

Deconstructing the Decline in Inequality in Latin America

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**Latin American Political Economy
Scholarship: The State of the Art**

**CIPR – Tulane University
April 11-12, 2013**

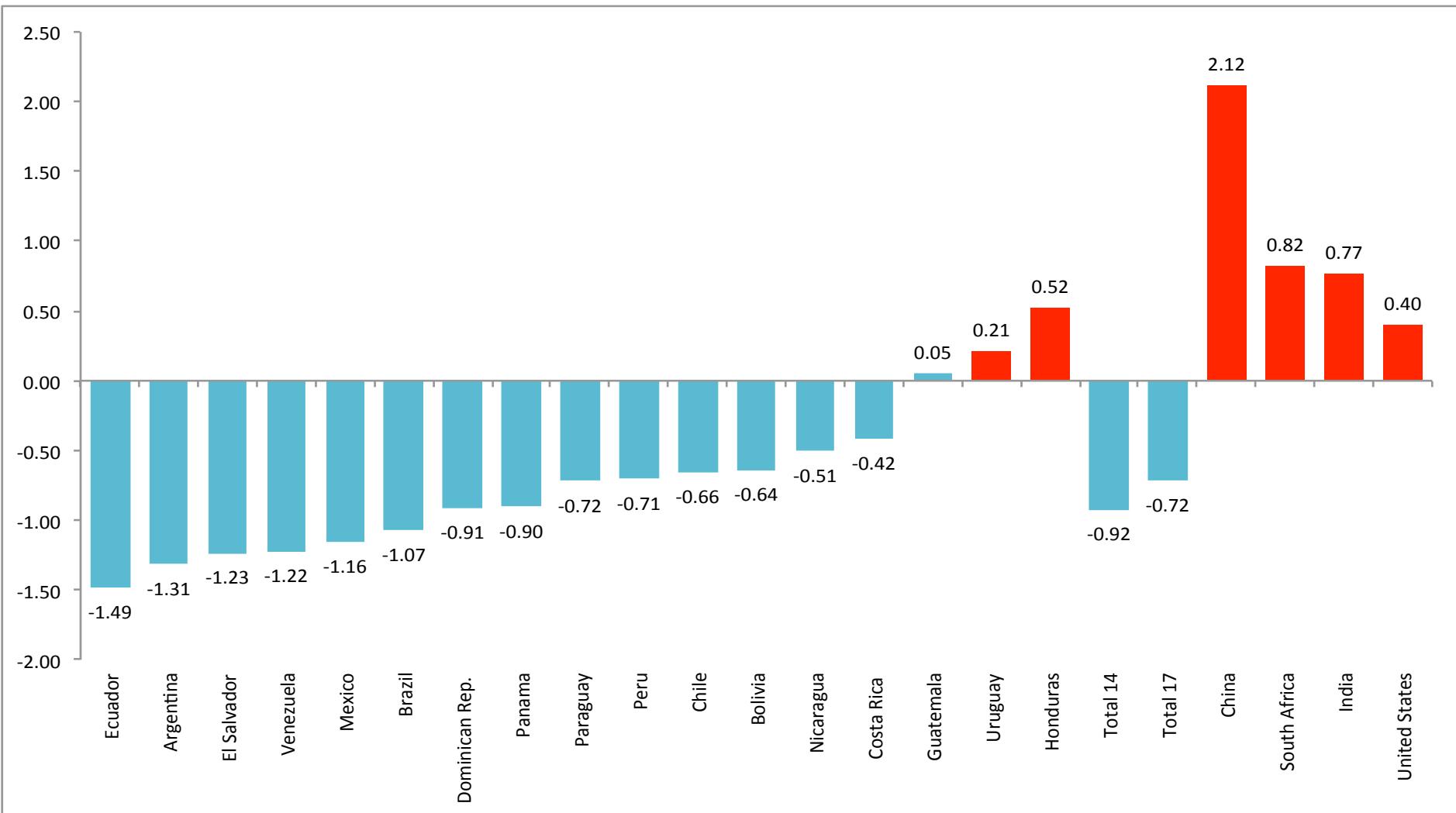
Inequality in LA is high...

...but declining since around 2000

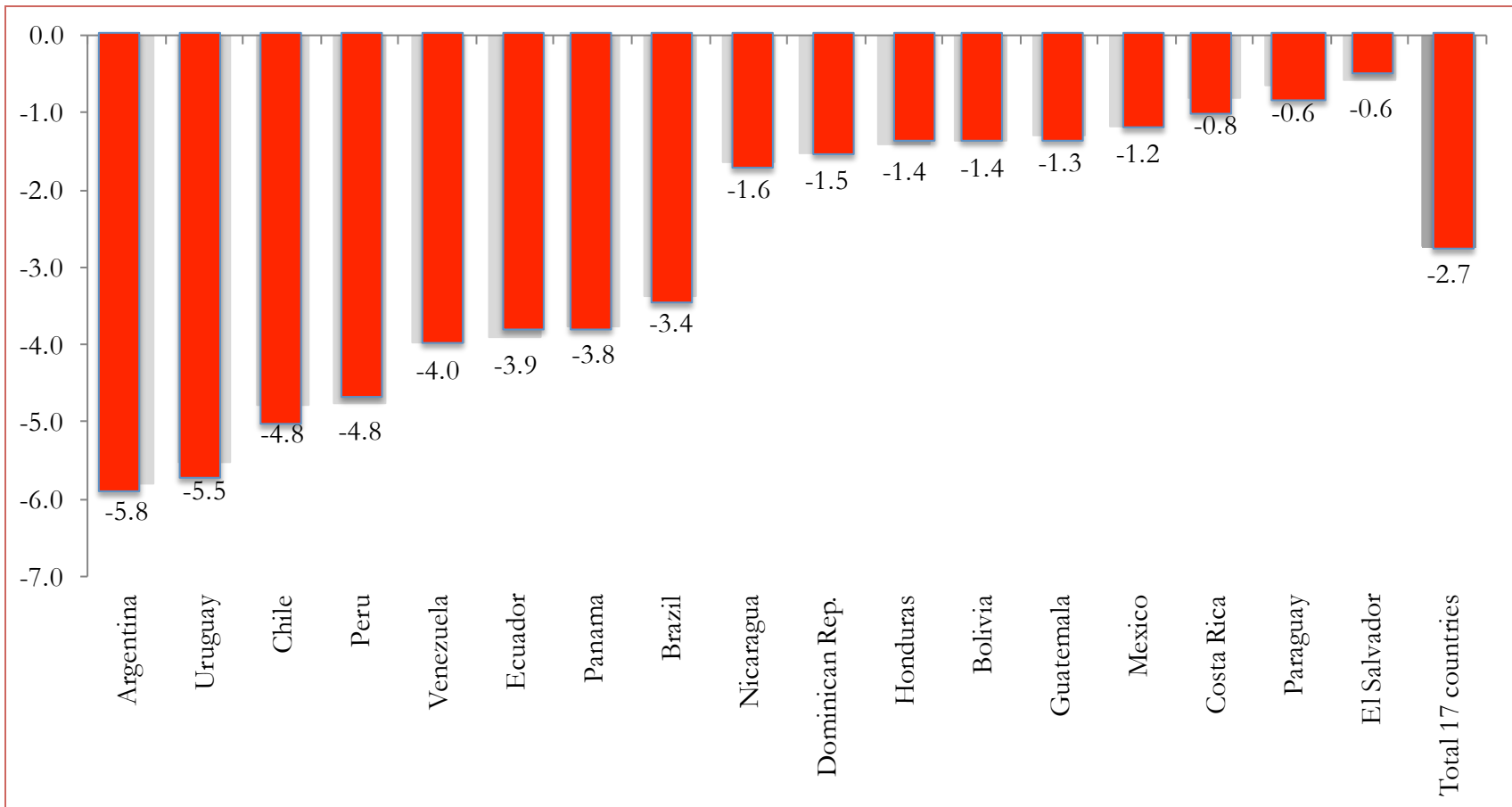
- Decline is pervasive and significant:
 - Statistically significant
 - Larger than the rise in inequality in 1990s
 - Important contribution to the decline in poverty

