The challenge of income inequality in Latin America

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Abstract

Seventy-five years after the Economic Commission for Latin America and the Caribbean (ECLAC) was founded, reducing the concentration of income and wealth remains one of the key challenges in Latin America. This article firstly reviews the contributions made by ECLAC and Latin American structuralism to the analysis and measurement of the income distribution. It then describes the main trends of inequality in the region from 1990 to the present, and suggests items to be included on the agenda of inequality reduction in the coming years.

Keywords

Wealth, income, income distribution, equality, measurement, development models, ECLAC, thinking, economic structure, economic history, Latin America

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I am disturbed by the arguments that free competition leads to general equilibrium and to the most appropriate distribution of resources and income within society. I see no correspondence between these abstract propositions and the reality of the economic world

(Prebisch, 1946, p. 28).

I. Introduction[1]

The seventy-fifth anniversary of the Economic Commission for Latin America and the Caribbean (ECLAC) occurs as Latin America and the Caribbean emerges from the worst crisis in its history —that caused by the coronavirus disease (COVID-19) pandemic. The 6.9% drop in economic activity in 2020 was steeper than that recorded during the Great Depression (ECLAC, 2021); and it exacerbated both poverty and income inequality. Between 2019 and 2020, the extreme poverty rate rose from 11.4% to 13.1%, and overall poverty increased from 30.4% to 32.8%, while the median Gini coefficient for the region rose from 0.456 to 0.464 in the same period (ECLAC, 2022a). Although these increases were reversed in most countries, it is not yet possible to gauge the full magnitude of this deterioration in the population's living conditions.

This raises a number of questions about the future of the region and, in particular, concerning the population's living conditions and the potential worsening of structural inequalities. In keeping with its tradition of thought, ECLAC considers inequality as one of the priority areas for changing the region's current development model (ECLAC, 2022b); and this dimension encompasses issues related to the distribution of resources (employment and taxation) and recognition (gender, ethnic and care disparities).

This is a good time to revisit the challenges involved in improving levels of distributional and social justice in the region. It also seems timely to consider how ECLAC has framed the issue of distribution and its interaction with the region's future. Among the many aspects of distribution that the analysis of inequality could encompass (Sen, 1995; Fraser and Honneth, 2004; Lamont, 2018; Pereira, 2014), which are expressed in Amartya Sen's famous question, "Equality of what?", this article focuses mainly on the distribution of income.

In general, distributional issues have been present in the economics discipline almost since its origin as an independent field of knowledge. In the writings of Adam Smith, David Ricardo and Karl Marx the product of the economies and its distribution among the different social classes was at the heart of the discipline's focus of study. The subsequent predominance of marginalism and the relative constancy of the labour and capital shares of GDP in the early decades of the twentieth century led the thinkers of the time to set aside concerns about the functional distribution of income (Glyn, 2009). Later, the successive oil crises in the 1970s, compounded by the external debt crisis in Latin America, the economic and social consequences of the rise of Thatcherism-Reaganism and the spread of neoliberal policies in various regions of the world (Fajardo, 2022; Mirowski and Plehwe, 2015), put the issue of distribution back under the spotlight.

The explanatory models that were available were shown to be inadequate, while a clear trend towards a reduction in the wage share of GDP and a worsening of the personal distribution of income was observed in several regions of the world. At the same time, changes in the availability of statistical information (linked to the development of household surveys and new measurement methodologies), heterogeneity within social classes and households, and the centrality of methodological individualism revived interest in the personal income distribution (Atkinson, 1997; Glyn, 2009). Although sufficiently comprehensive theoretical approaches are not yet available, the recent emphasis on the role of capital

[1] The authors would like to thank Mauricio de Rosa for his valuable contributions and comments.

and high income in the international debate (Atkinson and Piketty, 2007; Piketty, 2014), together with the availability of new data sources and estimations, are enabling promising developments in lines of research that combine the personal and functional distributions of income.

Looking to the future, uncertainty surrounds various aspects of distributional processes. The recent economic crisis associated with COVID-19 and the subsequent recovery may have distributional consequences that are still uncertain in the medium and long terms, through their effects on educational and employment paths. Moreover, the international trend towards the declining share of wages in GDP (Autor and others, 2020), together with potential changes in labour markets resulting from automation processes and differences in the possibility of teleworking (Acemoglu and Autor, 2011; Stantcheva, 2022), raise questions as to the modalities and new dimensions in which inequality will be manifested in the future.

The preoccupation, approaches and emphasis placed on distributional issues by ECLAC over the years have not been detached from the evolution of the subject internationally, as described in the preceding paragraphs. However, the institution's viewpoint clearly has its own identity, marked by the thinking of the structuralist economists who nurtured the debates on development in the region, particularly between 1950 and 1975. This vision has been characterized by work to achieve a global conception but with a regional perspective, which seeks to integrate the different aspects derived from the international engagement of the region's countries, employment, consumption patterns, fiscal systems, inflation and the role of institutions (Lustig, 1988; Bielschowsky, 2009; Fajardo, 2022). Another distinctive feature is that many aspects of these approaches —including, in particular, those related to development styles, social stratification and social cohesion— were developed through robust interdisciplinary dialogue.

