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SOCIAL POLICY 248

Keynote lectures on social inequality

Barr, Bourguignon, Ferreira, Foster and Lustig

Alberto Arenas de Mesa
Andrés Espejo
Daniela Huneeus
Editors

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Summary

This publication brings together the keynote lectures delivered by Nicholas Barr, François Bourguignon, Francisco H. G. Ferreira, James Foster, and Nora Lustig at the Regional Seminar on Social Development organized by ECLAC, offering complementary analytical perspectives on the nature, drivers, and measurement of social inequality in Latin America and the Caribbean. The contributions examine inequality as a structural and multidimensional phenomenon rooted in historical legacies, productive heterogeneity, and the interaction between labour markets and social institutions. The volume combines empirical evidence, conceptual reflection, and methodological advances to deepen understanding of persistent disparities and their policy implications. Together, the chapters emphasize that reducing inequality requires coordinated economic and social policies capable of addressing its root causes rather than its symptoms. By bridging academic research and public policy debates, the publication advances a comprehensive approach to inclusive social development, placing the reduction of inequality and the promotion of social mobility and cohesion at the centre of development strategies aimed at overcoming the region's trap of high inequality, low social mobility and weak social cohesion.

Foreword

The Economic Commission for Latin America and the Caribbean (ECLAC), in its analysis of the development challenges facing the region in the 2020s, identifies three mutually reinforcing development traps that, to varying degrees, affect all the countries of the region: (i) a trap of low capacity to grow and transform productively; (ii) a trap of high inequality, low social mobility and weak social cohesion; and (iii) a trap of weak institutional capacities and ineffective governance.[1]

These traps persist even after decades of progress in a number of important economic and social dimensions. For instance, from 2014 to 2023, the region's annual economic growth averaged just 0.9% —half the 2% rate recorded in the "lost decade" of the 1980s— leading to what ECLAC has called a second lost decade for Latin America and the Caribbean. This anaemic growth is associated with a slowdown in the robust rate of poverty reduction observed in the region since the 1990s, together with one of the lowest job creation rates seen in decades and limited fiscal space due to low tax revenue.

These regional factors interact with recent developments in the global economy and the geopolitical landscape to create new challenges for growth, development and efforts to overcome the traps and their vicious circles.

The trap of high inequality, low social mobility and weak social cohesion occupies a particularly critical position, not only because Latin America and the Caribbean remains one of the most unequal regions in the world, but also because inequality cuts across and conditions the entire development process.

ECLAC has maintained that overcoming this predicament requires progress on an interconnected set of 11 vital transformations,[2] which include boosting growth via the more proactive pursuit of productive transformation and quality employment; taking full advantage of new technologies; strengthening education and vocational training systems; advancing towards universal social protection systems;

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1 Economic Commission for Latin America and the Caribbean. (2024). *Development Traps in Latin America and the Caribbean: Vital Transformations and How to Manage Them* (LC/SES.40/3-P/-*).

2 Salazar-Xirinachs, J. M. (2023). Rethinking, reimagining and transforming: the "whats" and the "hows" for moving towards a more productive, inclusive and sustainable development model. *CEPAL Review* (141) (LC/PUB.2023/29-P); Economic Commission for Latin America and the Caribbean. (2024). *Development Traps in Latin America and the Caribbean: Vital Transformations and How to Manage Them* (LC/SES.40/3-P/-*).

reducing gender and territorial inequalities; and reinforcing institutional and governance capacities. Together, these transformations directly affect the mechanisms that generate and reproduce inequality, low social mobility and weak social cohesion.

In this context, ECLAC has sparked renewed reflection and debate, applying pioneering scholarship to current public policy challenges.

The present publication brings together keynote lectures from the Regional Seminar on Social Development in Latin America and the Caribbean, offering complementary economic, public policy and conceptual perspectives on the mechanisms through which inequality is reproduced and the challenges involved in overcoming it. Taken together, these contributions provide evidence, analytical approaches and proposals that support progress towards more comprehensive and coherent policies capable of addressing the root causes of inequality, rather than its symptoms.

This compilation seeks to provide strategic input to the ongoing conversation on vital aspects of overcoming the trap of high inequality, low social mobility and weak social cohesion in Latin America and the Caribbean. This challenge, both structural and political in nature, calls for renewed social compacts, stronger coordination between economic and social policies, and a shared vision of the future that places reduced inequality and enhanced social mobility and cohesion at the centre of development strategies.

Only in this way will it be possible to expand opportunities, strengthen democracy and social compacts, and move towards more productive, inclusive and sustainable societies.

José Manuel Salazar-Xirinachs
Executive Secretary
Economic Commission for
Latin America and the Caribbean (ECLAC)

I. Contributions of the Regional Seminar on Social Development to the debate on social inequality in Latin America and the Caribbean

Alberto Arenas de Mesa and Andrés Espejo
Social Development Division, Economic Commission for Latin America and the Caribbean

Since the establishment of the Economic Commission for Latin America and the Caribbean (ECLAC) in 1948, inequality has been one of the central pillars of its analysis, thought and applied research agenda. ECLAC has consistently maintained that inequality is not merely a distributive problem or a cyclical issue but rather a structural feature of the Latin American and Caribbean development model, rooted in a heterogeneous productive structure, persistent historical legacies and fragmented social institutions (Economic Commission for Latin America and the Caribbean [ECLAC], 2024a). From this perspective, inequality is both cause and consequence of the region's low growth capacity, labour informality, fiscal weakness, limited social mobility and social cohesion deficits (ECLAC, 2016, 2024a, 2025a).

In recent decades, Latin America and the Caribbean has made significant progress in reducing poverty, expanding social protection and increasing access to public services. However, these advances are neither comprehensive nor sufficient, as evidenced by the post-2015 economic slowdown and, in particular, the coronavirus disease (COVID-19) pandemic. The persistence of pronounced income, gender, wealth, territorial and ethnic inequality —widely documented in the works of ECLAC and specialized literature— confirms that high inequality remains the main structural trap limiting inclusive social development in the region (ECLAC, 2024a, 2024b).

ECLAC has identified a range of structural factors explaining persistent high inequality in the region, chief among them (i) low growth and productive heterogeneity, which generate segmented labour markets; (ii) tax systems with limited progressivity; (iii) social policies and social protection that do not adequately compensate for inequalities originating in the productive sphere; (iv) education weaknesses that restrict social mobility; (v) persistent gender inequality; (vi) significant territorial segregation in urban environments, fuelling the reproduction of inequalities in the region's cities; and (vii) discrimination and human rights violations affecting certain population groups, which cut across all the other factors

(ECLAC, 2025a). These factors not only explain the persistence of inequality but also demonstrate the need for comprehensive approaches that place its reduction at the centre of development strategies. Thus, overcoming these obstacles requires the coordination of fiscal, social protection, labour, education and urban policies that support social cohesion and productivity (ECLAC, 2024b).

In this context, ECLAC has sparked renewed reflection and debate in the framework of the Regional Agenda for Inclusive Social Development (ECLAC, 2020), applying pioneering scholarship to current public policy challenges. The Agenda establishes inclusive social development as a comprehensive approach centred on people and their rights. Its aim is to ensure freedom from poverty, hunger and inequalities, with levels of well-being commensurate with the economic development of societies. By promoting universal, comprehensive, sustainable and resilient social protection systems based on the principle of universalism that is sensitive to differences, this approach seeks to reduce social gaps at the structural level and advance towards more productive, inclusive and sustainable societies (ECLAC, 2020, 2024c, 2025a).

The Regional Conference on Social Development in Latin America and the Caribbean[3] has become a key intergovernmental platform for the Regional Agenda for Inclusive Social Development, where countries have positioned inequality as a central concern, identified its reduction as a prerequisite for advancing towards inclusive social development, and agreed that the persistence of structural gaps limits social cohesion, social mobility and progress towards sustainable development (ECLAC, 2025b). This regional approach gained global recognition at the Second World Summit for Social Development, held in Doha in November 2025, where the reduction of inequality was reaffirmed not as a compensatory policy but as a development strategy that requires coherent and coordinated economic, social and labour policies in the framework of a broad new social compact.[4]

Against this backdrop, the Regional Seminar on Social Development in Latin America and the Caribbean, organized annually by the Social Development Division of ECLAC, has emerged as a technical and analytical forum in which these elements of consensus are subjected to academic debate, expanded upon and ultimately translated into conceptual frameworks and public policy proposals. In cultivating an interdisciplinary environment, fostering dialogue among researchers, policymakers and international organizations and emphasizing structural approaches to inequality, the Seminar has become a model for contemporary debates on inclusive social development in Latin America and the Caribbean.

The present document brings together keynote lectures from the Regional Seminar on Social Development, delivered in recent years by speakers whose contributions directly address the structural approach to inequality developed by ECLAC. Each lecture provides critical insight into the complexity of the problem, its historical and contemporary determinants, and challenges for countries of the region in advancing towards inclusive social development. The sequence of contributions in this volume follows a deliberate analytical progression, from empirical diagnosis to conceptual interpretation and, finally, to methodological refinement, thus offering an integrated reading of inequality as a structural and multidimensional issue.

In the first lecture, **Nora Lustig** provides a rigorous empirical perspective on recent trends in inequality and the role of fiscal policy in its reduction. Drawing on findings from the Latin America and Caribbean Inequality Review, Lustig shows how income gaps in Latin America correlate both to market factors and to the limited redistributive capacity of fiscal systems. Her analysis highlights that, despite significant progress during the first decade of the twenty-first century, the region remains one of the most unequal in the world, and that reversing this trend requires strengthening tax progressivity, improving the quality of transfers and expanding social protection coverage.

[3] Established in 2014 pursuant to ECLAC resolution 682(XXXV) and Economic and Social Council resolution 2014/32, the Conference's objectives include promoting national policymaking and international, regional and bilateral cooperation on social development in order to analyse multidimensional poverty and make progress on poverty measurement, inequality and structural gaps.

[4] See General Assembly resolution 80/5.

Francisco H. G. Ferreira provides a structural reading of the reproduction of inequalities through the lens of the "inequality triangle". This approach links three interdependent dimensions: inequality in labour supply (skills and education), inequality in labour demand (productive structure and informality) and inequality in labour market outcomes. In full alignment with the ECLAC analytical tradition, he shows how productive heterogeneity and labour market segmentation generate and perpetuate inequalities down through the generations. In line with Lustig, Ferreira finds that redistributive policies achieve sustained effects only when accompanied by structural transformation in employment and productivity.

Nicholas Barr broadens the discussion to address the role of social protection systems in modern welfare states. He emphasizes that reducing inequality requires not only poverty alleviation mechanisms but also instruments that improve savings, stabilize consumption and reduce vulnerability to economic and demographic risks. Barr examines in depth the impact of non-contributory pensions, mixed pension systems and gender equality policies, showing how these elements can enhance both horizontal and vertical equity while contributing to fiscal sustainability and social cohesion.

