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DECLINING INEQUALITY IN LATIN AMERICA:
A DECADE OF PROGRESS?

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P R O C E E D I N G S

MR. CÁRDENAS: All right. I think we should get started. Welcome to Brookings. My name is Mauricio CÁRDENAS. I'm the director of the Latin American Initiative here and also a senior fellow. We're delighted to host this event. And I'm very grateful and thankful to you for having come to Brookings. It's not the best hour, but it shows that there is a great interest in the topic. And we're here for the special occasion, for the book presentation of *Declining Inequality in Latin America: A Decade of Progress,* edited by Nora Lustig, who is here with us, and Luis Felipe Lopez-Calva, who is at the UNDP in New York.

When I first came to Brookings two years ago Nora told us that she was working on this project, started in 2007 assembling a group of reports on what were the transient equality of various kinds of countries in Latin America. And the final product is what you have today. And I think in the process of writing these reports and putting all these papers together some new evidence came out. And the new evidence is very encouraging. It does seem that there is a break with the past; that there is a reduction in inequality in the last decade at least. It's too early to say that this is a structural change, but I think it's encouraging for those of us who have been more than concerned about transient inequality in Latin America in the past decade.

So you came here to listen to Nora. She's going to do the presentation of the book. I think it's impossible to do justice in 20 minutes to the book precisely because there are so many chapters and the chapters go into the details of each one of these specific countries. But there are some general themes and I think some very important conclusions that apply to all these case studies that I'm sure she'll tell us about.

Then, we're going to have comments. And after the comments we'll open up for your questions and your interventions. We have an hour. We have I guess no major and significant constraint. We can stay a little bit longer if we need to. So I want to encourage you to participate and ask questions.

Let me say a word about the author and about the panelists. Nora Lustig is a very well-known economist. She's the former president of LACEA, the Latin American and Caribbean Economic Association. It's the most prominent professional association in our field in Latin America. She has a very distinguished career having served as president of the Universidad de las Americas Pueblas in Mexico; also a professor there. She was very recently teaching as a visiting professor at George Washington University here in Washington, and she's now the professor for Latin American economics at Tulane University in New Orleans. She was also at the IDB at one point as the head of the Unit on Poverty and Inequality Analysis and she has had a very distinguished career, including having worked here at Brookings as a senior fellow. So welcome to Brookings. And as people here at Brookings are very well aware, this is your house, too.

We have Chico Ferreira, who is the deputy chief economist for the region of Latin America at the World Bank. Chico is also a very prominent scholar in this particular area of inequality and poverty. He was responsible for the World Bank's World Development Report as a member of that team on this subject. And he's usually at the research department of the World Bank. He's now on leave taking this position at the Office of the Chief Economist as the deputy chief economist, as a very well-known scholar, also the editor of many journals in the profession including *Economia,* who he was the co-editor and until very recently the general of the LACEA, the Latin America Economic Association.

And Santiago Levy, who is the vice president for knowledge at the Inter-American Development Bank, also the chief economist of the Inter-American Development Bank, a very familiar face here in Washington, not only because of his work at the IDB, but also because of his work on policy issues having been the president of the Mexican Social

Security Institute for almost six years. And prior to that having been the deputy minister of finance in Mexico. And I say he's a very familiar and well-known face here because he's widely regarded and credited as the father of Progresa, now called Oportunidades, which is essentially I guess the most studied of all the conditional cash transfers programs in the world and not just well studied, but well regarded because the results in terms of the impact of the programs have been very impressive.

Anyway, so you have a very competent panel to discuss these books. So let's start with Nora. And she'll give us an overview of what this book is about. And again, we're very pleased to have you here and even more to have printed and edited these volumes here at the Brookings Institution's Press.

Thank you very much. (Applause)

MS. LUSTIG: So, okay. I'm going to start before going into the substance to do the dutiful thanks to everybody that's participated in the organization of this event. Thank you, Mauricio, for hosting it and Steven for organizing it as well. And thank you for our discussions to come and give us your knowledge here; your knowledge on this topic which you have worked on so much. I also want to think Bob Faherty and the team and Brookings Institution Press for doing such a superb job in the publication. Very quick and very high quality as always Brookings does with its books.

And this is a project that was sponsored by the United Nations Development Program in New York. And as Mauricio said it started also around 2007 and it was part also of somebody who is now at Brookings, somebody who had the interests of discussing issues that had to do with inclusive development. That's Kemal Dervis, who is now the director of the Center for Globalization and senior fellow here at Brookings. He was the administrator then.

And so we decided to look at countries that were highly unequal and still because they were highly unequal, although they were middle income countries, they had a lot of poverty that shouldn't be there. And this project was taking place in many different regions. I coordinated together with Luis Felipe Lopez-Carva, who is a chief economist in the region for the Regional Bureau for Latin America and the Caribbean, a Latin American case. And I want to really express my thanks for UNDP for giving us the support to do this project and in particular Rebecca Greenspan, who was the director of that bureau at the time and now she's the associate administrator of UNDP, and Saleem Dehan, who is my successor at UNDP as head of the poverty group, for their guidance and support throughout.

So let's now go to the -- let's see, you have, I think, a different -- let's go now to the substance. Well, you will notice that -- well, when we started the project our focus was going to be to explain why is inequality so persistent in Latin America. So the first surprise was that it was declining. For the first time in a long time in many countries inequality was declining. So, okay, then, you know, the title of the book had to reflect that, but we're not totally convinced that this decline is sustainable and how it is there. But is it sustainable? Is it something that we'll see also in the other countries where inequality hasn't declined? And that's why we put a question mark at the end because it's such a surprise to see this change in Latin America. And for the reasons that I will mention also and I'm sure our commentators will too, there is a question mark about, you know, there are reasons to celebrate, but are we going to be able to celebrate for a long time or just, you know, is this a one-time phenomenon?

So this is a little bit of the story of what happened in Latin America. We're looking at the 90s and 2000s because it's when you have most of the countries with household surveys which allow you to make comparisons over time and across countries. And you see that in the 90s, as has been documented in many of their reports that the IDB, the World Bank and others have studied, inequality was rising and then on average in 2000 it has been falling.

The interesting thing is that, of course, this has happened in many countries. It's not just that Brazil and Mexico were driving the results. This is true for 12 out of the 17 countries for which we decided we have comparable data. We decided we're not going to go into the discussion of data unless you want to at the end, but there's a lot of issues there.

