

THE INCOME DISTRIBUTION THREAT IN LATIN AMERICA

Albert Berry
University of Toronto

Most of the Latin American countries that have introduced market-friendly economic reforms during the course of the last two decades have also suffered serious increases in inequality. The systematic coincidence in timing of the two events suggests that the reforms have been one cause of the worsening distribution. The generalization that major increases in inequality have occurred in many Latin American countries over the last two decades is now widely accepted (Altimir 1994; Morley 1995). This article will add new information for a few countries (Colombia, Costa Rica, and Ecuador). Its main focus, however, is the possible causes of those increases, a complicated question because so many different currents have affected the region over this period—the economic crisis, the policy reforms, technological change, shifts in terms of trade, and still others. Samuel Morley (1995) and others have argued that much of the observed increase in inequality was related to the economic crises suffered by nearly every country in the region. This interpretation might suggest that the optimists who predicted positive distributional outcomes from the reforms (such as Krueger 1988) will eventually be vindicated, once the negative effects of the crises have played themselves out. Although I agree that this factor played a significant role, the fact that inequality appears to be significantly higher after the crisis than before (Altimir 1994) implies that other contributing factors were also at work. Of these, the reforms are suspect because of their content and implicated by the coincidences in timing with the increases.¹

BACKGROUND TO THE DISTRIBUTION CRISIS

As Latin American countries progressed through the 1960s and 1970s, it appeared that severe poverty might be pretty well eradicated by another decade or so of “growth without redistribution,” meaning growth within the context of an essentially unchanged and steep level of income

1. This broad conclusion is also reached in a major forthcoming study directed by Victor Bulmer-Thomas (Bulmer-Thomas n.d.).

inequality. This outcome was possible because the average Latin American income exceeds those in most third world countries.

Between 1950 and 1980, the region's income per capita rose by about 3 percent per year. Using the poverty line drawn by Altimir (1982) across countries for 1970, about 38 percent of households were living in poverty. The growth record from 1950 to 1970 would suggest that poverty incidence in 1950 (using the same poverty line) was around 65 percent and probably fell between 1970 and 1980 to around 25 percent.² Had per capita income growth continued over the last two decades of the twentieth century at the rate of 3 percent per year observed from 1950 to 1980, poverty probably would have decreased by another 10 to 15 percent.³ With reasonably effective poverty-redressal policies of the kind that can more easily reach a large share of the poor when the incidence of poverty is relatively low (such as targeted employment schemes and food redistribution plans), it would have been realistic to think that no more than a few percent of Latin Americans would have been critically poor by the year 2000.

Although most countries in the region did not witness major shifts in income distribution during the 1970s, some emerging patterns hinted at possible improvements in the not-too-distant future. For example, the sharp increase in real wages of lower-skilled workers in Brazil during the "economic miracle" of the late 1960s and early 1970s as well as the less-dramatic increase in real wages in agriculture and other sectors of the Colombian economy suggested that these two economies might be on the verge of a tighter labor market and continuing wage increases (Pfefferman and Webb 1983; Berry n.d.). In Colombia, urban distribution did in fact improve over at least the latter part of the 1970s.

This process of poverty alleviation, Latin American-style, was interrupted by the economic downturns since the mid-1970s, the difficult recoveries that followed, and their attendant social and political strains. The timing of the economic crises varied somewhat in response to country-specific policies and external shocks. The Southern Cone countries were already in trouble by the mid-1970s, while for most of the others, the onset was signaled by the international debt crisis of the early 1980s. The

2. In extrapolating the poverty index backward and forward from the base estimate for 1970, this rough estimate assumes that the relative price of the set of basic-needs goods and services that determines the poverty line did not change over time. The estimate also disregards any effects caused by the changing distribution of population between rural and urban areas (which have different poverty lines in a given country due to the different prices faced by families). The latter bias would suggest that the figures presented overstate the reduction in poverty incidence over time. Although imprecise, these figures suggest a very large total reduction from 1950 to the present if the trends prior to 1980 had continued.

3. If this extra period of growth had brought with it a significant tightening of the labor market, it might have been realistic to expect the income share of the bottom few deciles to rise (although perhaps not the bottom decile).

crises involved an array of difficulties: macroeconomic imbalances, hyperinflation and the resulting need to stabilize; imbalances in international payments calling for structural adjustment away from producing nontradables and toward tradables; and output losses associated with the need to stabilize and curtail imports. The results of this combination of events were rapidly falling absorption, real wages, and living standards. In an extreme situation like that of Peru, per capita income fell by 21 percent between 1974 and 1985, while real wages fell by over 50 percent (Verdera 1994; Edwards 1992). For Latin America as a whole, 1990 per capita output averaged 8 percent less than the 1980 level; per capita income had fallen by about 15 percent due to the negative shift in the region's terms of trade over the 1980s. Costa Rica, Chile, Peru, and Venezuela suffered particularly severe declines in per capita income in short periods of two to four years. Meanwhile, gross domestic product (GDP) per capita fell by more than 20 percent during the 1980s in Argentina, Venezuela, Peru, Bolivia, and Nicaragua (although Argentina and Venezuela regained some of that ground in 1991–1992). This sort of macroeconomic performance made it obvious that many countries would be “losers” during this period. The only countries that did not suffer a net decline in gross national income per capita between 1980 and 1992 were Colombia and Chile (in the latter case, because the recession hit earlier).

The debt crisis provided the impetus to induce or oblige the region to jettison its trademark import-substitution strategy for a more liberalized trading system and to move toward adopting the other elements of the now-standard package of reforms in labor markets, financial markets, and the public sector. Some countries had already taken significant steps away from the traditional combination of protectionism, overvalued exchange rates, and the resulting bias against trade. Colombia and Brazil had moved to encourage exports in the late 1960s. Colombia's adoption of a crawling-peg exchange rate ended the systematic overvaluation of earlier years. These approaches qualitatively resembled the East Asian practice of encouraging exports while continuing to protect against imports. Chile went much further when the regime of General Augusto Pinochet introduced the most free-market system in the region, including an import liberalization that lowered tariff rates to 10 percent by 1980. Although they were raised somewhat in the mid-1980s, tariffs averaged only 15 percent as the decade closed (UNCTAD 1992, 44). Argentina undertook an important liberalization episode between 1976 and 1982, in which the average effective rate of protection fell from 158 percent to 54 percent (Gelbard 1990, 46). In the second half of the 1980s, most Latin American countries initiated significant reforms that varied in detail and timing but had few if any precedents in the developing and developed worlds.

The 1990s have promised better things. Although per capita output in 1995 was still a bit below that of 1980 and per capita income nearly 10

percent lower, the regional growth rate through 1995 was close to 3 percent—hardly dramatic but enough to edge per capita incomes up by 5 percent since 1990 (CEPALC 1995, 49, 50). A few strong performers—especially Chile and Argentina for a few years—have created the hope that other countries will be able to follow suit and that the region as a whole might get back to the healthy growth rates of the 1960s and 1970s. Some of the return of optimism is based simply on the better growth performance of the early 1990s. Another part is based on the dramatic return of capital, both capital that had previously flown and new foreign capital coming in (Culpeper 1993). Other sources for hope include Mexico's entry into the North American Free Trade Agreement (NAFTA) and Chile's planned entry; the expectation that other Latin countries will benefit from membership in a free-trade bloc; and the general belief that the currently more market-friendly economic policies represent a change for the better in comparison with those of the period before the crisis.

How well-founded are these hopes? Would a return to growth under the new more open economic regime bring a quick reduction of poverty and a gradual decline in the historically high levels of inequality characterizing this part of the world? This opinion is a possible implication of the view that inequality tends to rise with recession and fall with prosperity (see Morley 1995). What policies will be most important for achieving growth while alleviating poverty rapidly? Dealing with Latin America's unnecessary poverty (unnecessary because its relatively high average level implies that little poverty would exist if the income share of the bottom few deciles were not so low) has been made more urgent due to the economic crisis of the 1980s and the resulting sharp declines in per capita income.

While many analysts expect market-oriented reform packages in general and trade liberalization in particular to improve the growth performance of less-developed countries, predictions regarding their employment and distributional impacts have varied widely and been less positive on balance. The main source of concern is not the predictions of the theory, which are ambiguous in any case, but the empirical evidence on the aftermaths of liberalization experiences around the world. The transition toward market economies in the Eastern European countries appears to have led to rapidly widening income inequality (Milanovic n.d.). Less-dramatic market reforms have frequently been accompanied by widening gaps elsewhere, including some industrialized countries as well as a number in the developing world (Berry and Stewart n.d.).

This article will focus on how labor-market outcomes and especially the distribution of income have been related to economic policies and events in Latin America over the past twenty years. The immediate *raison d'être* is the accumulating evidence that market-friendly policy shifts have been systematically associated with an abrupt and significant

deterioration in income distribution. Striking increases in inequality have occurred concurrently with market-oriented policy packages in seven of eight countries to be discussed here in some detail. Although it is too early to tell what has happened or is happening in some of the other countries and it appears that Costa Rica has avoided this unhappy outcome, the regional record thus far makes it clear that any optimistic expectations about the distributional impact of the reform package should be discarded. The main question for a given country is whether implementation of such a reform package will or will not be accompanied by a large negative shift in distribution. A neutral outcome should be cause for satisfaction. The pivotal underlying question is whether the observed association between reform and increasing inequality is causal. If so, it is urgent to ascertain which components of the policy package are most responsible for the outcome. It is to be hoped that they are not the ones most likely to contribute to a strong growth performance.

This article will not dwell on the implications of the end of the debt crisis and the policy shifts made to encourage economic growth. Whether growth will or will not be rapid (say 5 percent per year for the region) is tremendously important because even a fairly severe worsening of income distribution over the medium term might not be too difficult to weather if average incomes rise fast enough to spread some of the fruits of growth to those at and near the bottom of the income pyramid. But it would be imprudent to take for granted a growth rate rapid enough to push distributional concerns into the background. One reason for caution is that most of the impressive growth performances in the third world have taken place in somewhat less market-friendly contexts, with Hong Kong and Chile since 1985 being perhaps the only notable exceptions. Another reason is the obvious problem that a number of Latin American countries have been suffering in the management of their exchange rates, the continuing proclivity toward overvaluation, and the resulting sluggish and erratic regional growth—reaching 3.5 percent in only one of six years in the 1990s. Finally, despite the newfound access to foreign capital, gross domestic investment has not yet regained its pre-crisis level of about 25 percent. All these problems might be substantially resolved within five years or so, but the grounds for such an expectation are not strong. Thus the prudent response is to take seriously the possible implications of any sharp deterioration in distribution, along with the other unwelcome evidence that temporary jobs, part-time jobs, and job insecurity in general are growing features of labor markets in the region.

Before turning to the empirical evidence on the timing of shifts in income distribution in Latin America and the hypotheses suggested by that timing, I will review some of the current interpretations of negative trends in distribution and other worrisome aspects of labor-market outcomes in this region and other parts of the world.

EXPLANATIONS FOR NEGATIVE DISTRIBUTIONAL TRENDS

Trends in inequality in Latin America and in developing countries generally are only partially understood due to deficient databases and limited quantitative analysis. The prominent hypothesis set forth by Simon Kuznets in 1955—that distribution typically worsens and then improves over the course of development—has been supported (according to most interpretations) by the labor-surplus model (Fei and Ranis 1964). It suggests a worsening of inequality while labor remains in surplus but improvement when a country's labor market begins to tighten up (Berry 1983; Fields, 1980). Cross-sectional studies have generally supported the Kuznets idea (Adelman and Robinson 1989), although the over-time studies in developing countries have produced ambiguous results (Fields 1991). Because the income levels of most Latin American countries fall into the middle or upper part of the range for developing countries, Kuznets's theory would suggest declining inequality over the remaining phases of their development.

