

PUBLIC PERCEPTIONS OF INCOME INEQUALITY IN LATIN AMERICA

By

KUNAL MANGAL

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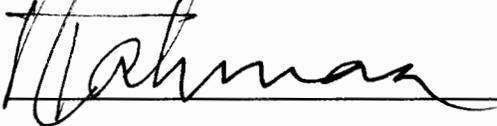
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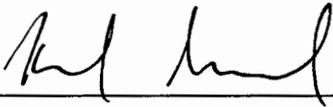
Dr. Tauhid Rahman

Department of Agricultural and Resource Economics



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## **Abstract**

This thesis explores the ways in which public opinion on income inequality is shaped in Latin America. The central argument is that the key to understanding public discontent lies in shifting attention from “differences in income” to “differences in ability to achieve things one has reason to value *because of one’s position in the income distribution.*” That is, two countries that appear the same in the former dimension may look entirely different in the latter—and I provide examples from Latin America to illustrate. I maintain that Latin Americans believe the inequality in their countries is too high not just because of the shape of the income distribution, but also because factors besides income—such as the provision of public goods, the strength of institutions, and cultural norms—exacerbate the impact that those income gaps have in people’s lives. Lastly, I explore the factors that may be most responsible for driving the changes in public perception of inequality in Argentina over time. The evidence hints at the possibility that Argentines may be confusing poverty with inequality.

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## I. Introduction

The levels of income inequality in Latin America are upsetting, both to outside observers and to most Latin Americans themselves. The average American or European tourist is, of course, instantly taken aback; but also a 2009 poll shows that a full 92% of Latin American judge the inequality in their respective countries as unfair,<sup>1</sup> and many of their governments aren't happy either. Michelle Bachelet, for example, recently convened a conference on how to reduce the “stubbornly stagnant” inequality in Chile.<sup>2</sup>

It is easy to point to the sheer amount of inequality in Latin America as the root cause of this discontent. Latin America is particularly notorious for its images of shantytowns buttressing mansions—and this, it is argued, is enough to violate anyone's sense of fairness.

But it is not clear why this is so. Why are people willing to tolerate some levels of inequality and not others? At what point do people draw the line? Empirically as well, it's not clear what drives discontent. Countries with similar levels of inequality may exhibit very different levels of concern about it. Within countries too we also see strange relationships, such as rising discontent even as inequality falls.

Previous research has focused on the role of perception, or “taste for equality,” and has uncovered some interesting results: it turns out immigrants carry with them the redistributive preferences of their home countries; beliefs about how much luck determines success may engender self-fulfilling outcomes; and the effect of inequality on happiness varies considerably across countries and individuals of different political

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<sup>1</sup> Latinobarometro 2009

<sup>2</sup> qtd. in Fields (2007)

backgrounds.<sup>3</sup> However, this literature often treats this taste for equality as rather arbitrary, a matter of personal judgment or cultural norms. This approach, I argue, overlooks a whole class of factors—such as corruption, or the provision of public goods—which, *ceteris paribus*, increase or decrease our tolerance for inequality in general. In particular, this thesis will argue that the key to understanding public discontent lies in shifting attention from “differences in income” to “differences in ability to achieve things one has reason to value *because* of one’s position in the income distribution.”<sup>4</sup> Two countries that appear the same in the former dimension may look entirely different in the latter.

Understanding what drives public discontent towards inequality has both normative and empirical applications. For the vast majority of Latin Americans who still maintain a strong preference to reduce income inequality, naming those factors that most offend their sense of fairness is a first step towards creating more equitable and inclusive societies.

Perceptions of inequality are also fundamentally important to political economy. Many variables of interest are mediated through politics (including conflict and redistribution, as well as growth, trade flows, and investment), and understanding how inequality affects any of these variables requires us to model how agents respond to inequality.

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<sup>3</sup> See Luttmer and Singhal (2011); Alesina and Angeletos (2005); Alesina, Di Tella, and MacCulloch (2003), respectively

<sup>4</sup> This is taking a leaf from the capability approach by Amartya Sen. More details to come in Section II. See Sen (1999), *Development as Freedom*.

The argument I develop proceeds in four distinct steps. I begin by presenting reasons to believe these questions are interesting and complicated.

Next, I present and defend a particular approach for analyzing public perceptions.

Third, I discuss concrete examples in Latin America of how our perceptions of fairness of incomes are determined by a number of factors not captured by income inequality measures.

Finally, using a novel data set from Argentine government and media sources, I explore the extent to which the ideas developed here help explain changes in discontent over time.

### *Some questions*

In markedly unequal countries, income inequality is not just an abstract concept; it is also accompanied by a palpable sense of injustice and unfairness that hangs over everyday life like a cloud.

Such is the case in Argentina. Although it has been a long time since the days of the landed *oligarquía*, as an exchange student in Buenos Aires I felt as if I could still see the residue of these bygone days—in the indifference and contempt of the *señoras* dressed in their furs, in the resentment of the *piquetero*,<sup>5</sup> in the guilt of well-off families, or in the

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<sup>5</sup> A common form of protest in Argentina is to block roads. Protesters who do this are called *piqueteros*.

common suspicion that “people who made money have done so necessarily by cheating or exploiting other people.”<sup>6</sup>

In that way, Argentina does not seem to be different from many of its neighbors.<sup>7</sup> But the United States, which now has similar levels of inequality as Argentina (see Figure 1),<sup>8</sup> seems to get away with less conflict, tension, and resentment. We can see the divergence in attitudes towards inequality in Argentina and the United States in the results of international surveys. According to the 2009 round of the International Social Survey Program, not only are Americans less likely to think inequality is “too high” (by a margin of 66% to 92%), but also they are much less likely to agree that “incomes should be made more equal” (see Figure 2).

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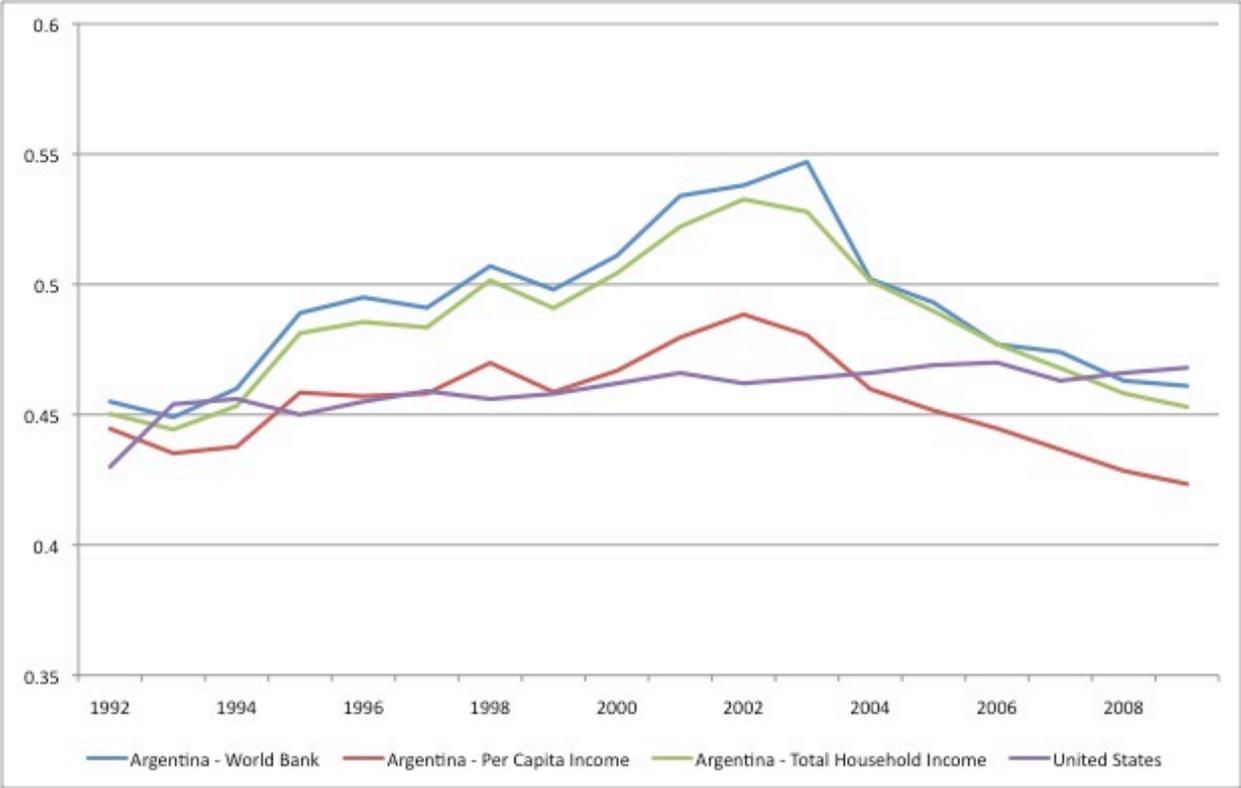
<sup>6</sup> This quote comes from an economist writing a guest column for *La Nación* (Nicolás Litvinoff), lamenting the fact that “this notion in the collective conscious” of Argentines had gotten so firmly lodged. This collective conscious turns out to be infectious. Once I visited the apartment of a distant acquaintance, located in one of the nicest neighborhoods of Buenos Aires. It was the first time I had met an Argentine that wealthy. As he talked about his life, his parents’ frequent trips to Miami, and the like, I couldn’t help but think that his family must be crooked in some way. Only later did I recognize the bias.

