



**INCOME DISTRIBUTION AND POVERTY
THROUGH CRISIS AND ADJUSTMENT**

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Working Paper No.15**
September 1993

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386500008
Working Paper - ECLAC, N° 15
September 1993 C. 1

29 NOV 1993

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Resumen

Este documento analiza los costos distributivos de la crisis y los ajustes de los años ochenta, así como los efectos de la recuperación y el ingreso a senderos de crecimiento sostenido. Para ello se basa en pares comparables de estimaciones de la distribución del ingreso y en las estimaciones de pobreza de la CEPAL, para los diez países mayores de la región, predominantemente urbanos. El método de análisis consiste en comparar cambios distributivos y cambios en variables macroeconómicas y del mercado de trabajo durante fases macroeconómicas similares a lo largo del proceso de ajuste en diferentes países y, por otro lado, en comparar las situaciones distributivas en cada país, antes y después del ajuste. Se concluye que, si bien la recuperación y el abatimiento de la inflación están aliviando las situaciones de pobreza, el crecimiento de mediano plazo sin mejoramiento de la distribución del ingreso representará un proceso demasiado largo de reducción de la pobreza, y que hay bases para sospechar que la nueva modalidad de funcionamiento y las nuevas reglas de política pública de estas economías pueden implicar mayores desigualdades de ingreso.

1. Introduction.

Most Latin American countries are painfully recovering from the protracted crisis they suffered during the 1980s and from the traumatic adjustments they had to undergo in order to extricate themselves from it and to lay the bases for a new phase of sustained growth.

The net transfer of resources to the region, which before the crisis represented more than 2% of its GDP, suddenly became negative. Between 1982 and 1989, Latin American countries' net export of capital was equivalent to almost 4% of their aggregate GDP. The turnaround of the net transfer of resources was thus tantamount to a permanent pressure of 6% on domestic resources along the period.

After the external adjustment and recession that brought regional per capita product down 10% between 1980 and 1983, most Latin American economies wavered between recession and inflation, muddling through the debt tangle and its domestic sequels for most of the decade. At its closing, per capita product was still at the 1983 level and real national income per capita was 15% lower than in 1980. However, in 1991-1992 growth has been steadier, there have been signs of a reanimation of private investment along with the return of significant capital flows, the trend to price stabilization has generalized and most of the huge fiscal adjustments of the previous years have held fast.

Although in some cases stabilization processes still display some fragility, most Latin American economies are now working on new foundations. These are characterized by a firmer orientation towards exports (whose volume has, in many cases, at least doubled during the past decade), trade liberalization, fiscal austerity, more prudent management of monetary policy and greater reluctance to resort to public regulation of economic activity.

For the poor and the lower-middle income groups, the severe economic crisis of the 1980s involved damaging declines both in real incomes and in access to and quality of social services.

Almost all countries experienced acute redistributions of income among households during the decade of crisis, in most cases with regressive net outcomes at the end of the decade. On the other hand, regressive changes in relative incomes and the fall of real per capita income during the first half of the decade, when most economies suffered recessionary adjustments, or had just begun to recover, involved significant increases in absolute poverty, which only in a few cases were partially reversed with the stabilization and growth processes of the latter years.

Estimates for Latin America as a whole (ECLAC, 1991 and ECLAC, 1992) put at 41% the population living in poverty in 1980, increasing to 43% in 1986 and reaching 46% in 1990. Corresponding estimates of poverty incidence among households increased from 35% in 1980 to 37% in 1986 and 39% in 1990. This deterioration, however, is almost entirely attributed to the aggravation of urban poverty, which affected 25% of urban households in 1980, 30% in 1986 and 34% in 1990. This almost doubled the absolute numbers living in poverty in the urban areas, to 22.7 million households and 115.5 million people in 1990 (see table 2).

In contrast, the incidence of rural poverty in the region as a whole remained more or less stable during the decade, close to 54% of households and 60% of the rural population, with absolute numbers increasing slightly more than 1% a year, to 80 million people. Consequently, around 60% of the Latin American poor are now concentrated in urban areas, compared with less than half in 1980.

Recovery and the abatement of inflation are bringing relief on the poverty front, but there is increasing room for the suspicion that the new modality under which the economies are functioning and the new rules of public policy involve greater income inequalities and more precarious employment situations than in the past, in a certainly tighter fiscal environment.

1. The approach.

a) The database on income distribution and poverty.

Income distribution statistics in Latin America are of varied reliability and not straightforwardly comparable¹. Among the many factors distorting their comparability, underestimation of income affects differently both income levels and their concentration. In order to somehow sidestep this obstacle, the analysis of changes in the relative distribution of income is based on pairs of available estimates (which can be seen in table 4), selected for being similar -and, therefore, apparently comparable- with regard to the income concept, the technique for measuring income and the geographical coverage of the surveys used to collect the data, as well as to the units and criteria used by the respective authors in processing or adjusting the survey data². However, proven or

¹ See Altimir (1987) for a review and discussion of the reliability of income measurements from different types of surveys in Latin America and of their comparability problems.

² For a detailed compilation of the income distribution statistics available for each country and the selection of comparable pairs, see Altimir (1992). In particular the selection based on the similarity of data and their treatment allows one to compare Gini coefficients - and calculate their variations, as done in table 4 - which have been computed on the basis of similarly grouped data.

assumed differences in any of these aspects in many cases invalidate going beyond these pair-wise comparisons into simply pooling estimates.

Poverty estimates for the 1980s are those produced by ECLAC (1991a, 1991c and 1992a). They are the result of cutting estimated distributions of households by per capita income, previously adjusted for income underestimation³, by means of country-specific poverty lines representing minimum normative budgets of private consumption based on minimum food budgets that adequately cover nutritional requirements⁴. The poverty lines used for different years of the 1980s were held constant in real terms, a criterion that is acceptable for a period of recession and recovery⁵.

The present paper uses only headcount ratios as the poverty measure, which are available for several years of the past decade, for each country considered⁶. These are displayed in table 3, which also includes the incidence of extreme poverty or destitution, defined as the proportion of households with a per capita income less than the value of the minimum food budget.

These estimates actually build up national measures of poverty from urban and rural estimates. However, it should be borne in mind that headcount estimates for the rural areas are of considerably shakier quality than those for the urban areas. On the one hand, the norms used to draw rural poverty lines have an unavoidable urban bias, in spite of taking into account price and consumption rural-urban differences. On the other hand, available measurements of rural incomes and of their distribution are usually even less accurate than those of urban incomes from the same

³ For the method of adjustment applied, see Altimir (1987) and for the details of the adjustments, ECLAC (1991a).

⁴ See ECLAC (1991a) for details on these country-specific minimum food budgets and how they were set. Minimum food baskets were drawn on the basis of the composition of food consumption of those strata of households that in each country attained with some latitude the minimum nutritional requirements, although such reference baskets were adjusted to those minimums as well as to mean national availability of each foodstuff and deperated of high-price-per-calorie or nutritionally superfluous items. Therefore, the criterion to establish the minimum food baskets was one based on habits, taking into account availability and cost, rather than one of minimum-cost, taking into account availability and habits, used in Altimir (1979) for 1970.

⁵ For a discussion of the case for shifting poverty lines over periods of economic growth, see Altimir (1991).

⁶ ECLAC (1991a) also includes estimates of the poverty gaps, but only for 1986.

survey. Finally, some of the rural estimates are no more than educated guesses based on relevant but indirect data⁷.

The set of countries considered in this paper includes the major ones in the Latin American region as well as some others for which comparable inequality and poverty measurements are also available both at the beginning of the decade and at some later point of time. It excludes predominantly rural countries, like Guatemala and Honduras, for which poverty estimates were also produced by ECLAC, because the method of analysis used here and the variables on which it rests capture mainly urban phenomena, and the mere dimensions of rural poverty according to those estimates (affecting four fifths of the rural population and representing at least three fourths of all the poor) both underline the irrelevance of a urban-centered analysis and suggest that poverty measurement and analysis in such cases should be based on surveys, poverty yardsticks and explanatory variables more closely designed to rural conditions.

Income in this data base generally measures household disposable cash⁸ income, including primary incomes (wages and salaries and entrepreneurial incomes) and other money incomes (pensions, transfers, rentals, interest, etc.) after direct tax payments. It therefore excludes imputed income from public goods and services rendered free of charge or heavily subsidized and, hence, the redistributive effects of such public expenditure. These income measurements do not capture the incidence of indirect taxes on real incomes.

b) The method of analysis.

The above caveats should warn us not to confuse the map for the territory. Although our ultimate concern is with changes in social stratification and with disentangling those changes that are permanently reshaping Latin American societies from those related to peoples' transitory accommodations to hard times, we are able here to focus only on aggregate changes of the relative distribution of welfare and of the incidence of poverty, leaving out changes in the composition of households and in their economic strategies, including their ways of participating in the labour markets.

⁷ See Altimir (1991).

⁸ Incomes in kind and imputed incomes, such as receipts from family subsistence activities or rent of owner-occupied dwellings, are either explicitly excluded or so poorly measured as to be considered excluded in most of the surveys in the database, which are labour or income surveys. Only a minority of them are income and expenditure surveys, which may somehow measure such items (see Altimir, 1987).

Moreover, the analysis is limited to changes in the distribution of private income, excluding the distribution of social incomes (i.e., those accruing to households in the form of public goods or subsidies), thus focusing on the distributive results of peoples' participation in the productive process and of their institutionalized entitlements. This focus leaves in the shadows the immediate redistributive consequences of social policies implemented through public expenditure -not so the results of entitlements to social security payments- but captures both the short-term effects of economic policy on the distribution of income and the more mediate and eventual influences of public policy on the structure of incomes, as mingled as they may be with structural changes quite beyond the influence of policy.

With these limitations, I try to assess the distributive costs of the crisis and adjustments, which is more than "social costs" sometimes measured as losses in aggregate welfare, but is far less than total social costs, as long as we recognize that the social structure is more than the distribution of welfare and that living conditions are not only determined by income.

Assesing the costs of what, is another matter. The distributive changes recorded by available income distribution measurements incorporate the effects of adjustment, institutional changes involving policy reform and underlying restructuring processes, as well as those of failed adjustment and the acceleration of inflation. However, since the crisis of the 1980s is the counterpart of an epochal transformation of Latin American development, measured distributive losses are attributable to those transformation processes, including the periods of instability and inflation, failed policies or policies involving overadjustment, that have marked such processes in some countries.

The focus is not on the interaction of macroeconomic variables (which has been analysed elsewhere⁹), but on the relationships between changes of income distribution and poverty and processes of adjustment, policy reform and structural mutation underlying the changes of those macroeconomic variables.

However, neither the depth nor the characteristics of productive restructuring is adequately revealed by changes in the set of macroeconomic variables used, and their permanent distributive consequences can only hinted at by considering distributive situations after stabilization and adjustment. Likewise, the association of distributive changes with policy reforms is also explored in a broad way, given the methodological and time-related problems for linking both.

⁹ See, for example, Bianchi, Devlin and Ramos (1985; 1987) and ECLAC (1986).

Even though the distributive costs of external adjustment, stabilization, fiscal adjustment and economic restructuring are intertwined, the characteristics and sequencing of policy packages certainly make a difference as to the magnitude and duration of distributive losses¹⁰. However, income distribution and poverty estimates in our database are too scanty for obtaining more than very broad hints in this regard.

Moreover, in many instances the periods of analysis imposed by the availability of data include adjustment or stabilization policies followed by their failure and the acceleration of inflation, thus encompassing the distributive costs of both kinds of processes.

The basic assessment criteria I use here are, on the one hand, to compare distributive changes and changes in macroeconomic and labour market variables during similar macroeconomic phases along the adjustment process in different countries and, on the other hand, to compare the distributive situations before and after adjustment in each country.