On the occasion of the seventy-fifth anniversary of ECLAC, this article aims to review the institution's contributions to the analysis of inequality in the region (section II), analyse the path of inequality over the last three decades (section III), and identify the main challenges involved in reducing it (section IV).

II. The contributions of ECLAC and Latin American structuralist thinking to distributional studies

The numerous studies that report on the contributions of structuralist thought and its influence in the region reflect the fact that distributional issues have been one of the central themes of ECLAC thinking since the institution's origin (Rodríguez, 1980 and 2006; Lustig, 1988; Bielschowsky, 1998 and 2009; Grondona, 2014; Bértola and Ocampo, 2013; Fajardo, 2022). Subsections II.1 and II.2 present a brief summary of ECLAC thinking on income distribution and inequality. In doing so, they adopt the distinction made by Bielschowsky (2009) and reiterated in Bielschowsky and Torres (2018), between the structuralist stage (1950–1989) and the neo-structuralist phase (from 1990 onwards). Lastly, in subsection II.3 the article reviews the contributions of ECLAC to the measurement of income inequality.

1. Income distribution in structuralist thinking

Structuralist thinking stems from the political economy tradition and is influenced by the Marxist, Keynesian and institutionalist schools (Lustig, 1988), with emphases that differ between authors. The founding texts of Latin American structuralism (Prebisch, 1950; ECLAC, 1951a, 1951b and 1951c) characterize the regional socioeconomic structure in terms of three elements: (i) specialization on primary goods and lack of productive diversity; (ii) highly varied levels of sectoral productivity and an unlimited supply of labour with incomes close to subsistence level; and (iii) an institutional structure that was poorly oriented towards investment and technical progress (Bielschowsky, 2009).

From the structuralist perspective, the sluggish growth of world demand for the commodities produced at the periphery and burgeoning peripheral demand for industrial products made at the centre generate structural deficits in the balance of payments, with repercussions for inflation and the continuity of growth. The features of the production structure in the periphery tend to be perpetuated and reinforced as capitalism continues to develop in the central countries. Industrialization was the structuralist route to breaking this cycle. In this first stage of the development of structuralist thinking, distributional problems as such were not analysed in depth.

However, in the 1960s the industrialization process was found to have engendered income concentration and increased urban poverty in many of the region's countries (see, for example, Tavares and Serra, 1971). Import substitution encouraged a production structure biased towards capital-intensive consumer durable sectors with major import requirements. Since the countries lacked savings and foreign exchange, this type of industrialization led to structural stagnation (Hirschman, 1968). Furthermore, these sectors' meagre demand for labour was seen as exacerbating processes of exclusion, which led to a call for greater equality based on policies of redistribution to boost the GDP growth rate (Lustig, 1982).

Thus, the issue of distribution gained relevance and triggered a debate that elicited different views of the possibilities for development with redistribution in Latin American and Caribbean countries. Studies on the profile of demand and structural underemployment by Furtado (1969) and, later, Vuskovic (1974), and the development-styles approach by Graciarena (1976), Pinto (1976) and Varsavsky (1971), saw redistribution as a necessary condition for capitalist development, and for satisfying the consumption needs of the majority. At that time, the dependency approach also emerged, which projected a more pessimistic view than that of ECLAC and provided a clearly differentiated perspective on the limits of capitalist development (Cardoso and Faletto, 1969).

In the 1960s and 1970s, structuralists started to emphasize the notion that the pattern of distribution in Latin America, derived from the peripheral international engagement of the region's countries, generated a heterogeneous production structure, in which modern sectors incorporating advanced technologies from the central countries coexisted with vast backward sectors with very low productivity levels.[2] What is important, however, is not coexistence as such, but the fact that economic growth failed to eliminate the differences. On the contrary, structural heterogeneity is a permanent outcome of the development model. The wage differences between the traditional and modern sectors of the economy, based on differentiated sectoral productivity, are at the root of the region's distributional problem.

It is argued that the levels of income concentration in the peripheral economies do not generate greater capital accumulation through productive investment; instead, the surplus is used to finance superfluous consumption that is imitative of the elites of the developed world. This view seems to be influenced by the thinking of Thorstein Veblen (1899/1994) and early institutionalism, since it analyses the way in which consumption patterns are adopted and propagated, considering the link with the elites of the central countries. The region's prevailing development model does not gradually incorporate new strata into consumption patterns or foster increasing integration; instead, it marginalizes certain groups and reinforces the trend of increasing inequality.

It is well known that, in the formulations of the structuralist period, the distributional problem originates in employment and structural heterogeneity. References to households and other factors only become noticeable with the rise of the personal income inequality approach.

Structuralism understands that economic policy measures affect the behaviour of social actors, who, far from functioning as isolated individuals, tend to unite and generate pressure groups (Lustig, 1988). This view of distribution seems far removed from the methodological individualism that might be associated with the approach to personal income distribution that started to emerge in the

[2] In 1970, Aníbal Pinto coined the expression "structural heterogeneity" to refer to this differentiation, which was later incorporated into structuralist writings (Pinto, 1970/2016).

Anglo-Saxon world at the same time (Atkinson, 1975; Sen, 1973). Nor does it seem consistent with other views of distributional justice that gained traction through the work of John Rawls, or with the more recent reconceptualization of the individual which arose from the analytical Marxist perspective.

