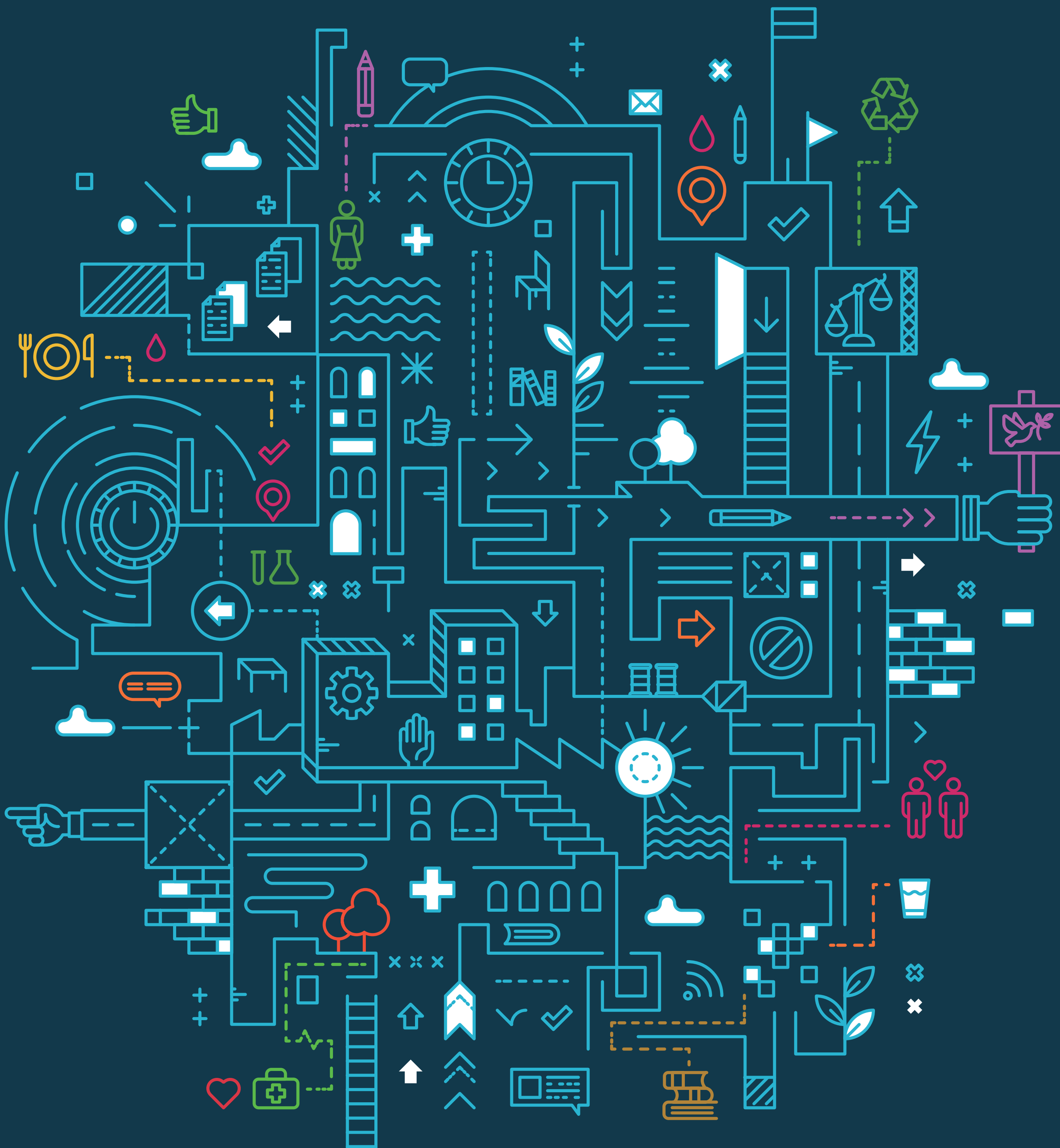
REGIONAL HUMAN DEVELOPMENT **REPORT 2021**

TRAPPED: HIGH INEQUALITY AND LOW GROWTH IN LATIN AMERICA AND THE CARIBBEAN



United Nations Development Programme
One United Nations Plaza New York,
NY 10017, USA

Sales no.: E.21.III.B.4
ISBN: 9789211264470
eISBN: 9789210057844

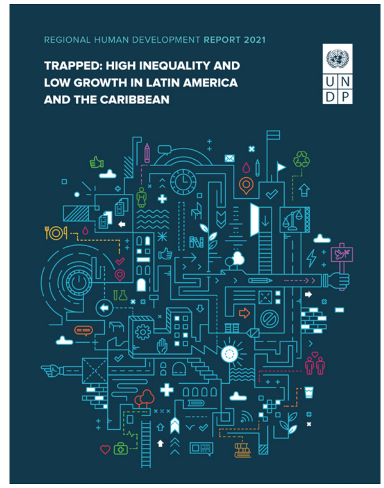
General disclaimers

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever of the United Nations Development Programme (UNDP) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. Dotted and dashed lines on maps represent approximate border lines for which there may not yet be full agreement.

The findings, analysis, and recommendations of this Report do not represent the official position of the UNDP or of any of the UN Member States that are part of its Executive Board. They are also not necessarily endorsed by those mentioned in the acknowledgments or cited.

Some of the figures included in the analytical part of the report where indicated have been estimated by the UNDP or other contributors to the Report and are not necessarily the official statistics of the concerned country, area or territory, which may use alternative methods. All reasonable precautions have been taken to verify the information contained in this publication. However, the published material is being distributed without warranty of any kind, either expressed or implied.

The responsibility for the interpretation and use of the material lies with the reader. In no event shall the UNDP be liable for damages arising from its use.



REGIONAL HUMAN DEVELOPMENT **REPORT 2021**

TRAPPED: HIGH INEQUALITY AND LOW GROWTH IN LATIN AMERICA AND THE CARIBBEAN

The United Nations Development Programme (UNDP) is the leading United Nations organization fighting to end the injustice of poverty, inequality, and climate change. Working with our broad network of experts and partners in 170 countries and territories, we help nations to build integrated, lasting solutions for people and planet. Learn more at undp. org or follow at @UNDP.

REGIONAL HUMAN DEVELOPMENT REPORT 2021

TRAPPED: HIGH INEQUALITY AND LOW GROWTH IN LATIN AMERICA AND THE CARIBBEAN

United Nations Development Programme

Achim Steiner
Administrator of the United Nations
Development Programme (UNDP)

UNDP Regional Bureau for Latin America and the Caribbean (RBLAC)

Luis Felipe López-Calva
Assistant Administrator and Regional
Director for Latin America and the Caribbean

Linda Maguire
Deputy Regional Director for
Latin America and the Caribbean

Regional Human Development Report for Latin America and the Caribbean 2021 Team

Lead author

Marcela Meléndez
Chief Economist for Latin America
and the Caribbean (UNDP)

SDG and Development Policy Team

Adriana Camacho
Ana María Tribín
Maria José Uribe
Laura Tenjo
Andrea García
Nicolás Peña-Tenjo
Andrés Barona
Pablo Hernández
Irma Ovelar

Other contributors

Kimberly Bolch
Juan Camilo Cárdenas
Mauricio Cárdenas
Lucía Cortina
José Cruz-Osorio
Almudena Fernández
Lyes Ferroukhi
Alexandra Fischer
Juan Pablo Gordillo
Kasper Koefoed
Santiago Levy
Guillermina Martin
Mateo Salomon
Marcela Smutt

Peer Reviewers

Ana Arjona
Juan Camilo Cárdenas
Santiago Levy
Nora Lustig

English Editor

Robert Zimmermann

Background Papers Authors

Francisco Alvarado (UNDP Colombia)
María Laura Alzúa (CEDLAS)
Ana Arjona (Northwestern University)
Sócrates Barinas (UNDP Dominican Republic)
Javier Brolo (Universidad Francisco Marroquín)
Carlos Casacuberta (Universidad de la República)
Alejandro Castañeda (COLMEX)
Alejandra Correa (UNDP Mexico)
Guillermo Cruces (CEDLAS)
Marcela Eslava (Universidad de los Andes, Colombia)
Eduardo Fernández-Arias (Independent Consultant)
Nicolás Fernández-Arias (Princeton University)
Sergio Firpo (Insper Institute of Education and Research)
Luca Flabbi (University of North Carolina)
Lucía Freira (Universidad Torcuato Di Tella)
Nestor Gandelman (Universidad ORT Uruguay)
Maite García de Alba (UNDP Mexico)
Alvaro García-Marín (Universidad de los Andes, Chile)
Leonardo Gasparini (CEDLAS)
Andrés Ham (Universidad de los Andes, Colombia)
Santiago Levy (Brookings Institution and UNDP)
Alejandra Martínez (UNDP Mexico)
Cynthia Martínez (UNDP Mexico)
Marcela Meléndez (UNDP)
Sergio Membreño-Cedillo (UNDP Honduras)
Manuel Mera (CEDLAS)
Matías Morales (UNDP)
Guido Neidhöfer (ZEW – Leibniz Centre for European Economic Research)
Hugo Ñopo (GRADE)
Camila Olate (UNDP)
Ana Pacheco (CEDLAS)
Mónica Pachón (Universidad de los Andes, Colombia)
Marcela Pantoja (UNDP Colombia)
Alejandra Peña (UNDP Ecuador)
Alysson Portella (Insper Institute of Education and Research)
Lucas Ronconi (University of Buenos Aires and CONICET)
Daniel Ruiz (COLMEX)
Ernesto Schargrodsky (Universidad Torcuato Di Tella, CAF, and CONICET)
Ben Ross Schneider (MIT)
Annabelle Sulmont (UNDP Mexico)
Florencia Torche (Stanford University)
Nicolás Urdaneta (Universidad de los Andes, Colombia)

Advisory Council of the UNDP RHDR 2021

Marisol Argueta de Barillas
Hilary Beckles
Compton Bourne
Jolita Butkeviciene
José Carlos Díez
Marla Dukharan
Jimmy Fletcher
Rebeca Grynspan
Trinidad Jiménez
Thierry Lemaresquier
Santiago Levy
Nora Lustig
Angel Melguizo
Ángeles Moreno Bau
Dante Mossi Reyes
Hugo Ñopo
María Luz Ortega
Isabel St. Malo
Michael Shifter
Andrea Vigorito

Foreword

The Latin America and the Caribbean (LAC) region has been historically characterised as a region with some of the highest rates of inequality in the world. The richest quintile of the population in the region accounts for some 56 per cent national incomes, for instance.[1] The COVID-19 pandemic has now widened the gap. In the wake of closing and suffering businesses, incomes have dropped and unemployment has risen with millions of households struggling to get by.[2] Moreover, the digital divide -- notably the lack of high-speed broadband internet and appropriate digital skills -- have prevented many people, especially the most vulnerable, from working or studying from home during the crisis.[3] In these unprecedented circumstances, 22 million more people have fallen below the poverty line in the region, returning to 2008 levels.[4]

The LAC region finds itself stuck in a dual “trap” of persistently high inequality and low productivity. This new report examines the different dynamics that create this trap. In particular, it highlights how inequalities that lead to the concentration of power in the hands of a few can distort public policies in ways that perpetuate existing patterns of inequality and stifle productivity -- leaving an increasing number of citizens frustrated with the status quo. This publication also highlights a number of solutions which have emerged and are being tested in the region -- most notably in the form of universal, inclusive, fiscally sustainable, and growth-friendly social protection systems. These can help prevent segmentation of the labour market, provide predictable and reliable risk protection to households, redistribute income towards lower-income groups, and help to allocate resources towards economic activities that increase productivity and long-term growth.

The region will also play a key part in the global green recovery. Colombia, for instance, aims to reduce its Greenhouse Gas emissions by 51 percent by 2030.[5] Or consider Chile, which is committing at least $1.3 billion to environmentally friendly measures such as installing electric bus terminals and retrofitting public buildings.[6] The challenge now is to ensure that all countries -- and people -- in the region reap the benefits of a green economy that creates new opportunities in the form of jobs and livelihoods. This transition will reduce poverty and inequality -- and stimulate human development growth. Guided by the Sustainable Development Goals, these new green economies will also boost our collective ability to take decisive climate action as well as our efforts to protect and restore our natural world. As an intensive public dialogue takes place across the region on how countries can best realise this greener, more inclusive, and more sustainable future, we hope that this report will help to chart a bold new path forward for the entire region.

Achim Steiner
Administrator
United Nations Development Programme

---

[1] https://www.worldbank.org/en/topic/poverty/lac-equity-lab1/income-inequality/composition-by-quintile https://wid.world/es/mundo#sptinc_p90p100_z/US;FR;DE;CN;ZA;GB;WO/last/eu/k/p/yearly/s/false/24.322/80/curve/false/country
[2] https://www.latinamerica.undp.org/content/rblac/en/home/presscenter/director-s-graph-for-thought/covid-19-and-wealth-at-the-top--more-and-wealthier-billionaires-.html
[3] https://www.oecd.org/coronavirus/policy-responses/covid-19-in-latin-america-and-the-caribbean-regional-socio-economic-implications-and-policy-priorities-93a64fde/
[4] ECLAC, Panorama Social (April 2021)
[5] https://foreignpolicy.com/2021/03/19/a-green-recovery-in-latin-america/
[6] https://www.terram.cl/2020/08/ministra-schmidt-explica-los-proyectos-de-accion-climatica-del-plan-para-reactivar-la-economia/

Acknowledgments

This report was conceived before the outbreak of the COVID-19 pandemic and produced under the turmoil it brought about. For this reason, we are twice grateful to everyone who made it possible.

Special thanks for their generous support go to the Spanish Agency for International Development Cooperation (AECID) and the Andalusian Agency for International Development Cooperation (AACID). Without it, it would not have been possible to carry out this work. We are also grateful for the contributions made by our Advisory Council members during the virtual meetings held in 2020 and in bilateral communications with the team, which have been fundamental for strengthening the project.

UNDP Resident Representatives throughout the LAC region participated in virtual consultations in April 2021. Their reactions then and in the more recent stages have contributed to improving the report. We hope they will find their voices well reflected in this final version. We want to also thank them for agreeing on their teams' participation in producing inputs for this report. Their engagement enriched our work process, and its result will continue to reward UNDP as an organization in terms of the public policy conversations it makes possible.

Numerous people have contributed to developing this Regional Human Development Report for Latin America and the Caribbean. As a by-product, twenty-five background papers are circulating, or soon will, as part of the new UNDP LAC Working Paper series. The process of producing them engaged many experts interested in learning more and profoundly about the nature of the region's perils to start conversations that may lead to solutions. We want to thank them for their generosity with their knowledge and their willingness to work together with UNDP.

The UNDP Regional Bureau for Latin America and the Caribbean came together to support this project as a team, participating in different capacities. Our Communications, Finance and Operations teams, both at headquarters and the Regional Hub in Panama, worked backstage to support us. Each one of you who went the extra mile to make it possible, thank you! Vladimir Dominguez' often invisible fantastic work was central to make things happen at every step. A special mention also goes to María José Uribe, who undertook the onerous responsibility of coordinating daily tasks across different teams -paper authors, writers, editors, graphic designers, communications teams, among others- always with a smile.

Santiago Levy was there at the very beginning when we started to put together the idea for this report, and he was there all along helping us shape the narrative and improve every input. Chapter 5 results from his work through a lifetime and the hours he spent with each team that prepared country studies over more than one year. We are lucky to have had him on board and forever grateful.

Last but not least, the Regional Director of the UNDP Regional Bureau for Latin America and the Caribbean, Luis Felipe López-Calva, provided his insight and vision to the narrative. Any merit this report has regarding the relevance and timeliness of the issues addressed is thanks to him. His voice comes through in this report because he was not only a careful and generous reader of first drafts but directly contributed in several places to the text to help improve it. His active participation ensures that this work is yet another building block in the overall project he envisions for UNDP LAC and the region. We offer it humbly to the region, hoping that it will open up the way for pending conversations in the route for development.

Contents

FIGURES

MAPS

TABLES

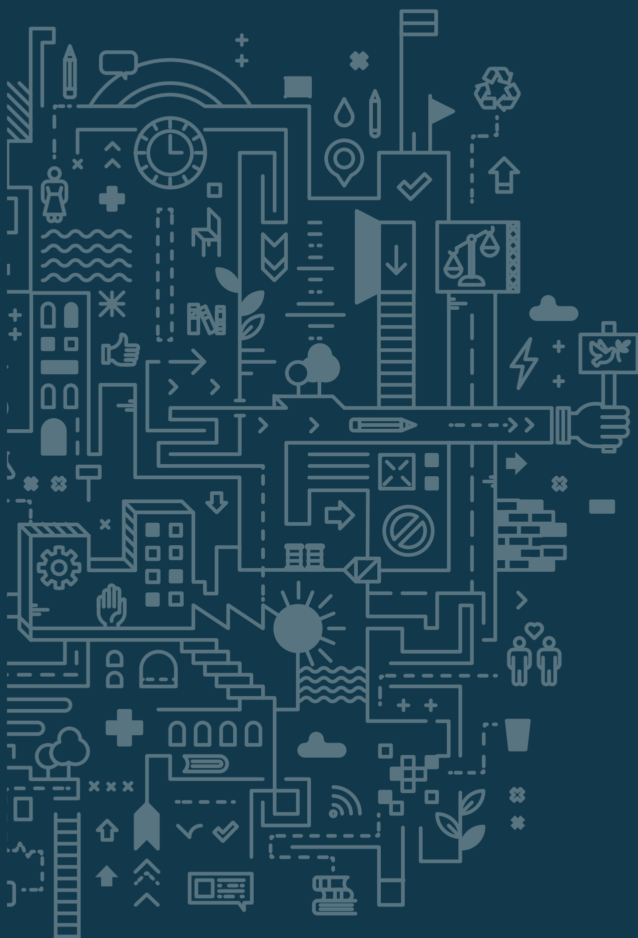
BOXES

SPOTLIGHTS

REGIONAL HUMAN DEVELOPMENT REPORT 2021

OVERVIEW

TRAPPED: HIGH INEQUALITY AND LOW GROWTH IN LATIN AMERICA AND THE CARIBBEAN

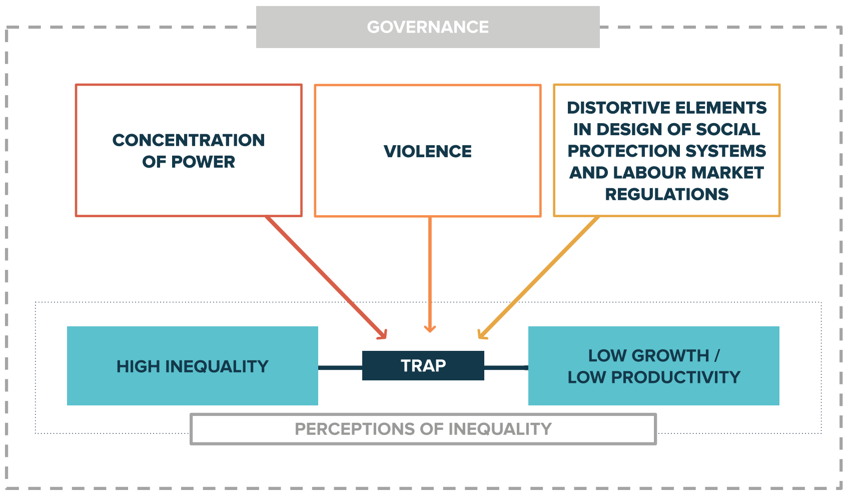


OVERVIEW

Latin America and the Caribbean (LAC) is in a development trap. Despite decades of progress, some of which could be wiped out by the COVID-19 pandemic, two characteristics of the region have remained largely undisturbed: high inequality and low growth. These two factors are closely related and interact with one another to create a trap from which the region has been unable to escape. This is not a new finding. This phenomenon is well documented in the region. A rich body of research has explored the different channels through which high inequality and low growth reinforce one another. However, many of our existing approaches in thinking about how to escape this trap inevitably leave us with a long list of "good policies" that work to address these channels separately. In LAC, this has often led to political incentives that foster fragmented policy responses with a short-term perspective—in some cases, deepening the existing distortions.

This report proposes a conversation beyond the individual links between inequality and growth to explore *the complex interactions of some of the factors that underlie the mutual reproduction of inequality and slow growth.* While there are other factors underlying the region's high-inequality, low-growth trap, this report focuses on three that are critical: the concentration of power; violence in all its forms, political, criminal and social; and distortive elements in the design of social protection systems and labour market regulatory frameworks. Perceptions of inequality and fairness also play a fundamental role because they contribute to shaping people's political attitudes towards different policies and may be crucial for building clout to support desirable policy reforms. In the end, of course, the ways in which the different factors interact are shaped by the (in)effectiveness of governance in each context. Figure O.1 provides a visual depiction of these interactions as considered in this report. Because the trap is the result of a complex interaction of factors, exiting it will require a more systemic policy approach that fundamentally considers these factors jointly and from a holistic perspective.

Figure O.1: The high-inequality, low-growth trap



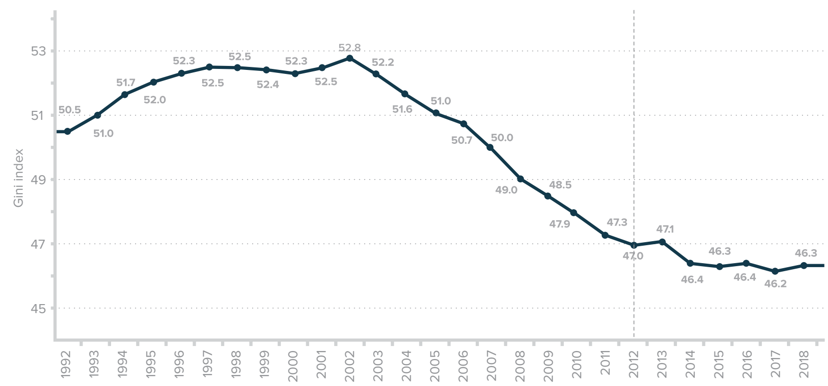
Chapter 1: Trapped? Inequality and Economic Growth in Latin America and the Caribbean

Inequality, like poverty, is multidimensional. This chapter explores vertical inequalities within groups (for example, based on differences in income or wealth) and horizontal inequalities between groups (for instance, based on differences in sex, ethnicity, or race, geographic location, vulnerability to climate change, sexual orientation, or gender identity). It also explores inequalities in access to a range of public goods and services and inequalities in voice and agency.

While the widespread reduction of income inequality (as measured by household surveys) in the early 2000s is to be celebrated, this trend stagnated in the 2010s and had started to revert in some countries even before the onset of the pandemic (figure O.2). The inequality declines in the early 2000s are explained by several factors, including economic growth, a reduction in returns to higher education that narrowed the skilled-unskilled wage gap, and redistribution via cash transfers (spotlight 3). In some countries, such as Argentina and Uruguay, labour unions also played a role; in other countries, such as Brazil, a rise in the minimum wage was also important. Despite this progress, the region remains the second most unequal in the world, and countries in LAC exhibit higher inequality than those in other regions at similar levels of economic development (figure O.3).

Figure O.2: Despite declining in the 2000s, income inequality remains high in LAC

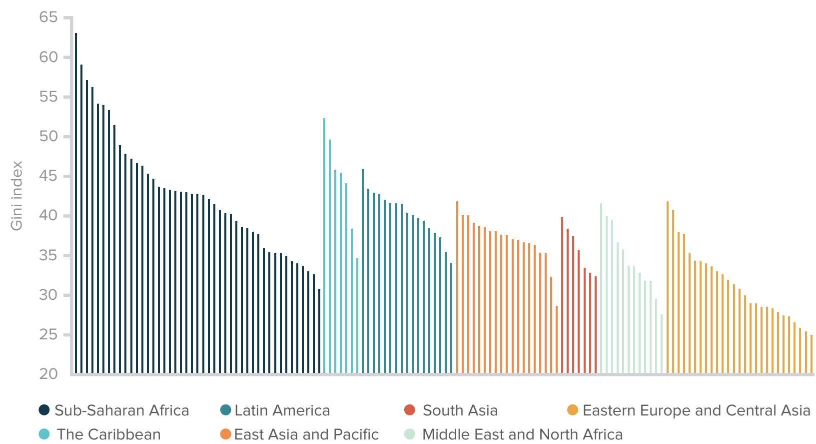
Income inequality (Gini index 1992–2018)



Note: Unweighted mean of the national Gini indices of the distribution of household per capita income. Data refer to all Latin American countries except El Salvador and Guatemala.

Figure O.3: LAC countries are some of the most unequal in the world

Gini indices on the distribution of household consumption per capita by region, circa 2017



Beyond income, other forms of inequality stubbornly persist. Gender gaps in labour market participation and unpaid time spent in care work continue to place women on an unlevel playing field. LGBT+ people continue to face discrimination at school and in the labour market and are more frequently than others the victims of violence. Ethnic minorities continue to lack recognition as active political and economic agents and to be left behind in access to basic services, including health care and education. These inequalities complete the picture of inequality in LAC. They contribute to income inequality, low productivity, and low economic growth. If talent is indiscriminately distributed at birth, unequal societies waste the talent of a relevant portion of society if they exclude a share of human capital from the labour market or sentence some groups to lower capital accumulation.

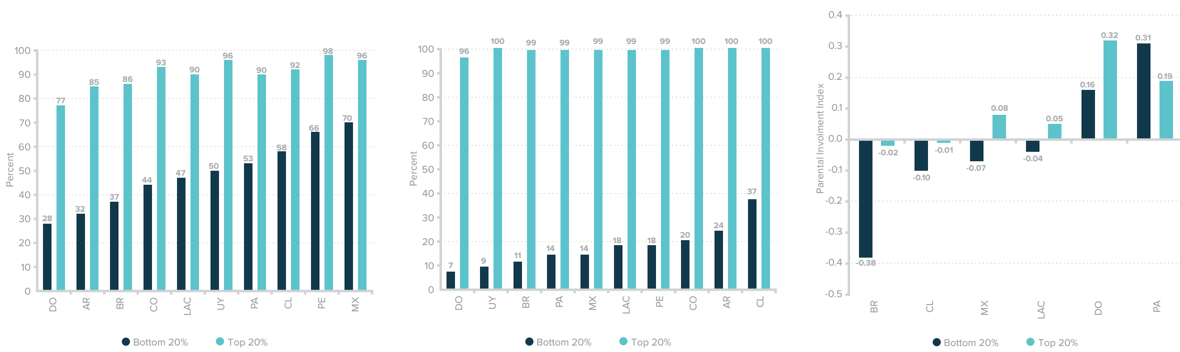
The multiple crises of the COVID-19 pandemic have weighed most heavily on those already left behind, exacerbating inequalities throughout 2020 and 2021. This has taken different forms, ranging from unequal impacts on household income to an increasing incidence of domestic violence. The unequal impacts of the pandemic on students is one of the most worrisome for long-term inequality trends. The shifts to remote methods of teaching and learning have been marked by pre-existing disparities in access to technological and academic tools at home, as well as disparities in learning support from parents, including disparities in parental educational levels (figure O.4). Before the COVID-19 pandemic, Latin America was already the region with the lowest intergenerational educational mobility. After considering progress from educational expansion over time, thanks to which the younger cohorts have more schooling than the older, adult schooling attainment in Latin America is still highly determined by parental schooling attainment. COVID-19 is likely to entrench this pattern.

Figure O.4: Unequal access to tools and support for at-home learning leave poorer students more vulnerable to falling behind

a. Students with a desk at home

b. Students with at least one computer at home

c. Parental involvement in school activities index



These patterns of inequality are fundamentally linked to the region's patterns of growth, characterized by high volatility and mediocre performance. Figure O.5 shows annual real per capita growth in gross domestic product (GDP) between 1962 and 2017 in 16 countries on which complete data are available. This instability holds even after filtering out business cycle fluctuations by computing seven-year averages: growth across this period oscillates between 0 percent and 3 percent per year. Growth was reasonably strong during the 1960s, but faltered in the late 1970s and collapsed during the debt crisis of the 1980s. It recovered after 1990 and accelerated during the 2000s, but strongly reduced its pace during the 2010s. Productivity performance, comprising both technological innovation and the efficient allocation of productive factors, explains much of the region's slow growth rhythm. Total factor productivity (TFP) growth has made a null and, in some cases, negative contribution to long-term output growth in LAC. Factor accumulation, by contrast, consistently made a positive contribution before and after 1990. The dominant role of factor accumulation may also be observed in each of the 16 countries considered (figure O.6). Even in the countries in which productivity growth made a long-term positive contribution, the contribution of factor accumulation was larger.

Figure O.5: Growth in LAC has been highly volatile

Dynamics of LAC historical per capita output growth, mean country, 1962–2017, %

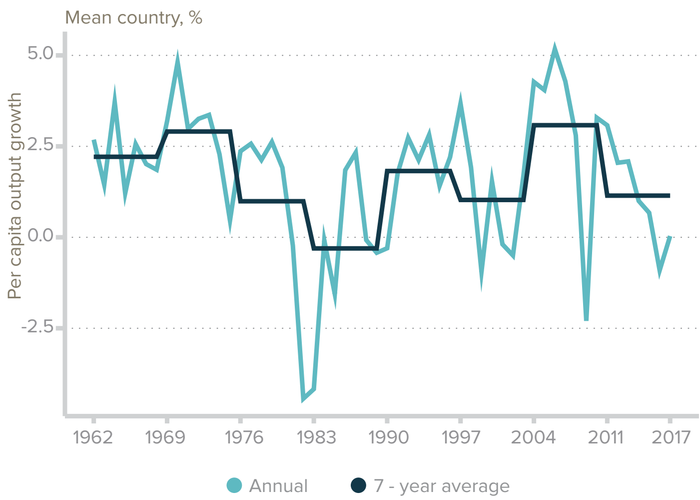
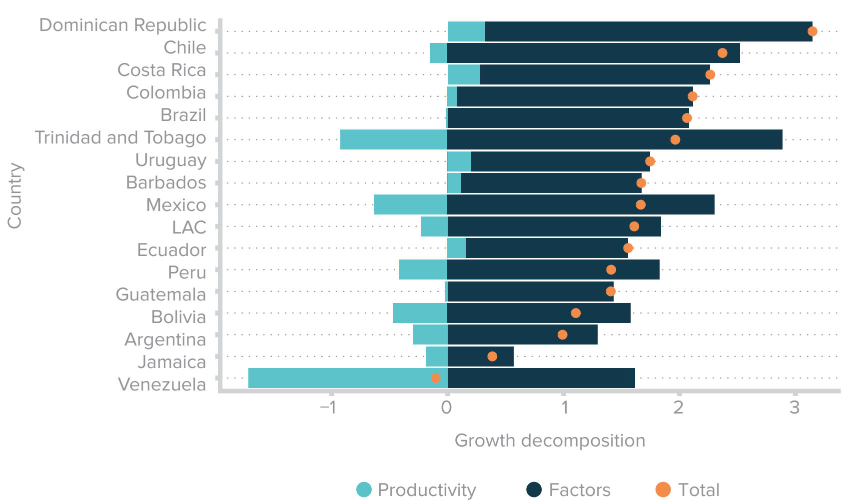


Figure O.6: Low productivity is at the core of LAC's mediocre growth performance

Decomposition of per capita output growth, LAC, 1962–2017, annualized, %



Chapter 2: What people think about inequality and how they think policy should react

Objective measures of inequality (such as the Gini index, income concentration at the top, and patterns of convergence in various capabilities, usually measured using household surveys) only reveal one part of the story. It is important also to consider subjective measures of inequality related to how people perceive it. This is essential because people's perceptions of inequality shape their political attitudes (and thus their support for different policy approaches) as well as their aspirations (and thus their efforts to achieve them). Understanding what people think about inequality in LAC is particularly crucial at the current moment given the wave of social unrest that swept across the region in late 2019 and early 2020. While the protests were driven by a range of country-specific concerns, people's grievances over inequality were among the largest common denominators.

New evidence from 2020 collected for this report by Latinobarómetro points to a few key findings in this regard. First, people are aware of how unequal the region currently is—falling far short of the distribution of income they consider desirable (figure O.7). This is accompanied by widespread perceptions of unfairness not only in the income distribution, but also in access to public services and rights (figure O.8). Moreover, whether people think that they are "winning" or "losing" from the system (whether they think that they are in the top 20 or bottom 20 of the income distribution) informs how fair they think the system is.

Figure O.7: Latin Americans generally know how unequal their societies are and desire a much more equal world

Objective, subjective, and desired distribution of income (% of income captured by each group)

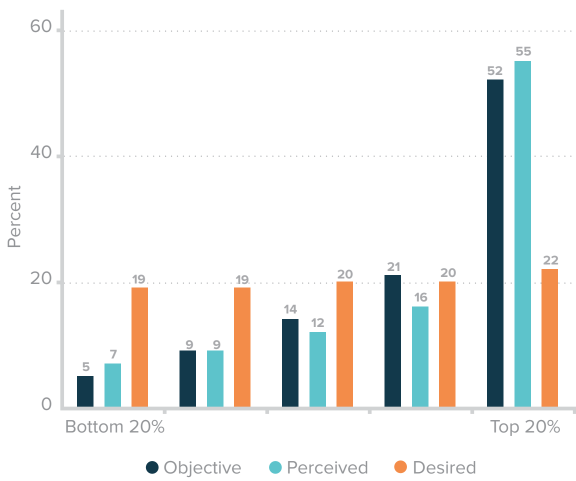
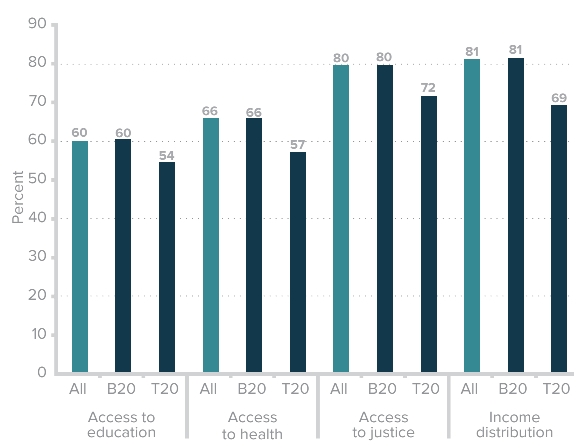


Figure O.8: Not only do they think their societies are unequal, but they also think that their societies are unfair

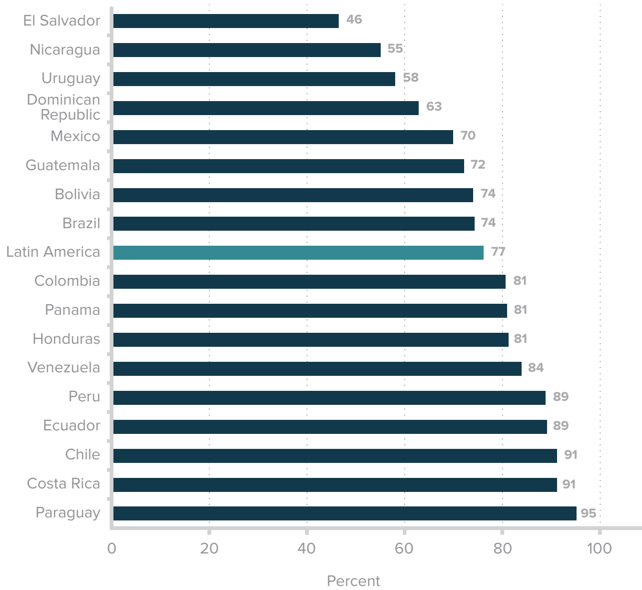
Share of respondents who think the system is unfair, by perceived place in the income distribution



People are frustrated not only about unfairness in outcomes, but also in processes—particularly about the outsized political influence of a few powerful groups. There is an overwhelming agreement among Latin Americans that their countries are governed in the interests of a few powerful groups and not for the greater good of all. In 2020, 77 percent of people in the region believed this to be so, and the share reached 95 percent in Paraguay and 91 percent in Chile and Costa Rica (figure O.9).

Figure O.9: These concerns run deeper to include a perception of unfairness in the underlying political process

Share of people who believe their countries are governed according to the interests of a few powerful groups



Perceptions of unfairness and inequality (in conjunction with where people think they fall along the income distribution) matter because they determine people's political attitudes and preferences for certain policies. For example, who should receive government transfers (figure O.10) and who should pay taxes (figure O.11). The perceptions data suggest that Latin Americans think that the tax burden should increase with income (with greater support for this view among those who think they are in the bottom 20 compared with the top 20, which poses an inherent political challenge) (figure O.12). Perceptions of unfairness and inequality can also determine different life paths. They can act as an incentive for effort if there is a conviction that better outcomes are attainable if more effort is exerted. However, if the aspirational reference seems too far away or unattainable, individuals can get discouraged, resulting in frustration and reasons for opting out of the social contract. Aspirations are built around the universe of possible futures that one may envision and the subset of these futures that seem achievable. Through their dynamic impact on the effort people choose to exert to realize them, on the types of investment decisions they make for themselves and their offspring, and on the broader trends in the preferences of society and in politics and policy, these aspirations contribute to reshaping future income and income distribution.

Figure O.10: Latin Americans agree that the poorest households should be more entitled to government support

By income decile, which households should receive free or subsidized government support in your country?

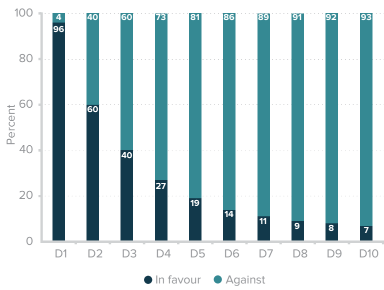


Figure O.11: Latin Americans agree that household responsibility to pay taxes rises with income

By income decile, which households should have to pay taxes in your country?

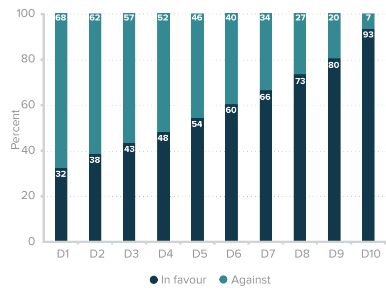
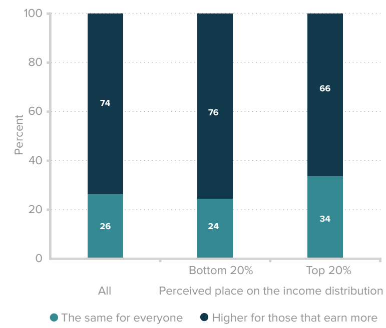


Figure O.12: Most Latin Americans think the tax rate should be higher for those who earn more

Share of respondents who agree with this statement



Chapter 3: Concentration of economic and political power

One of the most pernicious challenges of high inequality is the way that it concentrates power. The concentration of power in the hands of a few who defend their private interests rather than the public good is one of the factors that connect high inequality with low growth because it often results in distorted policies that are short-sighted and inefficient and in weak institutions. An overwhelming majority of people in the region think that this is the case, and about a quarter of them point to big business as the most influential powerful group.

This chapter explores the channels through which the concentration of power in the market contributes to sustaining high inequality and low growth in the region. It acknowledges that monopoly power and business political power are two sides of the same coin because monopoly rents translate into political power that, in turn, increases monopoly power, creating a vicious circle.

Indeed, markets in Latin America tend to be dominated by a small number of giant firms (figure O.13), and the region has historically been characterized by a high level of market power—a level to which other countries have recently begun to catch up (figure O.14).

Figure O.13: A small number of giant firms dominate Latin American markets

Revenues of top 50 firms (as % of GDP), selected countries, 2019

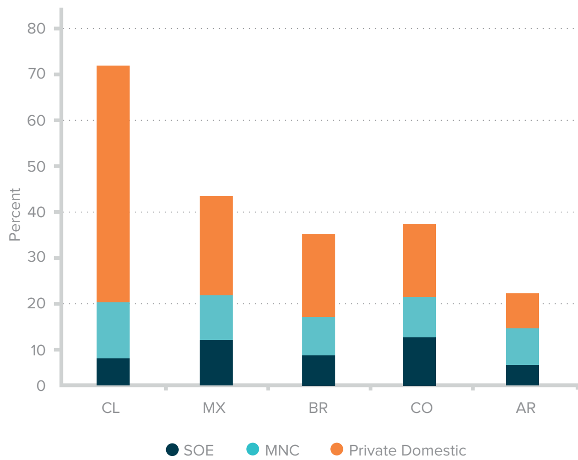
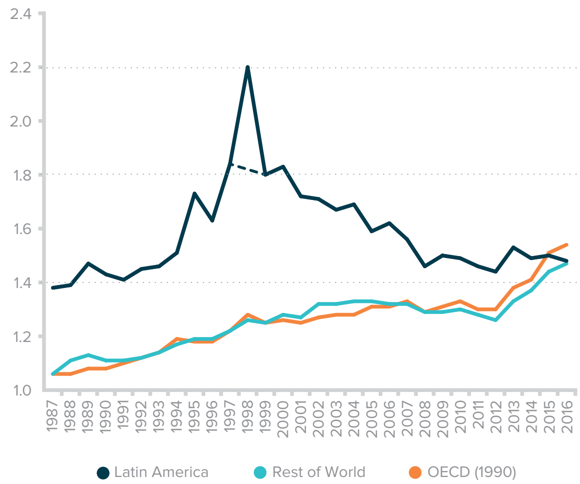


Figure O.14: Mark-ups in Latin America are higher than in the rest of the world and constant over time

Average markups, Latin America, OECD and rest of the world, 1987–2015



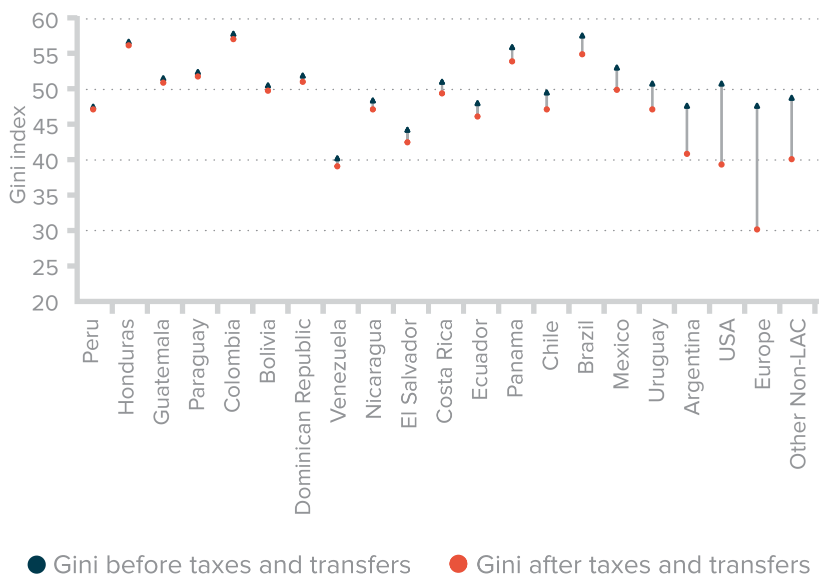
Note: Average markup by year are estimated as the year fixed effects from a linear regression on the average markups by country, with year and country fixed effects. OECD (1990) corresponds to countries that belonged to the Organisation for Economic Co-operation and Development (OECD) in 1990. “Rest of the world” corresponds to all countries in the sample that are not part of Latin America.

In the market sphere, there are three primary channels through which monopolies contribute to high inequality and low productivity growth: making consumers pay higher prices for goods and services than they would pay under competition (which hurts the poor more than the wealthy and redistributes from consumers and workers to business owners), allowing firms to forgo more efficient technology and hindering innovation because an uncontested monopolist has lower incentives to innovate. Competition policy (also referred to as “antitrust” or “antimonopoly” policy) is one policy lever that countries can use to contain monopoly power. All but two countries in Latin America have competition laws and authorities. In the Caribbean, in contrast, only four countries have them. Their absence in other Caribbean countries is somewhat compensated by a regional antitrust agency. However, no matter if there are competition laws or how strong they are on paper, they are only as effective as their enforcement. Despite progress over the last three decades, there is still a long way to go. Agencies often lack the required powers to investigate—for instance, through dawn raids—and are unable to offer attractive leniency agreements to promote whistleblowing among cartel members. They are also unable to contain abuses of market power and cartelization through adequate fines and penalties. Most of them also lack adequate personnel staffing in numbers and expertise. Depending on how their design and enforcement shape the de facto power of different firms, these laws have different efficiency and equity implications. The existence and effectiveness of competition laws and agencies are not exogenous to business political power. In contexts with close ties between political elites and business elites, factors such as the independence of the enforcement agency or commitment devices that ensure limited discretion in decision-making are essential for ensuring the efficacy of policies.

Big business political power also distorts policy beyond the market arena. Of particular concern in the context of the trap explored in this report are the effects on fiscal policy. A distinctive feature of fiscal systems in the region is their weak redistributive power (figure O.15). Gini indices in Latin America, with few exceptions, remain essentially unchanged after households pay taxes and receive government transfers. In addition, tax systems in the region fail to generate the necessary revenues to invest in development through the provision of quality services and public goods to the population. Indeed, LAC countries collect lower taxes as a share of GDP than countries at similar levels of development or inequality levels and also have a limited share of tax revenue from personal income taxes. While the pattern of low overall taxation and the relative scarcity of fiscal revenue from income tax collection are likely the result of different factors, one of them is the extent of corporate clout in the political sphere. Indeed, big business and business owners in Latin America are partly responsible for maintaining overall effective taxation low and steering fiscal systems away from more progressive taxation through their proximity to political power. This influence is exerted via their interference in tax reforms in ways ranging from blocking tax increases to business and business owners to compromising tax resources by pushing for exemptions and subsidies for their operations that crowd out redistributive spending.

Figure O.15: There is little redistribution through the fiscal system in LAC

Gini indices before and after taxes and transfers, circa 2014



Workers and, particularly, organized labour also have the power to distort policy in the market arena. However, the effect of labour unions on efficiency and equality in LAC is ambiguous. Unlike business elites, for which by and large the diagnostic is far from positive, unions are neither unequivocally "good" nor "bad". Their impact in the region has been both positive and negative. In the political arena, they have three primary instruments to exert their influence. They can collude with big business and use their political power to reduce internal and external competition or obtain special tax treatments, subsidies, and privileges—ultimately perpetuating and exacerbating inequality and inefficiency. Alternatively, they can use their political power to introduce across the board protective regulations (such as minimum wages and severance payments) and lobby the government to devote more resources to their enforcement, a crucial concern in a region characterized by the widespread violation of labour and social security regulations. Here again, however, effects can be mixed because unions may only care about enforcement in large firms where their affiliates are present, leaving other workers without protection. In this case, unions can reduce inequality between firm owners and workers, but exacerbate it among workers. Finally, organized labour can oppose, delegitimize, and destabilize dictatorships or collaborate with them.

The fact that labour unions have ambiguous effects on development outcomes in LAC is consistent with the findings from a much larger body of literature on the economic impact of labour unions in Europe and North America. However, what we know about this issue in the specific context of the LAC region is still limited. There is only a partial theoretical understanding of how labour unions affect LAC societies; there is a lack of robust empirical evidence because data are usually limited, and causal inference is particularly challenging; and there is relatively little research on labour unions as economic actors in LAC. Understanding the different impacts of labour unions on development outcomes in the region thus remains an open and important research agenda moving forward.

In sum, the chapter critically highlights how monopoly power and market concentration can translate into rent-seeking behaviours and, ultimately, into business political power. In the LAC region, this has led to multiple examples of economic elites interfering in policy design or implementation. In response to this interference, fiscal systems, competition policy, and market regulations have often been shaped to benefit a small group of citizens rather than the public good. Economic elites have seldom used their political power to push for reforms that would put their countries on a development path, increasing welfare for all. But they could.

Ultimately, sustainably moving out of the high-inequality, low-growth trap will require actions that tend to rebalance power. There is no single policy solution for addressing these types of power asymmetries and the distortions they create in both the market arena and the fiscal system. Depending on the context, however, efforts, such as regulating campaign financing and lobbying activities, strengthening the power and independence of competition policy and competition agencies, revising market regulations to eliminate those that favour private interests and not the general good, or taking seriously the global conversation about how to tax the super-rich, could all play important roles in moving this agenda forward.

Chapter 4: The Links between Violence, Inequality and Productivity

Violence remains all too common for many people across LAC. The region is home to only 9 percent of the world's population, but currently accounts for 34 percent of total violent deaths. LAC countries also struggle with non-lethal forms of violence, including sexual violence, robberies, police abuse, and human trafficking.

Greater inequality may foster the conditions for more violence through three distinct channels. First, greater disparities are likely to introduce incentives that make the returns to illegal activities comparatively more attractive than the returns to legal alternatives, particularly if enforcement is weak. Second, inequality engenders frustration and alienation among the dispossessed through perceptions of disadvantage, a lack of opportunity, and unfairness, which, together, spur violence. In the absence of effective governance mechanisms to process them peacefully, tensions created by perceptions of unfairness that weaken and tear at the social fabric over time often result in violence or the threat of violence as a means of "exit". When people perceive that the system is rigged in favour of a few (as is the case in LAC), they often lose faith in the capacity of "voice" as a means to reach and sustain new agreements. Third, inequalities in power, social status, and income make some population groups—such as women and gender and ethnic minorities—particularly vulnerable to violence. LAC currently grapples with violence associated with each of these three paths. Indeed, violence or the threat of violence has become a bargaining chip among state and non-state actors in various contexts to reach and sustain agreements, and it is thus a fundamental part of the struggle over the distribution of resources, rights, opportunities, and power in the region. Violence is therefore a common underlying factor that both propels and is driven by the region's high-inequality, low-growth trap.

While greater inequality can spur violence, violence can also increase inequality through its effects on developmental outcomes. Because it is often experienced disproportionately by populations already facing socio-economic adversities, it contributes to amplifying or perpetuating the state of deprivation of these populations. Violence often leads to the deterioration of rights and liberties, worsens physical and mental health, reduces educational and labour participation outcomes, and lowers political participation among victimized individuals. Violence can also fracture social capital, threaten democratic institutions locally and nationally, and obstruct public goods provision in victimized communities.

Violence is likewise linked to lower economic growth. It can reduce and distort investment by causing uncertainty about property rights, affect human capital formation and thus productivity, and destroy physical and natural capital.

LAC is the most violent region in the world (as measured by homicides; see figure O.16). Moreover, the countries in LAC exhibit vastly higher homicide and crime victimization rates than other countries at similar levels of inequality (figure O.17). To gather a broader understanding of how violence afflicts people in LAC, this chapter follows a typology to disentangle the following three types of violence: criminal violence (interpersonal or collective violence linked to criminal activities), political violence (interpersonal and collective violence that occurs in relation to socio-political agendas), and social and domestic violence (interpersonal and occasionally collective violence linked to conflicts among people who do not live in the same household [social] as well as those who do [domestic]).

Figure O.16: While LAC is home to only 9% of the global population, it concentrates one third of global homicides

Intentional Homicide Rate per 100,000 inhabitants in world regions and LAC subregions

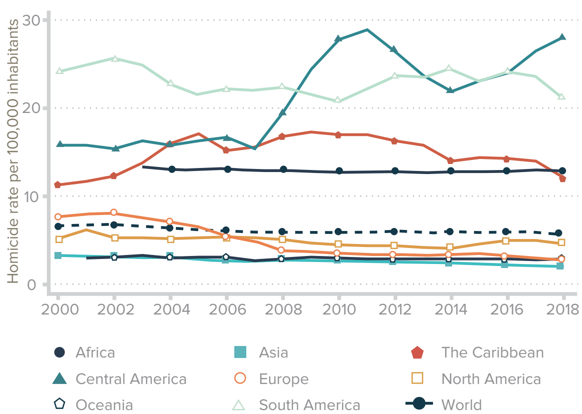
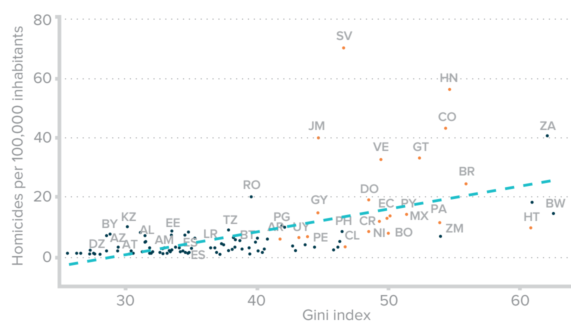


Figure O.17: LAC countries have higher homicide rates than countries with similar inequality levels

Homicide Rates and Income Inequality (Gini) – World (1995-2017)

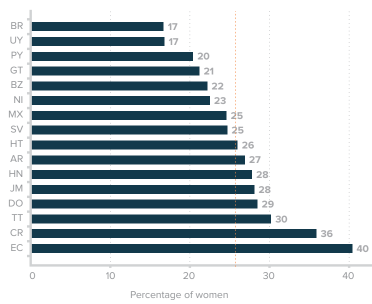


Note: LAC countries are represented by orange dots. Averages are calculated for each country using the available year observations from 1995 to 2017. The total number of countries is 106: Africa (21), Asia (24), Eastern Europe (21), LAC (21), North America (2) , Oceania (1), and Western Europe (16).

Different patterns broadly emerge for each of these different types of violence. While the 20th Century was largely characterized by patterns of political violence, this shifted more towards organized crime in the early 2000s (primarily associated with groups involved in illicit or illegal commercial activities, such as drug trafficking). However, the region still struggles with political violence, including violent protest; acts of state violence, such as police brutality, extrajudicial killings, and violent repression of protest; and violence against human rights defenders, environmental activists, politicians, and journalists. Social and domestic violence is also widespread in the region and particularly affects women (figures O.18 and O.19). This type of violence often manifests in different ways, including physical, sexual, and psychological abuse, and can be motivated by the victim's sex, gender identity, or sexual orientation. Both social violence and domestic violence are serious problems in LAC. Indeed, the region has some of the highest rates in the world of sexual violence and violence against LGBT+ populations, and femicide is a critical issue in many countries in the region (figure O.20). Acts of social or domestic violence also affect children and the elderly within the home and have been an area of increasing concern during COVID-19 lockdowns.

Figure O.18: Intimate partner violence against women in the region is widespread

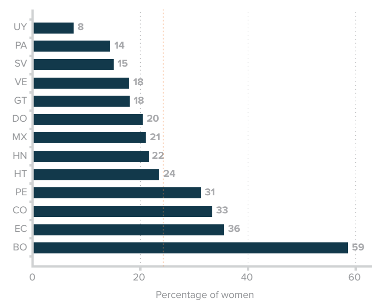
Percentage of women physically or sexually abused by any partner (last available year, 2003–2017)



Note: The dotted orange line indicates the LAC average.

Figure O.19: In most countries more than 1 woman in 10 has been sexually or physically abused by her most recent partner

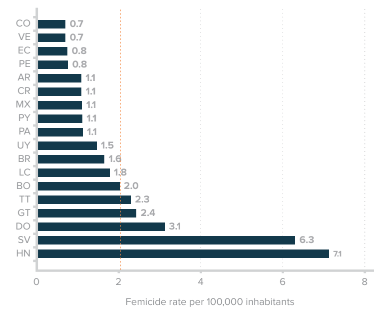
Percentage of women physically or sexually abused by most recent partner (last available year, 2003–2017)



Note: The dotted orange line indicates the LAC average.

Figure O.20: Within LAC, Central America is the subregion with the highest levels of femicide

Average femicide rate per 100,000 inhabitants in LAC countries (2000–2019)



Note: The dotted orange line indicates the LAC average.

Progress is possible, though it will only be achieved if the policies adopted address the underlying imbalances of power between actors to foster conditions in which conflicts may be settled through peaceful rather than violent mechanisms. There is no single policy solution that will work to address violence. This chapter highlights a few priority areas that may be more or less relevant depending on the context (see box 4.6). If these are successfully dealt with, progress in combating violence may pave the way towards more equal, more productive, and more peaceful societies.

Chapter 5: How effective are social protection policies in LAC?

Many policies have been implemented in the region to address inequality and low productivity, but with limited success. Given the political incentives for short-term policy solutions to combat the challenges of high-inequality and low-productivity, policy responses tend to be fragmented and ineffective and, in some cases, can even end up deepening existing distortions. Indeed, some of them have generated dynamics that have resulted in exacerbated inequalities and stagnated productivity. This chapter argues that only by considering how the different components of social protection policy interact between themselves and with other public policies will it be possible to design better ones. While there are many different possible entry points, this report highlights one that jointly addresses many of these different elements and can serve to break free from the high-inequality, low-growth trap: universal social protection systems, more specifically, universal social protection systems that are more inclusive and redistributive, fiscally sustainable, and friendlier to growth.

The current structure of social protection in the region (comprised of both social insurance and social assistance programmes) remains fragmented. While contributory social insurance is a cornerstone of social protection in LAC, many workers are left out. This segments the labour force into two categories: formal workers, covered by contributory social insurance (CSI) programmes, job stability and minimum wage regulations, and informal workers, receiving whatever benefits are offered by non-contributory social insurance (NCSI) programmes. The formal-informal segmentation of the labour force is a central feature of labour markets in LAC and results from a mix of legal exclusions and non-compliance. Segmented labour markets are not only a source of inequality, but also one of the contributing factors in low productivity growth. In parallel, some worker incomes may be so low as to place the workers in poverty, requiring additional programmes to increase their consumption (social assistance programmes). Thus, in a stylized representation of the structure of social protection in the region, access to social protection depends both on workers' labour market status (formal vs informal) and their income level (poor and non-poor) (figure O.21). In most LAC countries, there are more informal than poor workers (figure O.22). On the other hand, most poor workers are informal. Many workers frequently transition between formality and informality.

Figure O.21: The structure of social protection: Poverty and informality are not the same

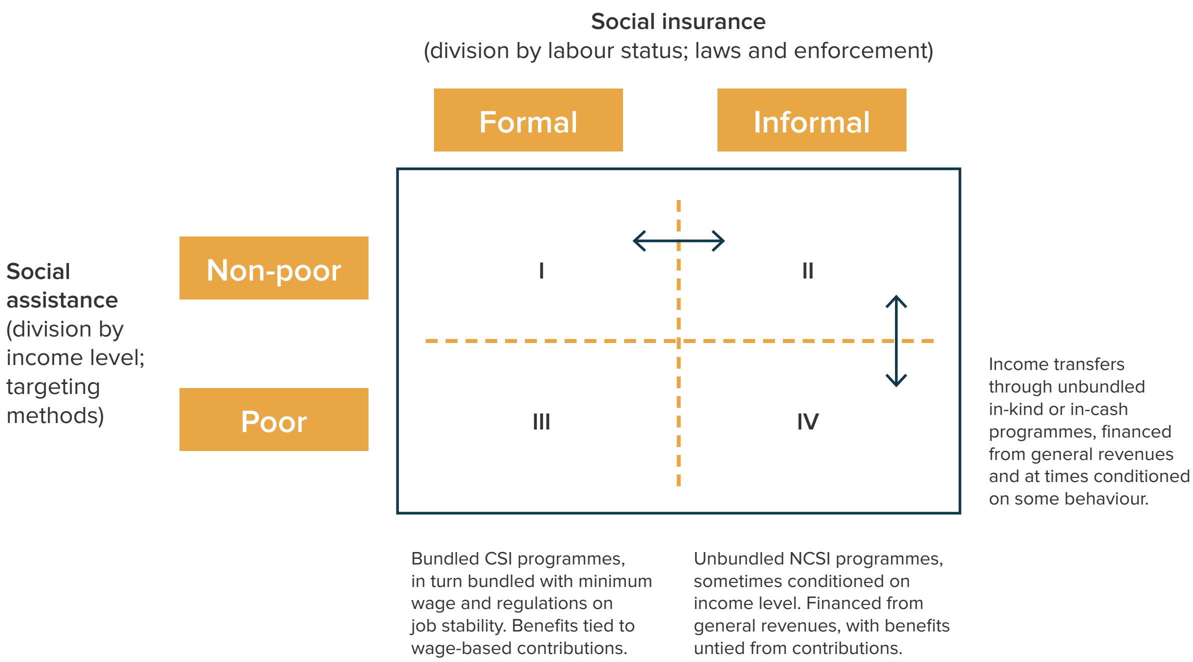
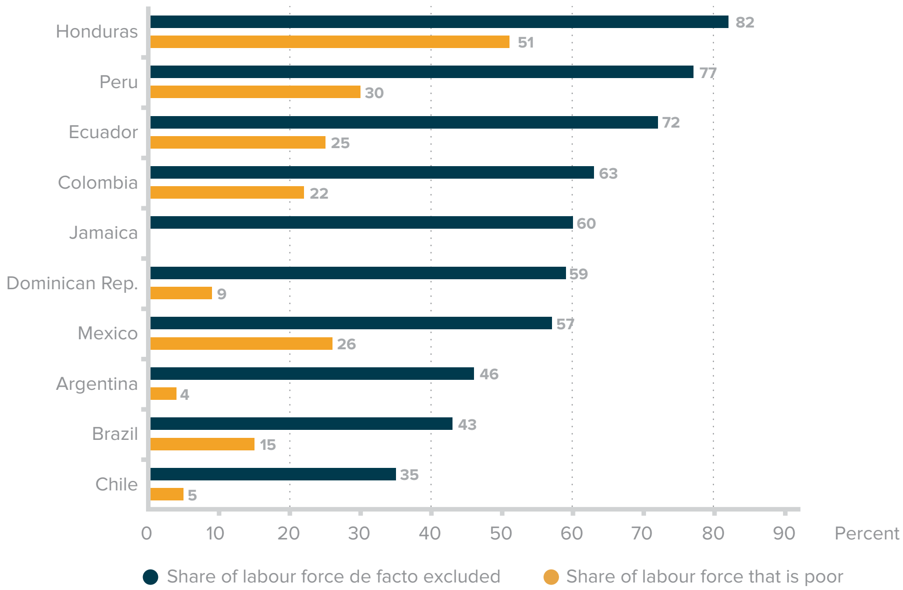


Figure O.22: Large shares of the labour force in LAC remain excluded from important social protection programmes

Share of the labour force excluded from CSI, selected LAC countries



Because of the fragmented nature of this system, households in the region (particularly low-income ones) bear many more risks on their own or through the network of family and friends than in countries of the Organisation for Economic Co-operation and Development (OECD), where these risks are more broadly shared. The mix of contributory and non-contributory pension and health programmes across the region, coupled with transitions between formal and informal status, asymmetries in the time spent in formality between low- and high-wage workers, and, at times, capricious rules and conditions for access, generates two outcomes: reduced efficacy of insurance and contradictory impacts on inequality. Social insurance and social assistance are complements and not substitutes in a working social protection system. Poor households need income transfers and insurance, not one or the other. And, for non-poor households, social insurance is key, especially if they are in a vulnerable position. Rather than acting ex ante to prevent poverty, at present, policies react ex post to ameliorate poverty once it is here. In LAC, poverty rates have fallen in large part because households receive income transfers, and not so much because poor household own-earned income has increased. The region should not expect targeted transfers on their own to eliminate poverty. These transfers must be more well integrated with social insurance policies, covering all the poor and non-poor under the same conditions and with the same level of quality.

The social protection architecture needs not only to support household welfare but also to incentivize workers and firms in a way that advances productivity. The interface between CSI and NCSI and poverty programmes impacts the decisions of workers and firms to be formal or informal, and the region's current social protection systems tend to tax formality, while subsidizing informality. Table O.1 lists the costs and benefits of formality, legal informality, and illegal informality. Note that legal informality is only relevant in countries where laws exclude some workers from the obligation to contribute to CSI programmes, as well as some firms, depending on their size or the type of work contracts they offer. In other words, in some countries, such as Ecuador, Honduras, Mexico and Peru, the three columns are relevant, while, in others, such as Argentina and Jamaica, the middle one is not. Looking at case studies of 10 individual countries in the region, one may see that the tax on formality increases as the actual benefits derived by workers from CSI programmes fall short of the costs and that the subsidy to informality increases with the generosity or quality of NCSI programmes (and social assistance programmes conditioned on informal status). This matters because informality is worrisome for social protection for three reasons. First, informal workers are less well protected from risks and in general receive lower-quality services than formal ones. Second, it is more difficult for poor informal workers to escape poverty and, if they do, to avoid falling back into it. Third, informality is strongly associated with self-employment or employment in small low-productivity businesses, which is a critical factor determining worker earnings (and also a critical factor in long-term growth).

Table O.1: The interface of different social protection programmes shapes the decisions of firms and workers regarding (in)formality

Formality	Legal Informality	Illegal Informality
Workers	Workers	Workers
Must pay a share of CSI contributions (full share if self-employed), but may not fully value the stipulated benefits	Self-employed, domestic, rural and others not required to contribute	Self-employed and others required to contribute to CSI may pay fines depending on enforcement and tacitly accepted social norms
Paid at least the minimum wage	Free NCSI benefits	Free NCSI benefits
In principle protected by job stability regulations, but access may be erratic	If poor, may also receive targeted transfers	If poor, may also receive targeted transfers
If poor, may lose targeted transfers		
Firms	Firms	Firms
Must pay their share of CSI contributions and pay workers at least the minimum wage	Not bound by CSI, minimum wage, or job stability regulations if there is no dependency relationship with workers, or if this relationship is ambiguous (particularly if the firm is small)	Pay fines if detected evading CSI, minimum wage and job stability regulations
Bear the expected costs of job stability regulations	Fuzzy border between self-employed and micro-firm, particularly if workers are unremunerated relatives	Enforcement dependent on size, at times substituted by tacitly accepted social norms

Throughout the region and with variation across countries, social protection policies segment the labour market, provide erratic protection to households against risks, do not redistribute income sufficiently towards lower-income groups and sometimes do so in the opposite direction, and bias the allocation of resources in ways that punish productivity and long-term growth. This situation is worrisome because social protection is one of the key tools to mitigate inequalities and foster social inclusion. It is difficult to think of a strong social contract in any society without a well-functioning social protection system. One cannot expect social inclusion from institutions and policies that segment. Looking forward, a key guiding principle for social protection in the region must be universality with respect to the relevant population, understood in three complementary dimensions: (1) the entire population exposed to a given risk needs to be covered through the same programme; (2) the source of financing should be the same for each programme based on the type of risk covered; and (3) if programmes provide benefits in kind, the quality should be the same for all. A social protection system built around this principle offers the region a route to increasing spending in social protection, while strengthening the foundations of long-term growth and a path to enhancing social inclusion.

The Way Forward

In late 2019, LAC returned, after many decades, to the map of social unrest with rising protests and demands for change. Throughout 2020 and 2021, LAC became a hotspot for COVID-19; despite rapid action and strict confinement measures, countries suffered a disproportionate burden of cases and deaths. This brought with it multiple economic and social crises, including a contracting economy with limited fiscal space, alongside rising poverty and hunger. This is a reflection of the political, economic, and social fragility bred by the vicious trap with which this report engages. The sustained combination of high inequality and limited growth can generate a fragile equilibrium because governments are unable to meet their fiscal needs and citizens are unable to achieve their aspirations for the lives that they have reason to value. Despite the region's hard-won progress towards becoming a middle-income region in recent decades, the dynamics of this trap have made this progress unstable, and the recent crises have shown how quickly reversals can occur. In the wake of this current crisis, rebuilding what the region had gained may take a long time. If future progress towards development is to be more sustainable, we must first address these underlying structural challenges that have for so long kept this trap in motion. This report is deliberately broad in terms of policy prescriptions. The UNDP network, covering more than 40 countries and territories in the LAC region, will continue to work with governments and non-governmental actors to discuss, draw lessons, and propose concrete paths of action in each context. This is the beginning of a fundamental conversation to define a renewed, prosperous, inclusive, and sustainable social pact in our region.

CHAPTER 1

TRAPPED? INEQUALITY AND ECONOMIC GROWTH IN LATIN AMERICA AND THE CARIBBEAN

- Latin America and the Caribbean (LAC) is a region in a high-inequality low-growth trap.
- Despite decades of progress, the region remains the second most unequal in the world, and countries in LAC exhibit higher income inequality than those in other regions at similar development levels.
- Inequality, like poverty, is multidimensional and goes beyond income. Some groups suffer greater inequality than others and in various dimensions.
- For women, the playing field in the labour market is still not level. LGBT+ people face discrimination in possibly every aspect of their lives. Ethnic and racial minorities lack recognition as active economic and political agents.
- The region is also characterized by very volatile and, on average, low economic growth, associated with low productivity and poor productivity dynamics.
- Understanding the nature of the trap, the common factors underlying it, and their complex interactions is the first step to breaking free from it. This report aims to start a conversation by examining some of those factors.

1.1. The region is caught in a high-inequality, low-growth trap

Latin America and the Caribbean (LAC) is a region of enormous contrasts, where wealth and prosperity coexist with pockets of extreme poverty, backwardness, and vulnerability. While the 105 billionaires in LAC have a combined net worth of US$446.9 billion, two people in ten in LAC still do not have enough food to eat.[1] While some inherit property and networks and attend prestigious universities, others struggle in the labour markets with a precarious education. While some own thousands of hectares of land, millions remain landless and homeless. The list of contrasts is long and well known in the region. LAC countries have lifted millions out of poverty in recent decades (box 1.1), but progress towards combating inequality has been less successful. Modest reductions in inequality have been insufficient to address the enormous extent of the challenge facing the region, and that progress has stagnated in recent years. Indeed, the region remains one of the most unequal in the world today. Circumstances at birth are still close to a life sentence for the more disadvantaged, and, as chapter 2 documents, a sense of the pervasiveness of inequality in its different forms is generalized. Public discontent with this reality bubbled over in late 2019 and early 2020 as social unrest spread across the region. Moreover, these inequalities were only further exacerbated throughout 2020 and 2021, as the multiple crises of the COVID-19 pandemic weighed most heavily on those already left behind.

At a structural level, people across LAC continue to face different barriers and have diverse access to opportunities to live lives that they have reason to value. As the global *Human Development Report 2019* argues, to understand the nature of these disparities fully, one needs to look beyond income, beyond averages, and beyond today.[2] Building on this approach, this Regional Human Development Report (RHDR) explores the seemingly intractable challenge of inequality in the LAC region and the multiple ways that inequality manifests. It argues that the region is caught in a double trap of high inequality and low growth. Indeed, alongside high inequality, the LAC region is also characterized by a volatile, overall low-growth performance driven by a lack of productivity. These two phenomena interact to sustain one another in a vicious cycle, holding the region back from achieving greater progress towards more advanced human development outcomes for all.

While this high-inequality, low-growth trap is not an absolute impediment to progress (indeed, the region has grown, and many social indicators have improved), it does imply that progress is not as rapid as needed. By international comparisons, LAC is still one

---

[1] FAO et al. (2020); Forbes (2021).
[2] UNDP (2019).

of the most unequal and slowest growing regions globally, and its social indicators are still below those expected given its average development level. But rather than arguing whether the glass is half full or half empty, what matters for public policy is that there is still not enough water in the glass and that accelerating the rhythm at which it accumulates requires tackling the factors underlying the trap. This challenge was present before the COVID-19 pandemic, and, in 2020 and 2021, as the shock has set back growth and many social indicators, the need to address it has exacerbated.

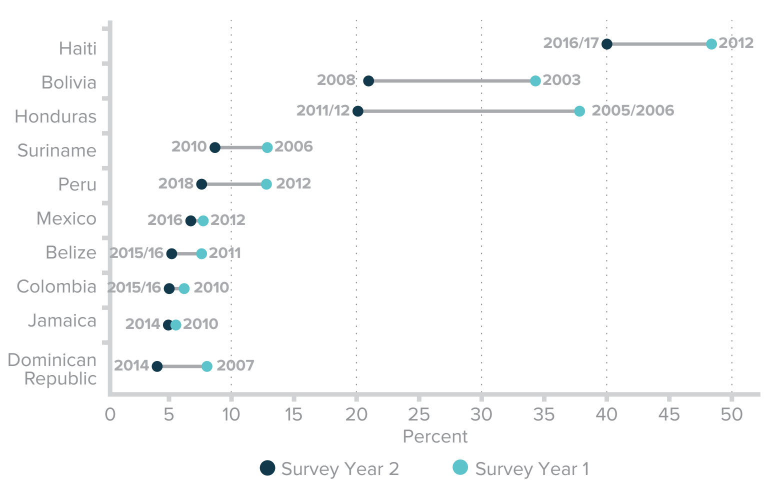
Box 1.1: LAC countries have made progress in reducing multidimensional poverty

In 2020, before the COVID-19 pandemic, 7.2 percent of people in LAC were living in multidimensional poverty. Deprivations in household standards of living contributed the most to overall multidimensional poverty (37.9 percent), followed by deprivations in health (35.9 percent) and education (26.2 percent).

Multidimensional poverty declined between 2000 and 2020 in every country with data (figure B1.1.1). Moreover, the largest absolute declines took place in some of the countries that initially faced the highest levels: in Honduras, by 18 percentage points, from 38 percent to 20 percent, in 2006–2012; in Bolivia, by 13 percentage points, from 34 percent to 21 percent, in 2003–2008; and, in Haiti, by 8 percentage points, from 48 percent to 40 percent, in 2012–2017.

Figure B1.1.1: Some countries progressed more than others in reducing multidimensional poverty

Percentage share of the population living in multidimensional poverty



Source: 2020 Global Multidimensional Poverty Index (MPI) (dashboard), Human Development Report Office, United Nations Development Programme, New York, http://hdr.undp.org/en/2020-MPI.

There was progress in most indicators underlying the multidimensional poverty measure. In six countries, all indicators improved (figure B1.1.2). In the few instances in which increases in deprivation occurred, they were each less than 1 percentage point.

Figure B1.1.2: LAC countries progressed in most indicators

Percentage point change in share of population deprived in relevant indicator between Survey Year 1 and Survey Year 2

-17.14 1.01

	Nutrition	Child mortality	Years of schooling	School attendance	Cooking fuel	Electricity	Drinking water	Sanitation	Housing	Assets
Haiti	-3.77	-0.95	-9.81	0.33	-8.38	-6.80	-7.64	-8.02	-5.50	-1.93
Bolivia	-6.83	-1.55	-4.40	-9.62	-9.17	-9.15	-7.46	-13.31	-16.00	-7.69
Honduras	-7.13	-1.09	-8.44	-17.14	-15.73		-6.52	-11.81	-15.12	-14.35
Suriname	-2.76		-2.20	-0.90	-2.15	-1.95	-2.69	-2.38	-1.98	-3.32
Peru	-3.49	-0.18	-2.33	0.27	-5.43	-3.67	-2.88	-4.96	-5.36	-2.78
Mexico	-0.42		-0.50	-0.29	-0.93	-0.33	-0.70	-1.06	-1.04	-0.76
Belize	-1.06	-0.90	-1.19	-1.81	-1.24	-0.15	-0.06	0.36	-1.40	-1.26
Colombia		-0.20	-0.98	-0.29	-0.83	-0.05	-0.26	-0.67	-0.50	-0.64
Jamaica	-0.88		0.13	-0.12	0.15	-0.08	-0.94	-0.35	0.54	-0.04
Dominican Republic		-0.27	-3.17	-1.64	-1.72	-0.67	-1.87	-2.21	-5.38	-2.80

Source: 2020 Global Multidimensional Poverty Index (MPI) (dashboard), Human Development Report Office, United Nations Development Programme, New York, http://hdr.undp.org/en/2020-MPI.

These numbers, however, reflect the situation before COVID-19. Forecasts have since estimated that the pandemic has wiped out much of this progress. Despite social assistance measures in some countries, the share of people living in poverty in LAC has likely increased during this time.[a]

[a] Lustig et al. (2020).

This chapter opens the report by providing a general overview of inequality and growth in the region.[3] The aim is to give the reader a better understanding of the specific nature of the high-inequality, low-growth trap in which the region finds itself. The rest of this report sets out to explore the common underlying factors of these phenomena that would, if adequately addressed, move the region forward in both the dimensions of equality and growth. Chapter 2 complements this chapter by introducing perceptions data on how people in the region view this situation and what they think should be done. Chapters 3 to 5 address some of the mechanisms underpinning the two dimensions. Each of these chapters reflects on different policy pathways that could help the region break out of the trap.

Inequality takes multiple forms. This report embraces the notion that, like poverty, it is multidimensional. It is manifested in different spheres of society (from the household to the market to the policy arena) and across many different groups (related to factors such as sex, race and ethnicity, geographical location, and income). One of its expressions is, in fact, the unequal distribution of institutional capacity across the territory that results in broad gaps in the availability and quality of development data. For this reason, not all countries in the region are always present in this report's analyses. It is often the smaller countries and the countries in the Caribbean that are missing. Among them are some of the poorest and least dynamic economies.

Map 1.1 shows the most current maps of multidimensional poverty (panel a) and human development (panel b) in LAC.[4] It documents the heterogeneity in social indicators across countries. While some countries in the region perform well on both indices (such as Argentina and Uruguay), other countries face a much greater challenge (such as Haiti). This report has a regional focus and thus tends to address LAC as a whole, but there is no single LAC experience. There are many shared challenges that countries in the region face in terms of inequality and growth. Still, the specific nature of these challenges may look very different depending on local and national context. Indeed, within countries, heterogeneity adds a layer of complexity. This chapter concentrates on differences in social indicators across countries and, within each country, across income groups, sex and ethnicity but does not dwell on within-country territorial differences. Country-level maps like those in map 1.1 would show a variance as large and, in some cases, larger than across countries. As is inevitable in a regionwide report, the chapter focuses on common trends. Heterogeneity implies that these trends do not apply with equal force in all cases or that some do not apply in some countries. The findings of this chapter should be seen in this light: broad generalizations that must be interpreted considering country specificities.

---

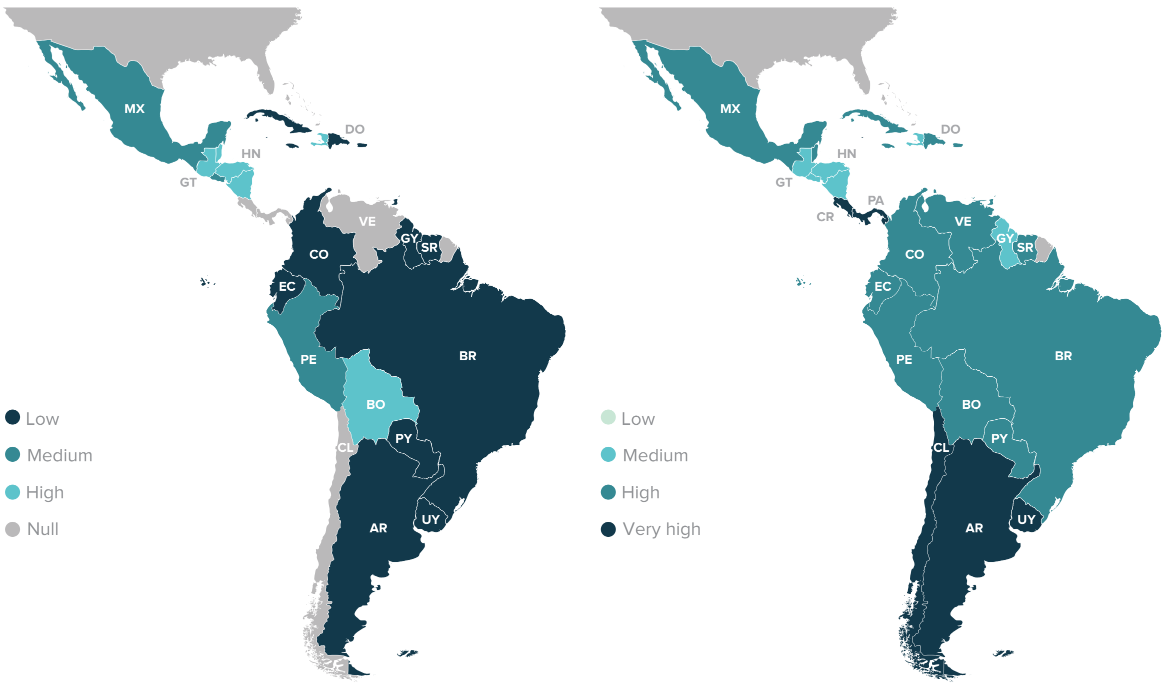
[3] This chapter builds primarily on four background papers commissioned for this report to describe the region's current predicament: Fernández-Arias and Fernández-Arias (2021); Gasparini and Cruces (2021); Neidhöfer (2021); Torche (2021).

[4] The multidimensional poverty index (MPI) identifies multiple deprivations at the individual and household levels in health, education, and living standards. The human development index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, access to schooling and a decent standard of living.

Map 1.1: Living conditions are unequal across LAC

a. Multidimensional poverty

b. Human development index



Source: UNDP elaboration; Alkire et al. 2020; 2020 Global Multidimensional Poverty Index (MPI) (dashboard), Human Development Report Office, United Nations Development Programme, New York, http://hdr.undp.org/en/2020-MPI.

1.2. Inequality in Latin America and the Caribbean remains persistently high

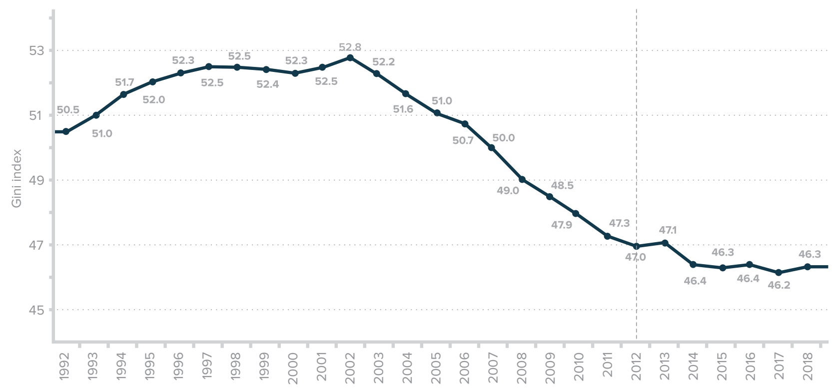
Progress in income inequality reduction has been limited and has recently stalled

Indicators of income inequality calculated using available national household surveys also suggest progress in the last two decades, most of it occurring between 2000 and 2012.[5] After that, progress stalls and is almost insignificant between 2012 and 2018. Figure 1.1 shows the evolution of the average Gini index only for countries in Latin America. The average Gini Index fell from 52.8 to 47.0 between 2002 and 2012, with an average reduction of 0.58 points per year. Then, between 2012 and 2018, the average Gini fell less than one point.

[5] This trend was originally analysed in López-Calva and Lustig (2010).

Figure 1.1: Despite declining in the 2000s, income inequality remains high in LAC

Income inequality (Gini index 1992–2018)



Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.
Note: Unweighted mean of the national Gini indices of the distribution of household per capita income. Data refer to all Latin American countries except El Salvador and Guatemala.

The slowdown in inequality reduction after 2012 is most evident in the extended Southern Cone (Argentina, Brazil, Chile, Paraguay, and Uruguay) and less pronounced in the Andean countries and Central America. In fact, in some countries (Colombia, Costa Rica, Honduras and Panama), there was no deceleration in the 2010s. Heterogeneity across countries was larger in this second period (table 1.1). The available data are insufficient to follow trends in income inequality in the Caribbean (box 1.2).

Moreover, the slowing progress in inequality reduction remains true if one looks at other indicators of income inequality. While the Gini index is one of the most widely used measures because it summarizes the shape of the entire income distribution into one number, other indicators of income inequality may be more relevant depending on the context. If people care more about the gaps between those at the top and the bottom, they can examine alternative indicators that compare the incomes of these groups. As figure 1.2 shows, the trends in income inequality in Latin America look similar when measured with the Gini or with an alternative indicator. Indeed, the gap in income between the rich and the poor narrowed in the 2000s (see the falling income ratios of deciles 10 and 1 and of percentiles 90 and 10), and progress decelerated after 2012.

Table 1.1: Inequality reduction stalled the most in the extended Southern Cone

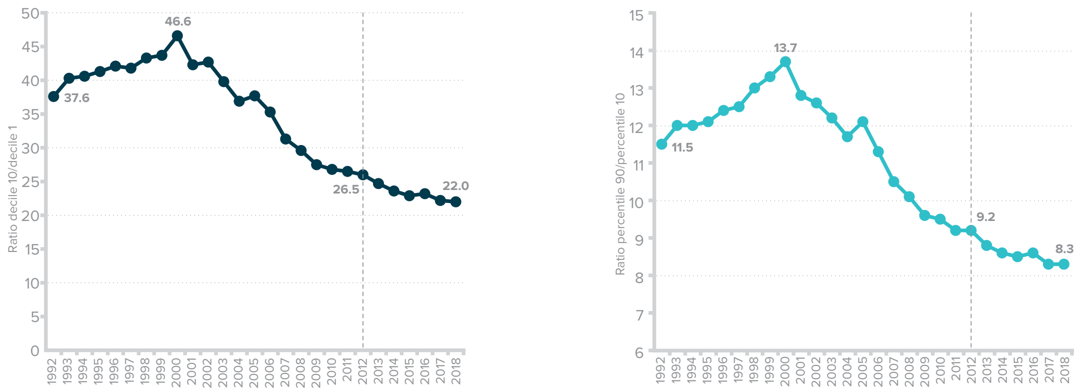
Annual average changes in Gini indices, by period and subregion, 1992–2018

	Gini index average annual change			
	1992-2002	2002-2012	2012-2018	1992-2018
Southern South America				
Argentina	0.79	-0.98	-0.01	-0.07
Brazil	0.07	-0.56	0.21	-0.14
Chile	-0.02	-0.55	-0.06	-0.23
Paraguay	0.50	-0.91	0.12	-0.13
Uruguay	0.41	-0.55	-0.07	-0.07
Andean countries				
Bolivia	0.57	-1.27	-0.42	-0.37
Colombia	0.20	-0.39	-0.39	-0.17
Ecuador	0.40	-0.66	-0.11	-0.13
Peru	0.34	-0.97	-0.27	-0.30
Venezuela	0.61	-0.71	-0.29	-0.11
Central America & Mexico				
Costa Rica	0.27	0.15	-0.11	0.14
Honduras	0.21	-0.29	-0.32	-0.10
Nicaragua	-0.46	-0.66	0.45	-0.32
Panama	0.06	-0.38	-0.42	-0.22
Mexico	-0.25	-0.14	-0.11	-0.18
Dominican R.	-0.05	-0.43	0.12	-0.16
Latin America	0.23	-0.58	-0.11	-0.16

Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.
Note: Values may not precisely coincide with those from national sources. They are from data adjusted by SEDLAC using a standardized methodology to complete gaps in the information available.

Figure 1.2: Alternative indicators of income inequality show the same pattern over time

a. Ratio, decile 10/decile 1 b. Ratio, percentile 90/percentile 10



Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.
Note: Unweighted mean of the indicators. Data refer to all Latin American countries except El Salvador and Guatemala.

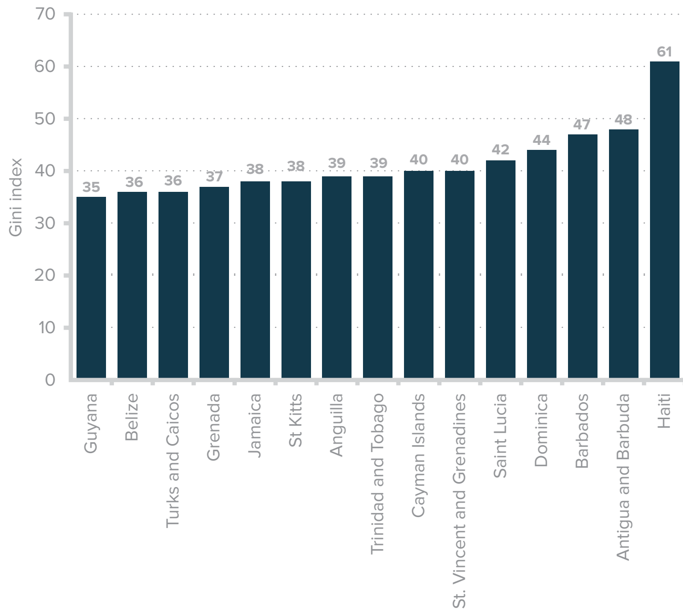
Box 1.2: Statistical capacity and measuring inequality in the Caribbean

There is a limited statistical capacity for collecting timely, high-quality national household survey data in many Caribbean countries. Consequently, data on inequality indicators tend to be scarce and outdated, making it difficult compare measures reliably between countries and monitor changes over time.

Figure B1.2.1 shows the most recent Gini indices for several Caribbean countries (drawn from government reports). Given the data limitations, it is impossible to draw any conclusions firmly. However, there is wide dispersion in inequality levels across the Caribbean countries. This dispersion reflects a heterogeneous region. Indeed, the Caribbean includes some of the most unequal countries in the world (such as Haiti) and countries in which inequality is more moderate (such as Belize or Guyana).

While a few countries report inequality data for multiple points in time, one must be wary of interpreting a comparison between these measures as a story about what happened to inequality in that country. For example, the Gini index in Barbados climbed from 39 to 47 between 1997 and 2010, whereas the Gini in St. Vincent and the Grenadines plummeted from 56 to 40 between 1996 and 2008 (CDB 2016). Given how drastic they are, these changes more likely reflect a combination of changing living conditions and methodological changes in data collection and analysis. As Caribbean countries continue to invest in expanding the robustness of their statistical systems, we will learn more about the dynamics of inequality and human development in the region.

Figure B1.2.1: There is wide dispersion in inequality levels across the Caribbean
Gini indices, late 2000s–early 2010s

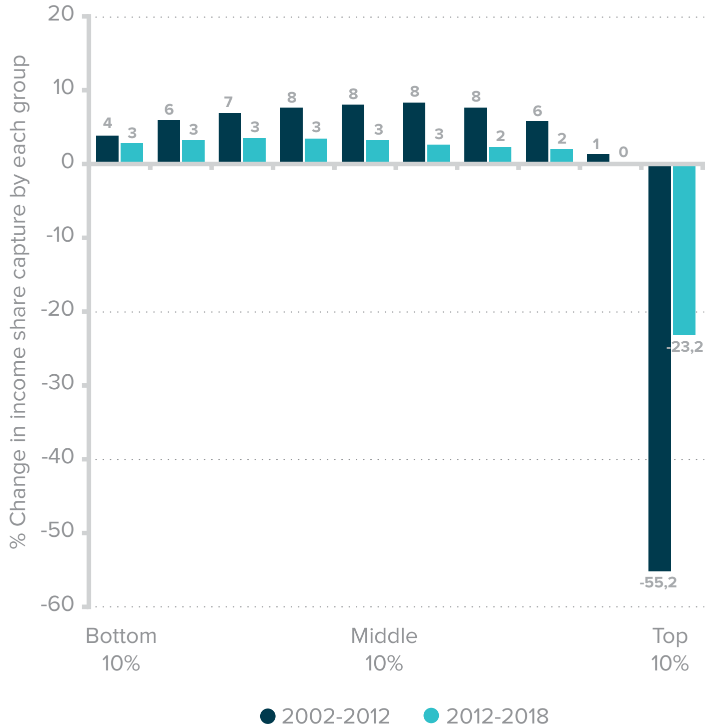


Source: CDB 2016; Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; official reports.

Another way to understand what happened in income inequality during this period is to investigate the changes in the share of the pie going to each income group. The share of income captured by the top 10 percent of the income distribution (the top 10) in Latin America fell by 55 percent between 2002 and 2012. And the larger gains were among the middle range of the income distribution (figure 1.3). In contrast, between 2012 and 2018, the loss of income among the top 10 was smaller (23 percent), and the gains were more evenly spread out across all other households and somewhat concentrated among the bottom 60 percent. Absolute changes have, however, been relatively small. The share of the bottom 10 rose from 1.1 percent in 2002 to 1.5 percent in 2012. In the same period, the share of the bottom 60 increased from 22.4 percent to 26.5 percent. If these changes had continued over a longer period, they might have brought about a relevant transformation. But the positive trend was not sustained. So, though the changes in the last 15 years were positive, they were insufficient to transform the basic characteristics of the income distribution in the region.

Figure 1.3: The reductions in income concentration at the top slowed

Percentage change in income shares across the income distribution, 2000–2018



Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.
Note: The data show unweighted means.

One must consider the story of moderate progress in the light of the data sustaining it. Income inequality measures calculated from national household surveys tell an incomplete story and, in some cases, may not capture the trends. Overall, these surveys provide reliable and representative information on the disparities in well-being and living conditions across households and remain the dominant source for informing public debates regarding redistribution. Still, they face severe challenges in accurately capturing the income of the richest people. Given sampling errors and the sensitivity of income information, these people are less likely to participate in surveys or faithfully disclose their earnings, opting instead to underreport, especially information related to investment returns. Household surveys also fail to grasp fully the dimension of inequality that corresponds to wealth concentration. On both counts, income inequality measures derived from national household surveys underestimate inequality (box 1.3).