Consequently, the analysis is carried out for different phases of the macroeconomic evolution of each economy during the 1980s, the underlying hypothesis being that different relationships between distributive changes and macroeconomic changes may hold during instability, recession, recovery and growth close to the production frontier. This stance, given the scarcity of distributional measurements for each country and the lack of uniformity as to their correspondence with similar macroeconomic phases, inhibits us from trying a formal econometric exercise.

The selection of macroeconomic variables has taken into account both availability and analytical relevance. The implicit conceptual model links changes of inequality with those in the following: real national income per capita¹¹, the real exchange rate as a proxy for relative prices, public consumption expenditure at constant prices¹² as a proxy for government employment and real wages, inflation, real urban wages and urban labour underutilization (i.e., urban unemployment and informal employment). Changes in urban poverty are, in turn, related to

¹⁰ See, for example, García (1991).

¹¹ i.e., per capita product after net factor payments and the effect of terms of trade variations; therefore, this variable incorporates the direct (i.e., accounting) effect of external shocks represented by changes in the terms of trade and in accrued interest on the foreign debt.

¹² That is, public consumption expenditure at current prices deflated by the GDP deflator, which is different from public consumption expenditure in real terms as estimated in national accounts, which in Latin American practice reflect, at best, government employment.

variations in real income per capita, inequality and the real minimum wage. Changes in rural poverty, on the other hand, are linked to changes of, real income per capita, agricultural product and the real exchange rate.

There are a number of measurement limitations that hinder a rigorous association between observed changes in income distribution and poverty and observed changes in macroeconomic variables. Foremost among them is that observed income distributions from household surveys of the type generally used for these estimates (i.e., labour surveys) measure incomes in a specific month of the year, whereas measures for most of the relevant macroeconomic variables are made available on a yearly basis, with quarterly data being much more difficult to obtain.

On the other hand, the years for which income distribution or poverty measurements are readily available do not always correspond to relevant phases of the conjunctural movements of the economy - which, moreover, in many cases have been numerous and often of different direction- or to spells when a specific policy package was in force.

The analysis of associations between distributive changes and macro variables focuses on the distribution of income and poverty in urban areas, with only a summary analysis of changes in rural poverty. There are various reasons for disaggregating the analysis. For one, as noted above, income distribution and poverty measurements at the national level incorporate or mix urban and rural measurements of very different degrees of reliability or accuracy, making the "constant bias over time" assumption less tenable. But also most macro variables available have a different relationship with either urban or rural incomes (e.g., the exchange rate) or a tenuous or remote relationship with rural incomes (e.g., unemployment or informal employment), or almost no bearing at all on them in the short run (e.g., urban wages); hence, analysis based on aggregate income distribution or poverty at the national level blurs their differential explanatory value.

Furthermore, for some countries or periods only measurements for urban areas are available. To be sure, this is a hindrance for distributional analysis. However, it is a less serious one than in other developing regions, since in most Latin American countries considered, more than 60% of the population is urban (being more than 80% in the Southern Cone countries and Venezuela) and less than half the poor are rural (20% or less in the Southern Cone and Venezuela).

Finally, the distributive changes of the 1980s are assessed also in the context of the previous trends of the 1970s, before the crisis, when different growth processes were in place and -in some countries- policy reforms were undertaken.

3. The record of the 1970s.

a) Inequality.

The analysis of changes in income distribution and growth in the main countries of the region during the 1970s (Altimir, 1992) suggests, as summarized in table 1, the following:

i) Countries which had very different degrees of income concentration at the beginning of the decade, but which experienced slow and unstable -or even disrupted- growth, like Argentina, Chile or Peru, suffered significant increases of inequality;

ii) In countries with moderate average per capita growth rates (between 2% and 3%) over the decade and in which income concentration, at its beginning, was intermediate, like Costa Rica or Uruguay, inequality increased;

iii) Three countries (Colombia, Mexico and Venezuela) with solid average -and, therefore, sustained- per capita growth rates (over 3% a year) improved significantly their previously high (Gini over .5) income concentration;

iv) On the contrary, the intense growth (close to 6% per capita a year) of Brazil during the 1970s was not accompanied by a reduction of the very high income concentration (Gini about .6) established during the previous decade.

b) Poverty.

Changes in the incidence of absolute poverty are dependent upon growth of average real income, changes in the distribution of income and also on the stance regarding the change of poverty norms over time¹³. Using comparable estimates of the incidence of poverty for 1970 and around 1980, with poverty lines both constant and shifting over time (Altimir, 1992), the following highlights (also summarized in table 1) emerge, for the sample of countries:

i) Argentina, Chile and Peru, a group of countries with increasing inequality and low and unstable growth during the decade -as a consequence of economic shocks and institutional disruptions- experienced either discouraging or outright dismal results on the poverty front. In Argentina the incidence of poverty at the national level may have increased slightly and in Peru even decreased, if the respective "educated guesses" about the decrease in rural poverty are accepted, but in both countries urban poverty

¹³ Contrary to the widespread fashion of using poverty lines constant over time in real terms, there is a strong argument for shifting even absolute poverty lines over time, in a context of growth and societal progress (see Altimir, 1991).

tended to increase. In Chile, the virtual explosion of poverty took place both in urban and rural areas.

ii) In the two countries which experienced moderate growth and increasing inequality (Costa Rica and Uruguay), urban poverty either remained unchanged or increased, with rural poverty decreasing or about constant, respectively.

iii) Those countries which attained high rates of per capita growth and decreasing inequality (Colombia, Mexico and Venezuela) show significant reductions of absolute poverty, both in the urban and rural areas¹⁴.

iv) Brazil's intense growth resulted in the reduction of poverty, even in spite of the lack of improvement of the relative income distribution; however, if some shifting of the poverty line is accepted, to allow for the eventual effects of such a growth process on the prevailing style of living, the incidence of poverty in urban areas would have roughly remained constant.

v) The incidence of poverty in the rural areas showed a downward trend through the 1970s in almost all of the countries considered, irrespective of the rate or stability of their growth, with the only noticeable exception being Chile.

vi) Rural-urban migrations, which were particularly intense in the 1970s, may have been more important than the improvement of economic conditions in the rural areas in explaining the absolute reduction of the rural poor in Argentina, Brazil and Venezuela. On the contrary, the last factor has been weightier than migrations in abating absolute rural poverty in Colombia, Mexico and Panama and the incidence of rural poverty in Costa Rica and Peru. In Chile, rural-urban migrations merely cushioned the rise of the incidence of poverty.

4. The 1980s: a tale of ten countries.

Income concentration and poverty increased in the urban areas of almost all Latin American countries during the 1980s, as is evident from tables 3 and 4. Colombia is the only unambiguous exception, while Mexico and Costa Rica appear to have somehow cushioned distributive deterioration caused by the adjustments of the decade, and Panama suffered only when disrupted by political and international conflict. Highly unequal Brazil has also undergone relatively less additional deterioration. Chile, Argentina and Uruguay experienced severe distributive losses, during different phases of their reform and adjustment processes of the last two decades, and their record of the 1980s has to be

¹⁴ Even shifting poverty lines -because of high growth-, poverty would have been reduced, although to lesser degrees.

considered in this context. Peru and Venezuela also suffered heavy distributive losses, from different combinations of shocks and policy failures. Changes in income concentration¹⁵ and urban poverty in each country and period are compared with changes in relevant macroeconomic and labour market variables in annexed table A1 and summarized in table 5.

The exceptional case is Colombia, where all available data show improvement of income distribution during the decade; between 1978 and 1988, a relatively slight reduction of income concentration among earners (Londoño, 1990); between 1980 and 1986, a significant decrease in the share of the upper decile of households, mainly in favour of the middle strata; moreover, up to 1990, that improvement deepened, favouring also the lower four deciles of households. However, the incidence of urban poverty in 1990 was roughly similar (around 35%) to the 1980 and 1986 marks.

These results are roughly consistent with the initial conditions before the crisis, the macroeconomic trends of the period and the traditionally prudent style of Colombian economic policy. When the systemic financial crisis of the 1980s broke, Colombia was not heavily indebted; adjustment did not take place until 1984-1985 and then policy managed it gradually and deliberately with the aim of at minimizing wage and employment losses. In fact, during the rest of the decade economic policy included job creation and sustaining wages among its objectives (García, 1991).

In 1986, the country's comparatively mild external adjustment had just been completed, real income per capita was already 5% higher than in 1980 and real wages were 12% higher. However, urban unemployment was 4 points (i.e., almost a half) higher than in 1980 and 2% more of the urban labour force (i.e., 27% of it) was employed in informal activities. The 1986-1990 period has been one of growth with stability, of sorts, for the Colombian economy, with the macroeconomic situation deteriorating somewhat in 1990. Real income per capita expanded more than 4% over the period, with exports, public consumption expenditure and private consumption leading the expansion. Unemployment correspondingly decreased (by

¹⁵ Even reliable income distribution measurements are not able to capture income of the country's residents accrued on assets abroad. Capital flight during the initial years of the crisis has been substantial, particularly in Argentina, Mexico and Venezuela (See Cumby and Levich, 1987). With yields current at the time, property income on assets accumulated abroad by the private sector of those countries may have represented around 3% of household disposable income in Argentina and Mexico and as much as 5% in Venezuela. These proportions have most likely increased the share of the upper decile or quintile on total household income, adding to the changes recorded in Table 4 for the first half of the decade. Similarly, the later fall of the international interest rate and related yields should have represented an inverse change (of about half the previous one) of the "total" (i.e., from domestic and foreign sources) share of the upper-income groups.

more than 3 points) as did the importance of informal employment, but real wages increased slightly up to 1989 and decreased significantly only in 1990.

In Mexico, available measurements show a significant decrease in inequality, accompanied by a reduction of poverty at the national level, between 1977 and 1984, and a subsequent deterioration between 1984 and 1989, a period during which the Government's policy stance radically changed¹⁶. The 1984 observation falls in the midst of the first programme of adjustment and stabilization, at a time when a moderate economic recovery from recessionary adjustment was taking place (Lustig, 1992). However, the real wage had dropped almost 30% in two years, and per capita public consumption expenditure had decreased 14%. It is likely that the improvement in concentration with respect to 1977—beyond the ever-present possibility that the two measurements are not comparable—conceal a deterioration from a substantially better distributive situation reached during the period of vigorous growth (6% a year) prior to the crisis, particularly in the urban areas.

Be that as it may, there is evidence of an increase in inequality between 1984 and 1989, when the Mexican economy was recovering to a moderate rate of growth with inflation under control, after absorbing an oil shock (real national income per capita was still 7% lower than in 1984), and in a period when fiscal discipline and policy reforms were progressively gaining ground. Over this span, per capita public consumption expenditure was reduced more than 30% in real terms and urban real wages declined a further 26%. At the same time, unemployment dropped to levels below those during the oil boom and informal employment increased 10 points, to more than 30% of the non-agricultural labour force. Both developments, consistent with the remarkable flexibility of real wages, must have cushioned the impact on the incomes of poor and lower-middle households (Lustig, 1992).

Costa Rica has been traditionally characterized by political and economic stability and the adjustment of its economy during the 1980s was significantly aided by official transfers from the United States. Nevertheless, the distribution of urban incomes worsened between the beginning and the end of the decade, although the improvement of rural incomes may have helped to preserve the previous concentration of income at the national level¹⁷. The deterioration that took place between 1981 and 1988 was only

¹⁶ On this regard, see Lustig (1992).

