THE REDUCTION OF INEQUALITY IN LATIN AMERICA DURING 2000–2010: A PATH TO DEVELOPMENT?

Ana Maria Rita Milani

Abstract: After implementation of the structural adjustment model in the region since the 1990s, we see that the benefits to economic growth and social equality were mediocre, even if there was a recovery cycle between 2004 and 2008, although Latin America presents a slight flexibility in inequality with positive trends in this period. There is, today, more centralization with regard to the social question, because Latin America does not present a shift of its workforce from less productive to more efficient activities. Therefore, this article is concerned with analyzing the impact of social policies in the last decade, as compared to the change in the economic structure. This article shows that for ECLA vision authors, the transformation of the productive structure is important to development. Although the region showed improvement with regard to inequality, poverty levels and other changes, an economic structure that is more dynamic and closer to the international technological border has not yet been achieved.

Key words: Latin America; social policy; development

Introduction

Latin-American countries have historically shown deep social inequality, which is sometimes explained by the existence of high levels of property and structural heterogeneity. After implementation of the structural adjustment model in the region since the 1990s, we see that the benefits to economic growth and social equality were mediocre, even if there was a recovery cycle between 2004 and
2008. Rigidity as to the drop of inequality in the region during the 1990s and the beginning of the 2000s was replaced by a slight flexibility in 2002 and 2003, with a positive tendency. Although the reduction of inequality is slight and does not change Latin America’s identification as the most unequal region, the trend towards better distribution indicators is worth highlighting. There is, today, more centralization with regard to the social question, reflected in the number of social expenditure policies, which are pro-cyclical. However, the impact of such social policies is worth analyzing, in the sense that many countries in the region still present difficulties as to learning, workforce qualification, insertion to the labor market, etc. The answer is not just a case of increasing the volume of monetary resources, but being able to change the social structure, as a way to reach higher development. In this line, improving efficiency of the social system and of production as a way to improve society’s wellbeing is implied in the notion of development. Thus, we should address the social differences and their connection with the quality and productivity of work in the economic activity sectors. In many cases, differences reflect lack of training, difficulty of access to technical progress, low occupational and social mobility, etc. In general, Latin America does not present a shift of its workforce from less productive to more efficient activities. Therefore, this article is concerned with analyzing the impact of social policies in the last decade, as compared to the change in the economic structure. In addition to this introduction, the first section of this article contains some theoretical considerations as to the theories of development from the perspective of the Economic Commission for Latin America (ECLA), which interpret Latin America’s underdevelopment. The third section presents a contextualization of the economic policies applied in the region, by using descriptive statistics. In the fourth section, we try to explain the changes in the social environment during the last decade, by analyzing inequality, poverty, the labor market and the social policies. In the fifth section we present the changes in the productive structure, and finally we give conclusions.

Some Theoretical Considerations on the Development Theory: An ECLA Perspective

The ECLA appeared by the end of the 1940s, with the UN’s intermediation. It created fertile ground for spreading the notion of development in the region. The pioneering work of Raul Prebisch was a great contribution at the beginnings of this institution, together with the works of Celso Furtado (1974), Osvaldo Sunkel (1970) and Aníbal Pinto (2000), which developed a new conceptual structure. Thus, the structuralist approach was born, in the understanding that development required an important—and sometimes deep—transformation of the productive,
labor and distributive structures, together with an institutional change. In this line, spontaneous development can hardly be thought of. Latin-American structuralism is key to answering the question of what are the reasons for underdevelopment in the region, and how it may be overcome.

According to Celso Furtado (2000), development refers to a transformation process covering society as a whole. The idea of structure is the starting point to understanding the social totality, described by a consistent set of stable relationships among the components forming it. According to the author, the idea of development has three dimensions: increasing efficiency of the production social system, satisfying the population’s basic needs, and achieving the goals of the dominating groups in society.

We can summarize the main outlines forming the ECLA vision and the theory of underdevelopment beginning with two basic ideas: a) Latin-American economies had structures that presented low integration, with exports as the most dynamic primary sector; however, it could not spread technical progress to the rest of the economy and use all available workforce in a productive manner. Opposite to the discourse held by the free trade doctrine, the negative effects thereof repeated in time. b) The pace of incorporation of technical progress and productivity growth would be higher in industrial economies than in economies specializing in primary products, which would create a difference in income, favorable to the first economies. The price of primary products would show an unfavorable evolution as compared to manufactured goods. Thus, there would be a tendency to deterioration in the terms of trade.

