

**INEQUALITY IN LATIN AMERICA:
DRIVERS, DIMENSIONS AND NEW POLICY DIRECTIONS**

Summary Report from the Conference:

DECLINING INEQUALITY IN LATIN AMERICA: ARE THE GOOD TIMES OVER?

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DECREASING INEQUALITY IN LATIN AMERICA: ARE THE GOOD TIMES OVER?

1. CONFERENCE ORIGINS & OVERVIEW

Declining Inequality in Latin America: Are the good times over? sponsored by the Botín Foundation, and organized by Brown University Professor at Large, former President of Chile, **Ricardo Lagos**, **Nora Lustig** (Tulane University) and **Richard Snyder** (Center for Latin American and Caribbean Studies, Brown University), and was held over the course of two days (April 29th- 30th 2015) at the Watson Institute for International and Public Affairs at Brown University. Panels included scholars from across the social sciences as well as practitioners with experience in domestic policymaking and international development. The conference organizers also gathered a panel of journalists from traditional and new media to reflect on how best to communicate research findings and engage broader publics on the topic of inequality in Latin America.

In many ways “Declining Inequality in Latin America: Are the good times over?” was a follow up to the 2007 conference entitled: *Inequality in Latin America* organized by **Barbara Stallings** (Brown University) and **Ricardo Lagos**. The intervening years saw decreasing inequality across Latin America but also the global financial crisis. These factors gave rise to new questions regarding inequality in the region, including: *What accounts for the surprising though ubiquitous decrease in income inequality across Latin America? Will inequality continue to decline, and if so, for how long?* The conference participants took up these questions among others, examining the drivers, dimensions and new directions of inequality in Latin America. The remainder of this section provides an overview of the panel themes, conference participants and paper topics.

Following **Richard Snyder’s** (Brown University) welcoming remarks, **Rebeca Grynszpan** (SEGIB), **President Ricardo Lagos** and **Nora Lustig** (Tulane University) set the stage for the conference. Together, their remarks mapped the conference themes and provided an overview of the dynamics, challenges, and future directions of inequality in Latin America.

The first panel entitled *Inequality, Mobility, the Middle-Class and the Rich* chaired by **Nora Lustig** (Tulane University) included papers on a broad set of topics. **Francisco Ferreira** (World Bank) examined the drivers of the declining inequality in Brazil, **Tasha Fairfield** (London School of Economics) examined the politics of taxation in Chile and **Florencia Torche** (New York University) explored the intergenerational transmission of inequality, presenting findings from an experimental research study that measured the capacity of families to mitigate early exposure to stress.

Ravi Balakrishnan (IMF) chaired the second panel of the day, *Inequality and Mobility in More Challenging Times*, which began with a presentation by **Marcelo Côrtes Neri** (Fundação Getúlio Vargas) on declining inequality in Brazil and the fate of the “bottom 40%”. This was followed by a presentation by **Daniel Lederman** (World Bank) on the prospects and possibilities of sustaining the declining inequality trend in the context of a tightened macro-economic policy space. **Julián Messina** (IADB) highlighted the role that changes in the labor market have had on inequality in Brazil. The panel closed with a reflection by independent scholar, **Vito Tanzi**, who reminded the audience that inequality today has its roots in decades of shortsighted political decisions.

The third panel of the day, *Inequality and Education*, chaired by **Joana Silva** (World Bank) began with a paper by **Ariel Fiszbein** (Inter-American Dialogue) who argued for the importance of sustained reform and proposed a life-cycle approach to inequality-reducing education and labor interventions. In her presentation, **Celia Lessa Kerstenetzky** (Universidade Federal Fluminense, Brazil) emphasized the critical importance of education, not only as an inequality-reducing intervention, but as a central feature in the process of expanding citizenship and creating a political community and ‘social state.’ **John**

Stephens (University of North Carolina, Chapel Hill) presented findings from research employing a measure of cognitive skills to establish the relationship between social investment policies, human capital and inequality. **Sergio Urzúa** (University of Maryland) turned toward ongoing education policy challenges, including closing the gaps between increased access to education and labor productivity across the region.

The first day closed with a panel on *Inequality, Social Exclusion and the Welfare State*, chaired by **Maritza Paredes** (Pontificia Universidad Católica del Peru). **George Gray Molina** (UNDP) presented findings from Peru and Bolivia that showed that poverty reduction and the expansion of the middle class in both countries has been driven by a combination of growth and state-led redistribution efforts. **Juliana Martínez Franzoni** (Universidad de Costa Rica) explored the enduring segmentation of the welfare states across Latin America and argued that though social protection has expanded social inclusion and de-commodification lag behind. **Carlos Rodríguez** (World Bank) returned to the “bottom 40%”, arguing that this segment of the population, and not just “the poor” demand sustained policy attention. **Ana Sojo’s** (CEPAL) paper focused on the role of risk-mitigating policies, including health, education and pensions in poverty and inequality reduction.

