Growth and the distribution of its benefits **Measurement and policy recommendations**

ECLAC contribution to the G20 Framework Working Group

United Nations

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Contents

Summary

The present report addresses (a) distributional national accounts as a tool to measure income and wealth inequality and contribute to improving statistics on inequality and, (b) key policy actions for reducing income inequality, either directly or by tackling other types of socioeconomic inequalities. This document was prepared at the request of the 2024 Brazilian Presidency of the G20, as an input for the discussion of the first priority of the G20 Framework Working Group (FWG), i.e. Putting inequality at the forefront: macroeconomic and distributive implications associated with current global and domestic trends.

Introduction

The link between inequality and economic growth has been extensively debated in economic literature. While earlier economic models stated that inequality promoted growth through the increased ability to save and invest of the affluent population, subsequent work has questioned the classical view and predicted a negative effect of inequality. ECLAC (2018) has argued that increasing equality is crucial for optimizing the dynamic efficiency of the economy. It establishes a framework of institutions, policies, and efforts that prioritize innovation and capacity-building, which are of great significance in the context of technological revolution. Ferreira (2023) identifies three types of arguments showing that excessive inequality is harmful for growth and economic development. The first is people intrinsically care about fairness, as evidenced by behavioral experiments. High inequality can be perceived as unfair, affecting social cohesion and stability. The second argument relates to allocative efficiency: inequality, combined with market imperfections, can prevent efficient investment projects from being undertaken, thus hindering economic growth. This is because people with potential may not have the resources to invest in their education or business ventures. Finally, a third line of evidence relates to political institutions, as high inequality can lead to the capture of state institutions by a wealthy elite, who may then enact policies that serve their interests rather than those of the broader society. This can result in suboptimal policies that do not promote growth or development.

Even when income inequality has received increased attention in recent years and there is a growing acceptance that tackling inequality is crucial for the economy and political institutions, what we know about the level and trend of income inequality is still subject to debate. This is the consequence of insufficient data on the distribution of the different components of income and the lack of a conciliation among data sources. Fostering progress along the line of measurement is essential to develop a more complete understanding of the relationship between growth and inequality and to quantify the impact that different policies can have on the distribution of resources.

In addition, it should be kept in mind that socioeconomic inequalities extend beyond income and wealth. Inequality encompasses disparities in access to rights across various domains. These include means (such as income and wealth), opportunities (addressing discrimination), capacities (knowledge and skills), and participation in public decisions. Multiple mechanisms, rooted in gender, ethnicity, race, socioeconomic status, and life cycle stages, contribute to inequality. These mechanisms often reinforce each other, resulting in various forms of discrimination and disparities (ECLAC, 2024).

Upon the request of the 2024 Brazilian Presidency of the G20, the present report was prepared to address two central issues related to inequality in the distribution of income and wealth within the first priority of the G20 Framework Working Group (FWG), i.e. putting inequality at the forefront: macroeconomic and distributive implications associated with current global and domestic trends. Firstly, the report focuses on the issue of measurement and the need to make significant progress in generating more timely and complete information. The note follows with a summary of key policy actions that ECLAC has recommended and that can contribute to reducing income inequality, either directly or by tackling other types of socioeconomic inequalities.

I. Towards a more complete measurement of the distribution of income and wealth

A. Data sources to measure income distribution

Most income distribution statistics are obtained from household surveys, which ask respondents to report the income obtained from every possible source (employed and own-account labor, pensions and transfers, investments, etc.). Even if the availability of surveys differs considerably across countries, they are the main instrument used to analyze trends and levels of inequality around the world.

Income inequality statistics cannot easily be compared across countries. There are usually differences in the characteristics of the data sources (coverage, questionnaire, etc.), the choice of the welfare indicator (income or consumption) and unit of reference (per capita or equivalized), in the treatment of the data (for example, how to treat missing data) and in the use of different indices to describe inequality (Gini index, top decile share, etc.).

Alvaredo et al (2023) analyze a large number of income inequality statistics for Latin America for the past 75 years, to summarize what can be concluded with confidence about inequality despite the differences mentioned above. They find that when attention focuses on the four main harmonized series of household surveys for measures based on per capita income, the picture is fairly consistent.

There is consensus in the specialized literature that household surveys tend to underestimate income inequality, due to the lack of adequate information for very high-income earners. Household surveys are better suited to measuring labour income and transfers than income obtained from physical and financial assets (ECLAC, 2022).

Administrative records, in particular the income reported in tax declarations to national tax offices, are an additional source of information about the distribution of income of the population. Even if they only provide data for a subgroup of the population (those who declare income taxes), this source is better suited than surveys to capture very high incomes.

The use of tax data to examine inequality has a long tradition. As cited in World Inequality Lab (2024), Kuznets pioneered the utilization of tax data to quantify top income shares in 1953, while Atkinson and Harrison employed them to investigate wealth inequality in 1978. More recently, a large number of studies have emerged combining historical tax data with national accounts. Atkinson, Piketty and Saez (2011) offer an international historical perspective of the literature on top incomes distribution, which boomed since the 2000s.

Tax data as a source for information for the analysis of inequality poses its own challenges. Countries have differing tax legislation systems, which impact on how incomes are defined and declared, as well as in the definition of the statistical units to be considered. For example, there might be changes over time regarding the joint taxation of couples. In addition, there is tax avoidance and evasion, and taxpayers have incentives to understate their taxable incomes (Atkinson et al, 2011). Due to exemption thresholds, data may typically cover only a small fraction of the population. Also, this information refers to pre-tax incomes, thus excluding an important part of the resources that are available to households to meet their needs (WIL, 2024).

Analysis from detailed information from tax records and micro-data from household surveys has allowed researchers to measure the gap between both sources and explore how to reconcile them. For example, Burkhauser et al (2018) compare UK inequality estimates from tax data and household survey data, highlighting the underestimation of top incomes in surveys. They introduce a method to reconcile these estimates by adjusting survey data to better reflect tax data findings. The analysis reveals a greater rise in inequality from the mid-1990s to late 2000s than previously shown.

In general, the combination of household survey and tax data yields a more complete picture of inequality and generally result in higher levels of inequality than surveys alone, such as illustrated by De Rosa (2022) for Latin American countries. Nevertheless, despite accounting for tax-related adjustments, a significant and occasionally widening disparity persists between inequality studies based on microeconomic data and the System of National Accounts (SNA). These discrepancies are evident in income levels and growth rates, especially pronounced in developing nations. Notable references include Ravallion (2003), Deaton (2005), Bourguignon (2015), and Nolan et al. (2019) (WIL, 2024).

