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Does Giving Cash to the Poor Reduce Inequality?
The Cases of Brazil, Chile, and Colombia

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Summary

Income and wealth inequality has risen in the majority of the globe since the 1990s, except for one region. Latin America has experienced a decline in the gap between the rich and the poor that corresponds to an average six-point drop of the GINI index. In this paper, I reviewed the recent literature that measures the effects that Conditional Cash Transfers (CCTs) had in reducing income inequality in three South American countries: Brazil, Chile, and Colombia. The evidence shows that, alongside a betterment in the job market brought along by economic growth, CCTs have played an essential role in reducing inequality in those countries. As a redistributive policy, CCTs helped increase the income of the poorest without increasing significantly public spending.

Introduction

The philosophical debate around inequality is extensive. There are still a few who consider it a natural and desirable feature of our economic system, thus questioning whether we should actively try to resolve it at all. However, the mainstream consensus is that high inequality levels lead to economic stagnation, low social mobility, intergenerational poverty, wealth concentration that threatens the social fabric with increasing violence, as it weakens democracy. For those reasons, economic inequality has been a source of inquiry and investigation. Different policies have been considered as a way to reduce or end it. However, the subject has never been so central in economics as it has since the beginning of the 2000s. Research on economic inequality has piled up in recent years, and the evidence suggests a trend on rising income and wealth inequality in the majority of the countries, from developed to developing regions, during growth and recessive periods.

Nevertheless, Latin American countries have experienced the opposite trend in the past two decades: the GINI coefficient, a measure of inequality calculated by the World Bank, shows that inequality has fallen to some of its lowest levels in the region. Although the whole area has experienced recently good periods of growth, especially during the "commodities boom" of the early 2000s, historically, economic growth alone does not answer for reduced inequality. This period in Latin America is also characterized by more inclusive social policies, especially the introduction of a "one of a kind" redistributive policy known as Conditional Cash Transfers (CCTs).

To eliminate high levels of extreme poverty that have hindered growth in the region, Latin American governments saw in CCTs a quick and virtually inexpensive tool to help fix the problem. Giving a modest amount of cash to low income and indigent families would help reduce food scarcity. By adding pre-set conditionalities that compelled the beneficiaries to comply with a couple of rules, related to education and health (such as enrolling children in school and keeping vaccines up to date), the children's human capital would also improve. After a few years since CCTs have been put into practice, evidence shows that they were highly successful at reducing poverty and extreme poverty. CCTs have since then been praised by worldwide organizations by their effectiveness and low public cost.

In this research, I analyze a derivative effect of Conditional Cash Transfers: its contribution to the drop in income inequality in Brazil, Chile, and Colombia. The research consists of three sections. The first section presents a brief history and summary of CCTs and their features. Within it, the subsections give a more detailed look at the CCTs that are in place in each of those three countries. Section two takes a look towards the evolution of income inequality in those countries from 1995, a decade marked by the consolidation of democracy and market liberalization, up until 2015, one decade since CCTs have been in function. The third section comprises the literature review of different sources that analyze what effects the Brazilian, Chilean, and Colombian CCTs have had on inequality. The objective of this paper is to demonstrate that CCTs are useful and low-cost tools to fight rising inequality.

I. A History of Conditional Cash Transfers

Conditional Cash Transfers (CCTs) are social programs in which the State subsidizes a targeted group with cash. In order to receive the benefit, the recipients must comply with a few stipulations, usually linked to education and health-related behaviors, such as keeping children enrolled in school and their vaccines up to date. The idea behind it is that (a) the cash serves as a tool to alleviate poverty in the short-term, and (b) the constrained behavior imposed will help improve education and health outcomes, boosting human capital in the long-term. Thus, CCTs aim is not only to end extreme poverty and food insecurity in the present but to break the cycle of intergenerational poverty.

The first example of what is today considered a CCT was implemented in 1994 in Bangladesh. There, families that kept girls in school and unmarried received a cash stipend plus tuition. During the 1990s, similar CCTs began being implemented in a few Latin American countries, among them Mexico, Brazil, Colombia, and Honduras. Since the beginning of the 2000s, larger and more comprehensive CCTs, that targeted a bigger population (income baseline) instead of segments of it (gender or age baseline) have spread through Latin America, Africa, and Asia. Since then, CCTs became the staple anti-poverty program worldwide. A World Bank Report published in 2009 shows that in 2008, 28 countries had CCTs programs put into place, compared to only three countries in 1997. There is a reason behind that quick expansion: studies have shown that CCTs yielded better indicators for children's school attendance, nutrition, growth rates, infant mortality, decrease in child labor and prostitution, among others.

