

Inequality, Poverty and Growth: Is the era of Liberalization and Globalization leading Latin America to prospects for Pro-poor economic development?

By Oscar Ugalde¹

Abstract:

The implementation of Stabilization, Liberalization and Globalization strategies based on the Washington consensus policy paradigm has led the Latin American economies to experience disequalizing effects on income distribution and poverty. The lack of attention paid to the issue of inequality in research studies and by proponents of the Washington consensus may entail large economic, social and political costs. This essay attempts to bring together the debates of whether income inequality has increased in Latin America during the period 1980-2000, whether inequality has influenced growth in this region and whether inequality has led to a reversal in the poverty alleviation effort. If the essay demonstrates that the Washington consensus raises perceptibly income inequality, and that income inequality

both an impediment to both poverty alleviation and growth, then a profound controversy would be originated between the international community's poverty reduction objectives and the economic policies of the Washington Consensus.

Keywords:

Inequality / Poverty / Globalization / Latin America

Resumen:

La implementación de estrategias de estabilización, liberalización y globalización basadas en el paradigma de política del Consenso de Washington ha llevado a las economías latinoamericanas a experimentar efectos desiguales en la distribución del ingreso y la pobreza. La falta de atención dada al tema de la desigualdad en investigaciones y por los seguidores del consenso de Washington podrían acarrear costos económicos, sociales y políticos elevados. Este ensayo pretende hacer conciencia sobre los debates de si la desigualdad de ingresos ha incrementado en Latino América en el periodo 1980-2000, de si la desigualdad ha influenciado el crecimiento en la región y de si, la desigualdad ha llevado a un fracaso el esfuerzo de reducción de la pobreza. Si este ensayo demuestra que el consenso de Washington aumenta perceptiblemente la desigualdad del ingreso, y que la desigualdad del ingreso es tanto un impedimento a la reducción de la pobreza y como para el crecimiento, entonces una amplia

¹ M.A. in Development Studies-Economics of Development, M.B.A.-International Trade, Mr. Ugalde is Administrator at the Latin American Center, Friends World: Global Issues Program, Long Island University. He is also lecturer at ULACIT. Comments about the essay to: oscar.ugalde@liu.edu

controversia se originaria entre los objetivos de la reducción de la pobreza de la comunidad internacional y las políticas económicas del consenso de Washington.

Palabras clave:

Desigualdad / Pobreza / Globalización / América Latina

1. INTRODUCTION: HISTORICAL CONTEXT, RATIONALE AND PURPOSE OF THE STUDY

“Globalization has dramatically increased inequality among and within nations” Jay Mazur, *Labor’s New Internationalism, Foreign Affairs* (Jan/Feb 2000)

“We have to reaffirm unambiguously that open markets are the best engine we know of to lift living standards and build shared prosperity” Bill Clinton, *Speech at the World Economic Forum* (2000)

Despite the fact that the world economy grew well during the 1990’s (even with the impact of the crisis in East Asia), there is intense debate over the extent to which the poor benefit from this growth. The two quotes above exemplify the extremes of this debate. On one hand, the first quote argues that the potential benefits of economic growth for the

poor are undermined or even offset entirely by sharp increases in inequality that accompany growth as well as the subsequent effects that poverty causes. On the other hand, the second quote argues in favor of liberal economic policies and open markets to promote betterment in the incomes of the poor and everyone else in society proportionately. This debate has caused new awareness of poverty-related topics in the last decade as well as a surge in the attention towards the issue of poverty reduction by governments, the international financial institutions, the United Nations, and social scientists. However, a similar shift in focus and policy stance has yet to take place in the case of income inequality. The neglect of rising high inequality has meant that over the last decade poverty reduction has been mainly pursued through economic growth and safety nets targeted at the poor, a strategy that relies solely on it is flawed in several respects. To start with, when the “initial asset inequality is high and economic improvements are concentrated within a few groups, the poverty reduction elasticity of growth is low” (Cornia, 2004, p. 4) creating little employment for the unskilled workers. Second, high inequality may have an inverse effect on the growth rate of the Gross Domestic Product per capita itself. Third, inequality has been viewed as been neutral or even good for growth by the most recent theoretical and applied research (Benabou). In sum,

inequality could increase economic, social, and political costs.

The recent rise in within-country inequality has coincided with the birth of a new policy paradigm known as the Washington consensus by which international trade is eliminated and capital flows are liberalized as well as the creation of a new patent regime that regulates technology transfers and intellectual property (Cornia). Such reforms were adopted by most Latin American countries in the 1990's, and were often preceded in the 1980's by the liberalization of domestic markets and privatization of state assets.

As an attempt to contribute to the new policy debate related to inequality in Latin America, this essay is committed to answering the main hypothesis: Has the new Washington Consensus-inspired policy paradigm lead to a reduction of inequality and poverty in L.A.? Despite the fact that the Washington consensus promotes development based on a surge of economic growth, less so in terms of an improvement in income inequality. However, the distributive impact of domestic and external liberalization has turned to be less favorable. This essay will bring together the three debates alluded to above, namely the recent rise in domestic income inequality, the likely impact of these changes on poverty alleviation, and the distributive impact of the Washington consensus.

