factors involve development of a more specific sort than simply rising production levels. Further, as already noted, a considerable range of inequality remains among the industrial countries themselves; there is nearly as much difference between the distributions in Norway and in France as between those in Latin America and in the average industrialized country.

The more important of the two causal factors is the fact that the economic structure in Latin America is still at an intermediate level of development. Modern technology has been established in some activities, but this exists simultaneously with backward technology in others, and with varying levels in between. The most important aspect of this from the present point of view is that thus far the growth achieved has been sufficient to absorb only a part of the labour force into the modern or semi-modern sectors of the economy. A considerable proportion of the labour force continues to be occupied in activities with very low levels of productivity.

Preliminary estimates carried out by CEPAL indicate that in 1960, for the region as a whole, about 40 per cent of the labour force was still

occupied in primitive type activities. The bulk of the remainder were in the intermediate area, but an important minority was engaged in fully modern activities. The gap in productivity between these groups is enormous. The one-eighth of the labour force in the modern sector in 1960 produced close to half the total gross product, while the 40 per cent in the primitive sector accounted for less than one-tenth of the total. This latter large group as a consequence subsists at very low income levels.

It is important to note that there are very great differences among individual countries in the region in this respect, and this is a substantial factor in explaining variations in the distribution of income from one country to another. This is discussed in a later section. Here it is only necessary to emphasize that the region as a whole differs sharply from the industrial countries in this respect. In the already industrialized countries the primitive sector has been eliminated for all practical purposes, and a much higher proportion of the labour force is engaged in the fully modern sector. With this change goes a major change in the income distribution structure.

The possible influence on the distribution of the existence of a large mass of low-productivity (and low-income) labour can be illustrated by a simple numerical example. Let us first suppose an economy in which the entire labour force has been absorbed by the modern and semi-modern sector (an industrialized country), and in which the distribution of income is that existing in the Netherlands. Suppose, next, that this economy is joined to another with a labour force of the same size, but which is entirely occupied at low productivity levels, with incomes equal to those of the poorest 20 per cent of the population in the high productivity economy. The structure of this enlarged economy would then be rather similar to that of Latin America — half the labour force would be in the modern and intermediate sectors, and half would remain in the primitive sector. The distribution of income in this economy, in terms of percentage shares of the different income groups, would be as follows (the actual distribution in the Netherlands which serves as the basis for the calculation is shown for purposes of comparison):

<i>Income group</i>	<i>Netherlands (percentage shares)</i>	<i>Hypothetical economy (percentage shares)</i>
Lowest 20 %	4.0	4.3
30 % below the median	17.4	12.3
30 % above the median	30.2	25.0
15 % below the top 5 %	24.8	30.2
Top 5 %	23.6	28.2

The distribution in the hypothetical economy is considerably more unequal than in the Netherlands. The share of the middle 60 per cent of

the population is more than 10 per cent smaller, and the share of the higher income groups is correspondingly larger. This is the sort of difference observed between Latin America and the industrial countries, and the hypothetical distribution is fairly similar to the distribution in Latin America (see figure II). It is strikingly similar to the distribution in a country such as Mexico, where the rapid post-war growth has meant a major expansion of the modern sector, but where the primitive sector still contains a large proportion of the labour force.

What this illustrates is that the distribution of income within the "modern" sector of the Latin American economy could well be similar to the distribution in the Western industrial countries. But there still exists a large "primitive" sector in the Latin American economy with very low income levels. The differences observed between the distribution in Latin America and in the industrial countries could be largely accounted for simply by the numerical effect of joining these two separate sectors in a single aggregate estimate.

This would still imply that the concentration of income at the top, even within the modern sector itself, is relatively great in Latin America. It will be noted that the numerical illustration shown above is based upon the distribution in an industrial country where the inequality is relatively high. If an industrial country with an average or low degree of inequality is used to represent the inequality in the modern sector (countries such as the United Kingdom, the United States, or Norway), the over-all inequality remains much less than that actually found in Latin America. Further, even in the illustration shown the concentration at the very top (the top 5 per cent) is somewhat less than that actually found in Latin America.

Finally, it should be noted that, when looked at in this way, the groups at the top of the scale are less restrictive, in a significant sense, than might appear at first sight. If the labour force is half in the modern sector and half in the primitive sector, then the top half of the distribution covers all of the modern sector. The top 5 per cent for example, represents 10 per cent of those in the modern sector. One out of ten income recipients is not a particularly exclusive grouping, and for many purposes it is more meaningful to view the distribution in this way.

All of the above has treated the modern and primitive sectors as separate and independent parts of the economy, but while this is useful to illustrate the general concepts involved, it does not correspond to reality. The two sectors shade gradually, one into the other, and the existence of the primitive sector has important influences on the functioning of the modern sector itself.

The influence that matters here is that there is an excess supply of labour for most activities and this tends to depress incomes throughout a considerable part of the distribution. So long as it is relatively easy to move to the next step up the scale there are generally more persons

available to make that step than there are adequate opportunities, so that the existence of the large primitive sector has a depressive effect on incomes through a considerable part of the semi-modern sector as well. It has already been noted that through the entire lower and middle range of the distribution incomes rise relatively slowly in Latin America, and that the broad middle sectors have much lower incomes in relation to the national average than is the case in the industrial countries.

But this pressure only continues so long as it is relatively easy to advance. Two more or less natural obstacles change this situation in the more complex parts of the economy. First, technical requirements become sufficiently high so that the supply of candidates depends upon the output of training institutions, and is no longer necessarily related to the number of persons at lower levels. Second, self-employment in these areas requires relatively large amounts of capital and so depends on the supply of capital available, and again is not related to the number of persons at lower levels. If the growth of the modern sector is rapid, demand is likely to outrun supply for both these groups — in sharp contrast to the situation at lower levels — and incomes are likely to be relatively high.

A third, more artificial, obstacle to advance is also fairly common in the modern sector. Since productivity is high, it is possible to pay much higher wages, and this is often achieved by labour organizations, even for relatively unskilled labour. The pressure from below, in this case, is avoided by restrictive union membership practices.

The existence of a large primitive sector alongside an important, and growing, modern sector thus tends to lead to a discontinuity in the distribution at some point. For much of the distribution incomes are depressed by the mass of low productivity labour at the bottom. But the modern sector is able to a considerable extent to insulate itself from this pressure, and to maintain incomes at sharply higher levels. In Latin America this discontinuity tends to occur at about the seventh decile of the distribution. Incomes begin to rise with increasing rapidity, and in the upper third of the distribution they rise much more rapidly than in the industrial countries.

This situation is an important factor in explaining the reduced incentives for individual effort mentioned earlier. The fact that through most of the distribution there is an excess supply of applicants for any activity leads to pressures for selection on non-technical grounds. Thus, not only is the economic gain relatively small, but there also tends to be a feeling that success is arbitrary. Both discourage individual efforts towards improvement. Towards the top of the distribution the possible gains are large, but here too success is partly arbitrary — this is clearest in the case of closed employment at sharply higher rates. Technical training in the modern sector can be clearly seen to pay, but for the lower income groups the gap which such training represents is so large that it is likely to appear unbridgeable by individual effort, and to lead only

to an attitude of resignation. The same is true of higher earnings obtainable through the use of capital.

Economic growth, in the normal case where this is centred on the modern sector, must be fairly rapid in any circumstances to bring about a substantial reduction in the numbers occupied in the primitive sector. Productivity is high in the modern sector, and this means that an expansion requires relatively small amounts of labour. Further, some of this expansion in the modern sector will displace less efficient production in the semi-modern sector, and release larger amounts of labour in the process.

A simple numerical example can again serve to illustrate the problem. About one-eighth of the labour force is occupied in the modern sector in Latin America, and accounts for nearly half the gross product. If the gross product is growing at a rate of 5 per cent per annum, and the expansion is accounted for entirely by the modern sector, this will mean that the modern sector is growing at a rate of 10 per cent. This will require the incorporation into the modern sector of an additional labour supply equal to $1\frac{1}{4}$ per cent of the total labour supply. But given the rate of population growth in the region, the labour supply itself is growing at close to 3 per cent per annum. A 5 per cent growth rate will therefore mean a continuing rather rapid growth in the size of the primitive sector. Even a substantially higher growth rate, in these circumstances, would not reduce absolute numbers in the primitive sector, and would reduce the *proportion* of the labour force so occupied only very slowly. And so long as the primitive sector remains large, even if slowly declining so proportionately, the pressure described above will continue to operate through a large part of the distribution, and the discontinuity at some point will remain.

The growth required significantly to reduce the impact of the primitive sector on the distribution of income is therefore of a very specific sort. If the growth is a growth of the modern sector, it must be rapid in relation to population growth. This means a much more rapid rate of growth than has thus far been attainable in the region, or a considerably slower rate of population growth than that of recent years.⁸ Alternatively, the growth could be centred, not on the modern sector, but rather on trying to spread semi-modern methods through the primitive sector itself.

⁸ It is worth mentioning that a given rate of increase of per capita income is not an unambiguous measure of progress in this respect; a lower rate of population growth is more likely to result in a decline in the size of the primitive sector. In terms of the above numerical example, a 5 per cent rate of growth with the population growing at 1 per cent per annum, and a 7 per cent growth rate with the population growing at 3 per cent per annum, will each yield approximately a 4 per cent increase in per capita income. But in the former case the growth in the modern sector will absorb more workers than the total increase in the labour force, and there is therefore likely to be a *decline* in the primitive sector; while in the latter case the growth in the modern sector will absorb only somewhat more than half the increase in the labour force, and the primitive sector will continue to *expand* rather rapidly in absolute terms.

The post-war growth in Latin America has been very largely centred on the modern sector, and the growth rate achieved has been only moderate in relation to the rapid population increase. Although statistical data of this sort are scarce, available information indicates that there has been little reduction of the pressure exerted by the primitive sector on the lower and middle ranges of the distribution.

The other causal factor in the distinctive distribution in Latin America is the rather different composition of the high income group, and the different set of circumstances within which this group functions. It is precisely here, at the top of the scale, that the whole range of social, political, and economic, conditions would be most important in any attempt at fully explaining differences — among the industrial countries themselves there is a wide variation in the degree of concentration of income in the hands of the top 5 per cent. Nevertheless, some general comments can be made, and again these have to do with the stage of development in the region. And again, it will be noted that the development discussed means specific things, and not just a rise in the aggregate income level.

The principal factor in the existence of very high incomes, in the Western industrial countries as well as in Latin America, is that property ownership and the bulk of production is in the hands of private individuals. But the extent to which this leads to a concentration of income in the hands of those at the top varies widely, depending upon the concentration of ownership and also upon the type of organization which is prevalent in the private sector (and upon the social and political setting). There are several factors here which tend to lead to a greater concentration of income in Latin America.

First, there is probably a substantially greater concentration of property ownership in the region. The ownership of land has been best documented, and although there has been some dispersion of ownership in recent years, the large estate, often producing for export, is still a common feature of the region. In the industrial countries holdings have been dispersed, with the result that few of those at the top of the scale derive their incomes from large land holdings.

Although less well documented, there is also more concentration of ownership in commercial, financial, and industrial activities. This, to some extent, is almost a matter of definition. As the region is at a lower stage of development, there are bound to be fewer facilities of this sort than in the industrial countries — at least fewer modern facilities, which require substantial capital and, having higher productivity levels, are those which yield the highest incomes. Capital is scarce, and this tends to mean that relatively few persons control what is available, and that it commands a higher price. Both aspects increase the concentration of income at the top.

There is also an important difference between Latin America and the industrial countries in the form of organization in the non-agricultural

ector, and this too affects the degree of concentration of income. In the industrial countries, as mass production techniques have spread, the typical form of organization has become the public corporation. This is most dominant in the industrial sector, but it has become increasingly common in the commercial and service areas as well. With this form of organization, control tends to pass from individual owners into the hands of salaried professional managers. This "managerial revolution" has been much discussed, and has significant implications from the present point of view.

First, salaried managers are likely to receive a lower income than an independent owner-manager. Managerial salaries must increasingly be made public, and there are various pressures, both social and private, which tend to set an upper limit to them. Probably of greater importance, the corporate form of organization tends to be more impersonal, and professional managers to have somewhat different objectives from an individual owner. Impersonal management will mean, for one thing, more complete records, and this, combined with the relatively large size of corporate units, greatly increases the degree of compliance with public regulations. In particular, direct taxation is very much easier to enforce. One high income group (managers) is now salaried, and income taxation can simply be withheld at the source. Profits can be readily taxed (and in more sophisticated ways if desired) at the corporate level, before they ever reach individuals in the form of income. Further, professional managers are likely to view profits in a different context from the "owner" of the enterprise. They are likely, for example, to be less concerned about profits taxation, as it affects them only marginally; and as their prestige will be linked to the size of the corporation, they may be more interested in financing growth, and so pay out less in dividends and retain a greater share of profits for use within the enterprise. All of these things will tend to reduce the income of groups at the top of the scale, and so reduce the concentration of income in the hands of that group.

The extent to which this transition has occurred — from the individual entrepreneur to the large corporate form of organization — varies considerably even among the industrial countries, and is probably an important factor in the differing degrees of inequality. In France and the Netherlands, for example, where the inequality is relatively great, the individual firm remains a more important factor, and the self-employed a greater proportion of the high income group. The process has been pushed furthest in the United Kingdom and in the United States, where income from unincorporated enterprises now accounts for no more than 10 per cent of the total national income, while wage and salary payments have risen to close to three-quarters of the total. Even in these latter countries, however, the self-employed account for a substantial fraction of those at the top of the scale, an illustration of the importance of self-employment in generating high incomes.

There is also a good deal of variation within Latin America. The process is closely linked to specific political and economic conditions, especially in the smaller countries — and data of this sort are rather sketchy. Nevertheless, it appears that for the region as a whole the income from self-employment accounts for around one-third of total national income, while wage and salary payments do not exceed half of the total. There are large numbers of self-employed persons in the upper part of the distribution, and they dominate the high income group. This is part of the explanation for the concentration of income at the top of the scale.

Underlying this particular difference between Latin America and the industrial countries is a wholly different pattern of economic organization, which is closely related both to the level of development and to the distribution of income itself. Within the region, production is still relatively small-scale for the most part, and in the hands of large numbers of individual-type firms. The production is not aimed primarily at the mass market, but rather at the differentiated market of the one-third or so of the population at the top of the scale. Effective markets, at least for the more modern enterprises, are for practical purposes limited to this group both because of the low level of total income, and because the bulk of the income available is concentrated in their hands. This type of production tends to be characterized by high unit mark-ups — that is, a relatively large profit for each unit produced or sold. This enables the many individual businesses to operate profitably on a relatively small scale; it produces the large numbers of self-employed toward the top of the income scale; and it results in a relatively small share of wage and salary income in the total. The level of development, the type of economic organization, and the distribution of income are, in this respect at least, all closely linked.

This circle has been broken, in varying degrees, in the industrial countries. Production is to a large extent aimed at mass markets. This makes possible the use of modern techniques involving considerable economies as the scale of production increases. Profits thus depend much more on a large volume, and the profit per unit declines. A few large corporate-type firms displace many small individual businesses and this tends to raise the share of wage and salary payments in the total, and reduces both the dominance of the self-employed in the higher income groups and the concentration of income at the top of the scale.

There is one final aspect of the composition of the high income group which tends to lead to a greater concentration of income at that level in Latin America. Professionally trained persons account for a significant proportion of the high income group in Latin America as well as in the industrial countries, and an important characteristic of these individuals is that they tend to be relatively mobile, even at an international level. The aspect of this situation which has been most widely discussed is the

flow of such talent from the poorer to the richer countries, the so-called "brain-drain." A further aspect, however, is that standards tend to some extent to become international, and this includes fees and salary levels. Professionals in Latin America are well aware of incomes and living standards of their counterparts in the industrial countries, and there is some tendency, and ability, to aim at those standards. To the extent this is the case, professional incomes in Latin America are relatively high, and there is a greater concentration of income at the top. This is another illustration of the ways in which the high income group — and the modern sector — is linked to the international economy as well as, or perhaps even more than, to internal realities.

7. AN AGGREGATE DISTRIBUTION FOR LATIN AMERICA

For some purposes it is useful to have a single set of figures for the distribution of income which, in a very approximate way, could be regarded as "typical" or representative of Latin America as a whole. One way of obtaining such a distribution would be to average the figures for the different countries for which estimates are available, thus obtaining the distribution in the "average" country of the region. In terms of the percentage shares of the different income groups (see figure II) the following distributions are obtained, depending upon whether a simple average or one weighted on the basis of population is calculated:

<i>Income group</i>	<i>Percentage share of total income</i>	
	<i>Simple average</i>	<i>Weighted average</i>
Lowest 20 %	4.7	4.0
30 % below the median	12.8	12.4
30 % above the median	24.1	24.5
15 % below the top 5 %	25.9	24.9
Top 5 %	32.4	34.2

An alternative is to view the region as a whole, and estimate a distribution of income adding all countries together to form a single aggregate. This is rather more interesting from various points of view, and such an estimate is presented below; but it should be kept in mind that the figures refer to the region as an aggregate, and are not representative of the distribution in an "average" country. The estimation has been made in the following way:

First, there are completed income distribution estimates available for a fairly wide range of countries — covering about three-quarters of the total population of the region — and there are partial indicators available for some other countries. Distributions for the countries not shown in the tables have been estimated using such partial data as are

available, but with considerable reliance on the concept of a shifting distribution as the primitive sector declines in importance; that is, it has been assumed that, in approximate terms, the distribution can be estimated on the basis of estimates of the relative size of the modern and primitive sectors. The distributions were then converted to a common currency through the use of purchasing power parity exchange rates, summed, and a distribution for the region as a whole calculated. While the resulting distribution should of course be regarded as only very approximate, it is sufficiently accurate for purposes of the small number of broad income groups shown, and makes clear several important characteristics of the regional distribution of income. The figures, which describe the situation prevailing in the early 1960s, are shown in table I.

Table 1
THE DISTRIBUTION OF INCOME IN LATIN AMERICA

<i>Income group</i>	<i>Percentage of total income received</i>	<i>Average income (regional average = 100)</i>	<i>Average per capita income^a (dollars)</i>
Lowest 20 %	3.1	15.5	60
30 % below the median .	10.3	34.0	130
30 % above the median .	24.1	80.0	310
15 % below the top 5 %	29.2	195.0	750
Top 5 %	33.4	670.0	2 600

^a These values are for 1965 but are expressed in terms of 1960 dollars.

The most important aspect to note is that when Latin America is considered as a whole there is greater inequality in the distribution of income than is found in the individual countries of the region. The lower half of the distribution receives a very small proportion of total income, and exists at very low income levels. Incomes then rise very rapidly through the upper half of the distribution, and a large share of the total is concentrated in the hands of the top 5 per cent of the population. Such a distribution combines the two forms of inequality found in individual countries. There is first the very small share received by the poorer half of the population, and the considerable inequality in the middle and upper middle parts of the distribution—the type of inequality found in countries such as Mexico and Venezuela, although here in even more extreme form. There is in addition the concentration at the very top which is the predominant element of inequality in countries whose modern sector is still relatively small; this concentration is somewhat less for the region as a whole than in some of these countries, but considerably greater than in countries such as Venezuela or Mexico.

It is the combination of these two aspects which results in such great over-all inequality. The calculation of the coefficient of concentration for the region yields a value of 0.57, considerably above the figure for most individual countries ⁹ (see figure I). For the United States, an already industrialized region with a fairly similar total population, the coefficient of concentration is 0.40, which, as can be seen from the figure, is far lower on the scale. The relative shares of the different income groups in the two regions makes clear the contrasts involved. The percentage shares are as follows:

	<i>Latin America</i>	<i>United States</i>
Lowest	3.1	4.6
30 % below the median	10.3	18.8
30 % above the median	24.1	31.1
15 % below the top 5 %	29.2	25.5
Top 5 %	33.4	20.0

As can be seen, the groups in the upper part of the distribution receive a much larger share of the total in Latin America, and those in the lower and middle parts of the distribution a correspondingly smaller share.

This great inequality in Latin America can be explained in the same terms as before. The greater inequality for the region as a whole results from the types of distribution which have been shown to characterize the individual countries, and from combining in a single distribution countries at widely varying levels with respect to the importance of the primitive and modern sectors.

The low income levels which prevail throughout the lower half of the distribution essentially reflect incomes attainable in the primitive sector. For the region as a whole around 40 per cent of the labour force is engaged in primitive-type activity, so the entire poorer half of the population is either within the primitive sector or still very closely linked to it. There are significant differences in income levels even within the sphere of primitive-type production, and incomes rise about 30 per cent from one decile to the next through the lower half of the distribution. For the most part this reflects the fact that there is not yet any over-all pressure of population on resources, especially land, in Latin America, and so there is considerable scope for variation from one area to another. In some localities the resources available are poor, or there is substantial population pressure, so that incomes attainable through primitive-type

⁹ Only in Brazil is the figure comparable. As pointed out in the analysis of Brazil, the unusually great over-all inequality is to a considerable extent the result of combining in a single distribution, areas at very different levels of development. In this respect the Brazilian distribution is similar to that for the region as a whole.

activity are minimal. In other places resources are more favourable, and incomes are somewhat higher.

But living standards for the entire poorer half of the population are extremely low. Most of this group (over one-quarter of the entire population of Latin America) have an annual personal income of less than 100 dollars per capita, and the figure at the top of this range is only 180 dollars per capita.¹⁰ These magnitudes are important to bear in mind when interpreting aggregate income data. The average per capita personal income for the region as a whole is about 385 dollars per annum, but this figure, or even an examination of figures for individual countries, does not readily convey the fact that fully half the population of Latin America has a per capita personal income of less than 180 dollars or that the average personal income of this poorer half of the population as a whole is only 110 dollars per capita.

Incomes in the lower half of the distribution are low, not only in absolute terms, but also in relation to other segments of the population. For while a major proportion of the population remains in the primitive sector, there are also large groups engaged in fully modern activities at enormously higher productivity levels. These modern-type activities are unevenly spread, both between countries and within any single country, but for the region as a whole they account for nearly half of total production, and the bulk of the remainder comes from intermediate-type activities. The 40 per cent of the labour force which remains in the primitive sector accounts for only about 7 per cent of the total gross product. Personal incomes are consequently very low in relative terms as well. The entire lower half of the distribution receives only 13.4 per cent of all personal income. There is the sharp split between the two halves of the distribution of the sort discussed with respect to Venezuela, except that for the region as a whole it is even more marked.

Incomes rise with increasing rapidity throughout the upper half of the distribution. Already in the sixth and seventh deciles incomes rise somewhat more rapidly, as the groups included become somewhat further removed from the primitive sector and the depressive influence it exerts over incomes. Here, for example, are those in the second decile of the distribution in Argentina, where the primitive sector has been practically eliminated, and those in the fifth decile in Venezuela and in the sixth decile in Mexico, where primitive sectors are progressively larger and their influence extends to progressively higher parts of the national distributions.

But the first major income group in the upper half of the distribution—the 30 per cent above the median—does not receive a very large share of total income, and income levels are still relatively low. For the region

¹⁰ These figures, and others which follow, refer to income levels in 1965, expressed in terms of 1960 dollars.

as a whole, while the economic distance from the primitive sector is steadily increasing, it is only towards the top of this income group that the links to the modern sector become really close and that incomes, as a consequence, begin to rise much more rapidly. The share of total income received is thus less than the share received by the corresponding group in the individual countries which have advanced furthest in reducing the size of the primitive sector, and of course much less than the share of this group in the advanced industrial countries. It is only at the very top of this income group that per capita incomes begin to surpass the regional average, and for the group as a whole incomes are only 80 per cent of that average. This large income group in Latin America is essentially the intermediate sector between the primitive sector and those closely linked to it, on the one hand, and the modern sector and those closely linked to it, on the other.

The top two income groups shown — the 15 per cent below the top, and the top 5 per cent — comprise the modern sector and those closely linked to it, and here incomes are relatively very high, and a large part of total personal income is concentrated in the hands of these groups. It is at this level that the striking disparity between the modern and primitive sectors in the region can be most clearly seen. The average income of these two groups as a whole is close to twelve times the average income of the poorer half of the population. The importance of this contrast can hardly be over-emphasized. This is not a comparison between two restricted groups. It is between the one-fifth of the population most benefited by the existence of extensive modern-type activities, and the full half of the population which has received little or no benefit from these activities. To compare again an advanced Western industrial region with an approximately equal total population, the average income of the richest fifth of the population in the United States is less than five times the average income of the poorer half of the population. In the centrally planned economies the corresponding multiple appears to be slightly less than three.

Within these two top income groups themselves, incomes rise very rapidly and there is great inequality. At the lower limit of the 15 per cent below the top, per capita incomes are still less than 500 dollars, while at the upper limit of the same group they are close to triple that magnitude. And incomes of the top 5 per cent are of course much higher still, and there is a considerable concentration of income at that level.

Since the regional distribution has been estimated by summing the national distributions, it is possible to show the proportional importance of the different countries in any income group. Income levels and distributions differ among countries, and so these proportions vary from one part of the distribution to another, and are of some interest. This percentage composition, by country, of the major income groups is shown in table 2.

Table 2

COMPOSITION OF THE MAJOR INCOME GROUPS, BY COUNTRY

Country	Income groups				
	Lowest 20 %	30 % below the median	30 % above the median	15 % below the top 5 %	Top 5 %
Argentina and Uruguay	—	3.9	12.9	36.6	23.6
Brazil	49.6	40.8	35.5	11.8	20.0
Colombia	3.9	13.0	7.8	2.6	7.8
Chile	—	2.6	5.2	7.9	7.8
Mexico	9.1	18.1	20.1	26.1	18.0
Peru	2.5	5.8	5.2	4.6	5.0
Venezuela	1.8	2.5	4.9	4.9	7.6
Other countries ^a	33.2	13.3	8.4	5.5	10.2
TOTAL	100	100	100	100	100

^a Includes the Central American and Caribbean countries (excluding Cuba), and Bolivia, Ecuador and Paraguay.

There are two income groups which are not divided among the various countries in even approximate proportion to the total population: the poorest 20 per cent and the 15 per cent below the top. For the most part this reflects differences in the stage of development. Those countries which still have very large primitive sectors tend to have larger numbers at the bottom of the distribution, while those which have developed the most extensive modern sectors have greater numbers in the group just below the top of the distribution.

In the poorest 20 per cent of the population it is the grouping of "other countries" which shows the greatest relative concentration. In terms of population, the countries which comprise this group are all small, and mostly continue to have very large primitive sectors and consequently large groups with very low income levels. While combined they account for only 14 per cent of the total population of the region, fully one-third of the lowest income group is located in these countries. This situation has been widely recognized; for example, one of the most important aspects of the Latin American integration proposals has been the insistence on providing special advantages for these countries.

But this is not the largest population group, in national terms, at the bottom of the scale. It is the two largest countries of the region — Brazil and Mexico — which predominate here, as in most of the distribution. Both countries continue to have large primitive sectors, and nearly half of those in the poorest 20 per cent of the population are found in Brazil alone, mostly in the north-eastern part of the country. Throughout the lower half of the distribution these two countries together account for nearly 60 per cent of the total. This is important to keep

always in mind. Any programme designed to improve the condition of the lower income groups in the region must concentrate on these two countries, for it is there that the majority of the poor are found.

Particularly in the poorest 20 per cent, but also to an important extent in the following income group, the 30 per cent below the median, there are relatively few persons from those countries which have gone furthest in eliminating the primitive sector. The southern countries of the continent and Venezuela are of relatively slight importance in the lower half of the distribution.

The next income group — the 30 per cent above the median — is made up of groups from the different countries very nearly in proportion to total populations. This is the intermediate sector between the dominant influence of the primitive sector on the one hand and the modern sector on the other, and all countries have a substantial group of this sort, although of course it is found at varying levels of the individual national distributions.

In the following income group — the 15 per cent below the top — there is again great distortion. It is primarily here that those countries with the most extensive modern and semi-modern sectors are of the greatest importance. Argentina and Uruguay alone account for well over one-third, and together with Mexico for over 60 per cent of this higher income group; although these countries combined have only 30 per cent of the total population of the region. This is an important part of the explanation of the great inequality in the region: the high incomes derived from modern-type activities are disproportionately concentrated in some sectors of the population.

Finally, at the very top of the scale the composition is again more in proportion to total populations. This is because all countries in the region have a modern sector of some importance, and incomes at the top of every national distribution are fairly high in absolute terms and are far above those immediately below them on the scale. Thus the top 5 per cent comes close to being the top 5 per cent from each of the national distributions.

The top of the scale then is quite different in this respect from the bottom. A programme designed to raise the lowest incomes could to some extent concentrate on particular countries. A programme designed to hold down the top incomes could not. These top incomes are much more evenly spread throughout the region, and a similar programme would be required in all countries.

II. VARIATIONS WITHIN THE REGION

It will have been observed from the figures presented that there are significant differences between individual countries, although, as stated at the outset, these are probably of less importance than the characteristics which separate the region as a whole from the industrial countries. The preceding discussion has pointed up the various ways of looking at the distribution of income, and the types of differences which are to be found. With this as a background, the distribution in a number of individual countries can be briefly described. These descriptions will make clear the variations to be found within the region.

First, however, it is useful to mention the extent to which the major changes in the distribution from one country to another can be related to the development of the country. If development is defined as the growth of the modern sector and the progressive elimination of the primitive sector, this can explain important shifts in the distribution from one country to another, or over time within a particular economy.

At an early stage of development, the great bulk of the labour force will be in the primitive sector, and the few in the modern sector are likely to concentrate a large share of total income in their hands. As the modern sector expands, and the primitive sector contracts, the increased income will accrue very largely to the new members of the modern sector and to those who establish close links with it. The negative effect of the primitive sector on income levels will be restricted to a progressively smaller part of the labour force toward the bottom of the distribution, and a progressively larger proportion toward the top will enjoy relatively good incomes. The effect of this on the distribution of income will be that groups below the top will receive a larger share of the total, and both those at the very top and at the very bottom are likely to suffer in relative terms.

The extent to which this seems to occur can be seen from the data shown for several countries in table 3. The modern sector is important in all Latin American countries, but there are large variations. In countries such as El Salvador or Costa Rica, where the primitive sector is still dominant, the two large middle groups have a small share of total income, and there is a considerable concentration at the top.

Mexico and Venezuela are countries where the modern sector has expanded rapidly and is now large — but where, at the same time, a substantial proportion of the labour force remains in the primitive sector. In these countries the 30 per cent of the population above the median receives a substantially greater share of the total, and the upper middle 15 per cent receives somewhat more — and there is less concentration

Table 3

PERCENTAGE SHARES OF THE DIFFERENT INCOME GROUPS IN SELECTED COUNTRIES

	<i>Lowest 20 %</i>	<i>30 % below the median (3rd-5th deciles)</i>	<i>30 % above the median (6th-8th deciles)</i>	<i>15 % below the top 5 % (9th decile and 1st half of 10th)</i>	<i>Top 5 %</i>
El Salvador . . .	5.5	10.5	22.6	28.4	32.9
Costa Rica . . .	5.5	12.5	22.0	25.0	35.0
Mexico	3.6	11.8	26.1	29.5	29.0
Venezuela	3.0	11.3	27.7	31.5	26.5
Argentina	5.2	15.3	25.4	22.9	31.2

at the very top. But the bottom half of the distribution does not receive more, and the poorest 20 per cent have a worse position in relative terms.

Finally, in Argentina the primitive sector is very small, and does not exert an important repressive effect on incomes in any part of the distribution. The bottom half of the distribution consequently receives a substantially larger share of the total than in Mexico or Venezuela, and the 30 per cent just above the median remains in a fairly favorable position. The high over-all income level which results from the absence of a primitive sector, plus the greater share of the total which they receive, means that the position of the poorer half of the population in particular is very much better than elsewhere in the region.

