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# Income distribution *and poverty* through crisis *and adjustment*

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This article analyses the costs in terms of income distribution of the crisis and adjustments of the 1980s, as well as the effects of the subsequent recovery and resumption of sustained growth patterns. This analysis is based on comparable pairs of estimates of income distribution and poverty prepared by ECLAC for the ten largest and predominantly urban countries of the region. The method of analysis consists, on the one hand, of comparing the changes in distribution and in the macroeconomic and labour market variables during similar macroeconomic phases in the course of the adjustment process in different countries and, on the other hand, of comparing the income distribution situations in each country before and after the adjustment. It is concluded that although economic recovery and the reduction of inflation are relieving poverty situations, medium-term growth without an improvement in income distribution will cause the process of reducing poverty to be excessively prolonged, and there are grounds for believing that the new form of operation and the new rules followed by public policy in these economies may involve still greater inequalities as regards income distribution.

# I

## Introduction

Most Latin American countries are painfully recovering from the protracted crisis they suffered during the 1980s and from the traumatic adjustments they had to undergo in order to extricate themselves from it and to lay the bases for a new phase of sustained growth.

The net transfer of resources to the region, which before the crisis represented more than 2% of its GDP, suddenly became negative. Between 1982 and 1989, the Latin American countries' net export of capital was equivalent to almost 4% of their aggregate GDP. The turnaround in the net transfer of resources was thus tantamount to a permanent pressure of 6% on domestic resources during this period.

After the external adjustment and recession that brought the regional per capita product down by 10% between 1980 and 1983, most Latin American economies wavered between recession and inflation, muddling through the debt tangle and its domestic sequels for most of the decade. At its close, per capita product was still at the 1983 level and real national per capita income was 15% lower than in 1980. In 1991-1993, however, growth has been steadier, there have been signs of a reanimation of private investment along with the return of significant capital flows, the trend towards price stabilization has become generalized, and most of the huge fiscal adjustments of the previous years have held fast.

Although in some cases stabilization processes still display some fragility, most Latin American

economies are now working on new foundations. These are characterized by a firmer orientation towards exports (whose volume has, in many cases, at least doubled during the past decade), trade liberalization, fiscal austerity, more prudent management of monetary policy, and greater reluctance to resort to State regulation of economic activity.

For the poor and lower-middle income groups, the severe economic crisis of the 1980s involved damaging declines both in real income and in access to and quality of social services.

Almost all countries experienced acute redistributions of income among households during the crisis decade, in most cases with regressive net outcomes at the end of the decade. At the same time, regressive changes in relative incomes and the fall of real per capita income during the first half of the decade, when most economies suffered recessionary adjustments, or had only just begun to recover, led to significant increases in absolute poverty, which only in a few cases were partially reversed with the stabilization and growth processes of more recent years.

Economic recovery and the abatement of inflation are bringing relief on the poverty front, but there are increasing grounds for suspecting that the new modality under 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, in a certainly tighter fiscal environment.

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## II

### The approach adopted

#### 1. The data base on income distribution and poverty

Income distribution statistics in Latin America are of varied reliability and are not directly comparable with each other.<sup>1</sup> Among the many factors distorting their comparability, underestimation of income affects differently both income levels and their concentration. In order to somehow sidestep this obstacle, the analysis of changes in the relative distribution of income is based on pairs of available estimates (see table 1), selected for being similar—and, therefore, apparently comparable—with regard to the concept of income, the technique for measuring income and the geographical coverage of the surveys used to collect the data, as well as the units and criteria used by the respective authors in processing or adjusting the survey data.<sup>2</sup> However, in many cases proven or assumed differences in any of these aspects invalidate the possibility of going beyond these pair-wise comparisons and simply pooling estimates.

The poverty estimates for the 1980s (table 2) are those produced by ECLAC (1991a and 1992a). They are the result of cutting estimated distributions of households by per capita income, previously adjusted for income underestimation,<sup>3</sup> by means of country-specific poverty lines representing minimum

normative budgets of private consumption based on minimum food budgets that adequately cover nutritional requirements.<sup>4</sup> The poverty lines used for different years of the 1980s were held constant in real terms: a criterion that is acceptable for a period of recession and recovery.<sup>5</sup>

The present paper uses only headcount ratios as the poverty measure, which are available for several years of the past decade, for each country considered.<sup>6</sup> These are given in table 3, which also includes the incidence of extreme poverty or destitution, defined as the proportion of households with a per capita income less than the value of the minimum food budget.

These estimates actually build up national measures of poverty from urban and rural estimates. However, it should be borne in mind that headcount estimates for rural areas are of considerably shakier quality than those for urban areas. On the one hand, the norms used to draw rural poverty lines have an unavoidable urban bias, in spite of taking into account urban-rural differences in prices and consumption. On the other hand, available measurements of rural incomes and of their distribution are usually even less accurate than those of urban incomes from the same survey. Finally, some of the rural estimates are no more than educated guesses based on relevant but indirect data (Altimir, 1991).

<sup>1</sup> See Altimir (1987) for a review and discussion of the reliability of income measurements from different types of surveys in Latin America and their comparability problems.

<sup>2</sup> For a detailed compilation of the income distribution statistics available for each country and the selection of comparable pairs, see Altimir (1992). In particular, the manner of selection based on the similarity of data and their treatment makes it possible to compare Gini coefficients—and calculate their variations, as is done in table 1—which have been computed on the basis of similarly grouped data.

<sup>3</sup> For the method of adjustment applied, see Altimir (1987), and for the details of the adjustments see ECLAC (1991a).

<sup>4</sup> See ECLAC (1991a) for details on these country-specific minimum food budgets and how they were set. Minimum food baskets were drawn on the basis of the composition of food consumption of those strata of households that in each country attained with some latitude the minimum nutritional requirements, although such reference baskets were adjusted to those minima as well as to mean national availability of each foodstuff and were freed of high-price-per-calorie or nutritionally superfluous items. Therefore, the criterion to establish the minimum food baskets was one based on habits, taking into account availability and cost, rather than one of minimum-cost, taking into account availability and habits, as used in Altimir (1979) in order to obtain estimates for the 1970s.

<sup>5</sup> For a discussion of the case for shifting poverty lines during periods of economic growth, see Altimir (1991).

<sup>6</sup> ECLAC (1991a) also includes estimates of the poverty gaps, but only for 1986.

TABLE 1

**Latin America (10 countries): Changes in income distribution in selected periods**

Country	Period	Source	Coverage <sup>a</sup>	Income concept <sup>b</sup>	Changes in concentration (%)		Changes in shares of income groups (% of total income)		
					Gini coefficient	Ratio of top 10% to lowest 40%	Lowest 40%	Middle 50%	Top 10%
Argentina	1970-1974	Altimir (1986)	MA	HI	4	9	-0.7	-0.7	1.4
	1974-1980	Altimir (1986)	MA	HPCI	10	28	-2.1	-1.2	3.3
	1980-1986	ECLAC (1991b)	MA	HPCI	11	27	-1.5	-3.2	4.7
	1980-1989	Psacharopoulos <i>et al</i> (1992)	MA	HPCI	17	47	-2.9	-3.0	5.9
	1985-1990	Beccaria (1991)	MA	HPCI	...	33 <sup>c</sup>	-1.4 <sup>d</sup>	-3.4 <sup>e</sup>	4.8
Brazil	1979-1987	ECLAC (1991b)	MA	HPCI	4	32	-2.3	-1.3	3.6
			RU	HPCI	7	9	2.7	-5.5	2.8
	1979-1989	Psacharopoulos <i>et al</i> (1992)	N	HPCI	7	28	-1.3	-2.4	3.7
	1987-1989	Hoffman (1992)	U	IR	8	31 <sup>f</sup>	-2.1 <sup>g</sup>	-2.8 <sup>h</sup>	4.9
	1987-1990	Hoffman (1992)	U	IR	2	9	-1.0	-	1.0
	1987-1990	ECLAC (1991b; 1993)	MA	HPCI	-6	-18	0.4	6.3	-6.7
			RU	HPCI	1	53	-5.1	5.2	-0.1
Colombia	1978-1988	Londoño (1990)	N	IR	-1	-3	-0.2	0.3	-0.5
	1980-1986	ECLAC (1991b)	MA	HPCI	-3	-12	0.2	0.8	-1.0
			RU	HPCI	-5	-	0.4	3.0	-3.4
	1980-1989	Psacharopoulos <i>et al</i> (1992)	U	HPCI	-9	-27	1.9	3.2	-5.1
	1986-1990	ECLAC (1991b; 1993)	MA	HPCI	-2	-1	-0.4	2.7	-2.3
RU			HPCI	-9	-2	1.9	1.4	-3.3	
Costa Rica	1981-1988	ECLAC (1991b)	MA	HPCI	7	22	-1.5	-1.6	3.1
			RU	HPCI	14	3	-1.9	-3.2	5.1
	1981-1989	Psacharopoulos <i>et al</i> (1992)	N	HPCI	-3	-10	1.4	-1.9	0.5
	1988-1990	ECLAC (1991b; 1993)	MA	HPCI	-6	-13	1.1	1.1	-2.2
RU			HPCI	-6	-15	0.4	3.0	-3.4	
Chile	1968-1974	Heskia (1980)	MA	HI	-10	-23	2.0	1.8	-3.8
	1974-1980	Heskia (1980), Riveros (1985)	MA	HI	21	60	-2.8	-6.2 <sup>h</sup>	9.0 <sup>i</sup>
			MA	HI	2	14	-1.1	-0.5 <sup>h</sup>	1.6 <sup>i</sup>
	1981-1983	Riveros (1985)	MA	HI	2	14	-1.1	-0.5 <sup>h</sup>	1.6 <sup>i</sup>
	1968-1983	ECLAC (1979), Rodríguez (1985)	N	HI	23	38	-1.6	-6.2	7.8
			MA	HE	...	54 <sup>j</sup>	-4.9	-1.6 <sup>h</sup>	6.5 <sup>i</sup>
	1969-1978	Ffrench-Davis, Raczynski (1987)	MA	HE	...	54 <sup>j</sup>	-4.9	-1.6 <sup>h</sup>	6.5 <sup>i</sup>
	1978-1988	Ffrench-Davis, Raczynski (1987)	MA	HE	...	23 <sup>j</sup>	-1.9	-1.7 <sup>h</sup>	3.6 <sup>i</sup>
1987-1990	ECLAC (1991b; 1991c)	U	HPCI	-2	-3	0.4	-0.4	-	
Mexico	1977-1984	ECLAC (1988), Lustig (1992)	N	HI	-9	-41	2.8	0.7	-3.5
	1984-1989	Lustig (1992)	N	HI	...	28	-1.4	-3.7	5.1
Panama	1979-1989	Psacharopoulos <i>et al</i> (1992)	N	HPCI	16	66	-3.5	-2.8	6.3
Peru	1985-1986-1990	Psacharopoulos <i>et al</i> (1992)	MA	HPCI	2	5	-0.7	0.5	0.2