B. Income distribution measures consistent with national accounts

National accounts serve as a comprehensive framework for describing an economy, based on standardized concepts, definitions, classifications, and accounting rules. Along with other information, national accounts report the total income of the economy as well as the part that corresponds to households. This data source does not provide information on the distribution of income by itself, but applying the distribution obtained from microdata sources to national aggregates can result in national account consistent distributional data.

The idea of reconciling the measurement of income from household surveys and national accounts is not new. In the context of Latin America and the Caribbean, almost 40 years ago Altimir (1987) studied the gaps between the totals derived from both data sources and the existence of possible biases in the measurement of particular data sources. He suggested adjustment methods to the income reported in household surveys so that inequality measurements were consistent with the totals from national accounts.

More recently, different initiatives have embarked in a process of integrating the information on the distribution of income and wealth across different groups in society within the context of the framework of national accounts. This allows to go beyond aggregate growth figures and understand how economic gains are shared among different segments of the population. The consistency with traditional national accounts aggregates (GDP, national income, etc.) facilitates comparisons over time and across countries. In addition, distributional national accounts can be formulated for different concepts of income (for example, pre-tax and post-tax), which are useful to understand the impact of taxation and redistribution policies on inequality.

Among these initiatives, the two most notable, due to their global scope, are the Distributional National Accounts (DINA) initiative by World Inequality Lab (2024) and the OECD Expert Group on Disparities in a National Accounts framework (EG DNA) (OECD, 2024).

The methodology of Distributional National Accounts (DINA) was developed by the World Inequality Lab, composed by a team of academic researchers and hosted at the Paris School of Economics and the University of Berkeley, California. The aim of the DINA methodology is to provide annual estimates of the distribution of income and wealth using concepts that are consistent with the macroeconomic national accounts, which are disseminated through the World Inequality Database (initially created as the The World Top Incomes Database (WTID) in 2011).[1]

The Expert Group on Disparities in a National Accounts framework (EG DNA) was launched in 2011 by the OECD and Eurostat to develop methodology for the compilation of household distributional results on income, consumption and savings in line with national accounts totals. The group gathers experts from varios countries and international organizations, and it has developed harmonized guidelines and experimental estimations, summarized in a manual published in 2024 (OCDE, 2024).

Both initiatives, DINA and EG DNA, are closely connected. Both aim to compile annual estimates of income distribution using concepts consistent with national accounts, and they utilize data from income and wealth taxes, household income and wealth surveys. Nevertheless, these initiatives also differ in their methods and approaches. While DINA focuses on national income and allocates income from other domestic sectors to households, EG DNA restricts its concept of income to the household sector. Thus, it does not consider, for example, income and wealth retained in legally recognized entities such as investment funds. Another key difference is that EG DNA takes a macro-to-micro approach. It starts from various macroeconomic aggregates in national accounts and then seeks the best sources to distribute these aggregates among households in a country. In contrast, DINA starts from the micro level and works its way up to the macro level. This implies that the observation matrix on which the distributive analysis is based remains the same for DINA, with income adjustments made to match different macroeconomic aggregates. These conceptual and methodological differences can lead to divergent distributive results between the two projects.

Both methodologies yield important results regarding the magnitude and trend of income inequality and complement the figures that can be obtained based solely on surveys and tax records. Given the possible differences between them, it is important that both projects maintain transparency regarding their concepts and methodologies. This ensures that users can comprehend the primary reasons for any potential differences in their results (OECD, 2024).

C. Towards better statistics on income distribution

The estimation of distributional national accounts is not an endpoint, but rather a stage in a process of improving the availability and coordination among different necessary data sources to have a complete picture of the income distribution. Countries around the world face different challenges according to the stage they are in. Coordinated action within the G20 can incentivize countries to take the necessary actions to continue advancing along this process.

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[1] See https://wid.world/wid-world/.

- **Regular production of household surveys that measure income**. The most important information source for estimating income distribution are household surveys. Even though most of the G20 countries have a regular production of household surveys, this is not the case for the rest of the world. For countries that lack this basic instrument, this is the most important step towards producing indicators on income inequality that can be used to inform policy. The production of household surveys faces its own challenges in each country, such as declining response rates or budget limitations, and an international agenda has been proposed to strengthen these instruments (Inter-Secretariat Working Group on Household Surveys, 2022).

- **Availability of distributional data from tax and administrative records**. The use of tax records as a source to measure income distribution gained a lot of relevance following the work of Piketty, etc. Its main advantage is that it provides better information on top incomes that is not available in household surveys. Making this information available is essential to complement the income inequality estimations that come from surveys alone. Several countries have started to make this information in the form of aggregated tabulations. For example, when Brazil's Federal Tax Office released in 2015 for the first time detailed annual tabulations of the total number of declarants by ranges of total assessed income, this information could be used shortly after to produce new evidence on income distribution combining national accounts, surveys and fiscal data (see Morgan, 2017). Beyond improving the analysis, the publication of this data is an important step towards greater fiscal transparency and to promote studies on tax incidence and evasion, among other topics.

- **Availability of the household sector institutional account and production of distributional national accounts**. Even when the estimation of GDP and the underlying national accounts is quite widespread, some of the accompanying accounts for institutional sectors are not regularly produced. In the case of Latin America, 11 out of 20 countries have published household accounts, but only in 7 countries they are less than 5 years old. This instrument provides the total household income by source required to identify the non-measured gap in the surveys and tax records. To distribute the gap among households, different methodologies have been proposed, mainly the Distributional National Accounts (DINA) by World Inequality Lab (2024) and the Expert Group on Disparities in a National Accounts framework (EG DNA) (OECD, 2024).

- **Fully integrated data sources on income, consumption and wealth**. The production of distributional national accounts constitutes a very important step in the path to better statistics on income and wealth inequality. Nevertheless, these instruments still need to rely on assumptions to distribute the income gap between micro-level sources and national accounts. To overcome these restrictions, it would be desirable to have a single micro-level dataset of income distribution from household survey data, administrative data, and commercial data for the whole population. A recent report by US National Academies of Sciences, Engineering, and Medicine (2024) proposes a mechanism to create such dataset, with a joint distribution of income, consumption and wealth, through collaboration among the statistical agencies. This would require not only careful analytical work to integrate records but also a coordinating entity to solve administrative, legal, and technical challenges to integrate data from multiple federal entities. Despite its challenges, it provides a valuable horizon to which G20 countries can aspire to have a measurement of income distribution that is as complete and accurate as possible.