Declining income inequality by country: 2000-2010

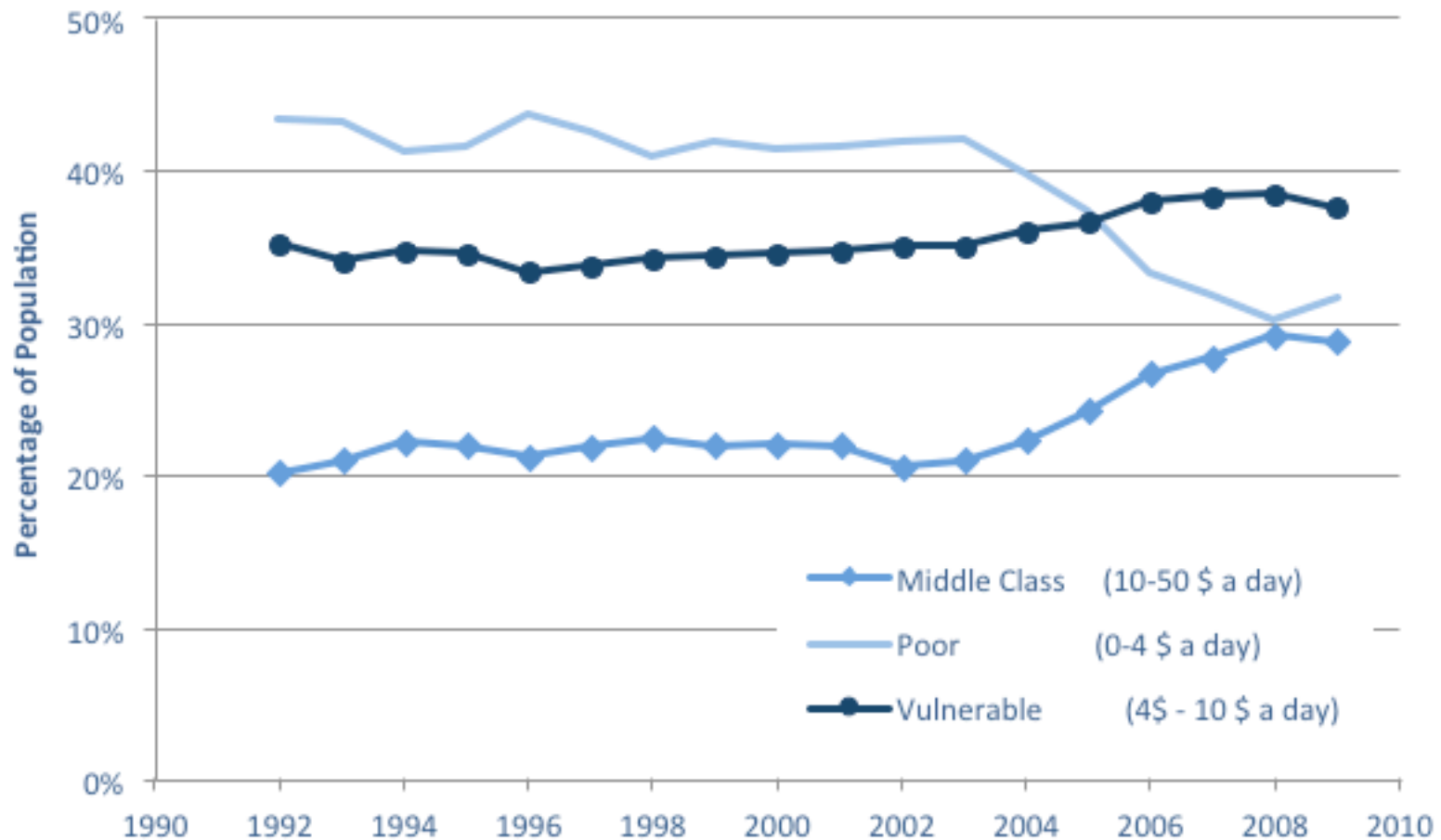
(Annual average change in Gini in %; Lustig et al. 2013)