TABLE 1 (concluded)

Country	Period	Source	Coverage <sup>a</sup>	Income concept <sup>b</sup>	Changes in concentration (%)		Changes in shares of income groups (% of total income)		
					Gini coefficient	Ratio of top 10% to lowest 40%	Lowest 40%	Middle 50%	Top 10%
Uruguay	1973-1979	Melgar (1981)	MA	PHI	32	100	-4.7	-8.3	13.0
	1979-1981	Melgar (1981), Melgar-Villalobos (1987)	MA	PHI	-2	-4	-1.2	6.3	-5.1
	1981-1986	ECLAC (1991a; 1991b)	MA	HPCI	7	20	-1.2	-2.4	3.6
	1986-1989	ECLAC (1991a; 1991b)	MA	HPCI	-9	-19	1.4	3.1	-4.5
			RU	HPCI	-7	-12	1.5	0.1	-1.6
	1981-1989	Psacharopoulos <i>et al</i> (1992)	U	HPCI	-3	-7	0.8	-0.2	-0.6
Venezuela	1981-1986	ECLAC (1991b)	MA	HPCI	8	19	-2.5	-1.7	4.2
			RU	HPCI	18	46	-2.6	-3.1	5.7
	1981-1989	Psacharopoulos <i>et al</i> (1992)	N	HPCI	3	8	-0.4	-1.3	1.7
	1986-1990	ECLAC (1991b; 1993)	MA	HPCI	-4	-7	0.8	-0.4	-0.4
			RU	HPCI	-	3	-	-0.6	0.6
	1987-1989	Márquez-Mukherjee (1991)	N	HPCI	6	11	-0.2	-3.5	3.7
	1989-1990	Márquez-Mukherjee (1991)	N	HPCI	-4	-14	0.9	1.8	-2.7

<sup>a</sup> MA: metropolitan area; RU: remaining urban areas; U: urban areas; N: nationwide.

<sup>b</sup> HI: household income; PHI: primary household income; HPCI: household per capita income; HE: household expenditure; IR: income of recipient.

<sup>c</sup> Ratio of top 10% to lowest 30%.

<sup>d</sup> Corresponds to lowest 30%.

<sup>e</sup> Corresponds to middle 60%.

<sup>f</sup> Ratio of top 10% to lowest 50%.

<sup>g</sup> Corresponds to lowest 50%.

<sup>h</sup> Corresponds to middle 40%.

<sup>i</sup> Corresponds to top 20%.

<sup>j</sup> Ratio of top 20% to lowest 40%.

The set of countries considered in this paper includes the major Latin American nations as well as some others for which comparable inequality and poverty measurements are also available both at the beginning of the decade and at some later point in time. It excludes predominantly rural countries, such as Guatemala and Honduras, for which poverty estimates were also produced by ECLAC, because the method of analysis used here and the variables on which it rests capture mainly urban phenomena. The mere dimensions of rural poverty according to those estimates (affecting four-fifths of the rural population and representing at least three-quarters of all the poor) both underline the irrelevance of an urban-centered analysis and suggest that poverty measurement and analysis in such cases should be based on surveys, poverty yardsticks and explanatory variables more closely applicable to rural conditions.

In this data base, income generally measures household disposable cash income,<sup>7</sup> including both primary income (wages and salaries and entrepreneurial income) and other monetary income (pensions, transfers, rentals, interest, etc.) after direct tax payments. It therefore excludes imputed income from public goods and services provided free of charge or heavily subsidized and, hence, the redistributive effects of such public expenditure. These income measurements do not capture the incidence of indirect taxes on real income, either.

<sup>7</sup> Income in kind and imputed income, such as receipts from family subsistence activities or rent of owner-occupied dwellings, is either explicitly excluded or so poorly measured as to be considered excluded in most of the surveys in the data base, which are labour or income surveys. Only a minority of them are income and expenditure surveys, which may somehow measure such items (see Altimir, 1987).

TABLE 2

**Latin America <sup>a</sup>: Estimates of poverty  
and indigence in 1980, 1986 and 1990**

Area	Poverty <sup>b</sup>						Indigence <sup>c</sup>					
	1980		1986		1990		1980		1986		1990	
	Millions	%	Millions	%	Millions	%	Millions	%	Millions	%	Millions	%
Households												
Nationwide	24.2	35	32.1	37	37.0	39	10.4	15	14.6	17	16.9	18
Urban	11.8	25	18.7	30	22.7	34	4.1	9	7.0	11	8.7	13
Rural	12.4	54	13.4	53	14.3	53	6.3	28	7.6	30	8.2	30
Persons												
Nationwide	135.9	41	170.2	43	195.9	46	62.4	19	81.4	21	93.5	22
Urban	62.9	30	94.4	36	115.5	39	22.5	11	35.8	14	44.9	15
Rural	73.0	60	75.8	60	80.4	61	39.9	33	45.6	36	48.6	37

Source: 1980 and 1986: ECLAC, 1991a. 1990: ECLAC, 1992a.

<sup>a</sup> 19 countries. Based on data for: Argentina, Brazil, Colombia, Costa Rica, Guatemala, Mexico, Panama, Peru, Uruguay and Venezuela, for 1980 and 1986, and also for Chile, Honduras and Paraguay for 1990.

<sup>b</sup> Corresponds to household per capita income below poverty lines equivalent to twice the country-specific minimum food budgets, which range from 22 to 34 dollars of 1988 per person per month, for urban areas.

<sup>c</sup> Corresponds to household per capita income below the value of the country-specific minimum food budgets used to draw the poverty lines.

## 2. The method of analysis

The above caveats should warn us not to confuse the map with the actual territory. Although our ultimate concern is with changes in social stratification and with disentangling those changes that are permanently reshaping Latin American societies from those related to peoples' transitory accommodation to hard times, we are able here to focus only on aggregate changes in the relative distribution of welfare and the incidence of poverty, leaving out changes in the composition of households and in their economic strategies, including their ways of participating in the labour market.

Moreover, the analysis is limited to changes in the distribution of private income, and it excludes the distribution of social incomes (that is to say, those accruing to households in the form of public goods or subsidies), focusing instead on the distributive results of peoples' participation in the productive process and of their institutionalized entitlements. This focus leaves in the shadows the immediate redistributive consequences of social policies implemented through public expenditure (though not the results of entitlements to social security payments) but captures both the short-term effects of economic policy on the

distribution of income and the more mediate and eventual influences of public policy on the structure of income, mingled though they may be with structural changes quite beyond the influence of policy.

With these limitations, I have tried to assess the *distributive costs* of the crisis and adjustments, which are more than the "social costs" sometimes measured as losses in aggregate welfare, but are far less than the total social costs, if we recognize that the social structure is more than just the distribution of welfare and that living conditions are not only determined by income.

Evaluating the specific nature of the costs is another matter. The distributive changes recorded by available income distribution measurements incorporate the effects of adjustment, institutional changes involving policy reform and underlying restructuring processes, as well as those of failed adjustment and the acceleration of inflation. However, since the crisis of the 1980s is the counterpart of an epoch-making transformation of Latin American development, the measured distributive losses are attributed to the changes—including the periods of instability and inflation, failed policies or policies involving overadjustment—that have marked such processes in some countries.



TABLE 3

**Latin America (10 countries): Incidence of poverty  
and indigence in the 1980s**  
(Percentage of households)

	Poverty			Indigence		
	Urban areas	Rural areas	National level	Urban areas	Rural areas	National level
<b>Argentina</b>						
1980	7	16 <sup>a</sup>	9	2	4 <sup>a</sup>	2
1986	12	17 <sup>a</sup>	13	3	6 <sup>a</sup>	4
1990	19 <sup>b</sup>					
1991	15 <sup>b</sup>					
<b>Brazil</b>						
1979	30	62	39	10	35	17
1987	34	60	40	13	34	18
1990	39	56	43	17	31	20
<b>Colombia</b>						
1980	36	45 <sup>a</sup>	39	13	22 <sup>a</sup>	16
1986	36	42	38	15	22	17
1990	35			12		
<b>Costa Rica</b>						
1981	16	28	22	5	8	6
1988	21	28	25	6	10	10
1990	22	25	24	7	12	10
<b>Chile</b>						
1980	32 <sup>c</sup>	41 <sup>c</sup>	33 <sup>c</sup>			
1987	37	45	38	13	16	14
1990	34	36	35	11	15	12
<b>Mexico</b>						
1977			32			10
1984	23	43	30	6	19	10
<b>Panama</b>						
1979	31	45	36	14	27	19
1986	30	43	34	13	22	16
1989	34	48	38	15	25	18
<b>Peru</b>						
1979	35	65 <sup>a</sup>	46	10	38 <sup>a</sup>	21
1985/86	45	64	52	16	39	25
<b>Uruguay</b>						
1981	9	21 <sup>a</sup>	11	2	7 <sup>a</sup>	3
1986	14	23 <sup>a</sup>	15	3	8 <sup>a</sup>	3
1989	10	23 <sup>a</sup>	15	2	8 <sup>a</sup>	3
<b>Venezuela</b>						
1981	18	35	22	5	15	7
1986	25	34	27	8	14	9
1990	33	38	34	11	17	12

Source: ECLAC (1991a; 1991b; 1992a).