¹⁷ Morley and Alvarez (1992) argue that the real devaluation that was required for external adjustment presumably increased agricultural wages after 1981, although the bulk of the devaluation occurred in that year. They also verify that between 1981 and 1989 rural nominal incomes in the lower deciles of the national distribution increased more than those of urban households in the same deciles (cf. tables 7b and 7c).

partially reversed during the following biennium, the reversal having favored the middle strata more than the poor. Consequently, urban poverty increased significantly between 1981 and 1988, and advanced somewhat further up to 1990.

During the recessionary external adjustment of 1981-1982, there is evidence that impoverishment was acute, while later stabilization and recovery in 1983-1986 brought about a decrease in absolute poverty, to levels of incidence close to those prior to the crisis (Trejos, 1991). At least, this appears to have happened at the national level; real devaluation may have increased the incomes of the rural poor, as argued by Morley and Alvarez (1992), and the real rise -after the adjustment- of wages in formal activities may have improved the situation of the lower-middle strata. On the other hand, the deterioration of real incomes in informal activities -which had expanded- may have increased the number of the urban poor¹⁸.

In the later period, marked by policy reform (specially trade liberalization) and unstable expansion, available evidence indicates a relative stabilization of poverty incidence at the national level¹⁹, but also -as already indicated- a tendency for urban poverty to increase, in the context of a reduction of the real wage, the sliding of real income per capita and a relative real constancy of the exchange rate. On the other hand, expansion of public consumption expenditure in real terms (20% per capita) must have helped the observed improvement of the relative position of middle income groups.

The external shocks that ignited the crisis in other Latin American countries had a lagged and milder impact on the economy of Panama, which only suffered a brief stagnation of economic activity in 1983/84. In spite of a 23% rise of real income per capita and a 14% increase of real wages, between 1979 and 1986 urban poverty fell only slightly, to less than 30% of households. The political crisis cum international conflict that pushed the Panamanian economy into recession in 1988-1989, brought real income per capita to 5% below the 1979 level -although this was not so with real wages-, reduced per capita public consumption expenditures more than 20% and widened open unemployment 10 percentage points of the urban labour force. With this, the concentration of income significantly increased, as did poverty, to 34% of urban households.

¹⁸ Morley and Alvarez (1992) indicate a sharp deterioration of nominal wages in non-basic services relative to industry, among urban households, between 1981 and 1986 (see their table 7h).

¹⁹ See Trejos (1991) and ECLAC (1992a).

The already highly unequal income distribution of Brazil, which had not improved during the previous decade of high growth, worsened further during the 1980s. The inequality of the distribution of household income remained relatively stable during the 1981-1983 recession and later recovery, having improved slightly and briefly in 1986, in the milieu of growth and temporary stability created by the Cruzado Plan. On the contrary, between that year and 1989, with the acceleration of inflation and the beginning of the present recession, income concentration increased. However, there is evidence (Hoffman, 1992) that in 1990 inequality of household income decreased somewhat.

Consequently, the distribution of income in 1989 was more concentrated than in 1979, and poverty affected 5% more of urban households, while real national income per capita and industrial wages were at about the same level as at the end of the previous decade, but unemployment had risen by more than 3 percentage points, as did also informal employment. On the other hand, expansion of public consumption expenditure (55% per capita, between 1979 and 1989) must have helped to cushion the relative deterioration of middle income groups. The fall of economic activity and incomes in 1990, which was accompanied by a 20% real reduction of industrial wages, increased urban poverty by 4 additional points, to almost 39% of households.

External shocks and policy reforms under the authoritarian rule of the Pinochet regime, along with ensuing instability and low average growth, caused major changes in income distribution and poverty in Chile, during both the 1970s and the 1980s. Income distribution suffered a significant deterioration; not only was the short-lived redistribution that lasted up to 1974 reversed, but the distributive pattern in Chilean society underwent a metamorphosis.

By 1980, after the recovery from a deep recession (per capita GDP was only 6% higher than in 1970), the implementation of a radical trade liberalization programme, the reversal of agrarian reform, and institutional reforms that allowed for greater labour market flexibility but also for labour repression (French-Davis and Raczynski, 1987), the upper decile of households was receiving at least five points more of total income than in 1968, to the detriment of the shares -and real incomes- of both the middle and lower strata. Real wages were still more than 10% lower than in 1970, 17% of the labour force was unemployed and 28% was in informal activities. Absolute poverty virtually exploded, both in the urban areas -from 12% in 1970 to around 28% in 1980- and in the rural areas, bringing the incidence of poverty at the national level to about 30% of the households (Altimir, 1991).

During the 1982- 1983 crisis, existing inequality was further aggravated -although perhaps marginally, with respect to the increase of the previous period- and urban poverty increased even

more²⁰. Deterioration may have continued until 1987, when real income per capita and real wages were respectively still 12% and 5% lower than in 1980, per capita public consumption expenditure had shrunk more than 30% and unemployment still affected 17% of the labour force, even while the share of informal activities had been reduced. Under those circumstances, urban poverty had risen by about 4 points (14% on a per capita basis) and the distribution of income had been further concentrated in favour of the upper quintile, whose share of expenditure increased by almost 4% of the total with respect to 1978, to the detriment of those of the middle and lower strata, the latter having suffered a relatively greater loss.

Only between 1987 and 1990, with the Chilean economy reaching full capacity utilization and progressive reforms of the labour laws, did the distributive picture improve somewhat. Real per capita income increased 18%, real wages rose 11% and unemployment was reduced by almost 6 points, to about 7% of the labour force. Notwithstanding this performance, urban income concentration decreased slightly, in favour of the lower income groups, and urban poverty was reduced by 2 points; rural poverty decreased more significantly, bringing the incidence of poverty at the national level to less than 35% of households.

Major distributive changes have also taken place in Argentina since the 1970s, under successive spells of economic instability and political disruption. After the advent of a military regime in 1976, policy reforms were introduced to liberalize prices, trade and the financial market, but not employment and wages (which were repressed for most of the period). Economic activity followed a stop-go pattern in the context of a high-inflation regime, in spite of the overriding anti-inflationary policy stance which permeated three successive programmes (Canitrot, 1981).

Between 1970 and 1980 income concentration significantly increased: the upper decile of households enlarged its share of total income by almost 5 points, while the lower strata lost almost 3 points. Urban poverty increased by 2 points, to 7%. Most of this deterioration, however, took place after 1974²¹. In 1980, real income per capita was roughly similar and real wages in manufacturing were still 14% lower than in 1974, while unemployment was very low.

²⁰ Pollack and Uthoff (1987) estimate a 8 percentage points (from 40% to 48%) increase of absolute poverty in the Greater Santiago.

²¹ See Altimir (1986) for the evolution of income distribution and Beccaria and Minujin (1991), for the evolution of absolute poverty during the period.

The sizeable fluctuations in economic activity, the magnitude of the external shocks and ensuing adjustments and swings in relative prices, associated with high and accelerating inflation during the 1980s, were accompanied by movements of the relative distribution of income, although perhaps not as intense as macroeconomic ebb and flow (Beccaria, 1991). By 1986, income concentration had further increased with respect to 1980, involving a dramatic change from the beginning of the 1970s: the share of the upper decile had been enhanced about as much as it had in the previous decade, but this time at the expense mainly of the middle-level strata. Urban poverty had increased 6 points (i.e., almost double), to more than 12% of households. Although the economy was recovering under a successful stabilization programme, real per capita income was 22% below the 1980 level, unemployment was 3 points higher and informal employment 2 points higher; on the other hand, the real wage was 6% higher than at the beginning of the decade.

After 1986, the acceleration of inflation and the fall in real wages were accompanied by a further deterioration of the relative income distribution, which culminated in 1989; with the burst of hyperinflation and recession reaching its trough, concentration stood at its peak. In 1990, income concentration among individual recipients receded to the still high level reached in 1988 (Beccaria, 1991). Between 1986 and 1990, poverty may have involved an additional 6% of urban households (an increase of more than 50% on a per capita basis) and improved only in 1991, when prices stabilized and economic recovery began.

Uruguay is the other Southern Cone country in which policy reforms were already undertaken in the 1970s, under authoritarian rule, with significant distributive consequences. Starting in 1974, the financial market was liberalized and price controls were gradually eliminated, while wages continued to be administered; since 1979, a trade liberalization programme was put into effect. The 1973-1981 period was one of relatively high growth (3.4% per capita a year); nevertheless, the distribution of income deteriorated sharply between 1973 and 1979 -at the expense of both the middle and lower strata- improving somewhat later, only to the benefit of the middle income strata. This evolution closely followed that of the relationship between real national income per capita and real wages: the former increased 12% between 1973 and 1979, while the latter dropped 32%; between 1979 and 1981, real income expanded 4% but real wages rose about 17%. On the other hand, urban poverty increased by 4 percentage points (40% on a per capita basis) between 1970 and 1981.

External shocks and ensuing adjustments slashed real per capita income by 19% between 1981 and 1986; the real wage fell 8% and unemployment increased 4 points, while per capita public consumption expenditure was reduced more than 30%. Income concentration increased again, and urban poverty expanded by 5

additional percentage points, to 14% of households. As a result of economic recovery and later stagflation, real per capita income in 1989 was 13% higher than in 1986 and the real wage was 6% higher, while unemployment had decreased 2 percentage points. Consequently, the distribution of urban incomes improved and urban poverty decreased by 4 percentage points. Thus, at the end of the decade, the relative distribution of income and the incidence of absolute poverty were roughly similar to those at its outset, while real wages were substantially lower and unemployment somewhat higher than in 1981.

Continuing deterioration of real national income in Venezuela between 1980 and 1986, caused by the fall of oil revenues, and ensuing reduction (around 20%) of real wages and per capita public consumption expenditure were accompanied by a significant worsening of the distributive situation. Between 1981 and 1986 urban poverty increased 7 percentage points (almost 40% on a per capita basis) while the relative distribution of income also became more unequal.

Economic policy failed to adjust to the fall of oil prices in 1986; external and fiscal imbalances widened and the rate of inflation tripled. The orthodox stabilization programme implemented at the beginning of 1989, along with the first trade and price liberalization measures of a programme of policy reform, brought a recession and sharp falls of public consumption expenditure and real wages, while previous gains in employment were reversed and informal activities expanded. Consequently, poverty increased²² and income distribution apparently "equalized downwards". The rise in oil earnings caused by the conflict of the Gulf in 1990, and ensuing public expenditure in 1991, fueled an extraordinary -and unsustainable- expansion of economic activity. This, however, was mainly to the advantage of the upper-middle strata; urban poverty in 1990 was still 9 percentage points higher than in 1986 and 16 points (i.e., almost double) than that of 1981. On the other hand, there is evidence indicating that by 1991, poverty -at least at the national level- may have receded somewhat²³.

The worsening income distribution in the urban areas of Peru in the 1970s was aggravated during the 1982-1985 crisis and external adjustment, in a context of increasing violence. By the end of 1985 and the beginning of 1986, when the economy was recovering under the drive of an unsustainable heterodox stabilization programme implemented by the newly elected Garcia's government, real national income per capita and real wages in the

²² Marquez (1992) estimates poverty at the national level at 28% of households in 1985, 32% in 1987 and 41% in 1989.

²³ Marquez (1992) puts poverty incidence at the national level at 35% of households, compared with 41% in 1989, a point where it was no doubt higher than in 1990.

private sector were still 9% and 5% lower than in 1979, whereas an additional 10% of the non-agricultural labour force was employed in informal activities (reaching more than 40%). At the time, urban poverty still affected 45% of urban households, 10 percentage points more than in 1979.

Although there are no comparable observations for later years, there is some evidence that by 1990, in the midst of hyperinflation and economic collapse, poverty may have expanded by more than half with respect to 1985-1986, worsening even further in 1991, when Fujimori's government put in place the present stabilization programme²⁴.