Among structural features, several have received some attention, including the distribution of agricultural land and other productive assets (Loehr and Powelson 1981), the distribution of education (Ram 1989), the size structure of firms, and the degree of openness to international markets (Bourguignon and Morrisson 1989; Fields 1984). It is well recognized that the speed and pattern of technological change could affect distribution significantly (Fei and Ranis 1964). Less analysis has been conducted of the impact of economic cycles in less-developed countries than in developed ones, partly because the kind of cycle prevalent in the industrialized world has not generally existed in a similar form in the less-developed countries. Morley's recent work (1995), however, advances this line of research for Latin America and the Caribbean. While structural and exogenous factors have been heavily emphasized as determining levels and trends of inequality, confidence appears to have grown over the years that policy can also play an important role. For example, Irma Adelman and Sherman Robinson believe that although early-stage worsening is inevitable, what happens thereafter depends a great deal on policy (1989, 1961). Gustav Ranis has argued that the stellar performance of Taiwan in avoiding early-stage worsening and achieving improvement in the middle stages of development owes much to policies strongly supporting agricultural and rural nonagricultural growth in a small-farm setting as well as labor-intensive exports (Ranis 1978, 397).

The central concern of this article is the impact on distribution of the market-friendly policies adopted in varying degree by most Latin American and Caribbean countries over the last decade or so, including liberalization of trade and foreign investment, privatization and general downsizing of the public sector, and labor-market reforms. My main

interest is the more lasting impacts of policies. A major challenge in interpreting the Latin American record is to distinguish which effects are short-term and which will persist.

The possible impacts of trade policy have been widely discussed. The view that freer markets generally increase inequality, especially popular among non-economists, has been countered by the basic theory of Eli Heckscher and Bertil Ohlin that freeing of trade should shift factor demand in favor of unskilled labor and agriculture and thereby improve the distribution of income (see for example Krueger 1988). At the empirical level, a major debate has occurred in the United States over whether increased imports are mainly responsible for the increase in wage differentials observed since 1975 (Katz and Murphy 1992; Bound and Johnson 1992). Adrian Wood (1994, 1995) has argued that trade with labor-abundant developing countries hurts unskilled workers in industrial countries. Interpreted within the Heckscher-Ohlin framework, this finding suggests a positive effect on the incomes of unskilled workers in less-developed countries. But important economies of scale in the commercial and financial aspects of international trade, which help to explain why large firms dominate that trade in many sectors, work in the opposite direction. Because a plethora of evidence indicates that capital intensity is positively related to firm size (Liedholm and Mead 1987), one would expect globalization, in giving an edge to larger firms, to raise the capital intensity of exporting industries. The resulting upward push on the returns to capital and downward pressure on those to labor would tend to offset the effects of factor reallocation among industries (the Heckscher-Ohlin effect). Finally, as will be noted in the country discussions in this article, one might anticipate different results from freer trade depending on the surrounding macroeconomic conditions, particularly the level of the exchange rate.

Symmetrical with simple trade theory is the proposition that foreign investment should improve the functional distribution of income in the host country by raising the ratio of capital to labor and hence the ratio of wages to returns to capital. Gordon Hanson and Robert Feenstra (1994), who linked foreign investment to an observed widening wage dispersion between higher-skilled and lower-skilled workers in Mexico, are thinking of a different mechanism in which activities shift from the source country to the host country when the capital flows from the former to the latter are less capital- and skill-intensive than the average in the source country but more capital- and skill-intensive than the average in the host country. As a result, the capital and skilled-labor share of income rises in both countries.

Much of the literature on developed countries suggests that unions, minimum wages, and other types of labor-market legislation usually narrow earnings differentials, either by preventing the exploitation of

relatively undefended workers or by preventing differences in ability from being reflected in earnings levels. This view is also present in the literature on less-developed countries but contends with the position that such protection increases the inequality of labor income because its coverage is typically limited to a small labor elite. The impact of such protection on overall distribution is more complicated, depending in part on how much of the rents taken by protected labor comes at the expense of capital (and which segments of capital owners) and how much at the expense of the rest of labor. The strength of this argument presumably depends on the size of the protected group, which tends to increase with the level of development. Morley's conclusion that cutting minimum wages in the course of adjustment in Latin America worsened income distribution and poverty (1995, 160–63) and the similar results reported by Lustig (1996) make it evident that this issue merits serious attention, as does the evidence to be reviewed here from Chile, Argentina, and other countries.

Predictions about the distributional impacts of financial reforms tend to parallel those for labor reforms. One view is that a better functioning market will improve the access of smaller firms previously excluded by the oligopolistic character of the market and by the high rents created by the legislated negative real-interest rates, thus improving the position of smaller firms. This outcome would in turn raise the demand for labor (because small firms are relatively labor-intensive) and thus improve income distribution (Fry 1988, chap. 7). The less optimistic prediction is that although such positive effects may occur, they will be outweighed by the loss of credit schemes targeting smaller firms (World Bank 1991).

Because most public-sector employees are middle-class and middle-income individuals, it is reasonable to assume that the direct effects of the shrinking of this sector will be felt mainly by the upper and middle deciles of the distribution. But if former public-sector employees "bump down" workers in lower-income categories, the ultimate (general equilibrium) effect on earnings distribution might be more complicated. And the overall impact of downsizing will clearly depend on whose jobs are cut: at one extreme might be surplus bureaucrats or workers in inefficient state enterprise; at the other, the staff of rural health clinics or primary schools.

While many structural factors undoubtedly play a role in the evolution of income distribution over the long term, some of these are unlikely to underlie the marked recent changes witnessed in many Latin American countries, such as educational policy and performance, demographic trends, and small-enterprise policy and performance. Yet trade policy, labor policy, the size and character of the public sector, technological change, and the business cycle are all obvious possible factors in those distributional shifts.

DISTRIBUTION AND POVERTY EFFECTS OF THE POLICY REFORMS:
EVIDENCE FROM COUNTRY EXPERIENCES

Although it is difficult to sort out the effects of policy changes from those of the crisis itself and from those of longer-run structural trends predating the crisis years, the clear preponderance of negative shifts in income distribution around the time when policy reforms were introduced is unmistakable and neither readily nor fully explicable by other obvious candidates such as stage of the cycle, technological change, rate of inflation, and so on. The evidence to be reviewed here comes from Argentina, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, and Uruguay. No country with satisfactory data offers clear evidence of the opposite pattern. Costa Rica appears to be an exception to the general pattern, however, in that its distribution probably remained roughly constant during the reform period. Preliminary analysis for Jamaica indicates that expenditure distribution improved from 1991 to 1993 as major trade liberalization was being initiated, and thus Jamaica may turn out to be another "exception." Several other countries have undertaken the reform package too recently to generate useful data, and for still others, the data are too questionable to allow useful conclusions.⁴ My discussion will be organized around groups of countries whose experiences appear to share a number of relevant characteristics.⁵

4. Most of the data used to measure distribution and its changes over time come from household surveys. Sometimes they are national in scope, but more often they refer to urban areas or just the main metropolitan area. Usually they refer to income and only infrequently to consumption, an unfortunate pattern because consumption figures are usually more reliable. When available, the distribution of income among families ranked by per capita family income is used. But frequently time series are not available on this basis, and one must therefore revert to a simple ranking by total family income. The database could be better in other respects also. Judgment as to which countries have satisfactory information for purposes of this analysis depends on the consistency over time of the way the data are collected, the level and stability of apparent completeness of income reporting as judged by comparison with national accounts data on national income, and the extent of internal inconsistencies reported by analysts using the data. Valuable reviews of distribution data for many Latin American countries appear in the ECLAC series *Antecedentes de la distribución del ingreso* for various countries. Several countries have been excluded from consideration here for want of adequate quality data. For those included, specific data problems are brought to the reader's attention when relevant.

5. Although the true and the reported trends in distribution could differ substantially in almost any of the countries discussed here, the conclusion that a generally significant increase in inequality has occurred may be defended on several grounds. First, although in many cases the conceptually preferable series is not available (meaning distribution of household consumption among families ranked by per capita consumption, for the whole country, and with no evidence of significant underreporting), most prior studies show that the evolution of measured inequality over time is not too sensitive to differences in the measure used. Second, because the estimated increases in inequality are major, they could be a result of bad data only if they contained very major biases, working consistently in the same direction. Third, the significant biases suspected to be present in a somewhat systematic way—an increasing but ill-reported capital share, and a tendency for relative prices to move in favor of higher-income groups as the relative price of food rises and that of luxuries

Chile, Argentina, and Uruguay

These Southern Cone countries differ from the rest of Latin American and Caribbean countries in that all three introduced significant liberalizing economic reforms in the early or middle 1970s, before similar efforts were undertaken elsewhere in the region.⁶ These cases thus offer a longer period for possible impacts of the reforms to have been felt. Argentina and Chile suffered unusual worsening of income distribution, with high unemployment characterizing the period in Chile and falling labor incomes for the lower deciles the dominant feature in Argentina. Uruguayan data are somewhat suspect in terms of quality or comparability over time, but they too suggest a major deterioration in distribution.

Chile / Chile's experience is the most important from my perspective in that the policy experiments date well back in time, and despite some vacillation, their basic direction has been maintained subsequently. Two severe crises have occurred since 1970. The first appeared at the beginning of the Pinochet government and peaked in 1975, when austerity measures were applied and GDP fell sharply. The second crisis occurred in 1982–1983 as a result of a series of internal and external factors: overvaluation of the peso due to nominal pegging of the exchange rate, liberalization of the capital account, financial manipulation and speculation in a setting of near-total deregulation, together with the external shocks then laying the groundwork for the international debt crisis (Meller 1992, 31). After both collapses, growth resumed quickly and strongly, but their impact was enough to hold average annual growth between 1970 and 1992 to only 3.2 percent, despite an impressive 6 percent rate since 1984. In the years since 1973, the Chilean economy has undergone the most radical “policy reforms” of any country in the region.

As of the late 1960s, inequality was a little less severe in Chile than in most other Latin countries.⁷ The data for Greater Santiago indicate a notable improvement during the administration of Salvador Allende, followed by a reversal so acute that by 1976, inequality in household income

falls—both suggest that the data may understate the increases in inequality rather than overstate them. Thus although the accuracy of the picture painted for each individual country is uncertain, the likelihood that the overall trend identified is a statistical illusion is, in my judgment, almost nil.

6. As noted, Brazil and Colombia had already taken serious steps to encourage exports by the late 1960s, but they had not yet undertaken any significant liberalization of imports or imposed changes on the institutions governing the labor market.