<sup>a</sup> These estimates should be considered "educated guesses" based on relevant but indirect information.

<sup>b</sup> Author's estimate, based on Beccaria and Minujin (1991).

<sup>c</sup> Author's estimate, based on Pollack and Uthoff (1987). See Altimir (1991).

The focus is not on the interaction of macro-economic variables (which has been analyzed elsewhere),<sup>8</sup> but on the relationships between changes in income distribution and poverty and the processes of adjustment, policy reform and structural mutation underlying the changes in those macro-economic variables.

However, neither the depth nor the characteristics of the restructuring of production are adequately revealed by changes in the set of macroeconomic variables used, and their permanent distributive consequences can only be hinted at by considering distributive situations after stabilization and adjustment.

On the other hand, the association of distributive changes with policy reforms poses methodological and time-related problems. Economic policy reforms generally oriented towards facilitating or promoting sustainable growth on the basis of freer trade and private investment may have a share in the short-term effects on income distribution caused by the package of stabilization and adjustment policies through which they have been implemented. Moreover, some of these effects may have been imposed by the political economy of reforms designed to cause such desired advances to take root. In the longer term, reforms may have negative distributive effects if a trade-off between growth and more equitable income distribution is observed or is to be expected on the basis of the pattern of growth promoted by the particular reforms undertaken. Whether economic restructuring promoted by these policy reforms and by the new structural circumstances involves more unequal distribution of income is a matter whose full empirical verification can only take place after the long-term deployment of their effects. For the moment, we can only consider what appear to be the "normal" or more or less "stable" distributive structures once each economy regains a sustained growth path.

Even though the distributive costs of external adjustment, stabilization, fiscal adjustment and economic restructuring are intertwined, the characteristics and sequencing of policy packages certainly make a difference in terms of the magnitude and duration of distributive losses (see for example García, 1991). However, the income distribution and poverty estimates in our data base are too scanty to give more than very broad hints in this regard.

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<sup>8</sup> See, for example, Bianchi, Devlin and Ramos (1985; 1987) and ECLAC (1986).

Moreover, in many instances the periods of analysis imposed by the availability of data include adjustment or stabilization policies, followed by their failure and the acceleration of inflation, thus encompassing the distributive costs of both kinds of processes.

The basic assessment criteria I have used in this study are, on the one hand, to compare distributive changes and changes in macroeconomic and labour market variables during similar macroeconomic phases in the course of the adjustment process in different countries and, on the other hand, to compare the distributive situations before and after adjustment in each country.

Consequently, the analysis is carried out for different phases of the macroeconomic evolution of each economy during the 1980s, the underlying hypothesis being that different relationships between distributive changes and macroeconomic changes may prevail during instability, recession, recovery and growth close to the production frontier. In view of the scarcity of distributional measurements for each country and the lack of uniformity as to their correspondence with similar macroeconomic phases, this inhibits us from attempting a formal econometric exercise.

In the selection of macroeconomic variables, both their availability and their analytical relevance were taken into account. The implicit conceptual model links changes in inequality with variations in: real national per capita income,<sup>9</sup> the real exchange rate as a proxy for relative prices, public consumption expenditure at constant prices<sup>10</sup> as a proxy for government employment and real wages, inflation, real urban wages and urban labour underutilization (i.e.: urban unemployment and informal employment). Changes in urban poverty are, in turn, related to variations in real per capita income, inequality and the real minimum wage. Changes in rural poverty, on the other hand, are linked to changes in real per capita income, agricultural product and the real exchange rate.

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<sup>9</sup> That is to say, the per capita product after net factor payments and the effect of terms of trade variations; therefore, this variable incorporates the direct (i.e.: accounting) effect of external shocks represented by changes in the terms of trade and in accrued interest on the foreign debt.

<sup>10</sup> That is to say, public consumption expenditure at current prices deflated by the GDP deflator. This is different from public consumption expenditure in real terms as estimated in the national accounts, which in Latin American practice reflects, at best, government employment.

There are a number of measurement limitations that hinder a rigorous association between observed changes in income distribution and poverty and observed changes in macroeconomic variables. Foremost among them is the fact that observed income distributions from household surveys of the type generally used for these estimates (i.e., those including questions on labour) measure incomes in a specific month of the year, whereas measures for most of the relevant macroeconomic variables are made available on a yearly basis, with quarterly data being much more difficult to obtain. Moreover, the years for which income distribution or poverty measurements are readily available do not always correspond to relevant phases of the conjunctural movements of the economy (which in many cases have been numerous and often of different direction) or to periods when a specific policy package was in force.

The analysis of associations between distributive changes and macro variables focuses on the distribution of income and poverty in urban areas, with only a summary analysis of changes in rural poverty. There are various reasons for disaggregating the analysis. Firstly, as noted above, income distribution and poverty measurements at the national level incorporate or mix urban and rural measurements of very

different degrees of reliability or accuracy, making the "constant bias over time" assumption less tenable. Also, however, most macro variables available have a different relationship with either urban or rural incomes (e.g.: the exchange rate) or a tenuous or remote relationship with rural incomes (e.g.: unemployment or informal employment), or almost no bearing at all on them in the short run (e.g.: urban wages); hence, analysis based on aggregate income distribution or poverty at the national level blurs their differential explanatory value.

Furthermore, for some countries or periods only measurements for urban areas are available. To be sure, this is a hindrance for distributional analysis. However, it is a less serious problem than in other developing regions, since in most of the Latin American countries considered more than 60% of the population is urban (more than 80% in the Southern Cone countries and Venezuela) and less than half the poor are rural (20% or less in the Southern Cone and Venezuela).

Finally, the distributive changes of the 1980s are also assessed in the context of the previous trends of the 1970s (i.e., before the crisis), when different growth processes were in place and—in some countries—policy reforms were undertaken.

### III

## The record of the 1970s

### 1. Inequality

Analysis of changes in income distribution and growth in the main countries of the region during the 1970s (Altimir, 1992) suggests, as summarized in table 4, that:

i) Even if they had very different degrees of income concentration at the beginning of the decade, countries which experienced disrupted growth, such as Argentina, Chile or Peru, suffered significant increases in inequality;

ii) In countries (such as Costa Rica or Uruguay) which had moderate average per capita growth rates (between 2% and 3%) over the decade and in which income concentration, at its beginning, was at an intermediate level, there was a deterioration in the distribution situation;

iii) Three countries (Colombia, Mexico and Venezuela) which had solid average sustained per capita growth rates (over 3% per year), significantly reduced their previously high (Gini coefficients over 0.5) income concentration;

iv) In contrast, the high and sustained per capita growth rate (close to 6% per year) of Brazil during the 1970s was not accompanied by a reduction in the very high income concentration (Gini coefficient of around 0.6) established during the previous decade.

### 2. Poverty

Changes in the incidence of absolute poverty depend on growth of average real income, changes in the distribution of income, and also the stance regarding

TABLE 4

**Latin America (10 countries): Growth rates and changes  
in income distribution and incidence of poverty in the 1970s**

Countries	Changes in income concentration <sup>a</sup>	Changes in incidence of poverty		
		Nationwide	Urban	Rural
<b>Slow growth (&lt; 1%)</b>				
Argentina	I	M	I	D
Chile	I	I	I	I
Peru	I	D	I	D
<b>Moderate growth (2-3%)</b>				
Costa Rica	I	D	M	D
Panama	...	M	I	D
Uruguay	I		I	
<b>Rapid growth (&gt;3%)</b>				
Brazil	M	D	M	D
Colombia	D	D	D	D
Mexico	D	D	D	D
Venezuela	D	D	D	D

Source: Altimir (1992).

<sup>a</sup> I: Increased; M: Maintained similar level; D: Decreased.

the change in poverty norms over time.<sup>11</sup> Using comparable estimates of the incidence of poverty for 1970 and around 1980, with poverty lines both constant and shifting over time (Altimir, 1992), the following highlights emerge for the sample of countries (see table 4):

i) Argentina, Chile and Peru, a group of countries with increasing inequality and low and unstable growth during the decade –as a consequence of economic shocks and institutional disruptions– registered either discouraging or downright dismal results on the poverty front. In Argentina the incidence of poverty at the national level may have increased only slightly and in Peru it may even have decreased, if the respective “educated guesses” about the decrease in rural poverty are accepted, but in both countries urban poverty tended to increase. In Chile, there was a virtual explosion of poverty in both urban and rural areas.

ii) In the two countries which experienced moderate growth and increasing inequality (Costa Rica and Uruguay), urban poverty either remained unchanged or increased, with rural poverty decreasing or remaining about constant, respectively.

iii) Those countries which attained high rates of per capita growth and decreasing inequality

(Colombia, Mexico and Venezuela) showed significant reductions of absolute poverty, both in urban and rural areas.<sup>12</sup>

iv) Brazil’s intense growth resulted in the reduction of poverty, even in spite of the lack of improvement of the relative income distribution; however, if some shifting of the poverty line is accepted, to allow for the possible effects of such a growth process on the prevailing style of living, the incidence of poverty in urban areas would have remained more or less constant.

v) The incidence of poverty in rural areas showed a downward trend during the 1970s in almost all of the countries considered, irrespective of the rate or stability of their growth, with the marked exception of Chile.

vi) Rural-urban migrations, which were particularly intense in the 1970s, may have been more important than the improvement of economic conditions in rural areas in explaining the absolute reduction in the number of rural poor in Argentina, Brazil and Venezuela. In contrast, the latter factor has been more important than migrations in reducing absolute rural poverty in Colombia, Mexico and Panama and in bringing down the incidence of rural poverty in Costa Rica and Peru. In Chile, rural-urban migrations merely cushioned the general rise in the incidence of poverty.