In a similar vein, **François Bourguignon** examines the main conceptual debates and methodological challenges in the measurement of social inequality, questioning the use of income as its exclusive indicator. He proposes understanding inequality as a structural and multidimensional problem, shaped by inequalities of origin and by mechanisms that are perpetuated throughout the life cycle. He also analyses the limitations of synthetic measures like the Gini coefficient, the gap between measurement and social perception, and the relationship between equality of opportunity and equality of outcomes, and ultimately proposes an operational approach involving a dashboard of indicators to more comprehensively capture the dimensions of inequality that are relevant for public policy.

This reflection is consistent with the ECLAC conceptual advances that form the social inequality matrix, which recognizes inequality as a multidimensional phenomenon in which income gaps interact with persistent deprivations in key dimensions of well-being. Regional evidence shows that inequalities in the labour market, access to social protection, education, health and living conditions tend to accumulate and reinforce one another throughout the life cycle, particularly where they intersect with structural axes, such as gender, territory, age and socioeconomic background. This approach highlights the need to move beyond income-centred measurements by incorporating analytical frameworks and metrics capable of capturing the interdependence and accumulation of inequalities, as a basis for the design of comprehensive public policies and for effectively addressing the trap of high inequality, low social mobility and weak social cohesion in the region (ECLAC, 2016, 2025a).

Lastly, **James E. Foster** complements this multidimensional perspective with a methodological one. His proposal to move from indicator dashboards towards coherent and comparable indices provides useful tools for decision-making and for the design of comprehensive policies aimed at reducing inequality. Foster revisits the axiomatic principles of his work to demonstrate how complex information can be synthesized into measurements that adhere to clear normative properties and that can guide the design of effective public policies.

Taken together, these contributions offer an expansive and well-articulated vision of the challenges facing the region: understanding the historical persistence of inequalities, identifying the mechanisms through which they are reproduced, refining measurement instruments and strengthening both fiscal action and institutional capacity. The rich diversity of approaches presented —ranging from income inequality to inequalities in capabilities, opportunities, labour market access and well-being— provides a conceptual and empirical foundation that reaffirms the need to advance towards universal, comprehensive, sustainable and resilient social protection policies capable of overcoming the structural traps of Latin American development, in particular the trap of high inequality, low social mobility and weak social cohesion.

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II. The challenge of inequality in Latin America and the role of the State[5]

Nora Lustig
Tulane University, Commitment to Equity Institute

In this section, economist Nora Lustig presented the findings of the Latin American and Caribbean Inequality Review (LACIR) project, a joint initiative of the International Inequalities Institute at the London School of Economics and Political Science, the Inter-American Development Bank (IDB), the Institute for Fiscal Studies, and Yale University.

Inequality in Latin America is one of the most persistent and complex challenges. Despite progress in certain indicators, the region continues to exhibit high levels of income concentration, inequality of opportunities, and the structural exclusion of some social groups. Historical and contemporary causes of inequality, its recent evolution, and the role played by the State in mitigating it through redistributive fiscal policies are examined.

A. A diagnosis of structural inequality in Latin America

Latin America remains the most unequal region in the world, despite the progress achieved in recent decades in terms of social development and poverty reduction. The persistence of profound economic, social and gender gaps constrain the potential for inclusive growth and hinders progress towards the Sustainable Development Goals.

In terms of income inequality, the average Gini coefficient stands at around 0.45 and the richest 10 per cent of the population receive, on average, twenty times more income than the poorest 10 per cent. This disparity widens when data from tax returns is combined with household surveys, raising the Gini coefficient by as much as ten percentage points (Alvaredo et al., 2025).

5 This presentation was delivered during the international ECLAC–IDB seminar 'Key Strategies to Overcome Inequality in Latin America and the Caribbean', held in Guatemala City on 29 July, 2025.

Inequality of opportunity is also pronounced. Gaps in early childhood development, and in access to quality education and healthcare, persist throughout the life cycle (Brunori, Ferreira, and Neidhöfer, 2025). Households living in poverty face significantly higher maternal and infant mortality rates and limited access to basic services (Attanasio et al., 2025). Afro-descendant and Indigenous peoples are over-represented among the poor and encounter greater barriers to accessing formal, well-paid employment (Telles et al., 2025). Likewise, gender inequality persists both in employment conditions and in remuneration, with women remaining disproportionately engaged in unpaid care work (Fernández et al. 2025).

The productive sector, in which inequality is also reproduced, is marked by concentration and polarisation (Eslava et al., 2025). Recent studies show that large firms, by virtue of their oligopolistic power, are able to set prices on average more than 80 per cent above their marginal costs, while remunerating labour at values more than 40 per cent below its marginal productivity. This dynamic deepens distributive gaps and limits the capacity of economic growth to generate inclusion (Eslava, García-Marín, and Messina, 2025).

Nonetheless, there is encouraging news: although Latin America continues to be among the most unequal regions of the planet, inequality has declined in recent decades. At the beginning of this century —at different points depending on the country— most Latin American economies experienced a sustained reduction in inequality following a prior period of increase. Available data for 17 countries in the region, from various sources including ECLAC, reveal in almost every case a trajectory shaped like an “inverted U”. The exceptions are Costa Rica and Guatemala, where inequality has not fallen and, on the contrary, appears to have increased (Alvaredo et al., 2025).

B. Recent evolution and explanatory factors of inequality

Since the beginning of the twenty-first century, Latin America has experienced a significant reduction in inequality levels, contrasting with the increase observed during the decades of the debt crisis and market-oriented reforms. In most countries, the decline recorded in the 2000s was more pronounced than the previous rises and even greater than the stagnation or reversals observed in the past decade. Overall, it can be said that income inequality in the region today is lower than it was forty years ago.

This evolution resulted from a combination of structural factors, market dynamics and redistributive public policies. From the labour market perspective, one of the main determinants was the narrowing of wage gaps between workers with different levels of education. From the 1990s onwards, the relative supply of individuals with secondary and tertiary education increased steadily, while the demand for less skilled labour grew in labour-intensive sectors. This dual movement in supply and demand contributed to reduced wage dispersion, explaining more than 60 per cent of the total reduction in income inequality across the region.

Institutional factors also reinforced these distributive improvements. In several countries, the rise in the real minimum wage (Gindling and Ronconi, 2025), together with the expansion and better targeting of cash transfer programmes —both conditional and non-contributory— had a significant redistributive effect, accounting for roughly 17 per cent of the decline in inequality. Private remittances —especially relevant in Guatemala, El Salvador and Honduras— also made a substantial contribution, representing around 15 per cent of the total reduction.

Education played a central role in this process. The increase in educational attainment not only helped to close wage gaps but also laid the foundations for more inclusive long-term growth. However, this process was not homogeneous and progress slowed in recent years, reflecting the limits of labour and social policies in sustaining convergence amid weaker economic growth and productivity.

From a historical perspective, the magnitude and persistence of the decline in inequality in Latin America is exceptional. Comparable precedents exist only in some industrialised countries during the post-war period, when productive transformations were combined with redistributive and welfare policies. Despite the progress achieved, the region remains one of the most unequal in the world, underscoring the need to renew strategies for labour inclusion and social protection so as to consolidate the gains achieved and address emerging challenges.

C. Historical persistence and intergenerational reproduction of inequality

Comparative global data confirm that Latin America remains among the most unequal regions on the planet. Across a sample of 133 countries, the region's Gini coefficients are consistently among the highest in the world, alongside those of certain Sub-Saharan African economies. Within Latin America, there are significant differences, yet overall, the region invariably ranks at the upper end of the "parade of the Ginis" (Alvaredo, et.al. Forthcoming).

Beyond current figures, Latin American inequalities have deep historical roots. Recent research from the Latin American and Caribbean Inequality Review (LACIR) project shows a positive correlation between contemporary levels of inequality and the proportion of the population that was enslaved in the nineteenth century. Countries that maintained more extensive slave-based systems tend to exhibit greater present-day concentrations of income and wealth, indicating that inequality persists not only across decades but across centuries (Eslava and Valencia, 2025).

This historical legacy is also reflected in the extreme concentration of wealth. In the few countries where information is available —such as Uruguay, Chile and Colombia— the richest 1 per cent holds around 40 per cent of national wealth, while the poorest 50 per cent possesses less than 1 per cent. Wealth inequality is therefore far more pronounced than income inequality, reinforcing the concentration of both economic and political power (Carranza, de Rosa, and Flores, 2025).

Present-day inequality is reproduced through inequality of opportunity. Analyses of social mobility show that more than 50 per cent of current inequality —ranging from 40 per cent in Argentina to over 60 per cent in Guatemala— is explained by inherited factors (Brunori et al., 2025). Parents' education and occupation are the main determinants, alongside geographic location (particularly in marginalised rural areas) and ethnic origin. These disparities begin even before birth and extend throughout the life cycle. Gaps in early childhood development, access to quality services and educational attainment reinforce the intergenerational transmission of disadvantage (Attanasio et al., 2025). In several countries, recent studies show that individuals with darker skin tones achieve, on average, fewer years of schooling, reflecting the persistence of racial and ethnic discrimination mechanisms (Telles et al., 2025).

In summary, inequality in Latin America is not only high but also persistent and multidimensional. Its historical roots, the concentration of wealth and the intergenerational reproduction of disadvantage explain the resilience of this unequal pattern and highlight the need for structural policies that combine equality of opportunity, income redistribution and the democratisation of economic power. Understanding this historical persistence is essential for designing strategies that break intergenerational transmission mechanisms and lay the foundations for a new social compact oriented towards inclusion, mobility and distributive justice.

D. Inequality of opportunity and child development

Differences in child development according to household socioeconomic status emerge at very early stages and tend to become entrenched throughout the life cycle. Various studies show that gaps in cognitive capital, nutrition and stimulation begin even during the prenatal period and widen during childhood. Unless they are addressed from the earliest years of life, these initial inequalities condition educational trajectories and future labour market prospects, thereby limiting intergenerational social mobility.

Recent evidence from the LACIR project confirms the persistence of these gaps. In virtually all countries analysed, individuals with darker skin tones achieve, on average, fewer years of schooling than those with lighter complexions, reflecting the ongoing operation of ethnic and racial exclusion mechanisms in both education systems and labour markets. These disparities are not transitory: studies comparing children's vocabulary development between households in the poorest and richest quartiles show that such gaps remain over time and fail to close, even after several years of schooling.

From a gender perspective, the region exhibits a paradoxical pattern. Women attain, on average, more years of formal education than men, yet remain under-represented in fields of study associated with better labour market opportunities and higher pay —such as science, technology, engineering and mathematics (STEM). This reflects the persistence of sociocultural norms and biases that hinder full equality of opportunity and prevent educational achievements from translating into economic equality (Berniell, Fernández, and Krutikova, 2025).