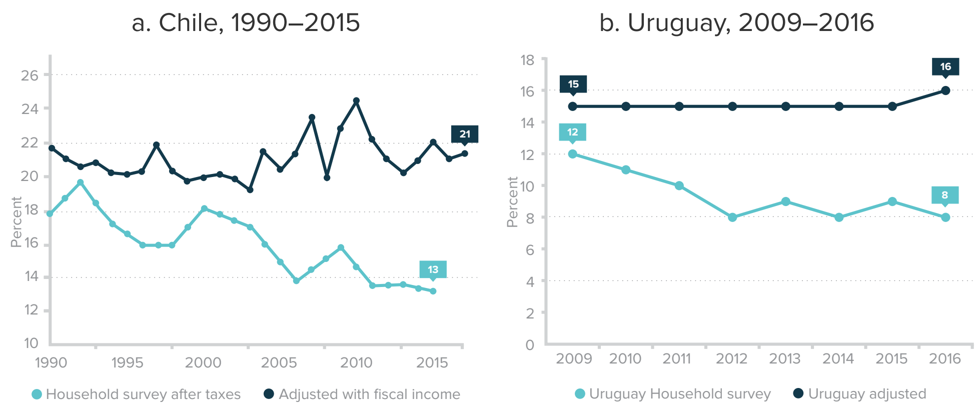
Box 1.3: What do we know about the super-rich?

Because national household surveys often miss important information about the richest members of society, they provide an incomplete picture of income inequality. The top 1 percent represents a small share of the population, but it controls a large share of the population's total resources and is thus a key piece in understanding inequality. Researchers have combined, where possible, data from household surveys and data from tax and other administrative records to fill in this missing piece.[a]

Figure B1.3.1 shows how much the picture can differ if inequality indicators are computed on only household survey data or based on survey data adjusted using administrative tax records. In Chile and Uruguay, there are significant differences both in terms of levels of inequality and in terms of the direction of the trends. In both cases, for the latest year shown, there was a gap of 8 percentage points in the reported share of income held by the top 1 percent. Moreover, according to the household survey series, there is a stable or downward trend in the share of income received by the richest 1 percent, whereas, according to the adjusted series, a slight upward trend emerges.

Figure B1.3.1: Administrative and tax records can offer a more complete understanding of the income held by the top 1 percent

Richest 1% of the income distribution



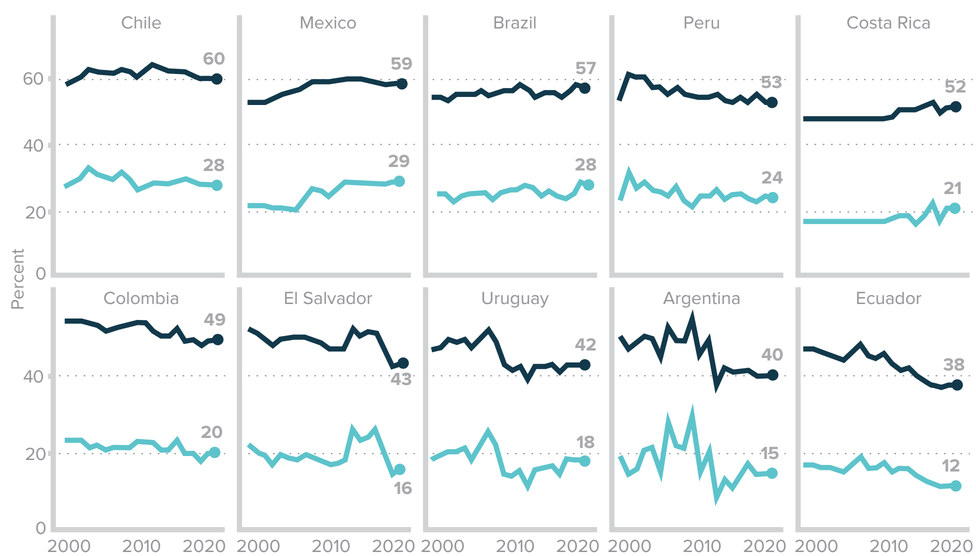
Source: Chile: Flores et al. 2020; Uruguay: Burdín et al. 2019.

The World Inequality Database combines data from harmonized household surveys, administrative tax records, social security registries and national accounts.[b] Based on these data, one may obtain a better idea about what income concentration at the top looks like and how it has evolved over the past two decades in 10 Latin American countries (figure B1.3.2). On average, the top 10 currently captures 49 percent of national income, and the top 1 percent captures 21 percent. Among the Latin American countries analysed, Chile, Mexico, and Brazil have the highest income concentration: the top 10 captured more than 57 percent of national income, and the top 1 percent captured more than 28 percent in 2019. Income concentration in these countries is both persistently high and/or rising over time. In contrast, Uruguay, Argentina, and Ecuador showed the lowest levels of income concentration in the region between 2000 and 2019 (though still high in absolute terms), and concentration in Argentina and Ecuador appears to have been declining since 2010.

The WID does not capture all countries in LAC, and some of the excluded ones, such as Guatemala and Haiti, could potentially have higher income concentration.

Figure B1.3.2: Chile, Mexico, and Brazil have the highest income concentration in LAC

Income shares of the top 1 percent and 10 percent in 10 Latin American Countries, 2000-2019



Source: UNDP elaboration; data of WID (World Inequality Database) (dashboard), Paris School of Economics, Paris, https://wid.world/.

---

[a] See Atkinson and Piketty (2010); Atkinson, Piketty, and Saez (2011); Alvaredo et al. (2018).
[b] WID (World Inequality Database) (dashboard), Paris School of Economics, Paris, https://wid.world/.

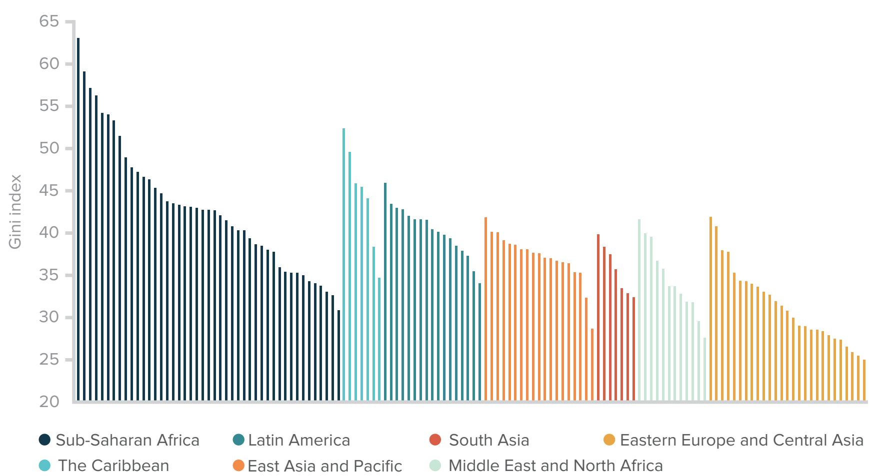
The LAC region remains the second most unequal in the world

Even with the region's progress towards reducing inequality, the current levels of inequality are incredibly high from a global perspective. Figure 1.4 shows the Gini indices for countries in different developing regions (each colour represents a region, and each bar represents a country). Countries in sub-Saharan Africa and the Caribbean stand out as the most unequal globally, followed closely by countries in Latin America (see box 1.2 on data limitations in the Caribbean). Eight sub-Saharan African countries and one Caribbean country (Haiti) have Gini indices above 50. In the following range of Gini indices between 40 and 50, there are ten Latin American and four Caribbean countries. The rest of the countries in LAC have Gini indices between 30 and 40. Only three Latin American countries have a Gini below the world median: Argentina, Peru, and Uruguay. Despite progress over the last two decades, the LAC region remains the second most unequal in the world.

Perhaps even more striking, LAC countries are more unequal than would be expected from their development level. Figure 1.5 shows that LAC countries have higher Gini indices than peers at similar levels of human development (panel a) and gross domestic product (GDP) per capita (panel b).

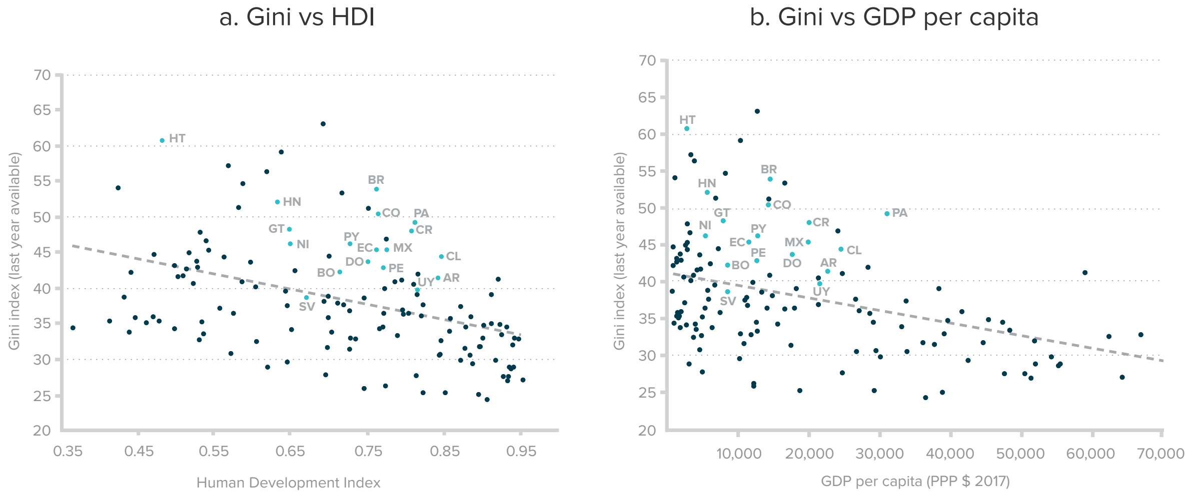
Figure 1.4: LAC countries are some of the most unequal in the world

Gini indices on the distribution of household consumption per capita by region, circa 2017



Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of PovcalNet (online analysis tool) (dashboard), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/.

Figure 1.5: LAC countries are more unequal than other countries at similar development status



Source: UNDP elaboration; 2020 Global Multidimensional Poverty Index (MPI) (dashboard), Human Development Report Office, United Nations Development Programme, New York, http://hdr.undp.org/en/2020-MPI; WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/.

1.3. Inequality expresses in dimensions that go beyond income and wealth

While there is usually a high correlation between different forms of inequality, those resulting from different capability sets depending upon circumstances at birth and later in life, over which individuals have no control, add a layer of complexity to the conversation about inequality and fairness. “Equality of what?” was Amartya Sen’s (1980) famous question during the Tanner Lectures more than four decades ago. The concept of equality envisioned by Sen is that of each person having the basic capabilities to pursue a life of her willing. Each person being able to do certain basic things like move about, meet her nutritional requirements, be clothed and sheltered, obtain an education, participate in the social life of the community she belongs in to pursue a life she can value. This concept of equality is still elusive in LAC.

Inequality, like poverty, is multidimensional. This section reviews some of its other dimensions to highlight that the income and wealth inequality trends analysed above do not entirely tell the region’s story of inequality.

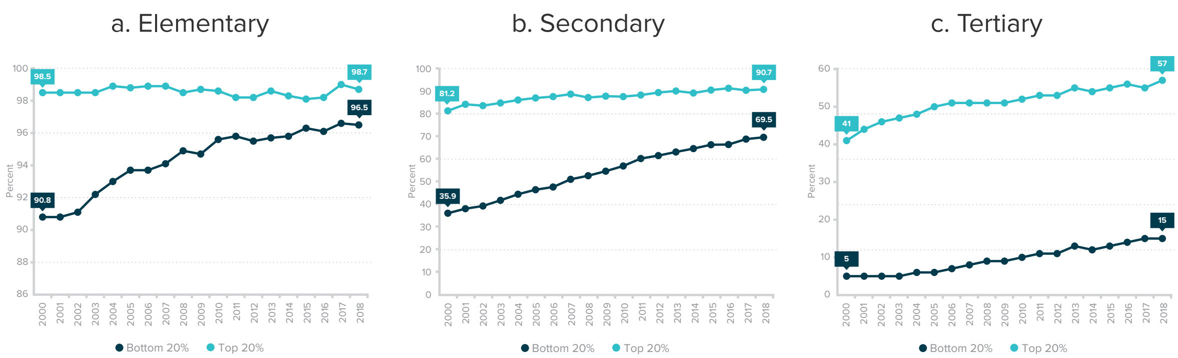
Education opportunities are still unequally distributed

Overall, LAC has made substantial progress in educational attainment over the last decades, but not enough to ensure that education is the great equalizer that the region needs, as shown by the following indicators.

Net enrolment.[6] The gap in elementary education between the poorest and the richest 20 percent of the population fell from 7.6 to 2.2 percentage points between 2000 and 2018. This fall was driven mainly by improvement in enrolment rates among the former, which increased from 90.8 percent in 2000 to 96.5 percent in 2018. Net enrolment rates also expanded in secondary schooling, from 55.9 percent to 78.6 percent. High school attendance among the poor accelerated in the 2000s, and the schooling gaps have been narrowing since. However, the process of convergence decelerated in the 2010s and is non-existent in tertiary education (figure 1.6). Despite the lack of convergence, there was progress in tertiary education: net enrolment rates rose from 12.3 percent in 2000 to 30 percent in 2018.

Figure 1.6: While elementary and secondary school enrolments have converged, inequalities in tertiary education remain vast

Net enrolment rates in Latin America, 2000–2018, %



Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.

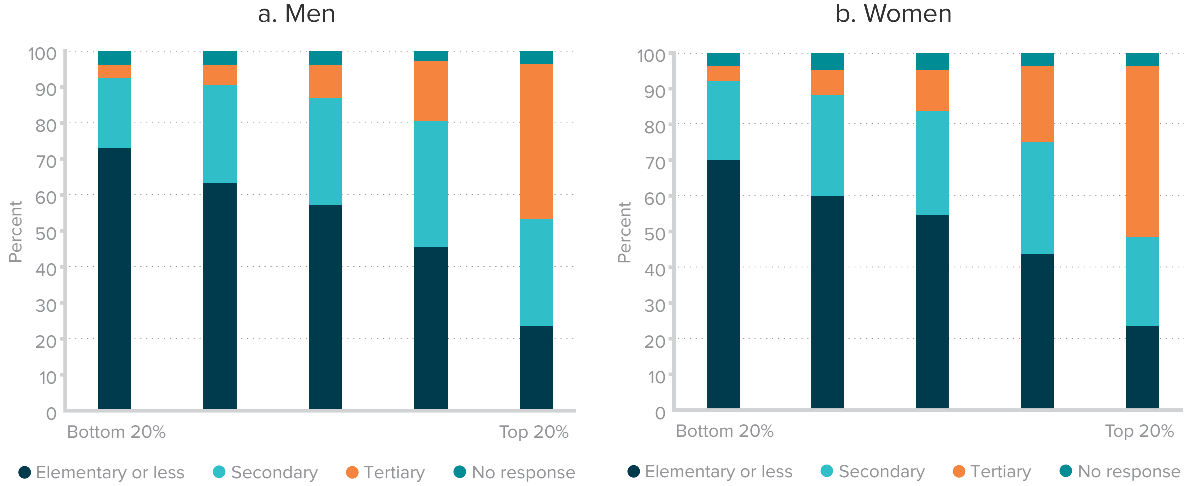
Educational attainment. Overall progress in enrolment over the last two decades has translated into a sustained increase in educational attainment in the region. The mean years of formal education among the adult population rose steadily from 7.4 in 2000 to 9.3 in 2018. The growth rate in years of education was almost constant over time, and education levels increased across the income distribution in every country. Individuals in poor and rich income groups are now more educated than individuals in the same groups some decades ago. There is, however, heterogeneity in educational attainment between groups across the income distribution, and the gaps in education between the poorest and richest 20 percent remain almost unchanged. There is also heterogeneity in educational attainment across countries. Only five countries have

[6] The net enrolment rate is the share of individuals in each age group in the population who attend the educational level corresponding to their age.

an average of more than 10 years of education among adults in the 25-65 age range (Argentina, Chile, Panama, Uruguay, and Venezuela), and four still have an average below 8 (El Salvador, Guatemala, Honduras, and Nicaragua). Figure 1.7 shows where the region stood at the end of 2019, before the onset of the pandemic.

Figure 1.7: Educational attainment increases with income, and, on average, women have slightly more schooling than men

Educational attainment across the income distribution (adults ages 25 or more)



Source: UNDP calculations; national household surveys in 15 countries in LAC.

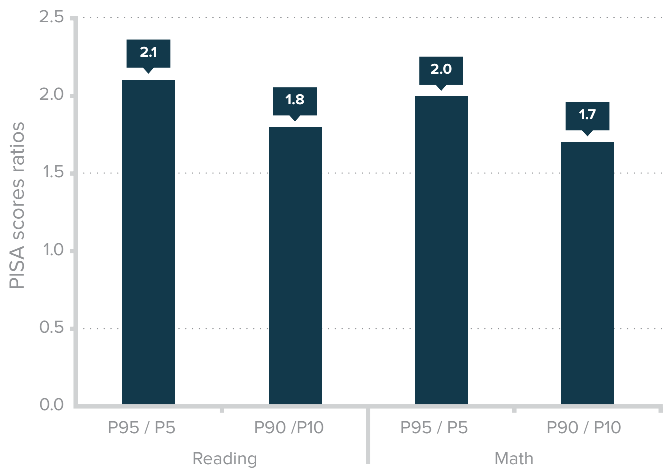
Education quality. Enrolment rates and schooling attainment do not tell the whole story of inequality in education. Access to quality education is still a privilege mostly reserved for those in the upper tail of the income distribution. Figure 1.8 presents the score ratios between income percentiles in the Programme for International Student Assessment (PISA) tests (taken by students age 15, hence measuring quality in secondary education).[7] The scores of students in the bottom 5 are half the scores of students in the top 5 (and even less in mathematics); the scores of students who are slightly less poor, in the bottom 10, are less than two thirds of the scores of students in the top 10. On both measures (ratio 95/5 and 90/10) and both tests (mathematics and reading), the gaps across income groups are somewhat larger in Latin America than in the rest of the world and considerably wider than in the Organisation for Economic Co-operation and Development (OECD).

[7] PISA is a repeated cross-sectional study conducted by the Organisation for Economic Co-operation and Development (OECD) to test nationally representative samples of 15-year-old students in reading, mathematics, and science. It covers 10 Latin American countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Panama, Peru, Mexico, and Uruguay.

Segregation. The segregation of children with different socio-economic backgrounds into separate schools erodes the prospect of more well-integrated and equal societies. Integrated schools may foster better education among poor children through peer-group effects and reduce the variance in the distribution of social capital among youth (for example, through labour contacts). They may also strengthen preferences for redistribution as more affluent families get to know the needs of poorer households better. PISA data reveal that Latin American countries were among the countries with the highest levels of segregation by socio-economic status in schools in 2014 (box 1.4). There is no reason to expect that this has significantly changed.

Figure 1.8: Access to quality education is still a privilege mostly reserved for the rich

Ratio of PISA scores of poor students to rich students in Latin America



Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; 2018 data of PISA (Programme for International Student Assessment) (dashboard), Organisation for Economic Co-operation and Development, Paris, http://www.oecd.org/pisa/pisaproducts/.

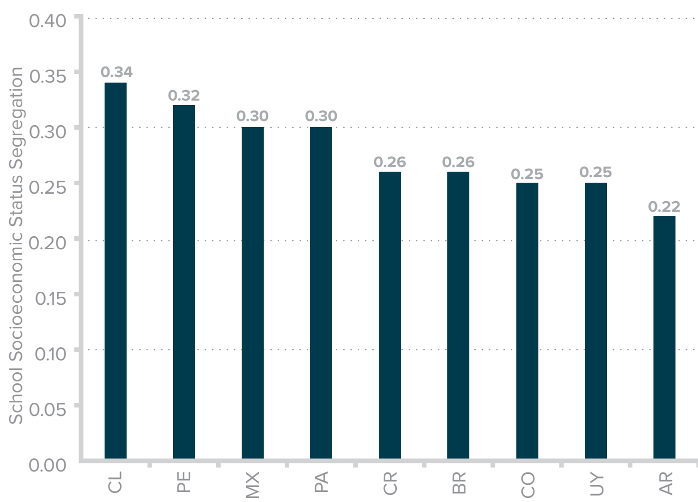
Box 1.4: LAC countries have highly segregated education systems

Using the OECD index of economic, social, and cultural status, Chmielewski and Savage (2016) find that LAC countries have highly segregated education systems and that segregation has been increasing over time. This index combines in a single measure the higher parental educational attainment and occupational status, and household possessions (books, computers, and the student's bedroom).

Segregation is calculated using a rank-order information theory index (the rank-order entropy index [H_R]). Figure B1.4.1 presents countries in PISA 2012 sorted from highest to lowest in between-school segregation. Of the 16 most highly segregated countries, 9 are in Latin America. Chile, Peru, Mexico, and Panama had the highest levels of between-school socio-economic status segregation in the region in 2012, with the H_R at or above 0.30. Costa Rica, Brazil, Colombia, Uruguay, and Argentina exhibited slightly lower but still relatively high levels of segregation, with the H_R at between 0.20 and 0.30. For comparison, the calculated H_R for the United States was 0.17.

Figure B1.4.1: Latin American countries have highly segregated education systems

Segregation in schools by socio-economic status, 2012



Source: Chmielewski and Savage 2016; 2012 data of PISA (Programme for International Student Assessment) (dashboard), Organisation for Economic Co-operation and Development, Paris, http://www.oecd.org/pisa/pisaproducts/.
Note: For Panama, the PISA data are from 2009.

The study also found that, in Brazil, Chile, Costa Rica, Panama, and Uruguay, students who were in high socio-economic status schools were more highly segregated than students in low socio-economic status schools. In Argentina, Colombia, Mexico, and Peru, students with high and low socio-economic status were approximately equally segregated. Countries with a higher fraction of students in schools of choice, as opposed to schools with residence-based admissions, had significantly higher levels of segregation.

Access to public utility services is still not guaranteed to all

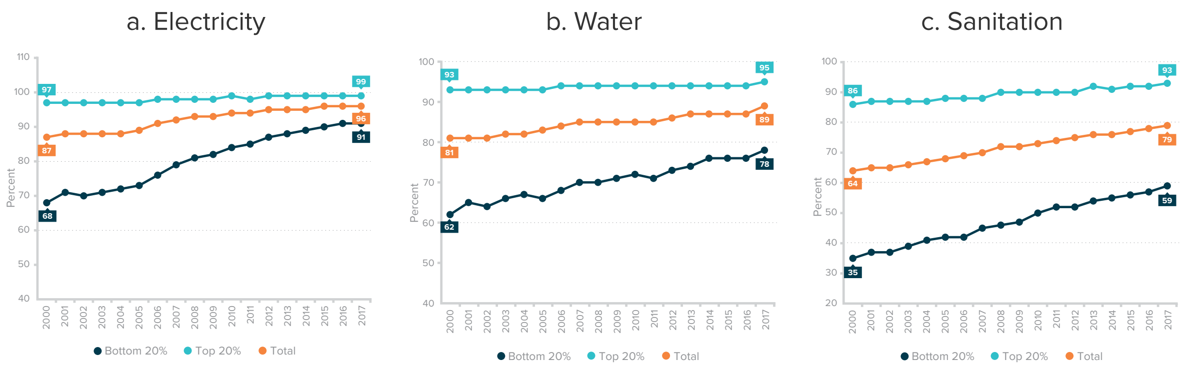
In public utility services, the story is similar: overall improvement in access among all, but wide gaps between income groups, with larger gaps in access to more advanced utility services (such as the internet) compared with more basic utility services (such as electricity, water, and sanitation).

Basic services. There has been a substantial reduction in gaps in access to electricity, drinking water, and, to a lesser extent, sanitation since 2000, with changes in all cases driven by the gains of households in the bottom 20 (figure 1.9). Progress in electricity coverage has been significant. Countries have succeeded in extending access to almost all the poor. However, among the poorest 20 percent, around 10 percent of households still lack electricity, 20 percent lack access to drinking water, and 40 percent lack access to sanitation. The difficulties in reaching those still uncovered are, in most countries, associated with geographical location. The uneven presence of the government, particularly in the most remote rural areas, implies there are still households that do not have a form of access to some or all essential services and must find a way to provide for themselves.

Access to an internet connection at home. Not all national household surveys include a question to measure internet coverage. Figure 1.10 uses the data available on 11 countries to show gaps in access between income groups.[8] While almost three quarters of the richest quintile have an internet connection at home, the corresponding share of the poorest quintile is less than one third. Moreover, less than half of all households had internet at home in 2019. Home internet connections are still limited mainly to urban households.

Figure 1.9: Gaps in access to essential public utilities have been narrowing

Service coverage, by income group, 2000–2017

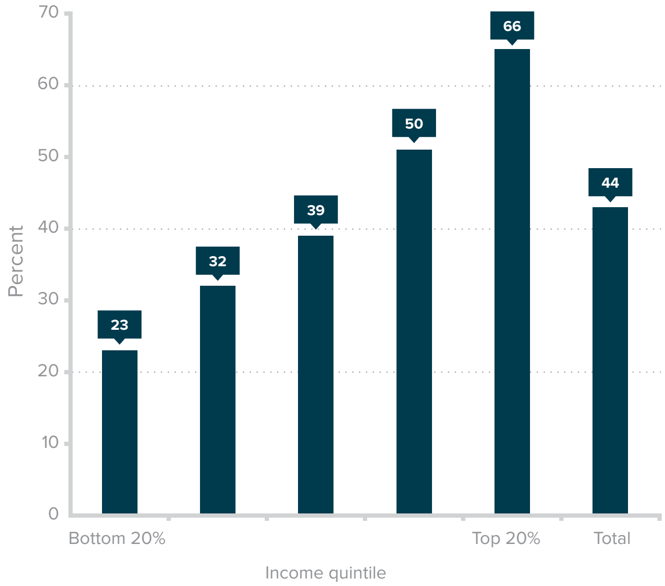


Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.

[8] The countries are Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Paraguay, Peru, and Uruguay.

Figure 1.10: Gaps in access to the internet remain stark

Home internet connection in 2019



Source: UNDP calculations; national household surveys in 11 countries in LAC.

The internet may be a more advanced type of service, but it is essential for today's world. The COVID-19 pandemic has only made this more evident, as people increasingly rely on digital services to meet their daily needs in remote learning, working, banking, health care, and socializing. The region's stark disparities in access to the internet and the tools to use it are holding millions of people back from achieving higher levels of well-being.

For women, the playing field is still not level

Women face greater hardships than men in several dimensions of their lives. Gender gaps in the labour market with origin in unconscious gender role biases are among the primary sources of gender inequality.[9] Women participate less than men in the labour force, and if they do participate, they work fewer paid hours than men. They also have higher unemployment rates than men. Gender gaps are decreasing in household income. The poorest women face the worse inequalities (figure 1.11). Labour force participation is on average 32 percent lower among women than men, but among women in the bottom 20, it is 42 percent lower. Similarly, on average, women devote 16 percent fewer hours per week than men to paid work, but women

[9] For examples of the literature that explores these biases, see Shapiro and Williams (2012); Cheryan, Master, and Meltzoff (2015); Heilman, Manzi, and Braun (2015).

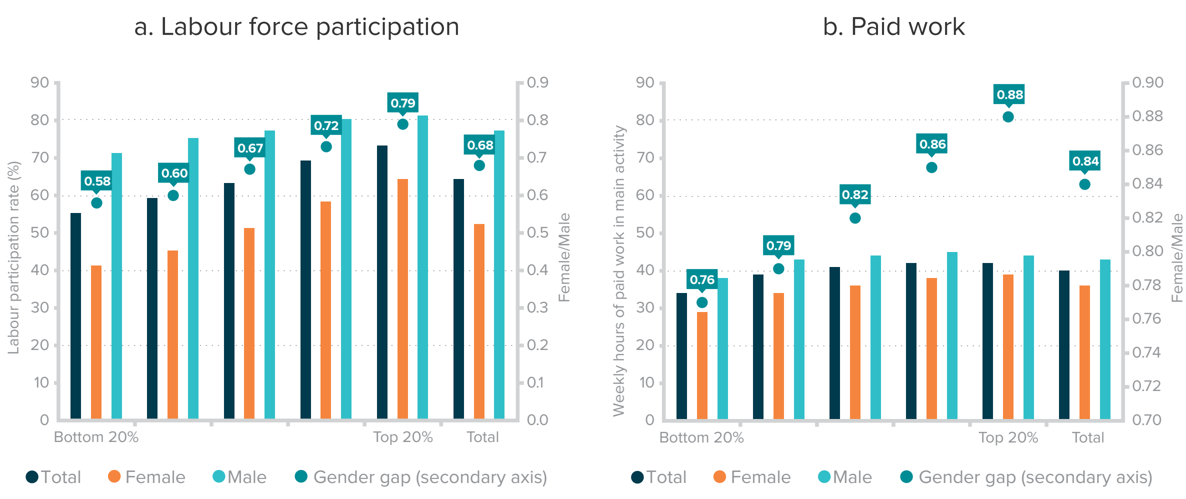
in the bottom 20 devote 24 percent fewer hours than men. Gender gaps in labour force participation and paid work—labour supply gender gaps—are perhaps the most damaging because they translate into economic dependence.

Not all national household surveys provide data that allow the measurement of the hours spent in unpaid work. The flipside of the coin is that, while women work fewer hours than men for pay, they spend much more time than men per week in tasks not recognized as work, for which they receive no payment, namely, domestic chores and care activities. Box 1.5 shows that the gender gaps in unpaid work are enormous and decreasing in income because women in the upper tail of the income distribution devote less time to unpaid work than their peers in the lower tail. However, men along the income distribution are similar in the time they devote per week to their homes and families, reflecting that women predominantly undertake house and care work. Not surprisingly, the number of children under six years old in the household affects women's labour supply much more than men's labour supply.

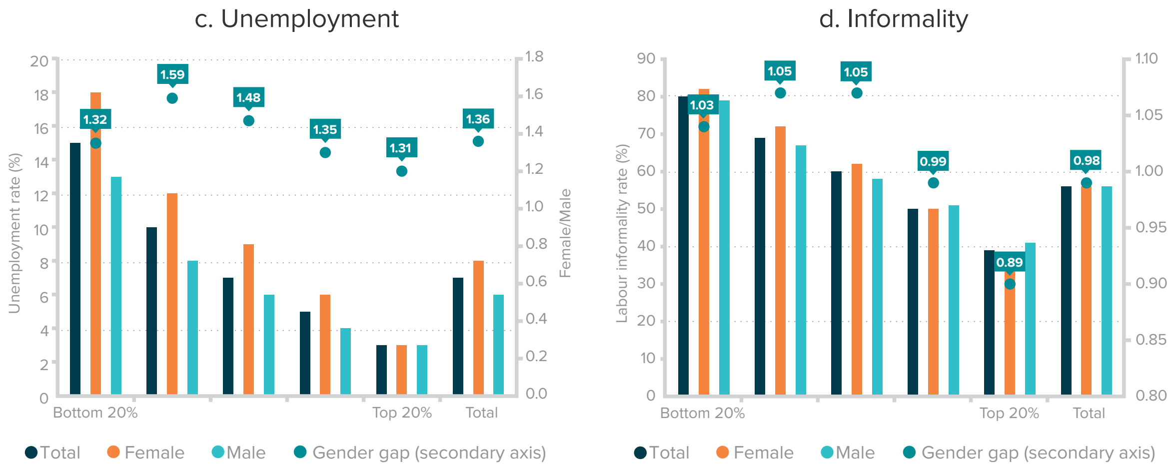
Gender gaps in the labour supply have been shrinking. Progress has been made, and women currently participate in the labour market much more than they did three decades ago.[10] As a region, however, LAC is still far from where it ought to be. In addition to economic dependence and the increased exposure to domestic violence that comes with it (see chapter 4), low female labour force participation and fewer hours of paid work imply an enormous waste of human capital that is costly for society.

Figure 1.11: The poorest women face the largest inequalities in the labour market

Gender gaps in the labour market, by income group, 2019



10 See Gasparini and Cruces (2021).



Source: UNDP calculations; national household surveys, 15 countries; 12 countries for informality.
Note: The year is 2017 for Chile and 2018 for Mexico. The working-age population restricted to 15 years or more.

Gender gaps in unemployment are the largest gaps of all. The unemployment rate among women is, on average, 36 percent higher than the corresponding rate among men. However, the broader gaps are not those among the bottom 20, but those among the second 20 percent and the gaps decrease with income after that (see figure 1.11, panel c).

The gender gaps in informal labour are the least relevant among the gender gaps in the labour market. This is not because informality is not relevant, but rather because it is a phenomenon so widespread in the region that it surpasses the gender divide (chapter 5). Figure 1.11, panel d, shows that the gender gap is small and, on average, favouring women. It also shows that the story changes across the income distribution. Women among the bottom 60 are, on average, slightly more informal than their men counterparts. Most importantly, however, it shows that, in informality, the gaps across income groups are more relevant than gender gaps. We invite the reader interested in exploring labour informality to read more about it in chapter 5.

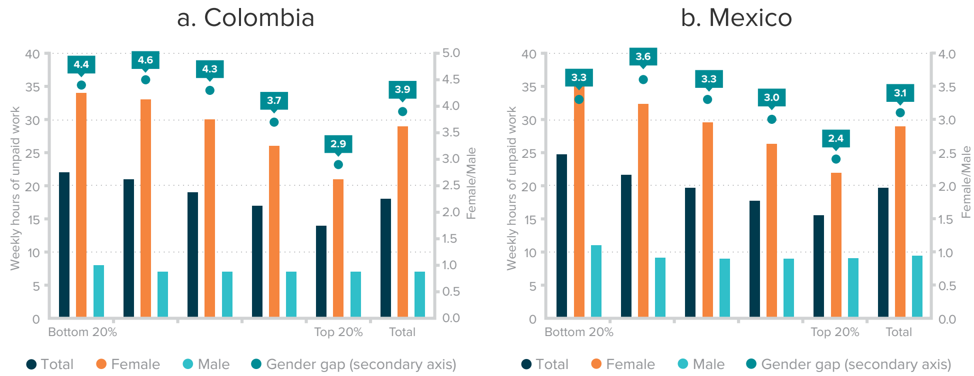
Figure 1.12 shows the gender gaps in the labour market by educational attainment. Gender gaps in labour force participation decrease with education and are much smaller among women who have completed tertiary. Gaps in hours of paid work also decline with education, although not as much as labour force participation, and formality increases. The gender gap in unemployment, in contrast, is highest among individuals with secondary education and higher among those with tertiary education than among the less well educated.

Box 1.5: Women in LAC bear a higher burden of domestic work and care responsibilities

National household surveys in Colombia and Mexico ask respondents about the time they devote to unpaid house and care work. On average, in Colombia, women devote 3.9 hours to unpaid work per week for each hour dedicated by men. The female to male ratio of unpaid work hours is higher for women in the lower tail of the income distribution and declines with income, perhaps because women from richer households can afford to hire paid help (Figure B1.5.1, panel a). The ratios in Mexico are slightly lower but tell the same story (Figure B1.5.1, panel b).

Figure B1.5.1: Women devote between three and four times more than men to unpaid work per week

Gender gaps in unpaid work

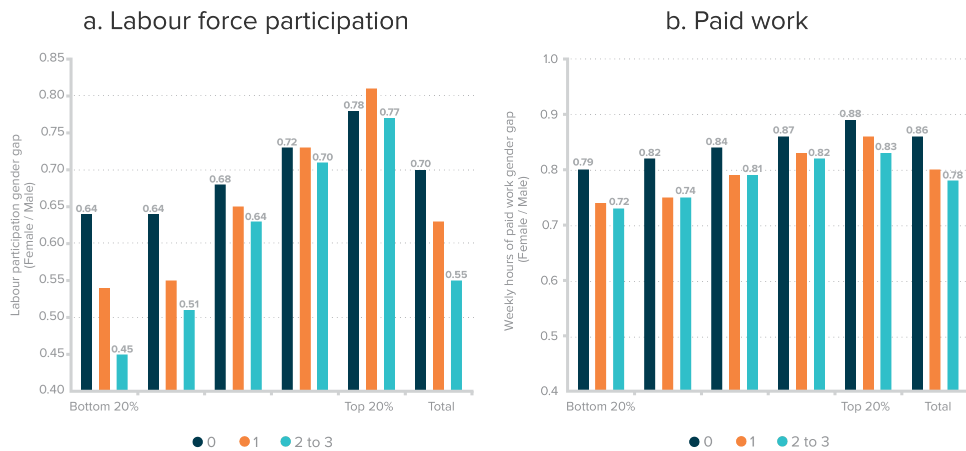


Source: UNDP calculations; 2018 data of ENIGH (Encuesta Nacional de Ingresos y Gastos de los Hogares, National Household Income and Expenditure Survey) (dashboard), Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography), Aguascalientes, Mexico, https://www.inegi.org.mx/programas/enigh/nc/; 2019 data of GEIH (Gran Encuesta Integrada de Hogares) (Major Integrated Household Survey) (dashboard), Archivo Nacional de Datos, Departamento Administrativo Nacional de Estadística (National Administrative Department of Statistics of Colombia), Bogotá, http://microdatos.dane.gov.co/index.php/catalog/599/study-description.

The presence of children under 6 years old in the household appears to be a determining factor in the labour supply of LAC women, but particularly among women in the bottom 40. Gaps in hours of paid work are also increasing with the number of children (figure B1.5.2). This is one reason why access to quality care services is critical and must be a policy priority.

Figure B1.5.2: Gender gaps in labour supply increase with the number of children in the household

Gender gaps in labour participation and paid work time by children under 6 in the household, LAC 2019



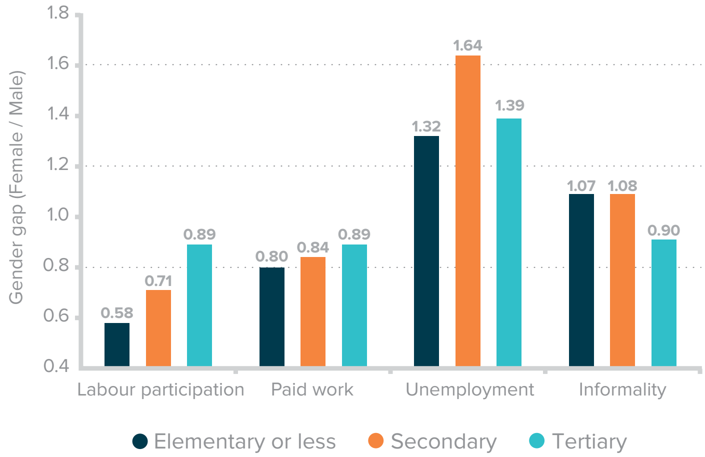
Source: UNDP calculations; national household surveys in 15 countries.
Note: The data year for Chile is 2017 and for Mexico, 2018.

Gender inequality is also evident in wages. Figure 1.13 presents measures of the wage discounts for women in Latin America in 2018, obtained in a regression setting after controlling for observable factors other than gender.[11] Wage discounts are statistically indistinguishable from zero in El Salvador and Honduras (not shown) but are significant in some cases. For example, in Brazil, Dominican Republic, Panama, and Peru, a woman with the same observable characteristics as a man earns an hourly wage around 25 percent lower.

[11] The dependent variable in the regressions is the logarithm of the hourly wage. Figure 1.13 shows the percentage reductions in hourly wages attributable to a gender dummy. Each regression controls for observable factors present in household surveys.

Figure 1.12: Except in unemployment, the gender gaps in the labour market are worse for the less educated

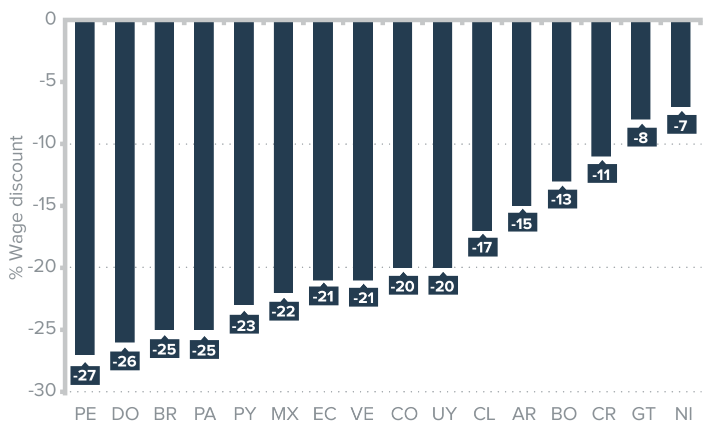
Labour market gender gaps by schooling attainment, LAC 2019



Source: UNDP calculations; national household surveys in 15 countries.
Note: The data year is 2017 for Chile, 2018 for Mexico. The informality indicator covers 12 countries.

Figure 1.13: Women earn less than men with the same observable characteristics

Percentage wage discounts



Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; 2018 data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.

LGBT+ people face discrimination in possibly every aspect of their lives

In addition to sex, other factors such as an individual's sexual orientation or gender identity may make them targets of discrimination, violence, and exclusion. LGBT+ people worldwide face high levels of discrimination, although the extent varies from country to country. Evidence indicates that gay men face discrimination in job applications and the rental market.[12] Elementary enrolment rates are lower among "feminine boys" because of discrimination.[13] When parents are looking for schools, the callback rate is 50 percent higher for heterosexual couples than for same-sex male couples.[14] Same-sex attraction or sexuality in adolescence is associated with a lower probability of high school graduation.[15] Likewise, OECD estimates suggest that trans women are 24 percent less likely than non-LGBT+ people to be employed, that their labour earnings are 11 percent lower, and that none of them holds a high managerial position.[16] In the United States, 70 percent of LGBT+ students experienced harassment at school in 2018, 31 percent were disciplined for public displays of affection that were permitted among non-LGBT+ students, and 42 percent of transgender students were not allowed to use their preferred name or pronoun.[17]

The full extent to which these affect LGBT+ people in LAC is currently difficult to measure because official surveys and statistics demographics often leave out questions designed to identify this community, and most evidence is anecdotal. LGBT+ people are diverse in race, gender, and class, and their diversity leads to numerous forms and intensities of discrimination and violence. The lack of data collection translates into no policies targeting LGBT+ people, uninformed policies, or non-compliance with informed policies.

LGBT+ people still face formal legal barriers in a few countries in the region in areas such as marriage or access to some sorts of medical assistance. However, in all countries, informal discrimination continues to limit LGBT+ people from equally accessing opportunities in education, work, and housing. For example, in Brazil, 45 percent of transgender interviewees had not finished elementary school because of discrimination.[18] And, in Colombia, the share of transgender people who have formal employment and a favourable job situation is around 5 percent, falling well below the national average of roughly 40 percent.[19] In a recent survey in Peru, almost half the respondents stated that the LBGT+ population was the group that faced the *most* discrimination in the country.[20] Moreover, far too many LGBT+ people in the region live under the threat of violence and harassment (see chapter 4).

Discrimination towards LGBT+ people is not only wrong but may also increase poverty and hinder human capital accumulation and thus, indirectly, productivity and growth.

---

12 Ahmed and Hammarstedt (2009); Patacchini, Ragusa, and Zenou (2012).
13 Koehler, Harley, and Menzies (2018).
14 Diaz-Serrano and Meix-Llop (2016).
15 Pearson and Wilkinson (2017).
16 OECD (2019).
17 Kosciw et al. (2018).
18 Mountian (2014).
19 Cárdenas, Ñopo, and Castañeda (2014).
20 Ipsos and Ministry of Justice and Human Rights (2019).

If talent is indiscriminately distributed at birth, unequal societies are wasting the talent of a relevant portion of society by marginalizing LGBT+ people. A recent study finds that between 20 percent and 40 percent of the economic growth in the United States between 1960 and 2010 is explained by the inclusion of women and African Americans in the labour market.[21] Measuring the size of the LGBT+ population is difficult, but estimates suggest that between 11 percent and 19 percent of the people consider themselves part of it.[22] While there are no such studies on the region, it is clear that countries will not reduce inequality and boost economic growth without eradicating the marginalization of their LGBT+ people.

Ethnic and racial minorities lack recognition as active economic and political agents

Indigenous and black people represent close to 25 percent of the region's total population, although they are unevenly distributed across countries (map 1.2).[23] Indigenous peoples have a greater relative presence across Andean countries and Central America and constitute roughly half the population in Bolivia, Guatemala, and Nicaragua, but their share in the Extended Southern Cone is well below 5 percent (except for Chile, where it is 13 percent). In contrast, black communities are predominantly settled in northeastern South America and the Caribbean and constitute a majority in Antigua and Barbuda, Barbados, Dominica, Grenada, Haiti, and Jamaica. From a regional perspective, ethno-racial minorities comprise a greater share of the population in the poorest countries.

A major challenge to inclusive development in LAC, regionwide, is the shortcomings in recognising ethno-racial minorities as active economic and political agents and eradicating the structural injustices that have historically relegated these minorities to the margins of society. The systematic segregation of indigenous and black people is the enduring legacy of exploitative power relations established during colonial rule and slavery that have outlasted legal reforms to eliminate them.[24] Despite the increasing acknowledgement of traditional authorities, autonomous jurisdictions, and rights to political association and representation, indigenous and black political movements remain at the fringes of power.[25] In light of sustained violations of the rights of these people to difference, identity, territory, self-determination and autonomy, the engagement of approximately one quarter of the region's total population with development paths that leave no one behind has been notably obstructed.

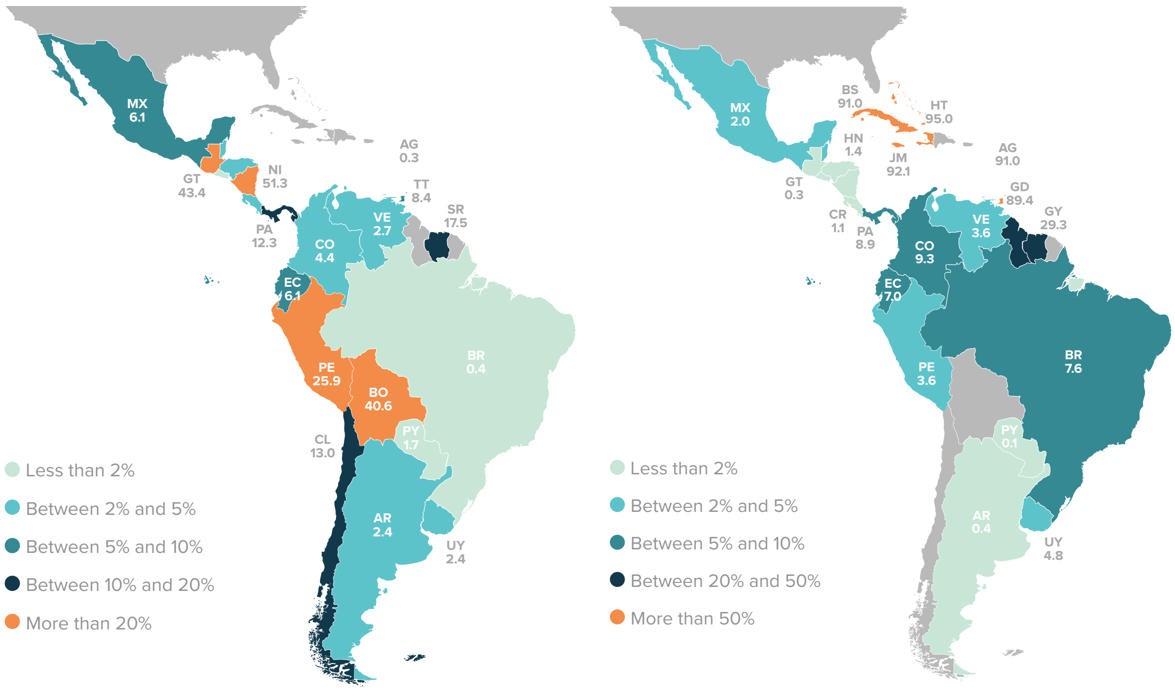
---

[21] Hsieh et al. (2019).
[22] Stephens-Davidowitz (2013); Coffman, Coffman, and Ericson (2017).
[23] ECLAC (2016).
[24] de Ferranti et al. (2004).
[25] UNDP (2016b).

Map 1.2: Indigenous and black people represent close to 25 percent of the total population of LAC

a. Indigenous

b. Black people



Source: UNDP calculations; latest available population censuses.

Consequently, these populations still lack the opportunities that other people enjoy. Indeed, they are often overrepresented among the region's poorest, experience higher economic vulnerability and exposure to crises, display lower educational access and attainment levels, and usually inhabit the most impoverished and institutionally underdeveloped areas.[26] These disadvantages are especially profound among indigenous and black women. They are generally not as well covered by social protection systems and tend to receive lower pension benefits or no benefits at all.[27] In the Caribbean, minorities are enveloped in contexts of violence, the expansion of extractive industries, and inadequate access to criminal justice institutions. Young girls and women are at particular risk of falling victims to sexual exploitation, human trafficking and aggression.[28] In Latin America, UNDP has previously determined that being black or indigenous in Brazil, Ecuador, and Guatemala is associated with a diminished likelihood of escaping income poverty.[29] Furthermore, indigenous and black populations in the region have long been subjected to statistical invisibility.[30] While policy design has

---

[26] UNDP (2012), (2016b).
[27] UNDESA (2018).
[28] UNDP (2012).
[29] UNDP (2016b).
[30] ECLAC (2016).

progressively overcome ethnic blindness, it is at best short-sighted about these groups' demographics, well-being, and specific needs.[31]

The statistical invisibility, along with heterogeneity in their legal status, self-recognition, and degree of assimilation, has obstructed accurate diagnoses of the living conditions of these people. One of the challenges facing policymakers in identifying the relevant groups is the shortcomings in the self-identification instruments used in censuses and surveys. The PERLA project has shown that skin tonality is a better predictor of socio-economic outcomes in Latin America than the conventional categories of black, white and mestizo used in other latitudes.[32] The World Bank estimates that, in 2010, Latin America was home to roughly 42 million indigenous people belonging to 780 diverse ethnic groups, representing 8 percent of the population.[33] The same estimates suggest that 14 percent of people living in poverty and 17 percent of people living in extreme poverty are indigenous.

Contrary to popular belief, slightly less than half of Latin America's indigenous population resides in urban areas. While urbanization has been accompanied by improvements among these people in access to public services and educational attainment relative to their rural counterparts, indigenous city dwellers still face exclusion and vulnerability. Around 36 percent live in unhealthy or unsafe conditions, compared with 20 percent of their non-indigenous counterparts.[34]

The region's indigenous population has experienced significant gains in access to education. However, they are still less likely to complete elementary and secondary schooling, and gender gaps in education continue to be greater among them than among the non-indigenous population. They have less access to stable and highly qualified jobs than the non-indigenous population and are more likely to be working informally with precarious social security.[35] They also earn 27 percent less, on average, than their non-indigenous counterparts with the same qualifications.[36] Those who have remained in rural areas are constantly exposed to risks from fossil fuel extraction, mining, food insecurity, environmental degradation due to climate change, and violence by illegal groups.[37] Rural indigenous people today occupy around one quarter of the lands with high ecological value because of cultural and biological diversity.[38] Some progress has been made in legally recognizing the ancestral occupation of these

---

[31] de Ferranti et al. (2004).
[32] Telles (2014). See also PERLA (Project on Ethnicity and Race in Latin America) (dashboard), Princeton University, Princeton, NJ, https://perla.princeton.edu/.
[33] World Bank (2015).
[34] World Bank (2015).
[35] World Bank (2015).
[36] Busso and Messina (2020).
[37] ECLAC (2014); UNDP (2016a).
[38] Cárdenas (2020).

lands, especially after recognizing the contribution of these people to a reduction in deforestation in some cases, but extractive activities continue to represent a threat.[39] Natural capital depletion to extract fresh resources thus threatens to put the rights of these communities and the cultural and biological diversity they are protecting in peril.

Latin America is home to an estimated 134 million black people, representing 21 percent of the population, who also experience significant adversities.[40] In five (of six) Latin American countries with data available in 2018, poverty and extreme poverty were more prevalent among the black people, particularly affecting those residing in rural areas and females. Black people suffer the most severe deprivations in public service provision and basic living conditions and are also more vulnerable to infant and maternal mortality, teenage pregnancy, sexually transmitted diseases and other health afflictions that hint at devastating hardships within their communities during the COVID-19 pandemic.[41] Like for the indigenous population, progress in educational access and educational attainment among the region's black people has not led to better conditions in the labour market. Black people continue to receive lower remuneration and face comparatively higher unemployment and job precariousness, and insecurity.[42] For instance, the share of black women precariously employed as domestic workers is two times that of non-black women.[43]

The unequal treatment, discrimination, violence, and stigmatization to which black and indigenous peoples in LAC are subjected call for policies to level the playing field among diverse citizens instead of policies that aim only at mitigating material differences.[44] Governments and other organizations must improve the instruments for self-reporting the ethnic category each person identifies with, along with campaigns to fight the stigma against historically discriminated groups that may reduce the self-identification among them.

A more serious issue, underlying the deep-rooted gap between ethno-racial minorities and the rest of LAC's population, is that contemporary measurements and interpretations of economic well-being and development have yet to incorporate culturally sensitive dimensions that may stand at a crossroads with western paradigms. This failure to recognize the historical processes of discrimination at hand fully draws a barrier between numbers and reality.[45] Within policies that aim to provide education, productive opportunities, and health to black and indigenous people, there may be

---

[39] Vélez et al. (2020).
[40] ECLAC and UNFPA (2020).
[41] ECLAC and UNFPA (2020).
[42] ECLAC and UNFPA (2020).
[43] ECLAC and UNFPA (2020).
[44] UNDP (2016b).
[45] World Bank (2015); Correa (2019).

implicit trade-offs. These trade-offs include complex issues like loss of language and traditions, compromised land tenure, natural resources and ecosystem services, and clashes with ancestral medicinal practices, to name a few. But by failing to grant black and indigenous people an incisive political voice to amplify what they aspire to and what is at stake for them in the route towards progress, promising development horizons are at risk of falling short in the positive transformation of their lives.

1.4. Inequality is transmitted across generations

A tragic feature of the inequality in the region is the extent to which it is transmitted across generations, with children inheriting their parents' advantages and disadvantages and their place in society. Indicators of intergenerational educational mobility are a common tool for measuring how sticky inequality is across generations (box 1.6). They capture the association between the educational attainment of parents and their children. A strong intergenerational association signals that the chance of achieving a high level of educational attainment (and well-being) is largely determined by advantages at birth. A weak association indicates that everyone, regardless of family and resources, has a similar chance of achieving a high level of education.

Box 1.6: Educational mobility and the transmission of inequality across generations

Mobility may be examined through various measures of well-being that are often, but not always closely correlated. Educational mobility is particularly informative not only because education is an important driver of human development, but also because educational attainment has the following characteristics:

- It is the main predictor of earnings in contemporary societies, especially in Latin America, where the returns to schooling are greater than they are in Europe or the United States.[a]
- It is a predictor of a range of non-pecuniary outcomes, including in health, longevity, fertility, marriage and parenting, crime, and political participation.[b]
- It plays a central role in intergenerational mobility as the main vehicle for both economic persistence and mobility across generations.[c] This is because advantaged parents can afford more and better education for their children, which translates into higher earnings, and because education facilitates

mobility (most of the variance in educational attainment across individuals does not depend on social origins).

From a practical standpoint, measures of educational attainment are preferred over income-related measures because they are time-invariant in adulthood, while income is more volatile and can vary widely across the life cycle. Moreover, retrospective information on parental educational attainment is more reliable given that it is usually not perceived as sensitive by survey respondents; so, it is associated with good recall, refusal, and reliability properties.

Educational mobility can be studied either by observing changes in educational attainment across generations that are driven by expansions in the educational system that benefit subsequent cohorts (absolute mobility), or by comparing the educational attainment of parents and their children to gauge how much of children's educational attainment is explained by conditions beyond their control (relative mobility).

[a] Torche (2014); Psacharopoulos and Patrinos (2018).
[b] Omariba (2006); Cutler and Lleras-Muney (2008); Lochner (2011); Oreopoulos and Salvanes (2011).
[c] Hout and DiPrete (2006).

The role of educational expansion

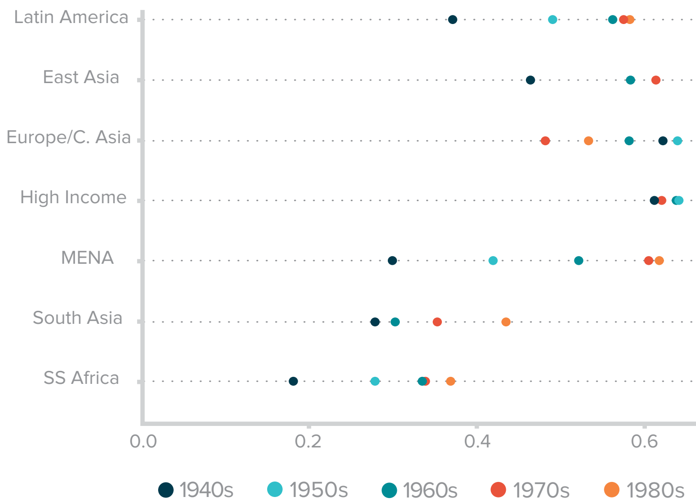
During the 20th Century, the share of children whose educational attainment during adulthood was above the maximum level attained by their parents grew substantially across the world. This expansion provided an important stimulus for the absolute educational mobility experienced by individuals, which was reflected in the generalized increase in average years of schooling. Across a four-decade period, access to formal education in Latin America expanded greatly, with average years of schooling among adults rising from 5.7 years in 1940 to 9.9 years in 1980. However, aggregate levels of educational attainment are still considerably lower in Latin America than in high-income countries.

Absolute mobility can be decomposed into the share of cohorts of children who have achieved higher educational attainment relative to the cohorts of their parents (upward mobility) and the share of cohorts of children with lower educational attainment relative to the cohorts of their parents (downward mobility).[46] Figure 1.14 shows trends in absolute upward mobility across birth cohorts, from cohorts in the 1940s to cohorts in the 1980s. Improvements in Latin America are particularly noticeable early on, from the 1940s to the 1960s, but become less pronounced thereafter.

[46] The educational attainment of parents and their adult children is the total number of years of schooling. Parental education is the maximum level of education attained by either parent.

Figure 1.14: LAC: large gains in educational mobility among 1940s–1960s cohorts; little change since then

Absolute mobility in years of education among 1940s–1980s cohorts, world regions



Source: Torche 2021, Background Paper of the UNDP LAC RHDR 2021, based on data of GDIM (Global Database on Intergenerational Mobility) (dashboard), Development Research Group, World Bank, Washington, DC, https://www.worldbank.org/en/topic/poverty/brief/what-is-the-global-database-on-intergenerational-mobility-gdim.

Latin America’s initial shift in upward educational mobility is exceptional, comparable only with the shifts experienced in the Middle East and North Africa and in East Asia. However, there is virtually no improvement in either Latin America or the Middle East and North Africa region among the most recent cohort, born in the 1980s. This stagnation is especially worrisome, considering the relatively low educational attainment prevailing in the region.

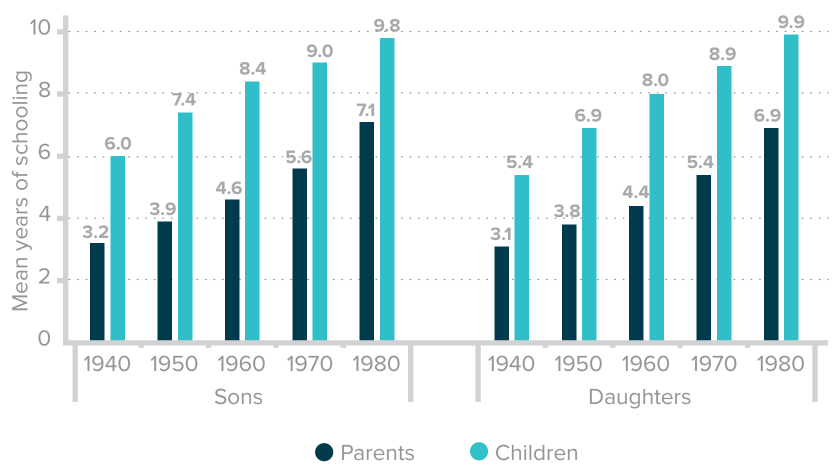
Using secondary school completion as a benchmark, figure 1.15 shows that inequality in education has declined. Among the oldest cohort, the probability of completing secondary school was almost five times greater among advantaged children than among disadvantaged children, while, among the youngest cohort, it was less than two times greater. On average, the probability that disadvantaged children would complete secondary education increased by almost 30 percentage points in Latin America. There is heterogeneity in mobility across countries. In Guatemala, Honduras, and Nicaragua, the educational opportunities of disadvantaged households have not risen, and the probability that children in less educated households complete secondary education is below 20 percent. In comparison, in Argentina, Brazil, Ecuador, Mexico, Peru, and Venezuela, the probability was below 20 percent among the oldest cohort (1933–1942), while, among the youngest cohort (1983–1992), it was greater than 50 percent. The progress in schooling has been accompanied by an emergent gender advantage among recent cohorts (box 1.7).

Box 1.7: Gender (dis)parities in educational mobility

Education in LAC has largely become a story of gender equality rather inequality. Figure B1.7.1 shows that men and women have gained schooling at comparable rates in Latin America. Women had a small disadvantage among earlier cohorts, but reached parity in the 1970s and surpassed men in the 1980s. The substantial gender parity and an emergent gender advantage in recent cohorts is not surprising. Research has documented the closing of the gender gap in Latin America at early levels of education already in the 1980s and the shift towards women's advantage thereafter.[a] Detailed analysis by country shows substantial heterogeneity across countries, however. Bolivia shows a persistent gap favouring men across cohorts, and Brazil features a growing advantage among women already among the cohorts of the 1940s.

Figure B1.7.1: Men and women have gained schooling at comparable rates

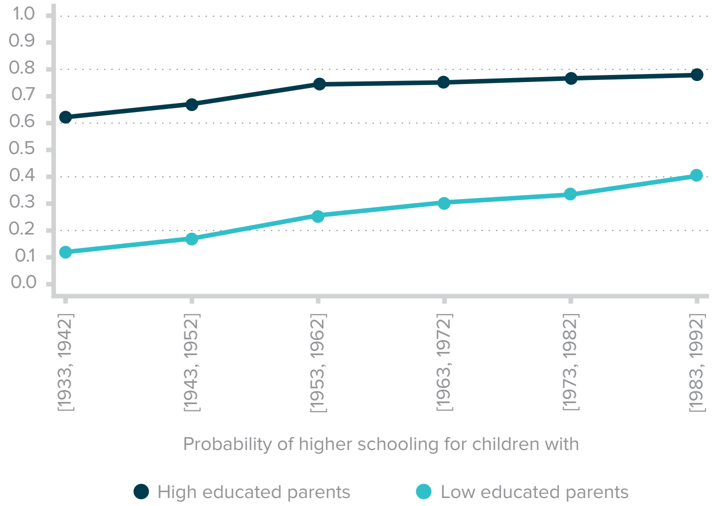
Educational expansion across birth cohorts, by sex, Latin America, 1940s–1980s



Source: Torche 2021, Background Paper of the UNDP LAC RHDR 2021, based on data of GDIM (Global Database on Intergenerational Mobility) (dashboard), Development Research Group, World Bank, Washington, DC, https://www.worldbank.org/en/topic/poverty/brief/what-is-the-global-database-on-intergenerational-mobility-gdim.

[a] Grant and Behrman (2010).

Figure 1.15: The probability that disadvantaged children complete secondary education has risen in LA



Source: Neidhöfer 2021, Background Paper of the UNDP LAC RHDR 2021; data on 18 countries in Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

Parental education still predicts children's educational attainment in adulthood

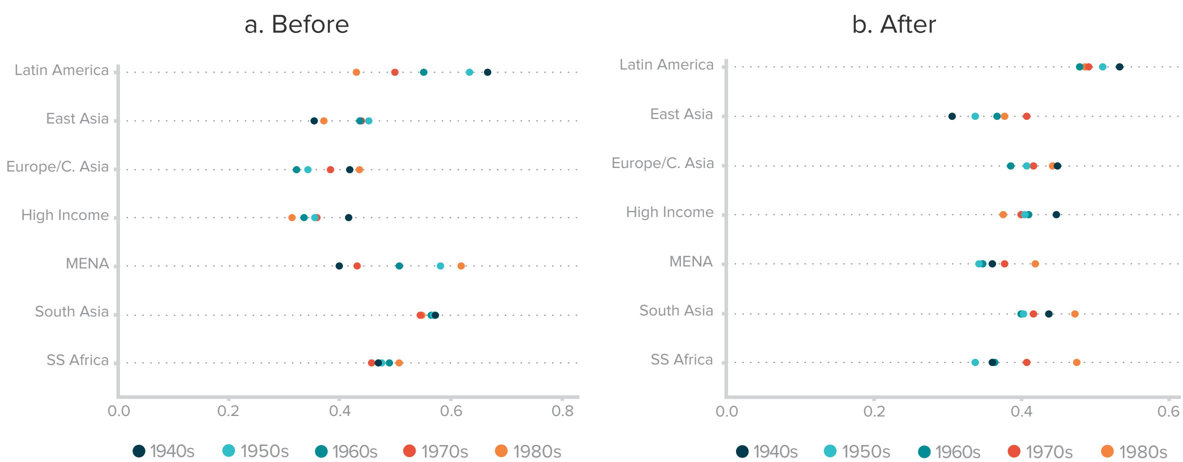
Absolute mobility captures aggregate progress across generations that is driven by overall educational expansion and by any changes in the intergenerational association. Relative mobility involves the analysis of the intergenerational educational attainment association net of changes in the distribution of education across generations. Figure 1.16 presents the results on relative educational intergenerational mobility in Latin America and other regions of the world during the past century. It shows the average change in years of schooling associated with a one-year increase in parental education before and after controlling for educational expansion.

Latin America began as the least mobile region of the world, with a high intergenerational correlation of 0.67 among the 1940s cohort, but the intergenerational association in educational attainment between parents and their children declined monotonically across cohorts to only 0.43 among the 1980s cohort (figure 1.16, panel a). This means that, for each additional year of parental education, children's educational attainment is expected to rise by 0.43 years. The region's average level of relative mobility has thus moved closer to the world average of 0.41. The largest increases in mobility took place in Brazil, El Salvador, Mexico, and Venezuela, suggesting that this is where children are increasingly least dependent on their parents educational attainment.

Meanwhile, Guatemala, Honduras, and Nicaragua are among the worst performers. An important caveat is that the decline in intergenerational persistence in education is, to a large extent, the result of educational expansion. Indeed, the increase in relative mobility in Latin America is much lower if one controls for this expansion. When the educational expansion is taken into account, the intergenerational correlation declines from 0.54 among the 1940s cohort to only 0.50 among the 1980s cohort, confirming a relationship of greater interdependence between the education of parents and their children. By this standard, Latin America is the least mobile region in the world (figure 1.16, panel b).

Figure 1.16: Parental education predicts children's educational attainment in adulthood

Relative mobility across 1940s–1980s cohorts, before and after controlling for educational expansion



Source: Torche 2021, Background Paper of the UNDP LAC RHDR 2021, based on data of GDIM (Global Database on Intergenerational Mobility) (dashboard), Development Research Group, World Bank, Washington, DC, https://www.worldbank.org/en/topic/poverty/brief/what-is-the-global-database-on-intergenerational-mobility-gdim.

These findings suggest that expanding the educational system helps reduce inequality in education, but cannot complete the task alone. Despite the expansion, Latin Americans still face barriers in climbing the social ladder, potentially because of a limited opportunity to overcome the disadvantages in education passed along from parents. Two facts point in this direction. First, educational expansion has resulted in less selectiveness in absolute levels of educational attainment over time. For example, a high school diploma used to signal high educational attainment, but, as education has expanded, the diploma is becoming increasingly common. Second, the quality and type of schooling received has risen in importance. There is evidence, for instance, that the new offer of tertiary education is of lower quality.[47] The public-private segregation in education in Latin America may constitute a powerful force

[47] Camacho, Messina, and Uribe (2017).

behind the stagnation in mobility even in contexts in which a relatively high threshold in educational attainment has become universal.

Mobility is not only an issue involving the educational attainment of children relative to their parents. It is also about children accomplishing a level of schooling that results in a higher rank among cohort peers, in comparison with the corresponding rank achieved by their parents. Although the educational opportunities of disadvantaged children are greater, on average, the persistence of the families at the top of the distribution is such that no rank changes in educational attainment have taken place.

Future trends in post-secondary educational attainment will be greatly affected by these patterns in intergenerational persistence given that youth growing up in wealthy households may have disproportionate access to the most prestigious universities and may favour the most lucrative fields of study.[48] In addition, if increases in educational attainment do not translate into higher-paying jobs among youth in poorer households, these youth may refrain from pursuing secondary or higher education.

The region's high persistence and low mobility is not limited to education. Unfortunately, the data to document it in fields like occupation and income are scarce. That said, data for Brazil and Mexico suggest that intergenerational occupational persistence is higher in these countries than in the United States.[49] And data show that income mobility is comparatively low in Argentina, Brazil, Chile and Peru from an international standpoint.[50] Put together, these factors are part of the trap because low occupational and income mobility can discourage educational mobility by reinforcing the notion of low returns on human capital investments, while high levels of educational attainment may continue to determine achievements in more well paid occupations and higher incomes.

1.5. A slowly growing region

Growth in LAC is unstable and sluggish on average

LAC's history of inequality is paired with a history of poor economic performance, characterized by high volatility and brief periods of rapid growth. This growth deficit is key to painting a complete picture of LAC's trap.

Over the past decades, per capita output growth in LAC has been remarkably unstable. Figure 1.17 shows annual real per capita GDP growth between 1962 and 2017 in 16

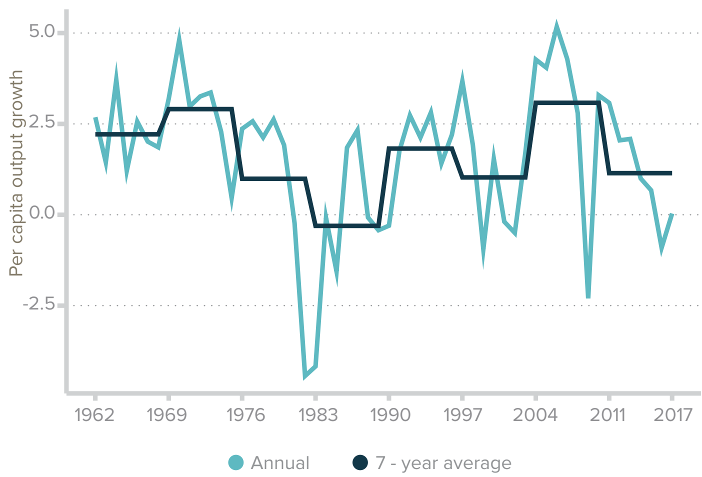
48 Gerber and Cheung (2008).
49 Torche (2021).
50 Corak (2013).

countries on which complete data are available.[51] This instability holds even after filtering out business cycle fluctuations by computing seven-year averages: growth across this period oscillates between 0 percent and 3 percent per year.[52] Growth appears to have been reasonably strong during the 1960s, but faltered in the late 1970s and collapsed during the debt crisis of the 1980s. Growth recovered after 1990 and accelerated during the 2000s, but strongly reduced the pace of progress during the 2010s.[53]

Figure 1.17 captures an overall picture, but there is an important heterogeneity in performance and timing across countries. Chile, Colombia, and, to an extent, Uruguay, appear to have escaped the growth collapse during the 1980s debt crisis. Other countries were significantly affected by the collapse, but the timing varied. In Costa Rica and Jamaica, the crisis materialized a bit earlier, and, in Barbados and Brazil, it came later.

Figure 1.17: Growth in LAC has been highly volatile

Dynamics of LAC historical per capita output growth, mean country, 1962–2017, %



Source: Fernández-Arias and Fernández-Arias 2021, Background Paper of the UNDP LAC RHDR 2021; data of Penn World Table (database version 9.1), Groningen Growth and Development Centre, Faculty of Economics and Business, University of Groningen, Groningen, the Netherlands, https://www.rug.nl/ggdc/productivity/pwt/pwt-releases/pwt9.1.

Growth instability is associated with many factors, including volatility in international prices on primary commodities and international financial conditions, but also changes in domestic fiscal and monetary policies. These factors affect countries differentially.

[51] See details in Fernández Arias and Fernández-Arias (2021). The LAC countries are Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Jamaica, Mexico, Peru, Trinidad and Tobago, Uruguay and Venezuela. A balanced panel was considered by neglecting LAC countries with shorter time series for the relevant variables to allow for simple and robust statistical analysis.

[52] Average annual growth rates are computed over seven-year periods (1962–1968, 1969–1975, 1976–1982, 1983–1989, 1990–1996, 1997–2003, 2004–2010, and 2011–2017). This periodization has the advantage of conforming a balanced panel of four periods around the year 1990, which is often regarded as pivotal, starting a new era of market reforms and macroeconomic prudence in the region following the debt crisis.

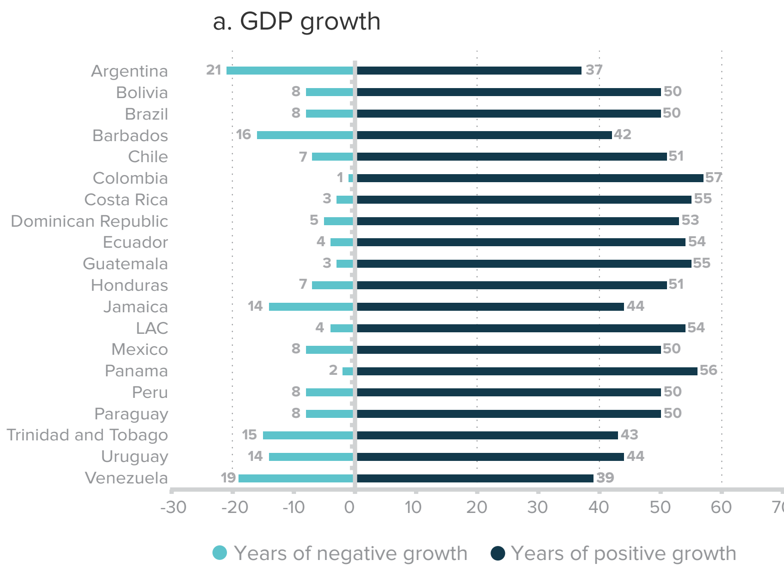
[53] The growth patterns depicted in figure 1.17 can also be observed in considering the median LAC country.

Oil price increases, for instance, are clearly good news for Ecuador, Trinidad and Tobago, and Venezuela, but not so good for Honduras and Jamaica. Similarly, a rise in the prices on metals benefit Chile and Peru but do little for Guatemala or Paraguay. Exposure to world financial shocks also varies across countries depending on the level, term, and currency composition of foreign debt. And domestic responses to international volatility have also been heterogenous, dampening the volatility in some cases, but, in others, amplifying it. But whatever the mix of causes (and with important exceptions), the region's growth performance has been far from satisfactory.

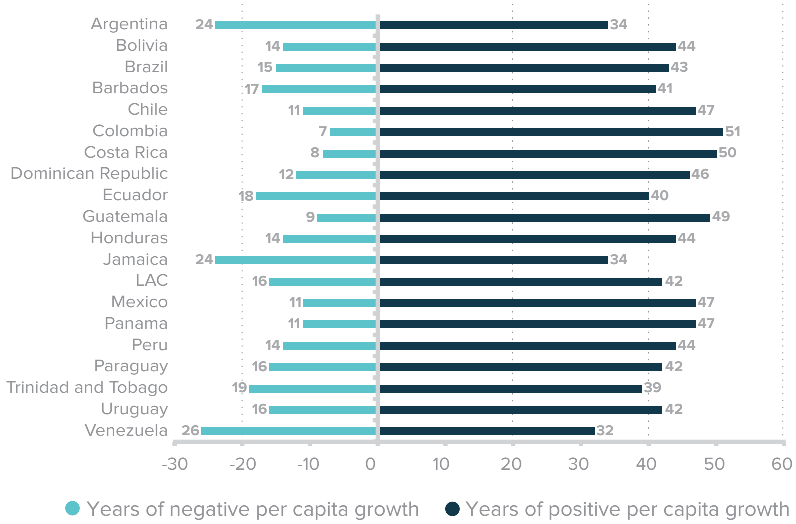
Another way to look at the growth volatility in LAC is by contrasting the number of years of positive and negative economic growth (figure 1.18). Once population growth is considered (panel b), it is clear why, overall, the region has underperformed. It is difficult to achieve high levels of per capita income if what is advanced in some years is walked back in others. Growth has not only often been negative, but also slower than required to keep up with demographic expansion. As a consequence, per capita GDP growth has been negative even more often than GDP growth.

Figure 1.18: Often negative, growth has been slower than needed to keep pace with demographic expansion

Number of years with negative and positive growth, 1962–2019



b. GDP per capita growth



Source: UNDP calculations; Penn World Table (database version 10.0), Groningen Growth and Development Centre, Faculty of Economics and Business, University of Groningen, Groningen, the Netherlands, https://www.rug.nl/ggdc/productivity/pwt/; LAC aggregate: WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/.

Low growth is a result of low productivity and poor productivity dynamics

Ignoring volatility, why has growth been so slow? To answer this question, this section presents an accounting exercise, decomposing GDP growth into the contribution of factor accumulation (including both physical and human capital) and the contribution of total factor productivity (TFP).[54] As is customary in exercises of this nature, TFP is obtained as a residual measuring the component of output that cannot be explained by the direct contribution of factor accumulation.

Productivity improvements reflect technology-related advances not embodied in human or physical capital. However, technology use at the firm level is not the only determinant of TFP. In particular, the level of aggregate TFP also mirrors the overall efficiency with which factors of production are allocated throughout the economy. Suboptimal deployment of public goods and economic distortions that are not successfully addressed by public policy (or actually caused by it) may lead to a misallocation of factors of production across the economy that would result in low aggregate TFP, even if some individual firms perform well. Indeed, low productivity

[54] Accounting decompositions of growth sources are descriptive in nature and not informative about causality. To focus the analysis on productivity growth, the (per capita) output growth contribution of the accumulation of all factors of production is lumped together. This includes the accumulation of physical capital per capita through net investment, as well as growth in human capital per capita, from both increases in labour force participation and improvements in the average productive skills of the labour force.

is typically associated with aggregate resource misallocation rather than narrow technology-specific considerations.

Table 1.2 presents the results for the region. As can be seen, TFP growth has made a null and even negative contribution to long-term output growth in LAC. Factor accumulation, on the contrary, has consistently made a positive contribution, virtually unchanged before and after 1990. The dominant role of factor accumulation may also be observed in each of the 16 countries considered (figure 1.19). Even in the countries in which productivity growth made a long-term positive contribution, the contribution of factor accumulation was larger.

Table 1.2 also suggests that, in the periods when LAC performance is particularly high or low, so is productivity growth. In fact, the correlation between per capita GDP growth and productivity growth is 0.78, while the correlation of growth with factor accumulation is only 0.48. The results are similar if changes in growth rates are considered instead. So, the conclusion is that the main driver of low growth in the region has been low productivity growth.[55]

Table 1.2: Productivity growth: a null or slightly negative contribution to long-term output growth in LAC

Decomposition of per capita output growth, 1968–2017

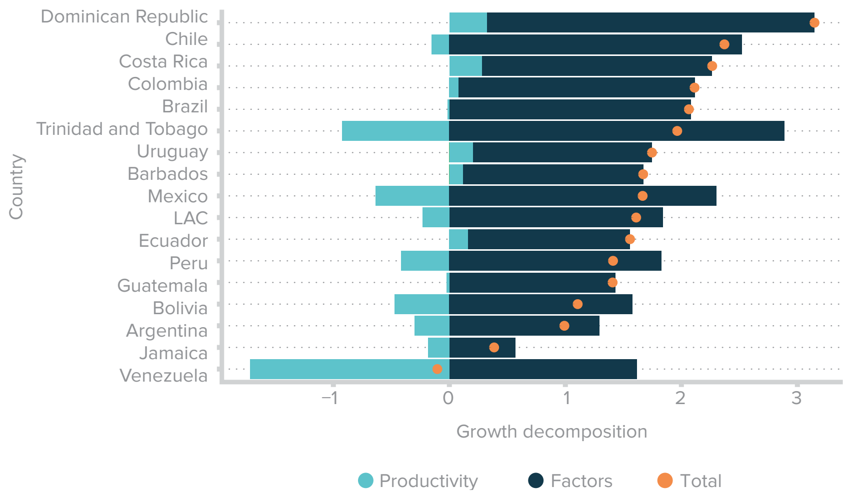
Period end	Productivity	Factors	Total
1968	1.05	1.16	2.21
1975	0.24	2.67	2.91
1982	-1.72	2.71	0.99
1989	-1.07	0.76	-0.31
1996	0.54	1.29	1.82
2003	-0.77	1.8	1.03
2010	0.77	2.31	3.08
2017	-0.87	2.01	1.15
Averages			
Average pre 1990	-0.37	1.83	1.45
Average post 1990	-0.08	1.85	1.77
Overall average	-0.23	1.84	1.61

Source: Fernández-Arias and Fernández-Arias 2021, Background Paper of the UNDP LAC RHDR 2021; data of Penn World Table (database version 9.1), Groningen Growth and Development Centre, Faculty of Economics and Business, University of Groningen, Groningen, the Netherlands, https://www.rug.nl/ggdc/productivity/pwt/pwt-releases/pwt9.1.

[55] This is in line with the international evidence uncovered by Easterly and Levine (2001).

Figure 1.19: Factor accumulation: a dominant role in long-term output growth in all 16 countries studied

Decomposition of per capita output growth, LAC, 1962-2017, annualized, %



Source: Fernández-Arias and Fernández-Arias 2021, Background Paper of the UNDP LAC RHDR 2021; data of Penn World Table (database version 9.1), Groningen Growth and Development Centre, Faculty of Economics and Business, University of Groningen, Groningen, the Netherlands, https://www.rug.nl/ggdc/productivity/pwt/pwt-releases/pwt9.1.

Latin American growth fares poorly in a comparative perspective

Underperformance relative to a benchmark is useful in gauging poor performance and understanding the drivers. This section looks at the LAC growth performance against four benchmarks: 55 non-LAC countries, 4 East Asian tigers, 14 African countries, and the United States.[56] LAC's shortfall in per capita annual growth is almost a full percentage point with respect to the rest of the world (table 1.3). LAC's per capita output growth is only marginally above Africa's and far below the East Asian tigers. LAC also grew more slowly than the United States, indicating lack of convergence towards the productivity frontier. The bottom line from these comparisons can be summarized thus: had LAC grown over 1962–2017 at the average non-LAC world rate, its current GDP per capita would be about 50 percent higher.

[56] See Fernández-Arias and Fernández-Arias (2021) for details about the sample. Each region's mean country is the regional grouping simple mean.

Table 1.3: Per capita annual growth: LAC's shortfall with the rest of the world is almost a percentage point

Decomposition of LAC per capita output growth, gap relative to various benchmarks, 1968–2017

Period end	non-LAC			Africa			East Asian Tigers			US		
	Productivity	Factors	Total	Productivity	Factors	Total	Productivity	Factors	Total	Productivity	Factors	Total
1968	-0.33	-0.73	-1.05	0.79	0.09	0.88	-1.00	-2.14	-3.14	-0.26	-1.40	-1.66
1975	-0.50	0.04	-0.45	-0.43	1.08	0.65	-1.21	-2.89	-4.10	0.40	1.11	1.51
1982	-1.59	0.04	-1.55	-0.31	0.25	-0.07	-2.89	-2.85	-5.75	-1.55	0.81	-0.74
1989	-1.35	-0.90	-2.25	-0.40	0.53	0.13	-3.73	-3.22	-6.95	-2.43	-1.23	-3.66
1996	0.17	-0.32	-0.15	1.02	0.52	1.53	-0.59	-3.10	-3.68	-0.12	0.37	0.25
2003	-1.34	0.19	-1.15	-1.48	1.03	-0.46	-0.76	-0.72	-1.48	-1.84	0.67	-1.17
2010	0.45	0.36	0.81	0.59	-0.22	0.37	-0.92	-0.23	-1.15	0.21	2.09	2.30
2017	-1.17	0.34	-0.83	-0.47	-0.55	-1.02	-1.04	-0.11	-1.15	-1.28	1.06	-0.23
Averages												
Average pre 1990	-0.94	-0.39	-1.33	-0.09	0.49	0.40	-2.21	-2.77	-4.98	-0.96	-0.18	-1.14
Average post 1990	-0.47	0.14	-0.33	-0.09	0.19	0.11	-0.83	-1.04	-1.87	-0.76	1.05	0.29
Overall average	-0.71	-0.12	-0.83	-0.09	0.34	0.25	-1.52	-1.91	-3.43	-0.86	0.44	-0.42

Source: Fernández-Arias and Fernández-Arias 2021, Background Paper of the UNDP LAC RHDR 2021; data of Penn World Table (database version 9.1), Groningen Growth and Development Centre, Faculty of Economics and Business, University of Groningen, Groningen, the Netherlands, https://www.rug.nl/ggdc/productivity/pwt/pwt-releases/pwt9.1.
Note: The table shows the annual growth gaps between LAC and each of the four benchmarks, that is, the LAC growth rates shown in table 1.2, minus the corresponding growth rates of the benchmark. Negative gaps are shortfalls.

On the specific role of productivity, the four benchmarks consistently show that, overall, LAC has a substantial shortfall in productivity growth and that progress since 1990 has been unimpressive. The productivity gap closed only marginally against the United States and remained stable with respect to Africa, and the progress observed with respect to the East Asian tigers can be attributed to their own slowdown after an exceptional acceleration, rather than to improved performance in LAC. In all four benchmarks, the productivity growth shortfall in the period ending in 2017 widened relative to the previous one and is larger than the average shortfall after 1990.

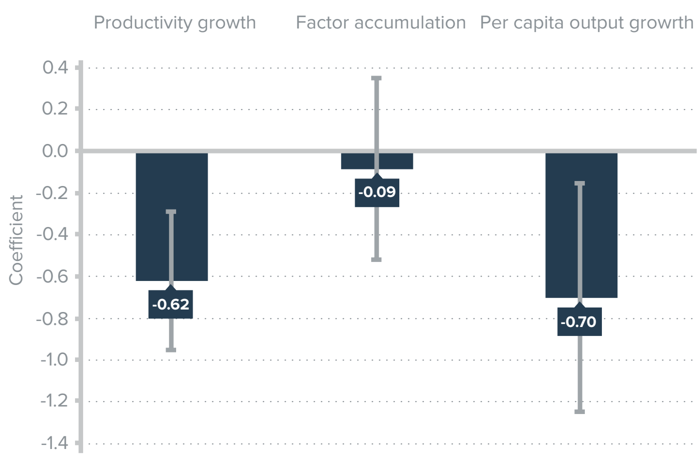
In contrast, the contribution of factor accumulation to growth in LAC does not appear to be subpar. Overall, it is ahead with respect to Africa and about a half percentage point above the United States (it lags only with respect to the East Asian tigers, as expected). This conclusion is reinforced by the performance of LAC after 1990, which was better than the performance of the average non-LAC country. In fact, factor accumulation strengthened considerably after 1990 with respect to the world, the East Asian tigers, and the United States.

The picture that emerges is that per capita output growth in LAC has been sustained by the healthy contribution of factor accumulation but dragged down by subpar productivity growth. With a rate of productivity growth similar to the world's, LAC would have higher per capita output growth and would converge firmly with US output per capita.

Analysis in a regression setting that allows to control for country stage of development confirms that LAC's per capita output growth shortfall is essentially caused by abnormally low productivity growth (figure 1.20). The overall per capita output growth shortfall relative to the non-LAC world is 0.7 percentage points per year. The shortfall of productivity growth is the predominant component, amounting to about 90 percent of this overall growth shortfall.

Figure 1.20: Productivity growth shortfall: the main component of LAC's per capita output growth shortfall

LAC growth gap: non-LAC benchmark



Source: Fernández-Arias and Fernández-Arias 2021, Background Paper of the UNDP LAC RHDR 2021; data of Penn World Table (database version 9.1), Groningen Growth and Development Centre, Faculty of Economics and Business, University of Groningen, Groningen, the Netherlands, https://www.rug.nl/ggdc/productivity/pwt/pwt-releases/pwt9.1.

Previous comparative studies have also concluded that low productivity is the main culprit in LAC's disappointingly low GDP per capita (box 1.8).

Box 1.8: The evidence of comparative development analysis

The literature analysing the role of productivity in the LAC performance from a comparative perspective looks at the stocks of factors of production (physical and human capital) and the efficiency with which they are utilized to explain the level of output per capita. To answer the question of whether the low output is caused by low capital or low productivity, it looks at the corresponding output, capital, and productivity gaps relative to benchmarks. Because the stock of capital and the productivity level with which it is utilized are a result of the net additions to capital and changes in productivity over time, the findings in this literature are closely related to those from growth accounting over long periods of time, as follows:

- LAC productivity is only about 50 percent of that of the United States (taken as the leading country), and the shortfall has widened over time. Resource misallocation lowering TFP is a natural candidate to explain this finding.
- LAC's per capita output gap with the United States is increasingly being explained by the productivity gap (rather than by the gap in the stocks of production factors).
- The diversity in country output per capita around the world is matched by a corresponding diversity in productivity levels. The correlation between the two is 0.95. LAC is no exception: the correlation across LAC countries is 0.80.
- Despite the distortions in markets and in the policies underlying factor accumulation, if the region's productivity gap were closed, the region's per capita output gap would largely disappear over time because of the correspondingly enhanced incentives to invest.
- However, concerning the reverse direction of causality from factor accumulation to productivity, investment in physical capital appears to be less effective in LAC than in other regions in fostering higher aggregate productivity. This suggests that investment in LAC has smaller productivity spillovers, most likely because capital is misallocated.

These are all pieces of evidence supporting the idea that LAC's growth underperformance is not associated with the accumulation effort but with the failure to generate productivity growth.

1.6. The COVID-19 pandemic's effect is costlier because of pre-existing inequalities

The world will be one before and one after the COVID-19 pandemic. By mid-2021, there is already light at the end of the tunnel as vaccines have started to become available, at different paces, in the LAC countries. There is still, however, uncertainty about the vaccines' effectiveness in response to mutations of the virus, so it is unfortunately not possible to state when the pandemic will be over, and thus not possible to measure its full effects. But regardless of the final numbers, two general points can be made with certainty. First, the pandemic will result in increased inequality along many of the dimensions discussed in this chapter. Second, the toll on the region will be very large.

National household surveys for 2020 are not yet available for most countries. Estimates of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) suggest that 22 million people fell into poverty during 2020.[57] Navigating through these difficult times has been harder for the poorer countries and particularly so for poor and vulnerable groups everywhere. By making it more difficult to cope with the COVID-19 crisis, the levels and forms of inequality that have been allowed in LAC will lead to even more inequality and widening development gaps across income groups in coming years. They will also slowly recover compared with what might have been possible under societies better organised.

Exploring in detail the pandemic's effects and their ramifications is not the purpose of this report, but the core idea of the report, that the region is caught in a high-inequality, low-growth trap, is directly related. Recovery towards a better future crucially depends on addressing the factors that have trapped the region, limiting its capacity to respond when most needed.

This section reviews some of the costs of the pandemic that are associated with pre-existing inequalities.

Many have lost their source of income

The world is living through an economic crisis brought about by the measures adopted to contain a health crisis. This is a source of hope to the extent that, if the productive tissue is not substantially damaged, the end of the health crisis should be followed by relatively rapid economic recovery. In the meantime, however, social distancing measures, including lockdowns, have particularly hurt workers. Among them, the poorest and the more vulnerable have been hurt more.

The LAC region has a large share of self-employed workers, and a large share of employed and self-employed who are involved in informal work arrangements that do not provide protection against unemployment (see chapter 5). This has put many workers in a vulnerable position in facing the pandemic. A majority of the self-employed are among the poorest, and their work activities cannot be performed from home. This is also true of most informal workers.

The 2020 Latinobarómetro survey included questions to capture people's perceptions of the income shock associated with COVID-19. Respondents were asked if they had lost income during the pandemic and, if so, how long they expected it would take for

[57] ECLAC (2021).