5. Rural poverty.

For most of the countries in our sample there is evidence of a decrease -however slight, in some cases- in the incidence of rural poverty through the 1980s, thus somehow at least inertially continuing the trend towards abatement of rural poverty that was manifest in the previous decade. The only clear exceptions are Panama and Venezuela, where that trend appears to have reversed itself by the end of the 1980s, and possibly Argentina, for which a slight increase in rural poverty has been estimated. Chile is a special case, where the rural impoverishment of the 1970s continued well into the following decade, only to be reversed in the latter years (see table 3).

Those exceptional increases are associated with falls in real per capita income, but the reverse does not hold: of nine recorded spells of rural poverty reduction, in only four²⁵ real national income per capita increased, in the remaining five, rural poverty decreased along with real national income falls. On the contrary, there is a close association of rural poverty reduction with expanding agricultural output, which holds in eight of the nine spells, suggesting that peasants somehow share general rural prosperity. However, going against conventional wisdom²⁶, the association is weaker with real devaluation of the exchange rate,

²⁴ See Figueroa (1992), table 2 and Abugattas and Lee (1991), table 4. On the other hand, the comparison of the distributions of Lima households by size of per capita consumption expenditure, from the 1985-1986 and 1990 LSMS surveys (Psacharopoulos and others 1992), shows little increase of inequality between the two observations; this may reflect another case of "downward equalization" by recession, with the real consumption of the poor falling by almost 7% a year and the real consumption of the richer decile by almost 6% a year.

²⁵ Brazil 1979-87, Colombia 1980-86, Chile, 1987-90 and Panama 1979-86.

²⁶ At least, without allowing for time lags between real devaluation, reallocation of resources to tradables, ensuing expansion of agricultural output and eventual participation of peasants and laborers in such expansion.

since it is observed only in four of the cases, and in most of them with low parameters (see table 6).

All this suggests that, in the absence of major institutional reform²⁷, slow-moving structural changes in the rural milieu affect the process of reduction of rural poverty more than short-or even medium-term changes in macroeconomic variables, although these may be able to slow down or even temporarily reverse such process.

Those slow-moving changes are in part reflected in the continuous transfer of rural poverty to the urban areas through migrations. In the 1980s, these were less intense than in the previous decade, but anyway they were substantial. In most of the countries, rural-urban migrations were the main force sustaining the Trend/Towards the reduction of poverty in rural areas, although they may not have been sufficient -as they had been in the 1970s- to prevent the absolute increase in the rural poor.

6. Transient and permanent changes of income distribution.

In order to shed some light on whether and to what extent changes of inequality during the decade of crisis and adjustments may be permanent, it is crucial to consider the different macroeconomic phases through which Latin American countries have passed and which are the structural circumstances in which each of them is at present, as well as the nature and depth of policy reforms undertaken. Changes of macroeconomic and labour variables and distributive changes in selected periods corresponding to different macroeconomic phases of the 1980s are summarized in table 5.²⁸

a) Income distribution and poverty in different phases of adjustment processes.

i) **Recessive adjustment to external shocks** at the beginning of the decade has had adverse effects in terms of inequality and devastating effects on urban poverty across Latin America. Income concentration certainly increased in Argentina, Chile, Uruguay and Venezuela and perhaps also in Costa Rica and Mexico, while in Brazil inequality apparently remained invariant through the rapid adjustment of 1981-1984²⁹. In all these cases urban poverty

²⁷ Such as agrarian reform, as in Peru, or its reversal, as in Chile, both in the 1970s.

²⁸ The macroeconomic phases corresponding to the periods selected according to the availability of comparable income distribution or poverty measurements are included in table 3 and 4, and the changes of macroeconomic and labour variables recorded over those periods are indicated in annexed table A.1, as well as the policy reforms carried out in each period.

²⁹ See Hoffmann (1992).

increased during adjustment, along with underutilization of the urban labour force³⁰ (which rose between 10% and 20%, depending on the country) and with sizeable falls of per capita real income, real average wages³¹ and real per capita public consumption expenditure.

Colombia stands out as an exception, in part due to its lesser initial debt burden. The economy went through a smooth external adjustment -even with real currency appreciation- and reduction of inflation, which allowed for real rises of minimum and average wages, and even for the real expansion of per capita consumption expenditure. Such was the background for a likely improvement of income distribution and the lack of aggravation of absolute poverty. Although Panama also underwent a mild adjustment in 1982-1984, with rising real wages but an increase of unemployment, in this case we do not have a clue about the distributive changes over that period.

ii) Recovery after external adjustment only in some countries brought relief on the poverty front. In Brazil, it can be associated with the cumulative rise of real per capita income (close to 20%) and real wages (37%), and with decreasing labour underutilization, in spite of a probable increase of inequality³². If Peru also experienced a slackening of urban poverty during this phase -which is not really known, but just plausible- it may have been due to a similar configuration of changes in the level of activity and the labour market. The decrease in poverty in Uruguay -along with inequality- and perhaps in Costa Rica and Panama, and the possible maintenance of its -already reduced- incidence in Colombia, are also associated with changes of income and the labour variables in the same sense, although less spectacular in magnitude³³.

³⁰ The indicator of underutilization of the urban labour force used here is the sum of the rate of open (urban) unemployment and the proportion of the non-agricultural labour force in informal activities, estimated by PREALC.

³¹ In Argentina, however, the real wage recovered and the minimum wage jumped in 1983, at the end of the disintegrating military regime, even with accelerating inflation. In Chile, the real average wage (in formal activities) rose up to 1982, in the context of moderate inflation, high labour underutilization (almost half of the non-agricultural labour force) and a new labour regime that granted total flexibility in the labour market (García, 1991).

³² However, the conspicuous increase of real per capita public consumption expenditure (42%) must have improved the relative position of some middle income strata.

³³ Mexico's brief and mild recovery in 1984 did not significantly alter the results of the previous recessive phase, although "the very circumstances that triggered (it) contributed in part to its demise" along with worsening the terms of trade in 1985 (Lustig, 1992; pp.34-36).

On the contrary, recovery in Argentina, Chile and Venezuela was accompanied by further increases in urban poverty, although for different reasons. In Argentina, the unsteady and only partial recovery and the increase in unemployment and informal labour apparently outweighed the modest rise in the real wage and the temporary abatement of inflation. Also in Venezuela, until 1989, the recovery had been partial and subject to adverse external shocks, with accelerating inflation; on the other hand, shrinking (-38%) real wages and per capita consumption expenditure (-20%, in real terms) prevailed over a very modest decrease of labour underutilization; such was the setting in which increases of inequality and of urban poverty occurred. In the case of Chile, complete labour market flexibility allowed for equity deterioration in the medium run; the 1983-1987 recovery was vigorous and underutilization of the labour force decreased significantly - although it still remained above a third of the urban labour force - but the real wage and per capita public consumption expenditure barely hold, in a context of moderate and roughly constant inflation; both inequality and absolute poverty increased.

iii) Those countries which again plunged into recession, after recovering from external adjustment, due to pervasive internal imbalances, additional external shocks and accelerating inflation cum stabilization efforts, experienced even further increases in inequality and absolute poverty.

In Argentina and Peru such imbalances drove the economies to hyperinflation, and in Brazil to the brink of it; real incomes and wages plunged and labour underutilization increased, as also did absolute poverty and income inequality. Getting out of hyperinflation in Argentina in 1990 stopped the fall and even brought some marginal improvement of inequality, although it did not prevent a further increase in poverty. The acceleration of inflation in Brazil took place along with some economic expansion and further increases in per capita public consumption expenditure, although with stagnated real per capita income and falling real wages; however, the 1990 stabilization package brought about disinflation with recession, which apparently increased poverty further.

External shocks in 1985-1986 and stabilization efforts in Mexico also determined a new recessionary spell; the increase in informality and the drop in real wages suggest the possibility of a further enhancement of urban poverty and -jointly with the fall in per capita public consumption expenditure- also that part of the observed increase in inequality up to 1989 may have taken place during this period. Panama's deep recession of 1988-89, triggered by political and international conflict, increased urban poverty and possibly also inequality.

iv) The two cases of stabilization and recovery from high inflation and recession in the late 1980s (Argentina in 1990-1991 and Mexico in 1987-1989) included moderate increases in real income and in the utilization of the urban labour force and also moderate reductions in real wages. In the case of Argentina, urban poverty decreased from the high level of incidence attained during the previous spells. In the case of Mexico, there is no evidence of a similar abatement of poverty or of a decrease of inequality.

v) In almost all of the few observable instances of sustained or even unsustainable growth after recovery, such circumstances brought about an improvement in the relative income distribution and some decrease in urban poverty. Only in Costa Rica in 1990 did urban poverty rise, with the acceleration of inflation and particularly the elimination of subsidies and the increase in public services rates. In Both Colombia and Chile inequality and poverty decreased; in the later case the rises of real incomes and wages were more substantial, but in Colombia real per capita public consumption expenditure expanded. In Venezuela, there are indications of a reduction of income concentration in 1989-90, in spite of falling real wages and increasing unemployment.

b) Policy reforms and income distribution.

Economic policy reforms generally oriented to facilitate or promote sustainable growth on the basis of freer trade and private investment may have a share of the short-term effects on income distribution of the package of stabilization and adjustment policies through which they have been implemented. Moreover, some of these effects may have been imposed by the political economy of reforms for them to take root. In the longer term, the consequences of reform can have negative distributive effects if a trade-off between growth and a more equitable distribution of income is observed, or is expected on the basis of the pattern of growth promoted by the particular reforms undertaken.

Moreover, while presently there is a blueprint for market-oriented reforms, broadly reflected in the World Economic Report 1991 (The World Bank, 1991), which has a pervasive influence, there is not in fact a common "model" of policy reform being applied by all countries of the region. While all pursue goals of macroeconomic stability and international competitiveness, they have shown wide differences in their strategies of reform, in terms of the institutional content and the style of State intervention involved as well as the mix and sequencing of particular reforms.

Policy reforms carried out in Southern Cone countries in the 1970s, in combination with stabilization programs³⁴, coincided with increases in income concentration and aggravation of urban poverty

³⁴ For a comparative analysis of those reforms, see Corbo and de Melo (1987).

(see table 5). However, their longer term associations with growth and income distribution are blurred by the ensuing crisis and the course of adjustment in each case.

In Argentina, trade and financial liberalization reforms were reversed or suspended at the beginning of the crisis (Canitrot, 1993). The complex later story of instability with recurring efforts to adjust the economy and stabilize prices includes the continuing deterioration of distributive equity, underlined above. A new programme of stabilization and policy reform was just put in place in 1989 and consolidated in 1991.

In Chile, reforms were resilient enough to be maintained, with only a partial reversal of trade liberalization during the 1983-1984 crisis (Meller, 1992), and a second wave of reforms took place after 1984. The structural effects of the sweeping policy reforms undertaken in this country are manifold, but they can fairly be summarized as having eventually resulted in a stable and growing outward-oriented economy with substantially greater income inequality.

In Uruguay, financial liberalization in 1974-1979 was consolidated and supplemented by trade liberalization in 1979-1981. Over the medium term, those reforms appear to have facilitated growth under a regime of "controlled instability", while income distribution has tended to regain its previous (relatively) low concentration pattern.

In 1985, after a shock stabilization policy, Costa Rica started its gradual programme of structural reforms, along with measures to reduce its social costs. These appear to have been mainly transient, as far as relative income distribution is concerned, now that the economy is back on a medium-term growth path to recover the pre-crisis level of per capita income.

In 1987, after renegotiating its external debt, Mexico stepped up its gradual policy reform strategy, enhancing trade and financial liberalization, along with fiscal reform. Up to 1989, inequality had contemporaneously increased, as already noted, although apparently not to a degree much greater than that existing in the late 1970s.