Another characteristic feature of inequality in Latin America is the segmentation of access to education by income level. Higher-income households tend to "opt out" of the public system and enrol their children in private institutions (De la O, Rossel, and Manzi, 2025). The proportion of students in private schools rises sharply among the upper income deciles, thereby reinforcing educational quality gaps. Results from the PISA assessments show that students attending private schools obtain, on average, significantly higher scores in reading comprehension and mathematics, thereby reproducing socioeconomic inequalities in accumulated human capital (Fernández, et.al. 2023).

These disparities deepened with the COVID-19 pandemic. Children from wealthier households were better able to adapt to remote learning and maintain educational continuity, whereas those from more vulnerable environments experienced far more severe learning losses. Recent estimates suggest that the upper secondary completion rate among lower-income youth may have fallen by as much as 20 percentage points in comparison to pre-pandemic trends, reverting to levels similar to those observed among cohorts from the 1960s (Neidhöfer, Lustig, and Tommasi, 2021). This potential setback threatens to reverse a previously positive trend of gradual convergence among socioeconomic groups in access to, and completion of, secondary education.

Taken together, this evidence reinforces the notion that inequality in Latin America originates early in life, becomes entrenched through the education system, and is amplified by the segmentation of access to services of varying quality. Breaking this cycle requires comprehensive policies that ensure inclusive early childhood development, improve the quality of public education, narrow the digital divide, and promote gender and ethnic and racial equality across educational and labour market trajectories.

E. The role of the State: fiscal policy as a tool for reducing inequality

Fiscal policy is one of the State's principal instruments for reducing inequality and promoting social cohesion. Its redistributive capacity depends on two fundamental factors: the size of public revenue and expenditure —particularly social spending— and the degree of progressivity in both. In Latin America, both elements are limited and heterogeneous, which explains the comparatively lower redistributive effectiveness of fiscal systems relative to other middle-income regions (Lustig, Martinez Pabón, and Pessino, 2025).

Comparative analyses show that the region collects, on average, a smaller share of GDP than other middle-income economies. However, there are large differences between countries, ranging from low-revenue tax systems —such as those of Guatemala and the Dominican Republic— to others with (at least until recently) large fiscal structures, such as Argentina or Brazil. Nevertheless, a larger State does not automatically guarantee better distributive outcomes: coherence between fiscal and macroeconomic policy is essential to avoid fiscal imbalances that ultimately undermine the sustainability of social policies (Lustig, Martinez Pabón, and Pessino, 2025).

In terms of progressivity, the evidence suggests that all Latin American countries reduce inequality through taxes and transfers, albeit to a lesser extent than other regions. In the 18 countries analysed, direct taxes and public transfers reduce the Gini coefficient, while indirect taxes and subsidies —contrary to common assumptions— also contribute to equity in 13 of them. This result is partly explained by the high level of labour informality: informal workers bear a lower burden of consumption taxes, which attenuates the regressive nature of these levies. However, as formalisation advances, indirect taxes tend to become less progressive, calling for a review of their structure and of compensatory mechanisms (Lustig, Martinez Pabón, and Pessino, 2025).

On the expenditure side, social spending and public subsidies are the main redistributive instruments. Although the size of social spending as a proportion of GDP varies considerably, Latin America, on average, allocates fewer resources than other middle-income regions. Even so, public spending on education and health displays a clearly progressive profile: preschool and primary education are pro-poor in all countries analysed, secondary education is pro-poor in most, and tertiary education —contrary to common belief— is progressive in 15 out of 18 countries. A similar pattern holds in the health sector (Lustig, Martinez Pabón, and Pessino, 2025). However, this progressivity is partly explained by the phenomenon of "opting out", whereby higher-income groups withdraw from public services and resort to private provision (De la O, Rossel, and Manzi, 2025). This behaviour reduces political pressure to improve the quality of public services and weakens social compacts around taxation and redistribution. Health systems in Latin America remain largely fragmented and face significant challenges in terms of quality (Bancalari et al., 2025).

Despite these advances, important distortions persist. In several countries, poor households are net payers within the fiscal system —that is, they contribute more in taxes than they receive in transfers— which can increase post-fiscal poverty. This phenomenon reflects a combination of low coverage of direct transfers (Stampini, Medellín, and Ibarrarán, 2025), heavy reliance on consumption taxes and limited capacity to target spending effectively. Moreover, the top marginal income tax rate for the richest 1 per cent in Latin America averages around 30 per cent, far below the 47 per cent observed in developed countries, which limits the overall progressivity of the system.

At the regional level, the relationship between inequality and redistributive effort also presents a worrying pattern. Whereas in other parts of the world greater inequality tends to be associated with higher social spending —as part of social compacts oriented towards cohesion— in Latin America the opposite occurs: the more unequal a country, the lower its redistributive effort (Lustig, Martinez Pabón, and Pessino, 2025). This negative relationship reveals structural weaknesses in Latin American social compacts and underscores the need to move towards more progressive, universal and sustainable fiscal systems that strengthen the legitimacy of the State and its capacity to finance social rights.

In summary, fiscal policy in Latin America performs a positive but limited redistributive function. Expanding revenue-raising capacity, improving the progressivity of the tax system, strengthening social spending and rebuilding the fiscal compact are indispensable conditions for consolidating a State capable of reducing inequality and promoting truly inclusive development.

F. Proposals for a more equitable fiscal policy

In summary, fiscal systems in Latin America reduce inequality, but to a lesser extent than those of other middle-income regions. Even so, their redistributive effect is positive. The problem lies in the fact that, in several countries, post-fiscal poverty is actually higher than pre-fiscal poverty —reflecting limitations in both the scope and adequacy of transfer policies. Furthermore, the most unequal countries do not necessarily allocate more resources to redistribution, and the limited impact of progressive taxation is explained less by statutory tax rates than by their low effectiveness. The region collects relatively little through direct and progressive taxes, and maintains high levels of tax expenditures that, even when intended for redistributive purposes, often end up benefiting non-poor sectors as well.

In terms of social spending, cash transfer programmes have been a key instrument in reducing inequality and poverty. Nonetheless, they face significant challenges of coverage and adequacy: while they reach roughly 30 per cent of the population, the median benefit amount represents only one third of the poverty gap, and barely half of poor households receive them. At the same time, more than 40 per cent of non-poor households are beneficiaries, raising the question of whether to move towards more universal schemes or to strengthen targeting, depending on each country's context.

Looking ahead, strengthening the redistributive capacity of the State requires an integrated strategy. On the revenue side, it is necessary to increase marginal tax rates on high incomes, review exemptions and tax expenditures, reform wealth taxes, and step up efforts to combat tax evasion and avoidance. On the expenditure side, cash transfers must be sufficient to avoid impoverishing effects, and public services must improve in quality and coverage in order to reduce the flight to the private sector and rebuild trust in the State.

Ultimately, Latin America has achieved significant progress in reducing inequality, yet it continues to face deep-seated structural challenges. History, the productive structure and public policy must be aligned to a new fiscal and social compact that strengthens the legitimacy of the State, promotes a fairer distribution of resources and guarantees inclusive and sustainable development.

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III. The triangle of inequality in Latin America's labour markets[6]

Francisco H. G. Ferreira
Amartya Sen Professor of Inequality Studies at the London School of Economics and Director of the International Inequalities Institute

Professor Francisco H. G. Ferreira presented a structural analysis of the underlying causes and mechanisms that sustain inequality in Latin America and the Caribbean. In his presentation, he highlighted that inequality constitutes a historical and persistent feature of regional development —manifesting across economic, social, and opportunity-related dimensions— and that it is driven primarily by structural rather than cyclical factors.

To interpret this complex dynamic, the professor proposed the "triangle of inequality" framework —an analytical construct linking three interdependent dimensions: inequality in labour supply (associated with human capital and educational opportunities), inequality in labour demand (related to the productive structure and the characteristics of available employment), and inequality in labour market outcomes, reflected in income levels, job quality, and well-being. This approach enables inequality to be understood not as a static or isolated phenomenon, but as a system of mutually reinforcing relationships that explain its persistence over time.

A. Persistent and intergenerational inequality in Latin America and the Caribbean

Latin America and the Caribbean remains one of the most unequal regions in the world. Despite notable progress in poverty reduction and educational expansion during the first decades of the twenty-first century, income inequality remains high. The unweighted regional average of Gini coefficients (based on household

[6] This presentation was delivered at the "Third Regional Seminar on Social Development: Promoting labour inclusion as a way to overcome inequalities and informality in Latin America and the Caribbean", held in Santiago, Chile on 28 June, 2023.

surveys) fluctuates between 0.45 and 0.50 —far above the levels observed in Western Europe or East Asia, where it rarely exceeds 0.30. This disparity reflects a highly concentrated distributive structure that perpetuates historical asymmetries in the allocation of income and wealth.

Comparative evidence shows that between 2000 and 2012 the region experienced a sustained decline in the Gini coefficient, largely driven by previous expansions in the educational attainment of the labour force, as well as by contemporary redistributive policies such as minimum-wage increases and conditional cash-transfer programmes. However, from 2015 onwards this progress has stagnated, and in several countries it has even reversed. Latin America, together with sub-Saharan Africa, remains the most unequal region globally. The main challenge lies not only in income disparities but also in the intergenerational persistence of inequality and the limited scope for social mobility. Children from the poorest households continue to face structural barriers that hinder upward mobility.

Inequality in Latin America is multidimensional: it is expressed not only in income but also in access to education, health, basic services, formal employment and political participation. Conditions of origin —such as parents' educational attainment, ethnicity, gender, or place of birth— decisively shape life trajectories. Upward mobility is the exception rather than the rule, while the reproduction of disadvantage remains the norm. In this context, inequality of opportunity inevitably translates into inequality of outcomes.

Building on this diagnosis, an analytical framework of the triangle of inequality is introduced. This is conceived as a tool for understanding the interactions among three fundamental dimensions: labour supply, labour demand and observable labour-market outcomes. The framework enables inequality to be visualised as a structural system in which causes and consequences are mutually reinforcing. Each vertex represents a core component of the problem —individual capabilities, firm characteristics and the way these two elements interact to shape economic outcomes.

At the base of the triangle lie the two structural dimensions: labour supply, encompassing education, human capital and learning opportunities; and labour demand, reflecting the productive structure, the composition of firms and the types of jobs available. The upper vertex represents outcomes —income levels, job quality and living conditions. This framework is particularly relevant for Latin America, where inequality arises from the interaction between a highly heterogeneous supply of human capital, and a labour demand dominated by informal and low-productivity sectors.

This approach helps move beyond reductionist explanations that attribute inequality solely to individual factors, or to market imperfections alone. In fact, distributive outcomes result from deep-seated mechanisms that reinforce one another. Educational and human-capital gaps (supply) prevent most workers from accessing quality employment. On the firm side, productive heterogeneity and informality (demand) give rise to job opportunities with very different productivity potentials. Matches between these unequally equipped workers and widely disparate vacancies generate highly unequal labour-market outcomes that perpetuate opportunity gaps across generations. The triangle thus represents a closed circuit that explains the persistence and reproduction of inequality in the region —at least insofar as labour incomes are concerned.

