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The 1990s in Latin America: Another Decade of Persistent Inequality, but with Somewhat Lower Poverty

By

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Abstract*

This paper processes 76 household surveys from 17 Latin American countries to document changes in poverty and inequality during the 1990s. We show that there is no country in Latin America where inequality declined during the 1990s. Poverty declined in 10 or 11 of the 17 countries for which household surveys are available to us, depending on the poverty measure used. Persistently high inequality inhibited further poverty reduction.

Keywords: Inequality, poverty, Latin America.

JEL Classification: D31, O12, O54.

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Introduction

This paper gathers and processes 76 household surveys from 17 Latin American (LA) countries to document the evolution of poverty and inequality in the region during the 1990s decade. To the best of our knowledge this is the most comprehensive and up-to-date set of poverty and inequality estimates for LA for this decade.

Studying the 1990s for Latin American is especially relevant for at least three reasons. The first is that substantial evidence on changes in poverty and inequality exists for the 1970s and 1980s, but the shifts during the 1990s have been explored to a much more limited extent. The 1970s were characterized by macroeconomic stability and high growth rates, while the 1980s were years of volatility and stagnation. It is widely agreed that poverty and inequality were reduced during the 1970s because of favorable conditions for sustained economic expansion, while it is also agreed that poverty and inequality deteriorated sharply during the 1980s because of the deep recession and deterioration in income distribution.¹

The second is that LA is the most unequal region in the world, and changes in the 1990s give some indication of prospects for the future. The third is that the 1990s have been years of economic recovery and macro stability, as compared to the “lost decade” of the 1980s, which was characterized by high economic volatility and stagnation. So, Latin America is a good case for verifying if there is a tendency for poverty to improve during favorable macro conditions.

The rest of the paper is organized as follows. Section 1 briefly describes the data. Section 2 describes the methodology for computing our poverty and inequality indexes and presents the main trends. Section 3 discusses the link between poverty and inequality. Section 4 concludes.

1. Data Description

The best micro data for exploring the dynamics of income distribution are household surveys. Many countries in Latin America have household surveys with information on incomes, but for this work we impose four conditions for including a data set in our

¹ See, for instance, Psacharopoulos *et al.* (1993), Bulmer-Thomas (1996), and Altimir (1994), and Londoño and Székely (2000) among others.

analysis. First, the household survey has to be nationally representative. The only exceptions we make are Argentina and Uruguay, where household surveys are restricted to urban areas but still include more than 80% and 90% of each country's population, respectively. Second, the survey questionnaire has to include a breakdown of income by source, with at least three separate questions on income that identify labor income, profits, and capital rents separately. This is to assure lower measurement error in incomes. Third, the recall period for incomes has to be the same (the previous month) in each survey.² Fourth, the central purpose of the survey must be to collect information on the standard of living of the population. This last requirement assures us that obtaining accurate information on incomes is an objective of the survey.

We are able to access the micro data from 76 household surveys fulfilling these requirements. The surveys cover various years between 1989 and 2000 for 17 Latin America countries, which include about 95% of the total population of the region. The countries and periods covered are Argentina (1996-1998), Bolivia (1990-1999), Brazil (1992-1999), Chile (1990-1998), Colombia (1991-1999), Costa Rica (1989-1998), the Dominican Republic (1996-1998), Ecuador (1995-1998), El Salvador (1995-1999), Honduras (1989-1999), Mexico (1989-1998), Nicaragua (1993-1998), Panama (1991-1999), Paraguay (1995-1999), Peru (1991-2000), Uruguay (1989-1998) and Venezuela (1989-1999).³ Altogether, the 76 surveys include 1.7 and 6.8 million household and individual records, respectively. The average number of households and individuals surveyed across all data sets is 21,556 and 90,839, respectively.

Our estimates on poverty and inequality are strictly comparable within each country. To accomplish comparability we make sure that the definition of income sources is the same within each country over time. Whenever there are changes in the survey questionnaire, due, for instance, to a more detailed breakdown of income sources covered, we identify the minimum common denominator in the series for each individual country and use it as welfare indicator for all years. By doing this we are confident that the changes we identify are genuine and are not only due to “noise” introduced by

² Mexico is the country with the longest recall periods. The household survey questionnaire asks about income in each of the previous six months, but we only use information on the previous month for consistency with the other countries.

changes in the way in which the underlying data is produced. However, differences across countries remain, so cross-country comparability cannot be guaranteed.