Market-oriented policy reforms were launched much more recently in the other countries: in 1989 in Argentina and Venezuela and in 1990 in Colombia and Peru. That circumstance hinders any assessment of their association with changes in income concentration, beyond those related to the macroeconomic evolution of each economy during the period.

Full empirical verification of whether the economic restructuring promoted by these policy reforms and by the new structural circumstances involves a more unequal distribution of

income will have to wait for the long term deployment of their effects. For the moment, we can only consider what appear to be the "normal" or more or less "stable" distributive structures once each economy regains a sustained growth path.

c) Permanent changes in income concentration.

Consider first the countries that have already attained a stage of full-capacity growth. Colombia is the only one in which income concentration at that stage is lower than before the crisis. On the other hand, in Costa Rica in 1990 urban inequality was only slightly higher than in 1981. In both countries, the real wage and per capita public consumption expenditure were higher than at the beginning of the decade (see table 7).

On the contrary, in Chile, after regaining a medium-term growth path, the structure of incomes is significantly more concentrated than prior to the crisis and certainly much more than the relative income distribution prevalent at the end of the 1960s, before the socialist-populist experiment and the authoritarian structural reforms of the 1970s (see table 4). This is true in spite of an almost recovered real wage. Also, in Venezuela, income concentration is higher than before the crisis, after recovery evolved into rapid albeit unsustainable growth; in this case, both real wages and per capita public consumption are substantially lower than before the crisis.

Although not yet on a full-capacity growth path in 1989, Mexico and Uruguay were approaching the culmination of their respective recoveries; at that stage, income inequality had nearly returned in both cases to pre-recession levels³⁵. In Mexico, this was in spite of drastic reductions in real wages and public consumption expenditure, while in Uruguay both variables were more moderately eroded.

The countries that were still labouring under recession and instability (Argentina, Brazil, Panama and Peru) at the end of the 1980s showed degrees of inequality substantially higher than those prevailing before the crisis. Stabilization and recovery in Argentina brought only a slight improvement of income inequality, which still remained at a high degree relative to the pre-crisis level, which was substantially higher than the one prevalent before the disruptions of the 1970s. On the other hand, in the spells of recovery after external adjustment, income distribution improvements—where they existed—took place only along with real wage increases, as outlined above; these are less likely to occur

³⁵ However, if pre-recession (ca. 1981) inequality in Mexico was even lower than the degree observed in 1977, as suggested earlier, post-recovery inequality would have been somewhat higher than that previous mark.

during the stabilization processes still to be faced by Brazil and Peru, and did not occur during the current Panamanian recovery.

Therefore, one should not expect significant equity improvements in these countries as a consequence of stabilization and recovery. Even more, full deployment of policy reforms and associated adjustment measures—particularly on the fiscal front—may still bring some medium-term enhancement of income inequality. Furthermore, if the experiences of Colombia and Chile are taken as exemplary, all these countries can expect a modest attenuation of income inequalities only later, when they attain a sustained growth path.

In sum, "normal" distributive patterns in the coming phase of sustained growth, when it materializes in most Latin American countries, once these countries have recovered from the crisis and its sequels, completed structural adjustments and deployed policy reforms, tend to be more unequal—at least in the urban areas—than those prevailing in the last stages of the previous growth phase, during the 1970s.

Only Colombia, Costa Rica and Uruguay—and, just possibly, Mexico—have managed to restore their previous degrees of inequality (see table 7). It is hardly by chance that such a thing happened in countries in which social justice values have traditionally impregnated institutions, equity objectives have been rather consistently incorporated in policy design throughout the adjustment phase and both adjustment and policy reforms have been approached gradually and pragmatically³⁶. This suggests that the tendencies that increase inequality of primary earnings (before the eventual corrections involved in public social spending) can be positively corrected by economic policy design and implementation.

7. Prospects for poverty alleviation.

Even with no significant changes in the relative distribution of income³⁷, absolute poverty will be reduced by economic growth; more quickly—at least in economists' estimates— if constant poverty lines are used, or more parsimoniously if shifting poverty yardsticks are deemed normatively more appropriate.

³⁶ The gradual approach has been abandoned in Mexico in the last phase of the reform process, but then this process came under the incorporation of the country into NAFTA, a strategic jump that, when completed, will radically change the structural conditions of the Mexican economy and, among them, its distributive structures.

³⁷ Including, to be sure, no changes either of the composition of households or of their work and resource utilization strategies, which is a highly artificial assumption.

The record of the 1970s, outlined earlier, shows urban poverty decreasing only in rapidly growing economies, which either maintained or reduced the concentration of their household income. In Colombia, Mexico and Venezuela, where equity improved, the reduction of urban poverty showed elasticities of $-.5$ to -1 with respect to the increase in real per capita income and of $-.4$ to -2 with respect to real wages. In Brazil, with no significant improvement of income concentration, such elasticities were much lower (see table 8).

Recession and recovery in the 1980s left most Latin American countries with a -sometimes gapingly- higher incidence of poverty in urban areas than before the crisis. Only Colombia and possibly Mexico were able to end their respective recovery phases with less urban poverty than before the recession, in both cases because of a decrease of inequality (see table 7).

Available poverty estimates seldom allow for sharply differentiating recessive spells from recovery spells. When it does, the beneficial effects of recovery on poverty appear weaker than the negative effects of the previous recession. In Uruguay, the elasticity of poverty with respect to real income in the 1986-1989 recovery was -2 , while during the recession it had been -3 . In Argentina, disinflation ~~cum~~ recovery abated poverty as elastically (-4) as recession had increased it, but recovery itself was then very incipient. In Venezuela, on the other hand, the completion of recovery did not even prevent poverty from widening further.

In other instances (Brazil 1979-1987, Costa Rica 1981-1988, Chile 1980-1987 and Peru, 1979-1986) the culmination of the recovery phase left the economy with a greater degree of inequality and a higher incidence of urban poverty. In Costa Rica, not even sustained growth after 1988 was able to prevent the increase in urban poverty, as a consequence of price deregulation (see table 8).

In most cases, real wages at the end of recovery were lower than prior to the crisis, which helps to explain the weaker effect of recovery on poverty. Although in Argentina and Brazil, at the culmination of the respective heterodox stabilization programmes, and in Costa Rica, real wages were higher, that fact alone appears to have been offset by other factors which increased inequality and, in the first case, particularly by the fall of real income per capita. On the contrary, in Colombia and Panama, higher real wages have reinforced the recovery of real income by preventing the eventual increase in urban poverty. Not so in Mexico, where the real wage in 1984 was substantially lower than before the crisis (see table 8).

On the other hand, the few observable growth spells at the end of the 1980s show (Colombia 1986-1990 and Chile 1987-1990) similar elasticities with respect to real per capita income ($-.7$ and $-.4$,

respectively) than those recorded in the 1970s in rapidly growing economies where income inequality was decreasing. Only in Chile, however, has poverty reduction been more elastic with respect to real wages than to real incomes, as had happened in all cases in the 1970s (see table 8).

Rural-urban migrations will continue to exert pressure on the ability of the economies to alleviate urban poverty. If the experience of the last two decades (Altimir, 1991) is any indication of what might happen, in the relatively less urbanized countries with high incidence of poverty in the rural areas, the migrating rural poor may augment the urban poor at a rate equivalent to 1.3-2.0% a year of absolute increase.

Winding up all this evidence, it is likely, on the one hand, that countries accomplishing their recovery into full-capacity growth will change gear in their ability to reduce urban poverty in the short run, requiring relatively more expansion of economic activity than in the recovery phase for each percent of poverty reduction. On the other hand, medium-term growth with no improvement of income inequality would represent a slow process of poverty abatement: slower than in the cases of high growth and equity improvement of the 1970s, and slower than during recent growth spells in Colombia and Chile, when income distribution also improved.

8. Conclusions.

After turning the corner of the 1980s, Latin American countries are venturing into a new era of potential growth under a different pattern of development and a new style of State intervention. The adjustments to absorb both exogenous and required changes of resource availability and utilization, and the structural changes still under way, have imprinted most Latin American societies with a more unequal distribution of income and a higher incidence of poverty among their people. The few exceptions are the result of a deliberate and persistent care for equity in economic policy design and implementation. Moreover, the prospects for poverty alleviation only through growth, without improvement of the relative distribution of incomes and vigorous social policies, appear so parsimonious as to be disheartening, counterproductive for social integration and, ultimately, for sustained growth³⁸.

Given the weak prospects of primary earnings becoming less unequal, even under the deliberate care of economic policy, equity improvements and particularly the abatement of absolute poverty will have to lean much more on social policy and its effectiveness.

³⁸ See ECLAC (1990).

But with fiscal resources reduced or still strained by the burden of debt, the scope for welfare transfers will be restricted to providing only a basic social safety net, ceding more space to social expenditures that can be considered as investment in human resources.

Eventual equity gains in the structure of income distribution will depend on the spread of productivity improvements and of their actual appropriation by households. Structural transformations under way tend to increase the productivity of capital and total factor productivity, thus enhancing labour productivity in the economy at large. However, for income distribution to improve on the basis of differential productivity gains, three developments are required. First, employment in formal or modern activities has to expand, along with productivity increases, as a proportion of the labour force, absorbing underemployment. Second, those productivity increases have to actually translate into proportional wage rises. Third, capital per worker of the labour force remaining in the informal, small business and traditional sectors of the economy should increase dramatically³⁹.

Such developments, as well as in general raising the productivity of capital, require increasing the skills of the different segments of the labour force, and at the same time restructuring the availability of skills for enhancing the technological capabilities of the productive system at large. For achieving that, heavy investment in human resources (education, training and retraining, nutrition and health) should supplement investment in fixed capital⁴⁰. Even more, there is some ground for substituting investment in human capital for investment in physical capital, as far as a greater contribution to total factor productivity can be expected from the former, in a long enough term.

Fulfilling these requirements involves substantial amounts of investment resources, to be partly originated and handled in the marketplace, but in some part to be raised and allocated by the State. On the other hand, for higher skills to be reflected on the income of earners, pay structures have to face the double challenge of being, at the same time, institutionalized and flexible.

The efficient absorption of capital by the underemployed, the effectively widespread access to the acquisition of skills and their efficient application to production, the correspondence between contributions to productivity and earnings, all call for

³⁹ Maybe double, for those remaining in such activities, which nevertheless would demand much less capital than the amount required for each job created in the more modern or "bigger business" activities.

⁴⁰ See ECLAC (1992b).

substantial organizational improvements at the firm level and deep institutional reforms of public policy.

Abating structural poverty runs along these same lines, but poses different obstacles than general improvements of income distribution, for policies to be effective. On the one hand, the physical capital required may be lower than in modern activities, but the skills gap is greater. On the other hand, effective public policies are more demanding of organizational requirements and institutional creativity. Finally, the remedies have to address the whole vicious circle of circumstances that reproduces poverty from one generation to another.

Strategies for equity improvement must take into account these differences. Designing social policy, as has been the usual practice, in a way that actually restricts access mainly to strata above poverty -for which such policies, on the other hand, may be more easily implemented- and thus "dumping" the poor, may concentrate the benefits already integrated segments of society, thus ratifying the disintegration of the poorer strata into a segregated underclass. On the other extreme, a unilateral strategy focusing only on the poor may further debilitate low and middle strata of the population, where a rich reservoir of skills, social cohesion and political dynamism is located. What is required is a "two-tier" strategy, that recognizes existing differences between the poor and the non-poor working population in potential, response and deterioration of life styles and aims at integrating both universes into a single society.

