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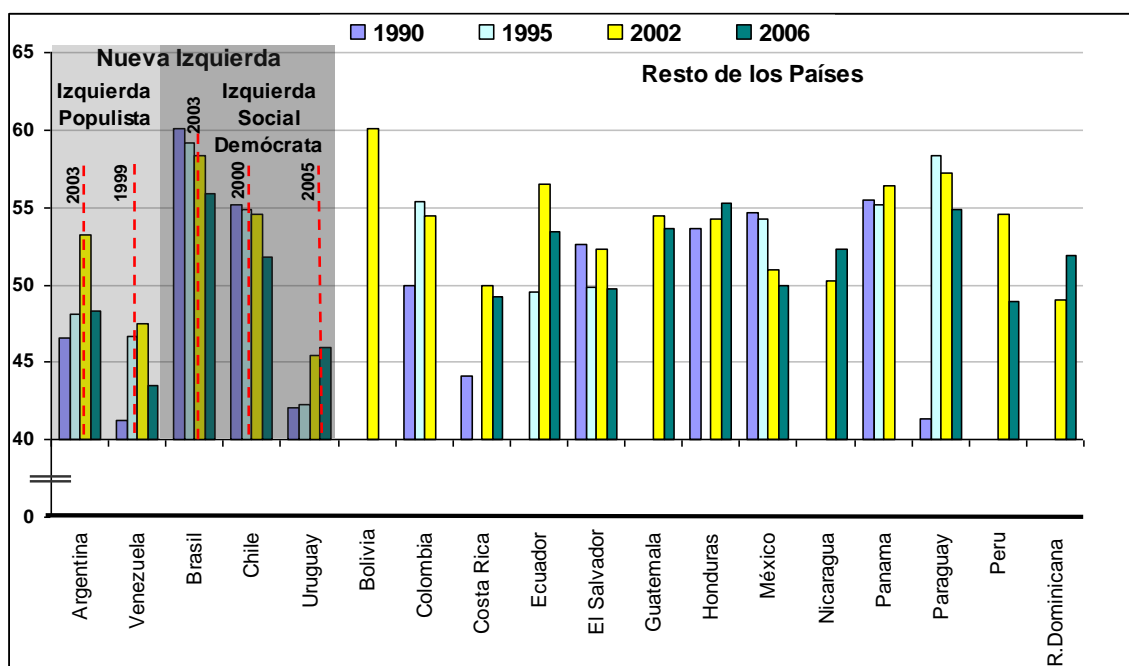
**Is Latin America Becoming More Inclusive?**

**Author : Nora Lustig**

Is Latin America Becoming More Inclusive?<sup>1</sup>  
 Nora Lustig<sup>2</sup>  
 March 2009  
 Draft for comments

We always hear that Latin America is one of the most unequal regions of the world and that it has been like that for decades if not centuries. However, this is “old news.” The “new news” is that since the beginning of this decade, inequality—household income inequality, to be precise—has fallen in 11 out of 18 countries for which we have comparable data (Figure 1). Latin American growth has, apparently, become more inclusive.<sup>3</sup>

Figure 1  
Latin America: Trends in Household Income Inequality  
 Gini Coefficient: 1990, 1995, 2002, 2006



Source: Lustig (2009).

Note: The countries highlighted in light grey are governed by a “populist” left regime and countries highlighted in dark grey are governed by a “social democratic” left regime (for definitions, see Arnson and Perales, 2007). The vertical lines indicate the year in which a left government took power.

<sup>1</sup> This paper was prepared for the conference “Latin America. Emerging Markets Forum 2009,” April 1-3, 2009, Bogota, Colombia.

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<sup>3</sup> Here we define “inclusive” as those situations in which the income of the poor grows faster than the income of the rich.

## *Latin America: Inequality and Poverty in Comparative Perspective*

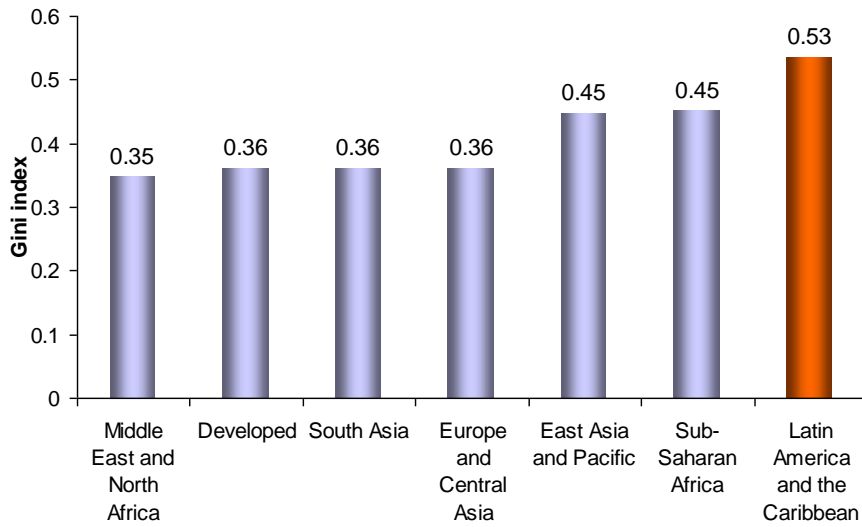
How much poverty and inequality is there in Latin America in comparison with other parts of the world? Latin America has more income inequality and less extreme poverty than other regions. (Figures 2 and 3) With a Gini coefficient of .53,<sup>4</sup> Latin America is 18 percent more unequal than East Asia and Sub-Saharan Africa and 47 percent more unequal than Eastern and Central Europe, Middle East and North Africa, South Asia and the developed countries. An interesting fact is that when compared to European countries, the pre-taxes and transfers income inequality in Latin America is approximately 18 percent higher than the average inequality for fifteen advanced European countries while the income inequality in disposable income (after taxes and transfers) is approximately 45 percent higher.

Figure 4 shows the distribution of market income (pre-taxes and transfers) and disposable income in selected European and Latin American countries. What we observe is quite striking. In European countries, the Gini coefficient after taxes and transfers is on average over 10 percentage points lower than the market determined Gini (with transfers explaining two thirds and taxes one third of the difference) while in Latin America the difference is between one or two percentage points. Clearly, this indicates that state-sponsored programs are more regressive (more unequalizing) in Latin America than in Europe. This has changed, but only slightly when compared to Europe, with the introduction of targeted programs such as the conditional cash transfers in Brazil and Mexico and anti-poverty programs in Chile, for example.

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<sup>4</sup> Named after his proponent, the Gini coefficient is a very commonly used indicator to measure inequality. The Gini coefficient is an index that can take values between zero and one (or, between zero and 100 if in percent). The closer it is to zero (one), the less (more) unequal the distribution in question. Available Ginis are usually never above .65 or below .20.

