

CHAPTER 1

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

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

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

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

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

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

¹ FAO et al. (2020); Forbes (2021).

² UNDP (2019).

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

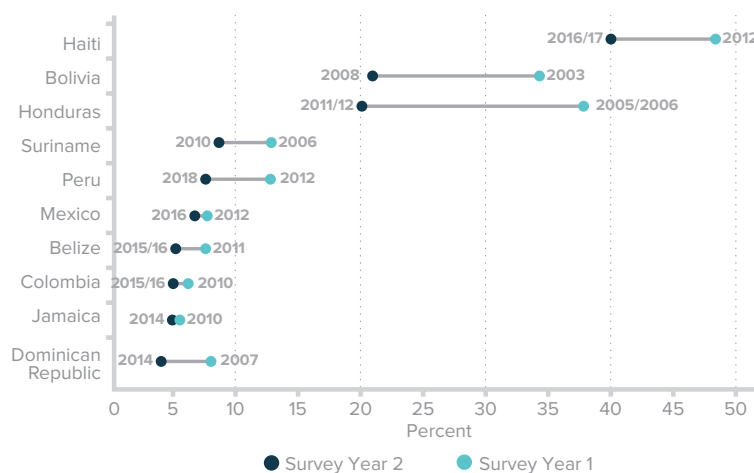
Box 1.1: LAC countries have made progress in reducing multidimensional poverty

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

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

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

Percentage share of the population living in multidimensional poverty

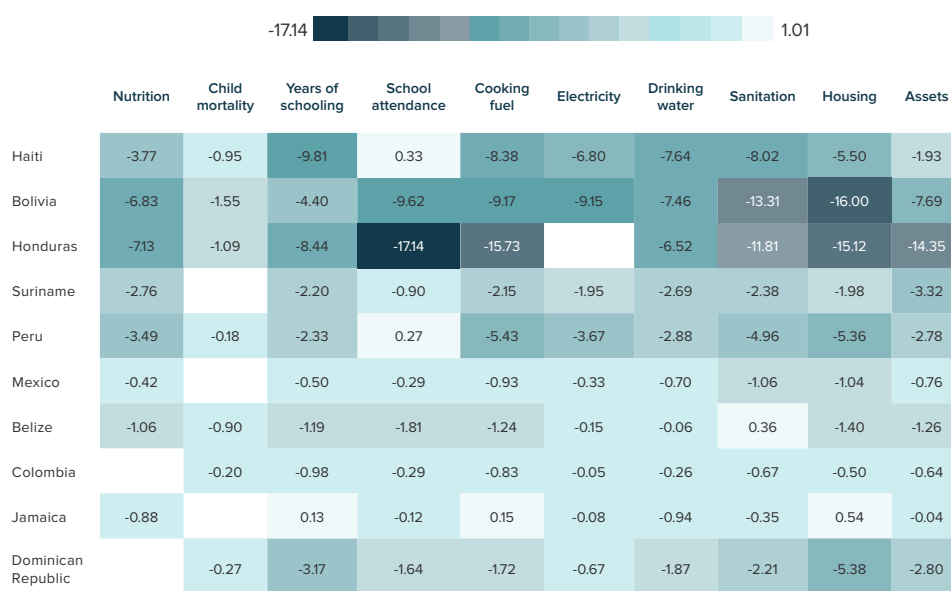


Source: 2020 Global Multidimensional Poverty Index (MPI) (dashboard), Human Development Report Office, United Nations Development Programme, New York, <http://hdr.undp.org/en/2020-MPI>.

There was progress in most indicators underlying the multidimensional poverty measure. In six countries, all indicators improved (figure B11.2). In the few instances in which increases in deprivation occurred, they were each less than 1 percentage point.

Figure B11.2: LAC countries progressed in most indicators

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



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

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

^a Lustig et al. (2020).

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

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

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

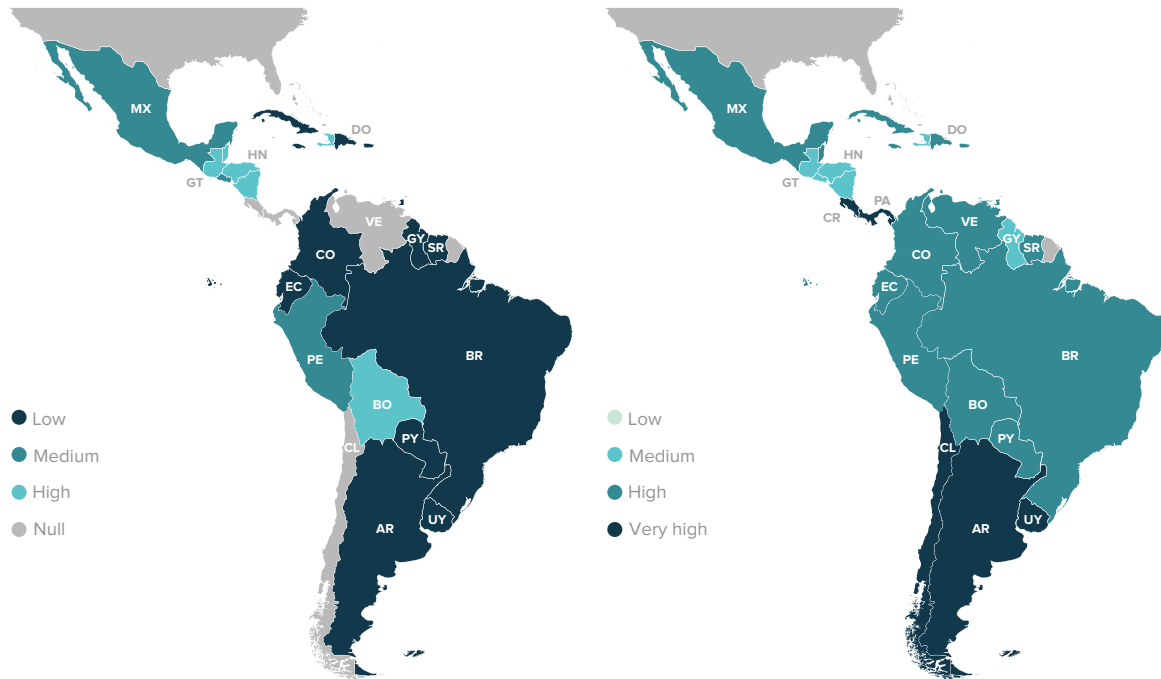
³ This chapter builds primarily on four background papers commissioned for this report to describe the region's current predicament: Fernández-Arias and Fernández-Arias (2021); Gasparini and Cruces (2021); Neidhöfer (2021); Torche (2021).

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

Map 1.1: Living conditions are unequal across LAC

a. Multidimensional poverty

b. Human development index



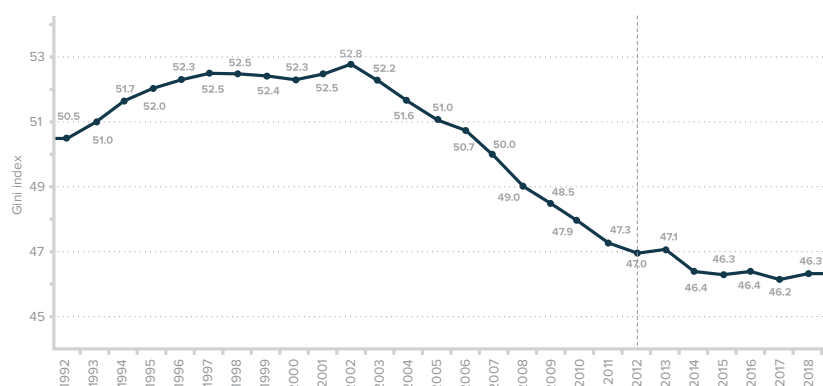
Source: UNDP elaboration; Alkire et al. 2020; 2020 Global Multidimensional Poverty Index (MPI) (dashboard), Human Development Report Office, United Nations Development Programme, New York, <http://hdr.undp.org/en/2020-MPI>.

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

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

Indicators of income inequality calculated using available national household surveys also suggest progress in the last two decades, most of it occurring between 2000 and 2012.⁵ After that, progress stalls and is almost insignificant between 2012 and 2018. Figure 1.1 shows the evolution of the average Gini index only for countries in Latin America. The average Gini Index fell from 52.8 to 47.0 between 2002 and 2012, with an average reduction of 0.58 points per year. Then, between 2012 and 2018, the average Gini fell less than one point.

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

Figure 1.1: Despite declining in the 2000s, income inequality remains high in LAC*Income inequality (Gini index 1992–2018)*

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

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

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

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

Table 1.1: Inequality reduction stalled the most in the extended Southern Cone
Annual average changes in Gini indices, by period and subregion, 1992–2018

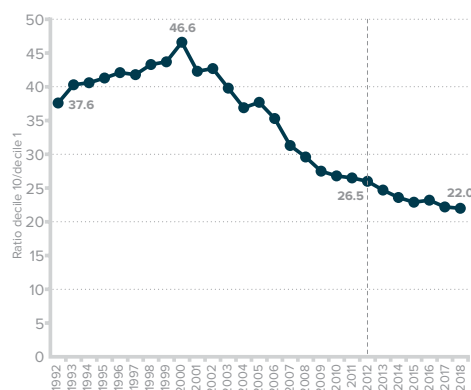
	Gini index average annual change			
	1992-2002	2002-2012	2012-2018	1992-2018
Southern South America				
Argentina	0.79	-0.98	-0.01	-0.07
Brazil	0.07	-0.56	0.21	-0.14
Chile	-0.02	-0.55	-0.06	-0.23
Paraguay	0.50	-0.91	0.12	-0.13
Uruguay	0.41	-0.55	-0.07	-0.07
Andean countries				
Bolivia	0.57	-1.27	-0.42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

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

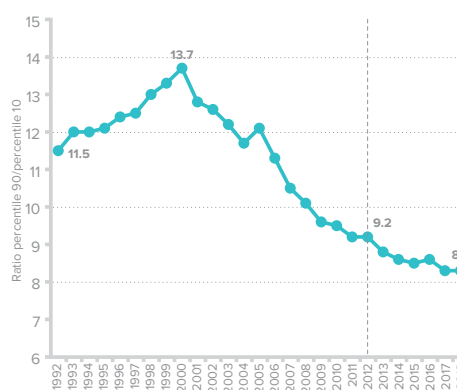
Note: Values may not precisely coincide with those from national sources. They are from data adjusted by SEDLAC using a standardized methodology to complete gaps in the information available.

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

a. Ratio, decile 10/decile 1



b. Ratio, percentile 90/percentile 10



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

Note: Unweighted mean of the indicators. Data refer to all Latin American countries except El Salvador and Guatemala.

