



Research on Economic Inequality and Dilemmas of Developing Countries from a Macroeconomic Perspective - A Case Study of Latin America

Junlan Zhang

Department of finance, Beijing Institute of Finance and Technology, Beijing, 101118,
China

zhangjunlan51@gmail.com

Abstract. In the context of the profound evolution of the global situation, the issue of income distribution has become increasingly prominent, and the development process of developing countries has always attracted much attention. The problem of economic inequality seems to be a complex puzzle among them. From a macroeconomic perspective, economic inequality is not only related to the fairness of income distribution, but also deeply involves the sustainability of economic growth, social harmony and stability, and the degree of sharing of development achievements. Latin America, as a typical region with a concentration of developing countries and long-standing prominent economic inequality, its experiences of fiscal challenges, economic fluctuations and blocked social development provide a highly valuable sample for studying the relationship between economic inequality and the dilemmas of developing countries. This article studies the persistent problem of inequality in Latin America from the colonial era to the present, the predicament intertwined with its policy systems, industries, marginal issues, that is, the common difficulties faced by developing countries in the pursuit of development. Exploring the impact and solutions of economic inequality in this region can not only find a way out for Latin America's development, but also provide reference for other developing countries, help understand how economic inequality can break through development dilemmas from a macroeconomic perspective, and contribute to global poverty reduction and development goals.

Keywords: Economic Inequality, Latin America, Development Dilemma.

1 Introduction

Economic inequality has become a major global challenge, exerting a profound impact on social stability, economic growth and political dynamics of various countries. In recent decades, although many regions have made progress in poverty reduction, the gap between the rich and the poor remains a huge problem in the current era. Latin America, as a region with long-term high economic inequality, has always been plagued by this problem in its social structure and development model. Despite the region achieving significant economic growth in specific periods, deep-seated gaps in income

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distribution, access to educational resources, medical security and economic opportunities have not been eliminated. These inequalities not only hinder sustainable development, but also exacerbate social unrest and political polarization, laying huge hidden dangers for long-term prosperity.

This article focuses on the manifestations, causes and impacts of economic inequality in Latin America, and combines data to analyze the deep-seated causes, multi-dimensional manifestations of economic inequality in Latin America and its irrationality in the developing structure. Specifically, the research will explore how historical factors, structural economic policies and political dynamics lead to imbalanced resource allocation, and analyze the interaction between economic inequality and political stability, economic growth and social cohesion. Secondly, it will deeply analyze the multiple causes behind it, such as colonial legacies and unbalanced industrial structures, and comprehensively evaluate its impact on social stability and economic development. On the other hand, through the integration of multi-dimensional factor analysis, it can provide reference for Latin American countries to formulate policies to alleviate inequality, and its experiences and lessons are also of reference significance to other developing countries, helping to promote global equitable development goals.

2 Literature Review

2.1 Macroeconomic Theories of Economic Inequality

Wallerstein's world systems theory depicts the global economy as a hierarchical "core - semi-periphery - periphery" system. In this system, core countries occupy a dominant position in the global economic order by virtue of advanced technology, strong financial strength and robust industrial support. For example, developed countries in Europe and America take the leading position in high-end technology industries and financial services, and thus enjoy the largest share of benefit distribution rights in formulating industry standards and trade rules globally. Semi-peripheral countries are in an intermediate position, with some characteristics of both core and peripheral countries, and their economic structures are relatively diverse, having a certain industrial foundation and technical capabilities, but relying on core countries in some key areas, such as some Eastern European countries and newly industrialized countries. Peripheral countries have a single economic structure, mainly exporting primary products such as raw materials and agricultural products, with backward industrial development and low technical levels, heavily dependent on the markets, capital and technology of core countries, and in a dominated and exploited position in economic exchanges.

Latin America has long been in a peripheral position in this global economic hierarchical system. From a historical perspective, Latin America has been under the colonial rule of European countries since the 16th century. Colonizers established large manorial systems and plantation economies in the region, forcing local laborers to engage in the cultivation of a single crop or mineral mining to meet the demand for raw materials in European markets. This economic model led to a serious distortion of Latin America's economic structure, making it unable to independently develop a diversified industry. For example, Brazil has long relied on coffee cultivation and export as its economic

pillar, while Mexico is heavily dependent on the export of minerals such as silver. After independence, Latin American countries, although freed from political colonial rule, still failed to get rid of economic dependence on the outside world. In the 20th century, the global economic order dominated by European and American countries was further strengthened, and Latin American countries still served as suppliers of raw materials in the international division of labor. In order to obtain advanced technology, Latin American countries had to continuously export low-priced primary products and import high-priced technical products. In this unequal trade relationship, wealth continuously flows from Latin America to core countries, widening the gap between the rich and the poor within Latin American countries, and further causing Latin America to remain in a peripheral position in the global economic "core - semi-periphery - periphery" hierarchical system, making it difficult to achieve sustainable economic development and thus exacerbating domestic economic inequality.

