

Declining Inequality in Latin America

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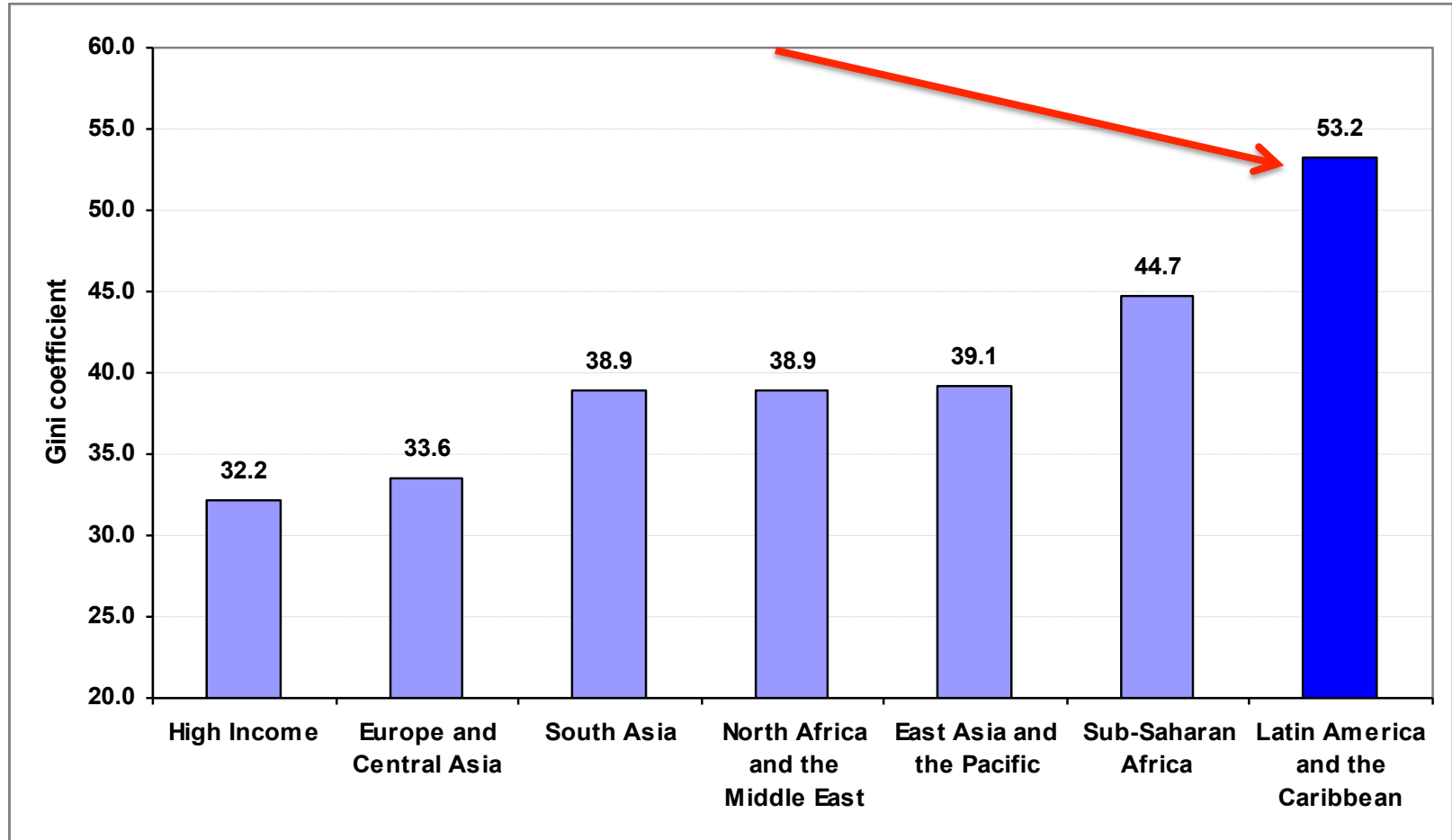
Inequality in Latin America is high...