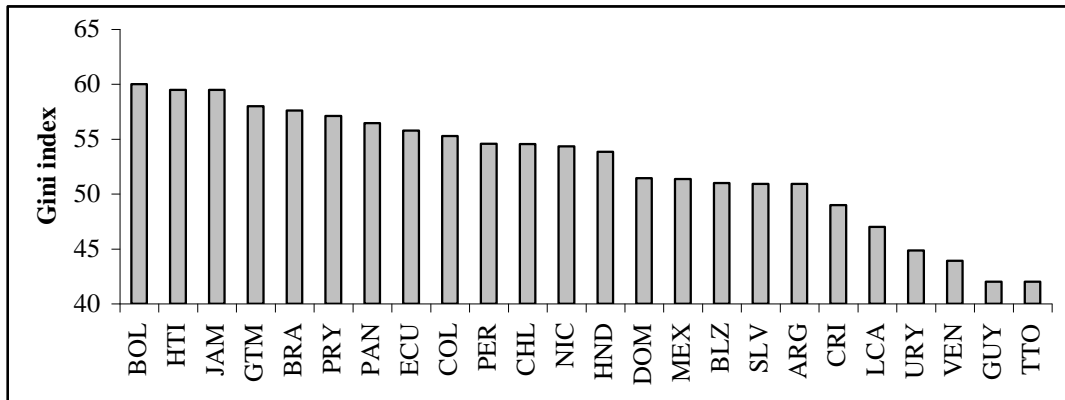
Figure 2  
Inequality - world regions -2004



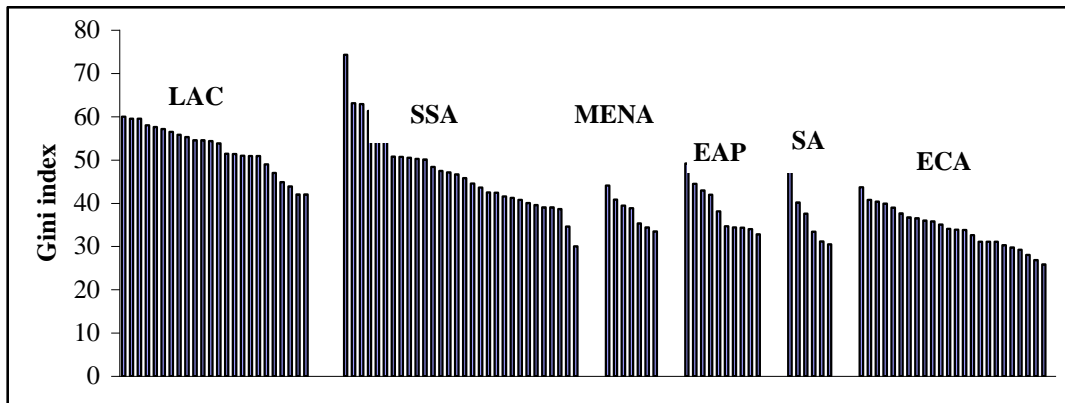
Source: Ferreira and Ravallion (2008)

Figure 3

Panel A. Inequality in Latin America

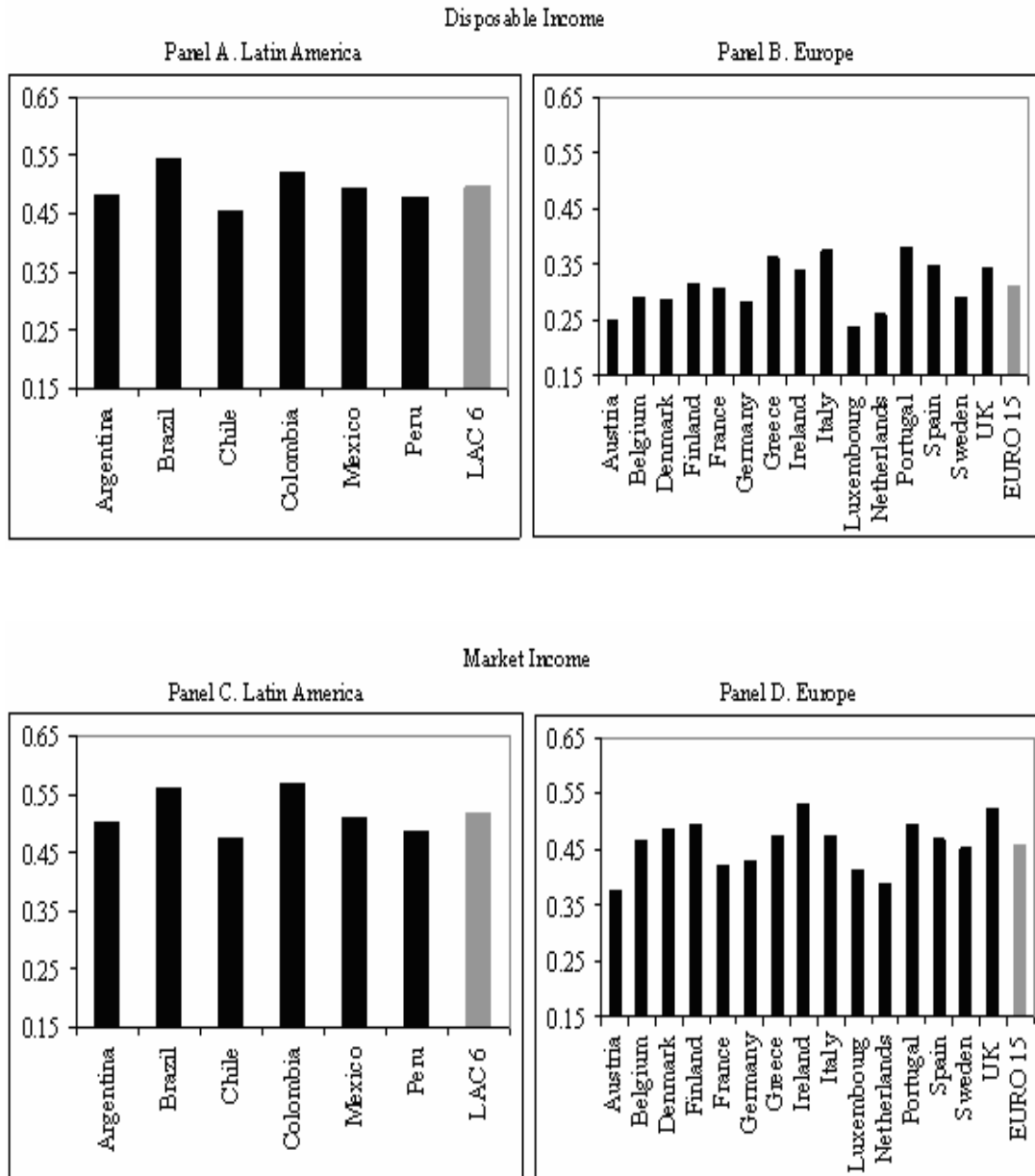


Panel B. Latin America in the global context



Source: World Development Indicators, World Bank.

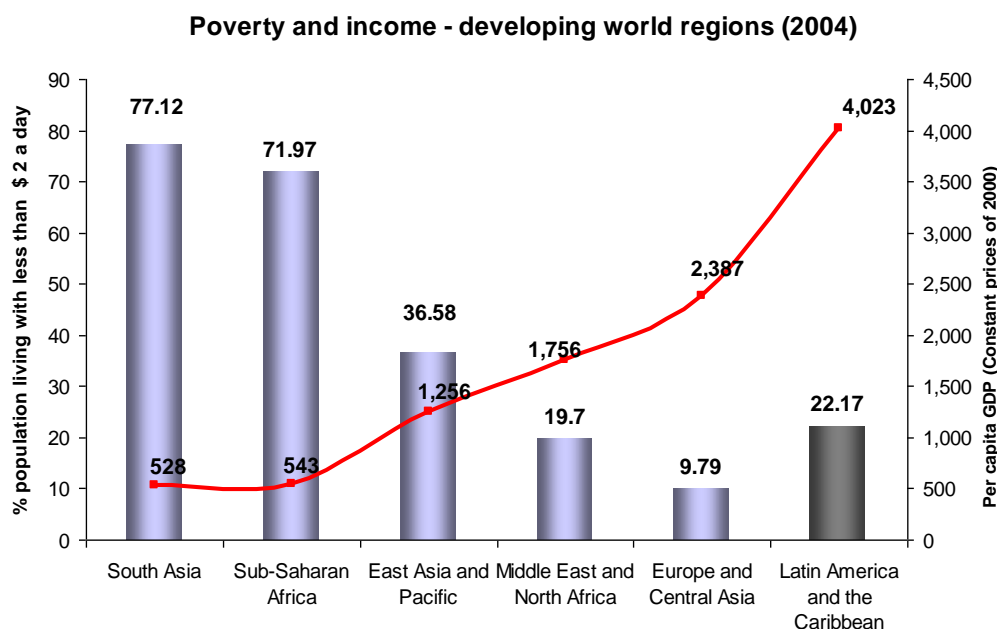
Figure 4  
Latin America and Europe: Disposable Income (After Taxes and Transfers) and Market  
Income (Pre-Taxes and Transfers) Inequality  
 (Gini Coefficients)



Source: Lopez and Perry (2007), pg 18.