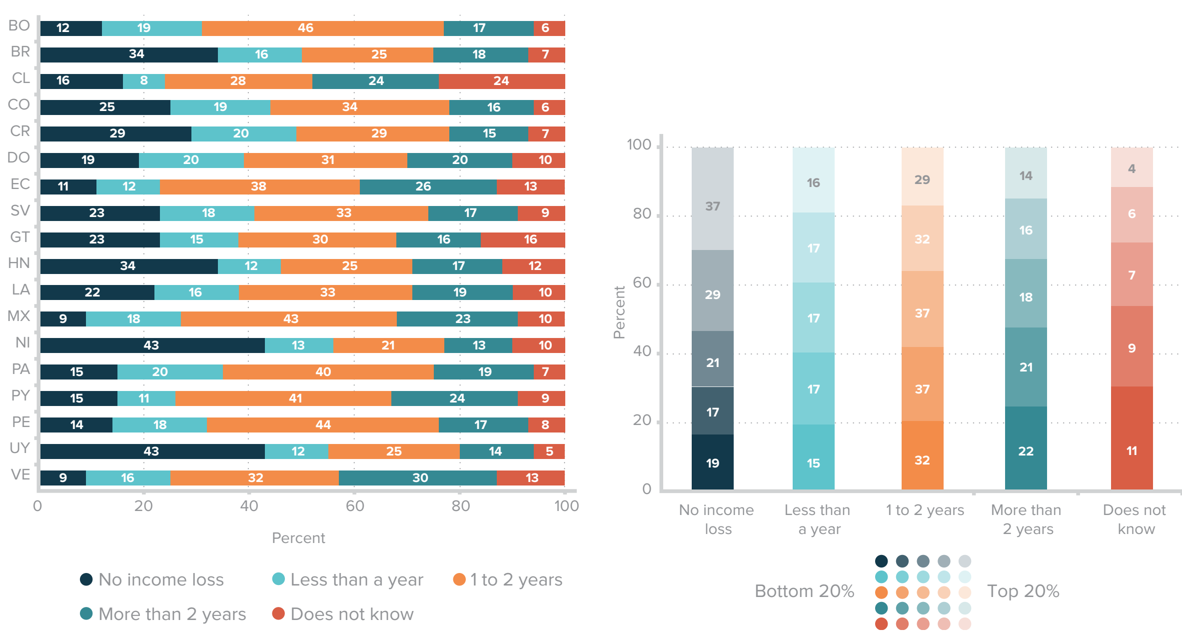
them to recover (figure 1.21). Only 22 percent of the respondents, on average, said they had seen no income loss in 2020, but there is substantial cross-country variation (panel a). In Nicaragua and Uruguay, 43 percent of the respondents said they had suffered no income loss. In Mexico and Venezuela, the corresponding share was 9 percent. Most people everywhere expected that it would take one year to more than two years to recover. Both the losses and the expected recovery times decrease with household income (panel b). The survey does not capture any differential impacts on income by sex.

Figure 1.21: Most people expect it will take one year or more to recover from the pandemic income shock

How long do you think the income of you and your family will take to return to what it was before the start of the pandemic, or have you and your family not lost income due to the pandemic?

a. By country

b. By income level (all)

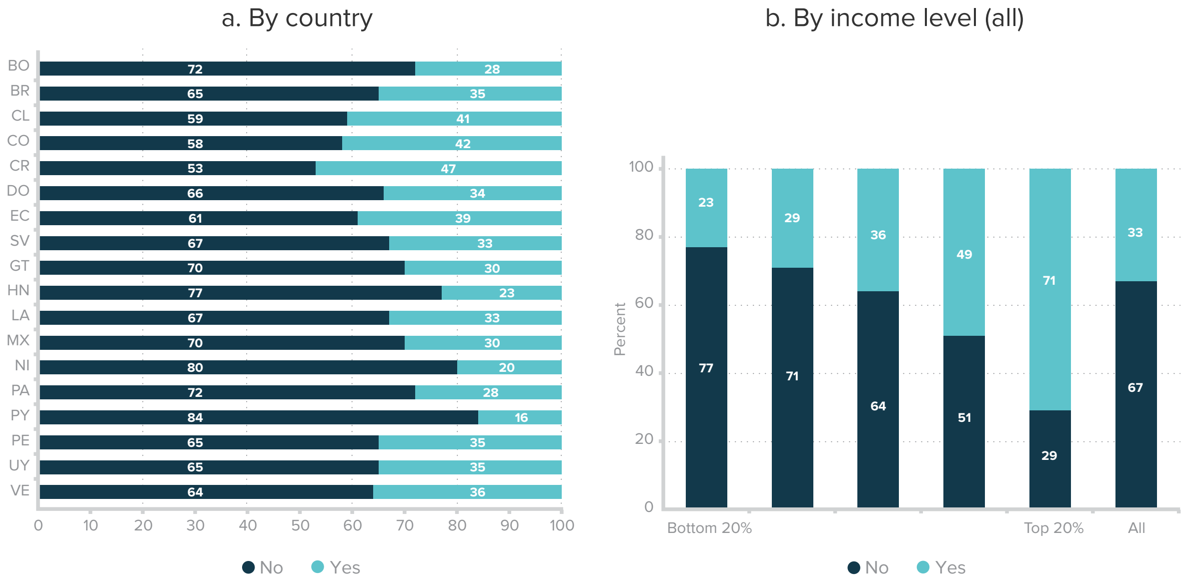


Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

An important determinant of the outcomes described above was the possibility to continue working without interruption from home, usually associated with the availability of an internet connection (see figure 1.10) and related equipment, but also with the type of job. Two thirds of the respondents said they were unable to work online (figure 1.22, panel b). The share is much smaller among the richest quintile (29 percent) and much higher among the poorest quintile (77 percent). University graduates are more likely to hold jobs that allow them to work online. Yet, tertiary education is still a privilege mainly restricted to people in the upper tail of the income distribution in LAC (see figure 1.7). There is no significant variation in responses by sex.

Figure 1.22: Only one third of Latin Americans said they were able to work online in 2020

Are you or someone in your family working remotely or have you worked remotely via the internet from home during this pandemic?



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

With the data available so far, it is possible to detect a novel feature of this crisis. In general, previous crises have had larger impacts on formal employment, and informal employment has partly acted as a shock absorber given the absence in most countries of unemployment insurance. But, in this crisis, the opposite seems to have occurred. Participation rates fell sharply, and this fall was proportionately higher among the informally employed (table 1.4). There is heterogeneity in the region, however. The numbers in Bolivia and Peru suggest that, there, informality absorbed some of the newly unemployed. In Argentina and Colombia, falling informality rates tell a different story. Informal workers must have been overrepresented among those who fell into inactivity, while formal workers were more likely to stay employed. This would explain the decreasing informality in the context of lower labour force participation and higher unemployment.

Table 1.4: Recent household surveys show labour force participation rates falling, though at a varying pace

Labour market outcomes, selected countries, 2019–2020

	Labour force participation rate			Unemployment rate			Informality rate		
	2019	2020	Change (pp)	2019	2020	Change (pp)	2019	2020	Change (pp)
Argentina	60	55	-5	10	12	2	22	18	-4
Bolivia	71	70	-1	4	8	4	83	84	1
Colombia	68	63	-5	11	16	5	61	54	-7
Dominican Republic	65	60	-5	6	5	-1	55	55	0
Peru	74	63	-11	4	7	3	81	90	9

Source: UNDP calculations; data of national household surveys.
Note: The data on Argentina and Dominican Republic refer to the first three quarters of 2020.

The data are incomplete, but the pandemic seems to have widened the gender gap in participation rates (table 1.5). In parallel, however, the gap in unemployment rates narrowed, although not for a good reason: unemployment rates among men have risen to converge with the rates among women. Also, most unexpectedly, changes in informality appear to have favoured women. Women workers were generally less informal in 2020 than men workers in 2019.

Table 1.5: It is too soon to be sure about the effects of the pandemic on gender gaps in labour markets

Gender gaps in labour market outcomes, selected countries, 2019–2020

	Labour force participation rate			Unemployment rate			Informality rate		
	2019	2020	Change (pp)	2019	2020	Change (pp)	2019	2020	Change (pp)
Argentina	-30	-29	0.1	16	14	-2.0	20	20	-0.4
Bolivia	-24	-25	-1.0	37	58	21.1	4	0	-3.6
Colombia	-29	-33	-3.8	67	60	-6.7	0	-8	-7.8
Dominican Republic	-33	-36	-3.0	135	121	-13.8	-14	-15	-1.0
Peru	-20	-27	-6.0	32	1	-31.4	5	2	-3.6

Source: UNDP calculations; data of national household surveys.
Note: The data on Argentina and Dominican Republic refer to the first three quarters of 2020.

The changes in labour markets that national household surveys have started to capture are not yet informative on where the region will stand after the pandemic or about the shape of the recovery in labour markets. For example, it is too soon to speak about the effect of the pandemic on gender gaps because the numbers will likely keep evolving before settling at a new equilibrium.

What is known for sure is that many have lost their source of income. Most governments in the region have undertaken efforts to support those in need until the health crisis is over.[58] But, these efforts will likely be insufficient almost everywhere to avoid an increase in poverty. The context of large informal employment characterized by the absence of many workers from administrative registries has made a rapid and effective response difficult. In addition, in some cases, the response has also been constrained by insufficient fiscal space or insufficient ambition even if the space is available.

Unequal welfare losses because of social distancing

Lockdowns adopted to control the spread of COVID-19 have been experienced differently by households across the income distribution. They have placed an unparalleled strain on the private residence as the locus of daily interactions. The capacity to sustain intensified activity loads has varied greatly according to differences in the adequacy or suitability of the conditions of the livable space. Overcrowding increases with poverty (figure 1.23). Sharing space among household members to meet the respective work, study and leisure needs is therefore typically more difficult for the poor. Indeed, the average number of rooms per capita in the households of the bottom 20 is less than half the average among the households of the top 20. Moreover, a larger share of poorer households in the region live in homes in which the roofs, walls and floors are made of low-quality materials (figure 1.24).

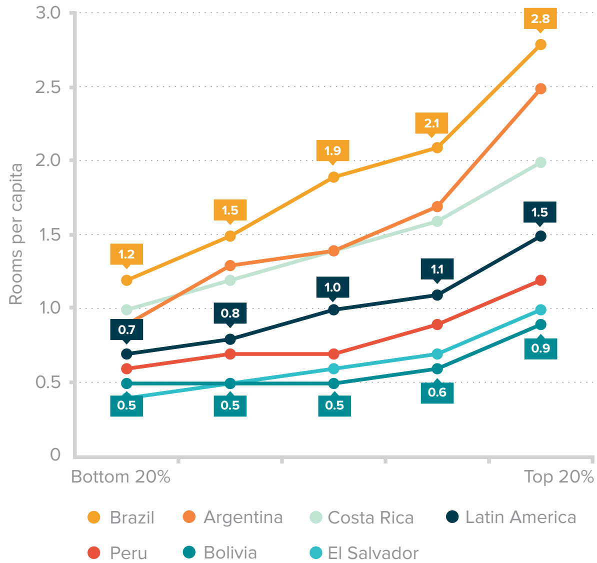
These living conditions imply that social distancing measures have been even more damaging in terms of welfare losses among some groups. Not only have the poor lived through the pandemic in greater discomfort, but they have also been more exposed to contagion because of greater obstacles to the realization of preventive sanitary and distancing measures at home. Their dwellings more typically constitute unsafe shelters.[59]

It is no coincidence that the poor have been less compliant with non-pharmaceutical interventions to control the pandemic. Mobility within countries decreased much less in poorer areas than in richer areas (figure 1.25). Disparities in living conditions have been linked to elevated opportunity costs in poorer communities, struggling to comply with mobility restrictions because of the need to meet commitments and satisfy needs that cannot be tended to remotely, including income-generating activities.

[58] See Cejudo, Michel, and de los Cobos (2020).
[59] McTarnaghan et al. (2016).

Figure 1.23: In Latin America, poorer households are relatively more overcrowded

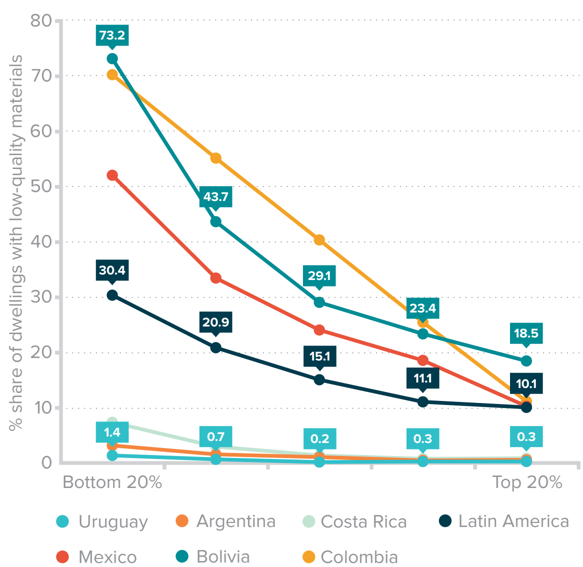
Persons per room by income quintile, Latin America and selected countries



Source: UNDP elaboration; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.
Note: Regional average excludes Guatemala, Nicaragua, and Venezuela. The data year is 2018 except Chile, which is 2017.

Figure 1.24: In Latin America a greater share of poorer households lives in low-quality dwellings

% of dwellings constructed with low-quality materials



Source: UNDP elaboration; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.
Note: Regional average excludes Guatemala, Nicaragua, and Venezuela. The data year is 2018 except Chile, which is 2017.

Figure 1.25: Compliance with mobility restrictions to control the pandemic increases with income

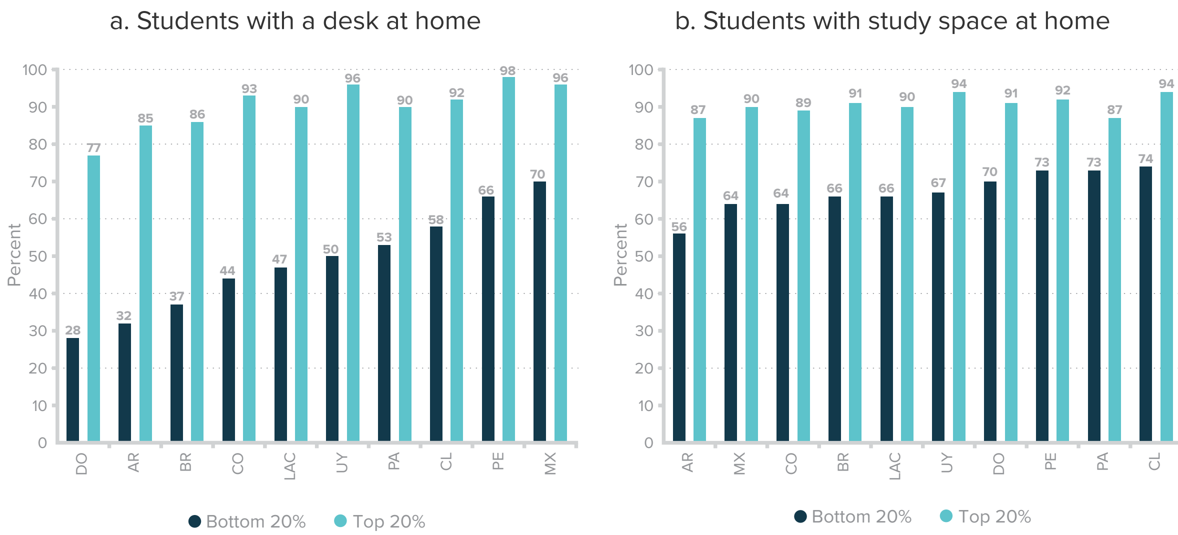
Source: Data of COVID-19: A Tool for Addressing Public Policy Decisions Supported on Data (dashboard), Latin America and the Caribbean, United Nations Development Programme, New York; Grandata, San Francisco, https://www.latinamerica.undp.org/content/rblac/en/home/coronavirus/data-covid-region.html.

Household ability to cope with impacts of the pandemic on education differ by socio-economic status

The COVID-19 pandemic has triggered extensive shocks to the coverage and quality of education that threaten to set a whole generation back in academic achievements. This will complicate the path towards educational equality by creating a disproportionate burden on the most economically vulnerable students. Preliminary simulations project the global loss from the human capital decumulation resulting from a four-month shutdown at US$10.6 trillion to US$15.1 trillion in earnings at current value, amounting to 12 percent to 18 percent of global GDP.[60] The United Nations Children's Fund and Save the Children estimate that an additional 140 million children across the world will be pushed into monetary poverty because of the considerable losses to household income and that an additional 150 million children are currently living in multidimensional poverty because of deprivations in their access to education, health care, housing, sanitation, or water.[61] As of February 2021, LAC remained the region with the lengthiest average disruption in classroom instruction: 22 percent of schools were fully closed; 32 percent were partially closed; 30 percent were fully open, and 16 percent were on academic break. The number of students between pre-primary and upper secondary impacted by full closures was 158 million, and an additional 28 million students were affected by partial closures.[62]

This situation has included disproportionate burdens on the most vulnerable students. The shifts to non-traditional methods of teaching and learning have been marked by pre-existing disparities in access to technological and academic tools. In LAC, the share of students who have a desk or adequate space to study at home is significantly smaller among the poorest households than among the most affluent households (figure 1.26).

Figure 1.26: Studying at home is more challenging in LAC among the poor

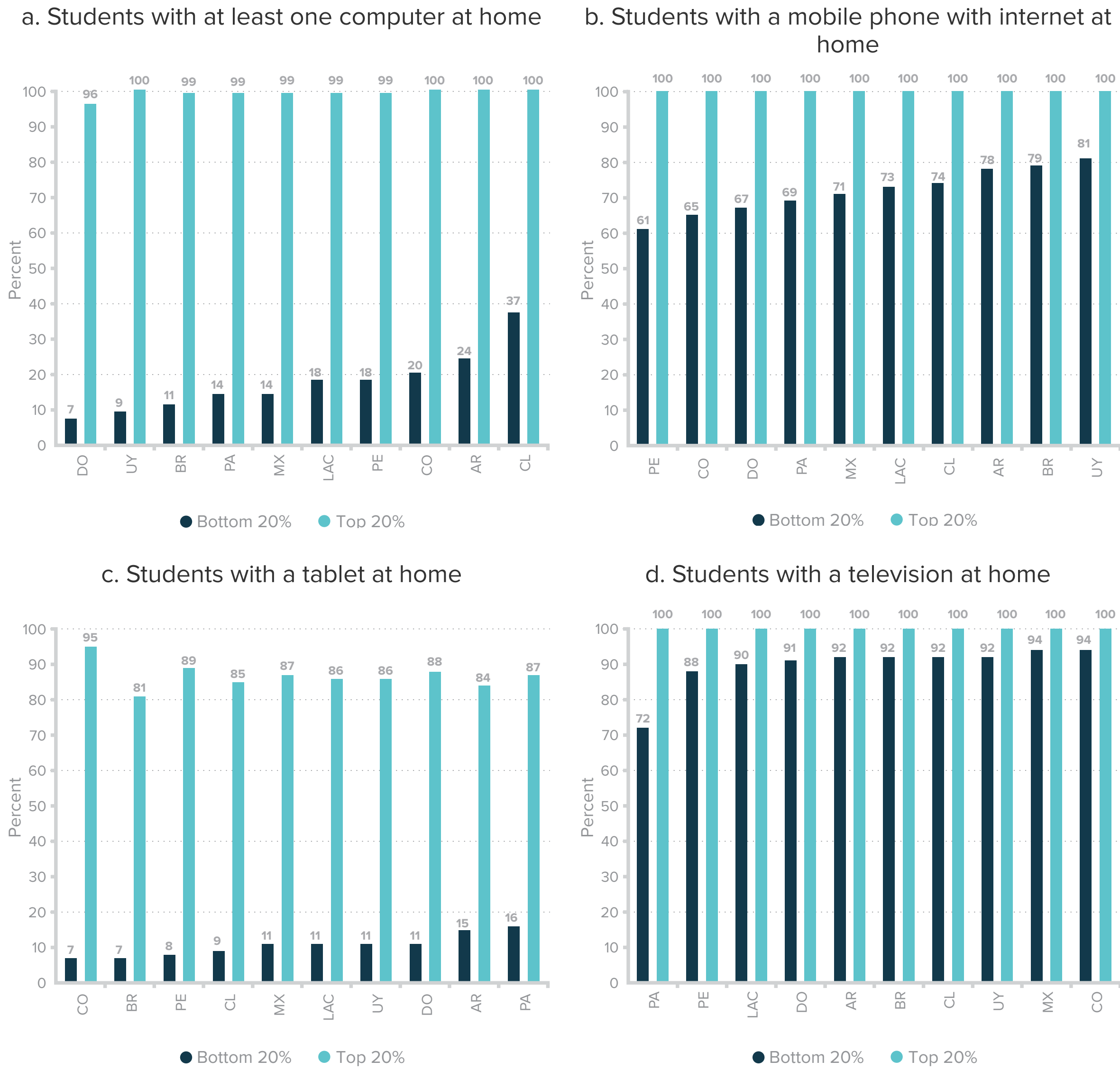


Source: García Jaramillo 2020; 2018 data of PISA (Programme for International Student Assessment) (dashboard), Organisation for Economic Co-operation and Development, Paris, http://www.oecd.org/pisa/pisaproducts/.

60 Psacharopoulos et al. (2020).
61 UNICEF and Save the Children (2020a), (2020b).
62 UNICEF (2021).

Similarly, poor students are comparatively more deprived of electronic devices that are essential in the educational reality established by the pandemic (figure 1.27). These deprivations, coupled with the inequalities in internet access (see figure 1.10), point to a significant portion of students who are left uneducated or undereducated.

Figure 1.27: Unequal access to modern tools and equipment widens the gaps in education

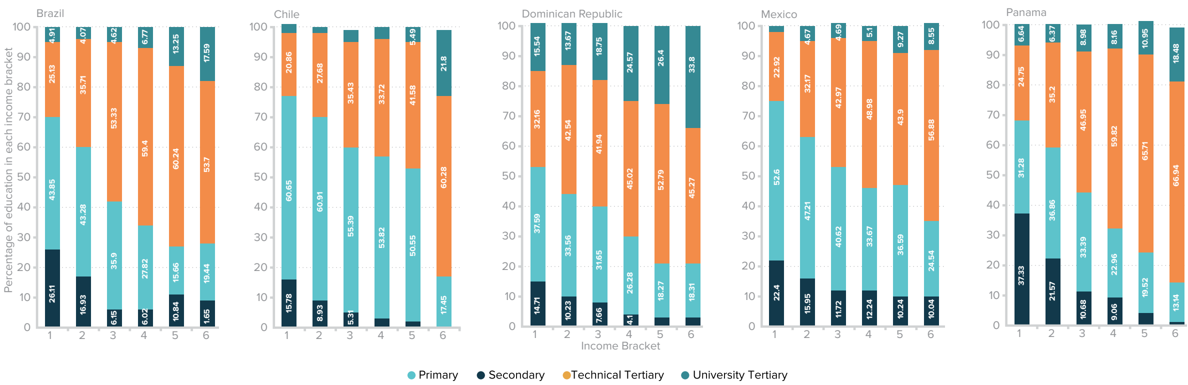


Source: García Jaramillo 2020; 2018 data of PISA (Programme for International Student Assessment) (dashboard), Organisation for Economic Co-operation and Development, Paris, http://www.oecd.org/pisa/pisaproducts/.

Besides rupturing important channels of communication, interaction, and discussion inherent to an effective learning process, recent COVID-19 restrictions have also been accompanied by an intensified dependence on the educational aptitudes of parents, a particularly worrisome situation considering that parents in more well-off households generally possess higher levels of educational attainment (figure 1.28). These parents are also more likely to become involved in their children's home learning and provide emotional support along the way (figure 1.29). In fact, parental involvement and emotional support in households in the top 20 are persistently above the OECD average, while the corresponding indicators on households in the bottom 20 are almost always below this average, except for parental involvement in Dominican Republic and Panama.

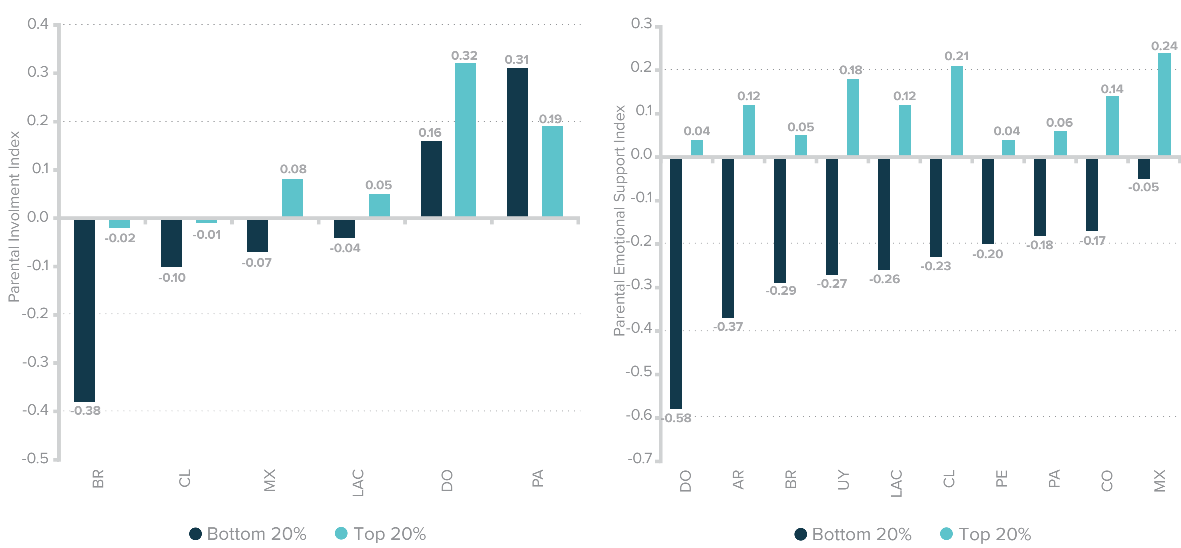
Figure 1.28: Unequal parental educational attainment affects learning gaps between rich and poor

What is the highest level of schooling completed by your mother? Answers by income bracket



Source: López-Calva 2020a; 2018 data of PISA (Programme for International Student Assessment) (dashboard), Organisation for Economic Co-operation and Development, Paris, http://www.oecd.org/pisa/pisaproducts/.

Figure 1.29: Unequal parental involvement in children's education will lead to higher inequality



Source: García Jaramillo 2020; 2018 data of PISA (Programme for International Student Assessment) (dashboard), Organisation for Economic Co-operation and Development, Paris, http://www.oecd.org/pisa/pisaproducts/.

All this implies that the ability of students and their families to confront the educational impacts of the pandemic differs according to socio-economic status. In addition, the pandemic has restricted the economic and technological resources available to poorer households, potentially pressuring low-income youth who have been pursuing academic degrees to enter the labour force prematurely. Research suggests that that the likelihood of today's students completing secondary education in Latin America may soon drop from a regional average of 61 percent to 46 percent. This average, however, hides striking differences across countries and socioeconomic groups. While the impact on individuals from highly educated families is almost null, the probability of completing secondary school for individuals with low educated parents is considerably lower in the post-pandemic, declining by almost 20 percentage points, from 52 percent to 32 percent.[63]

Overall, the implication is clear. It is reasonable to expect gaps in indicators on educational attendance, attainment, and quality to broaden across income groups unless coordinated action is undertaken to reverse this ominous trend. Beyond the short-term impacts on inequality and poverty, the fact that COVID-19 is affecting the human capital of the children and youngsters, particularly in poor households, will have long-lasting effects on their human development, and hence on future poverty and inequality. The negative effects may even linger for decades.

Exposure to domestic violence has increased during the pandemic

Violence against women tends to increase during all types of emergencies, including pandemics.[64] Domestic violence during lockdowns may be exacerbated by a variety of factors that include economic hardship, emotional instability associated with uncertainty, and weakened social capital.[65] Social distancing measures introduced by governments have made it easier for perpetrators of domestic violence to isolate their victims as an act of control or to block them from reporting incidents or otherwise seeking help.[66] Although some countries have experienced declines in filed complaints during lockdowns, this does not mean women are no longer exposed to violence at home.[67]

In fact, the severity of domestic violence in LAC during the COVID-19 pandemic has become evident through a sharp increase in emergency calls to helplines for women. During national lockdowns, there has been a greater intensity of online searches on subjects related to domestic violence in several countries, including Argentina, Brazil, Chile, Colombia and Mexico.[68] In the initial stages of Peru's lockdown, particularly

[63] Neidhöfer, Lustig and Tommasi (2020) report this low level of educational attainment for children of low educated families in Latin America for cohorts born in the 1960s.
[64] WHO (2020).
[65] Peterman et al. (2020).
[66] Campbell (2020).
[67] Miller, Segal, and Spencer (2020).
[68] Berniell and Facchini (2020).

between April and June 2020, emergency calls to helplines for women rose by 48 percent.[69] Likewise, domestic violence helplines in Buenos Aires received 32 percent more calls during quarantine, mainly related to incidents of psychological violence.[70] Additional evidence on Argentina suggests that tensions between couples have intensified during confinement, leading to a greater prevalence of domestic emotional, sexual and physical violence.[71]

In Colombia, calls linked to domestic violence received by the Attorney General's Office increased by 79 percent between March and April 2020.[72] In Mexico, there was a rise in calls reporting domestic abuse and requesting psychological services, as well as a decrease in calls requesting legal assistance, perhaps out of fear of retaliation.[73] Within Central America, Infosegura documented higher levels of gender-based violence in Costa Rica, El Salvador, Guatemala, and Honduras during the first trimester of 2020.[74] Similarly, almost half the women survey respondents in five Caribbean countries (Grenada, Guyana, Jamaica, Suriname, and Trinidad and Tobago) reported that they had faced at least one form of physical, sexual, economic or emotional violence during the pandemic.[75]

Some economies in the region have recently discontinued mandatory lockdowns, but work from home has increased tensions between couples.[76] An additional concern is that the pandemic's negative effects on labour market outcomes have been more severe among women.[77] This is likely associated with the more frequent physical contact that is characteristic of the sectors in which women tend to be more active and which are bearing the brunt of the pandemic-induced economic downturn. Moreover, the responsibility for unpaid care provision has become an excessive load borne mainly by women. Although data on time management during the pandemic are scarce in the region, it is unlikely that the distribution of unpaid housework and care within households has changed, which implies that women have been likely left even more vulnerable and marginalized from the labour market. The trend toward women's greater exclusion from the labour market could reinforce gender stereotypes and push more women into unpaid housework, thereby rendering women more dependent economically and increasing the likelihood they will become victims of domestic violence.[78]

---

69 Agüero (2020).
70 Pérez-Vincent et al. (2020).
71 Pérez-Vincent et al. (2020).
72 Zapata-Garesché and Cardoso (2020).
73 Silverio-Murillo, Balmori de la Miyar, and Hoehn-Velasco (2020).
74 López-Calva (2020b).
75 Sayed and Bartels-Bland (2020).
76 Pérez-Vincent et al. (2020).
77 ILO (2020).
78 Iregui-Bohórquez, Ramírez-Giraldo, and Tribín-Uribe (2019).

The pandemic has also generated a spike in unpaid work among households because of the increased childcare responsibilities associated with the generalized closure of schools. It is likely that the trend towards gender distribution in unpaid housework and care within households was reinforced, thereby creating an even greater burden on women relative to the situation before the onset of the pandemic (box 1.9).

Box 1.9: Responding to COVID-19 with(out) a gender lens

The UNDP COVID-19 Global Gender Response Tracker has documented close to 177 government initiatives in 29 countries intended to tackle violence against women in the context of the pandemic.[a] Most initiatives are focused on strengthening essential services (64 percent) and carrying out awareness campaigns (23 percent).

Meanwhile, governments in the region have failed to implement steps to recognize, reduce, or redistribute unpaid care activities.[b] Half of all relevant measures have been implemented in Argentina and Costa Rica. Awareness campaigns have been the main tool deployed by governments to address unpaid care, but the effects are uncertain. The 3R imperative—recognizing, reducing and redistributing unpaid care and housework—thus becomes more important than ever in freeing up women's time and promoting their economic empowerment, effectively providing them with greater bargaining power at home and reducing their exposure to domestic violence.

[a] See COVID-19 Global Gender Response Tracker (dashboard), United Nations Development Programme, New York, https://data.undp.org/gendertracker/.
[b] Bergallo et al. (2021).

1.7. Trapped?

This chapter documents that LAC is one of the most unequal and most slowly growing regions of the world. That these two characteristics coexist is revealing. Other regions may be equally unequal, but they are growing more rapidly, while others may be growing slowly, but are more equal. The chapter does not document that the coexistence of low growth and high inequality is unique to LAC, but few regions of the world have exhibited these two phenomena together for such a long time. If one considers a decades-long episode of low growth and high inequality, the example of Latin America and the Caribbean may be the first to come to mind.

The persistence of low growth and high inequality in LAC is not a coincidence. In the region, inequality is breeding low growth. Inequality of race and ethnicity deprives the region's economies of the talent and effort of a quarter of the labour force. Inequality in the quality of education lowers the returns to the region's educational investments. Inequality of gender implies that the potential of half the region's labour force is underutilized. Discrimination against the LGBT+ community limits the human capital potential of this population segment through marginalization and violence. Inequality of income translates into the concentration of political power in the hands of a few who use it to capture the regulatory institutions of the state to extract rents from everybody else, allowing firms to prevail not through technological innovation but because of a monopoly position.

In parallel, low growth in LAC breeds inequality. Low growth implies fewer opportunities to obtain good jobs, which is particularly worrisome in a region characterized by a labour force that is expanding more rapidly than the population. Low growth translates into insufficient tax revenue to fund the social programs required to combat poverty and moderate inequality. Low growth implies that many who have invested in education fail to find an occupation suited to their abilities, thereby reducing the incentives for others to invest in education. Low growth results in the accumulation of unmet demands for social progress, addressed at times by unsustainable expansions in expenditures, which eventually lead to economic crises that increase inequality or, paradoxically, in the adoption of social policies that cut into productivity, thus reinforcing the cycle of low growth.

The region does not need to be permanently trapped in this vicious circle. To escape, however, it must understand the nature of the trap. This is a complex undertaking because there are many factors linking low growth and inequality. Some of the links operate in both directions, and the specific ways in which they function vary from country to country. There is no simple overarching explanation that applies equally to every country in LAC.

But the failure to fully characterize the factors linking high inequality and low growth does not imply that some of them cannot be understood, which is a pre-condition for designing appropriate policy responses. The rest of this report tries to advance our understanding of some of them. The analysis is far from exhaustive, and there are many others not considered here. That said, the report focuses on examining three characterizing features of the region that we argue are behind the double trap: concentration of power, violence, and elements of the regulatory frameworks of labour markets and social protection systems that have had unexpected, undesirable results. Of course, their relevance varies across individual countries, and for some, there may be other issues that have greater relevance than the ones considered here, although it is hoped that some elements of the discussion will be relevant to all. But before turning to these three issues, the report considers first how people perceive the region's situation and questions whether perceptions may in themselves be part of the trap.

References

Agüero, Jorge M. 2020. “COVID-19 and the Rise of Intimate Partner Violence”. Working Paper 2020-05R (revised September 2020), Department of Economics, University of Connecticut, Storrs, CT.

Ahmed, Ali M., and Mats Hammarstedt. 2009. “Detecting Discrimination against Homosexuals: Evidence from a Field Experiment on the Internet”. *Economica*, 76 (303): 588–597. doi:10.1111/j.1468-0335.2008.00692.x.

Alkire. Sabina, Usha Kanagaratnam, and Nicolai Suppa. 2020. “The Global Multidimensional Poverty Index (MPI) 2020”. OPHI MPI Methodological Note, 49 (July), Oxford Poverty and Human Development Initiative, Oxford Department of International Development, University of Oxford, Oxford.

Alvaredo, Facundo, Lucas Chancel, Thomas Piketty, Emmanuel Saez, and Gabriel Zucman. 2018. “The Elephant Curve of Global Inequality and Growth”. *AEA Papers and Proceedings*, 108 (May): 103–108.

Atkinson, Anthony B., and Thomas Piketty, eds. 2010. *Top Incomes: A Global Perspective*. New York: Oxford University Press.

Atkinson, Anthony B., Thomas Piketty, and Emmanuel Saez. 2011. “Top Incomes in the Long Run of History”. *Journal of Economic Literature*, 49 (1): 3–71.

Bergallo, Paola, Marcelo Mangini, Mariela Magnelli, and Sabina Bercovich. 2021. “The Impacts of COVID-19 on Women’s Economic Autonomy in Latin America and the Caribbean”. COVID-19 Policy Document, UNDP LAC C19 PDS, 25 (March), Latin America and the Caribbean Region, United Nations Development Programme, New York.

Berniell, Inés, and Gabriel Facchini. 2020. “COVID-19 Lockdown and Domestic Violence: Evidence from Internet-Search Behavior in 11 Countries”. CEDLAS Documento de Trabajo, 273 (December), Centre for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina.

Burdín, Gabriel, Mauricio De Rosa, Andrea Vigorito, and Joan Vilá. 2019. “Was Falling Inequality in all Latin American Countries a Data-Driven Illusion? Income Distribution and Mobility Patterns in Uruguay 2009–2016”. Documento de Trabajo DT 30/2019, Instituto de Economía, Facultad de Ciencias Económicas y Administración, Universidad de la República, Montevideo, Uruguay.

Busso, Matías, and Julián Messina, eds. 2020. *The Inequality Crisis: Latin American and the Caribbean at the Crossroads*. Washington, DC: Inter-American Development Bank.

Camacho, Adriana, Julián Messina, and Juan Pablo Uribe. 2017. “The Expansion of Higher Education in Colombia: Bad Students or Bad Programs?” Documento CEDE 13 (February), Center for Economic Development Studies, Department of Economics, Universidad de Los Andes, Bogotá, Colombia.

Campbell, Andrew M. 2020. “An Increasing Risk of Family Violence during the COVID-19 Pandemic: Strengthening Community Collaborations to Save Lives”. *Forensic Science International Reports* 2 (3): 100089.

Cárdenas, Juan-Camilo. 2020. “Commons”. In *The Routledge Handbook to the Political Economy and Governance of the Americas*, edited by Olaf Kaltmeier, Anne Tittor, Daniel Hawkins, and Eleonora Rohland, 330–340. Abingdon-on-Thames, UK: Routledge.

Cárdenas, Juan-Camilo, Hugo Rolando Ñopo, and Jorge Luis Castañeda. 2014. Equidad en la diferencia: políticas para la movilidad social de grupos de identidad. In *Equidad y movilidad social: Diagnósticos y propuestas para la transformación de la sociedad colombiana*, edited by Marcela Meléndez and Armando Montenegro, 531–617. Bogotá: Ediciones Uniandes.

CDB (Caribbean Development Bank). 2016. “Replenishment of the Resources of the Special Development Fund Unified (SDF 9): Resolution and Report of Contributors on SDF 9”. 8 December, CDB, Barbados.

Cejudo, Guillermo M., Cynthia L. Michel, and Pablo de los Cobos. 2020. “Policy Responses to the Pandemic for COVID-19 in Latin America and the Caribbean: The Use of Cash Transfer Programs and Social Protection

Information Systems". COVID-19 Policy Document, UNDP LAC C19 PDS, 24, Latin America and the Caribbean Region, United Nations Development Programme, New York.

Cheryan, Sapna, Akkison Master, and Andrew N. Meltzoff. 2015. "Cultural Stereotypes as Gatekeepers: Increasing Girls' Interest in Computer Science and Engineering by Diversifying Stereotypes". *Frontiers in Psychology*, 6 (11 February), article 49. https://doi.org/10.3389/fpsyg.2015.00049.

Chmielewski, Anna K., and Corey Savage. 2016. "Socioeconomic Segregation between Schools in the United States and Latin America, 1970–2012". In *Land and the City*, edited by George William McCarthy, Gregory K. Ingram, and Samuel A. Moody, 394–423. Land Policy Series. Cambridge, MA: Lincoln Institute of Land Policy.

Coffman, Katherine B., Lucas C. Coffman, and Keith M. Marzilli Ericson. 2017. "The Size of the LGBT Population and the Magnitude of Antigay Sentiment Are Substantially Underestimated". *Management Science*, 63 (10): 3168–3186.

Corak, Miles. 2013. "Inequality from Generation to Generation: The United States in Comparison". In *The Economics of Inequality, Poverty, and Discrimination in the 21st Century*, vol. 1, *Causes*, edited by Robert S. Rycroft, 107–123. Santa Barbara, CA: Praeger.

Correa, Norma B. 2019. "Pueblos Indígenas y Población Afrodescendiente". *2030: Alimentación, agricultura y desarrollo rural en América Latina y el Caribe*, 24, Food and Agriculture Organization of the United Nations, Santiago de Chile.

Cutler, David M., and Adriana Lleras-Muney. 2008. "Education and Health: Evaluating Theories and Evidence". In *Making Americans Healthier: Social and Economic Policy as Health Policy*, edited by Robert F. Schoeni, James S. House, George A. Kaplan, and Harold A. Pollack, 29–60. National Poverty Center Series on Poverty and Public Policy. New York: Russell Sage.

de Ferranti, David, Guillermo E. Perry, Francisco H. G. Ferreira, and Michael Walton. 2004. *Inequality in Latin America: Breaking with History?* World Bank Latin American and Caribbean Studies Series. Washington, DC: World Bank.

Diaz-Serrano, Luis, and Enric Meix-Llop. 2016. "Do Schools Discriminate against Homosexual Parents? Evidence from a Randomized Correspondence Experiment". *Economics of Education Review*, 53 (August): 133–142.

Easterly, William Russell, and Ross E. Levine. 2001. "What Have We Learned from a Decade of Empirical Research on Growth? It's Not Factor Accumulation: Stylized Facts and Growth Models." *World Bank Economic Review* 15 (2): 177–219.

ECLAC (United Nations Economic Commission for Latin America and the Caribbean). 2014. *Guaranteeing Indigenous People's Rights in Latin America: Progress in the Past Decade and Remaining Challenges, Summary*. Santiago, Chile: ECLAC.

ECLAC (United Nations Economic Commission for Latin America and the Caribbean). 2016. "The Social Inequality Matrix in Latin America". Report 40710, ECLAC, Santiago, Chile.

ECLAC (United Nations Economic Commission for Latin America and the Caribbean). 2021. "Pandemic Prompts Rise in Poverty to Levels Unprecedented in Recent Decades and Sharply Affects Inequality and Employment". Press Release, 4 March 2021, ECLAC, Santiago, Chile. https://www.cepal.org/en/pressreleases/pandemic-prompts-rise-poverty-levels-unprecedented-recent-decades-and-sharply-affects.

ECLAC (United Nations Economic Commission for Latin America and the Caribbean) and UNFPA (United Nations Population Fund). 2020. *Afrodescendientes y la matriz de la desigualdad social en América Latina: retos para la inclusión*. Documento de Proyectors, LC/PUB.2020/14. Santiago, Chile: United Nations.

FAO (Food and Agriculture Organization of the United Nations), IFAD (International Fund for Agricultural Development), UNICEF (United Nations Children's Fund), WFP (World Food Programme), and WHO (World Health Organization). 2020. *The State of Food Security and Nutrition in the World 2020: Transforming Food Systems for Affordable Healthy Diets*. Rome: FAO.

Fernández-Arias, Eduardo, and Nicolas Fernández-Arias. 2021. "The Latin American Growth Shortfall: Productivity and Inequality". UNDP LAC Working Paper, 4, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Flores, Ignacio, Claudia Sanhueza, Jorge Atria, and Ricardo Mayer. 2020. "Top Incomes in Chile: A Historical Perspective on Income Inequality, 1964–2017". *Review of Income and Wealth*, 66 (4): 850–874.

Forbes Magazine. (2021).Forbes Billionaires 2021: The Richest People in the World. Forbes.

García Jaramillo, Sandra. 2020. "COVID-19 and Primary and Secondary Education: The Impact of the Crisis and Public Policy Implications for Latin America and the Caribbean". COVID-19 Policy Document, UNDP LAC C19 PDS, 20 (24 August), Latin America and the Caribbean Region, United Nations Development Programme, New York.

Gasparini, Leonardo Carlos, and Guillermo Cruces. 2021. "The Changing Picture of Inequality in Latin America: Evidence for Three Decades". UNDP LAC Working Paper, 1, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Gerber, Theodore P., and Sin Yi Cheung. 2008. "Horizontal Stratification in Postsecondary Education: Forms, Explanations, and Implications". *Annual Review of Sociology*, 34 (1): 299–318. doi: 10.1146/annurev.soc.34.040507.134604

Grant, Monica J., and Jere Richard Behrman. 2010. "Gender Gaps in Educational Attainment in Less Developed Countries". *Population Research and Policy Review*, 36 (1): 71–89.

Heilman, Madeline E., Francesca Manzi, and Susanne Braun. 2015. "Presumed Incompetent: Perceived Lack of Fit and Gender Bias in Recruitment and Selection. In *Handbook of Gendered Careers in Management: Getting In, Getting On, Getting Out*, edited by Adelina M. Broadbridge and Sandra L. Fielden, 90–104. Research Handbooks in Business and Management Series. Cheltenham, UK: Edward Elgar Publishing.

Hout, Michael, and Thomas A. DiPrete. 2006. "What We Have Learned: RC28's Contributions to Knowledge about Social Stratification". *Research in Social Stratification and Mobility*, 24 (1): 1–20.

Hsieh, Chang-Tai, Erik Hurst, Charles I. Jones, and Peter J. Klenow. 2019. "The Allocation of Talent and U.S. Economic Growth". *Econometrica*, 87 (5): 1439–1474.

ILO (International Labour Organization). 2020. *2020 Labour Overview: Latin America and the Caribbean*. MyFutureOfWork Series, COVID-19 Edition. Lima: Regional Office for Latin America and the Caribbean, ILO.

Ipsos and Ministry of Justice and Human Rights, Peru. 2019. "II Encuesta Nacional de Derechos Humanos: Población LGBT". Ipsos, Lima. https://www.ipsos.com/sites/default/files/ct/news/documents/2020-06/presentacion_ii_encuesta_nacional_ddhh.pdf

Iregui-Bohórquez, Ana María, María Teresa Ramírez-Giraldo, and Ana María Tribín-Uribe. 2019. "Domestic Violence against Rural Women in Colombia: The Role of Labor Income". *Feminist Economics*, 25 (2): 146–172. DOI: 10.1080/13545701.2019.1566752.

Koehler, Dominik, Georgia Harley, and Nicholas Menzies. 2018. "Discrimination against Sexual Minorities in Education and Housing: Evidence from Two Field Experiments in Serbia". Policy Research Working Paper 8504, World Bank, Washington, DC.

Kosciw, Joseph G., Emily A. Greytak, Adrian D. Zongrone, Caitlin M. Clark, and Nhan L. Truong. 2018. *The 2017 National School Climate Survey: The Experiences of Lesbian, Gay, Bisexual, Transgender, and Queer Youth in Our Nation's Schools*. New York: GLSEN.

Lochner, Lance J. 2011. "Non-Production Benefits of Education: Crime, Health, and Good Citizenship". In *Handbook of the Economics of Education*, vol. 4, edited by Eric Alan Hanushek, Stephen J. Machin, and Ludger Woessmann, 183–282. Handbooks in Economics Series. Amsterdam: North-Holland.

López-Calva, Luis F. 2020a. “Hey Teachers, (Don’t) Leave the Kids Alone! Connectivity and Education Disparities in Times of COVID19”. *Director’s Graph for Thought* (blog), 27 April 2020. https://www.latinamerica.undp.org/content/rblac/en/home/presscenter/director-s-graph-for-thought/hey-teachers---dont--leave-the-kids-alone--connectivity-and-educ.html.

López-Calva, Luis F. 2020b. “No Safer Place Than Home? The Increase in Domestic and Gender-Based Violence during COVID-19 Lockdowns in LAC”. *Director’s Graph for Thought* (blog), 3 November 2020. https://www.latinamerica.undp.org/content/rblac/en/home/presscenter/director-s-graph-for-thought/no-safer-place-than-home---the-increase-in-domestic-and-gender-b.html.

López-Calva, Luis F., and Nora Claudia Lustig, eds. 2010. *Declining Inequality in Latin America: A Decade of Progress?* New York: United Nations Development Programme; Washington, DC: Brookings Institution.

Lustig, Nora Claudia, Valentina Martinez-Pabon. Federico Sanz, and Stephen D. Younger. 2020. “The Impact of COVID-19 Lockdowns and Expanded Social Assistance on Inequality, Poverty and Mobility in Argentina, Brazil, Colombia, and Mexico”. ECINEQ Working Paper 558, Society for the Study of Economic Inequality, Department of Economics, University of Verona, Verona, Italy.

McTarnaghan, Sara, Carlos Martín, Tanaya Srini, and Juan Collazos. 2016. “Literature Review of Housing in Latin America and the Caribbean, Phase I: Global Housing Research Initiative”. With Amanda Gold, Micaela Suminski, and Yazmin Guzman, Research Report, October, Urban Institute, Washington, DC.

Miller, Amalia R., Carmit Segal, and Melissa K. Spencer. 2020. “Effects of the COVID-19 Pandemic on Domestic Violence in Los Angeles”. NBER Working Paper 28068 (November), National Bureau of Economic Research, Cambridge, MA.

Mountian, Ilana. 2014. “A Critical Analysis of Public Policies on Education and LGBT Rights in Brazil”. IDS Evidence Report, 61 (March), Sexuality, Poverty and Law, Institute of Development Studies, University of Sussex, Brighton, UK.

Neidhöfer, Guido. 2021. “Longer-Run Perspectives on Intergenerational Mobility in Latin America: 1933–1992”. UNDP LAC Working Paper, 3, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Neidhöfer, Guido, Nora Lustig, and Mariano Tommasi. 2020. “Intergenerational Transmission of Lockdown Consequences: Prognosis of the Longer-run Persistence of COVID-19 in Latin America.” CEQ Working Paper 99, Commitment to Equity Institute, Tulane University.

OECD (Organisation for Economic Co-operation and Development). 2019. “The LGBT Challenge: How to Better Include Sexual and Gender Minorities?” In *Society at a Glance 2019, OECD Social Indicators: A Spotlight on LGBT People*, 13–56. Paris: OECD.

Omariba, D. Walter Rasugu. 2006. “Women’s Educational Attainment and Intergenerational Patterns of Fertility Behaviour in Kenya”. *Journal of Biosocial Science*, 38 (4): 449–479.

Oreopoulos, Philip, and Kjell G. Salvanes. 2011. “Priceless: The Nonpecuniary Benefits of Schooling”. *Journal of Economic Perspectives*, 25 (1): 159–184. doi: 10.1257/jep.25.1.159.

Patacchini, Eleonora, Giuseppe Ragusa, and Yves Zenou. 2012. “Unexplored Dimensions of Discrimination in Europe: Religion, Homosexuality, and Physical Appearance”. Report for the XIV European Conference (June), Fondazione Rodolfo Debenedetti, Milan.

Pearson, Jennifer, and Lindsey Wilkinson. 2017. “Same-Sex Sexuality and Educational Attainment: The Pathway to College”. *Journal of Homosexuality*, 64 (4): 538–576.

Pérez-Vincent, Santiago M., Enrique Carreras, María Amelia Gibbons, Tomás E. Murphy, and Martín A. Rossi. 2020. “COVID-19 Lockdowns and Domestic Violence: Evidence from Two Studies in Argentina”. Technical Note IDB-TN-1956 (July), Inter-American Development Bank, Washington, DC. http://dx.doi.org/10.18235/0002490.

Peterman, Amber, Alina Potts, Megan O'Donnell, Kelly Thompson, Niyati Shah, Sabine Oertelt-Prigione, and Nicole van Gelder. 2020. "Pandemics and Violence against Women and Children". Working Paper 528 (April), Center for Global Development, Washington, DC.

Psacharopoulos, George, Victoria Collis, Harry Anthony Patrinos, and Emiliana Vegas. 2020. "Lost Wages: The COVID-19 Cost of School Closures". Policy Research Working Paper 9246, World Bank, Washington, DC.

Psacharopoulos, George, and Harry Anthony Patrinos. 2018. "Returns to Investment in Education: A Decennial Review of the Global Literature". *Education Economics,* 26 (5): 445–458. doi: 10.1080/09645292.2018.1484426.

Sayed, Tahseen, and Emily Bartels-Bland. 2020. "Casting Light onto the Shadow Pandemic in the Caribbean: Violence against Women". *Latin America and Caribbean* (blog), 25 November 2020. https://blogs.worldbank.org/latinamerica/casting-light-shadow-pandemic-caribbean-violence-against-women.

Sen, Amartya K. 1980. "Equality of What?" In *The Tanner Lectures on Human Values*, edited by Sterling M. McMurrin, 195–220. Salt Lake City: University of Utah Press.

Shapiro, Jenessa R., and Amy M. Williams. 2012. "The Role of Stereotype Threats in Undermining Girls' and Women's Performance and Interest in STEM Fields". *Sex Roles*, 66 (3–4): 175–183.

Silverio-Murillo, Adan, José Roberto Balmori de la Miyar, and Lauren Hoehn-Velasco. 2020. "Families under Confinement: COVID-19, Domestic Violence, and Alcohol Consumption". Research paper (10 September 2020), Andrew Young School of Policy Studies, Georgia State University, Atlanta.

Stephens-Davidowitz, Seth. 2013. "How Many American Men Are Gay?" *New York Times*, 7 December 2013. https://www.nytimes.com/2013/12/08/opinion/sunday/how-many-american-men-are-gay.html.

Telles, Edward E. 2014. *Pigmentocracies: Ethnicity, Race, and Color in Latin America*. Chapel Hill, NC: University of North Carolina Press.

Torche, Florencia. 2014. "Intergenerational Mobility and Inequality: The Latin American Case". *Annual Review of Sociology*, 40 (1): 619–642. https://doi.org/10.1146/annurev-soc-071811-145521.

Torche, Florencia. 2021. "Intergenerational Mobility in Latin America in Comparative Perspective". UNDP LAC Working Paper, 2, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

UN DESA (United Nations Department of Economic and Social Affairs). 2018. Social protection for indigenous peoples and ethnic minorities: Overcoming discrimination and geographic isolation. Social Development Brief, 7 (November), Division for Inclusive Social Development, UN DESA, United Nations, New York.

UNDP (United Nations Development Programme). 2012. *Caribbean Human Development Report 2012: Human Development and the Shift to Better Citizen Security*. New York: UNDP.

UNDP (United Nations Development Programme). 2016a. *Caribbean Human Development Report 2016, Multidimensional Progress: Human Resilience beyond Income*. New York: UNDP.

UNDP (United Nations Development Programme). 2016b. *Regional Human Development Report for Latin America and the Caribbean 2016, Multidimensional Progress: Well-Being beyond Income*. New York: UNDP.

UNDP (United Nations Development Programme). 2019. *Human Development Report 2019: Beyond Income, Beyond Averages, Beyond Today; Inequalities in Human Development in the 21st Century*. New York: UNDP.

UNICEF (United Nations Children's Fund) 2021. "COVID-19 and school closures: one year of education disruption". March, UNICEF, New York.

UNICEF (United Nations Children's Fund) and Save the Children. 2020a. "Children in Monetary Poor Households and COVID-19: Technical Note". November, UNICEF, New York. https://www.unicef.org/documents/children-monetary-poor-households-and-covid-19. Accessed 8 April 2021.

UNICEF (United Nations Children's Fund) and Save the Children. 2020b. "Technical Note: Impact of COVID-19 on Child Poverty". September, UNICEF, New York.

Vélez, Maria Alejandra, Juan Robalino, Juan Camilo Cárdenas, Andrea Paz, and Eduardo Pacay. 2020. "Is Collective Titling Enough to Protect Forests? Evidence from Afro-Descendant Communities in the Colombian Pacific Region". *World Development*, 128 (April): 104837.

WHO (World Health Organization). 2020. "COVID-19 and Violence against Women: What the Health Sector/System Can Do". Document WHO/SRH/20.047 (7 April 2020), WHO, Geneva.

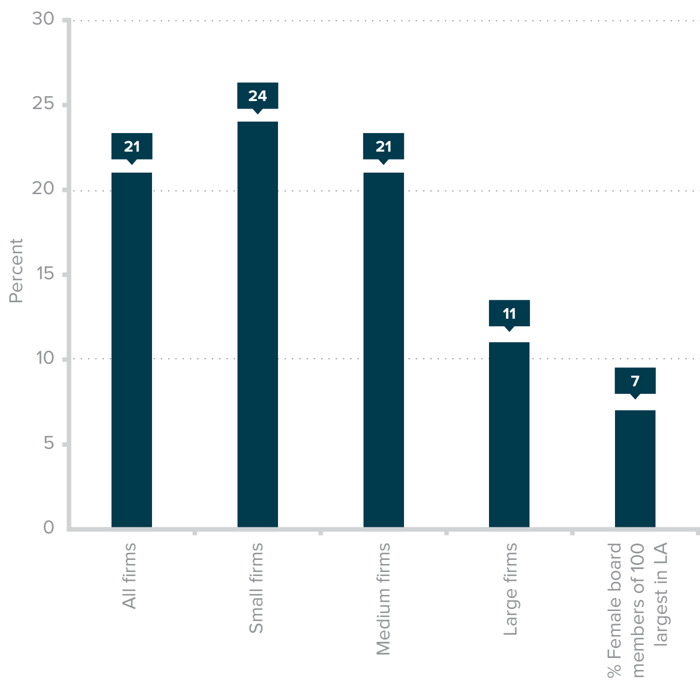
World Bank. 2015. *Latinoamérica Indígena en el Siglo XXI.* Washington, DC: World Bank.

Zapata-Garesché, Eugene, and Luciana Cardoso. 2020. "What COVID-19 Tells Us about Gender Inequality in Latin America". *Americas Quarterly*, 1 May. https://americasquarterly.org/article/what-covid-19-tells-us-about-gender-inequality-in-latin-america/.

GENDER GAPS IN CORPORATE LEADERSHIP

Despite significant improvements in human capital and shifts in public perceptions that have contributed to women's economic and political empowerment in the region, women in LAC continue to be systematically underrepresented in corporate leadership positions. Women manage a minority of firms; the incidence of women in management decreases with firm size, and women are underrepresented among board members (figure S1.1).

Figure S1.1: Women in corporate management



Source: CWDI 2016; ILO 2017; Ortiz-Ospina and Roser 2018.

As in other world regions, LAC people are still struggling against deeply ingrained social constructs regarding gender stereotypes that view women's leadership with scepticism because result-oriented problem-solving and crisis management behaviours are wrongly considered typically masculine (Warren 2009). Such stereotypes diminish the relative favourability of women leaders and pressure women to abandon the pursuit of leadership positions altogether (Eagly and Karau 2002; Eagly and Carli 2007). This is both unfair and inconvenient. Evidence demonstrates that more diverse boards can benefit firms' financial outcomes and may even help strengthen the commitment of firms to corporate social responsibility and their social reputation (Byron and Post 2016; Terjesen, Couto, and Francisco 2016). Although the issue is seldom studied, recent evidence on LAC has identified a link between women's leadership and firm performance (Flabbi, Piras, and Abrahams 2017).

Among several initiatives that have attempted to balance corporate leadership composition between men and women, mandatory quotas have become increasingly popular worldwide. Although they have produced positive outcomes in politics, they may bring about undesirable effects in the private sector. Findings are forthcoming primarily from the developed world, but they provide enriching insights for discussions in LAC. Evidence indicates that the 2003 law in Norway that imposed a 40 percent share of women on management boards led to a reduction in the market value of firms induced by the resulting younger and less highly experienced boards, given the limited pool of qualified women directors (Ahern and Dittmar 2012). Strict constraints on board composition may thus operate against member selection based on profit maximization, ultimately hindering the usual flow of business. Similar analytical exercises in other European countries find that sex quotas have a heterogeneous effect on firm productivity (Comi et al., 2019). They had a negative effect among French firms, a negligible effect among Spanish firms, and a positive effect among Italian firms, suggesting that the consequences of board quotas depend on each country's institutional and legal framework. Meanwhile, experimental variations on the gender composition of business teams suggest that firm profitability is maximized when women make up around 55 percent of the team, presumably because this diversity brings about more intense mutual monitoring between members and a more equal learning environment (Hoogendoorn, Oosterbeek, and van Praag 2013). This also suggests that if there are enough women who are as qualified as their men counterparts, businesses will prosper by increasing the share of women on boards.

These issues point towards the fact that further efforts to accelerate gender equality in corporate leadership should not be limited to mandatory quota regulations. They should also recognize the imperative of dismantling discriminatory mechanisms based on gender stereotypes. They could accomplish this by promoting initiatives that educate the population and stimulate changes in biased perceptions by making the injustice of gender inequality and the shared advantages of greater participation by women more visible. Such initiatives might take the form of awareness campaigns aimed at instructing people about how to detect and adopt strategies to reduce their own implicit biases (Devine et al. 2012). Other initiatives to fight gender stereotypes include training women to be reassured of their capabilities (Aronson, Fried, and Good 2002); depicting men and women on more equal terms in broad-scope media products (Brown 1990); and exposing women to counter-stereotypical women role models in traditionally masculine leadership positions (Dasgupta and Asgari 2004). The inclusion of men in mandatory parental leave, the effects of which have proven to be positive on the social norms surrounding gender and the work schedules of women counterparts, might also encourage women's leadership by disrupting the preconception that identifies women as the exclusive caregivers (Dahl, Løken, and Mogstad 2014; Patnaik 2019).

References

Ahern, Kenneth, and Amy K. Dittmar. 2012. "The Changing of the Boards: The Impact on Firm Valuation of Mandated Female Board Representation". *Quarterly Journal of Economics*, 127 (1): 137–197.

Aronson, Joshua, Carrie B. Fried, and Catherine Good. 2002. "Reducing the Effects of Stereotype Threat on African American College Students by Shaping Theories of Intelligence". *Journal of Experimental Social Psychology*, 38 (2): 113–125.

Brown, William J. 1990. "Prosocial Effects of Entertainment Television in India". *Asian Journal of Communication*, 1 (1): 113–135.

Byron, Kris, and Corinne Post. 2016. "Women on Boards of Directors and Corporate Social Performance: A Meta-Analysis. *Corporate Governance*, 24 (4): 428–442.

Comi, Simona Lorena, Mara Grasseni, Federica Origo, and Laura Pagani. 2019. "Where Women Make a Difference: Gender Quotas and Firms' Performance in Three European Countries". *ILR Review*, 73 (3): 768-793.

CWDI (Corporate Women Directors international). 2016. "2016 CWDI Report on Women Board Directors of Latin America's 100 Largest Companies". 30 September, CWDI, Washington, DC. https://globewomen.org/CWDINet/index.php/2016-cwdi-report-on-women-board-directors-of-latin-americas-100-largest-companies/.

Dahl, Gordon B., Katrine V. Løken, and Magne Mogstad. 2014. "Peer Effects in Program Participation". *American Economic Review*, 104 (7): 2049–2074.

Dasgupta, Nilanjana, and Shaki Asgari. 2004. "Seeing Is Believing: Exposure to Counterstereotypic Women Leaders and Its Effect on the Malleability of Automatic Gender Stereotyping". *Journal of Experimental Social Psychology,* 40 (5): 642–658.

Devine, Patricia G., Patrick S. Forscher, Anthony J. Austin, and William T. L. Cox. 2012. "Long-Term Reduction in Implicit Race Bias: A Prejudice Habit-Breaking Intervention". *Journal of Experimental Social Psychology*, 48 (6): 1267–1278.

Eagly, Alice H., and Linda L. Carli. 2007. "Women and the Labyrinth of Leadership". *Harvard Business Review*, 85 (9): 62–71.

Eagly, Alice H., and Steven J. Karau. 2002. "Role Congruity Theory of Prejudice toward Female Leaders". *Psychological Review*, 109 (3): 573–598.

Flabbi, Luca, Claudia Piras, and Scott Abrahams. 2017. "Female Corporate Leadership in Latin America and the Caribbean Region: Representation and Firm-Level Outcomes". *International Journal of Manpower,* 38 (6): 790–818.

Hoogendoorn, Sander, Hessel Oosterbeek, and Mirjam van Praag. 2013. "The Impact of Gender Diversity on the Performance of Business Teams: Evidence from a Field Experiment". *Management Science*, 59 (7): 1514–1528.

ILO (International Labour Organization). 2017. *Women in Business and Management: Gaining Momentum in Latin America and the Caribbean*. May. Geneva: Bureau for Employers' Activities, ILO. https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_579085.pdf.

Ortiz-Ospina, Esteban, and Max Roser. 2018. "Economic Inequality by Gender". *Our World in Data*, March 2018. https://ourworldindata.org/economic-inequality-by-gender#.

Patnaik, Ankita. 2019. "Reserving Time for Daddy: The Consequences of Fathers' Quotas". *Journal of Labor Economics*, 37 (4): 1009–1059.

Terjesen, Siri, Eduardo Barbosa Couto, and Paulo Morais Francisco. 2016. "Does the Presence of Independent and Female Directors Impact Firm Performance? A Multi-Country Study of Board Diversity". *Journal of Management and Governance*, 20 (3): 447–483.

Warren, Anika K. 2009. "Cascading Gender Biases, Compounding Effects: An Assessment of Talent Management Systems?" Catalyst, New York.

PROTECTING THE ENVIRONMENT IS MORE COMPLEX WHEN COUNTRIES ARE UNEQUAL

If economic growth does not address the external costs to society of environmental degradation and the depletion of the natural capital that provides ecosystem goods and services, it is unrealistic growth. The natural capital of LAC is invaluable. The region is host to some of the most biodiverse ecosystems in the world, including the rich freshwater resources throughout the Andes and in the Amazon, the more than 7 percent of the world's coral reefs in the Caribbean, and the endowments of mineral and fossil fuels that have provided rents to surrounding countries for decades. By 2017, around 35.2 percent of the region's area was under agriculture; 46.5 percent was forestland, and the remaining 18.3 percent was dedicated to other uses.[1]

Preserving natural ecosystems is one of the most cost-effective strategies in responding to the threats of climate change. Forests regulate climate, sequester carbon, and sustain the provision of ecological goods and services, which is particularly valuable in the context of increasing climate vulnerabilities. The flow of humidity from the Amazon towards the Andes and the southernmost regions of Brazil and the Southern Cone depends on the flying rivers' phenomenon, which derives from the capacity of winds to transport the humidity collected in well-protected forests. This interplay of ecological factors ultimately affects the water supply of a region in which the degree of urbanization is approaching 80 percent, creating significant challenges to protecting natural capital.

A key strategy for preserving natural wealth involves establishing natural protected areas, including creating national parks or reserves under the control of indigenous or ancestral groups. LAC has the highest percentage of land under protection relative to other world regions (table S2.1). However, the region also shows some of the highest levels of inequality, which could threaten the preservation of natural capital and the provision of ecosystem services.

Inequality can reduce the opportunity to protect natural capital as a critical asset in responding to climate change. First, inequality is associated with the concentration of land for speculation in land markets, which often involves rapid deforestation through fires and timber logging, followed by changes in land use based on cattle ranching and

[1] Data of FAOSTAT (dashboard), Food and Agriculture Organization of the United Nations, Rome, http://faostat3.fao.org/.

short-term crops. This creates incentives for the consolidation of plots, establishing a vicious cycle of environmental degradation and the concentration of property. As it becomes more difficult for poor rural households to find productive arable land because of this concentration, new fronts of deforestation emerge in forested lands, thereby contributing to the cycle.

Table S2.1: Protected areas and income inequality across world regions

	Share of terrestrial protected areas			Gini		
	Mean	Percentile 25	Percentile 75	Mean	Percentile 25	Percentile 75
Africa	15.6	7.5	21.6	43.3	35.5	50.6
Asia	12.1	3.3	18.8	35.5	32.4	41
Europe	21.3	14.4	28	31.8	28.2	35.5
North America	9.4	-	-	37.6		
LAC	20.5	5.7	34.5	46	39.9	53

Source: Data of PovcalNet (online analysis tool) (dashboard), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/ World Development Indicators and PovcalNet; WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/.

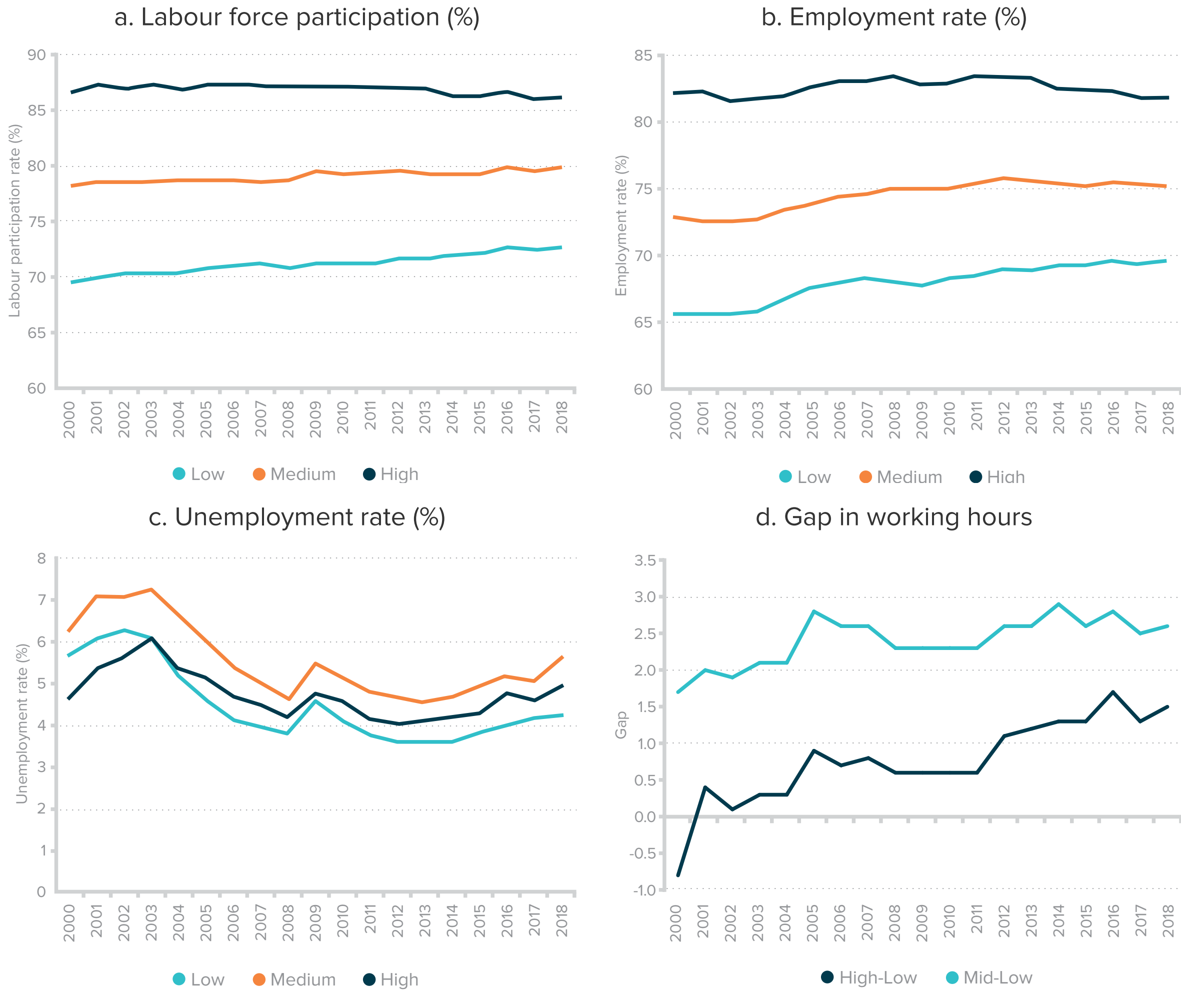
Second, inequality also erodes local social capital and trust by creating social distance among local economic actors. This distance affects the possibility for communities to engage in collective action, which is key to solving the challenges of managing shared natural resources, such as forests, water resources, or fisheries, as canonical examples of common pool resources. In the more distant areas that are institutionally deprived, the governance of natural resources becomes more dependent on the communities' capacity to engage in self-governed solutions. These dynamics make reaching collaborative solutions among local users more costly.

THE PROGRESS TOWARDS EQUALITY IN THE 2000S WAS POSSIBLE THANKS TO ECONOMIC GROWTH AND SOCIAL SPENDING

In the early 2000s, there was some progress in reducing inequality in LAC. This trend was not unique to the region, but part of a larger global phenomenon. Inequality fell significantly in almost 65 percent of the countries in the developing world in the 2000s, and one third experienced declines in the 2010s. However, these changes were more pronounced in Latin America: during the 2000s. The region's Gini fell by 6.3 points compared with the average decline of 3.4 points in the developing world. The similarity of the time patterns suggests the relevance of global phenomena. The rise in commodity prices and the expansion of the world economy are thus two candidates to consider as potential explanatory determinants of distributive changes. However, the more intense inequality drops in Latin America in the 2000s require some additional idiosyncratic explanation. Behind the dynamics of inequality were the effects of economic growth on labour markets and social policies.

The role of the labour market. Gaps between skilled and unskilled workers in labour force participation, employment, hours of work, wages and labour benefits are crucial to understanding the dynamics of income inequality (Rodríguez-Castelán et al. 2017; Acosta et al. 2019). In fact, much of the literature (in Latin America and elsewhere) has focused on analysing skill gaps, particularly the wage gap by educational attainment. Figure S3.1 presents measures to assess trends in the gaps between skilled and unskilled workers. For this purpose, adults ages 25–64 are split into three groups according to educational attainment: low education (less than 9 years), medium education (9–13) and high education (more than 13). The population shares for each group are 41.4 percent, 37.1 percent, and 21.5 percent, respectively. Figure S3.1 shows that the labour force participation of unskilled workers was 17.0 percentage points lower than that of skilled workers in 2000, but only 13.5 percentage points lower in 2018. The skilled versus unskilled employment rate gaps also declined, from 16.8 points in 2000 to 12.3 in 2018. The only exception was the average gap in working hours of the skilled and unskilled, which changed from negative to positive, limiting the reduction of inequality in the region. In the case of unemployment, the overall trend mimics the pattern of income inequality in the region. Also, unemployment has been lower among unskilled relative to skilled workers since the early 2000s.

Figure S3.1: Labour market gaps between skilled and unskilled workers in Latin America



Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.

Figure S3.2 displays the hourly wage gaps between workers with tertiary education and workers with a high school diploma or lower educational attainment.[1] It confirms that the wage gap between skilled and unskilled labour shrank significantly in the 2000s, after having widened in the 1990s and before decelerating in the 2010s.

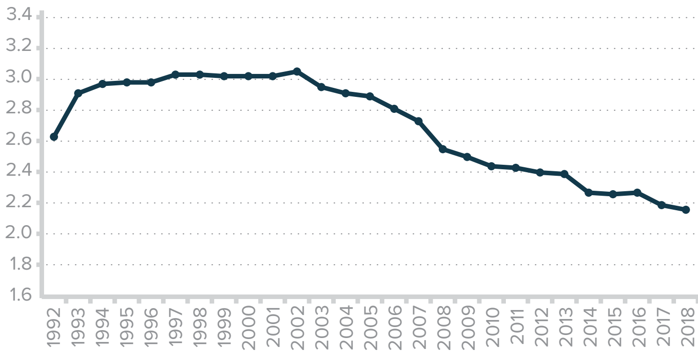
In sum, although still large, the gaps between skilled and unskilled workers decreased in the 2000s while the economy was growing. However, increases in labour force participation and employment among unskilled workers, however, decelerated

[1] The skill premiums, in turn, correspond to weighted averages of the coefficient for skilled workers in a Mincer regression for each country and year in the sample, controlling for years of experience, region of residence and urban/rural status. The results also hold for the unconditional gap.

beginning in 2010, when growth also slowed. The only trend apparently unaffected by growth was the gap between the skilled and unskilled in hours worked, which continues to widen.

Figure S3.2: Wage gaps between skilled and unskilled workers have decreased but remain large

Conditional wage gaps by skill in Latin America, unweighted average, adult workers ages 25–64



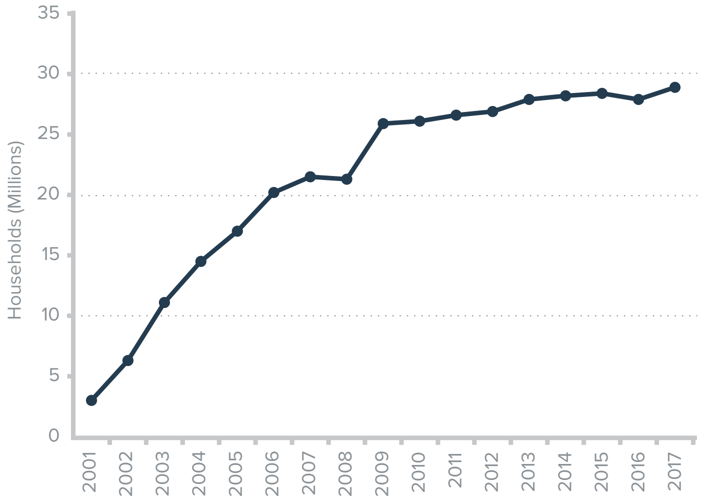
Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.

Social spending. The expansion of social spending is also a key explanatory factor in the reduction of inequality in Latin America during the last two decades. Social expenditure grew 3.4 percent per year between 1993 and 2003, accelerated to 6.4 percent between 2003 and 2012 as a result of the commodities boom, and then fell back to 3.5 percent in the 2010s. There was political will in the region to use the additional revenues resulting from the commodities super-cycle to increase public spending, particularly social spending. In addition to the favourable external shock, reforms in some countries were aimed at improving tax administration. The greater use of progressive taxes—such as income and property taxes—and fewer tax exemptions helped increase tax revenues. It has been suggested that this was a result of the stronger demands of the growing middle class (McLeod and Lustig 2011; Bogliacino and Rojas Lozano 2017).

The expansion of school enrolment possible thanks to increased spending is undoubtedly one of the factors behind the reduction in inequality (see chapter 2). Another key factor is the expansion of conditional cash transfer (CCT) programmes (figure S3.3). The redistributive impact of these programs is related to their targeting on the poor and the fact that they are accounted for as income (in contrast to transfers in kind, such as housing, food, health care, and education). Figure S3.3 shows the sharp increase in coverage of CCTs in the region in the 2000s, followed by slower growth during the 2010s, mirroring the pattern of economic growth. The slowdown in CCT expansion after 2010 explains the stagnation in the distributional impact of these programs after that year (Cord et al. 2014; Gasparini, Cruces, and Tornarolli 2016).

Figure S3.3: The coverage of CCTs in LAC expanded rapidly in the early 2000s

Beneficiaries of conditional cash transfer programs in Latin America



Source: Gasparini 2019; data of Non-contributory Social Protection Programmes Database, United Nations Economic Commission for Latin America and the Caribbean, Santiago, Chile, https://dds.cepal.org/bpsnc/cct.

References

Acosta, Pablo A., Guillermo Cruces, Sebastián Galiani, and Leonardo Carlos Gasparini. 2019. “Educational Upgrading and Returns to Skills in Latin America: Evidence from a Supply-Demand Framework”. *Latin American Economic Review*, 28 (1): 1–20.

Bogliacino, Francesco, and Daniel Rojas Lozano. 2017. “The Evolution of Inequality in Latin America in the 21st Century: What Are the Patterns, Drivers and Causes?” GLO Discussion Paper 57, Global Labor Organization, Maastricht, the Netherlands.

Cord, Louise, Oscar Barriga Cabanillas, Leonardo Lucchetti, Carlos Rodríguez-Castelán, Liliana Do Couto Sousa, and Daniel Valderrama. 2014. “Inequality Stagnation in Latin America in the Aftermath of the Global Financial Crisis”. Policy Research Working Paper 7146, World Bank, Washington, DC.

Gasparini, Leonardo Carlos. 2019. “La Desigualdad en su Laberinto: Hechos y Perspectivas sobre Desigualdad de Ingresos en América Latina” (“Inequality in Its Labyrinth: Facts and Perspectives on Income Inequality in Latin America”). *Boletín Informativo Techint* 357 (June): 23–46.

Gasparini, Leonardo Carlos, and Guillermo Cruces. 2021. “The Changing Picture of Inequality in Latin America: Evidence for Three Decades”. UNDP LAC Working Paper, 1, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Gasparini, Leonardo Carlos, Guillermo Cruces, and Leopoldo Tornarolli. 2016. “Chronicle of a Deceleration Foretold: Income inequality in Latin America in the 2010s.” *Revista de Economía Mundial*, 43 (January): 25-46.

McLeod, Darryl, and Nora Claudia Lustig. 2011. “Inequality and Poverty under Latin America’s New Left Regimes”. Tulane Economics Working Paper 1117 (March), Department of Economics, Tulane University, New Orleans.

Rodríguez-Castelán, Carlos, Luis F. López-Calva, Nora Claudia Lustig, and Daniel Valderrama. 2016. “Understanding the Dynamics of Labor Income Inequality in Latin America”. Policy Research Working Paper 7795, World Bank, Washington, DC.

CHAPTER 2

WHAT PEOPLE THINK ABOUT INEQUALITY AND HOW THEY THINK POLICY SHOULD REACT

- Objective measures of inequality reveal only part of the story. Subjective measures of inequality, related to how people perceive it, are important because people's perceptions of inequality shape their political attitudes and aspirations.
- People in LAC are aware of how unequal the region currently is and think that this is unfair. They perceive unfairness, not only in the income distribution but also in access to public services and legal guarantees.
- People are also frustrated about unfairness in processes—particularly about the outsized political influence of a few powerful groups.
- Perceptions of unfairness and inequality, together with where people think they fall along the income distribution, determine people's preferences for redistributive policies.
- Perceptions of unfairness and inequality can also determine different life paths as they affect people's aspirations. Through their impact on people's effort, aspirations contribute to reshaping future income and income distribution.

2.1. Listening to what people in LAC think and value

The Latin America and Caribbean (LAC) region has made significant progress in recent decades towards middle-income status. While this has coincided with substantial gains in poverty reduction and an expansion of the middle class, the consolidation of society around a middle class is not a near-term prospect in the region. As chapter 1 highlights, income inequality has remained stubbornly high, and economic growth has regularly failed to accelerate. Objective measures of inequality explored in chapter 1—such as the Gini index, income concentration at the top, and patterns of convergence in various capabilities—are important in characterizing the nature of the high-inequality, low-growth trap observed in the region. However, they are only able to reveal one part of a larger story. By complementing this view with subjective measures of inequality, this chapter hopes to deepen our understanding of the trap the region is facing by paying attention to how people know, see, think, and feel about it. This is essential because people's perceptions and their values ultimately shape their behaviour as economic and social actors (what capability sets do individuals consider possible to achieve and how do they go about pursuing them?) and as political citizens (what do individuals believe the government should do and how will they exercise their agency to promote change?). Understanding how people think about inequality in LAC is crucial at the current moment considering the wave of social unrest that swept across the region in late 2019 and early 2020 and continues in some countries in 2021. While the protests have been driven by a range of country-specific concerns, people's grievances over inequality have been among the largest common denominators.

In comparison with objective measures, subjective measures often face greater scrutiny on the grounds of accuracy. However, as this chapter seeks to illustrate, accuracy is elusive in this context. Both objective and subjective measures can suffer from inaccuracy because of the limitations in the data collected. For example, objective indicators of inequality based on household income surveys become inaccurate if the surveys fail to capture information about the richest individuals (see box 1.3). Similarly, subjective measures of inequality from perception surveys are inaccurate if respondents answer the survey questions based on what they think the interviewer may want to hear rather than their own beliefs or if they care about how they are perceived.

Nonetheless, despite their limitations, both types of measures are informative and provide answers to different questions. Subjective measures can help resolve questions about what people think and what they value. They introduce a human perspective on how we understand the challenges in human development. In some cases, subjective measures may coincide with objective measures. In other cases, they may diverge. In neither case is the information necessarily wrong. Each measure simply offers an additional layer of information and deepens the understanding of how inequality is manifested in the region and potential pathways forward.

Subjective data of this sort have rarely been collected systematically in LAC. Thus, there is limited up-to-date evidence on how the dynamics of perceptions of inequality play out across the region. Research in other middle-income regions, such as Eastern Europe and Central Asia, points to how such information can extend the boundaries on how we think about inequality and relevant policy solutions. For example, bringing together evidence from income surveys, perception surveys, and in-depth qualitative research, Cancho et al. (2015) show that people in these regions do not feel that, despite objective indications of economic progress and poverty reduction, their lives are improving. Instead, people think that income polarization, characterized by a shrinking middle class, is increasing. They also think that there is little chance of climbing the ladder given the unfair gaps in access to jobs that offer stable employment and steady earnings (gaps that are supported by a reliance on political connections and traditional gender norms). This research is just one example from a larger and rich body of empirical and theoretical work on perceptions of inequality. It points at how subjective measures can reframe our existing analyses and policy debates and how this may play out in a middle-income context.

Using a novel dataset covering 17 countries in Latin America and collected for this report by Latinobarómetro, this chapter explores how people perceive inequality in the region and what they think should be done about it.[1] It emphasizes perceptions of fairness related to inequality in the distribution of income, access to services, and legal guarantees. It points towards the underlying deficits in process legitimacy in the region in the ways in which policies are determined and implemented to favour the few rather than the many. The chapter also explores people's normative views about the role of government and the responsibility of other members of society in combatting inequality, highlighting the way distributional tensions and political polarization shape potential policy trajectories. It seeks to provide a fresh perspective on how these issues are emerging differently across the region in 2020. Moreover, given how recent they are, the data allow us to understand people perspectives on the current moment in which the region is undergoing unprecedented health and economic crises because of COVID-19—crises that have brought structural inequalities to the forefront of the debate.

The data presented in this chapter point towards the finding that people in LAC know to a large extent how unequal the region is and believe this is unfair. Moreover, they are frustrated about the unfairness not only in outcomes but also in processes, particularly the outsized political influence of a few powerful groups. People want a more equitable society and believe the rich should have a greater responsibility for the poor. However, political ideology and perceptions about their place on the income

[1] See UNDP (2020); Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

distribution can make changing the status quo difficult. These results help explain the micro-foundations behind the high-inequality, low-growth trap in which the region is caught: a concentration of power at the top that distorts policies (see chapter 3 on how this can dampen economic dynamism); large gaps between groups that strain the social fabric (see chapter 4 on how this results in violence or the threat of violence, breaking down social cohesion); and the challenges this poses to effectively enact the policy changes necessary to break out of this vicious cycle (see chapter 5 on the need to overcome the tendency toward fragmentary social protection frameworks).

2.2. What do Latin Americans think about the state of inequality in their countries?

How do we know what people think about inequality? Just like there are many approaches to the objective measurement of inequality (the Gini, the Theil, the 90–10 ratio, and so on), there are also multiple approaches to its subjective measurement. Examples include asking people about the shape of the income or wealth distributions in their society by making them choose among diagrams provided or drawing their own structures on a computer, asking them whether they believe the income gaps in society are too large or asking them where they perceive themselves to be on the income distribution. The data on these and other survey responses have been used to construct multiple indicators and measures, including perceived mean-to-median ratios and perceived Gini indices. Evidence has found that the way these survey questions are framed matters in determining how much inequality people perceive.

Qualitative methods also offer rich insights into the context surrounding people's perceptions of inequality. These methods include the use of life histories (asking informants to map economic turning points in their lives); focus groups (conducting ladder of life exercises to understand group perceptions of relative well-being and the prospects for mobility); or in-depth interviews (asking informants to offer detailed explanations of how they view and value issues in a certain way).

Across different types of measures and different national contexts, empirical studies have found systematic gaps between how unequal people perceive their society to be and how unequal it is. They have also found gaps between where people believe themselves to be on the income distribution and where they are (box 2.1).

Box 2.1: Gaps between perceptions and objective measures of inequality

In January 2020, *CBS This Morning*, a television news programme in the United States, went to a local shopping mall and set up a table with five dining plates, representing the U.S. population broken into five wealth quintiles, and a pumpkin pie, representing the U.S. economic pie of $98 trillion in household wealth.[a] The show's host asked people passing by to place the slices of the pie onto the different plates according to how they thought wealth was distributed among the population. After a range of guesses, the host revealed the distribution of the 10-slice pie according to objective measures. The wealthiest got 9 pieces of the pie, and the upper-middle class and middle class shared the 10th piece. (The former obtained about 80 percent of the piece, and the latter the other 20 percent.) The lower-middle class received a few crumbs, and the poorest were given a bill for the pie because they are usually in debt and thus have negative wealth. None of the public's guesses came close to the correct distribution. The show's pie activity was a re-creation of a study by behaviour insight researchers Michael Norton and Dan Ariely (2011), who find that, in the United States, people vastly underestimate the extent of wealth inequality. They also find that all demographic groups and groups across the political spectrum desire a more equal distribution of wealth.

This study is one example of how people's perceptions may differ from reality with regards to wealth inequality in one country. Across different measures and different national contexts, empirical studies find systematic gaps between how unequal people perceive their society and how unequal it is, with people both overestimating and underestimating inequality. For example, in a cross-country study, Choi (2019) finds that the relative level of a country's perceived Gini does not correspond to its market Gini. Engelhardt and Wagener (2014) likewise find that the perceived mean-to-median ratios are uniformly lower than the objective ones, suggesting a widespread underestimation of inequality. Gimpelson and Treisman (2018) find systematic errors in people's estimates of the level of inequality. Gründler and Köllner (2017) find that perceived income inequality is often lower than objective measures of income inequality. Niehues (2014) finds that, in several countries of the Organisation for Economic Co-operation and Development (OECD), there is little connection between people's subjective evaluation of the income distribution and objective measures of it, with a tendency to overestimate inequality. Page and Goldstein (2016) find that people tend to underestimate inequality but overestimate the median income.

Studies also find systematic bias in people's estimation of their rank within the income distribution. Cruces, Perez-Truglia, and Tetaz (2013) find that in Argentina, individuals consistently over-estimate or under-estimate their rank in the income distribution, with a bias toward ranking themselves in the middle. A bias toward the middle is also found in cross-country studies by Evans and Kelley (2004) and, more recently, by Hoy and Mager (2019). Fernández-Albertos and Kuo (2018) find that, in Spain, citizens cluster themselves in the middle-upper deciles, and Karadja, Mollerstrom, and Seim (2017) find that, in Sweden, people think that they are relatively poorer than they are.

[a] CBS News (2020).

Given that perceptions of inequality aren't necessarily in line with actual levels of inequality, several studies have explored how these perceptions are formed and what factors may lead to these mismatches.

Some authors see the gaps between perceptions and objective measures of inequality as a result of limited information and cognitive bias (box 2.2) in interpreting that information. Cruces, Perez-Truglia, and Tetaz (2013) fundamentally liken this to a problem of statistical inference—in which "individuals observe the income levels of no more than a sub-sample of the population and must then infer the entire distribution from that information." Studies have found that people's actual rank in the income distribution and their relative position in their immediate reference group matters quite a lot in shaping these perceptions.[2] Interestingly, respondents with friends from heterogeneous social backgrounds are less prone to these biases—suggesting that socio-economic segregation may be an important factor in fostering such biases.[3]

Others find that it is not just that individuals are misinformed—but that their personal definitions of inequality may be more complex than those captured by simple objective measures such as the Gini. For example, in a cross-country study on the formation of inequality perceptions, Bussolo et al. (2019, 2) find that "individuals' perceptions of inequality encompass a broader definition of inequality that correlates with poverty or unemployment, as well as with fairness or social mobility, own situation and ideology."

Recent data from the Latinobarómetro public opinion survey provide an opportunity to put a lens on perceptions of inequality as they relate to objective measures of inequality, people's visions of society, and policy preferences in several dimensions that influence demand for redistribution in the region. This is an annual survey carried out in 18 Latin American countries that has been ongoing for 25 years.[4] The results

[2] Cruces, Perez-Truglia, and Tetaz (2013).
[3] Cruces, Perez-Truglia, and Tetaz (2013); Dawtry, Sutton, and Sibley (2015); Windsteiger (2017).
[4] Latinobarómetro does not cover the Caribbean countries.

presented in this chapter are from 2020, a year in which the RHDR team collaborated with the Latinobarómetro team to expand the basic survey questionnaire with additional questions on perceptions of inequality and normative views on how to combat inequality.[5] The results analysed here cover only 17 countries, given that fieldwork in Argentina was not possible during the reporting period because of the COVID-19 pandemic.

[5] The survey went to the field during the last quarter of 2020.

Box 2.2: Cognitive bias

The term cognitive bias was first coined in the early 1970s by Amos Tversky and Daniel Kahneman (1974) to describe systematic ways in which people's thinking may be shaped such that they end up making irrational judgements, decisions, or interpretations. Further study of cognitive bias has shown the sorts of bias that influence people's judgements, as follows:

- Confirmation bias: people misinterpret new information as supporting beliefs they already hold.
- Anchoring bias: people extrapolate based on an initial piece of evidence.
- In-group bias: people show a pattern of preference for others perceived as belonging to the same group.
- Framing: the way information is presented affects people's decisions.
- Self-serving bias: people attribute positive outcomes to skill and blame external events for adverse outcomes.