...but has been declining since around 2000

- Decline is pervasive and significant
- Larger than the rise in inequality in 1990s
- Important contribution to the decline in poverty
- Contributed to the rise of the middle-class
- In countries with high growth & low growth
- In countries with left and nonleft governments
- In commodity exporters and commodity importers

LATAM IS THE MOST UNEQUAL REGION IN THE WORLD

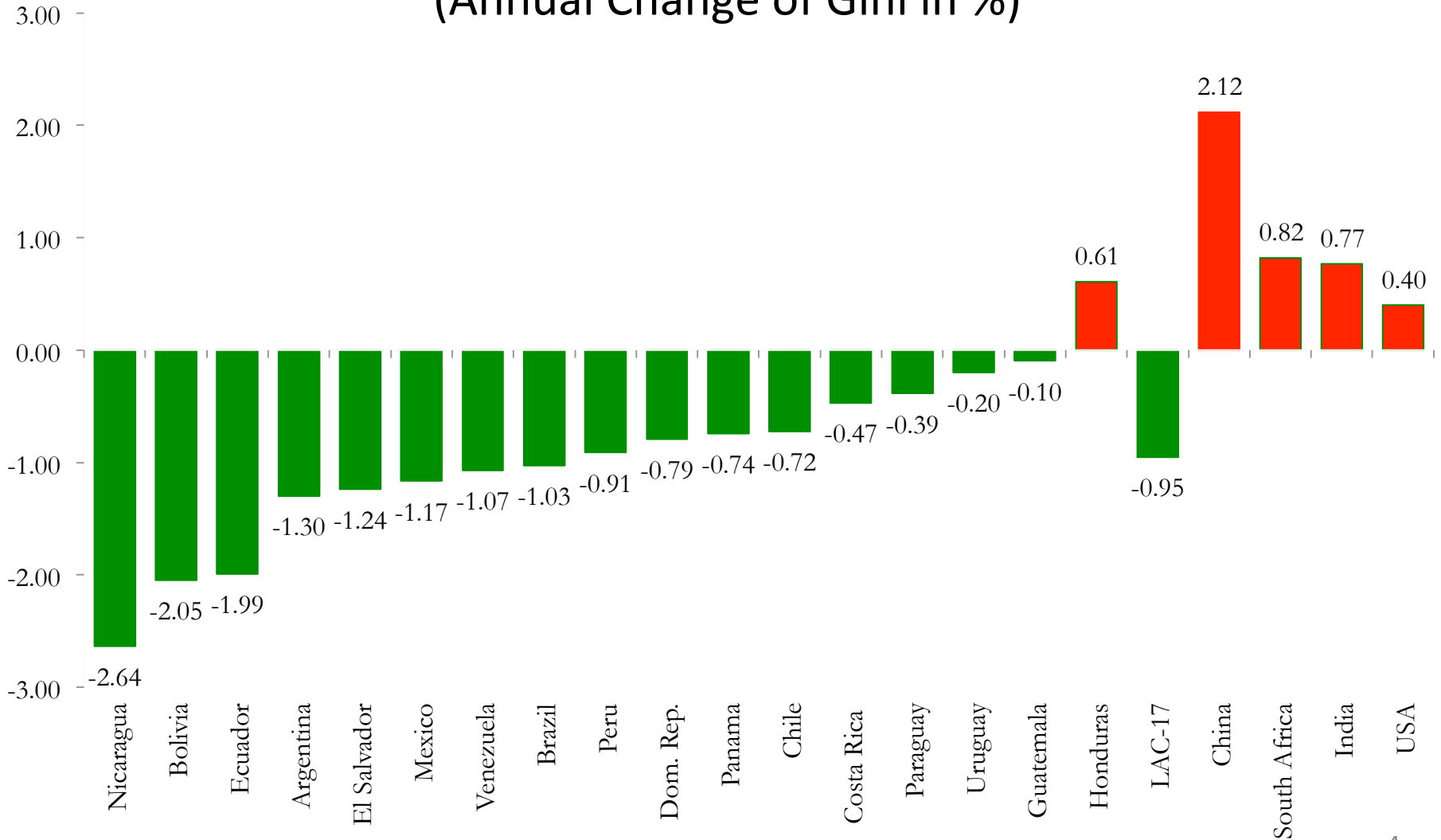
Gini Coefficient by Region (in %), 2004



Ferreira and Ravallion, 2008.