<sup>11</sup> Contrary to the widespread fashion of using poverty lines constant over time in real terms, there is a strong argument for shifting even *absolute* poverty lines over time, in a context of growth and societal progress (see Altimir, 1991).

<sup>12</sup> Even if the poverty lines were shifted because of high growth, poverty would still have gone down, although to a lesser degree.

## IV

### The 1980s: a review of ten countries

Income concentration and poverty increased in the urban areas of almost all Latin American countries during the 1980s, as is evident from tables 1 and 3. Colombia is the only clear exception, while Mexico and Costa Rica appear to have cushioned to some extent the distributive deterioration caused by the adjustments of the decade, and Panama only suffered when it was affected by political and international conflicts. Brazil, which already had a high degree of inequality, also suffered relatively less additional deterioration. Chile, Argentina and Uruguay experienced severe distributive losses during different phases of their reform and adjustment processes of the last two decades, and their record of the 1980s has to be considered in this context. Peru and Venezuela also suffered heavy distributive losses, from different combinations of shocks and policy failures. The changes in income concentration<sup>13</sup> and urban poverty in each country and period are compared with the changes in relevant macroeconomic and labour market variables summarized in table 5.

The exceptional case is *Colombia*, where all available data show an improvement of income distribution during the decade: between 1978 and 1988 there was a relatively slight reduction of income concentration among wage-earners (Londoño, 1990), while between 1980 and 1986 there was a significant decrease in the share of the upper decile of households, mainly in favour of the middle strata; moreover, up to 1990 that improvement deepened,

<sup>13</sup> Even reliable income distribution measurements are not able to capture income received by the country's residents from assets held abroad. Capital flight during the initial years of the crisis has been substantial, particularly in Argentina, Mexico and Venezuela (see Cumby and Levich, 1987). With the yields current at the time, property income on assets accumulated abroad by the private sector of those countries may have represented around 3% of household disposable income in Argentina and Mexico and as much as 5% in Venezuela. These proportions have most likely increased the share of the upper decile or quintile in total household income, adding to the changes recorded in table 1 for the first half of the decade. Similarly, the later fall in international interest rates and related yields should have been reflected in an inverse change (of about half the size of the previous one) in the "total" (i.e.: from domestic and foreign sources) share of the upper-income groups.

favouring also the lower four deciles of households. However, the incidence of urban poverty in 1990 was roughly similar (around 35%) to the 1980 and 1986 marks.

These results are roughly consistent with the initial conditions before the crisis, the macroeconomic trends of the period and the traditionally prudent style of Colombian economic policy. When the systemic financial crisis of the 1980s broke, Colombia was not heavily indebted; adjustment did not take place until 1984-1985, and even then the policy followed was a gradual one, deliberately aimed at minimizing wage and employment losses. In fact, during the rest of the decade economic policy included job creation and sustaining wages among its objectives (García, 1991).

In 1986, when the country's comparatively mild external adjustment had just been completed, real per capita income was already 5% higher than in 1980 and real wages were 12% higher. However, urban unemployment was 4 points (i.e.: almost a half) higher than in 1980 and 2% more of the urban labour force (i.e., 27% of it) was employed in informal activities. The 1986/1990 period has been one of growth with stability, of sorts, for the Colombian economy, though the macroeconomic situation deteriorated somewhat in 1990. Real per capita income expanded more than 4% over the period, with exports, public consumption expenditure and private consumption leading the expansion. Unemployment correspondingly decreased (by more than 3 points) as did the importance of informal employment, while real wages increased slightly up to 1989 and decreased significantly only in 1990.

In *Mexico*, available measurements show a significant decrease in inequality, accompanied by a reduction of poverty at the national level, between 1977 and 1984, and a subsequent deterioration between 1984 and 1989: a period during which the government's policy stance radically changed (Lustig, 1992). The 1984 observation falls in the midst of the first adjustment and stabilization programme, at a time when a moderate economic recovery from recessionary adjustment was taking place (Lustig,

TABLE 5

**Latin America (9 countries): Changes in macroeconomic  
and labour variables and in income distribution  
in different phases of the 1980s**

Countries	Periods	Macroeconomic variables <sup>a</sup>			Labour market <sup>b</sup>						Changes in income distribution <sup>c</sup>	
		RNIpc	REER	INF <sup>d</sup>	MW	RMW	UNAL	NALI	UU	GEpc	Concentration (Gini coefficient)	Urban poverty coefficient
<b>I. Periods of recessionary adjustment to external shocks</b>												
Argentina	1980-83	-23	77	I	-1	37	10	1	81	-19	I?	I+?
Brazil	1979-83	-13	26	I	-18	-5	20	24	8	-7	M	I
Colombia	1980-83	-5	-12	D	8	7	12	9	21	7	D	M?
Costa Rica	1980-83	-26	40	I/D	-18	-1	12	12	42	-30	I?	I+
Chile	1981-83	-22	34	I	-11	-19	32	5	111	-8	I	I
Mexico	1981-84 <sup>e</sup>	-12	40	I	-30	-32	12	7	36	-14	I?	I?
Peru	1982-84	-12	14	I	-25	-20	32	31	35	-22	...	I+
Uruguay	1981-86	-19	55	I	-13	-14	...	...	60	-14	I	I+
Venezuela	1981-86	-30	51	-	-19	6	24	6	78	-21	I	I+
<b>II. Periods of recovery after external adjustment</b>												
Argentina	1983-86	-	-	D	8	7	10	8	19	24	I	I?
Brazil	1983-87	19	13	D/I	37	-23	-11	-1	-45	42	I	D
Colombia	1983-86	10	67	I	4	6	4	-2	18	-3	D	M
Costa Rica	1983-88	8	15	I	8	16	-4	8	-25	11	I?	D?
Chile	1983-87	12	72	-	-3	-27	-25	-16	-37	-23	I	...
Panama	1982-86	10	-	-	16	13	...	...	26	-3	...	M?
Peru	1984-87	16	-	D/I	40	-3	-15	-7	-46	28	...	D?
Uruguay	1986-89	13	12	M/I	6	-12	...	...	-20	-20	D	D
Venezuela	1986-89	-6	52	I	-38	-15	-5	4	-20	-20	I	I
<b>III. Periods of recession due to domestic imbalances</b>												
Argentina	1986-89	-13	34	I/H	-19	-62	14	8	36	...	I	I+
Brazil	1987-89	-1	-31	I	-11	-1	-6	-6	-11	17	I	I
Mexico	1984-87	-8	44	I	-16	-17	21	36	-32	-20	I?	...
Panama	1986-89	-22	-	-	-1	-1	...	...	61	-22	I?	I
Peru	1987-90	-30	-49	I/H	-69	-64	...	...	73	-58	I?	I
<b>IV. Periods of disinflation and recovery</b>												
Argentina	1990-91	5	-24	D	-7	39	...	...	-13	...	...	D
Mexico	1987-89	2	-11	D	-2	-16	9	14	-7	-10	I?	...
<b>V. Periods of growth after recovery</b>												
Colombia	1986-90	4	31	I	-5	-5	-13	-7	-25	20	D	D
Costa Rica	1988-90	-	-4	D/I	2	5	-4	1	-14	20	D	I
Chile	1987-90	18	5	I	11	27	-15	1	-45	-3	D	D
Venezuela	1989-90	10	4	D	1	-5	2	-	8	-9	D	...

Source: Changes in macroeconomic and labour variables: ECLAC and PREALC. Distributive changes: tables 1 and 3.

<sup>a</sup> RNIpc: real national per capita income; REER: real effective exchange rate; INF: inflation.

<sup>b</sup> RW: real urban or industrial wages; RMW: real minimum wage; NALU: non-agricultural labour force underutilization (per active person), equal to NALI+UU; NALI: Non-agricultural labour force in informal activities (PREALC definition); UU: urban unemployment rate; GEpc: real per capita government consumption expenditure.

<sup>c</sup> I: increased; I+: greatly increased; D: decreased; M: maintained; "?" indicates most likely presumption for the phase (see text) in the context of the changes observed in tables 1 and 3 for a longer period.

<sup>d</sup> I: increased; D: decreased; M: inflation rate was maintained; H: entered into hyperinflation.

<sup>e</sup> This period includes a transient recovery.

1992). However, real wages had dropped almost 30% in two years, and per capita public consumption expenditure had decreased 14%. It is likely that the improvement in concentration with respect to 1977 (quite apart from the ever-present possibility that the two measurements are not comparable) conceals a deterioration from a substantially better distributive situation reached during the period of vigorous growth (6% a year) prior to the crisis, particularly in urban areas.

Be that as it may, there is evidence of an increase in inequality between 1984 and 1989, when the Mexican economy was recovering to a moderate rate of growth with inflation under control, after absorbing an oil shock (real per capita national income was still 7% lower than in 1984), and in a period when fiscal discipline and policy reforms were progressively gaining ground. Over this time-span, per capita public consumption expenditure was reduced more than 30% in real terms and urban real wages declined a further 26%. At the same time, unemployment dropped to levels below those registered during the oil boom and informal employment increased 10 points, to more than 30% of the non-agricultural labour force. Both developments, consistent with the remarkable flexibility of real wages, must have cushioned the impact on the incomes of poor and lower-middle households (Lustig, 1992).