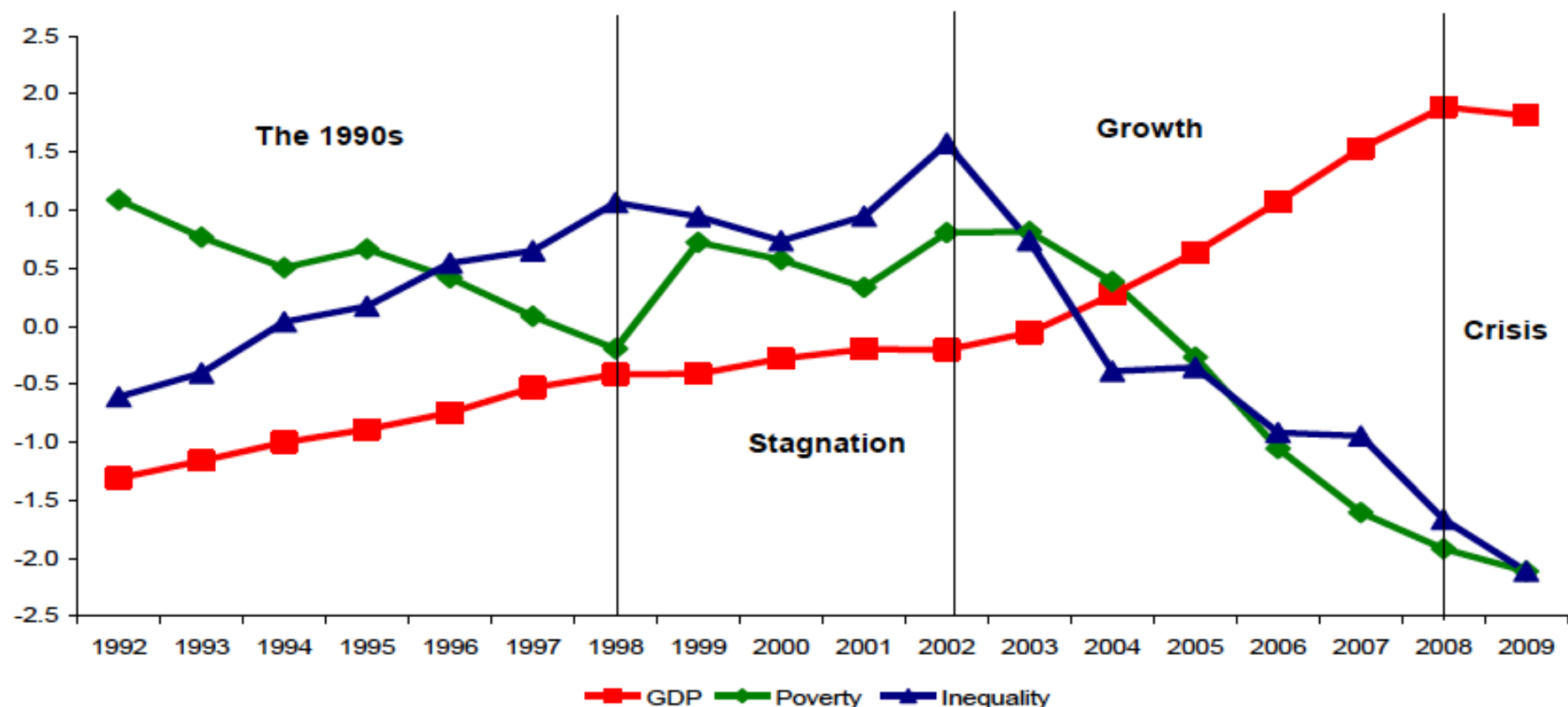
Decline in Extreme Poverty (2000-2010)



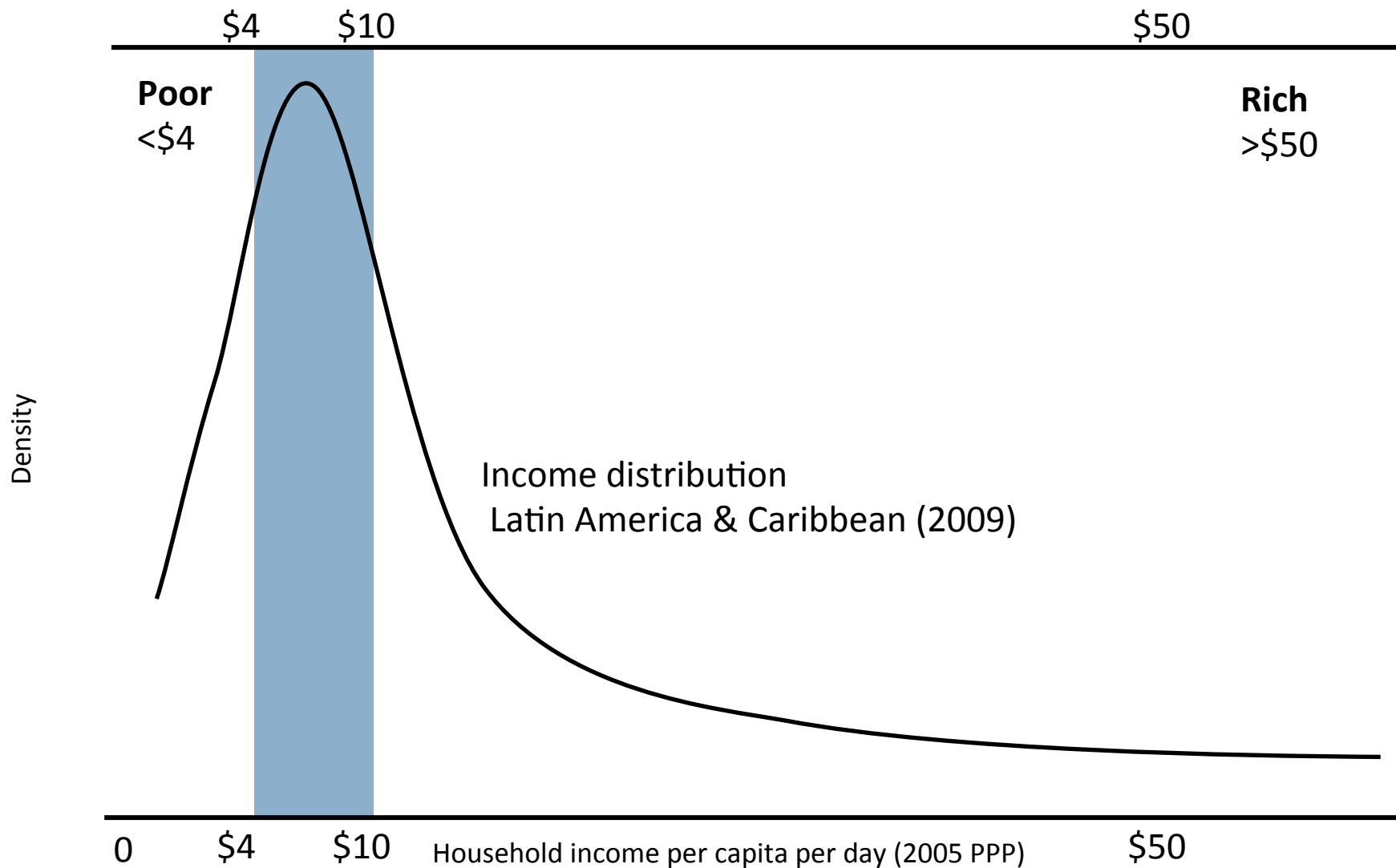
LA: Trends in Poverty, Vulnerable and Middle Class (Ferreira et al., 2012)



**Gini coefficient, poverty based on the 4USD international line and GDP.
Average for Latin America, 1992-2009**



Distribution of Population by Income Category (Birdsall et al. 2013)



Source: Adapted from Ferreira et al. (2012), based on SEDLAC.