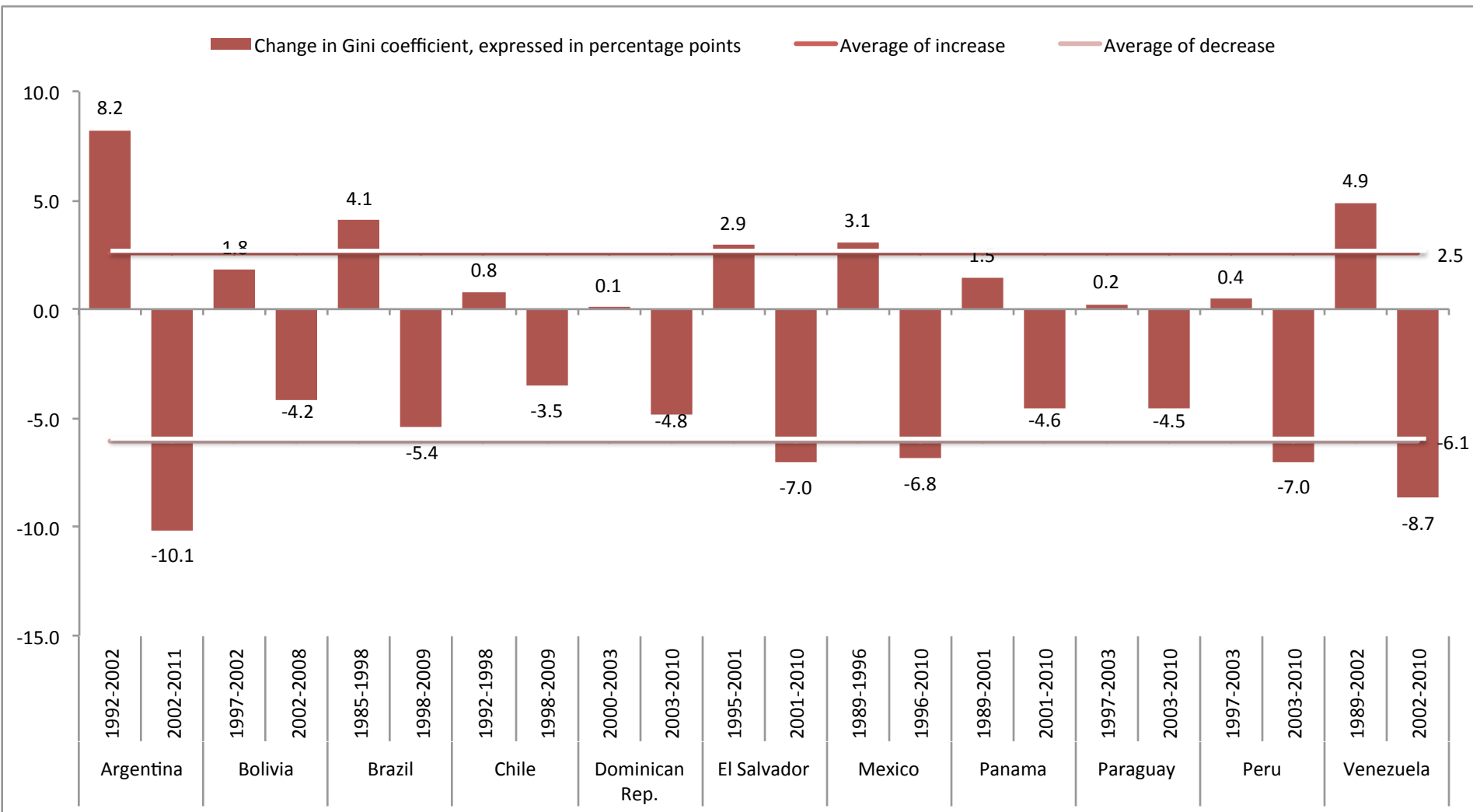
Inequality declined during the 2000's

Latin America: Declining income inequality by country: 2000-2011
(Annual Change of Gini in %)