D. Conclusions and possible actions forward

This section summarizes the current stage of development of income inequality data sources and statistics. It highlights the need to improve the availability and timeliness of household surveys and national accounts, as well as increase the access to aggregated data from income tax records, to obtain a more comprehensive picture of the distribution of income. The integration of these data sources through the construction of "distributional national accounts" provides a useful way to generate complementary indicators of income distribution that overcome some of the limitations faced by household surveys. This work would provide better and more comprehensive information to conduct empirical studies on the relationship between income inequality, economic growth and other relevant variables.

In this context, the G20 can collaborate decisively to improve the global knowledge on the distribution of income and its consequences. Some suggestions are:

- Invest in data infrastructure and capacity building, supporting developing countries in advancing through the stages for a more adequate information system on income inequality.
- Promote transparency and accountability, advocating for strong ethical standards and data governance practices for administrative records and other data sources necessary for distributional national accounts.
- Lead by example, implementing national distributional accounts in the G20 countries.
- Support the use of results based on distributional national accounts in the international discussions on inequality.

It is worth noting that these actions contribute to implementation of the G20 Data Gaps Initiative (DGI-3), in particular to recommendation III.8 (Income, consumption, and savings distribution), which recognizes the need for statistics that allow policymakers to understand the distributional impacts of policy choice and the demand for timely and granular distributional data alongside aggregate estimates to understand who is benefiting from economic growth, and how inequality develops over time. The availability of this information is necessary to inform the development of policies that are targeted towards specific household groups, to assess the distributional impact of specific policies and events, and to foster inclusive growth.[2]

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[2] https://www.imf.org/en/News/Seminars/Conferences/DGI/g20-dgi-recommendations#rec3-8.

II. Levers to reduce inequality

This section summarizes some of the main policy recommendations of the UN Economic Commission for Latin America and the Caribbean to countries in the region to address the most critical areas where inequalities have been identified and to achieve greater economic growth and better living conditions.

A. Progressive taxation

Latin America and the Caribbean present relatively low revenue-raising capacity. In 2022, tax revenues in the region reached an average of 21.5% of GDP, compared to 34.0% of GDP for OECD countries (OECD et al, 2024). Public revenues have traditionally been unable to meet the demands for public spending, leading to persistent deficits and rising debt levels. Additionally, the fiscal systems, both on the revenue and expenditure sides, have not been capable of reversing the high levels of inequality in the region. Therefore, policy design should aim for a new fiscal pact that lays the foundations for a fiscal sustainability framework focused on increasing permanent revenues through a more progressive tax structure in order to finance expenditure requirements to improve the well-being of people, boost investment and advance towards environmental sustainability.

To move towards increasing tax revenues and improving the progressivity of tax structures, Latin American countries could consider the following tax policy options:

- **Reducing domestic tax evasion and avoidance**. In Latin America and the Caribbean, the revenue losses from tax evasion are staggering. ECLAC estimates that evasion of income tax and value added tax resulted in a loss of US$ 433 billion in 2023, equivalent to 6.7% of the region's GDP (ECLAC, 2024). Available studies suggest that income tax non-compliance is particularly serious, with many countries collecting less than half of the revenue that their systems should theoretically generate.
- **Evaluate and reorient tax expenditures**. Tax expenditures and other preferential tax treatments are widely used in the region. In 2021, the revenues foregone in Latin America due to the use of tax expenditures averaged 3.7% of GDP, equivalent to 19% of central government tax revenues (ECLAC, 2023a). However, there is little evidence about the effectiveness of tax expenditures in achieving their objectives. This is especially the case for

tax incentives for investment, which often target foreign direct investment by multinational enterprises. In the region, revenues foregone to promote investment average 1.4% of GDP (ECLAC-Oxfam 2019).

- **Adapt tax systems to face the challenges of a digitalized economy**. The rapid digitalization of the global and regional economy has created significant challenges for domestic tax administrations. While the G20/OECD Base Erosion and Profit Shifting (BEPS) initiative and more recently the Inclusive Framework for BEPS have made great strides, there is still room to strengthen and simplify international norms for the taxation of the digital economy. Especially for the taxation of income derived from sales in developing countries by multinational enterprises with no substantial physical presence.

- **Strengthening of direct taxation and developing a system for the taxation of high net-worth individuals**. Personal income taxation represents the primary tax gap between the region and OECD member states. In 2022, revenues from this tax averaged 2.0% of GDP in Latin America and the Caribbean, compared to 8.3% of GDP for OECD countries in 2021 (OECD, 2024). The weakness of personal income tax in the region can be attributed to structural shortcomings in its design. As a result, despite their relatively high degree of progressivity, these taxes have limited impact on income redistribution throughout Latin America and the Caribbean. In 2014, the reduction in the Gini coefficient brought about by personal income taxes ranged between 0.3% (Paraguay) and 5.9% (Mexico) and averaged 2.0% for 18 Latin American and Caribbean countries, as compared to 12.5% for the European Union nations (ECLAC, 2017).

  In this regard, it is imperative to leverage the role of personal income tax as an instrument with great potential to increase resources, while moving more decisively towards desirable redistribution of income based on equity criteria. Main areas of a comprehensive reform aimed at strengthening personal income tax in the countries of the region: (i) Review the statutory rates (level, quantity and breadth) and preferential treatments that lower effective tax rates; (ii) Strengthen the taxation of high-income and high-net-worth individuals; (iii) Achieve compatibility between different types of taxes; (iv) Evaluate equality-based adjustments to the tax base; (v) Inclusion of self-employed workers; (vi) Strengthen the tax administration and facilitate and simplify compliance; (vii) Base reform processes on broad consensus and incremental changes.

- **Analyze the implementation of carbon and environmental taxation**. Carbon taxes currently applied in Argentina, Chile, Colombia, Mexico and Uruguay tend to have a narrow tax base, low carbon prices and thus generate very low revenues ranging between 0.01% and 0.36% of GDP. To leverage the potential of carbon taxes, the price of carbon would need to be high, which could incur high economic and social costs. Dedicating the revenues collected to financing investment and transfers to vulnerable households could offset economic and social effects (ECLAC, 2024).