Using internationally comparable poverty lines of US\$2 a day<sup>5</sup>, around twenty percent of the population in Latin America is poor. This is low compared with other regions. However, as shown in Figure 5, poverty is still relatively high for the region's level of income. This is directly related to the high levels of inequality. Also, there are low-income countries in the region—Honduras, for example-- in which extreme poverty is as high as in the other poor countries in the world. (Figure 6) In addition, although the incidence of extreme poverty<sup>6</sup> is relatively low in countries such as Brazil and Mexico, because of their large size, the absolute numbers are not negligible. In fact, the number of people living in extreme poverty in Brazil and Mexico (around 18 million)<sup>7</sup> is equivalent to the total population of sixteen least developed countries.<sup>8</sup>

Figure 5



Source: Chen and Ravallion (2007).<sup>9</sup>

<sup>5</sup> Measured in purchasing power parity.

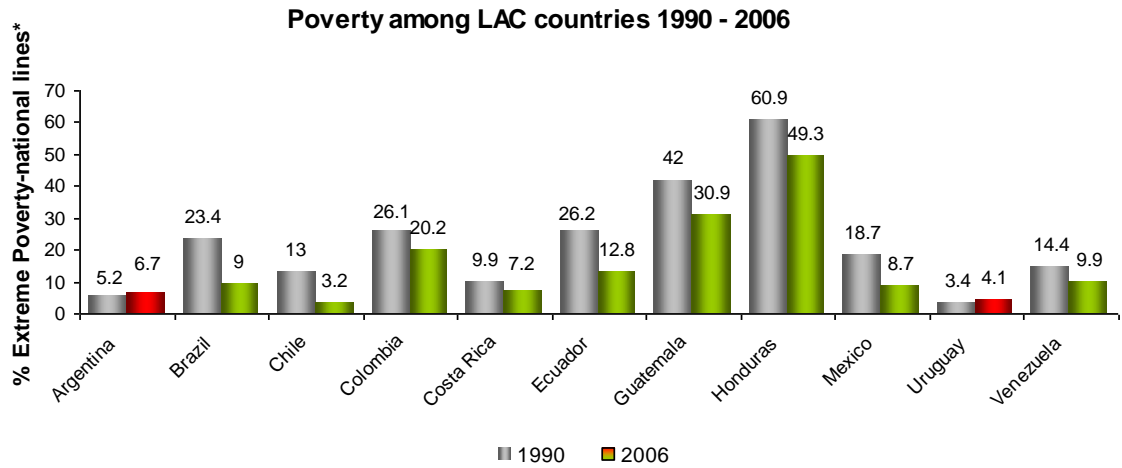
<sup>6</sup> The incidence of poverty is equal to the number of people living below the extreme poverty line as a share of total population. The extreme poverty line can be international (such as the widely used “US\$1 dollar” a day in PPP) or national (often higher than the international one, especially in Latin America).

<sup>7</sup> These are figures corresponding to around 2004. Until 2008, poverty continued to decline. In 2009, however, poverty in Brazil and Mexico is likely to rise as a consequence of the fallout of the “great” recession in advanced countries.

<sup>8</sup> The number of people living below a US\$1 dollar a day in xxx was equal to xxx, similar to the combined total population of Bhutan, Cap-Verde, Comoros, the Maldives, Mauritania, Samoa, Sao Tome y Principe, Timor-Leste, Vanuatu, Eritrea and Solomon Islands.

<sup>9</sup> These figures have changed with the new purchasing power parity estimates. The figure will be updated in the future with Chen and Ravallion (2008).

Figure 6

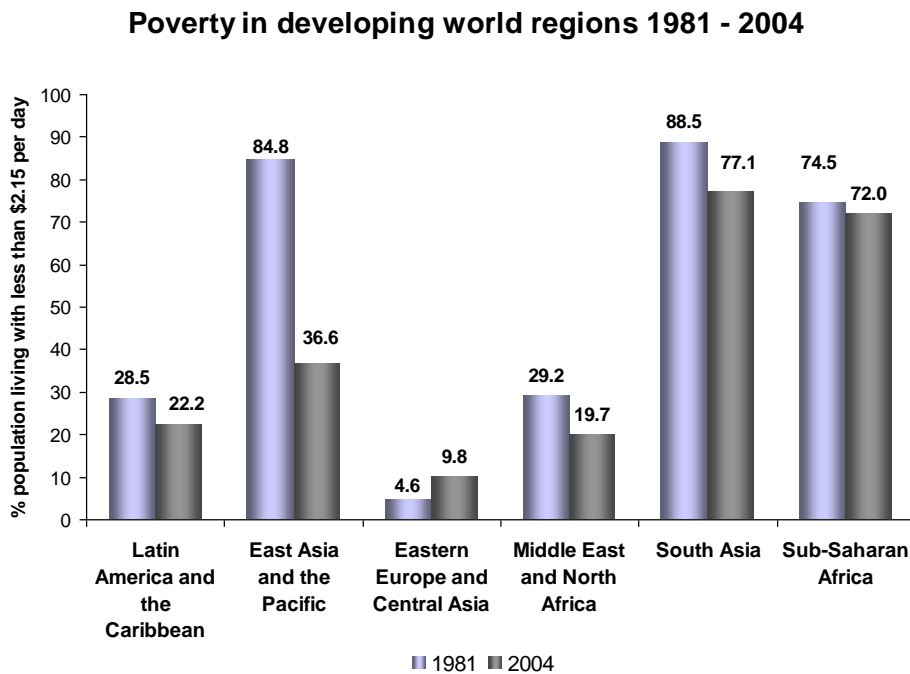


Source: ECLAC (2007).

Note: Extreme poverty with national official lines for LAC (approximately US\$ 2 purchasing power parity per day)

Between 1981 and 2004, poverty reduction has been slow in Latin America when compared to other regions such as East Asia and the Middle East and North Africa. (Figure 7) Part of this slow progress is related to poor growth performance.

Figure 7



Source: Chen and Ravallion (2007).<sup>10</sup>

<sup>10</sup> The levels have changed with the new purchasing power parity estimates but not the trends. The figure will be updated in the future with Chen and Ravallion (2008).

The reduction in poverty in the last few years was more robust given, among other things, the high growth rates enjoyed by countries benefiting from the natural resources boom. (Table 1) We shall have to wait until more recent surveys are available to capture the full impact of the resource boom. Also, for a given growth, poverty reduction has accelerated in several countries because of the reduction in household income inequality. As shown in Figure 8, income inequality has been falling for the region as a whole. In Figure 1 and Table 1, we can observe for which countries and periods inequality has been falling.

