Is Inequality Really Declining in Latin America? Evidence on Income, Wealth and the Social Structure

¿Está realmente disminuyendo la desigualdad en América Latina? Evidencias sobre los ingresos, la riqueza y la estructura social

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Abstract

This paper examines several dimensions of inequality in theLatin American region focusing on top income shares and Gini coefficients, top wealth shares and the size wealth distribution. Itc ompares inequality of income according to household surveys and income inequality using tax data showing the former tends to underestimate top shares and gini coefficients and therefore the extent of inequality. The social structure is assesed for economic elites, the middle class and the working poor.

Keywords: Inequality; Taxation; Income; Wealth Social.

Resumen

Este artículo examina varias dimensiones de la desigualdad en la región de América Latina centrándose en los top income shares y los coeficientes de Gini, los wealth shares y la distribución de la riqueza. Se compara la desigualdad de ingresos en función de las encuestas a hogares y la desigualdad de ingresos a partir de datos tributarios, lo que muestra que, en el primer caso se tiende a subestimar las tasas más altas y los coeficientes de Gini y, por tanto, el grado de desigualdad. La estructura social se evalúa para las élites económicas, la clase media y los trabajadores pobres.

Palabras clave: Desigualdad; Impuestos; Ingresos; Riqueza; Estructura social.

JEL codes: D63, I31, N36, O54.

1. Introduction

Inequality is certainly a very important topic. It involves basic issues of social justice and provides an indication of the extent to which the fruits of economic progress are fairly distributed (or not) among those who contributed to generate wealth. High inequality is also a concern in instrumental terms, as its has potentially adverse impact on economic growth, the degree of social cohesion and the probability of countries to experience economic and financial crises; inequality can also increase the incidence of corruption. Latin America stands as one of the regions with the highest levels of income inequality, as measured by the Gini coefficients and other distributive indices. The strong influence of economic elites and oligarchies in policy-making and their resistance to progressive social change has been at the root of the persistence of Latin American inequality.

Are these tendencies changing? Is inequality declining in Latin America? How do we measure economic inequality to gauge distributive trends? After the experience of the 1980s (the "lost decade") and the 1990s (the years of the Washington Consensus) that led to rising inequality, the evidence provided by official household surveys for the period 2003-2012 points to a decline in income inequality in Latin America. This also corresponded to a cycle of booming terms of trade, higher GDP growth and also of more progressive social policies in various countries of the region. Thus, an "inequality optimism" developed among some analysts of the Latin American reality (Lopez-Calva and Lustig, 2010; Cornia, 2012; Tsounta and Osueke, 2014) that argued that the Latin American region would be, at last, in a path of lower inequality and better distribution of the benefits of economic growth among its population. From an international and comparative perspective, the presumed decline in the income Gini coefficients in the Latin American region would stand in contrast with the trend towards rising Gini coefficients observed in other main countries such as the United States, United Kingdom, Russia, China and other regions (Solimano, 2016).

It is important also to note, however, that the Gini coefficients, (calculated with data from household surveys), for several Latin American countries are in the range of 45-55 percent, quite high by international standards. Moreover, when the Gini are re-computed with tax data, the coefficients in some coun-

tries are closer to 60 percent and higher.[1] In turn, the wealth Gini are in the range 70-85 percent, confirming the presumption that wealth is often more unequally distributed than income.

Since 2012-13 the Latin American region entered into a less favourable macroeconomic cycle of declining terms of trade and slower economic growth along with a more stringent fiscal position. In addition, in some countries new governments are leaning towards more orthodox economic policies.

This paper examines the claims of declining inequality in Latin America in the 2000s and early 2010s, contrasting inequality indices based on household survey data with other indices using tax-data showing that inequality indicators can be substantially higher.[2] Thus, the claims of a substantial progress attained in the 'battle against inequality' may be premature. [3] The paper also reviews new empirical evidence based on personal net wealth (financial plus non-financial assets less debt) to assess trends in wealth inequality, an often under-researched dimension of economic inequality. In addition, we use various indicators to examine the concomitant social structure in terms of economic elites, the middle class and the poor.

The document is organised in seven sections besides this introduction. Section 2 provides empirical evidence based on household surveys on the evolution of inequality in Latin America in recent decades, showing a decline in the Gini coefficients in the period 2003-2012. Section 3 compares the levels of inequality in Latin America relative to the OECD and world averages and reviews recent country studies using tax data, mostly led by independent research teams in the region, that revise current estimates of top income shares and recalculate Gini coefficients. These studies show a picture of higher and stable inequality that differs from the story of a decline in inequality that emerges when using household data, qualifying the claims of declining inequality in Latin America in recent years.[4] Section 4 brings evidence on the distribution of wealth, using new data on net worth for different wealth classes in a large group of countries and section 5 examines evidence

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[1] Regarding the income share of the top 1 percent, in advanced capitalist countries such as the United States the income share of the richest one percent of the population in national income is currently at about 22 percent, in the United Kingdom 15 percent and in France is 8 percent. In the Latin American region, Chile shows a record income share of 33 percent and Argentina 17 percent, Solimano (2014).

[2] Household surveys data (HS) are more appropriate for analysing what happens at the bottom of the income distribution as they often tend to underestimate incomes at the top. This bias can, in principle, be ameliorated by computing the indices for the top deciles/centiles using income tax data that is considered less prone to understatement at the top, although practices of tax elusion and tax evasion render this method not completely problem-free either.