The following decade, dominated by the foreign debt crisis and the preponderance of macroeconomic issues, would remove distributional issues from the core of ECLAC thinking until the 1990s.

2. Neo-structuralist thought: from equity to equality

Coups d'état in the Southern Cone, together with the effects of the foreign debt crisis (the "lost decade" of the 1980s) and the vigorous growth of certain Southeast Asian countries, produced a period of less proactive proposals and the subsequent reformulation of ECLAC thinking from the 1990s onwards, giving rise to "neo-structuralism". Considering this post-crisis economic context, in conjunction with economic reforms aligned with the Washington Consensus that prevailed in the region in the 1990s, neo-structuralism can be understood as a reformulation of structuralist thinking to make it compatible with the new reality of trade openness, capital mobility, privatization, deregulation and globalization worldwide (Bielschowsky, 2009; Bielschowsky and Torres, 2018). The emblematic publication that synthesizes neo-structuralist thinking in the institution, *Changing production patterns with social equity: the prime task of Latin American and Caribbean development in the 1990s* (ECLAC, 1990), was presented at the twenty-third session of ECLAC, where the concept of equity started to be used to refer to the issue of distribution.[3]

This stage of ECLAC thinking emphasized that sustained growth based on genuine competitiveness was incompatible with the persistence of equity disparities. Changing production patterns are linked to equity in two ways, both of which are instrumental in nature. One of them refers to the need for a higher-skilled labour force, which would make it possible to increase productivity and be in a position to exploit new technologies. The other is presented in greater detail in the work of Fajnzylber (1990), which, based on the experience of the Asian countries, argues that growth is enhanced by equity, since a more uniform income distribution leads to a moderate consumption pattern that allows for higher levels of savings, thus to some extent reviving the development-styles concept of earlier decades.

In general, lack of equity continues to be linked to the peripheral international participation of the region's countries, which is reflected in a poor distribution of resources, including education, technology and credit. Emphasis is also placed on the adaptation of social services to the needs of the poorest sectors of the population. However, there is greater optimism about the region's prospects for capitalist development.

In the 1990s (and, to a lesser extent, in the decade of 2000), the debate revolved essentially around equity or inequity, rather than equality or inequality. Although the need for an economic model that guaranteed greater social equity was mentioned repeatedly, there was no in-depth diagnosis or characterization of the inequities or analysis of their origins, beyond the general link with production structures. These, along with the functioning of the economy, are analysed much more exhaustively and in greater detail than inequities and their reproduction.

At this point, two elements of context are appropriate. Firstly, the region was dominated by reforms supporting opening up, liberalization and globalization. As a regional commission of the United Nations, the work of ECLAC adheres to a mandate defined by the countries of the region; and this undeniably influences or conditions the positions adopted by the institution. Secondly, the issue of inequity or inequality was basically absent from public and academic debates, particularly in the 1990s, both in the region and around the world. In Latin America and the Caribbean, academic publications prioritized the study of poverty over inequality; but this changed significantly in the second half of the 2000 decade (Amarante, Brun and Rossel, 2020). In the Anglo-Saxon world, an influential article by Atkinson (1997)

[3] This document was coordinated by Gert Rosenthal, Executive Secretary of ECLAC at the time, together with Fernando Fajnzylber, and was published in Spanish (Bielschowsky, 2009).

welcomed signs that the income distribution was, at that time, once again starting to receive the attention it deserved from economists, following its absence from mainstream economic theorizing and debates.

In the 2000s, equity remained a central element of ECLAC analysis, although the concepts of citizenship and social cohesion also gained relevance in the debate in the social domain (Bielschowsky, 2009). Although this agenda was not consolidated, the scope and appropriateness of the Durkheimian concept of social cohesion for understanding the social reality of the region was explored in various ECLAC studies (ECLAC, 2007 and 2010a, among others). Nonetheless, the concept of citizenship, linked to the exercise of civil and political rights, and also economic, social and cultural rights, was given continuity and greater prominence in more recent ECLAC work. In this framework, and in line with the rights-based approach adopted by the United Nations, the concept of citizenship leveraged the equal rights of individuals and gave rise to a new emphasis at ECLAC on equality in the ensuing years. Starting in the 2010 decade, these ideas would mature, as equality became consolidated as an objective along with productive transformation as the way to achieve it (see Bielschowsky and Torres, 2018).[4] The discourse shifts from changing production patterns "with equity" to changing production patterns or structural change "for equality", although this does not seem to entail substantial conceptual changes. Although various ECLAC studies would continue to associate income inequality with the region's production structure, they would also make a detailed analysis of inequality in other dimensions related to capacities, including educational attainment, access to housing, assets and nutritional status, among others. The analysis of horizontal inequalities was deepened to consider gender, race, ethnicity, territory and other structural axes of the region's inequality matrix (ECLAC, 2016). Another distinctive feature was the relevance of gender gaps, in line with both public policy and academic debate (Bielschowsky and Torres, 2018). The central role of autonomy as a concept for analysing gender inequalities even elicited a proposal for indicators of its different dimensions.[5]

The document of the thirty-ninth session of ECLAC (2022), *Towards transformation of the development model in Latin America and the Caribbean: production, inclusion and sustainability*, seems to signal a change of emphasis regarding the role played by inequality in the development process. The document focuses on the production structure as a barrier to the creation of better-quality jobs of higher productivity. Distributional problems are addressed in relation to their potential political consequences, as it is argued that the hollowing out of the middle-income sectors in the region's economies, coupled with greater economic uncertainty and anxiety and growing discontent among this group, provides fertile ground for populist and xenophobic narratives, which endanger the sustainability of democratic regimes.