The economic rationale that supports CCTs as a preferable tool to fight poverty instead of unconditional cash transfers (UCTs) relates to the positive externalities that the conditions attached to health and education can bring about. It is well known that investments in health and education result in a higher aggregate level of human capital, thus increasing social welfare. However, indigent and low-income families do not always choose to invest in their children's education and health. There are many reasons for this, but, in the majority of cases, the children are also the families' breadwinners. These children must work instead of attending school.

Supporters of transfers without conditionalities claim that the right to food and basic living standards should be considered a human right. Therefore, no conditions should be set so as not to be exclusionary. However, society tends to support CCTs instead of UCTs. Whereas UCTs are mostly seen as paternalistic assistentialism that creates dependency and does not empower the poor to overcome their condition, CCTs are well accepted (World Bank, 2009) because they are seen as investments in the beneficiaries' children, whom will become future "workers" and "citizens," instead of "beggars."

Furthermore, at that level of income, the beneficiaries' marginal propensity to consume is absolute. Because they lack even the basics to survive, all the extra income gained from the CCTs returns to the local economy as they buy food and necessary household supplies, warming up the commerce and service sectors. For example, according to Neri et al. (2013) (year), Brazil's Bolsa Familia fiscal multiplier effect adds $1.78 to the country's GDP for every $1 given to beneficiaries. In that same study, the authors demonstrate that some towns

in Brazil's northeast region, an area desolated by decades of severe drought, rely heavily on the Bolsa Familia as the only source of income for almost all of its population. The local commerce and service sector only exists because of the cash transfers.

CCTs, however, do not aim to have their beneficiaries dependent on the program. There are exit strategies put into place that align with the primary goal of each program/country. In some, like in the Colombian Familias en Accion, families "graduate" when children reach adulthood. Others, such as the Sistema de Atención a Crisis in Nicaragua, have a fixed term. In most programs, if the family fails to meet any of the conditions attached to the benefit, such as school attendance or medical check-ups, they lose the benefit. Whatever the case might be, the challenge faced by CCT operators is to make sure the families are not in a situation equal to or worse than they had when they began receiving it.

1.1 The Bolsa Familia Program in Brazil

Some forms of transfer programs (cooking gas stipend, food stamps, child labor eradication support) had been implemented with success at the municipal and state level in Brazil during the 1990s. Nevertheless, in 2004, the newly-elected president, Luis Inácio Lula da Silva, unified all those programs under the more encompassing *Programa Bolsa Familia* (BFP), or Family Grant in a direct translation. This unification created what is known as the largest CCT program in the world.

The BFP's goal was to eliminate extreme poverty and food insecurity in the short term, as well as to make sure that the children from poor households would have continuous education

and healthcare access. It was also set up to work in conjunction with other government programs, created around the same period, especially the *Programa Meu Primeiro Emprego* (My First Job Program), and the Prouni and SISU (related to free higher education access). The larger goal was to offer opportunities for the generation growing up with help from BFP, so as not to be dependent on the transfers. Either by entering the labor market more quickly or to continue their education.

The BFP targets families in the context of extreme poverty with a monthly per capita income of less than 89 BRL (approximately 23 USD 2019), or in poverty with a monthly per capita income of 89 BRL up to 178 BRL (approximately 23 to 45 USD 2019). The conditions to secure the cash benefit are of (i) educational order: families have their children enrolled in school and attendance must be above 85%; and (ii) health-related: children must have their vaccines up to date, pregnant women must follow prenatal care, and the family must take young children to routine check-ups.

Families on the program are recertified every two years to check for any changes in income. Families that present a higher income than the program's threshold can reenter the program in the future in case their income falls again in the following three years. There is also an exit strategy put into place that allows families who lost eligibility to continue working with social workers and to participate in other federal programs linked to vocational training, education, and microcredit. Furthermore, adolescents can continue their education at a public university or a private institution via the Prouni program, which gives half and full scholarships to students from poor households.

The public bank Caixa Economica Federal operates the program, in conjunction with the Ministry of Social Development, which operates the recipients' registry. The targeting method uses data from the national household survey (PNAD) gathered by IBGE (Brazilian Institute of Geography and Statistics). From there, a combination of means test and comparative analysis are used to determine the families that fit the criteria. Once part of the program, the families are listed under the Cadastro Unico (Unified Registry) and are given a card, known as Cartao Cidadao (Citizen Card), which works like a debit card. The beneficiaries can withdraw the cash benefit at any ATM linked to the Caixa Economica Federal, a federal public bank that sponsors the program. The program is funded by Brazil's federal government and the World Bank.