<sup>7</sup> For example, Juan Morales and Jeffrey Sachs, reflecting on their experience in Bolivia, write:

There are few economic policy tools in Bolivia that are judged mainly on the basis of efficiency rather than distribution. Exchange rate changes, for example, typically have been avoided in Bolivia until currency overvaluations reach absurd proportions, for fear of a resulting distributional battle. Similarly, public-sector prices have often been stuck at levels far below market clearing rates, for the same reason, despite the often devastating fiscal consequences. (Morales and Sachs pg. 65)

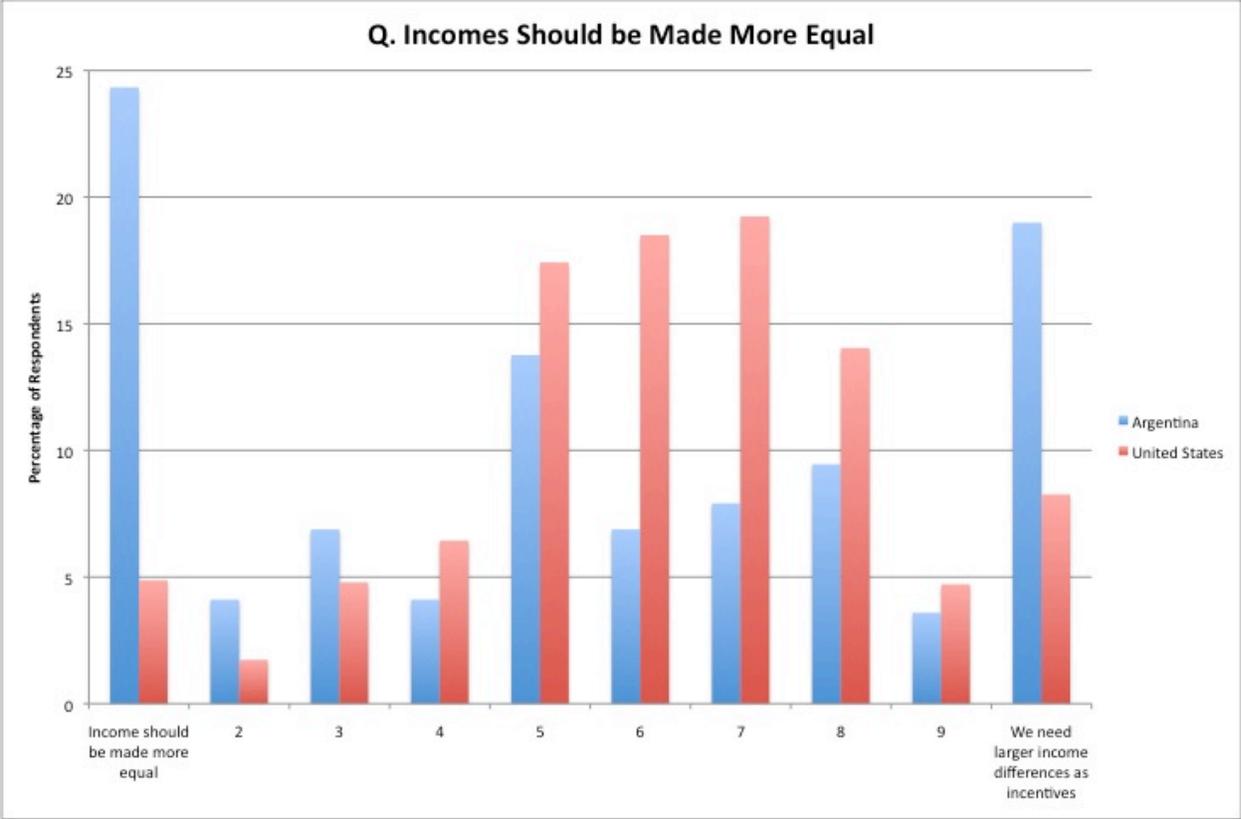
<sup>8</sup> Because I obtained each country’s measure of inequality from separate datasets, each of which is likely to have its own particular rules for calculating these statistics), I have plotted a variety of kinds of Gini coefficients for Argentina against the coefficient for the United States as a way of establishing a pseudo-confidence interval. (See Atkinson and Brandolini (2001) for details on how inequality measures between datasets may vary.)

**Figure 1. Gini Coefficient in Argentina and the United States, 1992 - 2009**



Sources: World Bank; SEDLAC; DeNavas-Walt, Proctor, and Smith (2010)

**Figure 2. Preferences for Redistribution in Argentina and the United States**



Source: ISSP 2009

Some worry that the United States is already starting to feel the ill-effects of inequality. Cross-country regressions suggest that higher income inequality is associated with problems like increased corruption<sup>9</sup> and the like,<sup>10</sup> and one way this data is interpreted is to say that societies go through a kind of phase change as inequality rises.

<sup>9</sup> Glaeser, Scheinkman, and Shleifer (2002)

<sup>10</sup> See Thorbecke and Charumilind (2002)

This is the line that Nicholas Kristof of the *New York Times* takes. Contrasting the rising inequality in the United States with the falling inequality in Latin America,<sup>11</sup> he worries openly whether the United States is on track to inherit some of Latin America's problems:

The United States now arguably has a more unequal distribution of wealth than traditional banana republics like Nicaragua, Venezuela and Guyana.

[...]

So in this postelection landscape, let's not aggravate income gaps that already would make a Latin American caudillo proud. To me, we've reached a banana republic point where our inequality has become both economically unhealthy and morally repugnant.<sup>12</sup>

Kristof's implicit assumption is that all countries with similar levels of inequality will experience that inequality in the same way. But Will Wilkinson of *The Economist*, disagrees:

There are many possible causes of a high level of income inequality. The historically most typical cause is the concentration of political power in the hands of a predatory elite. This is the main explanation for the typically high levels of Latin American income inequality. This is not the main explanation for the high levels of income inequality in the United States and Great Britain.

[...]

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<sup>11</sup> See Lopez-Calva and Lustig (2010) for a detailed overview of these trends

<sup>12</sup> Kristof, November 6, 2010.

The political economy of inequality here and there is so different that it really doesn't make sense to compare levels out of developmental and institutional context.<sup>13</sup>

Wilkinson's response seems to make intuitive sense—and it reflects, as we will see, the approach of this thesis. But his response leaves some open questions: To what “developmental and institutional contexts” could he be referring? What features of society and the state would allow us to distinguish between inequalities in different countries?

### *Some paradoxes*

Some of the most comprehensive data available on discontent about inequality in Latin America comes from the Latinobarometro Corporation. The Latinobarometro Corporation, based in Chile, conducts yearly surveys of households in most countries in Latin America (but not including the Caribbean). For five of those years—1997, 2001, 2001, 2007, and 2009—they included the following question in their surveys: How would you classify the inequality in your country? The possible answer responses were “Very Fair,” “Fair,” “Unfair,” and “Very Unfair,” as well as options for non-response. This data provides us a panel to track discontent over time.<sup>14</sup>

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<sup>13</sup>Wilkinson, November 19, 2010.

<sup>14</sup> One may reasonably wonder how reliable this data is. When we measure attitudes to inequality, we run the risk of trying to measure attitudes that do not actually exist in the first place, which can generate results that are wildly inconsistent over time (Bertrand and Mullainathan 2002).

This, however, does not seem to be a problem. One way of checking for robustness is to compare responses across surveys. Although there aren't many cases where multiple surveys measured attitudes to inequality in the same year in Latin America, it turns out both Chile and Argentina participated in the ISSP and the Latinobarometro in 2009. In the

When we combine data on discontent and inequality together, we find that the relationship between the two is rather similar to the relationship between growth and well-being: although in the long run the two variables are strong correlates, in the short run there are important instances where they decouple.<sup>15</sup>

Figure 3, which plots the percent of respondents who classify the income distribution as unfair or very unfair against a long run average of the Gini index, shows what we would expect: a larger proportion of the population thinks the distribution is unfair in countries that have, on average, more inequality.