This general aspect is discussed in some detail in the following analyses of individual countries, and the analyses are to a considerable extent organized on this basis. The analysis begins with Argentina, where the modern sector occupies a larger proportion of the labour force, and the primitive sector a smaller proportion, than in any other country in the region. The countries which follow are then ordered on the basis of declining relative importance of their modern sector, so that the impact of this factor on the distribution of income can be more clearly analysed.

The size of the modern and/or primitive sector is by no means the only important factor in determining the distribution of income, and some of the other aspects in the individual countries are discussed in the following pages. It should be emphasized, however, that the brief analyses of individual countries presented here should not be taken to represent a rounded picture of the income distribution structure in these countries. Emphasis here is placed only on those factors which seem most important in differentiating one country from another — that is, which point up the variation within the region. Factors which may be of great importance in any analysis of a single country, are here ignored if they seem to be more or less common to the other countries as well.

I. ARGENTINA ¹

The income distribution structure in Argentina is a somewhat unusual one. Minimum incomes are fairly high, and from the minimum level incomes rise very rapidly. The share of total income received by those groups in the lower and middle parts of the distribution is relatively large, and there is less inequality than elsewhere in the region through the bulk of the distribution — that two thirds of the population ranging from about the third through the ninth deciles. But at the very top, incomes again rise very rapidly. There is, in Argentina, the same concentration of income in the hands of those at the top which is typical of the region as a whole, and which is the most striking characteristic of the income distribution structure.

It is in the lower half of the distribution where conditions in Argentina differ most from those elsewhere in the region. Indeed, some aspects are more similar to those found in the industrial countries. The basic reason for this is that, as noted, the primitive sector is very small in Argentina and does not exert a substantial pressure on incomes, even in the lower part of the distribution.

Primitive-type activities are everywhere largely concentrated in the rural areas, and Argentina is a highly urbanized society. Two-thirds of the population is urban, less than 20 per cent of the labour force is engaged in agricultural activities, and almost none of this is primitive agriculture. For the country as a whole production per member of the labour force is almost as high in agriculture as in non-agricultural activities, and in the high income Pampa region is probably higher. In the urban areas unemployment has not been a major problem, and there is consequently little of the low productivity commercial and service-type activities undertaken because of a lack of remunerative employment opportunities. In brief, the primitive sector in Argentina is very small.

This absence for all practical purposes of a primitive sector is not the result of a recent period of rapid growth, but rather of the historic pattern

¹ The estimates for Argentina were made after extensive statistical study which re-examined the sources of the national accounts estimates with this end specifically in view. The estimates are therefore more reliable than most, and in particular the high incomes are not thought to be underestimated; in so far as there is any error in the estimate of the share of the top 5 per cent, it is more likely to be an overestimate. Since it is generally believed that most estimates significantly understate the share of the top 5 per cent, this is important in comparing the Argentine figures with those of other countries. The distribution of income was estimated both with the family and with the individual income recipient as the basic income unit, and the latter figures are used in this study. Estimates were also made for several years, and those shown here are for 1961. A detailed description of the sources and methods used and the statistical results of the study were published in : Argentina, CONADE, *Distribución del ingreso y cuentas nacionales en la Argentina*, Buenos Aires, 1965. An analysis of the income distribution structure, based largely on this data, can be found in : *Economic Development and Income Distribution in Argentina* (United Nations publication, Sales No. : E.68.II.G.6).

of development. The dominant part of the economy — the Buenos Aires-Pampa region — has almost entirely grown up only during the past hundred years, and from the beginning has been characterized by relatively high income levels. During the colonial period there was very little interest in the area which is now Argentina, and such settlement as occurred was largely in the north-west. Here economic activity was of a primitive type, but its limited size reduced its future importance. As late as the mid-nineteenth century, several decades after independence had been achieved, the total population of the country had reached only one million, about half of which was in the Buenos Aires-Pampa region.

The beginning of the rapid growth of Argentina is generally placed in the 1860s, with the arrival of the first large wave of European immigrants. These came almost entirely to the Buenos Aires-Pampa area, and incomes there were always relatively high. There was great natural wealth, and the region was largely unpopulated. Agriculture from the beginning was of an extensive type, and relatively large amounts of capital were employed. Productivity per person was therefore high, and there was never any significant amount of subsistence-type agriculture in the region.

The very rapid development of the economy — fed by large-scale immigration and considerable capital inflow from Europe, and led by the export oriented livestock and agricultural production of the pampas — continued until the world depression of the 1930s. At that point income levels were similar to those of Western Europe, and such primitive-type activity as existed was limited to that in the north. Incomes in the north were markedly lower than in the Pampa region, but as the great bulk of the population was concentrated in the latter, this was less important than regional differences of this sort have been in some other countries. As early as the 1914 census, the north-west accounted for only 13 per cent of the population.

Since the collapse of the export market at the end of the 1920s, the growth rate in Argentina has been for the most part rather low. In particular, during the post-war period it has been well below that achieved in most of the rest of the region. Despite this low growth rate, there has been a considerable structural shift away from agriculture during the period, and employment in the urban areas has not become a major problem. There has therefore been no tendency towards an increase either in self-sufficient agriculture or in marginal-type activities in the cities; no significant primitive sector has developed.

The principal reason for this is the almost unique demographic situation in Argentina. The rapid growth at the end of the last century and the first three decades of the present one was based to an extraordinary extent on immigration. With the economic crisis at the end of the 1920s, immigration was virtually shut off, and so the rate of population growth (and to an even greater extent the rate of growth of the labour force) was suddenly and sharply reduced. This was a major factor in

avoiding large-scale unemployment, and once the immediate effects of the crisis were overcome, the continuing growth of the cities supported a substantial flow of migration from the rural areas (the growth of the cities had previously depended heavily on immigration).

Further, the natural rate of population increase in Argentina is substantially lower than in most of the region, so there has been much less pressure from this source for additional employment. Despite the low growth rate during the post-war period, per capita incomes have continued to grow at a rate of about one per cent per annum, no large-scale unemployment has arisen, there is little underemployment in agriculture, and little pressure to resort to marginal activities in the cities.

The absence of a substantial primitive sector in Argentina, and the consequent lack of pressure on incomes even in the lower part of the distribution, is therefore not a recent development. It has been worth noting briefly the historical reasons for this situation as it is not typical of the region. Although they vary considerably in size, almost all other countries in the region do have important primitive sectors which exert pressure through some portion of the distribution. Their elimination, and the consequent improvement in the relative position of those in the lower half of the distribution, will have to be achieved, and this will generally be a difficult and time-consuming process. In Argentina the problem never really existed.

Given the lack of a primitive sector and the high degree of urbanization, social security programmes have a much greater impact at the bottom of the distribution than is the case in most of the region. Since most of the population is urban, the coverage tends to be broader than it would be in a more rural economy — agriculture in particular is almost never covered by such programmes. And since there is no substantial primitive sector (that is, occupied members of the labour force with very low incomes), the beneficiaries of these programmes tend to a much greater extent to be those toward the bottom of the income scale. The social security programme has been greatly expanded during the post-war years in Argentina, and in 1961 nearly one-quarter of those in the lowest income group (the poorest 20 per cent) were retired persons.

These factors largely determine the structure of the bottom part of the distribution in Argentina. Minimum incomes (the average income of the bottom decile) are lower in relation to the national average than in a number of countries (see the first section of figure VII). But in absolute terms minimum incomes in Argentina are still well above those in any other country in the region (see the second section of figure VII).

Incomes rise very rapidly from the minimum: the average income in the second decile is already 75 per cent above the minimum. This rapid rise from the minimum is more similar to the situation found in the industrial countries than to that in the rest of Latin America, and the reasons for it are of the same sort. An important part of minimum

incomes in Argentina are those received by inactive persons or by less than full-time participants in the economy. It has already been noted that large numbers of retired persons are in this group, and there are in addition many persons whose income does not represent that of regular, full-time employment, often earnings of a second family member to supplement that of the family head. The rapid rise from the minimum is then, a considerable extent, a reflection of moving from incomes of this sort to those received for active, full-time participation in the economy, which are much higher.²

After the rapid rise from the minimum, there follows the great bulk of the distribution where the degree of inequality is less in Argentina than in other countries. From the third through the seventh deciles the average income rises only about 18 per cent from one decile to the next, and through the eight and ninth deciles the rise averages about 26 per cent. Both percentages are low by comparison with the rest of the region (see the fourth and fifth sections of figure VII), but the difference is most striking in the latter case. As is typical for the region as a whole, incomes begin to rise more rapidly at about the seventh decile, but to a lesser degree in Argentina than elsewhere.

The lesser degree of inequality through this broad part of the distribution, taken as a whole, can be seen by comparing the average income of the 15 per cent just below the top with that of those in the third and fourth deciles (see the fifth section of figure VI). While the income of the group just below the top is 3.3 times that of those in the lower middle part of the distribution in Argentina, the same multiple is from nearly four to nearly six in other countries of the region.

Several factors contribute to this lesser degree of inequality through the bulk of the distribution. The principal cause is the absence of the primitive sector, which has already been discussed. Incomes are not held down to very low levels in the lower half of the distribution, and there is consequently not the same break in the distribution where incomes rise rapidly as a reflection of the higher incomes received in the semi-modern and modern sectors.

A second influence is the fact that the rate of growth has been relatively low during the post-war period, and the portion of the economy characterized by fully modern technology, although already large at the beginning of the period, has consequently not expanded in the way it has

² In the industrial countries, minimum incomes tend to be lower—in relative terms—and the rise from the minimum considerably faster than in Argentina. A larger proportion of those at the bottom are not active members of the labour force, and the gap between such incomes and even the lower incomes of active, full-time members of the labour force tends to be larger. With respect to the composition of the minimum income group, their average income, and the rate at which incomes rise from the minimum, Argentina stands in an intermediate position between the industrial countries on the one hand and the rest of the region on the other.

in some other countries. There are two aspects of this which are relevant here. First, since there is only a very small primitive sector on the one hand, and since there has been a relatively slow rate of growth of the modern sector on the other, it follows that there is a relatively large group in between. On the basis of approximate estimates, over two-thirds of the labour force in Argentina was occupied in the intermediate sector in 1960, a considerably greater proportion than in any other country of the region. These incomes account for most of the range where there is relatively little inequality. Productivity is sufficiently high to yield incomes well above what would be available in a primitive sector, yet without the possibilities which exist in fully modern activities. Further, in this area there are fewer of the blocks to entry which often contribute to high individual incomes at a more advanced level, and this tends to hold down the inequality.

The other aspect of the low growth rate of relevance here is that it means less demand for the higher technical and professional skills which account for a major portion of the incomes in the groups just below the top. This must be considered in conjunction with the fact that technical and educational levels have been relatively high in Argentina for a rather prolonged period, so that the number of such qualified persons is larger than is often the case elsewhere. Rapid growth in an economy with a large primitive sector results in severe shortages of such skills, and is likely to lead to very favourable circumstances for the individuals who possess them. Slower growth in Argentina, combined with a relatively adequate supply, has meant less favourable circumstances for this group. This partly explains why incomes rise much less rapidly in the eighth and ninth deciles in Argentina than elsewhere in the region, and why the share of total income received by the 15 per cent below the top is less. One consequence of this situation which can be noted in passing is that there has been a significant exodus of technical and professional personnel, presumably in search of better conditions, not only to the industrial countries, but to other countries in the region as well.

The final causal factor in the lesser inequality through the bulk of the distribution, is the very general extent to which the different economic groupings are formally organized, as formal organization tends to narrow income differentials. The agricultural sector, as is the case elsewhere, is not highly organized, but agriculture accounts for only 16 per cent of all incomes, and over one-third of these are incomes of independent farmers. Argentina is a highly urbanized society, and the absence of a major unemployment or underemployment problem has made it possible to organize virtually all sectors of the urban economy. Widespread formal organization was to a considerable extent a political development, and received its major impetus in the early post-war period as a part of a programme aimed at reducing inequalities by raising wage incomes. It seems probable that, within this context, formal organization in Argen-

tina has been a more important factor in limiting inequality than might normally be the case.

The principal economic consequence of the lesser inequality through this wide range of the distribution is that there has been a greater basis for mass markets in Argentina than elsewhere in the region. The absence of a primitive sector has meant that virtually the entire population has been incorporated into the commercial economy as effective consuming units. Incomes at the bottom of this range, while low by the standards of the industrial countries, are high by comparison with the rest of the region: the average income in the third decile is slightly more than 700 dollars per annum. Further, it is the family rather than the individual which forms the basic consuming unit, and family incomes at the lower levels are considerably higher. In the distribution by family, the average income in the third decile is 1 200 dollars per annum.³ As the average family size is smaller in Argentina than in much of the rest of the region (3.7 persons per family), even those families in the lower part of the distribution provide an effective market for a significant range of consumption items.

Incomes then rise relatively slowly until close to the top of the distribution. This means that living patterns are likely to be more similar for the great bulk of the population. There will be more individual items which will be used by all groups — that is which will have a mass market. This was an important factor in promoting a considerable amount of industrial development on an economic scale. Further, it is important to emphasize that efficiency — in the sense of delivering goods to the user at a low cost — depends not only on the cost of manufacture, but on distribution costs as well. The transportation and marketing systems in Argentina are more highly organized, and directed more to the needs of the internal economy, than is the case in much of the region. The existence of more mass markets and the need to serve essentially all of the population were important stimulants to these developments.

While there is more of a mass market in Argentina than in the rest of the region, it is still much less general than in the industrial countries. Apart from the fact that average income levels are higher, the share of the middle groups in the total is much larger. In Argentina there is still a high degree of concentration of income in the hands of those at the very top, and the middle 60 per cent of the population receives only 40.7 per cent of the total. This figure is higher than in any other country in the region, but compares with an average of nearly 50 per cent of the total received by the same group in the industrial countries.

³ Owing to the special nature of the Argentine study, there are consistent estimates of the distribution of income among both family and individual income recipients. The latter is used here because the estimates in most of the countries are for individuals. The use of the family would not significantly alter the discussion.

Finally, after the lesser degree of inequality exhibited through the bulk of the distribution, incomes rise very rapidly at the top of the scale, and there is the concentration in the hands of the top group which is typical of the region. The top 5 per cent received 31.2 per cent of all personal income in 1961, and had an average income over four times that even of the 15 per cent just below the top. In absolute terms, their income is far above that of the top income groups in other countries of the region: in 1961 the average income of the top 5 per cent in Argentina was over US 10 000 dollars. Even within this top group the inequality is extreme. The top 1 per cent alone received 16.3 per cent of total income, and had an average income of some 27 000 dollars in 1961.

The fact that incomes at the top are very high in absolute terms may have been a factor in the relatively high rate of savings in Argentina. The tendency of the top group to base consumption patterns on those prevailing in the industrial countries was discussed earlier — one consequence being that little or nothing is left for savings. But Argentina differs considerably from the rest of the region in this respect. Incomes at the top of the scale have been as high as incomes of the same groups in the European industrial countries, so that these consumption levels could be maintained and still leave funds available for savings. (Incomes of the top group in the United States are well above those in Argentina, but cultural ties have been very largely with Europe, not with the United States.)

The basic reason for the concentration of income at the top of the scale is similar to that in other countries of the region: the concentration of property ownership. But this should be broadly interpreted to mean not only the ownership of property as such, but also access to credit, market positions, and other factors of this sort. In Argentina this concentration of income is in the hands of individual entrepreneurs, not *rentiers*: about four out of every five persons in the top income group are self-employed.

Land ownership, as in the rest of the region, was very unequally distributed from the colonial period, and this initial inequality, especially as evidenced by very large holdings, has been maintained to a greater extent in Argentina than in some other countries. The lack of population pressure has also meant that the problem of the *minifundio* is much less serious in Argentina than elsewhere, so that percentage figures showing concentration tend to have a rather different meaning. In 1960, 1.2 per cent of all agricultural units included 46.7 per cent of the land, and 5.6 per cent of all farms accounted for nearly three-quarters of the land.⁴ These holdings were very large in absolute terms — the largest 5.6 per cent include only units of 1,000 hectares or more, and the top 1.2 per cent those of

⁴ These figures, taken from the agricultural census, refer to operating units. There are no figures for land ownership.

5 000 hectares or more — and yielded very high incomes. Agriculture is almost entirely on a commercial basis, and, as already noted, in the Pampa region productivity per person employed is probably even higher than in non-agricultural activities as a whole. Nevertheless, agriculture is no longer the principal source of high incomes in Argentina: it now accounts for no more than one-fifth of the incomes in the top 5 per cent. Especially during the post-war period, high incomes have increasingly been obtained from urban enterprise, and this means that the concentration of land ownership, while it results in great inequality within the agricultural sector itself, is not the determining factor in the over-all concentration of income at the top of the scale.

Indirectly, the concentration of land ownership may have been of more importance. From the beginning of the Argentine Republic, land ownership was the basis of political power and social position. But at least from the beginning of the present century it was also the source of very high money incomes. In the cultural context which prevailed, urban business activities offered less social prestige and less political power, as is generally the case in pre-industrial societies. And if the urban business groups were to compete with the large landowners, even in economic terms, they had to achieve very high incomes; it was the former who set the standards.

This may have been important in establishing beliefs as to what was a reasonable return from a business enterprise, and convention (as contrasted with competition) was probably always fairly important in fixing such returns. This is likely to have been particularly relevant since the end of the export boom late in the 1920s, and the shift to urban activities as the centre of the economy. Government support has been a major factor in this shift, especially in the expansion of industrial production and its supporting services. If it had been felt that incomes earned in these areas were too high there were various ways in which they could have been reduced, even while political power was still firmly in the hands of the landowning group. But to the extent that incomes of the large landowners were accepted as a standard, these were very high, and consequently encouraged high incomes, and the resultant concentration in the urban sector as well.

In any case, as noted, land ownership is no longer the principal source of high incomes. It is the possession of capital and commercial and financial positions in the urban sector which directly accounts for the major part of the concentration at the top of the scale: the top income group is dominated by the urban self-employed. In part, this is because of the concentration of property ownership among the urban self-employed themselves, but mostly it is due to the relatively high incomes obtained by urban property ownership in general: nearly one out of every five of the urban self-employed have incomes high enough to place them in the top 5 per cent of the distribution.

The extent to which income is concentrated in the hands of the top 5 per cent in Argentina is about average by comparison with other countries of the region (see the final section of figure II). Apart from general considerations of the socio-economic structure, there are several more specific factors which contribute to this comparison. First, it is worth noting that the concentration is probably somewhat less vis-a-vis the rest of the region than the figures shown would indicate: owing to the question of comparability of the statistical estimates themselves. For most of the region, these are based on sample survey data, and this is generally thought to lead to an underestimation of incomes at the top of the scale. In Argentina, however, the estimates are based on an extensive statistical study especially designed for the purpose. Self-employment incomes in particular are likely to have been more satisfactorily estimated, and these dominate at the top of the scale.⁵

A real factor which may have helped to increase the concentration in Argentina by comparison with some other countries is the moderate rate of growth which has been characteristic of the post-war period. This, as already noted, has been a factor in holding down incomes of the group just below the top. But a low growth rate does not have the same effect on the top group itself. These are mostly the already established groups, and their incomes depend less on a rapid growth of new activities. A high growth rate, by contrast, tends to improve the relative position of those just below the top — to a considerable extent at the expense (in relative, not absolute terms) of those at the top of the scale. This factor is part of the explanation for the greater concentration at the top in Argentina by comparison with countries such as Venezuela or Mexico.

The continuing concentration of income in the hands of the top 5 per cent in Argentina indicates that the elimination of the primitive sector will not necessarily greatly reduce the over-all inequality in the distribution of income. By itself it can be expected to increase minimum incomes considerably, and to improve the relative position of the lower and middle income groups. But the concentration at the top is likely to be reduced only moderately, and this is the principal source of the inequality in Latin America. The institutional shift to an economy dominated by impersonal, corporate-type organizations, which might be more effective in reducing the concentration at the top, has not yet occurred in Argentina. Although there has been a rapid growth of corporations in recent years, particularly in the industrial sector, the large numbers of relatively small, independent producers still form the basis of the economy, and the self-employed dominate the high income group.

⁵ A sample survey carried out in Argentina in 1963—similar to those on which most other estimates are based—produced data showing a lesser concentration of income at the top of the scale.

2. VENEZUELA ⁶

The income distribution in Venezuela follows a pattern which to a considerable extent is the reverse of that just described for Argentina. Minimum incomes are relatively low, and although the rise from the minimum level is quite rapid, the poorer half of the population receives a smaller proportion of total income than in any other country of the region. There is considerable inequality throughout the distribution: from the second through the ninth deciles incomes rise much more rapidly than in most of Latin America. But the rise at the very top is relatively smaller, and the top 5 per cent receives a smaller share of the total than elsewhere in the region. The over-all inequality in Venezuela is very great — the coefficient of concentration is as high as any calculated — but by comparison with the rest of the region this is caused to a greater extent by inequality throughout the distribution, and less by the concentration of income at the very top of the scale.

This income distribution pattern is largely explainable in terms of a rapid rate of growth in a setting where the primitive sector, although relatively small, is still of sufficient size to exert a major influence over the lower and middle parts of the distribution. It in turn illustrates some of the difficulties in eliminating the primitive sector, even when economic circumstances are favourable.

In 1960 approximately one-quarter of the labour force was occupied in primitive-type activities. This is a large enough proportion, first, to constitute a substantial group at the bottom of the scale with very low incomes; and second, to exert pressure on the incomes of some other groups. But the primitive sector in Venezuela is considerably smaller than in most of the region. For the region as a whole some 40 per cent of the labour force is in the primitive sector, and only a few individual countries have progressed as far as Venezuela in this respect.

In part, the small size of the primitive sector is due to a generally favourable economic environment, and primitive-type activity was probably never so extensive as in some countries of the region. But it is also a reflection of the rapid growth rate which has been achieved since the mid-1930s, and which has considerably changed the structure of the economy. Even after three decades of continuous and rapid growth, however, and from a starting point which was relatively favourable, the primitive sector remains an important determinant of the distribution of income.

⁶ The estimates for Venezuela are based primarily on the data provided by a sample survey conducted in the latter half of 1962; see Venezuela, Oficina Central de Coordinación y Planificación, *La primera encuesta nacional de ingresos y gastos familiares en Venezuela*, Caracas, 1964. In addition, supplementary information supplied by the Sampling Office on the structure of the population and by the Central Bank was used to adjust the original distribution. The family is the basic income unit in the estimates.

Two general factors have made it difficult to absorb a large part of the labour force in more productive activities. First, the growth has been concentrated on an expansion of the modern sector to an especially great extent in Venezuela, with the use of relatively capital intensive methods. This has meant that the requirements for additional labour have been rather small in relation to the rate of growth achieved. Secondly, the rate of population growth has been very high — it is currently estimated to be 3.4 per cent per annum — so that large numbers of additional jobs are needed. The consequence of these two pressures has been that primitive-type activities continue to be of considerable importance.

This is evidenced in several ways. First, about 35 per cent of the labour force remains in the agricultural sector where productivity levels are generally low — this large proportion of the labour force produces only about 7 per cent of the gross product. Within the sector there is the characteristic unequal distribution of land. Two-thirds of all farms in 1956 were 5 hectares or less in size — accounting for only 2.3 per cent of the total acreage — and the great bulk of these represented primitive-type agriculture and yielded very low incomes.⁷ Secondly, substantial numbers of persons in the urban areas are occupied in marginal type activities as a result of inability to obtain more productive employment. Finally, open unemployment has been high; it is estimated to have ranged from 5 to 7 per cent of the labour force during the 1950s and early 1960s, and was much higher in Caracas itself. Except for open unemployment, these problems were less serious in Venezuela than in a number of other countries of the region, but as will be seen they exerted a major influence on the distribution of income.

In relative terms, incomes at the bottom of the scale are lower in Venezuela than in any other country of the region. Minimum incomes are less than 15 per cent of the national average income (see the first section of figure VII) and the poorest 20 per cent receive only 3 per cent of total personal income (see the first section of figure II). In absolute terms, however, the situation is different: minimum incomes are higher in Venezuela than in most of Latin America (see the second section of figure VII). This divergence is a reflection of the situation just described. The income groups at the bottom of the scale are those in the primitive sector — very largely those engaged in primitive agriculture. Incomes here depend primarily on the natural resource endowment, and this is very favourable in Venezuela. Of particular relevance, population density is low and there is no shortage of agricultural land — although there is some regional pressure in the traditional population centres in the Andes

⁷ By comparison, in Argentina, where the primitive sector has been essentially eliminated, less than 20 per cent of the labour force is in the agricultural sector, and only about 15 per cent of all farms are 5 hectares or less in size.

region. In absolute terms minimum incomes, while very low, are therefore somewhat higher than in most countries.

But these groups have been almost untouched by the rapid growth of recent years. This growth has been largely centred on an expansion of the modern sector, and has benefited largely those incorporated into that sector. As per capita incomes have risen, those at the bottom of the scale have been left progressively further behind in relative terms, until their relative position has become worse than in any other country in the region. This is the first important element of inequality in Venezuela.

Incomes rise fairly rapidly from the minimum level. For the next income group — the 30 per cent of the population below the median — the increase averages about 25 per cent from one decile to the next. The inequality in this part of the distribution is significantly greater than in most of the region (see the second section of figure V), although it is still quite moderate. The reasons for this are again linked to the primitive sector. First, since there is no substantial population pressure there is somewhat more differentiation within the primitive sector itself. There is some variation in the size even of the very small land holdings, and agricultural labour is more often a supplement to the income from a family plot than the only source of income. Secondly, the primitive sector accounts for only about one-quarter of the labour force, so that the great bulk of the income group below the median is already engaged in intermediate type activities. Incomes of this group are still subject to considerable pressure from the primitive sector — they represent largely unskilled activities, and are often in, or closely linked to, the rural sector. But they nevertheless are at higher levels, and rise gradually as the economic distance from the primitive sector increases. In much of the region, the great majority, if not all, of this income group is still within the primitive sector itself, and so characterized by less differentiation of income levels than in Venezuela.

But this income group is not among those which have benefited greatly from the rapidly rising income levels. The individuals who compose it have not been incorporated into the expanding modern sector, nor have they been able to insulate themselves from the pressure of the primitive sector. As a consequence, the relative income of the group is low — for the group as a whole it is only 38 per cent of the national average — and its share of total income is less than in the rest of the region (see the second section of figure II). Combining this group with the poorest 20 per cent, the entire lower half of the distribution receives only 14.3 per cent of total personal income, a smaller proportion than in any other country in the region.

There is thus an unusually sharp split between the two halves of the distribution in Venezuela. As just noted, the poorer half of the population receives a smaller share of total income than in any other country, and this of course means that those in the upper half of the distribution receive

a larger share of the total than elsewhere. Considering these two broad groups as a whole, the average income of the latter is six times that of the former. The corresponding ratio in Argentina, for example, is slightly less than four. Comparison of groups within the two halves of the distribution gives similar results: the ratios are consistently higher in Venezuela than elsewhere (see the last three sections of figure VI).

The explanation of this divergence is that, in the existing circumstances, it is very largely those in the top half of the distribution who have benefited from the rapid economic growth. This does not mean that those in the lower half of the distribution have been made worse off in any absolute sense. The poorest 20 per cent have probably not experienced any significant improvement in absolute incomes, but even this group has benefited in an indirect way. The rapid growth drained substantial numbers away from primitive-type agriculture (from 1950 to the mid-1960s the proportion of the labour force engaged in agriculture declined from 44 to 34 per cent), and without this outlet there would have been greater pressure for land and for employment in the sector, and the incomes of this poorest group might well have been lower still in absolute terms. The 30 per cent below the median are largely no longer engaged in primitive-type activity, and have no doubt gained somewhat in absolute terms. But the great bulk of the gain has gone to those who have been incorporated into the modern sector, or who are linked fairly closely to it. What needs to be emphasised is that a growth of this sort, centring on the expansion of the modern sector, results in great inequality — at least so long as the primitive sector remains important.

Within the top half of the distribution itself — that is, among those groups who have benefited most — there is very great inequality. From the sixth through the ninth deciles incomes rise, on the average, 40 per cent from one decile to the next, and comparisons between any income levels within this range show a greater disparity than in the rest of the region (see the third and fourth sections of figure V, the last two sections of figure VI and the fourth and fifth sections of figure VII). The average income of those in the seventh and eighth deciles, for examples, is more than double the median income in Venezuela, while in most of the region it is only from 50 to 70 per cent above the median. Several specific characteristics of the economy help to explain this inequality.

The fully modern sector has grown very rapidly in Venezuela, and is now relatively large. In 1960 it occupied significantly more than one-fifth of the labour force, and was a close second only to Argentina in this respect. In terms of the gross product, even apart from petroleum the modern sector accounted for close to two-thirds of the total, a substantially greater proportion than in any other country of the region — and if petroleum is included the share approaches three-quarters.

The rather unique situation of the external sector in Venezuela has contributed to the adoption of highly capital intensive techniques in the

course of this expansion. Exchange rates, since the mid-1930s, have been such that imports (equipment) have appeared to be cheap in relation to internal costs (labour). There has further been adequate foreign exchange available to finance large import volumes, and capital goods imports have been encouraged by very low tariffs on such items. The modern sector in all countries tends, almost by definition, to be capital intensive, but this is especially true in Venezuela; and, in addition, capital intensive methods have been used in some activities where less modern methods have sufficed elsewhere.

This has had two principal consequences from the present point of view. First, the employment provided in the course of the growth was less than it might otherwise have been. This is most clearly seen in the manufacturing sector: the proportion of the labour force occupied in the sector in the mid-1960s remained the same as it had been in 1950, despite the fact that the share of the sector in the gross product increased from 10.2 per cent to 17.9 per cent over the period. An increasing proportion of the labour force was employed in the services sector at declining productivity rates. Secondly, these capital intensive undertakings meant that productivity per person was very high in the modern sector. The extreme case is petroleum, where, during the past decade and half, an average of some 2 per cent of the labour force has consistently produced over 20 per cent of the gross product. While less extreme, productivity in other parts of the modern sector has also been very high by comparison with the rest of the economy. This has offered the possibility of relatively high incomes to the restricted number of persons employed in such activities.

A further factor contributing to the inequality in the upper half of the distribution is the very rapid growth of the modern sector itself, and the consequent rapid increase in the demand for relatively skilled and more highly qualified personnel. An idea of the importance of this can be conveyed by citing figures showing the position of the modern manufacturing sector within the total. The aggregate growth rate of the economy has been high — about 7 per cent per annum on the average since 1950 — but within the aggregate manufacturing output has expanded even more rapidly — about 11 per cent per annum. Nevertheless, as noted, owing to the growing importance of capital intensive techniques, employment in the sector did not increase as a percentage of the labour force, although in absolute terms it did grow at about 3 per cent per annum. But within the manufacturing sector there was a sharp divergence between employment trends in modern factory-type activities on the one hand, and artisan-type production on the other. From 1950 to 1958 — years for which estimates of this sort are available — employment in artisan-type manufacturing *declined* by about 2 per cent per annum; but factory employment increased at a rate in excess of 7 per cent per year. It is probable that employment in supporting services and in other modern-type activities (excluding petroleum) has grown at comparable rates.

Demand for modern-type skills and training has therefore grown rapidly, and these have been in persistent short supply. As a consequence, those fortunate enough to possess such skills have obtained relatively high incomes and have had no difficulty obtaining suitable employment. One aspect of this which may be noted is that there has been little or no concern in Venezuela with brain-drain. On the contrary, the favourable conditions have led to a significant influx of professionals from other countries of the region.

A final factor which has tended to increase the inequality in the upper half of the distribution is the existence of the petroleum sector in the economy. The production, and to an even greater extent the refining, of petroleum, is carried on with methods which utilize large amounts of capital but require very little labour. As already noted, 2 per cent of the labour force produces 20 per cent of the gross product. It is obviously possible to pay high wages and salaries in such circumstances; and since labour costs are a small proportion of the total, and since any difficulty with production is expensive because of the large amounts of capital involved, the petroleum companies tend to pay relatively high wages, even in the industrial countries.