- **Build regional initiatives to support international tax cooperation efforts**. LAC countries, under the joint effort of Colombia, Brazil, and Chile, have created the Regional Platform for Tax Cooperation in Latin America and the Caribbean (PTLAC). ECLAC serves as the Technical Secretariat. The objective of this platform is to generate a mechanism through which LAC countries can discuss key cross-border tax issues, and to provide countries with a space to have technical exchanges on common tax issues that can lead to potential solutions. The role of regional efforts at the multilateral level, based on concrete policy objectives, will help improve international tax architecture and enable the conditions to create tax systems capable of financing development requirements of countries.

B. Productive development policies

Productive development policies, also known as industrial policies, aim to achieve higher levels of population well-being by creating new productive capacities, generating good jobs, or increasing productivity.

The increase in productive capacities is directly linked to economic growth. This increase can result from productive investment or greater labor participation. Policies supporting this goal include fiscal schemes to incentivize private investment, public infrastructure programs, public enterprises, foreign direct investment attraction policies, and policies facilitating the labor market inclusion of traditionally marginalized social segments.

Regarding the increase in productive capacity, a key element is the ability to grow without worsening the situation concerning planetary boundaries. Ideally, an increase in productive capacity not only avoids environmental harm but also helps reduce planetary risks. Productive development policies considering planetary boundaries are called sustainable productive development policies or green industrial policies. These include measures promoting structural shifts in production and employment towards lower environmental impact sectors, as well as measures within current economic activities. Such measures include programs incentivizing renewable energy use, recycling and circular economy, clean production, and eco-efficiency, including energy efficiency. Recycling and circular economy policies often involve significant local government participation due to their role in household waste collection and processing.

The increase in productivity is directly linked to the well-being of people and societies, derived from the conditions of the production process. Productivity increases can help reduce working hours while maintaining the same income level or increase income levels, enhancing people's consumption capacity. There is evidence of a negative correlation between average income and average working time across countries, where higher income levels elevate the importance of well-being derived from non-monetized goods. Additionally, there is a positive correlation between income and well-being, at least up to a certain income level. Most of the world’s population has substantial potential for well-being improvement through possible income increases and the subsequent rise in their capacity to consume products and services.

The generation of good jobs is significant for both monetary and non-monetary aspects. Monetarily, fair remuneration according to productivity and access to social security formalizing work are crucial. Non-monetary aspects include minimizing workplace risks and promoting well-being at work. Policies directly targeting the creation of good jobs are generally led by labor and employment ministries and involve inspecting labor conditions, active formalization policies (especially relevant in lower-income countries), training in workplace safety and mental health, collective wage bargaining policies, and labor intermediation and vocational guidance policies.

Productive development policies promoting productivity increases can cover a wide range of topics. Efforts aiming at productivity growth include innovation in products and processes, technological upgrades, better managerial skills development, entrepreneurship, policies regulating market power abuse, export incentives, market openness, cross-border knowledge dissemination, workforce training, technical education, university-business linkages, investment in infrastructure enabling process improvements, and access to public or private financing for businesses. These policies are implemented by national, intermediate, and local government levels, with local governments focusing on entrepreneurship, training, infrastructure, and business associations.

Of the three factors in productive development, productivity is most closely related to income inequality, as labor income is largely determined by labor productivity. Labor productivity, in turn, depends on the knowledge and techniques integrated into products or services by productive agents.

Income inequality can be reduced through various mechanisms, including progressive taxation, targeted fiscal spending, and widespread provision of public goods. Additionally, productive development policies can also reduce inequality by altering relative labor productivities before income distribution occurs.

Productivity inequality can be reduced either by lowering productivity in high-productivity sectors or by increasing it in low-productivity sectors. Since the former conflicts with overall income growth, the focus can be on boosting productivity in lower-productivity sectors. Two main policy approaches exist for this. The first is strengthening linkages between low-productivity and high-productivity sectors, so the growth of the latter pulls the former. Policies supporting supplier development, cluster initiatives, business networks, value chains, and general associations contribute to this goal. The second approach is directly increasing productivity in low-productivity sectors, independent of benefits from linkages with high-productivity sectors. Here, education, especially technically-oriented education, is crucial. Also included are work formalization policies (especially relevant in lower-income countries and territories), entrepreneurship, adopting better production techniques (often adapted for small-scale production), and associating similar productivity level agents. Local government productive development policies are particularly relevant here due to their greater capacity to support lower-productivity, often informal and low-skilled, productive agents.

C. Gender inequality

In Latin America and the Caribbean, one in four women (25.3%) does not have their own income, almost three times more than men (9.7%). Among women in the first quintile, almost 40% do not receive any type of monetary income of their own (ECLAC and UNW 2024). Despite having more years of study on average, women still have lower rates of participation in the labor market, in politics, science and technology, among other fields (ECLAC 2022a). Half of the women are out of the labor market, in contrast to the participation rate of men which is close to 75% (ECLAC 2023c). The root of this challenge lies in the traditional and unjust sexual division of labor and the disproportionate share of unpaid care work shouldered by women. Time use measurements in the region reveal that women spend almost three times as much time on unpaid domestic and care work as men. Young women, in particular, experience higher unemployment rates and job insecurity, especially when they have children, indicating that this trend is not reversing (CEPAL & OIT 2024). Poverty disproportionately affects women, with three out of ten women in poverty and one out of ten in extreme poverty. In 2022, 3 out of 10 women in Latin America were under the poverty line, a situation that is exacerbated in young, indigenous, Afro-descendant, and rural women. For every 100 men in poverty, there are 118 women in the same situation, and 120 women for every man in extreme poverty (ECLAC and UNW 2024). Promoting equality with an intersectional perspective is not only urgent but essential.

The world is facing multiple crises that threaten to deepen historical gaps in equality, including environmental challenges and low growth trends in a context of structural inequalities that disproportionately impacts women. The demand for care work is increasing due to population aging, epidemiological changes, and climate change effects. In this context, gradual changes are insufficient; a structural transformation towards a care society is necessary for a just world and a sustainable planet (ECLAC 2022b).