3. ECLAC and the measurement of inequality

The progress made by the countries of the region in periodically gathering socioeconomic data through continuous household surveys has underpinned ECLAC contributions to the measurement of inequality. In 1996, the Programme for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean (MECOVI) —a joint initiative of ECLAC, the Inter-American Development Bank (IDB) and the World Bank— also helped the countries to establish common criteria for producing information on living conditions in the region.

In addition to supporting national statistical offices in collecting this information, ECLAC —through its Statistics Division— has built a repository of household surveys in the region.[6] The survey variables,

[4] At the thirty-third session of ECLAC, in 2010, the document *Time for equality: closing gaps, opening trails* (ECLAC, 2010b) was presented, which reflected the prevailing policy orientation in the region. The documents of the next four sessions would also identify equality as the main goal of economic development.

[5] ECLAC's Gender Equality Observatory for Latin America and the Caribbean, which was set up in response to the agreement of Governments at the tenth session of the Regional Conference on Women in Latin America and the Caribbean (Quito Consensus, 2007), proposes indicators in the areas of economic autonomy, autonomy in decision-making and physical autonomy (see [online] https://oig.cepal.org/es).

[6] ECLAC has also played a very important role in the periodic measurement of income poverty in the countries of the region.

especially those related to income, are standardized to make them comparable between countries, and income inequality statistics are calculated.[7] In 1991, *Social Panorama of Latin America* began to be published annually; and its first edition included income distribution indicators (the income shares of the different quartiles, the ratios of incomes of the richest 25% to the poorest 25%, and between the richest 10% and the poorest 40%). Since 1996, this publication has periodically incorporated the Gini inequality index, which is now supplemented by a series of distribution indicators.[8] Thus, as noted above, the vision of inequality adopted has shifted to the personal and household approach.

Since the first calculations of income inequality made by ECLAC, there has been a concern to ensure consistency between household income data obtained from surveys and those obtained from the countries' national accounts, which are also compiled by the Statistics Division of ECLAC. From the 1990s and until a few years ago, ECLAC elected to publish inequality and poverty indicators for the region based on an adjusted income vector, following Altimir (1987). Firstly, imputations were made to correct missing income data between employed and retired persons. Secondly, a source-of-income adjustment was made, which involved a proportional change for all households, so that the source-of-income aggregate was consistent with that reported in the country's national accounts. Property income received differential treatment, with only the property income of the top twentieth of households being adjusted.[9] This adjustment was premised on the following assumptions: that the information in the household income and expenditure accounts of the system of national accounts is more complete and reliable than data obtained from surveys; (ii) that the gap between the income aggregates in the survey and in the national accounts reflects the failure of the survey to capture income adequately; and (iii) that underreporting is associated more with type than with level of income and has a constant income elasticity, except in the case of property income (ECLAC, 2019).

The recent update to the methodology used by ECLAC to measure poverty made changes in the construction of the household income aggregate (ECLAC, 2019). While the first imputation step was maintained for cases in which no household income is declared, the adjustment procedure for the underreporting of income that incorporated information from the national accounts was abandoned. The arguments justifying this methodological change include the fact that less than half of the region's countries construct the institutional household account on a regular basis, in some cases with a lag, and they are heterogeneous in their treatment of certain income items (ECLAC, 2019). The decision is appropriate, insofar as the correction did not contribute to improving the quality or feasibility of household income measurement in the region. However, as indicated in the next section, the compatibility of household surveys and national accounts is an unresolved challenge with great potential for distributional analysis in the region. The valuable experience of ECLAC makes it possible to draw some lessons concerning its potential risks.

III. Income inequality in Latin America between 1990 and 2021

The following paragraphs provide an overview of the evolution of the income distribution in Latin America in the last few decades and discuss recent lessons on estimating inequality using innovative methodologies or data sources.

[7] The wide range of social and demographic indicators for the countries of the region published by ECLAC on the basis of these surveys, including various inequality indicators, can be consulted in the CEPALSTAT database [online].https://statistics.cepal.org/portal/cepalstat/index.html?lang=es.

[8] ECLAC's *Statistical Yearbook for Latin America and the Caribbean* has also published statistics on income inequality in the region since 1996.

[9] In the case of Chile, this practice was extended to the official microdata of the National Socioeconomic Survey (CASEN). The fact that these were published having already been adjusted drew criticism from the academic sector (Pizzolitto, 2005; Bravo and Valderrama Torres, 2011).