In Venezuela this tendency is strengthened by the position of the industry. On the one hand, the companies are foreign-owned, and larger wage and salary payments have been seen as one way of retaining funds within Venezuela rather than having them sent abroad as profits. There has thus been political as well as economic pressure for higher wage rates. On the other hand, the wealth of the Venezuelan concessions has made them very profitable to the major companies concerned, and they have therefore been willing to pay high wages and give benefits of other sorts, to avoid either a political or an economic threat to their position. This high level of wages and other benefits for the small fraction of the labour force engaged in the petroleum industry has, to an unusual extent, provided a motive for relatively high incomes in other sectors — in so far as productivity levels elsewhere permitted. Even federal labour legislation has been influenced to some extent by the prosperity of the petroleum sector.

In combination, the specific features of the economy discussed above largely explain the inequality within the upper half of the distribution — always bearing in mind that as a whole this group enjoys a sharply higher income level than the poorer half of the population. The use of capital intensive techniques has meant high productivity per person in the modern sector, with the consequent possibility of high incomes for those employed in the sector or closely linked to it. The rapid growth of the modern sector has meant a rapidly rising demand for numerous skills and special talents, and the possessors of these have profited most. But in addition, the existence of the high income levels in the petroleum sector has served as an incentive for many groups to push their incomes as close as possible to those levels. Thus, even within the modern and semi-modern sector

there has been great inequality. The possession of additional training or skills yielded unusually large increases in personal income, as did occupying a position of greater bargaining power, as claims could almost always be justified by reference to the petroleum industry. As already noted, incomes rise on the average 40 per cent from one decile to the next for this part of the population.

It is of interest to note two general aspects of the situation here for the contrast they provide with the different set of circumstances found in Argentina. There, it was observed, first, that formal organization, which is very general, has been a factor in reducing inequality through the bulk of the distribution. In Venezuela, by contrast, organization, which is less general, tends to increase the inequality in this part of the distribution. There is a much larger part of the population in Venezuela which does not lend itself readily to organization — the larger primitive sector itself, but also the considerable segment of the labour force which for one reason or another cannot easily shield itself from the pressure of the primitive sector or of the unemployed. Since organization is only partial there is a greater tendency for it to be fragmented and for each group to seek to improve only its own position — and the possibilities vary markedly, owing to variations in productivity levels and bargaining power. At the top of the scale are those in the petroleum sector. Here organization, with political support, has achieved very high incomes for the small proportion of the population involved. Other organized groups then strive to come as close as possible to achieving those levels. Since incomes and productivity levels in the petroleum sector are well above the average, even of the modern sector, formal organization in such a context leads to greater and not lesser inequality.

The second general aspect worth noting here is the effect on market structures of this inequality: it reduces the scope for mass markets even below the rather narrow limits already imposed by the size of the economy. In Argentina the practical absence of a primitive sector, and the consequent relatively high minimum incomes, means that essentially every member of the population is an active participant in the monetary economy; and the lesser degree of inequality through the bulk of the distribution means that spending patterns are more similar and mass markets therefore more practicable. In Venezuela, by contrast, the continuing existence of the primitive sector — even though on a reduced scale — means that minimum incomes are low and that a significant fraction of the population participates only marginally in the monetary economy; and the great inequality through the bulk of the distribution means that spending patterns are quite different in different parts of the distribution, and the basis for mass markets is therefore restricted still further.

The groups which have benefited most from the specific development of the Venezuelan economy are those in the top half of the distribution but below the very top of the scale. In terms of the major groupings

used here, both the 30 per cent above the median and the following 15 per cent receive a larger share of total personal income than in any other country of the region (see the third and fourth sections of figure II). The extent to which these groups have gained can be appreciated by noting that together they receive 59.2 per cent of the total, while in most of the region the corresponding share is less than 50 per cent.

But at the very top of the scale the inequality is less extreme than elsewhere in the region. Incomes rise less rapidly at the very top (see the third section of figure VI and the last section of figure VII), the share of the top 5 per cent in the total is smaller (see the last section of figure II), and the average income of the top 5 per cent is a smaller multiple of both the average and the median income (see the last section of figures IV and V). There is still, of course, a greater inequality and concentration of income at the very top of the scale in Venezuela than in the Western industrial countries.

This reduced concentration at the top of the scale can be explained by two major factors, one of a general sort which can be expected to be repeated in other countries, and the other more specific to Venezuela. The first is the growth of the modern sector, and this has already been discussed, both in general terms and in the Venezuelan context. Such growth tends to benefit principally groups below the top, and to reduce somewhat the share of the top 5 per cent. A very rapid growth of the sort that has occurred in Venezuela is particularly likely to improve the position of these upper middle groups. As noted, these groups receive an unusually large share of the total, and the relative position of the top 5 per cent, and also that of the lower half of the distribution, is consequently less favourable.

The second major factor is the specific set of circumstances surrounding the export sector in Venezuela. In much of the region export production is in the hands of nationals, and export earnings are a major source of high individual incomes. Minerals production in general is an exception to this rule, and Venezuela is the prime example of an export sector dominated by this type of product. The likely impact at the top of the income structure can be appreciated in the light of the history of the export sector.

During the first quarter of the present century the export sector in Venezuela was similar to that in a number of other countries of the region. The principal exports were coffee and cocoa, the export sector was a major part of the economy, and the large landowners, in addition to being the most important social and political group, made up a substantial part of the top income group. From the mid-1920s, however, petroleum became the increasingly dominant export product; and the economic position of the coffee and cocoa growers was largely destroyed during the 1930s.

There was first the world economic crisis, with the sharp drop in commodity prices that it brought about. In most of the region this meant

an exchange crisis, with devaluation and other measures which alleviated somewhat the position of the export producers; and exchange earnings continued to depend on these products, and their producers to a considerable extent retained their position at the top of the income scale. In Venezuela none of this occurred. There was no exchange crisis, since, although the world price of petroleum declined sharply, exchange returned to the country (mostly in the form of tax payments) did not decline substantially, and from the mid-1930s it rose to ever higher levels. The exchange rate actually *appreciated* substantially in the mid-1930s. Despite continuing subsidies, the sharp decline in prices combined with the appreciation of the Venezuelan currency effectively destroyed the favoured position of the old export producers. Coffee and cocoa production declined and has not since been a significant factor in the country's export earnings.

These developments had two consequences for the position of the top income group. First, incomes of an important segment of that group declined, and did not recover, and this directly reduced the share of the total received by the group. Secondly, this occurred when the modern urban sector was still small, this sector having very largely been created since the mid-1930s. In so far as the top incomes in the rapidly expanding urban sector were influenced by the income levels of the traditional elite, these were relatively lower than in most of the region, and this too would tend to lessen the concentration at the top of the scale. Again, the contrast with Argentina can be noted: there the very high incomes of the large landowners set a high standard of comparison for the urban entrepreneurial groups and made it easier to justify very high profits and incomes for the newer *élite* as well.

Profits from the new export sector, essentially petroleum, have not accrued to any significant extent to private individuals in the country. As already noted, wage and salary incomes in the industry are relatively very high, but for the most part this is a factor in the great inequality below the very top of the scale. While some salaried employees of the petroleum companies are undoubtedly in the top 5 per cent, even these do not receive the very high incomes which largely account for the concentration at the top of the scale in Latin America; incomes of this sort are derived from the profits of self-employment and property ownership. Profits from the petroleum operations have been sent abroad, or, to the extent they have been retained in the country, they have accrued to the public sector in the form of tax payments. These have been very large, and the public sector has been much more adequately financed than in most of the region. One consequence of this has been that it has been possible to pay relatively high salaries at the higher levels to attract the required personnel — and the public sector has expanded rapidly, and to a considerable extent has been the dynamic centre of the entire expansion of the modern sector. This has meant an unusual degree of inequality

within the public sector; but this is still less than the inequality in the modern private sector, even among wage and salary earners, and has primarily, again, been a factor in the great inequality below the very top of the scale.

In total then, the specific conditions surrounding the export sector in Venezuela have probably been an important factor in reducing the inequality at the very top of the scale and the share of the top 5 per cent in total income — always by comparison with the rest of the region. As with the rapid growth of the rest of the modern sector, this has tended to strengthen the position of the groups in the upper half of the distribution but below the very top; but it has also probably reduced somewhat, even in absolute terms, the magnitude of the very highest incomes themselves.

3. MEXICO ⁸

The distribution of income in Mexico is basically quite similar to that just described for Venezuela. Minimum incomes are again low, and the poorer half of the population receives a very small proportion of total income. There is also the considerable inequality throughout the distribution, with incomes rising more rapidly than in most of Latin America. Finally, the rise at the very top is again relatively smaller, and although the top 5 per cent receives a considerably larger share of the total than was the case in Venezuela, this share is still smaller than elsewhere in the region. The over-all inequality in Mexico, as in Venezuela, is very great, but by comparison with the rest of the region this is again due rather more to the inequality throughout the distribution, and rather less to the concentration at the very top of the scale. The similarity between the income distributions of the two countries can be readily seen by reference to the figures. In the various ways of viewing the distribution, the values calculated for Mexico and for Venezuela consistently fall close to each other on the scale.

This similarity, and also the differences that can be noted, can be largely explained in the same terms employed earlier. Mexico, like Venezuela, has been characterised by a rapid rate of economic growth, in a setting where the primitive sector, although it has been reduced somewhat in relative importance, remains large enough to exert a dominant influence over the lower and middle parts of the distribution. The differences between the two distributions can be at least partially explained in terms of the slightly lower growth rate in Mexico, and by the fact that the primitive sector remains considerably larger than in Venezuela. The

⁸ The estimates for Mexico are based on the data provided by the sample survey of 1963; see Banco de México, *Encuesta sobre ingresos y gastos familiares en México*, Mexico D.F., 1966. The family is the basic income unit in the estimates.

same process of relative gain by those in the upper middle parts of the distribution, at the expense of the groups at the very top and at the bottom, has operated in both countries; but it has gone somewhat further in Venezuela than in Mexico. The importance of these factors—rapid growth of the modern sector and a primitive sector which continues to be of substantial size—is perhaps emphasized by their producing very similar distributions of personal income in countries which in some other respects are so different. In particular, Venezuela is a prototype of the export-led, open economy, with export production in the hands of foreign firms. Mexico, by contrast, is the example of the national revolution, with the expropriation of foreign oil companies as the beginning of the recent period of rapid growth.

In 1960, somewhat less than 40 per cent of the labour force was occupied in primitive-type activity in Mexico. This figure is nearly as high as the average for the region as a whole, but there is considerable variation among countries in this respect, and, where estimates are available, only Venezuela and the southern countries (Argentina, Uruguay, and Chile) have primitive sectors of lesser relative importance. Yet even though Mexico is among the more advanced countries in this respect, the primitive sector continues to dominate the entire lower half of the distribution.

The general economic environment in Mexico is less favourable in this respect than in either of the countries considered previously (Argentina and Venezuela). Resources, particularly land, are less abundant in relation to the population, and primitive-type activity long occupied the great bulk of the labour force. The achievement of a position where the relative importance of the primitive sector is less than the regional average is, to a much greater extent in Mexico, the result of the sustained and rapid growth that has characterized the economy since about 1940. It is also a clearer illustration of the difficulty of eliminating a large primitive sector, and of effecting the corresponding change in the income distribution structure—even under very favourable economic circumstances.

The same two general factors have prevented the absorption of a larger part of the primitive sector into more productive activities in Mexico as were noted earlier for Venezuela. First, the growth has been concentrated largely on an expansion of the modern sector. This has meant the use of relatively capital intensive techniques (although to a less extreme extent than in Venezuela) and consequently rather modest requirements for additional labour in relation to the rate of growth achieved. Secondly, the rate of population growth has been very high—it is now estimated at 3.4 per cent per annum—so that large numbers of additional jobs are needed. The consequence of these dual pressures has been that a large proportion of the labour force continues to be engaged in primitive-type activities.

There is evidence of this in all the usual areas: there are large numbers engaged in primitive-type agriculture at very low income levels, and there is the problem of employment in the cities, visible partly in the form of open unemployment and partly in the substantial numbers engaged in marginal and semi-marginal activities. But the proportions are somewhat different in Mexico from what they are in Venezuela. In Mexico, rural traditions were stronger, and they have been reinforced by measures stemming from the Mexican Revolution, principally those relating to land reform. The flow to the cities has consequently been somewhat less rapid in Mexico and the problem has to a somewhat greater extent been confined to the rural areas. Open unemployment, in particular, has not reached the very high Venezuelan levels.

But this of course means that the problem of primitive-type activity exists on a larger scale in the rural areas. In the mid-1960s half the labour force was still employed in the agricultural sector, and although agricultural production has been expanding steadily and at a substantial rate since 1940, here too the increase in output was largely accounted for by a rapidly growing modern sector and involved only a small proportion of the rural population. The estimates for 1960 indicate that some 60 per cent of those employed in the sector were still engaged in primitive-type agriculture. These families of course existed at very low income levels, and exerted a major influence on the income distribution structure.

Incomes at the bottom of the scale are thus low, both in relation to other income groups in Mexico and by comparison with minimum incomes in a number of other countries of the region. The minimum income is only 15 per cent of the national average (see the first section of figure VII) and the poorest 20 per cent receive only 3.6 per cent of total personal income (see the first section of figure II). Each of these figures is lower than in most other countries of the region. In absolute terms the minimum income is about 60 dollars per capita a year, and while the minimum is even lower in some countries, this value is towards the lower end of the range (see the second section of figure VII). The figure for Argentina is of course far higher, but the minimum income in Costa Rica is also more than 50 per cent above this level, and it is substantially higher in Venezuela as well.

These income groups at the bottom of the scale are again in the primitive sector — about three-quarters are engaged in primitive agriculture. As in Venezuela, they have been almost untouched by the rapid growth of the modern sector, and their incomes have fallen progressively further behind the rising incomes of more favoured groups; as a consequence their relative position is now worse than in the rest of the region. But the situation is unfavourable with respect to absolute incomes as well. These depend basically on the natural resource endowment, and this is rather less favourable in Mexico. There is greater pressure against

land resources than is the case in a number of countries of the region and so minimum incomes are lower. Further, since the agricultural population has continued to increase rapidly throughout the period, the pressure on resources within the area of primitive agriculture has increased. Indications are that incomes at the bottom of the scale may have declined, even in absolute terms, as a consequence.

This then is the first major element of inequality, and it is even more serious in Mexico than in Venezuela. In relation to the national average, incomes at the bottom of the scale are very low in both countries, but in absolute terms they are significantly lower in Mexico, and the continuing rapid growth of the primitive sector results in a continuing downward pressure even at these levels.

As in Venezuela, incomes rise rather rapidly from the minimum level (see the third section of figure VII) and the inequality within the next income group — the 30 per cent below the median — although still moderate, is greater than in most of the region (see the second section of figure V). The inequality here is to some extent the result of moving to groups at higher productivity levels, but this is a much smaller part of the explanation in Mexico than it was in Venezuela. In Mexico most of those in the 30 per cent below the median are still engaged in primitive-type activities, and the remainder — and even those somewhat higher in the scale — are still closely linked to the primitive sector and their incomes subject to pressure from that source. It is only in the fifth decile — that is, at the top of this income group — that agricultural workers and small-scale farmers begin to account for less than half of all families; for the 30 per cent below the median as a whole, they are 55 per cent of the total and are largely engaged in primitive-type agriculture.

To a much greater extent, the differentiation of incomes in this group is the result of measures which have been taken to improve conditions within the primitive sector itself, and these have inevitably helped some individuals more than others. Public policy has been very much concerned with the agricultural sector. Most of the tangible concern — investment in large-scale irrigation projects, the construction of roads, and the extension of credit — has been aimed at increasing production, and has benefited the rapidly growing modern sector. But the land reform programme was directly concerned with the primitive sector, and the distribution of land itself, and the other activities associated with the programme, have been on a considerably larger scale in Mexico than in most of the rest of the region. Large numbers of persons within the primitive sector have had their situation improved in varying degrees as a result, and this is a major part of the explanation for the more rapidly rising incomes in this range of the distribution.

But this income group is not among those which have benefited greatly from the rising income levels. Although many individuals in it have had their lot improved somewhat, they have not been incorporated

into the expanding modern sector, or even been linked closely to it, and the continuing growth in the absolute size of the primitive sector has meant increasing pressure on the resources available. As a result, the relative income is low — for the group as a whole it is slightly less than 40 per cent of the national average — and the share of total income received is less than in most of the region (see the second section on figure II). The entire lower half of the distribution receives only 15.4 per cent of total personal income, a smaller proportion than in most other countries of the region.

There is thus the same sharp split between the two halves of the distribution in Mexico that was shown to exist in Venezuela. It is slightly less, but the average income in the top half of the distribution as a whole is still some $5\frac{1}{2}$ times the average income of the poorer half of the population. The explanation too is the same as that given for Venezuela: it is very largely those in the top half of the distribution who have benefited from the rapid economic growth. In Mexico the great bulk of the poorer half of the population is still engaged in primitive-type activities, and although many in this group have had their situation improved, it is probable that the incomes of the poorest 20 per cent of the population have declined, even in absolute terms. And certainly the great bulk of the gain has gone to those who have been incorporated into the modern sector, or who are linked fairly closely to it. What again is emphasized is that in an economy with a large primitive sector, rapid growth which centres on the expansion of the modern sector results in great inequality — even in a country such as Mexico where an agrarian reform programme has been a central aspect of public policy.

Within the top half of the distribution itself there is again great inequality, although it is somewhat less than in Venezuela. While incomes begin to rise more rapidly in the sixth decile of the distribution in Venezuela, in Mexico the greater inequality begins only in the seventh decile; and even then it is slightly less than in Venezuela. But it is greater than in most of the region. From the seventh through the ninth deciles incomes rise about 40 per cent from one decile to the next, and the greater disparity can again be seen by comparing any income levels within the upper half of the distribution, but below the very top (see the third and fourth sections of figure V, the last two sections of figure VI, and the fourth and fifth sections of figure VII).

There are several differences which explain the somewhat lesser inequality in this part of the distribution in Mexico. First, the primitive sector is larger in Mexico than in Venezuela, and so exerts a downward pressure on incomes through a larger part of the distribution; this explains why incomes begin to rise rapidly only in the seventh decile in Mexico.

At the opposite extreme, the fully modern sector occupies a smaller proportion of the labour force in Mexico, and the rapid growth has been concentrated on the expansion of this modern sector to a somewhat

lesser extent than in Venezuela. There has not been quite the same availability of cheap imports (equipment) to encourage the use of capital intensive techniques with very high productivity for the limited number of persons employed. In particular, there has not been the same incentive for existing firms to replace an established production process with a more capital intensive technique; and less capital intensive methods have often been used in construction work. As a consequence there have been relatively more employment opportunities in the industrial and construction sectors in Mexico, and somewhat less extreme variations in productivity levels. The contrast is most easily seen in industry, where, despite the fact that production increased more rapidly in Venezuela (about 11 per cent per annum since 1950 as compared with 8 per cent in Mexico), employment expanded more rapidly in Mexico (about 5 per cent per annum as compared with 3 per cent in Venezuela).

Finally, there is not, in Mexico, a group which fills quite the same role as the petroleum sector in Venezuela — a high income sector which serves as an obvious target for other groups to aim at. All of these factors contribute to the somewhat lesser inequality in the middle and upper middle part of the distribution in Mexico.

But it should be emphasized that these factors only differentiate two distributions whose most important aspect is a basic similarity, and most of the analysis of this part of the distribution in Venezuela applies to Mexico as well, and need not be repeated in detail. The rapid growth has been concentrated on the expansion of the modern sector, and the modern sector has become a more important part of the Mexican economy than it is for the region as a whole, and considerably more important than in most individual countries. Exchange availability has been much more adequate in Mexico than in most of the region so that import policy has been less restrictive and has contributed to the use of capital intensive methods and the growth of the modern sector. This has had the double consequence of limiting the total amount of employment offered in the course of the rapid growth, and at the same time requiring a rapid increase in the modern-type skills and training which were in relatively short supply. And there have been capital intensive industries — petroleum and iron and steel, for example — where productivity per person was relatively very high and whose high salary levels provided a target for other groups to aim at.

The groups which, in relative terms, have gained most from this process in both countries are those in the upper part of the distribution, but below the very top. The 30 per cent of the population ranging upwards from the median received 26.1 per cent of all personal income in Mexico, and the following 15 per cent received 29.5 per cent of the total. For each group this percentage is higher than in any other country of the region except Venezuela (see sections three and four of figure II). And within these groups the inequality is great in both countries.

But at the very top of the scale the inequality is again less extreme than in most of the region. Incomes rise less rapidly (see the third section of figure VI and the last section of figure VII), the share of personal income received by the top 5 per cent is smaller (see the last section of figure II), and the average income of this group is a smaller multiple of both the national average and the median income (see the last section of figure IV and V). Viewed in any of these various ways, the inequality at the very top is considerable greater in Mexico than in Venezuela but it is still rather less than in most of the region.⁹

Again the basic causal factor is similar in Mexico to that in Venezuela: growth has benefited primarily those in the upper part of the distribution but below the top; and both those at the very top and those at the bottom have seen their share of total income decline in the process. But, especially in Mexico, it is necessary to keep in mind the proportion and likely composition of the 5 per cent at the top of the scale. In Mexico some 40 per cent of the population remains in the primitive sector, so that the top 5 per cent actually represents rather more than 8 per cent of those in the modern and intermediate sectors. Only about 15 per cent of the labour force is engaged in fully modern-type activity, so that the top 5 per cent is one-third the size of the modern sector itself.

What this emphasizes is that the top 5 per cent is not a very exclusive grouping for present purposes, and in particular cannot be taken to represent the economic *élite* in the country. It of course includes this *élite*, but it also includes a considerable number of persons with modern-type skills and training who have benefited largely from the growth of the modern sector. There are thus two quite different groups within the top 5 per cent in a country like Mexico: the already established economic *élite*, whose share of total income is declining with the rapid expansion of the modern sector; and a group who, like the 15 per cent below the top, are the special beneficiaries of that expansion, and whose share of the total is rising. The tendency for the share of the established *élite* to decline with the growth of the modern sector would no doubt stand out more clearly if the top 5 per cent could be broken down into separate groupings. While the data do not generally permit such detail with any

⁹ It should be noted that the survey data used for the estimates in Mexico may understate the share of total income received by those at the top of the scale. One of the major problems in most income distribution estimates is that those at the top are likely to understate their true income, but there is an additional aspect of the estimates for Mexico which is important here. The estimates are of *disposable* income, while for all other countries they are of total income received. The item of principal importance in this respect is likely to be that the self-employed may interpret this to be only money withdrawn from the business for personal use rather than total income earned. Since the self-employed tend to be a major part of the top income group throughout the region, this may result in an understatement of the share received by this group. If so, the inequality at the very top in Mexico may not be much less than in the rest of the region. While this would be important in itself, it would not significantly alter the analysis of the other parts of the distribution or any of the general conclusions.

accuracy, estimates indicate that the decline in the share of the top group has been concentrated in the top 1 per cent of the distribution.

Apart from this basic link to the growth of the modern sector, the share of the top income group, as has been noted before, varies with the social and institutional structure in any particular country, and there are not, in Mexico, the special features which were seen to have reduced this share somewhat in Venezuela. The public sector has played a major role in Mexico's development, and this may have reduced the inequality at the top to some extent; but the share of the total national income that has been channelled through the sector in the form of government receipts and expenditures is much smaller than in Venezuela. And whereas exports were largely in the hands of foreign-owned firms in the 1930s, this situation has been progressively altered, and export production, with the high personal incomes it often yields, is now dominated by Mexican enterprise.

Finally, to the extent that professional and other incomes in the top income group are influenced by international standards, this too tends to lead to a somewhat greater concentration at the top in Mexico. By international standards incomes towards the top of the distribution are still not high. The top 5 per cent begins at a per capita level of only about 1 400 dollars per annum (in Venezuela the corresponding figure is 50 per cent higher). The close proximity to the United States probably does influence professional and some other incomes to a significant extent, and this would be reflected in a relatively rapid rise from levels just below the top, and the concentration of a somewhat larger share of total income in the hands of the top group.

It is of some interest to note that there are a series of income distribution estimates available for Mexico, beginning with the year 1950. These estimates vary in concept and in the data on which they are based and on occasion they appear to indicate contradictory trends; this may of course be a reflection of real fluctuations in the distribution of income in particular years, or it may reflect only differences in the conceptual basis.¹⁰ What does appear clear from the estimates is that the changes in the distribution (apart from possible fluctuations) have been rather

¹⁰ Further analysis of the income distribution in Mexico is programmed, in the course of which it may prove possible to clarify these differing estimates further, and to be more specific about the changes that have occurred over time. The figures currently available for the different years are as follows:

<i>Income group</i>	<i>Percentage share of income received</i>			
	<i>1950</i>	<i>1956</i>	<i>1958</i>	<i>1963</i>
Lowest 20 %	4.7	4.1	5.4	3.5
30 % below the median . .	12.7	14.0	14.8	11.5
30 % above the median . .	23.7	27.4	26.6	25.4
15 % below the top 5 % . .	25.2	28.1	27.2	29.8
Top 5 %	33.7	26.4	26.0	29.8

modest. There appears to have been some shift of the sort which would be expected: the share of the top 5 per cent has on the whole declined a little, while the 15 per cent below the top has improved its relative position; and the lowest income group has suffered. But the magnitude of the changes does not seem overwhelming in view of the very considerable growth in total income which took place during the period.

What the figures would seem best to illustrate is the difficulty, and the length of time required, to bring about a marked change in the distribution of income by means of transforming the economic structure, given the position from which this must start. Despite the rapid and sustained growth of the Mexican economy, the modern sector had expanded only to occupy about 15 per cent of the labour force towards the end of the 1960s. That is, it did not yet include a proportion equal to the top two income groups shown and could not yet be expected to have had a major direct impact on the bulk of the population in the two large middle income groups.

Looked at from the other extreme, the primitive sector remains very large and continues to exert pressure on incomes through a large part of the distribution. As noted, the primitive sector continues to be concentrated to a somewhat greater extent in the rural areas in Mexico, so that the growth of the agricultural labour force alone serves as an approximate indication of trends. Despite the rapid growth of the non-agricultural sectors, the agricultural population has continued to increase at a rate of around 2 per cent per annum. While the primitive sector has declined somewhat in relative terms, therefore, it has continued to expand rapidly in absolute size; this has meant a rising pressure on resources, has prevented any substantial improvement in the lot of the poorer half of the population, and may even have reduced the absolute income levels of those at the bottom of the scale.

4. BRAZIL ¹¹

In some respects the Brazilian economy is similar to that of Mexico, and some aspects of the income distribution structure are similar to

¹¹ The estimates for Brazil are based primarily on data obtained from the preliminary results of the population census of 1960. Estimates of the distribution of income by decile were made by adjusting this data in accordance with a combined long normal and Pareto distribution. The principal point to note is that in the census data the top income interval is open, and no direct estimate of total income for this group is available. The estimate was made by the use of a Pareto distribution, which probably results in a higher figure for the top 5 per cent than that obtained by the methods used in other countries. This needs to be borne in mind when comparing the figures for Brazil with those of other countries. The individual income recipient is the basic unit for the income distribution estimates. The preliminary census data can be found in : Brazil, *Servicio Nacional de Recensamento, Recensamento Geral do Brazil 1960*. The tabulations by decile were undertaken as a joint ECLA-IPEA project, and an analysis of the results will be published shortly.

those just described for the latter country; but there is a major contrast between the two countries in the upper half of the distribution. The relative position of the poorer half of the population — and of the two major groupings within that poorer half — is almost identical in the two countries, and there is consequently the same sharp split between the two halves of the distribution. In this important respect they closely resemble not only each other but Venezuela as well: rapid growth of the modern sector in all three countries has benefited the poorer half of the population but little, and the share of this group in total income is very low. But whereas in Mexico, and even more in Venezuela, the groups in the upper middle part of the distribution — especially the 15 per cent below the top 5 per cent — have benefited considerably, and receive relatively large shares of the total, in Brazil these groups have benefited very much less, and an extremely high proportion of total income is concentrated in the hands of the highest income group, the top 5 per cent of the population. The over-all inequality, as measured by the coefficient of concentration, is greater in Brazil than in any other country for which estimates are available and is primarily a reflection of the extreme concentration of income at the very top of the scale.

This major difference in the extent to which the benefits of the growth of the modern sector have spread, even within the top half of the distribution, can be explained largely by two factors. First, the modern sector still occupies a smaller proportion of the total labour force in Brazil than in Mexico — despite its rapid growth during the post-war period and the large absolute size it has attained — and a larger proportion of the labour force remains in primitive-type activity. In part, this is a reflection of the problem of the Brazilian north-east, where there had been very little growth of the modern sector at the time the estimates were made. As a consequence of the relatively small size of the modern sector, the great bulk of those in the upper half of the distribution but below the very top have not been incorporated into the modern sector, and so the incomes of those groups have risen less in Brazil than in Mexico, and less still than in Venezuela. The second factor is that there is little formal organization, with the bargaining power which tends to go with it, even among those who become part of the modern sector or who have established direct links to it. As a consequence, incomes have not been pushed up to the same extent by these groups. In part, of course, the limited formal organization in Brazil is itself a reflection of the smaller size of the modern sector (and the larger primitive sector), as this makes such organization more difficult.

In 1960, rather more than 40 per cent of the labour force is estimated to have been occupied in primitive-type activity in Brazil, so that the entire lower half of the distribution, and more, was dominated by the primitive sector. There are the same general features behind this situation that have already been discussed. The rapid growth was centred on the

modern sector and so required relatively little labour; and the rapid increase in the labour force meant large requirements for additional jobs — although it should be noted that the rate of population increase in Brazil, although high at nearly 3 per cent per annum, is less than that of either Mexico or Venezuela.

The consequences are again evident in all the usual areas: there are large and growing numbers engaged in primitive agriculture — the agricultural labour force has continued to increase at the rate of 1 1/2 per cent per annum, and about two-thirds of those in the sector are engaged in primitive-type agriculture; and there is the problem of employment in the cities, both in the form of open unemployment and in the substantial numbers engaged in marginal and semi-marginal activities.

But the primitive sector has a somewhat different focus in Brazil. It was noted before that in Venezuela open unemployment, especially in Caracas, was a major aspect of the problem, while in Mexico it was confined more to the rural areas. In Brazil the principal focus tends to be regional. In the eastern region to the north of Rio de Janeiro, and in the north-east proper, there has been very little modern-type growth, income levels remains very low, and the bulk of the population continues to be engaged in primitive-type activities. While these areas hold about 40 per cent of the total population, it is probable that they account for around two-thirds of the primitive-type labour force. The primitive-type labour is still largely concentrated in the agricultural sector, but open unemployment and marginal-type activities are also major problems in the large cities of the north-east. In the central-south part of the these problems are all less serious: there is less primitive-type agriculture, less open unemployment, and less marginal-type activity in the cities. In São Paulo in particular, where the growth of the modern sector has been concentrated, open unemployment has not been a major problem, and there is less marginal-type activity than in many of the large urban areas of Latin America. The city and its surroundings are sufficiently far removed from the north-east to have escaped some of the most severe pressures of the large primitive sector in the latter region.

It is thus those in the north-east who predominate at the bottom of the scale, and as incomes there are very low, incomes at the bottom of the scale are also very low, both in absolute and in relative terms. The minimum income is only 15 per cent of the national average, the same as the corresponding figure in Mexico, while the absolute income of this poorest 10 per cent of the population is only about 40 dollars per capita during the course of a year, the lowest figure of any of the countries for which estimates are available (see the first two sections of figure VII). The poorest 20 per cent of the population, the first of the major income groups generally considered in the present study, receives only 3.5 per cent of total income, a low figure again practically identical to

the relative position of that group in Mexico (see the first section of figure II).