Investing in care is vital as it underpins life sustenance and societal functioning. It is also a key sector for job creation, improving family income, and boosting the economy. The care economy, encompassing care services, health, education, and paid domestic work, can propel the creation of a new, more equitable, and sustainable development pattern (ECLAC, 2022c). These sectors aim to ensure healthy lives and promote well-being throughout the life cycle, as established in the 2030 Agenda for Sustainable Development (Goals 3, 4, 5, 8, and 10, among others). Care policies and systems can impact the labor market by creating formal jobs and promoting formalization.

The job creation potential of the care sector is considerable. Estimates in eight OECD countries show that the employment generated by investing in care could be up to three times larger than that generated by investing in construction (De Henau and Himmelweit, 2021). Estimates for Mexico indicate that a universal, free childcare system would require additional spending equivalent to 1.2% of GDP and would boost overall employment by 3.9% and GDP by 1.7%, while increasing tax revenues by 0.3% of GDP (UNW & ECLAC 2020). ECLAC estimates that closing the gender-related labor market participation gap could boost the region's GDP by 6.9% between 2016 and 2030 (ECLAC 2022b).

A society that justly reorganizes care represents both an ethical advancement and an economically sound strategy. Strengthening the care sector and recognizing, redistributing, and reducing unpaid work is crucial for achieving gender equality, societal well-being, and economic growth (ECLAC 2022b, 2023c). Estimates of the economic contribution of unpaid domestic and care work to the Latin American economy vary between 15.9% and 27.6% of GDP, with 74.5% of that contribution being made by women (ECLAC 2022b).

Comprehensive care policies should be implemented to enhance social protection systems, addressing diverse needs across life stages, socioeconomic statuses, and geographic locations. An intersectoral approach involving various ministries and levels of government; with crucial coordination across sectors such as health, education, labor, and social security is essential for efficient management. These policies should aim to reduce and redistribute care responsibilities more evenly and ensure quality, regulated care services to alleviate the burden on women and enable their participation in the labor market. Financing these policies requires a mix of instruments, ensuring resources are adequate, non-transferable, and sustainable (ECLAC 2022b, 2022d; ECLAC & UNW 2022a, 2022b).

Fiscal policies supporting a care society should aim for a progressive system that supports social investment in gender equality. This involves addressing issues like low tax collection, tax evasion, and regressive tax structures. Public spending should include budgets with a gender perspective, and implement financing mechanisms to ensure sufficient, non-transferable, and sustainable resources to reverse gender inequalities, including care systems (ECLAC 2022b, 2022d; ECLAC & UNW 2022b).

Labor market policies should adapt to the needs of people, promoting gender co-responsibility and addressing the conditions of care workers. Policies should support comprehensive unemployment insurance, regulate working hours, and promote gender equality in various sectors (ECLAC 2023c, 2022b, 2022d). The digital economy presents both opportunities and challenges for gender equality, necessitating inclusive digitalization efforts to close the digital gender gap. Addressing environmental degradation and climate change requires a just and gender-equal transition. Investing in the care economy can be a key driver of sustainable job creation. Financial flows and policies should promote gender equality in response to environmental challenges (ECLAC 2022b, 2022d).

Removing gender inequality constraints involves addressing gaps between care needs and service provision, challenging gender stereotypes, and promoting a culture of rights and equality. Strengthening care policies, ensuring women's income and access to services, and promoting gender-sensitive social protection are crucial steps (ECLAC 2022b, 2022d). Transitioning to a care society requires a multidimensional approach that addresses the structural constraints of gender inequality, promotes sustainable and inclusive growth, redistributes work and resources, and fosters a culture of rights and equality.

D. Access to social protection

According to the formulation of the Latin American and Caribbean Regional Agenda for Inclusive Social Development, social protection aims to universally guarantee access to adequate income levels, basic social services and housing, and labour inclusion policies and decent work (ECLAC, 2020 and 2021a). In doing so, they lay the foundations for the eradication of poverty and the sustained reduction of inequalities that are expressed in access to the conditions that make an adequate standard of living and the development of capabilities viable. Moreover, by providing a set of certainties and welfare guarantees in an environment of high uncertainty and "permacrisis" (Brown, El-Erian and Spence, 2023; Salazar-Xirinachs, 2024), these policies contribute decisively to increasing the levels of social cohesion and inclusion, generating redistribution mechanisms in the exposure to risks and a common floor of protection in a framework of profound transformations (Robles and Holz, 2024). Given the above, it can be argued that social protection should be at the center of strategies for inclusive social development and the reduction of inequalities.

However, Latin America and the Caribbean are facing a historical situation marked by high gaps and inequalities in access to social protection (ECLAC, 2020 and 2021b). This is linked to the high levels of labour informality and, therefore, to the unfulfilled promise of achieving universal social protection through formal employment (ECLAC, 2006). This context is becoming more complex as a result of a reconfiguration in the structure of social risks that both strains and deepens the gaps and inequalities linked to social protection systems (Robles and Holz, 2024).

Structural deficits in health systems that cause obstacles of coordination, access, inefficiency, and have an impact on health outcomes, exacerbating inequalities and hindering people's right to health, contribute to this problem. The high segmentation of health subsystems, which divides the population into different impermeable and disconnected subsystems according to people's ability to pay and their affiliation to social security, means that access to and quality of health care is unequal, with solidarity mechanisms that contribute to reducing inequalities in health being absent or very weak. In addition, the fragmentation of the provision of health services increases obstacles to access healthcare and generates lack of coordination and inefficiency. These structural weaknesses, alongside a chronic situation of underfinancing, interact with the social determinants of health and reproduce social inequalities that characterize each country. Thus, deep gaps can be observed both in terms of access to health services and care, as well as in health outcomes between and within the countries of Latin America and the Caribbean. Key epidemiological indicators such as life expectancy, maternal mortality and infant mortality are very unequal among the countries of the region when compared according to national average years of schooling, levels of labor informality and extreme poverty rate (Marinho, Dahuabe and Arenas de Mesa, 2023).

Social protection systems, including social health protection, constitute a fundamental area for the construction of the welfare state and the achievement of inclusive social development. Closing gaps in the coverage and sufficiency of these systems has a direct impact on the reduction of inequality levels, including gender inequalities, making it possible, from the beginning of the life cycle, to have income protection in households and to develop the human capabilities required to achieve adequate levels of well-being. This, in turn, has a direct effect on the possibility of achieving increasing levels of social cohesion and social mobility. The expansion of social protection systems includes access to quality education and lifelong learning, as well as progress in access, coverage and quality health policies. On the other hand, the expansion of social protection requires countries to strengthen the labour inclusion component of these systems, thereby promoting employment and decent work, contributing to sustainable and inclusive growth, and increased productivity.

