

Declining Inequality in Latin America: How Much, Since When and Why

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DECLINING INEQUALITY IN LATIN AMERICA

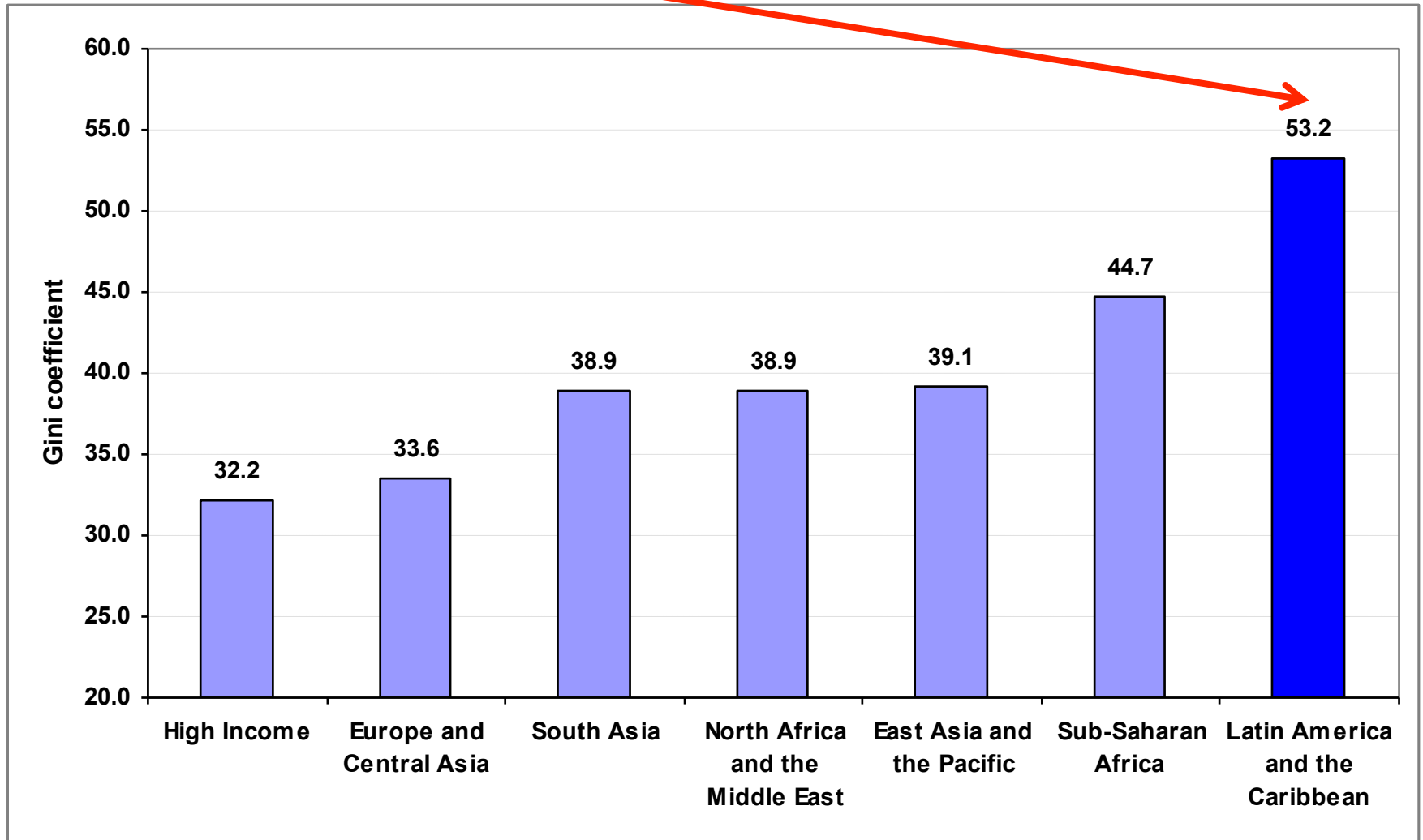
A DECADE OF PROGRESS?

LUIS F. LOPEZ-CALVA & NORA LUSTIG
EDITORS

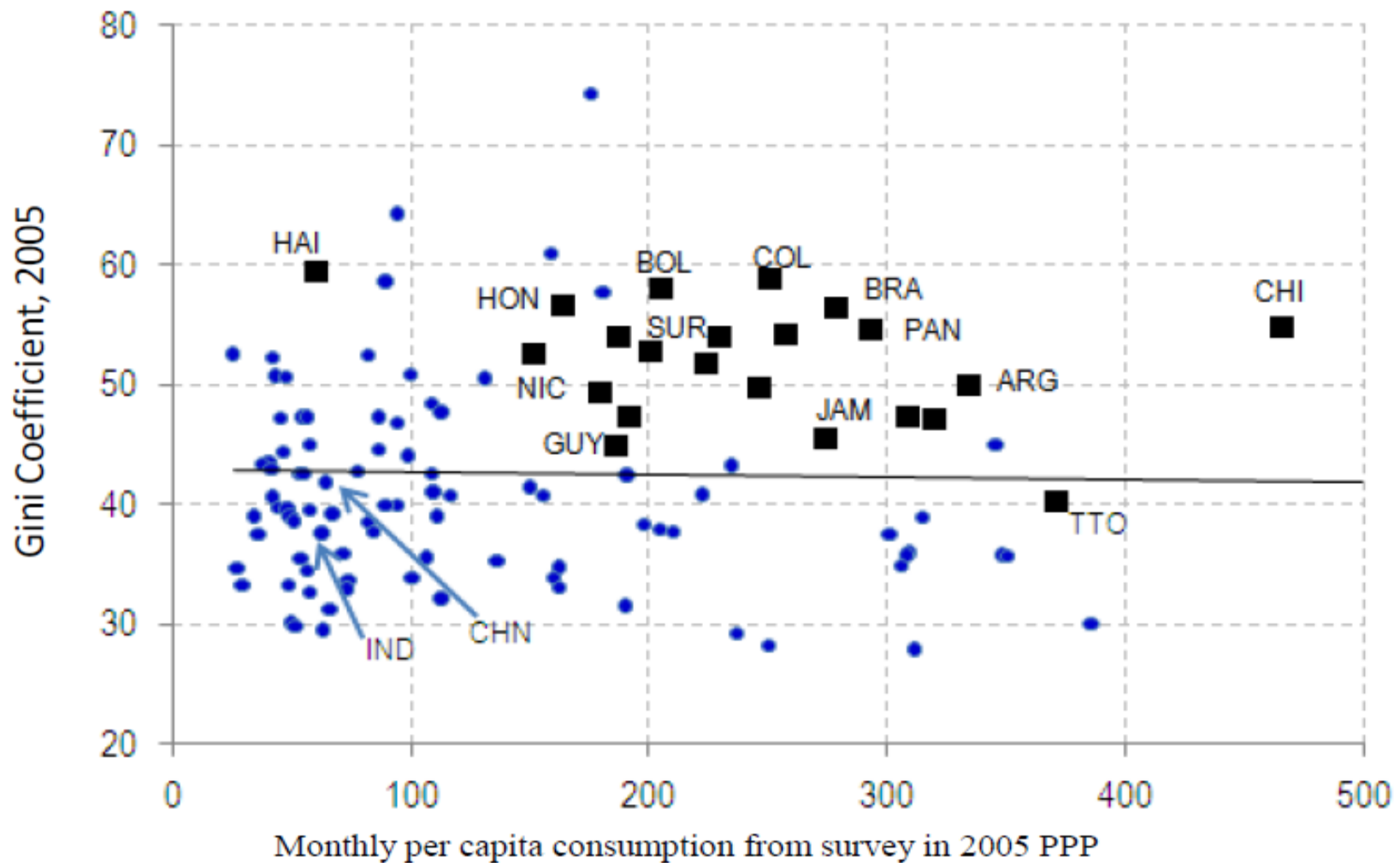
Outline

- **Declining inequality in LA: How much? Since when?**
- **Declining inequality: Why?**
 - **Argentina, Brazil, Mexico and Peru**
 - Fall in skill premium
 - More progressive government transfers
- **The future: Will inequality continue to decline?**