In this line, underdevelopment was deemed a specific issue seen in certain economies and, as such, required an equally specific response. To overcome it, countries would have to become industrialized to achieve development, which was contrary to the dominant thought that held that the international division of work was the answer for all countries to reach the same objective.

Development is related to growth of material wellbeing, reflected in an increase in income per capita, conditioned by an increase in labor productivity. Such increase in productivity depends on the adoption of indirect production methods where the division of work among activities is larger. Thus, ECLA perspective authors explain that inequality in the distribution of income is a reflection of productivity disparities corresponding to the economic structure. Inequality cannot be understood without understanding how economic sectors are structured. Inequality becomes a reflection of productivity differences among economic sectors, featured as a structural problem. From this insight, we will hereinafter analyze inequality in Latin America, taking this theoretical framework as our starting point.
Outlook of Economic Policies in Latin America in the 1990s and 2000s

The 1990s represented the success of neoliberal thought, by implementation of the Washington Consensus prescriptions. Structural adjustment models were aimed at eradicating instability in the region, focusing on the fight against inflation, tax discipline and monetary control. The measures applied were successful in eradicating inflation, correcting the level of prices and the functioning of markets. During this period, the region showed large fluctuations that can be explained both by structural changes and by variations in the inflow and outflow of external financial capital. Growth was mediocre in the 1990s and showed some recovery between 2004 and 2008, as shown in Table 1. The international financial crisis that began in 2008 interrupted the growth expansion cycle, which was taking place in a context of a world economy expansion. Such crisis had an impact on all financial markets and the actual world economy variables, by the contraction of credit, the destruction of wealth, a drop in world trade and a deterioration of the expectations on the evolution of economic activity (ECLA 2010a). Thus, the external context was represented by a new scenario with lower growth rates, a deceleration of trade, less financial transnationalization and a new global financial architecture.

Table 1 Growth of GDP 1990–2009

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>3.3</td>
<td>1.4</td>
<td>5.3</td>
<td>−1.8</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>1.5</td>
<td>−0.1</td>
<td>4.0</td>
<td>−2.9</td>
</tr>
<tr>
<td>GDP per worker</td>
<td>0.6</td>
<td>−1.1</td>
<td>3.1</td>
<td>−3.8</td>
</tr>
</tbody>
</table>

Source: ECLA 2010a.

Among the components of aggregate demand, responsible for the GDP performance, the investment rate was low compared to those of other emerging economies. During the period of liberal policies, the investment rate varied, although it could not exceed the region’s historical average rate, which is about 20 percent of GDP (Figure 1). This phenomenon has a negative impact on the sources of growth, being the most important limitation for the region to progress toward development.

As from the 1990s and the beginning of the 2000s, development of the labor market was mediocre, in a context of low economic growth, as explained above. There were negative results with regard to employment and social protection of labor rights in countries of the region. On this last point, the labor market suffered precarization, related not only to the lack of registration (informality), but also to the loss of legal rights in the formal sector (ECLA 2010a). High unemployment...
rates became typical of the 1990s in the region, together with a difference in salaries and work conditions. Thus, neoliberal reforms of the decade did not lead to more employment or higher income, or more employment for the less qualified workforce. According to the ECLA report (2010a), during the 1990s, income of the most qualified workers improved compared to less skilled groups. However, this tendency stopped in the cycle of expansion running between 2003 and 2008, with a drop in the employment rate, as shown in Figure 2. Also, during the last six years of the 2000s, the increase in the wage gap continued (ECLA 2010a). Thus, the region shows a continued drop in the rate of unemployment, a trend that began in 2002, interrupted in 2009 as a consequence of the international crisis. Unemployment rates in 2011 were the lowest since the middle 1990s in almost all Latin-American countries, reaching less than 8 percent.

Figure 1  Gross fixed capital (% GDP)
Source: ECLA 2012a, Annual Statistics, various years.