This then is a first major element of inequality, and it is especially serious in Brazil. About half of the low income group (the poorest 20 per cent) is engaged in primitive agriculture in the poor areas of the east and north-east, and another quarter in primitive-type non-agricultural activities in the same regions. Although there is much unsettled land in Brazil, the long-settled poor areas of the north-east are relatively densely populated, and there has been little growth of more modern-type activities which might offer alternative employment. There has been some migration, but far from enough to relieve the pressure. Large groups have received little or no benefit from the substantial post-war growth in Brazil, and their incomes remain extremely low, both in relation to other groups in the country and in absolute terms. Even with due allowance for the difficulties of estimating incomes in money terms at this level, it is clear that this segment of the population lives at close to bare subsistence levels, and the Brazilian north-east has for some time been regarded as one of the major pockets of extreme poverty in Latin America.

Incomes rise fairly rapidly from the minimum level (see the third section of figure VII), and the inequality within the next income group — the 30 per cent below the median — is somewhat greater than in most countries (see the second section of figure V). Again this is similar to the situation in Mexico, and again the inequality is an indication of variation within the primitive sector itself; for this part of the distribution is still dominated by the primitive sector in both countries. In Brazil the differentiation is to a considerable extent another reflection of the large regional differences in the country. The lowest income group is largely made up of those engaged in primitive-type activities in the low income areas of the east and north-east, and as already stressed, their incomes are very low. But the relative importance of the poor areas declines steadily and rapidly at higher income levels, and in the 30 per cent below the median those engaged in primitive-type activities in other regions are of greater importance. Conditions in these other regions are often much more favourable and yield considerably higher incomes even to those engaged in primitive-type activities, and this is an important factor in the relatively rapid rise through this part of the distribution.

But it must be stressed that this rise is from a very low beginning level, and incomes even at the top of this second large income group remain very low in absolute terms. The group as a whole is in an unfavourable position and has not benefited in any important way from the post-war growth. The bulk of those in the group are still engaged in primitive-type activity, and those who are not so engaged remain subject to the heavy pressure of the primitive sector. The group as a whole — 30 per cent of the population — receives only 11.5 per cent of total income and incomes at this level are less than 40 per cent of the national

average, both figures being lower than in most countries of the region (see the second section of figure II).

The entire poorer half of the population thus receives only 15 per cent of total income. As noted, the position of this half of the population in Brazil is closely similar to that of the same group in Mexico, and is a further illustration of a major type of inequality likely to be introduced by economic growth which is concentrated on the expansion of the modern sector in an economy with a large primitive sector. A large proportion of the population will remain subject to the restricted incomes obtainable from primitive-type activities; other groups will benefit from the much higher productivity of the modern sector; and a large and widening gap between these sectors is likely to be a major feature of the growth process. In Brazil an important aspect of this problem is that to a considerable extent the split occurs along regional lines.

Within the top half of the distribution, however, there is little similarity between the two countries: in Brazil income is much more heavily concentrated in the top 5 per cent, and the other two large income groups in the top half of the distribution receive substantially smaller shares than in Mexico. Whereas in Mexico, incomes begin to rise much more rapidly at about the seventh decile of the distribution, so that there is great inequality throughout the upper 35-40 per cent of the distribution, in Brazil incomes continue to rise at the same moderate rate through the ninth decile, so that the inequality through this range is no greater than in the middle and lower parts of the distribution (see the third and fourth sections of figure V, the last two sections of figures VI, and the fourth and fifth sections of figure VII).

The first large income group in the upper half of the distribution — the 30 per cent above the median — receives 23.5 per cent of total income, and the following group — the 15 per cent below the top — receives 22 per cent of the total. Both these figures, but particularly the share of the 15 per cent below the top, are well below those of the corresponding groups in Mexico, and represent a major difference in the distribution of income in the two countries.

One factor in this greater concentration of income within the top half of the distribution in Brazil is the relatively smaller size of the modern sector. The group towards the top of the distribution that benefits from the high productivity of the modern sector is smaller in Brazil, and this results in a greater concentration of income in the hands of the top income group.

But there are other factors which reinforce this tendency. One of these is the distinctive position of the intermediate sector in Brazil. In most countries of the region with relatively small modern sectors (less than 10 per cent of the labour force), the intermediate sector tends to account for around one-third of the labour force, but in Brazil it is much larger, accounting for close to half the labour force. In this respect Brazil

is similar to those countries where the modern sector is substantially larger; the relative size of the intermediate sector is more similar to that in Mexico or Venezuela, for example. Even more important, the relative productivity of the intermediate sector is quite distinctive in Brazil: the average productivity is less sharply differentiated from that in the primitive sector, and even further below that in the modern sector, than is common in many countries. There is thus a very large part of the distribution — running from the fifth through the ninth decile — where productivity and incomes are less sharply differentiated from those of the lower income than is often the case in other countries, such as Mexico, for example but where the lag behind productivity levels towards the top of the distribution is even greater than usual. This of course tends to reduce the inequality through most of the top half of the distribution, but to increase the concentration at the very top.

The historical development of the different regions in Brazil provides much of the explanation of this situation, for an important part of what is now the intermediate sector reflects a stagnating economic structure from earlier periods of development. To an unusual degree, Brazilian economic history is a story of major displacements rather than of more or less steady and gradual growth and change. The north-east itself was the original centre of growth, based on sugar production and export, and from the mid-sixteenth to the late eighteenth century was one of the major commercial centres of the Americas; the eighteenth century saw Minas Gerais region develop into one of the world's major suppliers of gold; in the early decades of the nineteenth century Brazil became the major world producer of coffee, with production centred originally on the Rio de Janeiro area; and the far south became an important producer of cattle and other items supporting these developments. Each of these developments was of major importance and involved considerable activity which was of a relatively modern type at the time, but with the weakening or disappearance of the original stimulus, these became increasingly outdated. When the post-war surge of urban-industrial growth occurred, it was centred on São Paulo and left many of the earlier centres of growth — particularly the north-east — relatively untouched. To an unusual extent the intermediate sector in Brazil is thus made up of activities which were established in an earlier era. Since the time lag has been a long one productivity in these activities is somewhat closer to that of the primitive sector, and even further below that of today's modern sector, than is often the case. Also of importance is the fact that these groups are part of a stagnating section of the economy; they do not represent a type of activity which has grown up alongside the expanding modern sector, linked to this sector to varying degrees and showing considerable elements of dynamism.

The first major income group in the upper half of the distribution — the 30 per cent above the median — is dominated by this intermediate

sector. The relatively low productivity levels, plus the pressures of the still large primitive sector, result in incomes rising relatively slowly at this level; both in absolute terms and in relation to the national average, incomes are low; and this group receives a relatively small proportion of total income (see the third sections of figures II and V).

The same influences are present in the following income group — the 15 per cent below the top 5 per cent — as the bulk of this group too is part of the intermediate sector. But another factor which becomes more important at the level of this group is the lack of formal organization. On a spontaneous basis organisation is difficult because of the still small size of the modern sector, where organization most frequently occurs. Unskilled and semi-skilled workers are available to the modern sector not only from the primitive-type labour force, where training problems are of some importance, but from the large intermediate sector as well, important parts of which, as noted, represent stagnating economic structures and large potential supplies of labour. And while the difficulties of spontaneous organization are common, in varying degree, to most of Latin America, there has been less government sponsored, or supported, organization in Brazil than in a number of other countries. Wage policy has been centred on the legal establishment and periodic readjustment of a minimum wage rate, and a large proportion of the urban labour force has become institutionally linked to this rate. A policy of this sort tends to reduce differentiation and, by contrast to the support of formal organization, to result in fewer instances of the exploitation of advantageous positions by organized groups. This is a further factor helping to explain why incomes in this part of the distribution are relatively low, and this income group receives a much smaller proportion of total income; the contrast with the position of this group in Mexico is striking (see the fourth sections of figures II and V).

Perhaps the principal economic implication of the slower rate at which incomes rise through most of the upper half of the distribution, and of the relatively low level of these incomes, is for the structure of market demand. The degree of inequality is less here than in most countries of the region, and is in fact rather closer to the inequality found in this part of the distribution in the industrialized countries. This provides a large market, outside the confines of the primitive sector and largely urban, where there is less differentiation than in a number of countries, and which therefore might offer a mass market for some products. Commercial markets among this sector of the population are, however, closely restricted by the low income levels that prevail and by the relatively small proportion of total income received. In per capita terms incomes range only from around 125 dollars per annum at the median to around 350 at the beginning of the top decile of the distribution and to around 600 at the beginning of the highest income group, the top 5 per cent; and the two large income groups considered — the 30 per cent above the

median and the following 15 per cent — receive only 45.5 per cent of total income.¹²

For most products which are commonly thought of as typical of the modern sector and associated with methods of mass production, the market in Brazil is thus for the most part limited to the highest income group — the top 5 per cent of the population — and commercial markets of this type are thus not nearly so extensive as the size of the country alone would appear to indicate: in absolute terms they are probably only of about the same size as those of Mexico or of Argentina.¹³ At the same time, the extreme concentration of income in the hands of the top income group has created markets for some modern-type products quite out of line with the average income level in the country. The most obvious examples are the relatively large-scale development of consumer durable goods industries in general, and of passenger car production in particular, during the post-war period.

It is only in the top decile that incomes rise very rapidly, but here the inequality is extreme, even by comparison with other countries in the region. The most distinctive aspect of the distribution is this concentration of income at the top of the scale, and the top income group receives a larger share of the total than in any other country for which estimates are available (see the last section of figure II). This contrast with other countries is probably exaggerated by the different methods used in making the estimates. In Brazil, no direct data are available on income levels at the very top of the scale (the top 3.6 per cent of the population), and these have been estimated through the use of a Pareto curve, generally considered to best describe the distribution of income at the top of the scale. While this is thought to yield the best possible estimate for Brazil, it tends to give a higher estimate of the share of the top 5 per cent than the methods used in other countries, mostly sample survey techniques. For Mexico it was already noted that the share of the top 5 per cent is probably significantly underestimated, and the contrast between these two countries is therefore probably less than the figures would seem to indicate.

¹² By comparison, in Argentina these two groups receive a similar percentage of total income and the differentiation within the groups is similar; but the absolute level is about 3 1/2 times that in Brazil. In Mexico the absolute level is about double, and these two groups receive 55.5 per cent of the total, although there is greater differentiation within the groups. In the industrialized countries, the absolute level is of course many times higher: these two groups receive 55-60 per cent of the total, and there is less differentiation than in Brazil.

¹³ For example, if markets for modern-type products are considered to depend essentially on those with per capita annual incomes of 500 dollars or more, in the mid-1960s this would include only about 7.5 per cent of the population in Brazil as against around 20 per cent of the population in Mexico and 50 per cent in Argentina. Despite the large size of the country, when defined in these terms, the modern market in Brazil is smaller—both in terms of number of persons and in terms of aggregate purchasing power—than in either Mexico or Argentina.

But other indicators confirm the contrast, and there is little doubt that it is of considerable importance. Estimates of the distribution of income among wage and salary earners in the industrial sector are available for both countries, and these indicate the same type of contrast, and further illustrate some of the distinctive characteristics of this part of the distribution in Brazil.¹⁴ The figures are as follows:

THE DISTRIBUTION OF INCOME AMONG WAGE AND SALARY EARNERS
IN MANUFACTURING INDUSTRY

	Income group				
	Lowest 20 %	30 % below the median	30 % above the median	15 % below the top 5 %	Top 5 %
Brazil	7.5	14.7	25.3	22.1	30.4
Mexico	5.7	15.1	28.5	27.4	23.3

As is to be expected, there is less inequality among industrial workers alone than was observed in the total distributions, but the comparison between the two countries here is very much the same as for the total distributions. The poorer half of all industrial workers receive similar proportions of the total, although there is considerably less inequality in Brazil; and in the top half of the distribution there is the same contrast as noted before. In Brazil incomes rise less rapidly except at the very top, where they increase sharply. As a consequence, the two large upper middle income groups receive a smaller proportion of the total than in Mexico, and a much larger proportion is concentrated in the hands of the top 5 per cent.

The considerations already discussed above can readily explain this contrast. The modern sector is much smaller in Brazil, and there is a large intermediate and a large primitive sector to supply labour and hold down wage levels through the great bulk of the distribution. The minimum wage policy tends to hold up wages even toward the very bottom of the scale in the industrial sector, and this reduces differentiation through most of the industrial labour force. The relative lack of formal organization means the absence of a factor which in Mexico accounts for an important amount of inequality in the upper middle income groups in the industrial sector. It is only at the very top of the scale that incomes rise sharply in Brazil, and this is likely to be more a reflection of personal-type links with managing or controlling groups than of bargaining power

¹⁴ In Brazil, the figures are from the *Encuesta Economica*, 1966, published by the Brazilian Institute of Geography and Statistics (IBGE). For Mexico, the data used throughout this study, for 1963, are available on a disaggregated basis, and this group can be shown separately.

resulting from formal organization. The estimates indicate, in fact, that most of the concentration is at the level of the top 1 per cent, which would restrict it to a considerable extent to the managerial and professional staff alone.

There are several characteristics of the top income group in Brazil which clarify the meaning of the large concentration of income in the hands of this group. First, although the concentration is very great, the absolute income level is not high by comparison with similar groups in other countries. The average income of the top 5 per cent in Brazil is well below the average income of the top 5 per cent in Latin America as a whole, and is about 20 per cent less than the average income of the same group in Mexico. The contrast with other income groups in Brazil, and the extreme concentration in the hands of the top 5 per cent, are due to the unusually low income level of these other groups rather than to abnormally high absolute incomes of those in the top group.

Secondly, and linked to this fact, is the inclusive nature of the top 5 per cent in Brazil. As the entire modern sector includes only around 10 per cent of the population, the top 5 per cent is far from being an exclusive group, or of even approximating the economic *élite* of the country. About half of those in the entire modern sector are included, and it must therefore include many with only moderate incomes who would fall in lower income groups in countries with a larger modern sector. This of course contributes to the low average income of the top 5 per cent in Brazil — it is a less exclusive grouping than in many countries.

Finally, the inequality and extreme concentration at the top of the scale is to a relatively great extent an urban phenomenon. There is considerably less concentration at the top within the agricultural sector in Brazil — whereas in other countries the concentration is generally greater in the agricultural than in the non-agricultural sector — and only about 12 per cent of those in the top 5 per cent draw their incomes from agriculture. The modern urban economy has grown so much that it now dominates the older export-oriented rural sector and is the overwhelming source of income for those in the top income group. At the same time, this modern sector is still small in terms of the proportion of the labour force it occupies, and, as noted, the top income group therefore includes many with only moderate incomes in absolute terms. This has the further implication that many of those in the top 5 per cent are probably urban salaried employees (statistical data are not available on this point), and that property ownership is therefore a lesser factor in explaining the concentration of income in the hands of the top 5 per cent in Brazil than in most countries.¹⁵

¹⁵ The functional and urban-rural aspects mentioned only briefly here are discussed at more length in sections 1 and 2 of chapter III.

5. EL SALVADOR ¹⁶

The income distribution in El Salvador is rather different from any of those thus far analysed and can be regarded a reasonably representative of a number of the smaller economies in the region. The relative position of the lowest income group is rather favourable: they receive a larger share of total income than in most of the region. Incomes rise very slowly from the minimum level, however, so that there is little differentiation through the great bulk of the population, and the broad middle 60 per cent receives a smaller proportion of total income than in any other country for which estimates are available. Incomes then rise very sharply in the upper income groups, and the opposite extreme is reached: the top 20 per cent as a whole receives a larger proportion of the total than in any other country. The over-all inequality in El Salvador is very great, but it is largely due to the extreme and increasing inequality towards the top of the scale; there is relatively little inequality through the bulk of the distribution.

This type of distribution can be effectively explained in terms of the type of economic structure in countries like El Salvador, and the stage of development reached. The central factor is that a large proportion of the labour force — 60 per cent in 1960 — is still engaged in primitive-type activities. This in turn is closely linked to the fact that the economy is small, and many of the internally oriented, modern-type developments which have occurred in the larger countries of the region have not been possible. If production is for the domestic market it must be small-scale, and it offers relatively little scope for modern type enterprises. The modern sector is largely organized around the export-import sector, and its growth tends to depend on the growth of external trade. It is for this reason that such economies are commonly referred to as externally oriented. But from the point of view of income distribution it is important to keep in mind that it is primarily the more modern part of the economy which is externally oriented; a major part of the economy continues in non-modern activities oriented toward the domestic market.

The relative importance of these different types of economic activity will depend upon the stage of development reached, but the primitive sector is generally of greater importance in the smaller countries. More adequate domestic markets have greatly facilitated the growth of modern sectors in the larger countries.

¹⁶ The estimates are for the year 1961, and the basic income unit is the individual income earner. The estimates for El Salvador were made indirectly on the basis of partial indicators. Among these partial sources the most important were: the population census of 1961; data provided by the Servicio de Seguridad Social, which served as the basis for estimating urban wage and salary incomes; and data on the distribution of agricultural income published in Sergio Maturana, *Los problemas de la tenencia de la tierra en los países centroamericanos*, 1963.

In terms of occupational structure, El Salvador, like most of the other small countries in the region, remains primarily an agricultural economy. In 1960, some 60 per cent of the labour force was occupied in the agricultural sector, and as exports were almost entirely agricultural products, the externally oriented modern sector was itself linked to a major extent to agriculture or to the trade it supported. Some of this agriculture is highly productive, and it is this part which provides the bulk of the export trade; but some four-fifths of the agricultural labour force was still engaged in primitive-type farming in 1960, at very low levels of productivity and income.

El Salvador presents an extreme case in the region of the extent to which pressures can build up in these circumstances, and of the difficulties involved in alleviating them. Population pressure is severe, and there is little possibility of any major further expansion of the acreage under cultivation. Population density has reached a figure of about 150 persons per square kilometre — only in Haiti is the figure higher — as compared, for example, with figures of about twenty-five in Mexico and nine in Argentina. The rate of economic growth has averaged about 6 per cent per annum during the 1960s, aided by the development of the Central American Common Market, but even so has been far from sufficient to absorb the increase in the labour force.

Growth has again been centred on the modern sector, and so has absorbed relatively little labour. As in most of the region, the rate of population growth is very rapid — 3.3 per cent per annum in the mid-1960s — and the consequent increase in the labour force has been well above what could be absorbed in the relatively modern areas. The most significant measure of the disparity is the fact that the agricultural labour force continues to expand at a rate of 2.5 per cent per annum. As the bulk of the population is still agricultural, and very largely engaged in primitive-type farming, this involves a large and steady increase in the already severe pressure on the land. Even rapid modern growth in this context only very slowly reduces the size of the primitive sector even as a percentage of the whole — it continues to grow substantially in absolute size — and so does little to improve the income level of the mass of the population.

As already noted, the *relative* position of the lowest income group in El Salvador is favourable: the share of total income received is larger than in most countries (see the first section of figure II) and the average income is high in relation to the national average (see the first section of figure IV). But this is only by comparison with a population, the bulk of which, as described above, remains at low income levels. In absolute terms minimum incomes are very low. The poorest 10 per cent of the population has an average per capita annual income of only about 45 dollars, well below the level in nearly all other countries for which estimates are available (see the second section of figure VII).

From this low minimum, incomes rise only very slowly, and this is perhaps the major distinctive feature of the distribution in El Salvador. Nearly two-thirds of the population is dominated by the primitive sector and lives with incomes which vary but little from the subsistence level. Nearly all of the agricultural labour force is included in this group. Although a major part of the total agricultural output is produced with relatively efficient techniques — and a major part of the land is efficiently utilized — the number of persons who directly benefit is small.

This is partly due to the concentration of land ownership. In 1961, some 42.6 per cent of the total cultivable land was held in 1 per cent of all agricultural units, and these of course yielded very high incomes to their owners. At the other extreme, 78.2 per cent of all agricultural units accounted for only 11 per cent of the land, and these units were operated on a primitive basis and yielded very low incomes.

As a result of the already severe pressure on the land there is also a large segment of the agricultural labour force which relies on wage income, and the incomes of this group are uniformly low. Some of this group work on primitive-type exploitations, and the low wage reflects the low productivity of the labour. But many are employed on the larger and more efficient holdings, and their low incomes reflect, rather, the pressure of the primitive sector on wage rates. Agricultural wage earners are the group most completely exposed to such pressures, and so practically all of this group is in the bottom part of the distribution.

Nearly all of the agricultural labour force thus falls in that part of the distribution dominated by the primitive sector, and where incomes rise very slowly. Only some 7-8 per cent — the minority with moderate sized or larger land holdings — achieve incomes high enough to place them in that upper third of the distribution where income levels rise rapidly.

Just as this lower two-thirds of the distribution includes nearly all of the agricultural labour force, so the agricultural sector dominates this part of the distribution itself. This bulk of the population is the primitive sector, and those groups most exposed to its pressure even though not engaged in primitive-type activity themselves. About 80 per cent of those in this wide range of the distribution are therefore in agriculture, and it is only towards the top of the range that those engaged in non-agricultural activities are of any real importance.

Throughout this wide range, incomes rise only about 15 per cent from one decile to the next. Starting from a very low minimum level, this means that at the top of the range incomes have risen only to about 135 dollars per capita; that is, in 1960 nearly two-thirds of the population lived with annual incomes at this level or below.

The extent to which this distinguishes the distribution in El Salvador from those in other countries in the region can be seen, in part, from the figures. The average income of the lowest income group — the poorest

20 per cent — is closer to the median in El Salvador than in any other country (see the first section of figure V), except for Costa Rica, which has a similar type of economy and distribution. The values calculated for other countries are very different. This indicates that the inequality in the lower half of the distribution in these two countries is much less than elsewhere. The same point is shown somewhat differently in the third section of figure VII: incomes rise more slowly in the bottom deciles in El Salvador than elsewhere.

But the extent of the difference can be shown more clearly by a separate calculation, as this limited differentiation of incomes extends beyond the lower half of the distribution, and this is an important factor. The average income in the sixth decile in El Salvador is only double that of the first decile. By comparison, in Argentina, where there is no important primitive sector, and where this range therefore represents the variation through the bulk of the intermediate sector, the average income in the sixth decile is 3.7 times that of the first. In Mexico, where there is a substantial primitive sector — into which, however, agrarian reform has introduced greater differentiation — this range represents the primitive sector and the transition to the intermediate sector, and the average income in the sixth decile is four times that of the first.

The primitive sector in El Salvador dominates a larger proportion of the distribution, there is severe population pressure on the land, and there have been no major agrarian reform measures which would introduce differentiation by substantially improving the lot of some of those in the sector. As a consequence, from a very low minimum level incomes rise only slowly throughout the bulk of the distribution. The average per capita income in the sixth decile of the distribution was less than 100 dollars per annum in 1960 and as has already been noted, only about one-third of the population received more than 135 dollars per capita.

The principal meaning of this is of course that the bulk of the population lives at very low income levels: a large, relatively undifferentiated group with incomes that are not far from the subsistence level. The principal meaning for the functioning of the economy is that the bulk of the population cannot enter the market, even on a limited scale, for modern-type products. There is thus the paradox that it is precisely in a small economy like El Salvador, where the potential mass market is in any case severely limited, that the distribution of income exerts the greatest additional limitation. The pattern of living of nearly two-thirds of the population is very much the same, but this group has at its disposal less than one-quarter of total income, and the absolute level is so low that it precludes purchases of any but the most simple items. It will be recalled that one of the major contrasts between Latin America and the industrial countries is the much smaller share of total income received by the middle 60 per cent of the population — the sector that must serve as the basis of mass markets. The share of this group is less, and its relative income position

worse, in El Salvador than in any other country (see the second and third sections of figure II and the second section of figure IV). In the industrial countries the share of the middle 60 per cent of the distribution averages about half of total income; in the more diversified economies of Latin America it is 38-40 per cent; in El Salvador it is 33 per cent.

In the seventh decile of the distribution incomes begin to rise very rapidly in relative terms. While through the first six deciles the increase averages only 15 per cent from one decile to the next, from the seventh through the ninth deciles the average income is in each case 50 per cent above that in the preceding decile. Incomes rise more rapidly through this part of the distribution in El Salvador than in any other country (see the last three sections of figure V and the next-to-last section of figure VII), indicating great differentiation and inequality.

It is important to note, however, that incomes are not high in absolute terms even in this upper middle quarter of the population. In per capita terms they range only from an annual personal income of about 135 dollars at the middle of the seventh decile to about 400 at the top of the ninth decile. These are not the high incomes which are possible in the modern sector. The fully modern sector is still small — it accounted for considerably less than 10 per cent of total employment in 1960 — and its high incomes are confined to the top decile of the distribution. The group here being considered is essentially the intermediate sector, and the great differentiation of incomes reflects the transition away from a large and low income primitive sector more than the pull of high incomes in the modern sector itself.

Conditions within the primitive sector can and do vary considerably in Latin America. They vary first of all because of differences in the quality and quantity of resources available. In some areas there is a scarcity of land; but through most of the region there is as yet little over-all population pressure, so there are areas where abundant resources yield higher incomes even with primitive-type agriculture. Conditions also vary with the degree of direct attention which has been given to the primitive sector. Programmes of agrarian reform, rural aid, etc., increase incomes — and introduce greater differentiation — even where they do not immediately transform the type of production.

The primitive sector in El Salvador is near one extreme of the possible range. Population pressure is severe, and there are no remaining areas of abundant land, so there is little scope for variation on this score. And there has been no agrarian reform or other major programme of direct aid to the primitive sector. Primitive-type incomes are therefore even lower than in most of the region, and there is relatively little differentiation among this bulk of the population.

It is thus the contrast with this large primitive sector which primarily produces the rapid rise in incomes in the upper middle part of the distribution. For there are opportunities for much higher incomes in the

non-rural areas. There are markets for personal services and handicraft items, even though these involve low productivity levels. It is also possible to establish links with the modern sector through commerce and various other, mostly service, activities, even though these themselves are not of a modern type. And there is the public sector, an important part of which is traditional, but which has revenue links with the modern sector, primarily through the export-import trade.

Except for a small minority, even the less successful of those engaged in such activities obtain incomes well above those achieved in primitive-type agriculture. Further, there is obviously much greater scope for variation in the degree of success and the income level attained by different individuals in these areas. There is everywhere great differentiation in that part of the distribution where the transition from the primitive to the intermediate sector occurs. It is especially great in El Salvador because of the unusually low incomes of even the most favourably situated of those within the primitive sector itself.¹⁷

This rise in incomes continues at an increasingly rapid rate through the top decile of the distribution as well, but here it is no longer exceptional. Incomes everywhere rise sharply at the top of the distribution, and the increase in El Salvador, although very large, is less than in most other countries of the region (see the last section of figure VII).

The position of the major income groups in terms of which the statistical data have been presented can be readily understood on the basis of the above discussion. The lower half of the distribution is entirely within the primitive sector, and has already been discussed; there remain the three income groups in the upper half of the distribution.

The first — the 30 per cent above the median — still includes a significant segment of the primitive sector, and it is only towards the middle of this group that the pressures of the primitive sector begin to be less and incomes begin to rise rapidly. As a consequence, the position of the group as a whole is less favourable than in most of the region. The share of total income received is less than in any country except Costa Rica (see the third section of figure II).

The following income group — the 15 per cent below the top 5 per cent — is in a relatively favourable position in El Salvador. This group is mostly composed of those who have reached the highest income levels in the intermediate sector, generally as a result of close links to the modern

¹⁷ It is worth stressing that while this differentiation is great in relative terms, the absolute changes in income levels are much less striking. Although the average income in the seventh decile is 50 per cent above that in the sixth, this is an increase in the annual per capita income of only about 45 dollars, as it is the beginning of the transition from the primitive sector. By comparison, the increase between the same two deciles in Mexico, for example, although it is only 35 per cent in relative terms, amounts to about 85 dollars, incomes being much higher at that level of the distribution, as it refers to a portion of the population already well removed from the primitive sector.

sector; but it also includes an important segment of the modern sector itself. As a result of the rapidity with which incomes rise once the transition from the primitive sector begins, the average income of this group is further above the median than in any other country (see the fourth section of figure V). The group also receives a relatively large share of total income, and has a high income in relation to the national average (see the fourth section of figure II and the third section of figure IV); but in this respect the position of the corresponding income group in Mexico and Venezuela is even more favourable, reflecting the extent to which the rapid growth and the much larger size of the modern sector in those countries have benefited this income group.

In absolute terms the average income of the 15 per cent below the top in El Salvador is not high, however, well under 400 dollars per capita. The average income of the corresponding group in Mexico is double this figure, and is still higher in some other countries (see figure VIII). As already noted, the fully modern sector is smaller in El Salvador than in most of the region, and so has less impact on the income levels of this group.

Well over half of this group is self-employed. There are important numbers of medium-sized farm operators, but the majority of the self-employed are in the non-agricultural sectors at this level, even though El Salvador remains a basically agricultural economy. These urban self-employed very largely operate individual enterprises with close links to the modern sector rather than enterprises which form a part of the fully modern sector itself. By contrast, a larger proportion of the wage and salary earners at this income level are employed by modern-type enterprises. The most important are those employed in manufacturing and in the public sector (*servicios públicos*), but there are also considerable numbers in basic services, and commerce and finance.

As incomes continue to rise rapidly, the position of the top 5 per cent is extremely favourable. The average income of this group is fifteen times that of the median individual, who in El Salvador is still within the primitive sector, a greater multiple than in any other country (see the last section of figure V). In those countries of the region where the modern sector is relatively large, and the primitive sector correspondingly reduced in size, this multiple is about ten, while in the industrial countries it averages only about five.

This top 5 per cent concentrates in its hands practically one-third of the total personal income (see the last section of figure II). There are countries in the region where this concentration is even larger, but in general it indicates a situation where the primitive sector is still very large, and the growth of the modern sector has not as yet benefited the middle income groups so substantially.

The incomes received by the different groups within this top 5 per cent illustrate quite clearly how the type of economy and its stage of

development contribute to this concentration at the top. Only a minority — less than one-fifth — of those in the top 5 per cent are agricultural proprietors, but this group accounts for the concentration to a disproportionate extent. Their average income is far above that of others within this top income group, and they alone account for over 35 per cent of the income received by the top 5 per cent. The urban self-employed account for over 40 per cent of all those in the top 5 per cent, and their average income is much higher than that of the urban salaried employees in this income group; but it is still not much more than half that of the large landowners.

The high incomes of these large landowners result from a combination of the concentration of land ownership, already noted, and the efficiency of much export agriculture, the per acre yields of both coffee and cotton being among the highest in the world. Even so, the fact that these top agricultural incomes are so much higher than the top urban incomes is not a reflection of uniquely high agricultural incomes in El Salvador. It is rather an indication of the lesser development of the modern urban sector in the country.

In absolute terms the average income of those agricultural producers in the top 5 per cent in El Salvador is approximately the same as the average income of the agricultural producers in the top 5 per cent of the distribution in Mexico, for example, and is only a fraction of the income of the top agricultural producers in a country like Argentina. The difference is rather that the modern urban sectors have expanded much more in these latter countries so that the top incomes in the urban sectors are similar to those of the top landowning group.

The relatively large proportion of total income received by the large landowners, and the concentration of income at the top of the scale which this produces, can thus be linked to the type of economy which still prevails in El Salvador. With more extensive growth of the modern urban sector, top urban incomes tend to rise to the level of those received by the large landowners; and more important, urban groups below the top benefit greatly. In the more diversified economies, therefore, the incomes of the large landowners are no longer so exceptional at the top of the scale, and the share of the top income group itself tends to decline.