This framework is situated within a broader historical perspective, recalling that inequality in Latin America has colonial —perhaps even pre-colonial— roots. Economic systems founded on land concentration, slavery and social exclusion established institutions that distributed power and opportunity unevenly. Although economies and societies have evolved, the mechanisms enabling the intergenerational transmission of advantage and disadvantage —through education, social networks and access to capital— continue to reproduce inherited disparities. Family, school and labour market operate as interconnected mechanisms sustaining inequality.

In sum, the triangle of inequality provides an integrated interpretation that connects the historical, structural and contemporary drivers of inequality. Understanding the dynamics of inequality in Latin America requires moving beyond partial explanations and adopting a systemic perspective. Only the combined implementation of educational, productive and social policies can modify all three vertices of the triangle simultaneously. Otherwise, progress will remain temporary, and structural divides will continue to shape the region's development trajectory.

B. Inequalities from the labour supply side: human capital and opportunities

The first vertex of the triangle refers to labour supply, encompassing the skills, knowledge and competencies that workers bring to the market. Inequality in this dimension does not stem merely from individual choices, but rather from disparities in human capital accumulated since early childhood. The formation of human capital begins long before entry into the formal education system and depends on conditions such as nutrition, health, family environment and early stimulation.

Neuroscientific evidence shows that differences in cognitive stimulation and nutrition levels have measurable effects on brain development. Comparative magnetic resonance imaging of three-year-old children reveals significant disparities in brain size and activity across different parental backgrounds and behaviours. These early biological inequalities translate into cognitive limitations, weaker school performance and, ultimately, fewer opportunities for entry into the labour market. Inequality of origin therefore becomes entrenched through a cumulative process that begins even before birth.

The study by Paxson and Schady (2007) conducted in Ecuador, which examined the cognitive development of children aged three to six using vocabulary tests, reinforce this argument. The findings show that the gap between children from the richest and poorest quartiles in certain communities widens with age, as does the gap between the children of more educated mothers and those with less educated mothers. In other words, inequality in capabilities originates not only in material deprivation but also in the educational and cultural environments within families. The distribution of human capital reflects social context and family background, rather than purely individual choices.

In the Latin American context, this situation is exacerbated by the segmentation of education systems. The coexistence of under-resourced public schools and higher-quality private institutions reproduces social stratification. Students from wealthier households enjoy access to better educational facilities, foreign-language instruction and social networks that ease their future labour market insertion. In contrast, more vulnerable groups face infrastructural deficits, higher dropout rates and lower levels of effective learning.

Results from the PISA assessments clearly reflect these disparities: Latin American students score, on average, well below their peers in OECD countries, and within the region, differences between public and private schools are substantial. This demonstrates that educational inequality is not only a matter of access but also of quality. Disparities in human capital directly shape labour-market opportunities, contributing to a dual and highly segmented employment structure.

Education, in this sense, performs a dual role. It can serve as a mechanism for social mobility, yet it may also act as a channel for the reproduction of inequality when its quality is not universalised. Public investment in education should prioritise early childhood and teacher training. Teachers —more than infrastructure or equipment— are the key agents in improving learning outcomes. Policies that enhance pedagogical quality, continuous professional development and teaching conditions can directly narrow human-capital gaps.

Education policies must be accompanied by social interventions that address child poverty, malnutrition and territorial exclusion. Equality of opportunity requires integrated, multisectoral policies linking education, health, social protection and territorial development. Only by acting jointly on these fronts can individuals enter the labour market on more equitable terms, ensuring that the supply-side vertex of the triangle effectively contributes to social mobility.

C. Inequalities from the labour demand side: informality and the structural heterogeneity of firms

The second vertex of the triangle lies on the demand side of the labour market, which reflects the characteristics of firms, productive sectors and employment structures. Latin America's productive system is marked by extensive heterogeneity: high-productivity firms with advanced technology coexist with a vast informal sector, mostly characterised by low productivity. This productive dualism not only constrains economic growth but also reinforces inequality by segmenting workers according to their socioeconomic origins.

Labour market data from Brazil shows that although formal employment increased modestly during the first decade of the twenty-first century, informal labour still accounted for around 40 per cent of total employment by 2012 (Ferreira, Firpo and Messina, 2022). In countries such as Plurinational State of Bolivia, Peru, Ecuador and Honduras, informality exceeds 60 per cent. This persistence suggests that employment creation has not been accompanied by productive transformation. New jobs have mainly emerged in low-productivity sectors, with little or no improvement in employment quality.

A study by Eslava et al. (2025) examines employment composition by firm size. In Latin America, approximately 70 per cent of workers are employed in microenterprises or are self-employed, whereas in industrialised economies the majority work in medium-sized or large firms. Large firms generally offer higher wages, greater stability and opportunities for training, while very small firms face severe financial and technological constraints. Consequently, the business structure itself becomes a key source of inequality in income and employment conditions.

Matching between firms and workers in the labour market then ensures that firm size and productivity end up being closely associated with the educational profile of the workforce: More highly educated workers tend to be concentrated in formal, technologically advanced enterprises, whereas those with lower educational attainment are over-represented in informal or subsistence activities. Inequalities in labour supply (education) and labour demand (productive structure) thus reinforce one another, magnifying the inequality observed in labour market outcomes.

Heterogeneity in job productivities is not only sectoral but also territorial. Large urban centres concentrate formal employment and the most productive activities, while rural areas and intermediate cities often depend on informal, agricultural or low-productivity occupations. This uneven spatial distribution of employment intensifies regional disparities and limits social integration. In this sense, the triangle of inequality captures not only economic dimensions but also the spatial and institutional mechanisms that perpetuate exclusion.

D. Policies to break the triangle of inequality

Public policy implications are derived from the analysis of the triangle of inequality in Latin America's labour markets and overcoming structural divides requires coordinated, long-term interventions across all three vertices. Short-term measures that merely mitigate symptoms are insufficient to transform the deep-rooted causes of inequality. The ultimate goal must be to create a virtuous cycle linking education, productivity, and equity.

On the supply side, sustained investment in high-quality human capital is key. The most effective policies are those that begin in early childhood, when cognitive and socio-emotional skills develop most rapidly. Investment in early education, nutrition and comprehensive care yields the highest social returns. Strengthening teacher training, promoting pedagogical innovation and linking technical and vocational education to productive needs are likewise crucial to narrowing inequalities in opportunity.

From the demand perspective, structural reforms to reduce the incentives that keep firms small and informal may be the following: simplifying tax systems, cutting red tape and expanding access to credit are essential steps to promote business formalisation and growth. Supporting technological upgrading and implementing territorial development strategies can help reduce regional disparities and strengthen linkages between sectors.

It is crucial to advance towards universal social protection systems. As long as access to health care, pensions and social benefits depends on formal employment, millions of workers will remain excluded. The challenge is to design protection regimes based on citizenship, ensuring coverage regardless of labour-market status. Such an approach would reduce segmentation, enhance social cohesion and strengthen households' resilience to economic and environmental shocks.

Finally, breaking the triangle of inequality in the region's labour markets demands a comprehensive vision of inclusive and sustainable development. It is not simply a matter of redistributing the fruits of growth, but of transforming the structures that generate inequality. Coordination between macroeconomic, social and labour market policies is essential to align efficiency and equity objectives. Equality of opportunity constitutes not only an ethical imperative but also a prerequisite for political stability and sustained economic growth. In this regard, the triangle of inequality may serve as a conceptual roadmap for guiding the transformations required to build a more just, productive and cohesive Latin America.

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IV. The role of social protection systems in Welfare States to address inequality[7]

Nicholas Barr
Professor of Public Economics, The London School of Economics and Political Science

Professor Nicholas Barr delivered a keynote address on the role of Welfare States in addressing inequality. The presentation began by outlining the importance of reducing inequality and then identified four main approaches to achieving this objective. The first involves improving vertical equity through poverty relief, including non-contributory entitlements. The second focuses on enhancing consumption smoothing —particularly for lower-income workers— through the introduction of simple, cheaply-administered saving plans. The third concerns the promotion of horizontal equity, especially in relation to gender and family. The fourth approach emphasizes intergenerational equity, notably through investments in both physical and human capital.

A central challenge highlighted for social protection systems is the need to reduce income inequality. Globally, the poorest 50% of the population receive only 8% of total income, while the richest 10% obtain more than 50%. In Latin America and the Caribbean, the highest-earning 10% earn on average 12 times more than the poorest 10%, compared with a ratio of roughly 4 in OECD countries.

The Welfare State has a fundamental importance for tackling inequality in both social and economic dimensions. Socially, welfare systems have a major impact on the quality of life for hundreds of millions of older citizens and, looking ahead, for hundreds of millions of workers. Economically, the Welfare State serves not only to protect low-income groups but also to enhance economic efficiency by addressing various market failures and supporting economic growth. Through mechanisms such as savings behavior, welfare systems influence national economies and, consequently, the global economy. Welfare systems —particularly pension schemes— are highly political in nature.

[7] This presentation was delivered during the "Fourth Regional Seminar on Social Development "Social Protection and Inequality: Latin America and the Caribbean towards the Second World Summit for Social Development of 2025", held in Santiago on 25 June, 2024.

A. Non-contributory pensions

Non-contributory entitlements have a role in improving vertical equity and reducing poverty. The main objectives of pension systems are poverty relief, insurance —particularly regarding uncertainty about longevity after retirement— and consumption smoothing, which allows individuals to plan across the life course by transferring resources from their younger to their older selves. Distinctions were made between a pension system and the specific pension plans that compose it, such as a non-contributory plan paired with an earnings-related contributory plan. Multiple components are necessary for a pension system to meet its multiple objectives.

The primary antipoverty instruments are non-contributory pensions and child benefits, which often function in parallel. Non-contributory pensions are flat-rate benefits financed through general taxation and provided on the basis of age and residence. Examples include Australia, Canada, Chile, the Netherlands, New Zealand, and numerous low and middle-income developing countries. Child benefits, meanwhile, are tax-financed per-child payments commonly directed to mothers. These benefits are widespread across Europe but less prominent in the Americas.

The introduction of non-contributory pensions in many countries is attributed to several factors. One key driver is the structural limitations of contributory systems, which frequently have restricted coverage due to labour market informality and, in some cases, the design shortcomings of certain defined-benefit schemes. Another driver is the transformation of labour markets, notably the growing diversity of employment relationships. As a result, a substantial share of workers lacks stable, long-term employer relationships and may never have a formal employer.