And the decline is real. It's real also statistically and here you can see what, you know, what happened to different countries. The one with the largest decline appears to be Ecuador. And among those which experience an increase are two of the least unequal, Uruguay and Costa Rica, and some of the most unequal, Honduras and Nicaragua. But in all the others it fell. And, you know, the interesting thing is that this is totally different from what's happening in other parts of the world. This comes from a report that the OECD has just put out. The Department on Labor and Social Protection and the OECD did a study comparing the big middle income countries and what's happening to inequality. And if you look at the second line corresponding to each of the entries there, that's the 2000s. And you can see that except for the case of Brazil the arrows are going up. They're going vertically up or they're going directly up which means that it's an in-between increase and the others are very sharp. So China is seeing inequality going up, India is seeing inequality going up, South Africa in post-apartheid, which surprisingly has seen inequality going up, and OECD combined also comes up with an increase in inequality. So Latin America is experiencing something different from other regions of the world of the middle income countries.

Then, you know, we said, okay, so what's behind this? Is there some common story? And, well, I don't know. Maybe Chico you're going to mention that at some point we thought that maybe we had a process of convergence. Right? That the high inequality countries were observing or experiencing decline, the low inequality countries were experiencing an increase, and everybody was going to convert to some sort of norm. Also, some people have said, well, maybe it is the commodity boom, you know, growth. And there was an ability of workers to actually demand higher wages, et cetera, so that is what explained the decline in equality. Another hypothesis that had been postured and I worked on it is maybe the fact that you have left this government in charge of many other countries where this inequality decline was being observed.

Or, you know, but then, you know, you look at the cases and you see that, well, I mean, the declines occurred in countries with persistently high inequality or persistently low inequality. It also happened in countries where growth was fast and in countries where growth was slow. The study covers the years in which Brazil was not growing yet. And also in countries that were governed by the left and not governed by the left. So something else has been going on that we wanted to explain. And quite frankly, I didn't think we were going to come up with a theme that was recurring, but we did. And that's actually nice because it's unusual that you find that when you have these comparative cases of so many in a way different countries.

So the book has a sample of the countries that were a part of the project, but all the papers are available for the rest also on the website of UNDP. The countries that we looked at are Argentina, Brazil, Mexico, and Peru. In the case of Argentina, as you know, we only have data for the urban areas, but the authors assure us that they are representative of the country as a whole. This group is also representative of (inaudible) mentioned earlier. I mean, they have fast and slow growing countries, high inequality and low inequality countries, and also countries, and also countries that were governed by the left and those that were not governed by the left. Brazil and Argentina, left; Mexico and Peru, not.

And for those who are, you know, interested in the statistical part, changes are all statistically significant and they're clearly there. Here, you know, we have some of the typical measures that you use to look at inequality, but I want to show you something that's much more powerful to tell you what the story has been in these countries. You have the gening (?), you have the centiles. But let me show you something called the growth incidence curves. They measure what happened to growth for every percentile. The one on the left for every decile, the ones on the -- sorry, the ones on the left are the deciles; on the right are the percentiles. They show you what happened to every percentile for the period that we're studying. So in the case of Argentina I think it's 2000, 2006. Notice it has a downward slope, which means that the bottom's incomes were growing much faster. Look at Brazil. The story that (inaudible) Sabarro, the author of this chapter tells about Brazil is that, well, the Brazilian poor have experienced a growth rate that is equivalent to the growth rate in China. The average for Brazil is not that great for that period, but the poor were doing well. Now, that's, you know, something. Right?

So, this again shows you how in the bottom percentiles income were growing very fast. And then you have, too, if you want poster child cases, Mexico and Peru are almost perfect in the sense that, you know, the bottom, the very, very bottom has the highest growth and then it declines consistently. This is Mexico. The same for Peru. So when that happens inequality falls because the incomes of the people that are in the poorest side are growing much faster than those at the top. So the gening is just -- or any of the inequality measures is a summary, but this is actually much more powerful because it shows it happened throughout income distribution.

Okay. So what are the summary of findings? I think, you know, three leading factors that we want to underscore that happened. One, there was a reduction in inequality in the distribution of years of education. The stock of education in human capital became much more equally distributed. The second one is that there was a decline in the relative returns to higher levels of education or if you want, an increase in the relative returns to people who were unskilled with incomplete primary or no education. And the third thing is that there was an increase in government transfer size and its progressivity, meaning that it became much more -- they became much more poor.

So the first to explain the decline that we observed in all the countries of the gap between skilled and unskilled earnings or wages narrowed in all the countries. Something that was exactly the opposite from what happened in the 1990s. And that's what we think the reduction in inequality in education and the decline in the returns explains, and explain in quotations as we'll hear later from our discussants, these are proximate factors, but we're getting closer to peeling the onion of what may be undergoing behind all these trends. And so that explains the decline overall of labor inequality which was one of the fundamental factors behind the decline in overall inequality.

The second one explains -- the third one, I'm sorry, the government transfers becoming more progressive and more generous explains the decline in non-labor inequality which was also one of the predominant factors in explaining what happened to overall inequality.

So here, you know, we have some graphs that show by country what happened to an index of concentration. Here are the gening. The distribution of education. And as you can see a decline in all the countries including Argentina, which is the first one on the northwest quadrant, that shows how the gening coefficient for these countries declined over -- in the cases of Brazil and Mexico have data for almost 20 years. But in the cases of Argentina, less. But systematically you see that there has been a decline in the distribution of what we call education, which is essentially schooling.

And that led to a change in the composition of the labor force by levels of education. And the lines that are going down are people with incomplete primary or just primary school. And the ones that are going up are the people that have secondary or tertiary. So that trend has been taking place for quite some time. With that alone -- leaving aside the paradox, with that alone we could have seen a decline in inequality because you had a distribution of the stock of education being more equal and so that more people were getting higher wages than before. But in addition what they've created we argue is that the relative supply of people who had lower levels of education became scarce here and thus allowed them to increase their relative wage. And this can be seen in this graph where you see the lines that are going up first and then down or more or less stabilized are measuring the relative returns to education for people with higher tertiary -- that's the green one -- or secondary -- that's the red one -- vis-à-vis those with incomplete primary or no education.

So for a while in the 90s where you see it rising you had an increase in the skilled premium and that has been falling. And we think the reason why that has been falling is probably because the factors that were pushing the demand for higher -- demand for higher skills probably petered off like the modernization of technical change, the impact of trade liberalization that happened in the '90s that probably petered off. And on the supply side you continue to increase the number of people with higher levels of education. So it's in a way a very simple story that you have supply and demand determining what happened to relative wages and at the same time the fact that the quantity of effective education has made the labor earnings distribution more equal.