2. RESEARCH METHODOLOGY AND EXPECTED MODEL RESULTS

This essay has three main sub-hypothesis. First, it aims at demonstrating and understanding the recent increases in within-country inequality against the background of changes occurring in this area during the period of study (1980-2000). It reviews the literature on income inequality since the end of Second World War on the basis of country analysis data and regional reviews. It also studies the changes of income inequality by exploring the trends in Latin America based on the Gini coefficients and deflated Gross Domestic Product (GDP) per capita. A few Kuznets curves are built based on the non-linearity principle of these changes (quadratic equations) with an econometric analysis stated on a regression fit line to better illustrate these effects. The information is extracted from the World Income Inequality Database co-developed by the World Institute for Development Economics Research and United Nations Development Program. The expected outcome is an initial increase in the level of inequality in Latin America in the period 1980-1989 as a result of the level of GDP per capita and level of economic development. Thereafter, the expected outcome is stagnation in the level of inequality as the level of GDP per capita increases. As the level of GDP per capita increases more, the level of inequality will tend to decline as there is better income distribution

in society. An inverted U shape Kuznets curve is expected (Kuznets).

The second objective is to analyze the effect of income inequality on poverty reduction through the application of a simple classical linear regression model. This hypothesis is tested to determine whether the variables are statistically significant and understand the effect of Income inequality (based on the decade averages of the Gini coefficients) on Poverty (calculated as the percentage of the population below the poverty line – Poverty Incidence). The expected result of the model is that income inequality will hamper poverty alleviation.

The third objective of the study is to determine the effect of income inequality on growth. As the objective stated previously, an econometric model is built including the relevant variables: Income Inequality and Growth (using the GDP per capita for each country deflated and adjusted through a log form). Then, this hypothesis is tested to determine whether the variables are statistically significant. The expected result of the model is that income inequality will decelerate economic growth.

3. MAIN FINDINGS:

Latin America: A rise in Inequality in the 1980s followed by a further rise or stagnation in the 1990s.

3.1. Recent Literature review

In the early -to mid- 1950s Gini coefficients in Latin America ranged from 0.45 to 0.60 – that is, among the highest in the world. The two exceptions to this generalization are highly urbanized and educated Uruguay and Argentina (Altimir 1996). The cause of such income concentration was a highly unequal distribution of land and access to education, which was only available to a 'tiny agrarian, mining, and commercial oligarchy' (Cornia, 2004, p. 32). The application of Import Substitution Industrialization strategy in the 1950s had a multiplying effect on growth, but on the whole with a disequalizing impact. Out of the 21 growth samples collected by Altimir (1994), inequality fell in four cases, remained the same in five, and increased in eleven. By the 1970s, argues Altimir, inequality decreased moderately in most of the region except for the Southern cone countries after the application of liberal reforms by the military regimes. According to Cornia:

"The combination of a rise over the 1950 to the 1960s and a fall over the 1970s meant that by 1980, all medium and large-sized Latin American countries has a greater concentration of income than in the early -to mid- 1950s." (p. 15)

A subsequent period of income polarization continued during the period 1980-2000 where only 18% of the sample countries improved their

inequality based on the negative net change in the chart presented below. 88% of the 17 countries analyzed presented a worsening of the income concentration. These surges in inequality were the result of the recessionary spells and slow declines during periods of recovery. According to Cornia, the regional poverty elasticity of growth was 1.8 during recessions but only 0.6 during recoveries. "In particular, the functional distribution of income worsened during recessions, as suggested by 5-6 percentage points in the labor share between 1980 and the late 1980s in Argentina, Chile, and Venezuela, and the 10-point decline in Mexico"(Cornia, p. 32). This trend is reinforced by the high concentration of income in the first quintile (first 20% of the population) receiving between 50.1 to 65.1% of the income generated in the nation. Normally, the capital share concentration favors this first quintile composed of business owners,

professionals and skilled labor in relation to the lower quintile (Fifth 20%) composed of the unskilled labor force and other. This trend is also underlie by changes in the labor markets which is summarized as follows: a decrease in the process of job creation due to the recessions and slow recoveries, an increase of the informal sector labor force as a result of a shift to the non-traded sector, a de-accelerating rise in average formal sector wages in relation to GDP per capita, a decrease in the minimum wage in relation to the average wage (Sainz and Calcagno), and an increase in the wage differentials by skill and educational level (Szekely and Hilgert 1999).

3.2. Analysis of the data extracted from the WIID for the study period 1980-2000:

From the WIID, the following information has been selected for the Latin American countries:

Country	Average Gini Coefficient Decade 1980's	Average Gini Coefficient Decade 1990's	Net change -/+	1st Quintile of Pop. % of income	5th Quintile of Pop. % of income
Argentina	40	46.36	6.36	3.1	56.4
Bolivia	52.01	56.14	4.13	1.05	65.57
Brazil	59.1	58.19	-0.91	2.44	65.64
Chile	53.66	54.63	0.97	3.4	62.2
Colombia	49.93	55.92	5.99	2.42	61.48
Costa Rica	44.79	45.61	0.82	3.66	54.75
Ecuador	44.22	52.97	8.75	3.01	60.36
Guatemala	56.06	54.62	-1.44	2.3	63.9
Honduras	56.2	54.38	-1.82	2.8	58.9
Mexico	48.89	52.87	3.98	3.22	58.2
Nicaragua	50	53.69	3.69	2.7	59.5
Panama	53.57	54.86	1.29	2.26	61.52
Peru	43.59	46.62	3.03	3.98	56.18
Paraguay	45.12	52.79	7.67	1.93	60.62
El Salvador	44.2	50.97	6.77	2.9	57.1
Uruguay	40.87	43.74	2.87	4.8	50.1
Venezuela	42.11	47.02	4.91	4.27	50.64