7. Comparable 1967–1968 data from the study by ECIEL (Estudios Conjuntos sobre Integración Económica Latinoamericana) revealed a Gini coefficient for the distribution of income among households of .45 in Santiago, compared with .49 in Lima, an average of .47 in four Colombian cities, and an average of 0.43 in two Venezuelan cities (Musgrove 1978, 36).

was markedly worse than in the period before Allende (table 1)⁸ and no longer superior to the levels in most other Latin countries. Less frequent but possibly more comparable data on the distribution of consumption among Greater Santiago households show one of the steepest deteriorations ever recorded statistically in a developing country, occurring primarily between 1969 and 1978 but continuing through the 1980s (table 2). Because it is reasonable to assume that distribution at the end of the Allende years was at least marginally better than that of 1969 (to which the data refer), it would appear that the worsening was dramatic over the first five years after Allende, consistent with the evidence on the household distribution of income. If the national trend in consumption distribution resembled that of Santiago, the consumption decline in the bottom quintile of households from 1969 to 1978 would have amounted to 40 percent (given that average private consumption per person fell by about 13 percent, and the share of the bottom quintile by 32 percent).⁹ Patricio Meller reported an increase in poverty from 17 percent in 1970 to 45 percent in 1985, with poverty lines not more than 6 percent apart (Meller 1992, 23). Even if this reckoning may exaggerate the trend somewhat, poverty in Chile undoubtedly increased sharply.¹⁰ A special feature of the Chilean experience was the combination of make-work policies for low-income groups and targeted poverty redressal that seems to have limited the most serious poverty impacts of these negative trends in income.¹¹

A number of the policy steps taken by the Pinochet regime would be expected to foster inequality. The extensive privatization, carried out

8. Most of the published distribution data refer only to Greater Santiago, but they are probably fairly representative of the country, as suggested by the similarity of measured inequality for the few years for which both city and national data are available.

9. The short-run movements of the various distributions coincide rather closely. The main question is, how large a total shift occurred between the pre-Allende period and the late 1980s, when inequality began to diminish? The consumption distribution figures, important because of their presumed greater accuracy than income data and because they should be a good measure of welfare, show an incredible jump of 12 percent in the Gini coefficient (from 0.31 to 0.42). The household distribution series suggests an increase of about 5 points between 1970 (which seems representative of the late 1960s, judging by the series for income recipients) and 1987–1989. Over the same period, the Gini of the more interesting household per capita distribution rose by about 6.5 points. The probable increase in the Gini of the most interesting distributions was thus somewhere between important (6 points) and dramatic (12 points).

10. The high incidence of television sets (over 70 percent), refrigerators (49 percent), radios (83 percent), and bathrooms (74 percent) even in the lowest quintile (as found by Meller 1992, 25) raises questions about the 45 percent figure. Some of these items probably became much more prevalent due to the low prices that came with the import liberalization around 1980. In any case, it seems safe to say that poverty, as normally measured, was substantially more widespread in the late 1980s than it had been in 1970 (CEPALC 1990).

11. A. R. M. Ritter has pointed to the rapid decline in the infant mortality rate as reflecting in part the increased coverage and careful targeting of some social expenditures toward the health and nutrition of expectant mothers and young children (Ritter 1992, 27; see also Cornia, Jolly, and Stewart 1987, 110–11).

TABLE 1 Summary of Distribution Data for Chile: Gini Coefficients and Quintile Shares, 1957–1991

Year	Greater Santiago					Chile					
	R ^a (Gini) (1)	HHY ^b		HPCY ^c		HHC ^d Gini (6)	HPCY ^c				
		Gini (2)	Share of Bottom		Gini (4)		Share of Bottom		Gini (7)	40% (8)	HHY ^b Gini (9)
			40% (3)	40% (5)			40% (8)				
1957	.48										
1958	.50										
1959	.50										
1960	.48	.459	13.69								
1961	.51										
1962	.51										
1963	.50										
1964	.48										
1965	.49	.475	12.87								
1966	.49										
1967	.52										
1968	.52	.498	11.70								
1969	.52					.312					
1970	.52	.501	11.50	.434							
1971	.50										
1972	.46										
1973	.46										
1974	.46	.450	12.78	.423							

Sources: Col. 1: CEPALC (1987). Whereas the other figures in this column were estimated by CEPAL's Division of Statistics and Quantitative Analysis, an alternative figure (0.49) was presented for 1973; it was estimated by the "Programa de Actividades Conjuntas," ELAS/CELADE. Cols. 2–5 are taken from Riveros (n.d.). It remains to be clarified that the definitions given here are the correct ones. The figure for 1988 would seem to be a typo, given that the bottom 40 percent share rises rather than falling in that year. Col. 6 comes from Meller (1992, 22). Cols. 7, 8, and 9 are calculated from quintile data presented in Ritter (1992, 81).

NOTE: I assume the figures of Cols. 1, 2, and 4 are based on ungrouped data.

^a R refers to the distribution of income among income recipients.

mainly during the severe recession of 1972–1974, led to acute concentration of ownership and the formation of large conglomerates (Meller 1992, 27). Curtailment of agricultural credit to small farmers led to land concentration as well. Preferential financing to small entrepreneurs was cut back. Perhaps most important was the reform of labor legislation, which relaxed regulations on dismissing workers, suspended unions (until 1979, when they were again authorized to operate but under many restrictions), greatly reduced the social security tax paid by employers, and reduced other non-wage costs as well. After the second crisis (1981–1983),

INCOME DISTRIBUTION IN LATIN AMERICA

TABLE 1 Summary of Distribution Data for Chile: Gini Coefficients and Quintile Shares, 1957–1991 (continued)

Year	Greater Santiago						Chile		
	R ^a (Gini) (1)	HHY ^b		HPCY ^c		HHC ^d Gini (6)	HPCY ^c		HHY ^b Gini (9)
		Gini (2)	Share of Bottom 40% (3)	Gini (4)	Share of Bottom 40% (5)		Gini (7)	Share of Bottom 40% (8)	
1975	.48	.471		.413					
1976	.53	.538		.489					
1977	.52	.526		.476					
1978	.51	.520		.466	10.77	.390	.485	4.55	.440
1979	.51	.518							
1980		.526	10.28						
1981		.522	11.24						
1982		.539	9.95						
1983		.542	10.07						
1984		.555	9.33	.515					
1985		.532	10.13	.501					
1986		.539	10.00	.500					
1987		.531	10.22	.495					
1988		.573	10.91	.501	10.91	.428	.519	4.23	.487
1989		.552	11.61	.500	9.95		.522	4.6	.454
1990					10.26		.514	4.9	.460
1991					11.36		.488	5.5	.430

^b HHY refers to the distribution of household income among households ranked by household income.

^c HPCY refers to the distribution of income among households ranked by per capita household income. Gini coefficients calculated from quintile distribution presented in Ritter (1992, 81). The true Ginis, based on the ungrouped information, would be a couple of points higher.

^d HHC refers to the distribution of consumption among households ranked by household income or consumption. The phrasing in the source (Meller 1992, 22) suggests that families are ranked by family income (not per capita income or consumption). Data are presented only for the shares of the bottom and middle 40 percent groups and the top quintile. Accordingly, they underestimate the Gini coefficient considerably. It is possible that the ranking criteria differed among the years for which the figures are reported.

wage indexation was abolished and replaced by a real-wage “floor,” specified as the real wage prevailing in 1979. Taxes on wealth and capital gains were eliminated, profit tax rates substantially reduced, private banks and other debtors bailed out with public funds,¹² and public employment

12. These bailouts (termed euphemistically as “unregistered central bank subsidies”) were of major proportions, averaging over 4 percent of GDP from 1982 to 1985 (Meller 1992, 60). They undoubtedly contributed significantly to the increase in inequality over this

TABLE 2 *The Quintile Distribution of Consumption among Households in Greater Santiago, 1969, 1978, and 1988 (Percent of Total Consumption)*

Quintile	1969	1978	1988
1	7.6	5.2	4.4
2	11.8	9.3	8.2
3	15.6	13.6	12.6
4	20.6	21.0	20.0
5	44.5	51.0	54.9
Total	100.1	100.1	100.1

Source: Ricardo Ffrench-Davis, "Economic Development and Equity in Chile: Legacies and Challenges in the Return to Democracy," paper presented to the conference "The New Europe and the New World: Latin America and Europe, 1992," Oxford University, Sept. 1992, p. 16.

greatly curtailed. Unemployment rates (for Greater Santiago) rose to unprecedented levels, in the neighborhood of 20 to 25 percent, depending on the definition used. Only in 1989 did this rate fall below 10 percent. Since then, unemployment has declined continuously, to just 5 percent in 1992 (ECLAC 1992, 42). Coverage of the minimum wage was restricted considerably, and it fell in the 1980s. Fringe benefits were greatly reduced from their 1970 level, and public expenditure per capita in health care, education, and housing also decreased. According to Ricardo Ffrench-Davis, average wages in 1989 were still 8 percent lower than in 1970 (1992, 15). As of 1992, they were probably marginally above the 1970 level,¹³ a slow recovery indeed.

One feature of the period after 1975 that probably exacerbated income inequality was an increase in the relative income of persons with university education vis-à-vis those with less schooling. Donald Robbins's (1994) analysis indicates that the increase resulted primarily not from shifts in the composition of employment among industries but occurred as a "within-sector phenomenon." It might reflect a greater relative pay-off to higher education under a more open economy or the dismantling of union power and changes in labor legislation in Chile.

Argentina / Until the early 1980s, Argentina experienced a long period of minimal growth, totaling only 4 percent between 1974 and 1988, with a

period by damping the effects of the crisis or recession for capital owners at the time that wage and employment trends were hitting workers hard. Little of the impact of the bailouts is likely to be reflected in the household survey data, however, given the normally severe underreporting of high capital incomes.

13. If the series cited by Ffrench-Davis (whose source of wage data is the Instituto Nacional de Estadística) is consistent with that reported by ECLAC (1992, 44), which shows an increase of 11.7 percent between 1989 and 1992, then the 1992 figure is 3 percent above the one for 1970.

dramatic drop of 13 percent at the heart of the crisis (1980–1982). Accompanying this macroeconomic failure was a sudden large increase in inequality, with the Gini coefficient among income earners in Greater Buenos Aires rising from about 0.36 between 1974 and 1976 to somewhere within the range of 0.41 to 0.46 from 1978 on (Marshall n.d., tt. 4A, 4B).¹⁴ Since that time, the level of concentration has fluctuated without clear trend: after falling in the early 1980s, it peaked temporarily in 1989 (under intense inflation) and then fell back to the previous level from which it has varied little. The share of the bottom 30 percent has continued to fall somewhat, however; and from an average of 11.6 percent from 1974 to 1976, it dropped into the 10.5 range in the early 1980s and was down to 8.5 percent by 1994.¹⁵

One apparent determinant of short-run movements in the level of earner inequality is the real exchange rate. Its role is suggested by the short-run inverse relationship, from 1970 to 1987 at least, between the real exchange rate (Argentine currency per dollar) and both the real wage and the ratio of the real wage to per capita income (Berry n.d., 31). Given the prominence of wage goods among Argentina's exports, it is plausible that an increase in the real exchange rate (through devaluation, for example) would, *ceteris paribus*, lead to a decrease in the real-wage rate and a worsening of the distribution of income. But it is clear that the longer-run worsening of Argentine income distribution cannot be fully explained by this link with the real exchange rate because net worsening occurred over periods without any net increase in the real exchange rate. Other factors must have been at work. It is possible that structural changes wrought by the change in trade policy worsened inequality. The liberalization episode just referred to led to a drop of 11 percent in manufacturing output between 1976 and 1982 and also to a reduction in manufacturing employment of 37 percent, while output per worker rose by a striking 41 percent (Gelbard 1990, 54). Many small and medium firms exited (closed their businesses), while many large firms cut employment, increased capital stock, and improved technology. It is also possible that the huge capital flight from Argentina played a role by reducing the capital available to complement the labor force. Changes in labor policy almost certainly

14. Data on the distribution among households in this same region of Greater Buenos Aires and among income earners in Argentina as a whole seem to have moved in parallel fashion with those just cited for those time periods when they are available, which do not go much beyond 1980. As a result, it has been necessary to use the Buenos Aires earner data, but with considerable confidence that they do not misrepresent the trends actually occurring among households in Argentina as a whole (Berry n.d.).