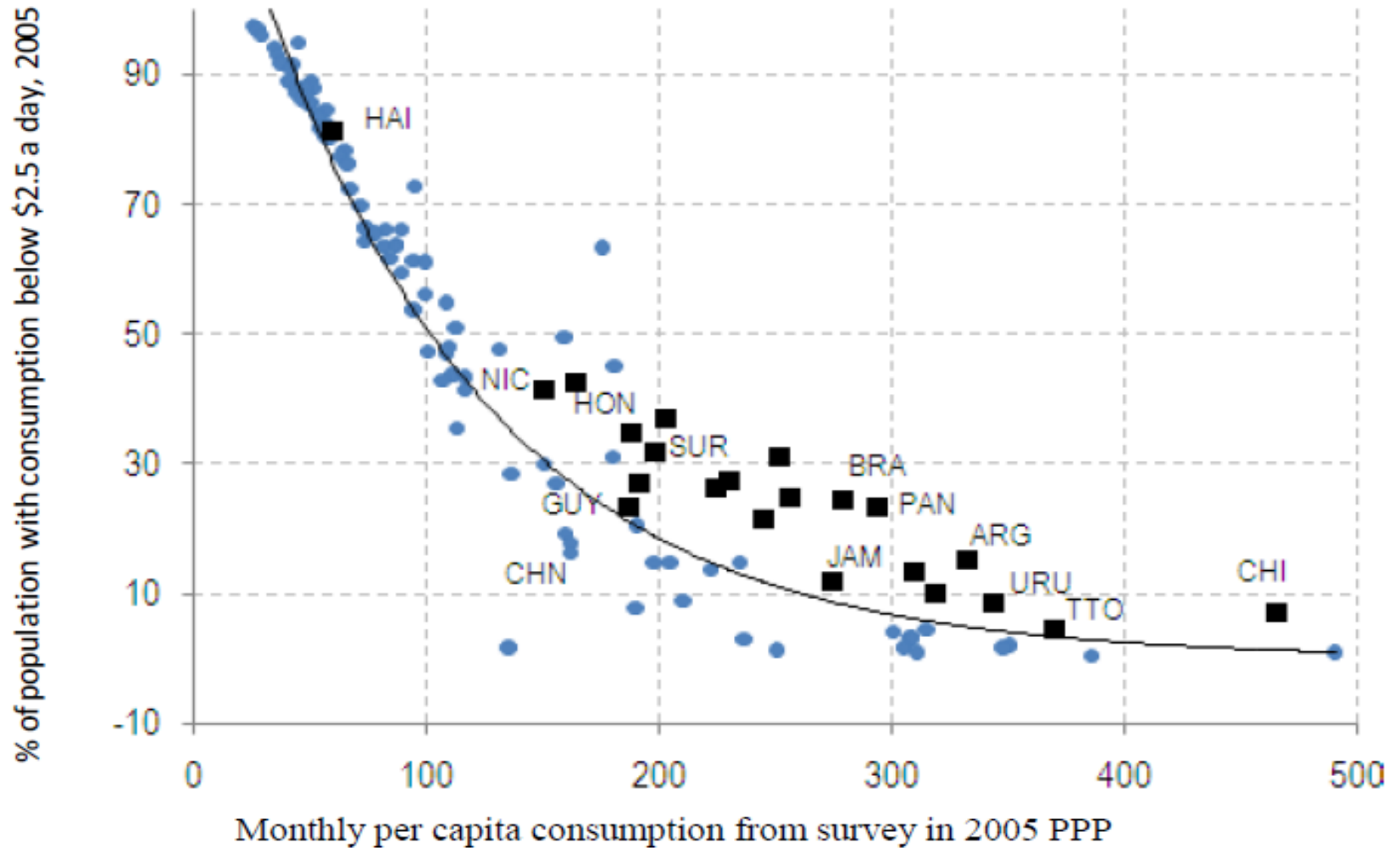
Gini Coefficient by Region (in %), 2004



Excess Inequality



Excess Poverty



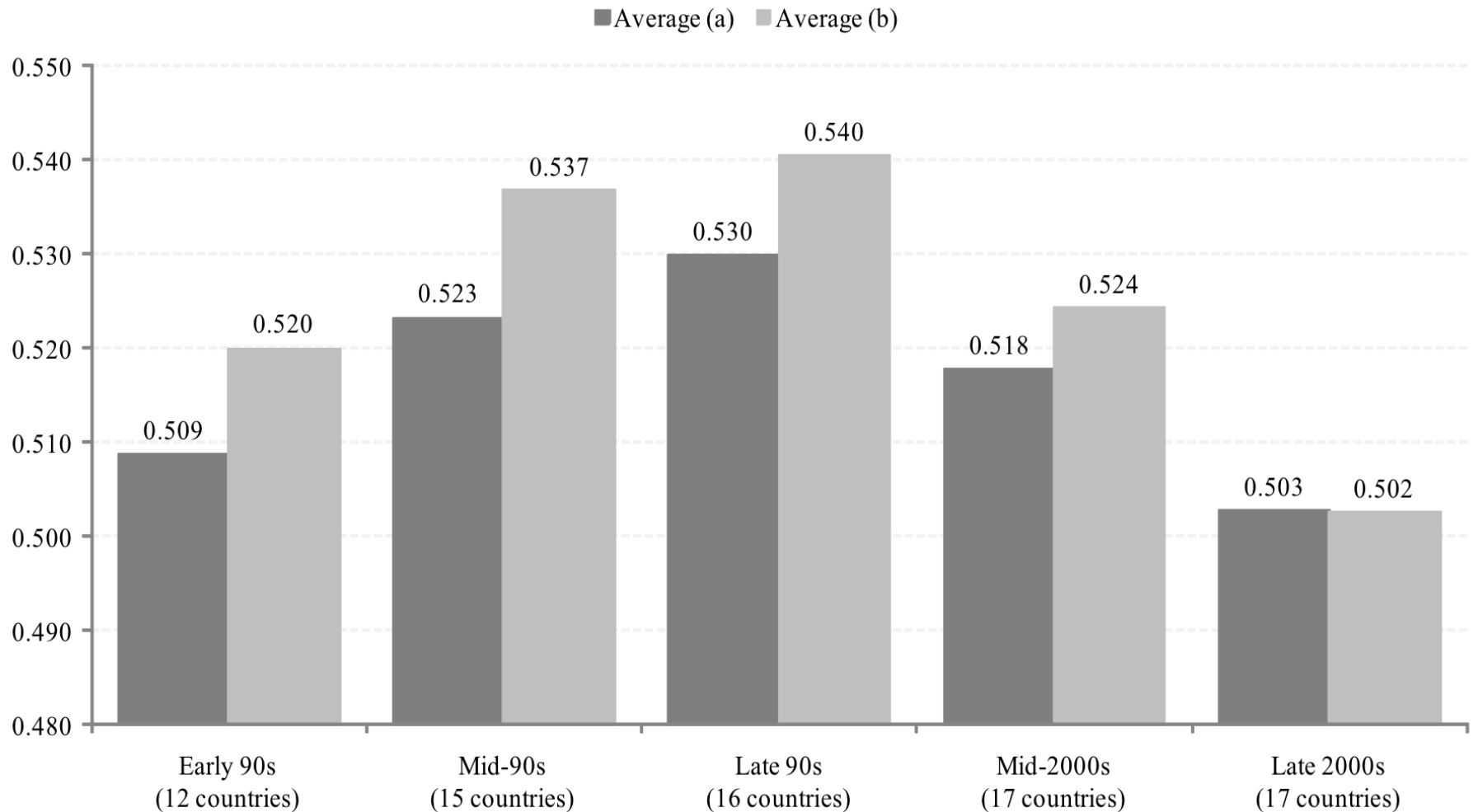
Declining Inequality in LA: How Much?