Summary statistic:

Percentage of countries with a decrease in inequality in Latin America ('80-'00) 18%

Percentage of countries with an increase in inequality in Latin America ('80-'00) 82%

Country with lowest Gini coefficient in the sample of 17:(80's-90's): Uruguay
Country with highest Gini coefficient in the sample of 17:(80's-90's): Brazil
Countries that experienced a net decrease in inequality in the 80's-90's: Brazil, Guatemala and Honduras
Low or negative increase in inequality (1980-2000)-
Countries in range -1.44 - 2.5 points
Moderate increase in inequality (1980-2000)-
Countries in range 2.6 - 4 points
High increase in inequality(1980-2000) -
Countries in range 4.1 and above
Source: WIID and writer's own calculation, Chart N. 1

Eighteen percent of the countries experienced a decline in inequality

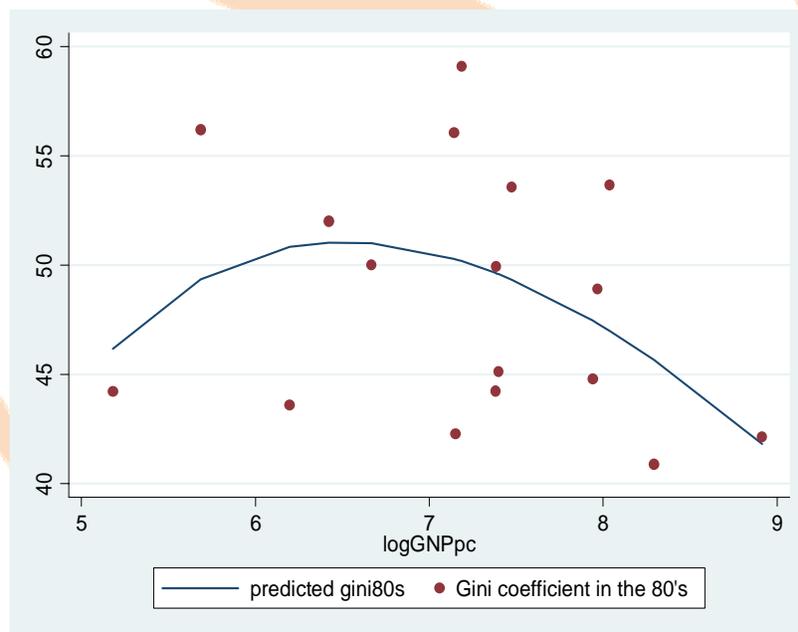
(Brazil, Guatemala and Honduras). However, Brazil presents the highest

Gini coefficient during this period. Eighty eight percent of the countries suffered an increase in inequality. The country that presents the lowest Gini coefficient is Uruguay. According to a classification developed by Ugalde, a range of inequality categories are proposed that divides the impact of inequality between low or negative, moderate and high in this period. The countries with low or negative inequality 1980-2000 are: Brazil, Honduras, Guatemala, Chile, Costa Rica and Panama. The countries with moderate increase in inequality 1980-2000 are: Mexico, Nicaragua, Peru and Uruguay. Finally, the countries

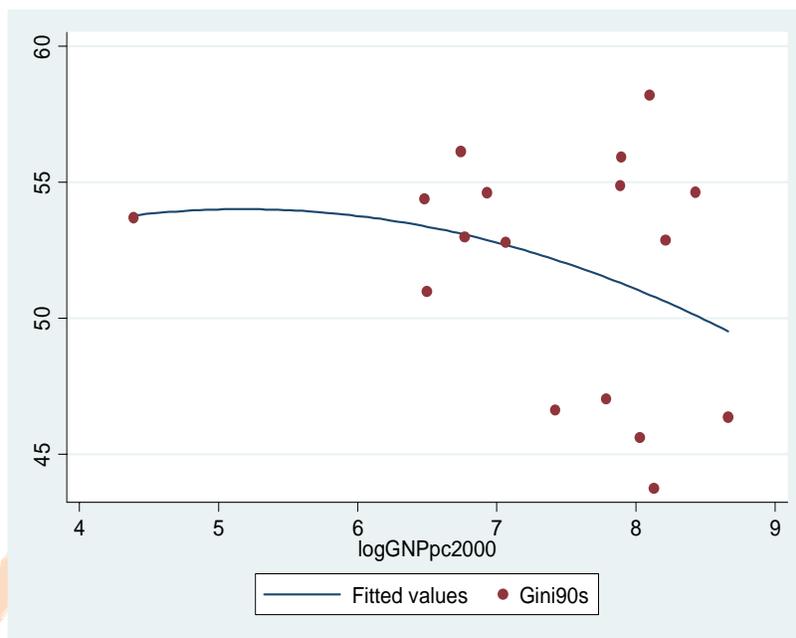
with high increase in inequality 1980-2000 are: Argentina, Bolivia, Colombia, Ecuador, Venezuela, El Salvador and Paraguay.