15. Fiszbein's figures on the distribution of income among households (cited in Morley 1995, 30) show a sharp increase in the Gini from 0.40 in 1985 to 0.45 in 1988. The figures cited by Psacharopoulos et al. (1993) show a big increase between 1981 (0.41) and 1989 (0.48). These patterns do not differ greatly from the earner distribution trends soon to be presented by Marshall (n.d.).

played a significant part: most of the increase in inequality since the mid-1970s occurred between 1976 and 1978, when the new military government fixed wages, repressed trade unions, eliminated collective bargaining and the right to strike, and reformed the labor code to the detriment of workers (Cortés and Marshall 1993). Unlike the situation in Chile, however, Argentina did not experience high levels of unemployment at this time.

Although the tearing down of labor-market institutions might not be an obvious source of worsening in countries with small “protected” segments of the labor force and large unprotected ones, such an effect is plausible in relatively advanced and highly urbanized countries like Chile and Argentina. It might be especially pronounced in an economy where large rents come from a high-productivity mining sector (as in Chile) or an agricultural sector (as in Argentina) and where the public sector and other service activities have been living off those rents. When the public sector shrinks and wages are more closely linked to the marginal product of labor in the private sector, one might expect wages to fall more in such a setting than in many other types of economies.

Uruguay / Its story has fascinating similarities and differences with Chile and Argentina. Protectionism and monetary mismanagement have prevailed over most of the postwar period in Uruguay, and average growth has been very slow. For such a small economy, Uruguay has been relatively closed, with the ratio of exports to GDP sometimes as low as 10 to 14 percent. Economic stagnation and high inflation gradually engendered social and political instability in the 1960s, leading eventually to a military coup in 1973. The new economic team installed in 1974 introduced a program of price stability, relaxed some of the existing controls on foreign trade and capital movements, and liberalized labor markets (Allen and Labadie 1994, 10). Their aversion to strikes showed in their reaction to a general strike called by the Confederación Nacional de Trabajadores (CNT). The union was quickly disbanded, employers were given the right to fire anyone who did not return to work, and twelve thousand public-sector workers and four thousand private-sector workers were fired (Allen and Labadie 1994, 12). Neither the union movement nor collective bargaining played any visible role for the next ten years. Meanwhile, import licensing and quotas were abolished between 1974 and 1977, the level and dispersion of tariffs were reduced, and export taxes on agricultural goods were cut. Growth from 1974 to 1978 averaging about 4 percent per year was led by export-oriented industrial activities in clothing, leather goods, shoes, and fishing (Favaro and Bension 1993, 195). The investment rate rose from 10 to 19 percent. The Uruguayan deficit remained high, however, due to increased spending on the military and public-investment projects, which offset decreases in wages and transfers. Attempts to re-

strict monetary growth were canceled out by inflows of cash, especially from Argentina. The initial trade reforms of 1974 were followed by a trade liberalization that attempted to simplify the tariff structure and reduce the level of protection gradually to a target of 35 percent. But the plan to shift resources toward tradables was not fulfilled because the impact of the trade liberalization was more than offset by an exchange-rate overvaluation deemed necessary as part of the stabilization effort.

Defeat by a significant margin of a 1980 referendum on constitutional change called by the military marked the first step toward the reopening of the Uruguayan political system (Allen and Labadie 1994, 14). Unions began to reappear as it became clear that the military wanted to hand the reins over to the civil society, and the new movement proved at least as militant as the old. Wage councils were reinstated in 1985, along with the return to democracy (Allen and Labadie 1994, 15). A couple of years of fast recovery were again followed by stagflation. John Williamson (1990) cited the lack of deregulation in the labor market—where firing again became all but impossible, payroll taxes heavy, and trade unions strong—as a possible source of the still sluggish growth performance.

It seems clear that inequality increased in Uruguay after the early 1960s, but neither the timing nor the degree nor the characteristics of the worsening are well understood. The data for household income distribution in Montevideo suggest a major increase between the early 1960s (Gini around 0.37) and 1984 (Gini of 0.48). But the pattern is not continuous (Berry 1995, t. 6), and some of the early 1980s observations might be outliers. A conservative guess, based on comparing the average of the three figures for the period 1961–1962 to 1967 (0.39) with that of the three over 1980–1984 (0.44), would be an increase of 5 or 6 percent. The reported inequality of earned income among Montevideo households rose rapidly over the 1970s, but the sources consulted offer no observations for the 1980s.

The 1970s are particularly relevant because of the important policy changes introduced at that time. Most evidence points to a substantial increase in inequality during these years in Uruguay, including the precipitous fall in wages and the apparently large widening in earnings differentials across educational levels. Edgardo Favaro and Alberto Bension suggest that the opening of the economy, reduction in the relative size of the government, and the prohibition of labor union activity all contributed to increasing inequality (1993, 276). They believe that the behavior of the labor market during previous decades was greatly influenced by the unions and by the state's participation in the wage boards in determining wage levels and as employer of a significant share of the labor force. According to Favaro and Bension, these factors favored a more uniform wage structure than would have resulted from market

forces, created disincentives for more-skilled workers, and led to considerable emigration by this group. The Uruguayan experience has been widely interpreted as one in which, whatever the impact on distribution, labor-market rigidities and imperfections have been a significant drag on economic growth.

Mexico and the Dominican Republic

Mexico and the Dominican Republic did not undertake major policy reforms until the 1980s. In each case, the economic crisis also hit in the early 1980s.

Mexico / The Mexican experience is of special significance given its status as the first developing country to enter a free-trade area (NAFTA) with large developed countries. Mexico grew rapidly during the 1970s (second only to Brazil among major Latin American countries) but then ran afoul of its debt buildup and achieved an average growth of only about 2 percent since 1980, with the 1990s performance remaining in that range despite major policy reforms in the late 1980s. In contrast with Brazil, whose balance of payments was hurt by the oil price hikes, Mexico eventually benefited from them. But by the late 1970s, Mexico was attempting to maintain a level of expenditures inconsistent with its tax effort and turned to heavy foreign borrowing to make up the difference. The debt crisis brought a decline in output of about 8 percent, a serious bout of inflation, and a plummeting in real wages of about 30 percent between 1982 and 1986. The slow growth and instability of the early 1990s (including the financial crisis of 1994) have been associated with a large capital inflow and the resulting overvaluation of the exchange rate.

Mexico's industrial development was nurtured under a rather typical import-substitution policy regime that provided moderate levels of effective protection for manufacturing and included sector-specific programs for infant industries that increasingly emphasized export targets and price competitiveness (Ros 1994, 208). Policies were overhauled in the 1980s in response to the debt crisis. Liberalization was undertaken in the late 1980s. Despite the severe macroeconomic turbulence, current trade patterns and industrial structure show clear continuity with past trends. Some have attributed this "smooth transition" to a combination of successful import substitution in the past and the fact that the debt crisis and declining terms of trade forced macroeconomic policy to provide unprecedented levels of exchange-rate protection, which facilitated industrial firms' adjustment to a more open economy (see for example Ros 1994, 209).

During Mexico's long period of rapid growth prior to the debt crisis in the early 1980s, it appears that most wages rose substantially

(Gregory 1986) and that inequality either stayed about constant or fell (as argued by Hernández-Laos and Córdoba 1982). Alarcón and McKinley (1994) reported that the Gini coefficient of total household income (grouped data) rose from 0.43 in 1984 to 0.48 in 1992, most of the increase having occurred by 1989 (see table 3).¹⁶ The main winners were the top decile, whose share in total household distribution rose from 32.8 percent in 1984 to 37.9 percent in 1989 (Alarcón 1994, 87).

The increased inequality among Mexican households resembles that observed in other countries in the region. What is unusual about the Mexican case is the dramatically increased concentration among wage and salary earners. Their Gini coefficient rose moderately from 0.42 in 1984 to 0.44 in 1989, then leapt to 0.52 in 1992 (Alarcón and McKinley 1994, t. 5), probably one of the highest Gini coefficients of wage income observed anywhere. The variance within virtually all groups exploded between 1989 and 1992, but especially among those with higher levels of education, in the border states, in urban areas, in export manufacturing industries, and (surprisingly) among union workers (Alarcón and McKinley 1994, t. 4). Income variance did not increase among "poor workers," including domestic servants, helpers and unskilled laborers in industry, street vendors, and urban agricultural workers (Alarcón and McKinley 1994, 18). But for the "elite occupations" at the other extreme (professionals, managers, supervisors), the Theil L indexes more than doubled.¹⁷

The group most clearly achieving a relative gain over the two periods was made up of those with higher education (Alarcón and McKinley 1994, t. 7). An independent source of evidence (data from the annual industrial surveys) indicates that the earnings gap between non-production and production workers in manufacturing, after a previous downward trend, has been widening since 1985. In the earlier phase, the ratio fell from nearly 3.0 in 1965 to a low of 1.85 in 1985; it then moved back up to about 2.2 by 1988 (Hanson and Feenstra 1994, fig. 3).

The Mexican story as currently understood exhibits a number of puzzles. The stresses of the crisis beginning in 1982 were severe and certain income gaps widened (such as that between poor and nonpoor states), yet the overall measured increase in inequality was modest according to the household distribution data. But the marked widening in wage dispersion between 1989 and 1992 and evidence of widening gaps between more- and less-skilled workers remain causes for concern. Has

16. Some evidence indicates that the number of super-rich has increased rapidly in Mexico. For example, only two Mexicans were included in *Forbes Magazine's* 1991 list of billionaires, but the 1994 list cited twenty-four. This evidence may mean that the data cited in the text understate the increase in inequality, given that household surveys essentially never include evidence from that tiny group of very rich families. Only after more detailed analysis using a wider range of methodologies will the Mexican story become clearer.

17. The Theil L index provides an alternative measure of inequality that is more sensitive to the share of lower percentiles than is the Gini coefficient.

TABLE 3 Indicators of the Distribution of Income among Mexican Households Ranked by Household Income (Grouped Data), 1984, 1989, and 1992

	1984		1989		1992	
	Share of Total Income	Gini & Psuedo Gini	Share of Total Income	Gini & Psuedo Gini	Share of Total Income	Gini & Psuedo Gini
Total	100.0	.429	100.0	.469	100.0	.475
Wages	46.9	.444	46.4	.430	45.5	.466
Profits	7.1	.468	10.2	.634	8.4	.613
Services	4.7	.427	6.5	.623	7.3	.635
Agriculture						
Livestock	10.4	.395	4.9	.257	4.5	.328
Nonmonetary	21.2	.390	22.6	.455	26.1	.429
Urban ^a		.407		.453		
Rural ^a		.403		.410		

Source: Alarcón and McKinley (1994, t. 2), except as noted.

NOTE: When households are ranked by per capita household income (individual data), the Gini coefficients for the country as a whole are .488 in 1984 and .519 in 1989. In the latter year, the corresponding Ginis for urban and rural areas are .499 and .442 respectively (Alarcón 1994, 87, 121).

^a Alarcón (1994, 112).

increased openness or the declining importance of traditional labor-market institutions or technological change played a role in these unwelcome trends?¹⁸

Hanson and Feenstra attribute the widening wage gap by skill level to the inflow of capital. Mexico's foreign direct-investment boom of the late 1980s was large in relation to the existing capital stock. The key idea in their interpretation is that a movement of capital from the North to the South (in this case, from the United States to Mexico) lowers the relative wages of unskilled workers in both countries because the activities transferred to Mexico when capital moves in that direction will be more skill-intensive than the previous Mexican average but less skill-intensive than the previous U.S. average. As predicted in the theory, the relative wage movement in Mexico has paralleled that observed for the

18. At least two econometric studies have addressed the relationship between trade liberalization and employment on the one hand and wages in the manufacturing sector on the other. Feliciano (n.d.) found no impact of liberalization on industry-level employment. Revenga (1994), using panel data covering 1984 to 1990 for medium to large plants, obtained a negative and significant coefficient for the impact of the reduction in tariff (or tariff equivalent) on employment. Although such studies are valuable in assessing the impact of liberalization on manufacturing, they do not provide an adequate guide to its distributional impacts throughout the economy.