- Inequality in most Latin American countries (13 out of 17) has declined (roughly 1% a year) between (circa) 2000 and (circa) 2009
- Decline continued through the global financial crisis in 2009
- Inequality declined in LA while it rose in other regions

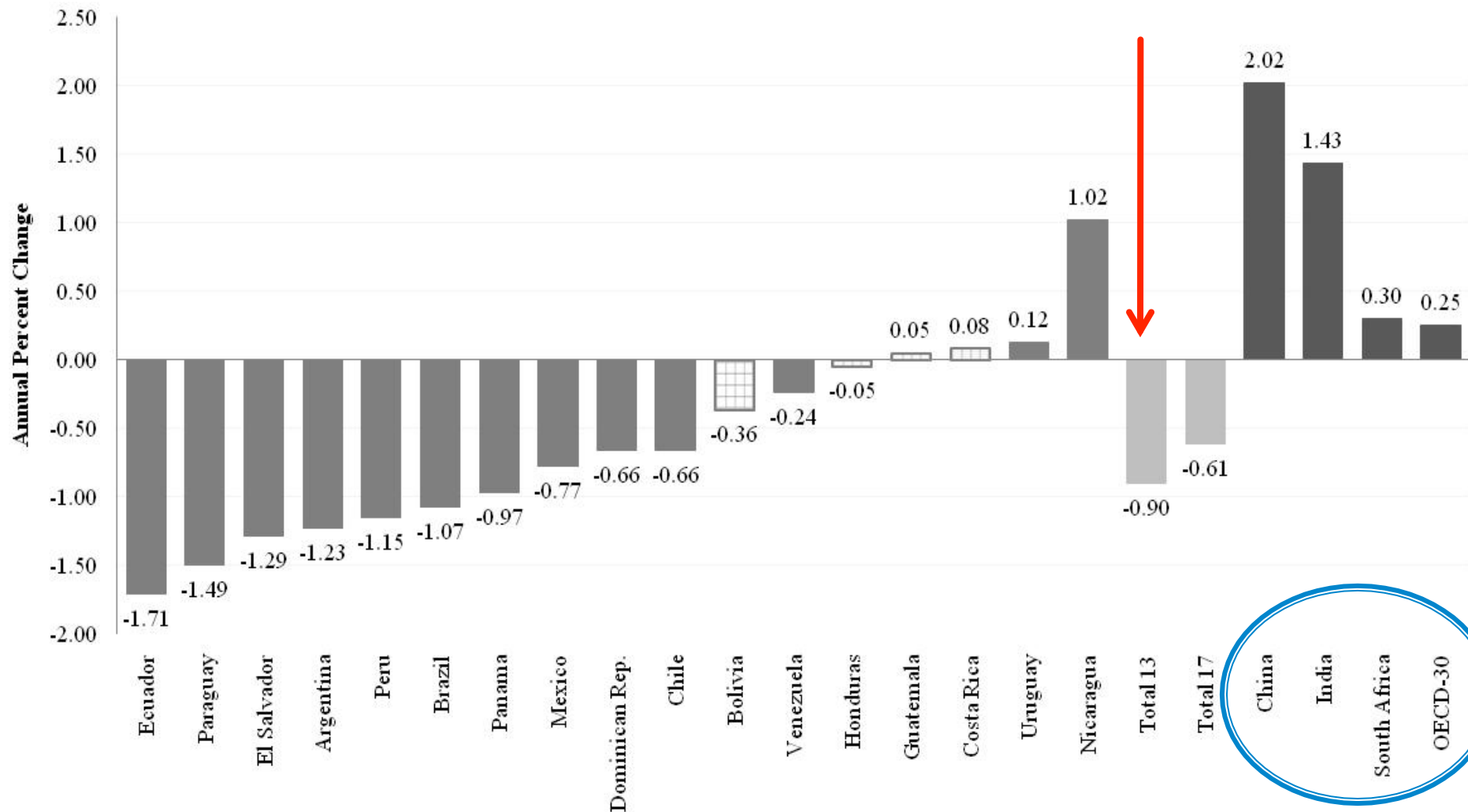
Trends in Inequality

Gini Coefficient Early 1990's-Late 2000's (Unweighted ave.)

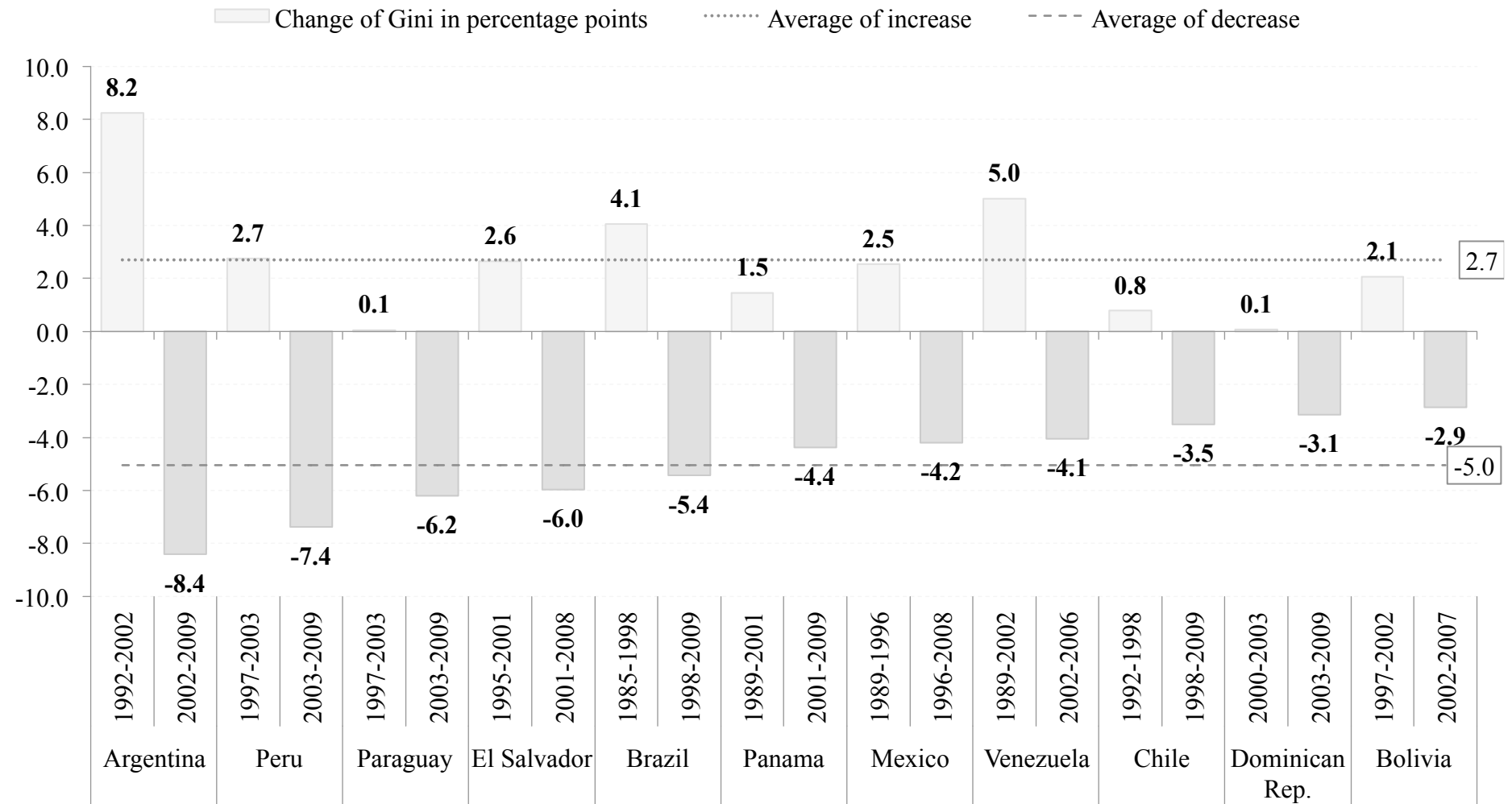
Light Grey: Countries with Falling Ineq (Lustig et al., 2011)



Change in Gini Coefficient by Country: circa 2000-2009 (yearly change in percent)