Table 1 (translation pending)

Latin America: Yearly Changes in Inequality and Poverty: 2003-2006

			Gini	Pobreza moderada	Pobreza extrema	
Nueva Izquierda	Izq. populista	Argentina	-2.8	-14.8	-19.6	
		Venezuela	-2.0	-10.6	-15.4	
		<i>Subtotal populista</i>	<i>-2.4</i>	<i>-12.7</i>	<i>-17.5</i>	
	Izq. Social Demócrata	Brasil	-1.0	-8.8	-14.4	
		Chile	-1.7	-8.5	-9.8	
		Uruguay	2.3	-7.5	-46.9	
		<i>Subtotal Social Dem.</i>	<i>-0.1</i>	<i>-8.3</i>	<i>-23.7</i>	
	<b><i>Subtotal Nueva Izquierda</i></b>			<b><i>-1.0</i></b>	<b><i>-10.0</i></b>	<b><i>-21.2</i></b>
	<b><i>Subtotal Nueva Izquierda (Sin Urug.)</i></b>			<b><i>-1.9</i></b>	<b><i>-10.7</i></b>	<b><i>-14.8</i></b>
	Otros	Costa Rica		0.1*	2.2	-2.7
Ecuador		-1.8	-8.2	-12.2		
El Salvador		-0.1	-0.8	-4.9		
Guatemala		0.8*	-1.5	-0.5		
Honduras		0.6*	-6.0	-9.4		
México		-0.5*	-3.7	-7.8		
Nicaragua		1.0*	0.1*	-1.0*		
Paraguay		-1.9	-3.8	-11.5		
Perú		-2.0	-5.0	-7.4		
R.Dominicana		0.6*	-4.0	-8.5		
<b><i>Subtotal Otros</i></b>		<b><i>-0.3</i></b>	<b><i>-3.1</i></b>	<b><i>-6.6</i></b>		
<b><i>Total países</i></b>			<b><i>-0.6</i></b>	<b><i>-5.4</i></b>	<b><i>-11.5</i></b>	

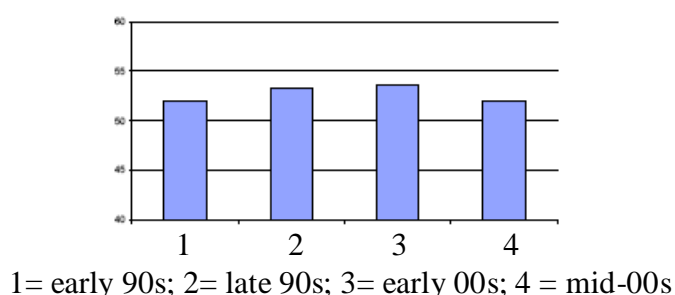
Source: own calculations based on SEDLAC (CEDLAS y Banco Mundial). Véase por más información: <http://www.depeco.econo.unlp.edu.ar/cedlas/sedlac/>.

Notes: 1. There was no recent information for Bolivia, Colombia and Panama. Poverty is estimated with country-based official. Data for Argentina and Uruguay cover urban areas only (they represent more than 80 percent of the total population). 2. The change for each country is calculated by dividing the percentage change by the number of years that elapsed between the two surveys; the changes for the groupings are the simple average of the changes for individual countries. 3. For all the countries, the changes were estimated for the period 2003-2006 except for: El Salvador (2005-2003), Mexico (2006-2002) and Nicaragua (2005-2001). In Uruguay the change corresponds to 2006-2005). 4. The asterisk “\*” indicates that the difference was not significant in statistical terms. Unable to estimate significance for Brazil, Ecuador, El Salvador, Paraguay and Uruguay and for poverty in the case of Guatemala.



Figure 8

Evolution of Gini Coefficient in Latin America (simple averages)



Source: Gasparini et al. (2008)

Note: Vertical axis has been rescaled; the range is from 40 to 60 (instead of from 0 to 60). This allows to see the changes more clearly. The Gini coefficient is in percent.

Table 1 shows the trends in inequality and poverty for Latin American countries grouped according to the type of political regime<sup>11</sup> for the period 2003-2006.<sup>12</sup> The results indicate that—at least for this particular period and countries— income inequality and the incidence of extreme and moderate poverty fell three times as fast in countries under leftist regimes and faster under the “populist” left than under the “social democratic” left. These results have to be taken with caution, however. In the case of Venezuela, for instance, the outcomes are very sensitive to the selection of initial and final years. Furthermore, during this period Argentina and Venezuela were bouncing back from deep economic downturns so the improvements in inequality and poverty could be more a result of macroeconomic conditions than pro-poor state policies. Finally, even if the populist left is more “redistributionist” than the social democratic left and other regimes, the question remains whether these changes are sustainable over time.<sup>13</sup> These questions remain to be researched.

There is no doubt that inequality has been falling in a number of countries in Latin America, among them some of the most unequal ones such as Brazil and Peru and some of the largest ones such as Brazil and Mexico. What have been the factors behind this new trend? In particular, to what extent has this trend been driven by market forces or public policy? In order to address this question, the cases of Brazil and Mexico will

<sup>11</sup> The categories have been taken from Arnson and Perales (2007).

<sup>12</sup> This period was chosen because it is the longest time span in which there is the largest number of countries governed by leftist regimes for which there is information.

<sup>13</sup> See Lustig (2009).

be examined in more depth. Between 2000 and 2006, the Gini coefficient in Brazil and Mexico fell at 1.3 percent per year, among the fastest rates of inequality reduction in the world. Out of the 74 countries for which there is data, less than one fourth were able to reduce inequality faster than Brazil and Mexico.

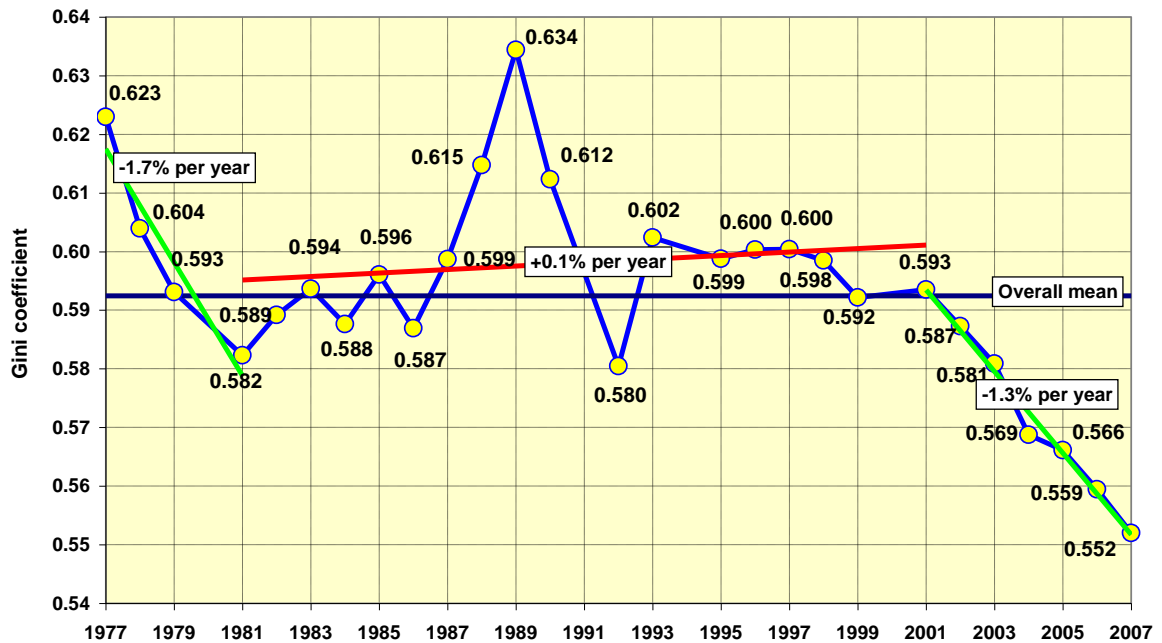
*Two Cases of Falling Income Inequality: Brazil and Mexico*

*Brazil*

Brazil has one of the highest levels of income inequality in the world. At times, its Gini coefficient was equal to .63, almost a historical and worldwide maximum. After a few years with very little change, the Gini coefficient has been falling steadily since 1998. The steepest decline occurred after 2000 when Brazil’s Gini coefficient declined 4.1 percentage points from 0.593 to 0.552—that is, to the tune of 1.3 percent per year--<sup>14</sup> (Figure 9) Extreme poverty and moderate poverty have also been falling between 2001 and 2007 in spite of the fact that average income growth during the period was modest of the order of 2.5 percent per year.<sup>15</sup> (Table 2)

Figure 9

**Evolution of the Gini coefficient for the Brazilian distribution of persons according to their family per capita income**



I

Source: Based on Pesquisa Nacional por Amostra de Domicílios (PNAD) 1977 to 2007.