Within this context, non-contributory pensions offer several advantages. From a social policy perspective, they improve adequacy and coverage, reduce old-age poverty, and help mitigate inequality. They also contribute to narrowing gender gaps, provide insurance against shocks, share intergenerational risk, and ease pressures on contributory pension components. From a financial sustainability standpoint, non-contributory pensions provide flexibility, allowing adjustments to the benefit amount, the age of eligibility, and the tapering of benefits for individuals with higher incomes.

Theoretical arguments are supported by robust empirical evidence demonstrating the effectiveness of non-contributory schemes in reducing poverty and expanding coverage. In Latin America, coverage expanded from 1 million beneficiaries in 2000 to 20 million in 2022, representing 31% of the region's older population. By 2023, 28 of the 33 countries in the region had implemented a form of non-contributory pension (Arenas de Mesa and Robles, 2024). In Chile, the introduction of the solidarity pension between 2006 and 2009 reduced poverty among older persons from 23.5% to 14.8% (Vila and Yanes, 2024). In 2021, non-contributory pension schemes accounted for a reduction of 5.2 percentage points in poverty rates among individuals aged 65 and over (Arenas de Mesa, Espíndola and Vila, 2024). Research by Nobel Laureate Esther Duflo (2012) found that girls living with grandmothers receiving pensions had better health outcomes than those living with grandmothers who had not yet reached the eligibility age. Studies from Brazil and South Africa —both of which operate large non-contributory pension programs— show that these systems significantly reduce both the poverty headcount and poverty gap among households with older members, with especially pronounced effects in low-income households.

B. Simple savings plans

It is key to highlight that, while non-contributory benefits provide critical poverty relief, the Welfare State has a much broader role. Improving consumption smoothing for lower earners is important —not only as a strategy to reduce inequality but also as a way to address inefficiencies in private markets stemming from factors such as imperfect information, non-rational behavior, search frictions, incomplete markets, and distortionary taxation. These types of challenges are especially significant for long-term financial planning, particularly pensions.

Several market failures limit the effectiveness of consumer choice in pension markets. Imperfect information arises when consumers lack the knowledge or expertise to make informed choices about complex financial products. Information asymmetries between consumers and pension providers can lead to poor decisions with long-lasting effects on retirement savings. Behavioral economics has also documented various reasons why individuals may not act in their own best financial interest: people often underestimate their life expectancy, postpone important financial decisions, or inadequately assess risk, all of which can undermine long-term financial security. Search frictions further complicate matters when individuals struggle to identify or compare appropriate financial products. Additional complications arise from incomplete markets and distortionary taxation, creating an environment in which individuals may feel overwhelmed by the complexity of decisions related to their financial future.

Given these challenges, the argument is made that consumer choice in pensions is often overrated. Many individuals are not well-equipped to make sound financial decisions: they frequently save too little, retire prematurely, or choose suboptimal investment products. Excessive choice can lead to decision paralysis or poor judgment, especially among low-income workers who have limited time or resources to evaluate their options. Administrative costs linked to these choices further exacerbate the issue. Pension firms, benefitting from informational advantages, may charge high fees, provide biased guidance, or, in extreme cases, engage in fraudulent practices that exploit consumers limited financial knowledge. Administrative charges are particularly consequential: over a full working life, a 1% annual management fee can reduce total pension accumulations by around 20%.

In light of these difficulties, the Welfare State should intervene to reduce the risks associated with leaving pension decisions entirely to consumers. Several recommendations are put forward. First, pensions should be mandatory or structured with automatic enrollment, ensuring that individuals are placed into well-designed plans without needing to navigate complex markets on their own. Second, the choice architecture should be simplified, including the provision of a default plan for workers who do not actively choose. Such a plan should meet the needs of an average worker, for example by automatically rebalancing from equities to bonds as retirement approaches. The presence of a strong default protects individuals from poor decision-making or inaction. Central to this approach is maintaining low administrative costs, since high fees significantly erode savings over time.

United Kingdom's "Nest" pension plan is a practical example of these principles in action. Employers without an approved pension plan are required to enroll their workers into Nest. The scheme deliberately offers a limited set of simple investment options, including a default fund for those who make no choice. Administrative functions are centralized to keep costs low, while investment management is contracted to private fund managers on a competitive basis. This design minimizes complexity, avoids hidden fees, and ensures that savings are invested prudently. By limiting the range of choices and establishing a strong default option, Nest mitigates many of the inefficiencies inherent in systems that place heavier reliance on consumer decision-making, thereby removing the need for individuals to become financial experts.

In sum, through simplifying decision-making, reducing administrative costs, and shielding consumers from potentially exploitative practices, the Welfare State plays a critical role in enabling individuals —particularly lower earners— to be better prepared for retirement.

C. Increasing gender equity

Gender equity can be improved through labour market adjustments, pension design, and family-oriented policies. Improving gender equity is important not only for moral reasons but also for efficiency, since inequity results in a loss of talent. Multiple forms of gender inequity are identified across healthcare, education, labour markets, and pension systems. Women are more likely to experience lower wages, higher rates of part-time work, career interruptions, and, consequently, smaller pension accumulations.

Several policy directions can be outlined to address these challenges. First, labour market policies should promote equal pay legislation, maternity and paternity rights, and the removal of barriers to employing both younger and older workers. Second, improving women's contribution records requires policies that increase female labour-force participation, including expanding the availability of childcare in terms of quality, affordability, hours of operation, and geographical accessibility. Additional policy elements include equalizing retirement ages, applying unisex rules for pension eligibility, using joint life tables for the calculation of mandatory annuities, and ensuring adequate protection for surviving spouses and individuals after divorce.

Social protection measures for families, emphasizing the importance of policies that support child welfare and women's participation in the labour market is key. Evidence shows that child benefits paid to mothers are more likely to be used directly for children's needs. Key policy tools include aligning standard working hours with school schedules and providing affordable, high-quality childcare located conveniently and offering flexible hours. Non-contributory pensions also play a role: for example, pensions received by older women in South Africa have been associated with improved health outcomes for girls in the same household. Research by De Carvalho Filho (2012) further found that expanded pension coverage in Brazil increased school enrollment among girls.

Overall, non-contributory pensions not only improve income security but also foster better child health and education, particularly in low-income households. In sum, a comprehensive approach to gender equity requires integrating legislative reforms, strengthened family support, and targeted adjustments to pension design.

D. Improving intergenerational equity

The fourth element in the Welfare State strategy —alongside poverty relief, improved savings mechanisms, and enhanced gender equity— is improving intergenerational equity. Four aspects are highlighted: the relationship between the Welfare State and economic growth, investment in human capital, early childhood development, and climate change.

1. The Welfare State and economic growth

A well-designed Welfare State plays an active role in promoting economic growth. Multiple analyses show that lower levels of inequality are strongly correlated with faster and more sustainable growth. This evidence challenges the common belief that redistribution and growth necessarily conflict, instead suggesting that —within reasonable bounds— redistribution supports long-term growth by reducing inequality and improving efficiency.

2. The centrality of human capital

Investment in human capital is a key mechanism through which the Welfare State contributes to economic growth. This occurs primarily by expanding access to high-quality, equitable education and healthcare services. Reducing disparities in educational and health outcomes simultaneously promotes fairness and results in a more productive workforce. Income transfers also play an important role: the ability to afford a healthy diet enhances children's educational outcomes. Additionally, well designed risk-sharing mechanisms, such as those embedded in social insurance programs, can encourage entrepreneurship and innovation.

Human capital has become more important than ever. Rapid technological change has increased the demand for skills, requiring more training and more frequent re-training, as skills depreciate more quickly under fast-changing technological conditions.

In sum, there is no inevitable trade-off between reducing inequality and promoting economic growth. When crafted effectively, redistribution and investment in human capital complement growth objectives by fostering a more skilled and healthy population. The Welfare State is thus not only an instrument for poverty relief but also a driver of long-term, sustainable economic development.

3. The critical importance of early childhood development

Child development encompasses physical, emotional, cognitive, and social dimensions. Need for comprehensive care for mothers and children, particularly during the first 1,000 days of life —from conception to age two— is emphasized. Extensive evidence demonstrates that these early years have profound effects on future life chances, cognitive development, quality of life, and life expectancy.

Supporting this perspective, Nobel Laureate James Heckman has shown that the highest returns on human-capital investments come from focusing on early childhood development, especially from birth to age five in disadvantaged families. Intervening later —such as beginning at age three or four— misses important opportunities to build early foundational skills that develop in complementary and dynamic ways.

Further evidence comes from a natural experiment in Brazil, where a shortage of childcare places for children aged 0–3 in 2007 led to a lottery system. Households that obtained a spot experienced substantial benefits, including higher incomes for parents and grandparents and improved physical development of children, who were taller and healthier. This illustrates the powerful impact of early childhood resources on family well-being and long-term economic outcomes.

The overarching conclusion from neuroscience and economics is clear: investing in early childhood development yields the highest social and economic returns, making it essential to allocate resources to prenatal care and early childhood programs.

4. Intergenerational equity and climate change

Climate change is a prominent example of multiple market failures: negative externalities such as greenhouse gas emissions, uncertainty about technological innovation, imperfect information about sustainable alternatives, and significant coordination problems —particularly when adopting large-scale infrastructure such as electric-vehicle charging networks. Time inconsistency also plays a role, as firms profit from activities with long-term environmental costs that are not fully reflected in current prices.

To address these challenges, policymakers can rely on regulation or incentives. Among various instruments, particular importance is attributed to carbon taxation. Requiring individuals and firms to bear the true cost of their emissions is presented as a significant step toward correcting market failures and advancing intergenerational equity.

E. Conclusion: an overarching strategy

The world has undergone profound transformations that have reshaped work patterns, family structures, and the skills demanded in modern economies. A particularly notable development is the increasing diversity and fluidity of labour market relations, a trend evident not only in low and middle-income countries (LMICs) but also across OECD economies. In the mid-20th century, social policy in Europe largely rested on the assumption of long-term, full-time employment contracts. This assumption no longer reflects contemporary labour markets, where part-time work, self-employment, zero-hour contracts, and gig-economy jobs have become far more common. Consequently, the design of Welfare States for the 21st century must acknowledge that fluid labour market dynamics will continue in advanced economies, while informality is likely to remain a persistent feature in LMICs.

A strategy consists of a set of policies designed to be mutually reinforcing in pursuit of stated objectives. Its four central pillars are: improving vertical equity, particularly through effective poverty relief; enhancing consumption smoothing, especially for lower-income workers; increasing horizontal equity, with a strong focus on gender equity; and promoting intergenerational equity through investment in human capital, notably early childhood development.

These elements are framed not only as ethical imperatives but also as essential components of a dynamic and sustainable economy. More equitable societies tend to be more resilient and better positioned to sustain long-term economic growth. While articulating such strategic elements may be relatively straightforward, the more significant challenge lies in ensuring enduring political commitment to their implementation.