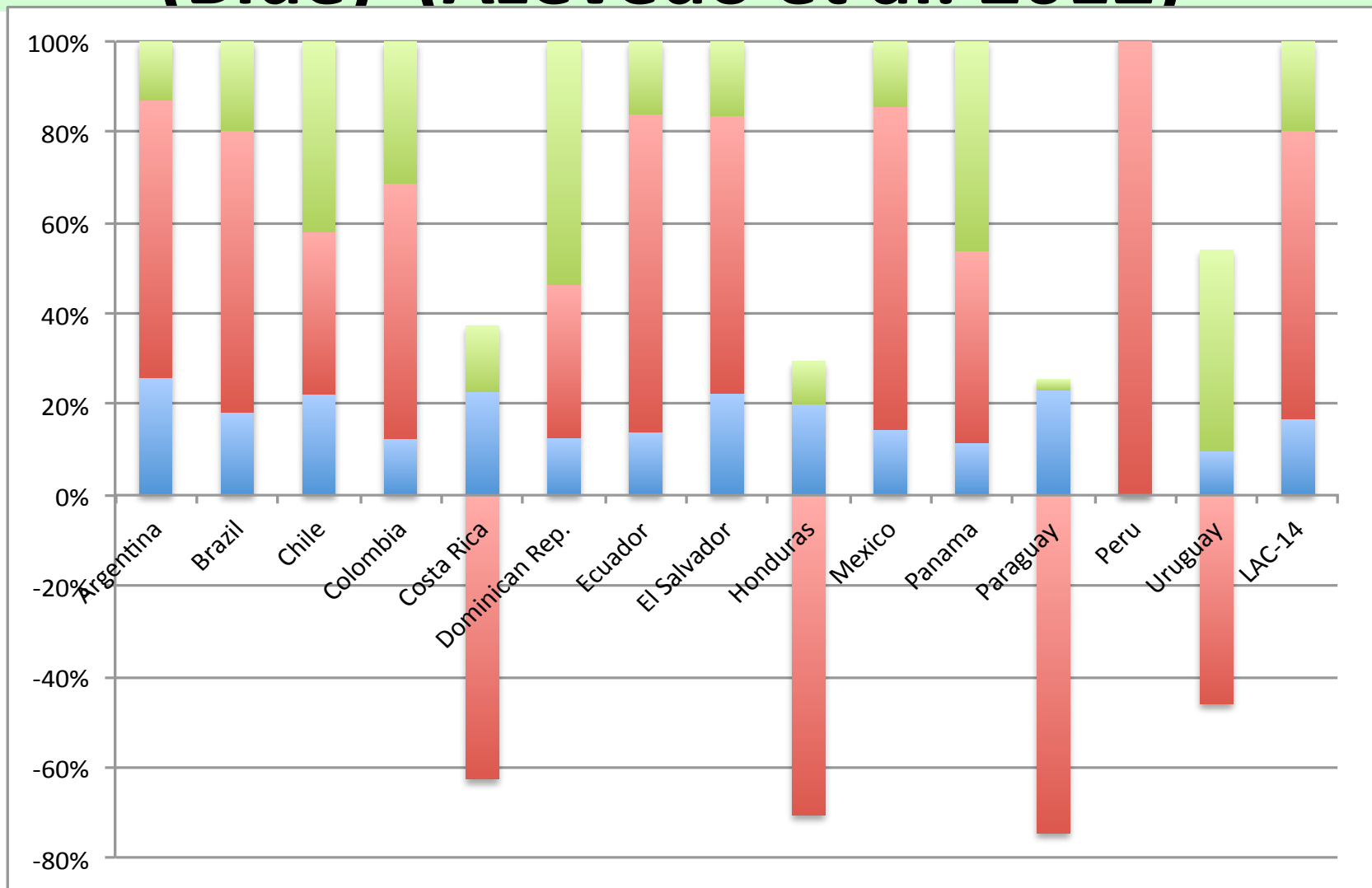
Decomposing into Growth & Redistribution (2000-2010)

- Decline in poverty, 54 percent due to redistribution
- Increase in middle class, 35 percent due to redistribution
- => Declining Inequality plays an important role

- Determinants (Lustig et al., 2013):
 - Declining inequality of hourly labor income
 - Larger and more progressive transfers
 - Lower dependency ratios
- Decomposition of decline by income source, 14 countries

Decomposing Decline in Inequality

Labor (red); Transfers (Green); Demog (Blue) (Azevedo et al. 2012)