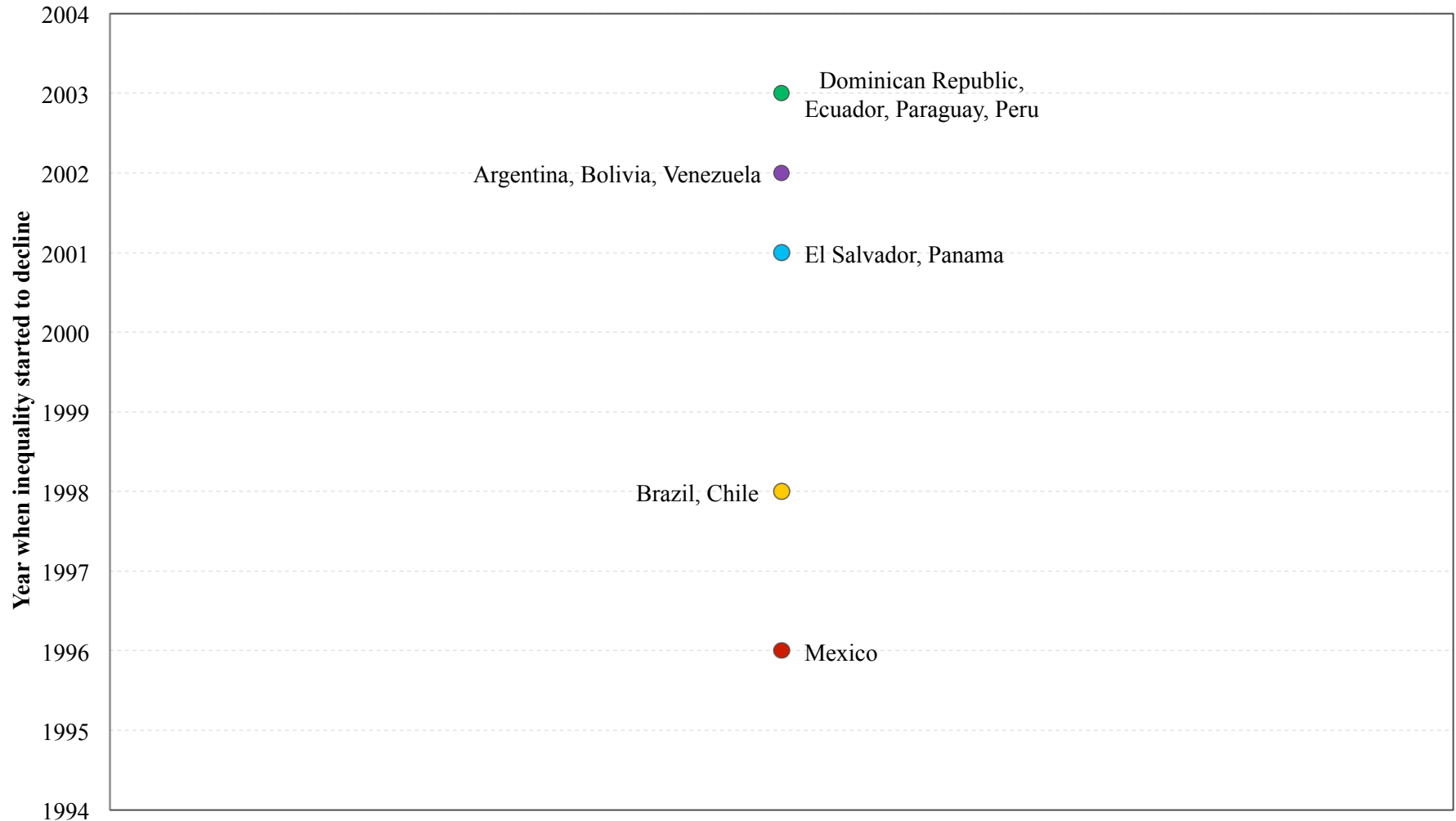
Comparing the Increase in the 1990's with Decline in the 2000's (Lustig et al., 2011)



Declining Inequality in LA: Since When?

- In three countries, during second half of 1990s: Mexico, Brazil and Chile
- In six, started in 2002-2003: Argentina, Bolivia, El Salvador, Paraguay, Panama and Peru
- In others, although there are fluctuations, inequality between 2000 and 2009 increased: Costa Rica, Honduras and Uruguay

First Year in Which Inequality Started to Decline (Lustig et al, 2011)



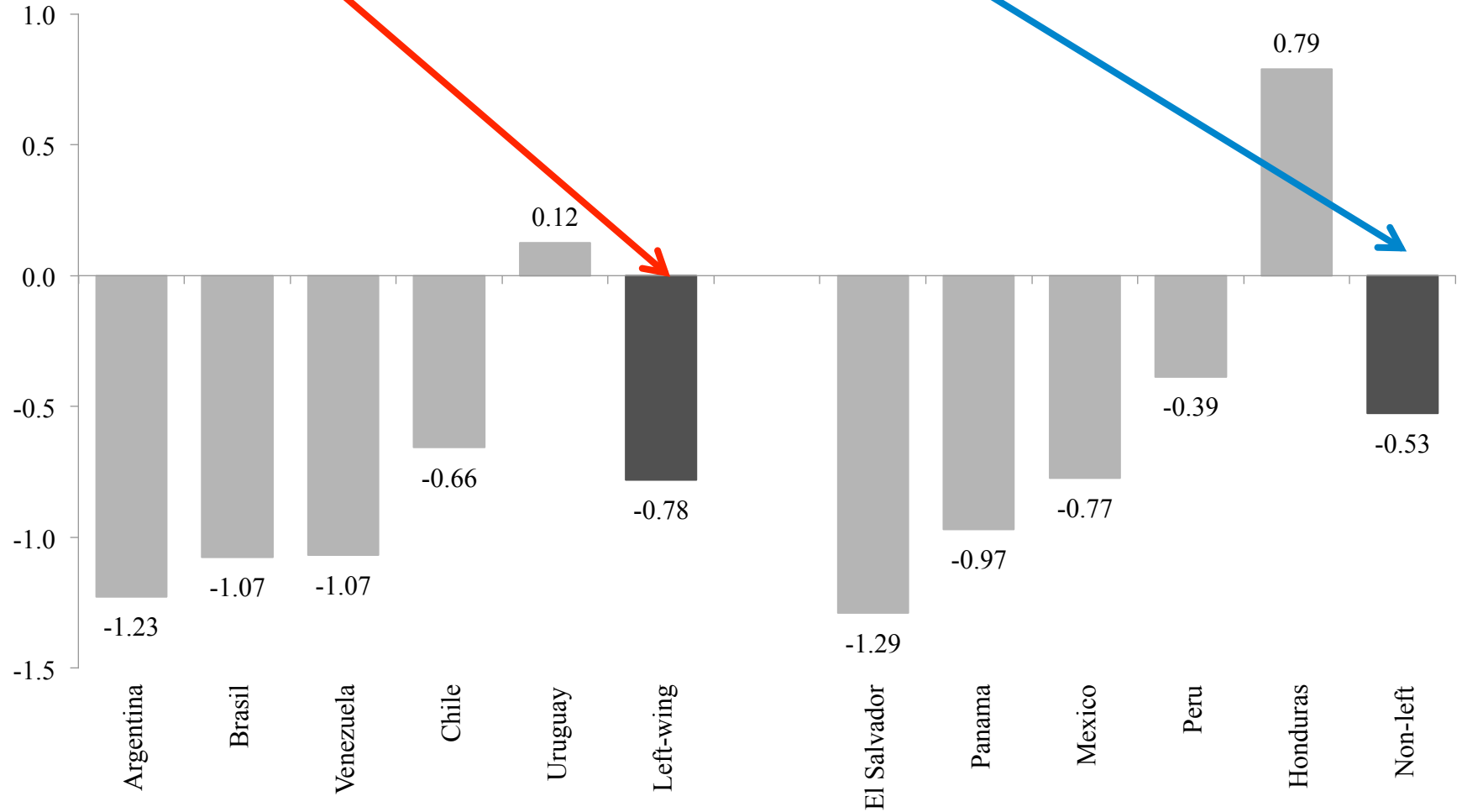
Why has inequality declined in Latin America? Are there factors in common?