The second day of the conference began with a keynote address entitled *Political Order, Inequality, Democracy and Redistribution* by **Carles Boix** (Princeton University). Boix presented findings from his new book *Political Order and Inequality* (Cambridge University Press, 2015) in which he explains the economic and political origins of inequality, the causes of stagnation of the preindustrial world and the West’s prosperity over the past two centuries. Boix employed ethnographic and historical data and statistical analysis to analyze stateless societies with little inequality and to theorize the growing inequality that accompanied state formation. To understand inequality, he argued, scholars and policymakers must consider the role of institutions, regime formation and the development of political society.

Following the keynote address the conference resumed with a roundtable, *Governance and the Politics of Inequality*, chaired by **Barbara Stallings** (Brown University). **Marcelo Bergman** (Universidad Nacional Tres de Febrero, Argentina) presented findings on the complex relationship between crime and inequality. **Juan Pablo Luna** and **Matías López** (Universidad Católica, Chile) examined the relationship between inequality and the experience of disjointed and unequal citizenship. Expanding on the complex politics of inequality **Victoria Murillo** (Columbia University) focused on the historical legacies of segmented welfare states, gendered policies and interest group formation. **David Samuels** (University of Minnesota) turned toward the nature of democracy, presenting counterintuitive findings regarding the relationship between democracy and inequality. This was followed by **Mitchell Seligson** (Vanderbilt University) who presented findings from the Latin American Public Opinion Project (LAPOP) and the Americas Barometer, which showed that by and large, across Latin America there is widespread support for redistribution. The roundtable closed with a reflection by **Michael Shifter** (Inter-American Dialogue) on the political opportunities and challenges of considering inequality as part of a broader hemispheric politics.

The final panel of the conference included a group of journalists tasked with the following questions: *What do we know about inequality in Latin America? How effectively do we communicate about it to the public?* Journalists and media experts **Jon Lee Anderson** (*The New Yorker* and author of several books on the region), **María Esperanza Casullo**, (Universidad de Río Negro, Argentina and blogger for *Artepolitico*), **Juan Carlos López** (CNN en Español), **Miguel Paz** (Nieman Foundation, Berkman Center for Internet & Society, Harvard University), **Eduardo Porter** (*The New York Times*) and **Alexandra Ulmer** (Reuters) provided an overview of the state of the field as well as practical tips for scholars and practitioners interested in more effectively communicating findings and engaging broader publics on the topic of inequality in Latin America.

The interdisciplinary and diverse group of participants produced a lively conversation far surpassing the original conference themes and the imagination of its organizers. The following sections present the key questions and major findings that emerged over the course of the two-day conference. **Section 2** provides a more detailed account of the opening remarks and the conference organizers' provocations. **Section 3** addresses the drivers of decreased income inequality, and the reproduction of advantage and disadvantage. **Sections 4, 5, and 6** turn to the politics of inequality: its relationship to democracy, the politics of taxation and the politics and possibilities of redistribution and welfare state capacity, respectively. **Section 7** asks what is to come given the fiscal and political challenges that define the region's "new normal". **Section 8** addresses the recommendations made by members of the media on how to effectively engage non-academic and policy publics in productive exchanges on the topic of inequality in Latin America.

2. INCOME INEQUALITY IN LATIN AMERICA: SETTING THE STAGE

In their opening remarks **Ricardo Lagos**, **Nora Lustig** and **Rebeca Grynspan** laid out the dynamics and future challenges of decreasing income inequality in Latin America.

2.1 Remarks by Ricardo Lagos

Lagos' remarks highlighted the continued challenges faced by policymakers in the region managing the immediate and long-term effects of the financial crisis and the increasing concentration of financial wealth. President Lagos encouraged the conference participants to address a number of pressing political and policy questions including: 1) understanding the specificities and mitigating the effects of the concentration of financial wealth across Latin America; 2) leveraging the political momentum expressed by the so called, "99%"; 3) confronting the politics of taxation to increase the tax pressure in countries across the region; and 4) improving access to and the quality of education. Lagos concluded by urging middle-income countries to rethink macro development strategies in the face of growing inequality. He argued that if once social development policies were considered second to growth-promoting strategies, today redistribution and inequality-reduction policies have become key for improving social development indicators.

