

The Role of Human Capital in the Evolution of Inequality and Economic Growth in Latin-America

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Abstract : There is a growing literature that studies the main determinants and drivers of inequality and economic growth in several countries, using panel data and different estimation methods (fixed effects, Generalized Methods of Moments (GMM) and Two Stages Least Squares (TSLS)). Recently, it was studied the evolution of these variables in the period 1980-2009 in the 18 countries of Latin-America and it was found that one of the main variables that explained their evolution was Foreign Direct Investment (FDI). We extend this study to the year 2015 in the same 18 countries in Latin-America, and we find that FDI does not have a significant role anymore, while we find a significant negative and positive effect of schooling levels on inequality and economic growth respectively. We also find that the point estimates associated with human capital are the largest ones of the variables included in the analysis, and this means that an increase in human capital (measured by schooling levels of secondary education) is the main determinant that can help to reduce inequality and to increase economic growth in Latin-America. Therefore, we advise that economic policies in Latin-America should be directed towards increasing the level of education. We use the methodologies of estimating by fixed effects, GMM and TSLS to check the robustness of our results. Our conclusion is the same regardless of the estimation method we choose. We also find that the international recession in the Latin-American countries in 2008 reduced significantly their economic growth.

Keywords : economic growth, human capital, inequality, Latin-America

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