<sup>14</sup> The decline in income inequality in Brazil fulfills the “Lorenz dominance” test and it is statistically significant. Barros et al. (2009).

<sup>15</sup> Barros et al. (2009).

Table 2

## Poverty and extreme poverty in Brazil, 2001-2007

(%)

Indicators	2001	2007	Variation 2001-2007
<b>Poverty<sup>2</sup></b>			
Headcount ratio	39	28	-28
Poverty gap <sup>1</sup>	18	12	-34
Poverty severity <sup>1</sup>	11	7	-37
<b>Extreme poverty<sup>2</sup></b>			
Headcount ratio	17	10	-42
Poverty gap <sup>1</sup>	7	4	-40
Poverty severity <sup>1</sup>	5	3	-37

Source: Estimates based on Pesquisa Nacional por Amostra de Domicílios (PNAD), 2001-2007.

Notes: 1. The poverty gap and severity are expressed in multiples of the poverty line.

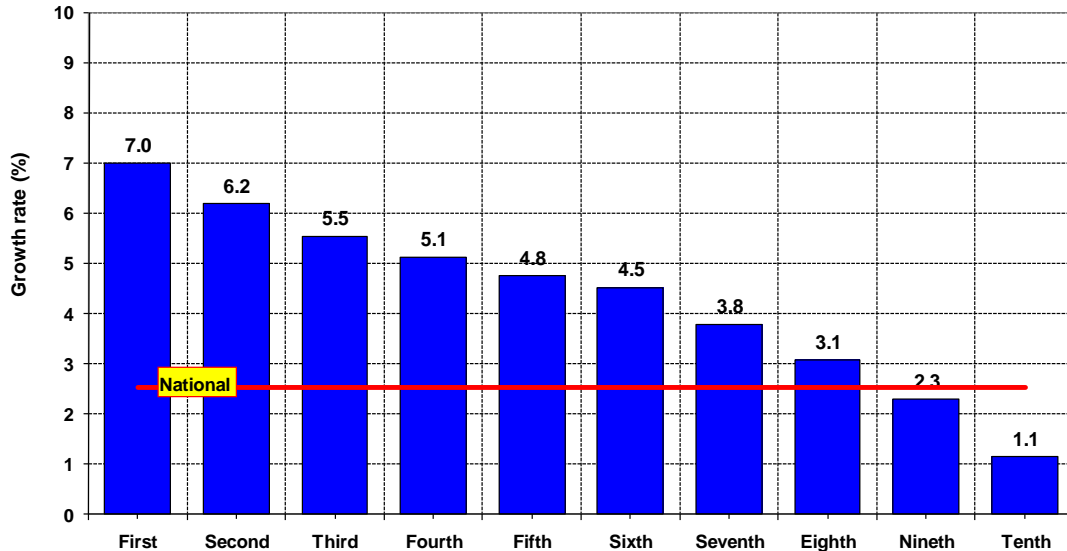
2. Estimates made using regional poverty lines. The national average poverty line is equal to R\$175 per month, and national average extreme poverty line is equal to R\$88 per month.

Source: Barros et al. (2009).

Thus, based on the observed trends in poverty and inequality, Brazil's growth pattern could be defined as "pro-poor:" i.e., the growth of the income of the poor has been higher than the growth of the income of the rich. In fact, this is exactly the case. From 2001 to 2007, the per capita income of the poorest 10 percent grew 7 percent per year, a rate of growth nearly three times the national average (2.5%) while that of the richest 10 percent grew only 1.1 percent. (Figure 10) Two thirds of the decline in extreme poverty can be attributed to the reduction in inequality.

Figure 10

Figure 2.4: Annual growth rate for per capita income in Brazil, by percentile, 2001-2007



Source: Estimates based on Pesquisa Nacional por Amostra de Domicílios (PNAD) - 2001 and 2007.

Source: Barros et al. (2009).

The recent decline in inequality in Brazil resulted from three main factors: i) decreasing wage differentials by educational level and reductions in the inequality in education; ii) increasing spatial and sectoral integration of labor markets, in particular among metropolitan and non-metropolitan areas; and, iii) increasing generosity of contributory and non-contributory government transfers.<sup>16</sup> If one decomposes the change in household income inequality, it is found that roughly half of the decline can be attributed to a reduction in labor income inequality and half to a reduction in non-labor income inequality.<sup>17</sup>

In contrast to the episode of falling inequality in the late 1970s, demographic factors and the role of employment was not significant in either direction. That is, changes in the dependency ratio among the poor, for example, were of little importance while this was not the case in the late 1970s. In the past, a rise in unemployment among

<sup>16</sup> Barros et al. (2009).

<sup>17</sup> Labor income includes wages and remunerations of the self-employed. Non-labor income includes incomes from property, own businesses and transfers. Transfers, in turn, can be private (remittances and gifts, for example) or public (pensions and conditional cash transfers, for example).

the poor prevented the fall of inequality from being more pronounced. In the current episode, unemployment has not played a role. All in all, the decline in labor income inequality was primarily due to the reduction in wage inequality, and the reduction in wage inequality was associated to the reduction in education inequality (Figure 11) due to the large expansion of access to education for the lower end of the distribution. Since 1995, labor earnings differentials by education level have declined at all levels. This reduction is much clearer after 2002, particularly for secondary and higher education.

Figure 11



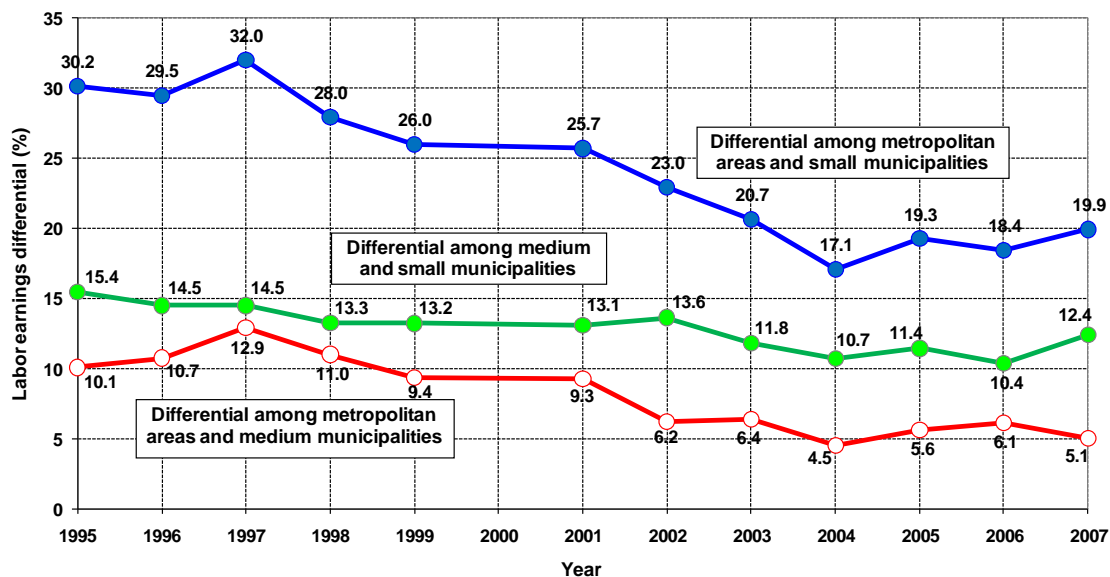
Source: Barros et al. (2009).

