

Latin America – denouncing inequality



No. 191, 7 February 2020

Authors: Dr Clemens Domnick, phone +49 221 4986 1259, clemens.domnick@deginvest.de
Jessica Espinoza Trujano, phone +49 221 4986 1890, Jessica.EspinozaTrujano@deginvest.de
Dr Katrin Ullrich, phone +49 69 7431-9791, katrin.ullrich@kfw.de

Autumn of 2019 was marked by social and political unrest in a number of Latin American countries. Examples include the largest of the waves of public protest in Chile, demonstrations against austerity measures in Ecuador, a sovereign debt crisis in Argentina, a constitutional crisis in Peru, a disputed presidential election in Bolivia, protests against the stalled peace process and high inequality in Colombia and a humanitarian crisis in Venezuela.

Many of the protests were triggered by rising costs of living due to, among other things, higher public transport fares (Chile), fuel price increases (Ecuador) and cuts to social benefits (Argentina). Despite the different backgrounds, inequality plays an important role across these countries.

Inequality remains high

The region has made considerable progress in the fight against poverty and inequality. As all Latin American countries are in principle commodity exporters, the commodities boom of the 2000s also had a positive impact in this regard. It provided funds for extensive social programmes while bolstering the region's growth performance.

In Argentina, Bolivia, Brazil, Ecuador and Peru, for example, the poverty rate declined by more than 50% between 2004 and 2014. Income inequality and the perception of (very) unfair income distribution decreased at the same time.

This positive trend has stagnated since 2012/2013 and the perception that income is unfairly distributed is more widespread again. Income and wealth inequality in Latin America remains on a high level as well. In a global comparison, the Gini coefficient as a measure of income distribution inequality tends to be in the upper third for the economies of the region.

Expecting public benefits

The ascent to the (precarious) middle class also comes with growing demands for public services, where there is definitely room for improvement:

- State governance is often in the lower half of the corresponding World Bank global rankings, although Chile and Uruguay stand out as positives.
- Access to public services and the quality thereof often vary according to income. For example, poorer population groups have less access to early childhood education and secondary schools.

– Moreover, the national averages conceal vast differences between the countries' regions and between urban and rural areas.

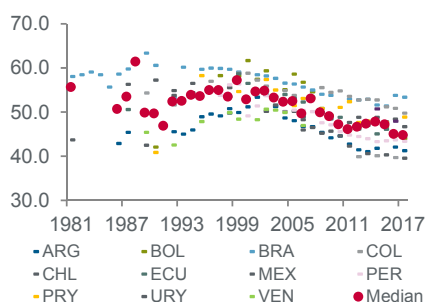
One of the demonstrators' demands is for a reduction of this multi-dimensional inequality, particularly in education and healthcare.

A better income distribution policy is necessary

The collapse of commodities prices in 2014/2015 brought to light the negative effects of a growth model that was (too) heavily based on resources, including in state revenues. Nonetheless, countries with a robust macroeconomic environment are fundamentally capable of accommodating the demonstrators' demands, even if that requires higher government spending. Chile, for example, is already planning higher social expenditure, among other things for pension payments and healthcare. Other countries such as Ecuador, however, have little scope in this regard. Overall, there is room for managing government expenditure and revenues more efficiently in order to develop what has hitherto been poor income redistribution.

Figure 1: Inequality

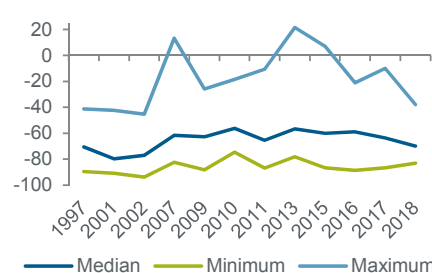
Coefficient, median of the country data available in one year



Source: WDI.

Figure 2: Perception of inequality

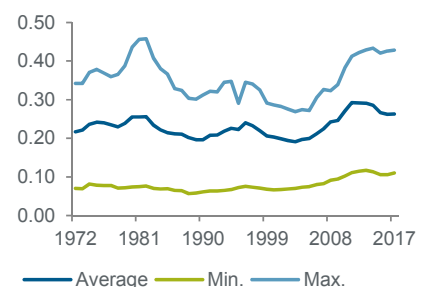
On the question of income distribution fairness, percentage of responses 'very fair' to 'very unfair'



Source: Latinobarómetro, own calculations.

Figure 3: Ratio of GDP per capita to US

Interlocked purchasing power parities, 2011 USD.



Source: Penn World Tables, own calculations.