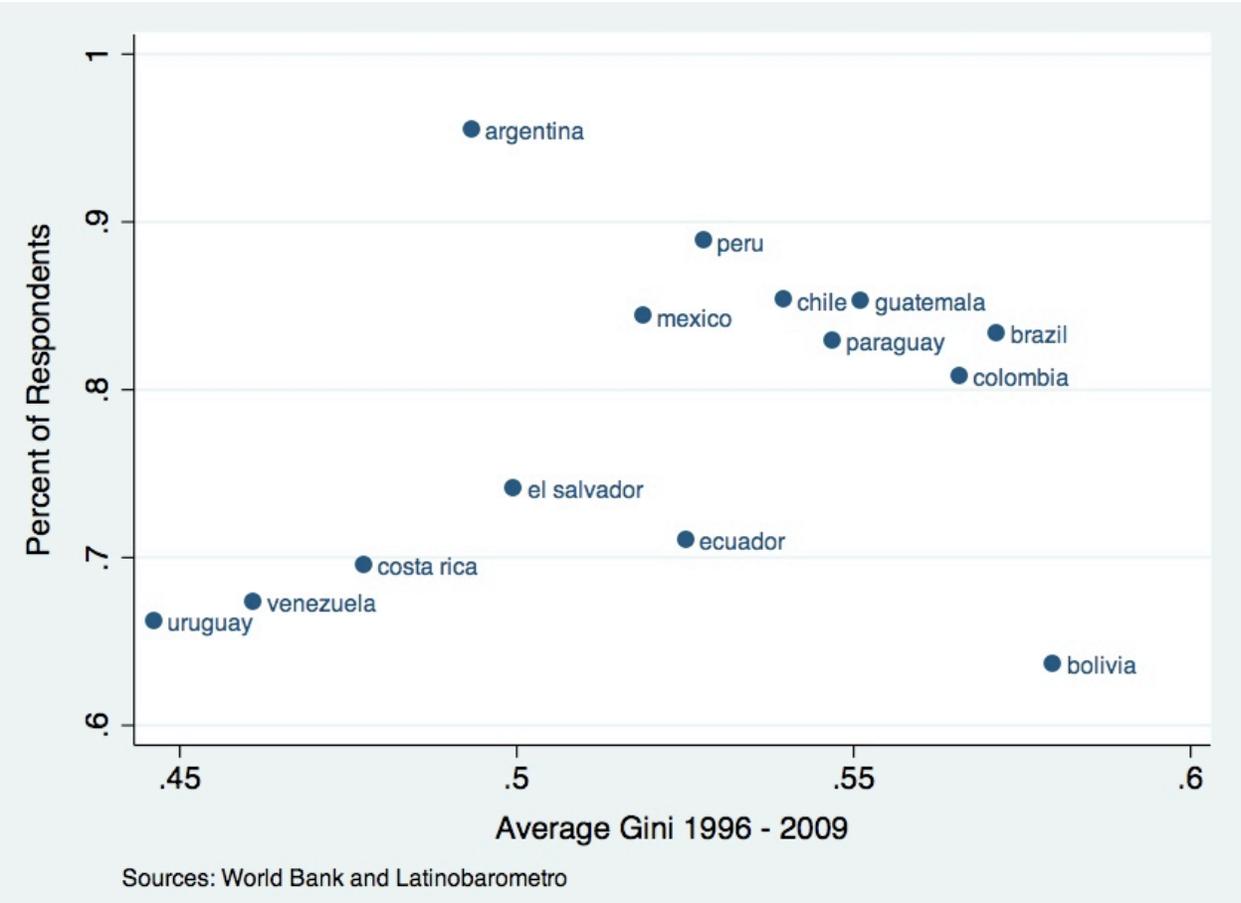
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ISSP, respondents were asked to agree or disagree with the following statement: “Income differences in (respondent’s country) are too large.” Answer options included: strongly agree, agree, neither agree nor disagree, disagree, and strongly disagree. In the Latinobarometro, respondents were asked whether they thought the income distribution in their country was very unfair, unfair, fair, or very fair, with options for non-response.

Despite the differences in wording and option choices between the questions, the results are very consistent. In the Latinobarometro, 92.7% of Argentines and 82.9% of Chileans said that the income distribution was fair or very fair in their countries. In the ISSP, 91.9% of Argentines and 87.3% of Chileans agreed or strongly agreed that the income gap in their country was too large.

<sup>15</sup> See Stevenson and Wolfers (2008)

**Figure 3. Long Run Inequality and Perceptions of Fairness in 2009**



Note: Gini data averaged for whatever years the data were available

Note that Argentina and Bolivia stand out as clear outliers. If we examine their trends in discontent over time, we find some strange and unexpected patterns. In Argentina, for example, we find that discontent is not always decreasing with falling inequality. Despite a measurable reduction in income inequality between 2007 and 2009 in Argentina, discontent towards inequality has actually risen:

**Table: Perceived and Measured Inequality in Argentina**

<b>Year</b>	<b>Unfair?</b>	<b>Gini</b>
1997	93.7%	49.11
2001	93.9%	53.36
2002	96.0%	53.36
<b>2007</b>	<b>87.33%</b>	<b>47.37</b>
<b>2009</b>	<b>92.67%</b>	<b>46.13</b>

In Bolivia, we see another strange phenomenon: sometimes public opinion on inequality can shift dramatically, even without much change in inequality indices. Between 2002 and 2007, discontent in Bolivia plummeted, even though inequality hardly changed:

**Table: Perceived and Measured Inequality in Bolivia**

<b>Year</b>	<b>Unfair?</b>	<b>Gini</b>
1997	87.8%	58.26
2001	89.86%	58.54
<b>2002</b>	<b>84.22%</b>	<b>59.94</b>
<b>2007</b>	<b>66.08%</b>	<b>57.44</b>
2009	60.17%	--

Uruguay also exhibits this pattern as well. Discontent in Uruguay has been falling dramatically, even with static inequality:

**Table: Perceived and Measured Inequality in Uruguay**

<b>Year</b>	<b>Unfair?</b>	<b>Gini</b>
1997	75.78%	42.73
2001	88.25%	46.17
<b>2002</b>	<b>89.58%</b>	<b>46.66</b>
<b>2007</b>	<b>75.0%</b>	<b>47.63</b>
<b>2009</b>	<b>61.5%</b>	<b>46.28</b>

Cross-country differences can be more easily explained by appealing to differences in preferences for equality. But since cultural norms are relatively stable over time, it's more difficult to explain these time series results. Because these results often violate our intuitive understanding of the relationship between inequality and discontent, they suggest the need to look for factors other than the income distribution that may affect our judgments.

## II. Concepts

I assume that when people say, in surveys or otherwise, that inequality is “too high,” they must mean that the differences in income between people harms someone in some way. Considerable work has already been made towards understanding what these harms may be. In this section, I conglomerate a range of previous thought on this issue to present a systematic way of thinking about these harms.

### *Deprivations*

The philosophical base I adopt for thinking about the harms arising from income inequality is Amartya Sen’s capability approach. The capability approach is a system of thought for assessing human welfare through “the substantive freedoms” that people have “to choose a life one has reason to value.”<sup>16</sup> These freedoms, which Sen calls “capabilities,” range from immediate needs, such as obtaining shelter and avoiding hunger, to higher goals and aspirations, such as the freedom to participate in the political arena or obtain a good education.

Income and capability are often related in ways that are very interesting to our analysis. In particular, income may act as a prerequisite for attaining certain capabilities. Those factors that prevent people from realizing things they have reason to value *because* of their relative income level may well be considered the deprivations resulting from income inequality.

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<sup>16</sup> Sen (1999), *Development as Freedom*, pg. 74

This is a point Sen has vigorously emphasized: “*Relative* deprivations in terms of *incomes*,” he notes, “can yield *absolute* deprivations in terms of *capabilities*.”<sup>17</sup> But Sen has largely left open the question of what these capability deprivations are. When specifying examples, Sen almost always limits himself to “participating in the life of the community” or “appearing in public without shame.”<sup>18</sup> But, as I will explain in the next section, I think this list is far too short. In developing contexts—such as Latin America—the list of capability deprivations arising from inequality is extensive.

### *Multidimensional Inequality*

The most natural extension of the capability approach to inequality is through an approach known as “multidimensional inequality.” Because the capability approach stresses that income is only one of several dimensions of inequality (such as health, or education), and that we should be sensitive to the inequalities between groups that lie in the blind spots of income inequality measures (such as systematic girl-preference in the household), work in multidimensional inequality tries to determine the best way to aggregate the information across these dimensions into an overall measure of advantage and disadvantage in society.<sup>19</sup>

This is an interesting question, but it is rather different from the one being asked here. Although limiting, a focus on *income* inequality is necessarily a restriction to the income domain in some way. By shifting the focus from differences in income to the

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<sup>17</sup> Sen and Foster (1973), pg. 213, original emphasis

<sup>18</sup> Ibid. pg. 213

<sup>19</sup> See Atkinson and Bourguignon (1985); Maasoumi (1986); and Tsui (1995)

capability deprivations resulting from those differences, we are significantly expanding the information base from which we use to make judgments—a step in the direction of multidimensional inequality. But we stop short of considering other means of advantage and disadvantage besides income, such as race or gender.<sup>20</sup> In this analysis, if the deprivation is merely correlated with income, but not caused by it, then we cannot say it results from income inequality.

For example, we may observe that poorer people tend to have significantly less political influence than richer people. If we agree that influence should not be caused by income, then this may be worrying. But this observed outcome may not be the result of income *per se*. Perhaps most members of a racial minority tend to be poor, and it is racial prejudice that directly causes the lack of voice. The real test of deprivation lies in determining whether a poorer citizen instantly gains more political influence by having more income; or conversely, a richer man instantly loses political influence by losing income.

### *Poverty versus Inequality*

It is also important to distinguish between those deprivations that result from inequality and those that result from poverty. An oft-made point in these discussions is that

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<sup>20</sup> More formally: Let  $F(x_1, x_2, \dots, x_n, y)$  describes the joint distribution of  $n$  domains of advantage and disadvantage, and let  $y$  be money. Multidimensional inequality studies the overall shape of  $F$ ; strict concern with income inequality focuses only on the marginal distribution,  $f(y)$ . My focus is the conditional distribution:  $F(x_1, x_2, \dots, x_n | y)$ .

inequality is often a red herring for what are actually problems of poverty.<sup>21</sup> What so offends us about mansions next to slums, the idea goes, is not the size of the mansion, but rather the condition of the slum. If the poor are making real gains, how does it matter what the rich earn?<sup>22</sup> This is an entirely valid point, which is why it makes sense to require that a discussion on inequality focus on deprivations linked to differences in—and not just lowness of—income.