The evolution of the BFP's coverage and public spending for its first year, and the year 2015 are shown in Table 1. In 2004, BFP covered almost 30 million people, about 16% of the country's population. In 2015, more than a decade into the program, the coverage grew 91%, covering more than 56 million people. That vast increase in coverage is due mainly to improved targeting, as a result of more data being collected through the years and better communication between the governments from the municipal and federal level (xxx, 2009). Government spending to cover the programs' expenses (which includes the cash transfers themselves plus operating costs) represented only 1,29% of public expenses in the first year, less than 0,30% of Brazil's GDP. In 2015, the BFP was responsible for 1,23% of government spending, representing 0,46% of the GDP. That decline is the result of the economic growth the country experienced during that time. In that decade, Brazil's GDP per capita almost tripled.

Table 1

Bolsa Familia: Coverage and Spending

BOLSA FAMILIA	2004	2015
Coverage	29,434,906 (15,92%)	56,244,652 (27,7%)
% of GDP	0,29 ($ 1,965 bi.)	0,46 ($ 8,238 bi.)
% of government spending	1,29	1,23
GDP per capita	$ 3,623	$ 8,750

Note. Data from the Non-contributory Social Protection Programmes Database, United Nations, ECLAC, 2019. US Dollars.

1.2 The Chile Solidario Program in Chile

Beginning 2003, Chile put into practice *Chile Solidario*, a one of a kind social program: more than cash transfers tied to behavior constraints, the idea was to supply indigent and low-income families with psycho-social assistance. Each family is assigned a social worker to "help them identify and apply for services for which they were eligible and received gradually decreasing cash subsidies over five years" (Gallasso et al.). The social worker accompanies the family during two years. During that period, it makes a total of 21 visits to the household. Alongside the family, they work out a plan that needs to fulfill an established set of "53 minimum quality of life conditions." The ultimate goal of the program is to help those families to better integrate socially and take advantage of the already existing social safety net, and become autonomous.

However, the cash component is still present. *Chile Solidario* offers a monthly cash contribution to the family integrated into the system. It includes the Protection Bonus that is assigned in decreasing amounts in six-month stages during the family's participation in the Puente Program (that is also part of Chile Solidario, but operated by municipalities).

The *Chile Solidario* program targets vulnerable families and individuals at the federal level. The government uses proxy means-testing to target beneficiaries, using data from the Social Household Registry. Once selected, the beneficiaries are included in a unified system (Integrated Social Information System). The exit strategy obeys two limit terms: (a) psycho-social support ends in 2 years, and (b) the cash transfers go for only five years. Table 2 shows how *Chile Solidario* has evolved since it was implemented until 2015. It began covering less than half a million people, 406,991 total in 2002, and even less in 2015, 23,425. The public costs of the program represented less than 1% of total government spending (0,12 in 2002 and 0,64 in 2015) and an incredibly small percentage of the country's GDP.

Table 2

Chile Solidario: Coverage and Spending

CHILE SOLIDARIO	**2002**	**2015**
Coverage	406,991 (2,56%)	23,425 (0,13%)
% of GDP	0,02 ($ 17.047 mi)	0,14 ($ 344,513 mi.)
% of government spending	0,12	0,64
GDP per capita	$ 4,787	$ 13,736

Note. Data from the Non-contributory Social Protection Programmes Database, United Nations, ECLAC, 2019.

1.3 The Familias en Acción Program in Colombia

After suffering one of its worst economic crisis at the end of the 1990s, Colombia was struggling to find ways to work out the poverty ravaging 20% of its population. Although plans to cut fiscal spending were on the table, the success of the CCT *Oportunidades* from Mexico stood out as a low cost but effective tool and caught the attention of the Colombian government. Beginning in 2002, Colombia put into action its own CCT, *Familias en Acción* (Families in Action).

The program targets low income and indigent families with children under 18 years of age. Like most CCTs, the program aims to "promote the human capital formation of poor children" by complementing the family's income (CEPAL). To receive the money incentive, families must comply with the following requirements: make sure children up to 6 years of age are regularly taken to health centers for check-ups, and that children from 7 to 17 years of age are enrolled at school, with a minimum of 80% attendance rate.