2.2 Remarks by Nora Lustig

In setting the stage for the conference, Nora Lustig (Tulane University) presented data from research conducted with Felipe López Calva (World Bank) showing a significant decline in inequality across the region since 2000. Lustig noted that between 2000 and 2010 the GINI coefficient for all of Latin America dropped from 0.551 in 2000 to 0.502 in 2010. ~~Contra-common assumptions regarding the relationship between growth and inequality,~~ Lustig and Lopez Calva found declining inequality in both high-growth and low-growth countries, in left and non-left regimes, in commodity exporting and importing countries and in countries with rising and stagnant minimum wages. Decreasing inequality, Lustig concluded, has been significant and pervasive across the region. Among the key drivers of this trend Lustig identified 1) the expansion of education; 2) the role of labor income; 3) redistributive policies and larger and more progressive government transfers, including conditional cash transfer programs and noncontributory pensions; 4) the expansion of private transfers, often remittances; and 5) democratization and the strengthening of electoral competition. Commenting on the challenges ahead, Lustig pointed to the limited fiscal and political space faced by many governments given retrenchment, stagnant and slow growth, inflation, and the difficulties faced by disproportionate tax burden placed on the groups that hover around the poverty line.

2.3 Remarks by Rebeca Grynspan

Taking up the politics of inequality Rebeca Grynspan (SEGIB) suggested that decreasing inequality is

linked to other important regional trends, most notably, the strengthening of democratic and macroeconomic institutions and redistributive policies across the region. Latin American countries' ability to successfully confront the recent financial crisis, Grynspan argued, is testament to strong institution-building as well as successful redistribution efforts. Though optimistic, Grynspan pointed to a number of pressing challenges, including 1) slow growth across the region; 2) the still sizable "vulnerable population"; 3) income inequality; and 4) other, perhaps more persistent forms of horizontal inequality across gender and territorial lines. Moving forward, Grynspan, urged scholars and policymakers to broaden their policy frameworks to consider the potential of universal programs for reducing inequality and to attend to enhancing the quality of services, the strength of micro economic interventions and taxation schemes targeting the rich.

DRIVERS & DIMENSIONS OF INEQUALITY

3. THE DRIVERS OF DECREASED INCOME INEQUALITY

What accounts for decreased income inequality across the region? Though the participants addressed many interrelated and compounding factors, three emerged as key: 1) increased access to and enrollment in education at all levels; 2) changes in labor market wages, participation and composition and 3) government transfers.

3.1 Education: Beyond Expanded Access

“Expanding access to education [in the 1990s] was probably the single most important policy behind the declining trend in inequality.” - Nora Lustig

Among the most important factors contributing to decreased inequality across the region over the last decade was **expanding access to education at all levels**. However, policy challenges remain. A number of conference presenters argued that, by and large, governments across the region have focused on expanding coverage more than improving the quality of education and have struggled to link access to education to changing labor market demands. Some panelists cautioned that inequality reduction requires not only expanded access to education but also more appropriate and higher quality education. Others encouraged sustained, structural changes to education policy.

Though noting that the region has gone a long way in expanding access to education, **Julián Messina** (IADB) was cautiously optimistic, arguing that **returns to education** are more moderate in Latin America than in other regions. Comparing PISA scores worldwide, Messina found low performance across the region and argued that in the medium-to-long run policymakers need to be mindful of the quality of education and skills training for the lower and middle classes. **Ariel Fizbein** (Inter-American Dialogue) also examining PISA scores concluded that the overall quality of education has lagged behind expanded access. Fizbein argued that demand side interventions have not improved the way young people are prepared for the market. Rather than focusing on keeping students in school, policy should focus on what is happening within schools. Though demand for education has been steadily growing across the region, the supply has thus far had limited incentives to cater to low and middle class people. That is, there has been little incentive to deliver education that will lead to better jobs and improved skills for the job market for the lower sectors. In short, Fizbein urged policymakers to move beyond targeted approaches to education and consider public and privately funded **universal reform to the quality, not just quantity** of schooling across the entire life cycle.

A similar point was made by **Sergio Urzúa** (University of Maryland). Urzúa presented data showing how increased enrollment in primary, secondary and tertiary education has contributed substantially to a decrease in inequality across the region. Though enrollment has helped to decrease inequality, challenges remain in particular around tertiary education. Tertiary education has expanded dramatically, yet, Urzúa argued, it continues to miss its target: **more appropriate (not just more) education is necessary to meet the skills demanded by a changing labor market**. Presenting data from a survey of firms, he showed a mismatch between the skills developed in tertiary education and those that firms seek. To sustain the returns on education, Urzúa argued for improving the quality and accountability of teachers especially in the most disadvantaged schools. The necessary reforms to education are rife with fiscal and political challenges, including addressing teacher trainings and incentives, the quality of public education, greater investment in early education, high-quality secondary education and vocational job training for adults oriented at developing more than just cognitive skills. Urzúa urged policymakers to heed heterogeneous needs of diverse communities, warning against a one-size fits all education policy. Contra to Fizbein

however, Urzúa called for targeted, rather than universal approaches.