In this framework, the critical difference between the two is that deprivation linked to inequality should not automatically vanish through lateral shifts in the income distribution. That is, holding everything constant, multiplying everyone's wage by a constant should not automatically alter the sense of deprivation that people feel.

What would deprivations that pass this test look like? John Rawls's theory of justice gives us way of conceptualizing them.

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<sup>21</sup> See Fields (2007) Feldstein (1998) for academic perspectives; *The Economist*, "The rich and the rest," summarizes the policy maker's position

<sup>22</sup> In a now rather-famous Newsnight interview, British Prime Minister Tony Blair had a very tough time making this case to a journalist, Jeremy Paxman:

PAXMAN:

But Prime Minister, the gap between rich and poor has by widened while you have been in office.

BLAIR:

A lot of those figures are based on a couple of years ago before many of the measures we took came into effect. But the lowest income families in this country are benefiting from the government. Their incomes are rising. The fact that you have some people at the top end earning more—

PAXMAN:

...Benefiting more!

BLAIR:

If they are earning more, fine, they pay their taxes.

The take-away quote of the night came from Blair: "It's not a burning ambition for me to make sure that David Beckham earns less money."

In Rawls's theory, the proper way to think about distributive justice is in "the original position," a "hypothetical situation characterized as to lead to a certain conception of justice."<sup>23</sup> In this original position, rational and mutually disinterested actors must decide "once and for all what is to count among them as just and unjust."<sup>24</sup> This conversation is different from an ordinary debate on distributive justice because these individuals must make their decision from behind a "veil of ignorance," where people have no knowledge of their place in society, nor their talents or abilities, nor even their conception of the good.<sup>25</sup> The question he then asks is, what principles would people in the original position choose? These principles, Rawls asserts, would be the correct principles of distributive justice.

Rawls used the original position to find a way of distilling a transcendental theory of justice, one that described what the perfectly just society looked like. But the original position can also be used to evaluate income distributions in a comparative sense, without having to appeal to some absolute standard.<sup>26</sup>

Imagine a group of individuals in the state of Rawls' original position, deciding which country (among a given list) to adopt as their permanent home. All the countries in question have the same absolute level of wealth, but that wealth is distributed in different ways. Furthermore, these countries have different institutions and cultures. The individuals in the original position know these general facts, but they do not know where

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<sup>23</sup> Rawls (1971), pg. 12

<sup>24</sup> Ibid, pg. 12

<sup>25</sup> Ibid, pg. 12

<sup>26</sup> See Sen (2009)

they will land up in the income distribution. Now, how would they choose which country to make their future home?<sup>27</sup>

Even if individuals are perfectly risk-averse, the answer may not be the country with the least amount of income inequality. This is because differences in quality of life on the dimensions that people care the most (e.g. health or education) may be lower even in a country with nominally higher income inequality. The differences in quality of life between income brackets depends, of course, on their differences in income; but it also depends on the *distributional* aspects of the provisioning of public goods, the reliability of the justice system, the stability of the economy, the codes of respect and honor, and the opportunity for upward mobility. All of these factors would reasonably enter into the decision process.

A person who is not assigned her preferred country and who ends up in one of the lower classes may reasonably claim to be deprived—not because of the place she was given in life but rather the different quality of life she could have had at *that place* in the income distribution. In the same way, those people in the lower ends of the distribution, who see and feel the opportunity for a better quality of life at their income level, feel a deprivation of inequality and not poverty.

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<sup>27</sup> I rather like the following analogy for thinking about the original position choice problem, adapted from Lawrence Katz, a professor of economics at Harvard (qtd. in Luce 2010). We can think of an income distribution as a large apartment block. In the original position, you choose an apartment block, but then a room is randomly allotted to you. The size and luxury of these rooms may be thought of as one's income level.

## *Purchasing Power*

An important point that the philosopher Michael Walzer raises is that before we know how money should be distributed, we need to know what it can buy. Money may often be presumed to have unlimited powers—the “universal pander”<sup>28</sup>—but in principle most societies strive to curtail its influence. Not everything is for sale. But often people try to buy things that they are not supposed to. In these cases, “when people sneak across the boundary of the sphere of money, they advertise the existence of the boundary.”<sup>29</sup>

What are those things money should not buy? Walzer’s list, though focused on the United States, contains many principles that are also likely universally agreed upon. Some of the most relevant to our present discussion are:<sup>30</sup>

1. Political power and influence cannot be bought and sold
2. Criminal justice is not for sale
3. Freedom of speech, press, religion, assembly: none of these require payment
4. Exemptions from military service, jury duty, and from any other form of communally imposed work cannot be sold by the government or bought by citizens
5. Political offices cannot be bought
6. Prizes and honors of many sorts, public and private, are not available for purchase

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<sup>28</sup> Walzer (1983), pg. 95

<sup>29</sup> Ibid, pg. 98.

<sup>30</sup> Ibid, pgs. 100-102. The phrasing of the list is copied from Walzer.

These exchanges may be blocked in principle, but in practice they occur all the time. That does not mean they are available to everyone. By their nature, blocked goods can only be bought by those at the top ends of the distribution. The way it works is as follows:

Traditional purchases are made through absolute levels of wealth; that is, anyone who has the means to pay the posted price will be able to walk away with the good. When everyone becomes richer, then everyone can afford more of these goods.

Blocked exchanges, however, do not work this way. These purchases are not made through absolute levels of income, but rather through differences in income. In these cases, walking away with the prize depends not on having a certain amount of money, but on having more money than other people.<sup>31</sup> Bribery is a good example. Economic growth does not mean that everyone now has a chance to buy off his or her local politician; it just means that the price of the bribe gets steeper. Political influence, peddled this way, always belongs to the better-off.

Besides blocked exchanges, there are also ways to “buy” goods through differences in income without actually spending money on them. If the rich are afforded special favors from the government, simply for being rich, then their money has effectively bought them those favors. What “comes along” with having more money than other people should be thought of as a purchase made through a difference in income, and a constituent part of the purchasing power of money.

In highly unequal societies, one observes not just frustration in the lower classes, but also guilt in the upper classes. Thinking of money in terms of its purchasing power gives us a way of understanding that guilt. If one lives in a society in which blocked

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<sup>31</sup>Using different words for the same idea, Sen (1983) calls these goods “positional goods”

exchanges are readily unblocked for the wealthy, or where the rich receive undue privilege, simply for being rich, then it is easy to see why one would feel guilty for having privileges that one did not ask for. But note: this guilt has not so much to do with the gap in incomes itself; The problem lies with what those gaps in income allow upper-class people to buy.

### *Opportunity and Freedom*

Most people believe that everyone should be rewarded for his effort, regardless of his starting point on the income distribution. That people at the low end of the distribution are unable to climb up the social ladder no matter how much effort they make is, perhaps, one of the most upsetting features of inequality. For this reason there has been a strong push to focus on “equality of opportunity” instead of income inequality. *The Economist* sums up the sentiment nicely: “a long ladder is fine, but it must have rungs.”<sup>32</sup>

Some economists have seized on this principle as a way of decomposing income inequality measures into the part that is morally offensive (so called “inequality of opportunity”) and the rest. This equal-opportunity approach, as it is known, has been gaining momentum: Recently, the World Bank released a report that seeks precisely to apply this “breakthrough in the measurement of human opportunity” to Latin America.<sup>33</sup> In the forward to the report, Marcelo Giugale, Director for Poverty Reduction and Economic Management in Latin America for the World Bank, explains why he believes these new techniques are needed:

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<sup>32</sup> *The Economist*, January 15, 2006.

<sup>33</sup> Giugale (2009), pg. xvii

The inequality debate is a loud and acrimonious one [...] And yet, for all its ideological and emotional intensity, this has been the wrong debate. Much more important than inequality of outcomes among adults is inequality of opportunity among children. The debate should not be about equality (equal rewards for all) but about equity (equal chances for all) [...] <sup>34</sup>

Though the new information the report provides is indeed valuable,<sup>35</sup> the emphasis on opportunity misses an important point: opportunity is only one of many freedoms that may be impinged by inequality. Not everyone aspires for upward mobility; but even those who have no intention of leaving a lower class may reasonably claim to be deprived because of inequality. Consider, for example, a bright student graduating from college who is deciding on a career. His heart tells him to take up school teaching, but he is worried that he would not be able to access things in life he values (such as college for his kids, or health care) because this career would place him in a lower income bracket. He may choose a lucrative career elsewhere, but he may still reasonably claim to be deprived of an important freedom. In some cases, the freedom that people seek is for upward mobility; but there is also a certain freedom in or downward or horizontal mobility too, as this example shows.

### *Informational Limitations*

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<sup>34</sup> Ibid, pg. xviii

<sup>35</sup> For example: “between a quarter (Colombia) and half (Guatemala) of the income inequality that we observe among adults in Latin America is due to the circumstances they faced when they started out in life” (Ibid, pg. xviii). To me, the variability is the most interesting part.

One of Sen's principal reasons for introducing the concept capabilities was to expand the informational base that we use to evaluate social welfare. A result from economist Kenneth Arrow, known as Arrow's Impossibility Theorem, showed that there was no scheme for aggregating individual preferences into an overall social preference without violating some basic requirements of consistency and fairness.<sup>36</sup> This result was often interpreted to mean that meaningful social welfare evaluation was impossible.