Figure 2  Unemployment rate in Latin America, 1990–2010
Source: ECLA 2012a, Statistics and indicators.
This reversal in the trend of rising unemployment rate, in a way, explains the positive evolution in the distribution of income in Latin America. As reported by ECLA (2010b), the employment expansion pace was faster than the workforce increase rate, with a positive impact on workers of all income levels.

The increase in the number of formal market job positions, as well as the average remunerations, benefited lower income families, generating a drop in the differences in average income. Formal employment actual salaries increased 1 percent in over nine countries, while actual minimum salary also showed a growth. Such performance of income from work benefited from the low inflation rates in most countries, with an average that reached 6.9 percent in 2010 for the whole region. Figure 3 shows the evolution of the Gini coefficient and the reduction of poverty in the last decade.

In brief, we see that despite the changes established by political measures that constituted the structural adjustment model, the economic indicators responded in a mediocre manner. The 2000s presented better economic and social indicators than the previous decade. Questioning whether this led to a reduction of inequality and an improvement of society’s wellbeing remains pending. The following section analyzes the social policies implemented in this last decade.

Figure 3  Latin America: poverty and Gini coefficient, 2002–08
Source: ECLA 2011.

The Social Question: Inequality, Poverty and the Labor Market

Inequality in Latin America is not a new issue, and it appears as a historical feature that remains a specific form of development pattern that perpetuates socio-economic disparity. As pointed out by ECLA (2010a): “The productive structure and the educational systems have served—and to a large extent continue to serve—to reproduce inequality.” The 1980s and 1990s reforms made differences
in income deeper; however, in the 2000s such tendency was interrupted, mainly due to the existence of a more dynamic and inclusive labor market, and a more active role of the government regarding the transfer of income. In general, Figure 4 shows improvement in the main social indicators.

As for the Gini coefficient, in the period running from 2003 to 2008, we see an increase of economic growth, as mentioned above, and a tendency to a reduction in the concentration of income. The trend towards improvement of social indicators in the region was not affected by the 2008 crisis. For the region, the Gini coefficient dropped about 4 percent compared to the beginning of the decade. This drop can be explained by the reduction seen in Argentina, Bolivia, Panama and Venezuela, of about 10 percent, and in Brazil, Chile and Ecuador, where the reduction was 7 percent. Until 2008, before the beginning of the world crisis, the Gini coefficient decreased 1 percent or more per year in ten countries, and showed significant growth only in Guatemala (data until 2006). Besides, 2010 figures show the scenario immediately after the crisis, indicating that inequality did not significantly increase in any of the countries for which there is information (ECLA 2012a).

The drop in inequality in the region throughout the years makes us wonder about the factors that have a positive influence. One of them corresponds to the
income per adult, appearing as the main factor for income per capita distribution improvement. This variable corresponds to the addition of the home labor income (per adult) and non-labor income (per adult). In ten countries, labor income was a key factor in the reduction of inequality. As stated in ECLA Social Panorama (2010b), shifts in the distribution of non-labor income contributed at least 50 percent to the reduction of inequality, per adult, in Chile, Ecuador, Paraguay, Dominican Republic and Uruguay, while in Argentina and Brazil such contribution exceeded 40 percent. Non-labor income may come from different sources. Countries where such income had a more outstanding redistributive role are characterized by the fact that it comes from public transfer, i.e., the specific action of governments by means of social policies.

The reduction in the Gini coefficient became an encouraging and positive datum from the social perspective, although such transformation is not yet enough to prevent the region remaining as the most unequal. This is still the great challenge of the region, which still presents high inequality levels. In most countries we see that the major proportion of the income produced is concentrated in a small number of the population, while only a small portion reaches the poorest. According to ECLA reports (2009, 2010b, 2012a), considering 18 countries for which there is updated information, the wealthiest 10 percent receive 32 percent of the total income, and the poorest 40 percent only 15 percent.

As for the performance of poverty, we see that the last decade showed a continued reduction, going from about 44 percent to 32 percent (see Figure 5). This last value included 13 percent in extreme poverty or indigence conditions. Such figures translate as 183 million people living in poverty and 74 million people living in indigence. Despite the great drop of the GDP in 2009 due to the world crisis, the tendency to a reduction of poverty was not affected.