There are many other forms of cognitive bias that have been identified and studied. People are seldom entirely rational, and a combination of preconceptions and a limited capacity to process all available information leads them to make irrational or mistaken judgements. The impact of cognitive bias on people extends to their views on public policy.

People in LAC know how unequal the income distribution is, and they think that it is unfair

Comparing the objectively measured and the perceived distribution of income one finds that people in LAC generally have a good understanding of how unequal society is. Income distribution is estimated by the share going to each quintile (20 percent) of the population, based on data from the most recent official household surveys. The perceived distribution of income is measured by asking people about the shares they think are going to each quintile. Figure 2.1 illustrates that there is a relatively good correspondence between the objective and perceived distributions. People accurately estimate that the top 20 percent (the top 20) captures over 50 percent of the income.[6] However, people tend to slightly overestimate the income of both the richest and the poorest and slightly underestimate the income of those in the middle and middle-high ranges of the distribution.

Across all countries, people overestimate the income of the bottom 20 percent of the distribution (the bottom 20) (figure 2.2). Thus, in general, people in LAC are not aware of how poor the poor are. This unawareness may dampen people's demand for more redistributive policies. Indeed, research has found that people who overestimate the income of the poorest tend to show less support for redistribution.[7] Also, while on average people also overestimate the income of the top 20, in five countries in the region (Brazil, Colombia, Mexico, Nicaragua and Peru), people underestimate it. They believe the bottom 40 captures more. In these countries, people tend to think the income distribution is more equal than it is and concentration at the top is lower.

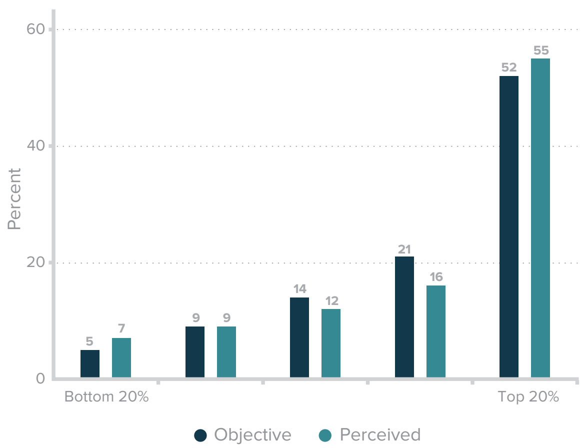
Despite some over- or under-shooting, nonetheless, on average, LAC citizens are to a large extent aware of how unequally income is distributed, and a large share of them (81 percent) believe that income distribution is unfair. The share reaches over 90 percent in Chile, Paraguay and Venezuela (figure 2.3). This widely held belief spilled out onto the streets of Chile in late 2019 and early 2020 when protests over a public transport fare increase rapidly transformed into more general demonstrations over many forms of inequality. In December 2019 and January 2020, around 55 percent of the population agreed that poverty and social inequality represented the issues of greatest concern in the country.[8]

People's perceptions of the fairness of income distribution do not correlate strongly with objective measures of income inequality, such as the Gini index (figure 2.4). For example, while Chile and Mexico exhibit similar levels of inequality based on the Gini, a much larger share of people in Chile believe that the income distribution is unfair. Likewise, although Brazil shows a much higher level of income inequality than

[6] The average response of the survey respondents in LAC is calculated as the simple mean across countries.
[7] Page and Goldstein (2016).
[8] Ipsos (2019).

Figure 2.1: The average Latin American is aware of how unequal her society is

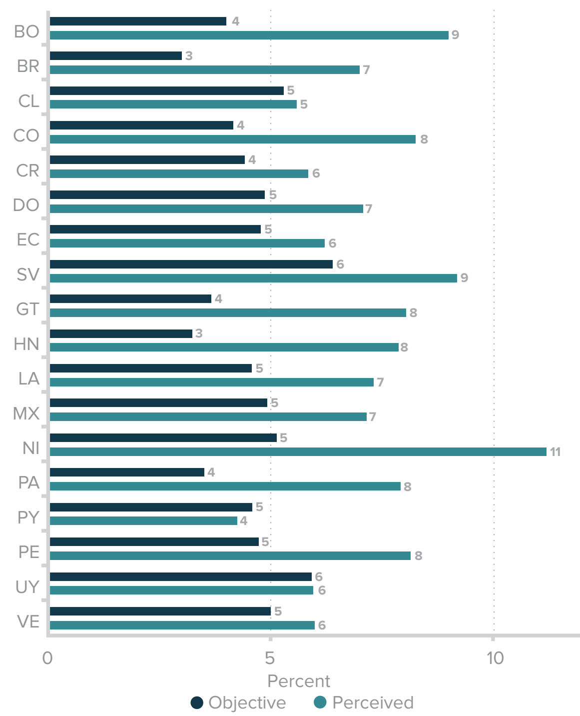
Perceived versus objective income distribution (percentage of income captured by each group)



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp; data on multiple years of CEDLAS (Center for Distributive, Labour, and Social Studies) (dashboard), CEDLAS, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, https://www.cedlas.econo.unlp.edu.ar/wp/en/.

Figure 2.2: In LAC, people do not know how poor the poor actually are

Perceived versus objective income of the bottom 20



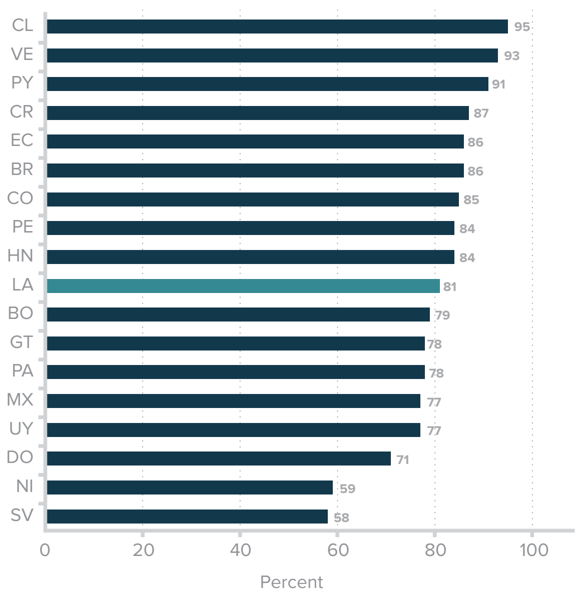
Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp; data on multiple years of CEDLAS (Center for Distributive, Labour, and Social Studies) (dashboard), CEDLAS, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, https://www.cedlas.econo.unlp.edu.ar/wp/en/.

Peru, a similar share of people in both countries think that income distribution is unfair. This weak correspondence between an objective measure of inequality and the perception of its fairness suggests that there are issues related to how people feel about the broader economic or political system that creates and perpetuates conditions of income inequality that are not captured in objective indicators. For this same reason, perceptions of fairness are more correlated with perceived than with objective inequality. Those who perceive the income distribution as highly unequal are more likely to see unfairness than the average person.[9]

[9] To assign people to groups according to how unequal they perceive their country's income distribution to be, the ratio of the income shares they assign to the top 20 and the bottom 20 are calculated. For example, a person who assigned a share of 45 percent of income to the top 20 and one of 15 percent to the bottom 20 would have a ratio equal to 3 (45/15). People in each country are ranked according to this ratio, from those with the lowest perception of inequality to those with the highest.

Figure 2.3: Most people in all LAC countries think that income distribution in society is unfair

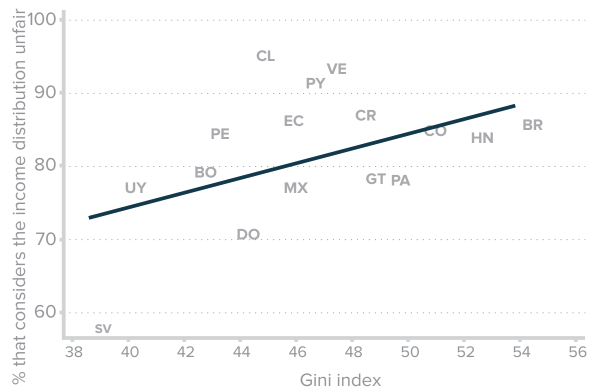
Share of respondents who think income distribution is unfair



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

Figure 2.4: In countries at similar measures of income inequality, perceptions on fairness about the income distribution differ

Gini index (x-axis) and share of respondents who think the income distribution is unfair (y-axis)



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp; data of WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/.

Importantly, perceptions of unfairness are often found to be more important drivers of behaviour and choices than perceptions of inequality (see box 2.3).

People are also concerned about inequality in access to basic public services and guaranteed rights

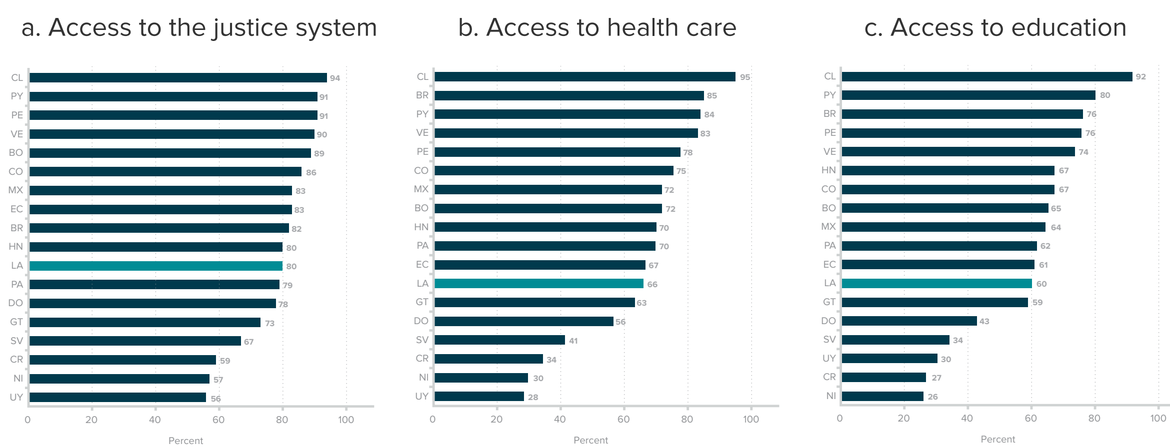
Not only do people in LAC tend to think that the distribution of income is unfair, but they also think that access to basic public services is unfair. Respectively, 80 percent, 66 percent and 60 percent of people in LAC believe that access to the justice system, access to health care, and access to education are unfair (figure 2.5). Chile consistently ranks the highest; there, more than 90 percent of the population considers access to services unfair. Nonetheless, the provision of these services is arguably better in Chile than in many other countries included in evaluations of coverage and quality based on objective indicators. The perception data here must be capturing an aspect of respondents' expectations about what fair access means to them that is failing to be met by the current provision.

Box 2.3: Perceptions of fairness and demand for redistribution

While perceptions of inequality are essentially a positive expression of how unequal people think the distribution is, perceptions of fairness bring in a more normative perspective to bear on the issue. Although people may think the income distribution is unequal, if they feel that it is still fair, they may not demand redistribution. This distinction is highlighted in the research of Starmans, Sheskin, and Bloom (2017), who show that humans naturally favour fair distributions, not equal ones, and that, when fairness and equality clash, people prefer fair inequality over unfair equality. Reyes and Gasparini (2017) find that in Latin America, perceptions of unfairness in income distribution are correlated with individual characteristics such as being older, more educated, unemployed, and being left-wing. However, they also find that the widespread perception of unfairness in the region is closely correlated with relative measures of actual income inequality. Roth and Wohlfart (2018) find that people's experiences of inequality also matter for their perceptions of fairness and subsequently for their demand for redistribution —with people having experienced higher inequality showing less support for redistribution. Ahrens (2019) argues that a critical link between perceptions of fairness and redistribution comes from whether or not people "consider their income and incomes, in general, to be disproportional to relevant exchanged inputs"—with supporting evidence from 39 countries. In their theoretical note, Iacono and Ranaldi (2019) push us to understand better the links between the nature of inequality aversion and demand for redistribution. They ask, "to what extent does the demand for redistribution depend on the degree of inequality aversion, and is the inequality aversion concerning the top incomes in society or concerning the poorest that plays a larger role"?

Figure 2.5: There is widespread concern regarding fair access to basic public services

Share of respondents who think access to the service is unfair

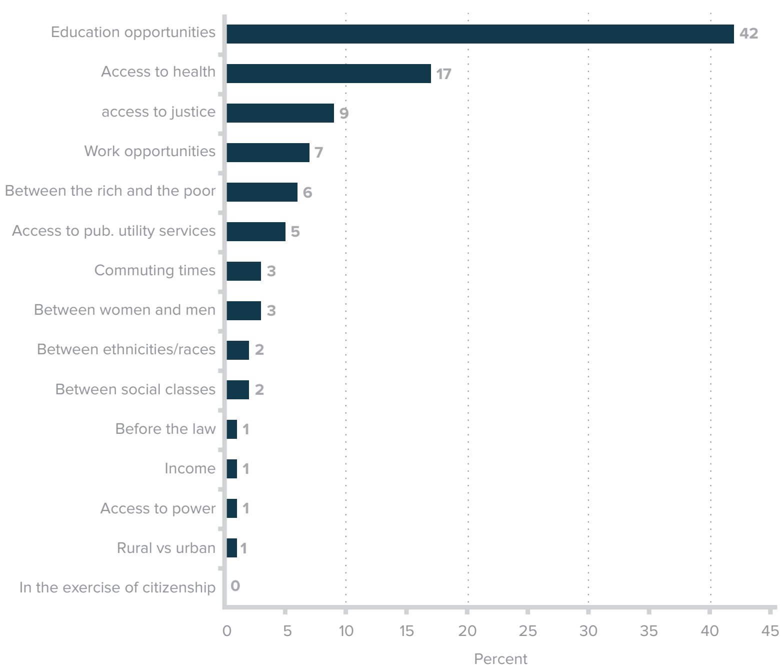


Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

People in the region rank the poor access to education opportunities, poor access to health care services, and poor access to the justice system as the worst expressions of inequality in their countries. Access to education was ranked the worst by 42 percent of respondents (figure 2.6). As chapter 1 shows, despite solid progress in expanding education coverage, there are still gaps in access, particularly at more advanced levels, and large inequalities associated with education quality. Yet, both basic and advanced educational attainment among all people is crucial in the transition to more equal societies and more dynamic economies and thus a fundamental lever for removing the vicious cycle of high inequality and low growth. Moreover, the data suggest that people in LAC believe that the inequality gap in society is worse between the rich and poor than between other demographic groups, such as between women and men, ethnicities, social classes, and rural and urban residents, even though many of these groups overlap (urban dwellers tend to be more well educated and less poor than rural residents, for example), and people tend to face multiple barriers to advancement associated with their demographic profile.

Figure 2.6: People in LAC consider lack of educational opportunities the worst expression of inequality

Share of respondents indicating the expression of inequality as the worst (first choice)

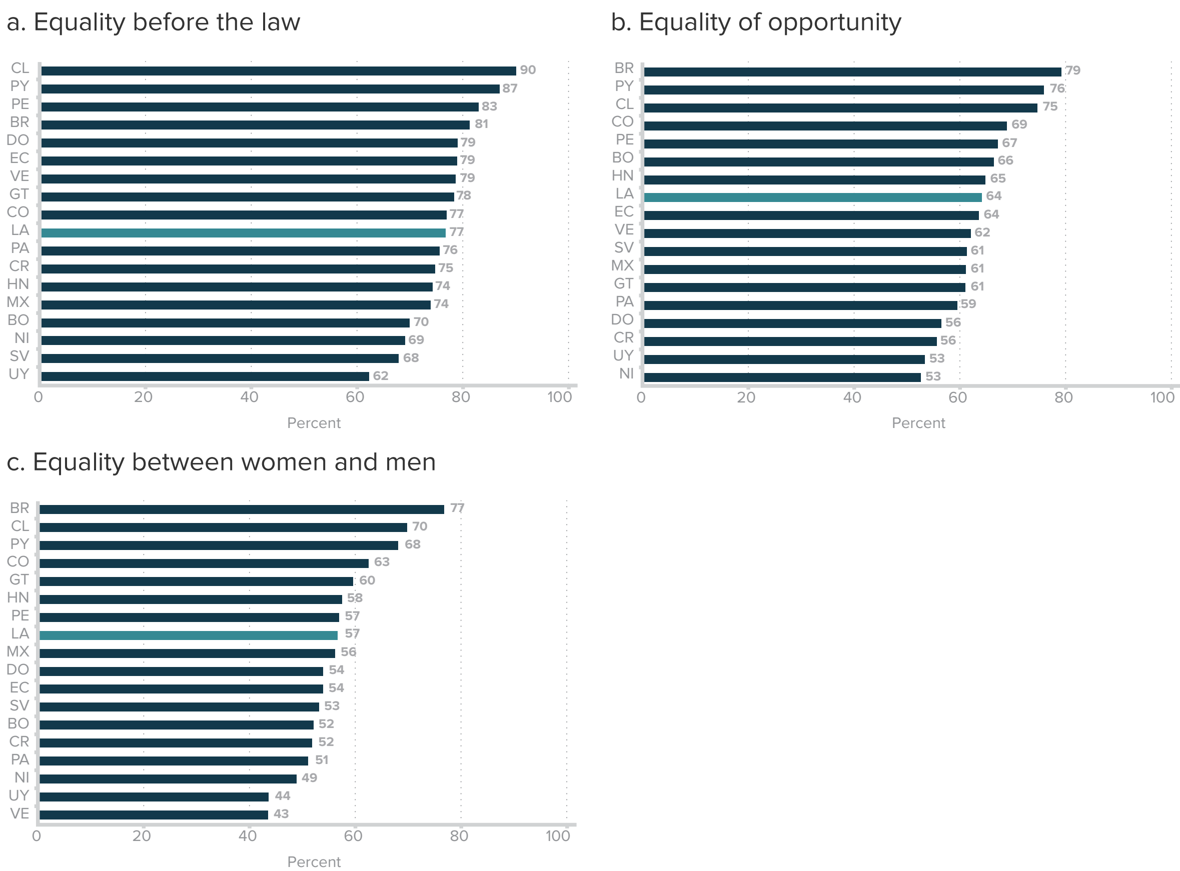


Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

At a fundamental level, people in LAC question the degree to which certain rights and opportunities are guaranteed equally (figure 2.7). Despite the ideal that equal treatment before the law is a basic right of all citizens, more than three quarters of the population in LAC do not believe that equality before the law is guaranteed. Similarly, despite the ideal of equal access to opportunity regardless of one's circumstances at birth and principles of non-discrimination based on personal characteristics, such as gender, 64 percent of people in LAC do not believe that equality of opportunity is guaranteed, and 57 percent do not believe that equality between women and men is guaranteed. There is some variation in this latter perception. Thus, a larger share of women (61 percent) than men (52 percent) are doubtful about the effective guarantee of gender equality.

Figure 2.7: Most people in LAC doubt that equal rights and opportunities are protected in their countries

Share of the population that thinks the following types of rights and opportunities are not guaranteed

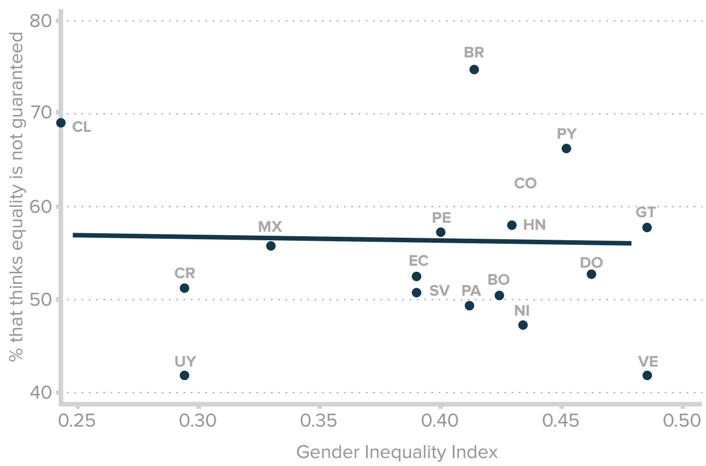


Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

The shares of people who think that gender equality is or is not properly guaranteed do not correspond with objective measures of outcomes in gender equality, as shown in figure 2.8, which compares people's perceptions about guarantees of equality between men and women, and the Gender Inequality Index. Countries in the bottom left-hand corner of the plot, such as Uruguay, exhibit both better gender equality outcomes and a greater share of people believing in the guarantee of equality. Countries in the upper right-hand corner, such as Brazil, have both worse gender equality outcomes and a greater share of people doubting the guarantee of equality. However, most countries are scattered throughout the plot without a clear relationship. Chile stands out as an exception because of the widespread belief in inequality related to process, although the country fares relatively well in outcomes.

Figure 2.8: There is no clear relationship between objective measures of gender equality outcomes and people's perceptions about the guarantee of gender equality

The Gender Inequality Index (x-axis) and the share of respondents who think equality between women and men is not guaranteed (y-axis)



Source: GII (Gender Inequality Index) (dashboard), United Nations Development Programme, New York, http://hdr.undp.org/en/content/gender-inequality-index-gii; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

Whether people believe they are winning or losing affects how fair they think the system is

Whether or not people think the distribution of income or the access to public services is unfair differs depending on where they think they are located along the income distribution (figure 2.9, panel a). People who believe they belong in the top 20 (those who think they are winning) are less likely than those who believe they belong in the bottom 20 (those who think they are losing) to see these outcomes as unfair. They are also less likely to doubt the effective guarantee of equality before the law, equality of opportunity, and equality between men and women (figure 2.9, panel b). Thus, those who think they are benefiting are less likely to see problems with inequitable systems. While the dataset does not allow a deeper exploration of the reasons, one hypothesis is that people who benefit from unfair systems do not wish to believe they have won an advantage unfairly. Instead, they may wish to believe that, for example, they have earned a high-paying job or entrance to an elite university only because of their superior intelligence and hard work. This myth of meritocracy can be damaging to social solidarity and undermine political support for policies that would otherwise advance the common good. In his 2020 book, political philosopher Michael Sandel refers to this as the tyranny of merit. Another hypothesis may be that people at the top do not perceive the unfairness of a process. For instance, if certain individuals have never faced discrimination within the justice system because of their position of privilege, they may not have any idea that others are systematically treated differently. Systems of inequality can be upheld and deepened through many such invisible ways that allow advantages to some but not others.

Figure 2.9: A system may be considered fair by those who believe they are in the top 20, but unfair by those who believe they are in the bottom 20

a. Share of respondents who think a system is unfair, by perceived place in the income distribution

b. Share of respondents who think equality is not guaranteed, by perceived place in the income distribution

Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

However, the perception data suggest that most people in LAC do not think they are winning or losing. Indeed, people in LAC tend to believe they are located somewhere in the middle of the income distribution. The largest share of people (39 percent) believe they are firmly part of the middle 20 (figure 2.10, panel a).[10] This bias towards the middle is consistent with country-level and cross-country studies on people's estimation of their rank within the income distribution.[11] Figure 2.10, panel b, shows where the average individual in each income quintile thinks they are located along

[10] Latinobarómetro data are representative nationally in each country, but do not perfectly capture all income groups. The three bottom quintiles are overrepresented in the sampling, particularly the poorest quintile, and the top two quintiles are underrepresented. For this reason, the dark blue columns in panel a are not all equal to 20 percent.

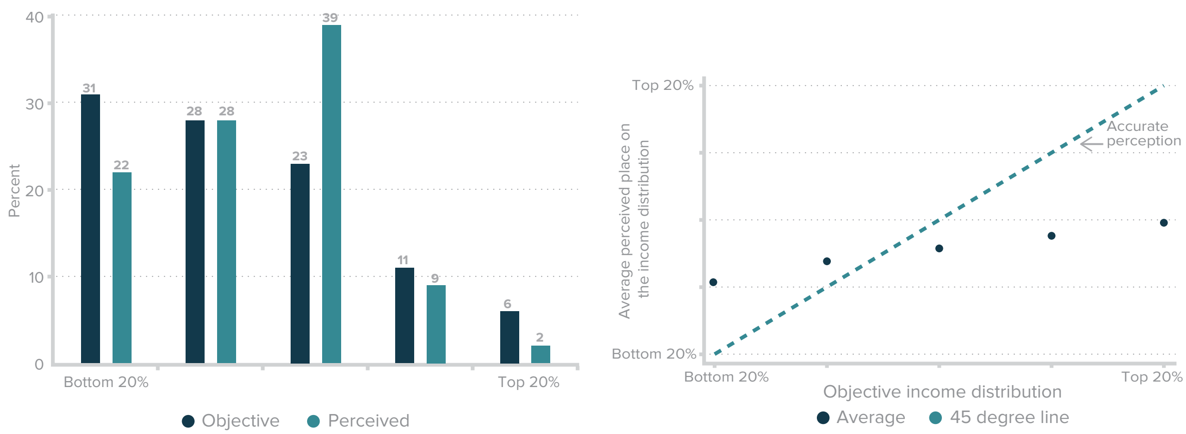
[11] Evans and Kelley (2004); Cruces, Perez-Truglia, and Tetaz (2013); Fernández-Albertos and Kuo (2018); Hoy and Mager (2019).

the income distribution.[12] As panel b shows, people in the bottom two quintiles (the bottom 40) tend to think they are a bit more well off than they really are, relative to the rest of the population, and people in the top three quintiles tend to think that they are poorer. The distance between the dots (which indicate the perceived locations of respondents in the distribution) and the 45-degree line (the objective location of respondents in the distribution) signals the extent of the average mismatch. This distance is particularly pronounced among the bottom 20 and the top 20. There may be reasons why people might overreport or underreport their incomes, particularly at the tails of the distribution. For example, the poor might wish to hide their poverty out of shame or a desire to maintain dignity, and the rich might wish to hide their wealth to protect their own security or control their social image.

Figure 2.10: Most people in LAC think they belong in the middle of the income distribution

a. Respondents by the income quintile in which they think they are located and in which they are located

b. Average mismatch between objective and perceived location along the income distribution



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

The fact that people believe groups in the middle-upper range of the distribution capture less than they really do is most interesting when considered in the light of people's perceptions about their place on the income distribution.

[12] In 2020, UNDP included a question in the Latinobarómetro survey about where respondents would locate themselves along the income distribution in their countries. Respondents were offered a choice among five income ranges built by CEDLAS using the latest national household surveys available on each country. See CEDLAS (Center for Distributive, Labour, and Social Studies) (dashboard), CEDLAS, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, https://www.cedlas.econo.unlp.edu.ar/wp/en/.

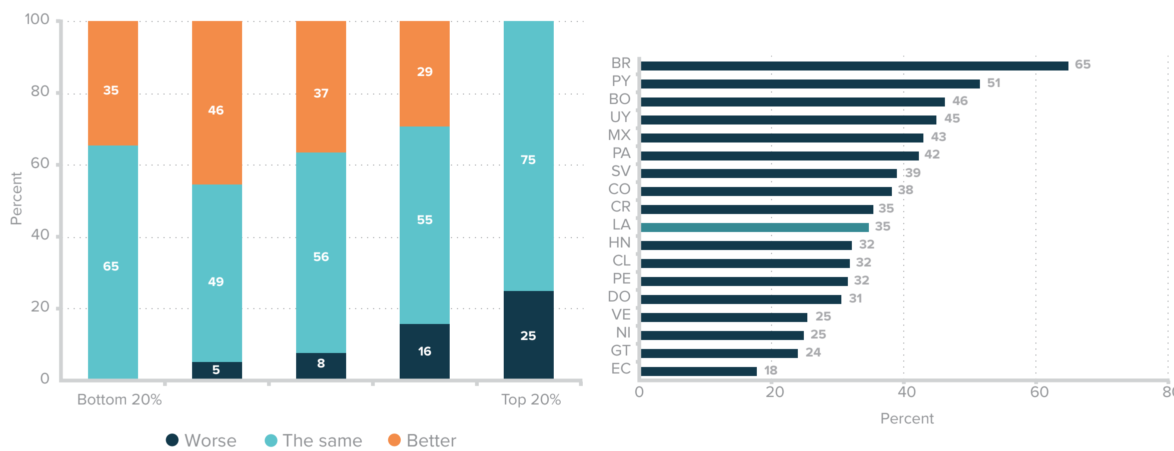
People are concerned about the transmission of inequality across generations

The data suggest that people are not only worried about the structural inequalities that hold them back today, but they are also worried about how these gaps might prevent the next generation from achieving higher levels of well-being relative to their parents. A question on the survey asks respondents about their expectations for their children's future. Specifically, the question asks respondents to indicate at which place along the income distribution they expect their descendants to be located. Figure 2.11, panel a, shows that, among those who perceive themselves in the bottom 20, only 35 percent expect their children to be upwardly mobile and to exit this quintile. Figure 2.11, panel b, shows the same information, but by country. There is substantial cross-country variation. Respondents in Ecuador, Guatemala, Nicaragua, and Venezuela exhibit the least expectation of upward mobility among the next generation. Respondents in Brazil stand out because 65 percent of the corresponding group expect a brighter future among their offspring, followed at a distance by respondents in Paraguay. The limited expectations of mobility among the bottom 20 across the region hold across all demographic groups distinguished by sex, educational attainment, ethnicity, and age). The only exception to this pattern is youth (the 16–25 age group). The poorest among them are more hopeful: 40 percent expect their children to fare better than they have.

Figure 2.11: The majority of those who think they are in the bottom 20 have low expectations about prospects for upward mobility for their children

a. Respondents expecting their children to fare better, worse, or the same, by perceived quintile

b. Respondents in the perceived bottom 20 who expect their children to fare better, by country



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

At the regional level, however, the majority of the poorest expect that their descendants will remain as poor as they are. The hope for mobility is highest among the next quintile and then decreases according to perceived income. A share of the population also expects their descendants to do worse, which increases with perceived income—a quarter of the top 20 falls into this category. Perceptions of limited mobility are aligned with objective measures of intergenerational educational mobility (see chapter 1). Both objective and subjective measures suggest that the promise of a better future will remain elusive for many in the region.

Low expectations of intergenerational social mobility are not merely reflections of an unequal system but may also play a role in recreating the same inequalities in the future. One key channel through which this occurs is aspirations. Aspirations can play a powerful role in shaping the ability of people to pursue lives that they have reason to value and are, for that reason, a critical link in the transmission of inequality over time.[13] Aspirations are built around the universe of possible futures that one may envision and the subset of these futures that seem achievable. Thus, aspirations are shaped by the inequalities revealed both through objective measures (particularly, the degree of stratification or polarization in society) and perceptions (especially if the perceptions are informed by limited prospects for upward mobility or unfair processes of advancement). Because the capacity to aspire is fundamentally forward-looking, it is influenced by the inequality and prosperity currently in society and affects future outcomes in inequality and prosperity, playing an unseen but not unimportant role in powering the high-inequality, low-growth trap (box 2.4).

People's concerns about inequality point to a larger frustration about who policies work for

Despite a general sense of unfairness about the income distribution, LAC people do not necessarily believe that inequality is, *per se*, morally wrong. While more Latin Americans consider inequality "totally unacceptable" (27 percent) than "totally acceptable" (9 percent), the beliefs of the majority in the region fall somewhere in the middle of the spectrum (figure 2.12).

Instead, people's perceptions point to a broader discontent with the underlying issue of the process by which inequality is created and sustained. Generally, this is a problem of governance and, in particular, of how inequality undermines the effectiveness of government by distorting policies, which seem to function well for the haves, but not for the have-nots. Both subjective and objective measures indicate that resources are concentrated largely at the top. It is therefore clear that the haves are the few, while the have-nots are the many. Latin Americans are deeply aware of how much these imbalances are undermining their democratic systems. People are, thus, frustrated with the quality of the democratic process, which systematically recreates and reinforces the inequality of outcomes more than with inequality itself.

---

[13] Sen (1999); UNDP (2010).

Box 2.4: Aspirations, inequality and growth

As the anthropologist Arjun Appadurai famously observed, the capacity to aspire is not evenly distributed among the members of society. It is skewed in favour of the wealthy. Using a navigational metaphor, Appadurai (2004, p. 69) argues that if an individual's map of aspirations consists "of a dense combination of nodes and pathways," then "relative poverty means a smaller number of aspirational nodes and a thinner, weaker sense of the pathways from concrete wants to intermediate contexts to general norms and back again." Thus, people living in situations of poverty have more limited access to the types of experiential inputs required to build robust aspirational maps. Moreover, it is not only poverty that shapes the limits of this navigational metacapacity but also the degree of stratification in society, as the *Regional Human Development Report for Latin America and the Caribbean 2010* (UNDP 2010) highlights in its treatment of aspirations and intergenerational inequality. Where stratification among people is substantial, people may have fewer aspirational windows. Their less extensive exposure to new possibilities and the insurmountable aspirational gaps they face in their efforts to reach the possibilities available within the next stratified level of achievement contribute to narrowing their aspirations.[a]

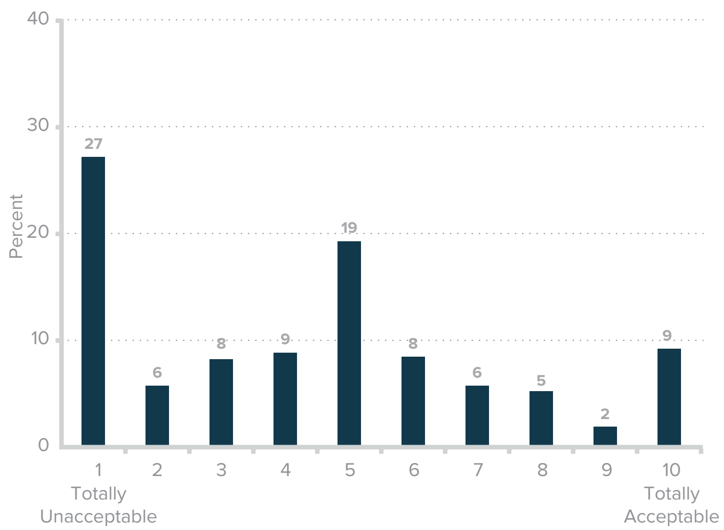
Research unpacking and modelling the role of aspirations in driving development has grown in recent years. Of particular relevance to this report is understanding the link among aspirations, inequality and growth from a dynamic perspective. Indeed, their incomes, their positions along the income distribution and, critically, their perceptions of their ability to advance along the distribution matter to individuals in forming their aspirations. Yet, aspirations also reshape future income and income distribution through their dynamic impact on the effort people choose to exert to realize their aspirations, the types of investment decisions they make for themselves and their offspring, and the broader trends in the preferences of society and in politics and policy.

In the individual sphere, at the psychological level, all people face a behavioural bias in the failure to recognize that not only do aspirations determine the effort they choose to dedicate to achieving their aspirations, but the effort also determines how high people set their aspirations. Dalton, Ghosal, and Mani (2016) explore how the incomes of individuals interact with the determination of aspirations and effort. They find that the constraints of poverty can render the poor more vulnerable than the rich to this aspirational failure. The failure to aspire may create a unique behavioural poverty trap and contribute to a society where the poor remain poor while the rich become richer. In the social sphere, socio-economic outcomes matter in establishing how high individuals set their aspirations and how much effort they choose to invest in developing their own or their children's human capital. In aggregate, this ultimately fixes the future socio-economic outcomes. Genicot and Ray (2017) explore the trajectory of aspirations, income, and income distribution within a dynamic model. They find that a central factor driving this dynamic is the gap between people's aspirations and their current living standards. (If the gap is moderate, it is likely to promote more investment, but, if it is large, it is likely to induce frustration.) In the political sphere, aspirations can shape the evolution of an economy dynamically through people's preferences and social attitudes towards issues such as redistributive policies. Besley (2017, p. 3) models how aspirations matter dynamically for the evolution of income distribution between and within countries. He finds that countries can become "locked into a low aspirations' culture' which inhibits development." He states that "this is due to the interplay between preferences and politics which creates a feedback loop which in turn affects a society's equilibrium trajectory."

[a] UNDP (2010); Ray (2016); Genicot and Ray (2017).

Figure 2.12. On inequality, the majority of people are in the middle of the unacceptable-acceptable spectrum

Share of respondents who believe inequality is acceptable on a scale of 1 to 10

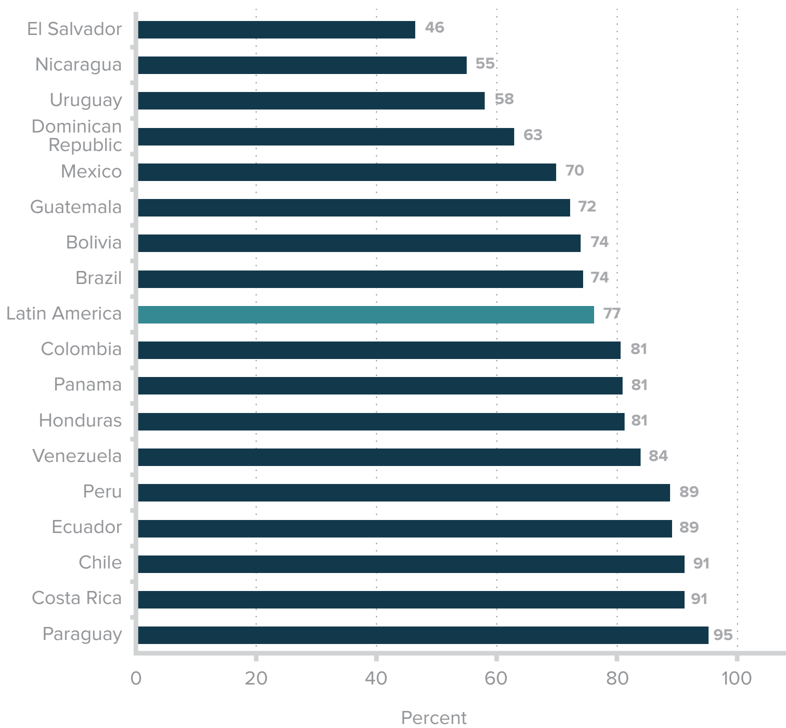


Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

There is an overwhelming agreement among Latin Americans that their countries are governed in the interests of a few powerful groups, and not for the greater good of all (figure 2.13). In 2020, 77 percent of people in the region believed this to be so, and the share reached 95 percent in Paraguay and 91 percent in Chile and Costa Rica.

Figure 2.13. Latin Americans believe their countries are governed in the interests of a few powerful groups

Share of respondents who believe their countries are governed in the interests of a few



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

Those groups that possess the power to influence political decision-making directly may be described as elites. From this perspective, one may think one of the key forces propelling the high-inequality low-growth trap in LAC is how the concentration of power in the hands of certain elites has distorted the efficacy of policies to promote greater cumulative welfare gains as well as greater welfare gains across the distribution. Elites is a neutral concept, however.[14] Depending on how they use their influence, elites may advance or hinder the achievement of development goals.

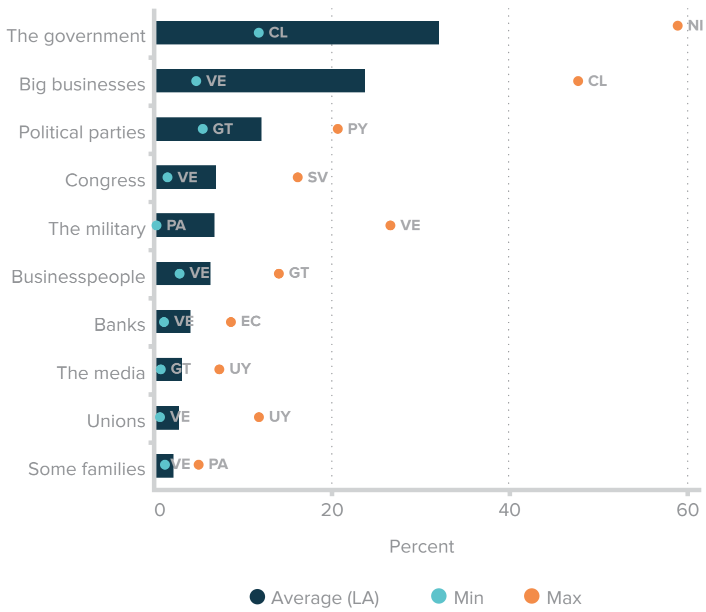
The Latinobarómetro questionnaire asked respondents to indicate who they think holds the most power in their countries by selecting one among the following

[14] Reyes and Gasparini (2017).

groups: big business, the military, unions, the media, banks, political parties, the government, parliament, businesspeople and a few families. In LAC, 32 percent of the respondents believe the government has the most influence, and 24 percent believe it is big business (figure 2.14). There is, however, significant variation in the frequency of responses singling out the most powerful groups, and significant shares of the population choose other groups.

Figure 2.14: Many Latin Americans think the government and big business are the most powerful groups

Share of respondents that choose each group as the most powerful (first choice)

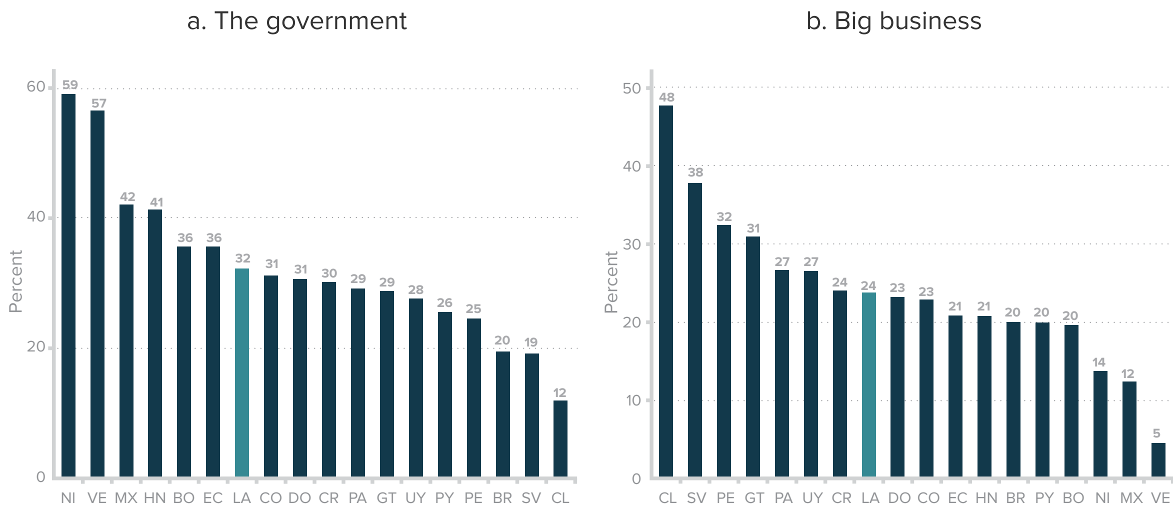


Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

There is enormous variation across countries in singling out the government and big business as the most influential, but also a striking regularity: government is not perceived as powerful as frequently in countries where big business is thought to be the most powerful, and vice-versa (figure 2.15). (See chapter 3 on the political power of business and the role business has played in promoting or undermining progress towards growth and equality.)

Figure 2.15: Government is often not considered powerful when big business is regarded as the most powerful

Share of respondents that choose each group as the most powerful (first choice)



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

2.3. How do Latin Americans think inequality should change?

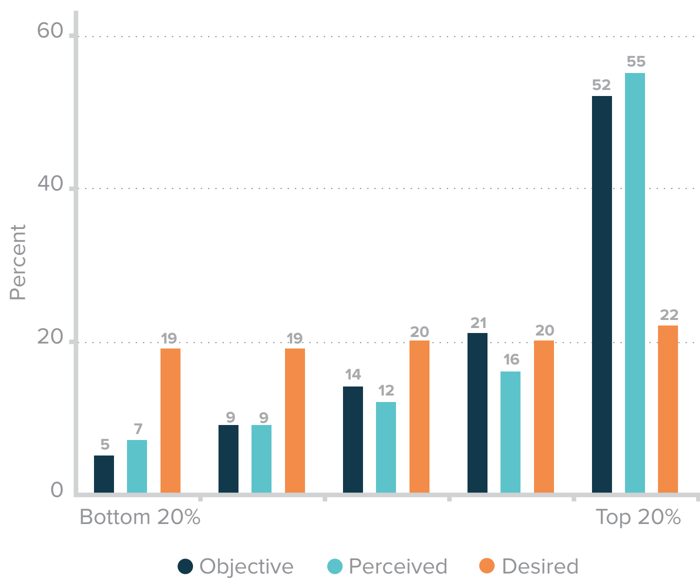
While people in LAC believe the current distribution of income in their countries is unfair, how do they think it should look? Figure 2.16 shows the distribution of income based on objective measures, people's perceptions of the distribution based on subjective measures, and the survey responses on the most desirable distribution. Figure 2.1 compares the first two. Now, the view is added on what people say they value. The average Latin American across the region desires a distribution of income that is more equitable than the distributions indicated by the objective or subjective measures.

People agree: reaching a more equitable society will require greater accountability among the rich

What should societies do to achieve this more equitable world? Public policies that redistribute resources are based on two key elements: raising funds through taxation and spending funds through public programmes, services, and benefits. Therefore, the extent to which these policies combat inequality depends on who is paying (and how much) and who is receiving (and how much). These are normative matters and are contingent on societal values. Moreover, these issues are deeply intertwined with distributional tensions or the strength of the threads holding together the fabric of the social contract. The Latinobarómetro survey includes a few questions targeted specifically at understanding people's attitudes towards the progressivity of taxation and social spending. The way people perceive inequality is a crucial factor in informing people's attitudes towards redistribution (box 2.5).

Figure 2.16: Latin Americans want a more equitable distribution of income

Objective, subjective, and desired distribution of income (percent of income captured by each group)



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp; data on multiple years of CEDLAS (Center for Distributive, Labour, and Social Studies) (dashboard), CEDLAS, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, https://www.cedlas.econo.unlp.edu.ar/wp/en/.

Latin Americans agree that a household's responsibility to pay taxes rises linearly with household income (figure 2.17). While a small share (7 percent) of the population believes no one should have to pay taxes, one third of Latin Americans think everyone should pay, regardless of their place on the income distribution. Indeed, a majority approves of taxing the top 60, and four fifths agree that the top 20 should pay taxes. This finding that a majority thinks the top 60 should pay taxes is interesting in a region where large population segments are untouched by personal income taxes, often including those among the top 20. Asked about how progressive taxes should be, most Latin Americans agree that the tax rate should be higher for those who earn more (figure 2.18). However, among those who believe they are located among the top 20 (those who likely expect to lose in a more progressive tax system), 66 percent agree that the tax rate should be higher among those who earn more; this compares with 76 percent among those who believe they are located in the bottom 20 (those who likely expect to win in a more progressive tax system).

Box 2.5: How perceptions of inequality matter in shaping the demand for redistribution

Scholars have been exploring the links between inequality and people's demand for redistribution for many years. Much of the research builds on early theoretical models.[a] These models propose that, in a democratic economy of self-interested, consumption-maximizing individuals, where a majority vote determines the tax rate, "the equilibrium tax rate depends on the degree of (objective) inequality."[b] The empirical tests of this model, however, have led to mixed results, including supporting, contradictory, and inconclusive evidence.[c] Many researchers have extended and revised the approach by introducing alternative motivations behind people's preferences for redistribution, such as personal history, cultural values, political indoctrination, family structure, and perceptions of fairness.[d] A growing body of empirical work challenges this approach further by adding perceptions of inequality as a factor influencing people's demands for redistribution.

Across a wide range of countries, many studies have found evidence suggesting that the demand for redistribution is closely associated with how unequal individuals perceive their society to be, often much more than with how unequal their society is according to objective measures.[e] More specifically, Page and Goldstein (2016) find that people who overestimate the income level of the poorest tend to show lower support for redistribution. Windsteiger (2017) also finds that income segregation in society has a negative mitigating effect on the demand for redistribution through its impact on perceptions of inequality.

Experimental data also broadly supports the link between perceptions of inequality and demand for redistribution. Several studies have tested the impact of information on preferences for redistribution. They have found that when people's incorrect perceptions of their own rank in the income distribution are updated with correct information, this has a significant impact on changing their preferences for redistribution. Brown-Iannuzzi et al. (2015) find both correlational and experimental evidence that perceptions of relative status can cause changes in political preferences regarding redistribution. Cruces, Perez-Truglia, and Tetaz (2013) find that in Argentina, people who learn that they are relatively poorer than they thought tended to demand more redistribution. Karadja, Mollerstrom, and Seim (2017) find that in Sweden, people who learn that they are relatively richer than they thought tended to demand less redistribution. Fernández-Albertos and Kuo (2018) find that in Spain, people who learn that they are relatively poorer than they thought and people who learn that they are in the bottom quintile of the distribution tend to increase their support for tax progressivity. In contrast, Hoy and Mager (2019) find cross-country evidence that people who learn that they are relatively poorer than they thought are not more supportive of redistribution. The authors argue that this is driven by a "benchmark" effect, in which people use "their living standard as a 'benchmark' for what they consider acceptable for others."

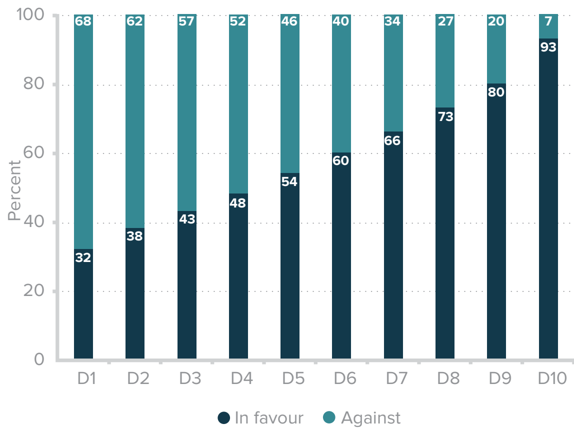
Other experimental studies have explored the effects of providing information about the correct levels of overall inequality in society (as opposed to one's rank in the distribution) as well as about the levels of inequality in other societies. Regarding the former, Kuziemko et al. (2015) find that, in the United States, if people are provided with accurate information about actual levels of inequality, their concern about inequality increases, but their preferences for tax or transfer policies only change slightly—except the estate tax, for which support more than doubles. In testing mechanisms, the authors find that the low elasticity between perceptions of inequality and demand for redistribution is likely due to the public's inability to connect their concerns of inequality with policies designed to reduce them—an idea also presented by Bartels (2005). In a different experimental study, Pellicer, Piraino, and Wegner (2019) test the impact of information on "the inevitability of inequality" and find that, in South Africa, learning information about levels of inequality in other countries leads people to update their views about whether such high levels of inequality are inevitable and ultimately increases support for redistribution.

---

[a] Romer (1975); Meltzer and Richard (1981).
[b] Bussolo et al. (2019, p. 3).
[c] Lind (2005).
[d] See Alesina and Giuliano (2011) for a summary.
[e] Kuhn (2009); Niehues (2014); Tay (2015); Page and Goldstein (2016); Gründler and Köllner (2017); Gimpelson and Treisman (2018); Kim et al. (2018); Bussolo et al. (2019); Bobzien (2020); Choi (2019).

Figure 2.17: Latin Americans agree that household's responsibility to pay taxes rises with income

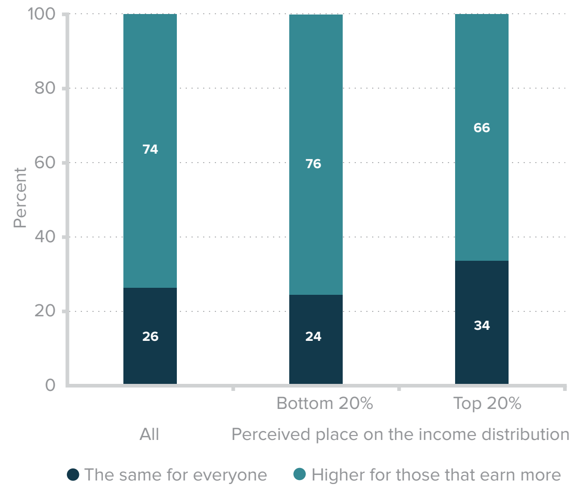
By income decile, which households should have to pay taxes in your country?



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

Figure 2.18: Most Latin Americans think the tax rate should be higher for those who earn more

Share of respondents who agree with each statement

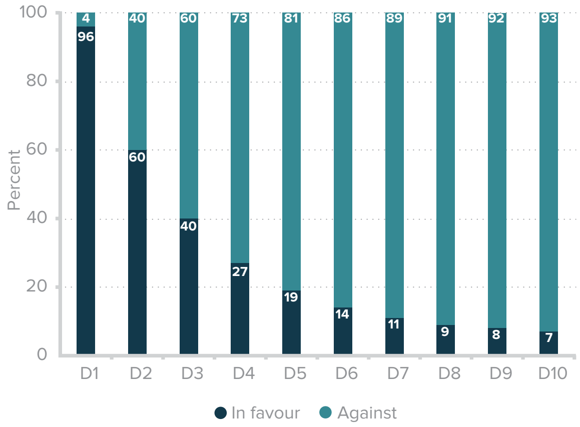


Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

Latin Americans generally agree that a household's right to receive support from the government in free or subsidized goods or services declines steeply with the level of income (figure 2.19). The majority of the population agrees that those in the bottom 20 should receive support: 96 percent agree that the poorest decile should receive support, and 60 percent agree that the second poorest decile should also receive support. However, less than half the population believe that any other decile should receive support. This unwillingness to support social assistance programs targeting people who are not among the extremely poor reflects a history of fragmented social protection that has left many in the region without an adequate safety net. While much of the population in LAC has managed to escape extreme poverty in recent decades, many in the bottom 40 or even the lower 50 are still relatively poor or remain at risk of falling back into poverty (see chapter 1). Moreover, asked whether support should be free of cost or partially subsidized, Latin Americans are generally divided. Curiously, however, the differences in views between those who perceive themselves among the richest and the poorest are not large (figure 2.20). This suggests that, where practicable, the provision of partial subsidies in place of cost-free support would likely not be a highly controversial approach for fiscally constrained states seeking to expand the reach of safety nets to more income groups.

Figure 2.19: Latin Americans agree that a household's right to government support declines with income

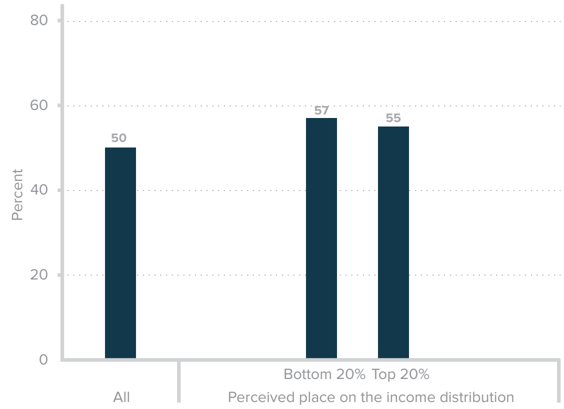
By income decile, which households should receive free or subsidized government support in your country?



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

Figure 2.20: Latin Americans are divided on whether government support should be free or subsidized

Respondents who agree that low-income households should receive free government support

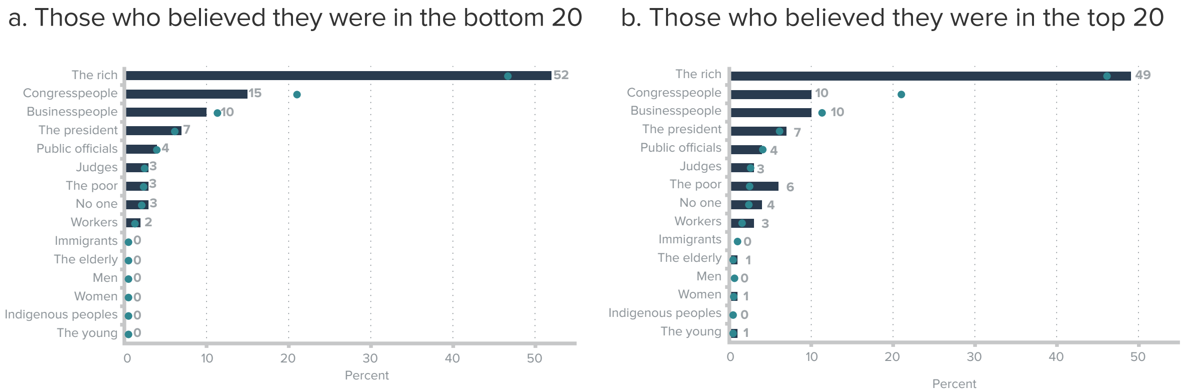


Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

People's views on how redistributive policies need to change involve not only a normative stance about who should get what, but also one about who currently gets too much or too little. The Latinobarómetro survey asked respondents to identify groups who, they think, receive more or less than they "deserve based on their effort." This concept is included in quotation marks because it carries moral weight and people may have strong notions about what constitutes deservingness (for example, whether deservingness depends on effort, citizenship, or one's inherent humanity, and so on). In LAC, people overwhelmingly agree that the rich currently receive more than they deserve (figure 2.21). Moreover, those who believe they are the poorest (panel a) or the richest (panel b) agree with this statement even more strongly than the average respondent. This is so, despite much of the public political debate over fiscal spending involving rhetoric framing the public concern around the benefits that reach the undeserving poor rather than around those that go to the undeserving rich. This finding suggests that there may be room within public opinion for more equitable fiscal policies whereby the rich receive less and others receive more.

Figure 2.21: Latin Americans agree that the rich receive more than they deserve

Share who thinks certain groups receive more than they deserve (first choice)



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.
Note: The average responses in Latin America are shown as blue dots.

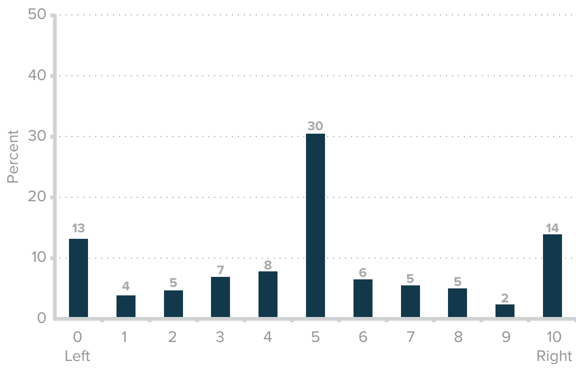
Where income and political polarization overlap, the path to equality may be rocky

Even if a majority agrees on the types of changes that should occur, realizing change is fundamentally a political process. People believe that those who benefit from unequal systems, such as the rich, tend to exercise undue influence on the political process and may thus prevent change. Indeed, the way income overlaps with other political factors, such as political ideology, may matter in determining the effectiveness of democratic mechanisms, such as political parties, voting, social movements, and public deliberation, in elevating citizen preferences equally (see spotlight 4). In particular, the polarization in political beliefs in the region has become the focus of increasing concern in recent years.

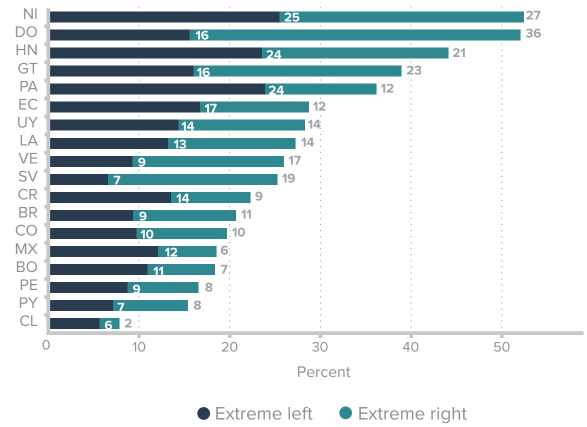
Polarization may be measured in various ways. The Latinobarómetro survey asks respondents to position themselves on a scale between the extreme left and the extreme right (figure 2.22). At the regional level, the extreme positions capture 27 percent of the population, relatively evenly divided between the two. Most people place themselves somewhere in between; 30 percent place themselves squarely in the center. There may be a bias towards the center at play in these responses, but this still suggests that the population is not as divided in political ideology as may sometimes appear. There is variation across countries, and, in some cases, the extremes capture a much larger share of the population, reaching over half the population, for instance, in the Dominican Republic and Nicaragua. Particularly relevant in the context of income inequality and the political process, however, is how people who believe they are among the top 20 are more likely to position themselves on the extreme right (39 percent). In contrast, those who think they are among the bottom 20 are more likely to position themselves on the extreme left (24 percent). In countries where the polarization of income overlaps more tightly with the polarization of political ideology, the path towards a more comprehensive policy framework to combat inequality will likely be rockier. The same is true of the path towards a more sustainable economy, given that preferences for redistribution and pro-environmental preferences seem to go hand in hand (spotlight 5).

Figure 2.22: Extreme political positions vary by country and perceived top or bottom quintile

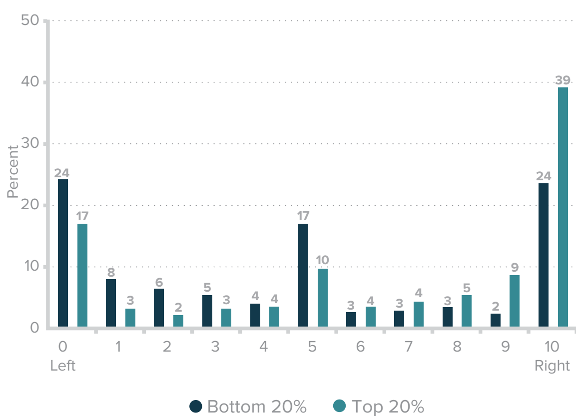
a. Respondents place themselves on the political spectrum



b. Respondents place themselves on the extreme left or right, by country



c. Respondents on the political spectrum, by perceived quintile



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

2.4. Building the world people desire

Chapter 1 shows that the region is facing substantial inequality and mediocre prospects for growth. This chapter shows that people in the region are not only aware of the challenges this represents but find the inequality unfair. The situation does not represent the society in which they would like to live. The subjective measures explored in the chapter highlight that an overwhelming majority are frustrated by the state of inequality in LAC. This frustration holds across the many manifestations of inequality and across the countries of the region.

Freeing the region from the high-inequality, low-growth trap requires policy reforms that are able to promote a more equitable and dynamic future. This is a challenge rendered inherently more difficult by the current distribution of resources, especially the concentration of resources at the top. Reaching a new equilibrium would involve not only adopting redistributive reforms to support households through a more equitable system of personal taxes and transfers, but also regulatory reforms to promote fairer market competition (see chapter 3). Ultimately, support for a more comprehensive vision of social protection for all will be needed to break out of the high-inequality, low-growth trap (chapter 5).

Understanding how people perceive inequality in society and how these perceptions contribute to shaping their normative policy views on what should be done to resolve the numerous associated problems can shed light on where the region stands in the effort to reach the necessary consensus to move forward.

References

Ahrens, Leo. 2019. “Theorizing the Impact of Fairness Perceptions on the Demand for Redistribution”. *Political Research Exchange*, 1 (1): 1617639. https://doi.org/10.1080/2474736X.2019.1617639.

Alesina, Alberto Francesco, and Paola Giuliano. 2011. “Preferences for Redistribution”. In *Handbooks in Economics*, vol. 1A, *Handbook of Social Economics*, edited by Jess Benhabib, Alberto Bisin, and Matthew O. Jackson, 93–131. San Diego: North-Holland. https://doi.org/10.1016/B978-0-444-53187-2.00004-8.

Appadurai, Arjun. 2004. “The Capacity to Aspire: Culture and the Terms of Recognition”. In *Culture and Public Action*, edited by Vijayendra Rao and Michael Walton, 59–84. Stanford Social Sciences Series. Washington, DC: World Bank; Stanford, CA: Stanford University Press.

Ariely, Dan. 2008. *Predictably Irrational: The Hidden Forces That Shape Our Decisions*. New York: HarperCollins.

Besley, Timothy J. 2017. “Aspirations and the Political Economy of Inequality”. *Oxford Economic Papers* 69 (1): 1–35. https://doi.org/10.1093/oep/gpw055.

Bobzien, Licia. 2020. “Polarized Perceptions, Polarized Preferences? Understanding the Relationship between Inequality and Preferences for Redistribution”. *Journal of European Social Policy*, 32 (2): 206–224. https://doi.org/10.1177/0958928719879282.

Brown-Iannuzzi, Jazmin L., Kristjen B. Lundberg, Aaron C. Kay, and B. Keith Payne. 2015. “Subjective Status Shapes Political Preferences”. *Psychological Science*, 26 (1): 15–26. https://doi.org/10.1177/0956797614553947.

Bussolo, Maurizio, Ada Ferrer-I-Carbonell, Anna Giolbas, and Iván Torre. 2019. “I Perceive Therefore I Demand: The Formation of Inequality Perceptions and Demand for Redistribution.” Policy Research Working Paper, 8926, World Bank, Washington, DC.

Cancho, César Alfredo, María Eugenia Dávalos, Giorgia Demarchi, Moritz Meyer, and Carolina Sánchez Páramo. 2015. “Economic Mobility in Europe and Central Asia: Exploring Patterns and Uncovering Puzzles”. Policy Research Working Paper 7173, World Bank, Washington, DC. http://documents1.worldbank.org/curated/en/361991468031523538/pdf/WPS7173.pdf.

CBS News. 2020. “How $98 Trillion of Household Wealth in America Is Distributed: ‘It’s Very Depressing’”. *CBS This Morning*, 31 January 2020. https://www.cbsnews.com/news/income-inequality-in-america-how-98-trillion-of-household-wealth-is-distributed/.

Choi, Gwangeun. 2019. “Revisiting the Redistribution Hypothesis with Perceived Inequality and Redistributive Preferences”. *European Journal of Political Economy*, 58 (June): 220–244. https://doi.org/10.1016/j.ejpoleco.2018.12.004.

Cruces, Guillermo, Ricardo Perez-Truglia, and Martin Tetaz. 2013. “Biased Perceptions of Income Distribution and Preferences for Redistribution: Evidence from a Survey Experiment”. *Journal of Public Economics*, 98 (February): 100–112. https://doi.org/10.1016/j.jpubeco.2012.10.009.

Dalton, Patricio S., Sayantan Ghosal, and Anandi Mani. 2016. “Poverty and Aspirations Failure”. *Economic Journal*, 126 (590): 165–188. https://doi.org/10.1111/ecoj.12210.

Dawtry, Rael J., Robbie M. Sutton, and Chris G. Sibley. 2015. “Why Wealthier People Think People Are Wealthier, and Why It Matters: From Social Sampling to Attitudes to Redistribution”. *Psychological Science*, 26 (9): 1389–1400. https://doi.org/10.1177/0956797615586560.

Engelhardt, Carina, and Andreas Wagener. 2014. “Biased Perceptions of Income Inequality and Redistribution”. CESifo Working Paper 4838, Munich Society for the Promotion of Economic Research, Centre for Economic Studies, Ludwig Maximilian University and Ifo Institute for Economic Research, Munich.

Evans, M. D. R., and Jonathan Kelley. 2004. "Subjective Social Location: Data from 21 Nations". *International Journal of Public Opinion Research*, 16 (1): 3–38. https://doi.org/10.1093/ijpor/16.1.3.

Fernández-Albertos, José, and Alexander Kuo. 2018. "Income Perception, Information, and Progressive Taxation: Evidence from a Survey Experiment". *Political Science Research and Methods*, 6 (Supplement 1): 83–110. https://doi.org/10.1017/psrm.2015.73.

Genicot, Garance, and Debraj Ray. 2017. "Aspirations and Inequality". *Econometrica*, 85 (2): 489–519. https://doi.org/10.3982/ECTA13865.

Gimpelson, Vladimir, and Daniel Treisman. 2018. "Misperceiving Inequality". *Economics and Politics*, 30 (1): 27–54. https://doi.org/10.1111/ecpo.12103.

Gründler, Klaus, and Sebastian Köllner. 2017. "Determinants of Governmental Redistribution: Income Distribution, Development Levels, and the Role of Perceptions". *Journal of Comparative Economics*, 45 (4): 930–962. https://doi.org/10.1016/j.jce.2016.10.007.

Hoy, Christopher, and Franziska Mager. 2019. "Why Are Relatively Poor People Not More Supportive of Redistribution? Evidence from a Survey Experiment across 10 Countries". ECINEQ Working Paper 489 (January), Society for the Study of Economic Inequality, Rome.

Ipsos. 2019. "What Worries the World, January 2020". Ipsos, Paris. https://www.ipsos.com/sites/default/files/ct/news/documents/2020-01/what-worries-the-world-january-2020.pdf.

Karadja, Mounir, Johanna Mollerstrom, and David Seim. 2017. "Richer (and Holier) Than Thou? The Effect of Relative Income Improvements on Demand for Redistribution". *Review of Economics and Statistics*, 99 (2): 201–212. https://doi.org/10.1162/REST_a_00623.

Kim, Hansung, Sooyeon Huh, Sangmi Choi, and Yushin Lee. 2018. "Perceptions of Inequality and Attitudes towards Redistribution in Four East Asian Welfare States". *International Journal of Social Welfare*, 27 (1): 28–39. https://doi.org/10.1111/ijsw.12266.

Kuhn, Andreas. 2009. "In the Eye of the Beholder: Subjective Inequality Measures and the Demand for Redistribution." IZA Discussion Paper 4360 (August), Institute of Labor Economics, Bonn, Germany. http://ftp.iza.org/dp4360.pdf.

Kuziemko, Ilyana, Michael Irwin Norton, Emmanuel Saez, and Stefana Pentcheva Stantcheva. 2015. "How Elastic Are Preferences for Redistribution? Evidence from Randomized Survey Experiments". *American Economic Review*, 105 (4): 1478–1508.

Lind, Jo Thori. 2005. "Why Is There So Little Redistribution?" *Nordic Journal of Political Economy* 31: 111–125.

Meltzer, Allan H., and Scott F. Richard. 1981. "A Rational Theory of the Size of Government". *Journal of Political Economy*, 89 (5): 914–927. https://doi.org/10.1086/261013.

Niehues, Judith. 2014. "Subjective Perceptions of Inequality and Redistributive Preferences: An International Comparison". IW-Trends Discussion Paper, 2, Cologne Institute for Economic Research, Cologne, Germany.

Norton, Michael I., and Dan Ariely. 2011. "Building a Better America, One Wealth Quintile at a Time". *Perspectives on Psychological Science*, 6 (1): 9–12. https://doi.org/10.1177/1745691610393524.

Page, Lionel, and Daniel Gray Goldstein. 2016. "Subjective Beliefs about the Income Distribution and Preferences for Redistribution". *Social Choice and Welfare*, 47 (1): 25–61. https://doi.org/10.1007/s00355-015-0945-9.

Pellicer, Miquel, Patrizio Piraino, and Eva Wegner. 2019. "Perceptions of Inevitability and Demand for Redistribution: Evidence from a Survey Experiment". *Journal of Economic Behavior and Organization*, 159 (March): 274–288. https://doi.org/10.1016/j.jebo.2017.12.013.

Rabin, Matthew, and Joel L. Schrag. 1999. "First Impressions Matter: A Model of Confirmatory Bias". *Quarterly Journal of Economics*, 114 (1): 37–82. https://doi.org/10.1162/003355399555945.

Ray, Debraj. 2016. "Aspirations and the Development Treadmill". *Journal of Human Development and Capabilities*, 17 (3): 309–323.

Reyes, Germán, and Leonardo Carlos Gasparini. 2017. "Perceptions of Distributive Justice in Latin America during a Period of Falling Inequality". Policy Research Working Paper 8072, World Bank, Washington, DC. http://hdl.handle.net/10986/26844.

Romer, Thomas. 1975. "Individual Welfare, Majority Voting, and the Properties of a Linear Income Tax". *Journal of Public Economics*, 4 (2): 163–185. https://doi.org/10.1016/0047-2727(75)90016-X.

Sandel, Michael J. 2020. *The Tyranny of Merit: What's Become of the Common Good?* New York: Farrar, Straus and Giroux.

Sen, Amartya K. 1999. *Development as Freedom*. New York: Oxford University Press.

Starmans, Christina, Mark Sheskin, and Paul Bloom. 2017. "Why People Prefer Unequal Societies". *Nature Human Behaviour*, 1 (4): 0082. https://doi.org/10.1038/s41562-017-0082.

Tay, Stephen. 2015. "Who Supports Redistribution? Subjective Income Inequality in Japan and China". *Economic and Political Studies*, 3 (2): 30–59. https://doi.org/10.1080/20954816.2015.11673830.

Tversky, Amos, and Daniel Kahneman. 1974. "Judgment under Uncertainty: Heuristics and Biases". *Science*, 185 (4157): 1124–1131.

UNDP (United Nations Development Programme). 2010. *Regional Human Development Report for Latin America and the Caribbean 2010: Acting on the Future, Breaking the Intergenerational Transmission of Inequality*. New York: UNDP. https://www.latinamerica.undp.org/content/rblac/en/home/library/human_development/human-development-report.html.

UNDP (United Nations Development Programme). 2020. "Attitudes towards Politics in Latin America: A Review of Regional Perception Data ". July, Regional Hub for Latin America and the Caribbean, UNDP, Panama City.

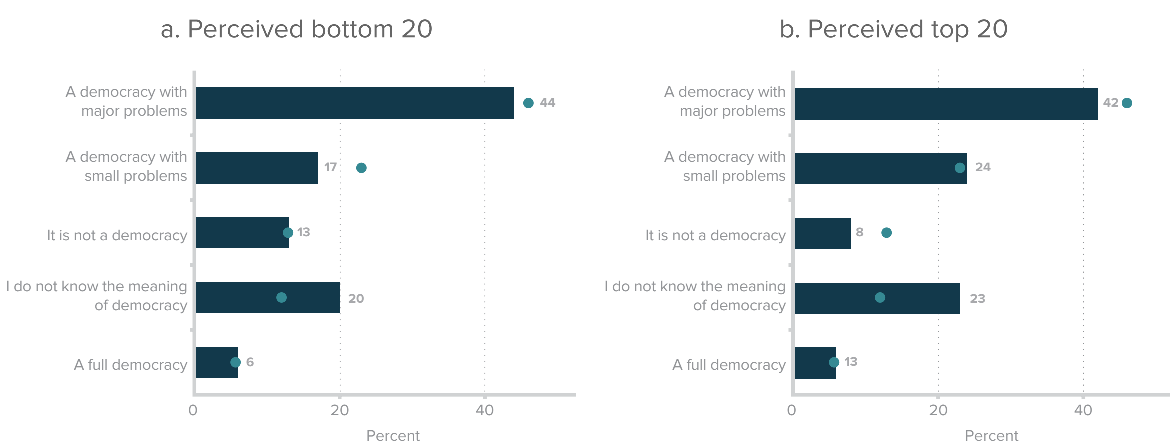
ARE PREFERENCES FOR DEMOCRACY TINTED BY PERCEPTIONS OF INEQUALITY?

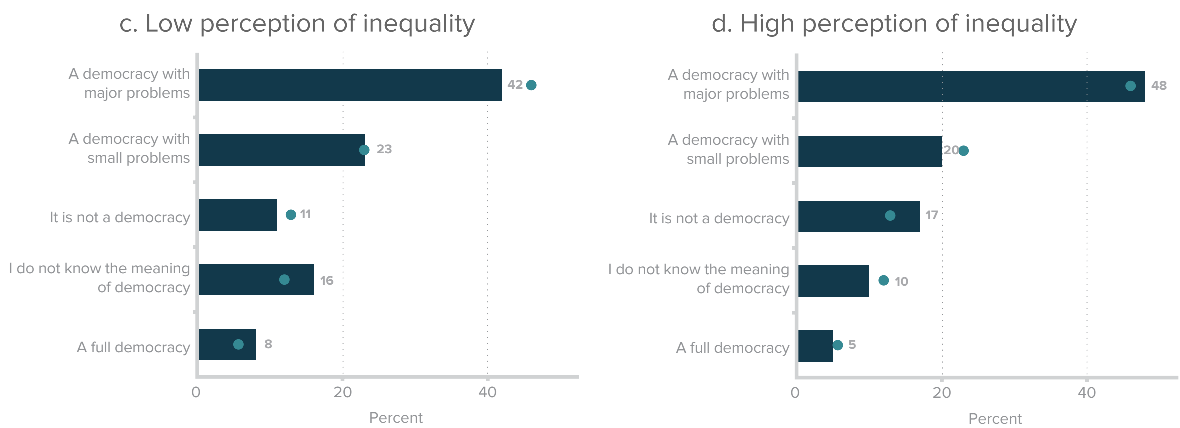
The perception that democracy does not function well is shared by 46 percent of the LAC people; 13 percent go so far as to say the form of government in their countries is not a democracy, and 12 percent say they do not understand the meaning of the word democracy. Democracy is in crisis and much of the social unrest in 2019, before the pandemic, speaks to that. People's perceptions do not contradict this statement.

The breakdown of the responses by groups, according to perceptions of inequality, shows that those who believe they are in the bottom 20 percent of the income distribution (the bottom 20) are more disappointed than the average respondent. A larger share of the bottom 20 sees major problems rather than small problems with democracy in their countries (figure S4.1). If this group is compared with those who believe they are in the top 20 percent of the income distribution (the top 20), the share who believe their governments are not democratic is almost twice as high. Similarly, those who believe that the income distribution in their countries is highly unequal are more prone to believe that democracy is more at fault than the average respondent.

The share of the population that would not mind having a non-democratic government if the government were effective is high in the region. More than 50 percent of the people in all but 5 of 17 countries share this view, and the proportion is above 65 percent in four countries (figure S4.2). Those who believe they are on the extremes of the income distribution also share this view. Those who place themselves in the middle or closer to the middle disagree.

Figure S4.1: How would you characterize democracy in your country?





Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.
Note: The dots are the answers of the average respondent.

Figure S4.2: Share who would not mind a non-democratic government if the government were effective

Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

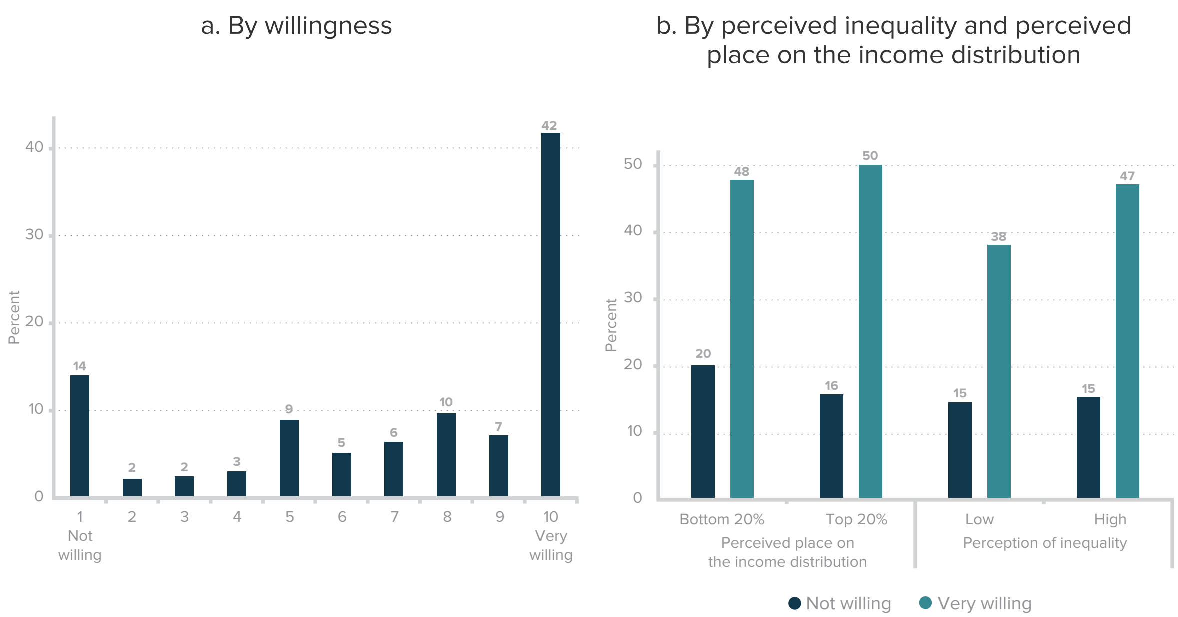
In El Salvador, 68 percent of the population consider it fine for the president to control the media (figure S4.3). Dominican Republic and Guatemala follow at a distance, but the average Latin American disagrees. Only among those who perceive they are among the top 20 will a majority grant this right to a president.

Although a few believe that protesting is more effective than voting (5 percent), the majority still believe in voting. Half the population (48 percent) believes voting is the only suitable channel for demanding change, and a third (32 percent) believe in a combination of voting and protesting. The rest of the population say they do not know what is best (12 percent) or think neither channel works (5 percent). Those who believe that the income distribution is not particularly unequal are less well represented than the average respondent among those who believe in a combination of voting and protesting (26 percent versus 32 percent). More than 50 percent of the population say they would march for more equality. This holds across groups except those who believe the income distribution is not so unequal (Figure S4.4.).

Figure S4.3: Share who think it is acceptable for the president to control the media

Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

Figure S4.4: Share that would march for equality



Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

PREFERENCES IN REDISTRIBUTION AND A MORE SUSTAINABLE ECONOMY GO HAND IN HAND

Latin America has a huge endowment of natural capital and great potential for providing ecological services for the region and the world. However, it is also plagued by structural inequalities. These inequalities are part of the population's concerns because they restrict the possibility and opportunity of unleashing forces that might help lift people out of poverty.

Concerns about protecting the environment are also on people's minds. A growing share of public opinion believes that preserving natural wealth may also trigger long-run processes of sustainable development. This would occur through a transition towards ecological services that would help realize the potential for well-being, employment and income for all.

A connection between the fairness of the economy and the sustainability of the natural environment is becoming more evident. Inequality creates forces that tend to degrade ecosystems. The degradation also drives more people towards poverty and outmigration. The vicious cycle of deforestation, land concentration and the dislodging of rural communities to precarious conditions in cities is a feature of the recent history of much of the region.

As people come to care more about creating a sustainable society, they also seem to care more about income redistribution and resolving the problems of the unfair economy that provides benefits only for the few.

The Centre for the Sustainable Development Goals for Latin America and the Caribbean conducted a large representative survey (n = 4,207 individuals) in 13 cities in 7 countries in the region (Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru) during the second half of 2019. The survey included three sets of questions. One set of questions inquired about people's preferences and behaviours regarding redistribution and pro-poor policies, as follows:

> *How worried are you that families do not have enough money in your country? How worried are you about the inequalities in access to education and health in your country? Climate change will affect the poorest more; climate change will affect the future generation more; In the last two weeks, have you bought any products with stamps or labels that certify environmental or social actions? How much would you be willing to pay extra for coffee that supports a social cause, such as fair payment to growers, support for a vulnerable community or group?*

The second set of questions asked about the attitudes of respondents towards the environment:

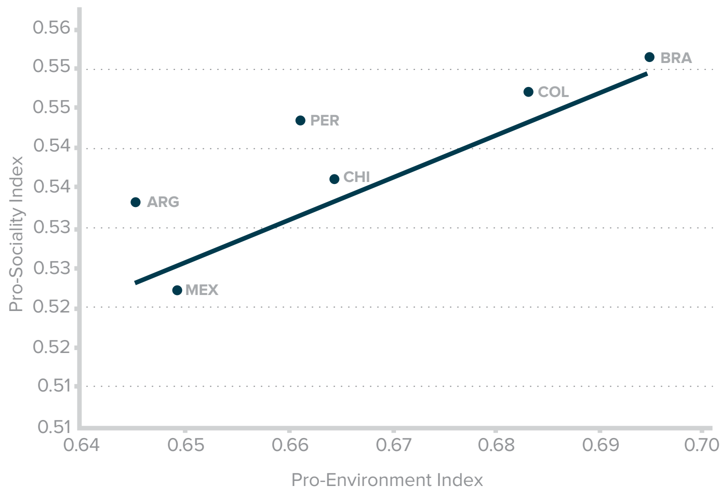
How worried are you about climate change and its consequences in your country? How worried are you about the future conservation of the seas and forests of your country? On the effects of climate change, do you think that climate change will affect plants and animals the most (compared with affecting the poorest, future generations, economic development)? Do you agree with this statement: "We should buy and use environmentally friendly products even if they are expensive"? Do you agree with this statement: "We should buy and use useful products even if they are NOT environmentally friendly"? When a new product or service appears on the market that is environmentally friendly or supports a social cause, will you be the first to use it?

A third set of questions asked people about their past environmentally friendly behaviour:

In the last six months, how often have you used or purchased products that reduce environmental damage? In the last two weeks, have you used reusable bags in your shopping? Have you turned off the lights and disconnected appliances that are not in use? Have you consciously limited the amount of water you use for bathing / brushing your teeth / washing dishes? Have you purchased products with stamps or labels that certify environmental or social actions? Have you separated and recycled trash from your home? Which of the following is your primary means of transportation? Have you participated in carpooling activities with friends, family, or study/work colleagues in the past year? In your last home purchase or rental decision, did you consider reducing the size of your home? Did you consider reducing time or distance to work or study in your last home purchase or rental decision? In your last home purchase or rental decision, did you consider less expensive public services? In your last home purchase or rental decision, did you consider the availability of environmentally friendly technologies? In the last two weeks, have you consumed less meat? less sugar? more vegetables?

Based on the responses to these questions, Cárdenas (2022) estimates an index of pro-social preferences, another index of pro-environmental preferences and an index of sustainable behaviour. The preferences for the environment and sustainable practices of the respondents predict the index of pro-social preferences. In fact, the relationship is consistent across all countries in the sample (Figure S5.1). Regardless of the indices' levels, which vary across countries, the correlation between pro-environment preferences and behaviours and the preferences for a fairer society and concerns with inequality is positive and significant.

Figure S5.1: Pro-environment preferences and preferences for fairer societies correlate positively in LAC



Source: Cárdenas 2022.

From these data it can be inferred that policies addressing both the creation of a more inclusive society and the conservation of the environment, should find strong support from the public.

Reference

Cárdenas, Juan-Camilo. 2022. "Latin America Caught between Inequality and Natural Capital Degradation: A View from Macro and Micro Data". In *Routledge Handbook of the Political Economy of the Environment*, edited by Éloi Laurent and Klara Zwickl, chapter 12. (Forthcoming.) New York: Routledge.

CHAPTER 3

THE CONCENTRATION OF ECONOMIC AND POLITICAL POWER

- Markets in Latin America tend to be dominated by a small number of giant firms and are characterized by high levels of market power.
- Monopolies contribute to high inequality and low productivity growth by making consumers pay higher prices, allowing firms to forgo more efficient technology and hindering innovation.
- Monopoly power and business political power are two sides of the same coin as monopoly rents translate into political power that, in turn, increases monopoly power, creating a vicious circle.
- Competition policy (also referred to as "antitrust" or "antimonopoly" policy) is one policy lever that countries can use to contain monopoly power. Its existence and effectiveness are not exogenous to business political power.
- Big business political power also distorts policy beyond the market arena. Of particular concern in the context of LAC's high-inequality low-growth trap are the effects on fiscal policy. A distinctive feature of fiscal systems in the region is their weak redistributive power.
- Workers and, particularly, organized labour also have the power to distort policy in the market arena. However, the effect of labour unions on efficiency and equality in LAC is ambiguous.

3.1. Power concentrated in the hands of a few increases inequality and harms productivity growth

One of the most pernicious challenges of high inequality is the way that it concentrates power. The analysis in chapter 2 of a Latinobarómetro perceptions survey conducted for this report shows that an overwhelming majority of people in the region think that their countries are governed by a few powerful groups that act for their own benefit rather than in the interest of the public good.[1] It also shows that, on average, about a quarter of the respondents consider big business to be the most influential powerful group, with this share ranging from 5 percent (Venezuela) to 48 percent (Chile). In countries where big business is perceived as highly influential, the government is considered less powerful (and vice versa).

This chapter explores the channels through which the concentration of power in the market goes on to sustain high inequality and mediocre productivity dynamics in the region. It acknowledges that monopoly power and business political power are two sides of the same coin, in that monopoly rents translate into political power that, in turn, increases monopoly power, thereby creating a vicious circle[2].

Business political power distorts policy and weakens institutions. This chapter focuses on the way in which it distorts policy within the market sphere, and systems of fiscal redistribution. It does not present an exhaustive revision of all the areas of policy that may be distorted by business political power. Also, it focuses only on a few types of elites in the Latin America and Caribbean region with a particular influence in these areas, highlighting the role of big businesses and labour unions as market actors. However, of course, there are other relevant types of elites with concentrated power that are actively shaping the development trajectory in the region, with implications for growth and equality. For example, military actors have experienced increasing power in many countries.

Taking the role of elites seriously is a necessity if one is to consider feasible escape routes from this trap. This has been said before. World Development Report 2006, which is devoted to explaining the relationship between inequality and growth, points to the capture by elites of economic and political power as the main reason some countries grow at a slower pace.[3] This chapter revisits this idea and argues that the concentration of power in the hands of a few is one of the factors sustaining both high inequality and low growth in the region, that must be addressed to move forward.

---

[1] See UNDP (2020); Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

[2] An in-depth micro-foundational analysis of power can be found in the World Bank (2017) World Development Report 2017: Governance and the Law.

[3] World Bank (2005).

If these deep inequalities of power that are so common in many LAC countries are addressed, the region could support a more inclusive, thriving market economy in which the private sector finds opportunities for entrepreneurship, the state accomplishes the goals of maintaining the rule of law and providing public goods, and citizens have the freedom to pursue lives that they have reason to value.

3.2. Big business power: monopoly power and political influence

Why worry about market power?

In economics, the concept of market power refers to a firm's ability to raise its price above the price that the same firm would have charged if it were in a fully competitive market. In other words, the more market power a firm has, the more freedom it has to increase its price. There is a close relationship between the number of firms in a market and the extent to which these firms can exercise market power. This is because competition controls price increases. While most firms operate with some degree of market power, only unchallenged monopolists holding the highest possible market power –*monopoly power*– and those near them on the market power continuum represent a concern for society.

The literature on industrial organization, a field of study within economics, identifies three channels by which monopolies are welfare-reducing,[4] contributing to high inequality and low productivity growth. First, monopoly power reduces welfare by making consumers pay higher prices for goods and services. It contributes to more unequal societies because it hurts people differently depending on where they stand on the income distribution.[5] Monopoly prices on essential goods and services hurt the poor more than the wealthy, as they take over a larger share of their budget. Also, the more affluent households can often exclude themselves from their local market if it is monopolized and obtain goods and services from foreign more competitive markets. This is not the case for the poorer households. A mirror situation occurs in markets where a single or few buyers enjoy *monopsony* power: it is frequently the poorest input providers or the poorest workers who are hurt most.[6]

Under monopoly pricing, society's welfare loss is the highest possible. But any price

[4] For a complete discussion, see Motta (2004), chapter 2.
[5] For instance, see Busso and Galiani (2019); Rodríguez-Castelán (2015); Urzúa (2013).
[6] Brummund (2013).

above that which would emerge under competition redistributes resources from consumers to firm owners while reducing overall welfare. Relative to monopoly, competition is thus not only welfare increasing, but also better for consumers than for businesses. Businesses always do better if able to charge a higher price. Businesses and consumers may thus find themselves on opposite sides regarding their views on the desirability of competition. Businesses often lobby for policies that result in less competitive pressure, including weak antitrust institutions. The negative effect from monopoly power may be understated if firms that enjoy it divert resources from productive uses towards rent-seeking using their political influence and lobbying power to keep it or increase it, distorting the course of policy for their own benefit.[7] When people in the region identify big business as the most powerful elite in their countries, they are referring to this sort of behaviour. This chapter explores this expression of business power.

Second, there may be an additional welfare cost if under monopoly the firm operates at a higher cost than it would under competition, that is, if the monopolist —or the firms with the greatest market power— chooses not to use the more efficient technology available. The empirical evidence about the extent and frequency to which this occurs is mixed.[8] Yet, this may pose an even higher cost to society through its potential impact on productivity growth.

There are two possible reasons for a firm with monopoly power to choose an inefficient technology. The first has to do with a lower incentive for managerial effort in the absence of competition. Suppose investment decisions are made by managers who do not have the correct incentives to choose the more efficient technologies. In that case, the lack of competitive pressure may result in the wrong choices.[9] The second reason is related to the absence of selection induced by competition. Competition forces less efficient firms to exit the market, while the more efficient survive. In its absence, the former firms survive. Under this reasoning, competition will increase productivity through entry and exit: the larger output share of the more productive firms explains the rise in productivity. A body of empirical work confirms the role of competition in selecting the more efficient firms and increasing productive efficiency.[10]

Third, an uncontested monopolist has less incentives to innovate. However, on the issue of innovation, the literature shows that very high levels of competition may be as undesirable as monopolies. Competition pushes firms to invest and innovate to improve their position against their rivals, and its absence reduces their incentive

---

7 Posner (1975).
8 Scherer and Ross (1990).
9 Hart (1983); Scharfstein (1988); Hermalin (1992); Horn, Lang, and Lundgren (1994); Maggi (1996).
10 Baily, Hulten, and Campbell (1992); Olley and Pakes (1996); Foster, Haltiwanger, and Krizan (1998); Barnes and Haskel (2000).

to do so. But too much competition reduces the ability of the firm to profit from its investments, thereby reducing its incentives to invest and innovate. Thus, some degree of market power is desirable to promote investment in innovation and economic growth.

