How do National Level Factors Affect Income Inequality in Latin America?

Executive Summary

Many problems have plagued the socioeconomic structures of countries. One problem in particular is income inequality. The gap between the rich and the poor is an economic phenomenon worthy of due attention. Expanding economic inequality is a very real threat to those with low and middle incomes and can prohibit healthy economic, political, and social growth of a nation. All nations suffer from a certain degree of income inequality, but some nations suffer more than other nations.

Countries that fall under the Less Developed Nations category are quintessential examples of deeply rooted economic structural failures resulting in unequal income distribution. Simply put, poorer nations have larger gaps in the distribution of income. Infamous for what has become known as the “lost decade” of the 1980s, a time of immense economic malaise, Latin American countries have suffered from poorly functioning economies and a lack of economic development. More interestingly, the countries of Latin America are particularly impervious to change in income inequality, many of which are ranked highest in income inequality.

The fact that income inequality is particularly high in Latin America is clearly established. Understanding what factors affect the level of income inequality is the more important issue. Scholars researching the causes of income inequality have found that factors such as education, land assets, and employment bear a relationship to the level of income inequality. One thing that is lacking in the research community is a prediction model for income inequality.
The general research question of this paper was: *how do national level factors affect income inequality in Latin America?* To test the general research question, seven different national level factors were selected. Data for these seven variables were used in an attempt to predict the level of income inequality. The independent variables consisted of GDP per capita, change in inflation rate, percentage of homeowners, average years of education, literacy rate, unemployment rate, and percentage of workers in informal jobs.

The seven independent variables were codified into three separate categories: The first was *economic strength*. This included the variables GDP per capita and change in inflation rate. The second was the *distribution of assets*. This included percentage of homeowners, average years of education, and literacy rate. The third was *employment characteristics*. This included unemployment rate and percentage of workers in informal jobs. These categories and their variables were chosen because they represent an aggregate measure of certain national level factors. This research project measured the overall effect of seven independent variables upon the distribution of income, represented by the Gini coefficient for income inequality. Data from four different years was used for statistical testing. Data for national level measurements and the Gini coefficient was collected for 2000, 2002, 2003, and 2004. Four different single-year models were constructed in order to check for consistency in results. There was also a difference measurement taken for the Gini coefficient between 2000 and 2004. The difference model was constructed in order to predict the change in income inequality between the years tested.

The results were somewhat confounding. For all years except 2000, all of the prediction models were statistically insignificant. In 2000, there were four variables that correlated with income inequality: inflation, housing, education, and literacy rate. Inflation, housing, and education all had negative correlations with the Gini coefficient, while literacy rate had a positive correlation. The fact
that the current research was unable to produce more than one significant prediction model is indicative of the difficulty other scholars have had in their analysis. This is perhaps the reason why no other scholars have produced a multivariate prediction model for income inequality.