Compared to the beginning of the decade, such performance of variables appears a positive feature, for both indicators showed an important reduction; over 10 percent for poverty and over 6 percent for indigence.

However, indigence presented a deterioration since 2007, evidenced by its permanence without great variation. This means that the reduction of indigence seen until 2007 was higher than that recorded in the following years. According to ECLA report (2010b), the different performance of poverty and indigence are partially explained by the way in which prices of food have evolved compared to other goods. Between 2006 and 2009, the price of food increased and such increase was transferred in full to the value of the indigence line, so this line increased faster than the poverty line. Besides, it is worth understanding which factors determined the reduction of poverty. There are several methods that try to detect such factors. One of them is the variation of income and the result of its
variation on the distribution of income; another factor is the role of the several sources that determine home income, emphasizing the features of the labor market.

If we consider the 2002–10 period for the first method, we see that the reduction of poverty was possible due to the supplementary nature of the effects of growth and distribution. Within the region, there are variations among countries. However, we can say that in countries showing a higher reduction both effects contributed to reach a reduction of poverty.

As for the second method, the most important sources of income that impacted on the reduction of poverty are: home income and public transfer. The evolution of poor home income had a great impact on labor income, for in most countries of the region they increased in actual terms. Transfers contributed in a perceptible manner to the increase of total income of the poor in six of the analyzed countries. It is worth highlighting that almost all transfers correspond to government subsidies or assistance, except in Argentina, where pensions account for most of the increase in such sources of income.

**Social Policies**

In the 1990s, upon implementation of the structural adjustment model, governments’ transfers were reduced, with visible consequences for the whole region. As for social policies, some educational and public health systems were decentralized,
with components of such systems being privatized, as well as the basic social infrastructure. During the most dynamic economic growth period at the beginning of the 2000s, the beneficial effect of assistance increased national income, as well as the distribution of resources to reduce poverty and social exclusion. In order to address both issues, many countries created social development ministries and established programs to eradicate poverty.

In the 1990s, Latin-American governments began seeing social expenditure as a way to channel resources to the most poor and vulnerable sectors. Thus, we see a clear increase of social public expenditure as compared to the 1980s; however, such increase had no relation with the structural adjustment policies of the time, which contemplated a change in the government’s role, objectifying its reduction in economy participation. At the beginning of the 21st century, there was a change in government, with higher commitment to social policies, offering protection upon loss of the family income, poverty due to lack of income and exclusion. These types of policies is aimed at fighting poverty and fighting inequality, seeking to articulate several social programs that combine traditional social security goals with assistance programs. Among the variables considered by the policies are: lack or loss of job (particularly among young people, ethnic minorities and less qualified people), reduction of income due to unemployment of the head of the family, risk regarding the cycle of life (aging, maternity, others), truancy, nutritional deficiencies and lack of health control. In this way, the government takes a more active role in the search for solutions to inequality issues.

According to the ECLA Social Panorama report (2012a), until 2010 the region showed a tendency to actual increase of the resources available for the financing of social services and transfer to homes. At the beginning of the 1990s, social expenditure was 11.2 percent of the GDP, with a systematic increase in the two-year periods analyzed until reaching 15.6 percent of the GDP in 2005–06, 16.6 percent in 2007–08 and 18.6 percent in 2009–10 (see Figure 6).

During the last year considered, the region (21 countries) allocated almost 600,000 million dollars to the social area. The evolution of social public expenditure had been highly pro-cyclical until middle 2000. However, in the following years several countries began a systematic effort to strengthen social programs, particularly those aimed at fighting poverty. Such change to social expenditure was, to a great extent, a reflection of the measures implemented to face several impacts coming from the outside: the increase in the price of food and fuel in 2008, the increase process in the basic export products began in 2003; the world financial crisis, with its largest reflection and consequences between the end of 2008 and 2009, and the most recent international uncertainty and deceleration of the world economic growth. These new anti-cyclical dynamics are a positive tendency, although we should highlight that social expenditure in the long term
has little redistributive impact. This means that, on one hand, there is a negative effect of social expenditure related to the low redistribution repercussion and, on the other hand, governments took another position, giving more priority to social policies. Thus, since 2005 social public expenditure became pro-cyclical, addressed to defending and strengthening the resources destined to social sectors. However, as pointed out before, the most recent data indicate that the tendency to sustain and increase social expenditure will start reverting, due to uncertainty as to the performance of developed economies beyond the 2008–09 financial crisis. Despite the foregoing, it would be very important to maintain the several social programs that resulted from such policies, to consolidate a new dimension of social expenditure.

