

# Inequality and economic growth in Latin America

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## Abstract

Latin America is the region that bears the highest rates of inequality in the world. Deininger and Squire (1996) showed that Latin American countries achieved only minor reductions in inequality between 1960 and 1990. On the other hand, East Asian countries, recurrently cited in recent literature on this issue, have significantly narrowed the gap in income inequality, while achieving sustained economic growth. These facts have triggered a renewed discussion on the relationship between income inequality and economic growth. According to the above literature, income inequality could have an adverse effect on countries' growth rates. The main authors who spouse this line of thinking are Persson and Tebellini (1994), Alesina and Rodrik (1994), Perotti (1996), Bénabou (1996), and Deininger and Squire (1996, 1998). More recently, however, articles were published that questioned the evidence presented previously. Representatives of this new point of view, namely Li and Zou (1998), Barro (1999), Deininger and Olinto (2000) and Forbes (2000), believe that the relation between these variables can be positive, i.e., income inequality can indeed foster economic growth. Using this literature as a starting point, this article seeks to evaluate the relation between income inequality and economic growth in Latin America, based on a 13-country panel, from 1970 to 1995. After briefly reviewing the above articles, this study estimates the per capita GDP and growth rate equations, based on the neoclassical approach for economic growth. It also estimates the Kuznets curve for this sample of countries. Econometric results are in line with recent work conducted in this area – particularly Li and Zou (1998) and Forbes (2000) – and confirm the positive relation between inequality and growth, and also support Kuznets hypothesis.

**Key words:** Income inequality, economic growth, Kuznets curve, Latin America.

**JEL Classification:** O15, O40.