There is also available for El Salvador an income distribution estimate for an earlier year, and it is of some interest to compare the figures. Again, the estimates vary somewhat in concept and in the nature of the data on which they are based, so that the comparison can be regarded only as approximate. But this is sufficient for present purposes, and the impact of growth on the distribution, in economic conditions such as those found in El Salvador, can be clearly seen. The change that has occurred is most readily apparent if the income groups are somewhat different from those that have been principally used. The share of total income

received by each of these groups in the two years — 1945-1946 and 1961 — was as follows:¹⁸

<i>Income group</i>	<i>Percentage of total income received</i>	
	<i>1945-46</i>	<i>1961</i>
Poorest 60 %	32.2	20.8
Following 20 %	14.8	17.8
15 % below the top 5 %	17.4	28.4
Top 5 %	35.5	33.0
Top 1 %	(22.0)	(18.0)

The general direction of the change that has occurred, and the major factors underlying the change, are similar to those already discussed in conceptual terms at various points throughout this study. The relative share of those at both extremes of the distribution declines while the upper middle income groups considerably improve their relative position; and this reflects the impact of growth centred on the more modern sectors in an economy where the primitive sector remains large. It is only necessary to note briefly the specific conditions in El Salvador which have determined the limits of this process.

In 1945 both the primitive and the agricultural sector accounted for an even larger proportion of the labour force than has been shown to be the case at the beginning of the 1960s. As a consequence, the 1945-1946 distribution is characterized by the same low minimum income and the same low rise of incomes from that level; and in that earlier year this slow increase continued through the eighth decile of the distribution. That is, there was little differentiation among fully 80 per cent of the population, indicating that all of this group was either within or subject to the pressures of the primitive sector. It was only towards the top of the distribution that incomes rose rapidly, and were concentrated even more in the hands of the top income group, especially the top 1 per cent.

During the following fifteen-year period, growth was considerable, averaging close to 3 per cent annually on a per capita basis, despite the increasingly rapid rate of population growth. This was very largely a growth of the more modern sectors, but it was not a growth depending heavily upon an internally oriented manufacturing sector, as was the case with the larger economies of the region. There was a substantial expansion of export agriculture, and most of the urban growth was accounted for by commerce and services, which were closely linked to, and dependent upon, the export-import trade. But the bulk of the growth was nevertheless urban, and although the agricultural labour force and

¹⁸ The 1945-1946 estimates are from Henry Wallich y John Adler, *Proyecciones económicas de las finanzas públicas*.

agricultural production increased substantially in absolute terms, they declined somewhat as a proportion of the total.

The way in which this growth affected the income distribution can be seen from the figures presented above. First, conditions did not improve for fully 60 per cent of the population. As the primitive sector was very large and the modern sector very small at the start of the period, even rapid growth of the latter only mildly reduced the pressures over the fifteen-year period. The increase in total production that tended to occur, even within the primitive sector, was offset by the growing population, and per capita incomes for this big group of the population remained approximately constant in absolute terms. As a percentage of the total their share therefore declined sharply from 33.2 to 20.8 per cent.

The following 20 per cent of the population represents that group which was either within the primitive sector or completely exposed to its pressures in 1945-1946, but had increasingly escaped from those pressures by the beginning of the 1960s. This group as a whole increased its share of the total somewhat, but this is the transitional group, and there is great variation within it. Towards the bottom, the situation is similar to that of the poorest 60 per cent, while towards the top the gain approximates to that of the next higher income group.

Those who benefited most from the growth were those who fell within the 15 per cent below the top in 1961, but the reason for this is slightly different in El Salvador from what it is in some of the more developed economies. Whereas in the latter — countries like Venezuela and Mexico, for instance — this is the group which has gained by being incorporated into the modern sector itself, in El Salvador it is more the group that has profited by its close links with the modern sector. This again reflects El Salvador's earlier stage of development and its rather different orientation.

The top 5 per cent experienced a decline in its share of the total, but the decline was a mild one and limited to the top 1 per cent alone; the rest of the top 5 per cent increased its share somewhat. This reflects the still limited size of the modern sector in El Salvador; a substantial part of the modern growth benefited those in the top 5 per cent, and only to a lesser extent did it extend to the lower income groups. It will be noted that the decline in the share even of the top 1 per cent is small in relative terms, and in absolute terms the incomes of this economic *élite* grew substantially over the period.

Just as the principal factor in explaining the income distribution structure in El Salvador is the fact that the primitive sector was still very large in 1961, so this is the main factor in explaining the changes that occurred. The majority of the population saw its absolute income level stagnate, so that its share of the total declined sharply. The gains from economic growth were disproportionately concentrated in the hands of the remaining minority. The upper middle income groups gained most,

and the share of those at the very top of the scale declined. But this decline at the top was only relative and it was not proportionate to the decline in the share of the poorest 60 per cent. Unlike those who were still within the primitive sector, in absolute terms even the top 1 per cent achieved a significant increase in income.

III. MORE SPECIFIC ASPECTS OF THE INCOME DISTRIBUTION STRUCTURE

Up to this point the discussion has been in quite aggregate terms. The distributions have been described in terms of a few broad income groups, and explanations have been linked directly to the income levels and shares of these groups. This reflects the primary concern of this study, which is to determine the extent of inequality in the economy as a whole, and the major causes and consequences of this inequality. But the distribution of income is often discussed in less general terms or, stated somewhat differently, in terms of specific groups of the economy. The following sections deal with some of these more specific aspects of the income distribution structure.

The central concern will continue to be the extent of over-all inequality, and these more specific aspects will therefore be approached from this point of view, and linked as closely as possible to this inequality. Each of the more specific aspects discussed can be regarded as a major contributing cause of the over-all inequality, or as a major way in which that inequality finds expression. In fact, these more specific aspects are themselves still rather general ways of looking at the problem. Any thorough analysis of the income distribution structure in a particular economy would have to examine much more detailed economic groupings than those treated here.¹ The greater detail would be especially necessary for policy purposes. But while the analysis continues at a rather general level, it does make clear the major areas where the inequality is found, and where action must be directed if it is to be reduced.

The first of the more specific aspects to be examined is the distribution between the major functional groups. The large concentration of income at the very top of the scale is the principal factor in the greater inequality in the region, and this is explained to an important extent by the functional distribution. Other aspects analysed are the distribution between urban and rural areas, the regional distribution, and the distribution by economic sector. The latter aspects are best regarded as ways in which the split between the modern and non-modern sectors expresses

¹ No attempt is made here to proceed to this level of detail as, first, it involves much more variation between countries and so is more appropriate for individual country studies; and, second, because relatively little of this detailed information is as yet available in the region. For an indication of the sort of considerations involved see chapters II and III of the study on Argentina, Vol. II in the present series. As a result of a special statistical study of the Argentine economy much of the required information is available for that country.

itself rather than as direct causal factors, but they are a great help in defining the location of the different income groups.

While each of these more specific aspects of the distribution is treated separately, it should be kept in mind that this is largely for purposes of exposition. The functional, regional, sectoral, and urban-rural aspects are always mixed in varying proportions in any particular income distribution structure. Some of the links will be specifically noted in the following sections as, especially for policy purposes, it would be impractical to treat any of these aspects at all fully in isolation.

1. THE FUNCTIONAL DISTRIBUTION OF INCOME

It is a commonplace that property ownership or control of capital often yield very high personal incomes; and it follows that this must be a major factor in the concentration of income at the top of the scale. This was discussed earlier in very general terms as a major factor in the total inequality. This is an area where statistical estimates are especially difficult to make and where the margin of possible error is likely to be relatively large. With this qualification, however, there are sufficient data available to indicate the great importance of functional differences in the distribution of income in the region.

As was noted earlier, one important factor in the degree of inequality is the extent to which incomes represent wage and salary payments or, alternatively, some type of profit income. There is generally much less inequality in the distribution of wage and salary income, so that a larger wage and salary share will be reflected in a lesser degree of total inequality. Viewed in somewhat different terms, the larger the share of profits the more likely that there will be an extreme concentration of income at the top of the scale, and this concentration at the top is the principal factor in the over-all inequality. A large profit share can then, in itself, be taken as a probable indication of great inequality.

Estimates of the share of wages and salaries and of profits and property income are available for a number of countries, and are shown in table 4. Similar figures are shown for several of the advanced industrial countries for purposes of comparison.

Of the industrial countries shown, the wage and salary share is well above 70 per cent in the United Kingdom and the United States, and about 60 per cent in France and the Netherlands. These latter two countries have already been shown to be characterized by greater inequality than most of the advanced industrial countries, and that greater inequality is probably to a major extent the result of this smaller participation of wage and salary earners in total income.

The wage and salary share in Latin America nowhere reaches the levels which prevail in the United Kingdom or the United States; and, in so far as estimates are available, exceeds 60 per cent — that is the French

level — only in three of the smaller countries of the region. Elsewhere it is below this level, and in each of the four most populous countries of the region wage and salary income is well under half of the total. In the absence of unusual circumstances, this factor alone could be taken as sufficient to explain a major part of the greater inequality which characterizes the region.

Table 4
PERCENTAGE DISTRIBUTION OF NATIONAL INCOME

	<i>Wage and salary income</i>	<i>Income of unincorporated enterprises</i>	<i>Property income</i>	<i>Corporate saving and direct corporate taxes</i>	<i>Other</i>
Argentina	43.7	44.1	7.7	4.6	—
Brazil	47.5	38.8	7.7	7.0	(—) 1.0
Colombia	44.7	49.3		5.7	0.3
Ecuador	51.1	39.3 ^a		3.9 ^b	5.7
Peru	43.6	31.1	13.2	11.5	0.6
Uruguay	60.3	38.2		1.8	(—) 0.3
Venezuela	57.0	22.1		12.9	8.0
Mexico	32.7	65.7 ^a		1.5 ^b	—
Costa Rica	63.5	26.4	5.9	3.0	1.2
Guatemala	33.1	66.1 ^a		0.4 ^b	0.4
Honduras	50.5	37.2	8.8	3.6	
Panama	69.4	7.1	7.5	13.4	2.6
France	59.7	28.3	6.1	6.9	(—) 1.0
Netherlands	59.0	31.2		10.3	(—) 0.5
United Kingdom	74.6	8.3	10.6	9.4	(—) 2.9
United States	71.9	11.2	13.5	6.9	(—) 1.5

Note : The figures shown are three-year averages. There is some variation in the years covered, depending on data availability, but in general the period is the early 1960s. The only exception is Mexico, where the estimates refer to the single year 1950.

^a Also includes saving of corporate enterprises.

^b Direct corporate taxes only.

Offsetting the small wage and salary share, the total profit share is of course correspondingly larger. Estimates of the breakdown of this profit share are very difficult to make, and are available for only a few countries. Such estimates as there are, however, indicate clearly that the bulk of the non-wage income represents income accruing to unincorporated enterprises. The most important recipient of profit income in Latin America is not the corporation or the *rentier*, but the self-employed. It is the concentration of income in this group that results in the concentration at the top of the scale.

An examination of the labour force data shown in table 5 yields similar conclusions. Although there is considerable variation, an average

of about 80 per cent of the labour force are wage and salary employees in the industrial countries, while in Latin America the average is only around 60 per cent. Much of the variation is due to the varying size of the agricultural sector, where self-employment is more common everywhere, but the data for the non-agricultural sector alone show a substantial, and probably more significant, difference there as well. In the industrial countries over 85 per cent of the non-agricultural labour force consists of wage earners or salaried employees, whereas in Latin America these account for less than three-quarters of the total.

There are two aspects of this lesser dominance of wage-earning and salaried labour in Latin America which need to be made clear, as each contributes to the inequality in the distribution of income in an important way. First, this is partially a reflection of the still large primitive sector in most of the region, and the inability of the more modern sectors to offer sufficient employment opportunities. An important part of the self-employed in most countries are persons engaged in marginal-type activities because they have been unable to obtain more remunerative

Table 5
PERCENTAGE DISTRIBUTION OF THE ACTIVE LABOUR FORCE

	<i>Economy as a whole</i>				<i>Non-agricultural sector</i>			
	<i>Wage and salary earners</i>	<i>Employers</i>	<i>Own-account workers</i>	<i>Other*</i>	<i>Wage and salary earners</i>	<i>Employers</i>	<i>Own-account workers</i>	<i>Other</i>
Argentina	69.9	12.4	12.1	5.6	74.5	10.9	10.8	3.8
Brazil	48.0	1.8	35.1	15.1	72.1	1.7	23.8	2.4
Colombia	57.3	8.2	25.0	9.6	70.9	4.1	20.8	4.2
Chile	72.8	1.4	18.8	7.0	75.1	1.2	17.2	6.6
Ecuador	47.7	2.0	41.0	9.3	57.5	1.6	32.8	8.2
Peru	48.1	1.9	38.5	11.4	65.0	1.5	27.4	6.1
Uruguay	69.5	8.2	14.9	7.5	72.9	6.8	13.1	7.3
Venezuela	60.1	2.7	31.0	6.3	73.0	2.6	21.3	3.0
Mexico	63.6	0.8	34.0	1.7	76.4	1.3	21.7	0.6
Costa Rica	66.1	3.4	17.4	13.2	78.9	2.8	12.9	5.3
El Salvador	68.2	1.8	21.4	8.7	74.8	1.8	19.6	3.9
Honduras	39.7	1.4	37.8	21.2	64.2	1.1	18.9	15.9
Panama	42.5	1.8	32.6	23.2	65.6	2.4	11.6	20.5
Dominican Republic	44.1	0.9	43.9	11.2	74.9	1.1	22.8	1.1
France	71.7	18.7		9.6	83.9	12.6		3.5
Netherlands	79.8	15.4		4.8	85.9	11.3		2.8
United Kingdom	88.8	7.4		3.7
United States	82.7	11.3		6.0	86.2	8.1		5.7

Note : The figures refer to 1960 or to some year in the early 1960s and were taken from the demographic censuses.

* Most of this group consists of unpaid family workers.

employment. These constitute a low income group towards the bottom of the scale, and are part of the problem of the split between the modern and non-modern sectors.

This is most important in the agricultural sector, where from one-quarter to over one-half of the labour force is self-employed, many with small plots of land which yield only minimum incomes. There is often a mixture of wage and self-employment at this level, however, and too much importance should not be given to the functional classification. With small variations in the institutional arrangements, or even in the definition of categories, many of these agricultural poor could pass from one category to another. But there are also substantial numbers of self-employed in the non-agricultural sector, and in many countries an important part of this group as well represents marginal-type employment and falls at the bottom of the income scale.

These marginal self-employed, together with the primitive type wage labour with which they are closely associated, form a little differentiated and often large group at the bottom of the scale. They are a major aspect of the inequality for the obvious reason that they represent widespread and often extreme poverty. But also, as was noted earlier, the combination of this primitive sector with the more modern sectors of the economy produces a total distribution with a greater degree of inequality than that found in either part of the economy when considered in isolation.

The second aspect of the greater importance of self-employed labour is quite different, and helps explain the unusual concentration of income at the other extreme of the distribution. There are more self-employed persons in the region also because the productive system is still based largely on individual, and relatively small, enterprises. Self-employment of this sort — by contrast to the marginal type just discussed — involves the use of some amount of capital and/or some special ability, and generally yields above average incomes. Further, even within this group the total capital (and the most highly remunerated professional skills) tend to be disproportionately concentrated in the hands of a few, with correspondingly very high incomes for this small minority; and this is the principal factor in producing the concentration of income at the top of the scale.

The concentration of capital within this group can be deduced to some extent from the labour force data in table 5. The self-employed are there shown in two groups: own-account workers, and employers of hired labour. While some of the former will obtain high incomes — self-employed professional persons, for example — the bulk of the capital, and resulting income, is likely to be concentrated in the latter group. Of the fourteen countries shown in the table only in Argentina and, to a lesser extent, in Uruguay and Colombia, are employers a substantial proportion of the self-employed. In all other countries employers represent only a small fraction of the self-employed, and only a tiny proportion

— averaging less than 2 per cent — of the total labour force. If most of the capital, with its power to generate income, is concentrated in the hands of this group, this is evidence of a considerable concentration of income throughout the region.

The fact that there are important numbers of employers in several countries does not preclude the possibility of a great concentration within that group. Data will be presented below for Argentina, where employers have much the greatest relative importance, showing that this is in fact the case, and that it is self-employment income which produces the concentration at the top of the scale in that country. But in the absence of more specific data for most countries, the small number of employers can itself be taken as indicative of the probable concentration of capital and self-employment income, with the effect this must have on the concentration of income at the top of the distribution.

For three countries — Argentina, El Salvador, and Mexico — the income distribution data include information on functional groupings so that it is possible to illustrate quite clearly the role of functional

Table 6

FUNCTIONAL COMPOSITION OF THE DIFFERENT INCOME GROUPS IN SELECTED COUNTRIES
(Percentages)

	Average Income (national average = 100)	Per- centage of all Income units	Income group				
			Lowest 20 %	30 % below median	30 % above median	15 % below the top 5 %	Top 5 %
Argentina:							
Wage and salary earners	74	63.9	67.1	74.8	66.6	48.3	17.1
Entrepreneurs	161	28.6	23.3	17.4	27.3	44.4	78.1
Retired persons	70	7.0	9.6	7.8	6.0	5.9	1.2
<i>Rentistas</i>	385	0.5	—	0.1	0.2	1.3	3.6
El Salvador:							
Wage and salary earners	86	42.3	48.7	17.5	63.5	44.9	39.3
Entrepreneurs and <i>rentistas</i>	110	57.7	51.3	82.5	36.5	55.1	60.7
Mexico:							
Manual and unskilled workers	62	50.2	59.6	61.7	51.3	22.8	9.3
Office workers	188	15.2	1.2	5.9	20.5	36.7	37.3
Entrepreneurs ^a	115	34.6	39.1	32.3	28.3	40.5	53.4

^a Includes a residual grouping which probably consists of *rentiers* and retired persons, but which is not specified in the available survey data. This group accounts for about 1 per cent of all families.

differences in the income distribution structure. The relevant figures for these countries are shown in table 6.

Argentina is the clearest illustration of the second aspect, just discussed, of the importance of the self-employed in the region: the fact that the economic system still functions largely on this basis. The primitive sector is very small in Argentina, and unemployment has not been a major problem. As a consequence there are relatively few self-employed engaged in marginal-type activities because they cannot obtain other employment. The significant number of low income small-scale farmers in the north are the only exception to this statement, a reflection of a serious regional problem. The great majority of the self-employed are engaged in remunerative productive activity.

In these circumstances, the importance of individual enterprise in the economic structure can be appreciated from the fact that over 28 per cent of all families are headed by a self-employed person. Elsewhere in the region the importance of such enterprise may often be even greater, as the corporate form of organization has become increasingly important in Argentina, especially in the industrial sector. But for the economy as a whole, in 1961 approximately two-thirds of the gross product was still accounted for by non-corporate enterprises, even in Argentina.

This still dominant control of the system of production is reflected in the income level obtained by the self-employed as a group: the average is well over double the average personal income of wage and salary earners. Although, as is shown below, there is great inequality of income within the group, most of the self-employed do well by comparison with the wage and salary group. While less than 20 per cent of all wage and salary earners have an income greater than the national average, over half of the self-employed have an income above that average.

These differences are reflected in the functional composition of the different income groups (see table 6). The lower and middle parts of the distribution are dominated by wage and salary earners (and there are significant numbers of retired persons). At the very bottom of the scale there are an important number of small-scale farmers — very largely in the north — but otherwise there are relatively few self-employed in the lower half of the distribution. From about the mid-point of the distribution, however, the self-employed become increasingly important, until they are the frankly dominant group at the top of the scale. Well over three-quarters of the top 5 per cent are self-employed persons.

Further, self-employment incomes at the top of the scale are much higher than the top wage and salary incomes. The average income of those self-employed who fall in the top 5 per cent of the distribution is nearly 50 per cent above the average income of the wage and salary earners who are included in the top 5 per cent. It is important to note that this is a comparison between a relatively large group of self-employed and a relatively small group of wage and salary earners. *If the comparison*

is between the average income of the top 5 per cent of all self-employed and the top 5 per cent of all wage and salary earners, the ratio is almost six to one.

It is clear that in Argentina the concentration at the top of the distribution is the result of the concentration of income in the hands of the most successful of the self-employed. The bulk of the top 5 per cent are self-employed, and they have much higher incomes than the salary earners, even in this top income group. The importance of this can be seen by a simple supposition. Even though the self-employed continued to dominate the top income group, if their average income at that level was not unusually high, this alone would sharply reduce the concentration at the top of the scale. If the average income of the self-employed in the top 5 per cent were reduced to the level of the average income of the salary earners in the top 5 per cent (that is, the top 1.3 per cent of all wage and salary earners) the share of total income received by the top 5 per cent would decline from 31 per cent to about 24 per cent.

Income data are available separately for *rentiers* in Argentina, and the relative position of this group is much more favourable than that of any other. The average income is 2.4 times that even of the self-employed, and *rentiers* are heavily concentrated toward the top of the scale. Nevertheless, *rentier* income is not a major part of the explanation of the concentration of income in the top of the scale, as the number of incomes involved is too small.

It may be noted, however, that *rentier* incomes declined greatly in real terms during most of the post-war period, largely as a result of the maintenance of rent controls during years of rapid inflation. In the immediate post-war years, and probably earlier, *rentier* incomes were very much higher in relative terms than the figures shown in the table. Estimates indicate that the average income of the group as a whole was more than ten times the national average, and *rentiers* were nearly all at the extreme top of the distribution. In earlier years the *rentier* group in Argentina was a major aspect of the economic *élite*. The highest incomes were *rentier* incomes; they accounted for an important part of those at the very extreme of the distribution — the top 1 per cent — even in numbers; and their total income was large enough to be an important part of the explanation of the concentration at the top of the scale.

The data for El Salvador shown in table 6 are somewhat different: well over half of all income recipients are self-employed, but their average income is only about 30 per cent higher than the average of all wage and salary earners. This is because the figures for El Salvador reflect both of the aspects of self-employment discussed earlier. As in Argentina, and probably to a greater extent, the economic system is dominated by individual enterprises. But in addition, the primitive sector is large in El Salvador, there is relatively little employment to be had in the modern sector, and so there are also numerous self-employed engaged in marginal-

type activities with low income levels. The latter both increase the importance of the self-employed as a percentage of all income recipients and lower their average relative income.

Both of these features are reflected in the composition of the different income groups. The bottom half of the distribution is dominated by the self-employed, almost entirely small farmers engaged in primitive-type agriculture. This, however, is an illustration of the point made earlier that not much significance should be attached to the functional classification at this level. It will be noted that the breakdown between self-employed and wage and salary earners in table 6 does not coincide with the labour force data shown in table 5. Essentially this is because this large group engaged in primitive agriculture was classified as wage earners in the labour force data while, because they do have their own small plot, they were classified as self-employed in the income survey.

In the upper middle part of the distribution the self-employed are much less important, and their importance then rises again toward the top of the scale. There are thus two different types of self-employment in El Salvador, and they tend to be bunched at opposite ends of the distribution. There is the large group representing marginal-type employment and falling in the bottom half of the distribution; and there is the group representing the basis on which production in the modern and semi-modern sectors is organized, and with incomes toward the top of the scale.

At the very top of the scale, the concentration of income in the hands of the top 5 per cent can be largely explained in El Salvador too by the concentration of income in the hands of the self-employed. The majority of those in the top 5 per cent are again self-employed (or *rentiers*, as this group cannot be separated with the data available), although their dominance is not so great as is the case in Argentina. But the difference in average incomes of the two groups within the top 5 per cent is much greater in El Salvador. The average self-employed income at this level is $2\frac{1}{3}$ times the average salary income. An important factor is the very high relative income of a small number of large landowners, but the average income of the urban self-employed in the top 5 per cent is also some 80 per cent above that of the salary earners in this top income group.

The extent to which the great concentration at the top of the scale is due to the high self-employed incomes can again be shown by the supposition presented earlier for Argentina. If, within the top 5 per cent of the distribution, self-employed incomes were reduced to the level of the top salary incomes, the share of that top income group would decline from 33 per cent to about 20 per cent of total income.

The data for Mexico show a situation in some respects similar to that in El Salvador, but with the major exception that the concentration of income at the top of the scale is not explained to the same extent by very high self-employed incomes. Self-employment again results in part

from lack of remunerative employment opportunities, and in part from the importance of individual enterprise in the economy. This is again reflected in the importance of self-employment in the total — over one-third of all families in Mexico are headed by a self-employed person — and in the tendency for the self-employed to be relatively more numerous toward the two extremes than in the middle parts of the distribution. And in Mexico, too, the substantial numbers of marginal self-employed reduces the average income of the group as a whole — here to a level only about 20 per cent above the average for all wage and salary earners.

But in Mexico, the data for wage and salary earners distinguish between *empleados* (roughly white-collar workers) and *obreros* (roughly blue-collar workers), and the split between these groups is one of the most striking aspects of the distribution. The average *empleado* income is triple the *obrero* average, and it is the latter (along with the marginal self-employed) who dominate the lower half of the distribution, while the *empleados* are almost entirely concentrated in the upper half, and are increasingly important towards the top of the distribution. To a considerable extent this split corresponds to the difference between those in or closely linked to the modern sector, and those still in the non-modern sector, and it illustrates the major impact of this difference on the distribution of income. The self-employed, when taken as a whole, fall between these two wage and salary groups, for they include large numbers from both the modern and non-modern sectors of the economy. The average self-employed income is well above that of *obreros* but well below the *empleado* average.

This situation is also reflected in the composition of the top income group and in the concentration of income at that level. The majority of those in the top 5 per cent of the distribution are self-employed, in Mexico as in the other countries shown in table 6. But the dominance is less marked in Mexico, as the proportion of *empleados* in the top 5 per cent is also quite high. More important, within the top 5 per cent the average self-employed income is only somewhat more than 10 per cent higher than the average wage and salary income. In general the data indicate that the concentration of income at the top of the scale in Mexico is due to high self-employment incomes to a considerably smaller extent than is the case in both Argentina and El Salvador.

This finding is consistent with the analysis of the income distribution in Mexico presented earlier. There it was noted that rapid growth of the modern sector in the context of an economy with a still large primitive sector produces a particular type of distribution. The over-all inequality is very great, but this is due rather less to the concentration of income at the very top (the share of the top 5 per cent is less in Mexico than in most of the region) and rather more to the greater inequality within, particularly, the entire upper half of the distribution. Those who benefit from the rapid modern growth (*empleados*) obtain sharply

higher incomes and become an important group even at the very top of the distribution. Particularly in view of the major government role in the growth process, very high self-employment incomes might then become a less important factor in accounting for the concentration at the top of the scale. Other countries which experience a rapid growth in similar circumstances — Venezuela, for example — might be expected to have a similarly lesser predominance of high self-employment income at the top of the scale.

It is necessary to note, however, that the figures presented for Mexico probably misrepresent this situation somewhat by understating self-employment income. The income of individual enterprises is generally the most difficult to estimate, and liable to understatement, but there is a further factor likely to have affected the Mexican data. The survey on which the estimates are based asked for “net” income. This is a concept which could be interpreted in varying ways by a self-employed person and, given the reluctance to reveal high incomes, was probably often interpreted to mean a minimum figure — for example, funds withdrawn from the business for current personal use. While the importance of high self-employment incomes is therefore probably less in Mexico than in many other countries, the difference is not likely to be so great as the figures in table 6 would appear to indicate.²

For these three countries where the income distribution data are classified by function, the distribution within the major functional groups can be calculated, and this information is shown in table 7. This illustrates the extent to which the low share of wages and salaries in national income that tends to characterize Latin America can be considered a general factor in the inequality in the distribution of income. There is great inequality in the distribution of self-employment income in each of the three countries. The poorer half receives a very small proportion of total self-employment income, and there is great concentration toward the top of the scale, particularly in the hands of the top 5 per cent. The concentration at the top is somewhat less extreme in Mexico, but, as noted above, the figures probably underestimate high self-employed incomes in that country. *Rentier* income, for which figures are separately available only for Argentina, is even more unequally distributed there than is self-employment income. A high profit share of total income can therefore be expected, very generally, to result in very considerable inequality in the total distribution.

² It should be noted that the personal income data shown in table 6 indicate that 60 per cent of the total is wage and salary income, while the national income data given in table 4 show only about one-third of the total to be wage and salary income. This single national income estimate is for an earlier year, but input-output estimates of the Banco de México for 1960 yield a similar figure. While all such estimates are subject to a considerable margin of possible error, added to other considerations, they make it seem probable that the share of self-employed income is actually considerably higher than indicated in table 6.

Table 7

THE PERCENTAGE DISTRIBUTION OF INCOME WITHIN THE MAJOR FUNCTIONAL GROUPS IN SELECTED COUNTRIES

Functional group and country	Income group				
	Lowest 20 %	30 % below the median	30 % above the median	15 % below the top 5 %	Top 5 %
Wage and salary earners:					
Argentina	6.9	20.0	31.3	24.3	17.5
El Salvador	5.0	12.8	30.7	30.5	21.0
Mexico	3.8	13.2	26.0	29.5	27.5
Self-employed:					
Argentina	3.7	12.3	22.1	25.5	36.5
El Salvador	3.8	10.2	17.8	29.0	39.2
Mexico	2.5	10.0	24.7	31.8	31.0

There is substantially less inequality in the distribution of wage and salary income in each of these three countries, but there is much variation in this distribution from one country to another. There is least inequality in wage income in Argentina. In part this can be attributed to the very widespread organization of labour in that country (formal organization tends to narrow income differentials) and to policy measures. But the principal factor is that the primitive sector is not important, and unemployment has not been a major problem. As a result, there is no great pressure on minimum wage levels. The share of the poorer half of all wage earners is much larger than in the other two countries, and the share of the top wage and salary groups is correspondingly less.

The inequality is considerably greater in El Salvador and Mexico. Still large primitive sectors in both countries mean a large group of wage earners working at very low productivity levels and with very low incomes. The share of total wage and salary income received by the poorer half of all wage earners is consequently much smaller than in Argentina, and the share of those towards the top correspondingly larger. This is particularly the case in Mexico. This again illustrates the fact that rapid growth of a modern sector which has reached a substantial size, but which exists alongside a still large primitive sector, can be expected to introduce great inequality among wage and salary earners themselves. The total inequality in such a case, and even the concentration at the top of the scale, may then be explained in part by the split between wage and profit income, and the great inequality in the distribution of the latter; but it will also be due to an important extent to the inequality which comes to characterize wage and salary incomes themselves.

Although it should be kept in mind that the inequality in the distribution of profit income is much greater, the available data indicate that the distribution of wage and salary income alone in Latin America is very unequal by comparison with other regions. In part this is due to the split between the modern and non-modern sectors, with its divergent effects on wage incomes. But this does not appear to be the only factor.

There is no significant primitive sector in Argentina and, as just noted, the wage and salary distribution is less unequal there than in the other countries for which there are data. But the top 5 per cent receive 17.5 per cent of all wage and salary income even in Argentina. If a comparison is made with the total distributions in the Western industrial countries — that is, including both profit and wage income — the wage distribution in Argentina is similar to the distribution of Norway, a country with relatively little inequality. But the top 5 per cent in Norway receives only 15.2 per cent of total income, and in industrial countries with a middle degree of inequality — the United States or the United Kingdom — the share of the top 5 per cent in the total distribution is only 19-20 per cent. In the socialist economies, which offer a direct comparison of wage labour distributions, the top 5 per cent receives only some 12-13 per cent of the total. Data on the distribution of wage and salary income alone show a closely similar situation in most of the Western industrial countries. Only in the United States does the degree of inequality in labour income approximate that in Argentina.³

Such comparisons are still less favourable for countries where the existence of a primitive sector produces greater inequality in the wage structure. The wage distribution in El Salvador shows greater inequality than the total distribution in industrial countries with a middle degree of inequality such as the United States or the United Kingdom. The

³ The following shares of the different income groups in wage and salary income may be cited as illustrative :

	Lowest 20 %	30 % below the median	30 % above the median	15 % below the top 5 %	Top 5 %
Argentina (1961)	6.9	20.0	31.3	24.3	17.5
United States (1946)	4.8	17.0	36.8	26.3	15.1
United Kingdom (1960)	8.9	21.4	33.5	23.3	12.9
Australia (1960)	9.2	21.9	33.9	23.6	11.4
Poland (1955)	9.4	22.0	32.9	23.9	11.8

Except for Argentina, these figures have been estimated from data presented in H. F. Lydall "The Dispersion of Employment Incomes in Australia", *The Economic Record*, Dec., 1965. As is shown, the share of the top 5 per cent in Argentina is greater than in any of the other countries. The total inequality is similar only in the USA., where the lower half of the distribution has considerably less than in Argentina, and the upper middle income groups considerably more. In the other countries the inequality is markedly less. The much lesser inequality in Australia is particularly worth noting, as this is a country with which Argentina is often compared because of the similar structure of the two economies.

wage distribution in Mexico is more unequal than the total distribution even in an industrial country such as the Netherlands, where the inequality is relatively high. The distribution of wage and salary income alone in the industrial countries is of course strikingly less unequal than that in either El Salvador or Mexico.