As for the social programs implemented in the region, there are different characteristics and consequences. We shall explain some of them below.

The direct transfer of income to the poorest sectors is one of the strategic tools of social policies and the fight against poverty. As highlighted by ECLA (2010b), such a program can be classified as non-contributive and is aimed at increasing the consumption of families and, thus, reducing short-term poverty, incentivizing investment in human capacity and incorporating the population in protection and social promotion networks. Since the middle 1990s, these programs began as Education, Health and Nutrition Programs, first launched in Mexico (PROGRESA/
Oportunidades) and then in Brazil with several programs addressed to the same public, families with school-aged children, consolidated in the program Bolsa Família.

Currently, 17 countries in the region apply income-based transfer programs, which benefit over 22 million families, which corresponds to about 100 million people, 17 percent of the population in Latin America and the Caribbean. Such programs ensure that resources reach the most needy persons, being one of the most distributive items of social expenditure. However, such programs represent only 2.5 percent of the total social public expenditure in the region, on average. As to the impact of the most important programs on inequality in the region, such as Bolsa Familia, Oportunidades and Chile Solidario, results differed. In the case of Chile, results were modest and achieved only a 0.1 percent reduction of inequality. The impact of the other two programs was higher: about 2.7 percent reduction of inequality (ECLA 2010b).

Changes in the Productive Structure and Its Impact on the Labor Market

At the beginning of the 1950s, the development theory highlighted the importance of the productive structure and its transformation as a key factor for economies that wanted to change their condition from “late” or underdeveloped. Meanwhile, it is said that there is not just a single way to make such transition. The 1990s featured implementation of a development model based on neoliberal type policies. Such policies brought to the economic debate the matter of structural change as a goal to be achieved with such a new model. Economic analysts agree that the region underwent a significant structural transformation and that the productivity income achieved by the industry in the 1990s was a result of such changes. They reached mainly the industrial sector. However, opinions as to their consequences are contested among analysts. Table 2 shows how variations in the participation of the various economic activity sectors in production in the region were contributing to the change established in the current growth pattern. The industrial sector has a key role in such change, showing the most important drop among sectors in the period, almost 5 percent of the GDP, going from 18.9 percent in 1990 to 14.5 percent in 2011. The financial intermediation sector also showed a large reduction, about 10 percent during the period. The exploitation of mines and quarries increased their participation by 1.6 percent during the same period, and the transportation, storage and communications sectors also increased.

The data show that during recent years the most modern and fundamental sector for development, which is industry, lost dynamism. Therefore, questions arise as to the role of the industrial sector for development, considering that this matter had been dealt with in the pioneering work of ECLA. Although 60 years have elapsed...
since the first structuralist works, the debate remains in force (live and current), mainly due to the mediocre performance of industry in the region and the fact that the new world set-up leads to specialization in natural resource-intensive sectors. As held by Mesquita Moura (2005), there is great controversy in the debate on the role of industry, based on different works, such as Sachs and Warner (1997), that refers to the result of an inverse relation between natural resources and growth.2 On the other hand, there is also debate as to whether there is a deindustrialization or not in the main countries of the region (Bresser Pereira 2010; Oreiro and Feijó 2010). Parallel to this discussion is the great impact of the extraordinary growth of international trade and the increase in the price of commodities that drive economy to a specialization in goods of this type (ECLA 2012b). Thus, the relation that should exist among industrialization/growth and development takes center stage. Developing countries have tried to industrialize since the 1950s, first replacing imports, led by Latin America, and then by promoting their exports, led by the East-Asian countries. The debate as to industrialization vs. specialization is not concluded and is not an issue to be retaken in the academic environment. In this context, the neoliberal type policies applied in the last two decades, which disregarded any kind of government intervention in economy and left producers subject to market failures, are analyzed. The reduction in government intervention partially influenced the behavior of companies in relation to credit, the lack of incentives to invest in human resources and technology, etc. As held by Moreira (2005):