Adapting Welfare State policies to reflect contemporary economic realities is crucial. A strategic approach was advocated —one that simultaneously advances moral objectives and recognizes the necessity of reform for the longterm stability, growth, and overall health of the economy.

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V. Conceptual debates and challenges in measuring social inequality[8]

François Bourguignon
Emeritus Professor of Economics at the Paris School of Economics

Professor Francois Bourguignon offered a critical assessment of traditional approaches to measuring and addressing inequality, arguing that a narrow focus on income inequality does not adequately reflect the complex and multifaceted nature of disparities in contemporary societies. Instead, a comprehensive, multidimensional framework was proposed —one that incorporates a wide range of social indicators to provide a more accurate and nuanced understanding of well-being and inequality.

In this context, the limitations of conventional inequality measures —such as the Gini coefficient and other income-based indicators— were highlighted. A broader analytical approach was advocated, emphasizing the use of a "panel" of indicators that captures inequality across multiple dimensions of well-being, including wealth, health, education, security, and social mobility. By expanding the scope of measurement in this way, it becomes possible to better reflect the complexity of inequality and to design policies that more effectively target its underlying drivers.

The need for such a multidimensional approach stems from the fact that inequality is deeply embedded in social, economic, and political structures. Policymakers and researchers frequently face challenges in addressing inequality because dominant tools —such as the income Gini— capture only a fraction of the disparities that shape people's lives. The proposed framework responds to these limitations by broadening the lens through which inequality is analysed and by reshaping how societies conceptualize social justice.

This perspective is particularly relevant in Latin America, a region marked by persistent inequalities despite economic growth. These disparities extend far beyond income and encompass unequal access to quality education, healthcare, and secure employment. They also manifest across gender and ethnic groups and across generations. Together, these factors shape broader patterns of wellbeing, social inclusion, and opportunity, underscoring the importance of analysing inequality through a multidimensional lens.

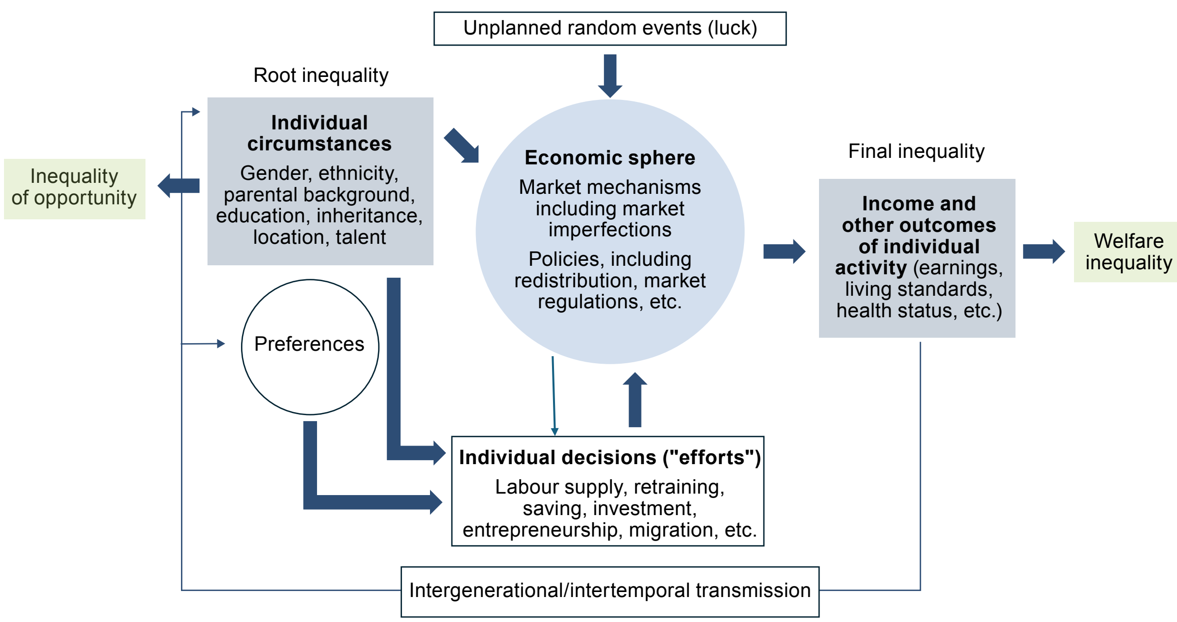
8 This presentation was delivered during the "Fourth Regional Seminar on Social Development: Social Protection and Inequality: Latin America and the Caribbean towards the Second World Summit for Social Development of 2025", held in Santiago, Chile on 27 June, 2024.

A. Understanding the complex determinants of welfare inequality

To illustrate the complexity of inequality, the concept of *root inequalities* is introduced —the foundational disparities that exist before individuals enter the economic sphere and begin making their own choices. These include inequalities linked to gender, ethnicity, parental education, family wealth, and the broader socioeconomic conditions into which a person is born. Such disparities are often transmitted across generations, reinforcing persistent social hierarchies that are difficult to dismantle without targeted policy interventions.

An illustrative example compares two societies with identical Gini indices but very different levels of inequality in education, healthcare, and access to other essential services. In one society, all individuals enjoy broadly uniform access to high-quality healthcare and education for their children. In the other, access varies widely, with higher-income households able to secure significantly better-quality services. Despite sharing the same Gini coefficient, it would be misleading to describe these two societies as equally unequal. This contrast underscores the limitations of relying solely on income-based indicators to assess the full extent of inequality, highlighting the need to consider multidimensional aspects of welfare and opportunity.

Diagram 1
The complex determinants of income inequality and the role of intermediate or root inequalities



Source: Prepared by the author.

This broader approach to the concept of inequality is especially important in countries with deep structural disparities. In many developing contexts, the intersections of poverty, ethnicity, and gender discrimination compound disadvantages. For example, indigenous populations in Latin America often experience exclusion from quality education and health services, creating a cycle of poverty that reinforces limited access to basic services across generations. Addressing these root causes —referred to as "foundational inequalities"— requires policies aimed at universal access to early childhood education and uniform, high-quality healthcare. It is also notable that these foundational inequalities can only be partially mitigated by redistributive policies that tax high incomes and transfer cash to low-income households through welfare programs.

Welfare, understood as the overall well-being of individuals and communities, is shaped by a wide range of factors beyond income alone. These determinants are deeply interconnected in ways that are not always immediately visible. Poor health, for instance, can limit a person's ability to work and thereby reduce income, exacerbating financial inequality. Conversely, low income can restrict access to adequate healthcare, which may worsen health outcomes and reinforce disadvantage. A comprehensive understanding of inequality therefore requires acknowledging these interdependencies and addressing them holistically.

To further clarify this perspective, the concept of *intermediate inequalities* is introduced, defined as disparities arising from the internal functioning of the economy and from individual shocks whose adverse effects cannot easily be overcome. These shocks and frictions can push individuals into relative poverty traps. By focusing on intermediate inequalities, policymakers can better identify where targeted interventions may disrupt the cycles of disadvantage that create and perpetuate inequality.

B. Public perception of inequality: a disconnect from reality

The issue of public perceptions of inequality and how these often diverge sharply from objective trends is presented. Survey data from multiple countries showed that public beliefs about inequality frequently fail to match empirical evidence. For example, in Brazil, many respondents perceived inequality as rising during a period in which it was actually declining rapidly for the first time in thirty years. In contrast, in the United States, a substantial portion of the population believed that inequality was decreasing even as it was in fact rising significantly.[9]

This disconnect may stem from differences in how inequality is conceptualized. Economists and policymakers often use overall income distribution as the primary indicator, whereas the public may focus more on inequalities at the top of the income distribution or on other dimensions, such as wealth concentration, educational access, or social mobility. These divergent focal points underscore the need for a more comprehensive approach to measuring and communicating inequality —one that more closely reflects the concerns and lived experiences of the public.

This misalignment between perception and reality has important policy implications. If the public does not perceive inequality as a growing issue, political support for reforms may be weak. Conversely, if inequality is perceived as worsening during a period of improvement, this may provoke unnecessary anxiety and potentially lead to counterproductive policy responses. Understanding these perception gaps is therefore crucial for effective policymaking and public communication.

C. Inequality of opportunity versus inequality of outcome

Tension between equality of opportunity and equality of outcome, reflecting broader philosophical debates on meritocracy, equity, and social justice, must be attended. Drawing on these debates, the argument is made that meaningful social justice requires levelling the playing field by ensuring equal opportunities for all, while also recognizing that deeply entrenched social inequalities may necessitate redistributive measures.

To develop this point, light must be shed on the distinction between inequality of opportunity and inequality of outcome. Although related, the two concepts focus on different dimensions of social disparities. Inequality of opportunity refers to differences in life chances that arise from circumstances

[9] For more information see: Haddon, E., and C. Wu. (2022). "How Does Actual Inequality Shape People's Perceptions of Inequality? A Class Perspective", Sociological Perspectives, 65(5), 825-847. Available [online] https://doi.org/10.1177/07311214211062106.

beyond an individual's control —such as family background, gender, or ethnicity. Inequality of outcome, by contrast, refers to differences in social and economic results —such as income levels— that reflect both individual choices and the functioning of the economic system.

Although advocates of opportunity and advocates of outcome often appear to be in tension, the two perspectives are far from mutually exclusive. On one hand, reducing disparities in opportunity naturally leads to less unequal outcomes. On the other, achieving greater equality of opportunity often requires policies that also influence outcomes. For example, expanding access to highquality public education and healthcare —central tools for equalizing opportunity— typically requires raising public revenue, which can reduce income inequality if implemented through progressive taxation.

The moral and philosophical foundations of these ideas are acknowledged, drawing on the contributions of scholars such as John Rawls and Amartya Sen. A just society is described as one in which everyone has genuine opportunities to succeed, while also maintaining a reasonable balance between rewarding individual effort and supporting those who face disadvantages through no fault of their own. In practice, this means that policies aimed at equalizing opportunity cannot ignore the distribution of outcomes —particularly when outcomes reflect long-standing structural inequalities.

D. Inequality: the need to go beyond the Gini coefficient of incomes

Income-based measures of inequality, which have long dominated economic analysis and policy design, have limitations. While income is recognized as an important determinant of individual and collective welfare, income alone cannot fully capture the disparities that exist within and across societies.

Relying exclusively on indicators such as the Gini coefficient, the Theil index, or Atkinson measures risks focusing on the symptoms rather than the underlying causes of inequality. Income inequality is the result of multiple structural factors, including differences in education, gender, race, labour-market regulation, and foreign-trade strategies, in addition to the progressivity of the tax-and-transfer system. Redistribution through taxes and benefits is therefore only one of many tools available to address inequality —and not always the most effective.

The Stiglitz-Sen-Fitoussi Commission advocated moving beyond GDP as the central measure of economic performance and societal well-being. A parallel is drawn between that critique and the limitations of income-focused inequality metrics: just as GDP fails to capture the full complexity of economic health, income-based indicators alone fail to reflect the multidimensional nature of social inequality.