The trend of inequality during the period of study will be discussed based on the construction of two Kuznets curves based on an econometric analysis through a fit regression graph using a quadratic equation to consider the non-linear behavior of this phenomenon. The first Kuznets curve is for the period 1980-1989 and the other one is for the period 1990-1999.

Kuznets' curve 1980s



Kuznets' curve 1990s



Graph N. 1 Source: By author Graph N. 2 Source: By author

The Kuznets' curve for the 1980's presents a concave shape (inverted U shape) where it can be induced that at increasing low levels of GDP per capita, the inequality tends to increase as shown by the fitted line. When the log of GDP per capita reaches an approximate value of 6.4, the fitted line representing the Gini coefficient begins to de-accelerate or stagnate. Inequality begins to slow down; thereafter. At higher values of GDP per capita, the level of inequality begins to decline.

The Kuznets' curve for the 1990's presents a smoother concave pattern with a trend to decline. Comparatively, GDP has grown a decade more in relation to the previous curve (1980s) so the pattern over time is easier to predict and the average Gini coefficients begin at a

higher level than the preceding one. The trend here is for inequality to decline as GDP per capita keeps on increasing. Therefore, the prediction of the model is met. The result is an inverted U-shape (concave) curve that predicts initial levels of increases of inequality with the first increase in GDP per capita and initial stages of development. As the economy grows and GDP per capita increases, the levels of inequality stagnate and eventually will decline as shown in the graph, meaning the distribution of income improves. The predictions of the model are met.

As demonstrated with the recent literature on the subject, the data presented in the chart and the Kuznets curves drawn, the Washington consensus policy paradigm has not helped to alleviate

inequality of income distribution in the period 1980-2000.

3.3. Econometric analysis

3.3.1. Inequality as an impediment to growth?

Based on the equation: $\log\text{GNPpc80s} = \beta_0 + \beta_1\text{Gini80s} + \mu_i$, where $\log\text{GNPpc80s}$ is the G.N.P. per capita

of the 1980s in a logarithmic form, β_0 is the intercept, β_1 represents the slope of the regression line, Gini80s represent the average change in the Gini coefficients for the 80s and μ_i is the disturbance term. The data is obtained from WIID and the UNDP, the results are presented in the chart that follows:

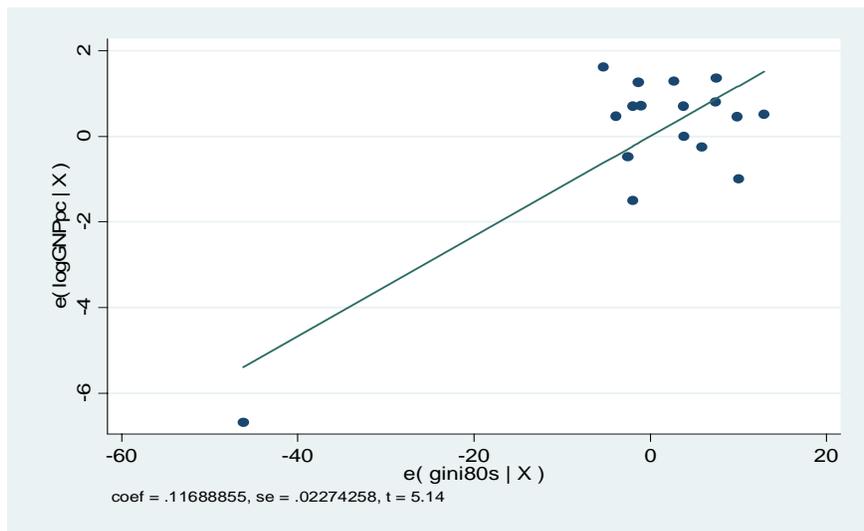
Source	SS	d.f.	MS	Number of obs	15	Significant	H0 Rejected?	Level of significance
Model	37.4248511	1	37.4228511	F(1, 13)	26.42	Yes	Yes	0.025
Residual	21.2513595	15	1.4167573	Prob > F	0.0001			
Total	58.6762106	16	3.66726317	R-squared	0.6378			
				Adj. R-Squared	0.6137			
				Root MSE	1.1903			
$\log\text{GNPpc80s}$	Coef.	Std Err.	T	P>[t]	[95% Conf. Interval]			
Gini80s	.1168886	.0227426	5.14	0.000	.0684139	.1653632		
-cons	1.283387	1.088444	1.18	0.257	-1.03657	3.603352		

Table N. 2: Source: Results obtained by author with Stata 9

The variables selected should be coherent with the economic theory that supports the model, the inverted-U shape Kuznets theory says that at initial stages of growth (low to mid GNP per capita), inequality increases, then, at mid-income ranges or levels of growth inequality slows down or stagnates, finally high levels of growth are reached along with declining rates of inequality. The impact of growth on income is measured through the variable $\log\text{GNPpc}$, and the reduction of income inequality is measured by the Gini coefficient in the variable Gini80s . The inductive and theoretical rationale known a priori expects that Inequality impacts $\log\text{GNPpc}$ positively during the 1980s, at the

initial stages of the 'Inverted U' theory. Thus, the β coefficient is expected to be positive.