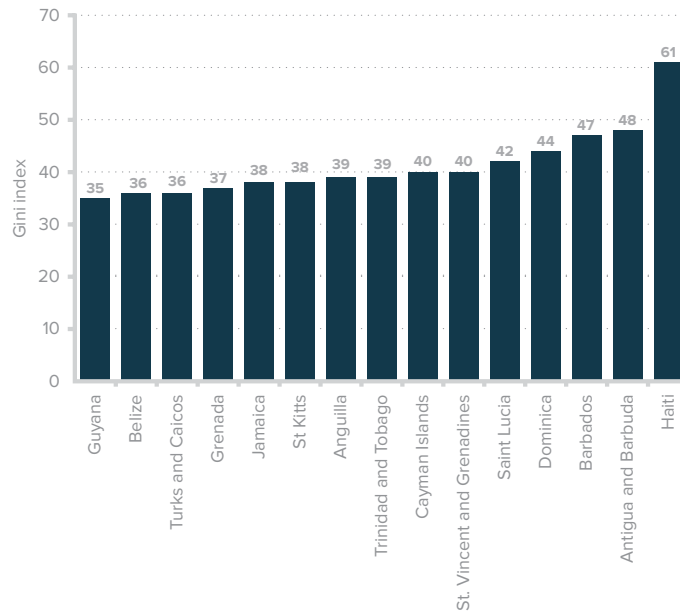
Box 1.2: Statistical capacity and measuring inequality in the Caribbean

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

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

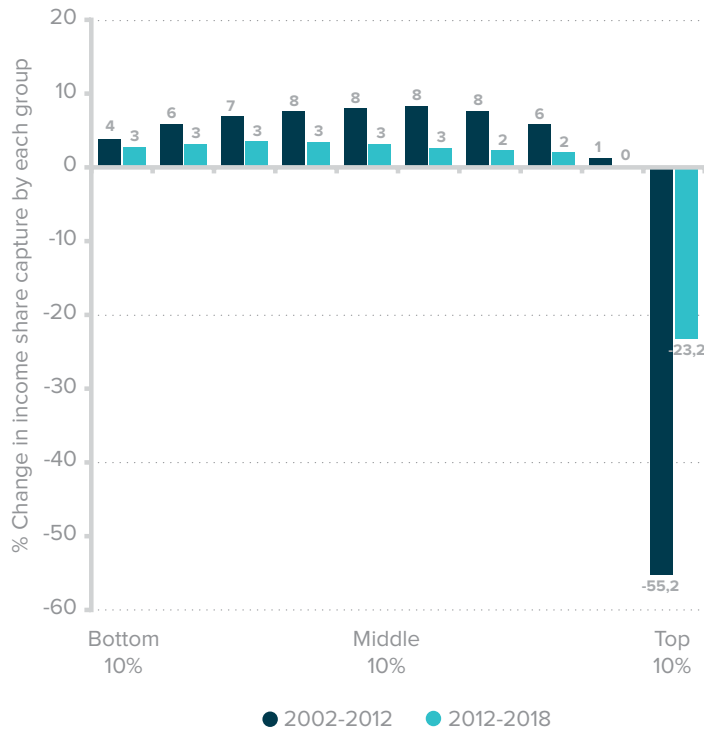
While a few countries report inequality data for multiple points in time, one must be wary of interpreting a comparison between these measures as a story about what happened to inequality in that country. For example, the Gini index in Barbados climbed from 39 to 47 between 1997 and 2010, whereas the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

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



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

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

Figure 1.3: The reductions in income concentration at the top slowed*Percentage change in income shares across the income distribution, 2000–2018*

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

Note: The data show unweighted means.

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

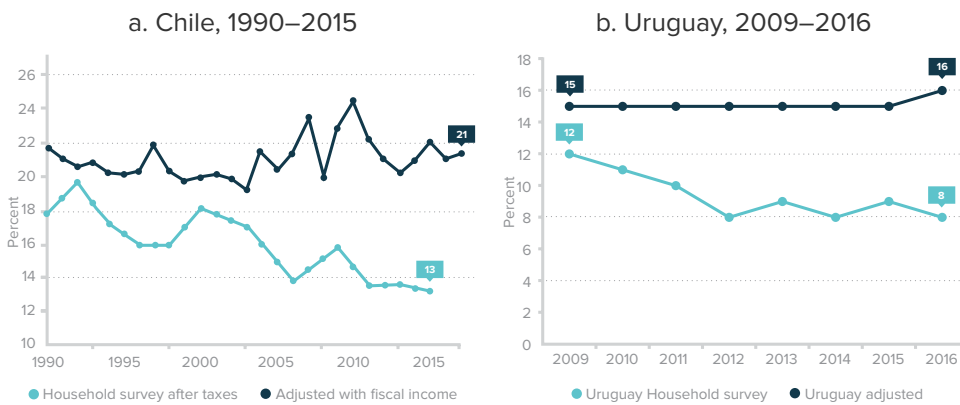
Box 1.3: What do we know about the super-rich?

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

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

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

Richest 1% of the income distribution



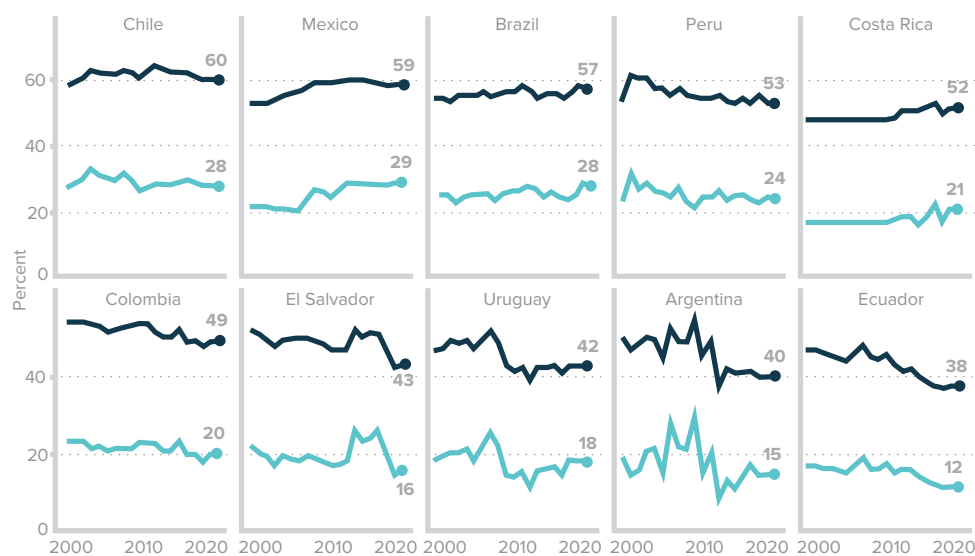
Source: Chile: Flores et al. 2020; Uruguay: Burdín et al. 2019.

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

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

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

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



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

^a See Atkinson and Piketty (2010); Atkinson, Piketty, and Saez (2011); Alvaredo et al. (2018).

^b WID (World Inequality Database) (dashboard), Paris School of Economics, Paris, <https://wid.world/>.

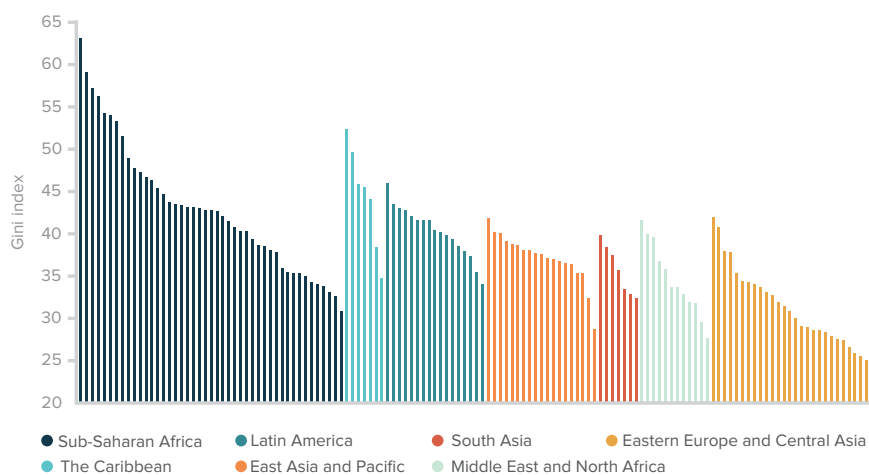
The LAC region remains the second most unequal in the world

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

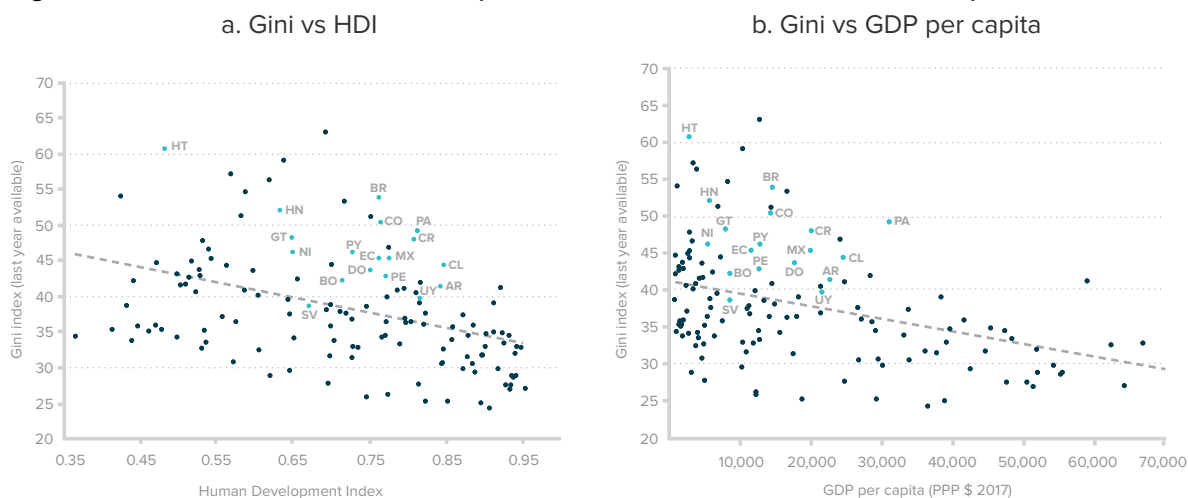
Perhaps even more striking, LAC countries are more unequal than would be expected from their development level. Figure 1.5 shows that LAC countries have higher Gini indices than peers at similar levels of human development (panel a) and gross domestic product (GDP) per capita (panel b).

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

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



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

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

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

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

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

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

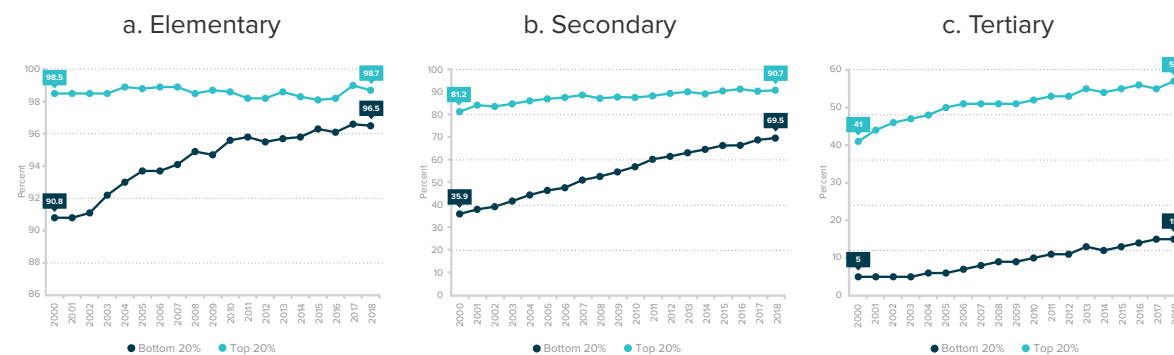
Education opportunities are still unequally distributed