A glimpse of *Familias en Acción* evolution through time can be seen in Table 3. In its first year, it covered more than 1,5 million people. That number grew to more than 4,5 million in 2015. In 2002, it represented almost 4% of Colombia's GDP, but that number fell to 0,25% in 2015, mostly due to the country's GDP growth, since, as a percentage of government spending, the program only grew slightly during those years: from 0,27% to 0,89%
In Colombia, much like in other countries where CCTs were adopted, the number of families covered fluctuates with time. In this case, the number of families covered has increased considerably. The expectations are that, with time, fewer families will need to use the

program because they will "graduate" (find other sources of income as they enter the labor market). Nonetheless, in Colombia's case, this higher number is explained by better targeting methods. Thus, low-income families that were "missed" during the first years of the *Familias en Acción* were later covered.

Table 3

Familias en Acción: Coverage and Spending

FAMILIAS EN ACCION	**2002**	**2015**
Coverage	1,634,963 (3,93%)	4,557,375 (9,45%)
% of GDP	3,93 ($ 41,511 mi)	0,25 ($ 737,159)
% of government spending	0,27	0,89
GDP per capita	$ 2,355	$ 6,085

Note. Data from the Non-contributory Social Protection Programmes Database, United Nations, ECLAC, 2019.

II. Brief History and Inequality Trends in Brazil, Chile, and Colombia

Brazil, Chile, and Colombia have their cultural, demographic, and geographical differences, but they share many similarities when it comes to their political and economic history. These South American countries experienced European colonization and imperialism much in the same way: Spanish and Portuguese settling led to the genocide of the native people, the plundering of the natural resources, and wars for independence. In the 19th century, all three countries achieved independence from colonial powers. However, their fight for self-determination continued as the legacy of colonization, and European influence was still very much part of their political landscape. During the 20th century, internal political disputes between civil and military groups, combined with outside influence, engulfed all three countries in violent political regime changes and economic turbulence.

If Latin America was always as unequal as it is today, is this still a source of debate. While it is widely assumed that high inequality was always one of the region's features, some studies (Williamson, 2015) show that, up until the end of the 19th century, the region was at the same level of inequality as most other countries, like the United States and Western Europe. It was only after the commodities boom at the end of the 19th that inequality took off.

Still, in any way we can approach this subject, it is clear that inequality is the result of centuries of colonization that led to conflict, resources appropriation, and wealth concentration. More than anything, land ownership concentration, which is a direct result of how colonization happened in Latin America, is at the core of the inequality problem

(OXFAM, 2016). The lack of any deep land reforms is one of the region's failures in the 20th century to redistribute wealth. Brazil has never passed any reforms of the kind. Chile initiated one such reform in the 1960s but was suppressed by a counter-reform led by the military regime that gained power in 1973. Colombia has endured decades of civil war where land ownership is centerstage.

Nevertheless, there seems to be some hope. Although wealth inequality has only risen in the past decades, income inequality has decreased in all three countries since the late 1990s, and more so during the first decade of the 2000s. The beginning of this century has also been a time of economic growth tied directly to the modernization of the countries economies and the commodities boom brought about by trade deals with China. But unlike in other times of economic euphoria where, this time around, the positive context of economic growth was combined with more socially progressive and egalitarian-driven policies.

1.1 Inequality in Brazil

The Brazilian 20th century is characterized mainly by significant shifts in its political structure and by the industrialization of the country's economy. Going from democracy to dictatorship, back and forth up until the end of the 1980s. Robust industrialization began in the middle of the 1950s and continued through the dictatorship that began in 1964. The military government invested heavily in infrastructure. The 1960s and 1970s were times of political repression, fiscal austerity, and economic progress. High GDP growth rates (the decade averaged 8.5% annual growth) and demographic changes (more people were now

living in cities instead of rural areas) completely transformed the country, and the 1970s became known as the "economic miracle."

However, the fruits of such prosperity were not shared with all Brazilians. Income and wealth became more concentrated than ever. The minimum wage's real value fell dramatically during the period. While a worker earning minimum wage needed to work 65 hours to afford basic needs in 1959, the number of working hours required increased to 153 at the end of the 1970s. Considering that most of the population at the time (40%) earned less than three minimum wages, the damage was enormous. That was the scenario for city workers, in the rural areas, though, most workers did not make minimum wage.

The Finance Ministry's slogan was "to grow first, and share it later," showing that fighting economic inequality was not part of the regime's agenda. And it showed: the GINI coefficient that was 50,0 in 1960 increased to 57,0 in 1970 and reached 62,0 in 1977.