2.2 Progress in Empirical Research on Inequality in Latin America

Historical Roots. Why pay special attention to Latin America? Studies have shown that the region has been facing fiscal challenges for many years, and many countries in the region are struggling with high levels of public debt, persistent fiscal deficits, economic instability, and large internal economic inequality gaps, which pose obstacles to sustainable economic growth and social development [1].

Economic inequality in Latin America can be traced back to the 19th century, when it was found to be one of the regions with the most unfair income distribution in the world. After gaining independence from the colonial rule of European countries such as Spain and Portugal, the domestic economy faced many challenges. The problem of large land ownership left over from the colonial period in Latin America has become an important root cause of subsequent economic inequality. Studies have shown that since the independence of Latin America, the land distribution has not changed fundamentally, and the large landlord class and others continue to control a large amount of land, while most families have very little cultivable land. This phenomenon has led to the differentiation of production technologies, restricted the development of the bottom layer, solidified the interest pattern, and deepened the dual economic structure, making it difficult for vulnerable groups to obtain fair development opportunities. Problems such as unemployment and unbalanced industrialization are intertwined, continuously exacerbating economic inequality [2].

Economic Structure. From the industrialization in the early 20th century to the economic structural reform of deindustrialization in the 1990s, Latin America not only failed to improve the situation of a single industrial structure and unbalanced industrial system, but also increased its dependence on primary export products, such as agricultural products and mineral products. In addition, the main source of funds is debt, leading to a slow process of industrialization [2]. Secondly, while industrial development is backward, there is also a certain lag in manufacturing. Studies have mentioned that in terms of industrial structure, Latin American manufacturing has shifted to non-traded goods and resource processing industries. Most new production facilities are "price takers" with weak bargaining power and low profits, and are impacted by fluctuations in

international commodity prices; labor-intensive consumer goods industries are difficult to compete with Asia, and R&D-intensive industries cannot keep up, widening the gap with the world's frontier, resulting in backward development of related industries. These lags have put Latin American manufacturing at a disadvantage in international competition, which has further slowed down economic growth in Latin America where most industries are industrial [3].

Policy Mechanisms. Since the 19th century, most countries in Latin America have mainly adopted neoliberal policies, which have been controversial in recent decades [4]. In terms of tax policies, the tax system structure in Latin America is irrational. Taking Chile, Brazil and Argentina as examples, these countries, in the middle-income stage, have a tax system structure dominated by goods and services taxes and supplemented by income taxes. Goods and services taxes are regressive, and low-income groups account for a relatively high proportion of consumer spending, which means they bear a relatively high tax burden, while the role of income taxes in regulating income distribution is limited, unable to effectively alleviate the income gap, thereby exacerbating economic inequality [5].

A large amount of data shows that the Latin American region is still trapped in the predicament of inequality. According to World Bank data, Latin America is the second most unequal region in the world, with a Gini index of 0.52 in Brazil in 2022, second only to sub-Saharan Africa [6]. A report by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) shows that the overall poverty rate in Latin America was between 25% and 35% from 2020 to 2022. Although some countries have made progress in poverty reduction in the past decade, the pace of poverty reduction has stagnated in recent years, and the problem of income inequality remains prominent.

However, existing studies also have certain deficiencies. First, most studies analyze a single factor of economic inequality in isolation, such as only focusing on the uneven distribution of educational resources or land resources, and lack a comprehensive consideration of economic, political and social factors. Secondly, the tracking research on the impact of emerging economic models and social changes on economic inequality is not timely enough, such as new changes brought about by the rise of the digital economy and the development of social movements.