Rather than slipping into "pessimism" about the possibility of social choice, as many other theorists did,<sup>37</sup> Sen argued that social choice could be saved by expanding the informational base one uses to determine welfare. Arrow's result, he argued, depended critically on the use of the relatively "impoverished" information base of individual preferences.<sup>38</sup> Once this base was expanded, many of the impossibility results weakened or disappeared. Of course, Sen offered capability as the right and natural extension to the informational domain.

It is in a similar vein that I make a case for considering the specific deprivations attached to inequality—in addition to tracking the overall shape of the income distribution—as a way of expanding the informational base on which we make judgments on income inequality. Like individual preferences, individual wages are a rather impoverished source of information for deciding on distributive justice. Even if we had full knowledge of every person (their history, background, values) and their incomes, we

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<sup>36</sup> See Arrow (1950). I should stress how basic these requirements were—nothing more than assuming that the function should a) be able to aggregate any set of individual preferences; b) not set the social preference on the whims of one individual; c) should rank  $x$  ahead of  $y$  if all individuals preferred  $x$  to  $y$ ; and so on.

<sup>37</sup> See Sen (1999), "The Possibility of Social Choice," pg. 353

<sup>38</sup> See Sen (1977)

would still have a hard time being consistent with ourselves in trying to decide what's fair, let alone agreeing with others. The problem, as Will Wilkinson illustrates, is hopelessly complex:

What is it to do one's "fair share"? In small groups, it's clear enough. If my friend and I are shoveling the front walk, my fair share of shoveling, and his, is about half. Often we adjust for differences in ability. If I am big and strong and my friend is small and frail, his fair share may be as much as he can manage. That won't mean that the whole remainder is my fair share, though. If we're going to get the walk shoveled, I may have to do a bit more than my fair share. These things get complicated quickly. That's why the question of what it means for an American to do his or her fair share, *qua* citizen, is completely baffling.

Suppose I'm a surgeon pulling down six figures. Perhaps doing my fair share is to pay 33% of my income in taxes. But, hey, wait! My sister, who could have been a surgeon, chose instead to make pottery in a little hippie arts colony. She makes only as much as she needs to get by, works relatively short hours, smokes a lot of weed with her artist friends, and pays no federal income tax at all! If paying 33% of the money I make saving lives is doing my fair share, then it's hard to see how my sister—who could have been a surgeon, or some kind of job- and/or welfare-creating entrepreneur—is doing hers. But if she is doing hers, just playing with clay out there in the woods, benefiting next to no one, paying no taxes, then clearly I'm doing way more than my fair share. Which seems, you know, unfair.<sup>39</sup>

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<sup>39</sup> Wilkinson (2009), *Thinking Clearly About Economic Inequality*

It seems our moral judgments are so sensitive to particulars that it seems no amount of information about individuals, their wealth, or the shape of the income distribution would ever suffice for making a stable judgment on the income distribution.<sup>40</sup> We seem to require additional information.

Deprivations offer a richer domain of information from which to formulate judgments. It adds a perspective to the discussion that is a part of our gut reactions, but often lost in formal arguments—namely, that evaluating income inequality requires us to evaluate the quality of life gap, and not just the income gap.

Introducing a quality of life framework to the discussion on income inequality has clear practical implications for policy. Agreeing on right level of income differences between the rich and poor, or fair levels of redistribution, is rather impossible in democracies. And when these kinds of measures are enacted as legislation, they invariably breed contempt from the affected class.

However, there may be measures that policymakers could enact that would reduce the burden of inequality that people feel in their lives without necessarily having to change the distribution of income. If these measures have a greater chance of attracting agreement, then this would give Latin American policymakers looking to create more inclusive societies more policy tools.

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<sup>40</sup> Formally: Let  $n$  index an infinite sequence of pieces of information  $\{a_n\}$  that we can extract from non-anonymous income data. This would include information like: which professions earn the most money; what the earnings share of the bottom 20% are; and how much education and health people have by wealth quintile. Let  $\{s_n\}$  be the partial sum of the first  $n$  pieces of information. That is, it represents the judgment about inequality we would have if we only considered that information and nothing else. To arrive at a conclusion about the income distribution, we would need the sequence  $\{s_n\}$  to converge. I contend it won't. That means, I suspect that for any amount of information we have, there exists an extra piece of information that can arbitrarily disturb our judgments.



### III. Application

In Latin America, the list of deprivations that can be traced to income inequality is long. In this section, I list what I perceive to be some of the most visible deprivations, and illustrate just how they affect our understanding of inequality in these countries.

#### *Healthcare*

Because the ability to live a long and healthy life is often a prerequisite to achieving whatever other plans we have, we have reason to pay special attention to the achievement of good health.<sup>41</sup> I think most people also believe (including most Latin Americans) that “we should somehow remove health and the necessities of life from the prizes that serve as incentives for economic activity, and instead let people strive and compete for non-essential luxuries and amenities.”<sup>42</sup> In other words, landing in the upper end of the income distribution should not be necessary to have good health.

The infant mortality statistic provides a very good window into the quality and general availability health services that people have. Unlike many other health statistics, such as mortality or morbidity, high levels of infant mortality are not likely for want of due care and effort on the part of the patient. When complications happen, it is usually because of a lack of access to proper care. The epidemiological evidence shows that the majority of cases are due to factors that are difficult to prevent, but can be readily treated.<sup>43</sup>

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<sup>41</sup> Sen (1998)

<sup>42</sup> Anand (2002)

<sup>43</sup> Freedman (2001)

Consider now the contrast between Colombia and Peru in the year 2000. These countries shared a common border, and GDP per capita levels of around \$5000 USD,<sup>44</sup> but Colombia was much more unequal than Peru, with a Gini coefficient of around 58, compared to 50 for Peru.<sup>45</sup> For a given level of income, more inequality means the poor receive less. So it would seem that if one were to choose a country in which to be poor, one would probably choose Peru.

The infant mortality statistic, however, gives us a different picture. It turns out that poor Colombian women face drastically lower infant mortality rates than do poor Peruvian women. This is not just because the average Peruvian faces higher infant mortality rates than the average Colombian (which may reflect, perhaps, unavoidable difficulties in providing health care in Peru that don't exist in Colombia), but also because of significant distributional disadvantage (see Table).

**Table. Infant Morality Rates in 2000 by Wealth Quintile in Colombia and Peru**

	1	2	3	4	5	Average	Ratio 5:1
Colombia	32.0	31.6	22.0	11.9	17.6	24.4	1.818
Peru	63.5	53.9	32.6	26.5	13.9	43.2	4.568

Source: Gwatkin et al. (2007)

Whatever the difficulties may be that keep Peru's average infant mortality rate high, upper class Peruvians do not seem to be suffering from them. In fact, they fare just as well as upper class Colombians, if not better. Despite having less disadvantage in terms of income,

<sup>44</sup> World Bank Indicators

<sup>45</sup> SEDLAC (CEDLAS and The World Bank)

lower class Peruvians are more disadvantaged when it comes to achieving a basic aspect of health than are Colombians.<sup>46</sup>

Imagine now a group of highly risk-averse individuals sitting in Rawls's original position, determining whether they would rather like to be born in Peru or in Colombia. If they focused only on income, they would be misled to unconditionally jump for Peru. But those who opted for Peru may not even be able to make it past their first couple days!

### *Education*

It seems rather inevitable that the rich will go to better schools and the poor will go to worse schools. Almost by definition, "poor parents have fewer resources to support the education of their children, and they have less financial, cultural, and social capital to transmit."<sup>47</sup> But still, between countries there is substantial variation in how much one's educational aspirations are held back for want of not landing in the top income bracket. This gives inequality in different countries very different meanings.

Measuring access to education is difficult, mostly because much of the data we have available is for achievements, for which it is difficult to disentangle effort and opportunity. If we observe a high correlation between income and educational achievement, it is difficult