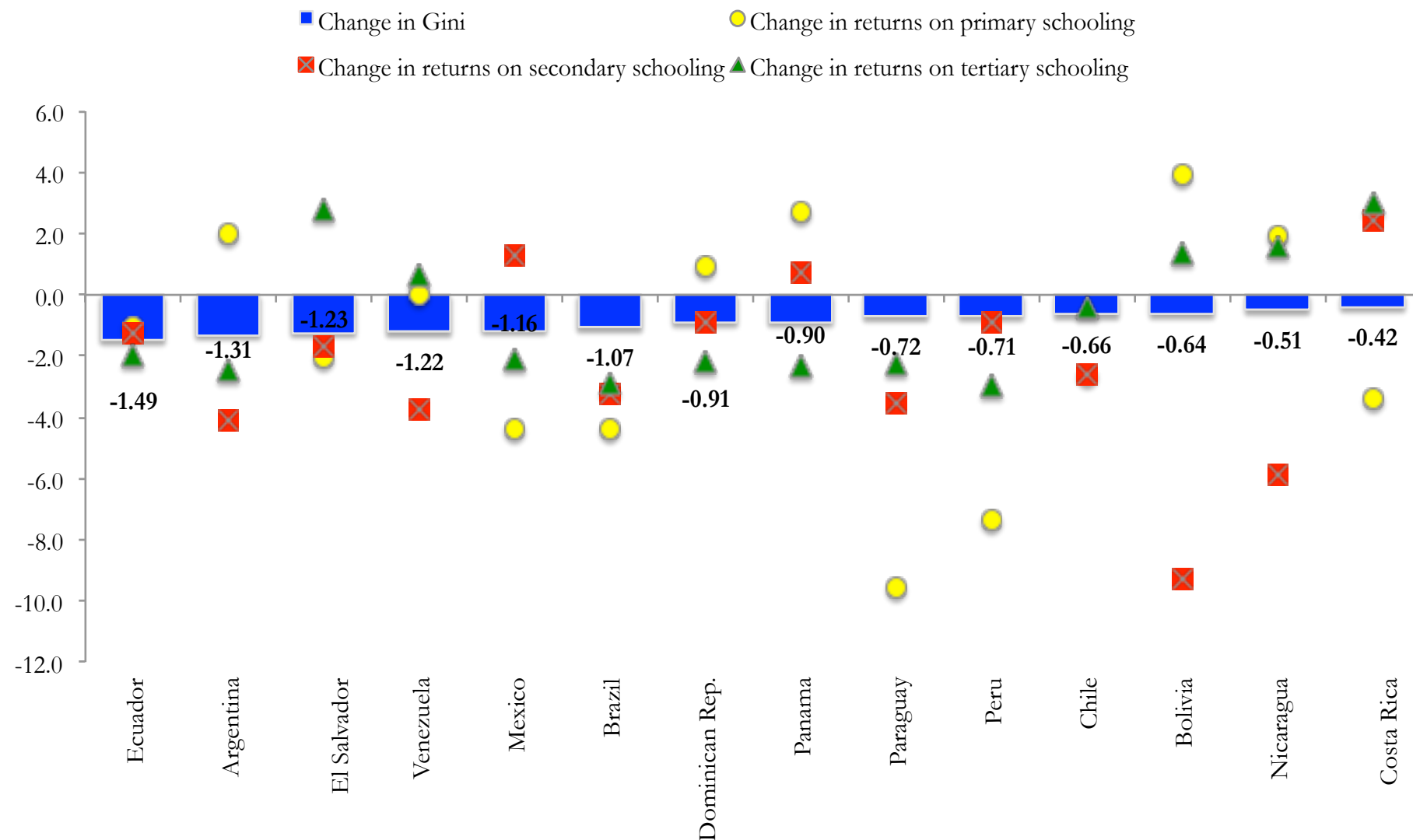


- Determinants of declining inequality in hourly labor earnings (Lustig et al., 2013):

=> Decline in returns to education (skill premium)

- Supply
- Demand
- Institutions
- Degraded tertiary

Changes in returns to education: 2000-2010 (vis a vis incomplete primary or no education)



Summing up...

- Declining hourly earnings inequality, in many countries driven by an expansion of supply of people with more education
 - In Tinbergen's race between education and technology, education might have the upper hand

However,

- Evidence that it is supply-driven may not be robust enough
- Role of institutional factors
- ‘Degraded’ tertiary(Chile, Peru)

What do we know about capital income?

- Household Surveys are not a good source
- Use Tax Returns as suggested by Top Incomes Project (Alvaredo, Atkinson, Piketty, Saez)
- Results for Colombia are very telling (Alvaredo and Londono, 2013)