3 Manifestations of Economic Inequality in Latin America

Economic inequality in Latin America is reflected in multiple dimensions. First of all, in a society with economic inequality, the distribution of income and wealth is significantly imbalanced. High-income groups obtain huge wealth through financial investments, operation of monopoly enterprises, etc. On the contrary, low-income groups are mostly engaged in low-paid informal employment, such as street vendors and domestic services, with meager and unstable incomes. This gap is particularly prominent in countries such as Colombia. Studies have shown that people born into low-income families

need 11 generations to reach the average wage level [7]. The imbalance in income distribution has further exacerbated inequality of opportunity and rigid social mobility. As studies have shown, income inequality leads to a decline in social mobility and exacerbation of inequality of opportunity. Increased income inequality will restrain upward social mobility [8]. Cities concentrate a large amount of high-quality resources, such as education, medical care, and employment opportunities. Urban residents enjoy modern living facilities and public services, while rural areas have backward infrastructure, inconvenient transportation, and a lack of educational and medical resources. Farmers' income mainly depends on traditional agriculture, and their income level is much lower than that of urban residents, forming a gap between urban and rural development. A deeper level of marginal inequality is rooted in historical heritage: studies have shown that the false image of military activities that was ignored for most of the 19th century in Latin America led to insufficient investment in education and innovation [9]. The early colonizers' dominant exploitation motives and colonial illiteracy policies caused obstacles, and the colonial education gap subtly affected economic construction through quality channels, with colonizers laying the groundwork for subsequent economic inequality [10].

4 Re - impact of Economic Inequality on Latin American Development

4.1 Social level: Group alienation and attenuation of social resilience

The long-term economic inequality in Latin America has led to a huge gap between the rich and the poor in society. Poor groups are at a disadvantage in accessing resources such as income, education, and medical care. Many poor groups are therefore dissatisfied with the status quo, and the accumulation of emotions over a long period of time can easily trigger social unrest and riots, thereby affecting political stability. Relevant studies have shown that residents' willingness to participate in politics is generally low in countries or regions with a high degree of economic inequality. Low-income groups become unfamiliar with public affairs due to long-term marginalization, while high-income groups tend to safeguard their own interests through non-institutionalized channels. This alienation has greatly weakened the social foundation of democratic systems [11]. At the same time, a higher degree of economic inequality means greater differences in economic resources among social members, thus exacerbating psychological division. Low-income groups will compete due to lack of resources, while high-income groups may have discriminatory psychology, which makes the phenomenon of class antagonism more obvious, and thus social phenomena such as violence and gambling are more likely to occur [11]. At a deeper level, economic inequality weakens social cohesion to a certain extent. When the gap in economic resources between social members expands to a certain extent, trust between people will be cracked. Low-income groups are cautious of others due to long-term economic downturn and social injustice, while high-income groups focus on protecting their own interests and have clear social

boundaries [12]. This sense of alienation among groups directly undermines opportunities for community cooperation and indirectly increases the vulnerability of communities in responding to public crises.

4.2 Economic aspect: Suppressed domestic demand and the cycle of systemic crises

Excessive gap between the rich and the poor has multiple constraints on Latin America's economic development. From the perspective of consumption, although low-income groups account for the majority of the population and have consumption needs, they lack purchasing power and cannot be transformed into effective demand; while high-income groups tend to consume luxury goods and make corporate investments, which have limited driving effect on the domestic real economy. This means that the domestic manufacturing and industrial products that rely on domestic demand form a market scale, which inhibits the expansion of the domestic market and thus hinders economic growth. At the level of resource allocation, economic inequality leads to a large amount of resources being concentrated in the hands of a few people, which cannot be effectively invested in efficient production and innovation fields. High-income groups are more inclined to obtain benefits through financial investments rather than the real economy or infrastructure construction; while low-income groups, despite their large numbers, are difficult to participate in activities due to lack of capital and resources, restraining the production efficiency and innovation potential of the entire economy. More seriously, long-term high inequality will increase the risk of regional financial crises. The long-term imbalance in the income distribution pattern of the economy is closely related to the outbreak of financial crises [8]. Low-income groups are often forced to rely on high-interest loans to maintain their basic lives, leading to the accumulation of household debt. Financial institutions may over-expand credit in pursuit of profits. Once a chain reaction such as a slowdown in economic growth or a plunge in prices occurs, it is easy to trigger a systemic financial crisis. Historically, many financial crises in Latin America, such as the debt crisis in the 1980s and the Argentine economic crisis in the early 21st century, have deep-seated causes related to insufficient domestic demand and debt problems caused by unbalanced income distribution. These crises will further exacerbate poverty and inequality, forming a vicious circle from inequality to greater inequality.