United States. In Mexico the increase in the ratio of skilled to unskilled wages was largest in the border region—50 percent for both hourly and annual wages, according to Hanson and Feenstra (1994, 33).

The Dominican Republic / The economy of the Dominican Republic grew rapidly until 1977. The external crisis hit in the early 1980s and led to an adjustment program composed of fiscal, monetary, and exchange-rate elements that continued until 1986, by which time adjustment had taken place and growth returned. The new government in 1986 stimulated the economy through an ambitious program of public investment, which shrank real current expenditures and contributed to a drop in the real wages of government workers (Santana and Rather 1993, 54). After relative stability up until 1984, inflation broke loose. Just prior to the major devaluations beginning in 1984, a combination of overvaluation and declining terms of trade had pushed the current price ratios of exports to GDP and imports to GDP to low levels for the Dominican Republic (less than 15 percent for exports and less than 20 percent for imports). These ratios have soared to 30 percent or higher since that time. The constant price series have been less volatile.

Isidoro Santana and Magdalena Rather reported that after a small decline in inequality between 1976 and 1984 (the Gini apparently falling from 0.45 to 0.43), it jumped to 0.51 in 1989 (1993, 55). They blame inflation (among other things) for this deterioration. The timing indicates that the rising trade ratios may also have played a role.

Colombia and Ecuador

Colombia and Ecuador are relative latecomers to the market-friendly policy package. Both countries have pushed it vigorously only since the early 1990s.

Colombia / Colombia may be the only Latin American country to adopt the package without being pressured to do so by severe circumstances. Although the period since implementation is too short to provide definitive answers regarding the effects on the labor market of the *apertura* and other recent reforms, a sharp reversal of a previous (and perhaps unique) equalizing trend in the urban distribution of income seems to have taken place. If the negative trend apparent through early 1993 were to continue for a few more years, the accumulated worsening might match extreme cases like Chile and Argentina.¹⁹ Urban unemployment, however, has remained low by Colombian standards, although some industries have obviously been hurt by the import liberalization.

19. The statistical evidence is matched by a growing concern in Colombia that the new "model" is affecting income distribution adversely (Sarmiento 1993).

Since the late 1960s, Colombia's macroeconomic performance has also ranked among the best in the region. GDP growth averaged 4.4 percent from 1970 to 1993, second only to Brazil's 5.1 percent, and the Colombian economy was affected least by the debt crisis and accompanying recession. In the early 1990s (through 1994), growth has ranked a little above average for the region, about 3.5 percent per year. This creditable performance since the late 1960s has been based on several factors: generally good exchange-rate management since the switch to a flexible rate in 1967; a trade regime offering incentives for import substitutes and for exports; and a relatively prudent fiscal and monetary policy, under which fiscal deficits never reached the unsustainable levels of a number of countries in the region and monetary growth was accordingly more modest. Growth slowed in the early 1980s as a result of the Dutch disease effects of booms in coffee and foreign indebtedness between 1975 and 1982, as reflected in the real appreciation of the peso and a mini-episode of import liberalization around 1980. At this time, export promotion was downgraded not because of any explicit decision but out of short-term macroeconomic considerations. The deteriorating situation led to a rapid reversal of more than a decade of import liberalization. The economy became more closed, with the constant (1975) ratio of price imports to GDP falling from 22 percent in 1982 to 14 percent in 1984, then fluctuating between 16 and 18 percent through 1991 (Berry and Tenjo n.d., t. 2). Since the mid-1980s, industrial growth has renewed, but the presumably declining returns from the import-substituting elements of the model and the acute change in the external conditions facing the country led to a radical turnabout in policy in 1990–1991 and to adoption of a more explicitly outward-oriented strategy (Ocampo 1994, 145). The administration of César Gaviria (1990–1994) came to power committed to continuing and accelerating liberalization, which was accompanied by a partial freeing of exchange controls, more open access to foreign investment, and a liberalization of the labor market. The *apertura* was carried out quickly, although its effects on imports were delayed. Growth, which had recovered to an average of 4.5 percent between 1985 and 1990, fell to a low of under 2.5 percent in 1991, from which it has gradually accelerated to somewhere between 4 and 5 percent in 1993–1994. The fixed investment ratio (current prices), stable at 17–18 percent of GDP during most of the 1980s, fell to around 15 percent between 1991 and 1993. It is still too early to do more than guess at the growth effects of the new strategy.

As noted, it is fairly generally accepted that income inequality decreased in Colombia between the early 1970s and the 1980s, in urban areas and for the nation as a whole, for earners as well as households (Londoño 1989). An important part of the story is the unusually marked decline in earnings differentials across educational levels and between genders. These declines were especially concentrated in the late 1970s,

while the economy was still growing rapidly, and in the early 1980s, when it was not (Tenjo 1993). Rural earnings were also improving considerably at this time (Colombia, Ministerio de Agricultura y Departamento Nacional de Planeación 1990, 228).

My main concern here is with the period beginning in the late 1970s, when the Colombian economy went through a brief episode of liberalization lasting into the early 1980s, then a sharp reduction in openness followed by a gradual reopening through the rest of the 1980s and the abrupt apertura of the early 1990s. Labor-market reforms occurred mainly around 1990, although union power was clearly weakened by the recession of the early 1980s. Estimates of income distribution by Berry and Tenjo (n.d.) in three of Colombia's largest four cities (Bogotá, Medellín, and Barranquilla) reveal a significant lessening in inequality between 1976 and 1990, more striking among earners (whose Gini coefficient fell from 0.50 to 0.41) than among persons ranked by per capita family income (where the decline was from 0.52 to 0.46) (see table 4). Among earners, the relative income of the top decile to the bottom one fell from 29 fold to 19 fold. Inequality probably bottomed out in the late 1980s, after which it has increased sharply, especially that among earners (where the Gini coefficient rose from 0.41 in 1990 to 0.47 in 1993) but significantly also among individuals (Gini up from 0.47 to 0.51). For earners, the 1990–1993 period saw significant declines in the income share of the first six deciles (30.8 percent to 27.4 percent), while the only major gainer was the top decile (36.2 percent to 40.4 percent) (see Berry and Tenjo n.d., t. 4a). The biggest losers in percentage terms were the lowest deciles: the first decile saw its share fall by 23 percent from 1.93 percent to 1.48 percent, about the level of the late 1970s.

Trends in level of concentration for each of the major components of personal income parallel those of total income (Berry and Tenjo n.d., t. 5). The similar time patterns of the distributions of labor and business incomes suggest close links between the markets in which the two types of income are determined. The reversal of the former positive trend in the level of inequality mainly reflects the increasing concentration of business income.

Unfortunately, Colombia does not conduct systematic national household surveys that include rural as well as urban areas. Rural data available for 1988 and 1992 suggest little change in inequality between those two years (the Gini coefficients were 0.46 and then 0.45). But while urban incomes rose by 18 percent between 1990 and 1993, rural incomes fell by at least 5 percent over this period (Lora and Herrera 1994), probably due to production problems in the agricultural sector in 1992 and the price impact of the apertura. This significant widening of the gap between urban and rural incomes, together with a constant level of inequality in rural areas (at least from 1988 to 1992), could imply an even larger

TABLE 4 *Income Distribution Trends in Colombia since 1976*

Year	<i>Persons Ranked by Per Person Family Income</i>		<i>Urban Households</i>
	<i>3 Cities^a March</i>	<i>Earners 3 Cities^a</i>	
	(1)	(2)	(3)
1976	.520	.500	.496
1978			.483
1980	.492	.464	.461
1983			.459
1984	.475	.442	
1985			.474
1986			
1987			
1988			
1989	.470	.421	
1990	.459	.413	
1991	.483	.451	
1992	.494	.468	
1993	.507	.467	

Sources: Columns 1 and 2 are calculations by Berry and Jaime Tenjo using DANE household surveys for March of each year. Income has been corrected for truncation problems (see Berry and Tenjo n.d., methodological appendix). Column 3 is from Reyes Posada (1987: 81).

^a Bogotá, Medellín, and Barranquilla.

increase in inequality at the national level than for the urban areas. The widening gap also suggests that, depending on where the poverty line is drawn, the percentage of the Colombian population living in poverty was probably increasing over the early 1990s. Given the uncertainty and incompleteness of the rural data, however, one must concede that the opposite could also be true: the recent trends might be less adverse at the national level than at the urban level.²⁰

Ecuador / Ecuador experienced rapid economic growth during the 1970s, when the country became an oil exporter. Domestic reinvestment of ex-

20. This case has been argued by Londoño (1996, 15). He accepts that distribution of labor income became more concentrated between 1988 and 1993, but he estimates that a correspondingly marked decrease in the inequality of nonlabor income for the economy as a whole offset the former effect so that the Gini coefficient of income among households (the ranking criterion is not noted) remained essentially unchanged between 1988 and 1993. As with most other Latin American countries, time and reflection will be required before a consensus is reached on what has been happening to the incomes of various groups in the rural areas.

port earnings led to an intense process of import-substituting industrialization and agricultural modernization. During the late 1970s, as oil exports stagnated, growth was achieved at the cost of foreign borrowing. When the external situation deteriorated, this growth strategy became unsustainable. Two natural disasters magnified the woes of the 1980s: coastal floods in 1983 and a major earthquake in 1987. Although export quantum grew at 6.3 percent per year between 1980 and 1993, terms of trade worsened by 36 percent in the same period, while prices for oil, coffee, and cacao all plummeted. This shock to terms of trade led to poor economic performance, particularly in the late 1980s. Only a minor degree of export diversification has taken place in Ecuador.

The initial downturn in 1981–1983 was less severe than in many other countries—GDP dropped by about 3 percent and national income per capita about 10 percent. But the recovery has been halting, notwithstanding a moderate advance in the early 1990s. Only in 1992 did per capita income reach its pre-crisis level. Despite this lackluster performance, however, Ecuador did not experience hyperinflation, a dramatic income decline, or violent social unrest, as did Peru, Bolivia, and other countries in Latin America.

Ecuador implemented structural adjustment policies from 1981 onward. Generally, the process has been slow, selective, and highly conflictive, and it remains incomplete. No stable political consensus on economic policies was ever reached, and social conflict caused frequent setbacks. In addition to the expected opposition from popular sectors and the middle classes, groups from the dominant classes resisted adjustment policies threatening their specific interests. Consequently, reduction of state subsidies and import duties created conflict and was implemented slowly and painfully. By contrast, liberalizations of interest and exchange rates were judged to be favorable or at least acceptable by agro-export elites and were in place by 1984. Implementation of the structural adjustment program speeded up and became more consistent starting in 1988, at least partly due to more effective involvement by the international financial institutions. Although trade barriers were reduced after 1983, the most important steps were adopted in 1990, when import tariffs were reduced (with most products other than vehicles ranging from 5 to 30 percent) and most import restrictions were lifted. As a result, consumer goods imports expanded by a factor of nearly five in Ecuador between 1990 and 1994.