LAC markets are characterized by a small number of big businesses and high levels of market power

The relationship between market power and inequality has received much attention lately. Both economists and policymakers are concerned over the possibility of rising monopoly power in the world economy. A stream of recent work finds that, at a global scale or, at least, in much of the developed world, the share of income and wealth in the hands of the richest individuals has grown, while the labour share of income has declined and market power has increased.[11] The bulk of the research unveiling evidence of positive and rising markups finds that this trend has been driven by a small number of firms.[12] The picture that emerges is one where a few superstar firms have seized an increasingly large share of their respective markets, and most of their additional gains have gone to their shareholders. A growing share of the world's resources has gone to the hands of that small mass of privileged individuals.

Though this description seems to fit the dynamics of inequality, wealth, and market concentration for much of the world, the trend in market power in Latin America appears to be an exception. For the Latin American countries for which there is data available, the dynamics of markups do not show the increasing trends found in other locations. Instead, markups in Latin America have remained essentially unchanged in the last three decades, strikingly at a much higher level than in the rest of the world. The rising trend that is a current concern among economists and policymakers in the United States and Europe seems to have put the rest of the world on a path to convergence with Latin America in market power (box 3.1).

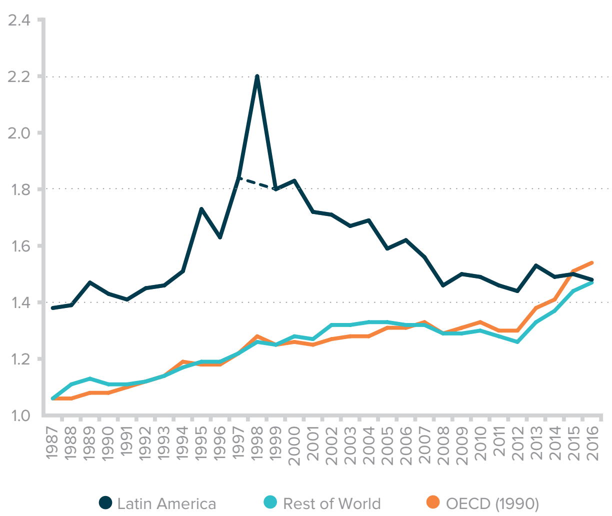
---

[11] See Karabarbounis and Neiman (2014); Kavoussi (2019); De Loecker, Eeckhout, and Unger (2020).
[12] Autor et al. (2020)

Box 3.1: Markups in Latin America are higher than in the rest of the world and constant over time

Markups reflect the difference between the cost and the selling price of a product. They may be expressed as a percentage of the selling price or the cost price. Figure B3.1.1 presents the evolution of markups estimated by De Loecker and Eeckhout (2018), expressed as a share of the cost. It distinguishes the evolution of markups in Latin America and the non-Latin American countries of the Organisation for Economic Co-operation and Development (OECD) countries and the rest of the world. Using data from the financial statements of firms in the Worldscope dataset, these authors build a dataset that allows them to follow countries over the same period, including 7 in Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.[a] Figure B3.1.1 shows that the average markup in Latin America does not increase over time. (The peak in 1998 is ignored because it may represent a measurement error and cannot be easily explained otherwise.) Instead, the average is relatively constant and systematically above the averages elsewhere. The increasing markup trend that is a concern in the ongoing public policy debate seems to be putting OECD countries and the rest of the world on a converging path towards the average markup in Latin America.

Figure B3.1.1: Average markups, Latin America, OECD and rest of the world, 1987-2015



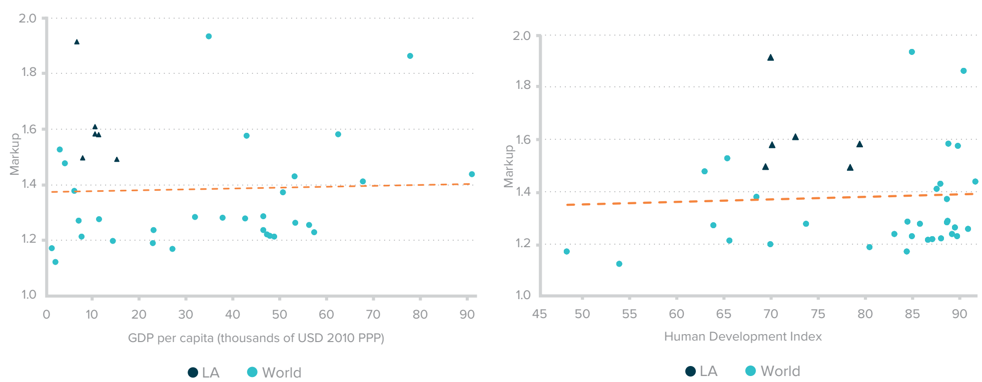
Source: Eslava, Meléndez, and Urdaneta 2021, Background Paper of the UNDP LAC RHDR 2021; De Loecker and Eeckhout 2018.
Note: Average markups by year are estimated as the year fixed effects from a linear regression on the average markup by country, with year and country fixed effects. OECD (1990) corresponds to countries that belonged to the OECD in 1990. Rest of the world corresponds to all countries in the sample that are not part of Latin America.

Figure B3.1.2 shows that, globally, there is no systematic relation between market power and a country's development level measured by its gross domestic product (GDP) per capita or its human development index (HDI). High market power appears to be a defining feature of Latin American countries, however. No data are available that are informative on market power in countries falling in the lower development categories in the region.

Figure B3.1.2: High markups are not a defining feature of a particular development stage

a. Markup versus GDP per capita

b. Markup versus HDI



Source: UNDP elaboration. Markups from De Loecker and Eeckhout (2018); GDP per capita from World Development Indicators; human development index (HDI) from UNDP.
Note: HDI is the average across 1990-2016.

[a] See Worldscope (database), Baker Library, Bloomberg Center, Harvard Business School, Boston, https://www.library.hbs.edu/find/databases/worldscope.

Another distinctive feature of Latin America is the prevalence of markets dominated by a small number of giant firms, primarily diversified business groups and multinational corporations. Revenues of the 50 largest firms represented between around 20 percent (Argentina) and about 70 percent of GDP (Chile) in 2019 (figure 3.1). State-owned enterprises (SOEs) have become less widespread since the wave of privatizations in the 1990s. However, their revenues still account for 8 percent (Chile) to 25 percent (Colombia) of the total revenues from this group, and those that remain are giant firms, often in the oil sector. The revenues of multinational corporations represent between 20 percent (Chile) and 43 percent (Argentina) of the total, and the rest are private domestic firms, frequently diversified, family-controlled business groups.[13] These contribute between 39 percent (Argentina) and 73 percent (Chile) of revenues (figure 3.2). Chile ranks highest on various measures of market concentration and by the presence of huge conglomerates. This probably explains why an overwhelming majority of Chileans see big businesses as the most influential and powerful group in the country (figure 2.14).

Figure 3.1: Giant firms dominate Latin American markets

Revenues of top 50 firms (as percent of GDP), 2019. Selected countries

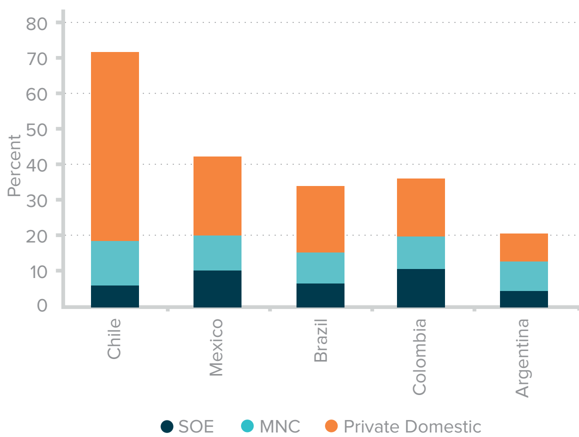
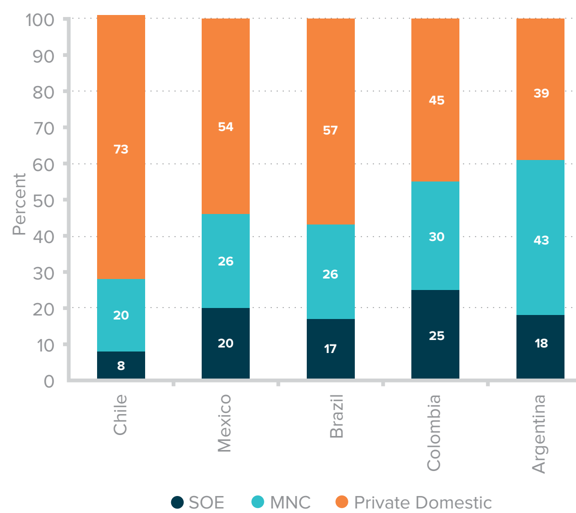


Figure 3.2: The share of private domestic firms among the largest is highest in Chile

Revenues of top 100 firms, by firm type, 2019. Selected countries



Source: Schneider 2021, Background Paper of the UNDP LAC RHDR 2021; S&P Capital IQ dataset; World Development Indicators.
Note: Companies are assigned to a country based on their country of incorporation. State-owned enterprises (SOEs) are those in which a national or subnational government holds a majority share. Multinational corporations (MNCs) are identified by the headquarters of the ultimate corporate parent of the companies. Revenue data are for 2019.

Some evidence of the effects of market power on productivity and welfare

Because of a lack of good microeconomic data or difficulty in accessing such data, there is little empirical evidence on the impact of market power in LAC countries. There are few industry-specific studies with properly defined relevant markets that tell pieces of the story. Most of the evidence available about damages to consumers, input providers, or workers is from cases handled by competition authorities in the region. Sanctions imposed in the context of cartel investigations are, for example, informative about the damage borne by consumers (box 3.2).

[13] Business groups are large conglomerates, often with subsidiaries in unrelated sectors and mostly family-owned and managed (Khanna and Yafeh (2007); Schneider (2008); Bull, Castellacci, and Kasahara (2014).

Box 3.2: The damages caused by cartels

Recent success in Latin America in detecting and punishing cartels, especially in Brazil, Chile, and Mexico, is noteworthy, but not a cause for complacency because authorities are most likely catching only a fraction of the colluders. Cartels transfer resources massively from consumers to business owners. These transfers can be especially damaging to the poor if they target food and essential goods. The damage caused should not be minimized. A worldwide review of more than 700 studies and judicial decisions identified 2,041 cases of overcharging coordinated by hardcore cartels, with a mean estimated overcharge of 49 percent and a median overcharge of 23 percent.[a]

Chilean government regulators uncovered collusive cartel pricing in several mass-market goods, including toilet paper, pharmaceuticals, and fresh chicken. These cartels included both huge domestic business groups and large multinational corporations. It is revealing that colluding firms targeted products with relatively inelastic demand. In the toilet paper case, an iconic firm, CMPC, was found to have conspired from 2000 to 2011 with a much smaller firm, PISA. Together they controlled between 80 and 90 percent of the market and could set prices. Consumer groups estimated the total overcharges at US$500 million.[b] CMPC agreed to reimburse consumers US$150 million of its ill-gotten gains.[c]

[a] Connor (2014).
[b] The Economist (2015).
[c] France 24 (2018).

Research has focused mostly on examining the effects of import competition on firm productivity and innovation in Latin America.[14] The studies use the exogenous trade liberalization episodes in the 1980s and 1990s and find positive effects of increased import competition on productivity, product quality, the number of products, innovation, and job rotation.[15] Only a small number of empirical research papers has looked at the impact of enhanced competition on welfare in Latin America. Most notable is research investigating the effect of increased competition caused by the entry of multinational

[14] For a detailed review of this literature, see Shu and Steinwender (2019).
[15] Muendler (2004); Schor (2004); Fernandes (2007); Iacovone (2012); Fernandes and Paunov (2013); Iacovone et al. (2015); Medina (2018).

retail chains in Mexican markets. This research finds that new foreign competition entry resulted in reduced living costs among households, alongside productivity gains among domestic suppliers, higher store exits, lower domestic store profits, and lower incomes among traditional retail sector workers.[16] More generally, the entry of hypermarkets has reduced prices in local markets in Chile, increased local store exits in Uruguay, and reduced prices and improved service quality in markets in Dominican Republic through increased competition.[17] Market power, in contrast, is associated with economywide welfare losses through price increases that mainly affect the incomes of poor households.[18] In urban Mexico, relative welfare losses experienced because of monopoly power in essential goods markets —corn tortillas, processed meats, chickens, eggs, milk, and others— are 19.8 percent greater among the poorest households than among the richest households.[19]

This report offers new analytical insight on the relationship of markups, market concentration, wages, and productivity in selected Latin American countries.[20] The evidence of Eslava, Meléndez, and Urdaneta (2021) confirms the finding of very high and constant average market power in the region's manufacturing sector. It also shows that, in markets defined broadly at the industry level,[21] higher markups are associated with lower labour shares of income. This result points at rents from market power unevenly distributed between workers and business owners in favour of the latter. Redistribution in the opposite direction occurs even though average wages are also higher in markets functioning with higher levels of market power (suggesting some rent-sharing between the firms and their workers). Higher market power is also associated with slightly higher total factor productivity (TFP). Businesses with high market power are also among the largest. The unequal distribution of firm sizes —markets dominated by a few big businesses that coexist with large numbers of tiny ones— is part of the story told by these data: fragmented markets where big businesses are dominant because they face small lower productivity rivals, unable to compete with them. (Chapter 5 revisits this finding from another angle, in the context of examining the incentives from labour market regulations and social protection policy in LAC and their effect on firm size and productivity.)

The evidence also suggests that, if concentration increases in an industry-level market, the increase is driven by the single largest firm in terms of revenue in that market. This finding may not be independent of the fact that big business monopoly rents frequently translate into political power, which perpetuates monopoly rents (see below).

---

[16] Javorcik, Keller, and Tybout (2008); Iacovone et al. (2015); Atkin, Faber, and Gonzalez-Navarro (2018).
[17] Lira, Rivero, and Vergara (2007); Borraz et al. (2014); Busso and Galiani (2019).
[18] Rodríguez-Castelán (2015).
[19] Urzúa (2013).
[20] Data are only available on Chile, Colombia, Mexico and Uruguay.
[21] Sectors are defined as ISIC 3-digit sectors in Chile, Colombia, Ecuador, and Uruguay (revision 3 for Chile and revision 4 for the other three countries) and as NAICS 4-digit sectors in Mexico.

Another piece of new evidence relates to the effects of market power in the labour market. Using microeconomic labour market data from tax records in Chile, García-Marín (2021) explores the relationship between market concentration and wages. His research shows that labour demand is highly concentrated in Chile, giving firms great power over workers. Concentration has remained high over time, and slightly increased in recent years. The econometric evidence shows that higher employer concentration is associated with lower average wages, and in particular with lower wages among higher-wage workers. Low-wage workers are, in contrast, less affected by employer concentration because their skills are not so occupation-specific, or because they are protected by minimum wage regulations, or both. Consequently, employer concentration reduces wage dispersion by moving all workers' salaries closer to the minimum wage (Thus, wage inequality falls for the wrong reason.)

García-Marín (2021) also shows that the negative effect of labour market concentration on workers' earnings varies with the level of their employer's product market power. Higher product market power lessens the negative impact of labour market concentration on average wages, probably because high markup firms with advantageous hiring positions in concentrated labour markets can pay higher labour costs that they pass on to consumers (sharing some of their rents with their workers).

Competition law is an essential policy tool to curb excess market power

The analysis argues that monopolies with dominant control over markets can potentially foster both inefficiency and inequality. Competition laws (also referred to as antitrust or anti-monopoly laws) are one policy lever that countries can use to break out of this vicious economic cycle by promoting fairer market competition. These laws are aimed at preventing anticompetitive or abusive behaviour by firms with large market power in the economy. This might include curbing practices that harm consumer welfare, such as setting unreasonably high prices when consumers lack access to alternative options, or preventing other firms from competing by setting unreasonably low prices in the short term to drive out competition. Depending on how their design and enforcement shape the de facto power of firms, these laws may have different efficiency and equity implications.

Schneider (2021) contends that, behind the structure of business in the region (and the concentration of power associated with it) is the weakness of competition regulations and agencies. He argues that the Washington Consensus led to too many firms with market power.[22] This occurred directly through the privatization of public oligopolies and monopolies or indirectly because trade liberalization encouraged mergers to gain the scale needed for international competition. The Washington Consensus also recommended facilitating the entry of multinational corporations, perhaps because it was felt that these corporations would make domestic markets more competitive. This did happen in some instances. In others cases, however, anticompetitive behaviours by multinational corporations came to light later in antitrust investigations. At the time, the countries in LAC were largely unprepared to contain market power because of their nonexistent or weak competition laws and agencies.[23]

Today, 20 LAC countries have adopted competition laws.[24] In the last two decades, eight LAC countries have issued competition laws for the first time.[25] Nine countries have amended their laws.[26] However, most of the activity has taken place in Latin America, where only two countries —Bolivia and Guatemala– do not have a general antitrust regulation. In general, all Latin American regulatory frameworks prohibit both anticompetitive agreements and the abuse of a dominant position. Except for Peru, all countries have issued rules to control mergers. Many countries have reformed their laws and issued regulations in preparation for the implementation of free trade agreements with the United States or the European Union (EU) because these agreements usually have provisions on competition, including obligations to pass a competition law and establish a competition authority. At a supranational level, the Andean Community of Nations issues competition policy regulations for member countries. It has ruled over fines and sanctions, the investigative power of competition authorities, and the burden of proof on damage caused by anticompetitive conduct. It has also provisionally extended its regional framework of competition dispositions to be adopted by Bolivia, in light of the absence of a national competition law there.[27] In the Caribbean, only four countries have competition laws and authorities: Barbados, Guyana, Jamaica, and Trinidad and Tobago. Their absence in other countries is somewhat offset by the CARICOM Competition Commission, a regional antitrust agency.

---

[22] The Washington Consensus is a term coined in 1989 to refer to a set of 10 economic policy prescriptions considered as the standard reform package promoted at the time among crisis-wracked developing countries by Washington, DC-based institutions, such as the International Monetary Fund (IMF), the World Bank and the United States Department of the Treasury.

[23] It is not just in Latin America where antitrust policies and agencies were new. Before the mid 20th century, only the United States had effective antitrust policies; by the 1960s, several dozen countries joined the United States. The European Union only got serious about antitrust in the 1980s (see Connor (2009)).

[24] Argentina, Barbados, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Trinidad and Tobago, and Venezuela.

[25] Barbados (2000), El Salvador (2004), Honduras (2005), Nicaragua (2006), Trinidad and Tobago (2006), Uruguay (2007), Dominican Republic (2008), and Ecuador (2011).

[26] Brazil (2000 and 2011), Argentina (2001), Chile (2002, 2003 and 2009), Mexico (2006-2011), Panama (2006 and 2007), El Salvador (2007), Peru (2008), Colombia (2009), and Costa Rica (2010).

[27] Decision 608, on the rules for the protection and promotion of competition, was adopted by the Andean Community in 2005.

Without effective enforcement, even strong competition laws on paper may remain weak in practice

No matter if there are competition laws or how strong they are on paper, they are only as effective as their enforcement. In most countries, the enforcement agency is a national state authority. With few exceptions, competition authorities are part of the executive branch, and the president has the authority to replace the head of the control entity at will.[28] In contexts with close ties between political elites and business elites, factors such as the independence of the enforcement agency or commitment mechanisms that ensure limited discretion in decision-making may be essential for ensuring the efficacy of policies.

Data collected by the OECD show the budgets of competition authorities as a share of GDP in the Americas (including nine Latin American countries, Canada, and the United States). Latin America stands out for its low budgets compared with the OECD threshold and other world regions.[29] Though budget alone is not a perfect measure of the activity of antitrust agencies in the region, it speaks to their capacity and their place in government policy priorities. Perhaps more informative is the fact that, while merger reviews are commonplace across the region, blocked or withdrawn mergers are practically nonexistent, except in Brazil.

Despite progress over the last three decades in creating and improving antitrust enforcement, there is still a long way to go. Agencies often lack the powers required to investigate, for instance, through dawn raids, and are unable to offer attractive leniency agreements to promote whistleblowing among cartel members. They are also unable to contain abuses of market power and cartelization through fines and penalties. Most of them also lack appropriate staffing in numbers and expertise.[30]

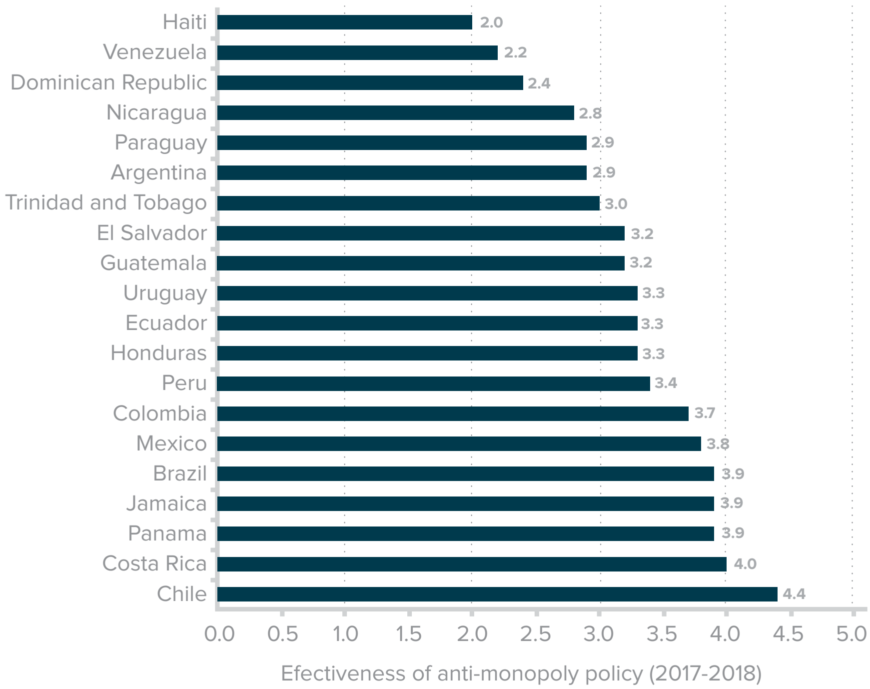
In the Executive Opinion Survey, the World Economic Forum asks respondents to rate the effectiveness of policy at ensuring fair competition with a grade between 1 (not effective) to 7 (extremely effective).[31] The average score in Latin America in the 2017-2018 wave of the survey is a mediocre 3.3. On one extreme, Haiti, Venezuela, and Dominican Republic score below 2.5. Haiti does the worst in the world by this measure, ranked last among the 137 countries surveyed. Nicaragua, Paraguay, and Argentina follow closely with scores under 3.0 and also rank in the tail of the distribution. On the other extreme, Chile ranks 35 in 137, with a score of 4.4, followed by Costa Rica, Panama, Jamaica, and Brazil (figure 3.3).

---

[28] Miranda (2012).
[29] OECD (2021).
[30] See OECD (2021).
[31] See Schwab (2018), appendix B.

Figure 3.3: Anti-monopoly policies largely fail to ensure fair competition in LAC

In your country, how effective are anti-monopoly policies at ensuring fair competition? (1 = not effective at all; 7 = extremely effective), 2017-2018 weighted average



Source: See Schwab 2018, appendix B.

Business political power is often responsible for competition policy weakness

The existence and effectiveness of competition laws and agencies are not exogenous to business political power. The history of the communication sector is a powerful example. Thus, concentration and oligopolistic pricing in Mexican telecommunication has been extensively documented.[32] Initially, neither the competition agency nor the sector regulator could inhibit monopoly power. Telmex, alongside other giant firms, belong to what is known in the literature as *poderes fácticos* (factual powers), that is, powerful actors who can dilute or evade government control through lobbying and interference across the three branches of government: congress, the executive, and the judiciary.[33] Members of this elite in telecommunication and the media have lobbied for favourable legislation in Mexico (see box 3.3) and used the judicial system to stymie regulators. As a result, in 2013, the Pacto por Mexico, a political agreement

[32] See Levy and Walton (2009).
[33] Trejo (2013).

among the three largest parties, was designed to regain state control over these de facto powers in the telecommunication sector and elsewhere. While this resulted in substantive changes to the Constitution of Mexico in matters of competition, they have yet to translate into equally substantive changes in the structure of the telecommunication sector, which is still dominated by the same firms.

Big business in some countries has found ways to use courts and other legal provisions to obtain injunctions against the implementation of antitrust measures.[34] For example, the constitutional right of amparo, which is granted to citizens in some countries to stop a policy with potentially harmful effects, has often been used to tie up antitrust rulings in court.[35] The practice was so widespread among firms that consulting businesses emerged specializing in amparos for business.[36] In Brazil, defendants could appeal decisions of the Administrative Council for Economic Defense through up to four layers of appeals courts. In Chile, other courts and the supreme court have often overturned judgments of the national economic prosecutor or achieved reduced penalties.

One may easily forget that trade protection can work in similar ways to cartels by fixing minimum prices. The difference between domestic and international prices constitutes yet another non-market transfer from consumers to firms. The net distributional effect depends on who consumes the product and whether workers in protected firms receive a large part of the transfer. In any case, these transfers merit greater scrutiny.

Factors that enhance business political power

Business actors exert political influence through deliberate political engagement and their profit-maximizing responses to market signals. Businesspeople's actions in diverse arenas —labour markets, taxes, pricing— have the potential to increase inequality and lower productivity growth, even when this is not what in the abstract they would prefer.

Political scientists and political economists have carefully examined the factors, particular to the region, that may be contributing to enhanced business political power. A first suspect is the electoral rules prevailing in many countries that result in fragmented party systems. Majoritarian presidential elections, combined with proportional representation elections for legislatures, are common in Latin America and rare elsewhere.[37] This combination of electoral rules results in fragmented

[34] The courts often also helped business challenge tax increases. On Guatemala, see Bogliaccini and Madariaga (2019).
[35] Elizondo (2009).
[36] Schneider (2021).
[37] Chaisty, Cheeseman, and Power (2018).

party systems and presidents elected without legislative majorities. Party support in congress through legislative coalitions is built through political transactions. In fragmented party systems, a natural by-product of proportional electoral systems, small groups of legislators extract rents from the executive in return for votes on legislation. This fragmentation opens opportunities for businesses to finance parties or candidates to use these vote negotiations in their favour.[38]

A second suspect is malapportionment, an institutional feature also common in Latin America, whereby sparsely populated, usually rural districts are overrepresented in Congress. Higher malapportionment is associated with lower income taxation and higher inequality in 16 Latin American countries. Economic elites have pressed for malapportionment in moments of institutional reform, to protect their interests. As a result, overrepresentation of conservative rural districts has limited redistributive efforts from representatives of denser, poorer, urban districts.[39]

A third suspect is media concentration. Big business and media in all its forms are closely interwoven, and media ownership is highly concentrated throughout LAC. The dominant media firms are well-known business groups. Some of them started as newspapers or radio businesses in the 20th Century and have become dominant in other media markets (see examples of large and diversified corporate groups in the media in Argentina, Brazil, Chile, Mexico and Peru). Others started in different sectors and moved into media, the case of other groups in Argentina, Chile, Colombia, and countries in Central America.[40] Concentration is high across all media (print, radio, and television) and communication services in the region. The largest four operators control 82 percent of the market, ranging from about two thirds in radio and print media to over 90 percent in television.[41] These firms, at a minimum, are not likely to use their media programming to argue for taxing corporations and their owners or the use of regulation to restrict media concentration.

Moreover, beyond content, media firms also deploy their power in traditional ways. There are many cases of big business using democratic legislatures to pursue their interests. (An example in Mexico is shown in box 3.3).

---

[38] Schneider (2013).
[39] Ardanaz and Scartascini (2013).
[40] Segovia (2005). Carlos Slim did not buy up major content media in Mexico (possibly because incumbent business groups were unwilling to sell), but he did buy 17 percent of the *New York Times* (Alpert and Beckerman (2015)).
[41] Becerra and Mastrini (2009).

Box 3.3: The “Ley Televisa” in Mexico

In the early 2000s, the Government of Mexico decided to reform telecommunication regulations. The legislation at the time had been in place since 1960 and was severely outdated. In October 2004, a draft bill establishing the new legislation for regulating the industry was presented. It generated high expectations. The turbulence of an upcoming presidential election, however, led to the dilution of the bill. On 1 December 2005, a completely different bill was proposed. The legislation was approved unanimously by the Chamber of Deputies on 21 March 2006, after 7 minutes of deliberation. It was later approved by the Senate without modification; a minority of senators were opposed.

The new legislation passed in 2006 was deemed a step back in competition in the telecom sector. It was criticized because it benefited large incumbent firms, Televisa and TV Azteca. The new law benefited incumbents against newcomers in several ways. First, it granted control of the radio spectrum concessions to the current radio broadcasters for 20 years, renewable and with priority over third parties. In essence, it guaranteed that current radio broadcasters, such as Televisa, controlled the radio spectrum in perpetuity. Second, it expanded the sphere of action of current broadcasters. Under the new law, incumbents wishing to use radio frequency for additional telecommunication services could do so for free, while newcomers had to bid for the frequency in an auction. The new law made it extremely difficult for newcomers to enter the market. Lack of competition in telecommunication implied lower quality and less trustworthiness in the information being broadcast.

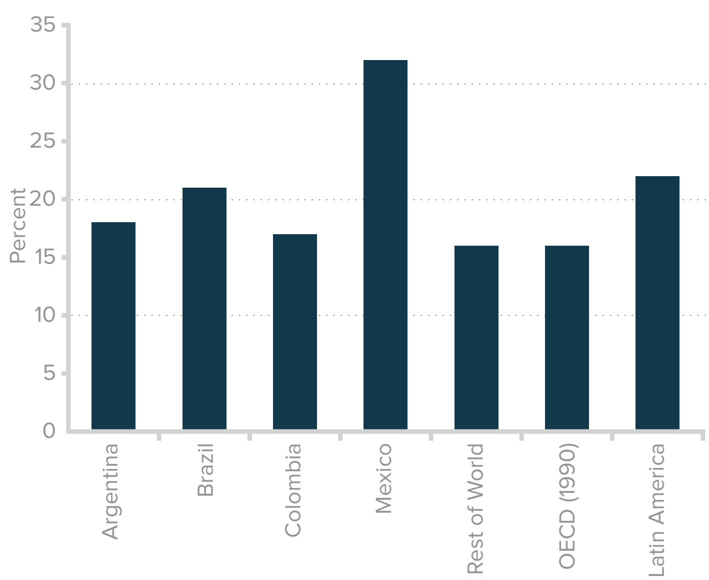
The swift approval of this new legislation without major revision is said to be a result of intense lobbying. Some legislators were critics of the Ley de Televisa. A group of 47 senators demanded the bill. The Supreme Court ruled declaring several articles unconstitutional and automatically repealing them. Despite the Supreme Court’s intervention to counter Televisa’s interference in public policy, the firm has maintained a close relationship with legislators.

Source: Castañeda and Ruiz (2021), Background Paper of the UNDP LAC RHDR 2021.

A fourth suspect is family-owned firms. There are three hypotheses about the role played by business families in politics. First, relative to paid professional managers, families have a more intense attachment to their firms. They are likely to be more intensely opposed to taxation, regulation, and other measures that adversely affect family patrimony. Second, families have advantages in politics because of their longer time horizons relative to professional managers.[42] If families agree to support politicians, they can more effectively monitor their performance over time and reward or punish accordingly.[43] Third, families resolve agency problems both in management and politics.[44] Later generations sometimes go into politics giving business families trusted representation within the political elite. The family-ownership factor is not negligible. On average in Latin America, 22 percent of corporations listed in the stock exchange, and 28 percent of large firms (with 100-5,000 employees) are family owned (figures 3.4 and 3.5). Family-owned businesses are among the largest 50 businesses and contribute at least 30 percent of revenues from this group (Brazil) up to more than 90 percent (Mexico). An extreme example of the role played by family-owned businesses, for which there is little quantitative but much anecdotal evidence, is the case of Haiti (box 3.4).

Figure 3.4: On average in Latin America, 22 percent of corporations listed in the stock exchange are family-owned

Fraction of corporations listed in stock markets, from strategic individuals and families, 2019

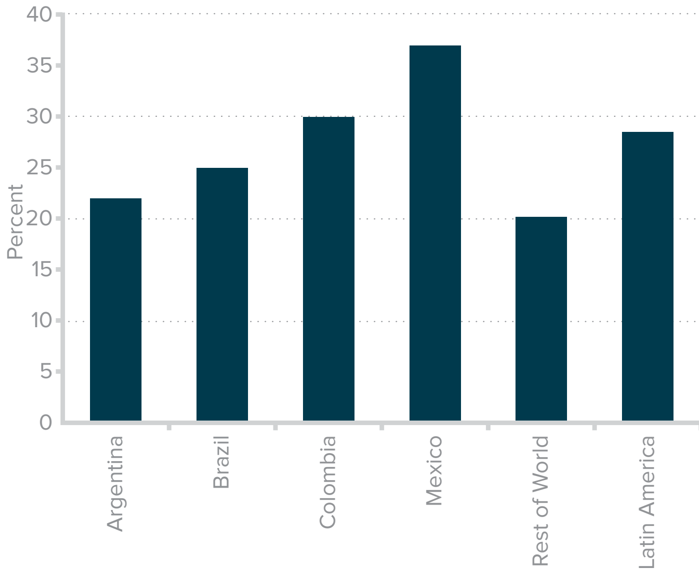


Source: OECD 2019.
Note: Data based on the 10,000 largest listed companies covered by the OECD report. Strategic individuals and families refer to controlling owners or members of a controlling family or block-holders and family offices.

[42] Morck, Wolfenzon, and Yeung (2005).
[43] Schneider (2013).
[44] Schneider (2008).

Figure 3.5: On average in Latin America, 28 percent of large firms are family-owned

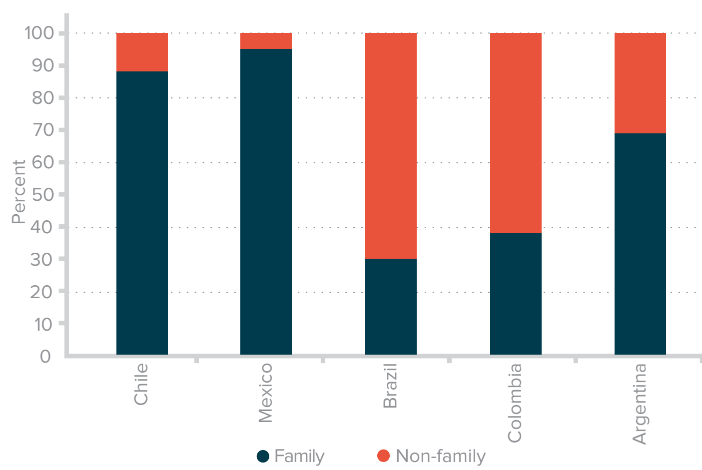
Fraction of family-owned firms with 100 to 5,000 employees, 2004-2010



Source: Bloom et al. 2012.
Note: The firms surveyed are in manufacturing, hospitality, schools, and retail sectors, have 100 to 5,000 employees, and are drawn from national firm databases and company registries.

Figure 3.6: Family-owned firms are among the largest by revenues

Share of revenues from domestic firms among the 50 largest, by ownership, 2019. Selected countries



Largest 50 private domestic companies - Revenues as % of GDP	58.2	25.1	23.0	19.2	10.4

Source: Schneider 2021, Background Paper of the UNDP LAC RHDR 2021; S&P Capital IQ; World Development Indicators.
Note: Companies are assigned to a country based on their place of incorporation.

Box 3.4: Concentration of power in Haiti

Haiti has a long history of close ties between economic and political elites. For decades, autocratic leaders have traded economic privileges for political support from the wealthiest and most powerful families. The political instability characterizing the country has constantly induced this practice among leaders in need of support. During the second half of the 20th Century, exclusivity and statutory monopolies were granted by presidential decree to a long list of industries, including mining and oil, telecommunication, agriculture, and sesame processing.[a] However, perhaps the most critical exclusivity granted by the government has been in imports. In 1985, 19 families held exclusive rights to import the most widely consumed products.[b] Some of these rights have been legally dismantled, yet informally maintained because of a lack of regulation or enforcement. Haiti imports most of its final products, and, according to the World Bank, 70 percent of total imports in value are highly or moderately concentrated among a small number of importers.[a]

Haiti is a net importer of food. As the main food staple in Haitian households, rice is a good example. Haiti imports over 80 percent of the rice it consumes (mainly from the United States). Although there are 20 firms importing rice in Haiti, six importers are responsible for 70 percent of the rice imports and control the rice market, virtually unchallenged. Importers are also active as wholesalers. In total, 10 major wholesalers serve the country; they tend to indulge in price speculation.[c]

The rice industry illustrates a situation that is similar in various sectors of the economy. Food markets in Haiti are highly concentrated and import dependent. Incumbents do not allow the entry of new competition, and there are no institutions to regulate their conduct. Weak contract enforcement motivates economic actors to operate among friends or family members.[a] Large businesses are family owned, and access to management and ownership is essentially closed to non-family members. Investors perceive that Haiti is the country in the Caribbean with the highest risk of discriminatory policy favouring incumbents, mainly related to price controls and discrimination against foreign firms.[d]

Haiti ranked 138 among 140 countries in 2019 in the global competitiveness index.[e] In 2020, it ranked 179 in the overall ease of doing business, 189 in the ease of starting a business, and 127 in contract enforcement among 190 countries.[f]

---

[a] Singh and Barton-Dock (2015).
[b] Fass (1990).
[c] Furche (2013). The data here refer to 2010, the latest available year.
[d] On the Economist Intelligence Unit's Operational Risk Model, see EIU (2013).
[e] 2019 data, Ease of Doing Business Index (database), World Bank, Washington, DC, http://data.worldbank.org/indicator/IC.BUS.EASE.XQ.
[f] 2019 dataset, GCI (Global Competitiveness Index) (database), World Economic Forum, Geneva, http://reports.weforum.org/global-competitiveness-index/.

The menace of capital flight and disinvestment enhances business influence on policy. If the government thinks a tax or spending policy or a regulation to promote redistribution will lead businesses to reduce investment, thereby hurting economic growth and employment generation, it may withdraw the measure. Reactions to business behaviour are often anticipated reactions, whereby governments drop policy proposals over the concern that the proposals may lead to disinvestment even before the proposal is adopted.[45] Business leaders weaponize this power when they claim that certain policies will provoke disinvestment. Governments are more likely to worry about depressing business investments if elections are near and unemployment is high. Most recently, fiscal imbalances resulting from the COVID-19 pandemic have made governments more dependent on private investment to promote economic recovery, enhancing the political power of businesses.

3.3. Fiscal redistribution in LAC remains comparatively weak

The concentration of power in the hands of a few not only distorts policy in the market arena. It can also have critical effects on other policy spheres. Of particular concern in the context of the high inequality-low growth trap explored in this report are the effects on taxation and the design of fiscal policy. This section looks at some of the challenges facing the fiscal systems in the region.

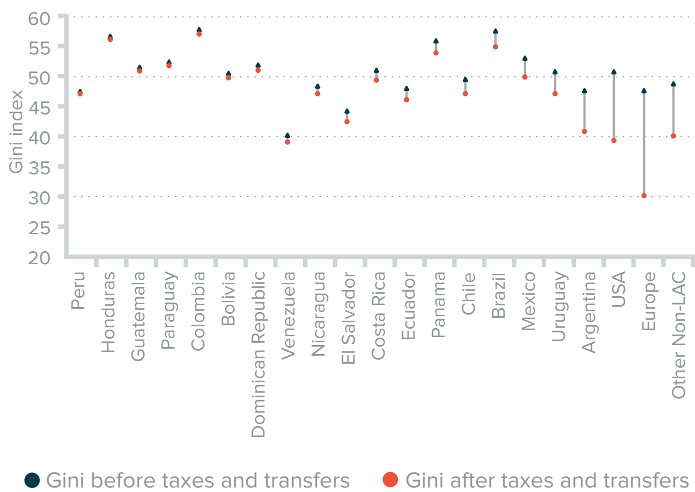
A distinctive feature of fiscal policy in the region is its weak redistributive power. Gini indices in Latin America, with few exceptions, remain essentially unchanged after households pay taxes and receive government transfers (figure 3.7). In Europe, the average Gini index is 47 if redistributive policies are not considered, but 30 if they are considered. In Latin America, the corresponding values are 51 and 49. In Europe, these policies thus reduce the index by 17 points, compared with only 2 points in Latin America.

Although average Gini indices before taxes in the developed world are comparatively low, a closer look at country-level redistributive dynamics shows that many developed countries start at inequality levels similar to those in Latin America. However, these countries manage to transform their income distributions during their transit through the fiscal system (figure 3.8), while most LAC countries do not. After taxes and transfers, inequality falls by 29 points in the United States and 54 points (on average) in Europe, but much less in Latin America: 2 points in Colombia, Dominican Republic, Guatemala, and Paraguay; 4 points in Costa Rica and El Salvador; in the upper extreme, 8 points in Uruguay and 17 points in Argentina. The average redistribution in the 13 countries of Latin America is only 5 points.

[45] Fairfield (2015) offers detailed empirical studies of the Lagos government in Chile in the early 2000s when the Finance Ministry moderated tax increases to avoid a backlash from business.

Figure 3.7: There is little redistribution through the fiscal system in LAC

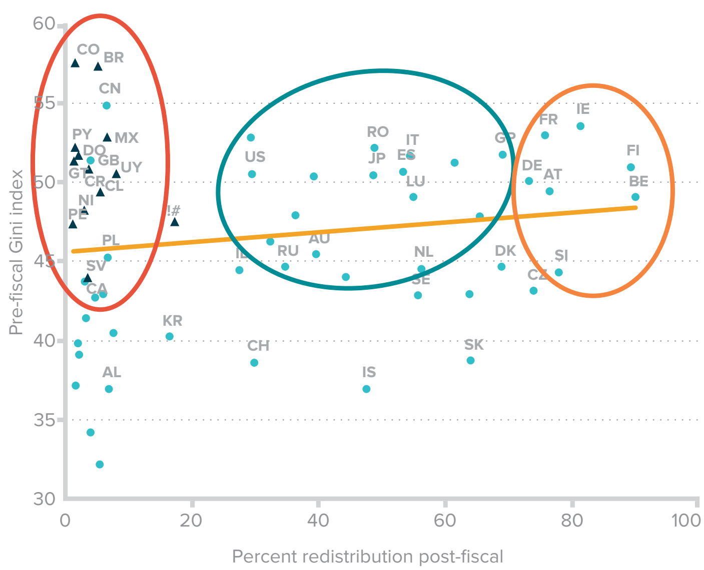
Gini indices before and after taxes and transfers, circa 2014



Source: UNDP elaboration based on OECD Database and CEQ Data Center on Fiscal Redistribution, Commitment to Equity Institute, Tulane University, https://commitmentoequity.org/datacenter/.

Figure 3.8: LAC countries' fiscal systems are stingy compared with those in the developed world

Pre-fiscal Gini index vs. percent redistribution after taxes and transfers



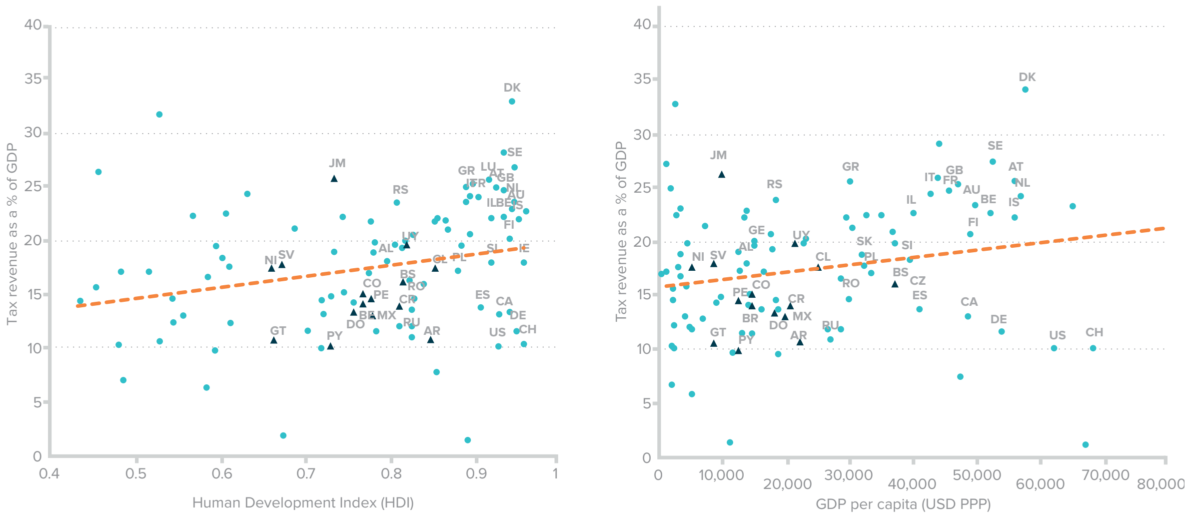
Source: Schneider 2021, Background Paper of the UNDP LAC RHDR 2021. Data updated by UNDP using data from OECD and CEQ Data Center on Fiscal Redistribution, Commitment to Equity Institute, Tulane University, https://commitmentoequity.org/datacenter/.
Note: OECD calculations exclude indirect taxes and subsidies via the provision of health care or education. To make the numbers comparable, they are compared with the Gini index of market and disposable income of the CEQ Data Center.

In addition, tax systems in the region fail to generate the necessary revenues to invest in development through government provision of quality services and public goods to the population. Part of the challenge faced by the region during the COVID-19 pandemic relates to the limited fiscal response capacity of governments. Tax revenue as a share of GDP is less in LAC countries than in other countries at similar levels of development and less than in countries at comparable inequality levels (figures 3.9 and 3.10).

Figure 3.9: LAC countries collect less taxes as a share of GDP than countries with similar development levels

a. Tax revenue (as percent of GDP) vs. HDI

b. Tax revenue (as percent of GDP) vs. GDP per capita



Source: UNDP elaboration. Tax as percent of GDP from World Development Indicators (WDI). Human Development Index (HDI) from Human Development Report Office 2020. GDP per capita from World Development Indicators (WDI).

Figure 3.10: LAC countries collect less taxes as a share of GDP than countries at similar inequality levels

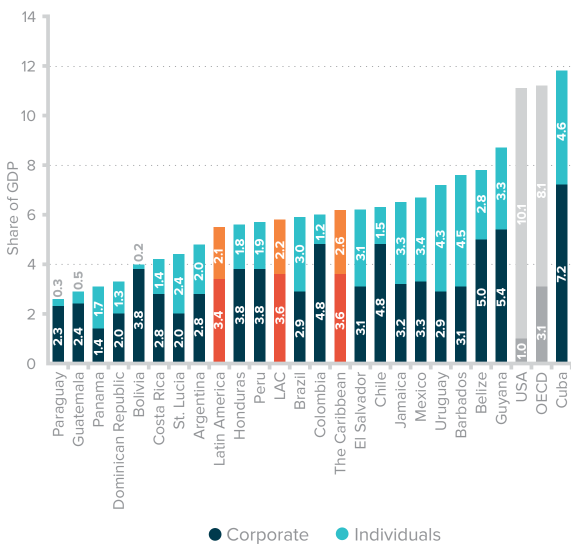
Tax revenue (as percent of GDP) vs. Gini index

Source: UNDP elaboration. Tax as percent of GDP from World Development Indicators (WDI). Gini indices from OECD Database and Data Center on Fiscal Redistribution, Commitment to Equity Institute, Tulane University, https://commitmentoequity.org/datacenter/.

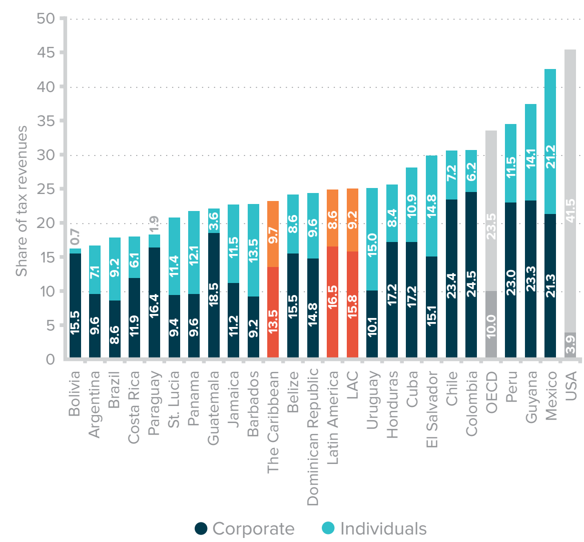
In LAC, personal income taxes and other taxes falling on individuals have historically been low (figure 3.11). At an average of 2.2 percent, these taxes as a share of GDP (panel a) in the region are well below levels in the OECD (8.1 percent) and the United States (10.1 percent). Consequently, tax collections from individuals across LAC countries make up only 9.2 percent of total tax revenues on average, roughly half the share in the OECD and one quarter the share in the United States (panel b). Low personal taxes are explained by low statutory tax rates and tax exemptions. Both statutory and effective tax rates in LAC applied to the highest incomes are well below corresponding rates in Europe and the United States.[46] In contrast, corporate tax revenues as a share of GDP in LAC (3.6 percent) are slightly higher than the OECD average (3.1 percent) and three times the average in the United States (1 percent) (panel a). The contribution of corporate taxes to total tax collection in LAC is approximately 6 percentage points and 12 points higher than the corresponding contributions in the OECD and the United States, respectively.

Figure 3.11: Tax collection from direct personal taxes is low in LAC countries

a. Direct taxes on income, profits, and capital gains, % of GDP, 2019



b. Direct taxes on income, profits, and capital gains, % of total tax revenues, 2019



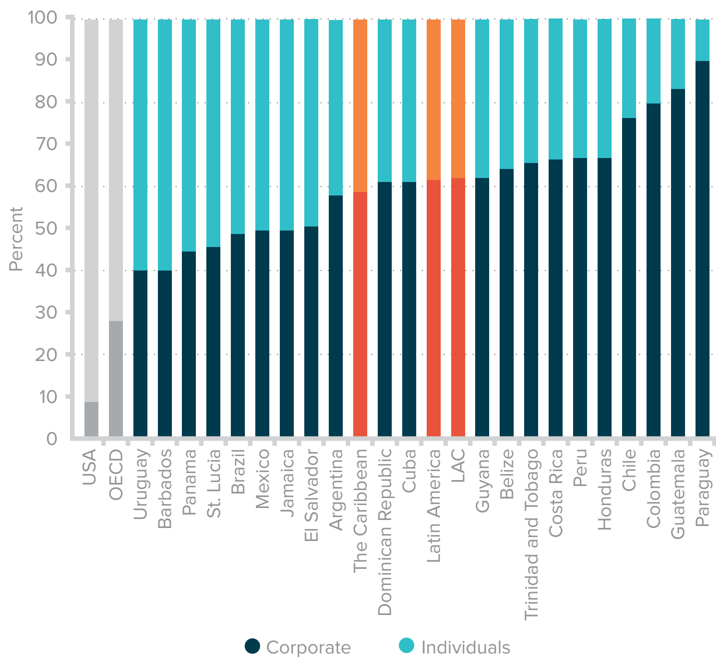
Source: UNDP elaboration based on OECD Database.
Note: OECD excludes Latin American countries.

46 Fairfield (2019).

These data should not give the impression that corporate tax rates in LAC are astronomically high (although, in some countries, that may be the case). They rather highlight different tax structures between LAC countries and developed countries. While developed countries tend to have tax systems in which households and individuals bear the largest share of the direct tax burden, this is not the case in LAC. Instead, they tend to have systems that place a heavier burden on the productive sector (figure 3.12). The relatively small direct tax burden borne by households is partly why direct taxes are less progressive in LAC. Wealthy households and individuals contribute comparatively less.

Figure 3.12: Taxes to income, profits and capital gains are highly concentrated on the productive sector

Tax revenues from direct taxation, percent by type, 2019



Source: UNDP elaboration based on OECD Database.
Note: OECD excludes Latin American countries.

Placing a heavier relative tax burden on the productive sector than on households has the disadvantage of potentially limiting economic activity and employment, while failing to tax the rich. In a context of concentrated business power, it also implies that the larger, more powerful businesses usually manage to work around statutory tax rates and end up paying lower effective corporate taxes than the smaller businesses as a share of their profits.

While the pattern of low overall taxation levels and the relative scarcity of fiscal revenue from income tax collection is likely the result of many different factors, one relevant factor in the context of this chapter is the way power is concentrated. In particular, the extent of corporate clout in the political sphere. Indeed, big businesses and business owners in Latin America are partly responsible for maintaining overall effective taxation low and steering fiscal systems away from more progressive taxation through their proximity to political power. This influence is exerted via their interference in tax reforms. The interference ranges from blocking tax increases to compromising tax resources by pushing for exemptions and subsidies to their operations that crowd out redistributive spending. Economic elites also often obstruct expected tax collection through financial maneuvers in tax declarations that shield income from tax obligations.[47]

Business organization strategies to oppose tax increases represent a costly political trade-off for policymakers, especially when these strategies are centralized through coordinated associations (box 3.5).[48] A second and less conspicuous practice relates to business lobbying for tax cuts, exemptions, and deductions. Latin America ranks high on overall tax spending: the 3 percent of GDP in Brazil and 5 percent in Chile exceed the 1 percent in Germany and the 2 percent in the Netherlands (although not as high as in the United States, 6.5 percent).[49] Most of this spending is often associated with exemptions on businesses.[50] Moreover, taxation systems across Latin America are lenient in the private sector in aspects such as the heavy reliance on payroll taxes and the lack of supervision of transfer pricing transactions. The burden of payroll taxes can often be passed on to consumers and workers, in the form of reduced wages in the latter case.[51] Transfer pricing has made enforcing tax regulations on multinational corporations more difficult: their breakdown into subsidiaries and the rise of intrafirm trade among branches have made it easy to shift profits to jurisdictions with lower tax rates.

There are some outliers in the region that have succeeded in raising taxes. Most notably, in 2006, Chile's then presidential candidate Michelle Bachelet campaigned on the proposal of increasing taxes. In her first year in office, she delivered on her campaign promise and implemented a significant increase in taxes (equivalent to 3 percent of GDP), mainly affecting the richest 1 percent. She was backed by previous student protests and her electoral victory and had enough political momentum to implement these changes swiftly. However, consensus on which path is the right one to follow in tax reform in each country remains a highly contested issue, as evidenced by the recent protests that erupted in reaction to Colombia's proposed tax reform in May 2021.

---

47 Fairfield and Jorratt (2014).
48 Castañeda (2017).
49 Sanhueza and Lobos (2014).
50 Dutz (2018).
51 Wibbels and Ahlquist (2011).

Box 3.5: Private sector associations and the power of economic elites in LAC

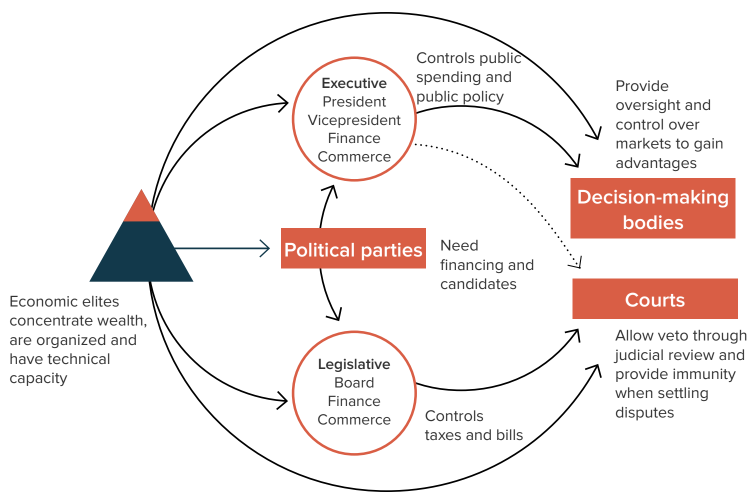
This chapter argues that economic elites can play a role in perpetuating inequalities if they promote institutions that allow them to preserve and expand their privilege, while limiting the reach of redistribution through social spending.

Business organization strategies to oppose tax increases represent a costly political trade-off for policymakers throughout the region, especially when these strategies are centralized through coordinated associations.[a] Despite wide intraregional variations in the degree of organization,[b] overall taxation is lower in countries with strong centralized business associations, such as Chile, Colombia and Guatemala. Over the past three decades, organized associations seeking to secure private interests in LAC have employed a comprehensive set of persuasive practices to influence fiscal policy. One of these practices involves directly blocking corporate tax increases. Government efforts to raise corporate taxes in Argentina and Chile during the 2000s had notably different results.[c] Chile's proposed tax increases in 2003 and 2005 were met by major obstacles from business associations and their political allies. In contrast, Argentina's Government met less opposition from fragmented associations with fewer political connections.

The cases of Guatemala and Honduras provide good examples for understanding the dynamics of elite power in shaping the market and fiscal distribution policies, and the elements underlying them, which are shared by many countries across the region. The paradoxical combination of sustained economic growth and persistent inequality shared by these countries can be at least partially attributed to the disproportionate influence of business elites on democratic outcomes and processes of policy design. This influence has led to selective government responses during the determination of priorities and the orientation of institutional capacity, ultimately limiting investments in development. As a result, fiscal reforms in both countries are rare, and the free trade agreements that opened Central American markets are characterized by low fixed costs for importing equipment and high tariffs on goods aimed at local markets, particularly those in agroindustry.

Umbrella organizations for business associations that protect the interests of a network of families in control of diversified business portfolios, with privileged access to financial services, often benefit from low-complexity, primarily informal, and highly concentrated economies. Depending on their wealth, level of organization, and technical capacity, these organizations contribute to implementing a complex agenda of lobbying strategies to move regulation in favour of businesses and business owners. They produce technical and legal information through research institutes to persuade policymakers. They finance political parties and campaigns to influence budget and spending decisions and the broad policy agenda. They exert influence on legislation to weigh in on bills related to economic issues, including taxes and trade treaties. They influence courts to veto undesirable policies and settle disputes in their favour. And they directly or indirectly control other decision-making bodies that oversee and control markets (figure B3.5.1).

Figure B3.5.1: Powerful business elites may exert influence over economic policy through different mechanisms



Source: Pachón and Brolo 2021, Background Paper of the UNDP LAC RHDR 2021.

This influence is in part possible because of weak democratic contexts that tend to enhance the power of organized interest groups relative to the state.

The layout of political authority often gives the executive branch a prominent role as agenda-setter and policymaker and grants considerable power to the legislature over economic policies via their ability to amend executive bills and budgetary provisions. Business elites sometimes secure seats in key positions in the executive and legislative branches, obtaining enough power to review measures that provide economic incentives, protect their activities from competition, intervene on free trade agreements, or modify the budget to avoid increases in taxation.

As a result of uneven structures of representation, business elites organized through business associations with access to key decision-makers gain a strong voice, while unorganized voters may lose theirs, resulting in policy agendas that end up greatly differing from those mandated by the electorate. These elites have succeeded at centering the debate about tax policy around macroeconomic stability as a priority.[b] In a context of low tax revenues this comes at the expense of constraining government capacity to provide public goods and services, including necessary investments in infrastructure and social policy.

---

[a] Fairfield and Jorratt (2014).
[b] Schneider (2012); Barrientos and Garita (2015).
[c] Fairfield (2015).

3.4. Labour unions can contribute to lowering inequality and boosting economic growth

The economies in the LAC region are characterized by relatively high levels of market concentration. A few local business groups (usually managed and owned by traditional families), alongside multinational corporations, can often extract large rents thanks to their outsized market power. These economic rents frequently allow these actors to buy political power and the capacity to influence policies, taxes, and regulations in a way that contributes to maintaining a status quo that works in their favour. The outcomes of this have been unequal societies with inefficient economies.[52] However it is not only firms that have this power to distort policy in the market arena, but also workers, particularly organized labour.

The effect of labour unions on efficiency and equality in LAC is ambiguous

Existing research suggests that the effect of labour unions on efficiency and equality in LAC is ambiguous. The labour unions are neither unequivocally “good” nor “bad” in this regard. On the one hand, there is some evidence suggesting that stronger unions can promote both efficiency and equality. For example, the relative success of the

---

[52] Schneider (2009).

"Great Banana Strike" organized by labour unions in 1934 against the abuses of power of the United Fruit Company was an important step that contributed to a more equal society in Costa Rica.[53] On the other hand, unions can obstruct policies that improve human capital accumulation among the most vulnerable members of society, such as in public education in Argentina or Mexico, hurting both efficiency and equality, as poor disadvantaged students receive lower quality education than the rest.[54]

These ambiguous effects are perhaps not surprising. As workers in LAC have gone through different historical experiences and operate in diverse political and economic environments, one would expect to see substantial differences in traditions, resources, political affiliations, and objective functions across labour organizations.[55] Moreover, labour unions in the region operate in the context of heterogeneous labour markets. In some countries, informal employment accounts for more than two thirds of the labour force, while, in others, the share is less than a third. Because informal employment is antithetical to the organization of labour unions, the scope of the latter to influence policy one way or the other varies importantly.

In the understanding that there is no single story of labour unions in LAC, this section explores some of the underlying factors that may influence the degree and direction of their impact on efficiency and equality. It considers the characteristics of labour unions in the region (such as their strength and composition), their channels of influence, and the institutional environment in which they operate. It emphasizes the need to go beyond averages to look at the variation in these areas across countries and sectors. Two themes permeate the discussion: whether labour unions are in the public or private sector and, in the case of the latter, whether the firms that employ their affiliates have market power or not.

The characteristics of labour unions in LAC

Depending on their strength, labour unions may have more or less capacity to affect equality and efficiency outcomes. Evidence across a range of objective and subjective measures of labour union strength, such as labour union density, coverage of collective agreements, share of firms unionized, number of strikes, and whether people consider trade unions to be powerful institutions, suggests that labour unions in LAC are, on average, weak. This is so compared with other institutions in the region (such as government and businesses) and their counterparts in the developed world. There is, however, heterogeneity across countries and sectors. In a few countries, labour

---

[53] Booth (2008).
[54] Jaume and Willén (2019), Álvarez et al. (2007).
[55] Collier and Collier (2002).

unions are relatively strong; this is the case mainly in Argentina and, to a lesser extent, in Bolivia, Brazil, Costa Rica, Mexico, and Uruguay. In most other countries, labour unions are relatively weak. In a few countries, such as in Guatemala and Haiti, there are no effective labour unions (or they are economically and politically irrelevant).[56] In most cases, labour unions in the region lost power with the abandonment or exhaustion of import substitution industrialization during the 1980s and 1990s, and large informal employment is a deep structural impediment to wide coverage.

Not only is there large variation in labour union strength across countries, there is also high heterogeneity across sectors and types of workers (figure 3.13). First, across LAC countries, workers in the public sector are more likely to be organized in unions relative to private sector workers (except in activities where unions are legally banned, such as the army and, sometimes, the police). Second, within the private sector, workers are more likely to organize effectively in firms that are larger and enjoy higher rents. Third, in all LAC countries, unionization is more frequent among more educated workers and almost nonexistent among workers that are self-employed or are employed in extremely atomized sectors, such as domestic work or employment in small firms where all workers are relatives. Even though labour unions do not represent informal or unemployed workers, these groups still share the belief with public and private sector employed workers that labour unions are necessary to defend working conditions and wages. Almost 80 percent of people (within all types of employment groups) consider labour unions to be a necessary institution to protect workers from employers' abuses of power.[57] One reason for this may be that labour unions (sometimes) support and collaborate with emerging social movements that partially represent the interests of these outsiders. A good example is Brazil, where a large urban trade union, the Central Única dos Trabalhadores (Unified Workers' Central), has fought alongside the Movimento dos Trabalhadores Rurais Sem Terra (Movement of Landless Rural Workers) to incorporate popular sectors.[58]

---

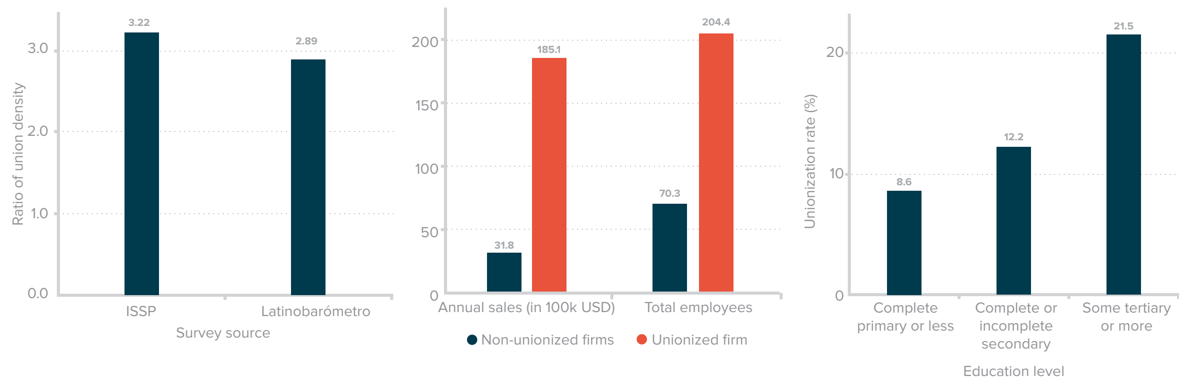
[56] Terrell (1993).
[57] 2015 survey data, Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.
[58] Ramalho (1999); Rossi (2017); Collier (2018).

Figure 3.13: In LAC, unionization is more common in the public sector, in larger firms, and among more educated workers

a. Ratio of union density in the public sector to the private sector

b. Total annual sales and employment (unionized vs. non-unionized firms)

c. Unionization rate by workers' educational attainment



Source: Ronconi 2021, Background Paper of the UNDP LAC RHDR 2021; 2016 data of ISSP (International Social Survey Program) (dashboard), Leibniz Institute for the Social Sciences, Mannheim, Germany, http://issp.org/data-download/by-year/; 2007 data of Latinobarómetro.
Note: Ratios are simple averages of ratios in LAC countries. (ISSP includes 08 LAC countries and Latinobarómetro 18.)

Source: Ronconi 2021, Background Paper of the UNDP LAC RHDR 2021.
Note: Sales are converted to U.S. dollars at the official exchange rate.

Source: Ronconi 2021, Background Paper of the UNDP LAC RHDR 2021. Based on data from ISSP Research Group (2016).
Note: Unionization rates are simple averages of rates in LAC countries with available data (includes 8 LAC countries).

Channels of influence in the market and political arenas

Labour unions use various channels and instruments to affect the rents of big business and, subsequently, economywide efficiency and equality outcomes. Some of these channels operate at the firm or sectoral level in the market arena, while others are in the political arena.

In the market arena, at the firm level, trade union leaders and delegates can bargain with business owners either to share the rents obtained in the product market or not allow employers to exploit the local labour market. Both forces reduce inequality (between capital and labour), and the latter force can also improve efficiency by bringing salaries closer to labour productivity. However, this is only true if union leaders respond to the interests of those they represent and if business owners enjoy rents (that is, they operate in markets that are not perfectly competitive). If labour union leaders are corrupt, they may not share the fruits of their bargaining with workers, and the positive effects on equality and efficiency would recede. In LAC, this is quite a likely scenario; the majority of Latin Americans think that there is substantial corruption in labour unions, and only about one third have some or a lot of trust in labour unions.[59]

[59] 2015 survey data, Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.

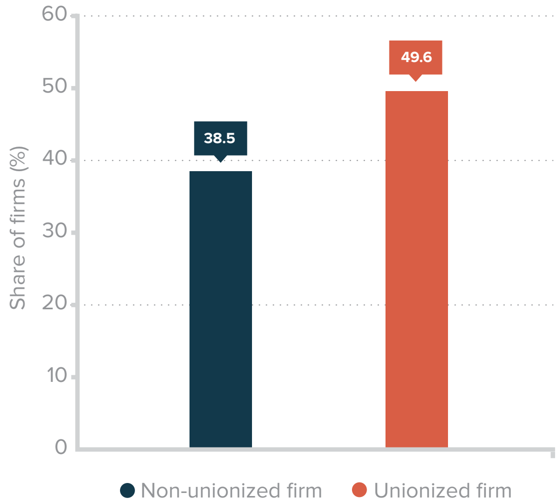
Meanwhile, if labour markets are competitive, labour unions can create inefficiencies by reducing productivity and investment. The reason is this: in the absence of market rents, the level of employment is the efficiency-maximizing one, and higher wages, while clearly beneficial for the workers in those firms, will hurt everybody else as employment is reduced below the optimal. Thus, some form of non-competitive behaviour that results in firm rents is required if unions are to increase equality and efficiency. Furthermore, note that, in these cases, it would be better if, through antitrust policies and other measures to foster competition, those rents were not there. The fact that labour unions bargain with individual firms or a subset of firms in monopolized markets is certainly welcome because at least the rents are not fully captured by firm owners, but are passed on to workers; nonetheless, from the point of view of society, it would be better if there were no rents.

In the political arena, labour unions have three primary instruments to exert their influence. First, they can collude with big business and use their political power to reduce internal and external competition or obtain special tax treatment, subsidies, and privileges, ultimately thereby perpetuating and exacerbating inequality and inefficiency. This channel is still quite common in LAC, though it was even more common during the import substitution industrialization period. Second, labour unions can use their political power to introduce across the board protective regulations for workers (such as minimum wages and severance payments) and lobby the government to devote more resources to enforcement, a crucial concern in a region characterized by the widespread violation of labour and social security regulations.[60] Here, again, however, effects can be mixed because unions may only care about enforcement in large firms where their affiliates are present, leaving the rest of the workforce without protection.[61] Consistent with this hypothesis, data from Enterprise Surveys show that, in LAC, unionized firms are significantly more likely to be inspected than non-unionized firms (figure 3.14).[62] This channel can reduce inequality between firm owners and workers, but exacerbate it across workers. Finally, organized labour can oppose, delegitimize, and destabilize dictatorships or collaborate with them.

[60] Estimates suggest, for example, that half of private sector employees in the region do not receive the benefits to which they are legally entitled, and this problem has not decreased over time (Gasparini and Tornarolli (2009)).
[61] Ronconi (2012); Amengual and Fine (2017).
[62] Note that this also presumably underestimates the relationship because the sample only incudes registered firms, and informal firms are rarely inspected (Almeida and Ronconi 2016).

Figure 3.14: Unionized firms are more likely to undergo inspections than non-unionized firms

Share of firms inspected by labour or social security officers in the previous year



Source: Ronconi 2021, Background Paper of the UNDP LAC RHDR 2021; data of Enterprise Surveys (dashboard), International Finance Corporation and World Bank, Washington, DC, https://www.enterprisesurveys.org/.
Note: LAC countries with inspection data are Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guyana, Guatemala, Honduras, Jamaica, Nicaragua, and Peru.

The relationship between labour unions and the minimum wage also deserves attention, particularly in a region where, on the whole, slightly more than half the labour force is informally employed. The effects of minimum wages need to be considered carefully at the individual country level. Even if product markets are competitive, labour markets may not be.[63] Frictions, such as job or worker search costs, can rule out the instantaneous matches between firms and workers required for perfectly competitive labour markets. And these frictions can create rents, which are distributed between firms and workers on the basis of the bargaining power of each party.[64] In this context, minimum wages can change the balance of power in favour of workers. Labour union lobbying for higher minimum wages may thus contribute to a decrease in inequality with minimal impacts on efficiency. However, this result depends on the level at which the minimum wage is set in the overall wage distribution. If it is too high, the outcome can be higher wages among low-wage formal workers, but higher unemployment and informal employment, with lower overall efficiency and contradictory impacts on wage inequality. From this perspective, the participation of labour unions in minimum wage negotiations is welcome. However, considering efficiency and welfare across all workers, not only those in the formal sector, these negotiations need to establish mechanisms to ensure that the interests of non-organized workers in the informal sector, who usually have lower wages than formal workers, and the unemployed are considered as well.

---

[63] Levy and Cruces (2021).
[64] Flabbi (2021).

Public-sector unions and the institutional environment

The role of unions in the public sector deserves special attention because the factors determining their influence on efficiency and equality are different. In the private sector, the effects of unions largely depend on firm characteristics (particularly on whether firms have market power) and on the extent of frictions in the labour market that allow space for bargaining. In the public sector, the effects of unions depend more on institutional factors. Public sector labour unions have more room to improve prosperity in contexts where the state is predatory compared with contexts in which the state is already pursuing the general welfare.

Consider, for example, how public sector teachers unions interact with the institutional environment to foster better or worse educational outcomes (a fundamental engine of growth and equality). At times, the strategies pursued by teachers unions can lead to negative consequences —for example, through class days lost because of strikes among teachers or the opposition to or even political manipulation of teacher performance evaluations.[65] These strategies can harm educational quality, with particularly detrimental effects for the most disadvantaged children. Teachers unions, however, also often lobby for higher educational spending, more teaching supplies, and improved school infrastructure maintenance, which certainly contribute to better educational outcomes. In some LAC countries, but particularly in those that lack cohesive bureaucracies, the existence of strong teachers unions could counterbalance the short-term bias of policymakers. All these mixed effects suggest that "the impact of unions on students' performance depends on the channel and kind of political market in which unions operate, but not on the presence of unions per se."[66]

Finally, regarding pensions, in many countries in the region public and private sector workers share the same social security regime, and thus there is no advantage to one set of workers versus the other in access to health care or pensions; they are all treated equally. But in other countries, such as Brazil, Jamaica and Mexico, public and private sector workers are under different regimes, sometimes with separate social security institutes. The evidence shows that, in these three countries, public sector workers have more favourable pension regimes: lower contribution rates, shorter contribution periods, or more generous benefits, sometimes substantially so (see chapter 5). Furthermore, it is usually the case that public sector pension schemes, particularly under the pay-as-you-go modality, involve contribution rates that are well below the actuarially fair value of benefits, implying the need for large subsidies from all taxpayers to a reduced subset of workers who, compared with their private sector peers, are clearly more well off. Because the subsidies can be quite large, sometimes equal to two or three percentage points of GDP, the impact on inequality is significant.

[65] Murillo et al. (2005); Hecock (2014); Bruns and Luque (2015); Jaume and Willén (2019).
[66] Murillo et al. (2005, p. 231).

An open research agenda

The impact of labour unions on equality and efficiency outcomes in the region has been both positive and negative. This finding contrasts with the one on business elites, on which the diagnosis is far from positive. Labour unions have substantially less economic and political power, although this is not always true, and, if they do have power, they can sometimes deploy it to increase equality and efficiency, although this is also not always true. The fact that labour unions have an ambiguous effect on these outcomes in LAC is consistent with the findings from a much larger body of literature on the economic impact of labour unions in North America and Europe.[67] However, it is essential to remember that what is known about this issue in the specific context of the LAC region is still limited because of a combination of factors. The first is conceptual complexity: there is only a partial theoretical understanding of how labour unions affect LAC societies. Second, there is a lack of robust empirical evidence; data are usually limited, and causal inference is particularly challenging. Third is the simple fact that relatively little research has been conducted on labour unions as economic actors in LAC. Understanding the different impacts of labour unions on development outcomes in the region thus remains an open and important research agenda looking forward.

[67] Tzannatos and Aidt (2006).

Box 3.6: The impact of labour market institutions on price markups and wage markdowns in Uruguay

Using firm-level data for the manufacturing and services sectors in Uruguay between 2002 and 2016, Gandelman and Casacuberta (2021) investigate the impact of labour market institutions, such as wage councils and unions, on the market power of firms in both the product market (through price markups) and the labour market (through wage markdowns). They find that when institutions allow workers to participate in wage negotiations, they are protected from the market power of firms, and wages increase as firms lose bargaining power. However, firms pass on to consumers part of the increase in labour costs through higher prices.

In 1943, Law 10,449 introduced tripartite wage councils in Uruguay for periodic wage negotiations between employer chambers, sectoral trade unions, and government delegates in Uruguay. It established categories of workers by sector of activity and gave councils the ability to set minimum wages for each category. Between 1992 and 2003, however, the government did not summon these wage councils and withdrew from public negotiations. In 2004, wage negotiations were reinstated. Between 2005 and 2016, councils mandated that wages double. Also, changes in the centralization and coordination of wage bargaining strengthened incentives to unionization, and affiliation to unions increased after 2005.

Gandelman and Casacuberta (2021) find that, in response to these changes, the average wage markdown decreased 50 percent compared with the 2005 value, and the average price markup increased 18 percent. Council-mandated wages account for most of the changes in markups and markdowns. While firms were losing bargaining power in labour markets, they seemed to have been able to pass a sizable part of their increased labour costs on to consumers. Sector unionization had no further effect on markups and a minimal effect on the reduction of markdowns. The impact of unions was channeled through wage negotiations.

Increases in labour productivity did not accompany wage increases in Uruguay, and, as a result, the ratio between average wages and labour productivity increased. As a share of output, labour costs rose. This result contrasts with findings on Europe and the United States, where labour shares have decreased, while markups have increased.

3.5. Rebalancing power

This chapter explores how the concentration of power in the hands of a few can distort policy and propel the high-inequality, low-growth trap in LAC. It first looks at the manifestation of this in the market, considering that, in LAC, markets are characterized by a small number of big businesses and high levels of market power. It discusses on how market power in LAC can be costly through its direct effects on productivity and welfare and highlights the fundamental role of effective competition laws in mitigating negative impacts. It presents new evidence showing that greater market power is also associated with higher productivity in LAC. Large firms dominate, at least partly, because their rivals in the market are tiny firms that fail to pose a competitive pressure on account of their relatively low productivity. The chapter also explores the power of workers (through organized labour unions) to shape these outcomes and argues that, while the evidence remains scarce, what is known does suggest that, in certain contexts, unions can do a lot of good. However, they can also be harmful to equality and productivity if they pursue private instead of public interests, which is sometimes the case. This is more generally true about any kind of power: its impact depends on how it is used and what it is used for.

The chapter critically highlights how monopoly power and market concentration can translate into rent-seeking behaviours and, ultimately, into business political power. In the LAC region, this has led to multiple examples of economic elites interfering in policy design or implementation. Fiscal systems, competition policy, and market regulations have often been shaped to benefit a small group of citizens in response to this interference. Economic elites have seldom used their political power to push for reforms that would put countries on a development path, increasing welfare for all. But they could.

Ultimately, however, sustainably moving out of the high-inequality, low-growth trap will require actions that work to rebalance power. There is no single policy solution for addressing these types of power asymmetries and the distortions they create in both the market arena and the fiscal system. Depending on the context, however, efforts such as regulating campaign financing and lobbying activities, strengthening the power and independence of competition policy and competition agencies, revising market regulations to eliminate those that favour private interests and not the general good, or taking seriously the global conversation about how to tax the super-rich, could all play important roles in moving this agenda forward. The next chapter digs more deeply into the challenges facing the region, considering specifically those posed by violence.

References

Almeida, Rita Kullberg, and Lucas Ronconi. 2016. “Labor Inspections in the Developing World: Stylized Facts from the Enterprise Survey”. *Industrial Relations*, 55 (3): 468–489.

Alpert, Lukas I., and Josh Beckerman. 2015. “Carlos Slim Becomes Largest Individual New York Times Shareholder: Mexican Telecom Billionaire Exercises Warrants in Media Company”. *Wall Street Journal*, 14 January 2015. https://www.wsj.com/articles/carlos-slim-exercises-new-york-times-warrants-1421274205.

Álvarez, Jesús, Vicente A. García-Moreno, and Harry Anthony Patrinos. 2007. “Institutional Effects as Determinants of Learning Outcomes: Exploring State Variations in Mexico”. Policy Research Working Paper, 4286, World Bank, Washington, DC.

Amengual, Matthew, and Janice R. Fine. 2017. “Co-enforcing Labor Standards: The Unique Contributions of State and Worker Organizations in Argentina and the United States”. *Regulation and Governance*, 11 (2): 129–142.

Ardanaz, Martin, and Carlos Scartascini. 2013. “Inequality and Personal Income Taxation: The Origins and Effects of Legislative Malapportionment”. Comparative Political Studies, 46 (12): 1636–1663. https://doi.org/10.1177/0010414013484118.

Atkin, David Guy, Benjamin Faber, and Marco Gonzalez-Navarro. 2018. “Retail Globalization and Household Welfare: Evidence from Mexico”. *Journal of Political Economy*, 126 (1): 1–73.

Autor, David H., David Dorn, Lawrence F. Katz, Christina Patterson, and John Van Reenen. 2020. “The Fall of the Labor Share and the Rise of Superstar Firms”. *Quarterly Journal of Economics*, 135 (2): 645–709. https://doi.org/10.1093/qje/qjaa004.

Baily, Martin Neil, Charles Hulten, and David Campbell. 1992. “Productivity Dynamics in Manufacturing Plants”. *Brookings Papers on Economic Activity*, 23 (1992 Microeconomics): 187–267.

Barnes, Matthew, and Jonathan Haskel. 2000. “Productivity in the 1990s: Evidence from British Plants”. Working paper, Queen Mary College, University of London, London.

Barrientos, Ricardo, and Mauricio Garita. 2015. “Una Perspectiva Regional sobre la Intervención de las Élites Económicas Centroamericanas en la Política Fiscal”. In *Política Fiscal: Expresión del Poder de las Élites Centroamericanas*, edited by Instituto Centroamericano de Estudios Fiscales, 1–24. Guatemala City, Guatemala: F&G Editores.

Becerra, Martin, and Guillermo Mastrini. 2009. *Los Dueños de la Palabra: Acceso, Estructura y Concentración de los Medios en la America Latina del Siglo XXI*. Buenos Aires: Libros Promoteo.

Bloom, Nicholas, Christos Genakos, Raffaella Sadun, and John Van Reenen. 2012. “Management Practices across Firms and Countries.” NBER Working Paper, 17850 (February), National Bureau of Economic Research, Cambridge, MA.

Bogliaccini, Juan Ariel, and Aldo Madariaga. 2019. “The Discreet Charm of the Oligarchy: Business Power in Weak Democracies”. Working paper, Departamento de Ciencias Sociales y Políticas, Universidad Católica del Uruguay, Montevideo, Uruguay.

Booth, John. 2008. “Democratic Development in Costa Rica”. *Democratization*, 15 (4): 714–732.

Borraz, Fernando, Juan Dubra, Daniel Ferrés, and Leandro Zipitría. 2014. “Supermarket Entry and the Survival of Small Stores”. *Review of Industrial Organization*, 44 (1): 73–79.

Brummund, Peter William. 2013. “Poverty and Monopsony: Evidence from the Indonesian Labor Market”. Paper presented at the 11th International Industrial Organization Conference, Boston, 17–19 May 2013.

Bruns, Barbara, and Javier Luque. 2015. *Great Teachers: How to Raise Student Learning in Latin America and the Caribbean*. With Soledad De Gregorio, David K. Evans, Marco Fernández, Martin Moreno, Jessica Rodriguez, Guillermo Toral, and Noah Yarrow. Latin American Development Forum Series. Washington, DC: World Bank.

Bull, Benedicte, Fulvio Castellacci, and Yuri Kasahara. 2014. *Business Groups and Transnational Capitalism in Central America: Economic and Political Strategies*. International Political Economy Series. Basingstoke, UK: Palgrave Macmillan.

Busso, Matías, and Sebastián Galiani. 2019. "The Causal Effect of Competition on Prices and Quality: Evidence from a Field Experiment". *American Economic Journal: Applied Economics*, 11 (1): 33–56.

Castañeda, Alejandro,, and Daniel Ruiz. 2021. "The Political Economy of the Telecommunications Reform in Mexico". UNDP LAC Working Paper, 8, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Castañeda, Néstor. 2017. "Business Coordination and Tax Politics". *Political Studies*, 65 (1): 122–243. https://doi.org/10.1177/0032321715616287.

Chaisty, Paul, Nic Cheeseman, and Timothy Power. 2018. *Coalitional Presidentialism in Comparative Perspective: Minority Presidents in Multiparty Systems*. New York: Cambridge University Press.

Collier, Ruth Berins. 2018. "Labor Unions in Latin America: Incorporation and Reincorporation under the New Left". In *Reshaping the Political Arena in Latin America: From Resisting Neoliberalism to the Second Incorporation*, edited by Eduardo Silva and Federico M. Rossi, 115–128. Pitt Latin American Series. Pittsburgh: University of Pittsburgh Press.

Collier, Ruth Berins, and David Collier. 2002. *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America*. Notre Dame, IN: University of Notre Dame Press.

Connor, John M. 2009. "Cartels and Antitrust Portrayed: Private International Cartels from 1990 to 2008". AAI Working Paper 09-06 (1 September), American Antitrust Institute, Washington, DC.

Connor John M. 2014. "Cartel Overcharges". In *The Law and Economics of Class Actions*, edited by James Langenfeld, 249–387. Vol. 26 of Research in Law and Economics. Bingley, UK: Emerald Publishing.

De Loecker, Jan K., and Jan Eeckhout. 2018. "Global Market Power". NBER Working Paper 24768 (June), National Bureau of Economic Research, Cambridge, MA.

De Loecker, Jan K., Jan Eeckhout, and Gabriel Unger. 2020. "The Rise of Market Power and the Macroeconomic Implications". *Quarterly Journal of Economics*, 135 (2): 561–644. https://doi.org/10.1093/qje/qjz041.

Dutz, Mark A. 2018. *Jobs and Growth: Brazil's Productivity Agenda*. International Development in Focus Series. Washington, DC: World Bank.

Economist. 2015. "The Toilet-Paper Tangle: A New Breed of Competition Regulator Takes on the Cartels". *Economist*, 5 December 2015. https://www.economist.com/the-americas/2015/12/05/the-toilet-paper-tangle.

EIU (Economist Intelligence Unit). 2013. "The EIU Methodology". Briefing paper prepared for the Global Assessment Report on Disaster Risk Reduction 2013, EIU, London.

Elizondo, Carlos. 2009. "Perverse Equilibria: Unsuitable but Durable Institutions". In *No Growth without Equity? Inequality, Interests, and Competition in Mexico*, edited by Santiago Levy and Michael Walton, 157–202. Equity and Development Series. Washington, DC: World Bank; New York: Palgrave Macmillan.

Empresarios por la Educación. 2015. "Presupuesto Mineduc 2016: ¿Qué Desafíos Presenta para la Agenda Educativa?" Policy Brief (December), Empresarios por la Educación, Guatemala City, Guatemala.

Eslava, Marcela, Marcela Meléndez, and Nicolás Urdaneta. 2021. “Poder de mercado, desigualdad y productividad en Latinoamérica”. UNDP LAC Working Paper, 11, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean* 2021, UNDP LAC, New York.

Fairfield, Tasha. 2015. *Private Wealth and Public Revenue in Latin America: Business Power and Tax Politics*. New York: Cambridge University Press.

Fairfield, Tasha. 2019. “Taxing Latin American Economic Elites”. In *The Political Economy of Taxation in Latin America*, edited by Gustavo A. Flores-Macías, 172–193. New York: Cambridge University Press.

Fairfield, Tasha, and Michel Jorratt. 2014. “Top Income Shares, Business Profits, and Effective Tax Rates in Contemporary Chile”. ICTD Working Paper 17 (January), International Center for Tax and Development, Institute of Development Studies, Brighton, UK.

Fass, Simon M. 1990. *Political Economy in Haiti: The Drama of Survival*. New Brunswick, NJ: Transaction Publishers.

Fernandes, Ana Margarida. 2007. “Trade Policy, Trade Volumes, and Plant-Level Productivity in Colombian Manufacturing Industries”. *Journal of International Economics*, 71 (1): 52–71.

Fernandes, Ana Margarida, and Caroline Paunov. 2013. “Does Trade Stimulate Product Quality Upgrading?” *Canadian Journal of Economic*s, 46 (4): 1232–1264.

Flabbi, Luca. 2021. “Implications of Minimum Wages Policies in Labor Markets with High Informality and Frictions”. UNDP LAC Working Paper, 25, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Foster, Lucia, John Haltiwanger, and C. J. Krizan. 1998. “Aggregate Productivity Growth: Lessons from Microeconomic Evidence”. NBER Working Paper, 6803 (November), National Bureau of Economic Research, Cambridge, MA.

France 24. 2018. “Chilean Consumers to Receive Compensation over Toilet Paper Scandal”. France 24, 2 August 2018. https://www.france24.com/en/20180801-chilean-consumers-receive-compensation-over-toilet-paper-scandal.

Furche, Carlos. 2013. “The Rice Value Chain in Haiti: Policy Proposal”. Oxfam America: Research Backgrounder (9 April), Oxfam America, Boston.

Gandelman, Nestor, and Carlos Casacuberta. 2021. “The Impact of Labor Market Institutions on Markups and Markdowns: Evidence from Manufacturing and Service Sectors in Uruguay”. UNDP LAC Working Paper, 9, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

García-Marín. 2021. “Labor-Market Concentration and Earnings: Evidence from Chile”. UNDP LAC Working Paper, 10, 2021, Background paper for the Regional Human Development Report for Latin America and the Caribbean 2021, UNDP LAC, New York.

Gasparini, Leonardo Carlos, and Leopoldo Tornarolli. 2009. “Labor Informality in Latin America and the Caribbean: Patterns and Trends from Household Survey Microdata”. *Desarrollo y Sociedad*, 63 (September): 13–80.

Hart, Oliver D. 1983. “The Market Mechanism as an Incentive Scheme”. *Bell Journal of Economics*, 14 (2): 366–382.

Hecock, R. Douglas. 2014. “Democratization, Education Reform, and the Mexican Teachers’ Union”. *Latin American Research Review*, 49 (1): 62–82.

Hermalin, Benjamin E. 1992. “The Effects of Competition on Executive Behavior”. *Rand Journal of Economics*, 23 (3): 350–365.

Horn, Henrik, Harald Lang, and Stefan Lundgren. 1994. “Competition, Long-Run Contracts, and Internal Inefficiencies in Firms”. *European Economic Review*, 38 (2) 213–233.

Iacovone, Leonardo. 2012. “The Better You Are, the Stronger It Makes You: Evidence on the Asymmetric Impact of Liberalization”. *Journal of Development Economics*, 99 (2): 474–485.

Iacovone, Leonardo, Beata Smarzynska Javorcik, Wolfgang Keller, and James Tybout. 2015. “Supplier Responses to Walmart’s Invasion in Mexico”. *Journal of International Economics*, 95 (1): 1–15.

Jaume, David, and Alexander Willén. 2019. “The Long-Run Effects of Teacher Strikes: Evidence from Argentina”. *Journal of Labor Economics*, 37 (4): 1097–1139.

Javorcik, Beata Smarzynska, Wolfgang Keller, and James Tybout. 2008. “Openness and Industrial Response in a Wal-Mart World: A Case Study of Mexican Soaps, Detergents, and Surfactant Producers”. *World Economy*, 31 (12): 1558–1580.

Karabarbounis, Loukas, and Brent Neiman. 2014. “The Global Decline of the Labor Share”. *Quarterly Journal of Economics*, 129 (1): 61–103. https://doi.org/10.1093/qje/qjt032.

Kavoussi, Bonnie. 2019. “How Market Power Has Increased U.S. Inequality”. May 3, Washington Center for Equitable Growth, Washington, DC.

Khanna, Tarun, and Yishay Yafeh. 2007. “Business Groups in Emerging Markets: Paragons or Parasites?” *Journal of Economic Literature*, 45 (2): 331–372.

Levy, Santiago, and Guillermo Cruces. 2021. “Time for a New Course: An Essay on Social Protection and Growth in Latin America”. UNDP LAC Working Paper, 24, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Levy, Santiago, and Michael Walton, eds. 2009. *No Growth Without Equity?: Inequality, Interests, and Competition in Mexico*. Equity and Development Series. Washington, DC: World Bank; New York: Palgrave Macmillan.

Lira, Loreto, Rosario Rivero, and Rodrigo Vergara. 2007. “Entry and Prices: Evidence from the Supermarket Sector”. *Review of Industrial Organization*, 31 (4): 237–260.

Maggi, Giovanni. 1996. “Strategic Trade Policies with Endogenous Mode of Competition”. *American Economic Review*, 86 (1): 237–258.

Medina, Pamela. 2018. “Import Competition, Quality Upgrading, and Exporting: Evidence from the Peruvian Apparel Industry”. Working paper, University of Toronto. Toronto.

Miranda, Alfonso. 2012. “Competition Law in Latin America: Main Trends and Features”. April, Centro de Estudios de Derecho de Competencia, Bogotá, Colombia. https://centrocedec.files.wordpress.com/2010/06/cornell-lacompetition-20123.pdf.

Morck, Randall, Daniel Wolfenzon, and Bernard Yeung. 2005. “Corporate Governance, Economic Entrenchment, and Growth”. *Journal of Economic Literature*, 43 (3): 655–720. https://doi.org/10.1257/002205105774431252.