Apart from the general split between wage and salary incomes in the modern and non-modern sectors, several factors can be mentioned as contributing to this inequality. By tradition higher government officials have been relatively well paid in Latin America, and while owing to inflation and lack of funds the position of this group has deteriorated in many countries, it is still an important factor. Over one-quarter of the top 5 per cent in the wage distribution in Argentina, for example, are general government employees, and many more work for the semi-autonomous government corporations. Another important factor is the tendency for salaries of professional, technical, and higher administrative personnel to be influenced by the levels prevailing in the industrial countries. To the extent this is the case, such salaries will of course be disproportionately high in relation to other wage rates within the country. Finally, it is often possible for strategically located groups — petroleum workers, miners, steel workers, etc. — to obtain unusually high incomes through use of their power position. This is common in all countries, but where the general wage level is low it is likely to have a particularly powerful impact on the degree of inequality in the wage structure.

The importance of these factors is likely to vary considerably from one country to another, and this is an area where very little consistent data are as yet available. About all that can be done at the present juncture is to stress that, even in the distribution of wage and salary income, there is considerable inequality in the region.

But it is still in the distribution of profit income that much the greatest inequality can be observed; and it is this greater inequality, combined with the high proportion of total income that goes to profit recipients, which is of greatest importance among the functional aspects of the distribution. This is what mostly explains the concentration of income at the top of the scale — and that concentration is the principal factor in the greater inequality observed in the region. Even in Mexico the figures indicate that nearly 60 per cent of the income received by the top 5 per cent is profit income, and as was noted this is probably an underestimate. In El Salvador nearly 80 per cent, and in Argentina more than 85 per cent of the income of the top 5 per cent is profit income.

There are several implications of this situation which may be briefly mentioned. First, it should again be stressed that, in so far as data are available, they indicate that this profit income is very largely received in the form of self-employment income. The concentration of income at the top of the scale is largely in the hands of the owners and operators of individual business enterprises. This may be a favourable factor from

the point of view of economic growth, as it will often mean a direct link between potential saving and investment. Those who can save, because they have high incomes, are the same individuals who control investment — as economic systems are still based largely on individual enterprises. How effectively growth is actually promoted will depend, among other things, upon how much the high income self-employed do in fact save, and to what extent they invest aggressively; and this of course varies from one country, or period of time, to another. But in general it is clearly preferable from this point of view that income be concentrated in the hands of the self-employed than, for example, in the hands of a *rentier* class.

There are further implications for policies designed to improve the distribution of income. Three broad possible ways of reducing the inequality can be distinguished. First, efforts can be made to increase the income of the low income groups. Functional considerations have little to do with policies of this sort in most of the region; as was noted, the functional classification tends to have only limited meaning at this income level. As will be seen in the following sections, it is primarily urban-rural and regional considerations which are important here. The second possibility would be to reduce the inequality in the upper middle parts of the distribution. There appears to be almost no interest in this possibility at the present stage of development, but this would involve mostly a reduction of the inequality in the wage and salary structure in the modern and semi-modern sectors of the economy. Finally, there is the possibility of reducing or at least permitting no further rise in incomes at the top of the scale. This is a much considered possibility, and one where functional considerations are of primary importance — for these top incomes are largely self-employed incomes.

If such a policy is to be undertaken, it will first be necessary explicitly to consider the question of whether it is likely to affect economic growth, and if so how. Economic systems depend basically on the individual enterprise, and it is their income which will be restrained or reduced. This of course does not necessarily mean that reducing top incomes is an impractical policy. Less inequality may, for example, improve investment incentives more than enough to offset the disincentive of restrained incomes. But given the composition of the top income group in Latin America this is a question which must be explicitly considered and, where necessary, offsetting incentives provided or alternative sources of investment considered.

Finally, if a serious programme to restrain top incomes is to be undertaken it will have to be specifically devised to control self-employment incomes. It will be ineffective to apply general measures which are not well suited for this purpose. To date there has been almost exclusive reliance on personal income taxation as a means of controlling top incomes, and this is just such a general measure. There are numerous obstacles which prevent an accurate determination of the income of

relatively small individual enterprises, and these are more in the nature of this type of business than a reflexion of an "administrative problem." An effective policy will have to utilize better measures for the control of profit income.

2. THE URBAN-RURAL DISTRIBUTION OF INCOME

Probably the most common way in which the split between the modern and non-modern sectors reflects itself is in a corresponding split between urban and rural areas. It is in the cities that the modern-type activities have mostly been concentrated, and it is mostly urban incomes which

Table 8

RURAL AND URBAN INCOMES AND THE RELATIVE COMPOSITION OF THE INCOME STRUCTURE OF SELECTED COUNTRIES

Sector	Average incomes (rural average = 100)	Per cent of all income units	Percentage composition of different income groups				
			Lowest 20 %	30 % below the median	30 % above the median	15 % below the top 5 %	Top 5 %
Venezuela :^a							
Rural	100	40.8	72.9	48.6	28.7	16.3	12.2
Urban	250	59.2	27.1	51.4	71.3	83.7	87.8
Large cities . . .	274	45.2	10.9	34.7	59.3	73.2	76.2
Small cities . . .	176	14.0	16.2	16.7	12.0	10.5	11.6
Mexico :^a							
Rural	100	44.2	68.7	54.7	34.5	21.5	10.7
Urban	231	55.8	31.3	45.3	65.5	78.5	89.3
Mexico:							
Agricultural	100	43.7	68.2	56.3	26.6	26.4	20.7
Non-agricultural . .	198	56.3	31.8	43.7	73.4	73.6	79.3
Brazil:							
Agricultural	100	45.4	62.2	65.1	34.5	17.3	12.1
Non-agricultural . .	273	54.6	37.8	34.9	65.5	82.7	87.9
Costa Rica:							
Agricultural	100	50.0	76.4	80.3	23.8	16.5	19.6
Non-agricultural . .	184	50.0	23.6	19.7	76.2	83.5	80.4
El Salvador:							
Agricultural	100	60.2	100	87.9	30.4	23.3	18.8
Non-agricultural . .	229	39.8	—	12.1	69.6	76.7	81.2
Argentina:							
Agricultural	100	14.8	21.9	20.0	6.9	12.2	14.9
Non-agricultural . .	115	85.2	78.1	80.0	93.1	87.8	85.1

^a The Venezuelan and Mexican classifications differ somewhat. In Mexico the urban category includes all cities with 2 500 or more inhabitants. In Venezuela the dividing line is 5 000 inhabitants. About 3.3 per cent of the population in Venezuela resides in towns of from 2 500 to 5 000 inhabitants. Small cities in Venezuela are those with 5 000 to 25 000 inhabitants, and large cities those with 25 000 or more.

have risen as a consequence. The continuing existence of substantial primitive sectors, on the other hand, is primarily reflected in the large rural population which is still characteristic of most countries. The split between urban and rural incomes is therefore a basic factor in the income distribution structure in most of the region.

This situation has been widely recognized in general terms; and although the statistical data are somewhat limited, it is possible to specify reasonably clearly the range of importance of this factor throughout the region. First, the income distribution data presented earlier can be classified on a rural-urban basis for two countries: Mexico and Venezuela. These figures, together with slightly different data for several other countries, are shown in table 8.

The urban-rural classification is somewhat different in Mexico than in Venezuela. While for the former country the definition counts as urban all those residing in towns with a population of 2 500 or more, in Venezuela the survey was structured somewhat differently and the dividing line is a population of 5 000.⁴ It is of interest to consider the Venezuelan figures first, as the survey there further classified the urban population into those living in large and in small cities, and on a regional basis; and both aspects help to define the situation more clearly.

The first point to note is the sharp differences in average incomes. The average income of an urban family in Venezuela is two and one-half times that of a rural family. There are large differences between urban centres as well, the average income in larger cities (those with a population of more than 25 000) being well over half again that in smaller cities; but even in the smaller cities the figure is far above the rural average.

The way in which the population is distributed among the different areas is of considerable interest, and is probably characteristic of a development which results largely from a rapid growth of the modern sector. The modern sector tends to be concentrated in the larger cities, often to a major extent in a small number of urban centres. Large parts of the rural areas remain unaffected by this growth, and continue in primitive-type activities — and hence relatively little stimulus is given to the growth of smaller cities which are linked closely to the rural economy. The growth of the modern sector is likely to affect the rural areas not so much by any direct stimulus to their economic activity, as by eventually draining away the labour force — if the growth is sufficiently rapid.

This is clearly reflected in the Venezuelan situation. A rather small proportion of the population resides in the smaller cities: only about one-sixth of the total is found in cities ranging from 2 500 to 25 000 inhab-

⁴ Of the 40.8 per cent of the Venezuela population referred to here as rural, 37.5 per cent was rural by the more customary definition, and the remaining 3.3 per cent lived in towns with from 2,500 to 5,000 population. With the available data, this separation cannot be made by income group however, and so only the larger grouping is shown.

itants. The great bulk of the population is split between the larger cities and the rural areas — that is, between the centres of the modern activities and the areas where those of a primitive type are concentrated. The differences between productivity levels and hence incomes of these two large groups are very great — the average income in the large cities is two and three-quarters times that in the rural areas — and this is a major aspect of the great inequality in the distribution of income in the country

A more broadly based type of development which relied less heavily on the growth of the fully modern sector could be expected to reduce this polarization. There would be a more vigorous growth of the smaller cities and these would account for a larger proportion of the total population. These smaller cities are in an intermediate income position and are more closely linked to the rural areas; both factors would moderate the inequality.

The cross-classification of the Venezuelan data by region as well as by size of city makes it clear that the much higher average income in the larger cities is a reflection of the growth of the modern sector, and not just a general characteristic of larger cities as such. There are two zones where the impact of the modern-type growth has been concentrated: the Cordillera de la Costa region, which includes Caracas, and where the recent modern industrial-commercial-financial development has been largely concentrated; and the Lake Maracaibo region, which has been the centre of most of the direct impact of the petroleum operations. For the rest of the country, it is of some interest to show separately the Andes region, as this was the centre of the traditional export economy, and it includes some important communications and administrative centres which might be expected to have higher incomes if cities *per se* were a sufficient explanation of income levels. The average income in the larger cities (those with more than 25 000 inhabitants) in each of these regions, again in relation to rural incomes, was as follows:

AVERAGE INCOME IN THE LARGER CITIES
(Rural average = 100)

Cordillera de la Costa region	315
Lake Maracaibo region.	294
The Andes region	174
All other regions.	166

In the larger cities in the regions where the growth of the modern sector has been concentrated, average incomes are triple those in the rural areas. In the larger cities in other regions, average incomes are considerably lower: less than 60 per cent of the average in the modern sector cities. These "other" cities, although larger, have more in common with the

category of smaller cities shown in table 8. They remain more closely linked to the rural sector, the bulk of the population is still engaged in more traditional or intermediate-type activities, and the average income is similar to that in the smaller cities.

These differences in average income among the different population groupings is of course reflected in the changing composition of the different income groups (see table 8). Close to three-quarters of the poorest 20 per cent of the population is found in the rural areas, while only slightly more than 10 per cent of this low income group resides in the larger cities. As income levels rise this composition steadily changes, until at the top of the scale it is reversed: of the 5 per cent of the population with highest incomes, over three-quarters live in the larger cities, and only 12 per cent in rural areas.

It should be noted that the contrast is much more striking between the larger cities (which contain the modern sector) and the rural areas (which contain the primitive sector) than between the urban and rural areas as a whole. The smaller cities are in an intermediate position, and are more or less proportionately represented at all income levels. If the larger cities are split between those regions where the modern type growth has been concentrated and those in the rest of the country, the latter group is again seen to be more similar to the smaller cities. The figures are as follows:

PERCENTAGE OF THE DIFFERENT INCOME GROUPS RESIDING IN THE LARGER CITIES

	<i>Total</i>	<i>Lowest 20 %</i>	<i>30 % below the median</i>	<i>30 % above the median</i>	<i>15 % below the top 5 %</i>	<i>Top 5 %</i>
Cordillera de la Costa and Lake Maracaibo regions	34.0	5.8	21.1	45.2	62.4	70.7
Other regions	11.2	5.1	13.6	14.1	10.8	5.5

The poorest 20 per cent of the population, therefore, is heavily concentrated in the rural areas, while the 20 per cent of the population with the highest incomes is almost equally heavily concentrated in the handful of larger cities where the rapid growth of the modern sector has mostly occurred.

For Mexico the data are less detailed, and only a less complete description is possible; but in general terms the situation is similar to that in Venezuela. The average urban income is 2.3 times the average rural income, and the composition of the different income groups is very much the same as in Venezuela. The bulk of the low income groups are found in the rural areas, and there is then a steady shift in composition from one income group to the next. The upper half of the distribution is again

heavily dominated by the urban groups, and nearly nine out of ten of those in the top income group alone are urban residents (see table 8).

While the income distribution data can be classified on a rural-urban basis for only these two countries, a division can be made between the agricultural and non-agricultural sectors for several other countries; and if this is regarded as an approximate representation of the rural-urban split it is then possible to estimate the importance of this factor throughout much of the region. For Mexico, the data can be classified both by rural-urban areas and between the agricultural and non-agricultural sectors, and this gives a good idea of the extent to which the latter grouping is an accurate representation of the former.

As can be seen from the table, the composition of the different income groups is very much the same no matter which classification is used. The low income groups are primarily rural (or in the agricultural sector), and the higher income groups are largely urban (or in the non-agricultural sector). There is some variation in the upper half of the distribution, and urban residents dominate the top income groups to an even greater extent than does the non-agricultural sector. This means that a significant number of persons who obtain relatively high incomes from agriculture reside in an urban area — and this in turn influences relative average incomes. The divergence between average incomes in the urban and rural areas is even greater (2.3 to 1) than that between non-agricultural and agricultural incomes (2 to 1). To some extent differences of this sort may well occur in other countries as well.

There is, however, an important respect in which the Mexican data differs from the situation in most countries. The census definition of urban is such that it includes a number of communities — often apparently *ejido* communities — which are almost exclusively agricultural. The result is that the rural population is only very slightly larger than the agricultural population. In other countries the rural areas account for about 15 per cent more of the population, on the average, than does the agricultural sector — that is, they include essentially all those in the agricultural sector plus a substantial non-agricultural but still rural group. To make the Mexican data comparable to that of other countries in this respect it would be necessary to add to the rural grouping the bulk of those in the agricultural sector who are now classified as urban. The principal result of such a change would probably be to increase still further the dominance of the rural areas in the lower half of the distribution.

In summary, then, data for the agricultural and non-agricultural sectors can be regarded as a reasonably good approximation of the rural-urban split. If rural-urban income data were available they might well show an even greater difference in average incomes, with the rural areas (by comparison with the agricultural sector) having a even larger parti-

cipation in the lower and middle parts of the distribution, and a still smaller participation in the top income group.

With data thus available for six countries (see table 8), some important generalizations can be made regarding the significance of rural-urban differences in the distribution of income in the region.

First, average urban incomes are likely to be more than double the rural average in nearly all of the region. Of the countries for which data are available, only Argentina is a striking exception to this statement: in Argentina the average agricultural income is very close to the non-agricultural average. This is a reflection of the almost unique situation of the Argentine agricultural sector. There is an unusually favourable land/population ratio, and less than 20 per cent of the agricultural labour force is engaged in primitive-type agriculture.

The basic cause of the rural-urban split has been reduced to a relatively minor factor in Argentina. Primitive-type activity has been largely eliminated, and while what remains is concentrated in the agricultural sector (almost entirely in the north, so that there is still a significant regional problem), the bulk of agriculture too is modern or semi-modern, much of it highly productive. Agricultural incomes, as a consequence, are high, and the average rural income is not far below the urban average.

The situation in Uruguay is similar, but in all other countries of the region half or more of the agricultural population continues to be engaged in primitive-type agriculture. In a few countries where the population density is low and a relatively high degree of urbanization has been reached, only half the agricultural population remains in the primitive sector (Chile, Venezuela). In several other important countries (Brazil, Colombia, Mexico) close to two-thirds of the agricultural population is still in the primitive sector. And in parts of the region where the degree of urbanization is relatively low and there is greater population pressure in the established agricultural areas (Peru, the smaller countries of South America, and much of Central America and the Caribbean), 80 per cent or more of the agricultural population is still engaged in primitive-type activities.

Consequently, except for Argentina and Uruguay, there is everywhere a sharp split between urban and rural incomes, and it is basically a reflection of the large gap between the modern and the primitive sectors. While there are significant differences from one country to another with varying national conditions, the average urban income is probably nearly everywhere — again excepting Argentina and Uruguay — double or more the rural average. And judging from the more complete data available for Venezuela — where agriculture is relatively modern by regional standards — those urban areas where the growth of the modern sector has been concentrated are likely to have an average income triple that of the rural areas.

This situation is reflected in the composition of the different income groups (see table 8). The low income groups are rural everywhere, except in Argentina; and the high income groups are urban. There is some variation in the extent to which the rural population dominates the lower income groups, depending mostly on the degree of urbanization that has been reached.

In countries such as Costa Rica and El Salvador, where only about 30 per cent of the population was urban when the estimates were made, the entire lower half of the distribution is almost wholly rural. In Costa Rica nearly 80 per cent and in El Salvador over 90 per cent of the entire poorer half of the population is in the agricultural sector alone, and the bulk of the remainder is probably accounted for by the rural, non-agricultural, population.

In Brazil the degree of urbanization is somewhat greater — slightly over 40 per cent. In addition there are relatively larger numbers of farmers in the upper middle part of the distribution, mostly moderately prosperous growers of coffee and other commercial crops in the southern part of the country. As a consequence, the dominance of the lower income groups is less complete. But still close to two-thirds of the entire lower half of the distribution is in the agricultural sector, and probably three-quarters or more are in the rural areas.

In Mexico and Venezuela, with progressively higher rates of urbanization, the proportion of the lower income groups found in the rural areas declines further, and the domination tends to be pushed toward the bottom of the distribution. But the poorest 20 per cent of the population is still heavily concentrated in the rural areas even in these countries.

Only in Argentina is the situation reversed. The very different characteristics of Argentine agriculture have already been noted, and only a little more than 20 per cent of the lower income groups are found in the agricultural sector. Even this is primarily a reflection of functional differences in income levels. It is agricultural wage earners who are concentrated in the lower income groups, while the self-employed, in agriculture as elsewhere, are largely in the middle and upper parts of the distribution. There is a relatively large rural, non-agricultural, population in Argentina and so the proportion of the low income group which is rural is probably significantly higher. But the majority, even of the poorest 20 per cent, is almost certainly urban in Argentina; and the rural poor are heavily concentrated in the northern part of the country. In Argentina, therefore, the low income groups are not predominantly rural, and even to the extent they are rural this is basically a reflection of a regional problem, and not a general split between urban and rural incomes of the sort found in nearly all other countries of the region.

It might be noted that, in varying degree, there is a regional aspect to the rural-urban split in other countries as well. This is discussed more fully in the following section on regional differences. But elsewhere, sharp

rural-urban income differences prevail throughout the country, even though they vary in intensity from one region to another. It is only in Argentina and Uruguay that rural-urban differences as such are not a major factor in the income distribution structure.

As the lower half of the distribution is predominantly rural, so the upper half is predominantly urban. In the first income group in the upper half of the distribution — the 30 per cent above the median — the non-agricultural population averages about 70 per cent of the total, except again in Argentina.⁵ For Mexico, however, the data indicate that an important part of the rural non-agricultural population falls in this income group, so that the dominance of the urban, as distinct from the non-agricultural, population is less at this income level. This is probably the case in other countries as well. Even with this qualification, it seems likely that half or more of this income group is urban everywhere; and in those countries where the degree of urbanization is relatively high, the bulk of this group is clearly urban.

But it is in the top income groups that the urban population is overwhelmingly dominant, and there is surprisingly little variation from one country to another. There is an important modern sector in all countries of the region, it is this modern sector which yields high incomes, and the modern sector is concentrated in the cities, even in those countries where the degree of urbanization is still relatively low. From 80 to 90 per cent of the top income groups are urban everywhere.

For those countries for which only an agriculture/non-agriculture breakdown is available, about four-fifths of the 20 per cent of the population at the top of the scale, on the average, is non-agricultural. But the Mexican data indicate that a significant part of the higher income agricultural groups lives in urban areas, so that the proportion of the highest income groups which is urban is even larger. It is possible that, at least for the highest income group — the top 5 per cent — this is true in other countries as well.

It has repeatedly been pointed out that it is the extreme concentration of income in the hands of the top 5 per cent of the population which is the principal distinguishing feature in the distribution of income in the region and the most important single factor in the great over-all inequality. The situation noted above is therefore of fundamental importance: 80 per cent or more of this group is in the non-agricultural sector everywhere, even in those countries which are still regarded as predominantly agricultural, and probably closer to 90 per cent live in the cities. To the extent the more

⁵ In Argentina only 7 per cent of this group is agricultural. This is another reflection of the importance of functional differences in agricultural non-agricultural comparisons in Argentina. Agricultural wage earners are practically all in the lower half of the distribution, while agricultural proprietors are increasingly important at higher income levels. Relatively few of those in the agricultural sector, therefore, are in this middle income group.

detailed Venezuelan data can be regarded as representative in this respect, around 70 per cent of this group are found in the handful of larger cities where modern-type growth has been concentrated.

The importance of these rural-urban differences in the income distribution structure has major implications for any analysis of ways in which the distribution might be improved; or of the ways in which particular programmes might be expected to affect the distribution of income. In general, it is clear that bringing rural incomes closer to urban incomes is of primary importance if the over-all inequality is to be reduced. Programmes which do not affect rural-urban differences, regardless of how desirable they may be in themselves, will leave unchanged a major aspect of the over-all inequality.

While this is generally recognized, many of the conventional measures expected to improve the distribution of income do not, in fact, significantly affect rural-urban differences. Social security programmes, for example, have been regarded as perhaps the most important way of improving the situation of the low income group. But these programmes are almost exclusively limited to the urban areas, whereas the great bulk of the poor are rural. Or again, price control programmes or subsidy payments for basic foodstuffs or public services favour the urban population almost exclusively, and, in instances where they depress agricultural prices, may even have a negative effect on the rural poor. Measures of this sort are a reflection of the extent to which policy, even in matters of income distribution, has been concentrated on the modern or intermediate sectors of the economy; relatively little attention has as yet been given to the split between the modern and primitive sectors which underlies the disparities in incomes.

A measure which does deal more directly with the problem of rural poverty, and which has received increasing attention, is land reform. In its purely redistributive aspect — that is, the redistribution of land — this will change the distribution of income only within the agricultural population; but in its broader aspects, which aim at raising rural productivity levels, it may increase rural income in relation to the urban average as well. It is important to specify the probable effects of land redistribution in the region for this leads to the conclusion that, contrary to what has usually been thought, it is not its effects on income distribution but, the broader aspects of the land reform programmes that likely to be the more important.

The effect of land redistribution can be estimated if the distribution of income within the agricultural sector, and the importance of this in the total distribution, is known. Table 9 shows the distribution of income within the agricultural and non-agricultural sectors for each of the five countries shown earlier, and within the rural and urban sectors for Mexico and Venezuela. Except for Brazil, the inequality is greater in the agricultural (and/or rural) sector, in the sense that there is a greater concen-

tration of income in the hands of the top income group. The data thus supports the basis on which land redistribution is often advocated, namely that there is greater inequality in the rural areas due to the concentration of land ownership in the hands of a small minority of the population, and that breaking up this concentration would therefore have a particularly favourable effect on the distribution of income.

Table 9

THE DISTRIBUTION OF INCOME IN RURAL AND URBAN AREAS ^a
(Percentage shares)

Sector	Income group				
	Lowest 20 %	30 % below the median	30 % above the median	15 % below the top 5 %	Top 5 %
Venezuela:					
Rural	5.0	14.7	28.9	27.4	24.0
Urban	4.9	16.6	28.5	28.4	21.6
Mexico:					
Rural	3.3	12.2	26.6	31.4	26.5
Urban	5.3	14.7	25.4	30.2	24.4
Mexico:					
Agricultural	4.0	13.0	24.0	28.5	30.5
Non-agricultural	3.5	13.5	25.7	30.7	27.0
Argentina:					
Agricultural	5.4	13.7	21.1	25.3	34.6
Non-agricultural	5.0	16.3	25.9	22.1	30.7
Costa Rica:					
Agricultural	9.0	15.5	17.1	15.9	42.5
Non-agricultural	4.7	16.1	24.7	29.0	25.5
El Salvador:					
Agricultural	7.0	14.7	18.7	20.1	39.5
Non-agricultural	4.2	15.3	29.3	28.5	22.7
Brazil:					
Agricultural	6.50	15.25	30.00	25.50	22.75
Non-agricultural	3.00	11.75	22.25	22.75	40.25

^a The percentage shares shown represent the distribution of income within each specific sector. For example, the poorest 20 per cent of the rural population in Venezuela received 5.0 per cent of total rural income.

The magnitude of this effect, however, should not be overestimated. In Venezuela, Mexico and Argentina, the inequality in the agricultural (rural) sector is not much greater than in the non-agricultural (urban) sector. In Brazil the inequality is considerably less in the agricultural sector. Further, in all countries the great bulk of the top income groups are in the non-agricultural sector, and would not be affected by land redistribution. In countries like these, therefore, even an extreme land

redistribution measure, which left no really high incomes in the agricultural sector, would only reduce the share of the top 5 per cent in the total distribution by about 3 percentage points. More realistic calculations would have a smaller effect. This of course is illustrated by the data for Mexico where, after a major land redistribution programme, the income distribution structure remains similar to that in other countries of the region.

The direct effect of land redistribution could be of greater relative importance in improving low incomes. To take a simple example, suppose the land redistributed were producing 2 per cent of total income — which would represent a major redistribution. At the top of the scale this would be a relatively minor change, but if the land, and the income it produces, could be transferred to the lowest income group the improvement there would be much more important. The poorest 20 per cent of the population, which is largely rural, receives only around 4 per cent of total income in most countries, so that a potential 50 per cent increase in their income share is involved.⁶

In Costa Rica and El Salvador the effect of land redistribution would be much greater. In those countries the concentration of income at the top of the scale is very much greater in the agricultural than in the non-agricultural sector (see table 9), and the top agricultural incomes are very high in relation to those of other high income groups. In both countries, average incomes of the agricultural group in the top 5 per cent of the total distribution are more than double the average of the rest of the top 5 per cent. In other countries for which this sort of estimate can be made, average incomes of the agricultural and non-agricultural groups within the top 5 per cent are, by contrast, very similar, with non-agricultural incomes at this level generally somewhat higher. Thus, even though less than 20 per cent of the top income in Costa Rica and El Salvador is agricultural, a disproportionately large share of the total income is concentrated in the hands of this minority. An extreme land redistribution programme which left no really high agricultural incomes could reduce the share of the top 5 per cent by as much as 8 or 9 percentage points (compared to the 3 percentage points noted above for other countries). Even a more moderate redistribution which reduced the top agricultural incomes to the level of the non-agricultural incomes at the top of the scale could reduce the share of the top 5 per cent in Costa Rica, for example, from 35 per cent to 30 per cent of total income, and thus bring about a substantial decline in the over-all inequality.

⁶ There are of course difficulties involved in transferring income from the top to the bottom of the scale via land redistribution. Apart from the sharp reduction in the size of holdings implied, with the variable effect on productivity which this might have, those at the bottom of the scale generally lack knowledge of efficient agricultural practices, equipment, sources of credit, etc. For these reasons the income from the land is not automatically transferred with the land itself, and the broader aspects of agrarian reform are here too of fundamental importance.

It is important to inquire somewhat further into the reasons why land redistribution would have a relatively large impact on the distribution of income in Costa Rica and El Salvador. As noted, it is because in the agricultural sector there is a very great concentration of income at the top of the scale, and these top agricultural incomes are very high in relation to the top incomes in the non-agricultural sector. There are two observations which need to be made to put this situation in a somewhat broader perspective. First, the great concentration of income at the top of the scale in the agricultural sector is offset by very little inequality throughout the rest of the distribution (see table 9), so that the over-all inequality in the agricultural sector — as estimated by the coefficient of concentration — is not substantially greater than in the non-agricultural sector even in these countries. Secondly, while the top agricultural incomes are very high compared with the top non-agricultural incomes, they are not particularly high by comparison with top agricultural incomes in other countries. Their favourable position within the country is due to the fact that the top non-agricultural incomes in these countries are very much lower than the top non-agricultural incomes elsewhere. Both observations are linked to the type of economy which characterizes these countries, and to their present stage of development.

These are small, export-oriented economies. There has been, as yet, relatively little diversification, and the degree of urbanization is low. The primitive sector, which here as elsewhere is mostly rural, is still very large; and the modern sector employs only a small proportion of the labour force. Further, this small modern sector is still centred around the export sector, and exports are almost exclusively agricultural products. The high agricultural incomes therefore reflect both a concentration of land ownership and the relatively high productivity of the modern sector.⁷

With greater diversification of the economic structure and the expansion of the modern sector this situation tends to change in two ways. First, as the primitive sector declines in relative importance, and as improved practices spread, agricultural groups below those at the top improve their relative position; and this reduces the concentration of income at the very top in the agricultural sector itself. Secondly, and more important, the modern sector is increasingly centred on urban industrial-commercial activities; and the top incomes there become comparable to those of the top agricultural export producers.

The larger countries of the region are already characterized by more diversified economies of this sort, and these changes are reflected in the

⁷ It is worth specifically noting that much of the export agriculture in these countries is quite efficient. Incomes accruing to the producers are of course also high because the large primitive sector exerts a continuing pressure on rural wage rates, and these remain at very low levels.

income distribution data. In the agricultural sector there is less concentration of income at the very top of the scale, but more inequality throughout the rest of the distribution — the upper middle groups have substantially more but the lowest income agricultural group relatively less than in Costa Rica or El Salvador (see table 9). And top non-agricultural incomes have risen so that, as noted, within the top 5 per cent of the total distribution non-agricultural incomes are generally somewhat higher than agricultural incomes.

What all of this suggests is that land redistribution is likely to have a major direct effect on the over-all inequality in the distribution of income only in those countries whose economies are at a relatively early stage of diversification. Once the economy becomes more diversified, the top agricultural incomes cease to be the dominant factor in the total distribution, and their reduction would not substantially reduce the over-all inequality. The importance of this consideration is that all of the larger countries of the region have already reached such a stage of diversification, and for these countries land redistribution can no longer be regarded as a possible way of reducing the great concentration of income at the top of the scale which is characteristic of the region.

Even for the smaller, less diversified economies of the region, the broader aspects of agrarian reform may well be of equal or greater importance than the redistribution of land itself; and for the more diversified economies it is clearly these broader aspects which offer hope of improving the distribution of income. Part of the reason is that the high agricultural incomes are a reflection not only of the concentration of land ownership, but also of the use of more modern techniques and of a more complete integration into the monetary economy. If these high incomes are to be effectively redistributed among the lower income groups, it will be necessary not only to redistribute land, but also to educate the new owners in the use of more modern methods, provide credit, etc. This of course has been widely recognized. It is only necessary to emphasize that it is likely to be especially important in those relatively less diversified economies where a large proportion of the population is still engaged in primitive-type activities — that is, precisely those countries where a land redistribution programme could substantially reduce the concentration of income at the top of the scale.