Labor deregulation was pursued continuously during the period. Real minimum wages declined and labor legislation was reformed to “increase flexibility and eliminate rigidities unattractive to foreign investors” (de Janvry, Sadoulet, and Fargeix 1993, 79). The state apparatus was also reduced throughout the 1980s (except for a right-wing “populist experience” between 1986 and 1988), and even further in the early 1990s.

Between 1982 and 1990, public-sector employment fell from 13.5 percent to 11.4 percent of the total. Public expenditure plunged from 21.6 percent of GDP (at current prices) in 1981 to 11 percent in 1992 (Larrea 1995, t. 7). Public consumption and social services (education and health) have been hit particularly hard.

The evolution of functional income distribution points strongly toward increases in inequality in Ecuador between 1980 and 1984 and again from 1987 to 1991 (Larrea 1995, t. 9). Since 1980 the paid wage share of value added fell dramatically from about 30 percent to less than 15 percent. Between 1982 and 1992, the total wage bill declined by 43 percent in real terms while net business income rose by 53 percent. Among capitalist groups, landowners and farmers benefited in particular during the presidency of León Febres Cordero (1982–1986), a spokesperson for the nation's agro-export elites. During this period, a strong devaluation favored agricultural and fishing exports, and real business income of these sectors rose by 47 percent. From 1988 to 1992, when Social Democrat Rodrigo Borja served as president, income transfers primarily benefited the manufacturing elites, whose income rose by 7.6 percent per year.

Survey data available on Ecuadorian urban households since 1987 corroborate this evidence on the functional distribution, pointing to intensification in income concentration among earners and households around 1990 (Larrea 1995, tt. 10, 11). The Gini coefficient among earners (based on unadjusted income data) jumped from an average of 0.43 in 1988–1990 to an average of 0.48 in 1992–1993. Household-income inequality followed a similar, albeit smoother, ascending path. The evolution of real income by income stratum discloses a severe deterioration for the poorest half of the population: more than 25 percent for the bottom quintile, an unstable or slightly declining situation for the next 45 percent, and a sharp improvement (of 25 percent) for the richest 5 percent (Larrea 1995, t. 10). Income of the top decile relative to the bottom one rose from 24 fold to 30 fold, using unadjusted data. Carlos Larrea estimates that urban poverty increased from 66.3 percent in 1988 to a peak of 73.8 percent in 1992, followed by a decline in 1993 (Larrea 1995, t. 12).

The timing of this accentuation of inequality suggests that trade liberalization and reduction in public employment could have played roles. Trade liberalization may have hurt small-scale production, given the expansion of consumer good imports, or induced a wave of technological change. Concentration increased between 1988–1990 and 1992–1993 for both wage and nonwage income, by 3.3 and 7.3 Gini percentage points respectively, and for both formal and nonformal activities, by 9 and 4.6 points respectively. This pattern is consistent with rapidly rising incomes for a subset of businesspersons, leading to increased variance within the nonwage category and the formal sector. A negative impact of trade liberalization on small-scale enterprises could have contributed to this

outcome. Although the increase was less marked, wages became more concentrated as well. A strong decline in real minimum wages since 1980, combined with labor-market deregulation, could have played a role in the declining labor share.

Costa Rica: Reform without Widening Gaps?

Based on the evidence available to date, Costa Rica appears to be the only Latin American country to undertake significant market-friendly reforms without suffering a large widening of income differentials (an increase in the Gini coefficient of say 5 percent or more).²¹ This country brought a tradition of social and political stability to the trials of the 1980s and came off a strong postwar economic performance in which average GDP growth exceeded 6 percent from 1950 to 1980. Moreover, a good social-service system endowed Costa Ricans with the longest life expectancy in Latin America (except for Cuba), and the absence of an army allowed the country to allocate more resources to civilian uses. Growth in the 1970s was fragile, however, based on an expansionary monetary and fiscal policy, a fortuitous increase in coffee prices in 1976–1977, and much investment financed by foreign savings. The second hike in oil prices, rising interest rates, and the world recession occasioned a sharp decline in GDP of 14 percent between 1980 and 1982, a 23 percent drop in income per capita, and a 25 percent cut in real wages. At the depths of the trough, a new president took office who had ties to labor and previous social legislation (through his party). Buoyed by a high level of public support and confidence, President Alberto Monge (1982–1986) directed implementation of an adjustment program that included tax increases, weakening of the power of unions (which had been particularly strong in the public sector), privatization, and new incentives for exports, especially nontraditional ones. The program has been relatively successful in reestablishing a decent growth performance, about 4 percent per year (through 1995) since returning to the pre-crisis GDP level in 1985. Policy changes in Costa Rica were less extreme, more gradual, and less erratic than in Chile. Real wages did not remain low for long, as the indexing mechanism that linked nominal wage increases to past inflation was left in place with only mild modification, so that when tightened monetary and fiscal policy brought inflation quickly to heel, real wages moved back to or near their previous peak in only three or four years. National unemployment also returned quickly to its normal rate of around 5 percent.

Costa Rica's income distribution, while unequal, has historically been less lopsided than in extreme cases like Brazil. Juan Trejos and Pablo Sauma (1994) reported that measured inequality among households fell

21. Other possible candidates are Peru and Jamaica, although both have liberalized too recently to offer clear evidence at this time (see Berry 1995).

during the crisis and again during the adjustment period (which they date as 1982–1986), then rose sharply from 1985 to 1987 and tended to fall after that. The increase between 1985 and 1987 could reflect the first effects of the liberalization, but it could also be due to a change in survey methodology at that time.²² Qualifications related to the uncertain quality of the Costa Rican data notwithstanding, the best guess at this time is that the post-1986 reforms had no significant or lasting negative impact on the level of inequality in Costa Rica. Trejos and Sauma reported Ginis of essentially the same magnitude in 1993 as in 1980, the nearly 3 percent decline between 1980 and 1985 being balanced by the 4 percent increase from 1985 to 1987. Because of the likelihood that the latter increase is illusory, it is also possible that this Gini coefficient (the one reflecting these families and the types of income included) actually fell between 1980 and 1993 and stayed about constant between 1985 and 1993. In that case, Costa Rica stands as an exception to the general tendency for such reforms to be associated with sharply increased inequality.

One broad interpretation of the process of change in Costa Rica is that it shares many elements with other Latin American countries but also reflects differences in degree, timing, and abruptness. For example, while the earnings differentials by skills stopped falling, they did not increase sharply at the time of economic liberalization, as occurred in Chile and Mexico, for example. And although the variance of salary incomes rose for a couple of years after liberalization began, this measure then continued its downward movement. It is possible that when changes are made more gradually, as in Costa Rica, they do not produce as great a negative impact on distribution as when the same degree of policy change takes place more quickly.

LESSONS, CHALLENGES, IMPLICATIONS, AND QUESTIONS

The Latin American and Caribbean countries are now launched into a more outwardly oriented and less interventionist economic model that shows clear signs of working well in some countries but has been slower than hoped in allowing the region as a whole to recover its former rates of growth. Unless growth accelerates quickly in the next few years (and in some countries, even if that happens), it will once again be overly optimistic to assume that growth will prove to be an adequate antidote to poverty in the short to medium run. Four main conclusions will be summarized here.

First, distribution has worsened significantly, if not dramatically,

22. Telephone conversation with Timothy Gindling in early 1996. Problems of comparability might be somewhat less severe in estimates of the distribution of income among earners, but estimates of distribution among (paid or unpaid) workers reveal the same abrupt worsening in 1987 that characterizes the household estimates.

in most countries undertaking market-friendly economic reforms. Among Latin American countries for which the statistical evidence is adequate to reach any conclusions on this issue, the only probable exception to this generalization is Costa Rica (Jamaica and Peru might also turn out to be exceptions, but that remains to be seen). In general, insufficient data are available to judge whether the distribution of secondary income (after allowing for taxes, transfers, and public provision of goods) has moved differently from the primary distribution. Effective targeting has made a positive impact in some cases, but the reduction of government activity may have had a regressive effect, as may the changes in tax systems toward greater use of indirect taxes.

The country experiences reviewed above suggest that the “normal” observed increase in inequality accompanying reforms is 5 to 10 percentage points, as measured by the Gini coefficient of primary income (see table 5). It seems likely that this increase typically results from a jump in the share of the top decile, most of it accruing to the top 5 percent or perhaps to the top 1 percent (as in the cases of Colombian and Ecuadorian households), while most in the bottom deciles lose. In the three Colombian cities analyzed by Berry and Tenjo (n.d.), the share of the bottom decile (the biggest loser in percentage terms) fell from 1.75 percent to 1.45 percent of total recorded income. At a moderate GDP per capita growth rate of 2 percent per year, it would take nearly ten years of distribution-neutral growth to recover the “lost ground” implicit in this decline in income share. If per capita income growth could be accelerated to, say, 5 percent, the recovery period would be only four years. In Ecuador, where the percentage decline for the bottom decile was sharper (from 2.2 percent to 1.5 percent), nearly twenty years of distribution-neutral growth at 2 percent per year per capita would be needed, or about eight years at 5 percent.

Second, the close association between adoption of market-friendly economic reforms and accentuation of inequality is a cause for serious concern. No definite conclusions as to what underlies the observed increases in inequality can be derived by simply comparing country experiences. In some cases, they have occurred during economic downturns or crises (as in Chile, Argentina, and Mexico), but not in other cases (Colombia and Ecuador). In the first category, postcrisis inequality, while sometimes less than the peak level sustained during crisis, is without exception markedly higher than the level before the reforms. Thus although the economic cycle has clearly played a role in the increases observed, it cannot in any obvious way be held accountable for the large and lasting shift (to date) toward inequality. Based on the country experiences and the limited microeconomic evidence on the various elements of the reform package and other hypothesized causes of worsening, I suspect that ongoing technological change, more open trade regimes, the

TABLE 5 *Summary of Relationships between Economic Reforms and Distribution, Countries for which Data Are Available*

<i>Country</i>	<i>Main Period of Worsening</i>	<i>Degree of Worsening in Main Period^a</i>	<i>Characteristics of Main Period of Worsening</i>
Argentina (Greater Buenos Aires)	1976–78	8 points followed by easing	Liberalization, labor repression, no net growth
Chile (Greater Santiago)	1974–76	7–9 points	Liberalization, labor repression, sharp recession
Uruguay (Montevideo)	1976–79 or 1982–84	9 points or 7 points	Liberalization, labor repression, growth or recession, increased exports, transition toward democracy
Mexico	late 1980s	3–5 points	Liberalization, slow labor reform, slow growth
Dominican Republic	1984–89	8 points	May have coincided with adjustment
Colombia (3 major cities)	1990–92	4–7 points	Liberalization, labor-market reforms, moderate growth
Ecuador (urban)	1989–91	5 points	Liberalization, labor reforms, slow growth
Costa Rica	1985–87?	0–4 points?	Liberalization, mild labor reforms? moderate growth

NOTE: Worsening of distribution measured in percentage point increases in the Gini coefficient. Depending on data availability, the Gini coefficient may refer to income earners, households ranked by household income, households ranked by per capita income, or other distributions available. Completeness of income coverage varies with the case, as discussed in the text.

^a Degree of worsening in the main period is usually the same as degree of worsening between implementation of economic reforms and the present, although in Uruguay and the Dominican Republic, up-to-date information is not available. For Costa Rica, my best guess is -1 to +3 points.

dismantling of labor institutions, and the “socialization of debts” (whereby the state makes itself responsible for certain private debts that might otherwise threaten macroeconomic or financial stability) have all had

lasting negative impacts on distribution. The effect of the scaling down of the public sector (directly and via privatization of public enterprises) seems less clear. Increasing foreign investment has also been proposed as a source of worsening (in Mexico, for example), but judgment should probably be reserved on this point also. Many questions remain as to how these various factors interact among themselves or complement each other, both in their effects on growth and in their implications for income distribution.