Another factor that has contributed to the decline in labor earnings inequality is the reduction in special segmentation. In Figure 12 it is shown that the labor earnings differential has been narrowing between metropolitan areas and small municipalities and metropolitan areas and medium-size municipalities. The question as to what factors explain this trend remains to be answered. Perhaps there has been a relatively higher expansion of some productive sectors in the Brazilian “hinterland” as opposed to the metropolitan areas thereby increasing the demand for labor and pushing up wages in the smaller and medium-sized cities compared to the past. The earnings gap between formal and informal workers, in contrast, did not fall but went up which means that this type of labor market segmentation played an unequalizing role during the period 1997-2007. Changes in discrimination (labor earnings are different between females and males,

blacks and whites, etc., without differences in productivity) were not found to be significant in explaining the reduction in labor earnings inequality.

Figure 12

Figure 7.2: Evolution of labor earnings differential among metropolitan and non metropolitan areas in Brazil, 1995-2007



Source: Estimations produced with Pesquisa Nacional por Amostra de Domicilios (PNAD) 1995 to 2007.

Source: Barros et al. (2009).

As mentioned above, the decline in non-labor income inequality is also very important in explaining the reduction in overall household income inequality. While the size of the contribution varies depending on the methodology, for consistency purposes here we show the results that use the same method as the one used for estimating the contribution of the change in labor income inequality.<sup>18</sup> The decomposition exercises attempt to isolate the contribution of each source to the overall change in inequality: assets (rents, interest and dividends), private transfers, and public transfers.

Public transfers account for over 80% of families' non-labor income<sup>19</sup> and the percentage of the population in families with at least one beneficiary increased by 10 percentage points since 2001. Impacts of changes in the distribution of income from assets and private transfers were limited. Most of the impact of non-labor income on the reduction of overall income inequality was due to changes in the distribution of public

<sup>18</sup> See Barros et al. (2009).

<sup>19</sup> Household surveys usually do not capture well households at the very top of the distribution whose income is likely to come from assets. This is true for all countries.

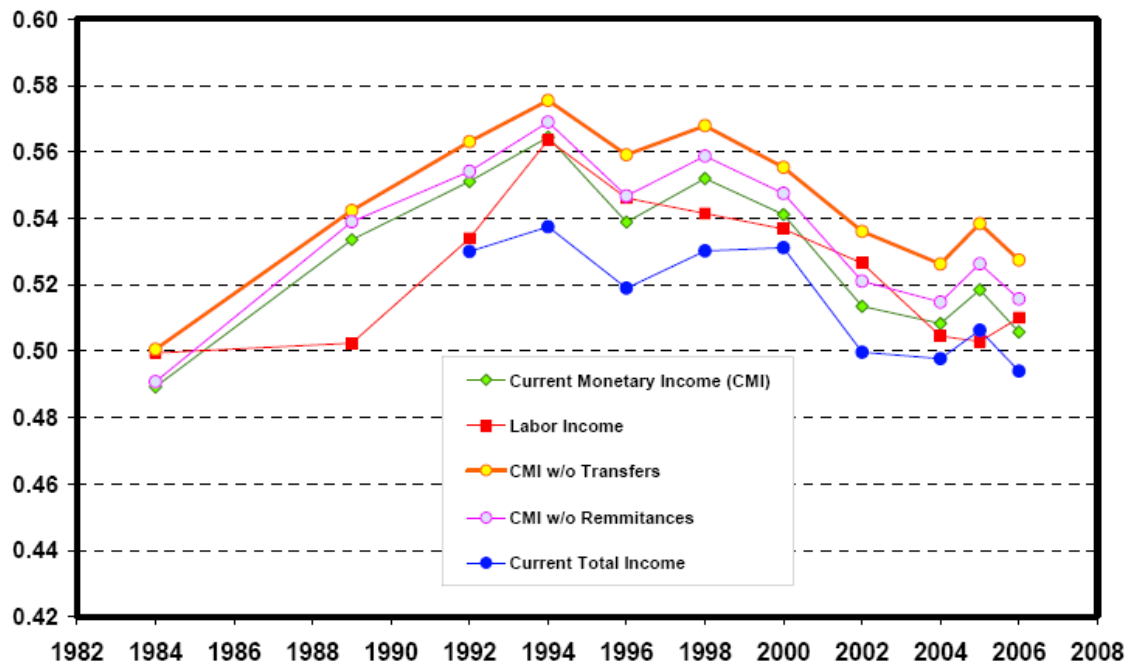
transfers which account for 49 percent of the total decline in non-labor income inequality. Although, both contributory and non-contributory transfers were important factors, the role of contributory transfers was predominant. In particular, changes in social security benefits explain almost 30% of the overall reduction in non-labor income inequality. The increasing coverage of non-contributory benefits, like BPC (Benefício de Prestação Continuada) and Bolsa Família—Brazil's signature conditional cash transfer program--were also important. Despite representing just a tiny fraction of total family income (0.5%), each of these non-contributory benefits explains about 10% of the overall decline in non-labor income inequality.

In sum, in the case of Brazil the rapid decline in income inequality observed since 2001 may be attributed to the reaping of the benefits of the expansion of education, the changes in spatial patterns of labor demand and supply, and the larger size and increased progressivity in some public transfers, both from social security and social assistance, but more importantly the former. However, the wage gap between formal and informal workers continued to increase and some government policies which tempered the progress achieved in inequality reduction. In particular, it seems that raising the minimum wage—which in effect raises the social security benefits which are tied to the minimum wage—is less effective in reducing inequality and extreme poverty than targeted programs such as Bolsa Família.

### *Mexico*

After a period of rising household income inequality from 1984 until the mid-1990s, Mexico's inequality has been falling. In particular, between 2000 and 2006, the Gini coefficient dropped from close to .53 to close to .49 or by 4 percentage points. This means a fall of 1.3 percent per year which is equal to the one observed in Brazil for the same time period. (Figure 13)

Figure 13  
Mexico: Gini Coefficient, 1984-2006



Source: Esquivel (2009)