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

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

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

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



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

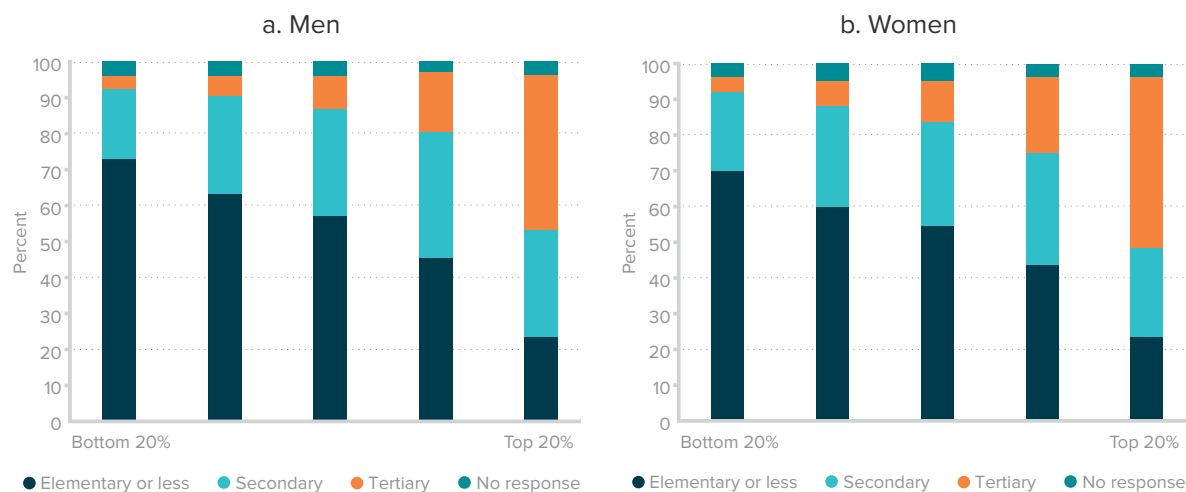
Educational attainment. Overall progress in enrolment over the last two decades has translated into a sustained increase in educational attainment in the region. The mean years of formal education among the adult population rose steadily from 7.4 in 2000 to 9.3 in 2018. The growth rate in years of education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

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

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

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

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



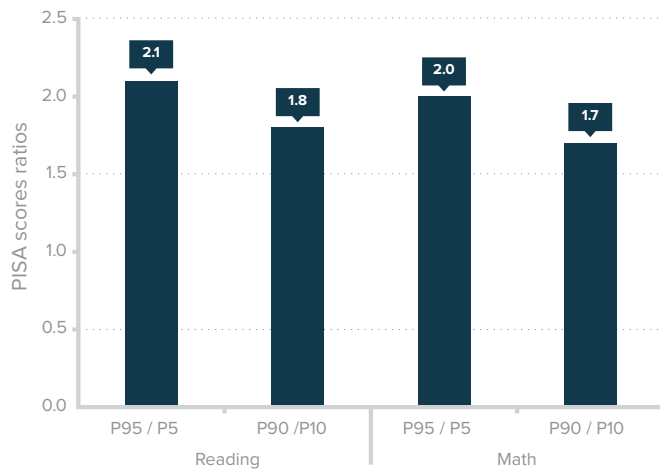
Source: UNDP calculations; national household surveys in 15 countries in LAC.

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

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

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

Figure 1.8: Access to quality education is still a privilege mostly reserved for the rich
Ratio of PISA scores of poor students to rich students in Latin America



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

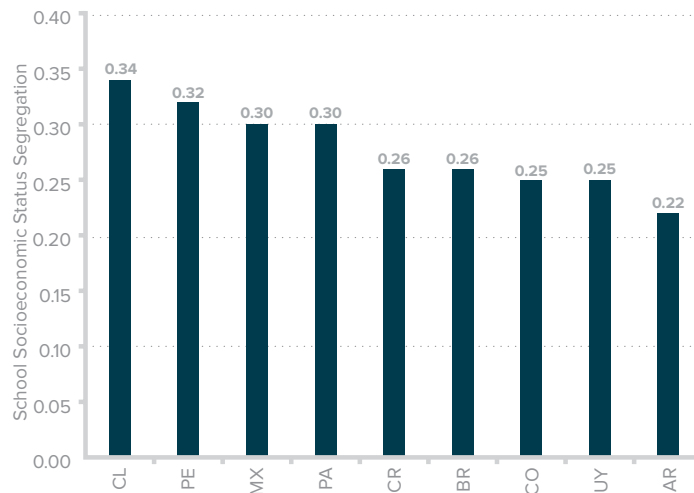
Box 1.4: LAC countries have highly segregated education systems

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

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

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

Segregation in schools by socio-economic status, 2012



Source: Chmielewski and Savage 2016; 2012 data of PISA (Programme for International Student Assessment) (dashboard), Organisation for Economic Co-operation and Development, Paris, <http://www.oecd.org/pisa/pisaproducts/>.

Note: For Panama, the PISA data are from 2009.

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

Access to public utility services is still not guaranteed to all

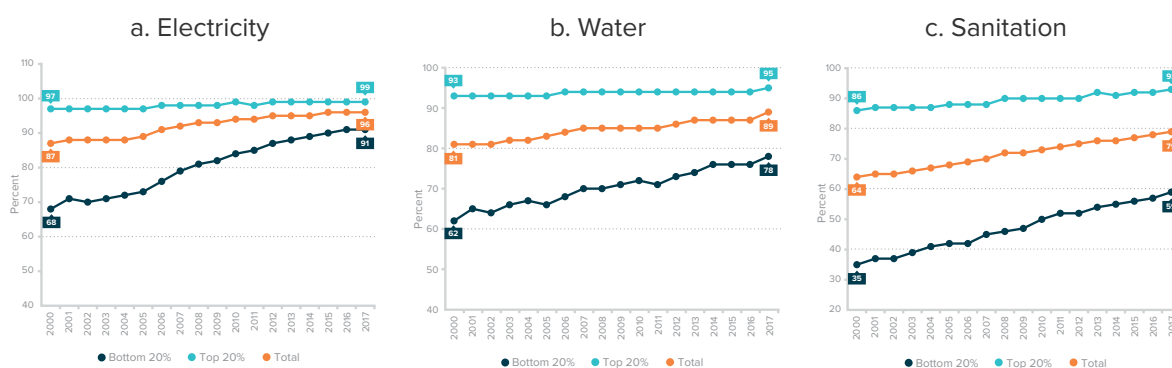
In public utility services, the story is similar: overall improvement in access among all, but wide gaps between income groups, with larger gaps in access to more advanced utility services (such as the internet) compared with more basic utility services (such as electricity, water, and sanitation).

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

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

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

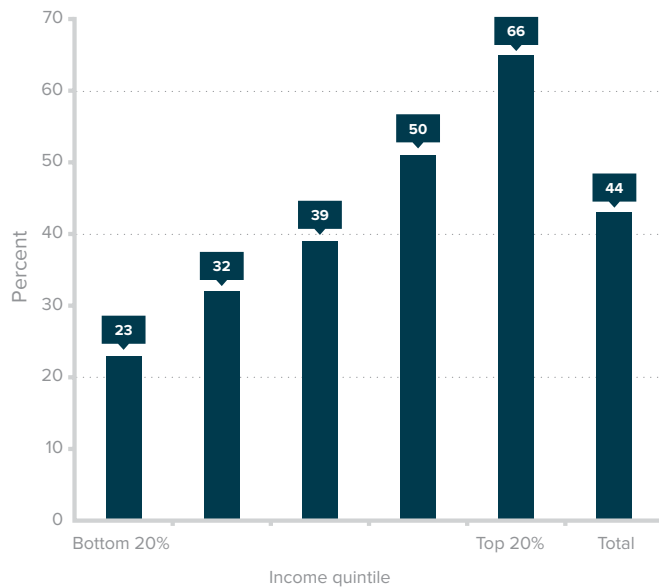
Service coverage, by income group, 2000–2017



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

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

Figure 1.10: Gaps in access to the internet remain stark
Home internet connection in 2019



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

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

For women, the playing field is still not level

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

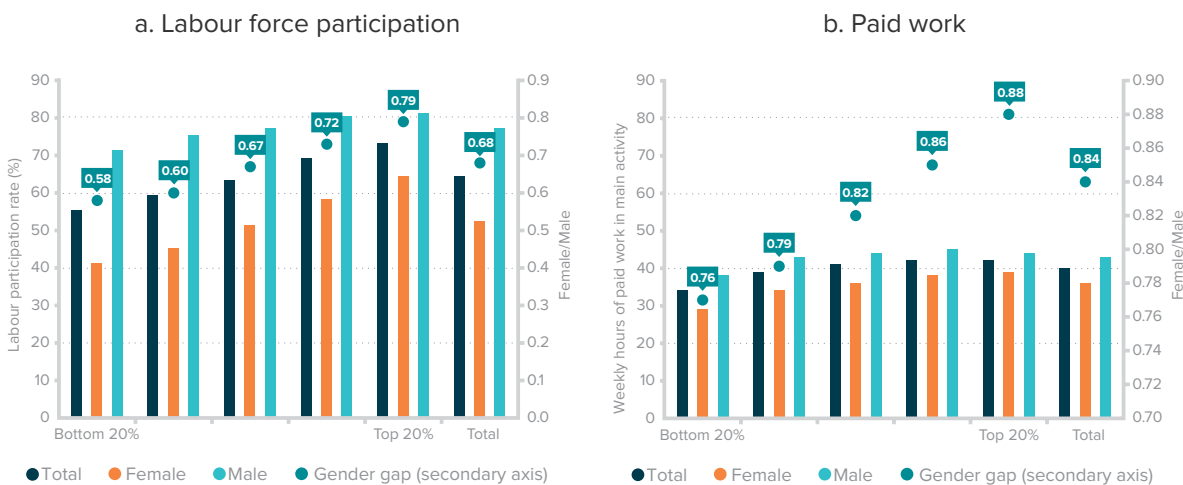
⁹ For examples of the literature that explores these biases, see Shapiro and Williams (2012); Cheryan, Master, and Meltzoff (2015); Heilman, Manzi, and Braun (2015).

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

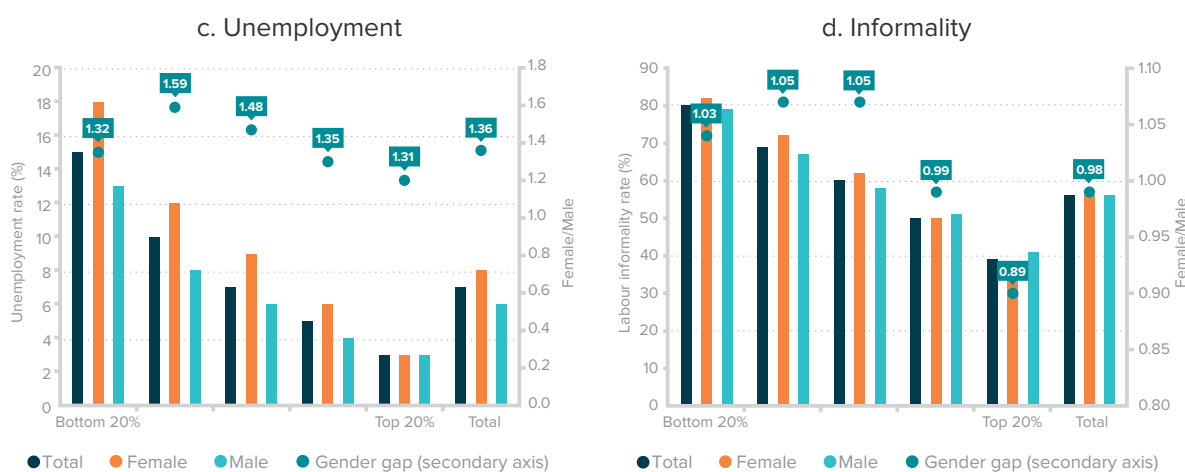
Not all national household surveys provide data that allow the measurement of the hours spent in unpaid work. The flipside of the coin is that, while women work fewer hours than men for pay, they spend much more time than men per week in tasks not recognized as work, for which they receive no payment,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

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

Figure 1.11: The poorest women face the largest inequalities in the labour market
Gender gaps in the labour market, by income group, 2019



¹⁰ See Gasparini and Cruces (2021).