But the principal reason why the broader aspects of agrarian reform are more important is that the most important element in the over-all inequality is the sharp split between rural and urban incomes as a whole — rather than the inequality within the rural sector itself. This is true of all of those countries for which data are available, except of course Argentina, where, as noted, rural-urban differences are not an important factor in the inequality.

The greater importance of the split between the two sectors can for the most part be appreciated from the data shown in the tables. For most

countries the distributions within the sectors are easily seen to be quite similar (see table 9); while the split between average incomes is very great, and the rural sector dominates the lower half of the distribution and the urban sector the upper half (see table 8).

Further, even for those countries such as Costa Rica and El Salvador where the greater concentration of income in the agricultural sector is most marked, the split in average incomes can be readily shown to be the more important factor. Although there is a great concentration at the top of the scale in the agricultural sector, there is relatively little variation in incomes throughout the bulk of the agricultural population. As a consequence, the over-all inequality in the agricultural sector, as measured by the coefficient of concentration, is not much greater even here. In Costa Rica, for example, the coefficient of concentration in agriculture is only 0.46 as against 0.45 in the non-agricultural sector. But when the two sectors are combined in a single distribution, the coefficient of concentration rises to 0.52. It is the split in incomes between the two sectors rather than the greater inequality in the rural areas which results in a high coefficient of concentration for the economy as a whole.

The basic split between the two sectors, with the poorer groups being rural and the higher income groups being largely urban, is, then, a reflection of the great difference in average incomes. Land redistribution alone does not affect this difference, and so cannot alone resolve the problem of rural poverty in most countries. It is the broader aspects of agrarian reform which aim at raising the aggregate level of rural income which are therefore of greater importance, even from the point of view of income distribution.

Finally, it needs to be noted that this split between rural and urban incomes, and the major influence it exerts on the income distribution structure, has important implications for the concepts of economic development which generally prevail. Nearly all development concepts — and hence development plans — are based on the idea that growth is best achieved by concentrating on the expansion of the modern sector. There are provisions for aiding the rural areas, or the marginal urban groups, but these are secondary or palliative measures, and not the centre of the development concept.

The solution of the problem of rural poverty is implicitly expected to come about in a quite different way — by the absorption of this group into the growing modern sector.

To some extent this is in fact occurring. The modern sector has been expanding rapidly in most of the region, and the varying size of this sector from one country to another has been shown to explain a good part of the variation in the distribution of income. But, as has been stressed, it is the groups toward the top of the distribution which have primarily benefited from this process, and the poorer half of the population has as yet been relatively little affected in most countries.

In rural-urban terms the growth of the modern sector is often equated with urbanization, and urban growth has indeed been very rapid. For the region as a whole the urban population (localities with 2 000 or more inhabitants) practically doubled from 1950 to 1965, and increased from 39.1 to 50.9 per cent of the total. Cities with 20 000 or more inhabitants — and these include the bulk of the modern sector — have grown even more rapidly, and in 1960 already accounted for nearly one-third of the total population (over 70 per cent of the urban total).

This urban growth has perhaps been even too fast in recent years, and has given rise to severe economic and social problems in the urban areas. A basic difficulty is that it has often been faster than the expansion of productive employment opportunities in the more modern sectors, with consequent increases in unemployment and marginal-type activities. It has also resulted in severe housing shortages and pressures on community-type services. In general it can be said that urbanization has proceeded more rapidly than other aspects of development in Latin America. Most countries have reached a degree of urbanization comparable to that in more industrialized countries where other indices of economic and social development are much higher.

Despite this rapid urban growth, however, the rural population has also continued to grow rapidly in most countries, and remains large in both absolute and relative terms. For the region as a whole the rural population continues to increase at a rate of about 1.5 per cent per annum and still accounts for close to half the total population.

There are a few countries in which the situation is relatively favourable in this respect. In Argentina and Uruguay, three-quarters or more of the population is already urban, and the rural population is declining even in absolute terms.⁸ In these countries therefore, there is no need to give preference to the rural areas when considering a more equitable income distribution. Less than one-quarter of the population is rural; the average income of the group is relatively close to the urban average, and it does not dominate the low income group; and the rural population is no longer increasing, so that there is no rising pressure on resources in the rural areas.

In Chile, Venezuela and Cuba, about two-thirds of the population is urban, and while the rural population is still growing, the rate of increase ranges only from 0.4 to 0.7 per cent per annum.⁹ Even here, however,

⁸ This is a reflection of the relatively low rate of total population increase rather than an unusually rapid urban growth rate. The urban population in these countries is increasing much less rapidly than in most of the region, but given the large proportion of the total which is urban, and the relatively low rate of total increase, this is still sufficient to absorb a migration from the rural areas in excess of the natural rate of increase of those areas.

⁹ In Chile and Cuba this results from a combination of total and urban rates of increase which are moderate by regional standards. But in Venezuela it is a reflection of an extremely rapid growth of the urban population.

the data show that the poorest 20 per cent of the population is largely rural in Venezuela, and with the rural population continuing to increase (and agricultural employment rising somewhat more rapidly, at about 1 per cent per annum) it is likely that direct measures are necessary to resolve the problem of rural poverty. The same is probably true of Chile, and the extensive rural programme undertaken in Cuba in recent years would indicate a similar situation there as well.

In all other countries of the region the rural population continues to increase at rates of from 1 to as high as 3 per cent per annum, and still accounts for from nearly half to three-quarters of the total.¹⁰

It is only in a few countries of the region, then, that the problem of rural poverty has, in fact, been eliminated, or even substantially reduced in size by the indirect means of rapid urban growth. In Argentina and Uruguay, as has been noted, the rural-urban income split is not an important factor. In Venezuela, and probably in Chile and Cuba, the reduced rate of rural population increase has limited the importance of the rural urban split primarily to the poorest 20 per cent of the population. But rural poverty remains the dominant factor at that level, and direct measures, even in these countries, are required to deal with it.

Elsewhere the entire lower half of the distribution is predominantly rural, and the continuing substantial increase in the rural population means increasing pressure on rural resources. For the great bulk of the region, then, direct measures will almost certainly be required if the rural-urban split is not to remain a major factor in the income distribution structure. Programmes will have to be devised to increase rural incomes in relation to those in the cities. This will largely mean increasing rural productivity levels and hence earned incomes, for, even if it were desired, it would be difficult to devise a programme which effectively transferred incomes from the high income urban groups to the rural poor.

3. THE REGIONAL DISTRIBUTION OF INCOME

Another important way of looking at the problem of income distribution is in terms of the large variations in income levels from one region to another which are common in Latin America. This aspect of the problem has been receiving increasing attention in recent years, and is again best regarded as a manifestation of the split between the modern and non-modern sectors of the economy. The modern growth has often been concentrated in a particular part of the country, so that income levels

¹⁰ In 1965 slightly less than one-half the population was rural in Colombia. Only 42 per cent was rural in Mexico, but this appears to be due to a census classification somewhat different than in most countries; as noted earlier, a similar proportion of the population is in the agricultural sector alone. At the other extreme, 85 per cent of the population was rural in Haiti, but this was some 10 percentage points higher than the figure in any other country.

there are much higher than in other areas. In the smaller countries the modern growth may be limited to one or two major cities and their environs, so that the split is for practical purposes almost entirely of a rural-urban type. But in the larger countries an entire region may be characterized by a more modern-type development, so that both urban and rural incomes are substantially higher than their counterparts in other regions — although it is still probable that there will be a rural-urban income split within the different regions themselves.

Although there are rather fewer data available on the importance of regional differences in the income distribution structure, they are sufficient to suggest that, at least for the larger countries, the magnitude of the problem is likely to approximate that of the rural-urban split. Even among the larger countries however, there appears to be greater variation here than was found with respect to rural-urban differences.

Prior to presenting the available data, it is necessary to note briefly that the concept of regional differences is less unambiguous than the concept of rural-urban differences. In the rural-urban split there are always only two zones, and each zone is a clearly understood concept the definition of which is fairly uniform from one country to another. In making regional comparisons, by contrast, there are two types of problems which have to be borne in mind.

First, the greater the number of regions, the greater will be the range of variation in income levels. This is self-evident, as combining units will average out extremes, but its importance may be illustrated with the data for Argentina. If the data are presented by province, the per capita level of the highest income province in the Pampa area is more than four times the level of the lowest income province in the north. But if the Pampa is regarded as a single economic region, and the north as another, the difference declines to slightly more than two to one. A similar consideration, which is less obvious, is that the size of the country is likely to affect the range of regional differences. In a very small country there may be little possibility of regional variation, while the larger the country the greater such possibilities become. Thus, even if two countries are divided into the same number of areas, the comparison of income levels in those areas may not be an unambiguous measure of the relative importance of regional differences in those countries.

The second problem is that the regions for which data are available are generally defined in terms of administrative units, and these may not coincide with meaningful divisions in economic terms. Further, even at the conceptual level, there is no generally accepted definition of an economic region which is widely understood, as are the concepts rural and urban. From the present point of view regions should be defined in terms of the type of economic activity which predominates — modern, intermediate or primitive. In so far as possible the regions — generally administrative — for which data are available will be identified in these terms;

but, as will be seen, the extent to which this can be done varies from one case to another.

Fairly complete data are available for three countries — Brazil, Venezuela, and Mexico — and this is shown in table 10. It is with respect to Brazil that regional differences have been discussed most, and their importance in the income distribution structure is clearly shown. Four regions are shown separately, and the average income in the richest of these, the south, is 2.6 times that in the poorest, the north-east. Further, this great divergence does not result from a comparison of restrictively defined areas. The south contains a population larger than that of any other country in the region except Mexico, and the north-east a population approximately the same as that of Colombia.

Table 10

REGIONAL INCOMES AND THE REGIONAL COMPOSITION OF THE INCOME STRUCTURE IN SELECTED COUNTRIES

Country and region	Average income (national average = 100)	Percentage of all income units	Percentage composition of the different income groups				
			Lowest 20 %	30 % below the median	30 % above the median	15 % below the top 5 %	Top 5 %
Brazil:							
South	123	36.2	15.1	27.6	49.4	53.3	46.1
East	109	36.2	39.8	37.5	31.3	35.0	39.5
North and west-central	87	7.2	4.1	7.6	8.8	6.7	6.5
North-east	47	20.4	41.0	27.3	9.5	5.0	7.9
Venezuela:							
Lake Maracaibo	141	12.6	4.7	10.1	15.5	19.9	19.2
Cordillera de la Costa	128	40.6	27.9	35.0	45.4	52.8	59.0
Other regions	65	46.8	67.4	54.9	39.1	27.3	21.8
Mexico:							
Federal District	185	13.5	1.3	7.5	17.8	24.5	38.0
North Pacific	172	7.0	2.5	3.8	6.8	15.9	19.4
Gulf of Mexico	101	11.5	8.2	12.7	12.1	12.3	12.2
North	97	20.3	17.2	20.5	22.7	20.6	15.6
Central	67	35.0	51.5	40.3	30.2	20.2	11.5
South Pacific	65	12.7	19.3	15.2	10.4	6.5	3.3

To a considerable extent these two regions conform to the criteria which are of central interest here. The modern growth of the post-war period which has given Brazil the most diversified industrial complex in the region has been centred in the South. The north-east, by contrast, remains a primarily agricultural region, there has not been much growth

of the modern sector, and the bulk of the population continues in primitive-type activities.

But even within these two regions there are major differences. Perhaps of greatest importance, the post-war growth of the modern sector in the south has not been evenly spread throughout that region, but has been heavily concentrated in the São Paulo area. The state of São Paulo, with rather more than half the population of the south, has an average per capita income some 60 per cent above that of the rest of the region. For a better comparison between a predominantly more modern region and one where extensive primitive-type activity continues to prevail, the average personal income in the state of São Paulo is more than triple that in the north-east. Again, this is a comparison between two large regions. In particular, the state of São Paulo includes a wide range of activities, including a major agricultural sector, and should not be thought of in terms of the city of São Paulo alone.

The other major region of Brazil shown in the table, the east, is not a suitable classification for present purposes. It includes the Rio de Janeiro area, which is a centre of the modern sector and where incomes are therefore high; and it includes a large area further north which is similar to the north-east. The average income shown in the table may therefore be misleading. It results from combining a high income area with a low income area; it does not indicate a large region with a generally moderate income level.

If sufficiently detailed data were available, Brazil could probably be divided into three large and very significant economic regions. This of course is generally done, and the purpose here is only to indicate the probable range of average incomes in these regions. There would first be the area where the growth of the modern sector has been very largely concentrated. This would be the São Paulo Rio de Janeiro region, or the São Paulo Rio de Janeiro Belo Horizonte triangle commonly referred to. This region would include perhaps one-third of the total population, and the average income would be about 50 per cent above the national average. There would then be a region where there has been much less recent growth of the modern sector, but where income levels are still moderate, approximating the national average. This would mostly be the rest of the south, but would also include some scattered outlying areas with relatively little population. Finally, there would be the Eastern region running north from the areas of modern growth and extending to include the north-east. This region would include about 40 per cent of the population, and would have an average income about half the national average. A direct comparison between the modern region and that where primitive type activities still largely prevail would show an income difference of three to one.

It should again be emphasized that these are very large, and geographically contiguous regions, and that comparisons of more restricted

areas within them would result in even higher income differentials. In part the much higher income level in the most modern region results from the shift in economic structure which accompanies growth, but to a greater extent it is the result of higher income levels in all sectors. This is important to note, for it indicates regional differences of the most meaningful sort. It is not merely that there is a smaller urban sector in the north, or that a few isolated modern urban centres exist in the south. It is rather that the entire process of modern growth — which is primarily an urban process, but which has also occurred in the rural areas to some extent — has been largely confined to the São Paulo-Rio de Janeiro region.

The situation can be illustrated by the use of data for the south and the north-east, which as noted are relatively homogeneous regions in the present sense. The figures are as follows:

	<i>Sector</i>		<i>Total</i>
	<i>Agriculture</i>	<i>Non-agriculture</i>	
Percentage distribution of income units:			
South	36.5	63.5	100
North-east	62.1	37.9	100
Average income (national average = 100):			
South	73	154	123
North-east	29	76	47

In the south a much larger proportion of the labour force is in the non-agricultural sector, where incomes are sharply higher, and this is a major factor in the high average income in the region. But even more important is the fact that incomes in *both* sectors are much higher in the south than in the north-east. The gap between agricultural incomes in the two regions is actually somewhat greater than that between non-agricultural incomes, in relative terms, and rural-urban differences are somewhat less in the south than in the north-east. Data of this sort imply that it is not only the changing structure resulting from industrial growth which produces the higher incomes in the south, but that the difference reflects entire socio-economic systems of organization which operate at widely different levels of efficiency. Regional differences of this sort are very deeply rooted, and likely to prove extremely difficult to eliminate.

These differences in average incomes are of course reflected in the composition of the different income groups, with the low income groups mostly in the poor regions and the higher income groups in the richer ones (see table 10). Over 40 per cent of the lowest income group (the poorest 20 per cent of the population) is in the north-east region alone, while half of the entire upper half of the distribution is in the south.

The fact that the eastern region, as noted, combines the high income Rio de Janeiro area with an area very similar to the north-east obscures the situation in this respect. It can however be assumed that about 60 per cent of the population of the east is in the low income area north of Rio de Janeiro and extending to the north-east, with a distribution similar to that of the north-east itself; and that the remaining 40 per cent is distributed similarly to the population in the south. On this assumption, three-quarters of the lowest income group and over half of the following income group are to be found in the low income areas of the east and in the north-east. Three-quarters of the higher income groups, by contrast, live in the Rio de Janeiro area or in the south.

The conclusion is clear. Programmes which aim at increasing incomes of the low income groups will have to be programme which operate in the east and north-east regions, for that is where the bulk of the poor are to be found. And programmes which aim at restraining high incomes will have to affect primarily the south and the Rio de Janeiro region, where these high incomes are heavily concentrated. Programmes of redistribution within any one of these major regions would have a more limited immediate effect on the over-all inequality in the country.

For Venezuela a number of regions can be shown separately with the available data, but the figures shown in table 10 divide the country into only three areas. There are two high income regions, Lake Maracaibo, and Cordillera de la Costa, which includes Caracas. Although there is some variation among the other regions, they are all low income areas and so are shown in a single grouping in the table.

The differences from one region to another are again substantial. The average income in the high income areas is double that in the rest of the country, and this difference is reflected in the composition of the different incomes groups: over two-thirds of the lowest income group are found in the poor areas, while some three-quarters of those in the high income groups are located in the two high income regions. But the differences are less extreme than those observed in Brazil. The divergence in averages income is not so great, and there is a lesser concentration of the low income groups in the poorer regions.

This lesser concentration of the regions at the extremes of the distribution can be more readily seen if the data are presented in a somewhat different way. Rather than showing how a particular income group is divided among the regions, the way in which a particular region is divided among the different income levels can be shown. The figures for a high income region in Brazil and in Venezuela and for a low income region in each country are shown in table 11.

In general, in Brazil, those in the south are more heavily concentrated in the upper half of the distribution and those in the north-east are more heavily concentrated in the lower half of the distribution; but the divergence is most marked in the poorest 20 per cent of the population. Only

Table 11

PERCENTAGE OF THE INHABITANTS OF A REGION WHICH FALL IN EACH INCOME GROUP OF THE TOTAL DISTRIBUTION

	<i>Lowest 20 %</i>	<i>30 % below the median</i>	<i>30 % above the median</i>	<i>15 % below the top 5 %</i>	<i>Top 5 %</i>
High income regions :					
Brazil (south)	8.4	22.4	41.2	22.1	6.4
Venezuela (Cordillera de la Costa)	13.7	25.9	33.5	19.5	7.3
Low income regions :					
Brazil (north-east)	40.2	40.1	14.0	3.7	1.9
Venezuela (other regions) . .	28.8	35.2	25.1	8.8	2.3

8.4 per cent of those in the south fall in this low income group (as against 13.7 per cent of those in the Cordillera de la Costa region), whereas fully 40 per cent of those in the north-east fall in this category (as against only 28.8 per cent of those in the poor regions in Venezuela).

This lesser generality of the regional differences in Venezuela is a reflection of the way these differences have been brought about, and its importance is emphasized by a consideration of the regions themselves. There are two high income regions in Venezuela; they are not geographically contiguous, and each is largely based upon a particular aspect of the modern sector — Maracaibo on the petroleum activities, and Cordillera de la Costa on the Government plus the industrial and commercial activities of Caracas and its environs.

Each of these centres can be regarded as focal points of the modern sector set in a surrounding economy with much lower productivity and income levels. These concentrations of the modern sector have grown very rapidly, and they occupy a larger proportion of the labour force in Venezuela than in most of the region. But the region which they dominate does not represent a broad area with generally higher productivity levels in quite the same sense that this is true in Brazil.

This can be seen by comparing urban and rural incomes in the different regions of Venezuela. The figures are as follows:

	<i>Sector</i>		
	<i>Rural</i>	<i>Urban</i>	<i>Total</i>
Percentage distribution of income units :			
Maracaibo and Cordillera de la Costa . . .	23.7	76.3	100
Other regions	60.3	39.7	100
Average income (national average = 100) :			
Maracaibo and Cordillera de la Costa . . .	66	152	131
Other regions	46	94	65

If these are compared with the similar figures presented earlier for Brazil, the marked difference is that rural incomes in the high income regions in Venezuela are considerably lower, in relative terms, than are agricultural incomes in the south of Brazil. In Venezuela rural incomes in the high income regions are less than 50 per cent above those in the low income regions; and they are fully 30 per cent below urban incomes even in the low income areas. In Brazil, by contrast, agricultural incomes in the south are double those in the north-east, and are practically as high as non-agricultural incomes in the latter region. In Venezuela high regional incomes are to a considerably greater extent the result of high urban incomes and of the predominantly urban characteristics of these regions.

The importance of these variations is magnified by the fact that in terms of simple size the Venezuelan regions are not comparable to those of Brazil. The Cordillera de la Costa region, for example, could at best be regarded as conceptually comparable to the state of São Paulo, and not to the entire south. And, as noted, the consideration of smaller units results in larger regional variations in any country.

In summary, regional differences in Venezuela are substantial and are clearly a major factor in the income distribution structure. But such differences are less fundamental than in Brazil. In part this is due simply to the much larger size of Brazil and hence the increased opportunities for regional variation. In part, however, it also reflects the split in general efficiency of the socio-economic organization in the centre-south of Brazil by contrast with the north-east. Such a generalized split is less evident in Venezuela.

For Mexico, the figures shown in table 10 would appear to indicate, at first glance, greater regional differences there than elsewhere, as the average income in the highest income region is fully 2.8 times that of the lowest. This, however, is in part due to the definition of the regions, and in part is a reflection of the nature of the regional variations themselves. It seems probable that in a more meaningful sense regional differences are less fundamental in Mexico than in a number of other countries.

The regions in Mexico, as in the other countries, are administrative — they are groupings of states. On the one hand, this can mean that a region is defined in a fairly restrictive way, and this is in fact the case with both of the high income regions shown. The Distrito Federal includes essentially only Mexico City, and cannot be regarded as a region in any very meaningful sense. The Pacifico Norte, while large in geographic terms, includes only a small fraction of the population and so is of limited importance in the income distribution structure.

On the other hand, the other regions shown — which include the bulk of the population and where differences in average incomes are much smaller — often combine diverse areas, and so tend to understate regional differences. This is basically a reflection of the kind of regional differences which predominate in Mexico. There are, as in Venezuela, focal points of

the modern sector which give rise to high average incomes in an area; but these are somewhat more dispersed in Mexico, and they have thus far absorbed a substantially smaller proportion of the total labour force.

As a result, most of the larger regions include one or more of these centres of the modern sector, but none is sufficiently dominated by such centres to show a very high relative income level. The north region, for example, includes the second most important industrial centre, Monterrey; and the most important oilfields are in the Gulf of Mexico region. The Distrito Federal is actually located in the centre region, and if it is combined rather than shown apart, the average income in that region would be similar to that of the north and the Gulf of Mexico regions.

To a degree, if the dividing line is carefully drawn, Mexico could be split into a higher income north and a lower income south. Most of the modern industrial sector and the extensive and more capital intensive agriculture would be in the relatively sparsely populated north, while the more densely populated south would be dominated by traditional agriculture. The Centre and Pacifico Sud regions shown in table 10 would roughly represent this poor south. As can be seen, average incomes in these regions are well below those in the rest of the country, and the majority of those in the lower half of the distribution — and particularly of those in the poorest 20 per cent of the population — are to be found there.

But a broad regional split of this sort does not have the same significance in Mexico as in Brazil. The difference in average incomes is not so sharp, there are relatively large numbers of poor in the north region as well, and the poor south has to be somewhat artificially defined to exclude Mexico City to produce these differences. Regional problems in Mexico are best regarded in more localized terms as the contrast between the still limited focal points of the modern sector and other areas; and this contrast occurs in varying degrees in all major regions of the country.

Finally, it is worth noting some less complete data for Argentina. The data do not refer to the distribution of personal income for the most part, and so the regional composition of the different income groups cannot be shown; but the data are sufficient to indicate the nature of the marked regional split in the country. Argentina can be divided into the following four economic regions:

	<i>Average income (national average = 100)</i>	<i>Percentage of total population</i>
Patagonia	174	1.0
Pampa	114	71.4
West-central	84	8.2
North	52	19.4

The most significant of these regions from the present point of view are the high income Pampa region, with the bulk of the country's population, and the low income north, with about one-fifth of the total population. The nature of the difference between these regions is similar to that noted in contrasting the centre-south with the north-east in Brazil. The Pampa region includes Buenos Aires, but the high average income does not reflect this alone. Income levels through most of the region, and covering a diversity of economic activities, tend to be uniformly high. In the north they are uniformly lower, and again suggest an entire system of economic organization which operates at a lower level of efficiency. This is most striking in relation to the agricultural sector. The average agricultural income in the Pampa region is 2.4 times that in the North, and is approximately the same as the average non-agricultural income in the Pampa itself.

Although, as noted, direct data are not available, approximate estimates indicate that the position of the north in the income distribution structure of Argentina is somewhat similar to that of the north-east in the income distribution structure of Brazil. In particular, from 40 to 50 per cent of the lowest income group is located in the north. This regional split is mitigated in Argentina, however, by two factors. First, over two-thirds of the total population is concentrated in the Pampa, and incomes are rather uniformly high throughout that region; in Brazil only about one-third of the population is in the high income Rio de Janeiro São Paulo area, and there is greater variation within that area itself. Secondly, when considered in relation to a number of other regions in Latin America, the North of Argentina is itself a high income area; for example, the average income there is about triple the average income in the north-east of Brazil.

On the basis of this data for four major countries, it seems safe to generalize and say that, at least in the larger countries, regional differences are very substantial throughout Latin America, and are an important factor in the income distribution structure. A region which has been a centre of the growth of the modern sector appears typically to have an average income double or more that of low income regions in the country. This is reflected in the composition of the different income groups. A large proportion of the lowest income group is likely to be concentrated in the low income regions, even in a country like Argentina where the low income area includes only about one-fifth of the total population; and the high income groups tend to be similarly concentrated in the high income regions. There does, however, seem to be more variation from one country to another with respect to regional differences than was found when rural-urban differences were examined.

The implications of these regional differences are similar in some respects to those mentioned in the discussion of rural-urban differences. The central point is that a major factor in the over-all inequality is the

disparity in *average* incomes from one region to another, and any programme which does not reduce the disparity leaves this aspect unchanged. Social security programmes, for example, are again seen to be ineffective as a measure for increasing the income of the poorest groups. The coverage of such programmes tends to be limited to the higher income regions, and this is not where the poor are concentrated.

Regional variations may mean a further limitation on the extent to which land redistribution can reduce the inequality. This will be the case in countries such as Brazil or Argentina, where regional differences reflect different levels of income in all sectors of the economy. About three-quarters of the high agricultural incomes in Brazil are obtained in the centre-south, and in Argentina in the Pampa region; but the bulk of the agricultural poor are in other regions — in the north-east and the poor areas of the east in Brazil, and in the north in Argentina. Where regional differences reflect less generalized focal points of the modern sector, as in Venezuela, this consideration is less important: the high and low agricultural incomes tend to be more evenly proportioned throughout the different regions.

Finally, it should be noted that regional differences must be directly faced, and in one way or another reduced if this factor in the inequality is to be mitigated. When discussing rural-urban differences it was noted that most development concepts have implicitly assumed that the problem of rural poverty can be resolved by the absorption of a large part of this group into the growing urban economy — although it was noted that this has not occurred in most of Latin America. But this is not even a possibility in the case of regional differences; regional migration on the required scale is nowhere contemplated. Relative average incomes in the poor regions will have to be increased, and this will require a change in emphasis from the established pattern of growth. This established pattern has depended upon the growth of a modern sector which has been characterized by marked regional concentration and has been the primary factor in the emergence of the regional income disparities themselves.

Although rural-urban differences and regional differences have been discussed separately, it will have been clear at many points that these two aspects of the distribution are often closely related, and this relationship needs to be specifically mentioned. In many countries there is a coincidence between the two aspects. Low income regions are predominantly rural and high income regions are mostly urban; the low income group is dominated by the rural population of the low income regions, while the high income group is mostly urban and in the high income regions. But there are differences in emphasis from one country to another, and this is important to note, as it may have important implications for any programme designed to reduce the inequality.

There are first of all some countries where it can be said that the problem is almost entirely of one or the other sort. At one extreme is

Argentina, where the problem is clearly regional. In the high income Pampa region there is no important rural-urban income differential; but there is a very large one between the Pampa and the low income north. Here any proposed solution could deal fairly exclusively in regional terms. At the other extreme are a few of the smallest countries, where the contrast is essentially between one or two important urban areas and the rest of the country, and could therefore be dealt with almost exclusively in rural-urban terms.

But in most countries there is a mixture of the two aspects, and an effective solution would have to reflect the balance in the particular

Table 12

**COMBINED REGIONAL AND URBAN-RURAL COMPOSITION OF THE INCOME STRUCTURE
IN BRAZIL AND VENEZUELA**
(Percentages)

	Proportion of all income units	Composition of the different income groups				
		Lowest 20 %	30 % below the median	30 % above the median	15 % below the top 5 %	Top 5 %
Brazil:						
High income regions						
(South and 40 % of east) : ^a						
Non-agricultural	33.0	10.9	14.0	47.2	68.2	66.0
Agricultural	17.6	8.9	22.2	23.0	12.8	7.5
Intermediate income regions:						
Non-agricultural	3.2	2.0	2.2	5.0	4.2	4.8
Agricultural	4.1	2.0	5.9	4.1	2.5	1.9
Low income regions						
(North-east and 60 % of east) : ^a						
Non-agricultural	17.8	24.8	18.7	13.3	10.3	17.1
Agricultural	24.3	51.4	37.0	7.4	2.0	2.7
Venezuela:						
Larger cities in high income areas (Lake Maracaibo and Cordillera de la Costa)						
	34.0	5.8	21.1	45.2	62.4	70.7
Larger cities in low income areas and all smaller cities						
	25.2	21.3	30.3	26.1	21.3	17.0
Rural areas						
	40.8	72.9	48.6	28.7	16.3	12.2
High income regions (Lake Maracaibo and Cordillera de la Costa)						
	(12.6)	(17.5)	(16.3)	(10.7)	(5.7)	(3.1)
Other regions						
	(28.2)	(55.4)	(32.3)	(18.0)	(10.6)	(9.1)

^a The east region in Brazil has been divided between the high and low income regions on the assumption that 40 per cent of the population of the east is in the high income area around Rio de Janeiro, with a distribution, between sectors and of each sector among the different income groups, similar to that of the south. The remaining 60 per cent is assumed to be to the north of this area with a distribution similar to that of the north-east. Adjustments have been made arbitrarily so that these estimates conform to the figures available for the east as a unit. The figures shown above should therefore be regarded as only very approximate, and they are presented only for the purpose of illustrating the concept here discussed.

country. The data for two countries — Brazil and Venezuela — can be cross-classified, and offer an illustration of the types of situations which may be expected. Both elements are present in each country, but while the regional aspect is of greater importance in Brazil, rural-urban differences can be more usefully stressed in Venezuela.

These cross-classified data are presented in table 12, with the data grouped differently for the two countries to bring out the contrast. For Venezuela the grouping is basically rural-urban, while for Brazil it is regional, and in terms of high and low income areas. The east region of Brazil has been split on this basis to show more simply the over-all situation. As no direct data are as yet available for making such a calculation, the figures represent only an approximate estimate; but they are sufficiently accurate for present purposes.

In both countries the rural population in the low income regions accounts for over half of the lowest income group. At the other extreme, the urban population in the high income regions accounts for around two-thirds of the top income groups in each country. The principal centres of poverty and of high incomes are therefore the same, and they reflect the same combination of rural-urban and regional differences.

But in the remaining make-up of the distribution, there are two important contrasts. First, the agricultural population in the high income regions of Brazil is relatively important in the middle parts of the distribution, whereas in Venezuela the agricultural population, even in the high income regions, is concentrated in the bottom half of the distribution. Secondly, the non-agricultural sector in the poor regions of Brazil is still mostly in the lower half of the distribution, whereas the urban population in the poor regions of Venezuela is more important in the middle parts of the distribution.

The most important effect of these differences from the present point of view is that the composition of the low income groups is different in the two countries. In both countries the most important single group is the rural poor in the low income regions. But the next most important group is the non-agricultural poor in the low income regions of Brazil, while in Venezuela it is the rural poor in the high income regions. The problem of poverty in Brazil is therefore better viewed with emphasis on the regional aspect — the bulk of the poor are in the low income regions, mostly in the agricultural sector, but with many in the non-agricultural sector as well. In Venezuela, however, the problem is best seen as primarily one of rural poverty — mostly in the low income regions, but also including a large part of the rural population in the high income areas.

In general, each country can be split into three broad and meaningful income groups. In Brazil there is a high income group which consists of the non-agricultural population in the high income region; this is about one-third of the population and is dominant at the higher income levels.