The computed t-value 5.14 exceeds the critical value $t_{\infty/1} = 2,160$ at the chosen level of significance $\infty = 0.025$, it is statistically significant. Therefore, inequality does not represent an impediment to growth (GDP per capita) considering the initial phase of the Kuznets curve. Growth has definitely been promoted by the Washington consensus during the 1980s through its policy paradigm without diminishing inequality. The following plot summarizes the results obtained in this stage of analysis where inequality does not hamper growth.



Graph N. 3 Source: By author

The second part of the analysis will use the latter stages of prediction of the 'Inverted U' theory in which Kuznets explains that growth increases with a stagnating or declining rate of the average Gini coefficients in Latin America for the 1990s. The inductive and theoretical rationale known a priori expects that Inequality impacts logGNPpc negatively during the 1990s, at the latter stages of the 'Inverted U'

theory. Thus, the β coefficients are expected to be negative.

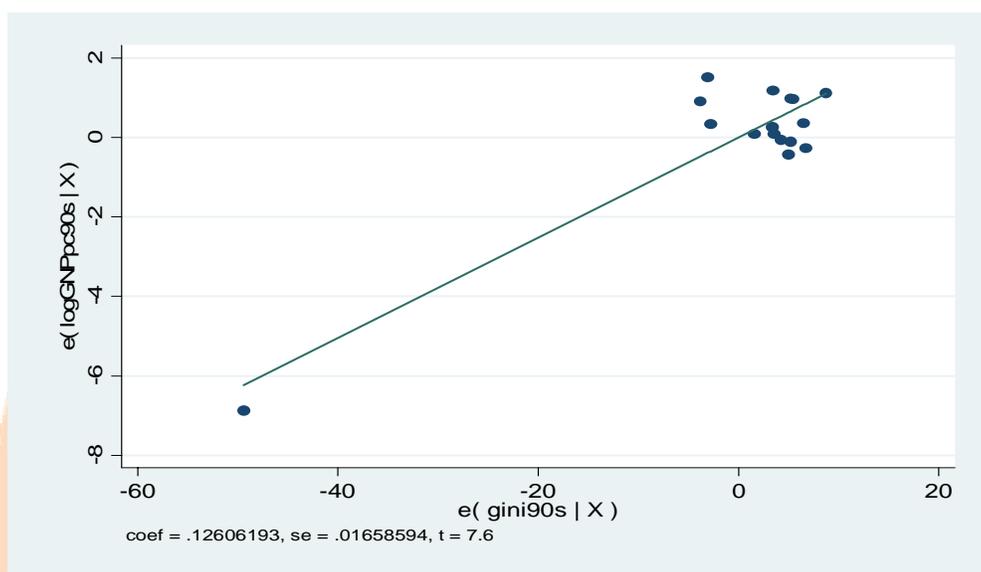
Based on the following econometric equation: $\log\text{GNPpc90s} = \beta_0 + \beta_1\text{Gini90s} + \mu_i$, and the data obtained from WIID and the UNDP, the results are presented in the chart that follows of the analysis, but obviously the observations are from the 1990s data set. The results are presented as follows:

Source	SS	d.f.	MS	Number of obs	15	Significant	H0 Rejected?	Level of significance
Model	44.5482068	1	44.5482068	F(1, 13)	57.77	Yes	Yes	0.025
Residual	10.7961952	15	14.771156797	Prob > F	0.000			
Total	55.3444019	16		R-squared	0.8040			
				Adj. R-Squared	0.7910			
				Root MSE	.87816			
logGNPpc90s	Coef.	Std Err.	T	P> [t]	[95% Conf. Interval]			
Gini90s	.1260619	.0165859	7.60	0.000	.0904886 .1616352			
-cons	.6392129	.8484682	0.75	0.464	-1.18057 2.458996			

Table N. 3: Source: Designed by author with Stata 9.

The computed t-value 7.60 exceeds the critical value $t_{\infty/1} = 2,160$ at the chosen level of significance $\infty = 0.025$, it is statistically significant. Therefore, inequality does not represent an impediment to growth (GDP per capita) which contradicts the latter phase of the Kuznets curve predictions. The β coefficient is

positive determining that growth has again definitely been promoted by the Washington consensus during the 1990s through its policy paradigm. Inequality has not hampered growth. The following plot summarizes the results obtained in this stage of analysis where inequality does not hamper growth.



Graph N. 4 Source: By author

The contradiction with the predictions made by the Inverted U-shape theory originates from the fact there is a procedural difference. When graphing the Inverted U Kuznets curve for the 1990's in section 3.2., a quadratic form equation was used that reflected the non-linearity principle of this relationship. In the actual analysis, a simple classical linear regression model is used, so the latter phase of the Inverted U shape curve does not reflect the decline in inequality when income keeps on increasing during the latter phase of growth; therefore,

the β coefficient is not negative, though, the variables still have a lot of explanatory power.

In sum, inequality does not hamper growth because in both periods the 1980's and 1990's, the regression lines are statistically significant and the relationship between the GDPs per capita and the Gini coefficients has positive β coefficients. The Inverted U shape theory is only partially demonstrated in the initial stages of development, but not for the latter stages due to the lack of

application of a quadratic equation that would explain the non-linearity phenomenon of the relationship.