[3] From an international and comparative perspective, the presumed decline in the income Gini coefficients in the Latin American region (according to Household Surveys) would stand in contrast with the trend towards rising Gini coefficients observed in other main countries such as the United States, United Kingdom, Russia, China and regions (Solimano and Calderón, 2016).

[4] These studies generally follow the methodological framework of the World Top Income Database (WTID) project housed at the Paris School of Economics developed by economists Anthony Atkinson, Thomas Piketty, and Facundo Alvaredo among others.

regarding economic elites, the middle class and the working poor. The paper concludes in section 6.

2. The Level of Latin American Inequality in Comparative Perspective

Historically, the unequal distribution of wealth, in particular extensive piec-es of land, along with financial and productive assets has characterised the Lat-in American region. In turn, the distribution of Incomes (wages, rents, profits) is also quite skewed. To get a sense of the degree of Latin American inequality in international perspective table 1 compares, using summary Gini coefficients, the distribution of income (before and after correcting by taxes and subsidies) and the distribution of wealth in the Latin American region with those of the OECD and world averages.[5] The results of the table highlight several important features of Latin American inequality:

a)   The Gini coefficient for gross income is higher (more inequality) in Latin America than in the OECD and the world average.

b)   Wealth distribution is more concentrated than income distribution in both, LAC and the OECD countries (higher wealth Gini than the income Gini).

c)   For the OECD group, there is a 15 percentage points difference be-tween the gross income Gini and the disposable income Gini. This highlights the redistributive role played by taxes and transfers in this group of countries. In contrast, this difference is relatively small for Latin America (4 percentage points) and the world economy (0.2 percent).

d)   The wealth Gini of Latin America is near 9 percentage points higher than the wealth Gini for the OECD but it is only slightly below the world aver-age.

Table 1. Inequality in Latin America, OECD, World (Gini coefficients) c. 2008-2010

	Gross income	Disposable Income	Wealth
OECD	46.8	31.6	71.7
Latin America	53.0	49.0	80.9
World	40.0	39.8	81.6

Note: Gini coefficients are simple averages within each category.

Source: Solimano (2016).

[5]Gross incomes correspond to market income plus transfers. Disposable income is gross income less taxes. Net wealth is defined as the sum of financial assets (bonds, stocks, mutual funds, deposits) and non-financial wealth (property and other non financial assets), as calculated by the Global Wealth Report prepared by Credit Suisse report following a consistent methodology that makes the wealth levels and the Gini coefficients comparable across nations.

Interestingly, the fact that the Gini of gross income is relatively similar to the Gini of disposable income in the LAC region suggests that the action of the State to correct this inequality through taxation and transfers is rather *limited and ineffective.* Explanations for this behaviour are associated with a moderate level of overall taxation (relative to GDP), heavily reliant on indirect taxation, with tax loopholes that benefit the rich or with less progressive spending of tax collection. Indeed, we can observe from figure 1 that within the OECD countries Mexico and Chile are the most unequal countries in both measures.

FIGURE 1. DISPOSABLE INCOME GINI COEFFICIENTS AND TOP TO BOTTOM INCOME SHARES IN THE OECD BY COUNTRY, 2010.
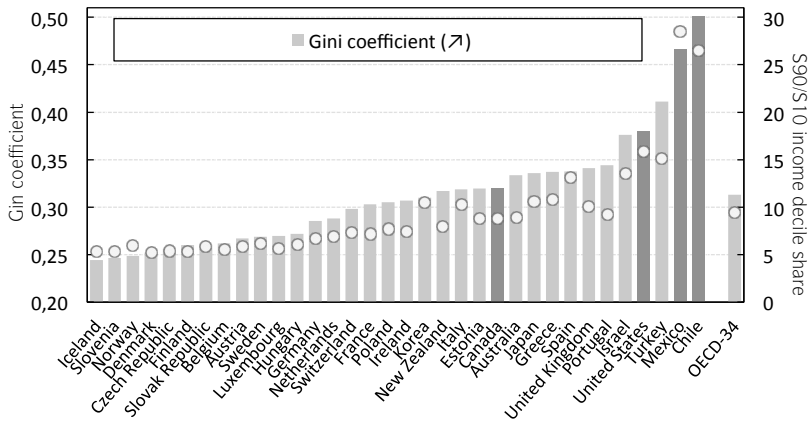
Source: Solimano (2016) based on the OECD Income Distribution Database (via www.oecd.org/social/income-distribution-database.htm), 2010.

3. IS INCOME INEQUALITY REALLY DECLINING? EVIDENCE FROM INCOME TAX-DATA STUDIES

Independent studies of top income shares for individual Latin American countries using income data coming from tax records show higher income shares than those of household surveys and also higher values for the Gini coefficient.[6] A recent study for *Mexico*, Esquivel-Hernandez (2015), supported by OXFAM, shows that the official *Encuesta Nacional de Ingresos y hogares,*

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[6] Atkinson (2007) provides a formula for calculating a corrected Gini coefficient when very rich individuals are effectively measured (say using income tax data although this measure, as already said, is not perfect). An underestimation of the income's share of the very rich (say the top 1 percent or top 0.1 percent) leads to a discrepancy between measured Gini and "true" Gini coefficients. Alvaredo (2011) applies the Atkinson formula (with the top income share properly measured) for Argentina and the United States yielding to substantial increases in the Gini for the two countries.