Celia Lessa Kerstenetzky (Universidade Federal Fluminense, Brazil) provided a broader view of the role of education, arguing that now more than ever education should be defended not only for its inequality reduction effects but also for its **socially transformative** effects: education **enhances social justice and bolsters other social indicators**. Indeed, Kerstenetzky argued that education is at the heart of equitable development and the formation of a strong social state. But, cautious of the rapid expansion of education she argued that quality, not only quantity of education matters. Moreover, Kerstenetzky urged policymakers to consider the philosophical and political underpinnings of schooling necessary for social justice to be realized. Offering the contours of a social justice enhancing educational policy, Kerstenetzky called for universal education delinked from social protection policies like CCTs and for desegregating schools along socio-economic lines. She argued that **education is key to creating strong social welfare states** which in turn further encourage and strengthen education. She noted that necessary reform may be costly, but that the returns are great.

3.2 Changing Labor Markets: Findings from Brazil

“Changes in employment and not growth per se matters most for inequality.” – David Lederman

“Declining labor income inequality, on average, accounts for 60% of the reduction in the GINI coefficient over the past decade.” – Nora Lustig

Among the most important drivers of declining inequality in Latin America in the last decade are changes in the labor market, including: increased labor incomes, formalization and the changing composition of labor markets. Many panelists signaled the complex relationship between and ongoing policy challenges of labor markets and inequality across the region. A number of panelists drew specifically on the case of Brazil to illustrate the specific effects that changes in the labor market (among other contributing factors) have had in reducing income and horizontal inequality.

In Brazil inequality has declined sharply since 2002. **Francisco Ferreira** (World Bank) argued that the decline in income inequality between 2002 and 2012 in Brazil was the result of “the usual suspects”—expanding education, rising minimum wages, the formalization of the labor markets—but pointed to other confounding factors. Of particular significance was the **changing gender and racial composition of the labor force**. Ferreira argued that, in contrast to earlier periods during this decade of declining inequality in Brazil, unemployment fell and earnings rose, *especially* for those that earned the least, including racial minorities and women.

Julián Messina (IADB) showed how the bulk of the decrease in inequality in Brazil in the 2000s is a result of changes in labor. The **wages of low paying sectors have increased dramatically** and this he argued has translated into tremendous growth for Brazil’s most unskilled and most disadvantaged. Messina linked this trend to education. As more people are acquiring more education, wages in low paying sectors are increasing, as fewer people are available to fill these jobs. **Marcelo Côrtes Neri** (Fundação Getulio Vargas) argued for disaggregating the effects of labor, transfers and education. For the poorest, the effects of *Bolsa Família*, Brazil’s conditional cash transfer program is most direct, but **for the “bottom 40%” rising labor income has had the most dramatic effects**. Likewise, he argued for more detailed policy attention to income distribution and the relationship between distribution and mobility. Finally, Côrtes Neri urged policymakers in Brazil and across the region to look beyond income inequality to education, gender, race, as well as geographic and territorial forms of inequality.

3.3 Conditional Cash Transfers:

“In Latin America 130 million people, or 1 in 4, have been incorporated into some type of cash transfer program. These programs are here to stay.” – Juliana Martínez Franzoni

“CCTs are a genuine technological innovation in social policy: cash transfers replaced general price subsidies.” –Nora Lustig

Since the mid-1990s government transfers, and in particular conditional cash transfer (CCT) programs, have played an important role in decreasing poverty and inequality across the region. **Carlos Rodriguez** (World Bank) showed that currently CCTs reach 20-35% of the population across Latin America. In many places including Mexico, CCTs have become quasi universal, having expanded to full-coverage of the poor or extremely poor population. Though the poverty reduction benefits are evident, Rodriguez reminded the conference participants, that the goal of CCTs is to reduce absolute poverty *and* the intergenerational transmission of poverty. This second goal, he noted, depends heavily on the variable quality of education services to which conditional cash transfer programs are attached. **Ariel Fiszbein** (Inter-American Dialogue), noting the gap in the quality services, agreed that though CCTs have helped increase school enrollment these policies may not be preparing children for future incorporation into the labor market.

A similar point was made by **Juliana Martínez Franzoni**, who presented data showing that in Latin America 130 million people (1 in 4) have been incorporated into some type of cash transfer program through which they have received access to education, health and other services. However, the quality of these services is often poor. Martínez Franzoni called for more robust programs that might combine the attention to incorporation and access to services with attention to the quality of services. These “second generation” programs might work to improve services by placing conditions not on families and beneficiaries but on service suppliers. Martínez Franzoni argued that a more robust “second generation” of transfer programs might help strengthen the region’s emerging and often segmented and truncated welfare states. To that effect, **Sergio Urzúa**, (University of Maryland) highlighted the importance that non-conditional and universal transfer programs have had in Costa Rica.