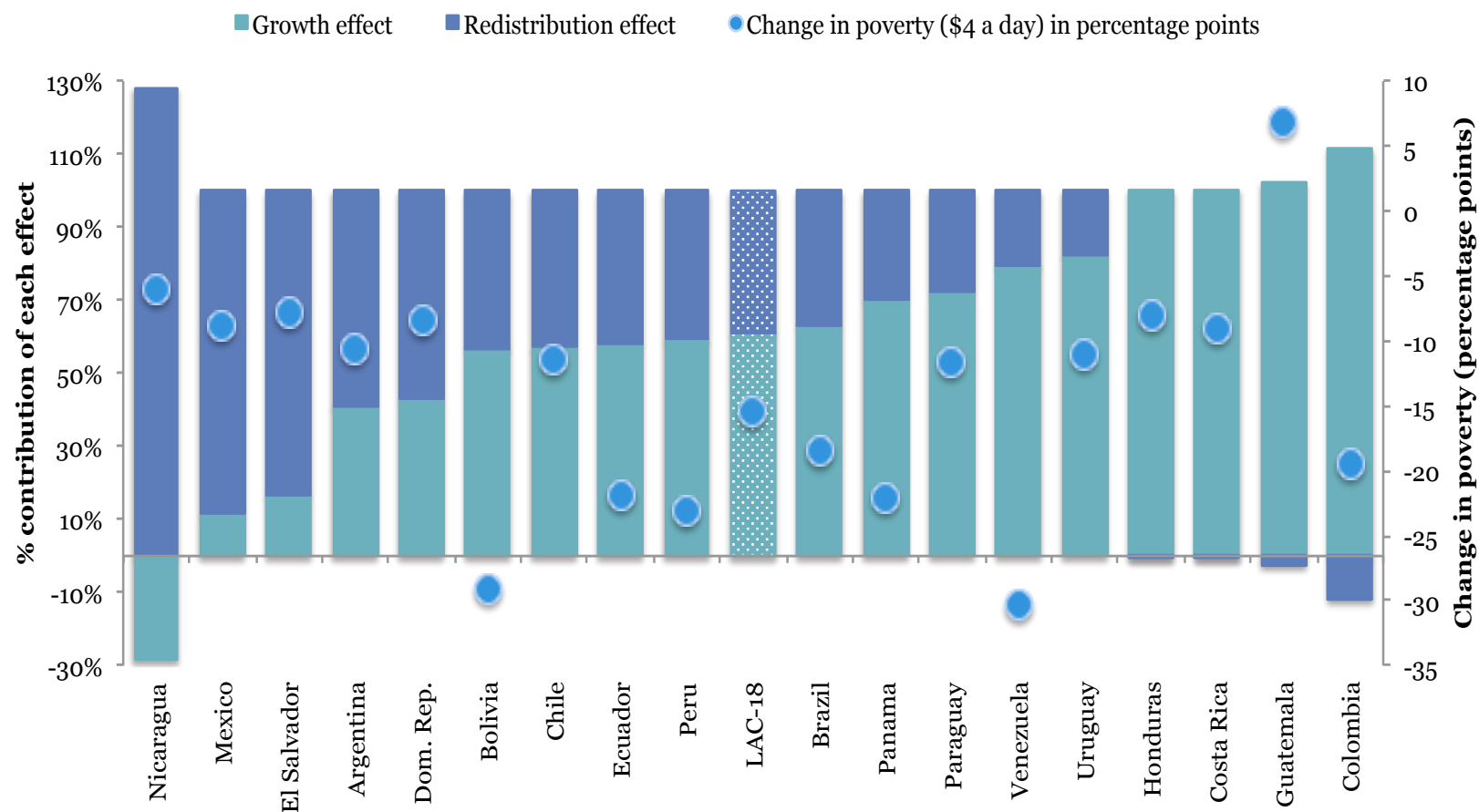


The decline of income inequality in the 2000s has been higher than the rise in the 1990s

