

## INTRODUCTION

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The papers included in this issue of the *Review of Income and Wealth* are selected from the papers presented at the International Conference on Income, Wealth and Well-being in Latin America held in Rio de Janeiro on September 11–14, 2013. The exception is a paper by Tasha Fairfield and Michel Jorratt which nicely fits within the volume and for this reason is here included. The conference was jointly organized by the International Association for Research in Income and Wealth (IARIW) and Instituto Brasileiro de Geografia e Estatística (IBGE). The papers passed the usual refereeing process, managed by Conchita D'Ambrosio, the editor of the *Review*.

The choice of the topic and the venue were not accidental nor the result of the usual rotating process whereby it was Latin America's turn to organize the conference. They were guided by the interest in the extraordinary developments in the area of income distribution and poverty that have taken place in most Latin American countries in the past 20 years. For a long time, Latin America was considered, rightly, as a high-inequality region. Whether it always was so is a matter on which economic historians still cannot agree, but that Latin American countries were remarkably unequal since the mid-20<sup>th</sup> century when the first household surveys were collected in these countries, was an accepted fact. It was thus quite extraordinary that at the same time when in the rest of the world income and wealth inequality increased, at times significantly, in Latin America an opposite process of reduced income inequality started. At first it was not clear if the process could be sustained, or whether it was an accident that may soon be reversed. But after more than a decade of reported declines in income inequality in the largest Latin American countries, Brazil, Argentina and Mexico in particular, there was little doubt that something fundamental and important was happening.

The first paper in this volume, by Veronica Amarante, presents a summary of the changes in income distribution in Latin America, discusses the reasons adduced for them, and then uses decomposition by income source to find out what types of income might have contributed to reduced inequality. The analysis is conducted for Argentina, Bolivia, Chile, Ecuador and Uruguay. Amarante finds that the main drivers of decreased inequality between 2002 and 2011 were greater equality in the distribution of self-employment income and informal-sector wages. In other words, it is not the changing factor shares (e.g. greater importance of informal sector), but more equal distribution of informal earnings that were key. This however does not carry over to formal sector wages whose distribution remained about the same.

Sean Higgins, Nora Lustig, Whitley Ruble and Tim Smeeding in the second paper included here apply a more ambitious decomposition, looking at the effects of public cash and in-kind transfers as well as direct and indirect taxes, and subsidies, to compare the overall government redistributive effort in Brazil and the USA. Their paper is one in a series of similar papers that Nora Lustig, Sean Higgins and their collaborators have conducted for a number of countries. The main novelty of the approach is in the extension of the incidence analysis to indirect (consumption) taxes and in-kind transfers such as health and education benefits received by the population. In their comparison of Brazil and the USA, Higgins *et al.* find, somewhat predictably, that Brazil is less redistributive than the USA, because of the small size of both its direct taxes and social transfers (despite the attention paid to its Bolsa Scolara program). However, when one includes in-kind benefits for health and non-tertiary education, Brazil “recovers” some ground compared to the USA, and the overall redistribution effort is found to be approximately the same in the two countries. The Higgins *et al.* paper is important because it reminds us to look past cash transfers and direct taxation only—even if getting the data for other types of government redistribution has been notoriously difficult.

In the third paper included here, Carlos Villalobos, Stephan Klasen and Sebastian Vollmer conduct another type of decomposition. They look at the distribution of individual components of the Human Development Index (education, health, income) in Mexico in 1992, 2000, and 2010 (using Mexican Household Income and Expenditure Surveys) but also, and it is a novelty of the paper, at their joint distribution. They find general inter-municipal convergence in the three aspects of human development (that is, worse-off municipalities registered greater improvements), but find also departures from this trend, especially near the Mexico-USA border linked, in their opinion, to drug cartels and drug wars.

The next two papers deal with inequality across human characteristics, such as gender or race and ethnicity. Paola Salardi looks at gender and racial segregation in Brazil between 1987 and 2006. She uses Brazil’s annual household surveys (Pesquisa Nacional por Amosta de Domiciloas, known as PNAD) and harmonizes occupations over time. Her interest is in prevalence of occupational segregation by gender and race. The results show that gender segregation is always greater but is decreasing which is not the case for racial segregation. As she concludes, it seems that racial factors are more persistent.

Similarly, Carlos Gradin, in an analysis of the Costa Rican 2011 census, finds, after creating an index of well-being, that the living standard of the indigenous population, Blacks and mulattos is significantly worse than the rest of the Costa Rican population. The same is true of immigrants from Nicaragua and Panama.

Tasha Fairfield and Michel Jorratt do the first ever study of top income shares for Chile using tax returns for the period 2005–2009. As usual in such studies, they do a number of adjustment for business income, distributed profits that go unreported etc. and find that the lower bound of the top 1 percent share in total income is 15 percent while the upper bound may be as high as 26 percent. By this metric, and indeed by Gini coefficients calculated from household surveys,

Chile is among the most unequal countries in the world. The top 1 percent share shows however a slight downward trend over the period considered here.

A paper by Mauricio Apablaza, Florent Bresson and Gaston Yalonetzky opens a more methodologic part of the volume. The authors argue that there is no monotonic relationship between health (proxied by the Body Mass Index) and welfare, define a different index where the relationship is not monotonic, and test it on the data from Bangladesh, Colombia, and Egypt.

The final paper by Leonardo Oliveira, Debora Souza, Luciana Santos, Marta Antunes, Nicia Brendolin and Viviane Quintaes constructs a new consumption aggregate using the data from an alternative and much less used Brazilian household survey (Survey of Family Expenditure) and then look at the usual inequality and poverty results as obtained from this new aggregate.

In more than two years that have passed since the conference was held, significant changes have occurred in a number of Latin American countries. The Global Financial Crisis, weaker demand from China, and lower prices of raw materials (especially oil) have led to the slowdown in growth of the largest economies, most notably in Brazil and Venezuela. In several countries, the previously ruling left-wing governments were replaced by more right-wing governments. It will be interesting to see how these macroeconomic and political developments affect income and wealth inequality and poverty reduction in the future. Most likely, they will relaunch the never-ending debate about whether Latin American inequality is structural, or obeys Kuznets waves (which would lead us to believe that more developed countries have turned the corner and should continue to experience a decrease in inequality), or finally that Latin American inequality is driven by global and cyclical movements in the terms of trade for agricultural products and minerals.