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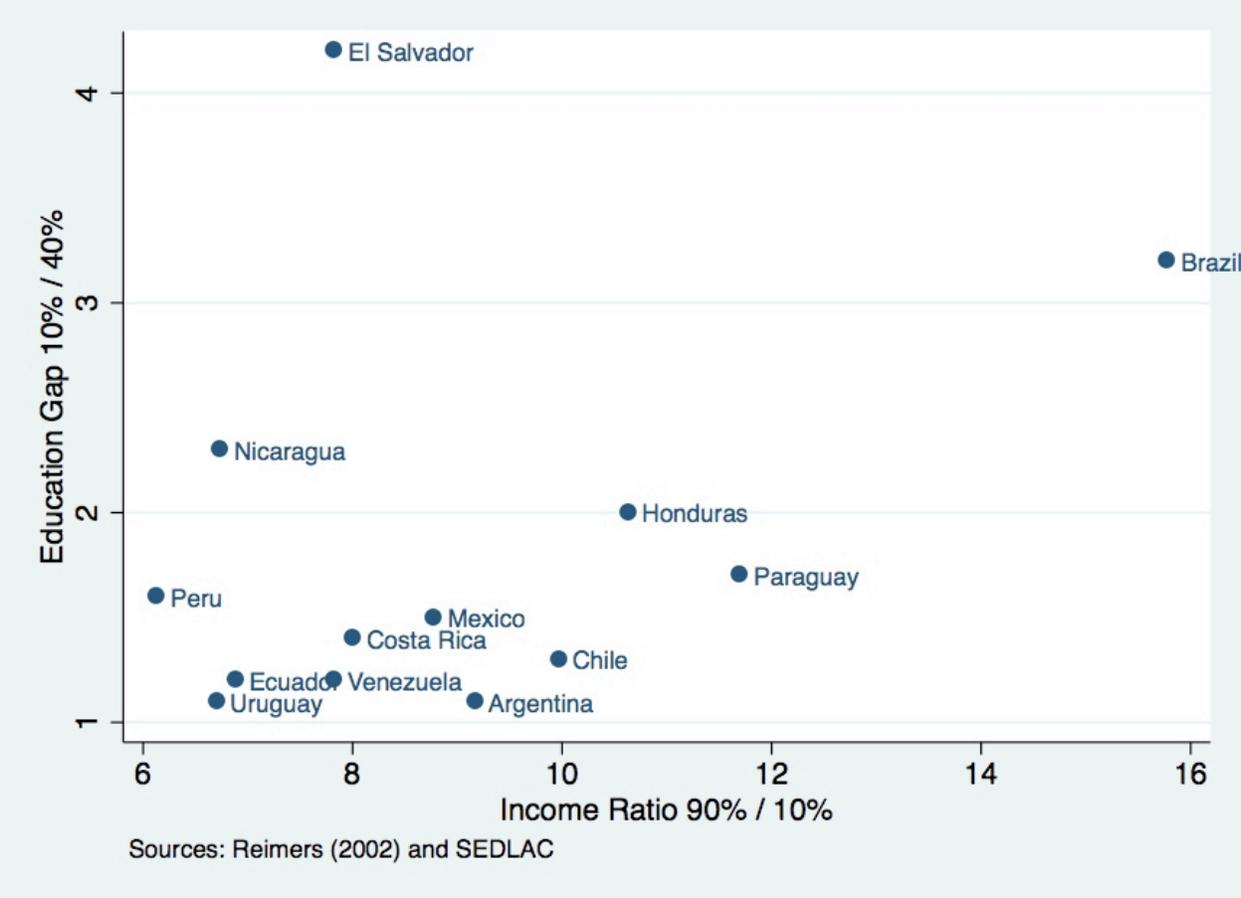
<sup>46</sup> As we discussed previously, the existence of a correlation between a disadvantage and income does not necessarily mean that the disadvantage is *caused* by income. However, to verify this for Peru would require the construction of a counterfactual, which would require a more detailed and involved study. This example is meant to suggest the possibility of a significant deprivation arising from inequality that may not appear just by focusing on income.

<sup>47</sup> Reimers (2001), pg. 55

to know whether this is due to a lack of opportunity, or simply differences in preferences for work and leisure between the rich and poor.

Nevertheless, data on achievements can also be very illustrative. The following graph combines data on inequality (namely the ratio of the average incomes for those in the top 10% to the bottom 10%), with the ratio of primary school completion rates between those that lie in the top 10% of the income distribution and those in the bottom 40%.

**Figure. School achievement gap and income inequality**



As we would expect, more unequal societies tend to have larger gaps in educational achievement. But there are striking outliers. Chief among them is El Salvador, with an educational achievement gap of 4.2. Primary school completion rates in El Salvador are low in general (47%, the lowest in the sample), but the rates for the bottom 40% are particularly low (20%).

The significant gap between El Salvador and its neighboring countries—Nicaragua and Honduras—makes it unlikely that poor Salvadoreans are not completing primary school out of choice. For the international community, which has pronounced universal primary education as a Millennium Development Goal, and for the states of Latin America, which often profess to a “right to education,” the educational achievement gap in El Salvador represents clear deprivation.

As I write, the idea of a “right to education” come to the fore in a big way in Chile. A student movement, angered at the unaffordability of higher education, has taken to the streets, clashing with police and tear gas. Their cause has won the public’s support, and President Piñera’s government finds itself struggling to respond.

The battleground is the university system, and the problem is, at heart, distributional. University fees have been rising on average 3-4% a year (in real terms) for the past 15 years.<sup>48</sup> Students have a choice between a few good universities—whose fees are steep—and the rest, whose fees are about as steep, but provide much less reassurance of finding a job.

Non-rich students try to go to good universities, but they find themselves struggling to compete for admission. The problem lies in the structure of K-12 education. Since

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<sup>48</sup> *The Economist*, “Progress and Its Discontents”

Pinochet privatized the school system, the government has financed education by distributing vouchers to families, which they use to pay school tuition. But better, private schools require extra “top-up” fees, which effectively put them out of reach of poorer families. This is despite an initiative under Bachelet to provide larger vouchers to poor families. Thus, when it comes time to enter university, wealthier children with better education go to the better schools, while poorer students have a greater chance of spending their time taking remedial classes.

All this contributes to an environment where many Chileans are convinced that the system is rigged in favor of the wealthy. Inequality in Chile has been high for a long time. But it is now that Chileans are really feeling it. The common sense is that a middle class (let alone a poor) Chilean *should* have access to higher education. Now the Chilean people have to figure out where that access will come from.

### *Macroeconomic Volatility*

Two kinds of economic woes have a particular grip on Latin American finance ministers’ nightmares: currency crisis and high inflation. Both are bad news for everyone, but they are especially bad for the poor and middle classes. Consequently, these economic shocks can constitute a significant source of class tension.

Argentina’s experience offers a good case study of the distributional elements of macroeconomic shocks. Argentina’s 2001 collapse is still, to this day, a touchstone of resentment against the rich. This is not merely because economic crises tend to have “natural” distributional effects (e.g. being poorer means by definition you have less money to cushion the fall). Rather, the resentment comes from the way in which the crisis was

handled, which many feel systematically sheltered the rich, while showing no mercy to the poor. Economists Marina Halac and Sergio Schmuckler (both Argentines themselves) confirm in their study some facts that all Argentines already know: small and large depositors were affected unequally, they note, because “large depositors, who probably had access to better, more timely information than did small depositors, ran before the crises and resolution measures took place.”<sup>49</sup>

The crisis wreaked havoc on the savings of small depositors. Their dollar deposits were the ones forcibly converted to pesos (effectively cutting their savings in one-fourth). Their accounts were the ones “most affected by the restriction on cash withdrawals” (the infamous *corralito*).<sup>50</sup> And they were the ones who “did not receive the deposit insurance for which they were implicitly charged.”<sup>51</sup>

Meanwhile, large investors managed to escape with their deposits intact by shifting their money to off-shore accounts, and in some cases, even managed to benefit from changes in relative prices.<sup>52</sup>

Some Argentines had thought that those images of an oligarchy indifferent to the suffering of *el pueblo* were behind them. But this experience resuscitated those memories in a bad way. While the rest of society was out in the street protesting (in the famous

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<sup>49</sup> Halac and Schmuckler (2004), pg. 38

<sup>50</sup> Ibid, pg. 38

<sup>51</sup> Ibid, pg. 38

<sup>52</sup> Ibid, pg. 38

*cacerolazos*), the wealthy continued running errands as if nothing had happened, honking their horns for people to get out of the way.<sup>53</sup>

The 2001 crisis was the worst Argentina has suffered in recent times; but macroeconomic volatility in Argentina is not uncommon. For Argentines, then, living in the top income bracket is not just about doing well in the present, but about protecting one's savings and standard of living in the future.

In recent years, Argentina's second consistent economic problem—inflation—has begun to surface again. It is well known that official statistics are no longer reliable, but private estimates put current yearly Argentine inflation at around 25 to 30%.<sup>54</sup> Because of past bad experiences with inflation (which reached an average rate of almost 100% per month in the 1980s),<sup>55</sup> the government does not want to admit that inflation is returning. Hence it has intervened in the national statistical agency, the INDEC, which now consistently reports inflation rates at half the value of private estimates.<sup>56</sup>

Naturally this is drawing significant criticism, particularly from *Clarín*, the main opposition newspaper to the government. The vice president, Amado Bodou, tried to deflect these criticisms by writing them off as a minority worry: "Today inflation isn't really a worry in big proportions for Argentines," he said, although "perhaps it worries some members of the middle to upper classes."<sup>57</sup>

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<sup>53</sup> As told to me by an upper middle class Argentine family

<sup>54</sup> *The Economist*, "The price of cooking the books"

<sup>55</sup> Kiguel and Neumeyer (1995)

<sup>56</sup> *The Economist*, "Don't lie to me Argentina"

<sup>57</sup> De la Sota, November 3, 2010.

This response was met with a strong backlash—and for good reason. The consensus is that inflation, in the long run, is worst for not-rich.<sup>58</sup> Nancy Birdsall’s summary of the problem would, I think, resonate with many Argentines:

Inflation worsens inequality because the poor are forced to hold money and cannot acquire the debts that inflation devalues. High interest rates, driven by unsustainable public debt, crowd out investments and jobs in small and medium enterprises, while encouraging easy gains in government bonds for those with plenty of money. Price controls, usually imposed on the products most consumed by the poor, often lead to their disappearance from stores, as they are hoarded and resold at higher prices.<sup>59</sup>

It is easy to see, then, how inflation can stoke flames of discontent, especially for the middle class. By undermining their ability to hold on to their savings—savings which represent a lifetime of work—inflation puts the breadwinners of the middle class under “insufferable pressure” to “maintain a standard of living which they and their families have come to expect.”<sup>60</sup> That pressure may have political consequences.