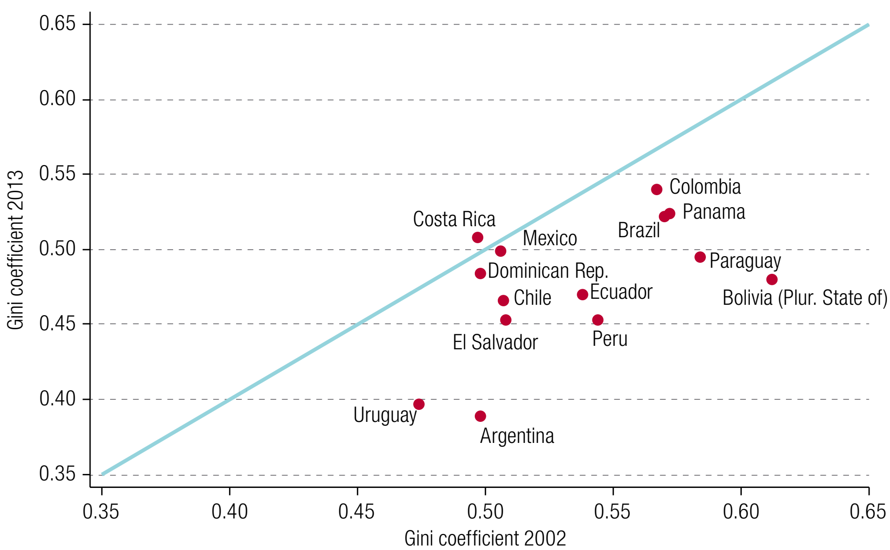
1. The evolution of income distribution in Latin America since 1990

Ever since reliable statistics have been available to compare inequality levels globally, the countries of the region have been ranked among the most unequal in the world (see, for example, Alvaredo and Gasparini, 2015).[10] As is the case internationally, the relation between economic growth and the level of inequality is not uniform across the countries or over time.

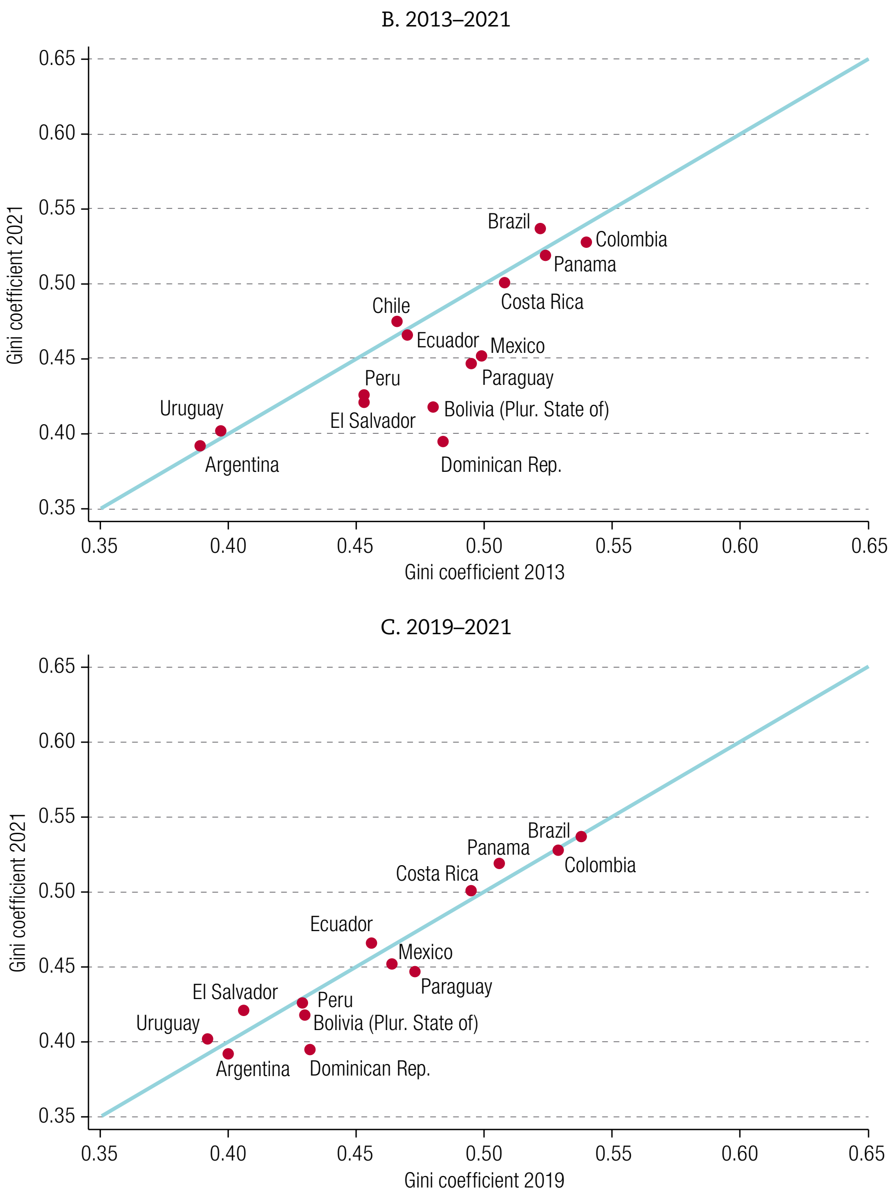
A review of the last three decades shows clear and differentiated temporal trends of personal income inequality in the region. According to Alvaredo and others (2023), since around 1990 and until 2012, inequality trended in the shape of an inverted "U". In most countries, inequality increased during the 1990s, starting in different years depending on the country, before decreasing sharply. Between 2002 and 2013, inequality fell by more than 10 percentage points in Argentina and the Plurinational State of Bolivia, and by between 7 and 9 points in Ecuador, Peru, Paraguay and Uruguay. Meanwhile, Brazil, Chile, Colombia, El Salvador and Panama all saw reductions of 3–6 percentage points (see figure 1). It should also be noted that, in general, the earnings share of GDP has not increased in the region over the last three decades (Abeles, Amarante and Vega, 2014).