Summary inequality measures can conceal substantial differences between income distributions. For example, inequality in one distribution may arise primarily from disparities between the middle and the top of the income range, while in another it may stem from gaps between the middle and the bottom. Despite these important structural differences, both distributions could yield identical Gini coefficients, thereby obscuring distinctions that may be highly relevant for policy design. Such measures are therefore not always sufficient to describe the shape of income distributions, which are inherently multidimensional.

E. The conceptual difficulty of measuring multidimensional inequality

A key difficulty lies in capturing multidimensional inequality, which extends beyond income to factors such as wealth, education, health, and security. The interactions among these elements are complex, underscoring the need for more comprehensive data collection systems, particularly in developing countries.

Challenges of measuring multidimensional inequality are considerable. While income inequality can be relatively straightforward to measure, assessing inequalities in other areas —such as health, education, or social mobility— is far more complex, and still more complex the task of a joint measure of inequality across the various dimensions.

Collaborative efforts to develop integrated measures of inequality that account for multiple dimensions have been made. These measures, however, remain analytically complex and not immediately intuitive, and the availability of suitable data is often limited.

Pursuing multidimensional approaches to measuring inequality remains important, accompanied by the need for developing simpler analytical frameworks. Although the challenges are significant, the potential benefits —namely, achieving a more accurate and comprehensive understanding of social disparities— remain compelling. Greater investment in data collection and research, particularly in developing countries, is essential to advancing these efforts.

F. Towards a dashboard approach to social inequality measurement

Building on critiques of income-based measures and recognizing the complexity of fully integrated multidimensional indices, multidimensional inequality can be addressed through the use of a dashboard of indicators. Such a dashboard would track multiple dimensions of interest simultaneously. One indicator would typically be the income Gini coefficient or another income-based inequality measure, while others would capture dimensions such as inequality of opportunity —including intergenerational income mobility or social mobility more broadly— inequality in access to healthcare or its correlation with income, gender gaps in earnings, interregional inequality, and additional structural disparities. Tracking a range of indicators over time would provide a more nuanced and informative picture of social progress than any single metric could deliver. It would also illuminate how different forms of inequality interact and influence overall welfare.

An example was offered to illustrate this point: while labour-income inequality in Brazil has declined substantially since the early 2000s, business incomes and related forms of wealth have risen disproportionately. Monitoring these different layers of inequality —alongside other dimensions such as gender or regional disparities— is essential for informed and effective policy discussion and decision-making.

By offering a detailed view of how various forms of inequality evolve, the dashboard approach enables policymakers to identify priority areas for intervention, determine which types of policies are most appropriate, and assess their effectiveness over time. This method was noted as being particularly valuable in developing countries, where rapid social and economic change often requires flexible, responsive, and multidimensionally informed policy tools.

G. Policy implications and recommendations

In the concluding remarks, several policy recommendations derived from the analysis were presented. Effectively addressing inequality requires a multidimensional approach that extends beyond income redistribution to encompass disparities in education, healthcare, housing, and other areas essential to individual well-being and social welfare. Such an approach should rely on a dashboard of indicators capturing the dimensions of inequality most relevant for policymaking —including, but not limited to, income inequality.

Implementing this dashboard approach may require improvements in data collection and analytical capacity. Governments are encouraged to prioritize the development of indicators that meaningfully summarize the extent of inequality across multiple dimensions, particularly in areas such as health, education, and social mobility, rather than relying exclusively on income metrics. The regular updating and publication of these indicators is also recommended as a means to enhance transparency and stimulate informed public debate on inequality. This dashboard method is presented as a more practical way to navigate the inherent multidimensionality of inequality compared to fully integrated multidimensional measures, which can obscure the complex interactions and trade-offs across different dimensions.

Policymakers, researchers, and civil society are encouraged to embrace a conception of social justice that extends beyond income distribution and redistribution to encompass all dimensions of inequality shaping people's lives. This broader vision is understood as not only morally necessary but also fundamental for building more prosperous, resilient, and sustainable societies.

VI. Addressing multidimensional inequality: measurement, axioms, and policy relevance[10]

James Foster
George Washington University and Oxford OPHI

Introduction

Professor James Foster, the Carr Professor of International Affairs at the George Washington University and Research Associate at the Oxford Poverty and Human Development Initiative (OPHI), presented a comprehensive reflection on the measurement of multidimensional inequality and its policy linkages to inclusive social development. His presentation emphasized that addressing inequality requires moving beyond income-based metrics and incorporating the multiple dimensions that shape people's well-being, capabilities, and life opportunities.

A new methodological framework for measuring multidimensional inequality, developed in collaboration with Michael Lokshin of the World Bank was proposed. This framework seeks to reconcile technical rigour with policy usability, combining the axiomatic foundations of welfare economics with a structure that policymakers can understand and apply. Drawing from the experience of multidimensional poverty measurement (particularly the Alkire-Foster methodology), Professor Foster argued that inequality analysis must now advance toward an equally clear, grounded, and operational approach.

The document outlining the presentation is structured into seven sections that move from conceptual foundations to policy implications. It begins by outlining the rationale for adopting a multidimensional approach to inequality, followed by an explanation of the Intentional Measurement Framework and the shift from dashboards to a unified index. The subsequent sections present the two-stage methodology and its axiomatic basis, elaborate the structure and interpretation of the proposed measure, and illustrate its empirical application. The final section reflects on the broader implications for inclusive social development and summarises the main conclusions.

[10] This presentation was delivered at the Fifth Regional Seminar on Social Development "Towards the Second World Summit for Social Development: priorities for inclusive social development in Latin America and the Caribbean", held in Santiago, Chile on 24 June, 2025.

A. Understanding multidimensional inequality

This proposal is situated within the broader evolution of social development measurement, stressing the need to go "beyond GDP and monetary aggregates." Traditional indicators such as income or consumption, while useful, capture only part of the disparities that define individual and collective well-being. In contrast, multidimensional inequality reflects disparities in several interconnected domains —such as education, health, employment, and living standards— and the ways in which they overlap.

In conceptual terms, inequality differs from poverty. Poverty analysis is *unidirectional*: its purpose is to identify those falling below a defined threshold and to assess how far they are from it. Inequality, by contrast, involves the *entire distribution* —including the top and bottom ends— and can be modified both by lifting the lower incomes and by reducing excessive advantages at the top. This duality complicates normative and policy interpretations, since addressing inequality impacts not only those below a threshold but across the full spectrum of society.

While empirical economists increasingly study inequality of opportunity —distinguishing between disparities due to circumstances and those due to effort— the broader challenge remains to develop indicators that adequately capture these interrelated inequalities. The complexity increases when moving from one to multiple dimensions, where inequalities may reinforce or offset each other.

In this context, policy relevance demands clarity and grounding. The choice of dimensions must emerge from national priorities, not from externally imposed schemes. In the Chilean case adding a new dimension such as social cohesion to a multidimensional poverty index is meaningful only once reliable indicators are available. The implication is that countries must "make the measure their own," ensuring that multidimensional analysis reflects their specific social objectives.

B. The Intentional Measurement Framework

The Intentional Measurement Framework, the foundation of the Foster-Lokshin approach, is soon to be published, and proposes a deliberate process for constructing any measure, beginning with three essential elements: purpose, concept, desiderata, and axioms (Foster, López-Calva and Székely (2005); Alkire and Foster (2011)).

(i) **Purpose**. The index must serve a clear analytical or policy purpose —such as monitoring economic inequality in a country or region over time. Without a defined purpose, measurement risks becoming detached from decision-making.

(ii) **Concept**. The notion of inequality being measured must be explicit: whether it concerns income, opportunity, or multidimensional well-being. Conceptual clarity is necessary to interpret results and ensure consistency with policy goals.

(iii) **Desiderata**. These represent desirable, though not strictly axiomatic, characteristics of any sound measure. The six main desiderata are: it should be *understandable and easy to describe*, conform to a *common-sense notion of inequality*, *fit its purpose*, be *technically solid*, *operationally viable*, and *easily replicable*. In the present case, two are especially pivotal.

- The first key desideratum, "*understandable and easy to describe*," requires that the measure be intuitive and grounded. Simplicity in structure —akin to an *Occam's razor of measurement*— enhances transparency and usability. At the same time, grounding a multidimensional measure means connecting it to unidimensional elements such as income or education inequality, thereby ensuring interpretability.

- The second key desideratum, "*technically solid*," implies that the measure must satisfy the accepted axioms of inequality analysis. These axioms are not mere mathematical formalities; they encapsulate normative principles about fairness, transfers, and the effects of redistributive changes. "Axioms are little nuggets of policy" —each defining transformations that should or should not alter measured inequality.

By combining these desiderata with axiomatic consistency —which ensures that what is being measured is indeed inequality— Foster's framework fits within a line of work where this type of axiomatic structure has been developed in previous studies and frameworks,[11] ensuring that measurement is both conceptually rigorous and relevant for policy design.

C. From dashboards to coherent multidimensional indices

Attention turns to the question of how multidimensional inequality should be represented, beginning with the notion "*dashboards of specific inequalities*". In this approach, each dimensional distribution —income, education, health, etc.— is measured using a standard unidimensional inequality index, such as the Gini coefficient. The resulting vector of inequality values (e.g. 0.32 for income, 0.08 for health, 0.09 for environment) provides a descriptive overview of disparities within dimensions.

Dashboards have undeniable advantages: they are intuitive, transparent, and compatible with standard axioms. However, they are insufficient for policy purposes because they lack a single *headline figure* that synthesizes the overall level of multidimensional inequality. Moreover, dashboards offer no guidance when dimensions evolve in opposite directions —for instance, when income inequality rises but educational inequality falls— and they ignore the *joint distribution* of advantages and disadvantages across individuals.

To overcome these limitations, moving "from dashboard to headline" is proposed. A first step is to take a weighted average of specific inequalities, where the weights reflect the relative importance of each dimension as determined by policymakers. This produces an aggregate measure that is clear, grounded, and satisfies many axioms. Yet, it still fails to consider the association between dimensions —the extent to which the same individuals experience multiple deprivations or advantages.

To illustrate this point, a stylised example is presented in table 1. In *Situation A*, one person enjoys high achievements in all dimensions while another has low achievements in all; in *Situation B*, each excels in one dimension but not the other. Although dimension-specific inequalities are identical in both cases, overall inequality is lower in *Situation B* because disadvantages are not concentrated in the same individuals.

Table 1
Example of multidimensional inequality across two situations

	Situation A		Situation B	
	Dimension 1	Dimension 2	Dimension 1	Dimension 2
Person 1	1	1	1	0
Person 2	0	0	0	1
Dimension specific inequality	Max	Max	Max	Max
Overall inequality	Max		Less than Max	

Source: Prepared by the author.