- Fast growing countries (Chile and Peru), slow growing countries (Brazil and Mexico) and countries recovering from crisis (Argentina and Venezuela)
- Persistently high inequality countries (Brazil) and normally low inequality countries (Argentina)
- Countries with left “populist” governments (Argentina), left social-democratic governments (e.g., Brazil, Chile) and center/center-right governments (e.g., Mexico and Peru)

Sample Representative of High and Low Growth Countries

- Argentina and Peru were growing at around 6 percent a year since 2003
- Brazil and Mexico were growing at less than 3 percent a year (Brazil's growth rate picked up only from 2008 onwards)

Left and Non-left Regimes (yearly change in Gini in %; circa 2000-2009)

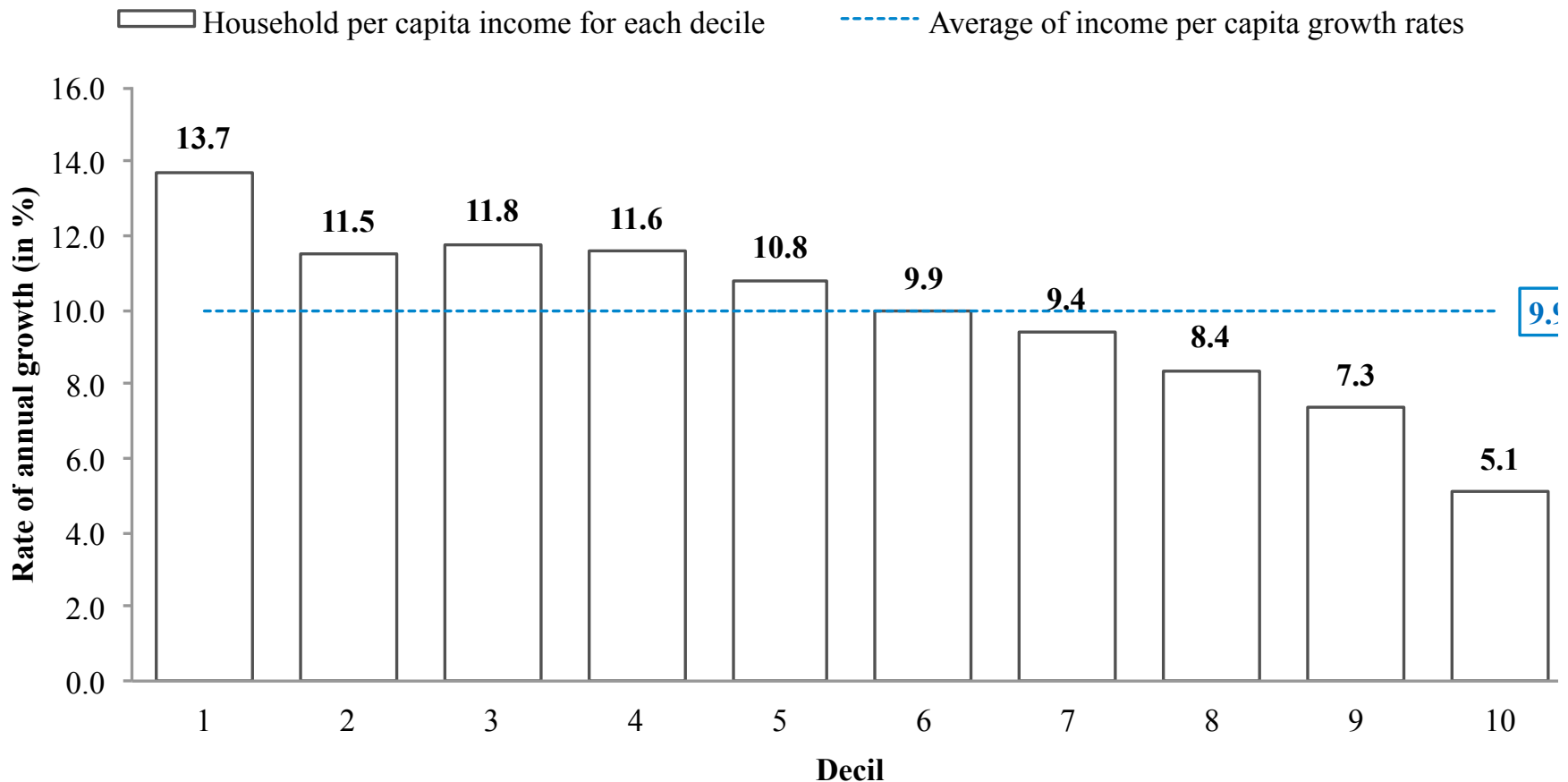


Focus on Four Countries

- Argentina
- Brazil
- Mexico
- Peru

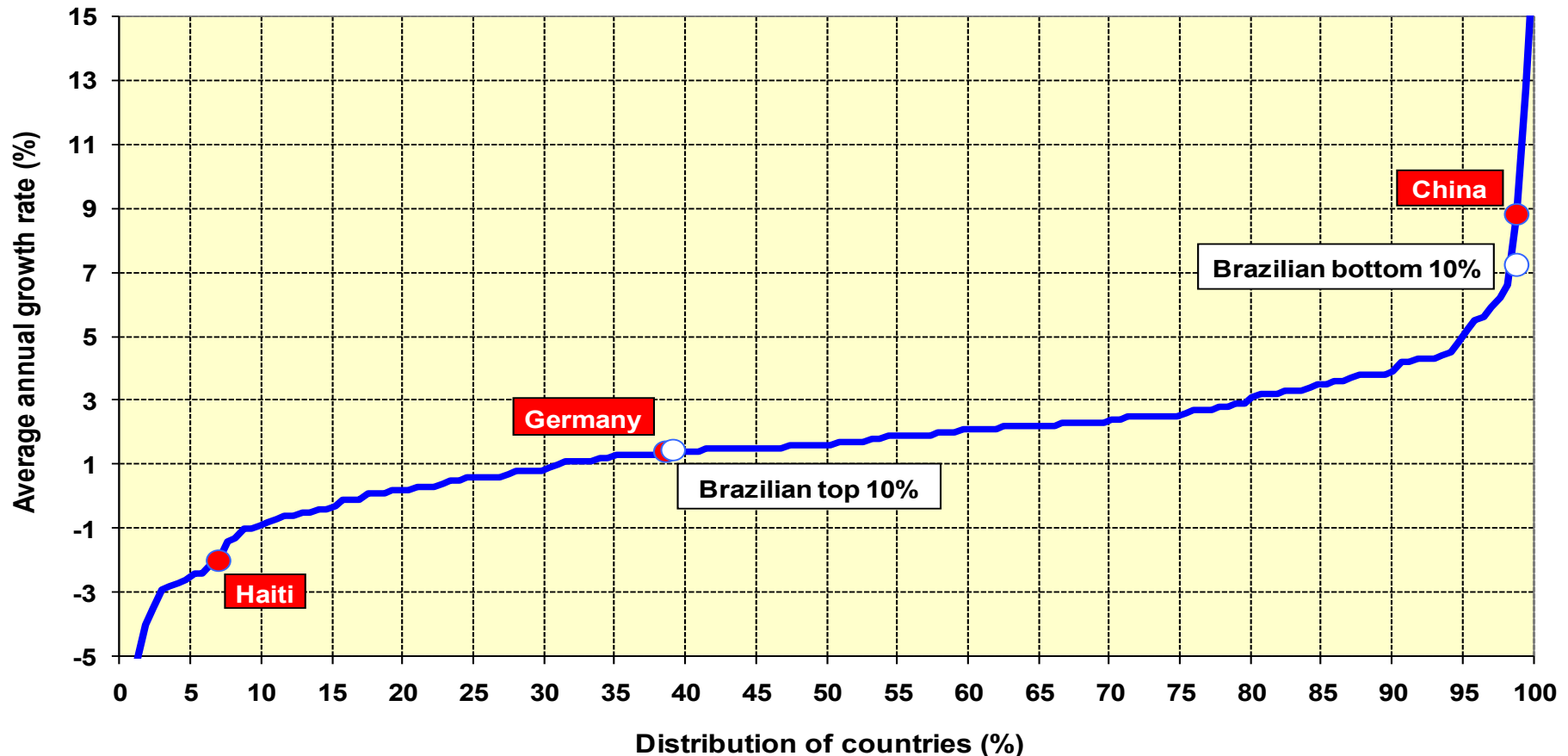