Figure 1
Latin America (14 countries): Gini inequality index, 2002–2021

A. 2002–2013



[10] The quest for the origin of this inequality has elicited interesting debates among economic historians. While some emphasize the colonial roots of the phenomenon (Acemoglu, Johnson and Robinson, 2002; Acemoglu and Robinson, 2008; Engerman and Sokoloff, 2012), others question that hypothesis (Williamson, 2010 and 2015).



Source: Prepared by the authors, on the basis of CEPALSTAT [online] https://statistics.cepal.org/portal/cepalstat/index.html?lang=en
Note: No data was available for Chile for 2019–2021.

Between 2013 and 2021, the trends are heterogeneous. In the Dominican Republic, Mexico, Paraguay and the Plurinational State of Bolivia, inequality declined sharply (by more than 5 percentage points), whereas most countries experienced relative stability or even a slight increase (Brazil and Chile). Although the impact of the COVID-19 pandemic exacerbated inequality in most countries of the region (Brazil being a notable exception), the increases detected in 2020 were reversed in nearly all countries in 2021 (ECLAC, 2022b).

The causes of the rise in inequality in Latin America in the 1990s are disputed; and research on the impact that stabilization programmes and market-oriented reforms have had on inequality have produced conflicting results (see, for example, Lustig, 2000; Stallings and Peres, 2000; Morley, 2001; Székely and Mendoza, 2015). The effects of adjustment programmes seem to have depended on initial country conditions and programme characteristics. It has also been argued that pro-market reforms (trade openness and capital account liberalization, deregulation and privatization) could have had opposing or offsetting effects that complicate the overall evaluation of the process. Nonetheless, in contexts of weak social and labour institutions, while the role of policies may be controversial, the regionwide trend of inequality in the 1990s is clearly rising.

In the late twentieth or early twenty-first century, depending on the country being analysed, household income inequality started to decline across the region, and the trend continued until around 2013. The numerous studies of the causes of this development concur in identifying the reduction in the education premium in the region's labour markets, although specific experiences in each country also appear to be influenced by social policies (in particular, the increase in cash transfer programmes) and institutional factors (such as minimum wage hikes). Some authors argue that the reduction of labour income inequality was driven by an increase in the supply of skilled workers (López-Calva and Lustig, 2010; Azevedo, Inchauste and Sanfelice, 2013).[11] Others focus on a weakening of the relative demand for skilled labour (Acosta and others, 2019; De la Torre, Messina and Pienknagura, 2012). This change in the relative demand for tertiary-educated workers is often associated with the rise in commodity prices, which boosted the demand for unskilled labour, and a reduction in the wage premium for education. Real wage growth at the bottom of the distribution in several Latin American countries is also documented in Messina and Silva (2018). The contribution of income transfers is also mentioned in various studies (López-Calva and Lustig, 2010; ECLAC, 2012; Azevedo, Inchauste and Sanfelice, 2013), but their potential equalizing impact is less than that of the decreasing inequality in labour incomes.

Beyond attempts to provide general explanations, country-specific features were also noted. In some cases, labour market institutions seem to have played a key role, although the literature on the subject tends to analyse these issues less frequently. In Argentina, Brazil and Uruguay, various studies suggest that the rise in the minimum wage has had a significant equalizing effect on the labour market (see ECLAC, 2014; Borraz and González Pampillón, 2011; Maurizio and Vázquez, 2016; Engbom and Moser, 2022; Sotomayor, 2021; Ferreira, Firpo and Messina, 2022). In Costa Rica also, there is evidence of the equalizing effect of the increase in the minimum wage (Gindling and Terrell, 2004). In Argentina, Brazil and Uruguay, inequality declined simultaneously with significant formalization processes in the labour market; and the association between these two phenomena is explored in various studies (Maurizio, Beccaria and Monsalvo, 2022; Amarante, Arim and Yapor, 2016; Alejo and Parada, 2017). A narrowing of wage differentials based on work experience was also detected in the case of Brazil (Ferreira, Firpo and Messina, 2022).

In addition to the decreased return to education, other authors who analysed the regional trend of inequality based on macro-panels identify factors such as a terms of trade improvement (Székely and Mendoza, 2015 and 2017), a reduction of informality in the labour market (Amarante and Arim, 2023), or the orientation of political regimes. Among authors who emphasize factors related to political cycles, Cornia (2010) cites the adoption of a development model that stresses fiscal prudence with more equitable macroeconomic, tax, social and labour policies by centre-left and left-wing governments as one of the causes of the reduction in inequality. Feierherd and others, (2023) analyse political regimes and the income distribution in Latin American countries between 1992 and 2017 and find that left-wing governments have the effect of increasing the share of the bottom and middle deciles of the income distribution. Even when controlling for economic factors, their results suggest that countries experienced a more pronounced reduction in income inequality after left-wing governments took office. This is explained in terms of the latter's greater propensity to implement policies such as raising the minimum wage and establishing progressive taxes and more generous social pensions, which redistributed income towards the lower deciles. Political science has also highlighted the relationship between the reduced inequality in the region and political factors such as democratization, the rise of the left and electoral competition

[11] This was clearly evident in the case of Brazil, where the reduction of labour and personal income inequality lasted a long time and coexisted with an effective increase in the population's schooling, from very low starting levels (Barros and others, 2007).