In order to consolidate strengthened social protection systems, countries should focus on at least five strategic lines:

- **Close gaps in coverage, sufficiency and quality of entitlements, as well as to expand the range of policies that make up the social protection systems in each country, with gradual planning adjusted to each country's conditions**. This also entails thinking about expanding the coverage of entitlements and policies that become strategic in a context of accelerated transformations, including those generated in the world of work and in the face of the climate crisis. In this context, for example, it becomes urgent to rethink the role of labour inclusion and continuing education policies as part of the countries' social protection systems and in view of the transition processes underway (Robles and Holz, 2024).

- **Guarantee the financial sustainability of public investment in social protection in order to meet current and future challenges and commitments in terms of the expansion of its instruments (Arenas de Mesa, 2024)**. It is possible to move towards a standard of public investment in non-contributory social protection that allows sustaining the necessary income protection policies in this area, with a special focus on the extremes of the life cycle and the eradication of poverty. ECLAC (2023b) has estimated that, in 2021, the household income gap to reach the extreme poverty line in 14 Latin American countries reached, on average, 0.24% of GDP, and in the case of the poverty gap, 1.53% of GDP. According to these estimates, the effort required for the population to reach a level equal to or above the extreme poverty line by 2030 would be equivalent to an average annual increase of 0.1% of GDP in public spending on monetary transfers in the vast majority of countries of this region.

- **Consolidate universal, comprehensive, sustainable and resilient pension and health systems**. In the case of pension systems, progress must be made in closing gaps and reducing inequalities, including gender inequalities, in terms of coverage and sufficiency levels, with an increasing articulation of their contributory and non-contributory systems and a logic of solidarity and sustainability in their design (Arenas de Mesa, Robles and Vila, 2024). In the case of health systems, these must ensure universal access and coverage to quality and timely health services, through solidarity and sustainable financing mechanisms, independent of people's ability to pay, and with a robust and resilient institutional framework capable of dealing with crises of different natures, is a prerequisite for inclusive social development. Investment in the Primary Health Care (PHC) strategy has been identified as a strategic action to achieve universal health (PAHO, 2019) and, therefore, to move towards inclusive social development. On the one hand, PHC is characterized by being cost-effective in the delivery of universal care and reduction of inequalities. It considers an approach that includes not only treatment and rehabilitation, but also health promotion and disease prevention, which allows addressing health needs in an early and timely manner, creating spaces for articulation with other sectors and among the different levels of health care. This makes it possible to reduce the problems of fragmentation of services and segmentation of demand in the region's health systems. Thus, the PHC 30-30-30 Pact (PAHO, 2019) agrees to reduce barriers to access to health by 30%, to allocate 30% of the total public expenditure on health to PHC, an expenditure that should correspond to 6% of the total GDP, according to WHO recommendations with the purpose of moving towards universal health by 2030. In addition, PHC has a direct impact on the unequal distribution of the social determinants of health, making it a privileged space due to its potential for articulation with other components of social protection. Policies such as the provision of food and proper nutrition, financial protection and reduction of out-of-pocket expenses, access to sexual and reproductive health that contributes to gender equality, the provision of essential medicines, and the monitoring of risks of rights violations (Hone, Macinko and Millett, 2018; PAHO, 2019), allow addressing health needs and, at the same time, tackling multidimensional inequalities in an effective, efficient and timely manner (Marinho, Dahuabe and Arenas de Mesa, 2023).

- **Strengthen the institutional framework of social protection, considering the synergic and multidimensional nature of the efforts required, which implies generating more efficient and coordinated systemic responses**. This requires higher levels of intersectoral articulation, greater steering capacity on the part of the responsible institutions and solid social information systems that allow for informed and evidence-based decision making. In this regard, it is essential to make progress in the consolidation of social registries with broad coverage that will enable a timely, rapid and relevant response in a scenario of recurrent crises. On the other hand, it is urgent to strengthen the links between non-contributory policies, labour inclusion policies and guaranteed access to quality social services, ensuring an effective link between the expansion of coverage and the improvement of the quality of public social services (Robles and Holz, 2024).

- **Reach social dialogue processes for the construction of broad agreements that reflect shared commitments and goals to achieve truly universal social protection systems (Salazar-Xirinachs, 2024)**. This includes collectively agreeing on mechanisms that can guarantee effective income security throughout the life cycle, with special attention to the eradication of poverty in childhood and old age. Such dialogue will also make it possible to consolidate an agenda of strategic interventions that can reduce current levels of inequality, including gender inequalities and inequalities that originate in early childhood, where the synergic action of early childhood care and attention policies (Santos Garcia, 2024) and family benefits can play a key role.

E. Active labour market policies: challenges for reducing labour informality and inequality

The Latin American and Caribbean region faces challenges in multiple dimensions of development (Salazar-Xirinachs and Llinás, 2024). One of the most evident is that of the labour market, characterized by a very heterogeneous productive structure, with little generation of productive employment, a high unemployment rate and a clear market segmentation, which is reflected in the fact that almost half of the employment is informal and, therefore, without contributory access to social security (ECLAC, 2023c; Arenas de Mesa and Espejo, 2023; Espejo, 2022). This delicate situation is superimposed on the already existing tensions related to major technological transformations and various environmental, demographic and geopolitical trends that exacerbate historical gaps and whose cumulative effects have an unprecedented impact on social inequality (ECLAC, 2022; ECLAC, 2023c).

The characteristics of the labour market determine whether it is a source of inequalities or, on the contrary, whether it contributes to reducing the deep gaps that mark the region. In order to strengthen the role of the labour market in reducing inequalities, it is not enough to consolidate broad levels of employment; it is also necessary to move towards higher levels of labour inclusion, i.e., towards employment levels under decent working conditions. For ECLAC, this is an objective of inclusive social development that seeks to ensure that all members of the labour force have access to productive jobs that ensure adequate levels of remuneration and social protection coverage (ECLAC, 2023c).