The history of industry in Latin America is the story of an industry that has had to adjust to the realities of an open economy and, in the process, has needed to fight against a geography and an allocation of factors that are unfavorable; you face an unfavorable

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting, forestry and fishing</td>
<td>6.6</td>
<td>5.8</td>
<td>5.4</td>
<td>5.1</td>
<td>5.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>4.4</td>
<td>3.3</td>
<td>4.9</td>
<td>6.8</td>
<td>6.3</td>
<td>6.0</td>
</tr>
<tr>
<td>Manufacturing industries</td>
<td>18.9</td>
<td>17.0</td>
<td>17.0</td>
<td>15.8</td>
<td>14.9</td>
<td>14.5</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>2.1</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Construction</td>
<td>5.0</td>
<td>5.6</td>
<td>5.4</td>
<td>5.7</td>
<td>5.8</td>
<td>5.6</td>
</tr>
<tr>
<td>Wholesale and retail, repair of goods, and hotels</td>
<td>15.5</td>
<td>13.4</td>
<td>13.8</td>
<td>13.5</td>
<td>13.3</td>
<td>13.0</td>
</tr>
<tr>
<td>and restaurants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>6.6</td>
<td>6.8</td>
<td>8.2</td>
<td>7.9</td>
<td>7.6</td>
<td>7.5</td>
</tr>
<tr>
<td>Financial intermediation, renting and business</td>
<td>20.9</td>
<td>13.8</td>
<td>13.0</td>
<td>11.0</td>
<td>9.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Public administration, defense, social services</td>
<td>18.5</td>
<td>20.5</td>
<td>19.0</td>
<td>19.3</td>
<td>20.6</td>
<td>21.0</td>
</tr>
</tbody>
</table>

Source: ECLA 2012a, Annual Statistics, various years.
macroeconomic environment and asymmetrical competition marked by competitors generously assisted by their governments. (Originally in Portuguese)

Loss of participation by industry had an impact on the labor market, which had a low performance in the 1990s, improving in the following decade, mainly due to the GDP expansion cycle. According to ECLA report (2010b) the analysis of labor productivity in the region shows that performance varies greatly among the economic sectors.

Latin America is characterized by the fact that its internal markets are structurally heterogeneous. This means that markets are very fragmented due to the existence of large productivity gaps. The region’s economic structure may also be analyzed considering three productivity layers: high, middle and low, with different access to technology and the markets. The high layer, consisting of export activities and large operating scale companies (over 200 workers) generates 66.9 percent of the product and only 19.8 percent of the total employment. The middle layer, consisting of small and medium enterprises (SMEs), generates 22.5 percent of the product, and its employment represents 30 percent of the total. Finally, the low layer, related to what is usually referred to as the informal sector, concentrates half of the employment and provides only 10.6 percent to the product, as shown in Figure 7 (ECLA 2011).

As held by ECLA (2010b), during the 1990s, the participation of low productivity sectors in urban employment increased from 47.2 percent at the beginning of the decade to 50.8 percent near 2002, dropping to 47.2 percent in 2009, as shown in Figure 7. This small reduction is a reflection of the higher dynamism during recent years, interrupted by the 2009 crisis. Such a feature, in a way, explains a very unequal distribution of productivity (measured by GDP per employee). In the end, this leaves room for a very heterogeneous appropriation of income among workers, becoming a structural limitation that perpetuates disparity and affects access to wellbeing in the region. While employment concentrates on the low productivity layer, the most appropriation of profit (participation in the GDP) takes place in the high layer, which only absorbs approximately one out of five employees. Such asymmetry is, to a large extent, responsible for the concentration of labor income in Latin America, as held by ECLA (2011). However, there is a positive factor to be highlighted, related to the division line between sectors according to technological intensity: in 2009 low productivity sector workers represented 42.7 percent of the employed urban population, this figure being better than the one registered around 1990, when the employed population in the sector reached 48.1 percent.