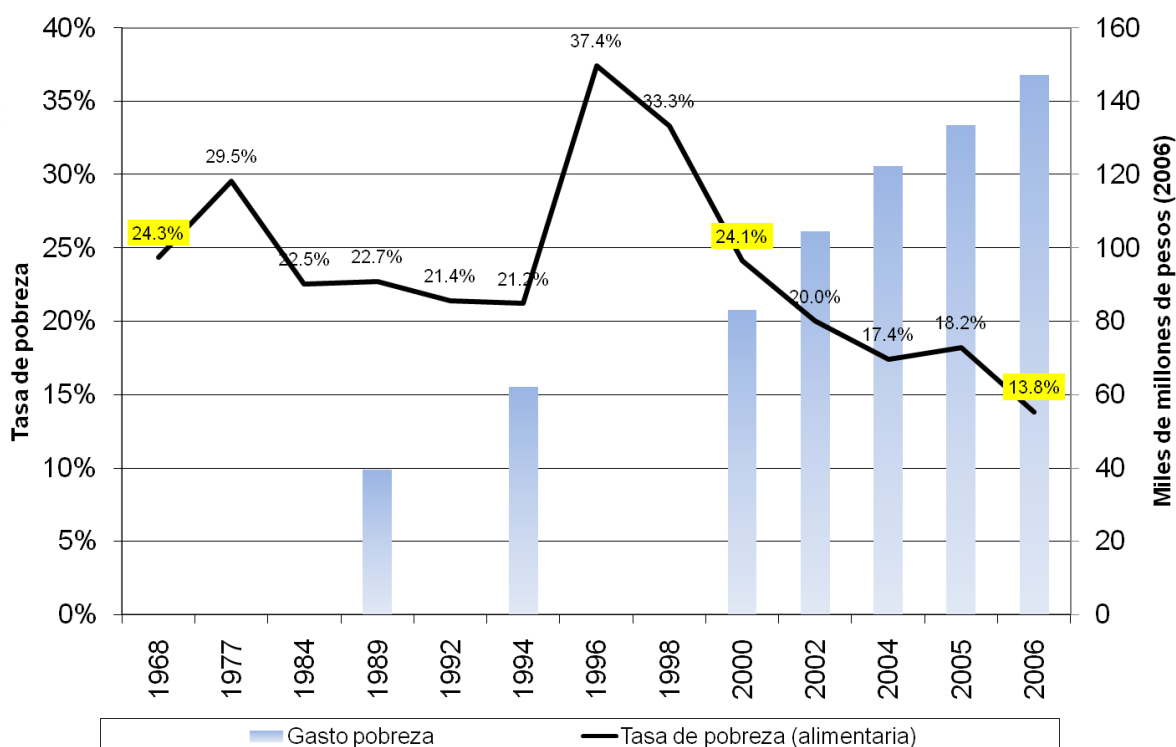
Extreme poverty<sup>20</sup> has also been consistently falling since the mid-1990s following the spike in poverty caused by the 1994-95 peso crisis.<sup>21</sup> (Figure 14) In particular, extreme poverty fell by 43 percent between 2000 and 2006. This is particularly remarkable given that during this period per capita GDP grew at a modest 2.5 percent or less per year. The latter emphasizes the role played by the reduction in inequality in explaining the reduction in poverty.

<sup>20</sup> The incidence of poverty is measured using the headcount ratio. In Mexico, extreme poverty is measured using the official “food poverty” line.

<sup>21</sup> The 2005 figures should be taken with caution because survey may not be comparable to surveys in the rest of the years.



Figure 14 (translation pending)  
 Mexico: Incidence of Extreme Poverty (left axis): 1968-2006



Source: Scott (2009).

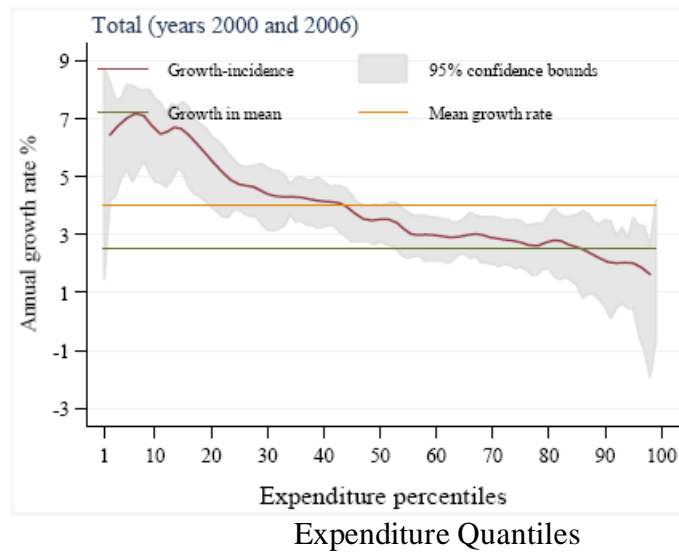
The growth incidence curve<sup>22</sup> for 2006/2000 plotted in Figure 15 shows that the incomes of the poorest 40 percent grew faster than the mean of the growth rates for the entire distribution—the higher of the two horizontal lines in the Figure.<sup>23</sup> Thus, during this period Mexico experienced “pro-poor” growth. The next question is which factors explain this growth pattern: changes in demographics, changes in employment patterns, changes in wage inequality or changes in government transfers?

<sup>22</sup> A “growth incidence curve” plots the changes in household per capita income (or expenditure) for each quantile of income (or expenditure), from poorest to richest households. Quantiles are usually percentiles or smaller.

<sup>23</sup> The mean of the growth rates of the entire distribution was slightly above 2.5 percent.

Figure 15

Mexico: Growth Incidence Curves: 2006/2000



Source: Esquivel (2009).

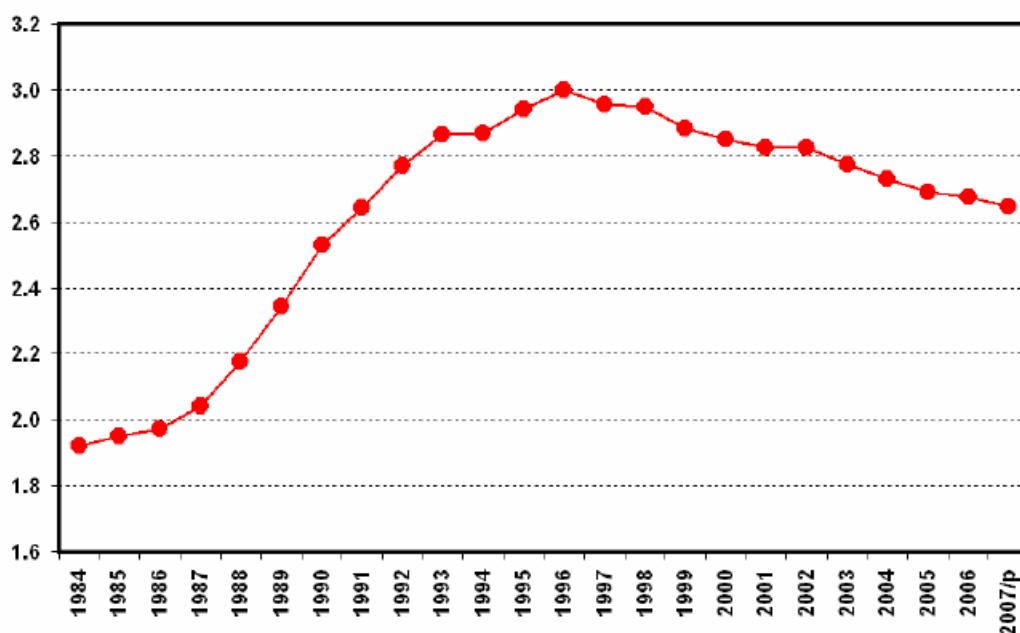
Recent decomposition exercises of the change in inequality between the period 2000 and 2006 find the following results. Demographic changes as measured by the proportion of adults were equalizing and so were the changes in the proportion of employed adults. This means that the dependency ratio and the number of working adults per household “improved” relatively more for the poorer households than for the richer households. The inequality in the distribution of labor and non-labor income fell, thereby both contributing to the reduction in overall household income inequality. Labor income includes wages and remunerations of the self-employed. Non-labor income includes incomes from property, own businesses and transfers. Transfers, in turn, can be private (remittances and gifts, for example) or public (pensions and conditional cash transfers, for example).