Now, in the case of the non-labor incomes, you know, we have -- I don't have time to get into it. Non-labor here does not really include capital income. So we're not really looking at what happened to property income, and we can't because the service don't capture that well. But leaving that side we see that there has been a decline on labor incomes which was not the case before. And I think that we show in the different chapters that a lot had to do with the contribution of the government transfers, both in-kind and cash. In the case of Argentina, the safety net program, (Spanish), was important to explain the decline in labor income inequality and Brazil and Mexico, the large scale conditional cash transfers which can account for between 10 and 20 percent of the reduction of overall inequality. And, well, we have here the father of one of them, Progresa, so we are probably going to hear a little more about that.

And in Peru it was primarily in-kind transfers. The cash transfer which exists now was not there yet, but in-kind transfers became more progressively distributed. So, you know, then the question is, well, what is behind this process of more generosity on the part of government transfers and also the fact that they became more progressively distributed.

And we have a chapter by James Robinson that looks at the political economy factors that could have been behind that. And his argument is probably the democratization process had to do with the changes in the way government was spending its revenues. However, this as many other questions requires further research because at this point we see I think the tip of the iceberg of some phenomena that we want to continue to examine.

To conclude then, the way we look at it is that -- I don't know how many of you are familiar with a book by Claudia Goldin and Larry Katz, *The Race Between Technology and Education,* which is on the U.S. And in the U.S., they argue that things have become more unequal because we're losing the face for education and the technological change which has been skilled by us has resulted in an increase in the wage premium. And that's behind most of the increase in inequality and they argue that that's because increase -- the rate at which supply of high skilled labor or persons in the U.S. has been declining.

So here we find exactly the opposite. I think that in this race, which is what Tim Bergen used to -- Tim Bergen's theory used to be about income distribution in this race. In the last 10 years at least it seems that education has taken the lead vis-à-vis what happened to skilled buyers' technological change. Perhaps as a consequence of democratization and political competition, that's the second thing we've seen, a much more progressive distribution of government spending. Still, it is very, very minor. I mean, there are still a lot of things that can be done. Inequality levels in Latin America are still high. The progressive national government spending is still not very high compared to what happens in particularly advanced countries, particularly with Europe. So a lot could be done much more on that front. However, those are the two things that explain progress.

And the question is will this momentum continue. I am a little pessimistic because I think that if we rely primarily on education as a factor, we'll have to continue to produce this reduction in overall inequality, we're probably going to hit the barrier of access to tertiary education pretty soon because a lot of the people are not going to have access to tertiary education even though in most of the countries it's free because either they're not college ready or because of the opportunity costs. It's not easy to do as you do with primary school or secondary school to use conditional cash transfers to stimulate or create incentives for people to attend tertiary school would be very expensive.

So I think that that might not continue in the future unless one of the key things that we think has to happen is to improve the distribution of quality of education because that is what's keeping also a lot of the people from having access to tertiary education is that they're not college ready, which by the way is something that also Claudia Goldin and Larry Katz find for the U.S. And I mention this because we saw parallels when we started finding these conclusions in comparison to what had been happening in the U.S. And we see what happens in the U.S. today may be something that we'll have to be prepared for soon in Latin America if we think that education is part of the story.

The other thing is I don't know to what extent you can continue actually using the reserved power of the state given the political economy dynamics because you were able to do a lot because these are very inexpensive programs. They use very little amounts of GDP. They don't really become onerous to taxpayers, but if you want to continue using this instrument, maybe it's going to be harder and harder and the political resistance will be there and will probably stop it. I think it will be interesting to hear from Santiago who was dealing with the spending side of the budget in Mexico and with Progresa, whether you think that's something that we can continue to count on.

But anyway, that's the story and those are the results I wanted to share with you and now I look forward to the comments for this stellar panel of discussants that we have and your questions, too. Thank you very much. (Applause)

MR. CÁRDENAS: Thank you. Thank you very much.

All right. I think we have the mic on. So let's start with Chico's initial reactions to the book and then we'll go on with Santiago.

MR. FERREIRA: Well, thanks, Mauricio. Can you hear me?

MR. CÁRDENAS: Not yet.

MR. FERREIRA: Can you hear me now? Very good. There we go.

Okay. I also wanted to thank Mauricio and Steven for the invitation to be here. And Nora for giving us such an exciting presentation to discuss.

I have three basic comments. The first one on relevance, one on methodology, and one on policy. So the one on relevance is just to underline that I think this book is really important because the phenomenon it analyzes and documents is a really important phenomenon. I can't remember any region in the developing world where we have ever seen a decline in inequality that persisted for a decade in a majority of the countries of that region. Now, it's true that the developing world hasn't had much data on distribution for very long and it's probably also true that in Europe in the post-war world after 1945 and in the decades after the war we probably saw something like that going on in Europe although I'd have to go back and look at the data; I don't have it in front of me. But certainly in the last 20 to 30 years since we've had more household survey data on which to look at poverty and inequality in the developing world, this really hasn't happened very much. In fact, you know, a number of papers were written in the 1990s saying just how stable inequality was everywhere and that policy should focus almost entirely on growth because of the tremendous stability of distribution. You know, my colleagues Dollar and Kraay at the World Bank to mention a few.

You know, when Mauricio mentioned the World Development Report that we did with Mike Walton who is here, and I remember when Mike and I were trying to write that World Development Report on equity people would ask us, but do you have any examples of instances when inequality actually fell? And in particular when it fell because of policies that were applied by government? And, you know, we went back to Spain and Scandinavia and land reforms in Korea and Taiwan. But here now we have a whole region where inequality fell in a statistically significant, reasonably persistent way for most countries. And it turns out that the explanation that the authors in this book and the editors in this book find, which I think is very plausible, does reflect policy actions. Both the expansion and educational attainment and the increase in transfers, both the increase in the quantity of transfers and the way in which the transfers were designed and targeted reflect deliberate policies. Maybe the educational policy wasn't aimed explicitly at income redistribution, but it was very much a result of public policy.

So, you know, I think it's a really important book that people will be reading for a long time and you should buy it on your way out because it documents -- the first book really to document this very important phenomenon that as I say I think is a little unprecedented. So that's on relevance.

Now, on methodology I wanted to say something about the eclecticism of the book. So the book has a chapter which is really a description of theory. That is James Kahatz, Heina Kahatz' chapter, chapter 2. And then it has a chapter on political economy to which Nora referred by James Robinson. It has a chapter looking at top incomes by Alvaredo and Piketty. And then it has these four case studies which area really statistical decompositions. So you've got economic theory. The political economy. You've got statistical or economic decompositions. It's quite eclectic. And I think that's great because the topic requires that. You know, income distribution dynamics are about general equilibrium of the economy and they involve politics and policies so they all have to be there.

At the same time though there's a lack of integration between these different approaches which revealed to me how far we all are and it's not the book's fault because we as a profession I think are still far from being able to integrate these approaches to be able to say something more definitive about causation. So in a lot of economics nowadays people will make fairly confident statements about causality. And they say, you know, we randomized this experiment and here it is the effect of, you know, de-warming on whatever is 3.5 percent. Okay. And they're fairly confident about those causal claims. This is much harder to do with income distribution because you generally can't randomize things.