Informality is a structural characteristic of the labour markets in Latin America and the Caribbean. ECLAC estimates, based on employment surveys in eight countries in the region, show that 47.8% of workers were in this situation in the third quarter of 2023. In the region, the phenomenon of informality is crossed by the structural axes of social inequality, with significant age, territorial, gender and socioeconomic inequalities. The rate of informal employment is higher among the young population (51.6%), the population over 65 years of age (71.7%) and is concentrated mostly in rural areas (69.8%). Although there are no significant differences between men and women (a difference of about one percentage point), women are overrepresented in the most vulnerable jobs in the informal economy, such as domestic work, auxiliary family jobs or jobs on digital platforms that provide services in private homes (ECLAC, 2023c). Finally, there is a higher proportion of informally employed in the first income quintiles, where informal workers are four times more likely than formal workers to belong to low-income households (ECLAC, 2023c).

The new non-conventional or atypical forms of employment, related to changes in the labour market and current technological transformations, translate into new challenges for reducing informality and inequality that hinder labour inclusion. An important part of this type of employment is characterized by lower relative levels of remuneration, variable income and working hours and high levels of social unprotection associated with regulatory deficits (Robles, Tanenbaum and Jacas, 2023). In this sense, Abramo (2021) argues that, in Latin America, the expansion of atypical forms of employment poses even more complex challenges than in more developed countries. This is due to the marked informality and accentuated structural inequalities in labour markets, with low levels of social protection coverage, gaps in access to decent working conditions and deficits in areas such as labour rights, union organization and collective bargaining. Given this situation, it is essential to ensure that labour policies seek greater coordination with social protection systems to address these new risks, thus helping to reverse the increased precariousness of this type of work (ECLAC, 2023c).

Employment policies are part of the economic and social policies that make up a country's productive development strategy and plan. In turn, labour market policies (LMP) refer to instruments and programs through which the public sector intervenes directly in people's unemployment problems, their insertion in the labour market and the mitigation of the effects in terms of citizens' loss of income. Among the most significant LMPs in the region are active labour market policies (ALMPs). These policies tend to focus on increasing employment opportunities, improving labour income, raising the quality of jobs in terms of formality, hours and duration, as well as promoting the development and updating of workers' skills. In the Latin American and Caribbean region, countries have made progress in the implementation of these policies in various areas of intervention of labour inclusion programs. On the one hand, there are those programs focused on improving the labour supply and, on the other, those aimed at expanding the demand for labour in the labour market. Situated between these two dimensions are labour intermediation policies aimed precisely at connecting labour supply and demand.

International literature provides a wide range of evidence on the impact of ALMPs. Meta-analyses reviewed by Espejo et al. (2023), Abramo, Cecchini and Morales (2019), and Escudero et al. (2018) show significant positive effects of labour inclusion on various indicators of labour market access. However, the regional experience also shows a disparate reality in terms of guaranteed access to social protection systems through the design of labour inclusion policies and on the promotion of formalization. A review of the labour inclusion programs identified in Latin American and Caribbean countries shows that only 24 programs in 11 countries contemplate access to social protection.

Although the promotion of self-employment may offer a route to labour inclusion in the short term, it does not always ensure sustainable income and adequate working conditions. These programs should consider continuous accompaniment that allows the generation of competencies and experiences of the targeted individuals (Abramo, Cecchini and Morales, 2019). It is important to promote the transition of informal workers to labour formality. Formalization through labour inclusion policies not only increases social protection for workers, but also contributes to reducing social inequality and advancing inclusive social development and sustainable growth. Therefore, to advance the goal of reducing inequality in the region, active labour inclusion policies must be closely linked to social protection systems. This implies designing measures that not only facilitate labour market insertion, but also provide benefits to reduce risks in the event of unemployment, illness or similar situations, with special emphasis on reducing the gaps that prevent the construction of less unequal and more cohesive societies.

High levels of inequality and low social mobility and cohesion constitute a structural challenge of the region's development models (Salazar-Xirinachs, 2024). The current organization of the world of work, through the distribution of labour income, labour informality and the processes of exclusion and inclusion that underpin the functioning of its markets, contributes to reproducing and even exacerbating these challenges. In order to activate the role of the labour market in reducing inequalities, it is necessary to address not only the barriers to access to the labour market, but also those that limit the participation of workers in productive jobs and decent working conditions. The region needs to advance in the design, expansion and articulation of inclusive labour policies, specially, active labour policies and link them with social protection systems, with a special focus on the most vulnerable populations, strengthening their institutional framework and guaranteeing their financial sustainability.

The economic slowdown and the global crisis have had a significant impact on Latin America and Caribbean labour markets, among other consequences. In this context, labour policies acquire importance as tools for economic reactivation and, especially, for promoting labour inclusion. Financial sustainability is a central requirement for a social and labour institutional framework that is up to the challenges of moving towards inclusive social development. However, it is a necessary but not sufficient condition to ensure the sustainability of labour policies and the reduction of inequalities. This also requires that labour policies comply with the dimensions of coverage and sufficiency of benefits (Arenas de Mesa, 2024). In other words, countries need to invest more and sustainably in labour policies in order to reduce labour informality and inequalities in access to decent work, two structural phenomena that hinder inclusive social development and, therefore, the sustainable development of countries.

F. Role of education as a promoter of social mobility

Education can act both as a mechanism for mitigating and reproducing the inequalities present in a society. The more closely it is aligned with the demands of the labour market, the more education can expand the opportunities for people from the most vulnerable backgrounds to access jobs under decent working conditions, thus contributing to higher levels of social and labour inclusion, and to the achievement of other development objectives, such as poverty reduction, increased productivity and greater economic growth. Education is an investment that increases labour income and worker productivity, and the data are clear in showing that the higher the level of education, the greater the economic returns on such investment (Huepe, 2024).

One of the main structural gaps in Latin America and the Caribbean is precisely the weakness of education and vocational training systems. The potential of education as a device for promoting social mobility can be undermined if teaching and learning processes, as well as educational returns in the labour market, reproduce social inequalities. In other words, if access to quality education and educational returns are biased towards certain groups in society, social mobility may be hindered, perpetuating intergenerational inequality. The expansion of educational coverage during the last decades has been accompanied by a greater segmentation of students into educational trajectories of different quality (Acosta, 2022). People from more privileged environments are not only more likely to be effectively involved in learning processes and have higher access and completion rates at different educational levels (ECLAC, 2022), but also have access to establishments that offer higher quality education, obtain better learning outcomes and develop educational trajectories with better income prospects (OECD, 2023; UNESCO, 2021). These inequalities undermine the role of education in achieving more cohesive societies: if education is segmented according to the socioeconomic conditions of the households of origin, the educational return will reproduce these inequalities.