The fall in inequality of labor income is by far the most important factor explaining the decline in overall household income inequality. Between 2000 and 2006, the Gini coefficient fell by 3.07 percentage points or by 5.8 percent. If the only thing that would have changed was the distribution of labor income and all the other factors

remained the same in 2006 as they were in 2000, the Gini would have fallen by 3.19 percentage points—that is, by even more than the overall decline in inequality.<sup>24</sup>

The decline in labor income inequality reflects the fall in the skilled/unskilled workers wage gap. In Figure 16 one can observe how the wage gap rose in the period following trade liberalization in the mid-1980s. This was one of the major drivers explaining the increase in overall income inequality between the mid-1980s and mid-1990s. Since the mid-1990s, however, this trend was reversed. Because it coincided with the implementation of the North American Free Trade Agreement (NAFTA) in 1994, there has been a lot of interest to determine to what extent this equalizing trend in relative wages was a product of NAFTA. So far, this question remains unanswered. With NAFTA there was an increase in demand for low-skilled workers for the “maquiladora” sector. However, during the same period there was also an increase in the share of workers with post-secondary education relative to those with less. The share of less-skilled workers (those with less than secondary education) went from 55% in 1989 to 32% in 2006.

Figure 16  
Mexico: Skilled/Unskilled Wage Gap: 1984-2007  
**Skilled/Unskilled Industrial Wages,  
 1984-2007**

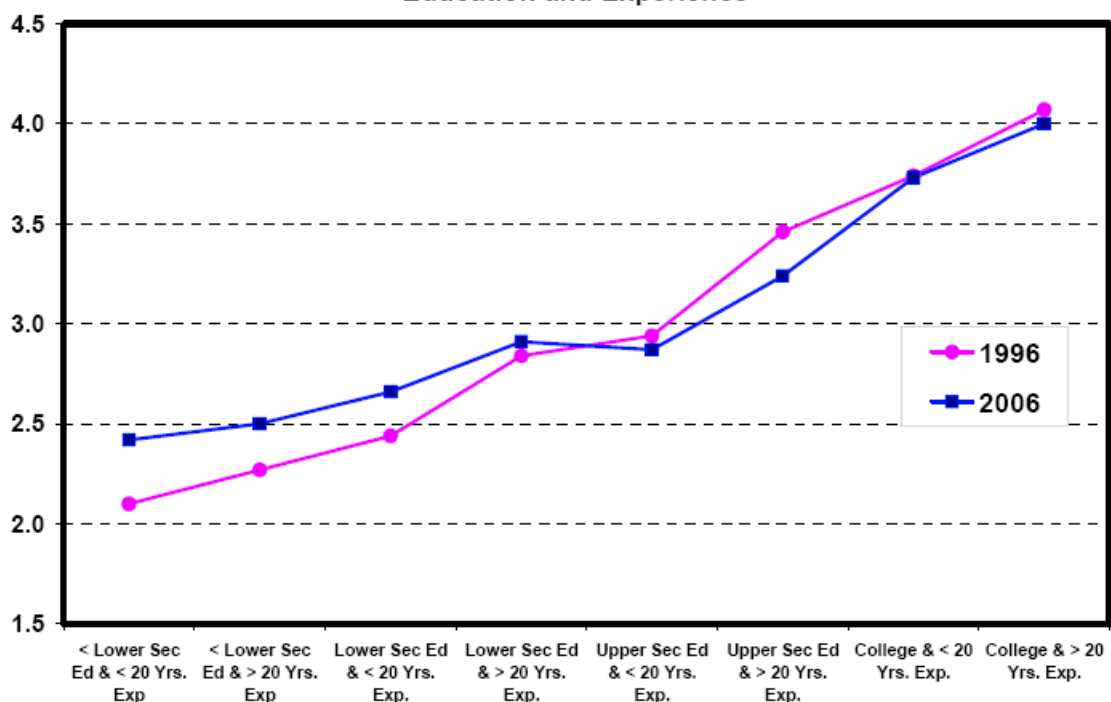


Source: Esquivel (2009)

<sup>24</sup> Cruces et al (2009).

So, it seems that both demand (for example, increased employment in maquiladoras) and supply (changes in the relative abundance of low-skilled workers) factors may have played a role in reducing the wage gap between the skilled and the low-skilled. Figure 17 shows how the wages of the less educated-less experienced—that is, the low-skilled—workers increased while the wages of the high-skilled workers fell slightly between 1996 and 2006. This is consistent with the shape of the growth-incidence curve (Figure 11) and the large contribution to the decline in household income inequality stemming from the fall in labor income inequality.

Figure 17  
Mexico: Mean Log Wage of Male Workers by Education and Experience



Source: Esquivel (2009).

In sum, the decline in household income inequality in Mexico appears to be determined by a relative (relative to workers with more skills, that is) increase in the demand for low-skilled workers and a relative fall in their supply. The latter must be the product of the progress made in education as more and more cohorts stay in school for more years (something that is confirmed by the steady increase in years of schooling). On the demand side, part of the story could be NAFTA-related: a higher demand for low-skilled workers in the “maquiladoras” as production processes became increasingly more integrated across North America after NAFTA went into effect.

Other factors that may have contributed to a rise in demand for workers at the bottom of the distribution might have been the increase in remittances and cash transfers from Progres/Oportunidades, the Mexican government's signature anti-poverty program. However, the direct effect of remittances and cash transfers seem to affect the level but not necessarily the trend in income inequality since they all move more or less in tandem. What might be more important is the indirect effect: that is, the spillover effect that remittances and cash transfers have on employment in poor local economies. Households which receive remittances tend to use them to build, expand or refurbish their dwellings. This generates demand for construction workers in the local economy, who in turn generate demand for other goods and services, and so on. One can think of remittances and cash transfers as myriad "simulus packages" benefiting poor communities.

Mexico, thus, seems to be a case of lackluster overall growth in GDP and total factor productivity because a large portion of the employment generation occurs at the low-productivity/low-wage end instead of in the high-wage/high-productivity sectors. However, even if the new employment opportunities are low-wage, the wages (or remunerations) they pay are higher than what this group of low-skilled workers used to receive before 2000. In this sense, Mexico's growth pattern is "pro-poor." Although the launching of the anti-poverty conditional cash transfer program Progres/Oportunidades made public spending more progressive, the bulk of transfers (pensions, in particular) is not.<sup>25</sup> By some estimates, without Oportunidades the Gini coefficient would be around one percentage point higher<sup>26</sup>, which is not insignificant. Nonetheless, public spending remains largely not pro-poor and in a number of cases it is plainly regressive. Thus Mexico's recent reductions in inequality, while important, remain limited because social policy still has serious shortcomings and inconsistencies. The good news is that this means that there are plenty of opportunities to further reduce poverty and inequality.

### *Concluding Remarks*

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<sup>25</sup> Scott (2009).

<sup>26</sup> Scott (2009).

The evidence presented in the preceding sections seems to support the idea that Latin American growth has become more inclusive. Based on the experiences of Brazil and Mexico--which for the period from 2001 until 2007 experienced among the fastest declines in inequality in the world--one can identify two main driving forces: a fall in labor earnings inequality and some improvement in the size and distribution of public transfers. The former appears to be the result of factors affecting labor demand (for example, an increase in demand for low-skill workers in medium-sized and smaller municipalities and poorer localities) and the composition of labor supply (a relative decline in the proportion of workers with low levels of education). Regarding public transfers, the implementation of targeted programs such as Bolsa Familia in Brazil and Progresas/Oportunidades in Mexico, contributed to the reduction in inequality but the order of magnitude was relatively small. In contrast, the wage gap between formal and informal workers, at least for Brazil, continued to increase and in both countries there are still many government programs which are not only regressive but also unequalizing (for example, pensions).

The recent reduction in income inequality in many Latin American countries should be welcomed but not lead to complacency. There is still plenty of inequality arising from market failures and misguided government policies waiting to be reduced. In addition, there are countries in which inequality has not fallen at all. These can learn from the experiences of the countries in which inequality fell.

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