Previous attempts at data compilation have been much more limited in country, year, and population coverage. For instance, Londoño and Székely (2000) cover mostly the early years of the 1990s up to 1993-94, and Morley (2000) includes estimates up to 1996 and 1997, while Wodon *et al.* (2000) include information up to 1996, all for a smaller number of countries than in the present study. Furthermore, in none of these 3 studies is within-country comparability of the data guaranteed.

2. Trends in Poverty and Inequality

Table 1 presents the country-year estimates of poverty and inequality for LA during the 1990s. Quite a different story emerges for each of these variables.

Inequality Trends

For each household survey we compute the Gini coefficient by using household per capita income as welfare indicator. Table 2 summarizes the trends by country by estimating a regression for each country separately, where the dependent variable is the Gini coefficient and the independent variable is a year trend. The table presents the coefficient for the trend.

The main conclusion is that there is no country in Latin America where inequality declined significantly during the 1990s. The only two countries where the coefficient is negative are the Dominican Republic and Colombia, but in both cases, the reductions are insignificant from a statistical point of view (and of less than one half of a Gini point). The countries with the greatest increases are Argentina, Bolivia, El Salvador and Nicaragua.⁴ The last two lines of the table present the coefficient from regressions on the pooled sample of 76 surveys, with a year trend as independent variable. The coefficient in the first of these two lines is from a fixed effects estimation that can be interpreted as an

³ For El Salvador, Ecuador and Paraguay, data for earlier years of the decade is not included because the surveys only started having national coverage by 1995.

⁴ To perform the estimations for Paraguay for 1995 and 1999, we drop the observation with the highest income, since the income reported in this case is implausible (see Székely and Hilgert, 1999) for more details on the 1995 survey). However, our basic conclusion is the same even when we include the highest incomes in the estimation.

indicator of the average trend across countries. The coefficient is positive, reflecting a significant average increase in inequality in the LA region during the 1990s (the ‘z’ statistic for the coefficient is equal to 3.7). The last line also refers to country fixed effects regressions, but in this case the regression uses the population of each country as analytical weight. Therefore, this coefficient can be interpreted as a trend for the weighted average. The trend is also positive and significant in statistical terms (the ‘z’ statistic is 1.9), but interestingly, it is lower than for the unweighted regression. This suggests that the smaller countries in terms of population experienced more pronounced increases in inequality.

Poverty Trends

For poverty we also use household per capita income as welfare indicator. To compute our estimates we follow the methodology proposed by Londoño and Székely (2000) for international comparisons.⁵ The methodology consists of: (i) using a PPP \$2-dollars-a-day poverty line (1985 prices) as criteria for separating the poor from the non-poor, and (ii) adjusting household per capita incomes to make them equal to PPP-adjusted private consumption per capita (1985 prices) from the National Accounts.⁶ The adjustment to private consumption is performed for three reasons. The first is that, since the adjustment transforms the welfare indicator into the same units for all cases, cross-country comparability is improved. The second is to acknowledge that income tends to be under-reported in household surveys and that the degree of under-reporting may vary over time. By adjusting incomes to PPP private consumption we impose the same limit on the degree of under-reporting across countries. The third reason is that consumption is normally regarded as a better measure of welfare than income. After performing the

⁵ As argued by Székely *et al.* (2000) there is no standard and widely accepted methodology for measuring poverty. In fact, poverty estimates are highly sensitive to the underlying choices made for measurement. We choose the method by Londoño and Székely (2000) to produce our estimates because we believe that this method is well suited for international comparisons. However, it should be stressed that this is only one among several options. In the study by Székely *et al.* (2000) it is shown that this methodology normally yields reasonable poverty estimates. Estimates of regional poverty from this methodology in Székely *et al.* (2000) are of around 30 percent, while the methodology that yields the lowest estimate for Latin America is of about 12 percent. The methodology that yields the highest poverty estimates results in 59 percent of poor in the region.

⁶ Private consumption per capita figures and PPP conversion factors are taken from the World Bank’s *World Development Indicators*. Private consumption per capita is further adjusted to take into account that

adjustment, we compute three poverty indices: the head count ratio, the poverty gap, and the FGT(2) measure proposed by Foster, Greer and Thorbecke (1984), which is equivalent to the squared poverty gap.