ENHIG, (a household survey) estimates in near 45 percent the income share of the top 10 percent; however, when using tax data and adjusting by the national accounts that share goes up to 60 percent. In addition, the study shows that the income share of the top 10 percent *increased* in the period 2002-2012 in contrast with the decline of around 7 percentage points shown by the official ENHIG estimates. The study shows that the income share of the top 1 percent in Mexico is near 21 percent, higher than the corresponding share for Colombia, Argentina, the United States, Spain, China and other nations.

For Chile, the World Bank prepared a study to evaluate the distributive effects of the tax reform of 2014 that provides useful information on inequality indices. For computing Gini coefficients and top income shares the report adopts the following two main methodological assumptions: (i) a combined method based on household-surveys information for the bottom of the distribution and tax records for the top segments and (ii) a distinction between cash income and accrual income (see Banco Mundial, 2015).[7] The results show the high sensitivity of the distributive results to the income definition used for computing the indices. The lower Gini (0.50) is obtained when using household income per capita that is the standard unit of the CASEN (the main household survey in Chile) while the highest value of the Gini (0.68) is attained when personal income is measured on an accrual basis (including distributed and undistributed profits). In turn, the upper income shares are also substantially higher when using accrued personal income data. In fact, while the income share of the top 1 percent when calculated using personal income on current, unadjusted, income is close to 14 percent, the share climbs to 33 percent when personal income is calculated on an accrual basis. The upward revisions for the top 5 percent and top 0.1 percent are equally substantial (see table 2).

Table 2. Chile: Gini coefficients and top income shares (combined methodology), 2015.

	Gini	top 0.1%	top 1 %	top 5 %
Household income per capita	0.50			
Personal income (cash)	0.59	2.3 %	13.9%	36.6 %
Personal income (accrual)	0.68	19.5%	33.0%	51.5%

Source: Banco Mundial (2015).

A study for *Uruguay* by Burdin, Esponda and Bagurito (2014) compares the top income shares obtained from household surveys with those using tax records at micro level (Table 3). The results for 2009, 2010 and 2011 show a difference between 2 and 5 percentage points higher for the income share

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[7] Diaz-Bazan (2015) proposes using an optimal income threshold for combining household surveys that are reasonably adequate for middle to bottom incomes with tax records that represent better higher incomes. The optimal threshold is the minimum mandatory income that triggers tax filing.

of the top 1 percent based on tax records compared with the share based on household surveys. The Uruguay study shows that the value of the Gini coefficient calculated with income data from tax records is higher by 3 to 4 percentage points than the Gini obtained from household surveys data. As it is displayed in table 3, when using tax-records there is no decline in the income share of the top 1 percent between 2009 and 2011 (rather a slight increase), contrary to what happens when using household survey data.

TABLE 3. URUGUAY: GINI AND INCOME SHARE OF TOP 1 PERCENT (HOUSEHOLD SURVEYS AND TAX-DATA)

	Income share top 1 percent		Income Gini	
Year	Household survey (HS)	Tax data (TD)	HS	TD
2009	11.5	13.8	0.51	0.54
2010	10.2	14.3	0.49	0.53
2011	9.3	14.1	0.48	0.52

Source: Own elaboration based on Burdin, Esponda and Bagurito (2014).

For *Brazil*, Medeiros, Ferreira and Castro (2014) shows, using tax data, the relative constancy of the income's share of the top 5 percent, top 1 percent and top 0.1 percent between 2006 and 2012 contrary to the view held of a decline of income inequality in Brazil based on evidence from the PNAD (the household survey elaborated by the Central Statistical Office, IBGE). The income share of the top 5 percent is around 47 percent, the share of the top 1 percent is 25 percent and the share of the top 0.1 percent around 11 percent (for 2012). These numbers are high by international standards. The authors also computed a tax corrected Gini coefficient combining household data for the bottom 90 percent and tax data for the upper 10 percent of the distribution and come up with an upward adjustment of between 6 to 9 percentage points for the Gini putting it near 69 percent. Interestingly, while the PNAD- based Gini declines from 0.64 to 0,59 between 2006 and 2012 the tax corrected Gini remains virtually *constant* at 69 percent between those years, casting doubts on the alleged decline of income inequality in Brazil.

For *Colombia*, Alvaredo and Londono-Velez (2013) recalculates top income shares using income-tax information and compare the results obtained with those of household survey data. Their results show that the income share for the top 1 percent is around 20 percent (1997-2010) a figure on the high side compared with the group of countries of the World Top Income Database. In contrast, the income shares of the top 1 percent based on the household survey was 13.5 percent in 2010 with incomes corresponding, essentially, to rentiers and capital owners. Again, contrary to the claim that inequality has declined in Colombia, the study finds that income has *concentrated* at the top and the share of top percentile has remained stable rather than declining in recent years. The authors also compute a corrected Gini using the income share

of the top 1 percent based on tax data and the rest using household survey information; because of these adjustments the corrected Gini is between 2 and 3 percentage points *higher* than the household survey based Gini coefficient.

Summing-up, these studies show that when calculating top income shares with tax data the results yield higher top income shares than those implied by household surveys and, also, higher and more stable (corrected) Gini coefficients therefore providing a different picture to the prevailing belief of a decline in overall inequality in Latin America in recent years.