Motta, Massimo. 2004. *Competition Policy: Theory and Practice*. New York: Cambridge University Press.

Muendler, Marc-Andreas. 2004. “Trade, Technology, and Productivity: A Study of Brazilian Manufacturers 1986–1998”. CESifo Working Paper 1148 (March), Munich Society for the Promotion of Economic Research, Center for Economic Studies, Ludwig Maximilian University and Ifo Institute for Economic Research, Munich.

Murillo, María Victoria, Mariano Tommasi, Lucas Ronconi, and Juan Sanguinetti. 2005. “The Economic Effects of Unions in Latin America: Teachers’ Unions and Education in Argentina”. In *What Difference Do Unions Make? Their Impact on Productivity and Wages in Latin America*, edited by Peter Kuhn and Gustavo Márquez, 197–232. Washington, DC: Inter-American Development Bank.

OECD (Organisation for Economic Co-operation and Development). 2019. "Owners of the Worlds Listed Companies". OECD Capital Market Series, OECD, Paris.

OECD (Organisation for Economic Co-operation and Development). 2021. *OECD Competition Trends 2021*. Vol. 1 of *Global Competition Enforcement Update 2015–2019*. Paris: OECD. http://www.oecd.org/competition/oecd-competition-trends.htm.

Olley, G. Steven, and Ariel Pakes. 1996. "The Dynamics of Productivity in the Telecommunications Equipment Industry". *Econometrica*, 64 (6): 1263–1297.

Pachón, Mónica, and Javier Brolo. 2021. "Lobbying for Inequality? How Business Elites Shape Policy in El Salvador, Honduras, and Guatemala". UNDP LAC Working Paper, 6, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Posner, Richard A. 1975. "The Social Costs of Monopoly and Regulation". *Journal of Political Economy*, 83 (4): 807–828.

Ramalho, José Ricardo. 1999. "Restructuring of Labour and Trade Unions in Brazil". In *Labour Worldwide in the Era of Globalization: Alternative Union Models in the New World Order*, edited by Ronaldo Munck and Peter Waterman, 158–174. International Political Economy Series. London: Palgrave Macmillan.

Rodríguez-Castelán, Carlos. 2015. "The Poverty Effects of Market Concentration". Policy Research Working Paper, 7515, World Bank, Washington, DC.

Ronconi, Lucas. 2012. "Globalization, Domestic Institutions, and Enforcement of Labor Law: Evidence from Latin America". *Industrial Relations*, 51 (1): 89–105.

Ronconi, Lucas. 2021. "How Do Labor Unions Affect Inequality and Efficiency in Latin America and the Caribbean?" UNDP LAC Working Paper, 7, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Rossi, Federico M. 2017. *The Poor's Struggle for Political Incorporation: The Piquetero Movement in Argentina*. Cambridge Studies in Contentious Politics Series. New York: Cambridge University Press.

Sanhueza, Claudia, and Javiera Lobos. 2014. "Sistema Tributario Chileno: Caraterísticas y Desafíos". In *Tributación en Sociedad: Impuestos y redistribución en el Chile del siglo XXI*, edited by Jorge Atria, 25–52. Santiago, Chile: Uqbar Editores.

Scharfstein, David. 1988. "Product-Market Competition and Managerial Slack". *Rand Journal of Economics*, 19 (1): 147–155.

Scherer, Frederic M., and David R. Ross. 1990. *Industrial Market Structure and Economic Performance*. Boston: Houghton-Mifflin.

Schneider, Aaron. 2012. *State-Building and Tax Regimes in Central America.* New York: Cambridge University Press.

Schneider, Ben Ross. 2008. "Economic Liberalization and Corporate Governance: The Resilience of Business Groups in Latin America". *Comparative Politics*, 40 (4): 379–397.

Schneider, Ben Ross. 2009. "Hierarchical Market Economies and Varieties of Capitalism in Latin America". *Journal of Latin American Studies*, 41 (3): 553–575.

Schneider, Ben Ross. 2013. *Hierarchical Capitalism in Latin America: Business, Labor, and the Challenges of Equitable Development*. Cambridge Studies in Comparative Politics Series. New York: Cambridge University Press.

Schneider, Ben Ross. 2021. "Big Business and the Inequality Trap in Latin America: Taxes, Collusion, and Undue Influence". UNDP LAC Working Paper, 5, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Schor, Adriana. 2004. “Heterogeneous Productivity Response to Tariff Reduction: Evidence from Brazilian Manufacturing Firms”. *Journal of Development Economics*, 75 (2): 373–396.

Schwab, Klaus, ed. 2018. *Insight Report: The Global Competitiveness Report 2018*. Geneva: World Economic Forum. http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf.

Segovia, Alexander. 2005. *Integración Real y Grupos de Poder Económico en América Central: Implicaciones Para el Desarrollo y la Democracia de la Región*. San José, Costa Rica: Fundación Friedrich Ebert.

Shu, Pian, and Claudia Steinwender. 2019. “The Impact of Trade Liberalization on Firm Productivity and Innovation”. *Innovation Policy and the Economy*, 19 (1): 39–68.

Singh, Raju Jan, and Mary Barton-Dock. 2015. *Haiti: Toward a New Narrative; Systematic Country Diagnostic*. Washington, DC: World Bank.

Terrell, Katherine. 1993. “Public-Private Wage Differentials in Haiti: Do Public Servants Earn a Rent?” *Journal of Development Economics*, 42 (2): 293–314.

Trejo, Raúl. 2013. “Poderes fácticos, problemas drásticos”. *Revista Mexicana de Ciencias Políticas y Sociales*, 58 (217): 223–232.

Tzannatos, Zafiris, and Toke S. Aidt. 2006. “Unions and Microeconomic Performance: A Look at What Matters for Economists (and Employers)”. *International Labour Review*, 145 (4): 257–278.

UNDP (United Nations Development Programme). 2020. “Attitudes towards Politics in Latin America: A Review of Regional Perception Data”. July, Regional Hub for Latin America and the Caribbean, UNDP, Panama City.

Urzúa, Carlos M. 2013. “Distributive and Regional Effects of Monopoly Power”. *Economía Mexicana Nueva Época*, 22 (2): 279–295.

Wibbels, Erik, and John S. Ahlquist. 2011. “Development, Trade, and Social Insurance”. *International Studies Quarterly*, 55 (1): 125–149. https://doi.org/10.1111/j.1468-2478.2010.00638.x.

World Bank. 2005. *World Development Report 2006: Equity and Development*. Washington, DC: World Bank; New York: Oxford University Press.

World Bank. 2017. *World Development Report 2017: Governance and the Law.* Washington, DC: World Bank

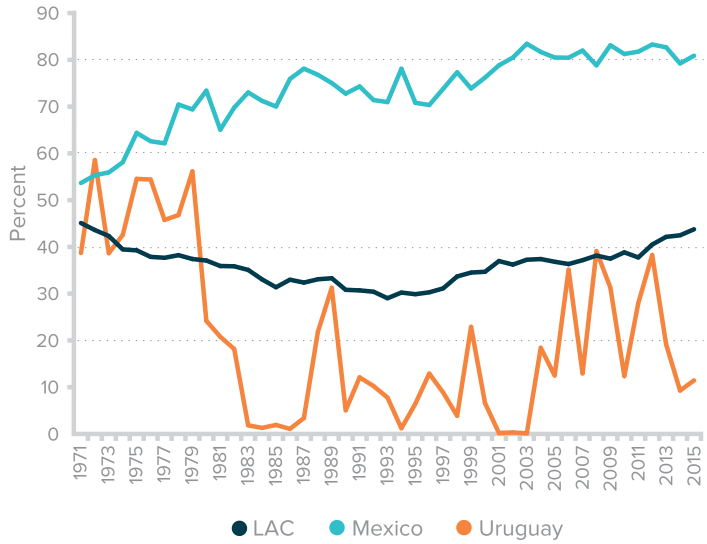
THE POWER TO HALT OR ACCELERATE GREENER ENERGY

The transition towards sustainable social and economic progress in LAC depends on reducing emissions from energy production and consumption, particularly electricity, heavily reliant on fossil fuels such as coal, oil, and gas. The LAC region has a substantially higher fraction of hydroelectric production than the rest of the world, but its dependence on fossils remains a challenge. Even after incorporating the social costs of environmental degradation, a green growth path will confront the challenge of substituting fossil fuels with renewable energy under increasing pressure from the economy. Considering that 80 percent of LAC's population lives in cities, the demand for large electrification projects will grow according to the shifting needs of industry, trade, transportation, and households.

This transition faces additional problems in terms of technological change and investment and barriers emerging from political forces –pressure from lobby and private interests– that would suffer from it. Both state and private interests can get in the way in deciding on replacing the region's fossil-dependent energy with renewable sources. Two countries in the region exemplify the possible paths ahead: Mexico and Uruguay. Their energy transitions provide insight into difficulties inherent in the push towards sustainability that can respond to demands from growing economies and the social needs of people.

During the 1970s, both Mexico and Uruguay had per capita electricity consumption of between 500 and 700 kWh. Both countries produced about half of their electricity using fossil fuel sources, while the other half came from hydroelectric projects. According to Organisation for Economic Co-operation and Development (OECD) and International Energy Agency data, Uruguay reached a per capita consumption of 3,000 kWh, above Mexico's consumption of around 2,150 kWh, by the mid-2010s. Likewise, during these four decades, Mexico had increased the use of fossil fuels to 90 percent of its energy consumption, while Uruguay had lowered the share to less than 50 percent. In the same period, Mexico had reduced its electricity production from hydric sources to 10 percent (2015), while Uruguay maintained its share of hydro-based electricity at around 60 percent. The World Bank estimates that the final energy consumption from all renewable sources as a fraction of total final energy increased in Uruguay from 45 percent in 1990 to almost 60 percent in 2015 (figure S6.1). In Mexico, it fell from 15 percent to 9 percent in the same period. Mexico, an oil-producing power, has maintained its fiscal and energy dependence on fossil fuels. In contrast, with similar energy production patterns half a century ago, Uruguay has shifted to much lower fossil fuel dependence.

Figure S6.1: Electricity production from oil, gas, and coal sources, 1971–2015, % of total



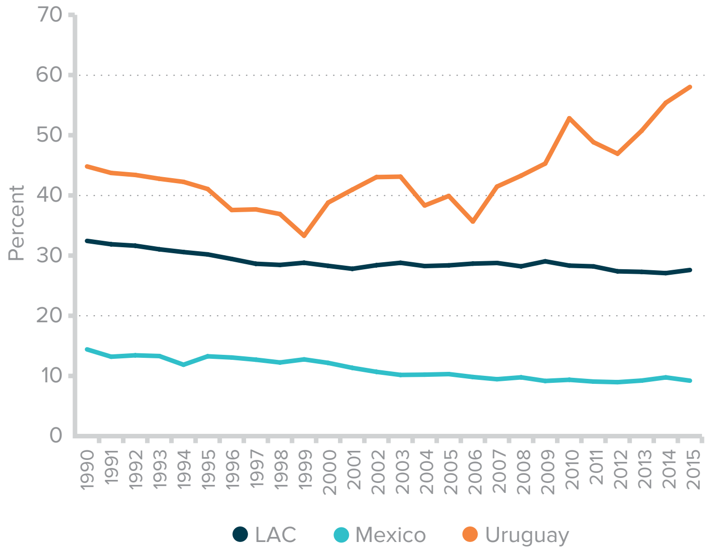
Source: SE4ALL (Sustainable Energy for All) (dashboard), World Bank, Washington, DC, https://datacatalog.worldbank.org/dataset/sustainable-energy-all; OECD data; data of International Energy Agency.

Two recent events illustrate how political decisions can shift a country away or closer to a sustainable transition. In March 2021, Mexico's Senate approved a reform to the law regulating the electric energy sector. This reform privileges electricity production by the state-owned electric power company, Comisión Federal de Electricidad, primarily based on older thermal energy production plants, and weakens the possibility of entry of private producers based on renewables. This recent move will make it more difficult for Mexico to reach its commitment within the Paris Agreement of reducing its greenhouse gas emissions by 22 percent.

Meanwhile, Uruguay has been making some strategic moves towards an energy transition that privileges renewable sources. UNDP has supported its energy transition programme since 2007 with creative mechanisms for incorporating renewable energy production of various scales. Later in 2013, the Los Caracoles wind farm obtained funding from the Clean Development Mechanism under Kyoto, signed between Spain and Uruguay as a debt-for-efficiency swap. This project exchanges debt relief for the country against carbon credits, aiming at a 10 MW production capacity and an equivalent of 180,000 carbon credits during the first seven years of operation. The carbon credits, bought by the Spanish Carbon Fund, reduced US$10.5 million of Uruguay's US$77 million debt with Spain. By 2015, the country had installed 581 MW of wind energy capacity, becoming an example of clean energy (Thwaites 2016). Uruguay is currently focusing on tackling emissions from transportation sources through an e-mobility strategy. The MOVÉS Project—supported by UNDP and the Uruguayan Agency of International Cooperation, funded by the Global Environment Facility, and coordinated in partnership with the Ministry of Industry, Energy and Mining and the Ministry of Housing, Land Use Planning, and Environment—has been crucial to this strategy.

When looking at total energy consumption, of which electricity is a fraction, the divergence between Uruguay and Mexico's energy strategies is evident in the evolution of energy consumption from renewable sources during the past 25 years (figure S6.2).

Figure S6.2: Renewable energy consumption, % of total final energy consumption



Source: SE4ALL (Sustainable Energy for All) (dashboard), World Bank, Washington, DC, https://datacatalog.worldbank.org/dataset/sustainable-energy-all.

In 2018, a survey was conducted on the geopolitics of renewable energy (FGV and ELKA-KAS 2019), capturing perceptions from close to 700 academics, civic leaders, government representatives, and businesspeople in 10 Latin American countries (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, and Peru). It found agreement among respondents on the need to transit towards renewable energy in the region. Among respondents, 51 percent considered solar power to be the renewable energy source with the greatest potential in the region, followed by wind (17 percent) and hydro (12 percent). Overall, 92 percent agreed that increasing the share of renewables in the energy mix would positively impact foreign relations across the region. Regarding the inherent risks, 46 percent of respondents saw government bureaucracies as the main threat, followed by social conflicts (27 percent) and legal insecurity (18 percent).

When asked about the possible success of lobbying by sectors opposing the transition to renewable energy, 75 percent and 69 percent of respondents, respectively, found it likely that the transition would be blocked by lobbying by national and foreign oil companies. Similarly, 73 percent considered lobbying by national oil companies to be capable of pressing for the further development of the fossil fuel market, and 74 percent thought the same in the case of foreign oil companies. These answers hint at the concentration of power in the hands of corporations and government agencies, including major oil companies owned by the national governments in cases like Brazil, Colombia, Ecuador, Mexico and Venezuela, with a potentially significant role in hindering regional drives towards a sustainable energy matrix.

Infrastructure projects to develop renewable energy are not devoid of social conflicts. Many of them require a minimum size to make investments financially viable, given the economies of scale involved. Large hydropower projects during the 1970s and 1980s faced tensions because of their environmental and social impacts and their viability was threatened. Similar concerns have sprung up regarding other renewable energy projects, such as wind and solar farms. These projects require large investments, usually funded by foreign or large domestic economic groups, which struggle to obtain social licenses in areas with high inequality and rapidly emerging grievances.

Furthermore, these projects often locate in peripheral territories with severe drawbacks relative to urban areas. The larger these gaps and the larger the project, the harder it is for such projects to be accepted by local inhabitants. In addition, the 2007 United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and its most relevant predecessor in 1989, the Convention 169 of the International Labour Organisation, require projects to obtain free, prior, and informed consent from indigenous or ancestral groups potentially affected by these interventions. Many projects have been rejected because they threaten local cultural or biological diversity.

Achieving energy sustainability in LAC demands that inequalities in the decision-making process be confronted. Political and economic power representing private interests, such as the fossil fuel industry, in alliance with governments that push for legislative changes or hinder the possibility of making the energy mix greener, still constitute significant barriers. However, commitments towards low carbon footprints and the dismantlement of fossil fuel dependence, such as those in Costa Rica and Uruguay, are clear examples of effective leadership contributing to anthropogenic climate change mitigation.

References

FGV (School of International Relations) and ELKA–KAS (Regional Programme Energy Security and Climate Change in Latin America of the Konrad-Adenauer-Stiftung). 2019. “Geopolitics of Renewable Energies in Latin America: A Survey”. EKLA-KAS, São Paulo, Brazil.

Thwaites, Joe. 2016. “How Uruguay Became a Wind Power Powerhouse”. *Commentary* (blog), 7 March. https://www.wri.org/insights/how-uruguay-became-wind-power-powerhouse

CHAPTER 4

THE LINKS BETWEEN VIOLENCE, INEQUALITY AND PRODUCTIVITY

- Latin America and the Caribbean is the most violent region in the world.
- Inequality fosters criminal, political, and social violence in LAC.
- Because violence disproportionately affects the most vulnerable, it perpetuates and amplifies inequality in various aspects of human development, including rights, income, health, education, and political representation.
- Violence also impacts economic growth through its impact on individuals, firms, communities, and institutions.
- Violence is therefore an important factor underlying the high-inequality low-growth trap in LAC and its eradication requires active policy interventions in several areas.
- Given the prevalence of violence and its serious impact on human development, the region desperately needs more and better data, especially on the most serious forms of violence that afflict the region.

4.1. Violence underlies the high-inequality, low-growth trap in LAC

Violence remains all too common for many people across the Latin America and the Caribbean region. The region is home to only 9 percent of the world's population, but currently accounts for 34 percent of total violent deaths.[1] UNDP signalled in 2013 that most LAC countries exhibited homicide rates that are considered epidemic by World Health Organization (WHO) standards, a fact that still holds.[2] Violence or the threat of violence in various contexts have become a bargaining chip among state and non-state actors to reach and sustain agreements. It is thus a fundamental part of the struggle over the distribution of resources, rights, opportunities, and power in the region.[3] And it is a common underlying factor that both propels and is driven by the region's high-inequality, low-growth trap.

Greater inequality may foster the conditions for more violence. From an economic standpoint, the reasoning behind this link is that greater disparities are likely to introduce incentives that make the returns to illegal activities comparatively more attractive than the returns to legal alternatives.[4] From a sociological standpoint, the theory of relative deprivation suggests that inequality engenders frustration and alienation among the dispossessed through perceptions of disadvantage, a lack of opportunity, and unfairness, which, together, spur violent conduct.[5] The contours of criminal conduct are influenced by contextual characteristics, including the effectiveness and reliability of social control networks and punitive systems.[6] Criminal conduct may also be affected by changes in the behaviour of potential victims in response to crime through greater reliance on private security.[7] Potential victims may also modify their consumption decisions.[8] In the past, UNDP diagnosed the rising levels of violence and insecurity in LAC as a product of the absence of inclusive growth and the stagnation in social mobility, which triggered persistent inequalities, job precarity, and expansions in consumption expectations.[9] Meanwhile, political scientists have long debated whether inequality is a critical determinant of political violence, especially civil war. Although several studies have not found a systematic relationship between the two, others contend that both political and economic inequality contribute to the onset and duration of civil war.[10]

---

1 Chioda (2017).
2 UNDP (2013); WHO defines epidemic homicide rates as those that surpass 10 homicides per 100,000 population.
3 UNDP (2009), (2012), (2013).
4 Becker (1968); Ehrlich (1973).
5 Merton (1938).
6 Shaw and McKay (1942); Kornhauser (1978); Kelly (2000).
7 Di Tella, Galiani, and Schargrodsky (2010); Amodio (2019).
8 Mejía and Restrepo (2016); Galiani, Jaitman, and Weinschelbaum (2020).
9 UNDP (2013).
10 See Cederman and Vogt (2017) for an overview of the debate and recent findings.

However, violence and crime victimization may potentially also reproduce inequality by broadening gaps in developmental outcomes. Although less often the focus of academic research, this directional impact seems credible if one acknowledges that violence is often experienced disproportionately by populations already facing socio-economic adversities, thus amplifying or perpetuating their state of deprivation.[11] The effect of violence is multidimensional because it can lead to the deterioration of rights and liberties, worsen physical and mental health, reduce educational and labour participation outcomes, and lower political participation among victimized individuals. Violence can also fracture social capital, threaten democratic institutions locally and nationally, and obstruct public goods provision in victimized communities. Violence can therefore be both a consequence and a cause of inequality.[12]

Violence is linked not only to inequality, but also to growth. At the macroeconomic level, crime and violence can reduce and distort investment, affect human capital formation and thus productivity, and lead to physical and natural capital depletion.[13] Recent calculations peg the average cost of homicide across the countries of LAC at close to 4.1 percent of national gross domestic product (GDP).[14] The direct and indirect costs of crime in LAC are estimated at 3 percent of GDP in the average country and more than 6 percent in the most violent Central American countries.[15] The World Bank estimates that the cost of medical expenses, lost productivity, and public expenditures on security is equivalent to 3.7 percent of yearly production.[16] This represents a substantial waste of public resources that becomes necessary for defense, policing, prevention programmes, and punishment. The macroeconomic costs of violence translate into greater income inequality, especially if they prevent countries from investing in policies that would reduce inequality or if lower levels of economic growth derived from violence force governments to abandon institutional welfare interventions. Violence is thus capable of distorting public and private resource allocation, thereby contributing to the persistence of inequality.

The rest of this chapter explores the role of violence as an underlying factor in both high inequality and low growth.[17] It first investigates recent historical patterns in crime and violence in the region and disentangles criminal, political, social, and domestic violence. It then offers a careful reflection on the channels through which violence translates into inequality and perpetuates a vicious cycle, and it examines the routes through which violence is detrimental to productivity and economic growth. It discusses lines of action that would contribute to lessening the incidence of violence, leading to more equal and productive societies.

---

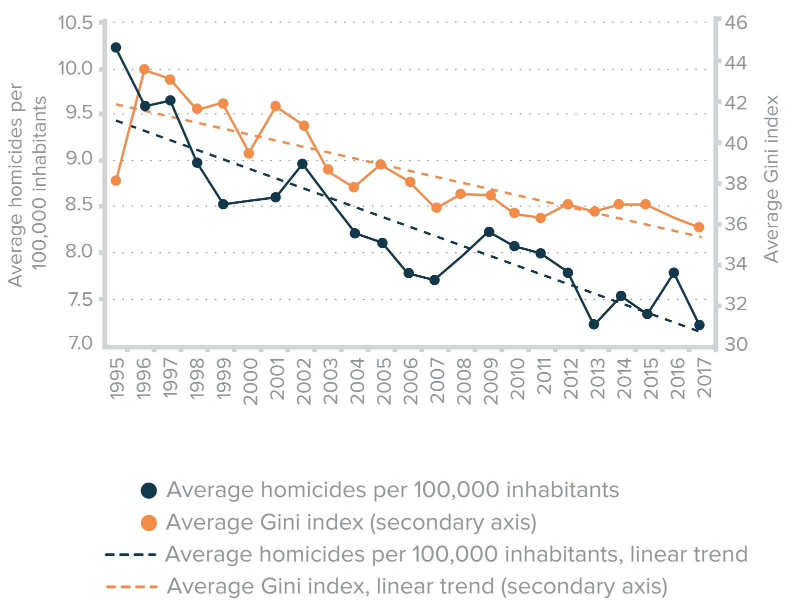
[11] Arjona (2021).
[12] UNDP (2013); Arjona (2021).
[13] Lederman, Loayza, and Menéndez (2002); Soares (2015).
[14] Fearon and Hoeffler (2014).
[15] Jaitman (2017).
[16] World Bank (2004).
[17] This chapter builds on two background papers for this RHDR: Arjona (2021) and Schargrodsky and Freira (2021).

4.2. Latin America and the Caribbean is one of the most violent regions in the world

The turn of the century has seen a generalized decrease in income inequality and violence in the world (figure 4.1) and in LAC (figure 4.2). Yet, LAC has maintained its position as one of the most unequal and most violent regions in the world. Between 2000 and 2018, intentional homicide rates in each of the LAC subregions significantly surpassed worldwide averages.[18] Central and South America consistently experienced higher rates than the Caribbean (figure 4.3). Moreover, the countries in LAC exhibited vastly higher homicide and crime victimization rates than other countries at similar levels of inequality (figures 4.4 and 4.5).

Figure 4.1: In the world, both the homicide rate and income inequality have decreased

Homicide rate and income inequality (Gini), world, 1995-2017

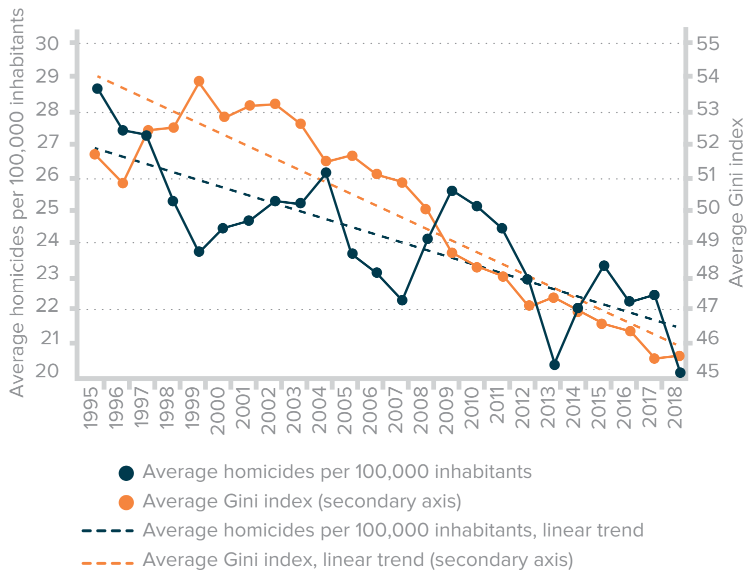


Source: Schargrodsky and Freira 2021, Background Paper of the UNDP LAC RHDR 2021; WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/.
Note: Averages are calculated using the sample of countries available for each year. The total number of countries is 106: Africa (21), Asia (24), Eastern Europe (21), LAC (21), North America (2) , Oceania (1), and Western Europe (16).

[18] Intentional homicide statistics include all deaths with origins in interpersonal, criminal, and socio-political violence, excluding deaths from civil unrest, killings in self-defense, killings in legal interventions, and non-intentional deaths.

Figure 4.2: In LAC, both the homicide rate and income inequality have decreased

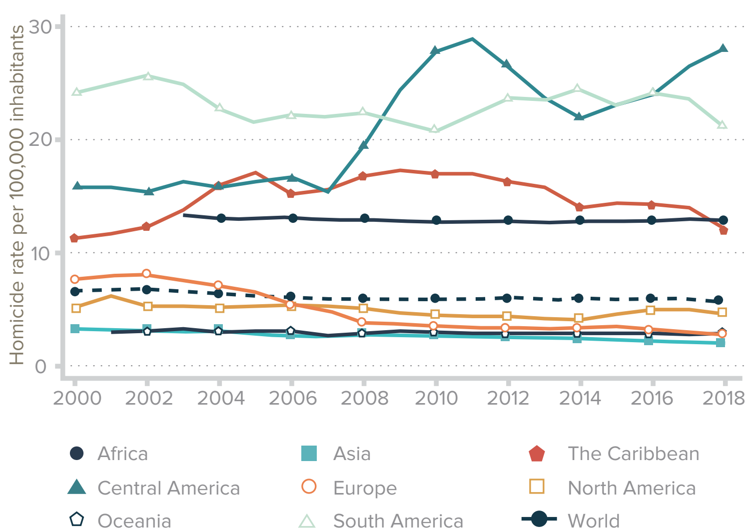
Homicide rate and income inequality (Gini), LAC, 1995–2018



Source: UNDP elaboration; WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/.
Note: Averages are calculated using the sample of countries available for each year. Not every country is available every year. The sample includes 21 LAC countries.

Figure 4.3. Homicide rates in LAC subregions significantly surpass worldwide averages

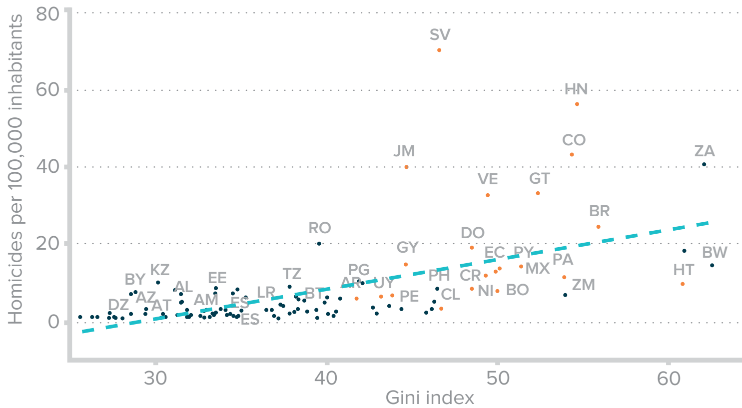
Intentional homicide rate per 100,000 inhabitants in world regions and LAC subregions



Source: Arjona 2021, Background Paper of the UNDP LAC RHDR 2021; data of Global Study on Homicide: 2019 Edition (dashboard), United Nations Office on Drugs and Crime, Vienna, https://www.unodc.org/unodc/en/data-and-analysis/global-study-on-homicide.html.

Figure 4.4: LAC countries have higher homicide rates than countries at similar inequality levels

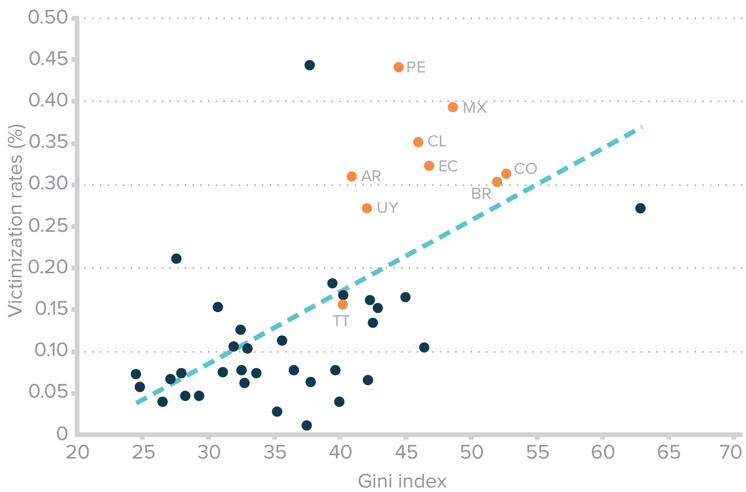
Homicide rates and income inequality (Gini), world, 1995–2017



Source: Schargrodsky and Freira 2021, Background Paper of the UNDP LAC RHDR 2021; WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/.
Note: LAC countries are represented by orange dots. Averages are calculated for each country using the available year observations from 1995 to 2017. The total number of countries is 106: Africa (21), Asia (24), Eastern Europe (21), LAC (21), North America (2), Oceania (1), and Western Europe (16).

Figure 4.5: LAC countries have higher victimization rates than countries at similar inequality levels

Crime victimization rates and income inequality (Gini), world, 2010–2014



Source: Schargrodsky and Freira 2021, Background Paper of the UNDP LAC RHDR 2021; WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/; WVS (World Values Survey) (dashboard), King's College, Old Aberdeen, United Kingdom, http://www.worldvaluessurvey.org/wvs.jsp.
Note: LAC countries are represented by orange dots. The crime victimization question was included in the World Values Survey between 2010 and 2014, but during only one year in each country. The Gini index corresponds to the year the victimization rate was available or the closest available year. The total number of countries is 42: Africa (7), Asia (12), Eastern Europe (10), LAC (9), North America (1), and Western Europe (3).

Homicides and other forms of crime victimization are only two of many ways in which violence manifests itself in the region, however. Arjona (2021) proposes a typology of violence based on three categories: criminal violence, that is, interpersonal or collective violence linked to criminal activities; political violence, that is, interpersonal or collective violence that occurs in relation to socio-political agendas; and social and domestic violence, that is, interpersonal and occasionally collective violence linked to conflicts among people who do not live in the same household (social) or people who do live in the same household (domestic).

The widespread influence of organized crime, fuelled by the drug trade, on the region's economic and socio-political landscape has made LAC home to an array of manifestations of criminal violence that include human trafficking, illicit natural resource extraction, threats to highly ecologically valuable ecosystems, forced displacement, criminal governance, robberies, physical attacks, extortions, and kidnappings. Political violence is also prominent. Although most violent forms of contentious politics and state repression have been decreasing in the region, some forms of political violence have risen, including abuses by militarized public security forces and the persecution and assassination of politicians, journalists, human rights defenders, and environmental and civic leaders. For instance, United Nations data indicate that 75 percent of worldwide assassinations of human rights defenders between 2015 and 2019 occurred in LAC.[19] In the case of social and domestic violence, the region is currently struggling with high levels of sexual violence, femicide, and violence towards children. It has the third highest lifetime prevalence of sexual violence perpetrated by non-partners and the second highest rate of violence perpetrated by partners. Violence against sexual minorities is also among the highest in the world.[20]

Measuring violence entails multiple challenges. Violent events, including serious ones such as rape, often go unreported. Even homicides, more likely to be recorded in official data, are tricky because the legal definition of intentional homicide varies across countries, as does the capacity of governments to collect and report data on homicides systematically. It is not uncommon for different agencies within a same country to report different numbers of homicides. The challenges in measuring other forms of violence are even greater because this relies on individuals to denounce violent events or report them in surveys. While some recent efforts have strengthened information reporting systems in the region (box 4.1), statistical reliability and cross-country comparability are generally inadequate. This report recognizes these limitations. It does not pretend to quantify precisely the various violent phenomena afflicting the region. Rather, relying on available data, country reports and comparative studies, it seeks to describe the main trends in different forms of violence in LAC.

---

[19] HRC (2020).
[20] Ibid; CIDH 2015; SinViolencia LGBTI (2019).

Box 4.1: Infosegura: Innovation at the service of citizen security

New technology is making it easier to produce and disseminate information at greater speeds. Yet, data alone do not guarantee the social or cultural changes required to advance towards sustainable development. The Infosegura Regional Project, which was first implemented by UNDP in 2014 with the support of the United States Agency for International Development (USAID), aims to strengthen institutional capacities in information management and promote comprehensive gender-sensitive and human rights–based policies through innovation in matters related to citizen security in Central America and the Dominican Republic.

Infosegura helps national institutions and UNDP country offices broaden their view on information management, concentrating on the development of tools and the production of knowledge to inform policies on violence prevention, the promotion of citizen security, and social cohesion. This involves a complex multidimensional approach aligned with the Sustainable Development Agenda. The initiative has enhanced the capacity of participating institutions to generate information with new, automated tools and integrated data ecosystems. It encourages analysis at greater levels of disaggregation, territorialization and georeferencing. All this helps reach the most vulnerable demographic groups and geographic areas through targeted interventions that leave no one behind.

To establish greater transparency and integration, the initiative also encourages institutions to advance towards an open data policy in matters of citizen security, create partnerships for the exchange of information and produce, analyse and disseminate information formerly restricted to each country's security agency across state or local institutions. This has allowed a more effective use of evidence in the design and monitoring of public policies. It has also led to a better understanding of the immediate surroundings of vulnerable communities exposed to violence and insecurity. This has occurred through a territorial prioritization and targeting methodology that has already been incorporated by El Salvador's Ministry of Justice and Public Security and Guatemala's Ministry of the Interior. In Honduran municipalities, it has supported local governance by facilitating the establishment of observatories on violence and assisting in the design of strategies to tackle insecurity and promote coexistence.

Infosegura is committed to bringing together a community of regional knowledge on citizen security by endorsing national and regional knowledge networks and producing a digital platform (Datacción). The purpose is to stimulate regional multisectoral work in information management on citizen security, showcase the efforts of UNDP country offices and government institutions and facilitate the transfer and scaling up of best practices and innovation proposals. Likewise, Infosegura has helped strengthen the technical capacities of information sources and their information management techniques and tools to compile indicators on the Sustainable Development Goals (SDGs), particularly SDG 16. Apart from better data on violent deaths, femicides, and sexual violence, support has been supplied in survey harmonization, the mapping of national actors who produce information, and Sustainable Development Agenda–oriented monitoring frameworks.

Source: Infosegura, Regional coordination unit of the Infosegura project, Regional Bureau for Latin America and the Caribbean & Regional Center for Latin America and the Caribbean, United Nations Development Programme, Panama https://infosegura.org/.

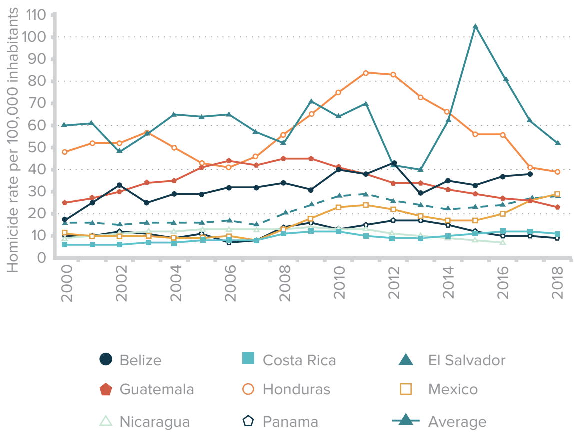
Patterns in criminal violence

During the 20th Century, LAC was profoundly permeated by violence of a predominantly political nature because of turmoil derived from the vestiges of struggles for independence, severe state repression of civil rights, and internal civil conflicts aggravated by the growing strength of insurgencies and pro-state militias. It was only after the democratization wave of the 1980s and the subsequent advent of organized crime and expansion of drug trafficking during the 1990s that patterns of violence in the region shifted from political to criminal motives, which currently explain most homicides. Yet, despite this shared history of violence, there is substantial intraregional and subnational heterogeneity. Not all crimes and violence are equal, and countries in the region differ greatly by the types and the intensity of the crimes and violence they face. The trends by subregion in the current century indicate that the intentional homicide rates in some countries exceed the rates in other countries in the same subregion by two, three and even thirteen times (figure 4.6). The highest rates in Central America during the period are observed in El Salvador, Honduras, and Guatemala, while Jamaica, Saint Kitts and Nevis, and the Bahamas display the highest rates in the Caribbean. In South America, Brazil, Colombia, and Venezuela had significantly higher rates than the rest of the countries in the subregion. Overall, average intentional homicide rates in LAC between 2000 and 2018 show tremendous variation across countries (figure 4.7).

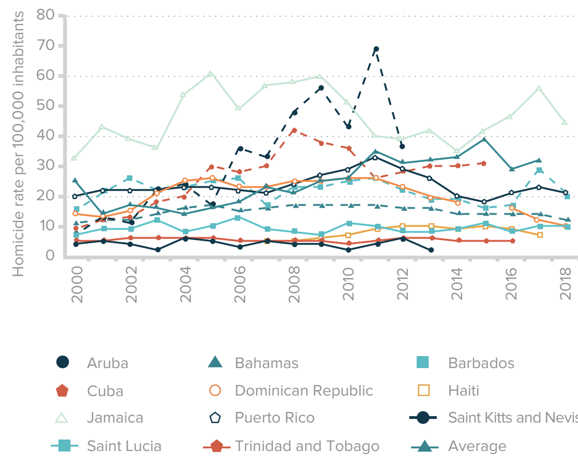
Figure 4.6: Homicide rates in some countries are three or thirteen times the rates elsewhere in the same subregion

Intentional homicide rate across LAC subregions, 2000-2018

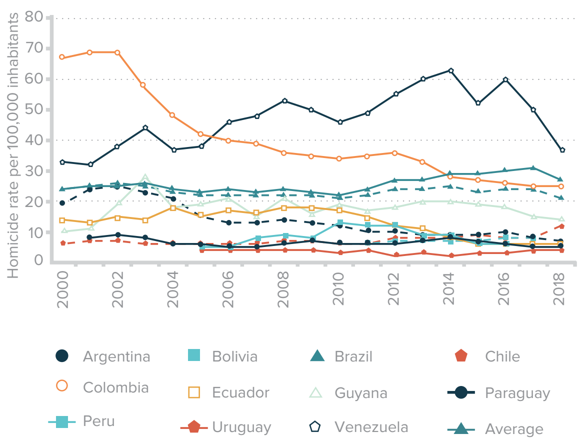
a. Central America



b. The Caribbean



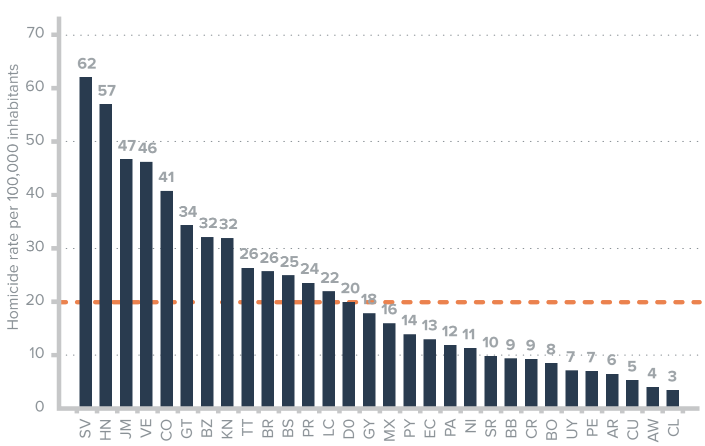
c. South America



Source: Arjona 2021, Background Paper of the UNDP LAC RHDR 2021; data of Global Study on Homicide: 2019 Edition (dashboard), United Nations Office on Drugs and Crime, Vienna, https://www.unodc.org/unodc/en/data-and-analysis/global-study-on-homicide.html.

Figure 4.7: There is huge variation in homicide rates across LAC countries

Average intentional homicide rate in LAC, 2000–2018



Source: Arjona 2021, Background Paper of the UNDP LAC RHDR 2021; data of Global Study on Homicide: 2019 Edition (dashboard), United Nations Office on Drugs and Crime, Vienna, https://www.unodc.org/unodc/en/data-and-analysis/global-study-on-homicide.html.
Note: The LAC average is shown as a dotted orange line.

Homicidal violence in the region also varies greatly within countries. For instance, some states and cities in Mexico have homicide rates above 200 per 100,000 inhabitants, while others have rates below 2, and some regions in Chile experience 3 homicides per 100,000 inhabitants whereas others report a rate of 0.5.[21] Violence may even be concentrated in a few localities, as in El Salvador, where about 5 percent of the municipalities accounted for almost half of all homicides in 2013, and Brazil, where violence in cities such as Belo Horizonte takes place principally in 6 districts out of 81.[22] Even within cities, there is large variation. For example, in the city of Rio de Janeiro, 50 percent of homicides in 2016 occurred in only 1.1 percent of the urban space.[23]

Lethal crime in the least violent nations, such as Argentina, Bolivia, Peru, and Uruguay, is mainly a result of domestic violence and acts of common delinquency.[24] However, homicides in the most violent countries are typically linked to the drug trade and other illicit economies.[25] This violence is often associated with competition among organized criminal groups, their confrontations with state security, and conflict within criminal organizations.[26] Although there is temporal variation in the levels of criminal violence within and across countries, organized crime in the region has become increasingly violent over the last two decades. Owing to the instability and subsequent splintering of Mexican drug trafficking organizations and their confrontation with each other and state authorities after changes in the political sphere, the country's homicide rate tripled in 10 years.[27] Simultaneously, the international focus on cracking down on Colombian and Mexican drug networks pushed criminal groups to expand towards Central America to establish new routes for their trafficking operations. It is estimated that gangs in charge of coordinating the drug trade in this subregion were involved in about 26 percent of all the homicides in Latin America in 2011.[28] Organized crime has made Central America the most violent subregion in the world in per capita terms. El Salvador, Honduras, and Guatemala lead the trend.

Meanwhile, Colombia, Brazil and Venezuela are the countries most affected by criminal violence in South America. The use of profits from the drug trade by both guerrilla and paramilitary groups to fund their operations has tightly linked political and criminal violence in Colombia, and transitional efforts have been unsuccessful in dismantling dissidences from both factions that continue to exert their influence in vulnerable areas. In Brazil, the homicide rate oscillated between 25 and 30 per

[21] Muggah and Tobón (2018).
[22] UNDP (2013); Jaitman (2017).
[23] Chainey and Muggah (2020).
[24] Lagos and Dammert (2012).
[25] Yashar (2018).
[26] Reuter (2009); Yashar (2018).
[27] Lessing (2018).
[28] Geneva Declaration Secretariat (2011).

100,000 population between 1990 and 2019, but there is great subnational variation. Homicides in the country's northeastern and midwest states have been on the rise since 2000, while the southeastern states have become less violent; in addition, more highly populated municipalities have recently seen homicide rates stabilize or decline, while smaller municipalities have become increasingly more violent.[29] Venezuela saw the homicide rate increase from 13 per 100,000 inhabitants in 1991 to 60 in 2019.

The impact of the drug trade in the Caribbean, which had ceased to be important after the cocaine boom during the 1980s, has regained its influence since the mid-2000s.[30] Nowadays, it has not only turned Dominican Republic and Jamaica into key traffic routes to North America and Europe, but has also increased the levels of violence, corruption and the coercive capacity of gangs.[31] All countries in the subregion except for Barbados and Suriname faced rising homicide rates and increasing gang-related killings during the 2000s.[32]

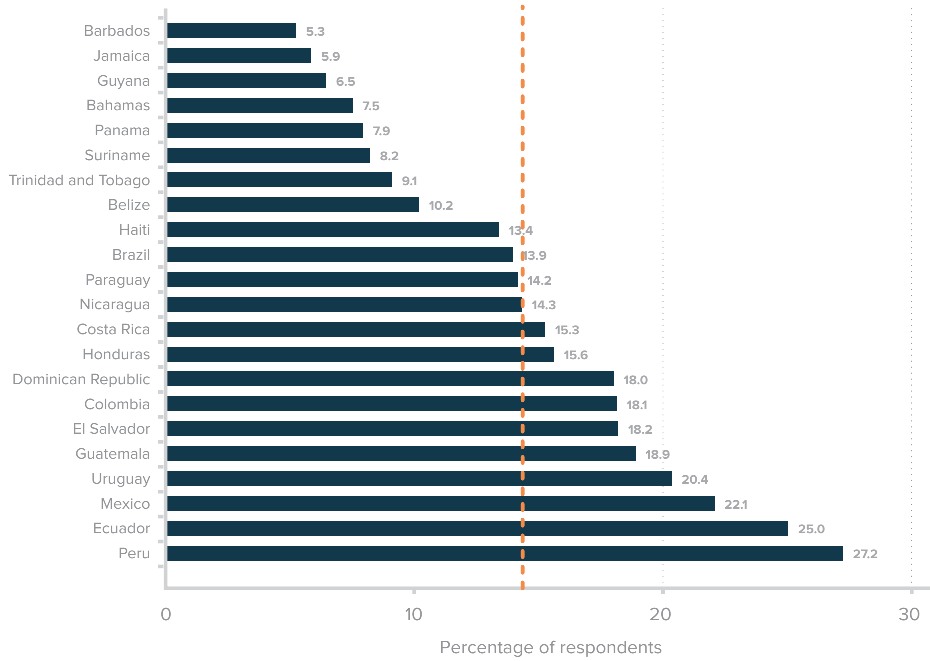
Criminal violence in LAC has also been characterized by the prevalence of forced displacement, which affected about 265,000 Guatemalans, Hondurans and Salvadorians between 2013 and 2018.[33] Forced displacement has also affected thousands of Mexicans and, as a result of both criminal and political violence, more than eight million Colombians.[34] Robberies and physical attacks are rampant, making LAC the region with the highest level of reported physical assaults and violent robberies worldwide, according to the crime statistics of the United Nations Office on Drugs and Crime (UNODC). The AmericasBarometer survey found that, between 2010 and 2014, an average of one respondent in five in the region reported that they had been a victim of a robbery in the previous 12 months.[35] The average share of respondents who report that they have been a victim of a crime in the previous 12 months varied greatly across countries between 2010 and 2014 (figure 4.8). The respective rates in Ecuador, Mexico, Peru, and Uruguay exceed 20 percent; rates in Belize, Brazil, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, and Paraguay oscillate between 10 percent and 20 percent, and the rates in the Bahamas, Barbados, Guyana, Jamaica, Panama, Suriname, and Trinidad and Tobago are all below 10 percent.

---

29 Nsoesie et al. (2020).
30 UNODC (2012).
31 UNDP (2012).
32 UNDP (2012).
33 CRS (2019).
34 Ríos Contreras (2014); UNHCR (2018).
35 See AmericasBarometer (dashboard), Latin American Public Opinion Project, Vanderbilt University, Nashville, TN, https://www.vanderbilt.edu/lapop/core-surveys.php.

Figure 4.8: More than 1 LAC resident in 10 has been the victim of a crime in the previous 12 months

Respondents who report they were victims of a crime in the previous 12 months, average %, 2010–2014



Source: Arjona 2021, Background Paper of the UNDP LAC RHDR 2021; data of AmericasBarometer (dashboard), Latin American Public Opinion Project, Vanderbilt University, Nashville, Tennessee, https://www.vanderbilt.edu/lapop/core-surveys.php.
Note: The LAC average is shown by the dotted orange line.

In the region's most violent countries, extortion and kidnappings have also represented a pervasive form of criminal violence. Colombian guerrillas, paramilitaries, and criminal groups have relied on both, although kidnappings have decreased substantially since the early 2000s.[36] Gangs in El Salvador, Guatemala and Honduras rely on extortion as a main source of income.[37] It is common for drug trafficking organizations in Mexico to carry out extortions and kidnappings in their areas of influence.[38] Organized criminal groups have also found abundant profits in illicit mining, particularly in the extraction of gold. These mining operations, which account for 28 percent of all gold mined in Peru, 30 percent in Bolivia, 77 percent in Ecuador, 80 percent in Colombia, and between 80 percent and 90 percent in Venezuela, are associated with labour exploitation and human trafficking as well as drastic environmental degradation and the contamination of water resources (box 4.2).[39]

36 See Observatorio de Memoria y Conflicto (dashboard), Centro Nacional de Memoria Histórica de Colombia, Bogotá, Colombia, http://micrositios.centrodememoriahistorica.gov.co/observatorio/.
37 International Crisis Group (2017).
38 Magaloni et al. (2020).
39 Global Initiative against Transnational Organized Crime (2016).

Box 4.2: Illegal, unregulated mining is a source of environmental conflict and destruction in LAC

Illegal mining operations are widespread across LAC, and regulatory conditions and environmental and health standards in operations that do have legal concessions or permits are often unenforced. Because of the extractive character of mining, its abundant economic benefits are often unevenly distributed among local communities or diverted into the hands of corporations, corrupt state authorities, or organized criminal groups.[a] The resulting permanent damage to natural resources and ecosystems predominantly affect local livelihoods. For this reason, mining projects in the region have repeatedly been met with resistance or unrest among local communities.[b] Moreover, local territorial, political and economic rights are often disregarded in the context of large extractive activities, and the demands raised among communities against these violations have in some cases been ignored or met by violent persecution.[c]

In LAC, artisanal and small-scale gold mining is largely unregulated and continues to be practiced using traditional techniques that negatively impact the environment. As the main driver of deforestation in Suriname, the world's most forested country, gold mining was responsible for 73 percent of forest clearance between 2000 and 2015, resulting in greenhouse gas emissions of close to 55 million tonnes of carbon dioxide.[d] In addition, this type of gold mining leads to soil degradation and the erosion and sedimentation of water streams. Without adequate restoration and rehabilitation, mined areas degrade into naked soil, grass and stagnant water, irreversibly diminishing biodiversity, carbon stocks, and environmental goods and services provided by ecosystems. Biodiversity losses derived from this type of mining are especially associated with the decimation of fish species. Artisanal and small-scale gold mining is also the main source of anthropogenic depletion of mercury into the environment, amounting to roughly 37 percent of global mercury emissions in 2018.[e] LAC is the main contributor to mercury emissions derived from artisanal and small-scale gold mining, representing around 42 percent of total emissions associated with this activity. Through the ratification of the Minamata Convention on Mercury, countries in the region have committed to phasing out the use of mercury.[f] Some have even banned its use. Nonetheless, miners still lack the tools and skills to operate without mercury, and thus a black market for the metal has emerged, pushing many miners in predominantly informal work conditions into illegality, and leaving them the tough choice between ensuring their livelihoods and preserving the health of ecosystems and themselves.

[a] Loayza and Rigolini (2016).
[b] Schr der et al. (2020).
[c] GRISUL (2018).
[d] NIMOS, SBB, and UNIQUE (2017).
[e] AMAP and UNEP (2019).
[f] BCCC, SCRC, and UNEP (2014).

The region has also witnessed violence against indigenous groups. This violence is associated with state and private actors who are seeking to control natural capital assets of strategic value, including forests that are to be transformed into agriculture pastures in land speculation schemes, as well as mineral, fossil, and water resources. The commodities boom during the 2000s that resulted in high prices on many key metals elevated the demand and pressure for extractive activities, making violence over resources even more prevalent. Tensions rose between local communities attempting to protect their rights over land and extractive industries intent on seizing control over valuable assets, triggering violence in many countries in the region.[40]

Patterns in political violence

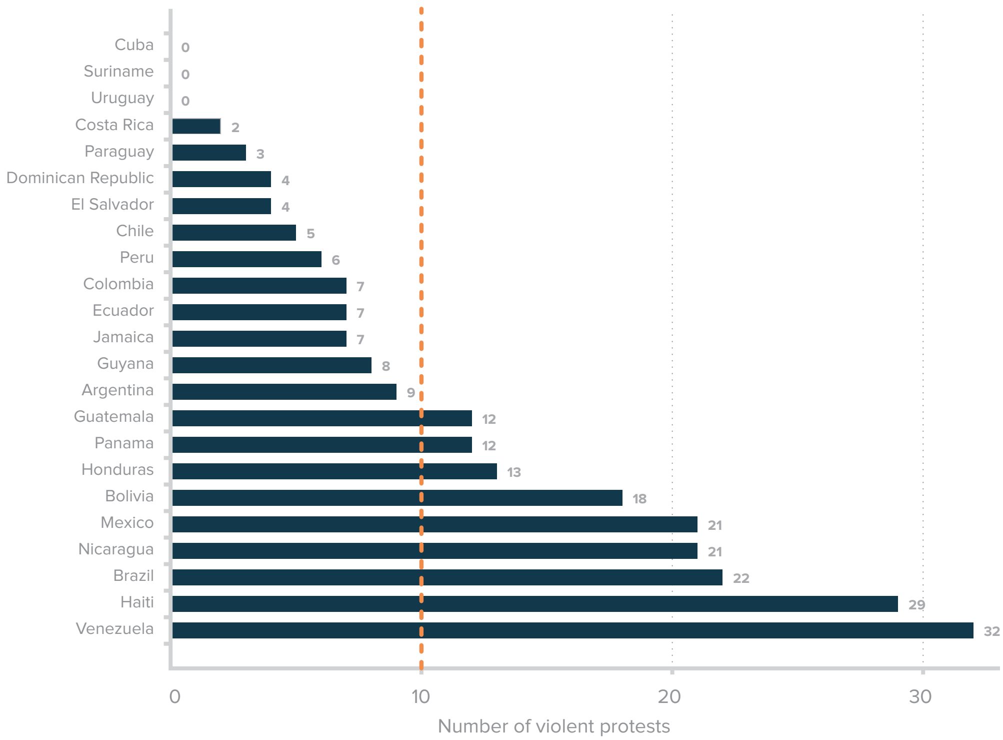
State violence and violent acts associated with contentious politics have declined in the region during the 21st Century. Social mobilization has generally been peaceful. Only 23 percent of the average 39 protests each year between 2000 and 2012 were violent.[41] Since 2013, there has been a slight increase in both the number of protests and the proportion that are violent, but the numbers vary widely within and across subregions (figure 4.9). Between 2000 and 2019, violent protests in South America were most common in Bolivia, Brazil and Venezuela. Mexico was the scene of substantial violent protests, and most violent protests in Central America occurred in Honduras and Nicaragua. According to the limited data on protests in the Caribbean, Haiti and Jamaica had the highest number of violent protests in the subregion.

[40] Rasch (2017); Martinez-Alier (2021).
[41] Clark and Regan (2016).

Another form of violence related to this phenomenon, which became particularly evident during the widespread protests across the region in 2019, was the excessive use of force and emergency declarations that suspended basic rights and freedoms with which several states responded to demonstrations and which were responsible for more than 200 deaths.[42]

Figure 4.9: Demonstrations have been generally peaceful, but violent protests are an issue in several countries

Number of violent protests in LAC countries, 2000–2019



Source: Arjona 2021, Background Paper of the UNDP LAC RHDR 2021; data of Clark and Regan 2016; Mass Mobilization Protest Data (dashboard), Harvard Dataverse version 5.0, Harvard Library, Harvard University, Cambridge, MA, https://dataverse.harvard.edu/dataverse/MMdata.
Note: The LAC average is shown by the dotted orange line.

Even after structural reforms among police forces as part of the transition to democracy, police brutality and abuse continue to be a significant problem in the region. They are particularly critical in Argentina, Bolivia, Colombia and El Salvador, where they affect mostly men, young people, and residents of large cities.[43] In Venezuela, the rate of civilians killed by government forces rose from 2.3 per 100,000 inhabitants in 2010 to 19.0 in 2016, and as many as 22 percent of all violent deaths in the country in 2016

[42] Amnesty International (2019).
[43] Cruz (2009).

were caused by state security forces.[44] In El Salvador in 2016, the equivalent rate was 9.5 per 100,000, and around 11 percent of all homicides were perpetrated by state security forces.[45] Brazil's state homicide rate is lower, closer to 2.0, but the number of people killed by the police in the last decade has reached 33,000.[46] In Colombia, the reported rate of civilians killed by state forces is below 1.0, but extrajudicial killings are commonplace; more than 3,800 people have been killed by the army to present them as members of illegal armed groups.[47] Aggressions carried out by armed forces have also intensified following the decision by some countries to militarize public security duties, which has resulted in an increase in violence in Ecuador, El Salvador, Honduras, Mexico, Nicaragua and Venezuela.[48]

Political violence in LAC has also taken a toll on people who have been systematically targeted and assassinated because of their convictions, opinions, and political activities. These include human rights defenders, social leaders, environmental activists, politicians, and journalists. Most cases of assassinated human rights defenders have occurred in Brazil, Colombia, Guatemala, Honduras and Mexico.[49] Conflicts over environmental issues have become especially violent in Brazil, Guatemala, and Honduras.[50] Hundreds of Mexican politicians have been killed by drug-trafficking organizations.[51] Around 2,000 local politicians in Colombia were assassinated between 1980 and 2015.[52] It is estimated that 450 journalists were killed or disappeared in the region between 2000 and 2017; Brazil, Colombia, Guatemala, Honduras, and Mexico are the most dangerous countries for this profession.[53]

Patterns in social and domestic violence

In addition to the critical problems LAC is facing because of political and criminal violence, the region is also struggling with social and domestic violence (box 4.3). About a third of women who have ever been in a relationship have been physically or sexually assaulted by an intimate partner at least once in their lives, and more than 10 percent of women ages 15 and above have been subjected to forced sex by a non-partner.[54]

---

44 Ávila (2018); Fernández-Shaw (2019).
45 Bergmann (2019).
46 Marques et al. (2019); Muñoz Acebes (2020).
47 Castillo Muñoz, Suárez Rueda, and Acero Velásquez (2019); Legrand (2020).
48 Diamint (2015); Flores-Macías and Zarkin (2019).
49 Front Line (2020).
50 Temper, del Bene, and Martinez-Alier (2015).
51 Trejo and Ley (2021).
52 Arjona, Chacon, and Garcia (2020).
53 Díaz Nosty and de Frutos García (2017).
54 WHO, LSHTM, and SAMRC (2013).

Box 4.3: The reduction of violence against women and girls is a requisite for sustainable development

Violence against women and girls represents a scourge against human rights, public health, citizen security, and women's physical, political, and economic autonomy. In LAC, the levels of this type of violence are overwhelming. The rate of non-partner sexual violence is the third-highest in the world, and the rate of violence at the hands of partners or ex-partners is the second-highest rate globally. The most radical expression of this violence, femicide, has reached worrying dimensions: according to the Gender Equality Observatory of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), 4,555 women were victims of femicide across 18 countries in LAC in 2018.[a]

Because of the COVID-19 pandemic, most countries are experiencing a socio-economic crisis as a by-product of the health crisis, which has generated greater inequality gaps, mainly affecting girls and boys, adolescents, and women, all of whom are the most vulnerable and at-risk within their own homes. Evidence across the world shows that, in contexts of crisis, conflict, or emergencies, violence against women and girls increases. Data of the UNDP Global Gender Response Tracker show that governments in the region have placed the fight against this type of violence at the centre of emergency policy responses: 177 measures carried out in 29 countries focus on preventing or countering violence against women and girls, comprising around 68 percent of all gender-sensitive actions.[b]

The elimination of this type of violence is a catalytic factor in the achievement of the Sustainable Development Goals and the 2030 Sustainable Development Agenda. Not only is it fundamental for women's economic empowerment, but also for poverty reduction, peace consolidation, social cohesion and access to justice. As has been demonstrated widely in recent years, public policies aimed at eradicating violence against women and girls must adopt a comprehensive approach that includes prevention, care, sanction, and reparation. This approach should also integrate economic, social, cultural, and justice perspectives to confront the issue across the stages of the life cycle of women.

The Spotlight Initiative for the Elimination of Violence against Women and Girls is at the heart of reforms within the United Nations.[c] It embodies a new way of fulfilling the 2030 Agenda in an integrated manner. It is a multi-year global alliance between the European Union and the United Nations to help eliminate all forms of violence against women and girls. The main objective of the Spotlight Initiative's Regional Programme for Latin America is to prevent, respond to, and eliminate violence against women and girls, with a focus on femicide. The Spotlight Initiative's Regional Programme for the Caribbean is mainly committed to addressing domestic violence.

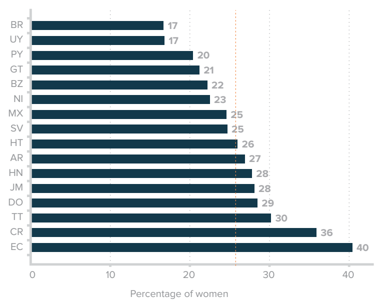
[a] See Femicide or Feminicide (dashboard), Gender Equality Observatory for Latin America and the Caribbean, United Nations Economic Commission for Latin America and the Caribbean, Santiago, Chile, https://oig.cepal.org/en/indicators/femicide-or-feminicide.
[b] UN Women and UNDP (2020); see COVID-19 Global Gender Response Tracker (dashboard), United Nations Development Programme, New York, https://data.undp.org/gendertracker/.c GRISUL (2018).
[c] See the website of the Spotlight Initiative, at https://www.spotlightinitiative.org/.e AMAP and UNEP (2019).

However, there is wide variation across countries. Data on intimate partner violence (IPV) against women during the most recent available year between 2003 and 2017 show that Ecuador had the highest rate (40.4 percent), followed by Costa Rica (35.9 percent) and Trinidad and Tobago (30.2 percent) (figure 4.10). All other rates ranged between 20 percent and 30 percent, except the rates in Brazil and Uruguay, which were the lowest: 16.7 percent and 16.8 percent, respectively. The share of women who have been physically or sexually abused by their current or most recent partner also varies broadly across countries (figure 4.11). Bolivia exhibits the highest rate (almost 60 percent); the rates in Colombia, Ecuador, and Peru all lie between 30 percent and 35 percent, and Uruguay reports a rate at less than 10 percent.

There were noticeable differences in the average femicide rates across countries in the region between 2010 and 2019 (figure 4.12). In the Caribbean, the highest femicide rates were reported in Dominican Republic (3.1), Trinidad and Tobago (2.3), and St. Lucia (1.8). In South America, the highest rates were in Bolivia (2.0), Brazil (1.6) and Uruguay (1.5). In Central America, the subregion with the highest rates, the countries with the most femicides relative to their population were Honduras (7.1) and El Salvador (6.3).

Figure 4.10: Intimate partner violence against women in the region is widespread

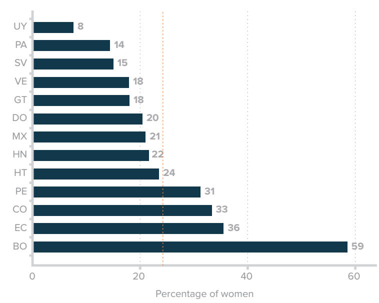
Share of women physically or sexually abused by any partner, %, latest available year, 2003–2017



Source: Arjona 2021, Background Paper of the UNDP LAC RHDR 2021 based on data of Bott et al. 2019.
Note: The dotted orange line indicates the LAC average.

Figure 4.11: In most countries, more than 1 woman in 10 has been sexually or physically abused by her most recent partner

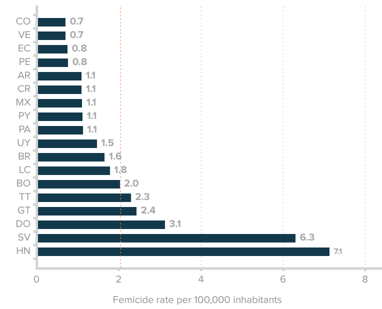
Share of women physically or sexually abused by most recent partner, %, latest available year, 2003–2017



Source: Arjona 2021, Background Paper of the UNDP LAC RHDR 2021 based on data of Bott et al. 2019.
Note: The dotted orange line indicates the LAC average.

Figure 4.12: Within LAC, Central America is the subregion with the highest levels of femicide

Average femicide rate per 100,000 inhabitants in LAC countries, 2000–2019



Source: Arjona 2021, Background Paper of the UNDP LAC RHDR 2021; Femicide or Feminicide (dashboard), Gender Equality Observatory for Latin America and the Caribbean, United Nations Economic Commission for Latin America and the Caribbean, Santiago, Chile, https://oig.cepal.org/en/indicators/femicide-or-feminicide.
Note: The dotted orange line indicates the LAC average.

Violence has also severely impacted the region's children and sexual and gender minorities. It is estimated that 58 percent of children in the region have been subjected to physical, sexual, or emotional abuse.[55] Data of the United Nations Children's Fund (UNICEF) suggest that, in most LAC countries, the majority of children experience violent discipline at home. Close to two million children in the region have fallen victim to sexual exploitation, and 48 percent of the victims of human trafficking in Central America and the Caribbean are children, compared with 34 percent worldwide.[56] All five countries with the highest homicide rates of adolescents in the world are located in the region: Venezuela, Honduras, Colombia, El Salvador and Brazil.[57] Data on violence against the LGBT+ community are even more scarce because of misreporting and underreporting. The available data suggest that LAC also has a large share of homicides against transgender individuals, for instance, but the datasets include countries reporting only one occurrence of this type of violence between 2008 and

---

55 Hillis et al. (2016).
56 Save the Children (2017); UNODC (2018).
57 UNICEF (2017).

2011, which does not inspire confidence in the accuracy of the information.[58] The most reliable information is provided by non-governmental organizations (NGOs) and grass-roots organizations that build their own observatories to follow local news (box 4.4).

[58] Balzer and Hutta (2012).

Box 4.4: There has been progress in protecting the rights of the LGBT+ community, but levels of violence are still high

The LGBT+ community in LAC continues to encounter mismatches between legal rights and reality. According to SInViolencia LGBTI, a regional network of LGBT+ advocacy groups, four LGBT+ people are murdered in the region every day.[a] In Colombia, impressive accomplishments in protecting the rights of LGBT+ people contrast with high levels of discrimination and violence. Against this backdrop, the country provides a valuable case study for the region because of the availability of recent evidence on the issue and the response of grass-roots organizations investigating, reporting, and providing legal counsel to LGBT+ victims.

A 2019 survey carried out by the Williams Institute at the University of California, Los Angeles, that interviewed almost 5,000 LGBT+ participants in Colombia, revealed highly disturbing patterns.[b] Among the respondents, 72 percent reported psychological distress; 55 percent had experienced suicidal thoughts, and 25 percent had attempted suicide. Among these last, 33 percent were bisexual women, and 31 percent were transgender. Among the respondents, 67 percent had been verbally assaulted; 35 percent had been threatened; 21 percent had been sexually assaulted, and 23 percent had been beaten. The shares of respondents who had been verbally or physically abused by public authorities were 20 percent and 11 percent, respectively. Among the participants, 75 percent had been bullied when they were minors, and 73 percent reported they had been routinely subjected to microaggressions. These shares were dramatically higher among the transgender respondents.

Prejudice and violence go hand in hand, and the killings of Colombia's LGBT+ population are often the last step in a long individual history of abuse and discrimination inside and outside the home.[c] In August 2020, a 17-year-old in the city of Sincelejo brutally attacked Luis, a gay neighbour of the same age, with a machete, mutilating his arm. This happened after Luis had been repeatedly harassed for being homosexual. Three organizations that are active on issues related to the LGBT+ community—Colombia Diversa, Pink Consultores, and Sucre Diversa—are currently providing support to Luis and his family after the aggression. Similarly, the NGO Red Comunitaria Trans, which actively follows up on cases of violence against transgender sex workers in Colombia, reported in June 2020 that police officers had beaten, shot at, and chased five sex workers in Bogotá, the country's capital, after verbally taunting them.

According to Temblores ONG, there were 1,944 acts of violence against LGBT+ people in Bogotá from 2010 to 2020.[d] Friends, strangers, distant acquaintances and the police and military are the most frequent perpetrators. Colombia Diversa has documented that transgender women were among the most usual victims of homicides linked to discrimination against the LGBT+ community in public spaces in 2015.[e] They face elevated exposure to victimization because of the highly criminalized occupations they are forced to take on in the absence of better job opportunities. Of the homicides targeted at LGBT+ people between 2012 and 2015, 95 percent have never led to arrests.

The persistence of crimes motivated by prejudice against the LGBT+ community is not likely to diminish without a strong commitment and a clear, open line of action by governments across the region to confront intolerance towards diversity in sexual orientation and gender identity.

[a] SInViolencia LGBTI (2019).
[b] Choi et al. (2020).
[c] Moloney (2019).
[d] Temblores ONG (2019).
[e] Colombia Diversa (2016).

Another alarming fact is the growing popular support for the use of extralegal violence as an acceptable way to solve conflicts among countries in the region, which reflects a low level of trust in institutions. The share of the population who support such methods is between 40 percent and 52 percent in Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, and Peru; between 30 percent and 40 percent in Brazil, Colombia, Guyana, Mexico, Nicaragua, Paraguay, Trinidad and Tobago, Uruguay, and Venezuela, and between 20 percent and 30 percent in Argentina, Chile, Costa Rica, and Panama.[59]

[59] Cruz and Kloppe-Santamaría (2019).

4.3. Inequality is both a result and a source of violence in the region

Inequality is associated with increases in violence

Empirical studies have explored the relationship between inequality and crime. Most find a positive association.[60] Others do not discover any significant connection.[61] In studying inequality and crime trends across the world during the second part of the 20th Century, researchers have identified possible underlying causal effects of inequality on crime rates.[62] Some have illustrated how crime rates in Latin America are closely related to urban socio-economic traits.[63] More recently, researchers have successfully identified a causal relationship between variations in socio-economic factors and crime in the context of the Mexican drug war.[64]

This report builds on this previous work to analyse new data from more recent periods and provide fresh empirical evidence on the relationship between inequality and homicide and victimization rates.[65] It uses subnational and national data from various sources to compose a longitudinal analysis. The analysis accounts for various measures of violence, includes different model specifications, and corrects for potential endogeneity in inequality using historical data as instruments. The findings point to a positive, significant, and robust relationship between inequality and violence. They are consistent across all the measures of violence under study and suggest that the greater levels of income inequality as measured by the Gini index are associated with increases in homicide rates and crime victimization rates. The effect of inequality on homicides seems stronger in the case of victims who are men. This is also true of victimization rates. Victimization decreases with age. When coupled with indicators of the association of gender and crime, young men are found to suffer the main burden of crime. Victimization increases with educational attainment. If ethnicity is considered, mestizo and mulatto groups face greater victimization rates. The results also suggest that the richest households in LAC experience more overall crime victimization, especially robberies, theft, and larceny, but households at lower socio-economic status suffer more homicides. The study also finds that, relative to Western European countries, LAC countries display significant additional homicide rates and crime victimization rates. (Box 4.5 offers details on the econometric reasoning and process supporting these conclusions.)

---

[60] Kelly (2000); Machin and Meghir (2004); Demombynes and Özler (2005); Buonanno and Vargas (2019).
[61] Bourguignon et al. (2003); Corvalan and Pazzona (2019).
[62] Fajnzylber, Lederman, and Loayza (2002).
[63] Gaviria and Pagés (2002).
[64] Enamorado et al. (2016).
[65] See Schargrodsky and Freira (2021) for additional detail on the recent empirical contributions covered in this section.

Box 4.5: New empirical evidence on the relationship between inequality and violence

Schargrodsky and Freira's (2021) background paper for this report, "Inequality and Crime in Latin America and the Caribbean: New Data for an Old Question", explores the relationship between inequality and violence in an empirical setting. It finds robust evidence that higher income inequality is accompanied by a higher incidence of violence. The authors use homicide and crime victimization rates as measures of violence and alternative model specifications to control for other determinant factors. They also use various samples, either including countries on all continents, or focusing only on LAC countries or regions within LAC countries.

Given the shortcomings of statistical systems on crime and violence in the region, data are extracted from various sources, as follows:

- *Homicide rates*: (a) an unbalanced panel of intentional homicides per 100,000 population per year covering 106 countries from 1995 to 2017 (World Development Indicators) and (b) an unbalanced panel of homicides per 100,000 per year covering 123 countries from 1995 to 2017 (Global Burden of Disease Study).[a]
- *Crime victimization rates*: (a) a cross-sectional database of the share of respondents who reported they had been victims of crime in the previous 12 months covering 42 countries and 60,472 individuals in one year for each country between 2010 and 2014 (World Values Survey) and (b) an unbalanced panel of the share of respondents who reported they had been victims of crime in the previous 12 months covering 18 LAC countries and an average of 14,000 individuals per year from 1995 to 2018 (Latinobarómetro.)[b]
- Country Gini coefficients or indices (PovcalNet) and subnational Gini coefficients or indices for LAC countries (SEDLAC).[c]
- GDP data (World Economic Outlook), poverty rates (World Development Indicators), poverty gaps (PovcalNet), and primary-school completion rates (World Development Indicators), all used as controls.[d]

To address potential estimation biases because of the explanatory simultaneity of political and institutional factors on inequality and crime and potential endogeneity because of direct reverse causality from violence on inequality, estimations include country fixed effects and rely on historical data in an instrumental variable setting. Specifically, the study uses the settler mortality rates and ex-colony variables of Acemoglu et al. (2001) and the African and Native slavery measures of Soares, Assunção, and Goulart (2012) as instruments. These instrumental variables are shown to have strong explanatory power on inequality.

Schargrodsky and Freira (2021) find that an increase of 10 points in the Gini index translates into 9.3 additional homicides per 100,000 population. Estimates in regressions using crime victimization rates as the dependent variable vary across data sources. An increase of 10 points in the Gini index implies a rise in the World Values Survey victimization rate of 3.7 percentage points, which represents a 20 percent bump from the baseline level. Meanwhile, an increase of 10 points in the Gini index leads to an increase of 5.9 percentage points in the Latinobarómetro victimization rate, equivalent to an additional 16.6 percent relative to the baseline. The analysis of this relationship at the subnational level shows that a rise in the Gini index of 10 points is equivalent to an increase of 4.1 percentage points in the victimization rate.

Schargrodsky and Freira's findings also highlight the magnitude of the problem of violence in LAC from a global perspective. Comparing world regions, they find that the countries in LAC have 14.3 more homicides per 100,000 population per year and an additional 11.8 percentage points in crime victimization rates relative to Western European countries. LAC regression coefficients are the largest among world regions and suggest that the "additional" violence in the region represents two thirds of the region's total homicides.

The impact of poverty on homicides and crime victimization rates is less robust and more unstable than that of inequality. While the latter appears to be a determining factor behind the levels of violence, the former does not.

---

[a] See GBD Results Tool (database), Global Burden of Disease Study, Global Health Data Exchange, Institute for Health Metrics and Evaluation, Seattle, http://ghdx.healthdata.org/gbd-results-tool; WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/.b UN Women and UNDP (2020); see COVID-19 Global Gender Response Tracker (dashboard), United Nations Development Programme, New York, https://data.undp.org/gendertracker/.c GRISUL (2018).

[b] See Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp; WVS (World Values Survey) (dashboard), King's College, Old Aberdeen, United Kingdom, http://www.worldvaluessurvey.org/wvs.jsp.

[c] See PovcalNet (online analysis tool) (dashboard), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/; SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Centre for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/.

[d] See PovcalNet (online analysis tool) (dashboard), World Bank, Washington, DC, http://iresearch.worldbank.org/PovcalNet/; WDI (World Development Indicators) (dashboard), World Bank, Washington, DC, https://datatopics.worldbank.org/world-development-indicators/; WEO (World Economic Outlook Databases) (dashboard), International Monetary Fund, Washington, DC, https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx.

The most vulnerable are overrepresented among victims of violence

To shed light on the disproportionate effects of violence on already disadvantaged people and the implications for inequality, the analysis starts by laying out the evidence showing how the most vulnerable are regularly overrepresented among the victims of violence.

As elsewhere in the world, most victims of homicide in LAC are young men. Yet, not all young men face the same risk of lethal violence. Criminal violence is concentrated in the poorest urban neighbourhoods, rural areas with precarious state presence and strong illicit economies, and border communities.[66] Homicides tend to affect the poor disproportionately.[67] Ethnic minorities have also been shown to be at higher risk of lethal victimization. The homicide rate among Afro-descendant youth ages 12–29 in Brazil in 2012 was 70.8 per 100,000 population, while the equivalent rate among non-black or brown youth was 27.8.[68] On crime and delinquency, some studies find that specific crimes, such as street robberies in Argentina, affect the rich and the poor equally.[69] Others find that crime usually affects rich and middle-class households in larger cities.[70] People with primary or secondary educational attainment are more likely than people with higher educational attainment to report gang violence in their places of residence.[71] The same is true of black, indigenous, or other ethnic minorities in relation to white respondents.

Victimization has also been found to be more common among people who face multiple overlapping disadvantages because of their gender, ethnicity, sexual orientation or gender identity, or socio-economic status. For example, ethnic minorities and members of the LGBT+ community are at higher risk of being killed, and LGBT+ women who are poor are more likely to be victims of police harassment and exhibit higher rates of imprisonment.[72] Indigenous and black women in Ecuador experience more gender-based violence.[73] Homicides of Afro-descendent women in Brazil rose by 54.2 percent between 2003 and 2013, while homicides of non-black or brown women declined by 9.8 percent during the same period.[74] Among all female victims of homicide in Brazil, 66 percent were of African descent even though black and brown people comprise 51 percent of the country's population.[75, 76] Studies have found that

---

[66] Yashar (2018).
[67] Soares (2006).
[68] ECLAC (2017).
[69] Di Tella, Galiani, and Schargrodsky (2010).
[70] Gaviria and Pagés (2002).
[71] 2018 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, http://www.latinobarometro.org/lat.jsp.
[72] IACHR (2015).
[73] ECLAC (2018).
[74] (Ibid).
[75] Cerqueira et al. (2019).
[76] For Brazil, the term Afro-descendant is used to refer to both pretas and pardas.

women who are poor are more likely than non-poor women to experience domestic violence in Barbados, Chile, Colombia, Haiti and Nicaragua.[77] However, other studies have not found a positive relationship in Dominican Republic, Nicaragua, or Peru.[78]

In the realm of political violence, aggression towards social leaders accounts for a greater burden on ethnic minorities and economically vulnerable groups, which are usually the ones who represent the demands of those affected by territorial and environmental injustice. Most assassinated leaders in Colombia between 2017 and 2019 were indigenous and black people, rural workers, or representatives of labour unions.[79] In Brazil, most social leaders who have been assassinated belonged to communities facing multiple forms of dispossession, such as rural worker organizations mobilizing for land and public services or indigenous people defending their lands and natural resources.[80] In the midst of the Colombian civil conflict, armed actors concentrated their operations in rural areas, and most violence took place outside large cities.[81] They would recruit low-income individuals who had usually already been victimized.[82] Most victims of Peru's civil confrontation were living in rural areas and worked in agriculture.[83] Concerning state violence, the proportion of victims of police abuse among low-income groups or ethnic minorities is higher than among the rest of the population in Argentina, Brazil, Chile and Colombia.[84] Black people in Latin America, especially youth, are more likely to be stopped and registered on the street by police because of racial discrimination; they are also more likely to be arrested and imprisoned, and their penalties tend to be more severe.[85] The criminalization of protests seems to also disproportionately affect the poor.[86]

Individuals and communities that already face adversity in terms of income, rights, access to social services, or political representation are at greater risk of becoming victims of most forms of violence. All types of crimes, except for robberies and kidnappings, tend disproportionately to impact poor individuals and communities, as well as geographical areas with precarious state presence. This all means that the negative effects of violence propagate inequality because they impact people who are already at a disadvantage. Violence thus has the power to augment existing inequalities in human development because it makes some members of society worse off in the many domains of human development in which they are underprivileged. Arjona

77 Larrain (1993); Ellsberg et al. (2000); Flake and Forste (2006); BSS (2014).
78 Flake and Forste (2006).
79 International Crisis Group (2020).
80 Amnesty International (2016).
81 GMH (2013).
82 Arjona and Kalyvas (2012).
83 CVR (2003).
84 González (2019).
85 ECLAC (2017).
86 Doran (2017).

(2021) argues that the precise impact of violence on human development, including the magnitude of the impact, will be determined by the kind and the severity of the violence, the attributes of the victims or their context that can moderate the effects.

Violence restricts rights and liberties

Violence can increase inequality by undermining the right to life and the physical integrity of underprivileged groups. Much of the violence against indigenous and afro-descendant groups is associated with the land they occupy. This land often represents a valuable asset for highly profitable economic activities, from the access to fresh water and metals in the higher Andean mountains to mining in the Amazon and Orinoco basins in Brazil, Colombia, Ecuador, Peru and Venezuela. These economic activities pose a threat to the ecological integrity and cultural and biological diversity of the land and local peoples. Indigenous leaders and environmental organizations are frequently intimidated and victimized. Meanwhile, the concentration of lethal violence among poor neighbourhoods and in rural areas with precarious state presence exacerbates subnational inequality because economically disadvantaged and institutionally abandoned communities must face greater insecurity. This is aggravated by the fact that the members of these communities lack the political influence of more affluent individuals, and their concerns and claims about security receive less attention from policymakers and security forces.

Similarly, because people often adapt their behaviour to lower the risk of being victimized in ways that constrain their choices, violence and the threat of violence can increase inequality by undermining people's freedoms.[87] A 2012 survey found that up to 65 percent of Latin Americans stopped going out at night because of insecurity, and 13 percent thought about moving to a new location out of fear of crime.[88] This impact is more severe among the poor because they have fewer alternatives for adapting their behaviour to avoid crime given that they are less likely to be able to afford security and protection measures or relocate to safer areas. This effect can be significant. About half of all homicides in the region in 2012 occurred in the homes or neighbourhoods of the victims, and an additional 30 percent occurred in the municipalities of the victims.[89] Similarly, women face greater barriers to mobility based on fears of sexual harassment. For example, a 2018 study found that 70 percent of women surveyed in Buenos Aires, Quito and Santiago de Chile felt unsafe while travelling on public transport.[90] The responses of the government apparatus to curb crime and political

87 Lane (2014).
88 UNDP (2013); AmericasBarometer (dashboard), Latin American Public Opinion Project, Vanderbilt University, Nashville, Tennessee, https://www.vanderbilt.edu/lapop/core-surveys.php.
89 Chioda (2017).
90 CAF and FIA Foundation (2018).

violence can also increase inequality by provoking a sense of insecurity and violating individual rights among low-income populations and ethnic minorities because the persecutory actions tend to be biased towards the underprivileged.

Violence affects social outcomes such as health and education

Violence has critical impacts on human capital formation. In the context of health, this applies not only to the physical health impairments that may result from victimization, but also to the repercussions on mental health. Both sets of effects can exacerbate existing inequalities. For example, in the context of gender inequality, the impact of violence on women's mental health is severe and has been associated with most forms of mental distress and disorder.[91] The direct effect of violence on women's physical and mental health not only implies a profound undermining of a central aspect of women's well-being, but also exposes women to greater disadvantages because of the interference with the economic, social and political activities of women. The inequalities in education, health care, access to employment, and political participation that women in LAC face can be exacerbated by violence, which hinders cognitive, emotional, and social skills.[92] In the case of children, violence can widen the gap between the privileged and the underprivileged by impacting physical and mental health. Children may suffer enormous psychological and physiological trauma from experiences of violence against themselves and their parents, teachers and communities.[93] These experiences can have irreparable effects on the areas of the brain regulating affection, memory and attention.[94] These negative effects are likely to widen gaps in human development because low-income and ethnic minority children are at greater risk of experiencing most forms of violence.

Inequality in health outcomes can be aggravated by political and criminal violence that disproportionately impacts people living in areas where armed groups operate. In addition to the death toll and injuries, civil war often increases the prevalence of post-traumatic stress disorder (PTSD) and may exercise an impact on public health even in the post-war period, disproportionally affecting women and children.[95] Because of violence and forced migration, refugees tend to display higher rates of mood disorders, psychotic illness and PTSD compared with non-migrant residents.[96] Likewise, illicit mining can widen subnational inequality in health by causing environmental damage, directly affecting communities near mining sites that already experience lower levels

[91] Jordan, Campbell, and Follingstad (2010).
[92] UN Women (2012).
[93] Molteno et al. (1999).
[94] Teicher (2002); Arnsten (2009).
[95] Collier et al. (2003); Iqbal (2006).
[96] Porter and Haslam (2005); Steel et al. (2009).

of development and that may experience health debilitating consequences such as contact with contaminated water, setting them back in health and well-being with respect to the rest of the country.

The gap between privileged and deprived individuals and communities in education may be widened by the impact of violence on the educational outcomes and achievements of children and youth. The effect of violence on the development of cognitive and non-cognitive skills may debilitate learning capacity and diminish academic performance.[97] This effect is larger among schools located in poor urban areas and in secondary schools in areas with gang activity. Deteriorated educational outcomes may persist long after the occurrence of violent events, and the impact of violence on the mental health of children and youth may lead to mental illness, implying lower grades, higher absenteeism and higher drop-out rates.[98] Violence may likewise amplify inequality through the detrimental effect on the quality and accessibility of schools. The destruction of schools or disruptions in schooling limits children's opportunity to obtain education.[99] Violent settings may discourage students from attending school out of fear of violence or the danger of passing though insecure neighbourhoods on their way to school. If aggressions are directed at parents, violence widens the gap in household support for education by interrupting the crucial role of parents in the development of the cognitive and socioemotional skills of children and youth. The absence of parents who are at greater risk of falling victim to crime may leave the children emotionally undernourished and affect their decision-making abilities.[100] By creating barriers to access to education, negatively affecting child development and academic performance and causing mental illness among children who are already at a disadvantage, violence can lead to greater inequality.

Violence affects income generation, increasing inequality

The effects of violence on income inequality operate at various levels. At the individual level, violence may jeopardize the earning prospects of disadvantaged individuals through multiple channels, creating additional obstacles to the reduction of inequality. For example, it may widen the income gap by reducing mental health among the poor, thereby altering the participation of the poor in the labour market. The fear and anxiety created by the threat of violence may alter work behaviour and thus negatively affect educational attainment and cognitive development, worsen labour market outcomes, and undermine non-cognitive skills.[101] For these reasons, gender-based violence may

97 Molteno et al. (1999); Burdick-Will et al. (2011).
98 McLeod and Fettes (2007); Molano, Harker, and Cristancho (2018).
99 Molteno et al. (1999).
100 Cuartas, Harker, and Moya (2016).
101 Heckman and Rubinstein (2001) ; Murnane et al. (2001); Heckman, Stixrud, and Urzua (2006).

also worsen existing gender inequalities in the labour market.[102] It may also amplify economic inequality given the disproportionate effect of IPV on low-income women. Violence-triggered migration may exacerbate income inequality because migrants, internally displaced persons, and refugees face greater difficulties in finding work and thus have fewer prospects for improving their economic conditions. If those fleeing are the most disadvantaged, greater inequality is bound to prevail.

Violence may destabilize local economies in underprivileged areas, condemning them to less economic growth. Waves of violence in local rural economies that already exhibit lower economic growth and underperforming institutions broaden subnational inequality through an additional deterioration in the economic well-being of the population. In Mexico, localities affected by drug-related violence experience declines in production, profits, salaries, and the number of businesses and workers in manufacturing.[103] In Belo Horizonte and Rio de Janeiro, In Brazil, crime represents 5 percent and 4 percent of yearly production, respectively.[104]

Violence may represent an obstacle to inequality reduction efforts. High levels of violence often become the greatest concern among people in a location, effectively preventing inequality from becoming a policy priority. Crime in LAC has led to reduced support for welfare policies. Elevated rates of criminal violence have facilitated the spread of perceptions of insecurity, and this has impeded the consolidation of welfare systems. Paradoxically, the victims directly affected by surges in crime are often the individuals in most need of welfare support.[105] Violence may even operate as an instrument of power allowing elites to preserve the distributional status quo, given the contribution of violence to the political exclusion of large sectors of the population that cannot make demands for greater equality through the democratic process. Elites have tolerated, facilitated, and participated in violence, intervening in resolute ways against violence only if the violence threatens the balance of power between the centre and the periphery or the distribution of economic and political power locally.[106]

---

[102] Swanberg, Logan, and Macke (2005).
[103] Gutiérrez-Romero and Oviedo (2017).
[104] Rondon and Andrade (2003).
[105] Altamirano, Berens, and Ley (2020).
[106] Gutiérrez Sanín, Acevedo, and Viatela (2007); Carroll (2011); Robinson (2013); Saffon Sanín (2021).

Violence affects governance by reducing political engagement

Violence may introduce distortions in political engagement that suppress the voices of the underprivileged and the participation of the underprivileged in public debates and decision-making. Some studies find that victims of violence tend to participate more than non-victims in political activities in the aftermath of war and that victims of crime tend to engage more in various forms of political participation, possibly because of post-traumatic growth and the expressive value of participation.[107] However, other studies find that victims participate less during wartime.[108] They may also withdraw from political life in the presence of high levels of violence, as in the case of Mexico.[109] Across the region, while non-violent crime appears to increase political participation, violent crime seems to have the opposite effect.[110] Armed non-state actors may undermine political participation through their mere presence.[111] They may also force citizens to abstain from voting or vote for specific candidates.[112] A negative impact of violence on political participation in LAC would be more evident in cases where violence is prevalent or pervasive, and this negative impact would operate against equality if it widens the gap in political influence between the more well off and the less well off, or among deprived communities and ethnic minorities.

Some forms of crime and violence may have an effect on society through their direct impact on governance systems and mechanisms. Criminal and rebel groups affect people not only by their use of violence, but also by their de facto governance in locations under their control. This phenomenon occurs in the slums of large cities, rural towns along drug trafficking routes, and villages near coca and poppy plantations. Victimization and the violation of rights are commonplace under coercive local regimes in which these groups operate as armed rulers.[113] Inside these corrupt social orders, criminal authorities seize control of security, regulate economic activities by organizing labour and issuing work permits, regularize extortion as tax collection, establish rules for markets, provide public goods, and regulate social, economic and political behaviour.[114] They influence politics by infiltrating local governments to access sensitive information, persuading local officials to design and implement policies that favour criminal activity, making alliances with parties and politicians, vetoing candidates that run for office or preventing them from campaigning, coercing civil organizations, and mobilizing voters to support particular candidates or participate in

107 Bateson (2012); Bauer et al. (2016).
108 Acemoglu, Robinson, and Santos (2013); Gallego (2018); Arjona, Chacon, and Garcia (2020).
109 Trelles and Carreras (2012); Ley (2018).
110 Berens and Dallendörfer (2019).
111 Córdova (2019).
112 Jaffe (2013); Arjona (2016); Arias (2017).
113 Mampilly (2011); Arjona, Kasfir, and Mampilly (2015); Arjona (2016); Arias (2017); Lessing (2020).
114 Arjona (2016); Arias (2017).

protests. They may ban certain activities, while making others mandatory. They may even punish abusive partners, thieves, and rapists harshly.

Violent criminal governance affects inequality at the subnational level through its effects on representation, democracy, the rule of law and the quality of local governments. It may increase inequality by undermining political representation in vulnerable communities. The interference of armed groups in democratic processes is widespread within several countries in LAC.[115] It typically leads to a reduction in political competition and plurality and a generalized distrust in democracy and local governments because of the lack of trust in elections as mechanisms of accountability and leadership selection.[116] This interference is usually targeted at localities already under criminal influence that are also typically the most vulnerable.