Despite the shortcomings of conditional cash transfer programs many of the conference participants agreed that CCTs are likely to continue to be at the center of inequality and poverty reduction strategies across Latin America. As **Victoria Murillo** (Columbia University) noted, CCTs are not only fiscally sensible redistribution technologies but also electorally valuable. Or as **Julián Messina** (IADB) argued they represent a popular, fiscally responsible and efficient redistribution tool.

3.4 Intergenerational Inequality: Mechanisms of Transmission

“The effects of inequality get under your skin and under your psyche. The effects, then, are more long term.” - Florencia Torche

While much of the focus was on explaining the drivers of decreasing inequality, the conference also offered the opportunity for scholars to present findings explaining longer-term outcomes and the durability of disadvantage.

John Stephens (University of North Carolina, Chapel Hill) argued that levels of poverty and inequality, both in the past and the present have a strong impact on the future development of skills and on education completion rates among the population. Using measures of cognitive ability to examine **longer term outcomes** and the development of future human capital formation and labor market participation

Stephens showed that the relationship between public education expenditures, average years of schooling and cognitive skills is highly imperfect; it is mediated by other factors, among them poverty and inequality. Stephens argued that social investment in education can complement traditional social policy, and that pre-distribution can complement strong redistributive efforts in education. In short he argued that **sustained social investment in education** and appropriately allocated investment in human capital and welfare spending reduce poverty and inequality in the long-run.

Turning to how inequality is reproduced across generations **Florencia Torche** (New York University) presented findings from a new, innovative research project that explores the **mechanisms of transmission of intergenerational advantage and disadvantage**. Using the 2005 Tarapacá earthquake as a natural experiment to test the long term effects of stress exposure, Torche found that exposure to stress before birth matters, those exposed to stress have lower birth weights on average than those unexposed counterparts. Birth weight, Torche explained, is a good predictor of cognitive ability, which in turn is correlated with intergenerational mobility. Exposure to stress is not distributed evenly across the population: poor people are more likely to experience stress in utero or early life, and the **poor are less able to mediate and manage long term effects**. Middle class and affluent families in her experiment were much more successful at compensating for a child's early disadvantage, poor families were less able to do so, and so **for the poor early stress produces long term disadvantages that persist over the life course**. The ability of children to catch up is thus extremely unequal.

THE POLITICS OF INEQUALITY

4. DEMOCRACY, GOVERNANCE & INEQUALITY

The relationship between democracy and inequality emerged as an important theme that undergirded discussions of the politics of inequality. Some scholars argued that inequality is not a threat to formal democracy, whereas others argued that substantive democracy depended on equality and equal access to rights, security, and social citizenship.

4.1 Tensions between Democracy & Inequality

“It’s not at all obvious that the quality of democracy is better now than a decade ago when we had more inequality. .. some might say it hasn’t improved at all.” – David Samuels

“The poor get social policy but don’t have access to basic civil citizenship and the protections that come with that.” – Juan Pablo Luna

David Samuels (University of Minnesota) argued provocatively that **democracy and inequality are not at odds**. Examining the contemporary politics of the region, Samuels found that democracy does not depend on a redistributive struggle between rich and poor, but emerges because of intra-elite struggles over property rights. As such, Samuels stressed that the survival and objective quality of democracy as a regime has little to do with the level of income inequality. Though Samuels saw little consequence of high inequality for democracy, inequality he suggested does have consequences for politics more broadly conceived, including questions of political alignments between classes and the mobilization of the very rich against redistributive policies.

Juan Pablo Luna and **Matías López** took a different approach, arguing that though inequality has decreased, **the magnitude and prevalence of inequality continues to be detrimental to the quality of democracy in Latin America**. The state, they argued, is territorially and functionally bifurcated and stratified regressively. That is, the state functions less well for the poor, and thus the poor are less able to exercise their social rights, and across the region “citizenship is disjointed”. Moreover, how citizens experience inequality, or “the way inequality feels”, has implications for the quality of citizenship and democracy. Scholars should consider how citizenship, social rights and democracy are exercised, experienced and unequally distributed in practice. Finally, inequality is detrimental to democracy in other ways, for example, though inequality is more visible today, the capacity for collective action is limited and atomistic. Hence, political mobilization does not necessarily generate classic organizational forms and coalitions.

