

Book Review: Falling Inequality in Latin America, edited by Giovanni Andrea Cornia

*The volume aims to document and explain the sizeable decline of income inequality that has taken place in Latin America during the 2000s. It does so through an exploration of inequality changes in six representative countries, and ten policy chapters dealing with macroeconomics, foreign trade, taxation, labour market, human capital formation, and social assistance, which point to the emergence of a 'new policy model'. **Petterson Molina Vale** is impressed with the unique contributions this volume contains, and recommends this read to students of Latin American policy and economics.*

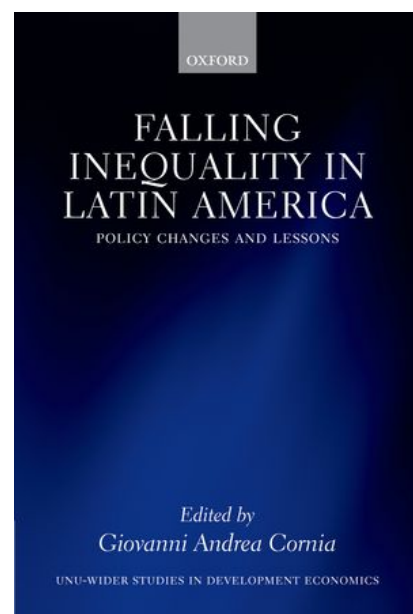
Falling Inequality in Latin America. Giovanni Andrea Cornia (eds). Oxford University Press. January 2014.

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You have been transposed to a country where every person has a height equal to their income. The very poor are tiny dwarves and the very rich unimaginable giants. Someone has lined up all those people from shortest to tallest and asked them to parade. As the curious event develops you observe the march from your hotel's window. What exactly do you see? The Dutch economist Jan Pen wrote in 1971 that income distributions are like parades of dwarves with a few giants. You get bored of seeing numbers of short, poor people walk past you and only at the end, by the time the back row of the march becomes evident, do the tall people show up. At the very back one or two disproportionately taller giants make you wake up from your egalitarian dream and suspect that something is happening in that country's economy.

Actually there is nothing special with the country you imaginarily visited, at least with respect to income distribution. Any given country could potentially organize a similar parade, the peculiarity of each location being the degree to which incomes are relatively concentrated / dispersed. In Latin America, for example, you expect to witness an even more unbalanced parade, as inequality south of the U.S. has historically been very high. Yet income distributions are dynamic, so the point in time that you choose to measure statistical dispersion matters a lot. In fact, even the greatly unequal Latin American countries saw a process of inequality reduction since the late 1990s that took scholars off guard – from 2000 to 2010 the [Gini coefficient](#) declined in 13 of 17 countries. Why?

Explaining such a robust and unexpected turn is the theme of *Falling inequality in Latin America*, a book edited by Professor of Economics at the University of Florence, [Giovanni Cornia](#). The volume brings together contributions from authors, mostly Latin-Americans, who gather the most recent evidence on the relation between policy and inequality in post-adjustment Latin America. With 12 dense and neatly interrelated chapters, including sections devoted to specific policy issues such as the roles of tax reform and trade, most of the book's added value lies in the high quality, in-depth analyses of 6 countries: Ecuador, Chile, Honduras, El Salvador, Uruguay and Mexico. Those working directly with the topic will find that the book has a number of unique contributions, some of which I describe below. Readers should pay close attention to the 3 opening chapters and pick subsequent ones according to interest. In this review I focus on two central hypotheses: that a left-wing political turn was responsible for the improvement in income distributions (Chapters 1 and 3), and that labour market dynamics along with investment in education have had a crucial role (Chapters 2 and 15). I leave for the reader the equally interesting discussion of directed social transfers such as *Oportunidades* and *Bolsa Família* (Chapter 16).



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Sugar skulls for Day of the Dead in Mexico. As inequality falls, life expectancy rises. Credit: [Angélica Portales](#) CC BY-NC-ND 2.0

It is an established idea that augmenting the participation of skilled workers in the labour force can have an inequality-reducing effect. A recent World Bank paper by [Lustig et al. \(2012\)](#) explores the role of skill premiums and skilled labour supply on inequality in Latin America, making the case that in the 2000s the premium pay for skilled workers dropped while in the 1990s it increased. This correlates very well with the observed variation of the Gini coefficient, and the book adds to the debate by building a solid theoretical framework that makes the crucial distinction between demand / supply-side factors affecting returns to human capital / proportion of skilled workers. Guillermo Cruces and colleagues show in Chapter 15 that increasing average years of education (supply-side) is not always inequality-reducing, but can be under the right circumstances. The relative supply of skilled workers increased monotonically since before the 1990s – allowing a great many to climb the educational ladder, but this alone would have had a regressive effect. However, during the post-adjustment period, skill premiums started to drop due to a technical shift that increased relative demand for unskilled labour, and inequality fell as a consequence.

The above is a fructiferous line of research and one that speaks closely to arguments made by a truly indigenous branch of the literature: Structuralism. The idea that underdeveloped economies are biased towards the consumption of luxury goods, which increases skill premiums, was an essential feature of the persistence of underdevelopment theorem. Structuralist economists saw income distributions in Latin America as dependent upon the adaptableness of technical progress to labour markets where dwarfed, unskilled workers dominate the parade. The late Celso Furtado saw investment in education and a political agreement that directs productive efforts out of skill-intensive sectors as conditions for the overcoming of underdevelopment – precisely the hypotheses under scrutiny in the book.

Was a political agreement for redistribution achieved in the post-adjustment period? This should have been the most interesting part of the book – the hypothesis that centre-left and radical left governments have spurred the inequality-reduction process – but somewhat frustratingly no round answer is provided. While on the one hand the Political Scientist Kenneth Roberts urges the reader to resist the temptation to input causal responsibility to the left, Giovanni Cornia uses regression analysis on 18 countries to argue that centre-left and radical left governments were associated with larger drops in inequality from 1990 to 2010, controlling for policy variables such as minimum wage, investment in education and others. What the case studies show, however, is that in 5 out of 6 countries the very policy variables that were the most inequality-reducing started moving on a more progressive direction during right-wing governments. This suggests that egalitarian policies were in fact not the make of left-wing governments, although were certainly deepened by those governments.

It is forceful to conclude that a definitive answer on the causality is unlikely to emerge soon. Yet a useful

compromise view is presented by Kenneth Roberts, who pictures the repoliticization of inequality by social movements and left-wing parties as a “Polanyan backlash”. Popular frustration with the adjustment era would have been turned into concrete demands for redistribution by means of open political debate under democracy. This framework places redemocratization at centre stage and allows for a role of left-wing politics even during right-wing governments. If support for policies such as conditional cash transfers and investment in basic education is better channelled through left-wing parties, then the simple fact that progressive political platforms can exist, not necessarily their stepping into power, may be the crux of the matter. Dwarves may after all have managed to stitch up a political agreement with giants for redistribution through a combination of open democracy and left-wing opposition.

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