The irony of the situation in Argentina is that the government proclaims itself to be working towards reducing inequality, and helping the disadvantaged.<sup>61</sup> Argentina has managed to reduce its inequality in recent years in large part due to significant state

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<sup>58</sup> See Birdsall (2007); Romer and Romer (1998)

<sup>59</sup> Birdsall (1998)

<sup>60</sup> Wagley (1964)

<sup>61</sup> After her re-election in 2011, Cristina closed her victory speech by saying, “I am not neutral. I will always be on the side of those who fight against inequality.” (qtd. in “Cristina llamó a la unidad para ‘superar diferencias sin perder la identidad’”)

spending.<sup>62</sup> But the resulting inflation, if not checked, may undo those gains. Even if inflation does not change the distribution of income, the cost that poor and middle class people will bear for that inflation in the future will be disproportionately high.

### *Self-Respect*

In January 2012 a wealthy Mexican businessman was captured on camera yelling epithets and beating the parking attendant at his luxury Mexico City apartment complex so hard that he broke two of his teeth. The attendant's offense? Telling the businessman, Miguel Moises Sacal Smeke, that he was not allowed to leave the desk to help him find the jack in his car. Soon after the beating, security tapes show him making a call (presumably to management), yelling indignantly, "These [expletive] don't do what I tell them. I pay 30 thousand pesos so that these flunkeys do what I tell them."<sup>63</sup> The way in which the violence played out was very telling: instead of defending himself, the attendant shielded himself submissively. The three or four other employees who witnessed the scene mostly stood by.

Unfortunately, incidents like this are not isolated to Mexico, nor are they rare. But they get at the very heart of what political philosophers mean when they talk about "the social bases of self-respect" (Rawls) or "appearing in public without shame" (Sen). Latin American countries may not have formal caste systems; but money (wrapped in class) can

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<sup>62</sup> Birdsall, Lustig, and McLeod (2011)

<sup>63</sup> Video available at <http://www.youtube.com/watch?v=6PSMjaaIi8I>

form such a separation between people that it operates as a marker of purity or touchibility.

The following incident from Chile brings to surface many of these latent sentiments:

Most recently, a 57-year-old widow named Felicita Pinto who is being called the Chilean Rosa Parks, caused a stir when she dared to walk past the gates of the community she works in as a maid instead of taking the mandatory minibus to her employer's home. Security guards chased Pinto and forced her to go back to the gate citing the development's bylaws which state that servants are forbidden to move through the neighborhood at will.

Anger grew when a neighbor told a television channel:

"Can you imagine what it would be like here if all the maids were walking outside, all the workers walking in the street and their children on bicycles?"

Class and privilege run deep. But when money so strongly determines how one is treated in public, it would seem as if the Chilean maids would only need to exchange clothes with their upper class employers in order to appear in public with confidence.<sup>64</sup>

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<sup>64</sup> This is precisely the plot of a famous play, "The White Apron" by the Chilean author Sergio Vadonavic. The scene opens with an upper class woman, her maid, and her young son at the beach on a day out. The *señora*, of course, dominates the conversation, during which she spends most of her time belittling the maid and inflating her ego. At one point she remarks, "Money is everything....that's all the difference between us, isn't it?" which ultimately spurs her to consider a game: to see what would happen if she switched clothes with her maid. The attitude of both instantly changes: the maid becomes confident, commanding, and the *señora* submissive. At one point the *señora* remarks, tellingly: "Anyone would confuse us two!" When the maid makes it clear she has no interest in ending the game, the *señora* demands for her clothes back, and, that failing, attacks. But immediately some fellow beachgoers come to protect the maid (dressed as the *señora*), who casually remarks that the *señora* must have suffered a heat stroke. [translations from Spanish are my own]

None of this is an inherent feature of an unequal distribution of wealth. That is, there is nothing about the fact that some people earn much more money than others that requires class tensions to evolve this way. Upper class people may develop these prejudices as a way of justifying their high wages. But these prejudices can, in principle be addressed and diminished even without changes in the income distribution.

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The story does not make very much sense literally: we know that class is more than skin deep. In light of the discusión here, Vadonavic seems to be saying that money is too often a necessary and sufficient condition for power and respect.

#### IV. Empirics

It is one thing to claim that deprivations *should* be the focus of any policy to reduce inequality. But what factors are most responsible for driving people's judgments about inequality over time? This is an open empirical question, and in this section I will make a first attempt at answering it.

I consider three possible classes of factors that could be driving these trends: 1) pure income inequality, 2) deprivations, and 3) the condition of the poorest. Based on our previous discussion, each class of factors has a plausible chance of influencing public perceptions of inequality. The question here is which is most responsible. If the answer is the first, then we have a strong case for worrying about income gaps in general; but if the answer is either of the latter two, then we may do better by shifting our focus from inequality *per se* to something else.

#### *Data*

Measuring public discontent towards inequality is not easy. The way I propose to do this is by tracking the number of times key words related to inequality appear in newspapers articles and official discourses over time. The idea behind this measure is simple: when people are upset about something, they manifest their discontent by talking about it in the public square. The more that people are talking about inequality, the greater the concern likely is.

The newspapers in this sample included *Clarín*, *La Nación*, and *Los Andes*. The first two papers are based in Buenos Aires, and the third is based in Mendoza, near the Chilean border. This gives a rough coverage of different perspectives. The sample also included

debates and other communication from the Lower and Upper Houses of the Argentine Congress. Both the articles and the session transcripts were available online and fully searchable. Counts of keywords were obtained by programmatically searching through the archive.

The data start in 1997, the first year in which the included sources publish most of their content online (except Los Andes), and run up to 2010. For each month in that period, I catalog the number of times these sources mention any of the following words, all of which are understood to refer to distributional concerns in Argentina:

**Table. Search Words**

	Spanish	English Translation
1	Desigualdad Social	Social Inequality
2	Inclusion Social	Social inclusion
3	Distribucion del ingreso	Income distribution
4	Oligarquia	Oligarchy
5	Concentracion de la Riqueza	Concentration of Wealth

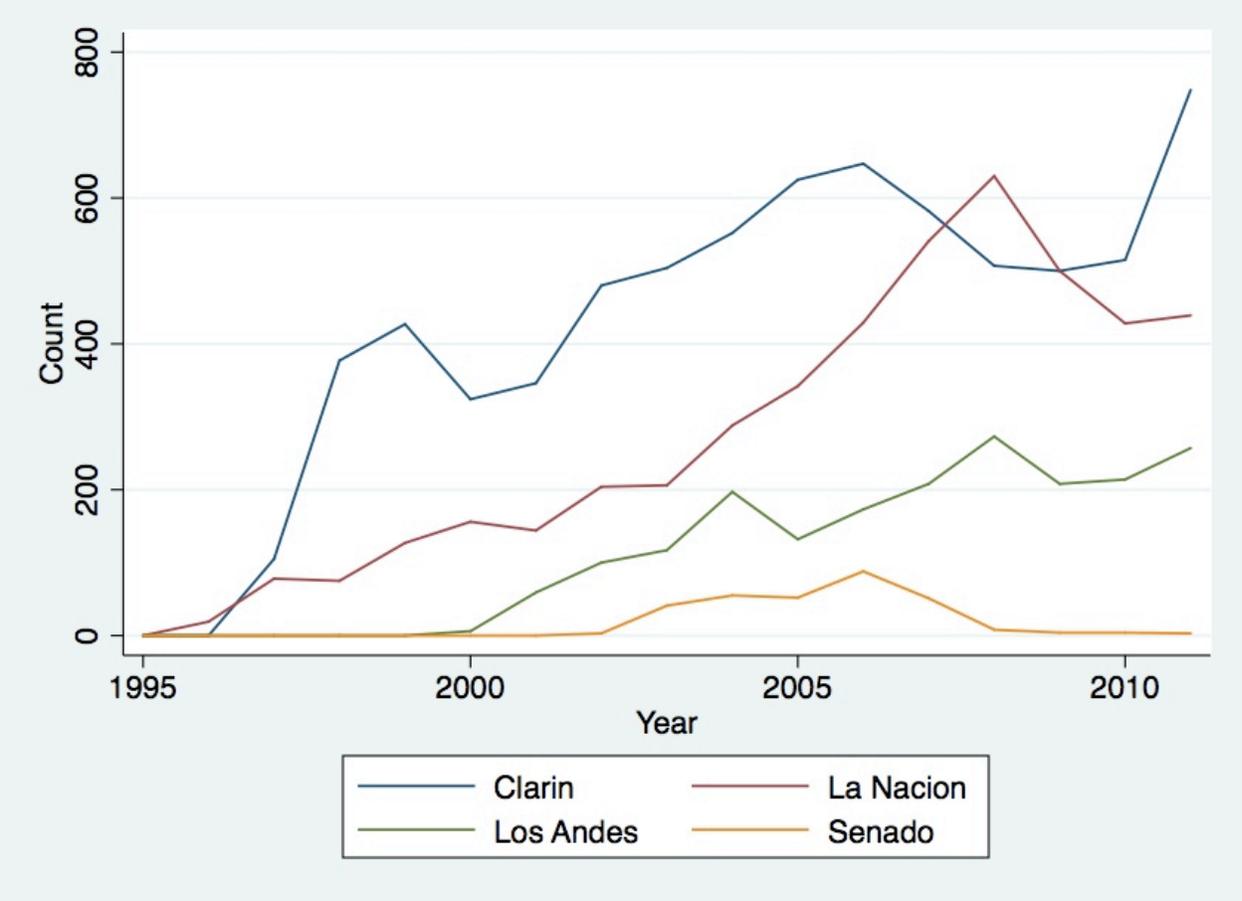
Because each word was tallied separately, there was some double counting of articles. This was done principally because it made data collection easier, while still preserving the interpretation of the count. If an article mentioned more than one of these words, and was double-counted as a result, then it perhaps signaled an intensity of the concern about inequality, which is also an important aspect of public discontent.