On the other hand, you know, this is an area where I think there's really a lot of work to be done. As Nora was saying, even the explanation of what you call the proximate factors, you know, the fact that an increase in education increases the relative supply of skilled workers to unskilled workers and that lowers the returns to skill. Well, by how much does it lower the returns to skill? We don't know. We can't tell. It's not identified in any statistical way because we don't know what the appropriate economic counterfactual is. The counterfactuals on which it's based are statistical counter-factors and inter-composition.

And again, I don't mean this to be critical of the book. I've done the statistical decompositions myself. Some of them with Nora in earlier work and I think they're very informative. But as a discipline as a whole I think we still have a long way to go in terms of integrating these different perspectives. Integrating the analysis of political economy. Even the economic analysis of supply and demand with these statistical decompositions. That's an area where, you know, we're very far from being I think where we'd like to be.

And the last comment I wanted to make was on the policy implications going forward. This isn't the focus of the book. The book is an analysis of what happened largely in the 2000s, but Nora did end her presentation with some considerations about what does this mean for the future. Will inequality keep falling? What do we have to do about that? In my reading of the book, and in particular of the first chapter of the book, is that they place a lot of emphasis on the taxation side. And, you know, the idea that -- and I think this is heavily influenced by the Alvaredo and Piketty chapter in the book where these guys are looking at top incomes and they have looked at top incomes in a lot of European countries. And they argue -- they've argued in a lot of different research beyond this book that what allowed income inequality to fall in Europe after the war and the crisis and so on and capped it down was an increase in income taxation, progressive income taxation. And I think the book goes a little bit in that direction that we need that in Latin America.

Now, maybe we do, but it begs the question of to do what with it? To spend it on what? Spend it exactly the way that we are spending it now? And Nora knows that. I think she just finished by saying, you know, it would be interesting to hear from Santiago on that. And I'm also interested to hear from Santiago on that. But, you know, Brazil -- this is a book -- although Nora is Argentine she's kind of a very Mexican Argentine and Santiago is also Mexican. And from the Mexican perspective, you know, 12 percent of GDP is tax take or whatever, something like that. It's very low. But in Brazil we have almost 40 percent tax take on GDP and you know, okay, so now we're using some of it well, but we're still using the vast majority of it very badly and very regressively. So what you do with those taxes I think also deserves as much attention.

The last time I was in this rook I was actually discussing Santiago's book on social policy. And I think a lot of thinking that he's done there and that others have done since on the integration of social policies on how to combine these new social assistance-type of programs that Nora has been describing like the CCTs with the existing social insurance part. A lot of that requires much more thinking on the education side as Nora said. You know, the quality agenda, the early childhood development agenda. So, you know, programs and policies on how to spend this money better are as important it seems to me if not more important than the tax issues. And in a sense the CCTS and what we've done so far may have already yielded. In countries like Mexico and Brazil, they may have already yielded the low hanging fruit. And we may be needing a lot harder work in thinking about the policy agenda going forward.

So I'll stop there.

MR. CÁRDENAS: Thank you. Santiago.

MR. LEVY: So let me begin first by thanking Mauricio and Nora for inviting me. It's actually a real pleasure to be here and share the panel with good friends. And also begin by congratulating Felipe who is not here and Nora for putting together a very, very nice book. Not only the chapter that they have on Mexico is a very nice chapter, but the whole book as Chico was describing, it's very well thought out in terms of the balance. A little bit of theory, a little bit of the empirical papers, and a little bit of political economy.

So eventually in Latin America you have to read because this is probably the most systematic book on distribution probably over the last decade. You know, as Chico was saying, you know, this data is very difficult to put together and there's a lot of empirical work that goes behind it working with the income expenditure surveys and systematizing them and putting them together is not easy. There's a lot of work here. So congratulations to the UNDP project and again Nora to you and to Felipe for putting the book together.

I enjoyed the book a lot basically because in the end there's kind of an optimistic message, even though I'm going to end up in a not so optimistic message. The optimistic message is that policy matters. And for those of us who are policyholics or whatever the word would be, it's very, you know, motivating to think that good public policy can make a difference. And I think in a way what the book is trying to show is good public policy can make a difference because changing the gene equificient of the whole region in a decade, the changes are not small. It's about .5 of the gene equificient. That's a lot in one decade. And basically it's trying to say policy can make it.

The book goes further and in pretty much all the chapters the finding for both Argentina, Brazil, Peru, and Mexico is you've got to think about this as what part of the reduction in income and inequality is coming from labor income and what part of the income inequality is coming from the reduction of non-labor income? On the labor income part, which accounts for probably more than half of the reduction in inequality, the basic finding is for reasons that we don't really understand the weight differential between higher skilled workers, high wage workers with more skills and low wage workers with less skills, has been narrowed. We would like to think that that is because the supply of unskilled workers has been reduced because educational policy in the years behind has actually reduced the number of workers that don't have educational skills increase the proportionals and that has narrowed the wage differential.

We're not really sure in the book, you know, the chapters on each country come up with a different story because many things are happening at the same time in this country. There's also changes in trade policy, NAFTA and Mexico, trade policy in other countries that might also be affecting the relative demand for skilled workers versus non-skilled workers. But the point here is that there's some contribution even though it can be pointed out quantitatively from the educational side. And that's sort of good news. And as I think forward and I asked myself the question, what else would I like to do to narrow wage differentials? Clearly I like anything that comes on that front to come from better quality education and more years of education particularly for those workers that have less education. And it's beginning to pay off.

The second part of the reduction in inequality, Nora and the co-authors in all the other chapters asked the question, well, to what extent does non-labor income contribute to reduction in inequality? And here Nora made a very important point in her presentation which I want to come back to. The data here is not as good as we'd like it to be because the income expenditure surveys don't really capture income at the very, very top of the distribution. The rents and the profits and the very, you know, the very high income are not really what capture income and expenditure surveys. There's not much they can do about it. It's a known problem that's been there for a long time, but the changes in non-labor income that they capture are mostly associated with remittances, transfers, and pensions. And there's some question mark in my mind at least to what has happened to the very, very top of the distribution. And I'll come back to the point in a minute.

The important findings in the book -- and this is pretty much systematic across all four countries and I assume it's also in the other countries in the reports -- is that public policy matters. And particularly redistribution programs, policies matter and you can get a reduction in income and inequality through government, through government programs that carry out income transfers. And that's kind of good news.