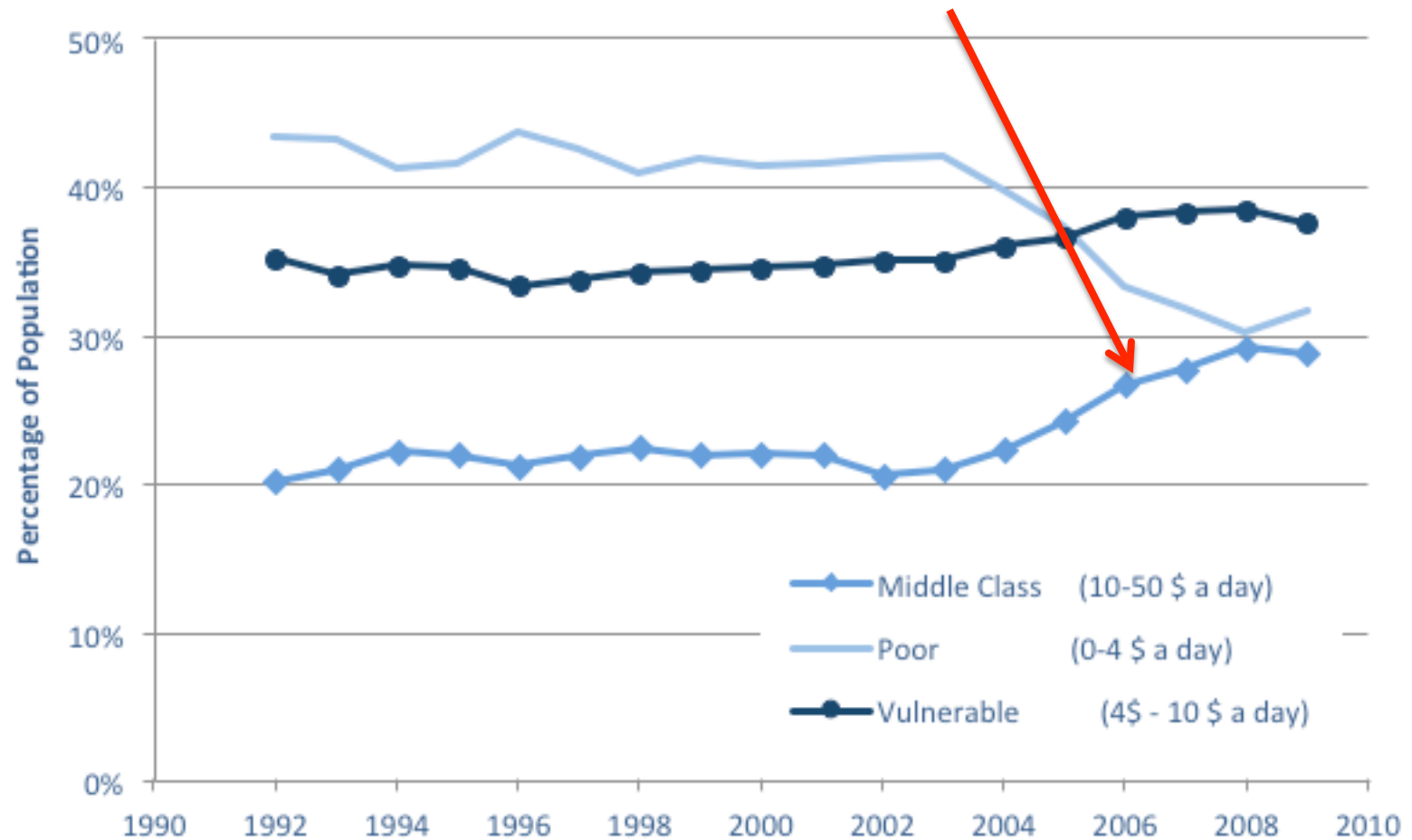
(Annual average change in Gini in %)