There is an intermediate income group made up of the agricultural population of the high income regions and both sectors of the intermediate income regions; this is about one-quarter of the population and is most important in the middle parts of the distribution. Finally, there is a low income group consisting of all sectors of the low income regions; this is about 40 per cent of the population, and it dominates the lower half of the distribution.

In Venezuela the high income group is again the urban population in the high income regions, although here the more detailed data show that this group is limited to the larger cities in those regions. The intermediate income group, however, has a quite different composition from that of Brazil; it consists of those in the larger cities in the poor regions, and those in the smaller cities in all regions. Finally, the low income group is made up of the rural population in all regions. The relative size of these three groups, and their position in the income distribution structure is in each case closely similar to that of the corresponding group in Brazil.

The basic elements are the same in each case, and there is a good deal of similarity between the two structures. But differences of emphasis of the sort pointed out can be of considerable importance. Their recognition can help in the establishment of a broad framework within which more specific programmes — perhaps identical in themselves — can be more coherently organized.

4. THE DISTRIBUTION OF INCOME BY ECONOMIC SECTOR

The final aspect of the income distribution structure which will be treated here is the importance of sectoral differences in income levels. It is from this point of view that the distribution of income can be most directly linked to the general problem of resource allocation, about which there has been considerable discussion. Differences in productivity and income levels from one sector to another are readily observable in nearly all countries and have given rise to questions regarding the degree of factor mobility, the variation of capital/labour ratios, etc.

This sort of discussion is most fruitful at the level where the sector is very narrowly defined, and the analysis is in detailed and specific terms. Unfortunately, no consistent data are as yet available which would permit a general treatment at this level. What can be done is to present some, still rather limited, information regarding sectoral differences where the sectors are very broadly defined. As will be seen, this does not yield clear-cut findings; each of the three aspects already treated — functional, rural-urban, and regional differences — are more useful in understanding the income distribution structure. But it should be borne in mind that this is in part due to the level at which sectoral differences are discussed. More detailed data would probably yield additional results. In particular,

they might make possible a better estimate of the extent to which incomes vary according to levels of skill or achievement, and the extent to which variations reflect institutional factors. To the extent resource allocation and economic growth depend on material incentives, this is a fundamental aspect of income distribution analysis.

The broadest sectoral definition is to distinguish only between the agricultural and non-agricultural sectors. This division is of major importance in understanding the income distribution structure, but this is better understood in the context of rural-urban differences, which have been discussed in some detail in a preceding section.

At a level of somewhat greater disaggregation, productivity estimates in each of the major sectors have been made by ECLA, and these are presented in table 13. While these are not income estimates, the level of productivity will largely determine average incomes when the grouping is in terms of rather broad sectors such as these, and so the figures can be regarded as approximations of average sectoral incomes throughout the region.

The data are presented in the form of index numbers, as it is the variation from one sector to another which is of interest here. It is the variation among the non-agricultural sectors which remains to be discussed, and so the figures in table 13 are calculated by comparison with the total non-agricultural average; this makes variations within the non-agricultural sector more readily apparent. The situation of course varies somewhat from one country to another, but several generalizations can be made.

First, with the notable exceptions of Argentina and Uruguay, agricultural productivity (and income) is everywhere well below the aggregate non-agricultural average. For the region as a whole, the level of agricultural productivity is only 35 per cent of that in the rest of the economy.

Among the non-agricultural sectors there are also marked, and fairly consistent, differences. Productivity levels in mining, manufacturing production of a factory type, and commerce are well above the average in practically all countries. Productivity is low by contrast in manufacturing of an artisan type, in construction, and in "other services", and again consistently so in nearly all countries.

To a major extent these variations can be explained by the degree of primitive-type activity in the different sectors, and this is shown in table 14. A primitive economy is an agricultural economy, and the growth of the modern sector is for the most part a growth of urban activities. It is to be expected therefore that primitive-type activity, in so far as it continues, will be most important in the agricultural sector, and this is of course the case. For the region as a whole, slightly more than 80 per cent of all primitive-type labour remains in agriculture, and it still accounts for close to two-thirds of the total labour force in that sector.

Table 13

PRODUCTIVITY ESTIMATES BY SECTOR
(Non-agricultural average = 100)

Country or	Agriculture	Total non-agriculture	Mining	Manufacturing			Construction	Basic ^a services	Commerce	Other services
				Total	Factory	Artisan				
Latin America ^b	35	100	329	128	211	21	57	110	139	65
Argentina	111	100	268	158	239	28	63	129	120	53
Brazil	49	100	80	140	223	22	29	113	125	89
Colombia	60	100	224	119	270	28	67	149	179	59
Chile	41	100	244	133	216	30	75	207	140	44
Ecuador	45	100	515	95	269	30	86	110	133	77
Peru	25	100	206	81	163	18	91	125	170	70
Uruguay	120	100	—	112	156	31	112	118	187	67
Venezuela	23	100	1 060	87	132	12	49	81	71	68
Mexico	19	100	298	123	175	17	55	92	149	56
Central America	29	100	140	84	173	18	47	140	180	66
Other countries ^c	27	100	154	94	244	24	90	164	127	77

^a Public utilities, transport and communications.

^b Excluding Barbados, Cuba, Guyana, Haiti, Jamaica, and Trinidad and Tobago.

^c Bolivia, Dominican Republic, Panama and Paraguay.

Table 14

THE SECTORAL DISTRIBUTION OF THE PRIMITIVE-TYPE LABOUR FORCE IN LATIN AMERICA, ^a
AND THE COMPOSITION OF THE LABOUR FORCE IN EACH SECTOR

Sector of economic activity	Percentage distribution of primitive-type labour force	Percentage composition of labour force in		
		Modern sector	Intermediate sector	Primitive sector
Agriculture	80.5	6.8	27.7	65.5
Mining	0.8	38.0	34.2	27.8
Manufacturing	7.1	17.5	64.9	17.6
(i) Factory	—	28.1	71.9	—
(ii) Artisan-type	(7.1)	4.1	55.9	40.0
Construction	1.4	24.8	64.9	10.3
Basic services ^b	0.5	25.0	71.6	3.4
Commerce	2.9	14.0	76.1	9.9
Other services	6.7	16.2	70.5	13.3
TOTAL	100	12.4 ^c	47.7 ^c	34.3 ^c

^a Excluding Barbados, Cuba, Guyana, Haiti, Jamaica, and Trinidad and Tobago.

^b Public utilities, transport and communications.

^c Not broken down according to levels of productivity. They account for 5.6 per cent of total employment.

But with the growth of the urban economy there are likely to be substantial amounts of primitive-type labour in other sectors as well. How much labour of this kind there is, will depend upon the extent of urban migration in relation to the growth of remunerative employment opportunities in the cities, and may vary significantly from one country to another; but the sectors which absorb this primitive-type labour are quite consistently the same. The bulk of the non-agricultural primitive-type labour (over 70 per cent for the region as a whole) is engaged in artisan-type manufacturing or in "other services".

This readily explains the low productivity levels in these two sectors, which can be seen in table 14. Both are areas where the required skills are often relatively simple — or at least traditional and widely known — and where little or no capital is needed. Those who leave agriculture but are unable to find more profitable employment therefore crowd into these sectors, often as marginal self-employed, and productivity levels are low. In artisan-type manufacturing the proportion of this group is very high, and the average productivity level is even lower than in agriculture; but in "other services" the proportion of primitive type labour is less — and is partially offset by important modern-type services which are included in the sector — so that average productivity levels are higher.

The high productivity levels in some sectors can be explained in similar terms. Factory-type manufacturing and mining, which includes petroleum, generally require large amounts of capital and special produc-

tion techniques, and so these sectors cannot be easily entered by the primitive-type labour force. The proportion of the labour force engaged in fully modern enterprises is high in both factory-type manufacturing and mining, and there is no factory-type manufacturing at a primitive level. A substantial proportion of the labour force in the mining sector is engaged in primitive-type mining, but the importance of modern-type production is greater here than in any other sector, and the very high productivity levels often achieved (note the figure for Venezuela in table 13) more than offset this factor.

But while a major part of the difference in productivity levels from one sector to another can be explained in terms of the predominance of modern or primitive-type production, there are exceptions which lead to important qualifications of this general concept. The productivity level in the basic services sector is generally well below that in factory type manufacturing — for the region as a whole it is only a little over half — although the structure of the labour force is almost identical in the two sectors, and capital requirements are probably also quite similar.

It is also difficult to explain the productivity levels in the construction and commerce sectors in these terms. The productivity level in construction is low, yet, contrary to what is sometimes implied, this is not a sector dominated by primitive-type activity. Most construction work takes place in the urban areas, and is of a modern or semi-modern type. For the region as a whole, one-quarter of the labour force is engaged in fully modern-type construction, and only a little over 10 per cent in primitive-type construction. In the commerce sector, a substantially smaller proportion of the labour force is employed in fully modern enterprises, and nearly the same proportion is engaged in primitive type activity. Further, capital requirements are probably not markedly greater in commerce than in construction. Yet, for the region as a whole, the productivity level in commerce is nearly 2 times that in construction.

In explaining these divergencies, it is first necessary to stress the meaning of the productivity measure. In general usage the term tends to imply that it is the technical level, in a purely engineering sense, which is being measured, but this is not the case. It is an economic measure of the value of the product of the sector, and is measured in terms of market prices (or cost for government services not priced in any market). With this in mind some of the apparent contrasts can be explained and some implications for the distribution of income and its links to the production process seen more clearly.

First, it is clear why the productivity level in the basic services sector is substantially below that in factory-type manufacturing, despite the apparently similar level of techniques in the two sectors. Basic services are for the most part either provided directly by Governments or under government control. The most important implication from the present

point of view is that prices have been held at a relatively low level — deficits are fairly common in this sector — and so the measure of productivity is also low. Wages and salaries are actually high in this sector, but low pricing policies have held gross profits to a much lower level than in other sectors, and this results in the relatively low productivity figure.

The situation in the commerce sector is the opposite: the high productivity figure is essentially a reflection of high profit margins. Commerce is not one of the most technically advanced sectors. On the contrary, the proportion of the labour force at the fully modern level is smaller than in the other non-agricultural sectors, and there are substantial numbers engaged in primitive-type commerce (see table 14). But commerce, more than most non-agricultural sectors, is dominated by the small-scale individual enterprise. As has been noted in several connexions before, this type of organization tends to be characterized by large profit margins per unit of sales and to yield high incomes to those self-employed who form an effective part of the economy (that is, excepting marginal-type self-employment). It is these high profit incomes which result in the relatively high productivity figure in the commerce sector.

The situation is different again in construction. Self-employment is relatively unimportant, primarily because capital requirements are substantial even for a minimal scale of operation. The recipients of profit incomes — which are high — are therefore too few in number to be the determining factor in the value of the product. Construction is dominated by wage and salary workers, and the low productivity figure is essentially a reflection of low wage levels in the sector. The important point to note is that these low wages are not the result of a generally low technical level; one-quarter of the labour force is engaged in fully modern construction work. It is due rather to other characteristics of the industry. The work is irregular; and much of the labour is relatively unskilled or possesses skills which are widely known and/or can be readily acquired, so that labour is generally easy to find. As a consequence, builders do not maintain a permanent labour force. This makes formal organization difficult, entry to the sector remains open, and chronic lack of alternative employment opportunities tends to maintain wages at a low level. This then results in a low productivity figure for the sector.

Each of these different ways of determining productivity levels is an important factor in the distribution of income and has important implications for the way in which the distribution is linked to the problems of resource allocation and economic growth. In a primitive society income distribution is a fairly straightforward reflection of power. The great mass of the population lives at very low income levels, and with little differentiation; the few who hold power enjoy higher incomes and with greater differentiation. It is to the extent the society advances beyond the primitive stage that income distribution becomes linked to the production process in more complicated ways and arouses greater economic interest.

It has already been observed that the recent growth of the Latin American economy has been very largely a growth of the modern sector. For the region as a whole, over half of the total product is now produced by the modern sector — with only one-eighth of the labour force — and it is the distribution of this product which is of primary interest. There are three conceptually different ways in which greater production, through use of better techniques, can be distributed, and each is illustrated by the different sectoral productivity levels discussed above.

First, the increase in production can be absorbed by higher incomes received by those who become a part of the modern sector. This has been the most common outcome, and means that the modern sector, to that extent, becomes an economy within an economy; the bulk of the production is for the minority who have entered the sector. This is the basic meaning of the high productivity (income) levels in such sectors as factory-type manufacturing or mining, and the low productivity (income) levels in agriculture, artisan-type manufacture, or “other services”.

Secondly, the increased output can be passed on to the purchasers of the product by maintaining incomes in the sector at, or near, those prevailing in the non-modern areas and selling the product at a consequently lower price. This is partially the case in basic services and construction, and is the meaning of the lower productivity figures in those sectors. In the basic services sector profit income is held at a low level (wages and salaries are relatively high) and purchasers of these services benefit to that extent. In the construction sector, wages are relatively low (profit income is high) and to that extent users of construction projects benefit.

Finally, some other group may appropriate part of the product as a result of its close links to the modern sector; this does much to explain the high productivity (income) level in commerce. But the high productivity level only partially reflects a high technological level in the sector. In part, it is a reflection of the close links with other modern sectors — mostly manufacturing — and of the ability to draw off, through high profit margins, some of the increase in the product resulting from developments in those sectors. Another important example, although data are not separately available, is the government sector. Large segments of general government activities are still of a traditional type in most countries, but thanks to the links of government revenue to the modern sectors, it is often possible to pay incomes that are well above those in other traditional sectors of the economy.

There are thus a number of factors which influence the distribution of income by sector. A basic factor is the extent to which the sector is characterized by modern or non-modern methods, but in several important sectors this is substantially modified by other considerations. The consequence is to cast some doubt on the extent to which income is distributed in a manner that serves as a stimulus to a good allocation of resources or to growth.

Inequality in the distribution of income is justified on two major grounds. First, it is said that a concentration of income in the hands of relatively few persons is conducive to higher levels of saving; this has been mentioned earlier but is not relevant to the present discussion. Secondly, it is said that inequality is necessary as an incentive to attract individuals to desired activities, to call forth greater effort, to promote learning and the acquisition of additional skills, etc. The extent to which inequality *per se* does achieve these things can be left aside — the data available contribute nothing to this discussion. But if the desired results are to be achieved, then the inequality must be consistent with these objectives, and be clearly seen to be so. That is, those areas where additional activities are desired must be seen to be the areas which yield higher income; and greater effort, or acquiring additional skills, must be seen to be closely correlated with higher incomes.

Although in only an imprecise way, the sectoral income data cast doubt on the extent to which this is so in the region. There is a general desire to stimulate manufacturing, and incomes in the sector are clearly high and so should serve as a signal to attract new activities. But it is also desirable to increase the output of basic services, and here returns are low and do not provide such a signal; the shortages in this area and the lack of investment funds have been much discussed. Further, relatively high incomes in commerce are a clear sign that this is a profitable area, and there probably is not much desire to stimulate expansion in this sector.

The areas in which it is possible for an individual lacking capital to increase his effort do not clearly signal that this is worth while. Effort can easily be increased in artisan-type manufacturing, in primitive-type mining in some regions, or in various activities in the services sector; but these are all areas where the rewards offered are very low. Higher incomes are available through employment in an undertaking that is modern or has close links to the modern sector, or by obtaining access to the use of capital; but this is not readily achieved simply by greater effort.

It might be said that employment in the modern sector requires higher levels of skill, and that the higher incomes are an incentive to acquire such skills. It is not clear, however, that even this is consistently so. The level of skill required by the average worker in mining or in construction probably does not vary greatly, but there is a very large disparity in wages in the two sectors. The higher income may often, then, depend less on acquiring a skill than on obtaining employment in a particular area. Further, to a large extent the skills used in the modern sector are not so much a requirement for entry as techniques that are learned later, on the job, and this too gives primary importance to obtaining admission to a desirable activity in the first place.

In so far as considerations of this sort are only occasional exceptions to a general rule, inequality in the distribution of income may serve as an economic stimulus to growth and a better allocation of resources. *But if these aspects are very common, then inequality cannot effectively fulfil this function.* The level of income will not be seen to vary clearly and consistently with the degree of effort or technical skill, but will rather be regarded as due in considerable measure to chance, or influence of one sort or another. Much more detailed data and analysis would be necessary to establish with any precision the extent to which this is the case in Latin America; but the information available is not conducive to optimism in this respect.

For two countries, Argentina and Mexico, the income distribution data are cross-classified in some detail by sector; and this not only provides a more specific illustration of some of the aspects discussed above, but also makes clear some of the limitations to the use of sectoral differences as a means of explaining the income distribution structure.

Perhaps the most important point to be noted is the extent to which what appear to be sectoral differences may be only a reflection of differences in functional income levels. This can clearly be seen in the case of the commerce sector. In Argentina the average income in commerce is 50 per cent, and in Mexico 35 per cent, above the economy-wide average; but to a major extent this reflects the functional composition of the sector. In Argentina close to half of those in the sector are self-employed, and the self-employed have relatively high incomes in all sectors. In Mexico over two-thirds of those in the sector are self-employed, and an additional 20 per cent are *empleados* (roughly white-collar workers) whose relative income is high in all sectors.¹¹

On the one hand this illustrates more specifically an aspect discussed earlier. The high income level (and productivity figure) in the commerce sector is due only partially to technically advanced operations. To a considerable extent it represents the ability to draw income from other groups through high profit margins. More productive sectors must dispose of their output through the existing commercial network, high profit margins yield high individual incomes even though the commercial organization is not particularly modern, and the unusual importance of self-employment results in a high average income for the sector as a whole.

At the same time this illustrates the danger of comparing average incomes in the different sectors without further qualification. To take an extreme example, in Argentina the average income in the commerce sector is 30 per cent more than the average income in transport and communications. Yet wage and salary incomes are considerably higher

¹¹ The large number of *empleados*—there are half again as many *empleados* as *obrerros* (roughly blue-collar workers)—in the sector is partly due to the fact that financial services are included in the commerce sector.

in transportation than in commerce, and the self-employed in the transport sector also earn more than those in commerce. The apparent contradiction is due to the fact that there are relatively few self-employed in the transport sector, but many in commerce. What appears to be a sectoral difference is, in a more meaningful sense, a reflection of differences in functional incomes.

Because of this sort of problem, it is not particularly helpful to compare aggregate incomes in as many sectors as possible; such comparisons may confuse rather than clarify the analysis. At that level it is preferable to compare, separately, wage and salary incomes in the different sectors and self-employed incomes in those sectors, and this is done below. First, however, it is of some interest to divide the economy into only three broad sectors — agriculture, industry, and services — and compare aggregate incomes in these areas. At this level data are available for Brazil and for Argentina and Mexico.

Even among these three broad sectors there are considerable and consistent differences in the functional breakdown. Self-employment is most important in agriculture, but the differences between the other two sectors are probably more significant. In both Argentina and Mexico (this breakdown is not available for Brazil), self-employment accounts for only about 10 per cent of the labour force in the industrial sector, but for fully 30 per cent in the services sector. Further, in Mexico there is a similar disproportion in the high income *empleado* group: only 10 per cent in industry, but 34 per cent in services, are *empleados*.

The aggregate income data for these broad sectors are shown in table 15. The differences in average incomes are small in Argentina, and sectoral differences are not an important part of the explanation of the income distribution structure in that country. In Brazil and Mexico the differences are much larger, but it is the gap between agriculture and the other sectors which is of primary importance. The difference between incomes in the industrial and service sectors in Mexico can be explained in terms of functional groups, and if data were available this would probably be true of Brazil as well.

Perhaps the most interesting aspect of these figures is that in each country it is the services sector which appears in the most favoured position. The average income is high there, particularly in Brazil and Mexico, and in all three countries the upper half of the distribution is dominated by that sector. This is contrary to the rather widely held impression that services in the region are a low income activity owing to the prevalence of marginal-type employment in the sector.

To some extent this situation might be regarded as exceptional. There is very little primitive or marginal-type activity in Argentina, so that this is not a major factor. In Mexico, primitive-type activity has remained concentrated in the agricultural sector to a somewhat greater extent than in some countries, and so is of somewhat lesser importance

in urban activities; and high income services related to tourism are much more important there than in most of the region.

But the position of the services sector is even more favorable in Brazil than in the other two countries; and the countries concerned are the three major nations of the region, and so can hardly be regarded as special cases. It is probable, rather, that this situation is typical nearly everywhere. Commerce is a major and relatively high income activity in nearly all countries; and the development of other services of a modern type — or closely linked to the modern sector so that they yield relatively high incomes — is very widespread. While it is certainly true that marginal-type services are very important in most countries, owing to inadequate remunerative employment, these may be a less important part of the total than is often assumed. The services sector as a whole appears to be commonly a high income sector in the region.

Table 15

INCOMES IN THE MAJOR SECTORS IN ARGENTINA, BRAZIL AND MEXICO

	Percentage of income units	Average income (total average = 100)	Composition of the different income groups				
			Lowest 20 %	30 % below the median	30 % above the median	15 % below the top 5 %	Top 5 %
Argentina : ^a							
Agriculture . .	17.1	85	28.6	23.6	7.6	12.8	15.7
Industry and construction .	33.6	100	22.9	36.5	38.8	30.7	24.4
Services	49.3	105	48.5	39.9	53.6	56.5	59.9
Brazil : ^a							
Agriculture . .	47.4	52	63.7	67.8	36.0	18.2	13.1
Industry and construction .	14.6	124	6.1	9.2	22.1	21.4	16.8
Services	38.0	150	30.2	23.0	41.9	60.4	70.1
Mexico :							
Agriculture . .	43.7	64	68.2	56.3	26.6	26.4	20.7
Industry and construction .	21.2	116	8.6	19.7	30.9	23.9	17.2
Services	35.1	133	23.1	24.1	42.4	49.5	62.1

^a The figures for Argentina and Brazil shown here differ somewhat from those shown in table 8. In the rural-urban data in table 8, inactive income recipients (retired persons and *rentiers*) are included in the non-agricultural figures. As inactive persons cannot be allocated between the industrial and service sectors, they are not included here, and the figures refer only to the active population. Information on inactive income recipients is not available for Mexico, and so the figures in the two tables are the same.

By considering separately wage and salary earners, on the one hand, and the self-employed, on the others, more detailed and meaningful information can be obtained for Argentina and Mexico, and this is shown

in table 16. For wage and salary earners, more sectors can be shown separately for Argentina than for Mexico. The figures show a very considerable variation in average incomes among these sectors, and this is not obviously correlated with levels of skill or training. There are three small sectors with very high average incomes: finance, public utilities, and mining. In the first two, practically all wage and salary earners are in the top half of the distribution, and while some miners are in the lower income groups, these do not include the petroleum workers. It seems unlikely that there should be no occupations in these areas which require relatively little skill or training, or even that the average requirements should be so much higher than in other sectors. It is much more probable that these small groups enjoy an advantageous situation which enables them to obtain incomes which are high in relation to the technical level required.

At the other extreme, agricultural wage earners have an average income only slightly more than half the non-agricultural average. There is relatively little variation in incomes, and wage earners in the sector fall almost entirely in the lower half of the distribution. Such variation as occurs is due as much to regional differences in wage rates as to changing rates for different jobs. Again it seems unlikely that there should be so little variation in levels of skill in agriculture, or that the average level should be so much lower than in other sectors. Agriculture is a high income activity in Argentina and utilizes substantial amounts of capital per person employed. It has been claimed that additional labour devoted to agriculture would yield a higher net increase in output than if applied in non-agricultural activities.

Wage incomes are low in important non-agricultural sectors as well. The average for domestic servants is of course very low; but wages in other services and in construction are also considerably below the average, and in these areas it is probable that special characteristics of the sector and also low levels of skill or training are an important factor.

Partial data indicate, further, that differences in wage levels within sectors may depend to an important extent on factors other than the degree of skill or training. For example, average wages vary considerably from one industry to another in the manufacturing sector. Wages tend to be low in the more traditional industries, and substantially higher in the newer ones. Again it is doubtful that this reflects only, or even mostly, different technical requirements. To take another important example, salary levels in the government sector appear to depend not only on the job to be performed, but also on the level of government — local, provincial, or federal — at which it is located.

Thus even in Argentina, where the primitive sector is not a major influence, there are substantial differences in wage and salary incomes which are not obviously correlated with levels of skill or training. The inequality, therefore, may well be rather ineffective in motivating wage

Table 16

SECTORAL INCOMES BY FUNCTIONAL GROUPING IN ARGENTINA AND MEXICO

	Argentina		Mexico	
	Percentage of total	Average income (non-agricultural average = 100)	Percentage of total	Average income (non-agricultural average = 100) ^a
Wage and salary earners :				
Agriculture	14.2	52	33.6	41
Mining	0.8	134	0.8	118
Industry	29.7	103	20.9	97
Public utilities	1.3	144	0.8	116
Construction	7.7	84	7.0	55
Transport and communications . .	8.6	111	3.9	87
Commerce	7.7	102	5.3	126
Finance	1.5	197		
Government	15.4	118	27.7	109
Domestic service	8.0	39		
Other services	5.1	69		
Self-employed :				
Agriculture	26.2	78	58.5	57
Industry and mining	24.4	109	4.9	153
Construction			0.8	147
Transport and communications . .	4.2	132	1.1	117
Commerce	28.6	98	21.0	84
Professionals	6.5	144	13.7	104
Services	10.1	39		

^a The index numbers are in relation to the average non-agricultural income within each functional group (that is, wage and salary earners or self-employed) in the country.

earners to acquire new skills or increase their competence. Nor is it clear that the inequality serves as an efficient signal to draw labour to the desired areas. Is it desirable to attract workers to the financial, public utility, and mining sectors and discourage them from remaining in agriculture? Probably not in the Argentine conditions.

In Mexico, fewer sectors can be distinguished, and if this is taken into account the variation in average wage and salary incomes is greater than in Argentina. To a considerable extent this can be attributed to the continuing importance of the primitive-type labour force in Mexico, and the fact that the pressure this exerts on wage levels varies from one sector to another.

To an important extent the average wage and salary income in a sector reflects the composition of the labour force. Sectors with a high average are mostly those with a high proportion of *empleados*. In commerce and in services *empleados* are more than half, and in the public

utility sector nearly half, of all wage and salary earners, and this accounts for three of the four sectors with relatively high average incomes. *Empleado* incomes are high in all sectors, and where *empleados* are a predominant part of the labour force the average sectoral income will automatically be high also. The only exception is mining, where the average income is high even though *obreros* represent over four-fifths of the labour force; high wage incomes here reflect the special situation of the mining sector, in Mexico as well as in most other countries.

In agriculture, construction, industry, and transportation, by contrast, the labour force is very largely made up of *obreros*, and the average wage and salary income is therefore lower.

Comparison of wage and salary incomes by sector in Mexico and in Argentina shows consistent variation in line with this structure of the paid labour force. Commerce and services are the two major sectors in Mexico where *empleados* are dominant — and these are also the two sectors where wage and salary incomes are higher, in relative terms, in Mexico. In agriculture, construction, industry, transportation and mining, where *obreros* make up the great bulk of the labour force in Mexico, incomes are relatively lower than in Argentina. The only exception to this sort of comparison is the small public utility sector, where the average wage and salary income is relatively low in Mexico despite the importance of *empleados* in the sector.

This suggests that the pressure from the substantial primitive-type labour force in Mexico tends to hold down relative *obrero* wage levels in all sectors to a much greater extent than in Argentina, where the primitive sector is not of major importance.¹² It is primarily the *empleado* group as a whole, regardless of sector, which is able to protect itself from this pressure and obtain relatively high incomes. The fundamental aspect of the inequality in wage and salary incomes in Mexico, and probably in other countries with an important primitive sector, is therefore the form of employment — whether *obrero* or *empleado*.

The inequality thus serves primarily as an incentive to obtain employment as an *empleado*. Only a little more than one-fifth of these fall in the entire lower half of the distribution, and nearly half are in the highest 20 per cent (less than 8 per cent of all *obreros* achieve this level). This is an incentive to acquire a particular type of skill rather than to increase levels of skill in general. To a considerable extent it places a premium on white-collar work, and this may even discourage rather than stimulate economic growth. Manual and technical skills are a major aspect of

¹² The division between *obrero* and *empleado* is available for Argentina only in the industrial sector, but there it fully confirms this statement. The composition of the labour force in the sector is the same — 12-13 per cent are *empleados* in both countries — but whereas in Argentina the average *empleado* income is 70 per cent above the *obrero* average, in Mexico the *empleado* in the industrial sector averages fully 2 3/4 times the income of the *obrero*.

growth, and these need generally to be acquired by those who work as *obreros*.

Among *obreros* there are some important sectoral differences in Mexico. Average *obrero* incomes in the various sectors, as a percentage of the non-agricultural average, are as follows:

Agriculture	50	Transportation	121
Construction	72	Commerce	127
Services	79	Public utilities	139
Industry	116	Mining	154

As was already noted, the average wage in mining is high. But the clearest division is between the relatively low wage incomes in agriculture, construction and services, and the much higher wage incomes in all other sectors. Primitive-type labour is concentrated in agriculture, and upon leaving that sector gains easiest access to construction and services; and so wage rates are depressed to especially low levels in these sectors.

Thus in Mexico, a rise in wage and salary income is to a large extent correlated with success in entering an activity in, or with close links to, the modern sector, and then, and very important, avoiding pressure from the primitive - type labour force. This, moreover, is likely to be the case in other countries as well where the primitive sector is still of substantial size. Pressure is most effectively sealed off by obtaining indefinite, contractual-type employment; thus it is the *empleado* group, in all sectors, which achieves the highest income. But there are further differences by sector for the *obrero* group. Apart from agriculture, where the primitive labour force is concentrated, it is particularly difficult to avoid the pressure in the construction and services sector, and no doubt in parts of the industrial sector as well.

In such circumstances inequality in wage and salary levels — and such inequality is very great in Mexico — is not likely to serve effectively and consistently as an incentive to acquire additional skills and training. This will be seen to be too often insufficient, and other factors too often more important, in obtaining higher incomes.

Self-employment incomes in the different sectors are also shown in table 16, but less can be said about this group. In Argentina the average, professional income, which does not really represent a sector, is the highest. Apart from that, differences in self-employed incomes can be reasonably explained on the basis of variations in the amount of capital employed. Differences among the three major sectors of agriculture, industry, and commerce are relatively modest, and it would appear that, if he can obtain capital, the entrepreneur rather freely enters whichever sector appears to offer the best return. There is no indication here — as there was among wage and salary earners — that the inequality may not serve as a stimulus to greater effort or efficiency. Higher incomes are

likely still to depend upon the availability of capital, but this does not appear to be a sectoral problem in Argentina.

Comparison with the Mexican data again shows the influence of the primitive sector. Most of the self-employed in Mexico remain in agriculture, with a very low average income, a reflection of the continuing importance of primitive-type self-employment in the sector. The great bulk of the remainder are in the commerce and services sectors, where low capital requirements permit considerable marginal-type self-employment; and incomes here are consequently lower than in the other non-agricultural sectors, although much higher than in agriculture itself. At the other extreme is the industrial sector, where generally higher capital requirements restrict entry and the average income is sharply higher. In Mexico only 5 per cent of the self-employed are in the industrial sector, with an average income more than 50 per cent above the non-agricultural average; in Argentina, by contrast, nearly one-quarter of the self-employed are in this sector, but with average incomes not very far above the non-agricultural average.

Detailed sectoral data of the sort presented for Argentina and Mexico can be very valuable in attempting to analyse the income distribution structure in a country, and also for numerous policy purposes. But at the level of abstraction which it is necessary to follow here, the sectoral approach offers fewer insights than the aspects treated in previous sections — functional, rural-urban, and regional differences. At this level sectoral differences themselves can be explained to a considerable extent by reference to functional aspects or the split between the modern and non-modern sectors of the economy.

But it must be borne in mind that this is due in part to the lack of appropriate data. With systematic data of the proper kind, a sectoral approach might yield greater insights into the degree to which the inequality in the region does or does not serve as a stimulus to economic growth and a better allocation of resources.

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