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

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

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

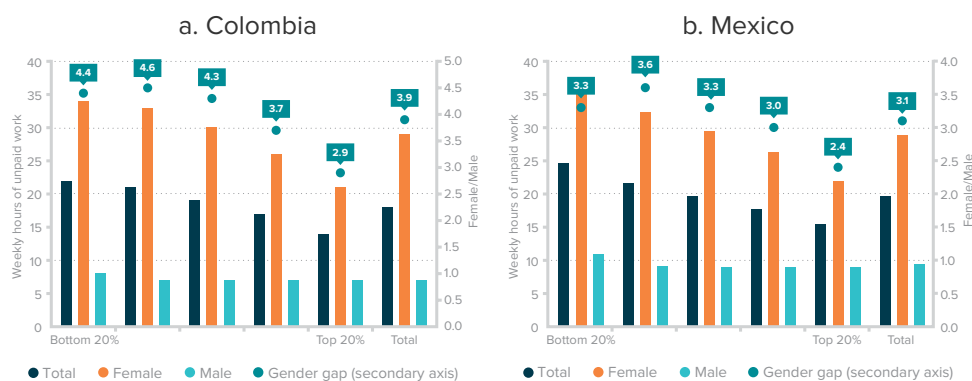
Figure 1.12 shows the gender gaps in the labour market by educational attainment. Gender gaps in labour force participation decrease with education and are much smaller among women who have completed tertiary. Gaps in hours of paid work also decline with education, although not as much as labour force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

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

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

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

Gender gaps in unpaid work

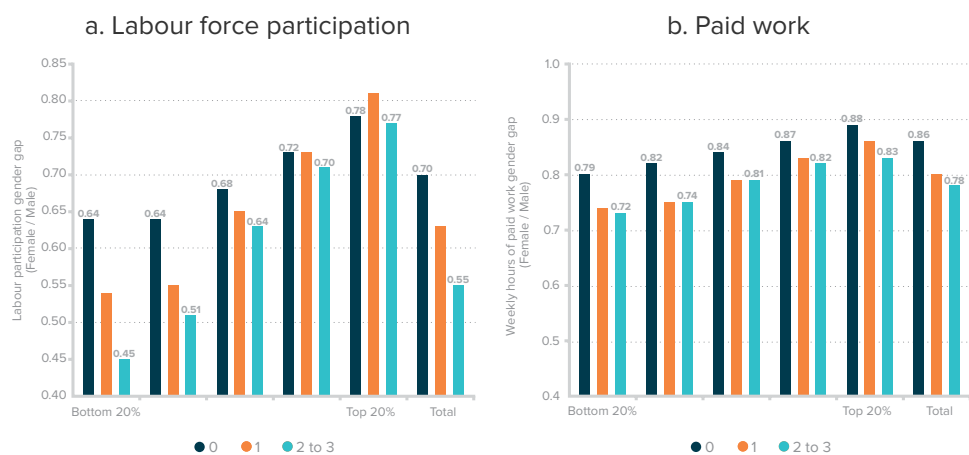


Source: UNDP calculations; 2018 data of ENIGH (Encuesta Nacional de Ingresos y Gastos de los Hogares, National Household Income and Expenditure Survey) (dashboard), Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography), Aguascalientes, Mexico, <https://www.inegi.org.mx/programas/enigh/nc/>;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

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

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

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



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

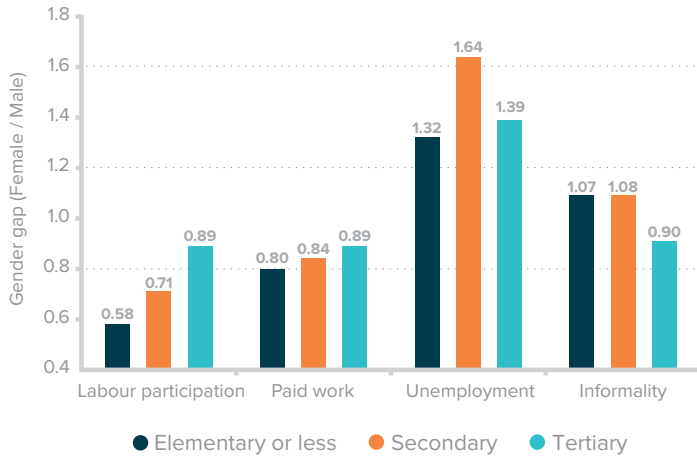
Note: The data year for Chile is 2017 and for Mexico, 2018.

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

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

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

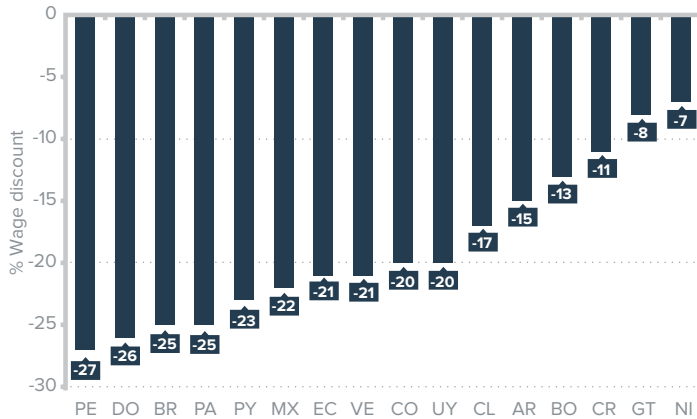
Labour market gender gaps by schooling attainment, LAC 2019



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

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

Percentage wage discounts



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

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

In addition to sex, other factors such as an individual’s sexual orientation or gender identity may make them targets of discrimination, violence, and exclusion. LGBT+ people worldwide face high levels of discrimination, although the extent varies from country to country. Evidence indicates that gay men face discrimination in job

applications and the rental market.¹² Elementary enrolment rates are lower among “feminine boys” because of discrimination.¹³ When parents are looking for schools, the callback rate is 50 percent higher for heterosexual couples than for same-sex male couples.¹⁴ Same-sex attraction or sexuality in adolescence is associated with a lower probability of high school graduation.¹⁵ Likewise, OECD estimates suggest that trans women are 24 percent less likely than non-LGBT+ people to be employed, that their labour earnings are 11 percent lower, and that none of them holds a high managerial position.¹⁶ In the United States, 70 percent of LGBT+ students experienced harassment at school in 2018, 31 percent were disciplined for public displays of affection that were permitted among non-LGBT+ students, and 42 percent of transgender students were not allowed to use their preferred name or pronoun.¹⁷

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

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

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

¹² Ahmed and Hammarstedt (2009); Patacchini, Ragusa, and Zenou (2012).

¹³ Koehler, Harley, and Menzies (2018).

¹⁴ Diaz-Serrano and Meix-Llop (2016).

¹⁵ Pearson and Wilkinson (2017).

¹⁶ OECD (2019).

¹⁷ Kosciw et al. (2018).

¹⁸ Mountian (2014).

¹⁹ Cárdenas, Ñopo, and Castañeda (2014).

²⁰ Ipsos and Ministry of Justice and Human Rights (2019).

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

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

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

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

²¹ Hsieh et al. (2019).

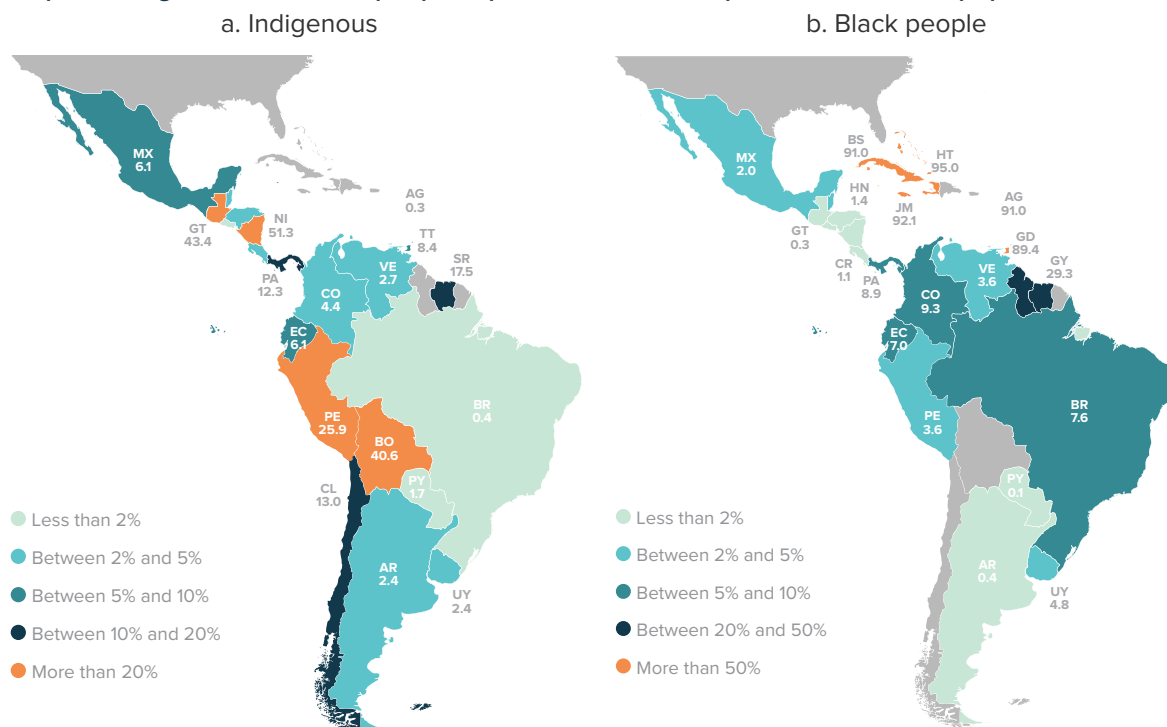
²² Stephens-Davidowitz (2013); Coffman, Coffman, and Ericson (2017).

²³ ECLAC (2016).

²⁴ de Ferranti et al. (2004).

²⁵ UNDP (2016b).

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



Source: UNDP calculations; latest available population censuses.

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

²⁶ UNDP (2012), (2016b).

²⁷ UNDESA (2018).

²⁸ UNDP (2012).

²⁹ UNDP (2016b).

³⁰ ECLAC (2016).

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

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

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

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

³¹ de Ferranti et al. (2004).

³² Telles (2014). See also PERLA (Project on Ethnicity and Race in Latin America) (dashboard), Princeton University, Princeton, NJ, <https://perla.princeton.edu/>.

³³ World Bank (2015).

³⁴ World Bank (2015).

³⁵ World Bank (2015).

³⁶ Busso and Messina (2020).

³⁷ ECLAC (2014); UNDP (2016a).

³⁸ Cárdenas (2020).

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

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

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

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

³⁹ Vélez et al. (2020).

⁴⁰ ECLAC and UNFPA (2020).

⁴¹ ECLAC and UNFPA (2020).

⁴² ECLAC and UNFPA (2020).

⁴³ ECLAC and UNFPA (2020).

⁴⁴ UNDP (2016b).

⁴⁵ World Bank (2015); Correa (2019).

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

1.4. Inequality is transmitted across generations

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

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

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

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

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

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

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

^a Torche (2014); Psacharopoulos and Patrinos (2018).

^b Omariba (2006); Cutler and Lleras-Muney (2008); Lochner (2011); Oreopoulos and Salvanes (2011).

^c Hout and DiPrete (2006).