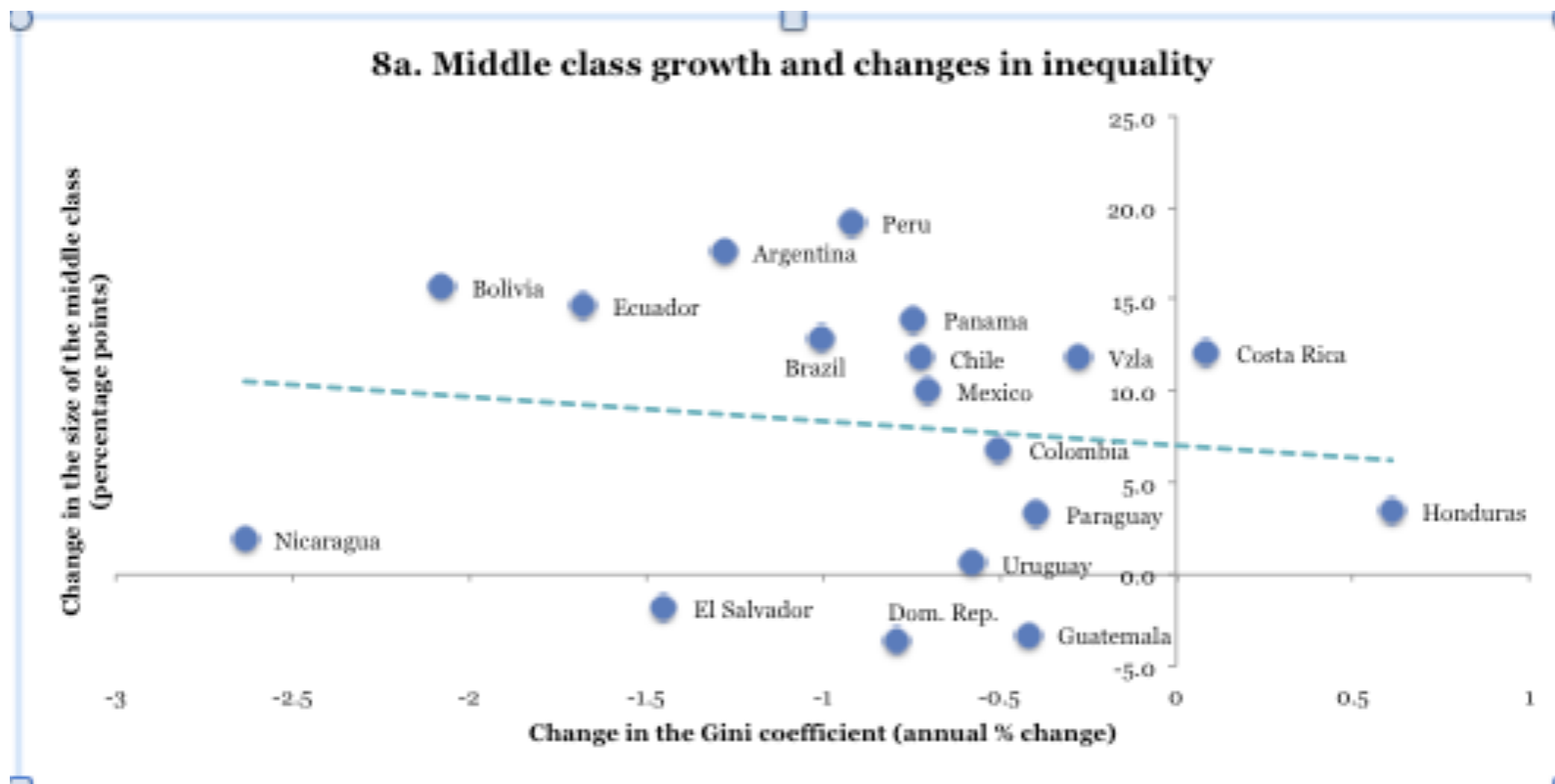
On average, 40 percent of the reduction in poverty was due to the decline in inequality c. 2001-2010



Declining inequality has contributed to the expansion of the “middle-class”