The second column in Table 2 presents the trends for the head count ratio. As in Column 1, the coefficient is computed through a regression where the dependent variable is the proportion of poor in each country-year, and the independent variable is a year trend. Of the 17 countries considered, there are negative (poverty decreasing) trends in 11 cases and increases (positive coefficients) in six countries (Peru, Mexico, Nicaragua, Venezuela, El Salvador and Paraguay). The largest reductions in the head count ratio are observed in the Dominican Republic, Chile, Panama, Brazil and Uruguay. According to the last two lines of the table, which show the coefficient for the unweighted and the weighted fixed effects estimations, poverty declined overall, but it did so to a larger extent in countries with larger populations.

The story for the poverty gap (third column in Table 2) and the FGT(2) index (fourth column) is somewhat similar, although progress was more modest than with respect to the head count ratio. In 10 of the 17 countries the poverty gap and the FGT(2) indices register a negative trend of decreasing poverty. Interestingly, the value of these two indices increased in spite of reductions in the head count ratio in Bolivia and Honduras. Thus, although there were fewer poor in these countries by the end of the decade, those that remained poor were poorer than in the early 1990s. Furthermore, the poorest of the poor obtained the lowest benefits.

At first glance, the result that the proportion of poor declined in 11 countries and that the poverty gap and the FGT(2) indices also declined in 10 of the 17 countries, could be interpreted as a positive outcome for Latin America, especially after the 1980s, which was a decade of stagnation and sharp increases in poverty. However, the conclusion is qualified by the results in the last column of Table 2, which presents the trend coefficient for PPP-adjusted GDP per capita for the same years as those for which a household survey is available. Therefore, the trend covers exactly the same years as in the first four columns. According to these trends, positive economic growth was observed in 14 of the

in the National Accounts this variable incorporates not only household consumption, but also consumption by firms.

17 countries under analysis, and in many cases the increases are substantial. As can be seen in the last two lines of the table, GDP per capita increased in the region as a whole, and relatively smaller countries in terms of population size tend to register larger increases in output.⁷

There are several cases where the poverty and the GDP trends are at odds. For instance, even though GDP increased in Mexico and Peru, poverty—as measured by any of the three indices considered—increased (see columns two to four). Other countries with positive growth and increases in poverty at the same time are El Salvador and Nicaragua, although in these countries economic growth was more modest. In any case, these are indications that inequality is inhibiting poverty reduction in these countries. The following section discusses this relation in more detail.

3. Poverty and Inequality: Still Strongly Linked During the 1990s

The tight connection between poverty and inequality in Latin America is illustrated in Figure 1. The figure plots the trend in the Gini index (from the first column of Table 2) in the vertical axis versus the trend for the head count ratio (second column for table 2) in the horizontal axis. There is a clear positive relationship between increases in inequality and increases in poverty. On the other hand, not surprisingly, there is also a strong inverse relationship between economic growth and poverty. Figure 2 plots the trend for changes in GDP per capita and changes in the head count ratio. The higher the growth rate of GDP, the smaller the value of the trend coefficient.

To estimate the combined effect of inequality and growth, we use the pooled sample of 76 surveys to run a regression where the dependent variable is the log of the head count ratio, and the independent variables are the log of the Gini index and the log of PPP-adjusted GDP per capita. The coefficients yield the elasticity of the head count ratio to changes in inequality and economic growth. The results we obtain are:

$$(1) \quad \log(h) = 7.63 + 2.14 \log(gini) - 0.907 \log(GDP)$$

$$(15.56) \quad (7.56) \quad (-14.3)$$

⁷ GDP figures are taken from World Bank (2000).

which shows that the elasticity of poverty (as measured by the head count ratio) with respect to inequality is more than twice the elasticity with respect to growth. Therefore, inequality had a strong negative effect on potential poverty reduction.

The result for the poverty gap is:

$$(2) \quad \log(s) = 9.70 + 3.1 \log(gini) - 1.2 \log(GDP) \\ (17.88) \quad (8.89) \quad (-15.6)$$

while for the FGT(2) measure we obtain:

$$(3) \quad \log(fgt(2)) = 11.2 + 3.61 \log(gini) - 1.39 \log(GDP) \\ (16.84) \quad (9.23) \quad (-15.86)$$

Thus, the poverty gap and the FGT(2), which are measures of the intensity of poverty, are much more responsive to changes in inequality and somewhat more responsive to growth than the head count ratio.

Even though the connection between income inequality and economic growth is in itself the focus of major debate, it can be said that poverty reduction has been considerably inhibited by increasing inequality in Latin America, in spite of the positive macroeconomic outlook as represented by the rate of economic growth.

4. Conclusions

Perhaps the best way of characterizing the changes in poverty and inequality in Latin America during the 1990s is to state that the region still registers persistent and growing inequality levels, and that in terms of poverty, some progress has been made due to positive economic growth during the decade. However, the gains in terms of poverty reduction are rather modest because of the increases in inequality.