*Costa Rica* has been traditionally characterized by political and economic stability and the adjustment of its economy during the 1980s was significantly aided by official transfers from the United States. Nevertheless, the distribution of urban incomes worsened between the beginning and the end of the decade, although the improvement of rural incomes may have helped to maintain the previous concentration of income at the national level.<sup>14</sup> The deterioration that took place between 1981 and 1988 was only partially reversed during the subsequent two years, and this reversal favoured the middle strata more than the poor. Consequently, urban poverty increased significantly between 1981 and 1988 and also advanced a little more up to 1990.

<sup>14</sup> Morley and Alvarez (1992, tables 7b and 7c) argue that the real devaluation that was required for external adjustment presumably increased agricultural wages after 1981, although the bulk of the devaluation occurred in that year. They also note that between 1981 and 1989 rural nominal incomes in the lower deciles of the national distribution increased more than those of urban households in the same deciles.

There is evidence that impoverishment was acute during the recessionary external adjustment of 1981/1982, while later stabilization and recovery in 1983/1986 brought absolute poverty down to levels close to those registered prior to the crisis (Trejos, 1991). At least, this is what appears to have happened at the national level; real devaluation may have increased the incomes of the rural poor, as argued by Morley and Alvarez (1992), while the real rise of wages in formal activities after the adjustment may have improved the situation of the lower-middle strata. On the other hand, the deterioration of real incomes in informal activities—which had expanded—may have increased the number of the urban poor.<sup>15</sup>

In the subsequent period, marked by policy reform (especially trade liberalization) and unstable expansion, the available evidence indicates a relative stabilization of the incidence of poverty at the national level (Trejos, 1991; ECLAC, 1992a), but also—as already indicated—a tendency for urban poverty to increase, in the context of a reduction of real wages, a gradual decline in real per capita income, and relative stability of the real exchange rate. On the other hand, the expansion of public consumption expenditure in real terms (20% per capita) must have helped the observed improvement of the relative position of middle income groups.

The external shocks that set off the crisis in other Latin American countries had a delayed and milder impact on the economy of *Panama*, which only suffered a brief stagnation of economic activity in 1983/1984. In spite of a 23% rise in real per capita income and a 14% increase in real wages, between 1979 and 1986 urban poverty fell only slightly, to less than 30% of households. The political crisis cum international conflict that pushed the Panamanian economy into recession in 1988/1989, however, brought real per capita income to 5% below the 1979 level—although this was not so with real wages—, reduced per capita public consumption expenditures more than 20% and forced up open unemployment of the urban labour force by 10 percentage points. As a result, the concentration of income significantly increased, as did poverty, which spread to 34% of urban households.

<sup>15</sup> Morley and Alvarez (1992, table 7h) note that among urban households there was a sharp deterioration of nominal wages in non-basic services compared with industry between 1981 and 1986.

The already highly unequal income distribution of *Brazil*, which had not improved even during the previous decade of high growth, worsened further during the 1980s. The inequality of the distribution of household income remained relatively stable during the 1981-1983 recession and later recovery and improved slightly and briefly in 1986, in the climate of growth and temporary stability created by the Cruzado Plan. Between that year and 1989, however, with the acceleration of inflation and the beginning of the present recession, income concentration increased, though there is evidence (Hoffman, 1992) that in 1990 inequality of household income improved somewhat.

Consequently, the distribution of income in 1989 was more concentrated than in 1979, and poverty affected 5% more of urban households, while real national per capita income and industrial wages remained at about the same level as at the end of the previous decade, but unemployment had risen by more than 3 percentage points, as also had informal employment. On the other hand, expansion of public consumption expenditure (55% growth in per capita terms between 1979 and 1989) must have helped to cushion the relative deterioration of the middle-income groups. The fall of economic activity and incomes in 1990, which was accompanied by a 20% real reduction of industrial wages, increased urban poverty by 4 additional points, to almost 39% of households.

External shocks and policy reforms under the authoritarian rule of the Pinochet regime, along with the ensuing instability and low average growth, caused major changes in income distribution and poverty in *Chile* during both the 1970s and the 1980s. Income distribution suffered significant deterioration: not only was the short-lived redistribution that lasted up to 1974 reversed but the distributive pattern of Chilean society underwent a complete change.

By 1980, after the recovery from a deep recession (per capita GDP was only 6% higher than in 1970), the implementation of a radical trade liberalization programme, the reversal of agrarian reform, and institutional reforms that allowed for greater labour market flexibility but also for labour repression (French-Davis and Raczynski, 1987), the upper decile of households was receiving at least five points more of total income than in 1968, to the detriment of the shares—and real incomes—of both the middle and lower strata. Real wages were still more than

10% lower than in 1970, 17% of the labour force was unemployed and 28% was in informal activities. Absolute poverty virtually exploded, both in urban areas—from 12% in 1970 to around 28% in 1980—and in rural areas, bringing the incidence of poverty at the national level to about 30% of the households (Altimir, 1991).

During the 1982-1983 crisis, the existing inequality was further aggravated—although perhaps only marginally, compared with the turnaround of the previous period—and urban poverty increased still further.<sup>16</sup> The deterioration may have continued until 1987, when real per capita income and real wages were respectively still 12% and 5% lower than in 1980, per capita public consumption expenditure had shrunk more than 30%, and unemployment still affected 17% of the labour force, although the share of informal activities had been reduced. Under those circumstances, urban poverty had risen by about 4 points (14% on a per capita basis) and the distribution of income had further concentrated in favour of the upper quintile, whose share of expenditure increased by almost 4% of the total with respect to 1978, to the detriment of the middle and lower strata, the latter having suffered a relative greater loss.

Only between 1987 and 1990, with the Chilean economy reaching full utilization of its capacity and progressive reforms of the labour laws, did the distributive picture improve somewhat. Real per capita income increased 18%, real wages 11% and unemployment was reduced by almost 6 points, to about 7% of the labour force. At the same time, urban income concentration decreased slightly, in favour of the lower income groups, and urban poverty was reduced by 2 points, while rural poverty decreased more significantly, bringing the incidence of poverty at the national level to less than 35% of households.

Major distributive changes have also taken place in *Argentina* since the 1970s, under successive spells of economic instability and political disruption. After a military regime came to power in 1976, policy reforms were introduced to liberalize prices, trade and the financial market, but not employment and wages (which were repressed for most of the period). Economic activity followed a stop-go pattern in the context of a situation of high inflation, in spite of

<sup>16</sup> Pollack and Uthoff (1987) estimate that absolute poverty increased by 8 percentage points (from 40% to 48%) in Greater Santiago.



the explicit anti-inflationary policy stance which permeated three successive programmes (Canitrot, 1981).

Between 1970 and 1980 income concentration significantly increased: the upper decile of households enlarged its share of total income by almost 5 points, while the lower strata lost almost 3 points. Urban poverty increased by 2 points, to 7%. Most of this deterioration, however, took place after 1974.<sup>17</sup> In 1980, real per capita income was roughly similar to the 1974 level and real wages in manufacturing were still 14% lower than in that year, though unemployment was very low.

The sizeable fluctuations in economic activity, the magnitude of the external shocks and ensuing adjustments, and swings in relative prices associated with high and accelerating inflation during the 1980s were accompanied by movements of the relative distribution of income, although these were perhaps not as intense as the macroeconomic ebb and flow (Beccaria, 1991). By 1986, income concentration had further increased with respect to 1980, involving a dramatic change from the beginning of the 1970s: the share of the upper decile had grown about as much as it had in the previous decade, but this time at the expense mainly of the middle-level strata. Urban poverty had increased 6 points (i.e., almost doubled), to more than 12% of households. Although the economy was recovering under a successful stabilization programme, real per capita income was 22% below the 1980 level, unemployment was 3 points higher, and informal employment 2 points higher; on the other hand, real wages were 6% higher than at the beginning of the decade.

After 1986, the acceleration of inflation and the fall in real wages were accompanied by a further deterioration of relative income distribution, which reached its high point in 1989; with the burst of hyperinflation and recession reaching its trough, concentration stood at its peak. In 1990, income concentration among individual recipients receded to the still high level reached in 1988 (Beccaria, 1991). Between 1986 and 1990, poverty may have spread to an additional 6% of urban households (an increase of more than 50% on a per capita basis) and the situation improved only in 1991, when prices stabilized and economic recovery began.

<sup>17</sup> See Altimir (1986) for the evolution of income distribution and Beccaria and Minujin (1991) for the evolution of absolute poverty during the period.

*Uruguay* is the other Southern Cone country in which policy reforms were already undertaken in the 1970s, under authoritarian rule, with significant distributive consequences. Starting in 1974, the financial market was liberalized and price controls were gradually eliminated, while wages continued to be administered, and as from 1979 a trade liberalization programme was put into effect. The 1973-81 period was one of relatively high growth (3.4% per capita a year); nevertheless, the distribution of income deteriorated sharply between 1973 and 1979—at the expense of both the middle and lower strata—improving somewhat later, but only to the benefit of the middle income strata. This evolution closely followed that of the relationship between real national per capita income and real wages: the former increased 12% between 1973 and 1979, while the latter dropped 32%, and between 1979 and 1981 real income expanded 4% but real wages rose about 17%. On the other hand, urban poverty increased by 4 percentage points (40% on a per capita basis) between 1970 and 1981.

External shocks and ensuing adjustments slashed real per capita income by 19% between 1981 and 1986; real wages fell 8% and unemployment increased 4 points, while per capita public consumption expenditure was reduced more than 30%. Income concentration increased yet again, and urban poverty expanded by 5 additional percentage points, to 14% of households. As a result of economic recovery and later stagflation, real per capita income in 1989 was 13% higher than in 1986 and real wages were 6% higher, while unemployment had decreased 2 percentage points. Consequently, the distribution of urban incomes improved and urban poverty decreased by 4 percentage points. Thus, at the end of the decade, the relative distribution of income and the incidence of absolute poverty were roughly similar to those at its outset, while real wages were substantially lower and unemployment somewhat higher than in 1981.