Table 1

CHANGES IN INCOME DISTRIBUTION AND POVERTY IN THE 1970s

| Countries | Changes in income concentration ^{a/} | Changes in poverty incidence ^{a/} | | |
|--|---|--|-------|-------|
| | | National | Urban | Rural |
| I. SLOW GROWTH ($\leq 1\%$) | | | | |
| Argentina | I | M | I | D |
| Chile | I | I | I | I |
| Peru | I | D | I | D |
| II. MODERATE GROWTH (2-3%) | | | | |
| Costa Rica | I | D | M | D |
| Panama | ... | M | I | D |
| Uruguay | I | | I | |
| III. RAPID GROWTH ($> 3\%$) | | | | |
| Brazil | M | D | M | D |
| Colombia | D | D | D | D |
| Mexico | D | D | D | D |
| Venezuela | D | D | D | D |

Source: Altieri (1992).

^{a/} I: increased; M: maintained; D: decreased.

Table 2
LATIN AMERICA^a: ESTIMATES OF POVERTY AND DESTITUTION. 1980, 1986, AND 1990

| Area | Poverty ^b | | | | | | Destitution ^c | | | | | |
|----------|----------------------|----|-------|----|-------|----|--------------------------|----|-------|----|-------|----|
| | 1980 | | 1986 | | 1990 | | 1980 | | 1986 | | 1990 | |
| | Mill. | % | Mill. | % | Mill. | % | Mill. | % | Mill. | % | Mill. | % |
| | (Households) | | | | | | | | | | | |
| National | 24.2 | 35 | 32.1 | 37 | 37.0 | 39 | 10.4 | 15 | 14.6 | 17 | 16.9 | 18 |
| Urban | 11.8 | 25 | 18.7 | 30 | 22.7 | 34 | 4.1 | 9 | 7.0 | 11 | 8.7 | 13 |
| Rural | 12.4 | 54 | 13.4 | 53 | 14.3 | 53 | 6.3 | 28 | 7.6 | 30 | 8.2 | 30 |
| | (Persons) | | | | | | | | | | | |
| National | 135.9 | 41 | 170.2 | 43 | 195.9 | 46 | 62.4 | 19 | 81.4 | 21 | 93.5 | 22 |
| Urban | 62.9 | 30 | 94.4 | 36 | 115.5 | 39 | 22.5 | 11 | 35.8 | 14 | 44.9 | 15 |
| Rural | 73.0 | 60 | 75.8 | 60 | 80.4 | 61 | 39.9 | 33 | 45.6 | 36 | 48.6 | 37 |

Sources: 1980 and 1986: ECLAC (1991); 1990: ECLAC (1992a).

^a 19 countries. Based on data for: Argentina, Brazil, Colombia, Costa Rica, Guatemala, Mexico, Panama, Peru, Uruguay, and Venezuela, for 1980 and 1986, and also for Chile, Honduras, and Paraguay for 1990.

^b Corresponds to household per capita incomes below poverty lines equivalent to the double of country-specific minimum food budgets, which range from 22 to 34 dollars of 1988 per person a month, for the urban areas.

^c Corresponds to household per capita incomes below the value of the country-specific minimum food budgets used to draw the poverty lines.

Table 3

LATIN AMERICAN COUNTRIES: INCIDENCE OF POVERTY AND DESTITUTION IN THE 1980s
(% households)

| Country and years | Poverty | | | Destitution | | |
|-------------------|-----------------|-----------------|-----------------|-------------|-----------------|----------------|
| | Urban areas | Rural areas | National level | Urban areas | Rural areas | National level |
| ARGENTINA | | | | | | |
| 1980 | 7 | 16 ^b | 9 | 2 | 4 ^b | 2 |
| 1986 | 12 | 17 ^b | 13 | 3 | 6 ^b | 4 |
| 1990 | 19 ^c | | | | | |
| 1991 | 15 ^c | | | | | |
| BRAZIL | | | | | | |
| 1979 | 30 | 62 | 39 | 10 | 35 | 17 |
| 1987 | 34 | 60 | 40 | 13 | 34 | 18 |
| 1990 | 39 | 56 | 43 | 17 | 31 | 20 |
| COLOMBIA | | | | | | |
| 1980 | 36 | 45 ^b | 39 | 13 | 22 ^b | 16 |
| 1986 | 36 | 42 | 38 | 15 | 22 | 17 |
| 1990 | 35 | | | 12 | | |
| COSTA RICA | | | | | | |
| 1981 | 16 | 28 | 22 | 5 | 8 | 6 |
| 1988 | 21 | 28 | 25 | 6 | 10 | 10 |
| 1990 | 22 | 25 | 24 | 7 | 12 | 10 |
| CHILE | | | | | | |
| 1980 | 32 ^a | 41 ^a | 33 ^a | | | |
| 1987 | 37 | 45 | 38 | 13 | 16 | 14 |
| 1990 | 34 | 36 | 35 | 11 | 15 | 12 |
| MEXICO | | | | | | |
| 1977 | | | 32 | | | 10 |
| 1984 | 23 | 43 | 30 | 6 | 19 | 10 |
| PANAMA | | | | | | |
| 1979 | 31 | 45 | 36 | 14 | 27 | 19 |
| 1986 | 30 | 43 | 34 | 13 | 22 | 16 |
| 1989 | 34 | 48 | 38 | 15 | 25 | 18 |
| PERU | | | | | | |
| 1979 | 35 | 65 ^b | 46 | 10 | 38 ^b | 21 |
| 1985/86 | 45 | 64 | 52 | 16 | 39 | 25 |
| URUGUAY | | | | | | |
| 1981 | 9 | 21 ^b | 11 | 2 | 7 ^b | 3 |
| 1986 | 14 | 23 ^b | 15 | 3 | 8 ^b | 3 |
| 1989 | 10 | 23 ^b | 15 | 2 | 8 ^b | 3 |
| VENEZUELA | | | | | | |
| 1981 | 18 | 35 | 22 | 5 | 15 | 7 |
| 1986 | 25 | 34 | 27 | 8 | 14 | 9 |
| 1990 | 33 | 38 | 34 | 11 | 17 | 12 |

Source: ECLAC (1991a; 1991b; 1992a).

^a Author's estimate, based on Pollack and Uthoff (1987). See Altimir (1991).

^b These estimates should be considered "educated guesses" based on relevant but indirect information.

^c Author's estimate, based on Beccaria and Minujin (1991).

Table 4

LATIN AMERICAN COUNTRIES: CHANGES OF INCOME DISTRIBUTION IN SELECTED PERIODS

| Country | Period | Source | Coverage ^a | Income concept ^b | Change of concentration (%) | | Change of Shares of income Groups (% of total income) | | |
|------------|---------|--------------------------------|-----------------------|-----------------------------|-----------------------------|-----------------|---|-------------------|------------------|
| | | | | | Gini | Rel. 10h/40l | 40 low | 50 int | 10 high |
| ARGENTINA | 1970-74 | Altimir (1986) | MA | HI | 4 | 9 | -0.7 | -0.7 | 1.4 |
| | 1974-80 | Altimir (1986) | MA | HIPC | 10 | 28 | -2.1 | -1.2 | 3.3 |
| | 1980-86 | ECLAC (1991-b) | MA | HIPC | 11 | 27 | -1.5 | -3.2 | 4.7 |
| | 1980-89 | Psacharopoulos et al. (1992) | MA | HIPC | 17 | 47 | -2.9 | -3.0 | 5.9 |
| | 1985-90 | Beccaria (1991) | MA | HIPC | ... | 33 ^c | -1.4 ^d | -3.4 ^e | 4.8 |
| BRAZIL | 1979-87 | ECLAC (1991-b) | MA | HIPC | 4 | 32 | -2.3 | -1.3 | 3.6 |
| | | | RU | HIPC | 7 | 9 | 2.7 | -5.5 | 2.8 |
| | 1979-89 | Psacharopoulos et al. (1992) | N | HIPC | 7 | 28 | -1.3 | -2.4 | 3.7 |
| | 1987-89 | Hoffmann (1992) | U | RI | 8 | 31 ^f | -2.1 ^g | -2.8 ^h | 4.9 |
| | 1987-90 | Hoffmann (1992) | U | RI | 2 | 9 | -1.0 | - | 1.0 |
| | 1987-90 | ECLAC (1991-b; 1993) | MA | HIPC | -6 | -18 | 0.4 | 6.3 | -6.7 |
| | | | RU | HIPC | 1 | 53 | -5.1 | 5.2 | -0.1 |
| COLOMBIA | 1978-88 | Londoño (1990) | N | RI | -1 | -3 | -0.2 | 0.3 | -0.5 |
| | 1980-86 | ECLAC (1991-b) | MA | HIPC | -3 | -12 | 0.2 | 0.8 | -1.0 |
| | | | RU | HIPC | -5 | 0 | 0.4 | 3.0 | -3.4 |
| | 1980-89 | Psacharopoulos et al. (1992) | U | HIPC | -9 | -27 | 1.9 | 3.2 | -5.1 |
| | 1986-90 | ECLAC (1991-b), ECLAC (1993) | MA | HIPC | -2 | -1 | -0.4 | 2.7 | -2.3 |
| | | | RU | HIPC | -9 | -2 | 1.9 | 1.4 | -3.3 |
| COSTA RICA | 1981-88 | ECLAC (1991-b) | MA | HIPC | 7 | 22 | -1.5 | -1.6 | 3.1 |
| | | | RU | HIPC | 14 | 3 | -1.9 | -3.2 | 5.1 |
| | 1981-89 | Psacharopoulos et al. (1992) | N | HIPC | -3 | -10 | 1.4 | -1.9 | 0.5 |
| | 1988-90 | ECLAC (1991-b; 1993) | MA | HIPC | -6 | -13 | 1.1 | 1.1 | -2.2 |
| | | | RU | HIPC | -6 | -15 | 0.4 | 3.0 | -3.4 |
| CHILE | 1968-74 | Heskia (1980) | MA | HI | -10 | -23 | 2.0 | 1.8 | -3.8 |
| | 1974-80 | Heskia (1980), Riveros (1985) | MA | HI | 21 | 60 | -2.8 | -6.2 ^h | 9.0 ⁱ |
| | 1981-83 | Riveros (1985) | MA | HI | 2 | 14 | -1.1 | -0.5 ^h | 1.6 ⁱ |
| | 1968-83 | ECLAC (1979), Rodríguez (1983) | N | HI | 23 | 38 | -1.6 | -6.2 | 7.8 |
| | 1969-78 | Ffrench-Davis-Raczynski (1990) | MA | HE | ... | 54 ^j | -6.9 | -1.6 ^h | 6.5 ⁱ |
| | 1978-88 | Ffrench-Davis-Raczynski (1990) | MA | HE | ... | 23 ^j | -1.9 | -1.7 ^h | 3.6 ⁱ |
| | 1987-90 | ECLAC (1991-b; 1991-c) | U | HIPC | -2 | -3 | 0.4 | -0.4 | - |