Thus, a favorable macro economic context, such as that experienced by Latin America during the 1990s, does create favorable conditions for poverty reduction. But a significant proportion of the gains for the poor can be swept away by increases in inequality. It seems that the main challenge is to design policies that balance both growth and inequality concerns as equally important. This may make improvements in the conditions of the poor more likely.

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Figure 1

**Trends in Poverty and Inequality
in Latin America During the 1990s**

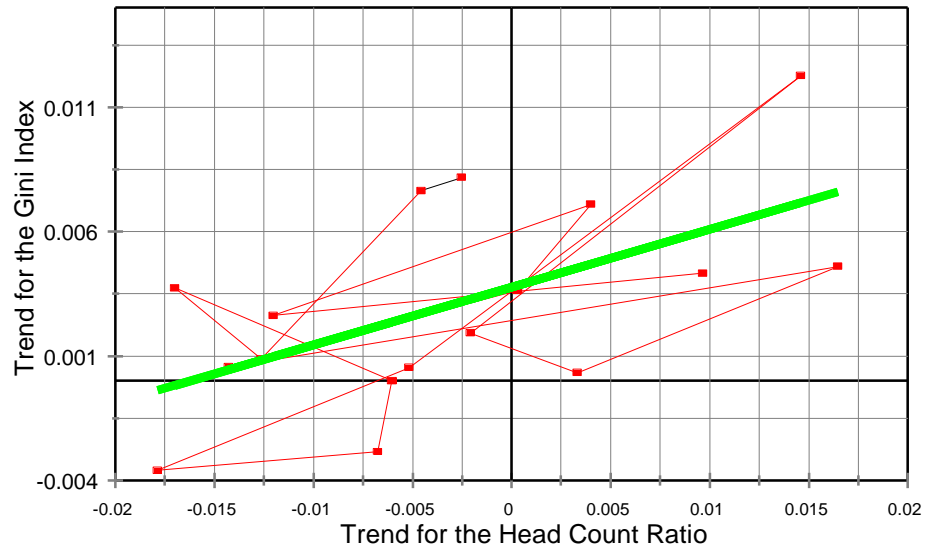


Figure 2

**Trends in Poverty and Economic Growth
in Latin America During the 1990s**

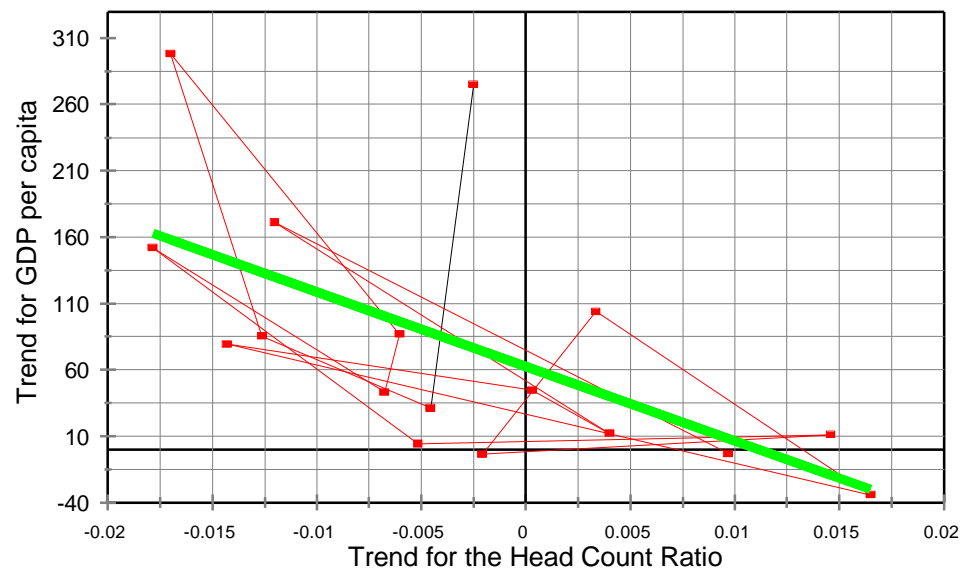


Figure 1

Poverty and Inequality in Latin America, 1989-2000

Country	Index	Year										
		1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Argentina	Gini Index								0.4771		0.4935	
	Head Count Ratio								18.40		17.90	
	Poverty Gap								4.55		4.47	
	FGT(2) Index								2.27		2.26	
Bolivia	Gini Index		0.5449			0.5323		0.5274	0.5877	0.5890		0.6014
	Head Count Ratio		65.63			63.40		63.60	62.14	62.34		61.36
	Poverty Gap		32.78			30.72		29.67	35.23	34.49		36.91
	FGT(2) Index		20.19			18.27		17.37	24.84	24.18		27.40
Brazil	Gini Index				0.5728	0.5952		0.5911	0.5907	0.5919	0.5901	0.5847
	Head Count Ratio				48.26	49.68		44.66	41.55	41.25	41.92	41.26
	Poverty Gap				23.80	24.52		21.13	19.67	19.52	19.10	18.65
	FGT(2) Index				15.03	15.51		12.91	11.98	11.91	11.52	11.11
Chile	Gini Index		0.5470		0.5220		0.5558		0.5638		0.5587	
	Head Count Ratio		32.37		19.78		22.70		18.32		16.11	
	Poverty Gap		11.96		6.02		7.59		6.04		5.31	
	FGT(2) Index		6.12		2.77		3.69		2.91		2.60	
Colombia	Gini Index			0.5670		0.6038		0.5697		0.5756	0.5679	0.5620
	Head Count Ratio			42.39		44.67		38.79		38.37	37.79	39.37
	Poverty Gap			18.32		19.97		16.10		17.30	16.51	17.23
	FGT(2) Index			10.73		11.94		8.83		10.78	9.94	10.14
Costa Rica	Gini Index	0.4596		0.4598		0.4549		0.4570		0.4589	0.4612	
	Head Count Ratio	35.89		34.23		29.20		28.70		30.86	30.47	
	Poverty Gap	15.16		14.18		11.08		11.03		11.77	11.18	
	FGT(2) Index	8.87		8.07		6.11		6.11		6.33	5.88	
D. Republic	Gini Index								0.4810		0.4778	