The role of educational expansion

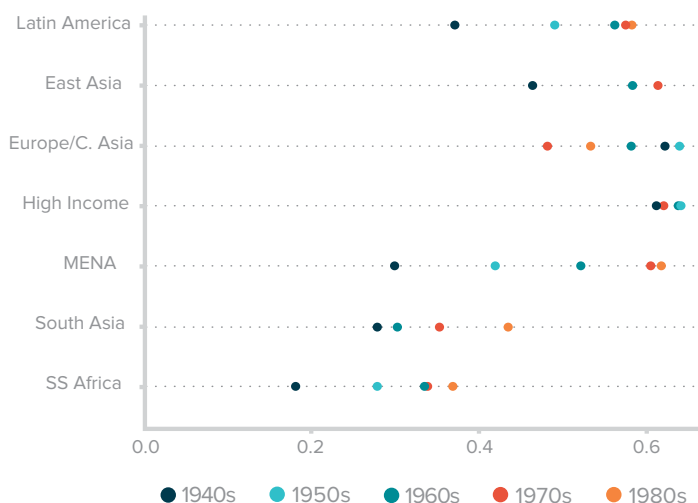
During the 20th Century, the share of children whose educational attainment during adulthood was above the maximum level attained by their parents grew substantially across the world. This expansion provided an important stimulus for the absolute educational mobility experienced by individuals, which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

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

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

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

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



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

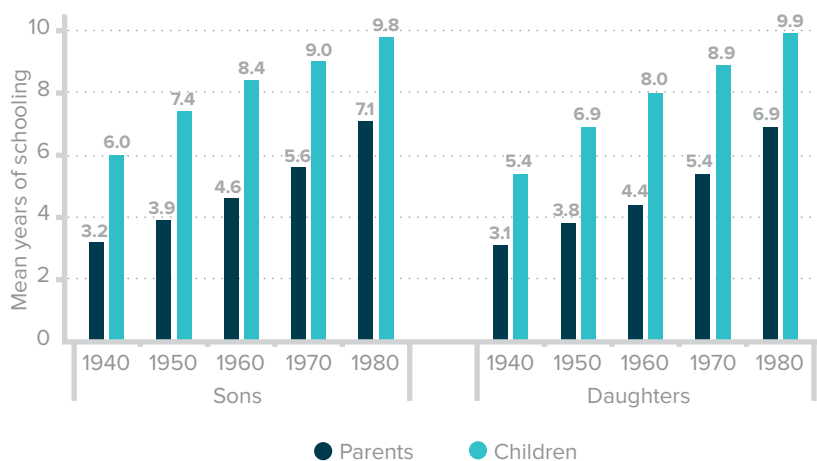
Latin America’s initial shift in upward educational mobility is exceptional, comparable only with the shifts experienced in the Middle East and North Africa and in East Asia. However, there is virtually no improvement in either Latin America or the Middle East and North Africa region among the most recent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

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

Box 1.7: Gender (dis)parities in educational mobility

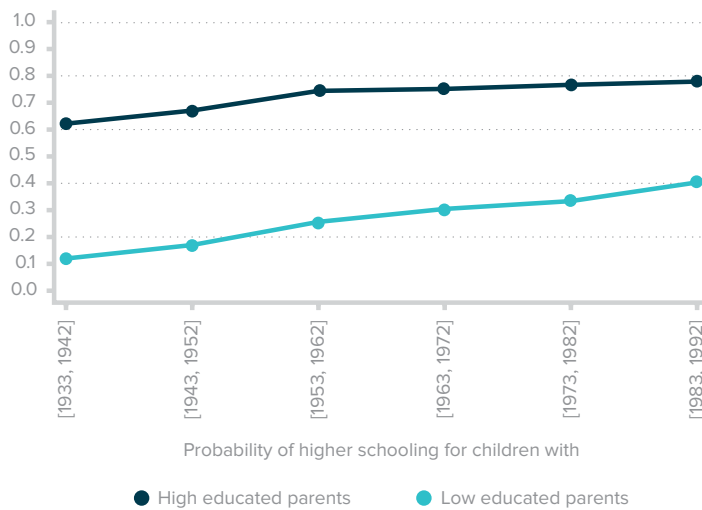
Education in LAC has largely become a story of gender equality rather inequality. Figure B1.7.1 shows that men and women have gained schooling at comparable rates in Latin America. Women had a small disadvantage among earlier cohorts, but reached parity in the 1970s and surpassed men in the 1980s. The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

Figure B1.7.1: Men and women have gained schooling at comparable rates
Educational expansion across birth cohorts, by sex, Latin America, 1940s–1980s



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

^a Grant and Behrman (2010).

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

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

Parental education still predicts children’s educational attainment in adulthood

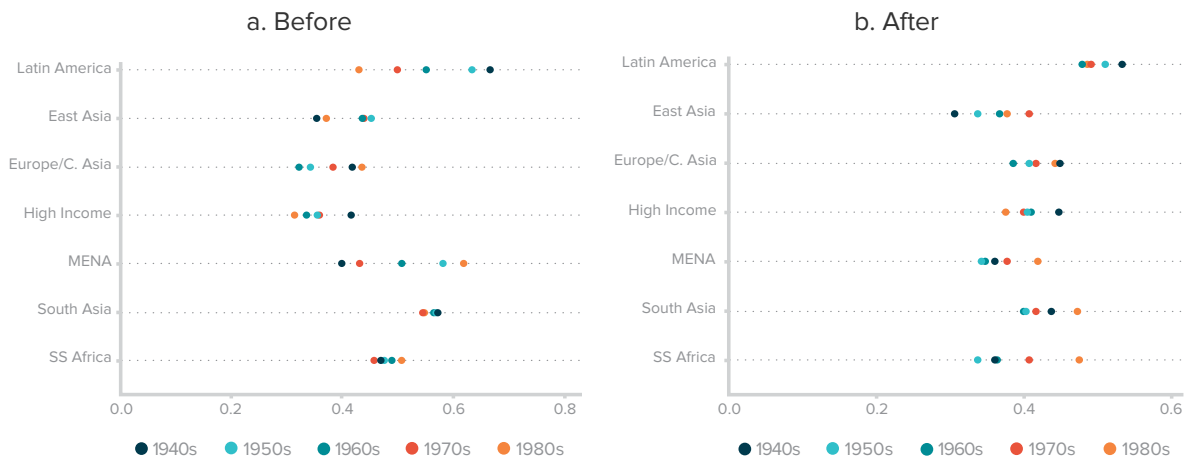
Absolute mobility captures aggregate progress across generations that is driven by overall educational expansion and by any changes in the intergenerational association. Relative mobility involves the analysis of the intergenerational educational attainment association net of changes in the distribution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

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

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

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

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



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

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

⁴⁷ Camacho, Messina, and Uribe (2017).

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

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

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

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

1.5. A slowly growing region

Growth in LAC is unstable and sluggish on average

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

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

⁴⁸ Gerber and Cheung (2008).

⁴⁹ Torche (2021).

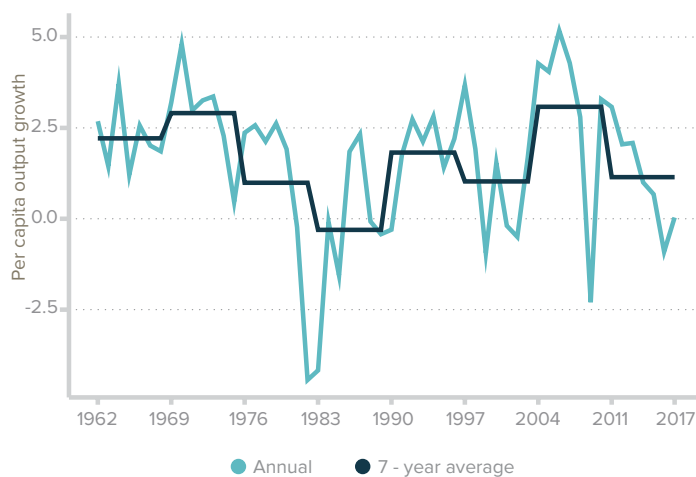
⁵⁰ Corak (2013).

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

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

Figure 1.17: Growth in LAC has been highly volatile

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



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

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

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

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

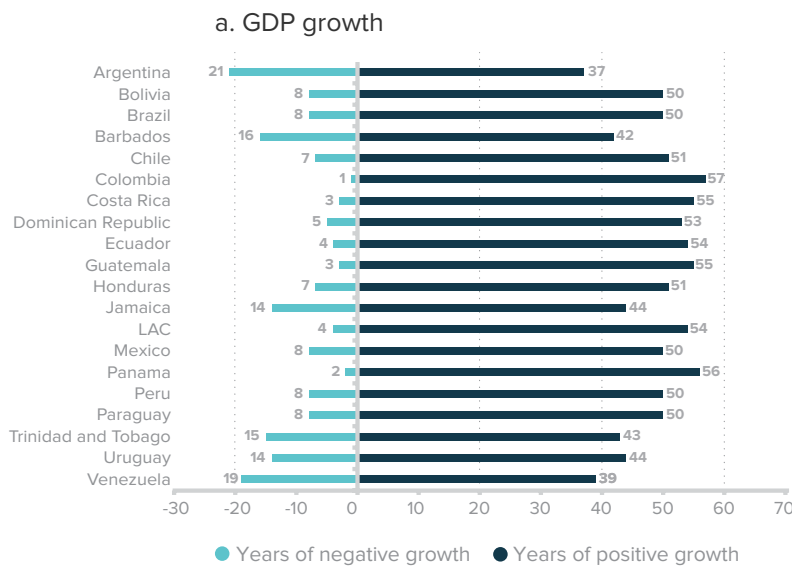
⁵³ The growth patterns depicted in figure 1.17 can also be observed in considering the median LAC country.

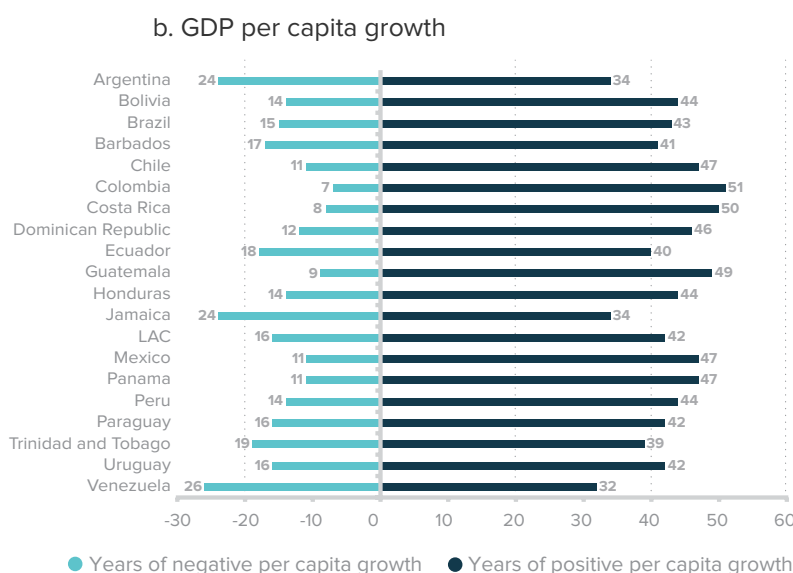
Oil price increases, for instance, are clearly good news for Ecuador, Trinidad and Tobago, and Venezuela, but not so good for Honduras and Jamaica. Similarly, a rise in the prices on metals benefit Chile and Peru but do little for Guatemala or Paraguay. Exposure to world financial shocks also varies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

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

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

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





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

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

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

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

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

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

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

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

Table 1.2: Productivity growth: a null or slightly negative contribution to long-term output growth in LAC
Decomposition of per capita output growth, 1968–2017

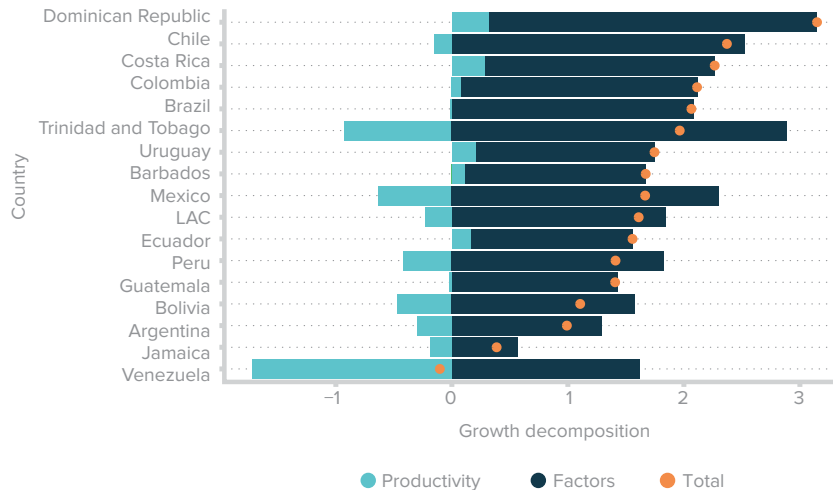
Period end	Productivity	Factors	Total
1968	1.05	1.16	2.21
1975	0.24	2.67	2.91
1982	-1.72	2.71	0.99
1989	-1.07	0.76	-0.31
1996	0.54	1.29	1.82
2003	-0.77	1.8	1.03
2010	0.77	2.31	3.08
2017	-0.87	2.01	1.15
Averages			
Average pre 1990	-0.37	1.83	1.45
Average post 1990	-0.08	1.85	1.77
Overall average	-0.23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

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

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

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

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



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

Latin American growth fares poorly in a comparative perspective

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

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

Table 1.3: Per capita annual growth: LAC's shortfall with the rest of the world is almost a percentage point*Decomposition of LAC per capita output growth, gap relative to various benchmarks, 1968–2017*

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

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

Note: The table shows the annual growth gaps between LAC and each of the four benchmarks, that is, the LAC growth rates shown in table 1.2, minus the corresponding growth rates of the benchmark. Negative gaps are shortfalls.