4.1 Political Coalitions across Class & Other Political Identities

“The very definition and essence of democracy is a struggle against inequality.” – Michael Shifter

The challenges of building political coalitions and successful cross-class mobilization were also explored by **Ana Sojo**, (CEPAL) who presented on the politics of social policy, social exclusion and the welfare state. She noted that although access to healthcare, education and pensions has expanded, citizens of many countries in Latin America are dissatisfied. Recent protests across the region, she suggested, represent a broader malaise, as citizens seem to be dissatisfied with neoliberal social policy prescriptions. Sojo suggested that creating social policy change requires **new political coalitions**, which must manage to forge alliances **with and across a heterogeneous middle class**.

Throughout the conference panelists stressed the importance of attending not only to income but also to other forms of inequality. This view was stressed in **Rebeca Grynspan's** (SEGIB) opening remarks and **Victoria Murillo's** (Columbia University) intervention. Highlighting the historical and politically complex dynamics of social policy, Murillo noted the challenges resulting from segmented welfare states in Latin America and the limited capacity of democratically elected politicians to redistribute and promote equality, given certain **powerful corporate interest groups** and **entrenched legal and judiciary systems** which will fight back against reform. Murillo drew attention to the **importance of gender, ethnic and territorial identity** for politics and policy and in **building strong coalitions and a new social contract**.

4.2 Security, Governance & State Capacity

The relationship between inequality and governance was the topic of **Marcelo Bergman's** (CELIV-UNTREF) presentation. Bergman presented data showing that despite the commonly held assumption that inequality is correlated with higher crime rates, **inequality does not produce crime**. This is not to say that reducing inequality will increase crime rates but that the relationship is far more complex and is a function of both baseline crime rates and the **state's capacity to mediate and manage crime**. Bergman examined legal regimes, and different policy approaches to crime and security arguing that scholars and policymakers must consider the way law is exercised in practice and the long term **consequences of criminalization and incarceration**, which may be creating a burden in society and increasing the vulnerability of some families.

5. THE POLITICS OF TAXATION

“What is clear is that the rich are very rich and could be paying more taxes...Progressive income taxation can be an important redistributive tool in its own right” -Tasha Fairfield

“Legally, we've made it possible for the rich to be taxed very little.... This is formalized and institutionalized.” – Vito Tanzi

Conference participants discussed the **ongoing political challenges of expanding the tax base and increasing taxation**. Indeed, as **Rebeca Grynspan** explained, as the region continues to increase tax progressivity and tax pressure through better tax systems and tax reforms the burden cannot be on the middle-class. The social contract requires taxing economic elites.

Vito Tanzi (Independent Scholar) reminded the audience and conference participants that at different times in the changing history of development in Latin America different policy priorities have taken center stage. As attention to growth has given way to attention to redistribution and social investment, Tanzi argued that strengthening tax reform and tax law have become key. He urged scholars to conduct research on taxation, and policymakers to pursue fair and adequate taxation policy. But increasing taxes is a complex policy problem, especially given the legal loopholes (legacies of the Washington Consensus) that have historically made it possible for the rich to be taxed very little.

Tasha Fairfield (LSE) interrogated the politics and policy challenges of **taxing economic elites**. Though many countries have improved their tax policies, many have a long way to go. In Chile, for example, Fairfield found that the top 1% were paying only 15% and (even lower than the US's 24%). For inclusive development, she argued, **the rich, could and should be paying more taxes**. Looking at data from top income earners in Chile, Fairfield argued that to understand the difficulty the region's democracies face taxing economic elites we must move beyond questions of elite tax evasion and avoidance, and instead

focus on understanding the **limited sources of power available to policymakers**. Fairfield argued that policymakers may draw on *instrumental power* and engage in deliberate political action like lobbying or, alternatively, on *structural power* which requires less coordination and political will, but works instead through the anticipated reaction of investors and elites. However, both sources of power available to policymakers are strongly shaped by business interests. Moreover Fairfield found that in very few cases (only 2 out of 34 in her study) policymakers responded to popular mobilization demanding taxation of elites. Nonetheless she underscored the importance of mobilizing public support for elite taxation through legitimating appeals, and linking the politics of taxation to popular social programs.

6. REDISTRIBUTION & WELFARE STATE CAPACITY

Decreasing income inequality, strengthening citizenship and the quality of democracy requires redistributive policies and strong state capacity. These political and policy challenges were addressed by conference participants, and successful examples of redistribution from the region were also provided.

6.1 Building Capacity & Support for Distribution

“In all countries in the Americas except the United States...people want their governments to redistribute income, but only recently have gotten their wish.” - Mitchell Segilson

Mitchell Segilson (Vanderbilt University) presented data from the Latin American Public Opinion Project and Americas Barometer showing **overwhelming support for redistributive policy** across the region. Segilson found that in all the countries in the Americas (with the exception of the US, where inequality of income has traditionally been among the highest in the world) people want their governments to redistribute income. Despite this broad support, building the capacity for distribution remains a challenge.