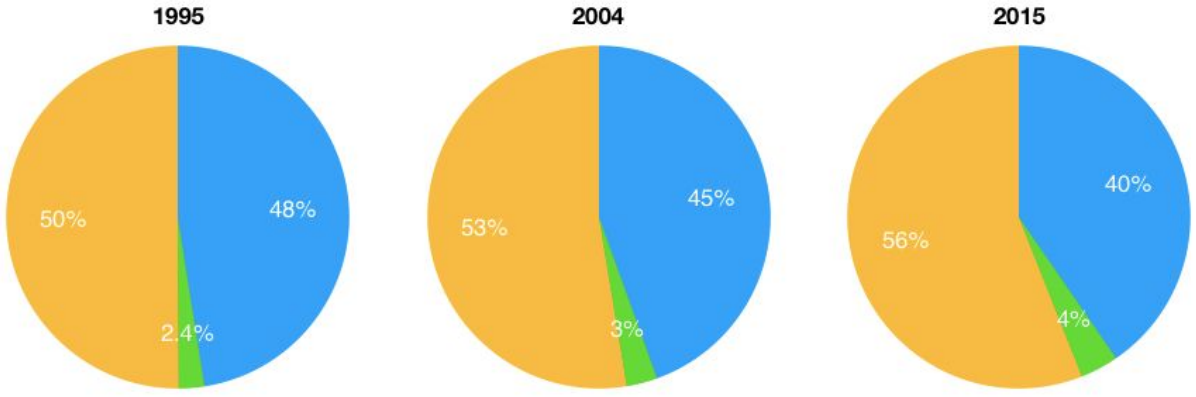
Even with the victory of democracy over military rulership, which ended in the middle of the 1980s, the period is known as "the lost decade." The international economic crisis of that period hit the country hard. The rise in global interest rates caused the national debt to grow exponentially, so the government didn't have the means to keep the subsidies that pushed industrialization, so industrial output fell. Brazil went through years of stagnation and recession, growing an average of 2%. It entered the 1990s with political and economic traumas from the turbulent decades that preceded it. Still, the consolidation of democracy combined with a series of reforms, the opening of its markets, and a monetary plan that ended

hyperinflation allowed Brazil to regain stability and end the century in better economic and political shape than it had ever experienced before.

This progress can be seen in the seen in how income distribution to the top 10% e bottom 20% evolved in the years from 1995 to 2015, shown in Graph 1 below. In 1995, while the top retained almost half of the countries' total income (48%), the bottom claimed only 2.4% of that pie. In 2004, the year the BFP was introduced, the top had 45% of total income, and the bottom saw a slight increase to 3%. Lastly, in 2015, the top kept 40% and the bottom 4% of total income. During those 20 years, the GINI coefficient dropped 8.3 points, from 59.6 in 1995, to 56.5 in 2004, to 51.3 in 2015.

Graph 1

Distribution of Income in Brazil from 1995-2015



Note. Data collected from the World Bank Database. Income share of the highest 10% (blue), the bottom 20% (green), and the middle (yellow).

1.2 Inequality in Chile

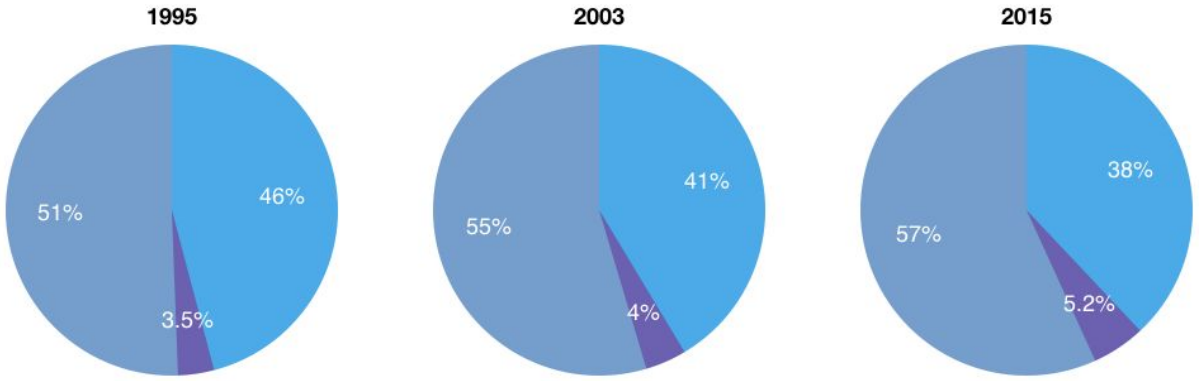
Chile's 20th century was as unstable as Brazil's. It endured two dictatorial regimes (in the 1920s and 1970s), and the fight for democracy and economic equality went hand in hand. Civic groups on the left and right fought for power and to choose the future of the country.