	Head Count Ratio								38.13		34.56	
	Poverty Gap								15.01		11.64	
	FGT(2) Index								8.05		5.32	
Ecuador	Gini Index							0.5600			0.5616	
	Head Count Ratio							49.53			47.98	
	Poverty Gap							25.47			23.69	
	FGT(2) Index							17.15			15.41	
Honduras	Gini Index	0.5703			0.5489				0.5284	0.5908	0.5852	0.5843
	Head Count Ratio	77.20			75.94				76.30	74.73	74.85	75.25
	Poverty Gap	46.22			45.03				44.17	47.28	46.69	47.42
	FGT(2) Index	32.25			31.48				30.15	35.43	34.88	35.42

Table 1 (Cont.)

Poverty and Inequality in Latin America, 1989-2000 (Cont.)													
		Año											
	Concept	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Mexico	Gini Index	0.5309			0.5341		0.5361		0.5276		0.5377		
	Head Count Ratio	19.74			16.17		15.34		21.22		21.17		
	Poverty Gap	6.67			5.02		4.61		7.29		7.99		
	FGT(2) Index	3.28			2.29		2.13		3.62		4.15		
Nicaragua	Gini Index					0.5669					0.6024		
	Head Count Ratio					70.67					72.68		
	Poverty Gap					41.16					40.94		
	FGT(2) Index					28.88					28.14		
Panama	Gini Index			0.5625				0.5602		0.5755	0.5652	0.5631	
	Head Count Ratio			47.75				47.81		43.53	38.05	36.61	
	Poverty Gap			24.97				24.75		21.91	18.42	17.18	
	FGT(2) Index			17.04				16.43		14.37	11.92	10.80	
Paraguay	Gini Index							0.5700			0.5692	0.5942	
	Head Count Ratio							52.09			51.00	61.12	
	Poverty Gap							27.29			28.11	33.84	
	FGT(2) Index							17.96			19.48	23.28	
Peru	Gini Index			0.4643			0.4832			0.5055			0.4643
	Head Count Ratio			41.86			43.98			43.23			42.11
	Poverty Gap			18.11			18.73			19.33			19.11
	FGT(2) Index			10.33			10.82			11.40			12.11
Salvador	Gini Index							0.5052		0.5195	0.5589	0.5455	
	Head Count Ratio							58.60		61.25	63.98	63.98	
	Poverty Gap							26.40		28.36	33.46	33.42	
	FGT(2) Index							14.54		15.84	21.34	21.29	
Uruguay	Gini Index	0.4064			0.4319			0.4209		0.4300	0.4388		
	Head Count Ratio	23.15			19.55			16.61		11.69	13.59		
	Poverty Gap	6.46			6.18			4.77		3.29	3.95		
	FGT(2) Index	2.70			2.91			2.09		1.46	1.78		
Venezuela	Gini Index	0.4396				0.4288		0.4669		0.4863	0.4705	0.4675	
	Head Count Ratio	12.55				8.68		15.23		17.95	18.87	20.63	
	Poverty Gap	4.31				2.43		5.08		6.56	6.50	7.57	
	FGT(2) Index	2.13				1.08		2.53		3.48	3.46	4.08	

Source: Author's calculations from household survey data.