Continuing deterioration of real national income in *Venezuela* between 1980 and 1986, caused by the fall in oil revenues, and the ensuing reduction (around 20%) of real wages and per capita public consumption expenditure were accompanied by a significant worsening of the distributive situation. Between 1981 and 1986 urban poverty increased 7 percentage points (almost 40% on a per capita basis) while the relative distribution of income also became more unequal.

Economic policy failed to adjust to the fall in oil prices in 1986; external and fiscal imbalances widened and the rate of inflation trebled. The orthodox stabilization programme implemented at the beginning of 1989, along with the first trade and price liberalization measures of a programme of policy reform, brought a recession and sharp falls in public consumption expenditure and real wages, while previous gains in employment were reversed and informal activities expanded. Consequently, poverty increased<sup>18</sup> and income distribution apparently "equalized downwards". The rise in oil earnings caused by the Persian Gulf conflict in 1990, and ensuing public expenditure in 1991, fuelled an extraordinary –and unsustainable– expansion of economic activity. This, however, was mainly to the advantage of the upper-middle strata; urban poverty in 1990 was still 9 percentage points higher than in 1986 and 16 points higher than in 1981 (i.e., almost double). On the other hand, there is evidence indicating that by 1991 –at least at the national level– poverty may have receded somewhat.<sup>19</sup>

## V

### Rural poverty

For most of the countries in our sample there is evidence of a decrease –however slight in some cases– of the incidence of rural poverty in the course of the 1980s, thus somehow at least inertially continuing the trend towards abatement of rural poverty that was manifest in the previous decade. The only clear exceptions are Panama and Venezuela, where that trend appears to have reversed by the end of the 1980s, and possibly Argentina, for which a slight increase of rural

The worsening income distribution in the urban areas of *Peru* in the 1970s was aggravated during the 1982/1985 crisis and external adjustment, in a climate of increasing violence. By the end of 1985 and the beginning of 1986, when the economy was recovering under the drive of an unsustainable heterodox stabilization programme implemented by the newly elected García government, real national per capita income and real wages in the private sector were still 9% and 5% lower than in 1979, while an additional 10% of the non-agricultural labour force was employed in informal activities (thus reaching more than 40%). At that time, urban poverty still affected 45% of urban households: 10 percentage points more than in 1979.

Although there are no comparable observations for later years, there is some evidence that by 1990, in the midst of hyperinflation and economic collapse, poverty may have expanded by more than half with respect to 1985/1986, and it worsened still further in 1991, when the Fujimori government put into effect the present stabilization programme.<sup>20</sup>

poverty has been estimated. Chile is a special case, since the rural impoverishment of the 1970s continued well into the following decade, only to be reversed in the latter years (table 3).

Those exceptional increases are associated with falls in real per capita income, but the reverse does not hold true: of nine recorded spells of rural poverty reduction, this coincided with an increase in real national per capita income in only four cases;<sup>21</sup> in the remaining five rural poverty decreased along with

<sup>18</sup> Marquez (1992) estimates that, at the national level, poverty affected 28% of households in 1985, 32% in 1987 and 41% in 1989.

<sup>19</sup> Marquez (1992) puts the incidence of poverty at the national level in 1991 at 35% of households, compared with 41% in 1989, a point when it was no doubt higher than in 1990.

<sup>20</sup> See Figueroa (1992, table 2) and Abugattas and Lee (1991, table 4). On the other hand, comparison of the distribution of Lima households by size of per capita consumption expenditure, on the basis of the 1985/1986 and 1990 surveys of the standard of living (Psacharopoulos *et al.*, 1992), shows little increase in inequality between the two observations; this may reflect another case of "downward equalization" by recession, with the real consumption of the poor falling by almost 7% a year and the real consumption of the richest decile by almost 6% a year.

<sup>21</sup> Brazil (1979-1987), Colombia (1980-1986), Chile (1987-1990) and Panama (1979-1986).

TABLE 6

**Latin America (8 countries): Changes in rural poverty and in relevant macroeconomic variables in the 1980s**  
(Percentage change over each period)

Country	Period	Changes in rural poverty <sup>a</sup> (per cent)	Changes in macroeconomic variables (per cent)		
			Per capita real national income	Agricultural GDP	Real exchange rate
Argentina	1980-1986	4	-23	12	75
Brazil	1979-1987	-3	4	41	43
	1987-1990	-6	-7	-	-38
Colombia	1980-1986	-7	5	11	47
Costa Rica	1981-1988	-3	-5	18	-6
	1988-1990	-10	-	10	-4
Chile	1980-1987	11	-13	33	89
	1987-1990	-19	18	14	5
Panama	1979-1986	-4	23	11	-
	1986-1989	11	-22	7	-
Peru	1979-	-2	-9	12	-9
	1985-1986				
Venezuela	1981-1986	-3	-30	23	51
	1986-1990	12	3 <sup>b</sup>	1	59

Source: ECLAC.

<sup>a</sup> Taken from estimates in table 3.

<sup>b</sup> 1986-1989: -6%.

declines in real national income. In contrast, there is a close association of rural poverty reduction with expanding agricultural output, which holds good in eight of the nine cases, suggesting that peasants somehow share in general rural prosperity. In contradiction to conventional wisdom, however,<sup>22</sup> the association is weaker with real devaluation of the exchange rate, since it is observed in only four of the cases, and in most of them with low parameters (table 6).

All this suggests that, in the absence of major institutional reform,<sup>23</sup> slow-moving structural changes in the rural milieu affect the process of reduction of rural poverty more than short or even medium-term

changes in macroeconomic variables, although these may be able to slow down or even temporarily reverse such a process.

These slow-moving changes are in part reflected in the continuous transfer of rural poverty to the urban areas through migrations. In the 1980s, these have been less intense than in the previous decade, but they were nevertheless substantial. In most of the countries, rural-urban migrations were the main force sustaining the trend towards the reduction of poverty in rural areas, although they may not have been sufficient—as they had been in the 1970s—to prevent an absolute increase in the rural poor.

<sup>22</sup> At least, this is true if no allowance is made for time lags between real devaluation, reallocation of resources to tradeables, ensuing expansion of agricultural output, and eventual participation of peasants and labourers in such expansion.

<sup>23</sup> Such as agrarian reform, as in Peru, or its reversal, as in Chile, both in the 1970s.

## VI

### Transient and permanent changes in income distribution

In order to shed some light on whether and to what extent changes in inequality during the decade of crisis and adjustments may be permanent, it is crucial to consider the different macroeconomic phases through which the Latin American countries have passed and the structural circumstances in which each of them is situated at present, as well as the nature and depth of policy reforms undertaken. Changes in macroeconomic and labour variables and distributive changes in selected periods corresponding to different macroeconomic phases of the 1980s are summarized in table 5.<sup>24</sup>

#### 1. Income distribution and poverty in different phases of adjustment processes

Recessive adjustment to external shocks at the beginning of the decade has had adverse effects on inequality and devastating effects on urban poverty all over Latin America. Income concentration certainly increased in Argentina, Chile, Uruguay and Venezuela and perhaps also in Costa Rica and Mexico, while in Brazil inequality apparently remained unchanged through the rapid adjustment of 1981-1984 (Hoffman, 1992). In all these cases urban poverty increased during the adjustment, along with underutilization of the urban labour force<sup>25</sup> (which rose by between 10% and 20%, depending on the country) and there were sizeable falls in real per capita income, real average wages<sup>26</sup> and real per capita public consumption expenditure.

<sup>24</sup> The intervals between measurements of poverty (table 3) or income distribution (table 1) usually cover more than one phase of economic evolution; in these cases, the changes in distribution shown in the table are also based on the evidence referred to in the text.

<sup>25</sup> The indicator of underutilization of the urban labour force used here is the sum of the rate of open (urban) unemployment and the proportion of the non-agricultural labour force engaged in informal activities, estimated by PREALC.

<sup>26</sup> In Argentina, however, real wages recovered and the minimum wage increased sharply in 1983, at the end of the disintegrating military regime, even with accelerating inflation. In Chile, real average wages (in formal activities) rose up to 1982, in a context of moderate inflation, high labour underutilization (almost half of the non-agricultural labour force) and a new labour regime that gave the labour market total flexibility (García, 1991).

Colombia stands out as an exception, partly because of its lesser initial debt burden. The economy went through a smooth external adjustment—even with real currency appreciation—with reduction of inflation, which allowed for real rises in minimum and average wages, and even for the real expansion of per capita consumption expenditure. Such was the background for the probable improvement of income distribution and the lack of aggravation of absolute poverty. Although Panama also underwent a mild adjustment in 1982-1984, with rising real wages but an increase in unemployment, in this case there is no indication of the distributive changes over that period.

The recovery after external adjustment only brought relief on the poverty front in certain countries. In Brazil, it may be associated with the cumulative rise in real per capita income (close to 20%) and real wages (37%), and with decreasing labour underutilization, in spite of a probable increase in inequality.<sup>27</sup> If Peru also experienced a slackening of urban poverty during this phase—which is not known for certain, but is likely—this may have been due to a similar configuration of changes in the level of activity and the labour market. The decrease of poverty in Uruguay—along with inequality—and perhaps in Costa Rica and Panama, and the possible maintenance of its already limited incidence in Colombia, are also associated with changes in income and the labour variables in the same direction but to a less spectacular extent.<sup>28</sup>

In contrast, recovery in Argentina, Chile and Venezuela was accompanied by further increases in urban poverty, although for different reasons. In Argentina, the unsteady and only partial recovery and

<sup>27</sup> However, the conspicuous increase in real per capita public consumption expenditure (42%) must have improved the relative position of some middle-income strata.