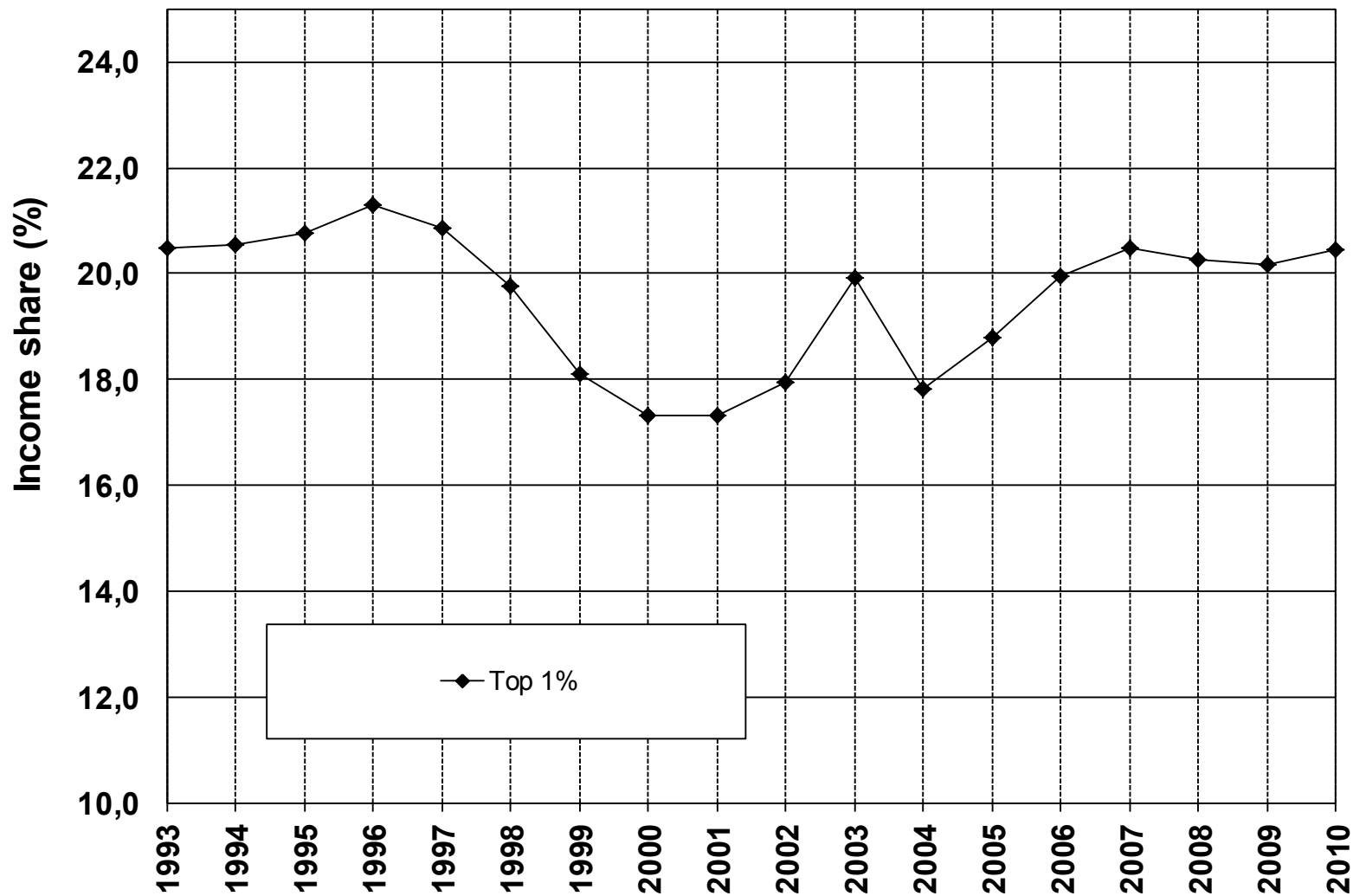


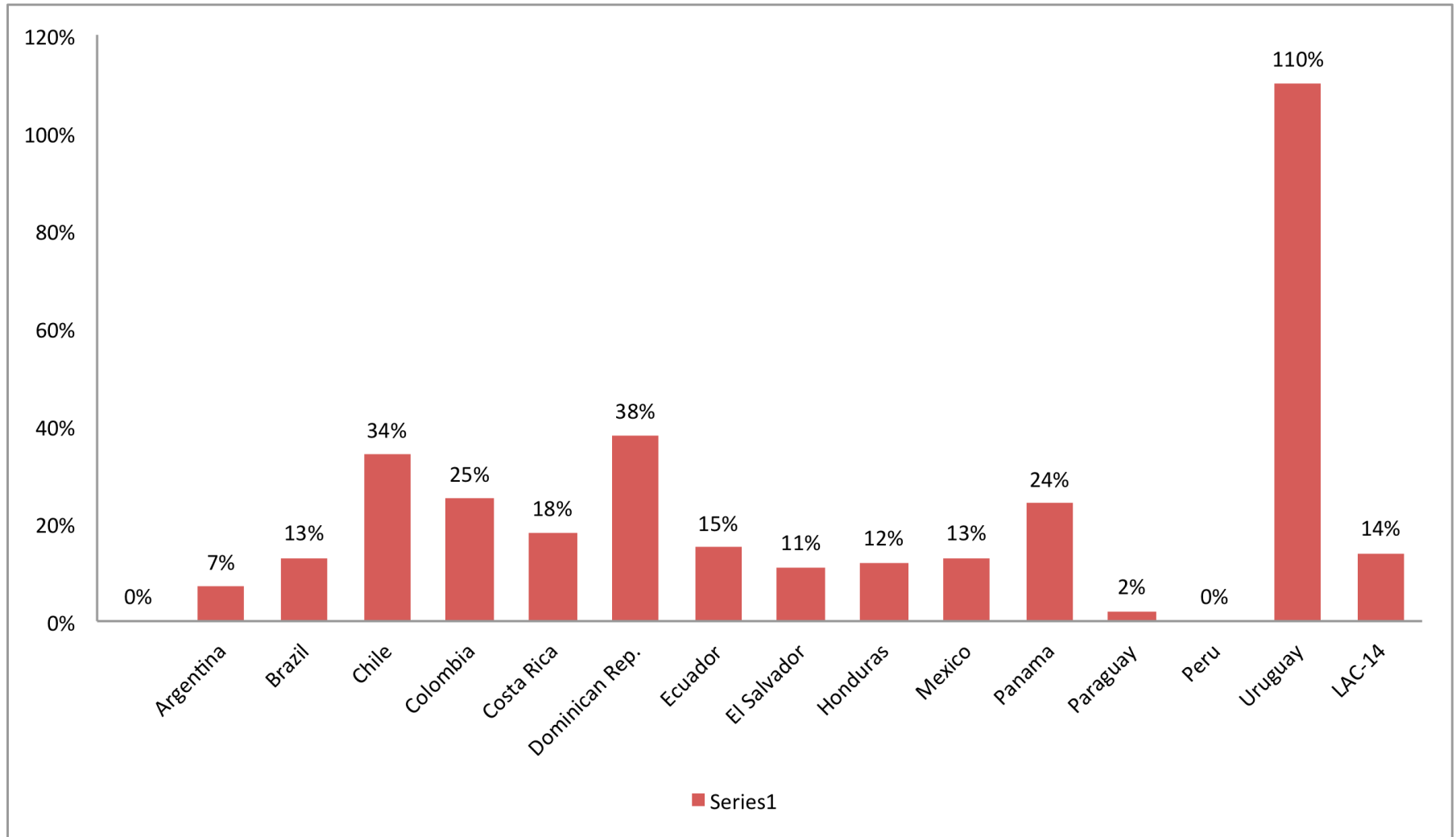
FIGURE 3
Top 1% income share in Colombia, 1993-2010

Source: Table A4.

How redistributive are Latin American governments?

- Decomposition of changes in inequality by income source show that transfers is, on average, the second most important proximate determinant of decline in overall inequality

Contributions of Transfers to Decline in Inequality





What is CEQ

The Commitment to Equity (CEQ) is a joint project of CIPR and the Department of Economics at Tulane University and the Inter-American Dialogue. Directed by [Nora Lussig](#) and [Peter Halkin](#), the CEQ was designed to analyze the impact of taxation and social spending on inequality and poverty in individual countries, and provide a roadmap for governments, multilateral institutions, and nongovernmental organizations in their efforts to build more equitable societies.