Argentina: Growth Incidence Curve

2000-2009



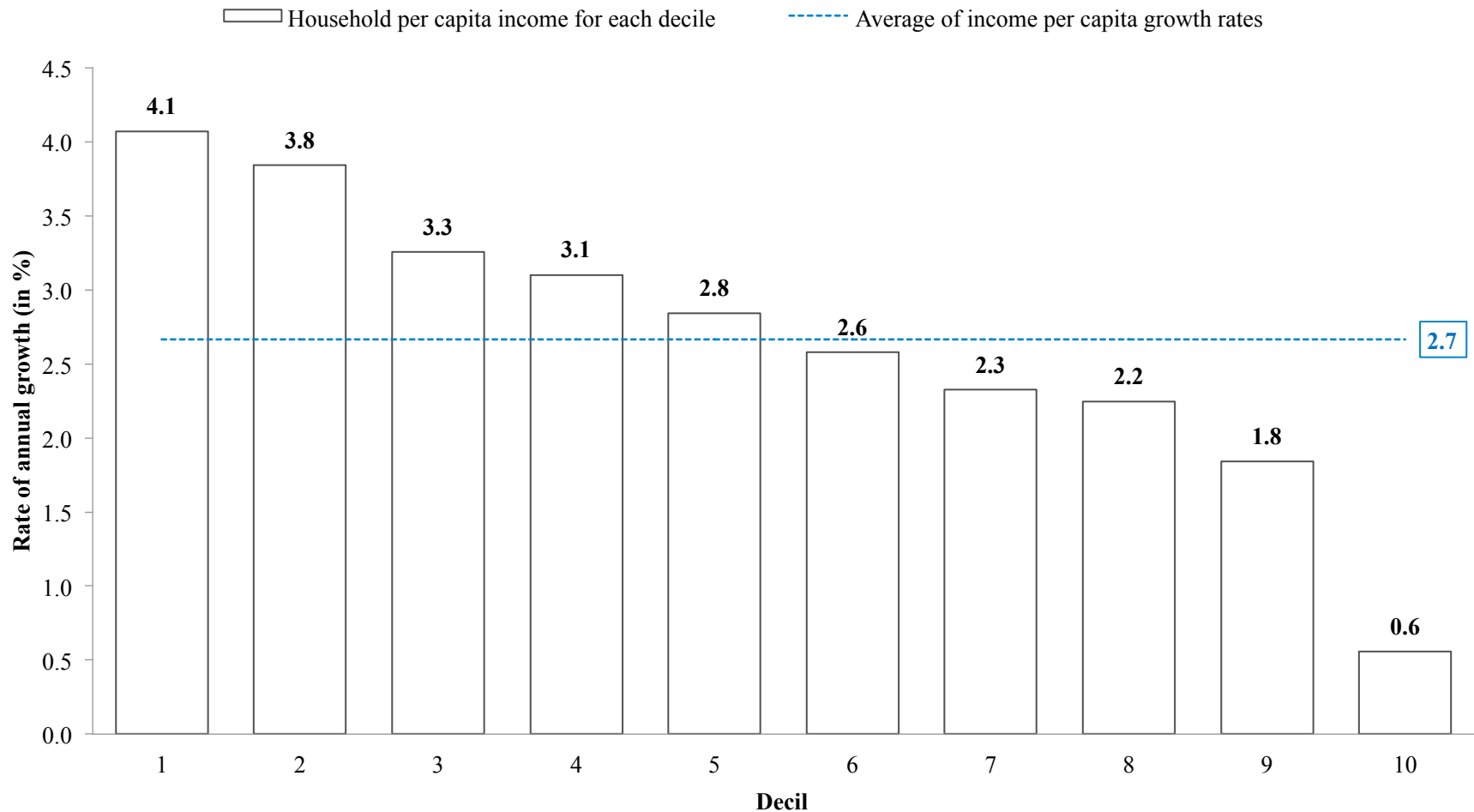
Income of the Brazilian poor has been growing as fast as per capita GDP in China while income of the richest ten percent has been growing like Germany's per capita GDP

Distribution of countries according to the average per capita GDP growth rate between 1990 and 2005



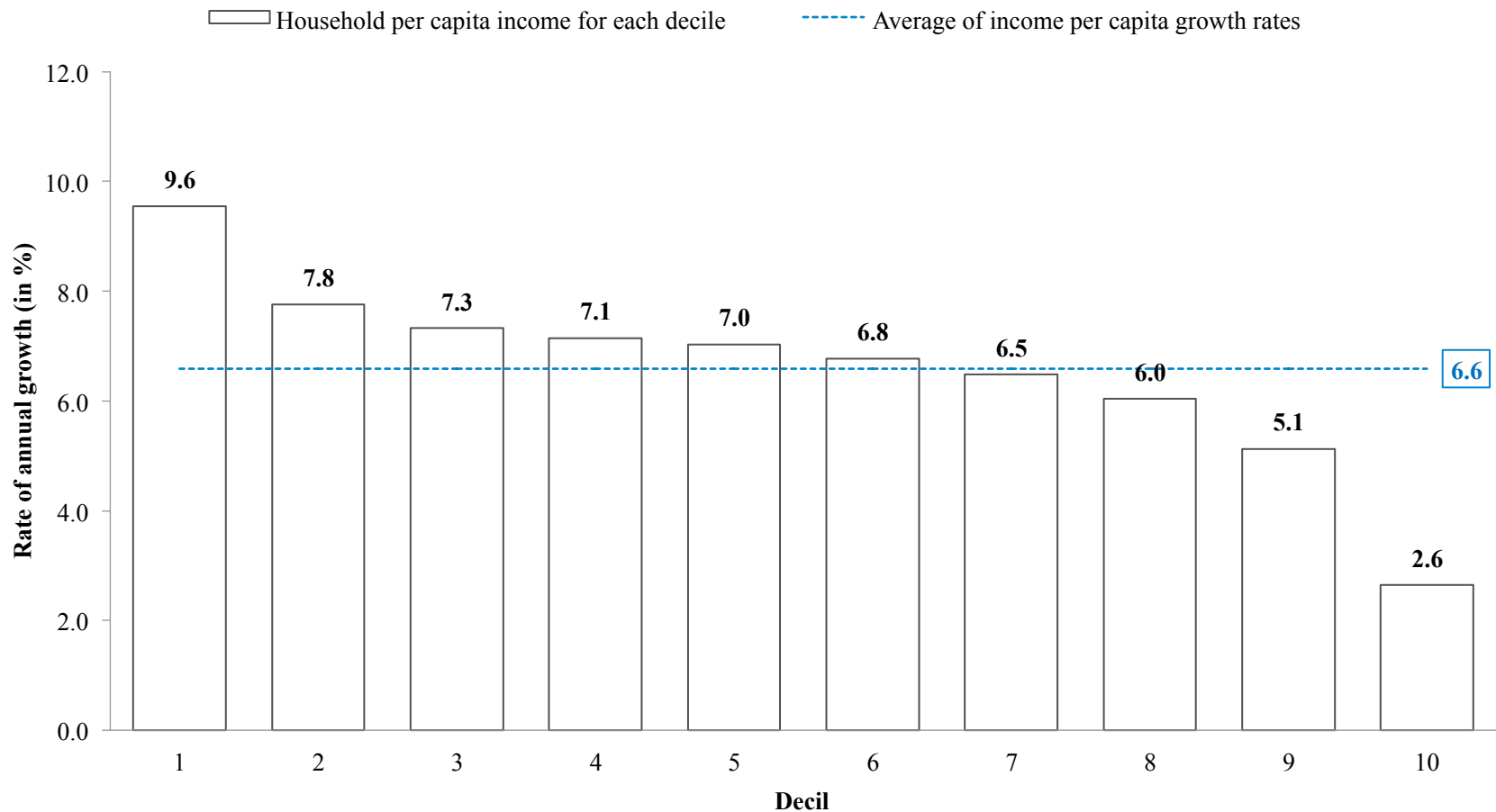
Mexico: Growth Incidence Curve

2000-2008



Peru: Growth Incidence Curve

2001-2009



Determinants of Declining Inequality:

- ***Demographics:***
 - Changes in the ratio of adults per household were equalizing, albeit the orders of magnitude were generally smaller except for Peru.

Determinants of Declining Inequality:

- *Labor force participation:*
 - With the exception of Peru, changes in labor force participation (the proportion of working adults) were equalizing.
 - This effect was stronger in Argentina.