Thus, we see that low productivity sectors are the ones who absorb most labor and who have lower remunerations. Sectors with more productivity are those who
absorb fewer employees and have higher remunerations. This makes us question a
fundamental matter on growth and development, for such disparity in the relation
between productivity and remuneration reflects issues as to the distribution
of income. A virtuous relation among such variables would be reached when
salaries grow at the same pace as productivity. In Latin America, during the last
two decades, there was volatile economic growth, reflected in the insertion to the
labor market and the level of remunerations. Unemployment increased during
the 1990s and the beginning of the 2000s, as some countries established labor
amendments that led to flexibility in the market and more instability of formal
employment. The recovery cycle of economy as from 2003 had a positive impact
on the unemployment rate. However, we see a drop in employment in industrial
sectors and a trend of growing employment in service activities, as shown by
Figure 8, which only presents data for Brazil and Chile, while the economies of
Mexico and Argentina followed the same trends.

Thus, we see how the relation between productivity, employment and salaries
was not uniform for the whole region, or all economic activities, which in a way
is no news for peripheral economies, to the extent that their dynamic sectors are
not successful in spreading productivity increase to the rest of the economy. The
creation and/or destruction of job positions that took place in the region during the
1990s are related to such disparities in the economic structure. The result was an
increase in the productivity sectors job positions, showing that the change to the
sectorial distribution of employment had a negative impact on productivity growth.
Although the last decade showed an expansion cycle and an improvement of indicators, the sectors that most absorb labor are low productivity sectors, limiting development and improvement of the population’s wellbeing.

Conclusions

Taking the last two decades of application of liberal policies as a reference, Latin America showed mediocre growth, even though there was an expansion cycle in the last decade that allowed the region to present better social indicators. The last decade showed a reduction in inequality, which is a positive situation for the region, considering that it has historically been featured as the most unequal region. Several social programs were implemented in order to fight poverty, which had positive repercussions on the distribution of income. However, they did not improve inequality. Notwithstanding the foregoing, the growth rate in the long term depends on structural variables that influence the way of absorbing technology, technological specialization, training of the workforce, etc. We can say that Latin-American economies had a significant transformation in their productive structure, considering that the most relevant “modern sector,” which is industry, was
the sector that most lost dynamism during the period under analysis. In addition, the sector that absorbed most employment was the low productivity sector, and the gap between low and high productivity salaries increased during the period.

Despite the improvement of social indicators, this situation finds its limitation in a productive structure with large gaps between sectors together with a labor market that has the low productivity sector as its primary employer.

This questions the region’s ability to achieve higher development mainly, as held by ECLA vision authors, because transformation of the productive structure is important and it is from such a point that advancement to a more modern society will take place. In this line, we see that sectors with higher productivity are not those employing more workforces, which creates a complex situation, because the most dynamic sectors cannot spread the improvement achieved during the last period to the rest of the economy. Thus, the service sector becomes the focus of employment in the region.

Therefore, although the region showed improvement in inequality, poverty levels and a change of the government’s role by means of anti-cyclical policies, which is really positive and encouraging, an economic structure that is more dynamic and closer to the international technological border has not been achieved yet. This shall remain the challenge for Latin America and a key point of development policies.

Notes

1. In the 1950s, economists of the CEPAL perspective warned against this feature and created the underdevelopment concept, to refer to the specific way in which the region absorbs technical progress and distributes income.
2. Sachs and Warner (1997) confirm that the countries with most natural resources exports grew slowly in the last 20 years. Thus, a negative relation is established between natural resource-intensive product exports and economic growth.
3. Development policies should have, among their outlines, measures aimed at strengthening the productive process, focusing on improving insertion to the labor market.
4. As to development theories, there is debate on market industrialized economies and the possibility of improvement for post-industrial and service economies. In this perspective, economies would begin from a subsistence traditional society condition, going through a growing industrialization and productive and social differentiation phase, to a consolidation of a society supplemented by the secondary and third sectors. In the case of Latin America, we see that such supplementary nature is questioned to the extent that the modern sector becomes less dynamic.
5. This phenomenon, which takes place in the peripheries of capitalism, was referred to as “structural heterogeneity” by Anibal Pinto.

References