Table 2

Trends in Inequality, Poverty and GDP Growth in Latin America in the 1990s
(Coefficient Estimates)

Country	Year Coefficient				
	Gini Index	Head Count Ratio	Poverty Gap	FGT(2) Index	GDP per capita
Argentina	0.0082	-0.0025	-0.0004	-0.0001	275.34
Bolivia	0.0076	-0.0045	0.0053	0.0091	31.27
Brazil	0.0009	-0.0126	-0.0087	-0.0065	85.49
Chile	0.0037	-0.0170	-0.0066	-0.0035	298.56
Costa Rica	0.0000	-0.0060	-0.0043	-0.0032	86.92
Colombia	-0.0003	-0.0067	-0.0027	-0.0013	43.13
Dominican R.	-0.0004	-0.0178	-0.0169	-0.0136	152.15
Ecuador	0.0005	-0.0051	-0.0059	-0.0058	4.37
El Salvador	0.0123	0.0146	0.0195	0.0164	11.15
Honduras	0.0019	-0.0021	0.0013	0.0035	-3.58
Mexico	0.0003	0.0034	0.0019	0.0012	104.08
Paraguay	0.0046	0.0165	0.0132	0.0114	-34.19
Panama	0.0006	-0.0143	-0.0098	-0.0078	79.30
Peru	0.0036	0.0003	0.0017	0.0021	44.83
Nicaragua	0.0071	0.0040	-0.0005	-0.0015	12.26
Uruguay	0.0026	-0.0120	-0.0349	-0.0144	171.29
Venezuela	0.0043	0.0097	0.0039	0.0023	-2.98
LAC average	0.0024	-0.0039	-0.0038	-0.0009	72.68
LAC Population-weighted average	0.0011	-0.0054	-0.0036	-0.0023	67.14

Source: Author's calculations from household surveys.

Appendix

Table A1

Household Surveys			
Country	# Surveys	Years	Survey Name
Argentina	2	1996,98	Encuesta Permanente de Hogares
Bolivia	6	1990, 93, 95 1996, 97 1999	Encuesta Integrada de Hogares Encuesta Nacional de Empleo Encuesta Continua de Hogares (condiciones de vida)
Brazil	7	1992, 93, 95, 96, 97,98,99	Pesquisa Nacional por Amostra de Domicilios
Chile	5	1990, 92, 94, 96, 98	Encuesta de Caracterización Socioeconómica Nacional
Colombia	6	1991, 93, 95, 97, 98,99	Encuesta Nacional de Hogares - Fuerza de Trabajo
Costa Rica	6	1989, 91, 93, 95, 97, 98	Encuesta de Hogares de Propósitos Múltiples
R. Dominicana	2	1996 1998	Encuesta Nacional de Fuerza de Trabajo Encuesta Nacional Sobre Gastos e Ingresos de los Hogares
Ecuador	2	1995, 98	Encuesta de Condiciones de Vida
El Salvador	4	1995, 97, 98, 99	Encuesta de Hogares de Propósitos Múltiples
Honduras	6	1989, 92, 96, 97, 98,99	Encuesta Permanente de Hogares de Propósitos Múltiples
Mexico	5	1989, 92, 94, 96,98	Encuesta Nacional de Ingreso y Gasto de los Hogares
Nicaragua	2	1993, 98	Encuesta Nacional de Hogares Sobre Medicion de Niveles de Vida
Panama	5	1991, 95, 97, 98,99	Encuesta Continua de Hogares
Paraguay	3	1995 1998, 99	Encuesta Nacional de Empleo Encuesta Integrada de Hogares
Peru	4	1991, 94, 97, 2000	Encuesta Nacional de Hogares sobre Medición de Niveles de Vida
Uruguay	5	1989 1992, 95, 97,98	Encuesta Nacional de Hogares Encuesta Continua de Hogares
Venezuela	6	1989, 93, 95, 97,98,99	Encuesta de Hogares por Muestra