Table 4 (conclusion)

| Country | Period | Source | Coverage ^a | Income concept ^b | Change of concentration (%) | | Change of Shares of income Groups (% of total income) | | |
|-----------|-----------|---|-----------------------|-----------------------------|-----------------------------|--------------|---|--------|---------|
| | | | | | Gini | Rel. 10h/40l | 40 low | 50 int | 10 high |
| MEXICO | 1977-84 | ECLAC (1988-b), Lustig (1992) | N | HI | -9 | -41 | 2.8 | 0.7 | -3.5 |
| | 1984-89 | Lustig (1992) | N | HI | ... | 28 | -1.4 | -3.7 | 5.1 |
| PANAMA | 1979-89 | Psacharopoulos et al. (1992) | N | HIPC | 16 | 66 | -3.5 | -2.8 | 6.3 |
| PERU | 1985/6-90 | Psacharopoulos et al. (1992) | MA | HIPC | 2 | 5 | -0.7 | 0.5 | 0.2 |
| URUGUAY | 1973-79 | Melgar (1981) | MA | HPI | 32 | 100 | -4.7 | -8.3 | 13.0 |
| | 1979-81 | Melgar (1981), Melgar-Villalobos (1987) | MA | HPI | -2 | -4 | -1.2 | 6.3 | -5.1 |
| | 1981-86 | ECLAC (1991-a; 1991-b) | MA | HIPC | 7 | 20 | -1.2 | -2.4 | 3.6 |
| | 1986-89 | ECLAC (1991-a; 1991-b) | MA | HIPC | -9 | -19 | 1.4 | 3.1 | -4.5 |
| | 1981-89 | Psacharopoulos et al. (1992) | RU | HIPC | -7 | -12 | 1.5 | 0.1 | -1.6 |
| VENEZUELA | 1981-86 | ECLAC (1991-b) | MA | HIPC | 8 | 19 | -2.5 | -1.7 | 4.2 |
| | | | RU | HIPC | 18 | 46 | -2.6 | -3.1 | 5.7 |
| | 1981-89 | Psacharopoulos et al. (1992) | N | HIPC | 3 | 8 | -0.4 | -1.3 | 1.7 |
| | 1986-90 | ECLAC (1991-b; 1993) | MA | HIPC | -4 | -7 | 0.8 | -0.4 | -0.4 |
| | 1987-89 | Marquez-Mukherjee (1991) | RU | HIPC | - | 3 | - | -0.6 | 0.6 |
| | | | N | HIPC | 6 | 11 | -0.2 | -3.5 | 3.7 |
| | 1989-90 | Marquez-Mukherjee (1991) | N | HIPC | -4 | -14 | 0.9 | 1.8 | -2.7 |

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a MA: Metropolitan area; RU: rest of urban areas; U: urban areas; N: national.

b HI: household income; HPI: household primary incomes; HIPC: household income per capita; HE: household expenditure; RI: recipients income.

c Relation 10h/30l.

d Corresponds to the low 30%.

e Corresponds to the intermediate 60%.

f Relation 10h/50l.

g Corresponds to the low 50%.

h Corresponds to the intermediate 40%.

i Corresponds to the higher 20%.

j Relation 20h/40l.

Table 5

CHANGES IN MACROECONOMIC AND LABOUR VARIABLES AND DISTRIBUTIVE CHANGES IN DIFFERENT PHASES OF THE 1980s
(% over each period)

| Country | Period | Macroeconomic variables ^a | | | Labour market ^b | | | | | | Distributive Changes ^c | |
|--|----------------------|--------------------------------------|-----|------------------|----------------------------|-----|------|------|-----|------|-----------------------------------|---------------|
| | | RNIpc | RER | INF ^a | RW | RMW | NALU | NALI | UJ | CGpc | Concentration (Gini) | Urban poverty |
| I. Periods of recessive adjustment to external shocks | | | | | | | | | | | | |
| Argentina | 1980-83 | -23 | 77 | I | -1 | 37 | 10 | 1 | 81 | -19 | I? | I+? |
| Brazil | 1979-83 | -13 | 26 | I | -18 | -5 | 20 | 24 | 0 | -7 | M | I |
| Colombia | 1980-83 | -5 | -12 | D | 8 | 7 | 12 | 9 | 21 | 7 | D | M? |
| Costa Rica | 1980-83 | -26 | 40 | I/D | -18 | -1 | 12 | 12 | 42 | -30 | I? | I+ |
| Chile | 1981-83 | -22 | 34 | I | -11 | -19 | 32 | 5 | 111 | -8 | I | I |
| Mexico | 1981-84 ^o | -12 | 40 | I | -30 | -32 | 12 | 7 | 36 | -14 | I? | I? |
| Peru | 1982-84 | -12 | 14 | I | -25 | -20 | 32 | 31 | 38 | -22 | ... | I+ |
| Uruguay | 1981-86 | -19 | 55 | I | -13 | -14 | ... | ... | 60 | -14 | I | I+ |
| Venezuela | 1981-86 | -30 | 51 | - | -19 | 6 | 24 | 6 | 70 | -21 | I | I+ |
| II. Periods of recovery after external adjustment | | | | | | | | | | | | |
| Argentina | 1983-86 | - | - | D | 8 | 7 | 10 | 8 | 19 | 14 | I | I? |
| Brazil | 1983-87 | 19 | 13 | D/I | 37 | -23 | -11 | -1 | -65 | 62 | I | D |
| Colombia | 1983-86 | 10 | 67 | I | 4 | 6 | 4 | -2 | 10 | -3 | D | M |
| Costa Rica | 1983-88 | 8 | 15 | I | 8 | 16 | -4 | 8 | -28 | 11 | I? | D? |
| Chile | 1983-87 | 12 | 72 | - | -3 | -27 | -25 | -16 | -37 | -23 | I | ... |
| Panama | 1982-86 | 10 | - | - | 16 | 13 | ... | ... | 26 | -3 | ... | M? |
| Peru | 1984-87 | 16 | - | D/I | 40 | -3 | -15 | -7 | -66 | 28 | ... | D? |
| Uruguay | 1986-89 | 13 | 12 | M/I | 6 | -12 | ... | ... | -20 | -20 | D | D |
| Venezuela | 1986-89 | -6 | 52 | I | -38 | -15 | -5 | 4 | -20 | -20 | I | I |
| III. Periods of recession due to internal imbalances | | | | | | | | | | | | |
| Argentina | 1986-89 | -13 | 34 | I/H | -19 | -62 | 14 | 8 | 36 | ... | I | I+ |
| Brazil | 1987-89 | -1 | -31 | I | -11 | -1 | -6 | -6 | -11 | 17 | I | I |
| Mexico | 1984-87 | -8 | 44 | I | -16 | -17 | 21 | 36 | -32 | -20 | I? | ... |
| Panama | 1986-89 | -22 | - | - | -1 | -1 | ... | ... | 61 | -21 | I? | I |
| Peru | 1987-90 | -30 | -49 | I/H | -69 | -64 | ... | ... | 73 | -58 | I? | I |
| IV. Periods of disinflation and recovery | | | | | | | | | | | | |
| Argentina | 1990-91 | 5 | -24 | D | -7 | 39 | ... | ... | -13 | ... | ... | D |
| Mexico | 1987-89 | 2 | -11 | D | -2 | -16 | 9 | 14 | -7 | -10 | I? | ... |
| V. Periods of growth beyond recovery | | | | | | | | | | | | |
| Colombia | 1986-90 | 4 | 31 | I | -5 | -5 | -13 | -7 | -25 | 20 | D | D |
| Costa Rica | 1988-90 | - | -4 | D/I | 2 | 5 | -4 | 1 | -14 | 20 | D | I |
| Chile | 1987-90 | 18 | 5 | I | 11 | 27 | -15 | 1 | -45 | -3 | D | D |
| Venezuela | 1989-90 | 10 | 4 | D | 1 | -5 | 2 | - | 8 | -9 | D | ... |

Table 5 (conclusion)

Source: Changes in macroeconomic and labour variables, ECLAC and PREALC. Distributive changes: tables 3 and 4.

- a: RNIpc: real national income per capita; RER: real effective exchange rate; INF: inflation.
- b: RW: real urban or industrial wages; RMW: real minimum wage; MALU: non-agricultural labour force underutilization (per active person) equal to NALI+UU; NALI: Non-agricultural labour force in informal activities (PREALC definition); UU: urban unemployment rate; CGpc: real per capita government consumption expenditure.
- c: I: increased; I+: increased a lot; D: decreased; M: maintained; "?" indicates most likely presumption for the phase (see text) in the context of the changes observed in annex tables 1 and 3 for a longer period.
- d: I: increased; D: decreased; M: inflation rate was maintained; H: entered into hyperinflation.
- e: This period includes a transient recovery.

Table 6
 CHANGES OF RURAL POVERTY AND OF RELEVANT MACRO VARIABLES IN THE 1980s
 (% over each period)

| Country | Period | Change of rural poverty ^a | Variations of ^b : | | |
|------------|------------|---|------------------------------|-----------|-----|
| | | | RNIpc | Agric GDP | RER |
| ARGENTINA | 1980-86 | 4 | -23 | 12 | 75 |
| BRAZIL | 1979-87 | -3 | 4 | 41 | 43 |
| | 1987-90 | -6 | -7 | - | -38 |
| COLOMBIA | 1980-86 | -7 | 5 | 11 | 47 |
| COSTA RICA | 1981-88 | -3 | -5 | 18 | -6 |
| | 1988-90 | -10 | - | 10 | -4 |
| CHILE | 1980-87 | 11 | -13 | 33 | 89 |
| | 1987-90 | -19 | 18 | 14 | 5 |
| PANAMA | 1979-86 | -4 | 23 | 11 | - |
| | 1986-89 | 11 | -22 | 7 | - |
| PERU | 1979-85/86 | -2 | -9 | 12 | -9 |
| VENEZUELA | 1981-86 | -3 | -30 | 23 | 51 |
| | 1986-90 | 12 | 3 ^c | 1 | 59 |

Source: ECLAC

a From estimates in table 3.

b RNIpc: real national income per capita

Agric GDP: agricultural product

RER: real exchange rate

c 1986-89: -6%

Table 7

INEQUALITY, URBAN POVERTY AND MACROECONOMIC VARIABLES^a AT THE END OF THE 1980s, RELATIVE TO PRE-CRISIS LEVELS
(Indexes)

| Country | Year | Base year | Macro phase ^b | Policy reform ^b | Inequality (Gini) | Urban poverty (incidence) | GDP | RNIpc | CGpc | NALF | RW | RMW | TCRE |
|------------|------|--------------|--------------------------|----------------------------|-------------------|---------------------------|-----|-------|------|------|-----|-----|------|
| Argentina | 1990 | (1980 = 100) | ST/RV | R | 113 | 205 | 93 | 69 | ... | 88 | 77 | 40 | 185 |
| Brazil | 1990 | (1979 = 100) | RNU | P | 108 | 130 | 127 | 97 | 158 | 98 | 85 | 55 | 89 |
| Colombia | 1990 | (1980 = 100) | SDG | P | 91 | 96 | 135 | 110 | 125 | 99 | 106 | 108 | 192 |
| Costa Rica | 1990 | (1981 = 100) | SDG | Y | 103 | 138 | 128 | 95 | 115 | 103 | 102 | 134 | 90 |
| Chile | 1990 | (1981 = 100) | SDG | Y | 113 | 107 | 126 | 104 | 69 | 108 | 96 | 76 | 240 |
| Mexico | 1989 | (1977 = 100) | ST/RV | Y | 100? | >95 | 147 | 106 | 76 | 89 | 54 | 41 | 111 |
| Panama | 1989 | (1979 = 100) | RNU | N | 116 | 111 | 116 | 95 | 99 | ... | 108 | 93 | |
| Peru | 1990 | (1979 = 100) | RNU | R | ... | 190 | 94 | 72 | 62 | ... | 36 | 24 | 40 |
| Uruguay | 1989 | (1981 = 100) | RVY | Y | 98 | 109 | 100 | 92 | 86 | ... | 93 | 76 | 173 |
| Venezuela | 1990 | (1981 = 100) | UNG | R | 110 | 188 | 105 | 72 | 68 | 93 | 48 | 63 | 240 |

Source:

^a For notation, see table 5. NALF: Index of the proportion of the non - agricultural labour force employed in formal activities (inverse of MALU).

^b Y: yes, a policy reform package has been put in place; R: reform package recently in place; P: partial reform; N: no significant policy reform.