This demonstrates that multidimensional inequality depends not only on disparities within dimensions but also on how these dimensions align across persons. Ignoring this joint distribution can lead to misleading conclusions and misguided policies.

Recognizing this, the two-stage method —the core of this new index— is presented.

[11] See, for instance, Foster, J. E., López-Calva, L. F., and Székely, M. (2005) and Alkire, S. and Foster, J. E. (2011).

D. The two-stage method and its axiomatic foundations

The proposed two-stage approach builds on earlier work by Maasoumi (1986) but introduces a crucial refinement ensuring both *intuitiveness* and *technical coherence*. The method proceeds as follows:

- **Stage 1**: Aggregate each individual's achievements across dimensions using a function $h(x_{i1}, \dots, x_{id}) = s_i$.
- **Stage 2**: Apply a standard unidimensional inequality measure $I(\cdot)$ —such as the Gini or Theil index— to the resulting aggregate distribution $s = (s_1, \dots, s_n)$.

Thus, multidimensional inequality reflects $M(x) = I(s)$ the inequality of aggregated achievements across the population.

Foster and Lokshin (2024) demonstrate that for this approach to satisfy the core axioms of multidimensional inequality, the aggregation function h must be linear. In other words, each dimension should be multiplied by a coefficient and added up —a finding they formalize in a characterization theorem. This result ensures that the two-stage index is technically solid, fulfilling the essential axioms of multidimensional inequality measures. These can be categorized as follows:

- **Invariance axioms** identify changes that the inequality measure should ignore. The anonymity, replication invariance, and scale invariance axioms guarantee that inequality remains unchanged when individuals are permuted or replicated, or when achievement levels are uniformly rescaled.
- **Dominance axioms** identify changes that the inequality measure should reflect, and how it should do so. The weak uniform majorization axiom states that if outcomes are "smoothed" across individuals in all dimensions, measured inequality must not increase. The weak unfair rearrangement axiom establishes that aligning all advantages so that one person has the highest level of each, a second has the second highest level of each, and so forth —resulting in what is called an *"unfair rearrangement"*— must not decrease inequality.

These axioms collectively define what it means to measure multidimensional inequality rather than isolated disparities. They formalize the intuition that equalizing achievements across people and dimensions reduces inequality, while concentrating advantages magnifies it.

The existing empirical applications of Maasoumi (1986) that employ nonlinear aggregation violate these principles and hence are not measuring multidimensional inequality. His framework, by contrast, provides the only axiomatic path ensuring internal coherence and interpretability.

E. Structure and interpretation of the proposed index

One of the major contributions of the Foster–Lokshin method (2024) is that it allows a decomposition of multidimensional inequality into interpretable components. The overall index $M_G(x)$, when the Gini coefficient is used, can be expressed as:

$$M_G(x) = A_G(x) - m_G(x)$$

where $A_G(x)$ is the average of the dimension-specific inequalities, and $m_G(x)$ is a mobility term capturing the association between dimensions.

The first term is a weighted average of inequalities within each domain, with weights depending on the aggregation coefficients and the mean levels of dimensional variables. The second term reflects the extent to which advantages and disadvantages coincide across dimensions. A lower $m_G(x)$ —meaning greater alignment of inequalities— increases overall inequality, while a higher $m_G(x)$ signals more cross-dimensional compensation and thus lower multidimensional inequality.

This structure links the new index to the concept of mobility developed by Shorrocks (1978): when individuals move up or down across dimensions, the resulting negative correlation can reduce overall inequality. The decomposition thus provides both analytical clarity and policy insight, distinguishing between inequality due to disparities within dimensions and inequality due to their overlap.

This framework can be expressed graphically through Lorenz curves. The Lorenz curve of the aggregated vector s can be represented as the sum of the weighted Lorenz curves of each dimension *plus* a mobility term, corresponding to the area between the aggregate and aligned curves. This provides a visual interpretation of how alignment across dimensions affects inequality.

Another advantage of the model is its calibration procedure. Policymakers can assign normative weights to each dimension based on their priorities —for instance, giving equal importance to income and non-income inequalities or emphasizing education. These weights determine the coefficients c_j in the linear aggregation. Calibrating the index ensures that the resulting measure reflects national value judgments while maintaining consistency with the axioms. In Foster's words, this approach *"invites policymakers to be active agents in the measurement process."*

F. Empirical illustration and policy relevance

To demonstrate the method's applicability, illustrative results from Azerbaijan and Albania using data from the World Bank and EBRD *Life in Transition Surveys* (2016–2023) are presented. The first example showed how the evolution of multidimensional inequality can be broken down into (i) changes in dimension-specific inequalities, (ii) changes in dimensional means (through the weights), and (iii) changes in alignment through the mobility term. In Azerbaijan, between 2016 and 2023, income inequality increased —with the Gini coefficient rising 9 Gini points from 0.25 to 0.34— and with the inequalities in education and health remaining comparatively stable (within 2 Gini points of original levels). The average Gini A_G rose by about 8 Gini points, due in part to rapid income growth, which in effect put more weight on income inequality. Multidimensional inequality M_G increased even more from 0.14 to 0.23 (or 9 Gini points) because alignment across dimensions increased, lowering the mobility term m_G. This decomposition underscores the importance of considering correlations among dimensions rather than analysing each in isolation; it also illustrates the applicability of the methods to periods of rapid economic growth.

The Albanian case illustrated how the proposed index can be used to simulate policy interventions. By adding one year of education to every individual in the distribution, Foster and Lokshin show that multidimensional inequality decreases more than it would through an equivalent proportional increase in income. Such simulations can inform policy trade-offs, guiding governments toward interventions that most effectively reduce overall disparities.

The method proposed thus provides a bridge between measurement and policy making. It allows analysts to monitor how inequality evolves over time, decompose its sources, and evaluate the potential impact of alternative reforms —from income transfers to educational or health policies. It also facilitates regional comparisons, enabling policymakers to identify where disparities are driven by specific domains or by the accumulation of advantages among certain groups.

G. Implications for inclusive social development

Progress toward equality cannot be achieved through sectoral policies alone. Instead, it requires understanding the systemic interactions among dimensions —e.g., how improvements in one area can amplify or mitigate disparities in another.

By capturing these interdependencies, the multidimensional inequality index provides a diagnostic tool for designing coherent policy packages. For instance, reducing inequality in education can have compounding effects on health and income, thereby lowering overall inequality more effectively than isolated interventions. Conversely, ignoring these linkages may result in policies that improve one dimension while worsening others.

Measurement must be intentional —explicitly aligned with the objectives of social development strategies. In this sense, the methodological rigour of the proposed index serves a normative purpose: to guide equitable policymaking. The experience with the Multidimensional Poverty Index (MPI) demonstrates that technically grounded measures can have significant policy impact when they are transparent, communicable, and tailored to national contexts. The same principle should apply to inequality.

Inclusive social development demands indicators capable of revealing who benefits from progress and in which dimensions. Only by understanding the structure and alignment of inequalities can societies build pathways towards a more just and sustainable future.

H. Conclusion

This presentation represents a major step forward in the conceptual and methodological integration of multidimensional inequality measurement within the policy agenda of social development. By articulating a framework that is both axiomatically consistent and policy-oriented, a means to connect rigorous quantitative analysis with the practical needs of decision-makers is offered.

The two-stage linear index proposed with Michael Lokshin provides an operational tool that extends the logic of multidimensional poverty analysis to the domain of inequality. Its strength lies in its balance between simplicity and depth: it yields an interpretable headline indicator while retaining the analytical richness necessary for decomposition and policy evaluation.

In the broader context of ECLAC's agenda, this contribution reinforces the call to adopt multidimensional and structural approaches to inequality. It demonstrates that measurement is not a purely technical exercise but a strategic instrument for inclusive policymaking —one that illuminates how disparities intersect and evolve, and how coherent policies can break the cycles of exclusion.

Through this intentional measurement approach, policymakers are invited to see overall inequality not as an abstract distributional pattern but as a multifaceted reality that must be measured, understood, and transformed. This proposal offers a solid analytical foundation for future work on inequality, complementing ongoing regional efforts to promote equality, productivity, and sustainability as the cornerstones of social development in Latin America and the Caribbean.

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Biographies

Nicholas Barr

Professor of Public Economics at the London School of Economics and Political Science (LSE). His research focuses on the design and reform of social protection systems, particularly pensions, higher education, and health systems. Adviser to numerous governments and international organisations on public policy and welfare state reforms.

François Bourguignon

Emeritus Professor at the Paris School of Economics and former Director of the Paris School of Economics. Former Chief Economist and Senior Vice President of the World Bank. His research focuses on global inequality, economic development, and welfare economics.

Francisco H. G. Ferreira

Professor of Inequality Economics at the London School of Economics and Political Science (LSE) and Director of the International Inequalities Institute at that university. Former Chief Economist for Latin America and the Caribbean at the World Bank, where he led research on poverty, inequality, and social mobility. His research focuses on the measurement of inequality, income distribution, and economic opportunities.

James Foster

Professor of Economics and International Affairs at George Washington University. Widely recognised for his fundamental contributions to the measurement of poverty and inequality, including the development of multidimensional indicators used internationally. He has collaborated extensively with multilateral organisations on the measurement of development, poverty, and well-being.

Nora Lustig

Professor of Latin American Economics at Tulane University and founding Director of the Commitment to Equity (CEQ) Institute. Founding member and former President of the Latin American and Caribbean Economic Association (LACEA), and co-director of the World Bank's *World Development Report 2000: Attacking Poverty*. Member of the editorial board of the *Journal of Economic Inequality* and of the Executive Council of the Society for the Study of Economic Inequality.

José Manuel Salazar-Xirinachs

Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) of the United Nations. Economist from the University of Costa Rica with a master's degree in Development Economics and PhD from Cambridge. He previously served as Costa Rica's Minister of Foreign Trade, President of the Central Bank, and Director of the Trade Unit at the OAS. At the ILO, he held senior roles including Regional Director for Latin America and the Caribbean. Has authored numerous works on development, trade, competitiveness, and employment, and taught at leading universities.

Alberto Arenas de Mesa

Director of the Social Development Division at ECLAC. Former Minister of Finance and Director of the Budget Office of Chile. Academic and researcher in the fields of public economics and social policy, with work focusing on social protection systems, fiscal policy, and inequality.

Andrés Espejo

Economic Affairs Officer in the Social Development Division of ECLAC. Sociologist, with a Master's degree in Applied Economics to Public Policy from ILADES–Georgetown University and a Master's degree in Social Policy from the London School of Economics and Political Science. His research focuses on inequality, labour inclusion and social protection in Latin America and the Caribbean.

Daniela Huneeus

Research Assistant in the Social Development Division of ECLAC, where she has worked for more than ten years. Anthropologist by training, she coordinates the review and editing processes of institutional documents within the Division, contributing to ensuring the quality and coherence of its publications.

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