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

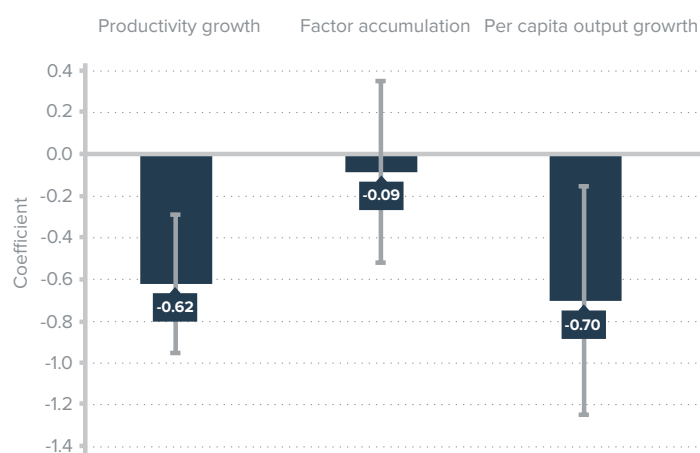
In contrast, the contribution of factor accumulation to growth in LAC does not appear to be subpar. Overall, it is ahead with respect to Africa and about a half percentage point above the United States (it lags only with respect to the East Asian tigers, as expected). This conclusion is reinforced by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

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

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

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

LAC growth gap: non-LAC benchmark



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

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

Box 1.8: The evidence of comparative development analysis

The literature analysing the role of productivity in the LAC performance from a comparative perspective looks at the stocks of factors of production (physical and human capital) and the efficiency with which they are utilized to explain the level of output per capita. To answer the question of whether the low output is caused by low capital or low productivity, it looks at the corresponding output,

capital, and productivity gaps relative to benchmarks. Because the stock of capital and the productivity level with which it is utilized are a result of the net additions to capital and changes in productivity over time, the findings in this literature are closely related to those from growth accounting over long periods of time, as follows:

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

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

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

The world will be one before and one after the COVID-19 pandemic. By mid-2021, there is already light at the end of the tunnel as vaccines have started to become available, at different paces, in the LAC countries. There is still, however, uncertainty about the vaccines' effectiveness in response to mutations of the virus, so it is unfortunately not possible to state when the pandemic will be over, and thus not possible to measure its full effects. But regardless of the final numbers, two general points can be made

with certainty. First, the pandemic will result in increased inequality along many of the dimensions discussed in this chapter. Second, the toll on the region will be very large.

National household surveys for 2020 are not yet available for most countries. Estimates of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) suggest that 22 million people fell into poverty during 2020.⁵⁷ Navigating through these difficult times has been harder for the poorer countries and particularly so for poor and vulnerable groups everywhere. By making it more difficult to cope with the COVID-19 crisis, the levels and forms of inequality that have been allowed in LAC will lead to even more inequality and widening development gaps across income groups in coming years. They will also slowly recover compared with what might have been possible under societies better organised.

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

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

Many have lost their source of income

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

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

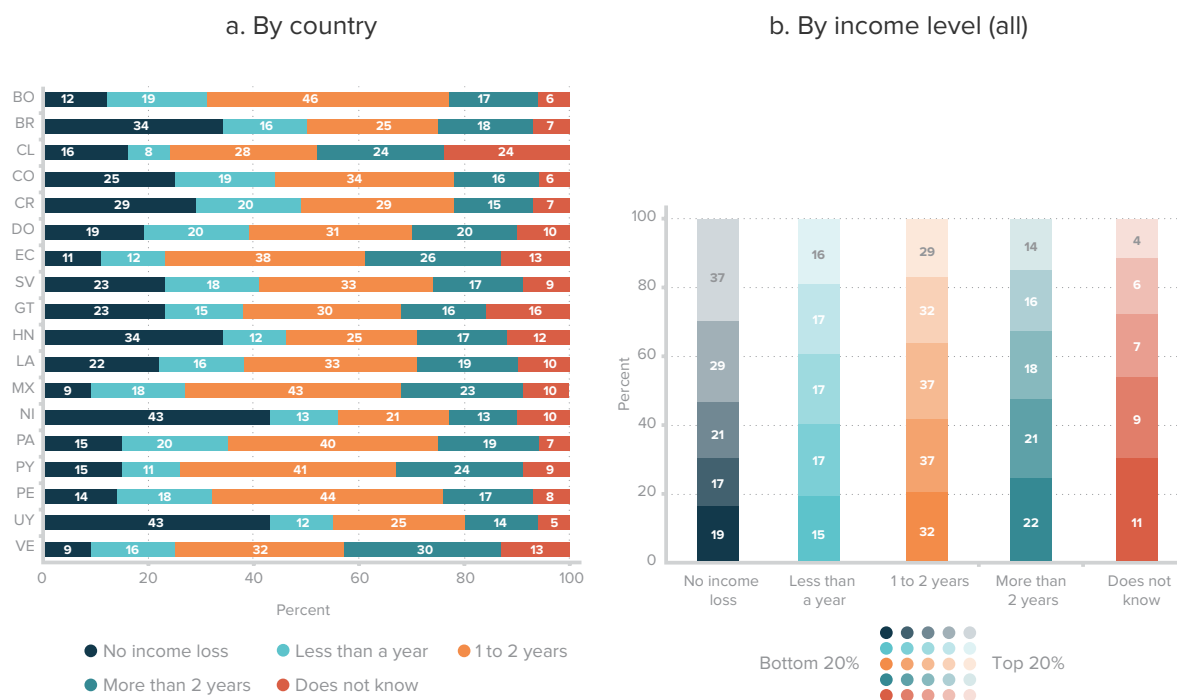
The 2020 Latinobarómetro survey included questions to capture people's perceptions of the income shock associated with COVID-19. Respondents were asked if they had lost income during the pandemic and, if so, how long they expected it would take for

⁵⁷ ECLAC (2021).

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

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

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

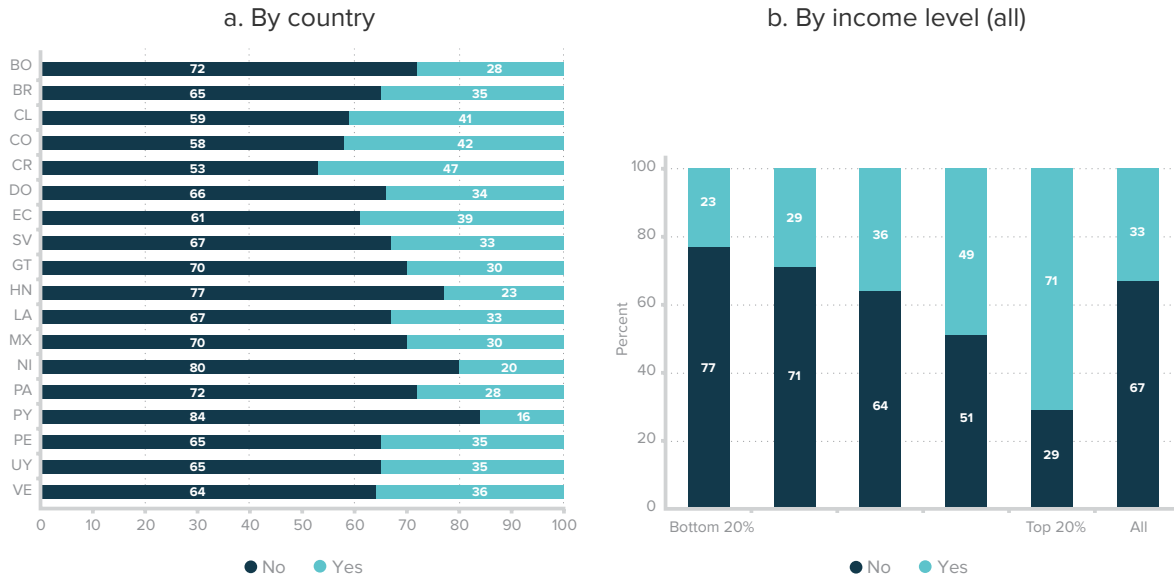


Source: UNDP calculations; 2020 data of Latinobarómetro (dashboard), Corporación Latinobarómetro, Santiago, Chile, <http://www.latinobarometro.org/lat.jsp>.

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

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

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



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

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

Table 1.4: Recent household surveys show labour force participation rates falling, though at a varying pace*Labour market outcomes, selected countries, 2019–2020*

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

Source: UNDP calculations; data of national household surveys.

Note: The data on Argentina and Dominican Republic refer to the first three quarters of 2020.

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

Table 1.5: It is too soon to be sure about the effects of the pandemic on gender gaps in labour markets*Gender gaps in labour market outcomes, selected countries, 2019–2020*

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

Source: UNDP calculations; data of national household surveys.

Note: The data on Argentina and Dominican Republic refer to the first three quarters of 2020.

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

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

Unequal welfare losses because of social distancing

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

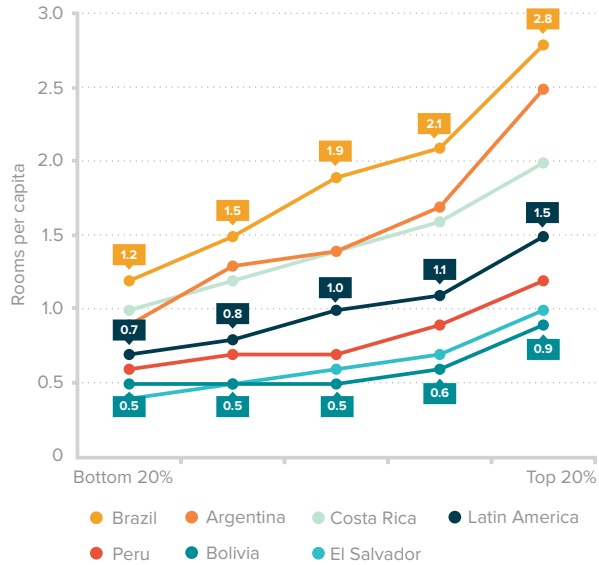
These living conditions imply that social distancing measures have been even more damaging in terms of welfare losses among some groups. Not only have the poor lived through the pandemic in greater discomfort, but they have also been more exposed to contagion because of greater obstacles to the realization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

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

⁵⁸ See Cejudo, Michel, and de los Cobos (2020).

