

## *Foreword*

One of the key strategic objectives of the United National Development Programme is to strengthen the capabilities of governments to reduce poverty and inequality and promote social inclusion, engaging and empowering the people for whom development policies are meant. This objective is particularly relevant in Latin America and the Caribbean, a region characterized by persistently high levels of inequality. Because of inequality, although many countries are on track to meet the MDGs at the national level, poor regions and excluded groups within middle-income Latin American countries most likely may not. At present the international community is focused in providing support to the poorest countries of the world in their efforts to achieve the Millennium Development Goals (MDGs). This emphasis is undoubtedly correct. However, if we shift our concern from poor countries to poor people, it is immediately apparent that this emphasis must be complemented with an equally active effort to address poverty in middle-income countries with high levels of inequality.

To address this concern, the UNDP's Bureau of Development Policy (BDP) and the Regional Bureau of Latin America and the Caribbean (RBLAC) launched in 2007 the project "Markets, the State and the Dynamics of Inequality in Latin America." Similar initiatives were launched in other regions of the world. The project's main objective was to identify and propose policy actions that governments could institute to ensure that the millions who live in stark poverty today in unequal middle-income countries reach the levels of well-being consistent with the social norms adopted by the international community in the MDGs.

*Declining Inequality in Latin America: A Decade of Progress?* is one of the project's key outputs. The volume focuses on an unusual period of declining inequality in Latin America: of the seventeen countries for which comparable data are available, twelve experienced a decline since 2000 in particular. Through in-depth analyses of Argentina, Brazil, Mexico, and Peru, this book suggests that two main factors account for the decline in inequality—namely, a fall in the earnings gap between skilled and low-skilled workers and an increase in government transfers targeted to the poor.

The fall in the earnings gap is mainly the result of the expansion of coverage in basic and secondary education during the last couple of decades. Thus, two important policy lessons emerge: indeed, broad-based access to education and targeted government transfers can be effective in reducing inequality. However, in the context of Latin America, it may be difficult to keep the redistributive momentum. While broad-based access to primary and secondary education has been achieved (or seems achievable within a reasonable period of time), such access to tertiary education (the next phase in educational upgrading) will not be easy to achieve—mainly due to the low-quality education that the poor receive in basic and secondary levels. Thus, the decline in inequality is not likely to continue. In addition, despite the progress in making public policy more pro-poor, a large share of government spending continues to be focused on specific programs, rather than integrated social protection schemes, while the collection of taxes on personal income and wealth is very low. Making public spending and taxes more progressive and improving the quality of public services for the poor to avoid further segregation—basic services such as education and health—are key to continue on the path toward more equitable societies. In addition, rising food prices and macroeconomic contractions—unless the affected groups are protected from such events—will slow down the progress in reducing inequality and poverty.

The experience of advanced countries analyzed in this volume shows that sustaining equity over time requires a permanent redistributive effort through progressive income and wealth taxation of the very top incomes in particular. In this regard, Latin America is still far behind, especially when compared with industrialized countries. Deepening and consolidating the redistributive momentum will require stronger democratic institutions. Despite the undeniable progress in terms of democracy experienced in the region, clientelism and state capture on the part of predatory elites are still a challenge for policy effectiveness. Sustained reductions in inequality in Latin America will demand more actions on the part of policymakers and politics alike.

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