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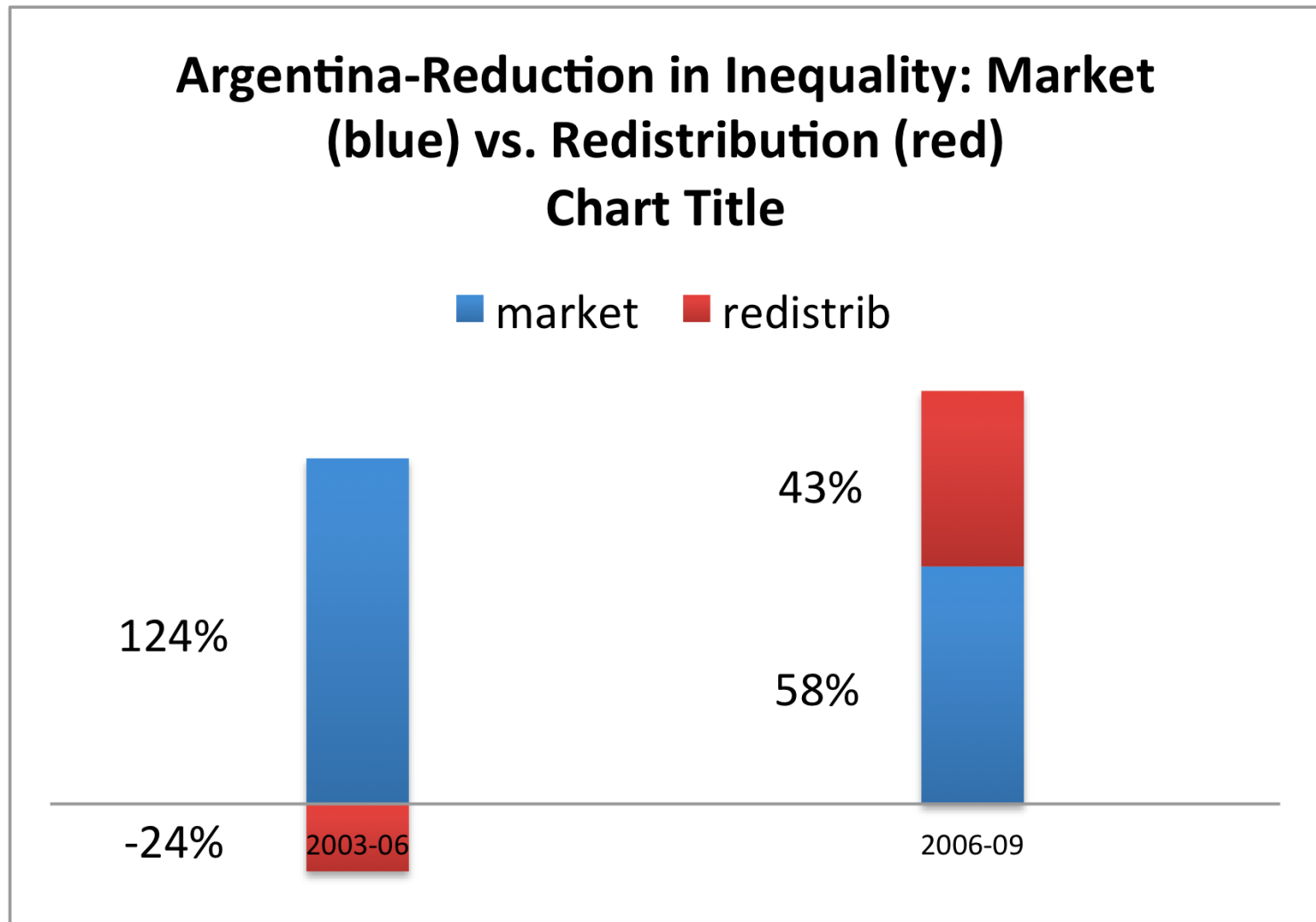
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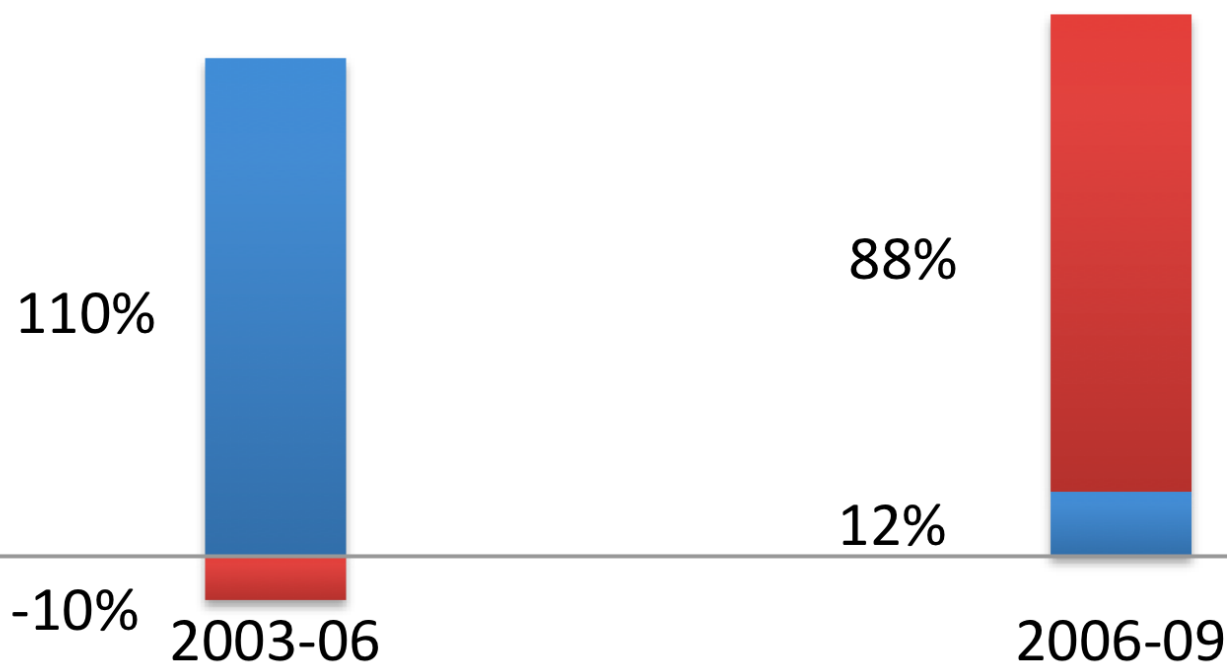
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Market vs. Redistribution in Argentina (2003-2009) Lustig and Pessino (2013)



Argentina-Reduction in Poverty: Market (blue) vs. Redistribution (red)