So then the next question is in my view the most important question. We understand a little bit, not fully, why inequality would be reducing. We want to understand is this sustainable and could Latin America continue going forward along the lines that it has been going forward in the past decade? And here the book raises a lot of interesting questions and I'd like to make a few comments as to how I see that coming along.

I think, as Chico mentioned, that the room to continue reducing income inequalities through transfer programs is pretty much exhausted. And in particular, my own personal view is that even if the fiscal resources were available to increase income transfers through programs, like Bolsa Familia and Familias in Action, and maybe I don't know what Mauricio will say, but down in Colombia, but certainly my own view, but whether more money should be put into programs like Oportunidades for Progresa in Mexico, my answer would be no. My answer is you've gotten as much as you could have gotten from those programs. In fact, I think you're overdoing it already. You're perhaps putting a little bit more money into that specific redistribution instrument and it's a question in my mind to what extent we might be creating some distortions that we'll be measuring 10 years from today that are actually showing that you're overdoing it. I'm not arguing against these programs; on the contrary I'm saying they've been extremely effective. Nora showed how much you can get, but I'm also saying that the room to continue doing more redistributions for these transfers I think is beginning to be exhausted.

So you're left with a region that despite has made progress in the last decade, it still has extremely high inequality compared to other regions of the world. And the question is what next for public policy? And the chapters of the book here matter importantly. The story told from country to country, I fully agree with what Chico says. You have to look at the expenditure side of the budget now. And you ask yourself the question whether other programs and policies that take perhaps an even significantly larger part of the expenditure budget than these transfer programs, particularly the CCTs, are contributing or not to lowering inequality. And in the chapter that Felipe and Nora write for Mexico which I know best and I feel more comfortable commenting, the answer is there's a lot of room to correct for inequality by correcting for expenditures not working on the taxation side as Chico was saying, but -- and this is where the chapter by Robinson in the book becomes very relevant -- the marginal political cost of doing that is going to be steeply increasing.

It is one thing to redistribute half a percent of GDP to the lower two deciles of the distribution through a targeted program. It is a much more difficult thing to take away benefits from other segments of the population that are receiving benefits from programs in agriculture that are very badly designed. Programs for pensions that are very badly designed and they're very regressive, and to begin to try to do redistribution through those programs.

My own view further is that now you have to think about redistribution not only on its own, but you have to ask yourself the question what are the set of redistribution of programs that both simultaneously enhance redistribution, but at the same time increase efficiency? And that's a taller order. The book does not discuss -- and this is the one omission in the book that I'd like to see a little bit more -- is that I think there's a lot of income concentration at the top associated with efficiency reducing policies. With the fact that there are groups out there capturing monopoly rents, they're capturing special privileges, and they have special positions for whom some redistribution would both -- some policies that take away those rents would both improve redistribution, but also very importantly would improve efficiency because you would be reducing the monopoly power and the rent extraction power of these groups. Now, that's very difficult to measure because the data is not there as Nora rightly pointed out. But an avenue of working as I think future is to try to work along that dimension.

Let me now make one last comment on the point that Chico made which I fully agree. If you compare -- the point is well made in the book. If you compare Europe, the distribution of income in Europe before the government intervenes and after the government intervenes, the government is significantly important in reducing inequality particularly through social security and social insurance problems. Can Latin America do the same? My answer at this point is no because we haven't designed the proper architecture of programs that can at the same time allow more redistribution through social policies without at the same time hurting productivity and hurting efficiency. So that the question mark on the book *A Decade of Progress?* I think the answer is yes. But will there be yet another decade of progress? The question mark on the book is really very important because the challenges ahead to enhance redistribution while enhancing efficiency in Latin America in my view are going to be slightly more difficult than the previous decade.

But the book does say, and I'll end here, that policies can improve it. And the challenge to all of us will be to think about those policies in the years ahead so that maybe 10 years from now we sit here again with another book by Nora, Felipe, and his co-authors and we can take away the question mark and feel that the gening, instead of being .45 is now .40 and Latin America is beginning to look like a normal region of the world reflecting more equality and more growth as we like to do. So congratulations, Nora. And thank you again.

MR. CÁRDENAS: Thank you very much, Santiago. (Applause)

MR. CÁRDENAS: Well, it's already 7 p.m. I initially thought I was going to make some comments because I read the book and I'm real excited about the book, but I also knew that I was going to be the adjustment variable here in these events. So let me just say a couple of words, four or five minutes and then we'll hear from Nora and then we'll hopefully open up for you to make your comments.

I think I am more optimistic than Chico and Santiago. And the reason I'm more optimistic is that really when you look at the composition that Nora just explained you see the tremendous power of basically the non-labor component of income and the connection that that has with public policy. Let me use the numbers that the chapter on Brazil uses. Three-quarters of the income at the household level comes from labor; one-quarter comes from non-labor sources. Most of the non-labor sources are related to transfers from the public sector. But when you look at the effect of the changes in the distribution of labor and non-labor income on overall income distribution you see that half of the reduction in inequality comes from the non-labor component. That means that it is in that segment where you have the largest achievements. And when you go even further you realize that are these transfers related to the new social programs, and particularly to the conditional cash transfers that are having a really significant dividend in terms of reducing inequality.

So how do I interpret this? I interpret this as Latin America had two very serious structural problems that explained almost all the issues related to underdevelopment. Lack of democracy and inequality. We took action related to democracy in the 1980s. Many of these countries became democratic, wrote new constitutions, gave more rights to the citizenship, and the societies became a little bit more pluralistic, more political participation. There was also during these last two decades the essential changes in terms of public policies regarding the poor. But income inequality remained a very serious problem. And I think as we start seeing a reduction in income inequality, we see a virtue circle because lower inequality will actually improve even more political participation and will increase the demand for redistribution. And politicians will not be able to ignore this.

Let me illustrate this with an example. I was in Colombia, my home country last week. And I saw the last presidential debate. We're having presidential elections this Sunday. And at one point I saw one of the candidates, Mockus saying that he was very unhappy that day and that he was not in the best of moods because he had lunch at the restaurant and a person who worked at the restaurant approached him and said it is true that you are going to end Familias in Action? Familias in Action is a conditional cash transfers program of Colombia. To which he responded saying no, that's a rumor. That's not true. I'm going to keep it.

So that means that there is demand for that and that the politicians are responsive to that because they know that in democratic societies they have to win, and to win they need the vote of these segments of the population. They can no longer ignore that. So, of course, his response was to say, no, I'm not going to end this. So I agree with the fact that you cannot increase permanently these programs. But there is more awareness and there is more consciousness about the impact of public expenditures on redistribution and politicians will respond to that. And maybe not just with conditional cash transfers, but with other programs because they know for electoral purposes it's very important that these programs are well targeted.