4. Inequality of Wealth

Income and wage disparities are certainly important measures of economic inequality but they do not tell the full story on *long run inequality*. This concept, in principle, can be approximated by looking at the level of wealth inequality. In fact, the net wealth of a person (or household) reflects better their life-time earnings (and savings) capacities and medium to long-run command of resources than current income flows. Marketable personal/household *wealth* (*or net worth*) is often defined as the sum of financial assets (stocks, bonds, mutual funds) plus non-financial wealth (housing, land and other asset) less personal debt.[8]

Table 4 presents the Gini coefficients for wealth for 11 Latin American countries as well North America, and other selected economies using the dataset of the *Global Wealth Report* published since 2010, annually, by Credit Suisse (Shorrocks *et al*., 2015a and b).[9] The wealth Gini coefficients in the Latin American countries, are in the range of 70-85 percent much higher that the range for the income Gini coefficient that is between 45 and 55 percent (household surveys) and above for tax-based income Gini.[10]As mentioned before, Latin America had an unequal and highly concentrated pattern of land holdings (the *latifundio* system with origins in the Spanish colonization process) and this contributed to generate an unequal pattern of wealth distribution. Now inequality in the holdings of financial assets and the ownership of physical capital account for most of the overall wealth inequality.

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[8] This definition of wealth excludes rights to state pensions from a pay-as–go system since these rights are not traded in the market and therefore are difficult to measure in monetary terms. On the other hand, wealth definitions are starting to include private pension fund accounts, that are a growing component of personal wealth for the top 20 percent of the population in several high income countries (Solimano, 2016).

[9] Comparable international estimates of wealth levels, through direct and indirect methods, for more than 120 countries are now available, including information for Latin American countries. Figures can be obtained from the Global Wealth Report (2015). The preparation of this report is overseen by international experts on on wealth Anthony Shorrocks, James Davies and Rodrigo Lluberas.

[10] It is worth noting that in several Latin American countries lacking wealth surveys, the levels and the distribution of personal wealth are estimated through indirect econometric methods.

TABLE 4. WEALTH GINI INDEX 2015 (PERCENT): LATIN AMERICA AND SELECTED COUNTRIES

LAC		Other countries	
Argentina	81.8	Australia	63.9
Bolivia	71.3	China	73.3
Brazil	83	Canada	72.6
Chile	79.5	Denmark	89.3
Colombia	76.9	France	70.3
Ecuador	73.8	Germany	77.5
Mexico	75.9	India	83.1
Panama	80.2	Ireland	71.7
Paraguay	72.9	Italy	66.7
Peru	80.3	Japan	63.4
Uruguay	82.5	Norway	77.9
Venezuela	81.8	Russia	91.2
Regions		South Africa	84
Africa	85.6	Spain	67.1
Asia-Pacific	89.2	Sweden	80.9
Europe	83.4	United Kingdom	67.8
Latin America	80.9	United States	85
North America	84.2		
World	91.5		

Source: Own elaboration based on Shorrocks *et al.* (2015)

It is interesting to note that, according to the Global Wealth Report data 2015, the average level of wealth inequality in the Latin American region is *below* the levels of wealth inequality in Africa, North America (that includes Mexico), and the world average. Still this data has to be taken with caution as wealth is estimated indirectly for several Latin American and other developing countries (See Shorrocks *et al.* 2015a and b, for methodology).

Gini coefficients provide aggregative statistics of inequality and we may be interested in learning more about the *size distribution* of wealth. A breakdown of the distribution of *adults* for four wealth ranges comprises the following ranges : (a) below U$ 10,000, (b) 10,000-100,000; (c) 100,000-1 million and (d) over 1 million. The data reveals that, on average, the bulk of the adults -72 percent-- in the Latin American region has a net worth of less than 10,000 dollars (the world average share in this bracket is 71 percent), with 26 percent of the adults having a wealth level in the range of 10,000-100,000 dollars and 3 percent for the higher ranks. These figures suggest that the vast majority

of the Latin American population has modest levels of net worth in spite of the process of economic growth and rising per capita income that has taken place in recent decades in the region. At country level, Venezuela has the highest percentage −92 percent− of the adult population with net worth *below* 10,000 dollars (followed by Bolivia with 88 percent). In turn, Chile has the lowest percentage of the adult population (48 percent) with wealth below US$ 10,000, followed by Uruguay (54 percent). At the upper tail of the distribution of wealth, the percent of adults with net worth above one million dollars is the highest in Uruguay and the lowest in Venezuela and Bolivia (under-reporting of wealth at the top in some countries is a real possibility). As a comparative reference, in North America (that includes Mexico), the percentage of adults with net worth below US$ 10,000 is 27 percent, a figure much lower than in Latin America; in Europe the corresponding share is 44 percent. The highest concentration of adults with wealth holdings above 1 million dollars in the world is in North America with 6.1 percent (table 5).