Inequality may also increase if democracy and the rule of law in deprived localities have been weakened. Crime in LAC has been repeatedly found to erode citizen support for democracy, institutions, and the rule of law.[117] The direct effect is that underprivileged populations in contexts where violence is frequent or localities that have underperforming state institutions and less economic development are less likely to demand that politicians uphold democratic values and the rule of law. Political elites can exploit crime to justify authoritarian security measures and avoid addressing structural conditions that facilitate crime.[118] Iron fist policies have become more prevalent in LAC.[119] They undermine democracy and the rule of law and often lead to the violation of human rights.

The effects of violence on the quality of local governance can be particularly consequential for inequality, especially because of the asymmetrical government presence and the inherent distortion in local institutions and in the development of marginalized communities that are a common feature in countries in LAC.[120] If organized criminal groups obstruct democratic participation and representation, the quality of local politics becomes diminished because the incentives for skilled, honest politicians to run for office and win elections are reduced.[121] Violence may shrink the spending capacity of local governments in vulnerable communities by decelerating economic growth or diverting the resources necessary for public goods provision to combating crime. It can worsen the quality of local institutions directly by modifying political activities through the threat of political assassination, the erosion of citizen

115 Arjona, Chacon, and Garcia (2020).
116 Albarracín (2018); Gallego (2018); Ponce (2019).
117 Pérez (2003); Malone (2010); Ceobanu, Wood, and Ribeiro (2011); Blanco and Ruiz (2013); Carreras (2013); Krause (2014); Visconti (2020).
118 Chevigny (2003); Soares and Naritomi (2010).
119 Muggah (2019).
120 O'Donnell (1993).
121 Arjona, Chacon, and Garcia (2020).

trust, the suppression of demands for transparency and accountability, the subversion of the justice system and the implementation of extralegal conflict settlement.

Ultimately, the combination of these factors means that LAC countries that experience substantial and frequent violence will persistently struggle to develop a healthy political environment and consolidate democracy. Political inclusion is interrupted as traditional elites preserve or extend their influence, while the less well off lose the incentives to participate, demand less from democracy and the rule of law, and are faced with greater adversity because of the weakened protection of rights. Spotlight 7 highlights the importance of greater women's participation in political leadership as a necessary condition for stronger and more inclusive democracies in the region.

4.4. Violence is linked to inequality, but also to productivity

Violence reduces and distorts investment

Violence and crime may contribute to low productivity growth in LAC. One channel through which this may occur is the decline in investment brought about by the greater uncertainty on property rights and the rule of law that accompany crime and violence. Criminal activity can be interpreted as a hidden tax on all participants in the economy. It can scare off direct domestic or foreign investors, make firms less competitive and distort the allocation of resources because it elevates uncertainty and inefficiency.[122] Decreases in growth caused by reductions in private investment may also originate from corruption, which has the additional effect of impeding the translation of economic stability into better purchasing power and living conditions among those most affected by the drain on resources.[123] Corruption may also modify the composition of foreign direct investment, as investors may avoid placing their resources in a country altogether or prefer to associate with local partners to gain knowledge on how to deal with bureaucracy if corruption is not prohibitive.[124]

Studies have found that, within LAC, crime fractures networks and ties among kin, friends and business partners, especially in the presence of migration, but also that there is no significant effect of victimization on trust in informal institutions in the private sector — embodied in business networks—.[125] The economic impact of crime greatly

122 Detotto and Otranto (2010).
123 Arcia (2012).
124 Gaviria (2002).
125 Corbacho, Philipp, and Ruiz-Vega (2012).

depends on a country's vulnerability to violence and the magnitude of the destruction violence causes, both of which determine the severity of the obstacles to economic growth and performance, as may be seen in the recent evidence on Guatemala.[126] Similarly, homicide and theft proved particularly forceful in disincentivizing foreign direct investment in Mexican states between 2005 and 2015, especially affecting those states with the highest levels of violence.[127] Studies that do not restrict their scope exclusively to the region have determined that foreign direct investment, which is regarded as an essential financial flow in propelling the efforts of developing countries to overcome development obstacles, is discouraged by violent crime.[128]

The elevated costs of significant criminal activity on Latin American societies, especially those costs associated with behavioural changes, investment reductions, productivity losses, and shifts in government resource allocation, have been found to respond to attempts to lower the risk of victimization.[129] Businesses may avoid seeking growth alternatives and market opportunities to diminish their visibility and exposure to violent aggressions.[130] However, evidence on Colombia suggests that there may be declines in investment as a result of firm-related kidnappings, while violence that does not specifically target corporate officials do not show a statistical relationship to such reductions.[131] These findings suggest that changes in corporate investment do not seem to reflect an expectation of falling demand, a deterioration in financial credit ratings, or increases in administrative costs, but are a result of a fear associated with the threat to the personal security of corporate personnel.

Violence affects human capital formation and thus productivity

Based on discussions on the effects of violence on education, health, and income, crime and victimization may also explain slowdowns in economic growth as victims often see their income-generating capacity, their learning ability, or their labour productivity compromised. This is especially true among women, children and minorities, whose economic prospects and aspirations may be severely transformed by traumatic experiences related to violence. Women who are victims of violence may thus face additional challenges in the labour market because of mental health challenges, and children who are victims of violence may face worse future job prospects because of the adverse impacts of violence on educational trajectories. Refugees and the forcefully displaced who break off their economic links and stability

126 Ruiz-Estrada and Ndoma (2014).
127 Cabral, Mollick, and Saucedo (2018).
128 Brown and Hibbert (2017).
129 Jaitman (2017).
130 UNDP (2013).
131 Pshisva and Suarez (2010).

may encounter difficulties in adapting to new productive contexts and maintaining stable work commitments. Previous studies led by UNDP have concluded that the years lost in life expectancy because of excess homicides in Latin America during 2009 represented the equivalent of 0.5 percent of the region's GDP per capita in that year.[132] Added up, these effects of violence on individual productivity mean that societies and countries must forgo the productive potential of a significant share of the population and face serious contractions in human capital accumulation.

Violence may also weaken state and productive capacities by making them more vulnerable to rent-seeking behaviour and corruption. Rent seeking by powerful economic actors that leads to welfare losses among the less powerful is more likely in contexts of high inequality and environments in which the influence of elites over policies and laws is excessive.[133] Expansions in corruption are typically accompanied by declines in growth because corruption discourages foreign and domestic investment, eliminates incentives for innovation, increases uncertainty, leads to misallocation of human capital and increases the operating costs of firms.[134] Corruption tends to become more widespread as political instability increases. In such situations, politicians and bureaucrats tend to abandon their sense of accountability and have greater incentives to extract rents. The expansion of illicit crops in Colombia brought about severe increases in crime and violence. This structurally reduced economic growth through the decline in total factor productivity that resulted from the damaged social infrastructure and encouraged predatory and less productive rent-seeking activities with low contributions to output.[135] Corruption and crime may likewise reduce firm competitiveness through substantial reductions in sales.[136]

Violence leads to physical and natural capital depletion

Either directly or indirectly, acts of violence can obstruct capital accumulation or reduce existing stocks of capital. Crimes that are explicitly targeted at destroying or seizing control of assets or other property represent perhaps the most evident case of capital depletion. Violence directed at natural capital—such as water contamination because of illegal mining, pipeline destruction, or the seizure of fossil fuels, deforestation aimed at clearing land so powerful groups can introduce resource-heavy production schemes (monoculture, extensive livestock breeding, illicit crops), and biodiversity losses associated with full-scale violent confrontations—is especially damaging. It creates implicit costs in society by inefficiently exhausting current resources and deprives future

---

132 UNDP (2013).
133 Arcia (2012).
134 Gaviria (2002).
135 Cárdenas and Rozo (2008).
136 Gaviria (2002).

generations of the opportunity to make use of these resources. Violence against ethnic communities that have, over centuries, established alternative systems of settlement and conservation in ecologically rich territories may threaten the maintenance of this natural capital for future generations. Several studies have documented the positive impact of these indigenous arrangements in reducing deforestation.[137] Spotlight 8 underlines recent policy accomplishments and challenges in dealing with climate change through the reduction of emissions from deforestation and forest degradation in countries across the region, as well as the potential of incentive-based programmes to tackle this issue.

The macroeconomic effects of violence are manifested in losses in potential productivity and in the exhaustion of the resources necessary to combat and mitigate violence, but which could have otherwise been directed at other productive uses (see section 4.3). The public and private sectors are confronted by the trade-off between setting aside economic resources to limit exposure to crime and violence and effectively avoiding victimization. The benefits springing from combating and mitigating violence generally outweigh the costs. Nonetheless, it is imperative that nations evaluate how this cost-benefit analysis can be adapted and reflected in their respective strategies, particularly if they involve considerable shares of GDP, as is the case in some LAC countries. The costs of crime prevention and punishment, which include health costs because of homicides and injuries, losses arising from property crime, corruption, and public expenditure on prosecution, prison services and rehabilitation, are estimated at 1.04 percent of the GDP of Costa Rica in 2010, 1.21 percent of the GDP of Chile, 2.27 percent of Uruguay's GDP, 2.53 percent of the GDP of Honduras, and 2.45 percent of Paraguay's GDP.[138] Victimization has been estimated to have cost 1.18 percent of the GDP of Uruguay, 1.47 percent in Costa Rica, 2.11 percent in Chile, 6.36 percent in Paraguay, and 8.01 percent in Honduras. While these economic costs of violence can be estimated, it is impossible to quantify the true human cost of violence or the long-term trauma that violence can perpetuate far into the future.

4.5. Combating violence is a pathway to establishing more equal and productive societies

This chapter highlights the role of violence as an underlying factor propelling the high-inequality, low-growth trap in the region. It explores the patterns of the significant criminal, political, and social and domestic violence in the region and illustrates how the persistence of this violence is both a result of and a contributor to the double trap

---

137 Vélez et al. (2020); Romero and Saavedra (2021).
138 Aboal et al. (2016).

in LAC. This vicious circle of violence, inequality, and slow growth offers a somber horizon for policy solutions, particularly given the current setbacks expected to result from the ongoing COVID-19–induced economic and public health crises.

However, progress is possible, though it will only be achieved if the policies adopted address the underlying imbalances of power between actors to foster conditions in which conflicts may be settled through peaceful rather than violent mechanisms. While there is no single policy solution that will work to address violence, box 4.6 highlights a few priority areas that may be more or less relevant depending on the context. If these are successfully dealt with, progress in combating violence may pave the way towards more equal, more productive and more peaceful societies.

Box 4.6: A few policy priority areas for combatting violence

Establishing more independent and effective judiciary systems

Establishing independent and effective justice systems capable of safeguarding human rights, facilitating access to justice for all without discrimination and supplying transparent and objective services is key to combating violence effectively. By not allowing crimes to go unpunished and preventing revictimization, the justice system would make committing crimes more costly. These systems must adequately respond to differentiated needs, for example, by building the capacity to tackle violence against women, LGBT+ people, and ethnic groups through a more detailed classification of crimes within legal structures and through sensitivity training among public officials. Justice systems require increased government capacity as well as social legitimacy to be effective. Supporting civil society organizations, a free and active press, and social research that aims to gather information, generate knowledge, and inform the public about the realities of violence and the importance of institutionalized solutions is essential if society is to support and defend the work of the justice system.

Considering new approaches to dealing with illicit trade

In LAC, illicit trade is one of the principal causes of violence and the growth of powerful criminal organizations, both of which widen inequality in various critical developmental areas. Contemplating the decriminalization and legalization of controlled substances might help LAC take a step forward in the fight against crime, violence, human rights abuses, and corruption, while also facilitating nation building and effective governance, democratic consolidation, and environmental justice. To meet sustainability objectives, the shifts in regulation should also aim to address illegal mining, deforestation and land speculation, which are another source of violence under the management of illegal organizations and which are accompanied by severe environmental degradation and public health problems.

Economically empowering marginalized groups

As this chapter shows, economic marginalization may render people additionally vulnerable to violence. In the context of domestic violence, for example, promoting women's economic empowerment is essential to reducing situations of dependency that may foster violence. This would require actions on multiple fronts, including recognizing the labour involved in unpaid care and domestic work and reducing and redistributing it through, among other things, increased access to care services. In the same vein, governments should work together with schools to identify child abuse early an educate parents and communities on the dismantling of gender stereotypes that may reinforce inequality and violence. Policy actions targeted on the specific economic barriers that adolescents, ethnic minorities, LGBT+ populations, and others face will be critical to identifying sustainable pathways out of violence and supporting the well-being and human dignity of all.

Expanding mental health care for the victims of violence

Violence-induced trauma transcends the purely psychological dimension. It blocks opportunities, damages networks, and shatters aspirations. It keeps victims from achieving their goals, overcoming the challenges they face, and actively sharing in the benefits of economic, social and political participation. Health care provision and initiatives directed at victims must acknowledge the importance of mental health in the integral reparation of the afflicted.

Investing in social capital to reform local politics

When the voices of the powerful drown out the voices of the underprivileged, violence leads to the deterioration of the social fabric and democratic governance. To reform local political landscapes, investments in social capital should be directed at reestablishing social trust and cooperation among victims and impoverished communities and encouraging collective action. There are major lessons to be learned from the struggles of indigenous populations throughout the region, particularly in Central and South America, to protect their lands based on their social capital and motivated by their natural wealth.

Building statistical capacity for data on violence

In many countries, the statistical capacity for measuring, diagnosing and analysing violence in the region is limited. Statistical systems are often flawed in collection periodicity and data disaggregation, lack uniform criteria in data collection and classification across agencies, lack independence and transparency, or are subject to political mishandling. Without accurate data on violence, governments risk being unable to design and target adequate policy responses. Collecting better data on violence in the region will require a large, collaborative effort involving actors across sectors of society and at various levels, including multilateral organizations that can promote cross-country collaboration on data collection initiatives.

References

Aboal, Diego, Bibiana Lanzilotta, Magdalena Dominguez, and Maren Vairo. 2016. "The Cost of Crime and Violence in Five Latin American Countries". *European Journal on Criminal Policy and Research*, 22 (4): 689–711.

Acemoglu, Daron, Simon Johnson, and James A. Robinson. 2001. "The Colonial Origins of Comparative Development: An Empirical Investigation". *American Economic Review*, 91 (5): 1369–1401.

Acemoglu, Daron, James A. Robinson, and Rafael J. Santos. 2013. "The Monopoly of Violence: Evidence from Colombia". Journal of the European Economic Association, 11(supplement 1), 5–44.

Albarracín, Juan. 2018. "Criminalized Electoral Politics in Brazilian Urban Peripheries". *Crime, Law and Social Change*, 69 (4): 553–575.

Altamirano, Melina, Sarah Berens, and Sandra Ley. 2020. "The Welfare State amid Crime: How Victimization and Perceptions of Insecurity Affect Social Policy Preferences in Latin America and the Caribbean". *Politics and Society*, 48 (3): 389–422.

AMAP (Arctic Monitoring and Assessment Programme) and UNEP (United Nations Environment Programme). 2019. *Technical Background Report to the Global Mercury Assessment 2018*. Tromsø, Norway: Fram Centre, AMAP Secretariat; Geneva: Chemicals and Health Branch, Economy Division, UNEP.

Amnesty International. 2016. "Brazil: Police Killings, Impunity, and Attacks on Defenders". Submission of Amnesty International to the United Nations Human Rights Council's Universal Periodic Review, 27th Session, UPR Working Group, Geneva, 1–12 May 2017.

Amnesty International. 2019. "Annual Report 2019: Human Rights in the Americas, Review of 2019". February, Amnesty International, London. https://www.amnesty.org/download/Documents/AMR0113532020ENGLISH.PDF.

Amodio, Francesco. 2019. "Crime Protection Investment Spillovers: Theory and Evidence from the City of Buenos Aires". *Journal of Economic Behavior and Organization*, 159 (March): 626–649.

Arcia, Gustavo. 2012. "The Evolution of Violence: Economic Development and Intergroup Conflict in Guatemala, El Salvador, and Costa Rica". In *Economic Development Strategies and the Evolution of Violence in Latin America*, edited by William Ascher and Natalia S. Mirovitskaya, 71–93. Politics, Economics, and Inclusive Development Series. New York: Palgrave Macmillan.

Arias, Enrique Desmond. 2017. *Criminal Enterprises and Governance in Latin America and the Caribbean*. New York: Cambridge University Press.

Arjona, Ana M. 2016. *Rebelocracy: Social Order in the Colombian Civil War*. Cambridge Studies in Comparative Politics Series. New York: Cambridge University Press.

Arjona, Ana M. 2021. "The Effects of Violence on Inequality in Latin America and the Caribbean: A Research Agenda". UNDP LAC Working Paper, 12, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Arjona, Ana M., M. Chacon, and L. Garcia. 2020. "The Impact of Selective Violence on Political Participation: Evidence from Colombia". Manuscript.

Arjona, Ana M., and Stathis N. Kalyvas. 2012. "Recruitment into Armed Groups in Colombia: A Survey of Demobilized Fighters". In *Understanding Collective Political Violence*, edited by Yvan Guichaoua, 143–171. Conflict, Inequality and Ethnicity Series. Houndsmills, Basingstoke, UK: Palgrave Macmillan.

Arjona, Ana M., Nelson Kasfir, and Zachariah C. Mampilly. 2015. *Rebel Governance in Civil War*. New York: Cambridge University Press.

Arnsten, Amy F. T. 2009. "Stress Signalling Pathways That Impair Prefrontal Cortex Structure and Function". *Nature Reviews Neuroscience*, 10 (6): 410–422.

Ávila, Keymer. 2018. "¿Cómo analizar las actuales cifras delictivas en Venezuela?" *Amnesty International Venezuela* (blog), 15 March 2018, https://www.amnistia.org/en/blog/2018/03/5292/como-analizar-las-actuales-cifras-delictivas-en-venezuela.

Balzer, Carsten, and Jan Simon Hutta. 2012. *Transrespect versus Transphobia Worldwide: A Comparative Review of the Human-Rights Situation of Gender-Variant/Trans People*. With Tamara Adrián, Peter Hyndal, and Susan Stryker. TvT Publication Series, 6 (November). Berlin: TGEU, Transgender Europe. https://transrespect.org/wp-content/uploads/2015/08/TvT_research-report.pdf.

Bateson, Regina. 2012. "Crime Victimization and Political Participation". *American Political Science Review*, 106 (3): 570–587.

Bauer, Michal, Christopher Blattman, Julie Chytilová, Joseph Henrich, Edward Miguel, and Tamar Mitts. 2016. "Can War Foster Cooperation?" *Journal of Economic Perspectives*, 30 (3), 249–74.

BCCC (Basel Convention Coordinating Centre), SCRC (Regional Centre of the Stockholm Convention for Latin America and the Caribbean), and UNEP (United Nations Environment Programme). 2014. "The Minamata Convention on Mercury and Its Implementation in the Latin America and Caribbean Region". April, BCCC and SCRC, Montevideo, Uruguay; Regional Office for Latin America and the Caribbean, UNEP, Panama City, Panama.

Becker, Gary S. 1968. "Crime and Punishment: An Economic Approach". *Journal of Political Economy*, 76 (2): 169–217.

Berens, Sarah, and Mirko Dallendörfer. 2019. "Apathy or Anger? How Crime Experience Affects Individual Vote Intention in Latin America and the Caribbean". *Political Studies*, 67 (4): 1010–1033.

Bergmann, Adrian, Andrés Ruiz Ojeda, Carlos Silva Forné, Catalina Pérez Correa, David Marques, Hugo Acero Velasquez, Ignacio Cano, et al. 2019. *Monitor del uso de la fuerza letal en América Latina: Un estudio comparativo de Brasil, Colombia, El Salvador, México y Venezuela (2019)*. Aguascalientes, Mexico: Centro de Investigación y Docencia Económicas. http://www.monitorfuerzaletal.com/app/vVWScwZQSEq1SdVvDsEEXThKR96xKWrdfzVuDC61.pdf.

Blanco, Luisa, and Isabel Ruiz. 2013. "The Impact of Crime and Insecurity on Trust in Democracy and Institutions". *American Economic Review*, 103 (3): 284–288.

Bott, Sarah, Alessandra Guedes, Ana Paola Ruiz-Celis, and Jennifer Adams Mendoza. 2019. "Intimate Partner Violence in the Americas: A Systematic Review and Reanalysis of National Prevalence Estimates". *Pan American Journal of Public Health*, 43 (20 March): e26.

Bourguignon, François J., Jairo Nuñez, and Fabio José Sanchez Torres. 2003. "A Structural Model of Crime and Inequality in Colombia". *Journal of the European Economic Association*, 1 (2–3): 440–449.

Brown, Leanora, and Keva Hibbert. 2017. "The Effect of Crime on Foreign Direct Investment: A Multi-Country Panel Data Analysis". *Journal of Developing Areas*, 51 (1): 295–307.

BSS (Barbados Statistical Service). 2014. *Barbados Multiple Indicator Cluster Survey 2012: Final Report*. September. Bridgetown, Barbados: BSS.

Buonanno, Paulo, and Juan F. Vargas. 2019. "Inequality, Crime, and the Long-Run Legacy of Slavery". *Journal of Economic Behavior and Organization*, 159 (March): 539–552.

Burdick-Will, Julia, Jens Ludwig, Stephen W. Raudenbush, Robert J. Sampson, Lisa Sanbonmatsu, and Patrick Sharkey. 2011. "Converging Evidence for Neighborhood Effects on Children's Test Scores: An Experimental, Quasi-Experimental, and Observational Comparison". In *Whither Opportunity? Rising Inequality, Schools, and Children's Life Chances*, edited by Greg J. Duncan and Richard J. Murnane, 255–276. Chicago: Spencer Foundation; New York: Russell Sage Foundation.

Cabral, René, André Varella Mollick, and Eduardo Saucedo. 2018. "Foreign Direct Investment in Mexico, Crime, and Economic Forces". *Contemporary Economic Policy*, 37 (1): 68–85.

CAF (Corporação Andina de Fomento, Development Bank of Latin America) and FIA Foundation. 2018. *Ella Se Mueve Segura: A Study on Women's Personal Safety in Public Transport in Three Latin American Cities*. Caracas: CAF and FIA Foundation. https://www.fiafoundation.org/media/597611/esms-toolkit-20181219-en.pdf.

Cárdenas, Mauricio, and Sandra Rozo. 2008. "Does Crime Lower Growth: Evidence from Colombia". Commission on Growth and Development Working Paper 30, World Bank, Washington, DC.

Carreras, Miguel. 2013. "The Impact of Criminal Violence on Regime Legitimacy in Latin America". *Latin American Research Review*, 48 (3): 85–107.

Carroll, Leah Anne. 2011. *Violent Democratization: Social Movements, Elites, and Politics in Colombia's Rural War Zones, 1984–2008*. Kellogg Institute Series on Democracy and Development. Notre Dame, IN: University of Notre Dame Press.

Castillo Muñoz, Jerónimo, Manuela Suárez Rueda, and Hugo Acero Velásquez. 2019. "Colombia". In *Monitor del uso de la fuerza letal en América Latina: Un estudio comparativo de Brasil, Colombia, El Salvador, México y Venezuela (2019*), edited by Adrian Bergmann, Andrés Ruiz Ojeda, Carlos Silva Forné, Catalina Pérez Correa, David Marques, Hugo Acero Velasquez, Ignacio Cano, et al., 42–79. Aguascalientes, Mexico: Centro de Investigación y Docencia Económicas.

Cederman, Lars-Erik, and Manuel Vogt. 2017. "Dynamics and Logics of Civil War". *Journal of Conflict Resolution*, 61 (9): 1992–2016.

Ceobanu, Alin M., Charles H. Wood, and Ludmila Ribeiro. 2011. "Crime Victimization and Public Support for Democracy: Evidence from Latin America". *International Journal of Public Opinion Research*, 23 (1): 56–78.

Cerqueira, Daniel, Samira Bueno, Renato Sergio de Lima, Cristina Neme, Helder Ferreira, Paloma Palmieri Alves, David Marques, et al. 2019. *Atlas da Violência 2019*. São Paulo: Instituto de Pesquisa Econômica Aplicada; Rio de Janeiro: Fórum Brasileiro de Segurança Pública.

Chainey, Spencer, and Robert Muggah. 2020. "Homicide Concentration and Retaliatory Homicide Near Repeats: An Examination in a Latin American Urban Setting". *Police Journal: Theory, Practice and Principles*. Published ahead of print, 14 December 2020. https://doi.org/10.1177/0032258X20980503.

Chevigny, Paul. 2003. "The Populism of Fear: Politics of Crime in the Americas". *Punishment and Society*, 5 (1): 77–96.

Chioda, Laura. 2017. *Stop the Violence in Latin America: A Look at Prevention from Cradle to Adulthood*. Latin American Development Forum Series. Washington, DC: World Bank.

Choi, Soon Kyu, Shahrzad Divsalar, Jennifer Flórez-Donado, Krystal Kittle, Andy Lin, Ilan H. Meyer, and Prince Torres-Salazar. 2020. *Stress, Health, and Well-Being of LGBT People in Colombia: Results from a National Survey*. Colombia Collaborative Project (April). Los Angeles: Williams Institute, School of Law, University of California, Los Angeles, Los Angeles.

Clark, David H., and Patrick M. Regan. 2016. "Mass Mobilization Protest Data". Harvard Dataverse V5, Harvard University, Cambridge, MA. https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/HTTWYL.

Collier, Paul, V. L. Elliott, Håvard Hegre, Anke Hoeffler, Marta Reynal-Querol, and Nicholas Sambanis. 2003. *Breaking the Conflict Trap: Civil War and Development Policy*. World Bank Policy Research Report Series. Washington, DC: World Bank; New York: Oxford University Press.

Colombia Diversa. 2016. *Cuerpos excluidos, rostros de impunidad: Informe de violencia hacia personas LGBT en Colombia 2015*. Bogotá, Colombia: Colombia Diversa, Caribe Afirmativo, and Santamaría Fundación.

Corbacho, Ana, Julia Philipp, and Mauricio Ruiz-Vega. 2012. "Crime and Erosion of Trust: Evidence for Latin America". IDB Working Paper, DB-WP-344 (August), Inter-American Development Bank, Washington, DC.

Córdova, Abby. 2019. "Living in Gang-Controlled Neighborhoods: Impacts on Electoral and Nonelectoral Participation in El Salvador". *Latin American Research Review*, 54 (1): 201.

Corvalan, Alejandro, and Matteo Pazzona. 2019. "The Ambiguous Effects of Inequality: The Case of Crime". Paper presented at the joint 24th Annual Meeting of the Latin American and Caribbean Economic Association and 32nd Latin American Meeting of the Econometric Society, Puebla, Mexico, 7–9 November 2019.

CRS (Congressional Research Service). 2019. "Central American Migration: Root Causes and U.S. Policy". In Focus, 27 March, CRS. Washington, DC.

Cruz, José Miguel. 2009. "Police Abuse in Latin America". *AmericasBarometer Insights*, 11, Latin American Public Opinion Project, Vanderbilt University, Nashville.

Cruz, José Miguel, and Gema Kloppe-Santamaría. 2019. "Determinants of Support for Extralegal Violence in Latin America and the Caribbean". *Latin American Research Review*, 54 (1): 50–68.

Cuartas, Jorge Armando, Arturo Harker, and Andrés Moya. 2016. "Parenting, Scarcity, and Violence: Theory and Evidence for Colombia". Documento CEDE, 38 (December), Centre for Economic Development Studies, Department of Economics, Universidad de Los Andes, Bogotá, Colombia.

CVR (Comisión de la Verdad y la Reconciliación). 2003. *Informe final de la comisión de la verdad y reconciliación.* November. Lima, Peru: CVR. https://www.cverdad.org.pe/ifinal/.

Demombynes, Gabriel, and Berk Özler. 2005. "Crime and Local Inequality in South Africa". *Journal of Development Economics*, 76 (2): 265–292.

Detotto, Claudio, and Edoardo Otranto. 2010. "Does Crime Affect Economic Growth?" *KYKLOS*, 63 (3): 330–345.

Diamint, Rut. 2015. "A New Militarism in Latin America". *Journal of Democracy*, 26 (4): 155–168.

Díaz Nosty, Bernardo, and Ruth A. de Frutos García. 2017. "Murders, Harassment, and Disappearances: The Reality of Latin American Journalists in the XXI Century". *Revista Latina de Comunicación Social* 72: 1418–1434.

Di Tella, Rafael, Sebastián Galiani, and Ernesto Schargrodsky. 2010. "Crime Inequality and Victim Behavior during a Crime Wave". In *The Economics of Crime: Lessons for and from Latin America*, edited by Rafael Di Tella, Sebastian Edwards, and Ernesto Schargrodsky, 175–206. National Bureau of Economic Research Conference Report Series. Cambridge, MA: National Bureau of Economic Research; Chicago: University of Chicago Press.

Doran, Maire-Christine. 2017. "The Hidden Face of Violence in Latin America: Assessing the Criminalization of Protest in Comparative Perspective". *Latin American Perspectives*, 44 (5): 183–206.

ECLAC (United Nations Economic Commission for Latin America and the Caribbean). 2017. Situación de las personas afrodescendientes en América Latina y desafíos de políticas para la garantía de sus derechos. ECLAC, Santiago, Chile.

ECLAC (United Nations Economic Commission for Latin America and the Caribbean). 2018. "Mujeres afrodescendientes en América Latina y el Caribe: Deudas de igualdad". Documento de Proyectos (July), ECLAC, Santiago, Chile.

Ehrlich, Isaac. 1973. "Participation in Illegitimate Activities: A Theoretical and Empirical Investigation". *Journal of Political Economy*, 81 (3): 521–565.

Ellsberg, Mary Carroll, Rodolfo Peña, Andrés Herrera, Jerker Liljestrand, and Anna Winkvist. 2000. "Candies in Hell: Women's Experiences of Violence in Nicaragua". *Social Science and Medicine*, 51 (11): 1595–1610.

Enamorado, Ted, Luis F. López-Calva, Carlos Rodríguez-Castelán, and Hernán Jorge Winkler. 2016. "Income Inequality and Violent Crime: Evidence from Mexico's Drug War". *Journal of Development Economics*, 120 (May): 128–143.

Fajnzylber, Pablo, Daniel Lederman, and Norman V. Loayza. 2002. "What Causes Violent Crime?" *European Economic Review*, 46 (7): 1323–1357.

Fearon, James D., and Anke Hoeffler. 2014. Benefits and Costs of the Conflict and Violence Targets for the Post-2015 Development Agenda: Post-2015 Consensus". Conflict and Violence Assessment Paper (22 August), Copenhagen Consensus Center, Tewksbury, MA.

Fernández-Shaw, José Luis. 2019. "Los datos de la violencia en Venezuela: en búsqueda de la transparencia metodológica para la formulación de políticas públicas efectivas en la reducción de víctimas de muertes y homicidios". Seguridad Ciudadana, Amnesty International Venezuela, Caracas, Venezuela. https://www.amnistia.org/media/5000/ai_sc_librillo4.pdf .

Flake, Dallan F., and Renata Forste. 2006. "Fighting Families: Family Characteristics Associated with Domestic Violence in Five Latin American Countries". *Journal of Family Violence*, 21 (1): 19–29.

Flores-Macías, Gustavo A., and Jessica Zarkin. 2019. "The Militarization of Law Enforcement: Evidence from Latin America". *Perspectives on Politics*, 27 December. https://doi.org/10.1017/S1537592719003906.

Front Line. 2020. "Front Line Defenders Global Analyisis 2019". Front Line, Blackrock, Ireland.

Galiani, Sebastián, Laura Jaitman, and Federico Weinschelbaum. 2020. "Crime and Durable Goods". *Journal of Economic Behavior and Organization*, 173 (May): 146–163.

Gallego, Jorge A. 2018. "Civil Conflict and Voting Behavior: Evidence from Colombia". *Conflict Management and Peace Science*, 35 (6): 601–621.

García, Emma. 2014. "The Need to Address Noncognitive Skills in the Education Policy Agenda". EPI Briefing Paper, 386 (2 December), Economic Policy Institute, Washington, DC.

Gaviria, Alejandro. 2002. "Assessing the Effects of Corruption and Crime on Firm Performance: Evidence from Latin America". *Emerging Markets Review*, 3 (3): 245–268.

Gaviria, Alejandro, and Carmen Pagés. 2002. "Patterns of Crime Victimization in Latin American Cities". *Journal of Development Economics*, 67 (1): 181–203.

Geneva Declaration Secretariat. 2011. *Global Burden of Armed Violence 2011: Lethal Encounters*. Geneva: Geneva Declaration Secretariat; Cambridge, UK: Cambridge University Press.

Global Initiative against Transnational Organized Crime. 2016. *Organized Crime and Illegally Mined Gold in Latin America*. April, Global Initiative against Transnational Organized Crime, Geneva.

GMH (Grupo de Memoria Histórica de la Comisión Nacional de Reparación y Reconciliación). 2013. *¡Basta Ya! Colombia: Memorias de guerra y dignidad*. Bogotá, Colombia: Centro Nacional de Memoria Histórica.

González, Yanilda. 2019. "The Social Origins of Institutional Weakness and Change: Preferences, Power, and Police Reform in Latin America". *World Politics*, 71 (1): 44–87.

GRISUL (Grupo de pesquisa em Relações Internacionais e Sul Global, Research group on international relations and the global south). 2018. "Pacha: Defending the Land; Extractivism, Conflicts, and Alternatives in Latin America and the Caribbean". GRISUL, Political Science Faculty, Federal University of Rio de Janeiro, Rio de Janeiro.

Gutiérrez-Romero, Roxana, and Mónica Oviedo. 2017. "The Good, the Bad and the Ugly: The Socioeconomic Impact of Drug Cartels and Their Violence". *Journal of Economic Geography*, 18 (6): 1315–1338.

Gutiérrez Sanín, Francisco, Tatiana Acevedo, and Juan Manuel Viatela. 2007. "Violent Liberalism? State, Conflict and Political Regime in Colombia, 1930-2006: An Analytical Narrative on State-Making". Crisis States Research Centre Working Paper, 19, Crisis States Research Centre, Development Studies Institute, London.

Heckman, James J., and Yona Rubinstein. 2001. "The Importance of Noncognitive Skills: Lessons from the GED Testing Program". *American Economic Review*, 91 (2): 145–149.

Heckman James J., Jora Stixrud, and Sergio S. Urzua. 2006. "The Effects of Cognitive and Noncognitive Abilities on Labor Market Outcomes and Social Behavior". *Journal of Labor Economics*, 24 (3): 411–482.

Hillis, Susan, James Mercy, Adaugo Amobi, and Howard Kress. 2016. "Global Prevalence of Past-Year Violence against Children: A Systematic Review and Minimum Estimates". *Pediatrics*, 137 (3): e20154079.

HRC (Human Rights Council). 2020. "Final Warning: Death Threats and Killings of Human Rights Defenders; Report of the Special Rapporteur on the Situation of Human Rights Defenders, Mary Lawlor". Document A/HRC/46/35 (24 December 2020), General Assembly, United Nations, New York. https://www.ohchr.org/EN/Issues/SRHRDefenders/Pages/CFI-killings-human-rights-defenders.aspx.

IACHR (Inter-American Commission on Human Rights). 2015. *Violence against Lesbian, Gay, Bisexual, Trans and Intersex Persons in the Americas*. Document OAS/Ser.L/V/II.rev.1 Doc. 36 (12 November). Washington, DC: IACHR, Organization of American States.

International Crisis Group. 2017. "Mafia of the Poor: Gang Violence and Extortion in Central America". Latin America Report, 62 (6 April), International Crisis Group, Brussels.

International Crisis Group. 2020. "Leaders under Fire: Defending Colombia's Front Line of Peace". Latin America Report, 82 (6 October), International Crisis Group, Brussels. https://www.crisisgroup.org/latin-america-caribbean/andes/colombia/82-leaders-under-fire-defending-colombias-front-line-peace.

Iqbal, Zaryab. 2006. "Health and Human Security: The Public Health Impact of Violent Conflict". *International Studies Quarterly*, 50 (3): 631–649.

Jaffe, Rivke. 2013. "The Hybrid State: Crime and Citizenship in Urban Jamaica". *American Ethnologist*, 40 (4): 734–748.

Jaitman, Laura, ed. 2017. *The Costs of Crime and Violence: New Evidence and Insights in Latin America and the Caribbean*. Washington, DC: Inter-American Development Bank.

Jordan, Carol E., Rebecca Campbell, and Diane R. Follingstad. 2010. "Violence and Women's Mental Health: The Impact of Physical, Sexual, and Psychological Aggression". *Annual Review of Clinical Psychology*, 6 (April): 607–628.

Kelly, Morgan. 2000. "Inequality and Crime". *Review of Economics and Statistics*, 82 (4): 530–539.

Kornhauser, Ruth Rosner. 1978. *Social Sources of Delinquency: An Appraisal of Analytic Models*. Chicago: University of Chicago Press.

Krause, Krystin. 2014. "Supporting the Iron Fist: Crime News, Public Opinion, and Authoritarian Crime Control in Guatemala". *Latin American Politics and Society*, 56 (1): 98–119.

Lagos, Marta, and Lucía Dammert. 2012. "La Seguridad Ciudadana: El problema principal de América Latina". *Corporación Latinobarómetro*, 9 (May): 21–48.

Lane, Jodi, Nicole E. Rader, Billy Henson, Bonnie S. Fisher, and David C. May. 2014. *Fear of Crime in the United States: Causes, Consequences, and Contradictions*. Durham, NC: Carolina Academic Press.

Larrain, Soledad. 1993. "Estudio de frecuencia de la violencia intrafamiliar y la condición de la mujer Chilena". Pan American Health Organization, Santiago, Chile.

Lederman, Daniel, Norman V. Loayza, and Ana María Menéndez. 2002. "Violent Crime: Does Social Capital Matter?" *Economic Development and Cultural Change*, 50 (3): 509–539.

Legrand, Diego. 2020, "Falsos positivos: crudos testimonios ante la JEP". *El Tiempo*, 17 May 2020. https://www.eltiempo.com/colombia/falsos-positivos-dos-crudos-testimonios-ante-la-jep-496344.

Lessing, Benjamin. 2018. *Making Peace in Drug Wars: Crackdowns and Cartels in Latin America.* Cambridge Studies in Comparative Politics Series. Cambridge, UK: Cambridge University Press.

Lessing, Benjamin. 2020. "Conceptualizing Criminal Governance". *Perspectives on Politics*, 20 July, https://doi.org/10.1017/S1537592720001243.

Ley, Sandra. 2018. "To Vote or Not to Vote: How Criminal Violence Shapes Electoral Participation". *Journal of Conflict Resolution*, 62 (9): 1963–1990.

Loayza, Norman V., and Jamele Rigolini. 2016. "The Local Impact of Mining on Poverty and Inequality: Evidence from the Commodity Boom in Peru". *World Development*, 84 (August): 219–234.

Machin, Stephen J, and Costas Meghir. 2004. "Crime and Economic Incentives". *Journal of Human Resources*, 39 (4): 958–979.

Magaloni, Beatriz, Gustavo Robles, Aila M. Matanock, Alberto Diaz-Cayeros, and Vidal Romero. 2020. "Living in Fear: The Dynamics of Extortion in Mexico's Drug War". *Comparative Political Studies*, 53 (7): 1124–1174.

Malone, Mary Fran T. 2010. "The Verdict Is In: The Impact of Crime on Public Trust in Central American Justice Systems". *Journal of Politics in Latin America*, 2 (3): 99–128.

Mampilly, Zachariah C. 2011. *Rebel Rulers: Insurgent Governance and Civilian Life during War*. Ithaca, NY: Cornell University Press.

Marques, David, Ignacio Cano, Samira Bueno Nunes, and Terine Husek. 2019. "Brasil". In *Monitor del uso de la fuerza letal en América Latina: Un estudio comparativo de Brasil, Colombia, El Salvador, México y Venezuela (2019*), edited by Adrian Bergmann, Andrés Ruiz Ojeda, Carlos Silva Forné, Catalina Pérez

Martinez-Alier, Joan. 2021. "Mapping Ecological Distribution Conflicts: The EJAtlas". *Extractive Industries and Society*. Published ahead of print, 23 February, 2021. https://www.sciencedirect.com/science/article/abs/pii/S2214790X21000289.

McLeod, Jane D., and Danielle L. Fettes. 2007. "Trajectories of Failure: The Educational Careers of Children with Mental Health Problems". *American Journal of Sociology*, 113 (3): 653–701.

Mejía, Daniel, and Pascual Restrepo. 2016. "Crime and Conspicuous Consumption". *Journal of Public Economics*, 135 (March): 1–14.

Merton, Robert K. 1938. "Social Structure and Anomie". *American Sociological Review*, 3 (5): 672–682.

Molano, Andres, Arturo Harker, and Juan Camilo Cristancho. 2018. "Effects of Indirect Exposure to Homicide Events on Children's Mental Health: Evidence from Urban Settings in Colombia". *Journal of Youth and Adolescence*, 47 (10): 2060–2072.

Moloney, Anastasia. 2019. "LGBT+ Murders at 'Alarming' Levels in Latin America—Study". *Everythingnews* (blog), 8 August 2019. https://www.reuters.com/article/idUSL8N2525U7.

Molteno, Marion, Kimberly Ogadhoh, Emma Cain, and Bridget Crumpton, eds. 1999. *Towards Responsive Schools: Case Studies from Save the Children*. Education Research Paper, 38. London: UK Department for International Development.

Muggah, Robert. 2019. "Reviewing the Costs and Benefits of Mano Dura Versus Crime Prevention in the Americas". In *The Palgrave Handbook of Contemporary International Political Economy*, edited by Timothy M. Shaw, Laura C. Mahrenbach, Renu Modi, and Xu Yi-chong, 465–483. Palgrave Handbooks in IPE Series. London: Palgrave Macmillan.

Muggah, Robert, and Katherine Aguirre Tobón. 2018. "Citizen Security in Latin America: Facts and Figures". Igarapé Institute Strategic Paper 33 (April), Igarapé Institute, Rio de Janeiro.

Muñoz Acebes, César. 2020. “Brazil Suffers Its Own Scourge of Police Brutality”. *Americas Quarterly*, 3 June. https://www.americasquarterly.org/ article/brazil-suffers-its-own-scourge-of-police-brutality/.

Murnane, Richard J., John B. Willett, M. Jay Braatz, and Yves Duhaldeborde. 2001. “Do Different Dimensions of Male High School Students’ Skills Predict Labor Market Success a Decade Later? Evidence from the NLSY”. *Economics of Education Review*, 20 (4): 311–320.

NIMOS (National Institute for Environment and Development in Suriname), SBB (Foundation for Forest Management and Production Control), and UNIQUE. 2017. *Background Study for REDD+ in Suriname: Multi-Perspective Analysis of Drivers of Deforestation, Forest Degradation, and Barriers to REDD+ Activities*. Paramaribo, Suriname: NIMOS and SBB.

Nsoesie, Elaine Okanyene, Antonio S. Lima Neto, Jonathan Jay, Hailun Wang, Kate Zinszer, Sudipta Saha, Adyasha Maharana, Fatima Marinho, and Adauto Martins Soares Filho. 2020. “Mapping Disparities in Homicide Trends across Brazil: 2000–2014”. *Injury Epidemiology*, 7 (1): 1–11.

O’Donnell, Guillermo. 1993. “On the State, Democratization and Some Conceptual Problems: A Latin American View with Glances at Some Postcommunist Countries”. *World Development*, 21 (8): 1355–1369.

Pérez, Orlando J. 2003. “Democratic Legitimacy and Public Insecurity: Crime and Democracy in El Salvador and Guatemala”. *Political Science Quarterly*, 118 (4): 627–644.

Ponce, Aldo F. 2019. “Violence and Electoral Competition: Criminal Organizations and Municipal Candidates in Mexico”. *Trends in Organized Crime*, 22 (2): 231–254.

Porter, Matthew, and Nick Haslam. 2005. “Predisplacement and Postdisplacement Factors Associated with Mental Health of Refugees and Internally Displaced Persons: A Meta-Analysis”. *Jama, Journal of the American Medical Association*, 294 (5): 602–612.

Pshisva, Rony, and Gustavo A. Suarez. 2010. “Capital Crimes: Kidnappings and Corporate Investment in Colombia”. In *The Economics of Crime: Lessons for and from Latin America*, edited by Rafael Di Tella, Sebastian Edwards, and Ernesto Schargrodsky, 63–100. National Bureau of Economic Research Conference Report Series. Cambridge, MA: National Bureau of Economic Research; Chicago: University of Chicago Press.

Rasch, Elisabet Dueholm. 2017. “Citizens, Criminalization and Violence in Natural Resource Conflicts in Latin America”. *European Review of Latin American and Caribbean Studies*, 103 (June): 131–142.

Reuter, Peter. 2009. “Systemic Violence in Drug Markets”. *Crime, Law and Social Change*, 52 (3): 275–284.

Ríos Contreras, Viridiana. 2014. “The Role of Drug-Related Violence and Extortion in Promoting Mexican Migration: Unexpected Consequences of a Drug War”. *Latin American Research Review*, 49 (3): 199–217.

Robinson, James A. 2013. “Colombia: another 100 Years of Solitude?” *Current History*, 112 (751): 43–48.

Romero, Mauricio, and Santiago Saavedra. 2021. “Communal Property Rights and Deforestation”. *Journal of Development Studies*, 57 (6): 1038–1052.

Rondon, Vinícius Velasco, and Mônica Viegas Andrade. 2003. “Custos da criminalidade em Belo Horizonte”. *Economia*, 4 (2): 223–259.

Ruiz Estrada, Mario Arturo, and Ibrahim Ndoma. 2014. “How Crime Affects Economic Performance: The Case of Guatemala”. *Journal of Policy Modelling*, 36 (5): 867–882.

Saffon Sanín, María Paula. 2021. “The Colombian Peace Agreement: A Lost Opportunity for Social Transformation?” In *The Colombian Peace Agreement: A Multidisciplinary Assessment*, edited by Jorge Luis Fabra-Zamora, Andrés Molina-Ochoa, and Nancy C. Doubleday, 70–90. Routledge Studies in Peace and Conflict Resolution Series. Abingdon, UK: Routledge.

Save the Children. 2017. "Violencia contra adolescentes en América Latina y el Caribe". Save the Children, Panama City, Panama. https://www.refworld.org.es/pdfid/5af0c5684.pdf.

Schargrodsky, Ernesto, and Lucia Freira. 2021. "Inequality and Crime in Latin America and the Caribbean: New Data for an Old Question". UNDP LAC Working Paper, 13, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, UNDP LAC, New York.

Schröder, Patrick, Manuel Albaladejo, Pía Alonso Ribas, Melissa MacEwen, and Johanna Tilkanen. 2020. "The Circular Economy in Latin America and the Caribbean: Opportunities for Building Resilience". Research Paper (September), Energy, Environment and Resources Programme, Chatham House, Royal Institute of International Affairs, London.

Shaw, Clifford R., and Henry D. McKay. 1942. *Juvenile Delinquency and Urban Areas*. Chicago: University of Chicago Press.

SInViolencia LBGTI. 2019. "El prejuicio no conoce fronteras: Homicidios de lesbianas, gay, bisexuales, trans en países de América Latina y el Caribe 2014–2019". August, Red Regional de Información sobre Violencias LGBT, Bogotá, Colombia. https://sinviolencia.lgbt/wp-content/uploads/2019/08/Informe_Prejuicios_compressed.pdf.

Soares, Rodrigo Reis. 2006. "The Welfare Cost of Violence across Countries". *Journal of Health Economics*, 25 (5): 821–846.

Soares, Rodrigo Reis. 2015. "Welfare Costs of Crime and Common Violence". *Journal of Economic Studies*, 42 (1): 117–137.

Soares, Rodrigo Reis, Juliano J. Assunção, and Tomás F. Goulart. 2012. "A Note on Slavery and the Roots of Inequality". *Journal of Comparative Economics*, 40 (4): 565–580.

Soares, Rodrigo Reis, and Joana Naritomi. 2010. "Understanding High Crime Rates in Latin America: The Role of Social and Policy Factors". In *The Economics of Crime: Lessons for and from Latin America*, edited by Rafael Di Tella, Sebastian Edwards, and Ernesto Schargrodsky, 19–60. National Bureau of Economic Research Conference Report Series. Cambridge, MA: National Bureau of Economic Research; Chicago: University of Chicago Press.

Steel, Zachary, Tien Chey, Derrick Silove, Claire Marnane, Richard A. Bryant, and Mark van Ommeren. 2009. "Association of Torture and Other Potentially Traumatic Events with Mental Health Outcomes among Populations Exposed to Mass Conflict and Displacement: A Systematic Review and Meta-Analysis". *Jama, Journal of the American Medical Association*, 302 (5): 537– 549.

Swanberg, Jennifer E., T. K. Logan, and Caroline Macke. 2005. "Intimate Partner Violence, Employment, and the Workplace: Consequences and Future Directions". *Trauma, Violence, and Abuse*, 6 (4): 286–312.

Teicher, Martin H. 2002. "Scars That Won't Heal: The Neurobiology of Child Abuse". *Scientific American*, 286 (3): 68–75.

Temblores ONG. 2019. "Qué maricada con nuestros derechos". December, Temblores, Bogotá.

Temper, Leah, Daniela del Bene, and Joan Martinez-Alier. 2015. "Mapping the Frontiers and Front Lines of Global Environmental Justice: The EJAtlas". *Journal of Political Ecology*, 22 (1): 255–278.

Trejo, Guillermo, and Sandra Ley. 2021. "High-Profile Criminal Violence: Why Drug Cartels Murder Government Officials and Party Candidates in Mexico". *British Journal of Political Science*, 51 (1): 203–229.

Trelles, Alejandro, and Miguel Carreras. 2012. "Bullets and Votes: Violence and Electoral Participation in Mexico". *Journal of Politics in Latin America*, 4 (2): 89–123.

UNDP (United Nations Development Programme). 2009. *Abrir espacios para la seguridad ciudadana y el desarrollo humano: Informe sobre Desarrollo Humano para América Central, 2009–2010*. Panama City: UNDP Regional Centre for Latin America and the Caribbean; Bogotá: D'Vinni S.A.

UNDP (United Nations Development Programme). 2012. *Caribbean Human Development Report 2012: Human Development and the Shift to Better Citizen Security*. New York: UNDP.

UNDP (United Nations Development Programme). 2013. *Regional Human Development Report 2013–2014, Citizen Security with a Human Face: Evidence and Proposals for Latin America*. New York: UNDP.

UNHCR (United Nations High Commissioner for Refugees). 2018. “Global Trends: Forced Displacement in 2017”. June 25, UNHCR, Geneva. https://www.unhcr.org/5b27be547.pdf.

UNICEF (United Nations Children’s Fund). 2017. *A Familiar Face: Violence in the Lives of Children and Adolescents*. New York: UNICEF.

UNODC (United Nations Office on Drugs and Crime). 2012. “Transnational Organized Crime in Central America and the Caribbean: A Threat Assessment”. September, UNODC, Vienna.

UNODC (United Nations Office on Drugs and Crime). 2018. “Global Report on Trafficking in Persons 2018”. United Nations, New York.

UN Women (United Nations Entity for Gender Equality and the Empowerment of Women). 2012. “Development Agenda Post 2015, Gender Equality in the Future We Want: Inequality and Gender in Latin America and the Caribbean”. UN Women, New York. http://americalatinagenera.org/es/documentos/post2015_fichas/Inequality.pdf.

UN Women (United Nations Entity for Gender Equality and the Empowerment of Women) and UNDP (United Nations Development Programme). 2020. “COVID-19 Gender Response Tracker”. Global Fact Sheet, Version 1 (September 28), United Nations, New York.

Vélez, Maria Alejandra, Juan Robalino, Juan Camilo Cárdenas, Andrea Paz, and Eduardo Pacay. 2020. “Is Collective Titling Enough to Protect Forests? Evidence from Afro-Descendant Communities in the Colombian Pacific Region”. *World Development*, 128 (April): 104837.

Visconti, Giancarlo. 2020. “Policy Preferences after Crime Victimization: Panel and Survey Evidence from Latin America”. *British Journal of Political Science*, 50 (4): 1481–1495.

Wallace, Arturo. 2020. “Muerte de George Floyd: cuál es la situación de la población negra en América Latina (y el parecido a la de EE.UU.)”. *BBC News Mundo*, 9 June 2020. https://www.bbc.com/mundo/noticias-america-latina-52969557.

WHO (World Health Organization), LSHTM (London School of Hygiene and Tropical Medicine), and SAMRC (South African Medical Research Council). 2013. “Global and Regional Estimates of Violence against Women: Prevalence and Health Effects of Intimate Partner Violence and Non-Partner Sexual Violence.” WHO, Geneva. https://www.who.int/publications/i/item/9789241564625.

World Bank. 2004. *The Road to Sustained Growth in Jamaica*. Report 29101. World Bank Country Study Series. Washington, DC: World Bank.

Yashar, Deborah J. 2018. *Homicidal Ecologies: Illicit Economies and Complicit States in Latin America*. New York: Cambridge University Press

PARITY DEMOCRACY AS A POLITICAL HORIZON FOR RECOVERY

In the last three decades, LAC has witnessed significant accomplishments in the exercise of women's right to political participation. In Latin America, six women were democratically elected as presidents, though no woman currently holds this position. Since the 1990s, women's leadership in the public sphere has expanded swiftly. Women's participation in ministerial cabinets, parliaments and city councils has doubled or tripled (UNDP, UN Women, and IDEA International 2019). Gender parity is still a long way off, however. Assuming all countries in the region experienced the same dynamics of increasing gender representation without setback, it would still take around 30 more years to reach a parity scenario in parliaments.

At the national level, women's involvement in decision-making still faces obstacles: In 2019, 30 percent of ministerial cabinet posts and 27 percent of supreme court seats in Latin America were held by women, while the share of women in national parliaments was 27.4 percent as of early 2021.[1] During the same period, women in the Caribbean were acting as heads of state or government or as viceregal representatives, and they occupied 23.8 percent of ministerial posts (UN Women 2018). In 2018, they accounted for 47 percent of supreme court judges and 63.3 percent of the seats on the Eastern Caribbean Supreme Court.[2] Women legislators in the Caribbean currently hold 39.5 percent of parliamentary seats.[3]

In local governance, progress towards gender equality in political leadership has not fared well. Across LAC, women held only 24.5 percent of local government seats.[4] In Latin America, women's participation in mayoral offices reached an all-time peak of 13.3 percent in 2018 (UNDP, UN Women, and IDEA International 2019). Equivalent data on the Caribbean are scarce, but only 9.1 percent of mayors in Kitts and Nevis are women, and the share of women mayors in Belize, Dominica, Jamaica, and Trinidad and Tobago is practically null.

---

[1] UNDP, UN Women, and IDEA International (2019); see also IPU Parline (Global Data on National Parliaments) (data repository), Inter-Parliamentary Union, Geneva, https://data.ipu.org/content/parline-global-data-national-parliaments.

[2] See Gender Equality Observatory for Latin America and the Caribbean (dashboard), United Nations Economic Commission for Latin America and the Caribbean, Santiago, Chile, https://oig.cepal.org/en.

[3] See IPU Parline (Global Data on National Parliaments) (data repository), Inter-Parliamentary Union, Geneva, https://data.ipu.org/content/parline-global-data-national-parliaments.

[4] See SDG Indicators (dashboard), Statistics Division, Department of Economic and Social Affairs, United Nations, New York, https://unstats.un.org/sdgs/indicators/database/.

Recent changes in women's political participation in the region has been characterized by the following:

- *The disparity between countries:* Few countries have introduced measures designed to have widespread gender parity impacts on democratically elected deliberative bodies.
- *Notable advances in the legislative branch:* The parity (53.1 percent in Bolivia) or near parity (48.2 percent in Mexico) in lower chambers is in direct contrast with the still unbreakable glass ceilings that persist in judicial and electoral branches across the region.
- *Some improvement in the executive branch reflect the complexities inherent in change:* The regional average share of women in leadership may have tripled, but women leaders continue to be relegated to positions of lesser political impact.
- *Wide gaps at various levels of government:* Setbacks to gender parity in local government illustrate that women face the most significant obstacles in gaining access to single-member appointments
- *The slow pace of change in the dynamics of access to power within political organizations.*
- *The absence of an intersectional approach to the expansion of political rights:* Progress towards parity has not translated into greater representation of indigenous, afro-descendant, disabled, migrant, sexually diverse or young women (UN Women 2021).
- *The persistence of institutional and cultural barriers:* This includes the harmful practices, discriminatory social norms, gender stereotypes and political violence that limit the full realization of women's political rights; opposition within political parties towards gender equality, and the existence of unequal conditions in the positioning of women leaders and their access to campaign financing (UN Women 2021).

This is the new context of a region that has privileged legal reforms as an engine of change to address the underrepresentation of women in the public sphere. Legislation on temporary affirmative action measures has not always been able to guarantee substantive equality for many reasons, including poor policy design, the political-electoral systems in which policies are implemented, and policy resistance among political actors. Given these limitations, new approaches have progressively led to a shift to a new paradigm: parity democracy. Parity democracy operates in the region as a political horizon, expressed in regional political commitments embedded within an international normative framework that recognizes the need to achieve substantive equality. The new approaches have also encouraged fresh designs in legislation that promote political-electoral parity at the national level and that have had unprecedented impacts on women's access to parliament. Although decisive, these initiatives have yet to address ethno-racial gaps. Thus, similar impacts have not been observed in the case of the political representation of indigenous and afro-descendant women who are simultaneously confronted with more pressing structural barriers.

References

UNDP (United Nations Development Programme), UN Women (United Nations Entity for Gender Equality and the Empowerment of Women), and IDEA International. 2019. “Surcando Olas y Contra-Olas: Una Mirada Paritaria a los Derechos Políticos de las Mujeres en América Latina” [Surfing waves and counter-waves: a peer-to-peer view of women’s political rights in Latin America]. UNDP, New York.

UN Women (United Nations Entity for Gender Equality and the Empowerment of Women). 2018. “Women in Political Leadership in the Caribbean”. UN Women Multi-Country Office–Caribbean, Christ Church, Barbados.

UN Women (United Nations Entity for Gender Equality and the Empowerment of Women). 2021. “Towards Parity and Inclusive Participation in Latin America and the Caribbean: Regional Overview and Contributions to CSW65”. Latin America and the Caribbean Regional Consultation, Special Session, Sixty-Fifth Session of the Commission on the Status of Women, 24–25 February, UN Women, Panama City, Panama.

ENVIRONMENTAL DESTRUCTION AND ILLEGALITY IN LAC

Aggressive resource extraction in institutionally distressed areas has taken a toll on regional ecosystems. The region has lost nearly 13 percent of forested area in the last three decades (FAO 2020). Tens of thousands of species face widening threats of extinction in LAC despite the region's status as a biodiversity hotspot.

Deforestation and forest degradation are interrelated results of complex changes in land use. Various economic, technological, cultural, demographic, and institutional factors have generally been identified as drivers of the dynamics of these changes. Agricultural expansion, illegal extractive activities, and infrastructure expansion are among the main direct drivers. The illegality is manifest in at least two ways, related to governance and lack of monetary resources: (1) direct illegal resource extraction in land and (2) illegal methods to obtain permits or concessions to develop activities resulting in deforestation or forest degradation. In both scenarios, local stakeholders attempting to stop the illegal activities in their areas have been the target of violent attacks. The prevalence of poverty among local communities may aggravate environmental destruction, particularly if the locals regard these activities, legal or illegal, as an opportunity to generate income. While the policy fight over climate change has opened the possibility to address this last aspect, confronting the harmful synergies that underlie deforestation and forest degradation is more complex and requires a wide variety of interventions.

In Latin America, the land use, land use change and forestry (LULUCF) sector is one of the main sources of greenhouse gas (GHG) emissions, amounting to around 23 percent of total emissions, while, in the Caribbean, it produces only 3 percent of total emissions (figure S5.1).

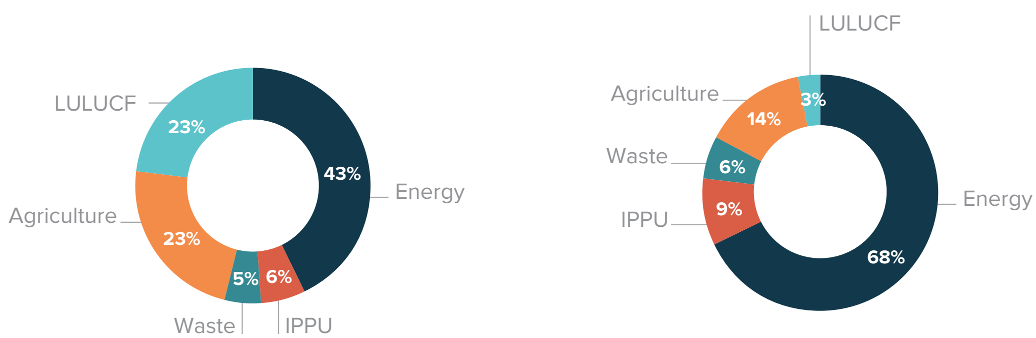
Achieving the objective of a 36 percent reduction in net emissions by 2030 set in nationally determined contributions will largely depend on greater investments in mitigation alternatives. Overall, 80 percent to 85 percent of countries in Latin America are committed to mitigation strategies in agriculture and the LULUCF sector. These strategies are predominantly focused on forest land: 81 percent of the countries are promoting sustainable forest management; 75 percent have taken on reforestation or afforestation projects; 38 percent have adopted general forest land management schemes; 36 percent have introduced policies to reduce deforestation and promote forest conservation, and 31 percent include some form of forest fire management. Around one third of these countries have also contemplated mitigation strategies in croplands and integrated systems, but few are promoting mitigation within the livestock sector (Crumpler et al. 2020a).

Figure S8.1: The LULUCF sector: a main source of GHGs in Latin America, but a smaller problem in the Caribbean

Economy-wide emissions in Latin America and the Caribbean, by sector, share of total emissions

a. Latin America

b. The Caribbean



Source: Crumpler et al. 2020a, 2020b.

In the Caribbean, 85 percent of countries with an explicit adaptation component in their nationally determined contributions contemplate at least one policy in agro-ecosystems, and 69 percent propose at least one measure specifically related to the forestry subsector. The efforts in this subsector are concentrated on reducing degradation and implementing sustainable forest management practices, as well as carrying out reforestation and afforestation projects, reducing deforestation and promoting forest conservation. Across this subregion, 38 percent of countries with nationally determined contribution adaptation components propose at least one intervention in the livestock sector (Crumpler et al. 2020b).

UNDP has supported countries throughout the design and implementation process of national policies and measures to reduce deforestation and manage forests sustainably. This has helped mitigate climate change, while creating enabling conditions for inclusive growth that bridge economic, social, and environmental gaps in the path towards sustainable development. This includes allocating resources to support the implementation of payments for ecosystem services (PES) schemes and community forest management programs. PES schemes are unlike other cash transfer programs insofar as they prioritize conservation over poverty reduction as the main objective (Wunder 2013). Nonetheless, well-designed PES schemes have the potential to protect environmental resources, while improving living conditions among poor communities in rural areas. This is because they increase the value of the ecosystem services that are generated in local areas given the opportunity cost implied in protecting these services rather than exploiting them (Pagiola, Arcenas, and Platais 2005; Milder, Scherr, and Bracer 2010). However, synergies between environmental protection and poverty reduction are not automatically embodied in PES schemes because the influx of additional resources may cause communities to adopt consumption decisions that disregard the sustainability of the surroundings, somehow implying that extrinsic incentives may be at odds with a willingness to conserve (Wunder 2005). Moreover, the fact that PES schemes are often meant to correct environmentally negative behaviours rather than reward appropriate behaviours implies that the goal of fairly compensating the rural poor who protect the environment and provide ecosystem services may be hindered by the need to prioritize payments to other agents who represent the biggest threat to these services. Finally, the role of PES schemes in the reduction of poverty across the region will be largely determined by the specific way in which poor participants are included and remunerated in the projects, as well as by their inclusion under policies aimed at reducing generalized conditions of poverty at the national level (Pagiola, Arcenas, and Platais 2005). UNDP is committed to supporting PES schemes targeted at indigenous communities and family farmers in Brazil and Ecuador and to improving PES design across the region.

References

Crumpler, Krystal, Giulia Gagliardi, Alexandre Meybeck, Sandro Federici, Lorenzo Campos Aguirre, Mario Bloise, Valentyna Slivinska, et al. 2020a. *Regional Analysis of the Nationally Determined Contributions in Latin America: Gaps and Opportunities in the Agriculture and Land Use Sectors*. Environment and Natural Resources Management Working Paper, 81, Rome: Food and Agriculture Organization of the United Nations.

Crumpler, Krystal, Giulia Gagliardi, Alexandre Meybeck, Sandro Federici, Tanja Lieuw, Mario Bloise, Valentyna Slivinska, et al. 2020b. *Regional Analysis of the Nationally Determined Contributions in the Caribbean: Gaps and Opportunities in the Agriculture and Land Use Sectors*. Environment and Natural Resources Management Working Paper, 80. Rome: Food and Agriculture Organization of the United Nations.

FAO (Food and Agriculture Organization of the United Nations). 2020. *Global Forest Rea Assessment 2020: Main Report*. Rome: FAO. https://doi.org/10.4060/ca9825en.

Milder, Jeffrey C., Sara J. Scherr, and Carina Bracer. 2010. "Trends and Future Potential of Payment for Ecosystem Services to Alleviate Rural Poverty in Developing Countries". *Ecology and Society*, 15 (2): 4.

Pagiola, Stefano, Agustin Arcenas, and Gunars Platais. 2005. "Can Payments for Environmental Services Help Reduce Poverty? An Exploration of the Issues and the Evidence to Date from Latin America". *World Development*, 33 (2): 237–253.

Wunder, Sven. 2005. "Payments for Environmental Services: Some Nuts and Bolts". CIFOR Occasional Paper, 42, Centre for International Forestry Research, Jakarta, Indonesia.

Wunder, Sven. 2013. "When Payments for Environmental Services Will Work for Conservation". CIFOR Conservation Letters, 6: (4): 230–237.

CHAPTER 5

HOW EFFECTIVE ARE SOCIAL PROTECTION POLICIES IN LAC?

- A characterizing feature of labour markets in Latin America and the Caribbean is their high informality levels.
- The formal-informal segmentation of the labour force results from a mix of legal exclusions and non-compliance by firms and workers.
- Segmented labour markets are a source of inequality and one of the contributing factors in low productivity growth. The mix of contributory and non-contributory social insurance programmes across the region, coupled with transitions between formality and informality, and, at times, inconsistent rules and conditions for access, results in reduced efficacy of insurance and contradictory impacts on inequality.
- Informal workers are less well protected from risks and, in general, receive lower-quality services than formal workers.
- Informality is strongly associated with self-employment or employment in small low-productivity businesses, which is a critical factor in determining worker earnings (and a crucial factor in long-term growth).
- Social insurance and social assistance are complements and not substitutes in a working social protection system. Eligibility for social assistance programmes should not depend on the formal or informal status of workers, and the region should not expect targeted transfers on their own to reduce poverty.
- A guiding principle for social protection in the region must be universality in social insurance systems, understood in three dimensions: (i) the entire population exposed to a given risk covered through the same programme; (ii) the source of financing the same for each programme; and (iii) in-kind benefits of the same quality for all.

5.1. Social protection systems affect both inequality and economic growth

Governments throughout Latin America and the Caribbean (LAC) respond to the region's high inequality by deploying a large set of policies and programmes. Some are focused on enhancing household assets and human capital to improve household outcomes in the labour market, notably through investments in education; and on increasing household standards of living through, for instance, subsidies for housing.

In parallel, governments also deploy policies to change household incomes and consumption, including through progressive income taxes; exemptions to value added taxes or other consumption taxes on certain goods; subsidies for electricity, gasoline and the like; school meals or other programmes that distribute food; income support for the poor through conditional cash transfers (CCTs) and similar programmes; insurance against risks, such as illness, disability and death; pensions for the elderly; minimum wages; training programmes to improve workers' opportunities in the labour market; special tax regimes for small firms; microcredits for low income entrepreneurs, and so on. The list varies from country to country, but, in most countries, it is long. Numerous or not, these policies show the deep concern among governments in LAC about inequality, a welcome response given the situation documented in chapter 1.

Good intentions are not enough. Judging by the region's high and persistent income inequality, policies focused on changing household incomes and consumption are not as effective as they could be and certainly not as circumstances demand. This is apparent if one compares the most widely used measure of inequality, the Gini, before and after taxes and transfers in LAC countries and other regions (see chapter 3).

This chapter analyses some of the main programmes and policies implemented in the region to combat inequality: social insurance and labour regulations to protect workers from risks, such as illness, disability, death and the vagaries of the labour market; minimum wages to help individuals with low incomes; programmes to transfer benefits to poor households, and special tax regimes to support low-income entrepreneurs and promote small firms. These policies are jointly considered under the umbrella of social protection, and the chapter focuses on them for two reasons: (1) in most countries in LAC, they attract an important share of the national budget allocated to increase social welfare; (2) they impact the behaviour of workers and firms in the labour market and thus, indirectly, the performance of the economy and the opportunities that workers have to increase their incomes over their lifetimes. The chapter evaluates these policies from two separate but complimentary dimensions: (1) their effectiveness in reducing inequality and (2) their impact on firm and worker behaviour in the labour market and thus on productivity. The chapter provides another perspective on the links between high inequality and low growth, complementing those presented in chapters 3 and 4, and building on 12 background papers produced specifically with this purpose.[1]

A couple of caveats are in order. First, the chapter focuses only on a subset of policies and programmes. There is no discussion of income taxation and little analysis of taxes on consumption or subsidies for electricity or gasoline. Because these tax and subsidy policies are also important determinants of inequality, it is essential to complement the discussion here with an analysis of their impact. There is always a trade-off between breadth and depth, and, hopefully, the analysis in this chapter, while incomplete, is sufficiently informative and suggestive of areas in need of attention by policymakers interested in simultaneously reducing inequality and accelerating growth.

Second, there is large heterogeneity in the social protection policies deployed in the region. The chapter focuses on common trends and features, but their individual relevance varies from country to country. Each country is different, and their specificities and peculiarities have to be considered. Comparisons across countries must be carried out with care not only because laws and institutions vary, but also because, even in countries with similar laws and institutions, the quantitative importance of the various factors that determine outcomes also vary.

The chapter proceeds as follows. Section 5.2 introduces a simple framework to help in understanding the complex structure of social protection in LAC. Section 5.3 describes three stylized facts on labour markets in LAC that play a central role in social protection outcomes. Sections 5.4 and 5.5 combine the framework and stylized facts to explore the impact of social protection on inequality and productivity. Section 5.6 concludes with a proposal for a substantive change in social protection.

5.2. The structure of social protection

Social insurance

The cornerstone of social protection in LAC is the combination of social insurance programmes for workers in firms and regulations on job stability and minimum wages. This combination has been in place in most countries since the 1930s or 1940s, and, although it has evolved since then, its main features persist and continue to play a dominant role in social protection and growth outcomes.

---

[1] The country studies are as follows: Argentina: Alzúa and Pacheco (2021); Brazil: Firpo and Portella (2021); Chile: Morales and Olate (2021); Colombia: Alvarado, Meléndez, and Pantoja (2021); Dominican Republic: Barinas and Ñopo (2021); Ecuador: Ñopo and Peña (2021); Honduras: Ham and Membreño Cedillo (2021); Jamaica: Mera (2021); Mexico: Correa et al. (2021); and Perú: Ñopo (2021). The conceptual framework is covered by Levy and Cruces (2021), and the minimum wage by Flabbi (2021).

Various features of this combination are relevant. First, social insurance programmes are by and large limited to workers who have a relation of dependency and subordination with firms and receive monetary remuneration in the form of wages or salaries. Second, they are financed mostly from contributions by firms and workers that are proportional to worker salaries or wages, which leads to the contributory social insurance (CSI) label. Third, programmes to insure against the risks of illness, disability, accidents at work, death, and longevity and, in a few countries, loss of employment are bundled. Fourth, workers who are covered are also subject to regulations on job stability and minimum wages, so that the bundle of CSI programmes is in turn bundled with these regulations. Fifth, benefits bear the role of legal entitlements that can be enforced through the courts. But the most important feature of this combination is, sixth, that it does not cover all workers. Many are left out, principally the self-employed, but also, in some cases and with some variation across countries, entrepreneurs, agricultural and domestic workers, workers who do not receive a monetary remuneration, workers in firms who are relatives of the firm owners and share the surplus of the family enterprise, and workers in firms who are not under a relation of dependency because they are paid on a piece-rate or other like basis. Independent workers providing services to firms under a commercial rather than a labour contract as employees may also be left out (box 5.1).

Box 5.1: Exemptions to CSI, job stability and minimum wage regulations

Argentina: Non-remunerated workers; special regimes for self-employed; entrepreneurs.

Brazil: Non-remunerated workers; special regimes for self-employed; entrepreneurs.

Chile: Self-employed and non-remunerated workers; entrepreneurs.

Colombia: Self-employed workers earning below one minimum wage; non-remunerated workers.

Dominican Republic: Self-employed, independent, domestic, and non-remunerated workers; workers in family firms, entrepreneurs.

Ecuador: Self-employed, independent, domestic, and non-remunerated workers; micro-entrepreneurs; workers in agriculture.

Honduras: Self-employed, independent, domestic, and non-remunerated workers; micro-entrepreneurs; workers in agriculture.

Jamaica: Non-remunerated workers.

Mexico: Self-employed, independent, domestic, and non-remunerated workers, workers in family firms, agricultural producers, entrepreneurs.

Peru: Self-employed, independent, domestic, and non-remunerated workers; special regimes for workers in micro-firms.

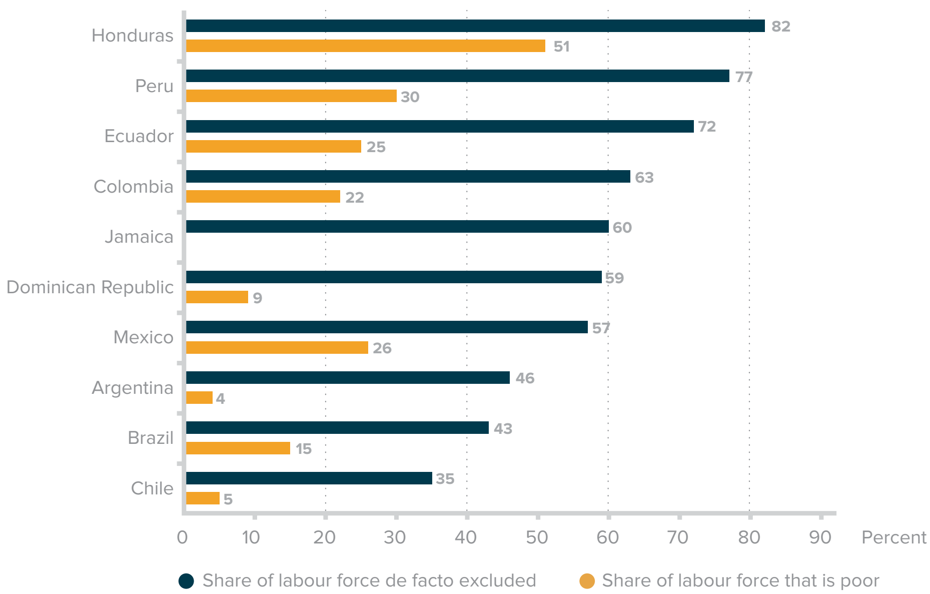
Sources: UNDP LAC Working Papers 14–23: Alvarado, Meléndez, and Pantoja 2021; Alzúa and Pacheco 2021; Barinas and Ñopo 2021; Correa et al. 2021; Firpo and Portella 2021; Ham and Membreño Cedillo 2021; Mera 2021; Morales and Olate 2021; Ñopo 2021; Ñopo and Peña 2021.

There is heterogeneity across the region. In some countries, such as Argentina and Brazil, the self-employed are required to participate in CSI programmes, although, in this case, the regulations on job stability and minimum wages do not apply. These workers are sometimes offered subsidized contribution rates, depending on their income level. In other countries, such as Colombia, the self-employed are also required to participate, but only if their income exceeds the minimum wage. But these are exceptions; by and large, the requirement to participate in CSI programmes is restricted to workers in firms under a relation of dependency who are also covered by regulations on job stability and minimum wages.

In addition to legal exclusions, another factor limits the coverage of CSI programmes: in a context in which laws and regulations are imperfectly enforced, non-compliance by firms and by the self-employed if they are required to contribute. Non-compliance may result from explicit evasion or from elusion in situations in which the borderline between a dependent and non-dependent worker is fuzzy and the requirement to comply ambiguous. Non-compliance is facilitated if the production unit is small measured by the number of participants. Authorities in charge of enforcing laws have great difficulty separating evasion from elusion and, in the case of the former, in establishing and collecting fines. Indeed, because CSI regulations may not apply to these firms, and, even if they do, they can be enforced only with difficulty, they are replaced by tacitly accepted social norms that de facto sanction non-compliance, even if de jure it may be argued that illegal behaviour is taking place. Figure 5.1 shows that, in all countries, an important share of the labour force is excluded from the most important social protection programmes—in many, more than half. For reference, the figure also shows the share of workers who are poor.

Figure 5.1: Large shares of the labour force are excluded from the most important social protection programmes

Share of the labour force excluded from contributory social insurance, selected LAC countries



Source: Levy and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; UNDP calculations using national household surveys.
Note: Workers in households under the poverty line of $5.50 a day, 2011 purchasing power parity.

This exclusion is a grave issue. In response, governments in the region have created programmes to provide some insurance to those left out. A few features of these programmes are worth highlighting. First, they are mostly restricted to health and retirement pensions, although some countries include other benefits, such as a child allowances (Argentina) or childcare services (Mexico). Second, benefits measured either by quality or monetary value are generally subpar compared with those offered by CSI programmes, and they exclude any income floors or protections against the loss of employment. Third, they are financed from general government revenues, a key difference from their CSI counterparts, which are paid from contributions by firms and workers; for this reason, these programmes for the otherwise excluded are labelled non-contributory social insurance (NCSI). And fourth, they are usually offered to all workers excluded from CSI programmes, regardless of whether this results from a legal mandate or non-compliance.

As with CSI, there is heterogeneity across the region. In Colombia, for instance, contributory and non-contributory health programmes in principle provide the same benefits. Mexico's non-contributory pensions cover all the elderly, even if some have a contributory pension. In Brazil, a single health programme financed from general revenues covers all workers, making irrelevant the contributory/non-contributory distinction for health coverage, but not for pensions. In Chile, the government contributes to CSI programmes, which might therefore be labelled semi-contributory. There are, indeed, many country specificities, and the contributory–non-contributory classification should be considered a conceptual distinction rather than a sharp divide that applies equally to all countries in LAC.

The key point is that the interphase between the design and operation of CSI and NCSI programmes, on the one hand, and enforcement, on the other, segments the labour force into two categories: formal workers, who are covered by CSI programmes and job stability and minimum wage regulations, and informal workers, who receive whatever benefits are offered by NCSI programmes.

The formal-informal segmentation of the labour force, the central feature of labour markets in LAC, results from a mix of legal exclusions and non-compliance. In countries where all are required to participate in CSI programmes, such as Jamaica, segmentation results only from non-compliance. But, in other countries, segmentation would persist even under full compliance because some workers are simply not required to participate. Informality is a complex phenomenon that results from institutions, laws, and law enforcement. Across LAC countries, it is partly legal and partly illegal, and the segmented labour markets are not only a source of inequality, but also one of the contributing factors to low productivity growth.

Social assistance

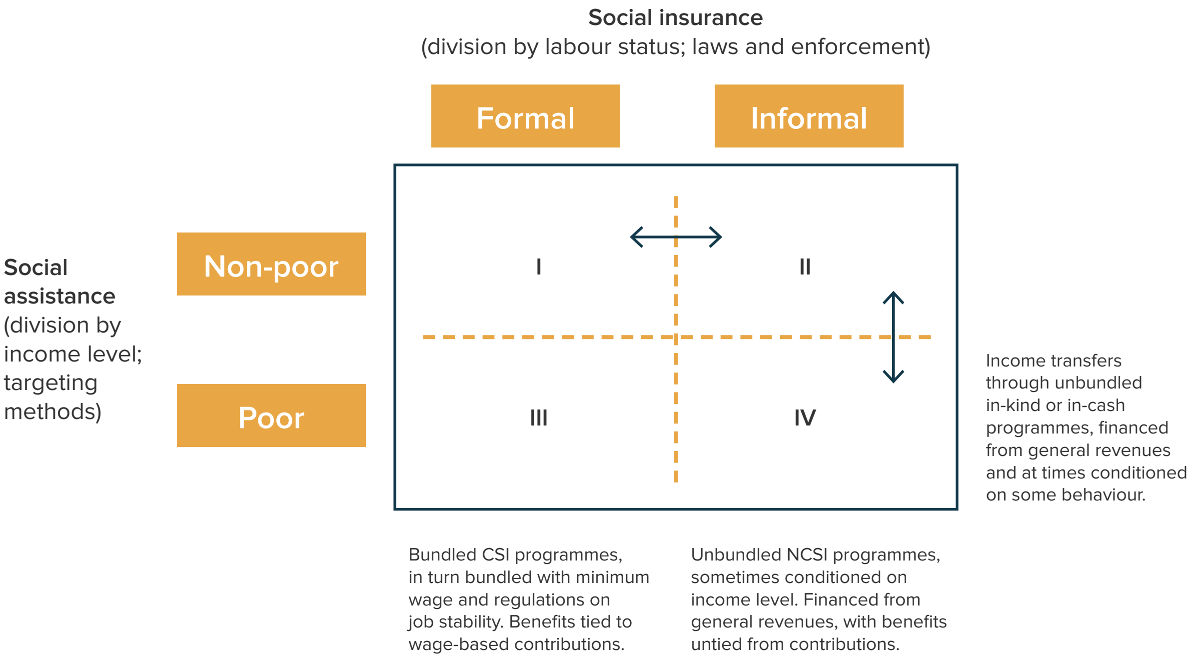
Because all workers are exposed to risks, such as illness, disability, unemployment, or death, regardless of their incomes, CSI and NCSI programmes should cover all. In parallel, however, some worker incomes may be so low as to place the workers in poverty, requiring additional programmes to increase their consumption. These social assistance programmes are by definition focused on a subset of the population, and their main objective is to redistribute income in favour of this subset.

The distinction between social insurance and social assistance programmes should not imply that the former do not redistribute income. In most cases, they do (although not always in the desired direction!). Rather, the point is that, even if there were a society without poverty and thus with no need for social assistance, social insurance programmes would still be needed to pool risks among the population and protect society from negative shocks. Yet, the fact that poor workers benefit from social assistance programmes does not eliminate the need of these workers for social insurance. They face the same risks faced by non-poor workers. Clearly, it would be a mistake to think that social insurance programmes are only for the non-poor.

Figure 5.2 synthetizes this discussion by separating workers according to their labour status and income, the vertical dotted line by labour status, formal and informal, and the horizontal line by income, poor and non-poor. Leaving out unemployment, the sum of workers in the four quadrants equals the labour force. Although sometimes lumped together, poverty and inequality are not the same. In most countries, there are more informal workers than poor workers (that is, more workers in quadrant II than in quadrants III and IV). Nonetheless, most poor workers are informal (that is, more of them are in quadrant IV than III).

Figure 5.2: Poverty and informality are not the same

Structure of social protection



Source: Levy and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021.

Figure 5.2 is a stylized description capturing commonalities among programmes across countries in the region. There are also important differences. CSI programmes differ not only with respect to their mandated coverage, but also in terms of their costs, scope, quality of benefits and nature of enforcement. The same is true of minimum wages and regulations on job stability. NCSI programmes also differ in terms of their generosity and rules of access, sometimes covering all informal workers and sometimes only those workers who are poor. Social assistance programmes differ in the methods used to identify those who are poor (targeting techniques), rules of access and benefits. The resulting interaction among all these elements is complex and requires a case-by-case analysis, as exemplified in the 10 country studies that are background papers of this report.[2]

[2] UNDP LAC Working Papers 14–23: Alvarado, Meléndez, and Pantoja (2021); Alzúa and Pacheco (2021); Barinas and Ñopo (2021); Correa et al. (2021); Firpo and Portella (2021); Ham and Membreño Cedillo (2021); Mera (2021); Morales and Olate (2021); Ñopo (2021); Ñopo and Peña (2021).

Figure 5.2 serves to make an important observation: in LAC, access to social protection results from the interphase of the formal or informal status of workers in the labour market and their income. Because worker incomes also depend on labour market performance, outcomes in this market become the central determinant of the efficacy of social protection: which workers of which income level have access to this or that health, pension, childcare, or other programme; which are protected in the case of disability, death, or the loss of employment; who is paid at least the minimum wage; which programmes are paid from contributions by firms and workers and which from general tax revenues; and, as a result, how much income is redistributed across households and in which direction.

In all countries, the distribution of workers among the four quadrants of figure 5.2 results from the decisions of millions of firms and workers, which depend on a large set of policies, many far removed from social protection: regulations on international trade, credit, property rights, and so on. But the distribution also depends on (1) the set of policies and programmes directly associated with social protection—CSI programmes and job stability and minimum wage regulations, NCSI programmes and social assistance programmes; (2) the functioning of these, as given by their costs and by the rules of access and the quality of benefits; and (3) the enforcement of the associated laws and regulations.

Firms play an important role in social protection because they are the demand side of the labour market. Social protection outcomes therefore depend on what firms do. However, what firms do depends on social protection policies. Figure 5.3 depicts the two-way interdependence between firms and social protection, an interdependence that is not always fully appreciated.

The interdependence between firms and social protection is an inevitable outcome of the way social protection is structured in the region, particularly social insurance, dependent as it is on the formal-informal status of workers. This interdependence implies that, in any country in LAC, if social protection policies were different, the same workforce with the same human capital would be distributed differently among the four quadrants of figure 5.2. In other words, if these policies were different, the number of individuals in each quadrant would change, and so would social protection outcomes. The two-way arrows in figure 5.2 highlight that this distribution depends on social protection policies. This leads to an observation that has not been appreciated adequately: the design of social protection policies, while focused on household welfare, needs to pay careful attention to the impact of the policies on firms because social protection outcomes depend heavily on what firms do.

Figure 5.3: Social protection outcomes depend on what firms do; which depends on social protection policies

Firm behaviour is a central determinant of social protection outcomes	⟷	Social protection policies are central determinants of firm behaviour

- Are there many firms without dependent workers?
- Do firms comply with laws on CSI, job security and minimum wage regulations?
- Are there many micro or small firms where the relation of dependency is ambiguous?
- What is the skill composition of the labour demand of firms?
- Do firms offer workers short- or long-term contracts? How many firms invest in labour training?
- Do firm entry, exit and growth patterns increase worker productivity?

- How costly are CSI contributions? What is the quality of benefits and the rules to access them?
- Do job stability regulations allow firms to adjust to negative shocks? Are minimum wages high or low?
- Is enforcement of CSI and minimum wage laws dependent on firm size? Can firms replace them with tacitly accepted social norms if the firms are small?
- Are there special tax regimes for low-income entrepreneurs? Do they vary with firm size?
- Do firms evade more if NCSI programmes are present or expanded?
- Do the self-employed have to participate in CSI programmes?

Source: Levy and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021.

The distinction between CSI and NCSI programmes in figure 5.2 is almost meaningless from the perspective of the countries of the Organisation for Economic Co-operation and Development (OECD), in which the coverage of social insurance programmes is close to universal. Indeed, in these countries, all NCSI programmes targeting subsets of the population would likely be considered social assistance programmes. But, in LAC, the distinction between CSI and NCSI is central because it reflects the fact that entitlements and obligations with respect to social insurance differ depending on how workers participate in the labour market. And the distinction between NCSI and social assistance programmes is also central because it responds to two different circumstances: the lack of coverage by CSI programmes of workers who are not necessarily poor and the low incomes of some households even if household members have jobs with CSI coverage. There is an important overlap between households that lack CSI coverage and households that are poor, contributing to the conflation of NCSI and social assistance programmes. But this overlap is not perfect because there are some poor households with workers who are covered by CSI programmes and some non-poor households that benefit from NCSI programmes (in fact, in some cases, they benefit more than poor households do).

The result is that the structure of social protection in LAC is substantially different from that in OECD countries. Furthermore, the diversity of funding sources, the multiplicity of programmes, the differences in rules on who is entitled to what and when, and the weakness of the institutions enforcing contributions and delivering benefits make for a complex environment. As one would expect, firms and workers react to this environment. Firms react because it determines when they must pay for the social insurance of their workers and when not; when they can evade contributions and when not; when they can adjust to negative shocks and when not. They will adjust their business decisions accordingly. Similarly, workers react because, depending on whether they work on their own or are employed by firms as dependent workers, they may or may not have to contribute for some benefits; they may or may not have access to benefits that neither they nor the firm employing them have to pay for; and, depending on their income, they may or may not qualify for other benefits, or may lose them, if their income or labour status changes.

The weakness of the region's institutions, which is sometimes conceived of as limited state capacity, creates important gaps between the de jure letter of the law and the de facto meaning of the law for the everyday life of workers and firms. These gaps may vary by firm size, as is the case in the enforcement of the minimum wage or job stability regulations, for instance, but they may also vary by region, such as when the quality of benefits like health services vary between, say, large urban areas and more remote rural ones. In some cases, as a result of these gaps, tacitly accepted social norms rather than laws govern the relations between firms and workers.

5.3. Three stylized facts about the labour markets in the region

The distribution of employment

In most countries, because self-employed workers are not required to participate in CSI programmes and because, even if they are, enforcement is weak, the share of these workers in total employment matters substantially for social protection. In addition, because non-compliance with CSI, job stability, and minimum wage regulations is greater among smaller economic units, the number of workers employed by firms at various sizes also matters. In this vein, figure 5.4 presents data on the share of workers who are self-employed, employed in firms with up to 5 (or 10) workers, or employed in larger firms in various LAC countries and, for reference, the United States. Although the data are not fully comparable because the labour and firm classifications used by countries do not always coincide, they still offer a useful picture.

Figure 5.4: A large share of the workforce in LAC is dispersed in self-employment or in small firms
Self-employment and employment distribution by firm size

Sources: UNDP LAC Working Papers 14–23; SUSB (Statistics of U.S. Businesses) (dashboard), US Census Bureau, US Department of Commerce, Suitland, MD, https://www.census.gov/programs-surveys/susb.html.
Note: Firms up to five workers: Chile, up to 9 workers; Dominican Republic, Ecuador, Honduras and Peru: up to 10 workers. Firms of more than 100 workers: Brazil, Chile, Colombia, Dominican Republic and Mexico: 50 workers or more. Honduras: 150 workers or more.

Self-employment is widespread in LAC. Together with employment in small firms, it accounts for approximately half of all employment even in larger countries, such as Brazil and Mexico, and even more in some countries, such as Ecuador (76 percent) and Peru (72 percent). These numbers are important for social protection because the self-employed and workers in small firms tend to be informal (figure 5.2, quadrants II and IV). But they also matter for productivity because they imply that a large share of the workforce in LAC is employed in small units, that is, economic activity is very dispersed.

The large dispersion in economic activity means there is a large number of small firms. Although more difficult to document because few countries have a full census of firms, the existing data are unambiguous: the size distribution of firms is skewed in LAC. A vast majority of small firms employ between a half and two thirds of all workers; there are few medium-size firms, and a tiny share of large firms employ around one quarter or, at most, one third of the labour force.

In many cases, it is difficult to make a sharp distinction between the self-employed (or a one-person firm) and a micro-firm with two or three workers because the size of these undertakings is fluid. If demand merits it, they can rapidly expand to four or five workers, and, if it does not, they can contract equally rapidly to two or one, a situation facilitated by the combination of legal exclusions and tacitly accepted social norms that de facto place these firms beyond the reach of regulations on job stability. Many of these firms perform their economic activities on the street or within the household; few are incorporated as separate legal entities, and even fewer have access to formal credit at commercial banks. The viability of these firms is precarious; they are typically shortlived and exhibit high rates of entry and exit. They thus create precarious, often shortlived employment.

Considered together, self-employed workers and workers in micro-firms constitute the bulk of the ubiquitous informal sector that characterizes the region's economies, reflected in the large share of the labour force receiving benefits from whatever combination of NCSI and social assistance programmes are available, as documented in figure 5.1.

Workers in LAC are not always formal or informal

Contrary to what is at times assumed, evidence from two sources shows that workers transition back and forth between formality and informality: (1) panel data from employment surveys in a few countries that follow the same individuals over a given period and (2) administrative registries of social security agencies in other countries. Table 5.1 provides examples of the first type of data, in all cases for the years 2018–2019 (before the COVID-19 pandemic). The upper panels depict worker transitions among formal, informal, unemployed, and out of the labour force status in Dominican Republic (panel a) and Mexico (panel b). The lower panels do the same for Brazil, separating workers according to where they fall on the income distribution (panels c and d). The data on Brazil also allow the identification of transitions into self-employment.