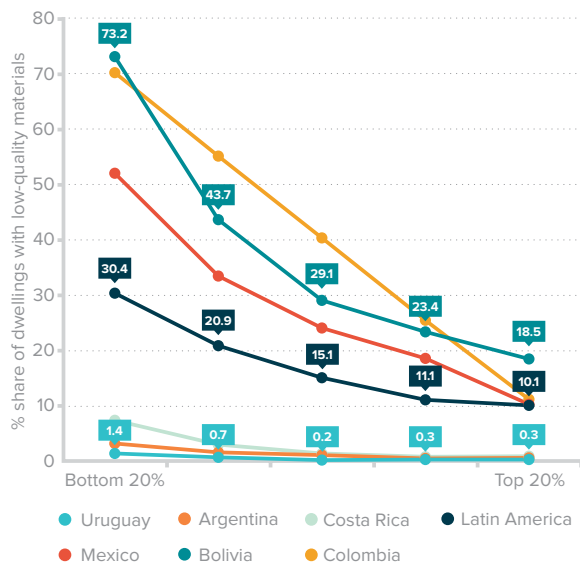
⁵⁹ McTarnaghan et al. (2016).

Figure 1.23: In Latin America, poorer households are relatively more overcrowded
Persons per room by income quintile, Latin America and selected countries



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

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



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

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



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

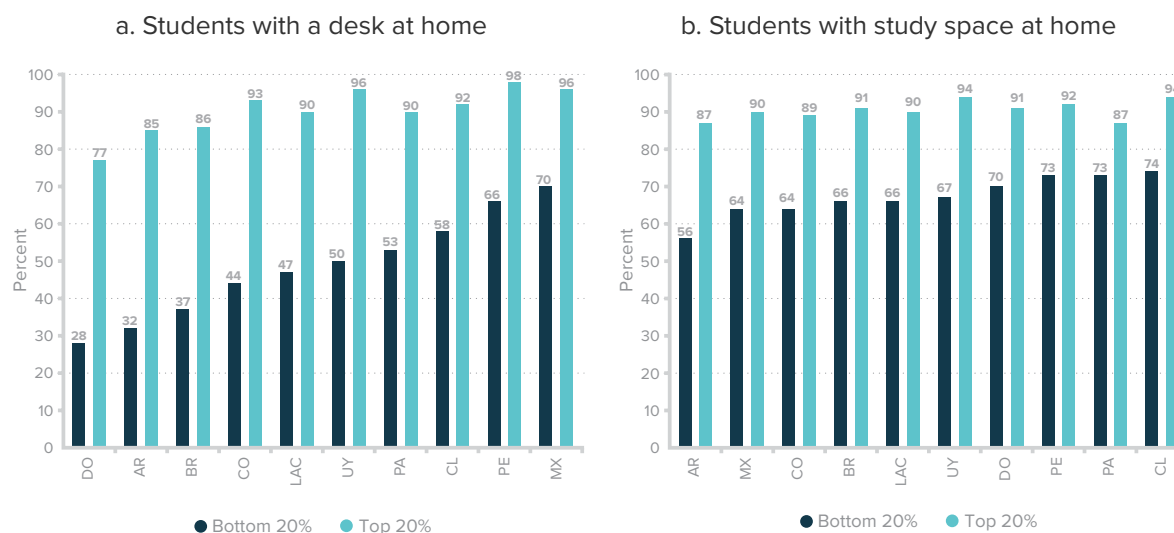
Household ability to cope with impacts of the pandemic on education differ by socio-economic status

The COVID-19 pandemic has triggered extensive shocks to the coverage and quality of education that threaten to set a whole generation back in academic achievements. This will complicate the path towards educational equality by creating a disproportionate burden on the most economically vulnerable students. Preliminary simulations project the global loss from the human capital decumulation resulting from a four-month shutdown at US\$10.6 trillion to US\$15.1 trillion in earnings at current value,

amounting to 12 percent to 18 percent of global GDP.⁶⁰ The United Nations Children’s Fund and Save the Children estimate that an additional 140 million children across the world will be pushed into monetary poverty because of the considerable losses to household income and that an additional 150 million children are currently living in multidimensional poverty because of deprivations in their access to education, health care, housing, sanitation, or water.⁶¹ As of February 2021, LAC remained the region with the lengthiest average disruption in classroom instruction: 22 percent of schools were fully closed; 32 percent were partially closed; 30 percent were fully open, and 16 percent were on academic break. The number of students between pre-primary and upper secondary impacted by full closures was 158 million, and an additional 28 million students were affected by partial closures.⁶²

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

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



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

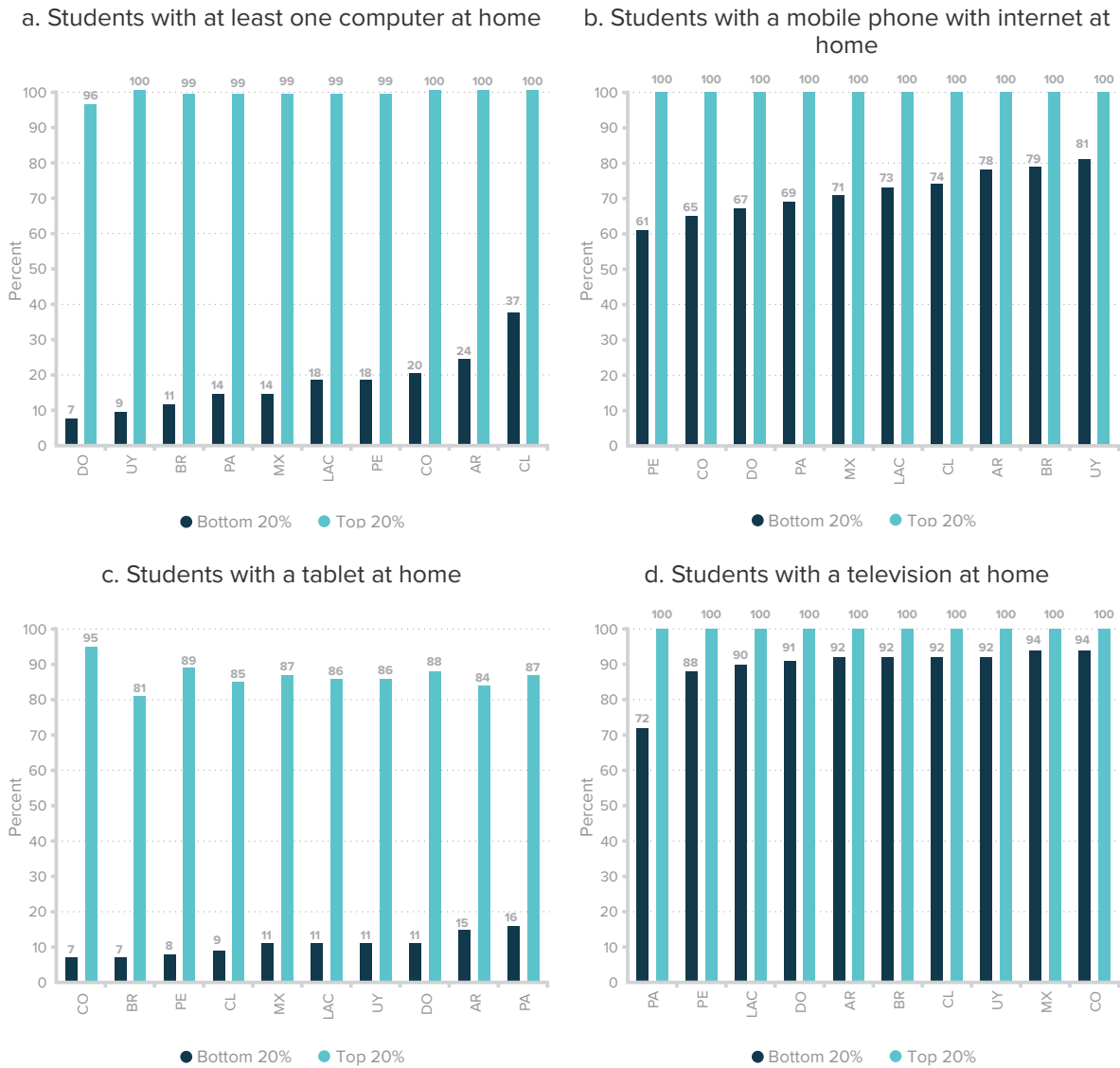
⁶⁰ Psacharopoulos et al. (2020).

⁶¹ UNICEF and Save the Children (2020a), (2020b).

⁶² UNICEF (2021).

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

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

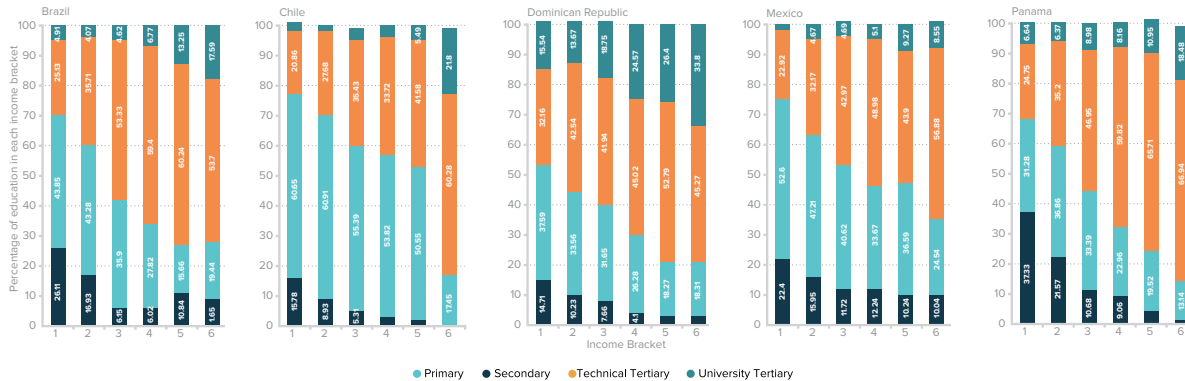


Source: García Jaramillo 2020; 2018 data of PISA (Programme for International Student Assessment) (dashboard), Organisation for Economic Co-operation and Development, Paris, <http://www.oecd.org/pisa/pisaproducts/>.

Besides rupturing important channels of communication, interaction, and discussion inherent to an effective learning process, recent COVID-19 restrictions have also been accompanied by an intensified dependence on the educational aptitudes of parents, a particularly worrisome situation considering that parents in more well-off households generally possess higher levels of educational attainment (figure 1.28). These parents

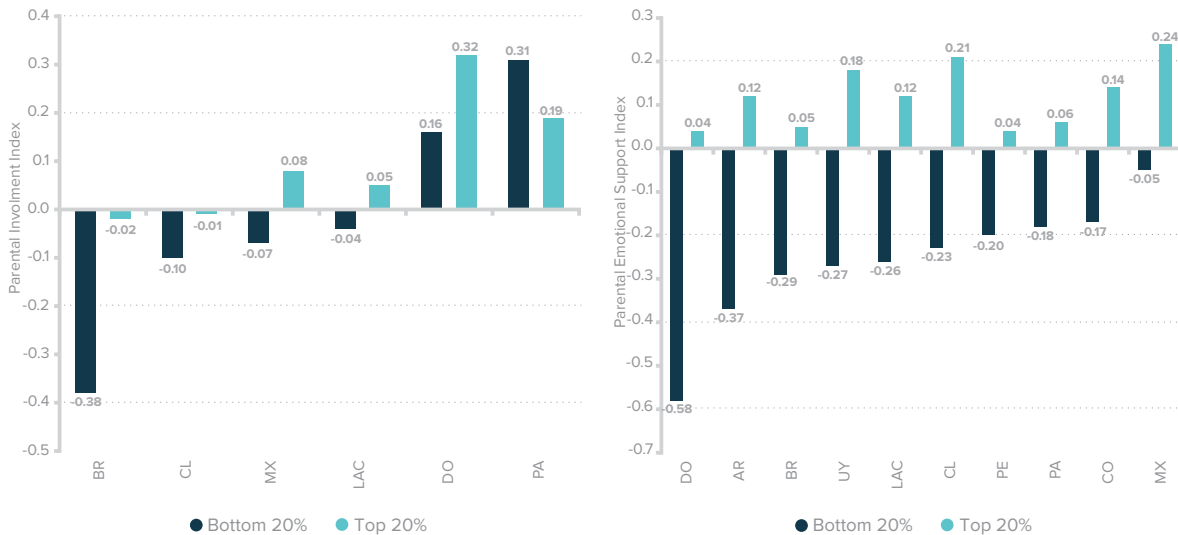
are also more likely to become involved in their children’s home learning and provide emotional support along the way (figure 1.29). In fact, parental involvement and emotional support in households in the top 20 are persistently above the OECD average, while the corresponding indicators on households in the bottom 20 are almost always below this average, except for parental involvement in Dominican Republic and Panama.