(see, for example, Huber and others, 2006; Huber and Stephens, 2012; Roberts, 2014). It has also been argued that the political cycle and the role of (re)distributional policies reinforced the impact of labour market outcomes. This suggests that political pressures forced governments to manage the commodity boom more effectively than in the past (Sanchez-Ancochea, 2021).

Beyond country-specific factors explaining the reduction in inequality, individual authors were already expressing scepticism as to the sustainability of these achievements in less benign settings. As noted above, the third stage, which began around 2013 and seems to have lasted through to the time of writing (including the exceptional events of recent years associated with the COVID-19 pandemic), reflects the fact that inequality remains constant or is even worsening in some countries, whereas in others it continues to decline.

2. High-income sectors, property income and the distribution of wealth

The foregoing analysis is based on household surveys which, as is well known, do not cover income at the top of the distribution adequately, particularly in the case of property income. This is a serious shortcoming, as the distribution of property income and wealth has been included in many of the structuralist and dependency analyses. The inequality of property income and wealth has been analysed less often in contemporary distributional studies, partly because the data are less readily available. Exceptions include the work of Torche and Spilerman (2006), who analysed the concentration of different sources of wealth in 16 of the region's countries and drew attention to the very high concentration of land and property ownership that has persisted since colonial times.

Fortunately, the situation is changing. Since the initial work done by the late British economist Anthony Atkinson, a research agenda is being developed that stresses the importance of property income, the distribution of wealth and the inadequacy of household surveys to capture these phenomena (Alvaredo and others, 2013). In the Latin American case, this shortcoming had already been noted early on in the work of Altimir (1987), which resulted in the series of inequality indicators adjusted to the national accounts published by ECLAC. This agenda gave rise to the recovery and expansion of the tradition of distributional analysis "a la Kuznets", based on administrative data. In this line of research, methodologies were developed for combining surveys with records of income and wealth taxation and new methods for correcting income underreporting and non-response in household surveys (Alvaredo, 2011; Jenkins, 2017; Piketty, Yang and Zucman, 2019; Blanchet, Flores and Morgan, 2022). Moreover, in the framework of the distributional national accounts methodology, steps were also taken to scale income distribution to the national accounts, including the household account and total output (Piketty, Saez, and Zucman, 2018). Lustig (2020) presents a summary of the different approaches; and Flachaire, Lustig and Vigorito (2022) discuss their limitations.

The recent trend of inequality in Latin America is analysed in various studies that use data from administrative records (in particular, tax returns) and call into question the generalized reduction that emerges from measurements based on household surveys, as discussed in the foregoing paragraphs. For example, Alvaredo and Londoño Vélez (2014) and Burdín and others (2022) note that, in the period in which the Gini coefficient calculated from household surveys declined (2006–2010), the share of the top 1% of incomes in both Colombia and Uruguay remained stable (around 20% and 14%, respectively). In the Uruguayan case, redistribution occurred in the lower 99% of incomes, mainly in labour income, while property income became more concentrated. Flores and others (2020) detected opposing trends in Chile, with an increase in the share of higher incomes since 2000 according to tax records, and a decrease according to household surveys. For Brazil, Souza and Medeiros (2015) concluded that inequality indices remained stable between 2006 and 2012, with the top 1% receiving around 25% of total income.

Also in the case of Brazil, Morgan (2017) performs an exercise that includes correction with fiscal data and scaling to distributional national accounts. The author finds a rising trend in the level of income concentration in Brazil in the top 1% of incomes, and a marked stability in the Gini coefficient. These findings contradict earlier results based on household surveys that indicated a prolonged period of declining inequality (López-Calva and Lustig, 2010; Barros, Foguel and Ulyssea, 2006). This study also reported a reduction in the inequality of labour income, consistent with previous literature.

Using a similar methodology, De Rosa, Flores and Morgan (2022) estimate inequality for 10 Latin American countries and distinguish series with information obtained from household surveys corrected with fiscal data and extensions to national income components (distributional national accounts). In nearly all of the countries analysed, the Gini coefficients derived from surveys and corrected with fiscal data display the same trend as the survey-based indicators. The exceptions are Brazil and Mexico, for which the surveys report a reduction, but the corrected data indicate no change. When estimating the share of the highest income percentile of the population, and also when scaling to distributional national accounts, the discrepancies are accentuated, and the trend of inequality reduction detected IN household surveys is reversed in more countries. As De Rosa and Vilá (2023) note, beyond the complexity, scaling to the national accounts level reveals changes in the patterns of profit withdrawal by business owners, which are not detected in the analysis based on surveys and tax records and may affect the evolution of the inequality measures.