<sup>28</sup> Mexico's brief and mild recovery in 1984 did not significantly alter the results of the previous recessive phase, although "the very circumstances that triggered it contributed in part to its demise" along with worsening terms of trade in 1985 (Lustig, 1992, pp. 34-36).

the increase in unemployment and informal labour apparently outweighed the modest rise in real wages and the temporary abatement of inflation. In Venezuela, too, until 1989, the recovery had been partial and subject to adverse external shocks, with accelerating inflation, while shrinking (-38%) real wages and per capita consumption expenditure (-20% in real terms) outweighed the very modest decrease in labour underutilization, providing the background for increases in inequality and urban poverty. In the case of Chile, complete labour market flexibility allowed for a deterioration in equity in the medium-run; the 1983-1987 recovery was vigorous and underutilization of the labour force decreased significantly (although it still remained at more than a third of the urban labour force), but real wages and per capita public consumption expenditure barely held steady, in a context of moderate and roughly constant inflation, while both inequality and absolute poverty increased.

Those countries which again plunged into recession, after recovering from external adjustment, due to pervasive internal imbalances, additional external shocks and accelerating inflation combined with stabilization efforts, experienced further increases in inequality and absolute poverty.

In Argentina and Peru such imbalances drove the economies to hyperinflation, and in Brazil to the brink of it; real incomes and wages plunged and labour underutilization increased, as also did absolute poverty and income inequality. Argentina's emergence from hyperinflation in 1990 stopped the fall and even brought some marginal improvement in inequality, although it did not prevent a further increase in poverty. The acceleration of inflation in Brazil took place along with some economic expansion and further increases in per capita public consumption expenditure, albeit with stagnating real per capita income and falling real wages; however, the 1990 stabilization package brought about disinflation with recession, which apparently increased poverty still further.

External shocks in 1985-1986 and stabilization efforts in Mexico also led to a new recessionary spell; the increase in informal activities and the drop in real wages suggest that there may have been a further increase in urban poverty and that -jointly with the fall in per capita public consumption expenditure- part of the observed increase in inequality up to 1989 may have taken place during this period. Panama's deep recession of 1988-1989, triggered by political and international conflicts, increased urban poverty and possibly also inequality.

The two cases of stabilization and recovery from high inflation and recession in the late 1980s (Argentina in 1990-1991 and Mexico in 1987-1989) included moderate increases in real income and in the utilization of the urban labour force and also moderate reductions in real wages. In the case of Argentina, urban poverty decreased from the high level of incidence attained during the previous spells. In the case of Mexico, however, there is no evidence of a similar abatement of poverty or of a decrease in inequality.

In almost all of the few observable instances of sustained or even unsustainable growth after recovery, such circumstances brought about an improvement of the relative income distribution and some decrease in urban poverty. Only in Costa Rica in 1990 was there a rise in urban poverty, with the acceleration of inflation and particularly the elimination of subsidies and the increase in public service rates. In both Colombia and Chile inequality and poverty decreased; in the latter case the rises in real incomes and wages were more substantial, but in Colombia there was an expansion in real per capita public consumption expenditure. In Venezuela, there are indications of a reduction of income concentration in 1989-1990, in spite of falling real wages and increasing unemployment.

## 2. Permanent changes in income concentration

Let us consider first the countries that have already attained a stage of full-capacity growth. Colombia is the only one in which income concentration at that stage is actually lower than before the crisis, but in Costa Rica in 1990 urban inequality was only slightly higher than in 1981. In both countries, real wages and per capita public consumption expenditure were higher than at the beginning of the decade (table 7).

In Chile, in contrast, after regaining a medium-term growth path, the income structure is significantly more concentrated than before the crisis and certainly much more than the relative income distribution prevalent at the end of the 1960s, before the socialist-populist experiment and the authoritarian structural reforms of the 1970s (see table 1). This, in spite of an almost recovered real wage. Also in Venezuela, income concentration is higher than before the crisis, after recovery evolved into rapid albeit unsustainable growth; in this case, both real wages and per capita public consumption are substantially lower than before the crisis.

Although they were not yet on a full-capacity growth path in 1989, Mexico and Uruguay were

TABLE 7

**Latin America (10 countries): Inequality, urban poverty and macroeconomic variables at the end of the 1980s, relative to pre-crisis levels (Indices)**

Country	Year	Base year	Macro phase <sup>a</sup>	Application of significant policy reforms	Inequality (Gini coefficient)	Urban poverty (incidence)	GDP	RNIpc <sup>b</sup>	RGCpc <sup>c</sup>	NALF <sup>d</sup>	RW <sup>e</sup>	RMW <sup>f</sup>	REER <sup>g</sup>
Argentina	1990	(1980 = 100)	D&R	Recent	113	205	93	69	...	88	77	40	185
Brazil	1990	(1979 = 100)	RDDI	Partial	108	130	127	97	158	98	85	55	89
Colombia	1990	(1980 = 100)	SGAR	Partial	91	96	135	110	125	99	106	108	192
Costa Rica	1990	(1981 = 100)	SGAR	Yes	103	138	128	95	115	103	102	134	90
Chile	1990	(1981 = 100)	SGAR	Yes	113	107	126	104	69	108	96	76	240
Mexico	1989	(1977 = 100)	D&R	Yes	100?	>95	147	106	76	89	54	41	111
Panama	1989	(1979 = 100)	RDDI	No	116	111	116	95	99	...	108	93	
Peru	1990	(1979 = 100)	RDDI	Recent	...	190	94	72	62	...	36	24	40
Uruguay	1989	(1981 = 100)	RAEA	Yes	98	109	100	92	86	...	93	76	173
Venezuela	1990	(1981 = 100)	UG	Recent	110	188	105	72	68	93	48	63	240

<sup>a</sup> D&R: Disinflation and recovery; RDDI: Recession due to domestic imbalances; SGAR: Sustained growth after recovery; RAEA: Recovery after external adjustment; UG: Unstable growth.

<sup>b</sup> RNIpc: Per capita real national income. <sup>c</sup> RGCpc: Per capita real government consumption expenditure. <sup>d</sup> NALF: Index of the proportion of the non-agricultural labour force employed in formal activities (opposite of NALU (under-utilization of non-agricultural labour force per active person)). <sup>e</sup> RW: Real urban or industrial wages. <sup>f</sup> RMW: Real minimum wage. <sup>g</sup> REER: Real effective exchange rate.

approaching the culmination of their respective recoveries; at that stage, income inequality had nearly returned in both cases to pre-recession levels.<sup>29</sup> In Mexico, this occurred in spite of drastic reductions of real wages and public consumption expenditure, whereas in Uruguay both variables were more moderately eroded.

The countries that were still labouring under recession and instability at the end of the 1980s (Argentina, Brazil, Panama and Peru) showed degrees of inequality substantially higher than those prevailing before the crisis. Stabilization and recovery in Argentina only brought some improvement of income inequality, but this nevertheless remained high compared with the pre-crisis level, which was substantially higher than that prevailing before the disruptions of the 1970s. On the other hand, in the spells of recovery after external adjustment, income distribution improvements –where they existed– only took place along with real wage increases, as outlined above; these are less likely during the stabilization processes still faced by Brazil and Peru and have not occurred during the current Panamanian recovery.

Consequently, one should not expect significant equity improvements in these countries as a consequence of stabilization and recovery. Indeed, full deployment of policy reforms and associated adjustment measures –particularly on the fiscal front– may still bring a medium-term increase in income inequality. Furthermore, if the experiences of Colombia and Chile are taken as examples, all these countries can only expect a modest reduction of income inequalities later, when they attain a sustained growth path.

In sum, “normal” distributive patterns in the coming phase of sustained growth, when this materializes in most Latin American countries, once they have recovered from the crisis and its sequels, completed structural adjustments, and deployed policy reforms, tend to be more unequal –at least in the urban areas– than those prevailing in the last stages of the previous growth phase, during the 1970s.

Only Colombia, Costa Rica and Uruguay –and, just possibly, Mexico– have managed to restore their previous degrees of inequality (table 7). It is no accident that this should have happened in countries in which social justice values have traditionally imbued institutions, objectives of equity have been quite consistently incorporated in policy design throughout the adjustment phase, and both adjustment and pol-

<sup>29</sup> However, if pre-recession (i.e., around 1981) inequality in Mexico was even lower than the level observed in 1977, as suggested earlier, post-recovery inequality would have been somewhat higher than that previous mark.

icy reforms have been approached gradually and pragmatically.<sup>30</sup> This suggests that the tendencies that increase inequality of primary earnings (before

the eventual corrections involved in public social spending) can be positively corrected by economic policy design and implementation.

## VII

### Prospects for poverty alleviation

Even without any significant changes in the relative distribution of income,<sup>31</sup> absolute poverty will be reduced by economic growth; and this will take place more quickly—at least in economists' estimates— if constant poverty lines are used, or more sluggishly if shifting poverty yardsticks are deemed normatively more appropriate.

The record of the 1970s, outlined earlier, shows urban poverty decreasing only in rapidly growing economies which either maintained or reduced their concentration of household income. In Colombia, Mexico and Venezuela, where equity improved, the reduction of urban poverty showed elasticities of -0.5 to -1 with respect to the increase in real per capita income and of -0.4 to -2 with respect to real wages. In Brazil, where there was no significant improvement in income concentration, such elasticities were much lower (table 8).

Recession and recovery in the 1980s left most Latin American countries with a sometimes markedly higher incidence of poverty in urban areas than before the crisis. Only Colombia and possibly Mexico were able to end their respective recovery phases with less urban poverty than before the recession, in both cases because of a decrease in inequality (table 7).