TABLE 5. PERCENTAGE OF ADULTS BY WEALTH RANGE, 2015 (IN %) DISTRIBUTION OF ADULTS (%) BY WEALTH RANGE (USD)

	under 10,000	10,000 - 100,000	100,000 – 1 million	over 1 million
LAC				
Argentina	86.6	12.5	0.9	0.1
Bolivia	88.7	11	0.3	0
Brazil	75.9	22.2	1.8	0.1
Chile	48	46.6	5	0.3
Colombia	64.6	32.6	2.7	0.1
Mexico	56.7	39.9	3.2	0.2
Paraguay	78.2	20.6	1.1	0
Peru	69.5	28.3	2	0.1
Uruguay	54.2	41.4	4.1	0.4
Venezuela	92	7.4	0.6	0
Other countries				
Canada	18.5	31.9	46.1	3.6
United States	28.1	32.9	32.6	6.4
Denmark	31.9	24.5	39	4.6
France	16.9	33.1	46.3	3.7
Germany	29.7	33.9	34.2	2.3
Ireland	18.8	35.3	43.5	2.4
Italy	12.4	37.6	47.7	2.3

Norway	23.1	21.9	49.6	5.4
Russia	91.4	7.7	0.8	0.1
Spain	12.1	62.8	24.1	1
Sweden	15.8	47.4	29.7	7.1
United Kingdom	10	33.9	51.3	4.9
Australia	7.2	26.1	61	5.7
China	62.1	35.5	2.3	0.1
India	95.4	4.3	0.3	0
Japan	9	42.3	46.7	2
South Africa	72.7	24.3	2.9	0.2
Regions				
Africa	93.3	6.2	0.4	0
Asia-Pacific	74.3	17.6	7.7	0.4
China	62.1	35.5	2.3	0.1
Europe	44.7	30.7	22.9	1.7
India	95.4	4.3	0.3	0
Latin America	71.7	26.1	2.1	0.1
North America	27.1	32.8	34	6.1
World	71	21	7.3	0.7

Source: Own elaboration based on Shorrocks *et al.* (2015)

5. The Social Structure: Economic Elites, Middle Class and Working class/poor

The social structure of countries has changed in significant ways with the process of globalisation, the advent of new technologies, the adoption of free market policies, deregulation and privatisation. These trends have affected also the Latin American region. We can identify at least three main features of the social structure in the age of globalisation and neoliberalism (Solimano, 2014 and 2016):

(i)   An increased importance of the *economic elites* and growing concentration of income and wealth at the top.

(ii)   In developing countries experiencing relatively robust growth there has been an increase in the absolute size of the *middle class* but also accompanied by increased segmentation between upper and lower middle class segments. In other countries, aggregate economic growth has co-existed with stagnant middle class incomes (e.g. USA). Although the middle class has expanded in some regions experiencing faster economic growth this is also a vulnerable segment of the population. Three main sources of vulnerability can

hit the middle class (and the poor):(i) financial shocks and indebtedness, (ii) shocks in the labour market (unemployment and cuts in real wages) and (iii) health contingencies.

(iii)   There has been a decline in the economic importance and socio-political influence of the traditional working class reflected in a fall in the labour share in national income, stagnant wages and unstable jobs. These trends come along in a period of high mobility of capital to low wage countries, labour saving technical progress, lower labour union membership and influence and increased immigration from low to middle-income countries.

5.1 The Economic Elites

We shall define economic elites as a small group that captures a large share of national income and owns the bulk of the main productive and financial assets in the economy (Solimano, 2014). In terms of the history of ideas, the concept of elites was developed, chiefly, by the "Italian school" of Wilfredo Pareto and Gaetano Mosca. Pareto (1991) envisaged elites as "people with exceptional qualities" and Mosca (in *The Ruling Class)* argued that the main source of power for the ruling class (elites) is their superior internal organization, enabling them to "have a disproportionate influence over the vast majority of society despite their numerically small group". The American Sociologist C. Wright-Mills, in *The Power Elite* (1956[2000]) expanded the concept of elites to include three segments: economic, political, and military that compose the "power elite" in the United States. In contrast, Karl Marx did not elaborate his theories based on the concept of "elites" but described the upper echelons of capitalism as dominated by a capitalist class that owns the capital of the economy and assumes a dominant position in the economy and society.

 Statistical indicators of the economic power of elites (in terms of command of resources) are the income share and wealth share of affluent groups in society, say the top (richest) 5 percent, top 1 percent or top 0.1 percent of the population. Elites are important as they affect the process of capital accumulation, the degree of market competition (through monopolistic practices) and the patterns of inequality in the economy. In turn, elites exert influence on the functioning of democracy through lobby activities, the financing of political campaigns, ownership of mass media, contribution to think-tanks and so on. In the Latin American region, the economic power of elites shifted mainly from their dominant position as landowners in the past to dominant positions in industry, finances, and natural resources ownership.

5.2. Evidence from Top Income Shares

In a previous section, we presented estimates of top income shares for Argentina, Brazil, Chile, Colombia and Uruguay using tax data that are summarised in table 6. The highest income share for the top 1 percent is found in

Chile --between 31 and 33 percent-- using the most comprehensive definition of income, followed by Brazil, 25 percent and Colombia, 20 percent (period 1997-2012). The share of the top 1 percent in Argentina and Uruguay is between 12 and 16 percent depending on the year under consideration. According to the World Top Income Database, the United States has a share above 20 percent, the UK, 16 percent, France and Spain 8 percent, Portugal 9 percent, China 6 percent and the Scandinavian countries between 6 and 8 percent. In a comparative perspective, Latin American elites get a high share of income for them, suggesting a significant command on resources by the local elites.

TABLE 6. INCOME SHARE OF THE TOP 1 PERCENT IN SELECTED LATIN AMERICAN COUNTRIES (TAX-BASED INFORMATION)

	Percentage					
	Argentina*	Brazil [a]	Colombia*	Uruguay*	Chile[b]	Mexico[c]
1997	12.4	---	20.85	---	---	---
2004	16.75	---	17.8	---	---	---
2009	---	25	20.17	14.2	33	---
2010	---	25	20.45	14.6	31	---
2011	---	27	---	14.4	---	---
2012	---	26	---	14	---	21

Source: * World Top Income Database, Paris School of Economics, a: Medeira, Ferreira de Souza and Castro (2014), b: Fairfield and Jorrat (2014), López et.al. (2013) and Banco Mundial (2015), c: Esquivel Hernandez (2015).