And that's why I think that this is basically the beginning of a new dynamic. And this dynamic will result in the improved allocation of public expenditures, better targeting of social programs, more awareness on the part of politicians and the public opinion at-large that will result in continued progress in terms of the reduction of inequality. That with regard to the non-labor component of income inequality.

With the labor component of income inequality I think what these results show is that the only thing you can do is to sustain long-term policies, to reduce the inequality of allocation, and particularly secondary and tertiary allocations. It is very important and I don't think that's what explains the changes in the last decade. I think that's basically a reflection of things that had been taking place in the region for a long time. But I think that's just basically the result of something that was decided not recently. But in terms of the targeting of social programs, we're seeing results and we're seeing I think an impact that will create the basis for more progress in the future as we have these combinations of reduction in inequality and greater democracy. So I'm optimistic and I really hope that in the next decade we'll see even more progress and then you have the evidence to answer that question in an affirmative way.

Anyway, I'll stop here. Unless you want to say something now, we'll just go to the public and the participants and we'll take your questions. So we have one question in the back and then the two of you. I hope there is a microphone. There is one so it's coming.

SPEAKER: First of all, thanks for the great presentation.

So I was hoping that the panel in general and maybe Dr. Levy in particular could respond to Dr. CÁRDENAS last remarks regarding, you know, the political resistance to expansion of conditional cash transfers because in some of these countries like Brazil, maybe not Mexico so much, but like Brazil, Argentina, you have a ruling party that's on the left supposedly pro-worker, pro-poor. You have large percentages of the population that are poor. So where would the political resistance come from to expanding programs that help the poor?

MR. CÁRDENAS: Let's collect a few questions.

So we go to you and then to you.

SPEAKER: Thank you very much for the presentation. I had two questions. You mentioned a lot about data and I was wondering how extensive is the household data that you accumulated? Sort of what percentage of the population do you look at? Because maybe a lot of the data you're using is maybe not reflective. I don't know how -- to what degree it's reflective of the current situation or the last decade.

My second question was the education that you mentioned. What jobs or job sectors are providing this change in wage differentials? So, like, you're talking about how education is reaching more people. What jobs are these people getting that are changing the wage differentials and making this more equal?

SPEAKER: Thank you again for the presentation. Thank you, too.

My question is the following. Have you looked at the potential impact of migration? In two sentences. On the one hand remittances. The majority of the migrants are from the lower class, lower middle class, so that may have an impact. I don't know how to quantify it. And on the other hand it should have an effect on the labor market as well in terms of supply. Certain types of job offers may suffer and that may help improve the salary of those who remain in their countries. Probably not in Mexico. Probably not in Brazil, but certainly in other countries -- Argentina, Peru, Ecuador. Generally speaking, have you looked at and what is it? If you could elaborate on that.

MR. CÁRDENAS: We'll take one more and then we'll do one round.

SPEAKER: Thanks for the great presentation.

I'm wondering about trade. Can you make some comments about income in export sectors and growth in exports as it affects the income of the poor in these countries? Thank you.

MR. CÁRDENAS: Thank you. Let's stop there. Let's take some comments from the panel and then we'll go back and we'll do another round to close the event. So do you want to say something?

MS. LUSTIG: Yes. So forgive me those in the back because I'm shorter than Mauricio.

MR. CÁRDENAS: Are you seeing her on the screen?

MS. LUSTIG: Okay.

MR. CÁRDENAS: So don't worry about that.

MS. LUSTIG: So let me just first tell you what I can't answer. The chapters do not look at the link between what's happening on the income distribution side and on the production side. So I don't know what's impact on the export sector or your question about which jobs have people gotten. I mean, that's part of the agenda what I think remains to be analyzed and Chico and I were talking about it seriously. I think we need to have an integrated model of what's happened.

Let me address the question about migration. And I want to go to data later because I am a data junkie so I will dedicate a little bit of time to that. We do look at -- I'm the co-author of the Mexican chapter and we look at migration there. Not in all the chapters they do. In the case of Mexico they do. Remittances are an equalizing factor and they became even more so throughout the decade that we analyzed over time primarily because they reduced a rural urban income gap. That's the main contribution of remittances.

On the labor supply we were asked by the reviewer of the book whether migration in the case of Mexico to the U.S. could be that it has generated a scarcity of labor that's unskilled. It's so small. I mean, we don't have a model for that or analytical or, you know, an empirical econometrically solid answer, but we looked at the, I mean, there is no study that looks at that. So, but we looked at the numbers and the numbers would not be of a size that could explain what happened. And we have a footnote in the Mexican chapter where you can see that.

Now, let me come to the data issue because I think we do face a very serious problem there, not because they're not representative overall, I mean, over time. The service has become better. They're comparable. Very in Nirvana compared to what it was before. But what happens to the top incomes is what is really worrisome. And it's not entirely true that we don't have data. The data that people like Piketty, Atkinson, and others have used and the co-authors of our chapter on higher incomes, Alvaredo and Piketty, are the tax returns without names, of course. But the tax returns give you some information that's very important about what happens at the top. The problem is that the Latin American governments, including the Mexican, don't release that data. So one of the things that we need to do is begin to put really a lot of pressure for the countries to release it. All the countries in the OECD except Mexico make it public. For the U.S. you can get the records since 1914. Okay. So, I mean, it's time. It's about time to make that available. For some reason that I don't understand why Argentina made it available, but starting in 1976 until recently. And I think now they're trying to get Brazil.

So once you have the data what it shows, and this comes to your question about have you ever seen the systematic decline in equality and other places, yes, you did see the European countries in the post-Depression, post-Second World War period. It was pretty pervasive. Well, when the authors begin to analyze what caused the decline in inequality in all these advanced countries -- today advanced countries. They were not so advanced then -- they came to the conclusion that it's primarily accidents. It was the Great Depression and the war which destroyed a lot of capital and that caused a major decline in inequality in practically all the countries in Europe and the U.S. and Canada and what else.

What they say is that, okay, this was a factor. We cannot really create a Great Depression. We wouldn't want to. We would not want to create a second world war, right, to obtain that. But you know, once that happened what sustained the decline -- this decline, this more equality? And they argued that primarily it was for aggressive income taxation. That's why we put emphasis on that. What they say is that progressive income taxation is what prevented for inequality rights again. And this is something -- that's the angle we want to look at progressive income taxation.

So that response to also what Chico was saying and Santiago. And I am a little bit more optimistic about the degree of maneuver we still have for redistribution for some of the reasons that you said. But I think we're going into a sort of very murky waters because the political economy dynamics of trying to, like you say Santiago, to redistribute from entitlements, particularly because you're going to take them away not from the very rich. Unfortunately, you're going to take them away from what are in our view lower middle classes. I mean, they're not rich. When you take away some of the benefits that they get through social security or through access to university for free that people which in this country may be considered poor if they were living here. Right? So that's a tough ride.