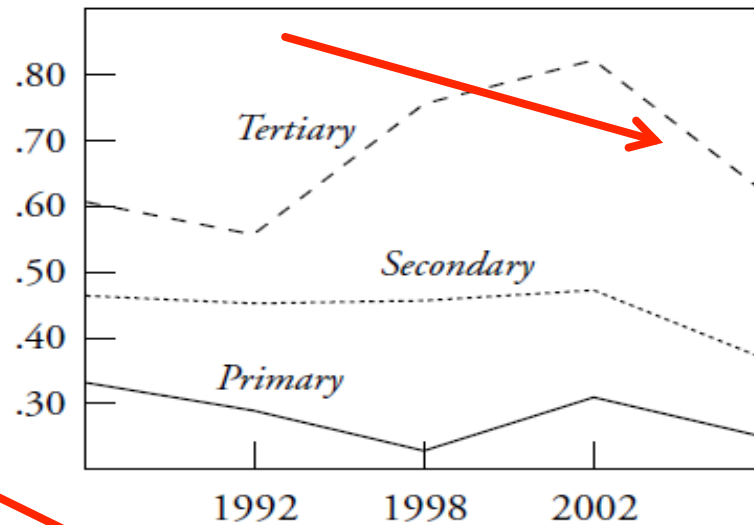
Determinants of Declining Inequality:

- ***Labor income (Earnings):***
 - In Argentina, Brazil, and Mexico between 44% and 65% of the decline in overall inequality is due to a reduction in earnings per working adult inequality.
 - In Peru, changes in earnings inequality were unequalizing at the household level but not at the individual workers' level.
- => decline in skill premium a driving force

Figure 1-5. *Ratio of Returns to Education for Argentina, Brazil, Mexico and Peru^a*

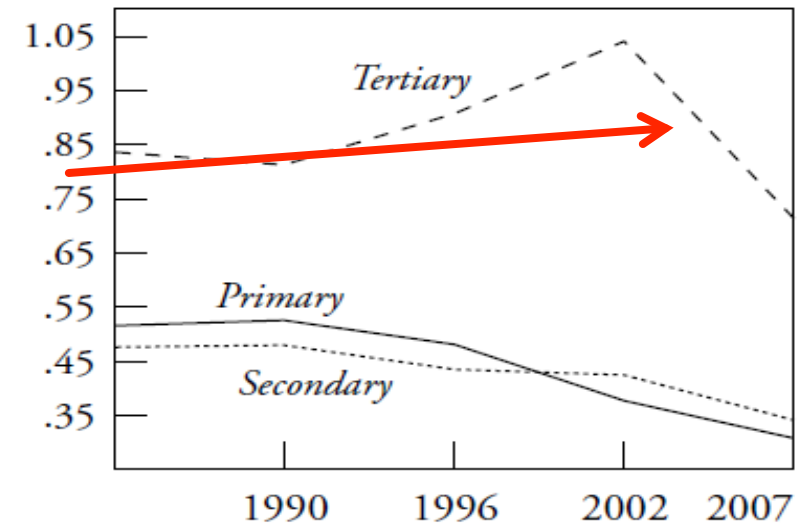
Argentina (urban areas): 1986–2006

Percent



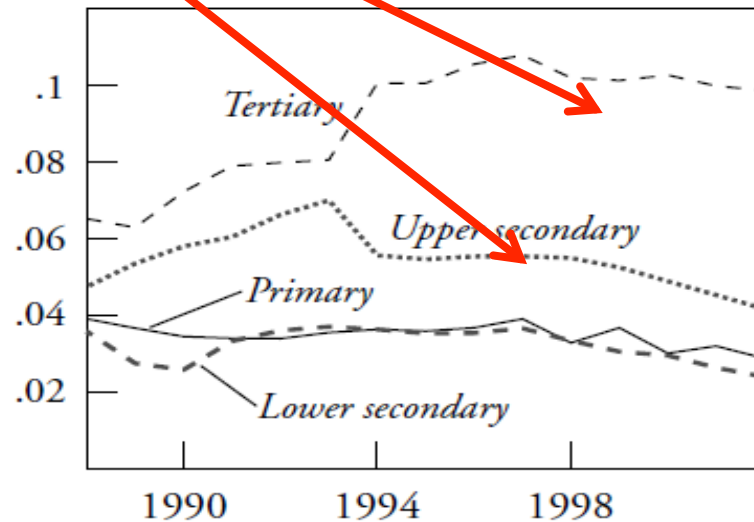
Brazil: 1986–2007

Percent



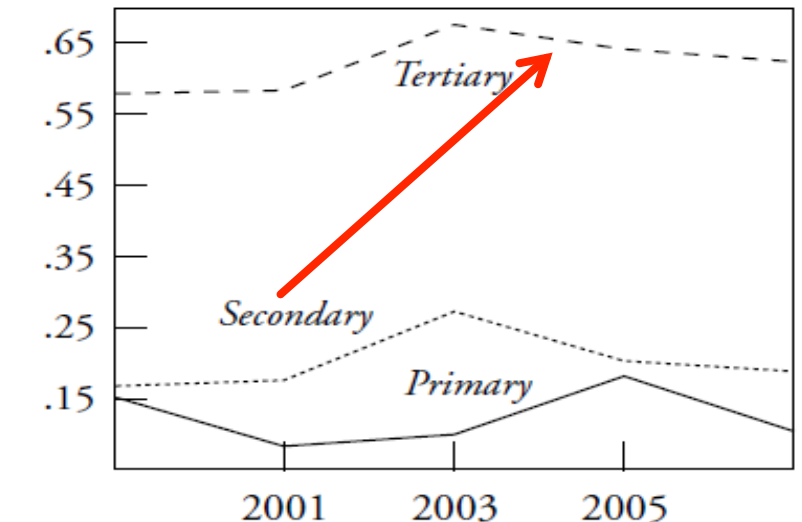
Mexico: 1988–2002

Percent



Peru: 1998–2007

Percent

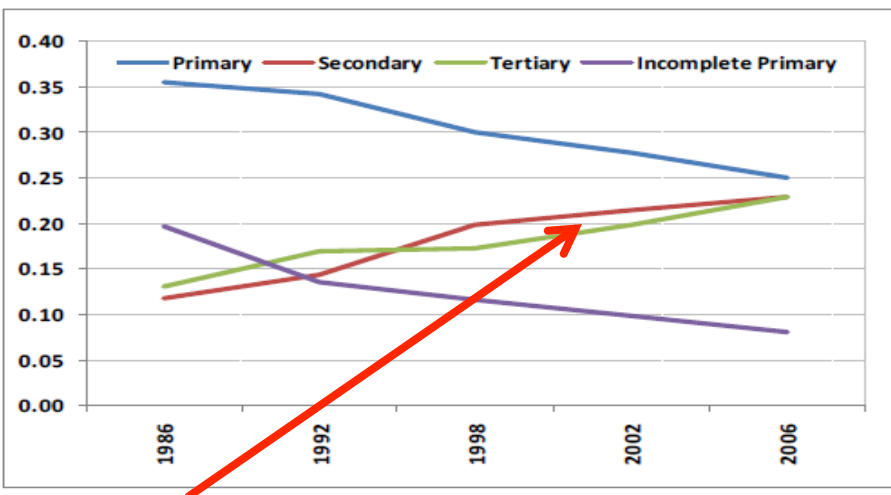


Why has the skill premium declined?

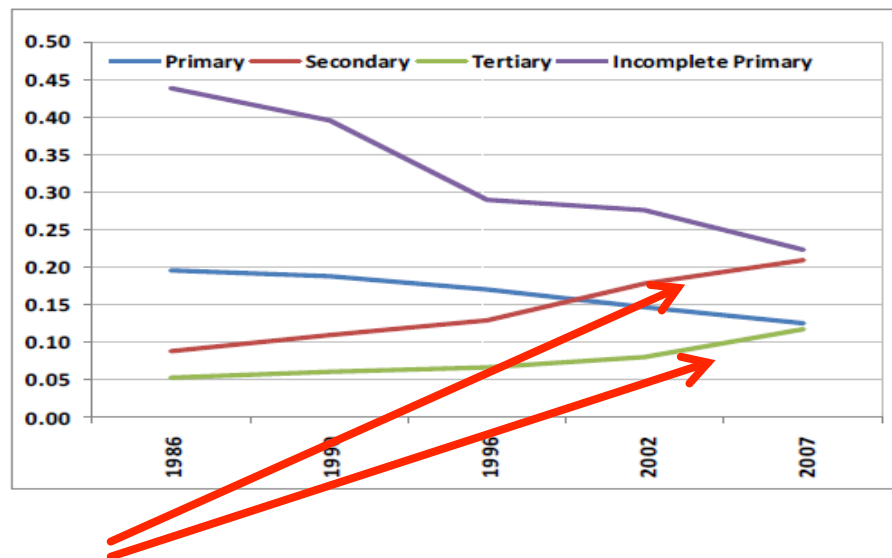
- Increase in relative supply of high-skilled workers
- Decline in relative demand for skilled labor petered out
- Institutional factors that compress the wage structure: minimum wages and unionization

Figure 7. *Composition of Adult Population by Educational Level: Argentina, Brazil, Mexico and Peru*