Available poverty estimates seldom permit a sharp differentiation between periods of recession and those of recovery. When they do, the beneficial effects of recovery on poverty appear weaker than the negative effects of the previous recession. In

Uruguay, the elasticity of poverty with respect to real income in the 1986-1989 recovery was -2, while during the recession it had been -3. In Argentina, disinflation plus recovery abated poverty as elastically (-4) as recession had increased it, but the recovery itself was then very incipient. In Venezuela, on the other hand, the completion of recovery did not prevent poverty from widening still further.

In other instances (Brazil 1979-1987, Costa Rica 1981-1988, Chile 1980-1987 and Peru 1979-1986) the culmination of the recovery phase left the economy with a greater degree of inequality and a higher incidence of urban poverty. In Costa Rica, not even sustained growth after 1988 was able to prevent the increase in urban poverty, as a consequence of price deregulation (table 8).

In most cases, real wages at the end of the recovery process were lower than before the crisis, which helps to explain the weaker effect of recovery on poverty. Although in Argentina and Brazil, at the culmination of the respective heterodox stabilization programmes, and in Costa Rica real wages were higher, that fact appears to have been offset by other factors which increased inequality and, particularly in the first case, by the fall of real per capita income. In Colombia and Panama, in contrast, higher real wages have reinforced the effect of the recovery of real income in preventing an increase in urban poverty. This was not so, however, in Mexico, where real wages in 1984 were substantially lower than before the crisis (table 8).

On the other hand, the few observable growth spells at the end of the 1980s (Colombia 1986-1990 and Chile 1987-1990) show elasticities with respect to real per capita income (-0.7 and -0.4, respectively) similar to those recorded in the 1970s in rapidly growing economies where income inequality was decreasing. Only in Chile, however, has poverty reduction been more elastic with respect to real wages than to real incomes, as had happened in all cases in the 1970s (table 8).

<sup>30</sup> The gradual approach has been abandoned in Mexico in the last phase of the reform process, but it must be borne in mind that this phase has coincided with the preparations for the incorporation of the country into the North American Free Trade Agreement (NAFTA), a strategic leap forward which, when fulfilled, will radically change the structural conditions of the Mexican economy and, among them, its distributive structures.

<sup>31</sup> Including, to be sure, the absence of changes in either the composition of households and their work and resource utilization strategies, which is a highly artificial assumption.

Rural-urban migrations will continue to exert pressure on the ability of the economies to alleviate urban poverty. If the experience of the last two decades (Altimir, 1991) is any indication of what might happen, in the relatively less urbanized countries with a high incidence of poverty in the rural areas, the migrating rural poor may swell the ranks of the urban poor at a rate equivalent to an absolute increase of 1.3-2.0 % a year.

To sum up all this evidence, it is likely, on the one hand, that countries accomplishing their recovery

into full-capacity growth will undergo a change in their ability to reduce urban poverty in the short run, requiring relatively more expansion of economic activity than in the recovery phase for each percentage point of poverty reduction. On the other hand, medium-term growth with no improvement of income inequality would permit only a slow process of poverty abatement: slower than in the cases of high growth and equity improvement of the 1970s, and slower than during recent growth spells in Colombia and Chile, when income distribution also improved.

TABLE 8

**Latin America: Changes in urban poverty and their relation with changes in income concentration and real income in different periods**

Country	Period	Changes in income concentration <sup>a</sup>	Percentage variation			Elasticity of urban poverty in relation to:			
			Urban population	RNIpc <sup>b</sup>	RW <sup>c</sup>	RMW <sup>d</sup>	RNI <sup>e</sup>	RW	RMW
<b>I. Growth periods in the 1970s</b>									
Brazil	1970-1979	M	-14	67	48	-1	-0.2	-0.3	14
Colombia	1970-1980	D	-21	44	17	27	-0.5	-1.2	-0.8
Mexico	1970-1984	D	-30	31	15	-20	-1.0	-2.0	1.15
Venezuela	1970-1981	D	-30	71	...	-3	-0.4	-0.4	10
<b>II. Periods of recession and recovery in the 1980s</b>									
Argentina	1980-1986	I	71	-23	7	47	-3.1	10	1.5
	1986-1990	I	52	-15	-22	-64	-4.0	-2.4	-0.8
	1990-1991	...	-22	5	-7	39	-4.4	3.1	-0.6
Brazil	1979-1987	I	13	3	19	-27	4.2	0.7	-0.5
	1987-1990	I	15	-6	-29	-26	-2.5	-0.5	-0.6
Colombia	1980-1986	D	-	5	12	13	-	-0.1	-
Costa Rica	1981-1988	I	31	-5	16	27	-6.5	1.9	1.1
Chile	1980-1987	I	14	-13	-5	-31	-1.1	-2.8	-0.5
Mexico	1977-1984	D	-6	14	-34	-40	-0.4	-0.2	0.2
Panama	1979-1986	I	-3	23	14	-6	-0.1	-0.2	0.5
	1986-1989	...	13	-22	-1	-1	-0.6	-1.3	-1.3
Peru	1979-1986	...	29	-7	-5	-39	-4.1	-5.8	-0.7
Uruguay	1981-1986	I	56	-19	-13	-14	-3.0	-4.3	-4.0
	1986-1989	D	-29	13	6	-12	-2.1	-4.8	2.4
Venezuela	1981-1986	I	39	-31	-19	6	-1.3	-2.1	6.5
	1986-1990	D	32	3	-41	-19	9.4	-0.8	-1.7
<b>III. Growth periods in the late 1980s</b>									
Colombia	1986-1990	D	-3	4	-5	-5	-0.7	0.6	0.6
Costa Rica	1988-1990	D	5	-2	2	5	-2.8	2.5	1.0
Chile	1987-1990	D	-8	18	11	27	-0.4	-0.7	-0.3

Source: Table 5.

<sup>a</sup> M: Maintained similar level; D: Decreased; I: Increased.

<sup>b</sup> RNIpc: Per capita real national income.

<sup>c</sup> RW: Real urban or industrial wages.

<sup>d</sup> Real minimum wage.

<sup>e</sup> Real national income.



# VIII

## Conclusions

After overcoming the difficult period of the 1980s, Latin American countries are entering into a new era of potential growth under a different pattern of development and a new style of State intervention. The adjustments to absorb both exogenous changes, those required in order to adapt to resource availability and utilization, and the structural changes still under way have caused most Latin American societies to suffer more unequal distribution of income and a higher incidence of poverty among their people. The few exceptions are the result of deliberate and persistent concern for equity in economic policy design and implementation. Moreover, the prospects for poverty alleviation through growth alone, without improvement of the relative distribution of incomes and vigorous social policies, appear so limited as to be disheartening and seem likely to be counterproductive for social integration and, ultimately, for sustained growth (ECLAC, 1990).

Given the unlikely prospect that primary earnings will become less unequal, even if there is deliberate concern for this in economic policy, the improvement of equity and particularly the abatement of absolute poverty will have to lean much more on social policy and its effectiveness. With fiscal resources reduced or still constrained by the debt burden, however, the scope for welfare transfers will be restricted to no more than the provision of a basic social safety net, with preference being given to social expenditures that can be considered as investment in human resources.

Eventual gains in equity of income distribution will depend on the spread of productivity improvements and their actual appropriation by households. The structural transformations underway tend to increase the productivity of capital and total factor productivity, thus enhancing labour productivity in the economy at large. However, for income distribution to improve on the basis of differential productivity gains three developments are required. First, employment in formal or modern activities must be extended, along with productivity increases, to a larger proportion of the labour force, thus absorbing underemployment. Second, those productivity increases

must be effectively translated into proportional wage rises. Third, the capital per worker in the labour force remaining in the informal, small business and traditional sectors of the economy must increase dramatically.<sup>32</sup>

In order to attain these objectives it is necessary, as well as raising the productivity of capital in general, to increase the skills of the different segments of the labour force, while at the same time restructuring the availability of skills so as to enhance the technological capabilities of the productive system at large. For this purpose, and in order to ensure long-term progress, heavy investment in human resources (education, training and retraining, nutrition and health) must supplement investment in fixed capital (ECLAC, 1992b). Indeed, there are some grounds for substituting investment in human capital for investment in physical capital, in so far as a greater contribution to total factor productivity can be expected from the former, in a long enough term.

Fulfilling these requirements involves substantial amounts of investment resources, partly originated and handled in the marketplace, but also partly raised and allocated by the State. At the same time, in order for higher skills to be reflected in workers' income, pay structures must meet the double challenge of being at the same time institutionalized and flexible.

The efficient absorption of capital by the underemployed, effective widespread access to the acquisition of skills and their efficient application to production, and correspondence between contributions to productivity and earnings all call for substantial organizational improvements at the company level and profound institutional reforms in public policy.

<sup>32</sup>The capital for those remaining in such activities should perhaps be doubled, but even so this would demand much less capital than the amount required for each job created in the more modern or larger-scale activities.

Abating structural poverty follows the same lines as general improvements in income distribution but poses different obstacles that must be overcome if policies are to be effective. On the one hand, the physical capital required may be lower than in modern activities, but the skills gap is greater. On the other hand, effective public policies are more demanding in terms of organizational requirements and institutional creativity. Finally, the remedies must address the whole vicious circle of circumstances that reproduce poverty from one generation to another.

Strategies for equity improvement must take these differences into account. The usual way in which social policy is designed—which actually restricts access mainly to the strata above the poverty

line, for which such policies may be more easily implemented, and thus leaves the poor to fend for themselves—may lead to further progress for a segment which is already integrated into society and actually endorse the disintegration of the poorer strata into a segregated underclass. At the other extreme, a unilateral strategy focusing only on the poor may further weaken the low and middle strata of the population, where a rich reservoir of skills, social cohesion and political dynamism is located. What is required is a “two-tier” strategy that recognizes the differences between the poor and the non-poor working population in terms of potential, response and deterioration of life styles and aims at integrating both universes into a single dynamic society.

(Original: English)

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