The 1990s represented the consolidation of democracy and continuous economic growth, resulting from effective fiscal and macroeconomic policies. Paired with the commodities boom of the 2000s, Chile was in a great place at the turn of the century: it has been considered the model economy for the rest of Latin America. High employment rates, lower poverty and inequality than its neighbors, and topping the Human Development Index for the region.

The decrease in income inequality can be seen from the latter half of the 1990s up until 2015. The Chilean GINI fell 7.2 points in that period. From 54.9 in 1995 to 51.5 in 2003 (when Chile Solidario was implemented), to 47.7 in 2015. The share of income that the top and bottom retained also changed. As shown in Graph 2 below, the top earners saw its share fall from 46% in 1995 to 41% in 2003, and 38% in 2015. The bottom increased its share of income from 3.5% in 1995 to 4% in 2015 and 5.2% in 2015.

Graph 2

Distribution of Income in Chile from 1995-2015



Note. Data collected from the World Bank Database. Income share of the highest 10% (blue), the bottom 20% (purple), and the middle (gray).

1.3 Inequality in Colombia

The last decade of the 20th century began with the adoption of a new Constitution for Colombia, that, among other things, focused on the people's welfare. With that in mind, social spending grew enormously during the 1990s, which brought the country to a distressing fiscal scenario at the end of that decade. Combined with the international financial crisis and the internal mortgage crisis, Colombia endured one of its worst economic crisis, leaving a fifth of its population in poverty (Urrutia & Báez, 2018)

Nevertheless, despite the tumultuous political landscape, Colombia also went through a series of economic changes during the 1990s that led to the liberalization of its market and

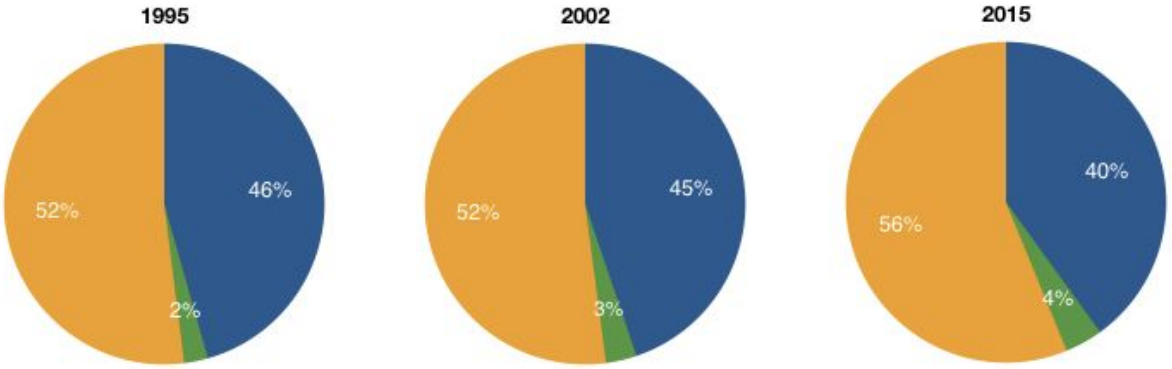
macroeconomic reforms. That included tariffs reduction, removal of import restrictions, and substantial reforms that encompassed the financial, tax, and labor markets (OECD, 2015). All that allowed Colombia to take great advantage of the commodities boom and to better respond to the financial crisis of 2008. The country's GDP more than tripled between 1995 (80 billion USD) and 2015 (243 billion USD).

Colombia's high inequality stems mainly as a result of having one of the highest land ownership concentrations in Latin America and the world (OECD, 2015). The country never passed any land reforms, and the issue is at the core of the civil war between the Revolutionary Armed Forces of Colombia (FARC) and the government that has been going on for more than five decades.

Although land reform wasn't on the books and contributed to the higher wealth inequality, other progressive policies adopted helped reduce the income part of the equation. Since the 1990s, income distribution has become slightly better in Colombia. The following Graph 3 shows that change. In 1995, the income pie shows that the top 10% of earners kept 46% of the country's total income, while the bottom 20% got only 2%. In 2002, when the CCT *Familias en Acción* was implemented, the top had 45% of income and the bottom 3%. In 2015, the top earners' income fell to 40%, while the bottom increased its share of income to 4%. The GINI coefficient went from 56.9 (1995) to 55.8 (2202), to 51.1 (2015), a total drop of 5.8 points.