Trade and labor-market reforms have been consistent elements of the reform packages instituted in Latin American countries where distribution has worsened significantly. In each case, it is easy to perceive mechanisms whereby the effects on distribution might be negative, and in each one finds at least some empirical evidence suggesting that those mechanisms are at work. In trade, for example, it appears likely that the comparative advantage of the region does not lie in products intensive in unskilled labor. Import liberalization appears to shift the price vector in favor of better-off families. Although optimists have argued that the opening up of trade should be expected to raise the relative incomes of agricultural workers, the evidence on this point is not encouraging. Two significant features of the period from 1984 to 1989 in Mexico were the contribution of a widening gap between urban and rural incomes to the overall increase in inequality and the sharp decline in income from agriculture and livestock as a share of rural income (Alarcón 1994, 113, 120). In Colombia an unprecedented increase in the gap between urban and rural incomes opened in the early 1990s, coincident with liberalization.²³ In such countries, it appears that a significant part of the agricultural sector cannot compete easily with an onslaught of imports and that its labor resources are not quickly or easily transferable to other sectors.²⁴ Rural-urban mobility is greater in the middle run, and over time the issue becomes increasingly whether the urban economy can create enough of the kinds of jobs that match workers' skills.

Meanwhile, labor-market reforms that decrease job protection and labor's bargaining power appear to open the way for wider differentials in wages and salaries among individuals.²⁵ Sharply falling real minimum wages during the course of adjustment (as in Mexico and Peru) probably

23. The drought that afflicted much of rural Colombia in 1992 probably played a role, along with falling coffee prices and reduced income from that crop.

24. Even more striking is the experience of Paraguay, unique among Latin American countries in having pursued an outward-oriented growth strategy based on the rural economy more or less systematically since the 1950s (Weisskoff 1992a, 1531). Some of the exports (such as cotton) were produced by small peasant farmers using hybrid seed, chemical fertilizers, and other modern inputs. Yet Weisskoff's estimates indicate that inequality increased sharply between 1972 and 1988, with the Gini coefficient (calculated from his quintile shares) rising from 0.53 in 1972 to 0.56 in 1982 to 0.60 in 1988 (see Weisskoff 1992b, 173).

25. Labor market reforms may also be important in opening the way for less-skilled workers to enter the paid labor force, as noted by Londoño with respect to the rapid shift of workers from rural to urban locations since the late 1980s in Colombia (1996, 13).

contributed to worsening distribution and poverty, as argued by Morley (1995, 32). A tentative guess would be that the elements of reform packages related to trade and the labor market may underlie most of the negative trends in figures reported on distribution.

The "socialization" of international and other debts in order to save teetering financial and nonfinancial enterprises has doubtless exacerbated distribution as well, as has been detailed most clearly for the case of Chile by Meller (1992). This policy was typically a response to crisis, and hence less germane to my present concerns than the ongoing financial liberalizations. But such liberalization itself has contributed to financial crises, during the 1970s and 1980s (Díaz-Alejandro 1985) and again more recently. Mexico once again provides the most dramatic example. Both Argentina and Mexico have recently engaged in official bailouts to contain banking crises. Solid evidence has yet to appear on the distribution impacts of financial liberalization apart from those occurring via financial crisis cum bailouts, but plenty of reasons exist for suspecting that these too could be negative and that (as in the area of trade policy) some hopes will prove to have been excessively optimistic.

The impact of foreign investment is another area in which the conventional wisdom, based on a two-factor model in which an increase in the capital stock would raise the relative returns to labor, may be off-base for Latin America. But further analysis will be necessary before much can be said with confidence in this area. The same goes for the impact of downsizing the public sector.

Third, neither theory nor the record has provided much evidence on how lasting the negative distributional effects will turn out to be. Because many of the economic reform episodes reviewed here are recent, it might be hoped that many of the accompanying negative effects will turn out to be temporary, associated either with the economic crises suffered by most countries or with the transition to a new model and hence likely to peter out with time and the adjustment of economic actors to the new reality. Analysts differ in their assessments of the extent to which the observed increases in inequality resulted from the economic downturns suffered by the countries in the region. Morley (1995) has argued that the cycle-distribution tie has been close, and he tends to conclude by implication (and by a more positive interpretation of the recent experiences of Chile and Colombia than given here) that recovery under the new policy package will produce an acceptable distribution. Morley's conclusion that the best policy for reducing poverty in economies mired in stagnation and underutilized capacity is to get the economy moving is certainly valid. And it may be true, as he argues, that economic downturns were the main factor underlying the increases in inequality observed in a number of Latin American countries during the 1980s.

Oscar Altimir (1994) agrees that economic recovery and the abatement of inflation are bringing relief on the poverty front, but he believes that there are increasing grounds for suspecting that the new setting in which the economies are functioning and the new rules of public policy involve greater income inequalities and more precarious employment situations than in the past. Consistent with the evidence presented in this article, Altimir judges that most countries now on a normal (nonrecovery) growth path since their crises are more inegalitarian than in the precrisis period.

The main ray of hope for believing that the observed worsening is transitory comes from Chile, where some series indicate an easing of inequality since the early 1980s (see for example Riveros n.d.). Other data show no improvement as recently as the early 1990s. However this information puzzle is resolved, it is clear that current inequality remains well above that of 1970. If there has been recent improvement, it is not clear whether such an outcome should be interpreted as the reversal of the initial impacts of the new model or simply the result of another process, such as the eventual tightening of the labor market predicted by labor-surplus theory.

Finally, it is urgent to achieve better combinations of growth and distribution than those of the last two decades. Whether or not the economic reforms are in fact culpable for most of the worsening distribution that has occurred in Latin America, it is clear that policy needs to be reframed in such a way as to respond effectively to that trend. Some priority policy areas seem clear: education and training systems, clearly important in light of the danger that low-skilled workers are being left behind; small and medium enterprise policy, important given the major role this sector plays in creating productive employment; redressal of poverty, whether through better targeting or otherwise, in light of evidence that considerable social spending has not been carried out efficiently and that under conditions of rapid economic change, such systems must be unusually adept to do their job well. While the general importance of these policy areas may be easily accepted, the precise formula most likely to bear fruit in each is much less obvious. Designing such formulae deserves high priority. Better information and more analysis of the determinants of income distribution will be needed for policy making to become more professional in this area.

Comparisons with the East Asian success stories naturally raise the question, why cannot Latin America also achieve growth with equity by means of a strongly outward-oriented development strategy? For reasons already discussed here, it was probably simplistic to think that such an outcome would automatically result from the strategy now being pursued, but the lessons of the East Asian experience are relevant nonetheless. Making exports more labor-intensive is a key element of the model,

and policy needs to focus on it. Most of the East Asian economies subsidized exports in various ways, and their labor markets facilitated a moderate or high level of average labor intensity of those exports. Some Latin American countries have subsidized labor-intensive exports. All should now think seriously about how to facilitate them.

REFERENCES

- ADELMAN, IRMA, AND SHERMAN ROBINSON
1989 "Income Distribution and Development." In *Handbook of Development Economics*, edited by Hollis Chenery and T. N. Srinivasan, vol. 2. Amsterdam: North-Holland.
- ALARCON, DIANA
1994 *Changes in the Distribution of Income in Mexico and Trade Liberalization*. Tijuana, Mexico: El Colegio de la Frontera Norte.
- ALARCON, DIANA, AND TERRY MCKINLEY
1994 "Widening Wage Dispersion under Structural Adjustment in Mexico." Paper presented at the symposium "El Impacto del Ajuste Estructural en los Mercados de Trabajo y en la Distribución del Ingreso en América Latina," San José, Costa Rica, 8–9 September.
- ALLEN, STEVEN G., AND GASTON J. LABADIE
1994 "Labor-Market Flexibility and Economic Performance in Uruguay and Chile." Report to the Tinker Foundation.
- ALTIMIR, OSCAR
1982 *The Extent of Poverty in Latin America*. World Bank Staff Working Paper. Washington, D.C.: World Bank.
1994 "Income Distribution and Poverty through Crisis and Adjustment." *CEPAL Review*, no. 52 (Apr.):7–31.
- BERRY, ALBERT
1983 "Income Distribution Trends in Neoclassical and Labor Surplus Economies." In *Comparative Development Perspectives*, edited by Gustav Ranis, R. West, C. Morris, and M. Leiserson, 182–200. Boulder, Colo.: Praeger.
1995 "The Social Challenge of the New Economic Era in Latin America." Centre for International Studies Discussion Paper. Toronto: University of Toronto.
n.d. "The Effects of Stabilization and Adjustment on Poverty and Income Distribution: Aspects of the Latin American Experience." Manuscript.
- BERRY, ALBERT, ED.
n.d. *Economic Reforms, Poverty, and Income Distribution in Latin America*. Forthcoming.
- BERRY, ALBERT, AND FRANCES STEWART
n.d. "Market Liberalization and Income Distribution: The Experience of the 1980s." In *Bretton-Woods: Fifty Years Later*, edited by Roy Culpeper, Albert Berry, and Frances Stewart. London: Macmillan.
- BERRY, ALBERT, AND JAIME TENJO
n.d. "Guessing the Income Distribution Effects of Trade Liberalization and Labor Reform in Colombia." Forthcoming in *Colombia, an Opening Economy?*, edited by Frank R. Gunter.
- BOUND, J., AND G. JOHNSON
1992 "Changes in the Structure of Wages in the 1980s: An Evaluation and Alternative Explanations." *American Economic Review*, no. 82:371–92.
- BOURGUINON, FRANÇOIS, AND CHRISTIAN MORRISSON
1989 *External Trade and Income Distribution*. Paris: Development Centre, Organisation of Economic Cooperation and Development.
- BULMER-THOMAS, VICTOR
n.d. *The New Economic Model in Latin America and Its Impact on Income Distribution and Poverty*. London: Macmillan and the Institute for Latin American Studies, University of London, forthcoming.