The diagonal in each panel of table 5.1 shows the share of workers who remained in the same status from one year to the next. In Dominican Republic, for instance, of all workers who had been formally employed in 2018, only 78.9 percent had the same status one year later; 9.7 percent transitioned to informal employment, 3.3 percent to unemployment, and 8.1 percent left the labour force. More generally, at least 20 percent of workers in each case had changed status by one year later, as can be inferred by focusing on the numbers in the main diagonal of each panel. Similar patterns are observed in Mexico, but with less persistence in unemployment. The data on Brazil show that workers in the top 25 percent of the income distribution (the top 25), particularly formal sector workers, transition less into another status relative to workers in the bottom 25 percent of the income distribution (the bottom 25), indicating that the former spend proportionately more time in formality.

Table 5.1: Workers may transition among formality, informality, unemployment, or inactivity

Transitions in labour status in a single year

a. Dominican Republic

	Formal	Informal	Unemployed	Out of labour force
Formal	**78.9**	9.7	3.3	8.1
Informal	12.5	**74.0**	1.9	11.6
Unemployed	17.4	30.4	**29.0**	23.2
Out of labour force	5.7	14.7	1.8	**77.8**

b. Mexico

	Formal	Informal	Unemployed	Out of labour force
Formal	**73.8**	15.4	1.6	9.1
Informal	14.5	**64.0**	1.9	19.5
Unemployed	22.8	31.9	**15.5**	29.7
Out of labour force	6.6	15.8	1.6	**75.8**

c. Brazil (bottom 25)

	Employed-Formal	Employed-Informal	Self-employed	Unemployed	Out of labour force
Employed-Formal	**71.1**	8.7	6.9	9.0	4.3
Employed-Informal	4.9	**48.1**	12.0	12.2	22.8
Self-employed	2.3	10.3	**53.5**	6.5	27.3
Unemployed	12.8	17.4	13.1	**30.9**	25.8
Out of labour force	1.2	3.6	4.5	4.3	**86.4**

d. Brazil (top 25)

	Employed-Formal	Employed-Informal	Self-employed	Unemployed	Out of labour force
Employed-Formal	**86.2**	4.0	2.6	3.0	4.2
Employed-Informal	23.3	**47.7**	13.0	5.1	10.9
Self-employed	5.6	6.8	**75.4**	3.1	9.0
Unemployed	21.4	13.2	9.7	**29.6**	26.1
Out of labour force	3.4	3.8	3.7	5.4	**83.8**

Sources: Barinas and Ñopo 2021; Correa et al. 2021; Firpo and Portella 2021. Background Papers of the UNDP LAC RHDR 2021.
Note: Bottom 25 = bottom 25 percent of the income distribution. Top 25 = top 25 percent of the income distribution.

Administrative registries of social security agencies record the contributions of workers to CSI programmes, thereby providing information on formality, given that workers who contribute are considered formal. However, the registries capture workers only after they have been formally employed for the first time. In addition, they do not record what happens when workers are not contributing, although the presumption is that some workers transition to informal employment, some to unemployment, and some out of the labour force, as detected for Brazil, Dominican Republic and Mexico. Administrative data are not as precise as panel data from employment surveys, but have the advantage of following workers for longer periods. Such data therefore give another type of information on formal formal-informal transitions.

The contribution density—defined as the ratio of the length of time that workers have contributed to CSI programmes over the length of time that they could have contributed since they first enter formality, summarizes this worker behaviour. A contribution density of 100 percent implies that, after workers enter formality for the first time, they maintain formal that status. A density of 50 percent signifies that workers were formal only half the time they could have been, beginning when they first acquired that status. High densities thus imply that workers spend most of their time in formality, and low densities suggest the opposite.

Data on contribution densities are difficult to compare across countries because they are available for different periods and are not always available by income level. The cases of Chile and Colombia are illustrative. Between 2009 and 2016, the average contribution density in Chile was 40 percent, but this average masks the fact that, among the bottom 20, 51 percent of workers exhibited densities of 20 percent at most, and only 38 percent had densities higher than 80 percent. This compares, respectively, with 9 percent and 82 percent for workers in the top 20. The results on Colombia are similar, although workers are classified in the data by wage levels rather than income quintiles. In 2010–2020, the average contribution density was 42 percent, but it was 39 percent among workers earning up to 1 minimum wage, and 68 percent among workers earning between 5 and 10 minimum wages.[3]

In the other countries under study, there are no panel employment surveys or detailed administrative data, but it is still possible to infer similar patterns. Jamaica is a case in point. The data allow a classification of workers by income quintile and distinguish among workers who had contributed in the previous 12 months, workers who had contributed before, and workers who had never contributed. Among the bottom 20, only 12 percent had contributed in the previous year; 13 percent had contributed during the year before that, and 75 percent had never contributed. Among the top 20, the respective shares were 46 percent, 24 percent and 31 percent.

In sum, three facts stand out. First, many workers transition between formality and informality; they are formal part of the time and informal the other part. Second, spells of formality are inversely correlated with income, that is, low-wage workers spend less time in formality relative to higher-wage workers. And, third, because of these transitions, average contribution densities are low, less than 45 percent in most countries on which data are available (compared with 60 percent or more in OECD countries). These facts indicate that labour markets in LAC are dynamic, characterized by significant churning. They also imply that at least in some countries, the issue is less that low-wage workers cannot enter into formal employment, than it is that they cannot maintain that status for long periods of time.

---

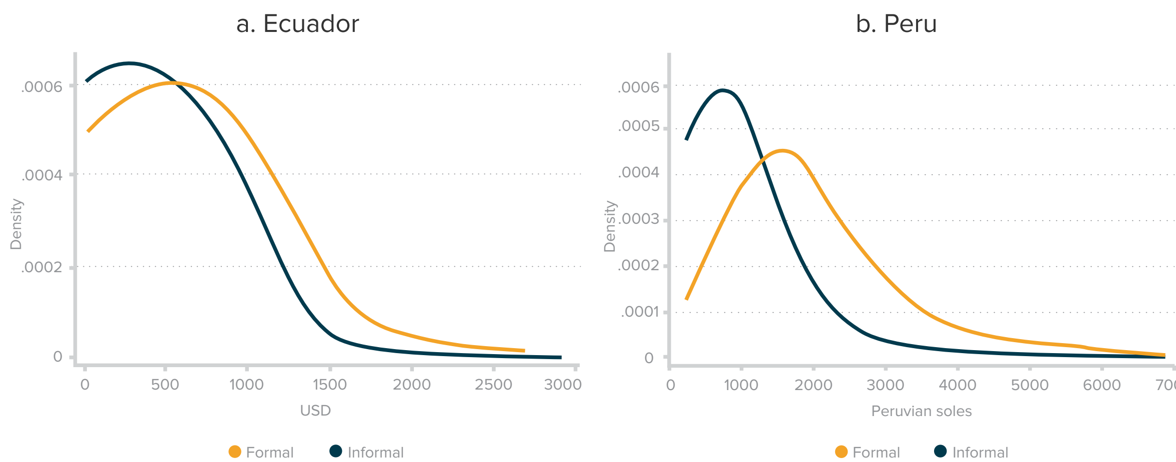
[3] CAF (2020) data on Argentina, Brazil, Ecuador, and Uruguay show a similar picture. In all four countries, the average contribution density increases with income. Moreover, the differences are significant: in Argentina, 14 percent for workers in the bottom 20 versus 60 percent in the top 20; in Brazil, 35 percent versus 71 percent; in Ecuador, 20 percent versus 69 percent; and, in Uruguay, 31 percent versus 71 percent. In Mexico, the average contribution density in 1997–2015 was 46 percent, but 13 percent among those earning 1 minimum wage, 39 percent among those earning 2 minimum wages, 52 percent among those earning 3 minimum wages, and 74 percent among those earning 10 or more minimum wages (Castañón Ibarra and Ferreira Blando 2017).

Overlap between the formal and informal wage distributions

Because some formal workers may be poor, it is not the case that every formal worker earns more than any informal worker. In fact, many informal workers earn more than some formal workers. Thus, formality is not fully equivalent to high income, nor is informality fully equivalent to low income.

Labour income distributions offer more insights into this phenomenon. Figure 5.5 depicts the distributions in Ecuador and Peru. If formality were synonymous with high income, the distributions among formal workers would be completely to the right of the distributions among informal workers, with no overlap between them. Figure 5.5 makes clear that, in Ecuador and Peru, this is not the case, and in fact, in both countries, although the formal labour income distribution is to the right of the informal distribution so that the average formal labour income exceeds the average informal one, there is considerable overlap.

Figure 5.5: The overlap in formal and informal labour income distributions



Sources: Ñopo 2021; Ñopo and Peña 2021. Background Papers of the UNDP LAC RHDR 2021.

Similar data are found on other countries in LAC. In all cases, the mean formal labour income is higher, but some informal workers earn more than some formal ones. This is consistent with the fact that informality is associated with many forms of participation in the labour market, some of which may be, in net terms, more well remunerated than the net wages that some formal firms can offer their workers.

Summing up

These three stylized facts—large shares of self-employment and employment in micro-firms, transitions in labour status, and the overlap between formal and informal earnings—result from the interactions of firms and workers in the labour market. These interactions depend on many policies, some of which are outside the domain of social protection. But they also depend on these policies because they impact two key dimensions: worker welfare and firm profitability. These three stylized facts likewise determine the impact of social protection policies on inequality and productivity.

5.4. Social protection, inequality, and protection against risks

Social insurance

If all workers in a country were formal and had the same income, CSI programmes would have no impact on inequality. Workers would contribute an amount proportional to their income—the same for all—that would be sufficient to pay for the stipulated benefits given the expected distribution of contingencies (illness, disability, death, and so on). In parallel, all workers would be permanently covered. Thus, CSI programmes would pool risks among all members of society, but would be neutral from the perspective of income distribution.

The situation in LAC is different for many reasons. First, there are large differences in incomes across workers; so, when contributions are proportional to incomes, but benefits are not, some redistribution is inevitably involved. Second, workers transition between formal and informal status and are thus covered by CSI programmes only part of the time. Third, permanence in formality is positively correlated with income. And fourth, the many rules and conditions of access governing programmes for health, pensions, and protections against loss of employment introduce discrepancies between individual contributions and benefits, thereby de facto redistributing income in ways that are not always obvious or desirable. This has three implications. First, it is not possible to separate the impact of CSI programmes in protecting workers against risks (the insurance function) from their impact on inequality (the redistribution function); these impacts exist side by side. Second, the impact of CSI programmes on these two dimensions varies across countries because of differences in the formal-informal composition of labour markets in these countries and their labour market dynamics and because the eligibility rules for individual programmes also differ. Third, as a result, while there are some common features, the specificities of countries are extremely relevant; thus, the discussion in this section needs to be accompanied by examination of the individual country studies.[4]

[4] See UNDP LAC Working Papers 14–23.

Incomplete risk pooling and ineffective coverage

An underappreciated aspect of CSI programmes is their effectiveness when workers transition from formal to informal status in a context of segmented labour markets. A first point to note is that risks are pooled only between a subset of all workers, inherently increasing the costs of insurance.

A second point is that formal-informal transitions reduce the efficacy of CSI programmes in protecting workers against risks. Consider, for example, protection against disability. If workers are formally employed when they suffer a disability, they will receive a disability pension or, at least, some compensation, but not if the disability occurs while they are informally employed. Consider next the support for working women or men after childbirth (under the form of maternity or paternity leave or, sometimes, one-time payments): they receive the benefit only if the event occurs while they are formally employed. Or consider the sudden death of the main breadwinner in a household: the family obtains a survivorship pension if the death occurs when the breadwinner was formally employed, but not if, at that moment, the breadwinner was informally employed. More generally, workers may suffer negative shocks when they are formally or informally employed, but are only protected in the first case. It is as if one purchased fire insurance for a house or accident insurance for a car that covered these contingencies only during weekdays, but not on weekends and not at night; clearly, such erratic coverage is unsatisfactory.

The inefficacy of CSI is not neutral across income levels. Because higher-income workers spend more time than lower-income workers in formality, they are protected during longer periods. Thus, the impacts of negative shocks fall disproportionately on those who have less capacity to bear them. The interaction between income-dependent spells of formality and labour status–dependent access to protections is particularly unfavourable to poor workers.

With varying degrees of coverage across countries, workers get some insurance through NCSI programmes when they are informally employed, almost always at lower quality or generosity than CSI programmes. But, with a few exceptions, these programmes insure only against health and longevity risks (through non-contributory health and pension programmes). Workers are not insured against unemployment, disability, or death if they are informally employed. The result is that households in LAC—particularly low-income households—bear many more risks on their own or through family and friend networks relative to households in OECD countries, where these risks are more broadly shared. One might say that the formal-informal segmentation of the labour force constrains solidarity across members of society, narrowing the space for nourishing social capital.

Erratic redistribution in health and pension programmes

CSI programmes may redistribute income across workers, although the extent and direction vary from programme to programme. Usually, health programmes are the most redistributive: workers contribute in proportion to their wages or salaries, but all receive the same in-kind benefits; in other words, high-income formal workers cross-subsidize low-income formal workers. This is the case in Colombia, Ecuador, and Mexico, for example. But, in some countries, the redistributive potential of CSI health programmes is diminished or even nullified by decisions to opt out of the risk pool. This is exemplified by the case of Chile (box 5.2). The case of Honduras is different, but yields a similar result. As in Chile, formal workers are required to contribute to health insurance, but, in this case, the contributions are not proportional to worker wages. They are capped at one minimum wage. Because, in principle, there are no formal workers earning below this amount, the implication is that high- and low-wage workers in Honduras pay the same amount and receive the same benefits. Thus, there is no redistribution.

The fact that contributory health programmes may not redistribute towards low-income workers does not preclude redistribution through other health programmes, in particular non-contributory ones. By construction, these are financed from general revenues and cover mostly lower-wage workers because these workers spend less time in formality than higher-wage workers. Thus, NCSI health programmes are highly redistributive. In many countries, in fact, they are the most redistributive of all social protection programmes considering the resources allocated to them, which are usually between 1.5 percent and 2.5 percent of GDP, significantly higher than the resources allocated to targeted poverty programmes.[5]

---

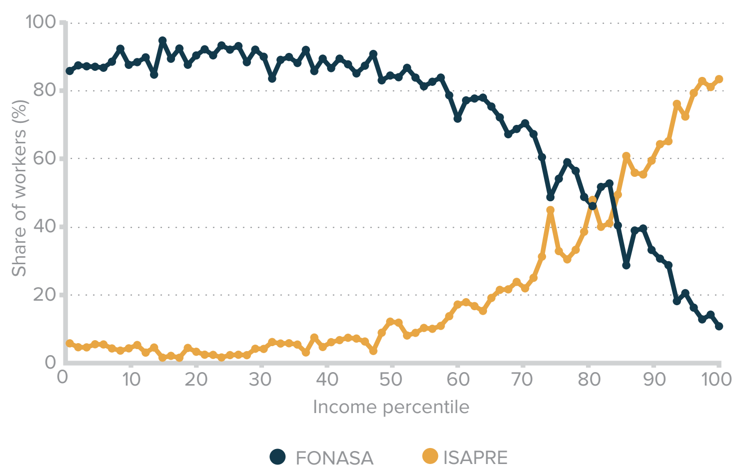
[5] This is in line with findings of the Commitment to Equity Institute. The website of the institute is at https://commitmentoequity.org/about/. See Lustig (2017).

Box 5.2: Health programmes in Chile

In Chile, workers are required to contribute 7 percent of their salaries for health insurance. They then have the option of using their contributions for private insurance (Instituciones de Salud Previsional) or to pool them in the public national health fund (Fondo Nacional de Salud). In the first case, they can complement their contributions with additional resources to benefit from higher-quality services. In the second case, they may obtain subsidies depending on their income, in the form of co-payments, and have access to publicly provided health care services. Figure B5.2.1 shows the share of workers contributing to each option by income. Higher-income workers clearly do not pool their contributions in the national health fund and thus avoid cross-subsidizing low-income workers. Thus, in Chile, CSI health programmes do little to redistribute income from high- to low-earning workers, and all workers do not receive services of the same quality.[a]

Figure B5.2.1: CSI health programmes in Chile do little to redistribute income from high- to low-earning workers

Share of workers contributing to health programmes, Chile, 2017
By income percentile



Source: Morales and Olate 2021, Background Paper of the UNDP LAC RHDR 2021.

[a] A similar situation occurs in Peru. In Argentina, formal workers contribute to health insurance managed by labour unions, but workers can channel their contributions to private providers, for which labour unions act as intermediaries. High-wage workers benefit from these arrangements by contracting for better services with greater coverage.

Differences in quality between CSI and NCSI programmes are relevant because, except for Colombia, in all countries with both types of programmes, CSI programmes cover more complex and costly interventions. Furthermore, CSI services are sometimes provided by social security institutes, while NCSI services are provided by health ministries (as in Ecuador, Honduras, Mexico, and Peru), where waiting times are longer and medicines less readily available. These differences affect out-of-pocket expenditures for minor complications, such as stomach infections. But they matter more if there is a serious problem, such as a brain tumor, that may not be covered by NCSI programmes and that may leave families in financial ruin.

As a result, the largest redistributive impact occurs in countries in which there is a single health programme that provides services of equal quality for all and that is financed by general revenues, particularly taxes on income or consumption. In absolute terms, more resources are collected from higher-income households, including those that derive income from land or financial assets, because the income and consumption of these households are greater, that is, the pool of contributors is the largest possible and includes individuals with non-wage income. At the same time, all households receive similar benefits. This is the case in Brazil and Jamaica, the only two countries in the region with unified health programmes, which are fully financed from general revenues in the case of Brazil and almost fully financed in Jamaica (box 5.3). The access and quality of care are delinked from worker status in the labour market. Brazil spends 3.9 percent of GDP on its Sistema Único de Saúde, the publicly funded health care system. Jamaica spends 3.3 percent of GDP on its National Health System. For social protection, it is almost impossible to think of money more well spent: universal coverage with equal quality regardless of income or of the vagaries of the labour market.

What about contributory retirement pension programmes? In principle, they help workers smooth consumption over time and manage longevity risks. In LAC, they operate through two modalities: pay-as-you-go (PAYG) benefit systems, as in Brazil, Ecuador, and Jamaica; or defined contribution systems, which are usually based on individual accounts administered by private firms, as in Chile and Mexico. However, in some countries, such as Colombia, Honduras, and Peru, both modalities coexist, while, in others, such as Argentina, modalities have changed from PAYG to defined contributions and back again to PAYG.

If the contribution rate in the PAYG modality is actuarially fair, there is no redistribution involved.[6] The same holds in the defined contribution modality, where worker pensions are proportional to the amounts accumulated in the individual worker accounts. But this is rarely the case in LAC. Five features imply that contributory pension programmes have

[6] A PAYG system is actuarially fair if the parameters of the system are such that contributions paid are equal to the expected value of the pension received.

strong redistributive impacts, although not always in the appropriate direction: eligibility requirements for benefits, formal-informal transitions, actuarially unfair contribution rates in PAYG systems, indexing rules, and separate and usually more generous regimes for certain groups, such as teachers in Brazil or public sector workers in Jamaica.

Box 5.3: A single health programme financed through general revenue in Brazil

After the Brazilian Constitution of 1988 transformed the country's social welfare system, the Unified Public Health System (Sistema Único de Saúde) was established in 1990 to fulfil the constitutional mandate of health care as a fundamental right and a responsibility of the government through universal, integrated, decentralized, and democratic public health care provision.[a]

Public health expenditures, which amounted to 3.9 percent of the country's GDP in 2017, have been found to be progressive, particularly considering that funding comes from the overall governmental budget and is not financed through payroll taxes on formal workers.[b] The system is financed through mandatory contributions from all levels of government: municipalities and states are required to allocate 12 percent and 15 percent of their annual tax revenues to health expenditures, respectively, while federal transfers were initially conditional on GDP growth.[c] Starting in 2017, however, federal health care spending was fixed for 20 years at 15 percent of net revenue and is to be adjusted to inflation thereafter.[d]

For the past three decades, this system has guaranteed access to health care to every citizen free of cost, irrespective of their status within the labour market.[e] In retrospect, the system has been responsible for the expansion of access to health care across the country and the improvement of health outcomes that have particularly benefited the less advantaged.

Although the system encompasses all Brazil's population through public health care, nearly one quarter of Brazilians do not use it as their main source of care, potentially as a matter of choice.[f] Indeed, approximately 23 percent of Brazilians had private medical insurance in 2018, 70 percent of which received this insurance as an employment benefit.[g]

a. de Castro et al. (2019).
b. Higgins and Pereira (2014); IBGE (2019).
c. Piola, de França, and Nunes (2016).
d. Massuda et al. (2018).
e. Firpo and Portella (2021).
f. Bhalotra, Rocha, and Soares (2019).
g. Tikkanen et al. (2020).

Many countries require workers to contribute for a minimum number of years before they are entitled to a retirement pension, regardless of whether modalities are the PAYG or a defined contribution system. In Jamaica, workers must contribute for at least 9 years; in Brazil, Ecuador, and Honduras, 15; in Peru, 20; in Mexico, 25; in Colombia, 25 in the PAYG modality and 22 in the defined contribution modality; and in Dominican Republic, 30. In Argentina, workers must also contribute for 30 years, although this requirement is lowered through a host of special regimes.

Formal-informal transitions make it impossible for many workers to reach the stipulated threshold. The workers contribute to a pension during some periods of their working life, but may be denied a pension when they reach retirement age. This is a serious issue: in Colombia, between two thirds and three fourths of contributing workers will not qualify for a pension depending on whether they are in the PAYG or defined contribution modality. A similar result is found in Jamaica, where two workers in five will not obtain a pension in the PAYG modality, and, in Mexico, where about two workers in three will not qualify for a pension in the defined contribution modality. This is even a more worrisome in the case of women, who, in several countries, have a lower retirement age relative to men, but are required to contribute for the same number of years.

But, even if workers qualify, formal-informal transitions imply that the amount of the pension is diminished because accumulation occurs only if the worker is in formal status. Thus, even if workers obtain a pension, the replacement rate will be low because they will not have saved for their pension all the time, thereby also limiting the consumption smoothing purpose of pensions. Replacement rates depend on other factors as well, but the point here is that, all else is equal, pensions are proportional to the time spent in formality.

What happens if workers do not qualify for pensions after paying into the system? Depending on the laws, workers may lose all or part of their contributions, or they may get them back in a lump sum payment, sometimes with interest, sometimes without interest. In the former case, worker savings are de facto expropriated or heavily taxed; in the latter, longevity risks are fully transferred to workers, partly nullifying one of the purposes of these pensions.

A few examples are illustrative. In Honduras, workers who do not qualify for a pension get back less than a third of what they contributed (a tax of about 71 percent on accumulated contributions), while workers who do qualify receive a pension that is nine times their contributions, partly financed with the contributions of those who did not qualify. Because low-income workers are substantially less likely to qualify, they end up subsidizing high-income workers who do qualify, making the scheme regressive.

In Brazil, workers who do not qualify lose all their contributions, a large tax considering that workers and firms contribute 28 percent of wages; it is also likely a regressive tax considering that low-wage workers are more likely not to qualify.

In Ecuador, workers who fail to qualify—typically low-income workers–lose all their contributions. Meanwhile, workers who do qualify— typically higher-income workers—are subsidized because the government covers 40 percent of the value of pensions, absorbing 1.6 percent of GDP.

The same happens in Jamaica: workers who do not qualify receive nothing back.

The situation in Peru is mixed. Workers who do not qualify in the PAYG modality lose all their contributions, a tax of 100 percent that is used partly to fund the pensions of workers who qualify. In the defined contribution modality, workers get back all their contributions in a lump sum, with interest. However, even if workers qualify in the latter case, they may still not obtain a pension because Peruvian regulations give them the option to claim all their savings in one payment, rather than requiring them to purchase an annuity. Because this option is chosen by 95 percent of retirees, the result is that, for all practical purposes, Peru does not have a defined contribution pension system. Rather, it has a system of obligatory savings for the day of retirement, and workers bear the risks of longevity by themselves from that day on.

Contributory pensions may also have important redistributive impacts if workers qualify, particularly if, in the PAYG modality, the contribution rate is below the actuarially fair value of benefits. In these cases, the government fills the gap, and workers obtaining pensions receive subsidies. In principle, the subsidies may be progressive or regressive depending on the incomes of those receiving the benefits. In practice, they are often regressive because higher-wage workers are more likely to qualify for the pensions.

These impacts can be large, as exemplified by the case of Colombia, where the government spends 3.4 percent of GDP subsidizing PAYG pensions and where 70 percent of these subsidies are captured by households in the top 40 percent of the income distribution. But they are also large in Mexico where about 75 percent of the value of PAYG pensions is subsidized, resulting in subsidies of 1.6 percent of GDP, also concentrated in the upper deciles of the income distribution.[7] Jamaica exemplifies two additional situations that affect the redistributive impact of pensions: indexing rules and special regimes for public sector workers (box 5.4).

---

7 Scott (2014); Altamirano Montoya et al. (2018).

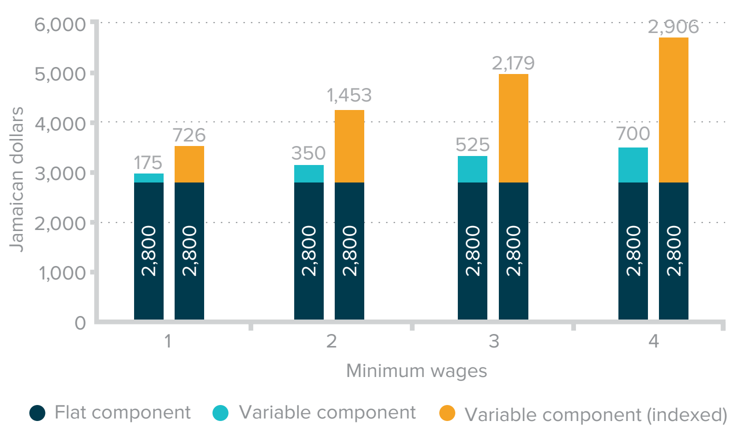
Box 5.4: Redistributive effects of Jamaica's indexing rules and special pension regimes

In Jamaica, private sector workers participate in the national insurance scheme. Because they must contribute at least nine years to qualify, two workers in five do not receive a pension and lose all their contributions. For workers who qualify, the pension has two components, one at a flat rate that is equal for all workers and indexed to inflation and one that is variable and depends on worker income, but is not fully indexed to inflation.

Figure B5.4.1 describes the erosion in the real value of pensions up to 2016 among those workers who had retired in 2001, a period during which the average annual inflation rate was 9.7 percent. For each wage level, the first bar reflects the actual value of the pension in 2016, and the second the value that would had been observed had the variable component been fully indexed. Workers who retired with a pension of one minimum wage lost 16 percent of the real value of their pensions; those with a pension of two minimum wages lost 26 percent; those with a pension of three minimum wages lost 34 percent, and those with a pension of four minimum wages lost 39 percent.

Figure B5.4.1: In Jamaica, the real value of pensions decreases over time

Inflation and pensions in Jamaica



Source: Mera 2021, Background Paper of the UNDP LAC RHDR 2021.

The combination of formal-informal transitions, eligibility rules and indexing rules implies that the impact of the national insurance scheme on inequality in Jamaica is contradictory. Workers who do not qualify for pensions—mostly lower-wage workers—are taxed 100 percent of their contributions, which is clearly a regressive outcome. Among workers who qualify, the higher-wage workers are taxed more, given that, for them, the variable component of the pension is more important.

In parallel, in Jamaica, public sector workers receive pensions through the public sector pension scheme which, as opposed to the private one, is almost fully funded by the government because, until recently, workers barely contributed. There was thus a huge gap between the actual and the actuarially fair contribution. The resulting subsidies are quite large, 1.7 percent of GDP. Workers in the top 20 percent of the income distribution capture 0.75 percent of GDP, and workers in the bottom 20 capture only 0.11 percent. Altogether, on average, workers in the public sector receive pensions that are almost five times higher than pensions in the private sector, 1.9 minimum wages in the first case versus 0.4 minimum wages in the second case, making the public sector pension scheme probably the most regressive social protection programme in the country (in contrast to the national health system).

Jamaica is not the only country in the region in this situation. Separate pension regimes for public sector workers are also used in Brazil and Mexico, and, in relative terms, they are generous, particularly if workers in public enterprises, development banks and other public institutions are considered. And, in the case of these two countries, the amounts involved are also significant. In Brazil, for example, subsidies to contributory pensions among public sector workers are 2.9 percent of GDP. This is similar to the subsidies for contributory pensions among private sector workers, 2.8 percent, except for the fact that there are 10 times more private sector retirees.[8]

The shortcomings of contributory pension programmes have led many countries to introduce non-contributory programmes, which vary in form. The simplest scheme is a flat pension for everybody as in Bolivia and, more recently, Mexico. The amounts spent differ, 1.1 percent of GDP in the first case and 0.6 percent in the second, but, regardless of the amounts, these pensions are highly redistributive in both countries:

---

8 Minimum wages can also affect the redistributive impact of pensions. In Colombia, pensions are indexed to inflation, but must be at least equal to the minimum wage so that de facto the minimum pension is indexed to this wage. This is relevant considering that, in the last 15 years, accumulated inflation was 77 percent, while the accumulated increase in the minimum wage was 130 percent. As a result, minimum pensions have increased in real terms, but not the higher-value pensions. The pension distribution has been compressed, while the average real pension has increased. This is in contrast with Jamaica, where indexing rules have also compressed the pension distribution, but lowered the average real pension.

all households finance them in proportion to their incomes through income or consumption taxes, and all receive the same amount (as in Brazil and Jamaica's health programmes). In parallel, these pensions contribute to avoid old-age poverty and help the elderly manage the risks of longevity. Furthermore, they have the great advantage of being wholly independent of any previous participation in the labour market, avoiding any impact on the contribution decisions of currently active workers.

In other countries, however, non-contributory pensions are limited either only to poor households or to workers who do not receive a contributory pension. Because of this and because, in general, the pension is small, the resulting redistribution is not significant, with the added complication that the conditions imposed can affect behaviour. Colombia, for example, restricts its non-contributory pension to poor households and sets the pension to one 10th of a minimum wage. As a result, it spends only 0.1 percent of GDP. Brazil spends more, 0.4 percent of GDP, but other countries spend substantially less: 0.35 percent in Ecuador, 0.11 percent in Peru, 0.10 percent in Jamaica, 0.009 percent in Dominican Republic, and 0.0007 percent in Honduras. These shares compare unfavourably with subsidies to contributory pensions that tend to favour higher-income households.

Argentina and Chile have intermediate schemes that may be characterized as semicontributory. Rather than relying on separate contributory and non-contributory pensions, the schemes complement worker and/or firm contributions to the former with government subsidies to increase the value.

In Chile, pensions are under a defined contribution modality, but the government provides subsidies to ensure that nobody receives a pension lower than a defined threshold, the basic solidarity pension, even if some workers have never contributed to individual accounts. These subsidies are set on a declining scale as the pension obtained through a worker's own resources increases in value up to another threshold, the maximum pension with solidarity support. The mechanism is progressive because, even if workers have the same spells of formality during their lifetimes, lower-earnings workers would, in absolute terms, accumulate less than higher-earnings workers and thus receive larger subsidies. Workers never lose their contributions, and pensions increase with individual savings. In terms of incentive design, the Chilean model is interesting for the region (box 5.5). However, the parameters of the scheme are not too generous, and, altogether, the government allocates 0.70 percent of GDP to subsidize these pensions for 1.4 million retirees, which contrasts with 1.35 percent in subsidies for 773,000 retirees under the old PAYG modality and 2.20 percent in subsidies for the national health fund for 13.8 million individuals, though these parameters have recently changed, and spending will increase.

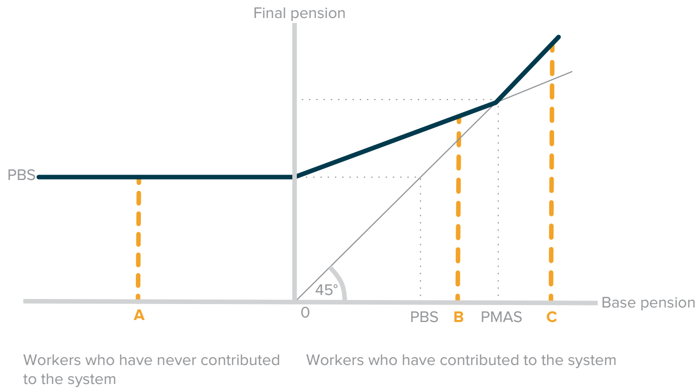
Box 5.5: Solidarity pensions in Chile

In 2008, Chile enacted a pension reform that introduced an important modification to the pension system: it created the solidarity pillar. This non-contributory component is financed through general taxes and seeks to introduce a greater solidarity component to a system that, until then, included low coverage of non-contributory pensions. The benefits are delivered to people ages over 65 who belong to the bottom 60, considering the per capita income of the household group. The two main benefits are the basic solidarity pension and the solidarity pension payment. The basic solidarity pension corresponds to a monthly monetary transfer of US$150 (one third of the gross minimum wage) as of 1 July 2019 and is delivered to people who do not have a self-financed pension (that is, they have accumulated zero in their individual accounts). The solidarity pension payment is an amount of money that complements the pensions of individuals ages over 65 who have contributed to the pension system, but are unable to self-finance a pension greater than a threshold, the maximum welfare pension (equivalent to US$450 or around 1.2 minimum wages). This transfer decreases as the pension that the person manages to self-finance at retirement increases.

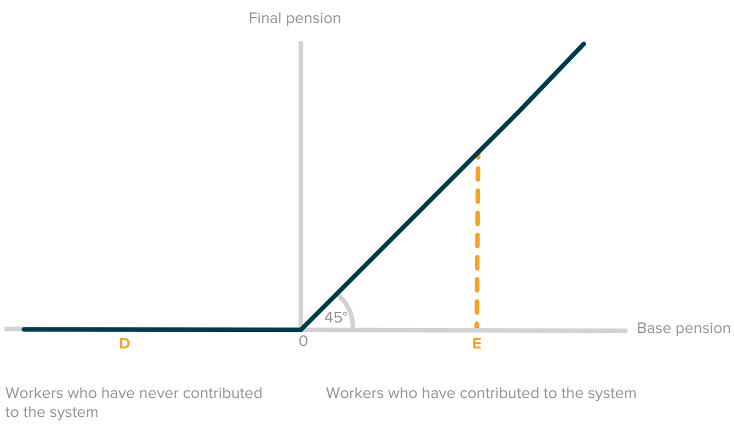
Figure B5.5.1 shows the layout of the basic solidarity pension and the solidarity pension payment; panel a describes the situation of retirees in households in the bottom 60, and panel b describes the situation of retirees in the top 40. Point A indicates individuals who have never contributed (that is, they have a self-financed pension equal to zero) and who therefore receive the basic solidarity pension benefit. Point B indicates individuals who have saved little during their active lives in such a way that the self-financed pension they obtain (without the existence of the solidarity pillar) is below the maximum welfare pension threshold. The final pensions of these people would be at the blue line (not the 45-degree line), which corresponds to the sum of the self-financed pension and the solidarity pension payment. In this case, the solidarity pension payment is the vertical difference between the blue line and the 45-degree line and decreases as the self-financed pension grows. Point C indicates people who have saved in such a way that their self-financed pension is above the maximum welfare pension, and they do not receive any aid from the government. Thus, the final pension equals the 45-degree line. Panel b illustrates how the system works for people in the top 40. Point D indicates that, if individuals have not contributed and do not have a self-financed pension, their final pension will be equal to zero. Point E indicates that, if the individuals have contributed and have self-financed pensions valued at more than zero, then the final pension equals the 45-degree line. Thus, the blue lines in both panels of the figure correspond to the final pensions of retirees in Chile.

Figure B5.5.1: Solidarity pillar design

a. Solidarity pension for people in the bottom 60



b. Solidarity pension for people in the top 40



Source: Morales and Olate 2021, Background Paper of the UNDP LAC RHDR 2021.
Note: PBS = basic solidarity pension. PMAS = maximum welfare pension.

While the values of solidarity pensions increased in 2020, the mechanism by which they are granted was not modified.

Formal-informal transitions and links between health and pension programmes

Transitions reduce the efficacy of programmes to protect households against risks. Combined with eligibility rules, they limit the coverage of retirement pensions and, at times, result in regressive distributional impacts. In addition, in some cases, such as Ecuador, Honduras and Mexico, transitions also impact contributory health programmes because they operate under a PAYG design: the contributions of active workers finance health services for retired workers. However, coverage is limited to retired workers who qualify for a contributory pension or at least to those who have contributed for a minimum number of years. But, because of transitions, many workers will not qualify. If they work formally, they finance health services for retired workers, but, when they retire, they will not have access to such services. In Mexico, for instance, workers must contribute for 15 years before they gain the right to health services upon retirement. One worker in two will not have that right; instead, such workers will obtain health services from lower-quality non-contributory programmes.

This is worrisome in terms of protecting the elderly against health risks; but it is also worrisome from a distributional point of view because lower-wage workers are more likely to fail to qualify for pensions given their shorter spells in formality. They end up cross-subsidizing higher-quality health services for higher-income retirees with pensions, while they have no pension and receive lower-quality health services.

Summing up

The mix of contributory and non-contributory pension and health programmes across the region, coupled with transitions between formal and informal status, asymmetries in the time spent in formality between low- and high-wage workers, and, at times, capricious rules and conditions for access, generates two outcomes:

- Reduced efficacy of insurance
- Contradictory impacts on inequality

Identifying the total impact of these programmes on inequality is complex. The same worker may sometimes pay for benefits through a contributory programme and sometimes receive free benefits through a non-contributory programme. Workers with identical characteristics (age, education) and almost the same accumulated years of formality may end up with different outcomes, some obtaining subsidized pensions, and some losing part or all of their contributions. Workers with similar careers can receive health services that differ in quality when they retire. There may also be intertemporal effects that impact the real value of pensions, and so on. Embedded in these programmes are implicit systems of taxes and subsidies that redistribute income among workers along the income distribution, between workers and firms, and between worker households and other households. The taxes and subsidies may change over time, are not neutral across income levels, and do not necessarily favour lower-earnings workers. Often the data required to identify and measure these taxes and subsidies are not available, even in countries with reasonable household surveys, in part because the surveys seldom have sufficiently long panels to gauge dynamic effects, for instance, workers who contribute, but fail to receive contributory pensions or health services.

A regionwide assessment of the impact of social insurance on inequality is difficult especially because programmes that superficially look similar across countries can be quite different once indexing rules, conditions of access, and labour market dynamics are taken into account. The discussion above therefore should be read less as an overall assessment and more as an examination of the wide range of outcomes that are observed in LAC, given the region's dual social insurance architecture.

Overall, non-contributory programmes tend to be more redistributive than contributory programmes, even if their quantitative impact in many cases is small because the budgetary resources involved are not large. Meanwhile, health programmes tend to be more redistributive than pension programmes because contributory programmes usually involve cross-subsidies from high- to low-wage workers and because the budgetary resources allocated to non-contributory programmes are larger than those allocated to non-contributory pensions. Within pension programmes, contributory ones are the most problematic because, in many cases, they redistribute income in the direction opposite to what is desired, a situation that is aggravated when these programmes require government subsidies that exceed those allocated to non-contributory pensions, sometimes by a significant margin.

Considering the erratic protection against risks and the ambiguous impact on inequality, it is hard to argue that social insurance programmes currently make a large contribution to social protection in the region. This is not to say, of course, that they should be removed; but to say, rather, that substantive changes are required if these programmes are to make the contribution to reducing inequality that the region needs.

Social assistance

Income transfers

Policies to help the poor in LAC can be grouped into two groups. The first includes income transfers through exemptions to consumption taxes for food and other basic items or through direct or indirect subsidies for transportation, fuel, and basic services. Many of these transfers are generalized and disassociated from any behaviour by households (other than consuming whatever is subsidized). Most of these transfers are justified on poverty reduction grounds. However, if their size is proportional to consumption, non-poor households usually receive larger transfers in absolute terms than poor ones, making the transfers an inefficient mechanism to redistribute income to poor households.

The second group of policies includes targeted transfers, which can be in kind or in cash. Among the transfers in kind is, for example, the distribution of milk or other staples. Among the transfers in cash are monetary transfers that are often conditional on investments by households in their human capital. These CCT programmes were a Latin American innovation in the mid-1990s. Price subsidies for the consumption of basic services—water, sanitation, electricity, internet—that are granted to poorer households also fall within the category of targeted transfers, although they are not directly in cash.

Table 5.2 contrasts government spending on generalized fuel subsidies with CCT or non-contributory pension programmes targeted on the poor for a sample of countries and, in both cases, expressed as a share of GDP. Because fuel subsidies fluctuate depending on the world price of oil, the data are the averages for each country between 2008 and 2014.

Table 5.2: Generalized transfers represent a much higher share of government spending than targeted transfers

Fuel subsidies and direct transfers targeted on the poor as a share of GDP

	Argentina	Colombia	Ecuador	Honduras	Mexico	Peru
Energy	3	1.4	6.4	1.9	1.9	1
Transfers	0.6*	0.3	0.8	0.2	0.4*	0.2

Sources: Marchán, Espinasa, and Yépez-García 2017; Levy and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021.
Note: *Excludes non-contributory pensions that are not targeted on the poor.

Clearly, there is a large imbalance between generalized and targeted transfers, and the former are several multiples of the latter. This imbalance, combined with the fact that targeted programmes sometimes have important exclusion errors, mean that many poor households receive little income support. This partly explains why poverty rates in LAC are high relative to the region's average income, although the barriers faced by poor workers in accessing more productive jobs are also an important part of the explanation.

Targeted transfers have an inevitable trade-off. From a fiscal point of view, they are substantially less costly and more effective than generalized transfers. If only 25 percent of the population is poor, there seems to be little point in including the other 75 percent who do not need them. However, any targeting mechanism involves an implicit tax because the poor lose the transfer if they earn additional income that lifts them above the threshold stipulated in the targeting mechanism to qualify (the horizontal dotted line in figure 5.2). The net income from their efforts is then the additional income earned, less the value of the transfer forgone. If the transfer is high, the implicit tax is high, and poor households near the thresholds may be caught in a poverty trap.[9] This is an important issue, which speaks to the potential pitfalls of overreliance on targeted transfers.

This does not mean that targeted transfers should be phased out; they should not, but their value and the eligibility rules need to consider their interphase with CSI and NCSI programmes and their impact on worker employment decisions. From the point of view of poverty reduction, much would be gained by lowering generalized fuel subsidies and redirecting resources towards the poor. Some of these resources should be channeled to expanding the coverage of targeted transfers in countries in which poor households are currently excluded. But some should be directed to improving infrastructure services (water and sanitation, internet connections, roads), the quality of publicly provided services (such as education), and, critically, the functioning of labour markets and the access of poor workers to more productive jobs.

Income transfers versus insurance

Like all other workers, poor workers experience idiosyncratic shocks. They fall seriously ill, lose their jobs, suffer permanent disabilities, and die. The income transfers they may obtain through targeted programmes, when they receive them, are not effective in protecting them against these shocks. Poor households therefore need income transfers and insurance, not one or the other. Indeed, poverty measures at times fail to capture the impact of the greater security offered through coverage by CSI programmes on the welfare of the poor, even if the coverage is not reflected in monetary incomes.

Many non-poor households in LAC are also in vulnerable positions. About 37 percent of all households have incomes between US$5.50 and US$13.00 a day.[10] Some enter and exit poverty regularly.[11] Living at the edge of poverty, a positive idiosyncratic shock can place these households further beyond the edge, but a negative shock can as easily push them over the edge.[12] For these households, insurance is key. The absence of insurance implies that, if a household suffers a large shock, such as falling prey to COVID-19, worker livelihoods may become wholly dependent on government transfers. Being left out of the protections provided by an effective social insurance system is a major problem. Targeted transfers are a mediocre solution. Rather than acting ex ante to prevent poverty, policies typically react ex post to address poverty.

9 See Besley and Kanbur (1991).
10 Busso and Messina (2020).
11 Vakis, Rigolini, and Lucchetti (2016).
12 Cruces et al. (2011) find that, over a 15-year period, 10 percent of households in LAC fell into poverty every year.

Interphase between social insurance, a minimum wage, and social assistance

Income transfers for the poor should not be conditional on labour status. In some countries, they are. Poor households receiving benefits from Ecuador's CCT programme (Bono de Desarrollo Humano) lose them if they obtain a formal job, as if access to CSI programmes eliminated their need for additional income support. This increases informality rates among poor workers, who, for taking a formal job, face a de facto tax equivalent to the value of the CCT benefits forgone. Argentina's CCT programme (Asignación Universal por Hijo) was initially only compatible with informal work, unemployment (but not associated with a formal job), or non-participation in formal employment, reinforcing incentives to be informal. In these cases, CCTs, rather than creating a poverty trap, may inadvertently create an informality trap.[13]

CSI and NCSI regulations, interacting with the minimum wage, can also make it difficult for poor workers to enter formality, even if CCTs are neutral to labour status. Countries that do not require self-employed workers to contribute to CSI programmes give them the option to do so voluntarily. However, contributions must be based on at least the minimum wage, even if earnings are below that threshold, a relevant consideration in countries such as Ecuador, Honduras and Peru, where the majority of the self-employed earn less than the minimum wage. Colombia is an interesting case. Self-employed workers are required to contribute, but only if their earnings are equal to or above one minimum wage, a relevant consideration because 50 percent of all workers earn less than the minimum wage. Under these conditions, self-employed workers would have to allocate a large share of their earnings to participating in the CSI programmes, thereby de facto excluding them from coverage (box 5.6).

In Brazil, poor workers do not automatically lose the benefits of their CCT (Bolsa Família) if they obtain a formal job, as in Ecuador or Dominican Republic, but the programme rules imply that they probably will. A formal job must pay at least the minimum wage. This may place the household above the poverty line used to select households into the CCT, particularly if it has fewer than six members, which is the case of 96 percent of households in the programme's registries. In addition, poor workers may also be reluctant to obtain a formal job if they consider it to be shortlived because getting back into the programme's registry is difficult. This is one of the factors that explains why almost 93 percent of all poor workers in Brazil are informal.[14]

---

[13] Araujo et al. (2017) find that, in Ecuador, conditioning CCT benefits on informal status lowered rates of formal employment among women. In Brazil, de Brauw et al. (2015) find substantial reallocation from formal to informal work. Bérgolo and Cruces (2021) find that Uruguay's CCT (Asignaciones Familiares) generates incentives to informal work and disincentives to formal work. Garganta and Gasparini (2015) find similar results in Argentina.

[14] See Firpo and Portella (2021).

Dominican Republic is also an interesting example. As in Colombia, the self-employed must also contribute to CSI programmes if they earn more than a basic income of at least one minimum wage. From 2003 to 2019, the growth performance of the country was one of the best in the region, more than doubling the average income per capita; in parallel, average years of schooling increased by 26 percent. The poverty rate fell from 32 percent to 21 percent. But informality increased slightly, from 54 percent to 55 percent, as did the share of workers who are self-employed or who work in firms with up to five workers, from 51 percent to 52 percent. Many poor workers escaped poverty, but almost none escaped informality.

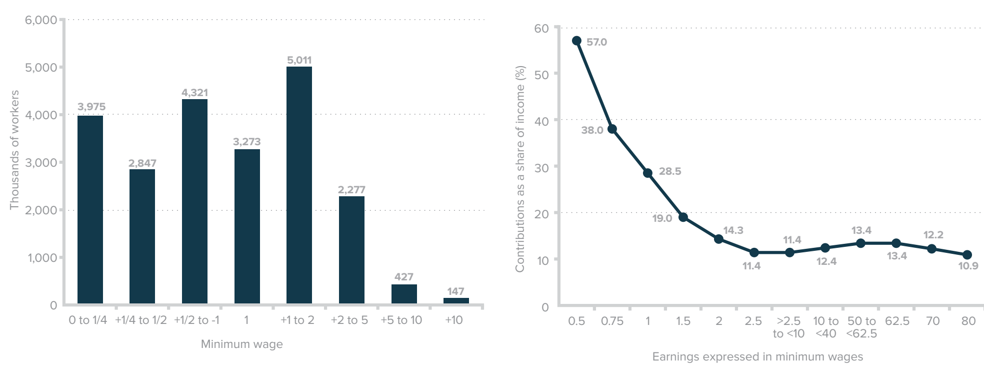
Box 5.6: The minimum wage in Colombia

The use of the minimum wage as the minimum income for participation by the self-employed in CSI programmes excludes a large share of the working population from the most important social protection programmes in Colombia. Figure B5.6.1, panel a, shows the distribution of workers by labour income, with ranges expressed in minimum wages, confirming that at least half the Colombian labour force earns less than one minimum wage.

Figure B5.6.1: The interphase between the minimum wage and CSI and NCSI programmes in Colombia induces many self-employed into informal employment

a. Workers, by labour income

b. Contribution, by labour income



Source: Alvarado, Meléndez, and Pantoja 2021, Background Paper of the UNDP LAC RHDR 2021.

Workers earning less than the minimum wage are not obliged to contribute, but may do so as long as they pay a contribution equal to that mandated for earners at the minimum wage. Figure B5.6.1, panel b, shows, however, that voluntary participation among this group would be costly because they would have to pay 28.5 percent of a minimum wage in contributions, 12.5 percent for health care, and 16.0 percent for pensions. Among workers earning half a minimum wage, contributions would represent 57 percent of their earnings, and among those earning three fourths, 38 percent. If these workers wanted to be formal, they would have to devote at least a third of their earnings for health care and pensions, leaving two thirds or less for all other needs. On its own, this would seem a sufficient reason for them not to contribute. But two factors strengthen that decision. First, if they do not contribute, they have free access to health benefits of the same quality, and, second, if they do contribute, they need to do so for 22 years to qualify for a pension under the defined contribution modality or 25 years under the PAYG modality. Unsurprisingly, they are informal.

The alternative route for poor workers in Colombia to become formal is to be hired as dependent workers by a firm. But, in that case, the firm must pay the minimum wage, plus part of the contributions to the CSI programme that cannot be shifted back to workers in the form of lower wages because of the minimum wage, and the firm bears the contingent costs of job stability provisions. Because this is not profitable for most firms, the result is that most poor workers are self-employed; or work in firms that can elude the obligation to contribute because the relation of dependency is ambiguous or that can evade the obligation by taking advantage of weak enforcement.

Permanent versus transitory targeted transfers

Poor households need income transfers while they work their way out of poverty. Ideally, workers in these households should see their earnings increase over time either because their wages rise if they work in firms that are gradually more productive, or because their own firm become more productive. Targeted transfers should therefore be transitory. (Insurance, meanwhile, needs to be permanent because households may experience negative shocks regardless of their income.) But, if the incomes of poor workers stagnate because they are working at permanently low-productivity firms or because they cannot increase their own productivity or that of their own micro-firm, targeted transfers become a permanent necessity.

CCTs were introduced in the region over two decades ago with the goal of transferring income to the poor, while investing in their human capital, and of helping new cohorts of workers obtain more productive formal jobs through their increased human capital. The evidence indicates that, by and large, they have achieved the first objective:

consumption rose, undernutrition fell, morbidity decreased, and schooling indicators such as attendance and progression rates improved.[15] But the same cannot be said of the second goal. Poverty rates have fallen in large part because households receive income transfers and not so much because earned income has risen in poor households. The poor are not gaining access to enough higher-productivity occupations because most of them continue to be self-employed or work in small firms that are low productive.

With the benefit of hindsight, it is clear that since the early 1990s, while much of the region's attention was centered on improving the human capital of poor children and youth, insufficient attention was focused on considering the kinds of firms that would employ these people when they entered the labour force. Would workers transition from working on their own to working in firms? What sort of firms? Would the firms require the enhanced human capital, offer them long-term contracts, and invest in their training? Or would they be the same small, informal, low-productivity firms that employed their parents? The data in figure 5.4 are relevant. Most of the poor are self-employed or work in small, fragile firms. They are there because laws and institutions, including those associated with social protection, induce the dispersion of economic activity and make it difficult for firms to grow.

Permanently subsidizing fuel prices and exempting some consumption goods from value added taxes help the non-poor more than the poor. The root problem—low earnings given the lack of productive opportunities—is not solved by increasing generalized consumption subsidies. And raising targeted transfers may worsen this problem if they are conditional on informal status and create an informality trap or if they are so high that they create a poverty trap.

Social assistance policies at times assume that programme target populations—see figure 5.2, quadrants III and IV—are exogenously given. But the distribution among these quadrants matters substantially. If more of the poor were in quadrant III and fewer in IV, they would have improved insurance and better jobs; it would be easier for them to escape poverty or avoid falling deeper into poverty when events are unfavourable. But whether they are in quadrant III or IV depends on what firms do. As figure 5.3 indicates, this depends on all social protection policies, not only social assistance. If social insurance programmes were unified and if access were delinked from worker status in the labour market, incomes would increase, and the need for poverty programmes would diminish. At some point, improving social insurance programmes is more effective in reducing poverty relative to increasing the generosity of targeted transfers.

[15] For a review of the evidence on the region, see Fiszbein and Schady (2009).

Governments in the region should no longer expect targeted transfers, on their own, to eliminate poverty. These transfers are useful; they certainly should not be eliminated. But they need to be better integrated with social insurance policies. Moreover, the poor need higher-productivity jobs as well as access to insurance on the same conditions and of the same quality as the insurance provided to higher-income workers. This objective will only be achieved if policymakers concerned with poverty reduction expand their perspective beyond individual targeted programmes and consider the whole range of social protection policies, particularly policies that bear on the performance of the labour market. If the belief persists that poverty can be eliminated through self-contained targeted programmes, the region will continue to trap a significant share of the population in poverty, investments in human capital notwithstanding.

5.5. Social protection and productivity

The discussion now considers the effects of social protection on the behaviour of firms and workers in the labour market, complementing the analysis of its impact on insurance and redistribution. Table 5.3 lists the costs and benefits of formality, legal informality, and illegal informality. Legal informality is only relevant in countries in which laws exclude some workers from the obligation to contribute to CSI programmes or if they exclude some firms, depending on size or the type of contract with workers. Thus, in some countries, such as Ecuador, Honduras, Mexico and Peru, the three columns are relevant, while, in others, such as Argentina and Jamaica, the middle column is not relevant (see box 5.1).

Tax on formality

Many factors influence which workers and firms are in each column in table 5.3, such as the tax regime, property rights, regulations on credit, and so on. The focus here is on the factors associated with social protection, and it is useful to begin with the first column of Table 5.3. Two factors are considered. First is the functioning of CSI programmes, which determines the balance between the benefits that workers receive and the costs. If these were equal, there would be no impact on the behaviour of firms or workers.

For many reasons, however, workers may undervalue these programmes. One is the fact that workers may not qualify for a retirement pension and lose some or all their contributions (or the fact that they may not qualify for health benefits when they retire). But, even if they receive their pension contributions back, they may still be unwilling to save in an account that cannot be pledged as collateral or used in an emergency, while paying high fees to the firm managing the account.

Another reason might be that the quality of health services is low or not much higher than that of non-contributory health services. Workers may consider there is little point in contributing for health services if they can obtain similar services free, especially if they also must contribute for a pension they may never receive.

Table 5.3: The interphase between CSI, NCSI and poverty programmes impact the decisions of firms and workers to be formal or informal

Formality	Legal Informality	Illegal Informality
Workers	Workers	Workers
Must pay a share of CSI contributions (full share if self-employed), but may not fully value the stipulated benefits	Self-employed, domestic, rural and others not required to contribute	Self-employed and others required to contribute to CSI may pay fines depending on enforcement and tacitly accepted social norms
Paid at least the minimum wage	Free NCSI benefits	Free NCSI benefits
In principle protected by job stability regulations, but access may be erratic	If poor, may also receive targeted transfers	If poor, may also receive targeted transfers
If poor, may lose targeted transfers		
Firms	Firms	Firms
Must pay their share of CSI contributions and pay workers at least the minimum wage	Not bound by CSI, minimum wage, or job stability regulations if there is no dependency relationship with workers, or if this relationship is ambiguous (particularly if the firm is small)	Pay fines if detected evading CSI, minimum wage and job stability regulations
Bear the expected costs of job stability regulations	Fuzzy border between self-employed and micro-firm, particularly if workers are unremunerated relatives	Enforcement dependent on size, at times substituted by tacitly accepted social norms

Source: Levy and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021.

A third reason might be that CSI contributions in part finance activities that benefit all households or all workers, not only those contributing (so that there are cross-subsidies from formal firms and workers to informal ones). This is a serious issue in Jamaica, where approximately 47 cents of every dollar contributed do not translate into direct benefits for workers, but are instead used to finance education, training, and housing programmes for all. Because CSI contributions are 4.6 percent of GDP, this implies a transfer of 2.2 percent of GDP from formal firms and workers to everybody else. It is also an issue in Brazil, where between 3.3 percent and 5.8 percent of the formal wage bill is used to finance activities such as education and the country’s land reform agency, and in Colombia, where up to 4 percent of the wages of formal workers are channelled to early child development and skill training programmes benefiting all.

Many other reasons could be cited, but they all point in the same direction: CSI programmes may not be fully valued by workers. This is problematic because it is equivalent to an implicit tax on formal employment. Firms and workers pay more than what workers get or expect to get. This tax is not legislated anywhere, nor does it generate revenue for the government, but results from the fact that, given the functioning of the institutions associated with CSI, there is a gap between statutory benefits and the real-life experiences of workers.

Another factor influencing whether firms and workers are in the first column of table 5.3 are minimum wage and job stability regulations. These regulations are bundled together with CSI programmes, and they also influence firm behaviour, including hiring decisions. Minimum wages vary widely. In some countries, such as Mexico, they are set low relative to the wage distribution, and, in others, such as Colombia, they are set high (see box 5.6). In Chile, there is a single countrywide minimum wage for workers ages 18 to 64, but, in Dominican Republic, there are three, which increase with firm size, as in Honduras, where there are four and where they also differ across 10 sectors. As a result, the extent to which they affect firm hiring decisions varies.

Job stability regulations vary as well, but they vary less than minimum wages. All countries have provisions limiting the conditions under which firms may dismiss workers. In a few, such as Chile and Jamaica, they allow firms to reduce their labour force if demand falls or if there is a labour-saving technical change. But most countries limit the just cause for a dismissal to worker misbehaviour (shirking, stealing, and so on). Exogenous shocks faced by firms are not accepted as just cause, and, if workers are dismissed for an unjust cause, they can sue the firm and be entitled to be reinstated in their jobs or receive compensation proportional to the time spent at the firm. Actual results depend on the labour tribunals interpreting these provisions and the institutions enforcing the rulings of the tribunals.[16] Practices are varied, and laws intersect with court rulings. In some cases, as in Peru, these rulings de facto impede firms from dismissing workers with a permanent contract (which helps explain why only 10 percent of all privately employed workers in Peru have permanent contracts).

These provisions increase the expected cost of hiring workers formally because firms know that, at some future date, they might face a negative shock. Accordingly, they respond in many ways. They may limit formal hiring, shorten the length of labour contracts, subcontract some tasks to independent workers (if they can be hired under a commercial contract), or hire informally. Whatever the exact mix, the result is the same: formal employment is deterred.

---

[16] The protection that workers covered under these provisions actually receive depend on many factors: the monetary or reputational costs of suing firms, the length of court proceedings, and the ability to collect compensation from firms, which usually depend on the size of the firms. Few countries collect sufficient data to make a proper assessment. In the case of Mexico, Kaplan, Sadka, and Silva-Mendez (2008) find that few dismissed workers collect the full compensation to which they may be entitled.

Subsidy to informality

Consider the second column of table 5.3. In countries in which some form of informal participation in the labour market is legal, informal employment is subsidized by NCSI programmes. Workers receive free benefits that they would have to pay for if their jobs were formal. Recall that not all informal workers are poor, and some earn more than formal workers, as exemplified by the overlap between the formal and informal earnings distributions in Ecuador and Peru (see figure 5.5). The subsidies rise with the generosity of NCSI programmes and may be enhanced if social assistance programmes for poor workers are conditional on informal employment.

The border between a self-employed worker and a micro-firm is fluid: a situation facilitated if those participating in the firm are relatives. In this case, the relation of dependency between the firm owner and firm workers is ambiguous, and social norms sanction the not necessarily illegal non-compliance of such a firm with minimum wage and job stability regulations. The firm may be informal without necessarily breaking the law. In fact, some of these firms may not even pay wages; rather, the firm's surplus is distributed among participants through rent-sharing agreements or cultural norms.[17] This situation may not hold if the firm grows, but, while it is small, this offers the firm great flexibility in its hiring and remuneration decisions and in its ability to adjust to shocks. Because workers and owners in these firms benefit from NCSI programmes, they are also subsidized by them.

Consider the third column of table 5.3. Workers and firms are, in principle, breaking the law. But their response to this situation depends on the interplay of factors pulling in opposite directions. On one hand are the subsidies of the NCSI programmes and, in the case of firms, lower labour costs and flexibility in remunerations and adjustment to shocks. On the other hand are fines and sanctions.

Institutions in charge of enforcement play a central role in this case. These institutions vary across LAC. Sometimes, they work on their own; sometimes, they work in tandem with the tax authorities. In general, however, fines depend on the size and sector of the firm. Economic activity in medium and large firms and higher-income self-employed workers are more likely to be sanctioned and thus less likely to be in the third column. But micro- or small firms are less likely to be detected. Workers and firms in these cases can safely be in the illegal column and benefit from NCSI programmes. This is even more so if tacitly accepted social norms sanction their behaviour. Few expect a two-person firm in Ecuador to be fined for not enrolling its workers with the Ecuadorian Social Security Institute or not complying with minimum wage and job

---

[17] This helps to explain the large number of workers who appear as non-remunerated in household or employment surveys (for example, 10 percent in Peru). Some living and consuming in the household may be paid in kind.

stability regulations; few expect rural workers in Jamaica to be sanctioned if they fail to contribute to the national insurance scheme.

The interplay of the factors listed in table 5.3 varies across the countries in LAC. There are differences in the laws on who should participate in CSI programmes, the rules on eligibility for benefits and the quality of services; in the coverage, generosity, and rules of NCSIs and targeted transfer programmes; in the regulations on minimum wages and job stability; in the institutions charged with enforcing the rules; and in the circumstances under which social norms replace laws and allow de jure illegal behaviour to persist. These issues are discussed in the background papers for this report that examine social protection in 10 LAC countries, although some factors are difficult to quantify.[18] Altogether, they are part of the explanation of the heterogeneity across countries in the formal-informal composition of the labour force, the legal-illegal composition of informal employment, and other labour market outcomes that are critical to social protection outcomes in the region.

But, overall, based on the country studies and the discussion above, it is possible to state, mutatis mutandis across individual countries, the following:

- Social protection policies tax formality and subsidize informality.
- The tax on formality increases as the actual benefits derived by workers from CSI programmes fall short of the costs to the workers and firms.
- The subsidy for informality increases with the generosity or quality of NCSI programmes (and social assistance programmes conditional on informal status).

This does not imply that informal economic activity in LAC arises only because of social protection policies.[19] The behaviour of firms and workers also depends on tax, credit and other policies. Nonetheless, social protection policies contribute to informality.

Special regimes

Many countries in LAC have special tax and social insurance contribution regimes for small firms or self-employed workers. These regimes have multiple objectives, including to reduce income inequalities by subsidizing low-income entrepreneurs, to facilitate the incorporation of self-employed workers in CSI programmes, and to provide administrative facilities so small firms and the self-employed are able to comply with their tax and social insurance obligations. These special regimes are varied. In some cases, such as Argentina, contribution rates are lower for self-employed workers and are merged with personal income taxes.[20] In others, they apply to firms. Sometimes,

---

[18] UNDP LAC Working Papers 14–23.

[19] Informal economic activity is defined as the activity of those firms and workers excluded from CSI programmes, regardless of whether this is because of evasion or legal exclusions, that is, table 5.3, columns 2 and 3.

[20] This is the monotributo regime. Brazil has a similar regime, the microempreendedor individual, although the microempreendedor can have one additional employee (thus, a two-person firm). In addition, Brazil has a separate regime, Simples, for firms with sales below a set threshold.

as in Mexico, there is only one special regime, but, sometimes, as in Ecuador and Peru, there are two. In all instances, either income taxes or contributions for CSI and other mandated benefits, or both, are reduced based on thresholds associated with income (workers) or sales or number of workers (firms).

These regimes are important in that, in some countries, most firms and workers are covered by them. They are motivated by social protection objectives, but, like CSI and NCSI programmes, they have a direct bearing on the behaviour of firms and workers and thus on social protection outcomes.

Table 5.4 illustrates the case of Peru, where firms are classified by size into three groups: micro, with sales up to US$180,000 a year; small, with sales up to US$2,000,000; and large. Large firms are under the general regime of CSI and minimum wage and job stability provisions, and micro and small firms are under special provisions if they have fewer than 10 workers. In addition, firms face different income tax regimes depending on size, although the definitions are different and involve more thresholds (and are therefore not shown here).

Table 5.4: Contributions to CSI rise with sales, increasing the labour costs of firms

Special regimes for firms in Peru

	Micro	Small	Large
Contributions to CSI as a share of the firm's payroll			
(share of wages, including additional mandated benefits)	18	36	50
Severance pay (months of salary by tenure)			
1 year	0.3	0.7	1.5
2 years	1.7	3.3	7.5
3 years	3	4	12

Source: Ñopo 2021, Background Paper of the UNDP LAC RHDR 2021.

These regimes make it difficult for Peruvian firms to grow. CSI contributions double or triple as sales expand, increasing the labour costs of firms. In parallel, the contingent costs of labour also increase because severance pay when workers without a permanent contract are dismissed also increases sharply with sales (while those with a permanent contract cannot be fired). Furthermore, if growing implies employing more than 10 workers, firms no longer qualify for the regime, even if sales are below the thresholds. While the regimes seek to facilitate firm and worker formality, they have little effect, in part because they interact with the factors listed in table 5.3 that also bias the decisions of firms and workers towards informality (but also with other elements in the business environment, such as the imperfect enforcement of contracts or property rights). The result is that six micro- or small firms out of seven in Peru do not comply with the obligation to offer formal employment and that those that do comply face sharp barriers to growth.

There are also two special regimes for firms in Ecuador. In one, the Régimen Impostivo Simplificado Ecuatoriano (Ecuadorian Simplified Tax System), if sales are below US$60,000 a year, a firm can consolidate the value added tax and corporate taxes in a single payment that depends on the sector of activity and the value of sales. In addition, for every worker hired formally, the firm receives a 5 percent discount on the consolidated payment, cumulative up to 10 workers, so that, at that point, the tax burden is reduced by half. However, if the firm hires an additional worker, it no longer qualifies for any discount. The result is that the cost of the 11th worker is extremely high because it implies a doubling of the firm's tax burden. Yet, if sales exceed US$60,000, but are less than US$300,000, the firm can no longer qualify for the simplified tax system, but can qualify for the second regime, whereby it pays corporate taxes at 2 percent of sales; beyond that, it pays 22 percent of profits under the general regime. Clearly, these regimes are part of the reason why, in Ecuador, more than three fourths of all workers are self-employed or employed in firms with up to 10 workers (but with an average of 2).

Special regimes have many implications, including for tax collection. Here, only three are highlighted that are relevant to social protection. First, workers may receive subpar protection from risks because they or the firms that employ them are exempt from participation in some CSI programmes (such as life and disability insurance) or job stability regulations. Second, the regimes allow low-productivity firms to survive because their labour costs or tax burdens are lower, at times by large margins. Third, the regimes may impede the growth of firms that are small, but that exhibit higher productivity because their after-tax profits may be lower if they no longer qualify for the regimes. These regimes do promote entrepreneurship and job creation, but the firms and jobs involved o broader social protection or more well paying opportunities.[21]

The implications for productivity and growth

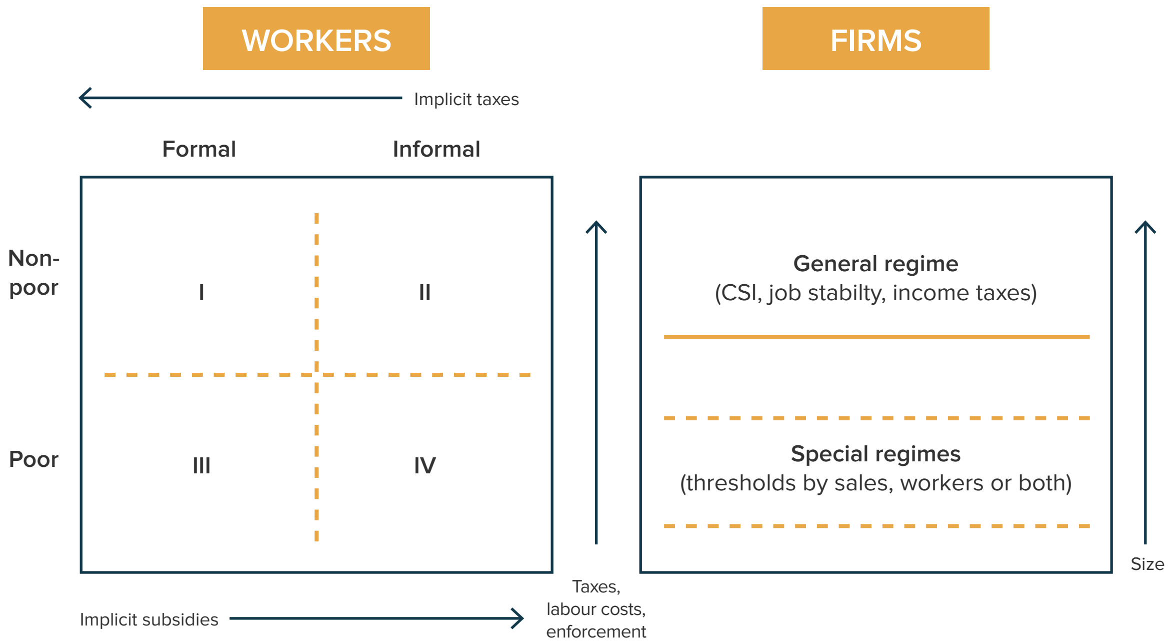
Special regimes interact with regulations on CSI, minimum wages, and job stability and with NCSI and social assistance programmes. Figure 5.6 presents a stylized

[21] For the case of Mexico, Levy (2018) finds that firms captured in the economic census that have annual sales under US$100,000—the threshold to qualify for the special regime, in which taxes are 2 percent of sales versus the 35 percent of profits in the general regime—employ 52 percent of all workers and account for 25 percent of the capital stock. The majority are below the 25th percentile of the productivity distribution. But among firms with high productivity and sales close to, but below the threshold, after-tax profits fall if an increase in sales moves them beyond the threshold. Thus, these high-productivity firms are better off staying small.

description. Panel a shows the same classification of workers by labour status and income presented in figure 5.2, with the addition of the arrows above and below that summarize the discussion of the tax on formality and the subsidy for informality. Panel b shows that the tax burden on firms increases with firm size as a result of special regimes and enforcement efforts that are also proportional to firm size.

Figure 5.6: Special regimes punish productivity because they encourage informality and smallness

Interaction between social insurance, social assistance, and special regimes



Source: Levy and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021.

A central result follows from figure 5.6: social protection policies, including special regimes, bias the allocation of resources—labour, capital, risk-taking, talent—towards informality and smallness.

Informal self-employment is promoted because informal workers may not be required to contribute, and, even if they are required to contribute, they are unlikely to be sanctioned if they do not. It is also promoted because, in both cases, they receive free NCSI benefits. Small complying firms are promoted because they face lower labour costs and tax burdens from special regimes. For them, growth may reduce after-tax profits as they abandon the protective umbrella of the regimes. Small non-complying firms are promoted because they have substantially lower labour costs and more flexibility, while their workers receive free NCSI benefits. For these firms, growth may require that they change their contractual structure and hire dependent workers, with the associated costs and risks, or that they increase their exposure to sanctions in case they have already hired dependent workers. In both cases, growth implies losing free NCSI benefits and paying for CSI benefits that their workers may not fully value. The fact that most firms in the region are small and do not comply with labour market, tax and other regulations and that self-employment is substantial and mostly informal is evidence that the factors captured in figure 5.6, no doubt interacting with others outside the domain of social protection, are quite powerful.

Firms that do not comply with labour market and social insurance regulations are substantially less productive than those that do comply. In Peru, for instance, firms with up to 5 workers and mostly non-compliant are 94 percent less productive than firms with more than 50 workers and mostly compliant. More generally, many studies have documented that, in LAC, economic activity that relies on informal work arrangements is less productive than activity that does not rely on such arrangements.[22] It is the condition of informality more than the condition of size that accounts for differences in productivity. In Mexico, for example, firms with up to five formal workers are between 20 percent and 50 percent more productive than their counterparts of the same size with informal workers. However, there are 16 times more firms in the latter category than in the former. That is why low productivity, informality and smallness are conflated.[23]

What is worrisome from the point of view of productivity is not that not that firms have different sizes, but that resources are allocated to firms of very different productivities. If all firms exhibited similar productivity, size would not matter much; reallocating resources among them would leave aggregate productivity basically unchanged. Pernicious to productivity is the fact that substantial resources are allocated to small, low-productivity firms and to informal self-employment and that small firms compliant with the regulations are impeded from growing and attracting more resources. The forces depicted in figure 5.6 play an important role in these outcomes.

Informality is a problem for social protection because informal workers are less well protected from risks and generally have access to lower-quality services relative to formal workers and because poor informal workers face more difficulty escaping from poverty and, if they do escape, to avoid falling back into poverty. Equally important, informality is closely associated with lower productivity, which is a critical factor in determining worker earnings and an equally critical factor in determining long-term growth.

The current architecture of social protection policy in the region thus results in a problematic trade-off. There is a clear need to improve social insurance and redistribute more towards workers who are informally employed, particularly if they are poor. But, if this is accomplished through better NCSI programmes and more generous targeted transfer programmes, the productivity of the economy is punished; so is long-term

[22] See Pagés (2010), Lederman et al. (2014) and CAF (2018) for regional studies, Ulyssea (2018) on Brazil and Levy (2018) on Mexico.

[23] Levy (2018).

growth potential; and, indirectly, the opportunities for workers to obtain more well paying jobs. Even if this course of action were fiscally sustainable over the medium term, which in many countries is not the case, it is clearly not the route towards more rapid economic growth and more equal societies.

5.6. Where do we go to from here?

This report is motivated by the observation that LAC is simultaneously one of the most unequal and most slowly growing regions in the world. Chapters 3 and 4 offer some explanations for this unfortunate outcome, which is associated with deeply rooted problems, such as the inability of governments to provide public security and reduce violence; or the persistence of groups in society—usually associated with large firms, but, at times, with powerful unions—that extract rents, while inducing inefficiencies that limit growth.

This chapter provides a complementary explanation. With variations across countries, the region's social protection policies segment the labour market, provide erratic risk protection to households, do not redistribute income sufficiently towards lower-income groups and sometimes redistribute income in the opposite direction, and bias the allocation of resources in ways that punish productivity and long-term growth.

This is worrisome because social protection is a key tool for mitigating inequalities and fostering social inclusion. It is difficult to think of a strong social contract in any society without a well-functioning social protection system. Indeed, the absence of such a system in some countries in LAC may be central to understanding the weakness of the social contract in these countries and the persistence of violence, distrust of the law, and perceptions of inequity documented in this report. The costs of an ineffective social protection system can be large and spill over into beyond the social domain.

Looking back

To chart a path for the future, understanding the path to this point is essential. Two moments stand out in the development of LAC's current social protection architecture. The first was passed more than 75 years ago when countries began the construction of social protection systems, by and large imitating the Bismarckian models of social insurance in Europe: wage-based contributions earmarked for a bundle of health care, pension, and other benefits; income floors through minimum wages; and job stability provisions to ensure that workers were always protected regardless of the vagaries of the labour market.

The second moment was passed in the early 1990s when countries emerged from the lost decade of the 1980s with large poverty rates and most workers excluded from the combination of CSI programmes, minimum wages and job stability provisions established a half century earlier. Rather than coming to grips with the underlying flaws in this architecture, governments introduced a mix of non-contributory programmes, mostly for health care and pensions, coupled with targeted programmes for the poor, often involving CCTs. The specificities of these programmes varied across countries, but, overall, the expectation was that the need for them would gradually subside. Macroeconomic stabilization, investments in education, and other efforts would accelerate growth, reduce informality, and raise incomes, increasing the share of the workforce covered by the protections associated with formality. In parallel, inequality would narrow because of the combination of more education and more encompassing social protection.

This expectation was only fulfilled in part, although the results varied by country. In most countries, poverty rates did fall, and this is certainly an achievement. But inequality fell substantially less, has reverted in some cases, and, in most, persists at unacceptable levels (even before accounting for the expected effects on inequality of the COVID-19 pandemic). Despite three decades of effort, the majority of workers in the region are still informally employed, working on their own, or active in small fragile firms, with erratic access to insurance and insufficient opportunities to exploit their additional years of schooling. And growth has been far from stellar.

This chapter argues that the complex and, in the end, ineffective architecture of social protection in the region is one of the reasons for these outcomes and, in some countries, perhaps the main reason. One may find the root of the problem in the articulation of social protection around worker status in the labour market and in the combination of programmes that sometimes offer workers entitlements to social benefits and sometimes not; that are at times paid for through general revenues, at times through contributions by firms and workers, and at times from out-of-pocket expenditures; that are associated with services of varying quality and capricious rules of access; and that, mutatis mutandis across countries, sometimes discriminate by type of labour contract, by region, or by the size of firms.

With the benefit of hindsight, it is now clear that socially inclusive growth can hardly occur if the main social protection programmes segment the labour market and induce behaviours by firms and workers that are pernicious to productivity. And, if the response to the low incomes associated with low productivity is more social protection programmes that, while they may improve some social protection outcomes, deepen the forces that punish productivity.

Stronger, more effective social protection is needed in LAC: more inclusive and redistributive, and friendlier to growth. Based on the region's experience, it is unlikely that this will occur only if taxes are raised and more is spent on the same or similar social protection programmes. The articulation of programmes around worker status in the labour market, the sources of financing, and the rules of access must also be reconsidered.

Universal social protection

One cannot expect social inclusion if institutions and policies segment employment and the labour market. Looking forward, a key guiding principle for social protection in the region must be universality with respect to the relevant population, understood in three complementary dimensions, as follows:

- The entire population exposed to a given risk needs to be covered through the same programme.
- The source of financing should be the same for each programme, based on the type of risk covered.
- If programmes provide benefits in kind, the quality should be the same for all.

These principles have different implications for programmes in health care, life insurance, disability, and retirement pensions, as well as for protections against the loss of employment and for poverty. In health care, for example, workers face the risk of illness regardless of the type of contract they may have with a firm, the size of the firm, or their transitions between working for themselves and employment at a firm. If they are to be protected equally all the time and to avoid a bias in their occupational decisions, or in firm size or contractual structure, access and quality need to be delinked from labour status, as does financing. This can only be accomplished if the same health programme covers all and is financed through general revenues, implying the elimination of wage-based contributions for health care and the distinction between contributory and non-contributory programmes (as in Brazil).

More generally, the principle of universality with respect to the relevant population provides a guide for evaluating who should be covered by each programme and which programmes should be financed through general tax revenues, contributions by firms, or worker contributions. It also provides a guide for the evaluation of proposals for new policies, such as a universal basic income.[24] A social protection system built around this principle offers the region a route to increasing spending on social protection while strengthening the foundations of long-term growth, as well as a route to enhancing social inclusion.

---

[24] See Levy and Cruces (2021).

Universality also opens new avenues to combating poverty. The poor would have access to insurance under the same conditions as everybody else, including services of equal quality. As important, the obstacles stemming from existing social protection policies restricting their access to better jobs would be removed. The road out of poverty would be widened by more productive opportunities; and the road back to poverty narrowed by better insurance. The bulk of the redistributive effort would derive from universal transfers, some in kind and some in cash. In this context, targeted income transfers, aside from playing a secondary role, would more likely be transitory.

Universality would represent a major change in social entitlements. For the purposes of social protection, the norm would be equality under the law. Social protection would contribute to phasing out the formal-informal segmentation of the economy, perhaps the single most important factor in the generation of exclusions and inefficiencies in LAC.

The principle of universality with respect to the relevant population is not a rigid blueprint to be followed everywhere. There are variants and combinations of policies, as well as specific parameter values for each, the pros and cons of which depend on the characteristics of individual countries, including political preferences for taxation and social solidarity.

Universality is impossible without an increase in the tax burden. However, if the OECD countries are taken as reference, there is space in almost every country in LAC to increase the tax burden through higher taxes on income, property and activities harming the environment and through a reconsideration of special tax regimes; in some countries, also through higher consumption taxes or lower generalized subsidies, particularly for fuel and, in all, through lower evasion rates (which go hand in hand with less informality). The specific combination will differ across countries. But, over such routes, taxation could make three key contributions to social protection: fund programmes, reduce income inequality directly, and facilitate productivity growth.

A complex political economy must be dealt with, and many will stand in the way of more taxation. However, societies may also reject more taxes because of low-quality services. In these cases, universality may be the driving force for an effort to renew the institutions delivering the services, particularly in health care. Universality can open a path to escape from the vicious circle of low quality in services and lack of willingness to pay taxes.

Constructing universal systems of social protection should be considered a process, not a once and for all event; a process during which, inevitably, there will be unexpected exogenous shocks, as well as resistance from groups affected along the way, but also a process that may create winners, change the balance of power, and open opportunities for further reforms. From this perspective, a vision of the desirable social protection system is indispensable to helping policymakers navigate successfully through choppy waters, and universality in the three dimensions listed above can provide this vision.

From this perspective, independently of whether individual reforms are carried out rapidly or slowly, compatibility and proper orientation are critical. The transition from the status quo to more universal systems will be complex in all countries, but different in each. Initial conditions differ as well as administrative capabilities; the same holds for social priorities. But when opportunities for change appear, clarity is essential in the aim of policymakers. If social protection is to be more inclusive and redistributive, fiscally sustainable, and friendlier to growth, it needs to be more than a set of outdated laws and disjointed collections of programmes financed from whatever combination of taxes and contributions can be assembled. It needs to ensure that everybody is protected; that income is redistributed towards those in need, that the policies deployed to achieve these goals provide incentives to firms and workers to increase productivity, and that the sources of revenue are sustainable.

The crisis associated with COVID-19 may be a third moment in the history of social protection in the region. This crisis is different from the debt crisis of the 1980s. The former is a truly exogenous event caused by a virus; the second was in large measure endogenous, caused by poor macroeconomic management. Yet, there is one dimension in which the current crisis may be similar to the crisis of the 1980s: it may be followed by substantive changes in social protection and taxation, as countries struggle to contain the social damage, restore fiscal balance, and resume growth. In this sense, the response of the 1990s to the lost decade that preceded it offers LAC an extremely valuable lesson. Under the current social protection system, raising taxes to fund more social spending will not result in shared and sustainable prosperity. Under a universal system, the result would be different: the region would be less unequal and could grow more rapidly.

References

Altamirano Montoya, Álvaro, Solange Berstein, Mariano Bosch, Manuel García Huitrón, and María Laura Oliveri. 2018. *Presente y futuro de las pensiones en América Latina y el Caribe*. IDB Monograph, 649 (November). Washington, DC: Inter-American Development Bank.

Alvarado, Francisco, Marcela Meléndez, and Marcela Pantoja. 2021. "El sistema de protección social en Colombia". UNDP LAC Working Paper, 14, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Alzúa, María Laura, and Ana Pacheco. 2021. "Proteccion Social, Formalidad y Subsidios Cruzados: Evidencia para Argentina". UNDP LAC Working Paper, 16, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Araujo, María Caridad, Mariano Bosch, Rosario Maldonado, and Norbert R. Schady. 2017. "The Effect of Welfare Payments on Work in a Middle-Income Country". IDB Working Paper, IDB-WP 830, Inter-American Development Bank, Washington, DC.

Barinas, Sócrates, and Hugo Rolando Ñopo. 2021. "Políticas de protección social y laboral en República Dominicana". UNDP LAC Working Paper, 18, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Besley, Timothy J., and Ravi Kanbur. 1991. "The Principles of Targeting". In *Current Issues in Development Economics*, edited by Vudayagi N. Balasubramanyam and Sanjaya Lall, 69–90. Current Issues in Economics Series. New York, Macmillan.

Bérgolo, Marcelo, and Guillermo Cruces. 2021. "The Anatomy of Behavioral Responses to Social Assistance When Informal Employment Is High". *Journal of Public Economics*, 193 (January): 104313.

Bhalotra, Sonia R., Rudi Rocha, and Rodrigo R. Soares. 2019. "Does Universalization of Health Work? Evidence from Health Systems Restructuring and Expansion in Brazil". IZA Discussion Paper, 12111 (January), Institute of Labor Economics, Bonn, Germany.

de Brauw, Alan, Daniel O. Gilligan, John F. Hoddinott, and Shalini Roy. 2015. "Bolsa Família and Household Labor Supply". *Economic Development and Cultural Change*, 63 (3): 423–457.

Busso, Matías, and Julián Messina, eds. 2020. *The Inequality Crisis: Latin American and the Caribbean at the Crossroads*. Washington, DC: Inter-American Development Bank.

CAF (Corporação Andina de Fomento, Development Bank of Latin America). 2018. *Instituciones para la Productividad: Hacia un Mejor Entorno Empresarial.* October. Caracas: CAF.

CAF (Corporação Andina de Fomento, Development Bank of Latin America). 2020. *Los Sistemas de Pensiones y Salud en América Latina: Los Desafíos del Envejecimiento, el Cambio Tecnológico y la Informalidad*. Caracas: CAF.

Castañón Ibarra, Vicente, and Olaf Froylan Ferreira Blando. 2017. "Densidades de Cotización en el Sistema de Ahorro para el Retiro en México". Boletín Centro de Estudios Monetarios Latinoamericanos, 63 (3): 213–235.

Correa, Alejandra, Maite García de Alba, Elizabeth Alejandra Martínez, Cynthia Martínez, and Annabelle Sulmont. 2021. "El sistema de protección social en México y su contribución a combatir las desigualdades". UNDP LAC Working Paper, 23, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021,* Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Cruces, Guillermo, Peter F. Lanjouw, Leonardo Lucchetti, Elizaveta Perova, Renos Vakis, and Mariana Viollaz. 2011. "Intra-generational Mobility and Repeated Cross-sections. A Three-Country Validation Exercise". Policy Research Working Paper 5916, World Bank, Washington, DC.

de Castro, Marcia C., Adriano Massuda, Gisele Almeida, Naercio Aquino Menezes-Filho, Monica Viegas Andrade, Kenya Valéria Micaela de Souza Noronha, Rudi Rocha, et al. 2019. "Brazil's Unified Health System: The First 30 Years and Prospects for the Future". *Lancet* 394 (10195): 345–356.

Firpo, Sérgio Pinheiro, and Alysson Portella. 2021. "Informal and Small: How Labor Market Regulations, the Social Protection System and Special Tax Regimes Impact Formalization, Inequality, Income Volatility, Firm Size and Labor Productivity in Brazil". UNDP LAC Working Paper, 22, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Fiszbein, Ariel, and Norbert R. Schady. 2009. *Conditional Cash Transfers: Reducing Present and Future Poverty*. With Francisco H. G. Ferreira, Margaret E. Grosh, Niall Keleher, Pedro Olinto, and Emmanuel Skoufias. World Bank Policy Research Report Series. Washington, DC: World Bank.

Flabbi, Luca. 2021. "Implications of Minimum Wages Policies in Labor Markets with High Informality and Frictions". UNDP LAC Working Paper, 25, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Garganta, Santiago, and Leonardo Carlos Gasparini. 2015. "The Impact of a Social Program on Labor Informality: The Case of AUH in Argentina". *Journal of Development Economics*, 115 (July): 99–110.

Ham, Andrés, and Sergio Arturo Membreño Cedillo. 2021. "¿Cuán efectiva es la protección social en Honduras?" UNDP LAC Working Paper, 21, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Higgins, Sean, and Claudiney Pereira. 2014. "The Effects of Brazil's Taxation and Social Spending on the Distribution of Household Income". In "Analyzing the Redistributive Impact of Taxes and Transfers in Latin America," edited by Nora Claudia Lustig, Carola Pessino, and John Scott, special issue, *Public Finance Review*, 42 (3): 346–367.

IBGE (Instituto Brasileiro de Geografia e Estatística, Brazilian Institute of Geography and Statistics). 2019. "Conta-Satélite de Saúde: Brasil 2010–2017". Contas Nacionais, 71, IBGE, Rio de Janeiro. https://biblioteca.ibge.gov.br/index.php/biblioteca-catalogo?view=detalhes&id=2101690.

Kaplan, David S., Joyce Sadka, and Jorge Luis Silva-Mendez. 2008. "Litigation and Settlement: New Evidence from Labor Courts in Mexico". *Journal of Empirical Legal Studies*, 5 (2): 309–350.

Lederman, Daniel, Julián Messina, Samuel Pienknagura, and Jamele Rigolini. 2014. *Latin American Entrepreneurs: Many Firms but Little Innovation*. World Bank Latin American and Caribbean Studies Series. Washington, DC: World Bank.

Levy, Santiago. 2018. *Under-Rewarded Efforts: The Elusive Quest for Prosperity in Mexico*. Washington, DC: InterAmerican Development Bank.

Levy, Santiago, and Guillermo Cruces. 2021. "Time for a New Course: An Essay on Social Protection and Growth in Latin America". UNDP LAC Working Paper, 24, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Lustig, Nora Claudia, 2017. "El impacto del sistema tributario y el gasto social en la distribución del ingreso y la pobreza en América Latina: Una aplicación del marco metodológico del proyecto Compromiso con la Equidad (CEQ)". Tulane Economics Working Paper 1714 (August), Department of Economics, Tulane University, New Orleans.

Marchán, Estefanía, Ramón Espinasa, and Ariel Yépez-García. 2017. *The Other Side of the Boom: Energy Prices* *and Subsidies in Latin America and the Caribbean during the Super-Cycle*. Washington, DC: Inter-American Development Bank.

Massuda, Adriano, Thomas Hone, Fernando Antonio Gomes Leles, Marcia C. de Castro, and Rifat Atun. 2018. “The Brazilian Health System at Crossroads: Progress, Crisis and Resilience”. *BMJ Global Health*, 3 (4): e000829.

Mera, Manuel. 2021. “Social Protection in Jamaica: Strengths and Limitations of Its Redistributive Mechanisms”. UNDP LAC Working Paper, 20, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Morales, Matías, and Camila Olate. 2021. “¿Qué tan eficaz es la Protección Social en Chile?” UNDP LAC Working Paper, 15, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Ñopo, Hugo Rolando. 2021. “Políticas de protección social y laboral en el Perú: Una espiral de buenas intenciones, malos resultados y peores respuestas”. UNDP LAC Working Paper, 17, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021*, Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Ñopo, Hugo Rolando, and María Alejandra Peña. 2021. “Políticas de protección social y laboral en Ecuador”. UNDP LAC Working Paper, 19, 2021, Background paper for the *Regional Human Development Report for Latin America and the Caribbean 2021,* Bureau for Latin America and the Caribbean, United Nations Development Programme, New York.

Pagés, Carmen, ed. 2010. *The Age of Productivity: Transforming Economies from the Bottom Up*. Development in the Americas Series. Washington, DC: Inter-American Development Bank; New York: Palgrave Macmillan.

Piola Sérgio Francisco, José Rivaldo Mello de França, and André Nunes. 2016. “The Effects of Constitutional Amendment 29 on the Regional Allocation of Public Funds for the National Health Service in Brazil”. *Ciência & Saúde Coletiva*, 21 (2): 411–422.

Scott, John. 2014. “Redistributive Impact and Efficiency of Mexico’s Fiscal System”. In “Analyzing the Redistributive Impact of Taxes and Transfers in Latin America,” edited by Nora Claudia Lustig, Carola Pessino, and John Scott, special issue, *Public Finance Review*, 42 (3): 368–390.

Tikkanen, Roosa, Robin Osborn, Elias Mossialos, Ana Djordjevic, and George Wharton, eds. 2020. *International Profiles of Health Care Systems 2020*. December. New York: Commonwealth Fund.

Ulyssea, Gabriel. 2018. “Firms, Informality, and Development: Theory and Evidence from Brazil”. *American Economic Review*, 108 (8): 2015–2047.

Vakis, Renos, Jamele Rigolini, and Leonardo Lucchetti. 2016. *Left Behind: Chronic Poverty in Latin America and the Caribbean*. Washington, DC: World Bank.

With the generous support of the Spanish Cooperation

Consejería de Igualdad, Políticas Sociales y Conciliación

MINISTERIO DE ASUNTOS EXTERIORES, UNIÓN EUROPEA Y COOPERACIÓN

aecid

Spanish Cooperation

UNDP

9 789211 264470