But I think that one thing that hasn't been studied about the cash transfers and I think it's behind what we see and that's another project that I think we should put on the list is the indirect effects of the transfers on the local communities. You're bringing in more cash and that cash is being spent on goods. Some of the goods are locally produced and so you may have actually released the capital constraint given imperfect capital markets and face some of the disability and create new opportunities, economic opportunities that have increased their incomes by -- I mean, the incomes are still low, but they're less lower than what they used to be. And that's probably what we're seeing. We're not capturing well with the instruments that we've been looking at thus far and I think that should be our next thing.

MR. CÁRDENAS: Chico and Santiago, do you want to say something? I wanted to just let you know if you don't deal with the question on trade, I'll take that one. Those are interesting questions. So Chico and Santiago, one of you --

SPEAKER: I'll take the question on the political demand and sort of explain on the conditional cash transfer program.

I mean, clearly the political demand for these programs is very strong. It's going to continue to be very strong. And the question is whether from the point of view of public policy you would like to respond to these demands by expanding these programs or distorting the initial objective of the programs. The way I think about these programs is a very, very important word -- transitory. They were thought to be an investment in the human capital of the poor. But the real success of these programs is that they disappear. If in 2030 we're sitting here and these programs are still there, in my view it's a failure. Because ideally what you want it to do is to enhance the human capital of the poor so that the next cohort and then the next cohort and then the next cohort of people would have higher real wages and better incomes and better opportunities in the market and eventually don't need transfers because the thought that you have a country in which permanently 20 to 25 percent of the population is receiving transfers to be above the poverty line is unsettling and unsatisfactory.

Now, how does a democratic equality deal with a very strong demand for a program? The question is you have to have a better alternative. And the reason I am worried -- I'm not saying pessimistic or optimistic -- the reason I'm worried is because constructing the alternative is very difficult because it needs to tackle difficult issues about the way labor markets function in Latin America, difficult issues about the quality of education, difficult issues about what is happening to firms, and difficult issues about what is happening to productivity. I don't see that being tackled. And what will happen is the political demands for these programs will increase because the governments now have an instrument that is convenient, fast, expeditious, and has a very high political payoff to redistribute, but that it might be pushing things before -- beyond where you want it to go, be hurting productivity, and be hurting medium-term growth, hurting precisely the prospects of the very same people that you want to help.

So I see a very difficult political economy problem with this. The chapter by

Robinson in the book that we're discussing today is a very important chapter. A lot will depend on the way public policy is decided in the region. But I think part of what we researchers need to do is to put the issue on the table and to really think do you want to have a parallel system of transfers permanently? Or do you want to think of a temporary investment program? And then like in any OECD countries, people integrating themselves into the formal economy, getting formal jobs, getting formal social security, and getting the normal mechanisms of transfers of any other country.

MR. FERREIRA: Very quickly I was going to say something about the trade as well, but I'll leave that for Mauricio. Let me just say two quick things. One on CCTs. And speaking for myself. This is maybe something where Santiago and I disagree; I don't know. I didn't mean to say that CCTs, you know, had run their course in all of Latin America. I think countries like Mexico and Brazil where we have -- in Brazil we have 12.5 million households receiving these benefits now so that's a lot of people. That's 50 million people. And in Mexico, I don't know how large it is, but it's very large and it's all over the country. Now, almost everywhere else, including in Colombia. I don't know the numbers in Colombia, but I think, you know, certainly if you look at most other countries, you know, Bolivia, Paraguay, there's a lot that can still be done in those countries. So I was talking specifically about the countries where a lot has already been done.

Further, on the issue of over time, and again, we could go on forever because I don't know exactly what Santiago meant, but I don't -- I mean, I think 20 years from now if we're sitting here we will still want for there to be a well developed system of safety nets. And you can take this either from the Bible or from a book on measure theory. Right? The Bible says the poor will always be with us, and a book on measure theory says the income distribution tends to be ergodic and zeros in to support. People get shocks and they become poor again. Right? So even if an economy is well-developed people will become poor. The reason you don't see a lot of poor people in Europe say is that there is a safety net in place. So we'll need something. And I think Santiago would probably agree with that. The question is what exactly. So that's on that.

And then just very quickly on the question also on the political resistance to transfers. And you ask, you know, in Brazil, the Pate is in power and it's a left of center party. It supports the Bolsa Familia very strongly. The main opposition, (Spanish) are the people who created the initial program, the Bolsa Scholar and so on, which are then scaled up by the current party. Nobody is in opposition to it there, much as, you know, the guy asking Mockus the question in the restaurant. Everybody wants it. The danger is that nobody, and Santiago referred to this earlier as well, nobody is against the CCT, but nobody is really against the other transfers either, even though they're much less efficient. Like, we have this thing called the (Spanish), which pays a lot of money to a lot of people. Some of them are poor, but a lot of them are not. And now we've been voting. We've been counter-reforming social security in Brazil. We've been voting down the things that had been set up in place to reduce the social security deficit.

The problem of all this is that, you know, there's a finite amount of money. And in the end, if you keep giving money, everybody is in support. In Brazil now there's a unanimity. Just give people money, which is great, but then, you know, you've got to fax it from somebody and you've also got some roads to build and some schools and so on and so forth. So there's the issue of rationalizing that social policy a little bit.

MR. CÁRDENAS: Thank you. Well, before we go to the next round just two quick comments.

One, I think what politicians have realized is that with very little money there can be a lot of redistribution. So these conditional cash transfers are very small in the big scheme of things in terms of public expenditures. I think what governments spend, even in the provinces that are the largest, is less than one percent of GDP. In many of these countries half a percent of GDP. Whereas expenditures in education, in pensions can be 10 times that.

So what politicians are realizing is that these are very powerful instruments that can actually have a tremendous impact in terms of electoral outcomes. So political competition is going to force them -- and this is a source of my optimism -- it's going to force them into improving the targeting of other social expenditures. And I think that's why this generates these positive dynamics.

On trade, as much as I'm optimistic in terms of the policy component and the political component of these discussion, I'm less optimistic in terms of the markets of the market forces that are behind this reduction in inequality. And let me explain to you why.

During the '90s, part of the reason why inequality increased is that we had a reduction in tariffs, a reduction in interest rates, an appreciation of the currencies. All that resulted in a reduction in the price of capital. So there was an increase in investment and that investment generated the demand for skilled labor, people with tertiary education. Also, the investments that we were doing were biased towards technologies that require more skills -- computers, et cetera. And that's why with greater demand for skilled labor and with a relatively stable supply of educated, well educated workers, there was an increase in the allocation of the premium. And that was the source of an increase in inequality in the '90s.