INCOME DISTRIBUTION IN LATIN AMERICA

- CEPALC (COMISION ECONOMICA PARA AMERICA LATINA Y EL CARIBE)**
- 1987 *Antecedentes estadísticos de la distribución del ingreso: Chile, 1940–1982*. Santiago: United Nations.
 - 1990 *Magnitud de la pobreza en América Latina en los años ochenta*. Santiago: CEPALC.
 - 1991 "Una estimación de la magnitud de la pobreza en Chile, 1987." *Colectión Estudios CIEPLAN*, no. 31 (March).
 - 1994 *Estudio económico de América Latina y el Caribe 1993, Volumen 1*. Santiago: CEPALC.
 - 1995 *Balance preliminar de la economía de América Latina y el Caribe, 1995*. Santiago: CEPALC.
- COLOMBIA, MINISTERIO DE AGRICULTURA Y DEPARTAMENTO NACIONAL DE PLANEACION**
- 1990 *El desarrollo agropecuario en Colombia: Informe final, Misión de Estudios del Sector Agropecuario*. Bogotá: Presencia.
- CORNIA, G. A., R. JOLLY, AND F. STEWART**
- 1987 *Adjustment with a Human Face*. Oxford: Oxford University Press.
- CORTES, ROSALIA, AND ADRIANA MARSHALL**
- 1993 "State Social Intervention and Labour Regulation: The Case of the Argentine." *Cambridge Journal of Economics* 17, no. 4:391–408.
- CULPEPER, ROY**
- 1993 *Resurgence of Private Capital Flows to Latin America: The Role of American Investors*. Ottawa: North-South Institute.
- DE JANVRY, ALAIN, ELISABETH SADOULET, AND ANDRE FARGEIX**
- 1993 *The Political Feasibility of Adjustment in Ecuador and Venezuela*. Paris: Organisation for Economic Cooperation and Development.
- DIAZ-ALEJANDRO, CARLOS F.**
- 1985 "Goodbye Financial Repression, Hello Financial Crash." *Journal of Development Economics* 19, nos. 1–2 (Sept.–Oct.):1–24.
- ECLAC (ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN)**
- 1992 *Preliminary Overview of the Economy of Latin America and the Caribbean, 1992*. Santiago: ECLAC.
 - 1994 *Preliminary Overview of the Economy of Latin America and the Caribbean, 1994*. Santiago: ECLAC.
- EDWARDS, ALEJANDRA COX**
- 1992 *Wage Trends in Latin America*. LATHR Report, no. 18. Washington, D.C.: World Bank.
- FAVARO, EDGARDO, AND ALBERTO BENSION**
- 1993 "Uruguay." In *The Political Economy of Poverty, Equity, and Growth: Costa Rica and Uruguay*, edited by Simon Rottenberg, 187–362. Oxford: Oxford University Press for the World Bank.
- FEL, JOHN C. H., AND GUSTAV RANIS**
- 1964 *Development of the Labor Surplus Economy: Theory and Policy*. Homewood, Ill.: Richard D. Irwin.
- FELICIANO, Z.**
- n.d. "Workers and Trade Liberalization: The Impact of Trade Reforms in Mexico on Wages and Employment." Manuscript.
- FFRENCH-DAVIS, RICARDO**
- 1992 "Economic Development and Equity in Chile: Legacies and Challenges in the Return to Democracy." Paper presented at the conference "The New Europe and the New World: Latin America and Europe, 1992," Oxford University, 8–10 September.
- FIELDS, GARY S.**
- 1980 *Poverty, Inequality, and Development*. New York: Cambridge University Press.
 - 1984 "Employment, Income Distribution, and Economic Growth in Several Small Open Economies." *Economic Journal*, no. 94 (Mar.):74–83.
 - 1991 "Growth and Income Distribution." In *Essays on Poverty, Equity, and Growth*, edited by George Psacharopoulos, 1–52. Oxford: Pergamon.
- FRY, MAXWELL**
- 1988 *Money, Interest, and Banking in Economic Development*. Baltimore, Md.: Johns Hopkins University Press.

Latin American Research Review

- GELBARD, ENRIQUE A.
1990 "Changes in Industrial Structure and Performance under Trade Liberalization: The Case of Argentina." Ph.D. diss., University of Toronto.
- GINDLING, TIMOTHY H., AND ALBERT BERRY
1992 "The Performance of the Labor Market during Recession and Structural Adjustment: Costa Rica in the 1980s." *World Development* 20, no. 11 (Nov.):1599–1616.
- GREGORY, PETER
1986 *The Myth of Market Failure: Employment and the Labor Market in Mexico*. Baltimore, Md.: Johns Hopkins University Press.
- HANSON, GORDON, AND ROBERT C. FEENSTRA
1994 "Foreign Investment, Outsourcing, and Relative Wages." Paper prepared for the conference "Political Economy of Trade Policy," Columbia University, November.
- HELLEINER, GERALD K., ED.
1992 *Trade Policy, Industrialization, and Development: New Perspectives*. Oxford: Clarendon.
1994 *Trade and Industrialization in Turbulent Times*. London: Routledge.
- HERNANDEZ-LAOS, ENRIQUE, AND JORGE CORDOBA
1982 *La distribución del ingreso en México*. Mexico City: Centro de Investigación para la Integración Social.
- KATZ, LAURENCE, AND KEVIN MURPHY
1992 "Changes in Relative Wages, 1963–1987: Supply and Demand Factors." *Quarterly Journal of Economics*, no. 57 (Feb.):35–78.
- KRUEGER, ANNE O.
1988 "The Relationship between Trade, Employment, and Development." In *The State of Development Economics: Progress and Perspectives*, edited by Gustav Ranis and T. Paul Schultz, 357–83. Oxford: Basil Blackwell.
- KUZNETS, SIMON
1955 "Economic Growth and Income Inequality." *American Economic Review* 45, no. 1: 1–28.
- LARREA, CARLOS
1995 "Structural Adjustment, Income Distribution, and Employment in Ecuador." In BERRY, ED., N.D.
- LIEDHOLM, CARL, AND DONALD MEAD
1987 *Small-Scale Industries in Developing Countries: Empirical Evidence and Policy Implications*. MSU International Development Paper no. 9. East Lansing: Department of Agricultural Economics, Michigan State University.
- LOEHR, WILLIAM, AND JOHN P. POWELSON
1981 *The Economics of Development and Distribution*. New York: Harcourt Brace Jovanovitch.
- LONDOÑO DE LA CUESTA, JUAN LUIS
1989 "Income Distribution in Colombia, 1971–1988: Basic Estimation." Report to the World Bank.
1996 "The Social Impact of the Colombian Economic Model." Paper presented at the conference "The Colombian Economic Model: Institutions, Performance, and Prospects," Institute of Latin American Studies, University of London, April.
- LORA, E., AND A. M. HERRERA
1994 "Ingresos rurales y evolución macroeconómica." In *Competitividad sin pobreza*, edited by C. González and C. F. Jaramillo. Bogotá: Fonade-TM for Departamento Nacional de Planeación.
- LUSTIG, NORA, ED.
1996 *Coping with Austerity: Poverty and Income Distribution in Latin America*. Washington, D.C.: Brookings Institution.
- MARSHALL, ADRIANA
n.d. "The Labour Market and Income Distribution in Argentina." In BERRY, ED., n.d.
- MELLER, PATRICIO
1992 *Adjustment and Equity in Chile*. Paris: Development Centre, Organisation for Economic Cooperation and Development.
- MILANOVIC, BRANKO
n.d. *Income, Inequality, and Poverty during the Transition*. Washington, D.C.: World Bank, forthcoming.

INCOME DISTRIBUTION IN LATIN AMERICA

- MORLEY, SAMUEL A.**
 1995 *Poverty and Inequality in Latin America: The Impact of Adjustment and Recovery in the 1980s*. Baltimore, Md.: Johns Hopkins University Press.
- MUSGROVE, PHILIP**
 1978 *Consumer Behavior in Latin America: Income and Spending of Families in Ten Andean Cities*. Washington, D.C.: Brookings Institution.
- OCAMPO, JOSE ANTONIO**
 1994 "Trade Policy and Industrialization in Colombia, 1967–91." In HELLEINER 1994, 132–69.
- PACK, HOWARD**
 1992 "Learning and Productivity Change in Developing Countries." In HELLEINER 1992, 21–45.
- PFEFFERMAN, GUY, AND RICHARD WEBB**
 1983 "Poverty and Income Distribution in Brazil." *Review of Income and Wealth*, series 29, no. 2:101–24.
- PSACHAROPOULOS, GEORGE, SAMUEL MORLEY, ARIEL FISZBEIN, HAEDUCK LEE, AND BILL WOOD**
 1993 *Poverty and Income Distribution in Latin America: The Story of the 1980s*. LATHR Report no. 27. Washington D.C.: World Bank.
- RANIS, GUSTAV**
 1978 "Equity with Growth in Taiwan: How 'Special' Is the 'Special' Case?" *World Development* 6, no. 3 (Mar.):397–410.
- REVENGA, ANA**
 1994 "Employment and Wage Effects of Trade Liberalization: The Case of Mexican Manufacturing." Paper presented at the Labor Markets Workshop, World Bank, Washington, D.C., 6–8 July.
- REYES POSADA, ALVARO**
 1987 "Tendencias del empleo y la distribución del ingreso." In *El problema laboral colombiano: Informes a la Misión Chenery*, edited by José Antonio Ocampo and Manuel Ramírez, 1:61–88. Bogotá: Contraloría General de la República, Departamento Nacional de Planeación and Servicio Nacional de Aprendizaje (SENA).
- RITTER, A. R. M.**
 1992 *Development Strategy and Structural Adjustment in Chile: From the Unidad Popular to the Concertación, 1970–92*. Ottawa: North-South Institute.
- RIVEROS, LUIS A.**
 n.d. "Chile's Structural Adjustment: Relevant Policy Lessons for Latin America." In BERRY, ED., N.D.
- ROBBINS, DONALD J.**
 n.d. "Relative Wage Structure in Chile, 1957–1992: Changes in the Structure of Demand for Schooling." Manuscript.
- ROS, JAIME**
 1994 "Mexico's Trade and Industrialization Experience since 1960: A Reconsideration of Past Policies and Assessment of Current Reforms." In HELLEINER 1994, 170–216.
- SANTANA, ISIDORO, AND MAGDALENA RATHER**
 1993 "The Distributive Impact of Fiscal Policy in the Dominican Republic." In *Governments Spending and Income Distribution in Venezuela*, edited by Ricardo Hausmann and Roberto Rigobón, 53–88. Washington, D.C.: Inter-American Development Bank and IESA (Instituto de Estudios Superiores), Venezuela.
- SARMIENTO A., LIBARDO**
 1993 "Política social y gasto público en los noventa: ¿Qué tan significativos son los cambios?" *Coyuntura Social*, no. 8 (August).
- TENJO, JAIME**
 1993 "Evolución de los retornos a la inversión en educación, 1976–89." In *Educación, mercado de trabajo y desarrollo en Colombia*, special issue of *Planeación y Desarrollo*, 85–102 (published in Bogotá by the Departamento Nacional de Planeación).
- TREJOS S., JUAN DIEGO, AND MARIA LAURA ELIZALDE E.**
 1986 "Ingresos, desigualdad y empleo: Evidencias recientes sobre las características y evolución del perfil distributivo en Costa Rica." *Revista de Ciencias Económicas* 6, no. 2:87–104.

TREJOS S., JUAN DIEGO, AND PABLO SAUMA

- 1994 "Pobreza y distribución del ingreso en la era del ajuste: Costa Rica, 1980–1992." Paper presented at the symposium "El Impacto del Ajuste Estructural en los Mercados de Trabajo y en la Distribución del Ingreso en América Latina," San José, Costa Rica, 8–9 September.

UNCTAD (UNITED NATIONS COMMITTEE ON TRADE AND DEVELOPMENT)

- 1992 *Trade Liberalization in Chile*. Trade Policy Series no. 1. New York: United Nations.

VERDERA, FRANCISCO

- 1994 "EL mercado de trabajo de Lima Metropolitana: Estructura y evolución, 1970–1990." IEP Documento de Trabajo no. 59. Lima: Instituto de Estudios Peruanos.

WEISSKOFF, RICHARD

- 1992a "The Paraguayan Agro-Export Model of Development." *World Development* 20, no. 10:1531–40.

- 1992b "Income Distribution and Economic Change in Paraguay, 1972–88." *Review of Income and Wealth*, series 38, no. 2 (June):165–84.

WILLIAMSON, JOHN, ED.

- 1990 *Latin American Adjustment: How Much Has Happened?* Washington, D.C.: Institute for International Economics.

WOOD, ADRIAN

- 1994 *North-South Trade, Employment, and Inequality*. Oxford: Clarendon.

- 1995 "How Trade Hurts Unskilled Workers." *Journal of Economic Perspectives* 9, no. 3 (Summer):57–80.

WORLD BANK

- 1991 *World Bank Support for Small and Medium Industry in Selected Countries*. Operations Evaluation Department Report no. 9,530. Washington, D.C.: World Bank.