5 Policy Recommendations and Experiences

In view of the structural contradictions and historical legacies of economic inequality in Latin America, targeted measures can be formulated from three levels: short-term breakthroughs, institutional restructuring and rigid policy constraints to alleviate the imbalance in resource allocation:

The short-term breakthrough lies in improving the value-added tax exemption list to reduce the tax burden on low-income groups. As the main component of the tax system in Latin American countries, value-added tax imposes a higher tax burden on low-income groups relative to their income, which is an important factor exacerbating ine-

quality. By optimizing the value-added tax exemption list and exempting tax on necessities in basic life, the tax burden on the bottom groups can be reduced. Uruguay's tax reform in 2007 is of typical significance. Studies have shown that in the early 20th century during the Batlle government, the government increased the income tax rate for high-income groups, increased taxation on landlords and capitalists, thus making wealth more concentrated; at the same time, optimized the value-added tax exemption list, including basic necessities such as bread, milk and meat in the tax-free range, reducing the consumption burden of low-income groups. These measures effectively reduced the actual tax burden of low-income families, increased disposable income, alleviated purchasing pressure, and also stimulated domestic demand to promote economic circulation [13].

The key to institutional reform is to establish a transparent land transaction platform to lift the monopoly of landlords. The large land ownership left over from the colonial period is the historical root cause of economic inequality in Latin America. The large landlord class solidifies the economic pattern by monopolizing land resources, hindering agricultural modernization and rural development. Establishing a transparent land transaction platform is the key to breaking the monopoly and promoting resource redistribution. Studies have shown that the long-term struggle of Brazil's Landless Workers' Movement (MST) has provided a social foundation for land system reform. Since its establishment in 1984, MST has established 146 cooperatives, covering 15,444 members, and has played a significant role in land reform resettlement sites. Its cooperative model, with political and economic democracy as the core, breaks through the logic dominated by capital, allows landless farmers to participate in resource distribution through collective decision-making, breaks the monopoly of landlords, and strives for production autonomy for bottom farmers [14]. Brazil's Landless Workers' Movement (MST) has become an important force in breaking land monopoly and promoting resource redistribution by promoting the development of agricultural cooperatives.

Government reform needs to revise and set a lower limit for social expenditure to ensure investment in public services. The volatility of social expenditure (education, medical care, social security) in Latin American countries is an important policy factor exacerbating inequality. During economic recessions or fiscal austerity, public services are often the first to be affected, with the bottom groups suffering the most. The core of the reform is to clearly stipulate the minimum proportion of social expenditures such as education, health and social security in GDP or total fiscal expenditures in the constitution, which cannot be reduced without special legislative procedures. Ecuador's 2008 Constitution is for reference. The constitution clearly requires that "health expenditure shall not be less than 6% of GDP, and education expenditure shall not be less than 5% of GDP" and incorporates it into the unamendable clauses of the constitution. After the implementation of the policy, Ecuador's public health coverage increased from 68% in 2007 to 91% in 2022, and the enrollment rate of basic education remained above 98%. Constitutional constraints can avoid the interference of short-term political cycles on social policies, ensure the continuity of public service investment, improve the health and education levels of low-income groups in the long run, and break the vicious circle of intergenerational transmission.

6 Conclusion

This article systematically analyzes the manifestations, causes of economic inequality in Latin America and its impact on regional development. The study reveals that economic inequality in this region exhibits multi-dimensional characteristics, encompassing not only imbalances in income distribution but also disparities in access to public services such as education. The roots of inequality can be traced to multiple factors including historical legacies, economic structures, and inappropriate policies, which are intertwined to form a difficult-to-break predicament. Meanwhile, economic inequality exerts significant negative impacts on political stability, economic growth, and social cohesion in Latin America, restricting the process of regional sustainable development.

This article aims to enhance the understanding of the particularities of economic inequality in Latin America and provide regional experience references for developing countries worldwide in addressing inequality issues. Future research can be further expanded in the following directions: first, combining more data to explore the heterogeneity of the impact of inequality on different social groups; second, conducting a comparative analysis of the differences in inequality governance between Latin America and other developing regions to identify more universal laws; third, tracking and evaluating the actual effects of emerging social policies in alleviating inequality in recent years to provide more accurate basis for policy optimization.

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