What we're seeing now is not just that we have, you know, a larger supply of workers with adequate skill, which is part of these long-term educational policies, but also that the demand for skilled labor has reduced. And the reason why that has happened is that this region, Latin America, is in the middle of the process of deindustrialization. The sectors that have grown the fastest in the last decade are sectors that are quite related to commodities and basically primary sectors. And we know that those sectors are not big generators of employment. So many of the jobs that are being generated today are not in the manufacturing sector or in services. Some of those services require skills. But many of those sectors, like retail or personal services, are not so skill intensive. So maybe one of the reasons why we're seeing a reduction in the skilled premium is these structural transformations in terms of the sectors are taking the lead and some of those sectors that are growing are not necessarily generating an increase in the wage premiums that we saw in the '90s. So maybe the market forces are not necessarily generating inequality, but at the same time these market forces and the fact that the sectors are growing the fastest, the primary sectors, is not necessarily good news from the point of view of economic growth.

So let's open up for more questions and comments. I will do this final round and then we'll conclude.

SPEAKER: Yeah. Chow Chen, freelance correspondent.

Nora, you said why poverty is persistent. You didn't answer, but from what you're talking about doing I can say that's intrinsic (inaudible) government help (inaudible) is lacking education and (inaudible). But the thing is this, the poverty is one thing and income distribution is another thing. For example, in the labor you have skilled labor and non-skilled labor. And these two groups, income won't be the same. So what's the purpose of so-called reduced income on the inequality? And also what's the power nine or power labor in the full country? And also what's the degree of progress among the full country?

Thank you.

MR. CÁRDENAS: Thank you. Yes. We have two hands in the back.

SPEAKER: (inaudible) ability and whether -- so I'll say it again. I'm curious about what this research -- what can we say about changes in Internet generational mobility and whether some of these transfer programs are changing in equality now, but they have the potential for changing in equality in the future and the life chances of the kids now.

SPEAKER: My question is a follow-up on the comment on de-industrialization. In Venezuela, where I'm from, there's a return to import substitution decentralization. So a lot of the revenues from the commodity sea sector, mainly oil, are being redirected to manufacturing again. So I was wondering if that will have an effect on wage inequality and wage premiums on education and the manufacturing and other technological factors.

MR. CÁRDENAS: Thank you.

SPEAKER: Thank you. (inaudible) Company, Washington, D.C., office.

I heard from IMF reporter, World Bank Report, that Brazil by 2040 is going to be third or fourth largest economy in terms of GDP. Is it on the right trajectory? I mean, reducing the inequality is really on the right trajectory to be those, you know, emerging big economy or not?

MR. CÁRDENAS: Anybody else? Last chance.

Okay, so we'll stop there. Why don't you speak last?

Chico, do you want to deal with one of the questions? Or Santiago? We don't have to --

MR. LEVY: (inaudible) talk about Brazil.

MR. FERREIRA: Well, I mean, I'll talk about Brazil very briefly. I landed at Dulles this morning at 6 o'clock, so my brain is shutting down. But I did land coming from Brazil so let me say something about that.

One is I have no idea whether it will be, you know, the third or fourth largest economy anywhere, but implicit in your question it seemed to be that there might be a tradeoff between reducing inequality and growing very fast. And that's something that I think the evidence doesn't support very much. I think, in fact, some of the points that the book makes are that it is quite possible to grow fast while reducing inequality. Brazil now is reducing inequality quite fast. Faster in the latter half of this decade than in the first half. And now we are growing again at fairly reasonable rates.

Now, there will be problems with our growth. Our growth, we cannot -- Brazil cannot grow at Chinese rates at the moment, but this is not because we're reducing inequality. It is because we're not building infrastructure and we're not saving enough. Now, it is related then to the question about what do we do with the amount of money available and to the policy choices in terms of transfers. It does have something to do with that. But on the whole the amount of redistribution that's done now, Latin America has been engaged in now, I don't think is a problem for growth at all. In fact, for reasons that Nora was suggesting earlier about local development, possible spillovers at the community level and so on, some people think it's helping growth. There's certainly some economic theory to suggest that that's a possibility. So I just wanted to say that the idea of the tradeoff is not necessarily there. You can choose really bad policies which would make the tradeoff, but I don't think we're there yet.

MR. CÁRDENAS: Santiago.

MR. LEVY: Just to support Chico's point and it's also an appointment in the book, I think there's still a lot of room in Latin America for policies that are both reducing of inequality and enhancing of growth. I think that tradeoff is really not there. It's just that in some countries, particularly large ones, it is increasingly difficult from a political point of view because where you have to make the changes are groups, as Nora was saying, in the middle of distribution where it's politically much more difficult to do so.

Chico made a very important point that in other countries, you know, Paraguay, Ecuador, and all that, probably they could be where maybe some of Brazil and Mexico were 10 years ago and there's some room to even further reduce inequality by the sort of policy we discuss here. But in Mexico, which is the one I know best, I think you could have more growth and less inequality, but I think that the politics of that will be more difficult in the next decade than what it has been in the last decade.

MR. CÁRDENAS: I guess I will only just add on your question of Venezuela that one of the points that Nora mentioned is that there is a big ideological division in Latin America, but these results hold for both camps. So this is not about right or left. And the interesting thing is that even governments that are on the right ideologically or politically understand the importance of these changes. And there is some competition between some governments and, you know, across countries in terms of who is designing and implementing the best social policies. So I think that competition is part of these transformations in Latin America. You can have different approaches towards the macro economy and the way you understand issues say on the monetary and the fiscal front exchange rate, but in terms of social programs there is some common ground and it's precisely the discussion about which programs have the greatest dividend in terms of reusing inequality that we see a lot of action.

So I'm not sure Venezuela is a good example in terms of the industrialization. I really have doubts about the ability of the government to do that and to promote, you know, manufacturing and growth. But Venezuela is an example. When you look in terms of programs that are aimed at reducing poverty and inequality through different mechanisms, different interventions. But with some positive results nonetheless.

So I think with that I'll give the word to Nora and I'll just say that this has been a fantastic station, fantastic panel, which only reflects the quality and the importance of a great book that I'm sure will be the source of a lot of conversations like this in the coming months. So you have the last words.

MS. LUSTIG: Thank you, Mauricio. But I think that you have already wrapped it up. We can, you know, I can talk to you if you want one-on-one about your questions. But thank you very much for all of you, especially the one who landed -- I landed later in Dulles this morning -- and all of you who were here and some of you that it's almost a quarter to eight so we went a little over at the time, but thanks for your questions and thanks for your interest.

Thank you again. (Applause)

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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