Graph 3

Distribution of Income in Colombia from 1995-2015



Note. Data collected from the World Bank Database. Income share of the highest 10% (blue), the bottom 20% (green), and the middle (yellow).

1.4 Measuring Inequality

When measuring income inequality, we are looking at the extent to which income is distributed unevenly among a population. There are a few different metrics that can be used to measure it, and the GINI coefficient is the most well known and used by economists and countries alike. The GINI measures the distribution of income, ranging from 0 to 100, where 0 means perfect equality (everyone has the same income) and 100 means perfect inequality (only one person receives all the income). In this way, a country with a low GINI index is more equal than a country with a high GINI index.

One of the ways we can understand how much an income source (salary, transfers, capital gains, and others) can contribute to the rise or fall in inequality is by decomposing the GINI

coefficient. In summary, the Gini coefficient in a given year is equivalent to the sum of the concentration coefficients of incomes weighted by their weight in the total income. From this, we can calculate how much each income source contributes to changes in inequality between two specific years.

However, it is worth noting that the GINI decomposition has no counterfactual interpretation; that is, if an income source contributes 10% to the decrease in the GINI, for example, this does not mean that without such source the GINI would be 10% higher. Because the concentration of one source of income varies according to the concentration of all sources of income. Likewise, the choice made of when to start and end an analysis also affects the results (De Souza et al., 2019).

In the subsections to follow, along with a brief overview of each countries recent inequality trends, I present data using the GINI coefficient for Brazil, Chile, and Colombia, that illustrates how income inequality has evolved from 1995 to 2015, a period that comprises inequality before and after CCTs have been implemented.

III. Do CCTs Work?

The question aimed to be answered in this paper is if CCTs have played a role in reducing income inequality. The excellent results that CCTs have yielded in the first few years of their implementation and the falling inequality in Latin America have sparked a more profound debate around these programs, prompting more research to understand its mechanisms. The World Bank and The IMF, being funders and sponsors of some CCTs programs around the world, have much interest in understanding better conditional transfers, which can be seen in the amount of scrutiny that the programs have been under by these agencies. Both the World Bank and the IMF routinely update their reports on CCTs, which has positive results of offering an array of data and research papers covering CCTs. Considering that CCTs are a deeply studied subject, there is abundant research to help understand the extent to which CCTs have impacted inequality. In this section, I review the literature that encompasses and relates these two subjects. First, looking at evidence from each country (Brazil, Chile, and Colombia) separately, and then, I will review the research that comprises CCTs in these and other countries.

One of the first comprehensive studies covering CCTs looked at Brazil, Chile, and Mexico's cases for the period of 1995 to 2005. Soares et al. (2007) decomposed the GINI coefficient and found that the changes in income inequality in those countries in that period have different reasons. First, income sources sizes (labor income, social security, public transfers, and others) have increased or decreased during that time, and so did the level of concentration of these sources. Because of such changes, the impact that each income source had on

inequality varied over time. In Brazil, significant changes in the labor market (higher participation of low-income earners during the first years of the 2000s decade, for example) meant that labor income was the factor that contributed the most for equality of income. While in Chile, the opposite happened, changes in labor income helped further the gap between the richest and the poorest. Social security was another factor that affected inequality in those two countries, and, again, in different ways. In Brazil, it drove inequality up as it became even more concentrated over time. In Chile, on the other hand, income from social security balanced the rise in inequality caused by labor income. When looking at the impact that CCTs had, Soares et al. found that, although cash transfers represent a small portion of income in those ten years (0.01% in Chile, 0.5% in Brazil), their targeting is very effective, which made CTTs the second source of the lower inequality levels in Brazil and Mexico from 1996 to 2004, around 15-30%. For Chile, the results were not so significant, since CCTs account for only 5% of the decrease. Nevertheless, in each case, the results are positive, considering the small weight that CCTs represent in the share of total income.

Another source that adds up to show that CCT affects inequality, De Souza (2012) finds a positive effect between the CCTs and the fall in the GINI coefficient. The author agrees that changes in labor income brought by progressive minimum wage policies were the prominent factor in the decline of inequality in Brazil from 1995 to 2009, being responsible for 63% of the change, while the BFP was responsible for 18% of the decline. De Souza also notes that this is an excellent result for the Brazilian CCT, considering it is a tiny portion of government spending.