Now if we turn to *wealth shares* for the top 10, top 5 and top 1 percent we find they exceed, substantially, the corresponding income shares confirming the fact that wealth is much more concentrated than income, particularly at the top of the distribution. The data of Credit Suisse for Brazil, Chile and Colombia (table 7) show the *wealth share of the top 1 percent* is 34 percent (Colombia), 43.2 percent (Chile) and 48 percent (Brazil) percent (in Mexico the wealth share is 36 percent). For Brazil, Chile and Colombia the corresponding income share is in the range of 20 to 33 percent using tax data although the range is lower when using data from household surveys.

Table 7. Wealth shares 2015: Selected countries and regions

	Top		
	10%	5%	1%
LAC			
Brazil	75.4	66.1	48
Chile	70.3	61.1	43.2
Colombia	66.8	54.8	34
Mexico	66	55.2	36
Other countries			
France	54.7	42.2	23.1
Germany	62.8	50.1	29.5
Russia	87.1	82	70.3
United Kingdom	54.1	42	23.2
Canada	57.7	45	25.1
United States	75.6	63	37.3
Regions			
Africa	78.6	68.4	47.2
Asia-Pacific	84.7	70.8	41.2
China	65.7	56.4	39.4
Europe	70	55.8	32.2
India	76.3	68.6	53
Latin America	72	61.8	42.7
North America	74.3	61.8	36.7
World	87.7	76.6	50

Source: Own elaboration based on Shorrocks *et al.* (2015)

In European economies such as France, Germany and the UK, the wealth shares for the top 1 percent are in the range of 23-29 percent, lower than in the Latin American countries. In turn, the corresponding share in the United States is 39 percent, and the top one percent's wealth share in Russia is 71 percent.[11]

[11] It is worth noting that the Global Wealth Report own rating of the quality of the wealth data is higher for the US, Canada and European countries than for most Latin American countries, Russia and Africa.

5.3. The Very Wealthy

There are different definitions for the super-wealthy. Forbes magazine presents, every year, a list of *billionaires* for over 70 countries (around 1,600 people worldwide with net worth above one-billion dollars). An alternative, less stringent definition is provided by the *World Ultra Wealth Report* a publication prepared jointly by the consultancy Wealth-X and the UBS bank. This report defines as "*ultra-high net worth individuals*" (UHNW) as those with net assets above US$ 30 million. Globally they represent only 0.004 percent of the world adult population (around 211,000 people) but control near 13 percent of total wealth (29.8 trillion dollars). In contrast, in the base of the pyramid, 66 percent of the population (3.25 billion people) has a net worth that represents 13.8 percent of total wealth. In the Latin American region, Mexico followed by Brazil and Argentina, the three countries with the largest population in the region, have the largest number of UHNW individuals. Worldwide the highest number of UHNW individuals are located in the United States.

Table 8. World Elite 2014: Selected Countries and Regions

	UHNW Population	UNHW Wealth US$ billion		UHNW Population	UNHW Wealth US$ billion
LAC			**Other Countries**		
Brazil	4,225	820	United States	69,560	9,630
Mexico	3,470	460	Canada	5,305	635
Argentina	1,185	160	Germany	19,095	2,580
Colombia	670	85	United Kingdom	11,510	1,445
Chile	515	75	France	4,750	565
Peru	515	65	Russia	1,230	650
Venezuela	455	60	Spain	1,800	225
Ecuador	280	30	Denmark	825	95
Dominican R.	265	30	Japan	14,720	2,430
Guatemala	260	30	China	11,070	1,565
Bolivia	245	30	India	8,595	1,013
Honduras	225	30	Australia	3,580	440
Nicaragua	210	30	South Africa	835	112
Paraguay	190	25	**Regions**		
El Salvador	160	21	Asia	46,635	6,975
Uruguay	125	18	Africa	3,005	395
Panama	120	17	Europe	61,820	8,355
Puerto Rico	110	16	LAC	14,805	2,225
Costa Rica	100	14	North America	74,865	10,265
Cuba	45	6	World	211,275	29,725

Source: Own elaboration based on World Ultra Wealth Report, 2014.

5.4. The Middle Class and the Working Class/Poor.

An important segment of the social structure is the "middle class" or some-times called the "majority class". Defining and measuring its size is not simple. Economists often adopt an income-based (or consumption-based) definition of the middle class and identify a positive relationship (often non-linear) with economic growth and a negative relation with inequality. In turn, sociologists use dimensions such as occupations, asset ownership, values, attitudes toward risk, and the search for upward social mobility to measure and/or identify the middle class. In terms of values and attitudes, middle class families often want stable jobs for their members, owning a house or property, having access to good education and health services for their children and living in a country with political stability and little insecurity (Solimano, 2014).

An important trend is the increased internal differentiation *within* the middle class. On the one hand, there is a thriving upper middle class segment composed by a brand of highly educated and well-connected managers and professionals such as lawyers, financial experts, economists, and technology experts working for banks, big corporations, independent professional firms and government. In contrast, a less prosperous segment of the middle class, composed by teachers, employees of ministries and public agencies, clerical workers, salespeople in retail stores may face stagnant wages and slim chances for economic progress in an increasingly segmented and elitist society.

