Narrowing the Income Gap

By Abby Eastman and Monica Gray

The gap between poverty and wealth is a problem across the globe; however, Latin America is one the most financially unequal regions in the world. With inflation and taxes continually on the rise, the poor have no hope for a better future. Between 2004 and 2013, Latin America experienced economic growth characteristic of an economic boom. During this time more people moved into the middle class and a declining trend was seen in the income gap. However, 21% of people in this region still live in poverty (Naim). Even in times of great growth, when some poor households can escape poverty, for chronically poor households the income growth is not sufficient to get them out of poverty. Between 2004 and 2012, the chronically poor experienced income increases from $1.50 per day to $2.70 per day—not enough to get them out of poverty. The poor that escaped poverty started at $3.00 per day and experienced an income increase to $6.00 per day—removing them from poverty (Vakis). Subsequently, 1 in 5 Latin Americans live in chronic poverty (Vakis).
There are many factors contributing to the wealth distribution in Latin America; two factors are tax rates and increasing inflation. Inflation occurs when the value of money decreases but the price of goods increases. In terms of the income gap, generally the wealthy have more money so the devaluation of it does not affect their ability to purchase goods. In contrast, the impoverished have very little income to rely on; thus, the devaluation of money in combination with rising prices affects their ability to get basic necessities. The graph below illustrates the constantly changing nature of inflation in Latin America.

![Graph showing inflation in Latin America from 2006 to 2015](image)

Tax rates hugely influence the distribution of wealth across the board. Nearly every state in Latin America has a sales tax; unfortunately, these taxes are regressive meaning the poor are affected by them more than the wealthy. In this region, corporate taxes are more prevalent than income taxes (Economist). In graduated income taxes, the percentage of income paid in taxes is reliant upon the amount earned; through this, those who have a lower income pay less in taxes and their tax is more proportional to their income.
In order to narrow the income gap and bring more Latin Americans out of poverty…

1. Each country must set 12% of deposits as a standard for all bank reserve requirements. This means that banks would have to keep 12% of all deposits on hand for possible withdrawal at all times. This reduces the amount of money banks are able to loan out and the quantity of people borrowing money. Thus, people would be more likely to hold onto their money and inflation would decrease making goods more attainable (Investopedia).

2. Each country must calculate their gross revenue from trade (revenue from exports minus cost of imports) and allot 5% of it to go toward welfare programs for the impoverished. These programs would provide things like healthcare, education, food, etc.

3. Each country must institute a graduated income tax. 15% of this income tax will serve as an additional source of funding for welfare programs as well as infrastructure programs and job creation. The tax break-down will be as follows:

   0% tax for income <$11,000/year
   15% tax for income $11,000-$50,000/year
   25% tax for income >$50,000/year

4. The U.N. will create an advisory committee for each country comprised of U.N. representatives and representatives from that country. This committee will individually guide each country in reducing inequality through monitoring proposals 1-3. Any country that does not comply with the advice of the committee will be responsible for proving that their current economic policy reduces inequality. Failure to do so will result in economic sanctions.
5. Each country must institute a minimum-wage if it doesn’t currently have one.

6. To better control inflation, a more regulatable common currency must be established for the entire region.

Works Cited