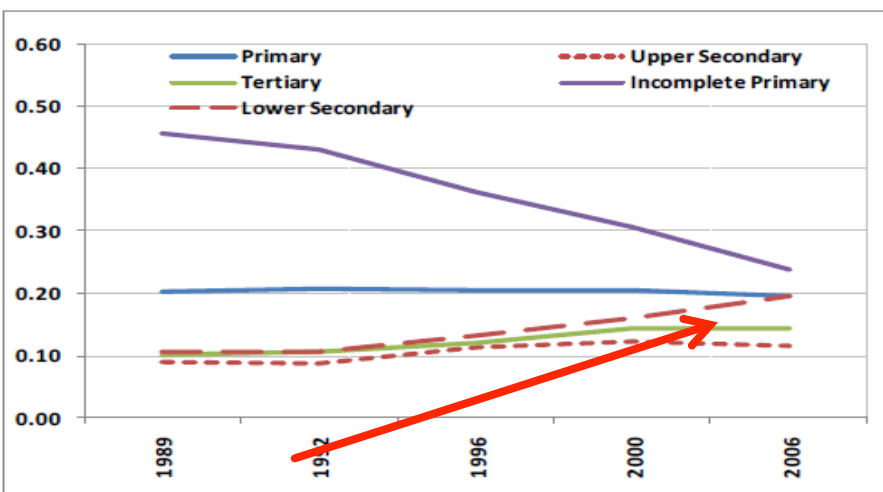
Argentina (urban areas): 1986 – 2006



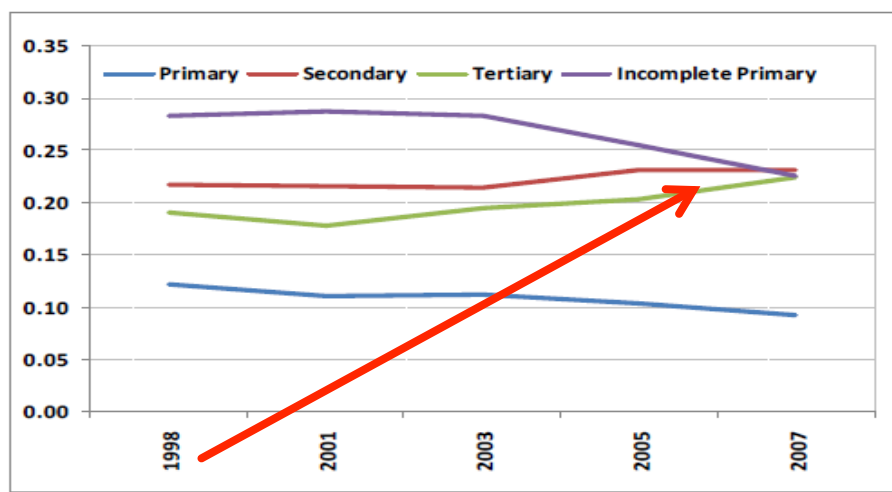
Brazil: 1986 - 2007



Mexico: 1989 – 2006



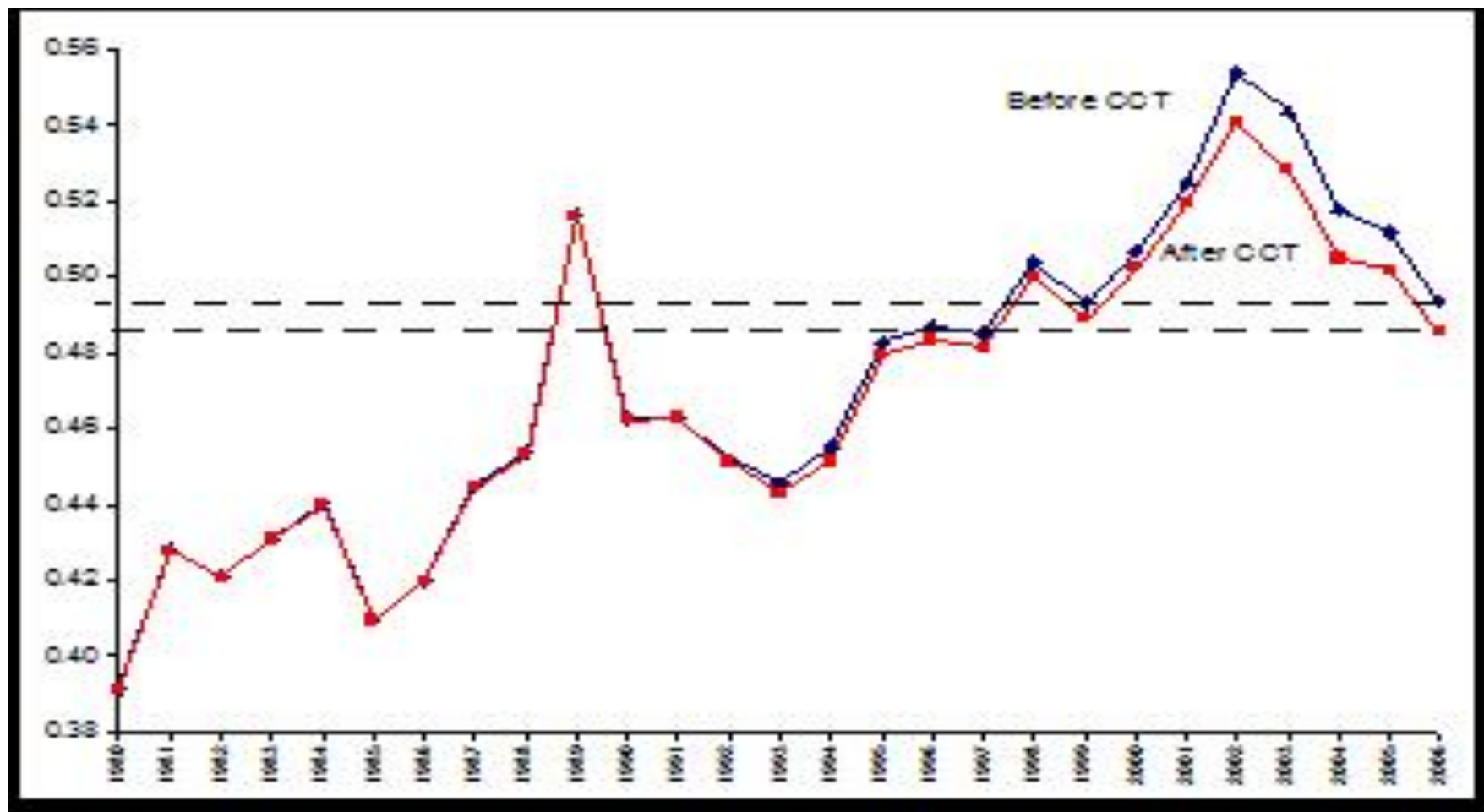
Peru: 1998 - 2007



Determinants of Declining Inequality:

- *Non-labor income:*
 - Changes in the distribution of non-labor income were equalizing;
 - the contribution of this factor was quite high in Brazil and Peru (45% and 90%, respectively).
- => more generous and progressive transfers, an important factor

Argentina: Distributional impact of Conditional cash transfers



Why has inequality in non-labor incomes declined?

- Government transfers became more progressive and generous for the poor:
 - Argentina, *Jefes y Jefas de Hogar* and more recently *Pension Moratorium* and *Family Transfers*.
 - Brazil and Mexico, large-scale conditional cash transfers Bolsa Familia and Oportunidades => can account for between 10 and 20 percent of reduction in overall inequality. An effective redistributive machinery because they cost around .5% of GDP.
 - In Peru, in-kind transfers for food programs and health.

In sum:

- **DECLINE IN LABOR INCOME INEQUALITY:** In the race between skill-biased technological change and educational upgrading, in the last ten years the latter has taken the lead (Tinbergen's hypothesis)
- **DECLINE IN NON-LABOR INCOME INEQUALITY:** Perhaps as a consequence of democratization and political competition, government (cash and in-kind) transfers have become more generous and targeted to the poor

Epilogue: A Caveat about our Measures of Inequality

- Data comes from Household Surveys
- They grossly underestimate top incomes
- The “Top Incomes Project” uses data from tax returns for advanced countries
- In LA governments do not make such data available => Lack of Transparency

Epilogue: Is Inequality Likely to Continue to Fall?

- Despite the observed progress, inequality in LA continues to be very high and the bulk of government spending is not progressive enough.

Is Inequality Likely to Continue to Fall?

- Educational upgrading will eventually hit the 'access to tertiary education barrier'
- Much more difficult to overcome: inequality in quality and 'opportunity cost' are high and costly to address.

=> United States experience should serve as warning (Goldin and Katz, 2008)

THANK YOU