Regarding the working poor, the greater globalisation of capital than labor along with a set of factors already mentioned such as decline in union membership, labour saving technical change, immigration to rich countries have hampered the relative economic position of wage earners and diminished the political influence of the traditional working class. The bargaining power of workers affecting the distribution of productivity gains between capital and labour has weakened and there has been a steady decline in labour shares in national income in main economies such as the U.S, Germany, China along with other developing countries according to studies of the International Labour Office (ILO) (Stockhammer, 2013) and the NBER (Karabarbounis and Neiman, 2013). The Latin American region has not been immune to these trends.

5.5. How Large is the Middle Class in Latin America?

A report produced by the World Bank (World Bank, 2012) attempted to measure the growth of the middle class in Latin America in the first decade of the 21st century. According to this report the middle class went up from 103 million in 2003 to 152 million people in 2009/2010, or a 50 percent increase. In turn, a study of the OECD (Karas, 2010) puts the size of the middle class in Central and South America in 2009 in 181 million or 10 percent of the global middle class. The World Bank report adopted a definition of middle class that includes individuals earning between US$ 10 and US$ 50 per day and defines the "vulnerable class" (a segment between the poor and the middle class) as in-

dividuals earning between US$ 4 and US$ 10 per day. It is estimated that near 38 percent of the Latin American population is within this vulnerable segment (c. 2010). In Latin America (and the world in general, see table 9) the dominant dynamics of social mobility along the growth process is, in a first stage, moving from poverty to the "vulnerable class" and then, in a second stage, to a middle class status.

A recent study by the Pew Research Centre (2015) tracks the evolution of the different socio-economic segments between 2001 and 2011 both at regional and global levels. At global level, the share of the poor in total world population declines from 29 percent in 2001 to 15 percent in 2011 along with an *increase* in the share of the low income from 50 to 56 percent with the share of the middle class going-up from 7 percent to 13 percent of total population (see table 8). The story is that a majority of the world population continues to be either low income/poor and that, as indicated, the dominant transition is from poverty to vulnerability (or low income status) rather than a direct jump from poverty to middle incomes. Between 2001 and 2011, the expansion of the middle class was far stronger in South America than in Central America and the Caribbean. In fact, in South America, the share of the middle class in total population increased from 16 percent in 2001 to 27 percent in 2011 (the percent of the poor declined by 10 percentage points (p.p.) between these two years). In contrast, the increase in the share of the middle class in total population was just of 2 percentage points from 19 percent to 21 percent in Central America and the Caribbean. At individual country level the main gainers were all South American countries: Argentina (17.5 p.p.), Ecuador (13.4 p.p.), Peru (10.9 p.p.) and Brazil (10.3 p.p.). In contrast, the share of the middle class increased very little or remained stagnant in El Salvador (0.9 p.p.), Guatemala (0.8 p.p.) and the Dominican Republic (0.1 p.p.). In Mexico the share of the middle class went up by 8.8 percent between 2001 and 2011 (table 10).

Table 9. Population Distribution by Income Tiers, 2001 and 2011

	2001						2011					
	Population (millions)	Poor	Distribution by Income (%)				Population (millions)	Poor	Distribution by Income (%)			
			Low	Middle	Upper Middle	High			Low	Middle	Upper Middle	High
LAC												
Argentina	37.3	20.9	56.5	15	6.6	1	40.7	2.7	37	32.5	23.5	4.3
Bolivia	8.7	24.8	54.1	13.5	6.2	1.4	10.3	17.9	53.7	18.6	7.9	2
Brazil	177	16	52.2	17.5	10.6	3.7	196.9	7.3	43.6	27.8	15.9	5.4
Chile	15.6	3.5	51.2	25.3	14.6	5.4	17.3	1.6	33.4	33.8	23	8.2
Colombia	40.6	23.8	58.6	11.2	5	1.5	47.1	10.4	54.9	20.7	10.8	3.2
Ecuador	12.8	29.1	58.9	7.7	3.3	1	15.2	7.4	60.1	21.1	9.6	1.8
Mexico	105.3	12.5	63.3	16.9	6.2	1.2	119.4	3.1	59.1	25.7	10.2	1.9
Paraguay	5.5	13.3	53.6	20.2	10.2	2.7	6.6	8.3	49	27.1	12.9	2.8
Peru	26.4	20.5	59	14	5.3	1.2	29.6	8.1	54.5	24.8	10.7	1.8
Uruguay	3.3	1.2	44.3	30.1	19.6	4.8	3.4	0.2	28.4	32.8	29.9	8.8
Venezuela	24.9	9.8	60.9	20.2	8	1.1	29.5	5.9	49.4	29.5	13.4	1.9
Other Countries												
Australia	19.4	0.8	2.4	13.1	49.8	33.9	22.3	0.5	1.1	5.9	42.5	50.1
China[1]	1271.9	40.7	56.5	2.5	0.3	*	1344.1	12	65.6	17.5	4.4	0.5
Canada	31.1	0.3	1.7	9	40.1	48.9	34.3	0.3	1	6.2	36	56.4
Denmark	5.4	0.1	0.2	1.5	32.5	65.8	5.6	0.3	0.4	1.4	25.1	72.8
France	61.4	0.1	0.9	14.2	57.5	27.3	65.3	0.2	1.4	9.2	51.3	37.9
Germany	82.3	*	0.6	3.7	37.2	58.4	81.8	0.1	0.4	4.6	35.4	59.5
India	1059.5	35.4	62.9	1.4	0.3	*	1221.2	19.8	76.9	2.6	0.6	0.1
Ireland	3.9	0.1	1.7	17	60	21.2	4.6	0.6	2.4	11.4	49.5	36.2
Italy	57	1.2	6.3	21	54.4	17.1	59.4	1.5	3.7	14.3	45.7	34.8
Norway	4.5	0.3	0.5	2.2	40.7	56.3	5	0.6	0.6	1.5	20.2	77.2
Spain	40.8	0.4	4.3	20.5	56.4	18.4	46.7	1.4	5.5	16.3	49.5	27.3
Russia	146	1.6	60	28	9.3	1.1	143	*	19.2	37.1	35.6	8.1
United Kingdom	59.1	0.3	1.9	14.8	46.3	36.7	63.3	1.1	2.6	12	42.3	42
United States	285	0.7	2.1	7.6	31.4	58.2	311.6	1.6	3.4	7.4	31.9	55.7