Juliana Martínez Franzoni (Universidad de Costa Rica) argued that despite increased social incorporation through conditional cash transfer programs, non-contributory pensions and the expansion of health care systems, policy challenges remain. Martínez Franzoni presented data suggesting that the increases in social spending have gone almost exclusively toward transfers and not toward improving the services associated with those. As such, **strengthening segmented welfare states** and **building state capacity** remains a crucial policy and political challenge for policymakers in the region. Policymakers have traditionally emphasized the lack of resources necessary for welfare state expansion, but the link between the resources available and social policy is much more complex. Often, more resources translate into more access, though not necessarily increased generosity or equity and even less often in strengthening welfare state institutions. Martínez Franzoni suggested necessary reforms may require redistribution of resources within sectors (from contributory to non-contributory pensions); managerial changes (attendance and performance among teachers); and new policy measures (expanding care).

6.2 Successful Redistribution: Findings from Bolivia & Peru

Though policymakers across the region face many challenges, effective redistribution policies have successfully been implemented in a number of countries. **George Gray Molina** (UNDP) examined two such cases of successful redistribution: Bolivia & Peru. Despite their shared reputation as ‘weak’ on social policy in recent years, both Bolivia and Peru have achieved remarkable levels of poverty and inequality reduction and have increased the relative size of their middle-class. To understand these successes Gray Molina suggested we first consider **redistributive policies that push families out of poverty and facilitate social mobility** (such as those directed at labor markets and education) and second those that provide **social protection and prevent families from slipping back into poverty**. Household

resilience can be enhanced through an extension of social protection mechanisms, and more robust access to physical and financial assets. Second, we must understand policy in the context of other factors, including buoyant labor markets, commodity booms and monetary and credit policies. Gray Molina showed that Bolivia has been most successful in implementing pro-poor policies that have increased the size of the middle class, such as universal non-contributory pensions, while Peru gets an additional pro-poor boost from dynamic service and industry labor markets that produce intra-sector productivity gains. Though both have been successful in promoting redistribution, these gains are threatened by economic downturns.

7. FISCAL & POLITICAL CHALLENGES OF THE “NEW NORMAL”

“We have to think very deeply on how we recover politics. What we did was good, but it won’t help us for what’s coming next. We need to recover the politics that will help us meet the challenges that still lie ahead.” – Rebeca Grynspan

The conference organizers asked participants to reflect on the future challenges Latin America faces in sustaining decreases in inequality in the context of what some called “the new normal”: limited fiscal and policy space and stagnant and slow growth. **Daniel Lederman** (World Bank) argued that the region is currently experiencing **worrisome negative and declining terms of trade and slow growth** and should expect creeping inflation and unemployment. At the same time, governments have constricted policy space in which to react. Challenges include a tight fiscal space and coming adjustments. Lederman predicted that labor market dynamics more than growth will continue to be crucial for reducing inequality. Although we might see piecemeal reductions in tax expenditure, he predicted that government transfers will be relatively unaffected by slow growth because they represent a very small percentage of the GDP. Lederman emphasized the political dimensions of the ‘new normal’, calling for **good leadership and a renewed social contract**.

Michael Shifter (Inter-American Dialogue) outlined the political contours of the “new normal” and focused his presentation on the coming challenges and political opportunities. Shifter began by suggesting that people across Latin America are disappointed in parties and politicians and that this, coupled with flattening inequality and shrinking fiscal space, translates into a deep political dissatisfaction. In this context, governments should prioritize decreasing inequality not only for economic, political, ethical and normative reasons but because the **region’s democracy depends on decreasing inequality**. Turning to the role of the state, he argued that to sustain a decrease in inequality governments must turn from good macro-economic policy to **strengthening the state’s capacity to provide basic security for the poor, decrease corruption and ensure greater accountability**. Democracy implies that the government is engaged in redistribution, but confidence in democracy depends on the government’s ability to do this in a fair, efficient and equitable way. Shifter finished on a hopeful note, calling for policymakers to look toward **strengthening inter-hemispheric integration** and taking advantage of inter-American economic and political opportunities.

COMMUNICATING RESEARCH FINDINGS TO BROADER PUBLICS

8. CRAFTING COMPELLING NARRATIVES

“You need narratives. You need stories!” - Eduardo Porter

“The stories with the greatest impact and potential policy implications are stories that break the issues down to universal human themes that can engage people across the social spectrum” - Jon Lee Anderson

“Narratives have a hero that wants to do something, a problem that needs to be overcome, obstacles along the way and an ending. They are both explanatory and practical. They explain how things are but also give us practical hints on how to proceed in the world.” - Maria Esperanza Casullo

Scholars and practitioners at the conference were interested in finding effective ways of communicating knowledge on inequality in Latin America and crafting innovative ways of engaging diverse publics in dialogue on this pressing topic. To that end a panel of journalists provided guidance and commented on the possibilities of communicating research and policy knowledge. The panelists praised scholars’ and policymakers’ reliance on hard data but unanimously urged scholars to create human-centered narratives.