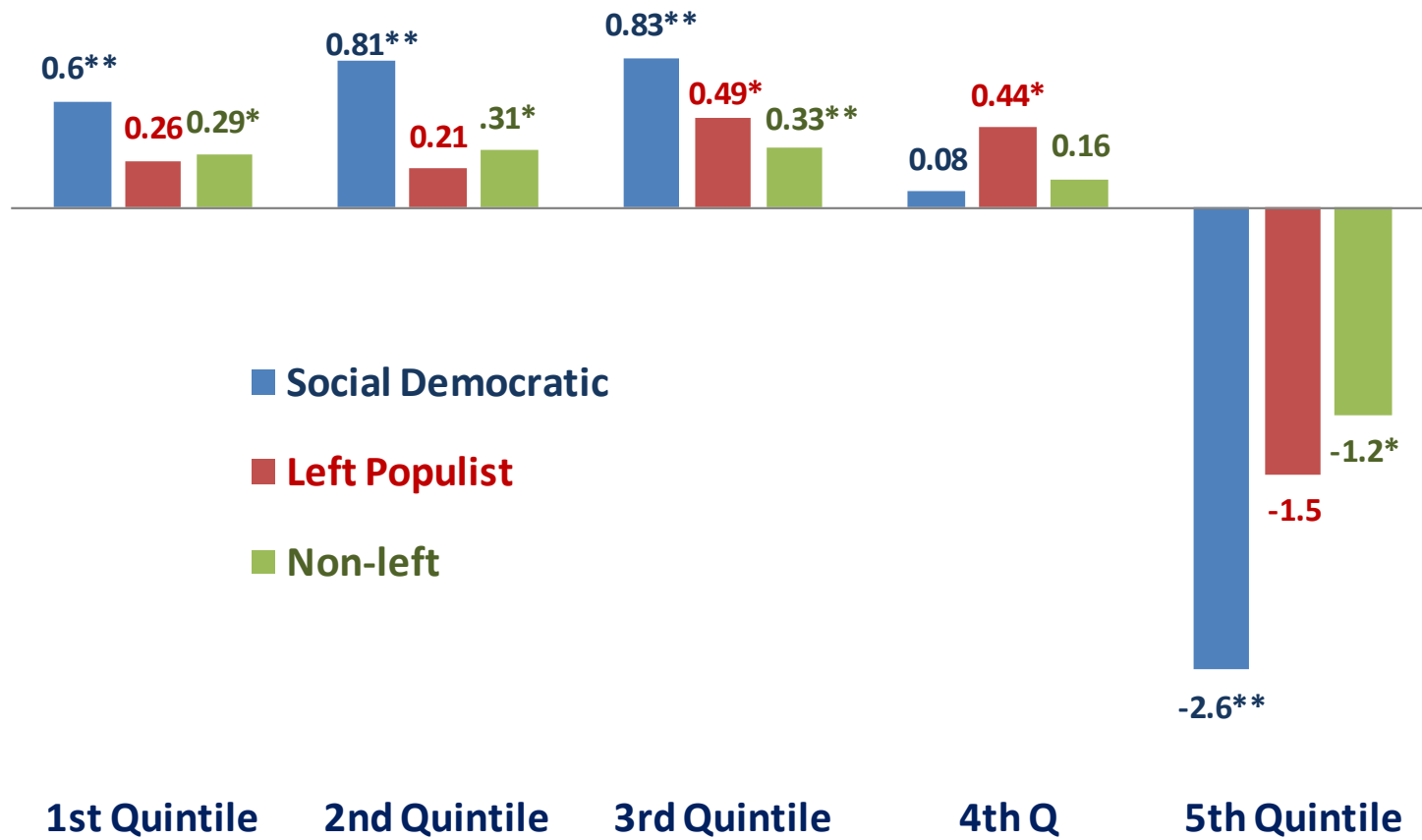
■ market ■ redistrib



Why have governments become more redistributive?

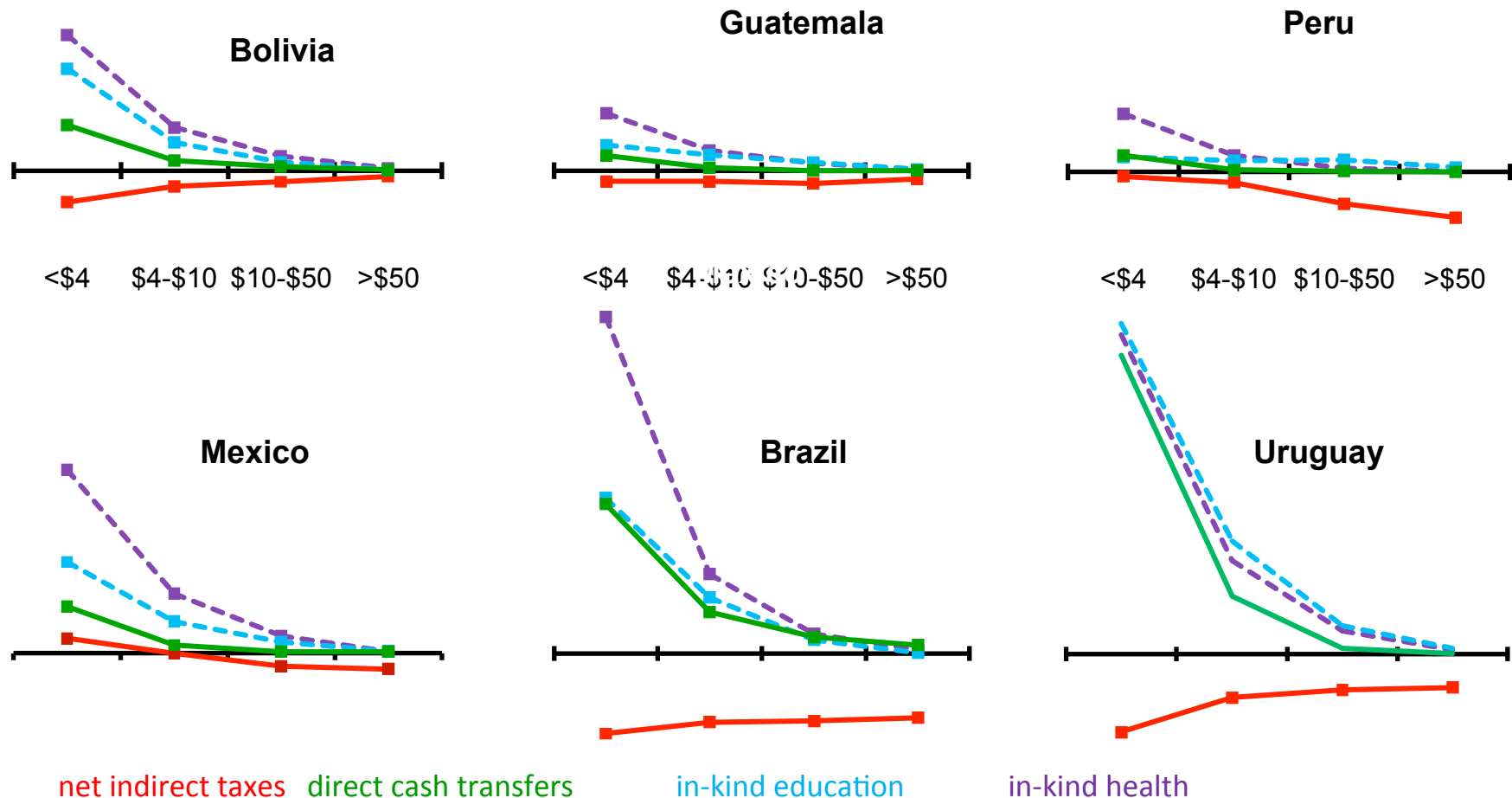
- Neoliberal policies => scrapping of general subsidies; innovation CCTs
- Democratization
- Turn to the left
- Fear of 'chavezizing'

Redistributive impact of changes in social spending budget share by quintile (Birdsall et al., 2012) (change significant at *5% or **1% level)



Source: Appendix A, Table A-3 and McLeod and Lustig (2011).

Heterogeneity in fiscal redistribution across the region; focus on the poor in lower-middle income countries (ca. 2009)



That's all folks...

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