The following figures present the raw results of the data on a yearly basis, aggregated by source and by word. Most of the increase in the count has to do with the increase in the total number of articles published during this period.<sup>65</sup>

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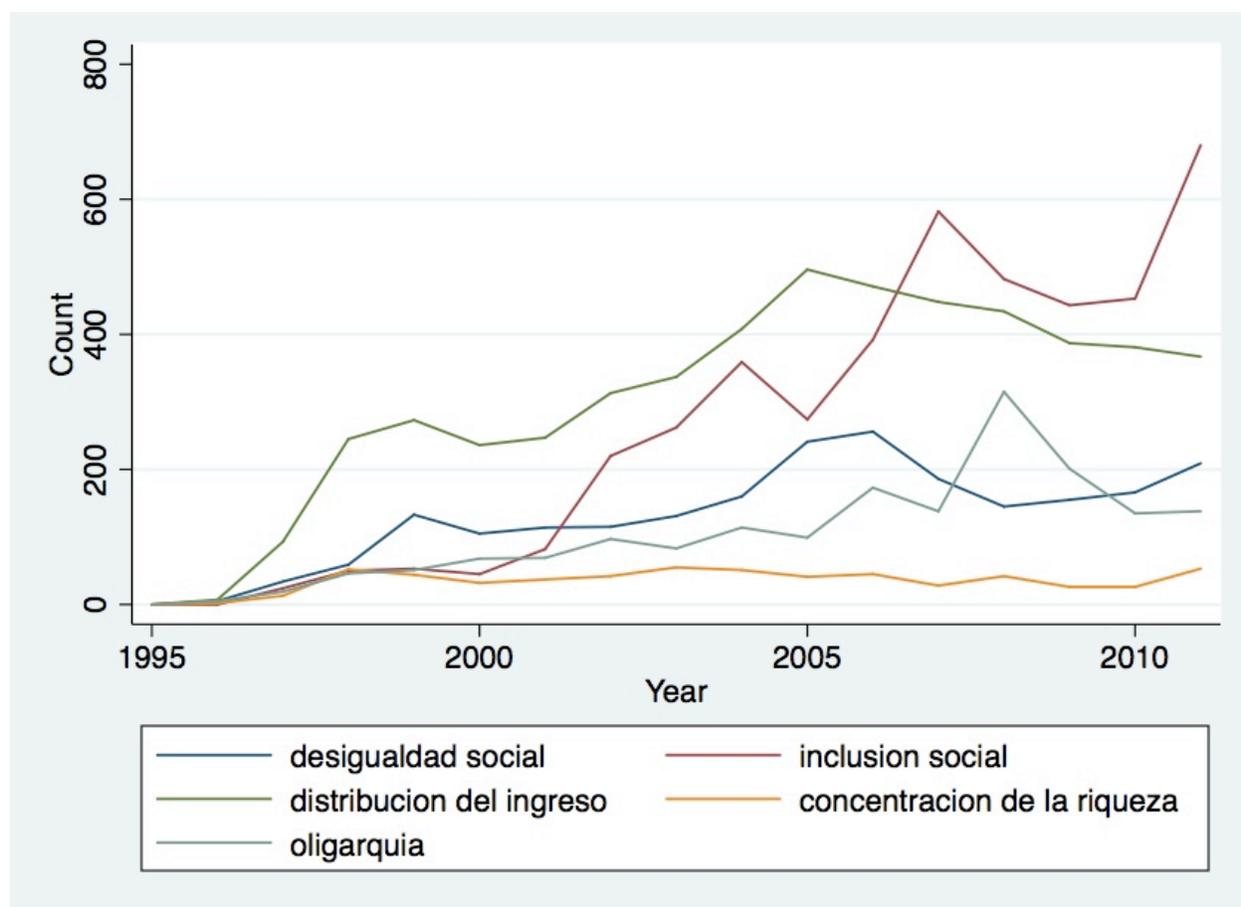
<sup>65</sup> The total count of articles was roughly tabulated by searching for common prepositions in Spanish

Figure. Number of Search Results by News Source



Source: Author's calculations

**Figure. Number of Search Results by Word**



Source: Author's calculations

I estimated the relationship between the above counts and possible determinants of discontent with the following regression specification:

$$\ln(count_t) = \alpha_0 + \beta_1 \ln(gini_t) + \beta_2 \ln(gini_{t-1}) + \delta_1 inflation_t + \delta_2 \ln(corruption_t) + \gamma_1 \ln(poverty_t) + \gamma_2 unemployment_t + \epsilon_t$$

The covariates reflect the three classes of determinants discussed above. The Gini Coefficient captures the effect of pure inequality, and the lag captures possible residual effects. Inflation and corruption are, as we discussed, two factors that may represent

deprivations. And poverty and unemployment are meant to capture the condition of the poor.

The data are obtained from a variety of sources. The Gini Coefficient is measured in terms of per capita income and is obtained from the Socio-Economic Database for Latin America and the Caribbean (a joint venture of CEDLAS and the World Bank). The data on poverty and unemployment also come from the same source. The data on corruption comes from the World Bank's World Governance Indicators, which is calculated for every year in the window (1997 to 2010) except 1997, 1999, and 2001. "Control of corruption" scores are given on a scale from -2.5 to 2.5, with positive numbers indicating more control. Because Argentina is always on the negative side of the scale, I take the absolute value of these scores so that an increased score reflects more corruption.

Data on inflation comes from two sources: from 1997 to 2007, the figures come from the World Bank; after that, because the official rates are not reliable, I use data provided online by Roberto Rigobon and Alberto Cavallo, two economists at MIT Sloan who calculate price indices by scraping the web.<sup>66</sup> This data has been shown to match inflation statistics well in countries where the data is reliable.<sup>67</sup>

### *Results*

Most of the data was only available on a yearly basis, which meant that I was only able to collect information for thirteen years (or less). Because of the small sample size, these results must, unfortunately, be considered preliminary. In the future, it would be

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<sup>66</sup>Data available at [www.inflacionverdadera.com](http://www.inflacionverdadera.com)

<sup>67</sup> *The Economist*, "Don't lie to me Argentina"

worth exploring ways of extending these techniques to construct a panel across countries, which would allow for a more robust test of these questions.

However, the data do suggest interesting hypotheses that warrant further testing. The most salient feature of the results is seemingly the strong effect of poverty on discontent. Even when we control for inequality, and possible deprivations, poverty seems to be the single most contributing factor to Argentina's concern about inequality.

**Table. Analysis of Public Discontent**

Ln count	(1)	(2)	(3)	(4)
Ln gini				
--	-1.875 (1.708)	1.985 (4.164)	-2.973 (1.560)	-1.656 (1.872)
L1	3.524** (1.552)	3.116 (2.071)	0.580 (1.081)	0.627 (1.210)
Ln corruption		-0.505 (0.680)		-0.0471 (0.356)
Inflation		-0.00430 (0.00919)		0.00367 (0.00370)
Year	0.104*** (0.0184)	0.181* (0.0841)	0.0650*** (0.0122)	0.0596 (0.0559)
Ln unemployment			-0.554* (0.258)	-0.950 (0.474)
Ln poverty			0.431** (0.126)	0.454* (0.144)
Constant	-207.8*** (40.13)	-376.8* (184.0)	-113.6*** (29.26)	-107.1 (119.0)
Observations	13	11	12	10
Adj. R-squared	0.862	0.791	0.979	0.981

Standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

These results hint at the possibility that Argentines may be confusing poverty with inequality. In that case, Argentines may do better to heed the advice of those who call for a focus on poverty over inequality as the best way of addressing Argentines' underlying concerns. Of course, inequality will still matter, at the very least because high inequality makes poverty reduction more difficult. But this kind of concern about inequality is intrinsic interest that it often has in the Argentine public square.

## **Conclusion**

To properly understand the way in which the public interprets income inequality, we need to shift our focus from "differences in income" to "differences in ability to achieve things one has reason to value *because* of one's position in the income distribution." The way in which the quality of life varies along the income distribution differs between countries—and this difference lies at the heart of why Wilkinson is correct in saying that we cannot compare income inequality between two countries out of "development and institutional context."<sup>68</sup>

In Latin America, we can see the deprivations resulting from inequality in clear ways: in the unequal provisioning of public goods, in the unequal treatment, in the unshared burden of the region's volatility. All of these factors make one's place on the income distribution a powerful determinant of the quality of people's lives.

Latin American policymakers looking to reduce the inequality that people feel would do well to pay more attention to factors outside the income distribution itself. This

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<sup>68</sup>Wilkinson, November 19, 2010.

may prove a more fruitful approach to reducing the patent injustices that remain.

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