Eduardo Porter (*New York Times*) emphasized that complex issues like inequality can easily become abstractions. As such, experts and the media must work to relate inequality in Latin America to lived experiences of broader audiences. **Good data** that helps readers understand pressing issues in a direct way, **coupled with narratives and stories** that resonate and situate the region’s experience within broader political contexts attract non-economists and those uninterested in inequality in Latin America. Porter also emphasized the role the media can play in challenging the status quo, first by elevating alternative narratives, experiences and histories that resonate with non-specialists, and second by articulating bold political proposals and thus expanding political and policy imaginaries beyond the tools that are already in use. Though Porter noted problems with cooptation of the media in Latin American countries such as Mexico, he suggested conferences and forums on inequality be organized in Latin America where he predicted these might bring more press than events organized in the US.

John Lee Anderson (*The New Yorker*) noted how difficult it is even for informed and interested audiences to understand the common and taken for granted lexicon of academic researchers, especially economists. Anderson emphasized the need to go beyond the shared lexicon of scholars and practitioners and turn to **narrative and effective storytelling** because publics are universally receptive to stories with a human face. He offered as examples stories of unaccompanied children arriving on the Mexico-US border, or migrants making their way north on the infamous train, “La Bestia,” which have made the issue of inequality in Latin America more pressing to the American public. Anderson argued that essentially economic stories dealing with complex structural issues and systemic phenomena can engage people across the social spectrum, have long-lasting impact and cause social and policy change if they are presented as captivating human-centered narratives. Finally, Anderson urged scholars and policymakers to be **proactive in attracting and approaching media**, offering the illustrative case of human rights activists’ successful yet radical approach to disseminating information and directing media to stories of interest.

Maria Esperanza Casullo (Universidad de Río Negro, Argentina) a scholar, blogger and social media aficionado suggested academics should **more often and more assertively engage in public discourse and debate**. She cautioned scholars to reflect on some of the taken-for-granted assumptions underlying their research and consider that they might not be widely held in the broader public sphere. Casullo also urged scholars and practitioners to expand their political imaginations and not be shy about **infusing**

research and findings with politics and normative and ideological understandings. Casullo noted the crucial role that narratives play in both explaining complex phenomena and providing models and paths for action. **Effective narratives** are both normative and prudential. Narratives, she argued, can help expand the range of political alternatives around the issue of inequality. Finally, Casullo suggested that scholars, practitioners and the media frame the debate on inequality in a language of rights.

The next two speakers provided practical advice for scholars and policymakers interested in distilling and disseminating their findings. **Juan Carlos Lopez** (CNN en Español) noted that publics are interested in hard news and in issues that affect them directly. One way to make people interested in inequality in Latin America is to **link the regions particular narrative to a broader context.** He suggested comparative approaches, and rendering **findings more “agile”** by moving away from the specificity of the language that is internal to the academy and opting instead for **brevity and strong and precise language.** Lopez ended on an encouraging note, stressing that media are very interested in working more closely with academics to find ways to communicate complex issues in powerful and effective ways.

Miguel Paz (Nieman Foundation, Berkman Center for Internet & Society, Harvard University) also offered practical advice for designing communication strategies. Delving into the backstage world of the media, Paz quipped that journalists do not care about academic researchers, dislike press-releases and have little time for the long-form reports or press releases policymakers often produce. The media he emphasized are concerned with **satisfying their audiences.** Paz suggested experts cull the meaning and essence of the argument and communicate directly the value of their work. To garner attention around specific issues, experts should align communication strategies, distill the key takeaways, define the precise audience and define short-term and long-term communication goals. Like the other panelists, he emphasized the need to **go beyond data and construct people-centered narratives that audiences can trust and relate to.** Paz was optimistic about the possibility of engaging a broad audience, noting that the issue of inequality is no longer just “a beat” but rather is present in virtually every story on the region.

A similar point was made by **Alexandra Ulmer** (Reuters) who noted that inequality currently forms the backdrop to many stories emerging from Latin America. Using the case of Venezuela, she outlined the challenges faced by members of the media when communicating the lived reality of economic and political crisis. Of particular note was the question of reliable data, which becomes scarce in times of crisis. Without sound data, she said, the media can fall into sensationalizing stories. Experts can help journalists complement narratives and visualizations with **thorough, trustworthy and quick analysis.**