3.3.2. Inequality as an impediment to poverty reduction?

Based on the equation: $Poverty80s = \beta_0 + \beta_1 Gini80s + \mu_i$, Poverty80s is the poverty incidence during the 80s. The data is obtained from WIID and the Statistical Abstract of Latin America; the results are presented in the chart that follows:

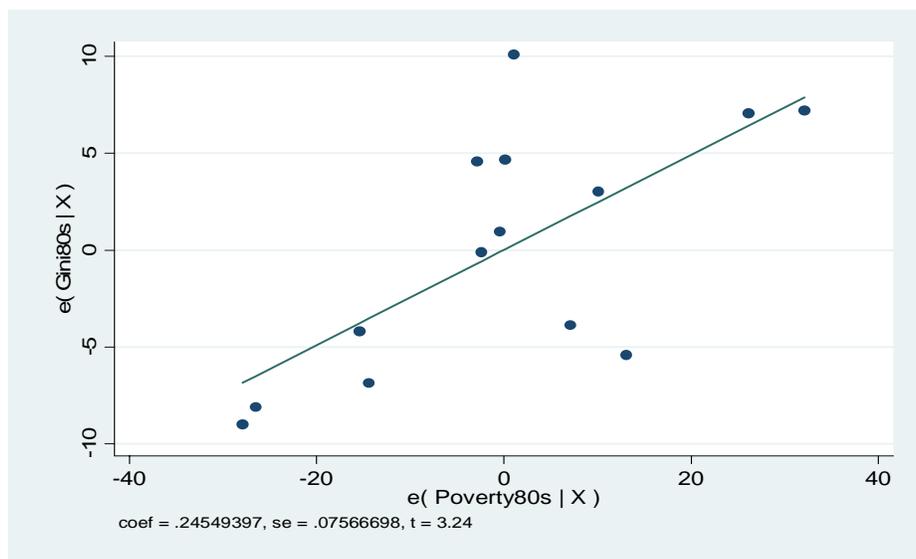
Source	SS	d.f.	MS	Number of obs	14	Significant	HO Rejected?	Level of significance
Model	1858.1029	1	1858.1029	F(1, 12)	10.53	Yes	Yes	0.025
Residual	2118.27426	12	176.522855	Prob > F	0.0070			
Total	3976.37716	13	305.875166	R-squared	0.4673			
				Adj. R-Squared	0.4229			
				Root MSE	13.286			
Poverty80s	Coef.	Std Err.	T	P>[t]	[95% Conf. Interval]			
Gini80s	1.90345	.5866877	3.24	0.007	.6251669	3.181732		
-cons	-54.36972	28.96201	-1.88	0.085	-	8.733076		
					117.4725			

Table N. 4 Source: Designed by author with Stata 9

The variables selected should be coherent with the economic theory that supports the model. A rise in income inequality (whether modest or large) is expected to cause poverty to increase or vice versa. The impact of inequality on poverty is measured through the variable Poverty80s which is the incidence of poverty, and the reduction of income inequality is measured by the Gini coefficient in the variable Gini80s. The inductive and theoretical rationale known a priori expects that inequality impacts poverty positively. Thus, the β

coefficients are expected to be positive.

The computed t-value 3.24 exceeds the critical value $t_{\alpha/1} = 2,160$ at the chosen level of significance $\alpha = 0.025$, it is statistically significant. The β coefficient is positive; therefore, there is a positive linear relationship among inequality and poverty. Greater inequality causes poverty alleviation to slowdown. The following plot summarizes the effects of inequality on poverty.



Graph N. 5 Source: By author

For the subsequent period of the 1990's, the analysis uses the equation:

$Poverty90s = \beta_0 + \beta_1 Gini90s + \mu_i$, and the data used come from the same sources. The results are presented in the chart that follows:

Source	SS	d.f.	MS	Number of obs	15	Significant	H0 Rejected?	Level of significance
Model	1707.2846	1	1707.2846	F(1, 14)	7.02	Yes	Yes	0.025
Residual	3404.48526	14	243.17752	Prob > F	0.00190			
Total	5111.76988	15	340.784659	R-squared	0.3340			
				Adj. R-Squared	0.2864			
				Root MSE	15.594			
Poverty90s	Coef.	Std Err.	T	P>[t]	[95% Conf. Interval]			
Gini90s	2.393236	.9032215	2.65	0.019	.4560185 4.330453			
-cons	-84.28856	47.03959	-1.79	0.095	- 185.1784 16.60132			

Table N. 5 Source: Designed by author with Stata 9

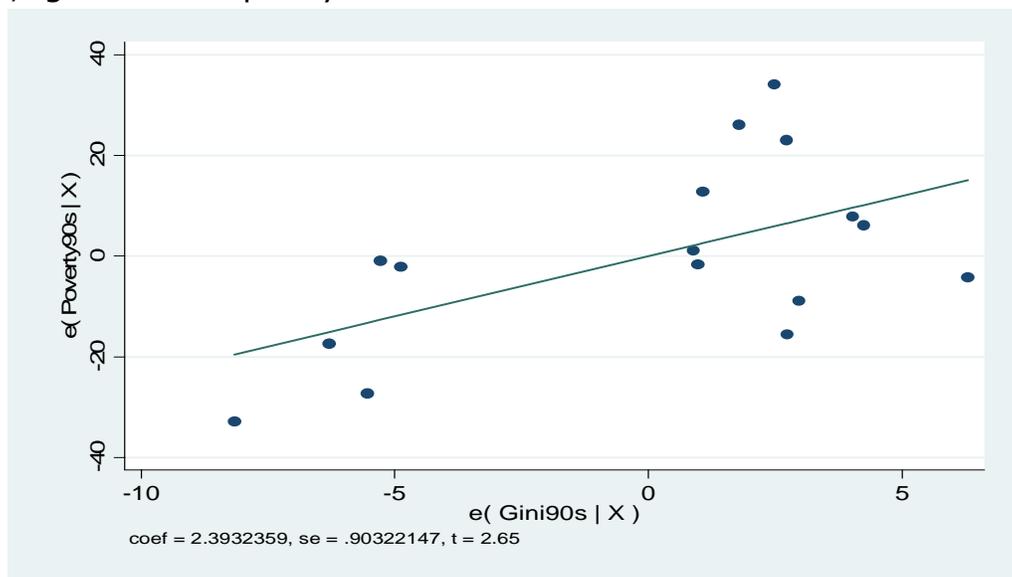
Following the theory known a priori and its predictions, a rise in income inequality (whether modest or large) is expected to cause poverty to increase. Inequality impacts poverty