Figure 1.28: Unequal parental educational attainment affects learning gaps between rich and poor
What is the highest level of schooling completed by your mother? Answers by income bracket



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

Figure 1.29: Unequal parental involvement in children’s education will lead to higher inequality
 a. Parental involvement index b. Parental emotional support index



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

All this implies that the ability of students and their families to confront the educational impacts of the pandemic differs according to socio-economic status. In addition, the

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

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

Exposure to domestic violence has increased during the pandemic

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

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

⁶³ Neidhöfer, Lustig and Tommasi (2020) report this low level of educational attainment for children of low educated families in Latin America for cohorts born in the 1960s.

⁶⁴ WHO (2020).

⁶⁵ Peterman et al. (2020).

⁶⁶ Campbell (2020).

⁶⁷ Miller, Segal, and Spencer (2020).

⁶⁸ Berniell and Facchini (2020).

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

In Colombia, calls linked to domestic violence received by the Attorney General's Office increased by 79 percent between March and April 2020.⁷² In Mexico, there was a rise in calls reporting domestic abuse and requesting psychological services, as well as a decrease in calls requesting legal assistance, perhaps out of fear of retaliation.⁷³ Within Central America, Infosegura documented higher levels of gender-based violence in Costa Rica, El Salvador, Guatemala, and Honduras during the first trimester of 2020.⁷⁴ Similarly, almost half the women survey respondents in five Caribbean countries (Grenada, Guyana, Jamaica, Suriname, and Trinidad and Tobago) reported that they had faced at least one form of physical, sexual, economic or emotional violence during the pandemic.⁷⁵

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

⁶⁹ Agüero (2020).

⁷⁰ Pérez-Vincent et al. (2020).

⁷¹ Pérez-Vincent et al. (2020).

⁷² Zapata-Garesché and Cardoso (2020).

⁷³ Silverio-Murillo, Balmori de la Miyar, and Hoehn-Velasco (2020).

⁷⁴ López-Calva (2020b).

⁷⁵ Sayed and Bartels-Bland (2020).

⁷⁶ Pérez-Vincent et al. (2020).

⁷⁷ ILO (2020).

⁷⁸ Iregui-Bohórquez, Ramírez-Giraldo, and Tribín-Urbe (2019).

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

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

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

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

^a See COVID-19 Global Gender Response Tracker (dashboard), United Nations Development Programme, New York, <https://data.undp.org/gendertacker/>.

^b Bergallo et al. (2021).

1.7. Trapped?

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

considers a decades-long episode of low growth and high inequality, the example of Latin America and the Caribbean may be the first to come to mind.

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

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

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

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

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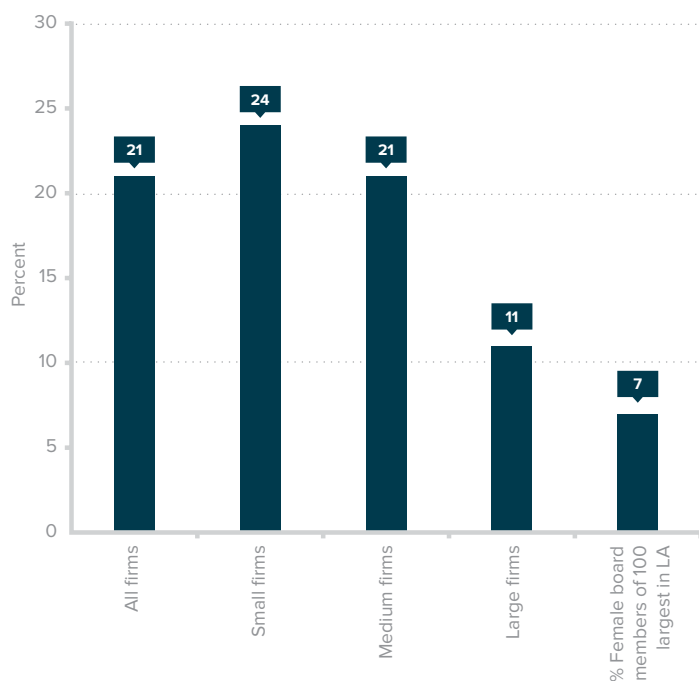
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GENDER GAPS IN CORPORATE LEADERSHIP

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

Figure S1.1: Women in corporate management



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

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

the issue is seldom studied, recent evidence on LAC has identified a link between women's leadership and firm performance (Flabbi, Piras, and Abrahams 2017).

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

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

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PROTECTING THE ENVIRONMENT IS MORE COMPLEX WHEN COUNTRIES ARE UNEQUAL

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

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

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

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

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

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

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

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

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

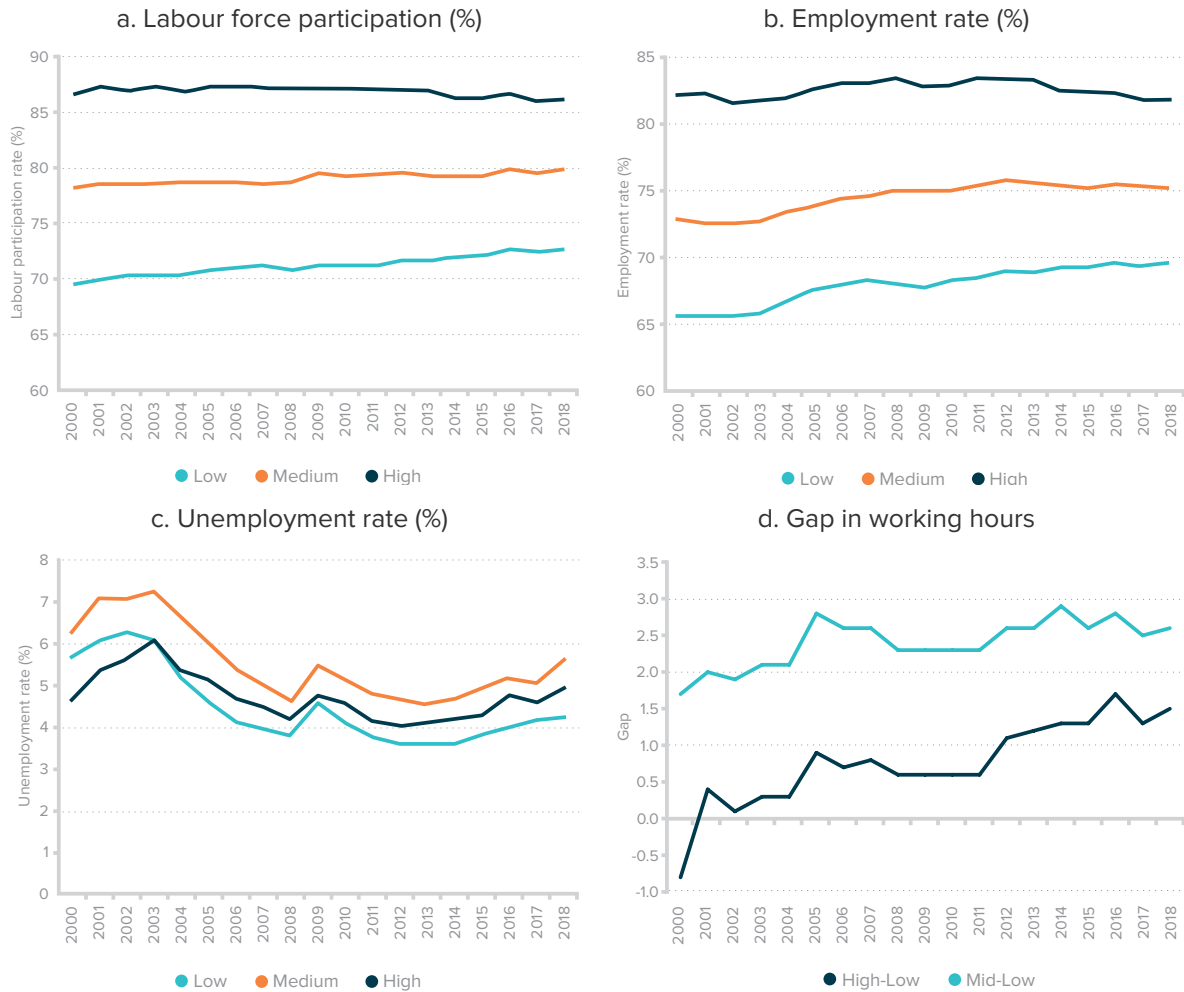
Second, inequality also erodes local social capital and trust by creating social distance among local economic actors. This distance affects the possibility for communities to engage in collective action, which is key to solving the challenges of managing shared natural resources, such as forests, water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

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

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

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

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



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

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

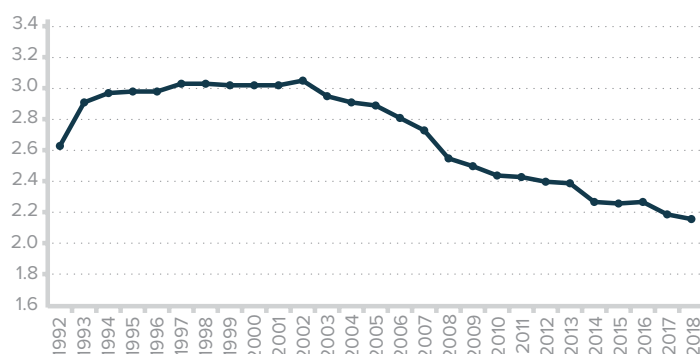
In sum, although still large, the gaps between skilled and unskilled workers decreased in the 2000s while the economy was growing. However, increases in labour force participation and employment among unskilled workers, however, decelerated

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



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

Figure S3.2: Wage gaps between skilled and unskilled workers have decreased but remain large
Conditional wage gaps by skill in Latin America, unweighted average, adult workers ages 25–64

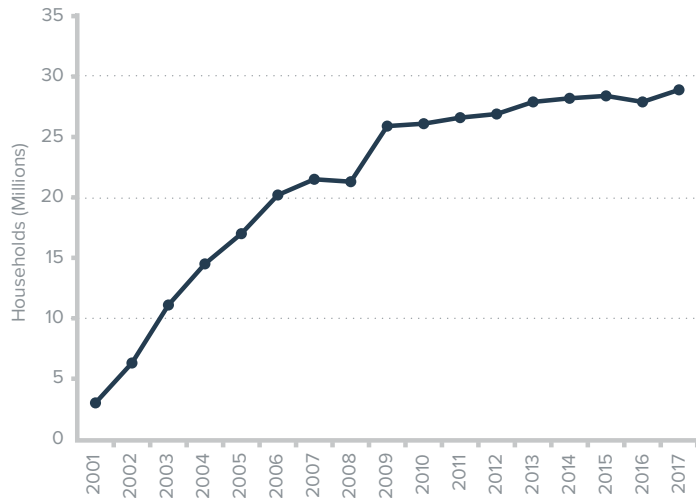


Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and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

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

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

Figure S3.3: The coverage of CCTs in LAC expanded rapidly in the early 2000s
Beneficiaries of conditional cash transfer programs in Latin America



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

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