Table 8

CHANGES OF URBAN POVERTY AND THEIR RELATIONSHIP WITH CHANGES OF CONCENTRATION AND REAL INCOMES, IN DIFFERENT SPELLS

| Country | Period | Change of income concentration ^a | Change of (%): ^a | | | | Elasticity of urban poverty w/respect to | | |
|--|---------|---|-----------------------------|-------|-----|-----|--|------|------|
| | | | Urban poverty | RNIpc | RW | RMW | RNIpc | RW | RMW |
| I. <u>Growth spells in the 1970s</u> | | | | | | | | | |
| Brazil | 1970-79 | H | -14 | 67 | 48 | -1 | -0.2 | -0.3 | 14 |
| Colombia | 1970-80 | D | -21 | 44 | 17 | 27 | -0.5 | -1.2 | -0.8 |
| Mexico | 1970-84 | D | -30 | 31 | 15 | -20 | -1.0 | -2.0 | 1.5 |
| Venezuela | 1970-81 | D | -30 | 71 | ... | -3 | -0.4 | -0.4 | 10 |
| II. <u>Recession and recovery spells in the 1980s</u> | | | | | | | | | |
| Argentina | 1980-86 | I | 71 | -23 | 7 | 47 | -3.1 | 10 | 1.5 |
| | 1986-90 | I | 52 | -15 | -22 | -64 | -4.0 | -2.4 | -0.8 |
| | 1990-91 | ... | -22 | 5 | -7 | 39 | -4.4 | 3.1 | -0.6 |
| Brazil | 1979-87 | I | 13 | 3 | 19 | -27 | 4.2 | 0.7 | -0.5 |
| | 1987-90 | I | 15 | -6 | -29 | -26 | -2.5 | -0.5 | -0.6 |
| Colombia | 1980-86 | D | - | 5 | 12 | 13 | - | -0.1 | - |
| Costa Rica | 1981-88 | I | 31 | -5 | 16 | 27 | -6.5 | 1.9 | 1.1 |
| Chile | 1980-87 | I | 14 | -13 | -5 | -31 | -1.1 | -2.8 | -0.5 |
| Mexico | 1977-84 | D | -6 ^b | 14 | -34 | -40 | -0.4 | -0.2 | 0.2 |
| Panama | 1979-86 | I | -3 | 23 | 14 | -6 | -0.1 | -0.2 | 0.5 |
| | 1986-89 | ... | 13 | -22 | -1 | -1 | -0.6 | -13 | -13 |
| Peru | 1979-86 | ... | 29 | -7 | -5 | -39 | -4.1 | -5.8 | -0.7 |
| Uruguay | 1981-86 | I | 56 | -19 | -13 | -14 | -3.0 | -4.3 | -4.0 |
| | 1986-89 | D | -29 | 13 | 6 | -12 | -2.1 | -4.8 | 2.4 |
| Venezuela | 1981-86 | I | 39 | -31 | -19 | 6 | -1.3 | -2.1 | 6.5 |
| | 1986-90 | D | 32 | 3 | -41 | -19 | 9.4 | -0.8 | -1.7 |
| III. <u>Growth spells at the end of the 1980s</u> | | | | | | | | | |
| Colombia | 1986-90 | D | -3 | 4 | -5 | -5 | -0.7 | 0.6 | 0.6 |
| Costa Rica | 1988-90 | D | 5 | -2 | 2 | 5 | -2.8 | 2.5 | 1.0 |
| Chile | 1987-90 | D | -8 | 18 | 11 | 27 | -0.4 | -0.7 | -0.3 |

Source: table 5.

a: For notation, see table 5. b: Corresponds to national poverty.

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Annex table A.1

CHANGES IN MACROECONOMIC VARIABLES AND DISTRIBUTIVE CHANGES IN SELECTED PERIODS
(% over each period)

| Country | Period | Macroeconomic phase ^a | Policy reforms ^b | Changes in macro variables ^c | | | | | Changes in the labour market ^c | | | | | Distributive changes % | | |
|------------|---------|----------------------------------|-----------------------------|---|-------|------|-----|------------------|---|-----|------|-----|------|--------------------------------------|----------------------------|----------------------|
| | | | | GDP | RNipc | CGpc | RER | INF ^d | RW | RNW | NALU | UJ | NALI | Concentration ^e (Gini) | Urban poverty ^f | |
| Argentina | 1970-74 | SDG | | 16 | 11 | 11 | 27 | I | 18 | 36 | 4 | -6 | 8 | | 4 | |
| | 1974-80 | UNG | T,F,C | 10 | - | 15 | -48 | I | -14 | -60 | 24 | -55 | 52 | | 10 | } 40 |
| | 1980-83 | RNX | Reversal | -10 | -23 | -19 | 77 | I | -1 | 37 | 10 | 81 | 1 | I? | } 11 | I? } 71 |
| | 1983-86 | RVY | | 4 | - | 14 | - | D | 8 | 7 | 10 | 19 | 8 | | I? | |
| | 1986-89 | RNU | | -5 | -13 | ... | 34 | I/H | -19 | -62 | 14 | 36 | 8 | | 6 | I } 52 |
| | 1989-90 | RNU | | - | -2 | ... | -21 | D | -4 | -5 | 2 | -1 | 3 | D | | D } 52 |
| | 1990-91 | ST/RV | T,F,C,S,P | 5 | 5 | ... | -24 | D | -7 | 39 | ... | -13 | ... | | | -22 |
| Brazil | 1979-83 | RNX | | 1 | -13 | -7 | 26 | I | -18 | -5 | 20 | 8 | 24 | M | } 8 | I } 13 |
| | 1983-87 | RVY | | 27 | 19 | 42 | 13 | D/I | 37 | -23 | -11 | -45 | -1 | I | | D } 13 |
| | 1987-89 | RNU | | 3 | -1 | 17 | -31 | I | -11 | -1 | -6 | -11 | -6 | I | } 8 | I } 15 |
| | 1989-90 | RNU | | -4 | -6 | -2 | -10 | H/D | -20 | -25 | 7 | 30 | 4 | D? | | I } 15 |
| Colombia | 1980-83 | RNX | | 5 | -5 | 7 | -12 | D | 8 | 7 | 12 | 21 | 9 | D | } 4 | M? } . |
| | 1983-86 | RVY | | 15 | 10 | -3 | 67 | I | 4 | 6 | 4 | 18 | -2 | | | |
| | 1986-90 | SDG | T,F,S (grd.) | 18 | 4 | 20 | 31 | I | -5 | -5 | -13 | -25 | -7 | | -5 | -3 |
| Costa Rica | 1980-83 | RNX | | -7 | -26 | -30 | 40 | I/D | -18 | -1 | 12 | 42 | 12 | | } 10 | I } 31 |
| | 1983-88 | RVY | T,C,S (grd.) | 24 | 8 | 11 | 15 | I | 8 | 16 | -4 | -25 | 8 | | | D? } 31 |
| | 1988-90 | SDG | | 9 | - | 20 | -4 | D/I | 2 | 5 | -4 | -14 | 1 | | -6 | 5 |
| Chile | 1968-74 | UNG | | 19 | 5 | 66 | 40 | I | -30 | -39 | ... | 50 | ... | | -10 | D } 133 |
| | 1974-80 | RNX/RVY | T,F,C,S,P | 14 | 3 | -11 | -8 | D | 37 | 29 | ... | 22 | ... | | 21 | I } 133 |
| | 1981-83 | RNX | | -14 | -22 | -8 | 34 | I | -11 | -19 | 32 | 111 | 5 | | 10 | I } 14 |
| | 1983-87 | RVY | P,L | 21 | 12 | -23 | 72 | M | -3 | -27 | -25 | -37 | -16 | | 5 | |
| | 1987-90 | SDG | | 20 | 18 | -3 | 5 | I | 11 | 27 | -15 | -45 | 1 | | -2 | -8 |
| Mexico | 1977-81 | SDG | | 42 | 30 | 21 | -24 | M | -5 | -12 | -11 | -48 | 5 | D | } 9 | D } -8 ¹ |
| | 1981-84 | RNX/RVY | | -1 | -12 | -14 | 40 | I | -30 | -32 | 12 | 36 | 7 | I? | | I? } -8 ¹ |
| | 1984-87 | RNU | | - | -8 | -20 | 44 | I | -16 | -17 | 21 | -32 | 36 | | | } 7 |
| | 1987-89 | ST/RV | T,F,S,P | 5 | 2 | -10 | -11 | D | -2 | -16 | 9 | -7 | 14 | | | |
| Panama | 1979-82 | UNG | | 26 | 12 | 29 | - | | 4 | -17 | ... | 13 | ... | | | } -3 |
| | 1982-86 | RNX/RVY | | 8 | 10 | -3 | - | | 16 | 13 | ... | 26 | ... | | } 16 | |
| | 1986-89 | RNU | | -15 | -22 | -21 | - | | -1 | -1 | ... | 61 | ... | I? | I | 13 |

Annex table A.1 (conclusion)

| Country | Period | Macroeconomic phase ^a | Policy reforms ^b | Changes in macro variables ^c | | | | | Changes in the labour market ^e | | | | | Distributive changes % | |
|-----------|---------|----------------------------------|-----------------------------|---|-------|------|-----|------------------|---|-----|------|-----|------|--------------------------------------|----------------------------|
| | | | | GDP | RNIpc | CGpc | RER | INF ^d | RU | RMW | NALU | UU | NALI | Concentration ^f (Gini) | Urban poverty ^f |
| Peru | 1979-82 | UNG | | 9 | - | 49 | -30 | M | 11 | -13 | -13 | -7 | -14 | | I |
| | 1982-84 | RNX | | -8 | -12 | -22 | 14 | I | -25 | -20 | 32 | 35 | 31 | | I } 29 |
| | 1984-87 | RVY | | 20 | 16 | 28 | - | D/I | 40 | -3 | -15 | -46 | -7 | | D |
| | 1987-90 | RNU | | -23 | -30 | -58 | -49 | I/H | -69 | -66 | ... | 73 | ... | 2 | I |
| Uruguay | 1973-79 | SDG | F,C | 33 | 12 | 3 | -15 | I | -32 | -32 | ... | - | ... | 32 | I? } 40 |
| | 1979-81 | UNG | T | 7 | 4 | 26 | -33 | D | 17 | -1 | ... | -20 | ... | -2 | |
| | 1981-86 | RNX | | -9 | -19 | -14 | 55 | I | -13 | -14 | ... | 60 | ... | 7 | 56 |
| | 1986-89 | RVY | | 9 | 13 | - | 12 | M/I | 6 | -12 | ... | -20 | ... | -8 | -29 |
| Venezuela | 1981-86 | RNX | | -2 | -30 | -21 | 51 | M | -19 | 6 | 26 | 78 | 6 | 12 | I } 39 |
| | 1986-89 | RVY | | 1 | -6 | -20 | 52 | I | -38 | -15 | -5 | -20 | 4 | I } -2 | 32 |
| | 1989-90 | UNG | T,F,C | 6 | 10 | -9 | 4 | D | 1 | -5 | 2 | 8 | - | D | |

Source: Changes in macroeconomic and labour variables: ECLAC and PREALC. Distributive changes: tables 3 and 4.

a: RNX: recession due to external adjustment; RVY: recovery from external adjustment; RNU: recession due to internal imbalances/inflation; ST/RV: stabilization (from high inflation) and recovery; UNG: growth with instability; SDG: sustained medium-term growth.

b: Policy reforms: T: trade; F: financial; C: price deregulation; S: fiscal; P: privatizations; L: labour; (grd.): gradual.

c: GDP: gross domestic product; RNIpc: real national income per capita; CGpc: real per capita government consumption expenditure; RER: real effective exchange rate; INF: inflation.

d: I: increased; D: decreased; M: maintained inflation rate; H: entered into hyperinflation.

e: RW: real urban or industrial wages; RMW: real minimum wage; NALU: non-agricultural labour force underutilization (per active person); equal to UU+NALI; UU: urban unemployment rate; NALI: rate of non-agricultural labour force in informal activities (PREALC definition)

f: National level.

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