positively. Thus, the β coefficients are positive.

The computed t-value 2.65 exceeds the critical value $t_{\infty/1} = 2,160$ at the chosen level of significance $\infty =$

0.025, it is statistically significant. There is a positive linear relationship among inequality and poverty. Therefore, greater inequality causes

poverty alleviation to slowdown. The following plot summarizes the effects of inequality on poverty.



Graph N. 6 Source: Designed by author

In sum, inequality is an impediment to poverty reduction due to the fact that the evidence presents two econometric models that are statistically significant and their relationships are positive. The Washington consensus orthodox policies has not been able to induce a poverty alleviation process in Latin America.

transmission between the unequal land distribution and current trends in inequality that persisted in the period 1950's-1970's and even the period of current analysis: Firstly, in countries suffering from high land concentration, a rise in the agricultural share in GDP tends to increase inequality, as the share of 'unequally distributed income' rises. Secondly, the 'legacy effect' that the agrarian oligarchy is able to preserve as new opportunities arise for new industrial developments. Thirdly, the 'exclusionary agrarian growth' (capital market failures) by which there is displacement of smallholders by large land owners. Finally, the lack of past 'human capital accumulation failures' among low-income families is the last channel of transmission.

4. Sources of Inequality Changes:

4.1. To what extent have structural factors influenced the distribution of income in the last decades?

4.1.1. Unequal agrarian structures:

According to Carter (Cornia, 2004, p. 10), there are four channels of

4.1.2. Changes in educational inequality:

Daniele Checchi (Cornia, 2004, p. 11) developed a multivariate regression by which he regressed average years of education and a Gini index of the distribution of educational attainments. His conclusion is that 'the average years of education rose in all regions between 1960 and 1995 while educational inequality, diminished until 1990, but rose rapidly between 1990 and 1995 in sub-Saharan Africa and East Asia, and moderately in Latin America and the OECD countries' (Cornia, 2004, p. 11). Checchi findings seem to confirm that the relationship between the average years of schooling of the workforce and income inequality is U-shaped; therefore, his findings can not explain that changes in average years of education and educational inequality lead to an increase in income inequality.

4.1.3. 'Urban bias' in public spending as a cause of inequality?

The authors Eastwood and Lipton (Cornia, 2004, p. 12) tried to analyze the extent to which structural adjustment policies reduced, as expected, the urban-rural average income gap in the 1980's. Their conclusion is that adjustment policies did not succeed in achieving it because a) urban-area citizens had higher levels of education, thus, this allowed them to better exploit opportunities brought by price liberalization; b) remote rural communities were not reached by the

effects of urban growth; c) there was no decline in public spending in the urban areas and; d) the agricultural prices have continued to decline.

4.2. To what extent have other factors influenced the distribution of income in the last decades?

4.2.1. Skilled-biased technological change:

Ajit Singh and Rahul Dhumale (Cornia, 2004, p. 13) reviews the plausibility that new technologies influence the demand for skills and an income inequality positively more than the old technologies ('more skewed'); therefore, the demand for and wage of unskilled workers drop while that for skilled workers rise faster than their supply. As a result, wage dispersion rises in the sectors using the new technologies. Besides, 'especially in the service sector and in a few industrial branches, new technologies replace unskilled labor with physical capital and in so doing push up the capital share and overall income concentration.

4.2.2. Policies towards Stabilization, Liberalization and Globalization

4.2.2.1. Macroeconomic stabilization:

The application of orthodox economic instruments to achieve stabilization in the early 1980's had differing results depending on the countries where they were applied. The justification of these conventional policy instruments

was the double nightmare of twin deficits caused by the second oil shock during the 82-84 recession.

Stabilization is able to restore macroeconomic balance but causes large recessions and deterioration in income distribution. The distributive impact of stabilization-induced recession is particularly pronounced in low-income countries. In developing countries inequality tends to rise during recessions as wages are downward flexible, social safety nets are little developed, and labor hoarding is rare.

Inflation was another objective tackled by the stabilization programs in the 80s and 90s. There is a strong correlation between income inequality and high inflation as the poor are 'least able to index their incomes and maintain the real value of their assets'.