Note: The poor live on $2 or less daily, low income on $2.01-10, middle income on $10.01-20, upper-middle income on $20.01-50, and high income on more than $50; figures expressed in 2011 purchasing power parities in 2011 prices. * indicates that the share is less than 0.05%. Population estimates are midyear figures. [1] China excludes Macao and Hong Kong.

Source: Own elaboration based on Pew Research Center (2015).

TABLE 10. THE MIDDLE CLASS IN SELECTED LATIN AMERICAN COUNTRIES, 2001-2011 (PERCENT OF POPULATION THAT IS MIDDLE INCOME)

Country	2001	2011	Change (2001/2011)
Argentina	15.0%	32.5%	17.5
Ecuador	7.7%	21.1%	13.4
Peru	14.0%	24.8%	10.9
Brazil	17.5%	27.8%	10.3
Colombia	11.2%	20.7%	9.6
Venezuela	20.2%	29.5%	9.3
Mexico	16.9%	25.7%	8.8
Chile	25.3%	33.8%	8.6
Costa Rica	25.6%	30.0%	4.4
Uruguay	30.1%	32.8%	2.7
Dominican Republic	25.1%	26.0%	0.9
Guatemala	18.3%	19.1%	0.8
El Salvador	18.0%	18.1%	0.1

Source: Own elaboration based on Pew Research Centre (2015).

The *Global Wealth Report* (Davis, Shorrocks and Lluberas, 2015b) has attempted to measure the proportion of the adult population that belongs to the middle class through wealth measures and the ownership of assets rather than by income. Their definition of middle class status is the ownership of assets by an adult in the range of US$ 50,000 to US$ 500,000 (the measure is taken from the US in which the lower bound of US$ 50,000 represents two years of median earnings and US$ 500,000 is the cost of buying an annuity, at an age close to retirement, that yields a stream of income equivalent to the median wage for the reminder of their life). According to this wealth measure, the relative size of the middle class as percent of adult population is much *smaller* when measured by wealth than income. This is intuitive since less people has the economic resources to accumulate assets that satisfy the two conditions compared to less stringent incomes benchmarks; on the other hand, the concept of middle class as a segment that cares for their long run economic security is better approximated by their assets holdings than by measures of current income. At a regional level, the relative size of the Latin American middle class measured by wealth is 10.8 percent in 2015. Using the same wealth criteria, the size of the middle class in North America is 38.8 percent, in Europe 33.1 percent and in Africa 3.3 percent. The Latin American country with the largest

middle class is Chile, 22.3 percent, followed by Mexico, 17.1 percent, Colombia, 15.3 percent, Brazil, 8.3 percent and *Argentina* , 4 percent (this latter estimate is admittedly low)).

6. Concluding Remarks

This paper shows that when Gini coefficients and top income shares are calculated with tax –based data (less prone to underreporting at the top) the alleged decline in inequality in Latin America in the 2000s and early 2010s measured by household survey data has to be qualified and contested. Recent empirical studies using tax data for Argentina, Brazil, Chile, Colombia, Mexico and Uruguay reviewed in this paper show, generally, *stable* (rather than declining) top income shares in the 2005-2014 period for the top 10 percent and top 1 percent. In addition, when "corrected" Gini coefficients using tax data for the top 10/top 1 percent, instead of household survey data, the value of the *Gini goes up* by several percentage points.

New net wealth data for a large number of countries, including Latin America, show much higher wealth inequality than income inequality across countries. The wealth-Gini is higher than the income-Gini, the top wealth shares are higher than the corresponding top income shares and the relative size of the middle class when using wealth criteria to define it is much smaller than when evaluated using income criteria. This holds for Latin American countries and other economies outside this region.

Our analysis of the social structure in Latin America shows that economic elites capture a very significant proportion of national income and personal wealth; these shares tend to be greater than in advanced economies but lower than in very unequal countries such as South Africa (Solimano, 2016). In turn, most of the growth of the middle class between 2001 and 2011, following a period of more rapid growth, was concentrated in South American countries and Mexico. In contrast, over the same period the increase in the size of the middle class in Central America and the Caribbean nations was small. Finally, although in the 2000s global poverty and Latin American poverty both declined the dominant transition was from poverty to vulnerability rather than a direct jump from being poor to a genuine middle class status.

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