In a 2013 study, Azevedo, Inchaust, and Sanfelice analyzed the decrease in inequality in Latin America during the first decade of the 2000s. Citing data from Lopez-Calva and Lustig 2010's book that looked at inequality in Brazil, Mexico, Ecuador, and Peru, they found that, the fall in inequality was driven by two main factors: the reduction in the pay gap between skilled and low skilled labor, "which contributed to expansion in education," and the amplification and better target methods of the cash transfers by these governments

A more recent study aimed at assessing the effects of the first 15 years of the Brazilian Bolsa Familia Program on poverty and inequality added to the pile of evidence that shows that CCTs have a positive effect on inequality. De Souza et al. (2019) used static and dynamic decomposition methods to analyze the data from the National Household Sample Survey (PNAD) from 2000 to 2015. They found that the BFP was an essential factor that contributed to the decrease in inequality during the period. For every year in between, the GINI index fell between 1% and 1.5% after the transfers were counted. The authors agree that the impact that the BFP has on inequality is due to its (i) ample coverage and (ii) great targeting, especially amongst the 20% poorest. The authors argue that, when it comes to tackling inequality, the Brazilian cash transfer program has performed equally or even better than other transfers.

When comparing the redistributive effect of the BFP with other public transfers, such as public pensions and retirement, that pay a higher amount (above the minimum wage) to its beneficiaries, they found that those other transfers contributed less to decrease inequality than the BFP, mostly because transfers of higher amounts tend to be concentrated in the hands of the top earners. The authors stated that it is also necessary to have in mind that the volume of

expenses with those transfers that are at least ten times the BFP, which makes the Brazilian much more cost-effective.

These findings show that if policymakers want to use the conditional CCTs to tackle inequality, the transferred amounts to each family should be higher. On average, BFP's beneficiaries receive less than ⅛ of the national minimum wage.

The results found using the GINI dynamic decomposition method indicate that the BFP accounted for almost 10% of the GINI fall between 2004 and 2015. If we consider only the period from 2001 to 2006, this contribution reaches almost 17%. These numbers are even more impressive, considering that the PBF represents less than 0.7% of the national income (De Souza et al., 2019).

In another broad study that looked at fiscal redistribution in Latin America, Goñi et al. (2008) found that redistributive policies, in general, are not very progressive in the region, especially when compared to most European countries. This lack of progressiveness poses limitations to such policies in their ability to decrease inequality. The authors reasoned that the problem might stem from two facts. First, transfers in Latin America are substantially smaller in volume than in Europe. For example, Brazil, Chile, and Colombia each spend less than 1% of their GDPs on cash transfers, and about as much as 9% in transfers in general, while in Europe public transfers amount to almost 16% of the region's GDP. Second, redistributive programs are very regressive when compared to Europe. The graph below shows that in Europe, transfers are evenly distributed along the income quintiles, with the top and bottom receiving virtually the same percentage of public transfers. In Latin America, and this is true

for the three countries being analyzed here, the highest chunk of public transfer (almost half of it) goes to the top quintile. This shows that public transfers in these counties contribute to increasing income inequality. The exceptions are the CCTs. According to Goñi et al., they are the most progressive redistributive policies in the region. The graph below shows that the most significant part of the resources goes to the bottom quintiles of income. So when it comes to CCTs, their targeting method does an excellent job of directing these resources to the most needed, thus contributing to the decline in income inequality. The authors point out that, if the volume of cash transfers were higher and targeting even more effective, CCTs could contribute even more to decrease inequality.

IV. Conclusion

In this paper, I ask if giving money to the poorest percentage of the population in the form of conditional cash transfers helps reduce inequality. The literature reviewed on the effects that CCTs had since they were implemented in Brazil, Chile, and Colombia, shows that these programs have had an essential role in helping these countries to be more economically and socially equal. The reasoning behind that claim relates to the way CCTs work. First, because they are well-targeted, covering most of the families in need, where any amount of extra money will make a difference in their income and elevate their economic status, even if slightly. Second, because the recipients can freely use the cash, the families are better off in their ability to choose where they want and need to spend the money. Third, the set criteria to which the beneficiaries must comply with, focus on improving human capital, meaning that the second and third generations of these families will be better equipped to find positions that allow for a higher, more reliable source of income.

The literature reviewed shows that CCTs serve as a poverty relief tool, and they also played an important role in reducing inequality in the period analyzed. Being alongside labor income, the biggest causes of inequality's decline in Brazil, Chile, and Colombia. The authors also point out the progressiveness of CCTs and their low cost for the public sector. Their targeting method is reliable, but elevating the amount of cash given to the families would have an even higher impact on income inequality without being a fiscal burden.

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