4.2.2.2. Trade Liberalization

The Heckscher-Ohlin and its Stolper-Samuelson corollary, under restrictive assumptions, shows that free trade raises the income of all trading partners and reduces the wage spread in the country exporting labor-intensive goods. Recent evidence by Dollar and Kray (2000) suggest that "growth and poverty reduction were highest in the countries that significantly cut tariff rates or expanded trade volumes and that trade liberalization did not affect income distribution in these countries" (Cornia, 2004, p.15).

Nonetheless, the study by Dollar and Kray is biased methodologically. Rodrick (2000) repeated the analysis with an unbiased procedure and found that there is no evidence that the globalized ones grew faster than the other countries. Besides, another study by Lindert and Williamson (2001) state that wage inequality has been found to have increased in six out of seven liberalizing Latin American countries, the Philippines and Eastern Europe. The empirical studies including the present essay do not corroborate the predictions of the neoclassical trade theory.

4.2.2.3. Domestic financial reforms and capital account liberalization

According to the neoclassical monetary policy, the liberalization of the capital account, lead to better international and intertemporal allocation of resources, greater overall efficiency, and the convergence of income per capita across countries. It is also predicted that the foreign direct investment and short-term portfolio flows are to create employment for the unskilled workers and improve the distribution of income in countries with large labor stocks.

The evidence in this respect is ambiguous. The entry of capital flows caused credit booms associated with high interest rates and strong exchange rates, that is, changes that negatively affect exports, the current account balance, and income

distribution. As a result, the traded sector suffered losses of employment and/ or wages while the labor made redundant was absorbed in the non-traded sector where wages and employment conditions are less favorable.

Moreover, the financial crisis caused by the instability of capital flows is another important factor to analyze. The financial crises of the 1990s and 2000s entailed devastating losses of output and worsened income distribution via employment, wages, and price effects as pointed out by the authors Galbraith and Lu (1999).

5. CONCLUSION

The Washington consensus paradigm policy applied in the Latin American countries through a process of Liberalization and Globalization has influenced development studies to focus on its impact on inequality, poverty and growth.

The recent rises in inequality during the period 1989-2000 have been demonstrated by the comparison of the Kuznets curve of the 1980's and the 1990's. It is concluded that the pattern of the curve of the 1990's is smoother (less skewed) than the 1980s curve, and the level of the average Gini coefficients in the 1990s are higher if compared to the 1980's; however, the 1990's curve tends to slowly decline to the right as income increases (following Kuznets' prediction of inequality tending to decline as income increases).

Inequality is not an impediment to Growth. The econometric model presented is statistically significant and the evidence supports the sub-hypothesis that growth is not hampered by the increase in inequality in the period 1980-2000. Both graph of the regression lines have positive slopes, This reinforces my main argument that the Washington consensus policies of stabilization and Globalization have encouraged more growth based on increases of the G.D.P. per capita than on the improvement of the income distribution in Latin America

Inequality has not triggered poverty reduction. The programs of stabilization and liberalization promoted by the Washington consensus policy paradigm have not successfully reduced poverty in the Latin American countries. As most evidence shows, it has indeed led to the increase of inequality to a worsening of the poverty indicators in the region.

REFERENCES

1. Altimir, O. (1994) Income distribution and poverty through crisis and adjustment. *Cepal Review* 52, 7-109, 465-90.
2. Altimir, O. (1996) Economic development and social equity. *Journal of Interamerican Studies and World Affairs*, Summer/Fall.

3. Benabou, R. (1996). Inequality and growth. In Bernanke and J. Rotemberg (eds), NBER Macroeconomics Annual 1996. MIT Press: Cambridge MA, and London.
4. Cornia, G. (2004) Inequality, Growth and Poverty in an Era of Liberalization and Globalization. Oxford University Press.
5. Dollar D., and A. Kraay (2000). Trade, growth and poverty. Mimeo World Bank: Washington, DC
6. Galbraith, J. and J. Lu (1999). Inequality and financial crises: Some early findings. UTIP Working Paper 9, LBJ School of Public Affairs, University of Texas, Austin.
7. Lindert, P., and Williamson (2001). Does globalization make the world more unequal? Paper presented at the NBER Globalisation in Historical Perspective Conference in Santa Barbara, California, 3-6 May.
8. Kuznets, S. (1955) 'Economic growth and Income Inequality', The American Economic Review, 45(1), 1-28
9. Ravallion, M. (2001) Growth, inequality and poverty: Looking beyond averages. Paper presented at the WIDER Conference on Growth and Poverty, 25-26, UNU/WIDER: Helsinki.
10. Rodrik, D. (2000). Comments on trade, growth and poverty by D. Dollar and A. Kraay. Mimeo, Harvard University: Boston.
11. Sainz, P. and A. Calcagno (1992) En busca de otra modalidad de desarrollo. CEPAL Review 48 (December).
12. Shorrocks, A, (2004), Growth, Inequality, and Poverty: Prospects for Pro-poor Economic Development, Oxford University Press.
13. Szekely, M. and M. Hilgert (1999). Inequality in Latin America during the 1990's. Mimeo, Inter-American Development Bank: Washington, DC.
14. United Nations University World Institute for Development Economics Research (UNU/WIDER) (2000). World Income Inequality Database. Available online at www.wider.unu.edu/wiid/wiid.htm
15. Wilkie J. (2002) Statistical Abstract of Latin America, Vol. 38, UCLA, 2002
16. World Development Indicators 2006, The World Bank, Washington DC, 2006.