Although this new line of research is undoubtedly promising in terms of enhancing understanding of distributional phenomena, tax records are a limited source of information. This is particularly true in Latin America, owing to the prevailing high levels of informality and rates of tax evasion and avoidance. At the same time, they have few covariates, which makes it difficult to go beyond purely descriptive analyses. In order to enhance understanding of income inequality in the region, it is necessary to continue working on the complementarity of administrative records, national accounts and household surveys, without ignoring the fact that the latter are essential, and without neglecting their quality.

IV. Challenges of the new context

The previous sections have illustrated the different challenges that arise when reviewing inequality in the region. Some involve the need to continue developing economic thinking on the origin of inequality; others are related to the methodologies and information needed to measure it; and a third group corresponds to the area of public policies. These aspects are considered below.

The evolution of inequality described in the previous section highlights the fact that, 75 years after the founding of ECLAC, Prebisch's concern about the distribution of income in the region (see epigraph) remains totally valid. The brief recapitulation of structuralist thought underscores the relationship between the general functioning of the economic system and social inequalities, focusing on the differentiation of remunerations, consumption patterns and, above all, on the variety of styles and main purposes of development. These aspects should guide a comprehensive research agenda, taking into account the intrinsic and instrumental relevance of inequality and its relationship with macroeconomic and productive processes. Neo-structuralism could form one of the pillars of this agenda.

From this standpoint, research that focuses on the higher-income sectors of the population could benefit by going beyond the analysis of income divisions to incorporate a broader approach. This would distinguish between economic and social groups and other increasingly important categories, such as the jobs that could be lost to digitalization. An approach of this type would also help to integrate the analysis of the personal and functional income distributions. It would also consider the economic dynamic and, in particular, the appropriation and use made of economic surplus, profits and corporate earnings which, because they are not transferred to the household domain, are seldom considered in analyses of the personal income distribution or of high incomes.

Based on recent experience in the region, a question arises as to the dimensions that should be emphasized in the public policy agenda, in order to continue reducing inequality. Far from making an exhaustive proposal, which would mean considering the functioning of the entire economic system and attacking recognition gaps (such as those based on gender and ethnicity and those affecting population groups that face stigmatization or discrimination) and access to economic resources, this article focuses on a number of short- and medium-term measures. The analysis identified the expansion of education as one of the key factors underlying a generalized reduction in inequality. This is one of the reasons for the reduction in the ratio between the wages of skilled and low-skilled workers, which explains much of the reduction in income inequality. The COVID-19 pandemic jeopardized progress in expanding access to education, further fostering inequality in learning levels (Neidhöfer, Lustig, and Tommasi, 2021). Accordingly, a fundamental component of the agenda is to continue expanding access to education for the poor and vulnerable strata of the population, while reducing quality differences. The supply of education must adapt to changing demand for labour, which will be influenced increasingly by automation processes and the spread of artificial intelligence. The transmission of these new skills and knowledge must be supported by the development of capacities and attitudes that strengthen the exercise of citizenship in the region.

Another factor that contributed to the reduction of inequality is the expansion of cash transfer programmes to families whose members include school-age children and older persons. Countries spend a relatively small share of GDP on these benefits, especially in the case of children. Additional resources need to be allocated to programmes aimed at reducing household vulnerability and stabilizing household incomes. More generally, the region needs to rethink its social protection systems in response to new labour market risks and crises of various kinds, as evidenced by the recent pandemic.

Two additional factors that contributed to reducing inequality in some countries were the rise in the minimum wage and, in general, the strengthening of labour institutions (formalization and wage bargaining mechanisms). Appropriate management of wage and employment policies must be an intrinsic part of the agenda to improve the personal (Messina and Silva, 2018) and functional income distributions.

The measures adopted during the period of declining inequality aimed to boost the incomes of low- and middle-income population groups more rapidly. The share of the richest group (the emblematic "1%") in the control of wealth and income still needs to be reduced, with the consequent problems of political economy and power that this entails. Clearly, one mechanism for achieving this is fiscal policy. According to available analyses, fiscal (tax and transfer) policy reduces inequality in Latin American countries, but to a lesser extent than in other middle-income countries outside the region, and very heterogeneously between the countries analysed. More worryingly, the burden of indirect taxes in some countries means that the tax system can cause post-tax poverty to increase (Lustig, 2017; Lustig, Martínez Pabon and Pessino, 2023). In other words, the tax system has not been fully exploited to achieve an effective redistribution of income and wealth. Although raising taxes is not the best solution in all countries, in some cases it is: the important thing is to achieve effective progressiveness. In an analysis of the tax policies adopted in the region with respect to high-income sectors, Bérgolo, Londoño Vélez and Tortarolo (2023) suggest that effective taxation of these sectors requires broadening the tax base and, in particular, rethinking the rules on property income, foreign income and income obtained from sole proprietorships and partnerships.

Nonetheless, to fully implement the agenda of a tax system that genuinely taxes extremely high incomes, the citizenry must be able to monitor it. It is therefore essential to generalize systematic access to administrative data on taxes, social security and national accounts, and to resolve the problems of information quality and the contradictions between sources that have been revealed when trying to reconcile the data. Inequality cannot be rectified without knowing how much inequality there is, both before and after the effects of fiscal policy. Given its long tradition of collaborating with statistical offices and other administrative institutions in the region, ECLAC is well placed to take the lead in this process.

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