To strengthen education as a mechanism for promoting social mobility and reducing inequalities, an approach is required throughout the life cycle, from childhood to adulthood, focusing on the development of the skills and knowledge needed to successfully perform in an increasingly uncertain and changing world. Effective education systems and broad access to vocational training are part of the major transformations needed to move towards an inclusive social development.

On this path, ECLAC (2022) recommends advancing in the expansion of quality early childhood education coverage. The first bases of educational inequalities begin to develop during the first years of life and, in this sense, greater investment during this stage of the life cycle constitutes a central axis of the public policy agenda to reduce inequality. Early education has long-term impacts on the cognitive development of individuals (Heckman and Masterov, 2007), increasing the returns to future educational investments, and positively affecting labour performance and later income in adulthood (Schweinhart, 2004 in Rossel, 2023). In line with the progressive universalism approach, UNICEF (2019) recommends guaranteeing at least one year of quality pre-primary education to all girls and boys, and gradually increasing the number of years according to the possibilities and contexts of each country; also highlighting the need to ensure the financial sustainability of educational investment at this stage of life, and direct at least 10% of the education budget to early childhood development and early childhood education.

Considering that secondary education constitutes a minimum ground in Latin America and the Caribbean for inclusive social development and to promote labour inclusion, it is necessary to accelerate progress toward universal access and completion with an inclusive perspective (ECLAC, 2022). Although the diversification of the educational offer has made it possible to expand the coverage of this educational level in historically excluded populations, this expansion has gone hand in hand with processes of segmentation of students into educational tracks that offer different quality reproducing the structural inequalities of the region and that do not always develop the competencies needed to fully participate in society (ECLAC, 2022). Thus, among other measures, it is necessary to support transitions between different educational levels (from primary to lower secondary, and from this level to upper secondary), since they represent turning points at which many students truncate their educational trajectories. To this end, Acosta (2022) recommends eliminating barriers to access to education (entrance exams and financial costs for materials, uniforms, transportation, among others), postponing specialization decisions to the last years of secondary school, hiring professionals to provide guidance and support to students (tutors, counselors, among others) and implementing information systems to monitor students´ trajectories and dropout risk.

Completion of secondary education is the most important factor for improving students' access to higher education, which is the level with the highest economic returns and is, therefore, a necessary condition for advancing towards greater social mobility. However, it is not a sufficient condition in itself: in order to guarantee higher levels of inclusion in higher education, it is also necessary to implement targeted strategies or affirmative action to close the gaps in access and completion according to socioeconomic level, gender, territory and ethnic-racial status. In particular, in terms of gender inequality, together with advancing towards policies of social co-responsibility for care, it is essential to implement measures aimed at modifying cultural stereotypes that encourage the underrepresentation of women in careers with greater future demand and higher salaries, such as those linked to science, technology, engineering and mathematics (STEM) (ECLAC, 2022; Valenzuela and Yáñez, 2022).

At the same time, the expansion of the coverage of both technical and professional higher education must be accompanied by efforts to ensure minimum quality standards that foster the development of those cognitive, socioemotional and digital competencies that will allow them to build more productive and higher income labour trajectories (Valenzuela and Yáñez, 2022). In the current context of uncertainty and accelerated changes, both young people and adults require continuous training to update their skills (upskilling) or acquire completely new ones (reskilling) to respond to the requirements of constantly changing labour markets. Thus, an education that aims to foster social mobility and reduce structural inequalities in the countries of the region does not end with obtaining a higher education certificate, but rather provides learning opportunities throughout the life cycle (ECLAC/OEI, 2020).

In this context, short-term technical programs can be attractive alternatives to ease education to labour transitions. In general, these programs have a lower cost and can be articulated with secondary vocational training programs and with other consecutive programs of greater complexity, ensuring continuous training that is aligned with the demands of the labour market. For this, technical-professional training requires greater articulation between education and the different actors in the productive sectors, in order to jointly identify and anticipate the knowledge and skills requirements to be developed, and to implement mechanisms for certifying skills, and for evaluating and monitoring programs (Valenzuela and Yáñez, 2022).

In addition to greater articulation between the education and productive sectors, placing education at the center of a long-term development strategy also implies articulating education policies with policies in other areas of well-being, such as health, care, social protection, transportation and youth policies, among others, in order to ensure the necessary conditions for people to effectively engage in the learning processes, and to better transition from education to the labour market (ECLAC, 2022; Abramo et al., 2021). This multidisciplinary articulation is replicated in the governmental and institutional dimension: efforts should continue to articulate the ministries of education with the ministries of social affairs, labour and economy, among others.

In sum, to activate the role of education as a promoter of social mobility, the Ministries of Education face the challenge of strengthening their capacities to break institutional inertia and position education at the center of a development strategy aimed at addressing the dual challenge of low growth and high inequality in the region of Latin America and the Caribbean. In particular, ministries need to have the vision and leadership to convene a broad group of public and private actors and reach a political, social and fiscal agreement that recognizes and strengthens the role of education for inclusive social development, a fundamental basis for sustainable development. Specifically, a development strategy is required that positions education as a fundamental sector in this path, and that has the financial sustainability to implement stable educational policies while ensuring greater efficiency and equity in the use of these resources.

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Addressing inequality fosters an enabling environment for innovation and capacity-building amid technological advancements, leading to economic growth and the strengthening of political institutions.

Despite the increased focus on income inequality in recent years, its measurement remains a topic of discussion. This document highlights the need to improve the availability and timeliness of household surveys, national accounts and income tax records for a more complete picture of income distribution. Integrating these data sources through the construction of "distributional national accounts" provides a useful method for generating complementary indicators of income distribution. Advancing measurement methods is crucial for gaining a clearer understanding of the relationship between growth and inequality and for assessing the impact of various policies on resource distribution.

Furthermore, socioeconomic inequalities extend beyond income and wealth, encompassing disparities in access to opportunities, capacities and participation in public decision-making. The report highlights key policy recommendations from the Economic Commission for Latin America and the Caribbean (ECLAC) to reduce income inequality, either directly or by addressing other forms of socioeconomic disparities. These policy actions include progressive taxation, productive development initiatives, addressing gender inequality, improving access to social protection, reducing labor informality and promoting education as a means of social mobility.

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