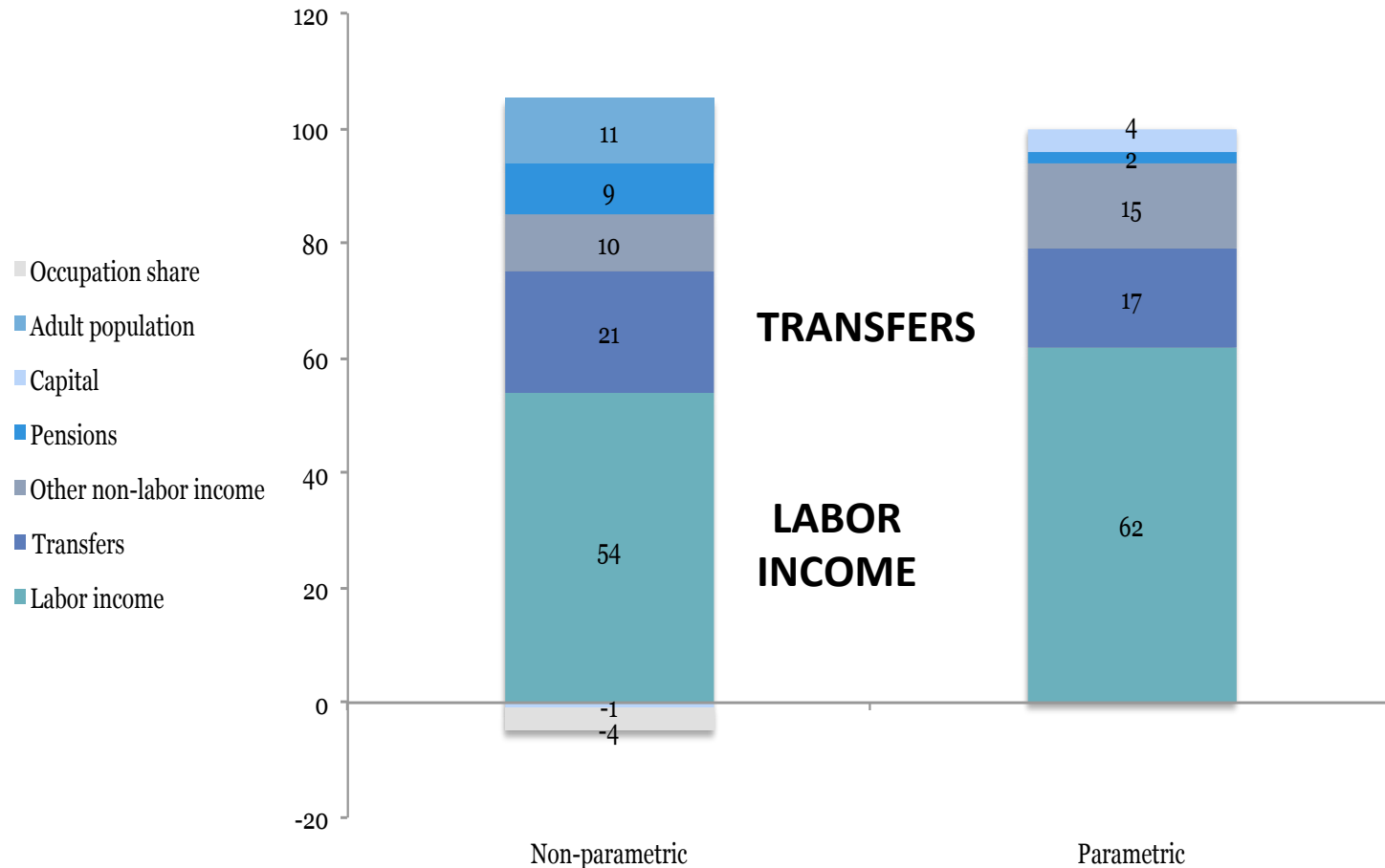
The faster the decline in inequality, the faster the growth of the middle-class



Determinants of the decline in inequality

- Declining inequality of hourly labor income
- Larger and more progressive transfers
- Lower dependency ratios & higher participation rates of adults

Contribution of proximate determinants to the decline in inequality (%) Latin America, c. 2000-2010

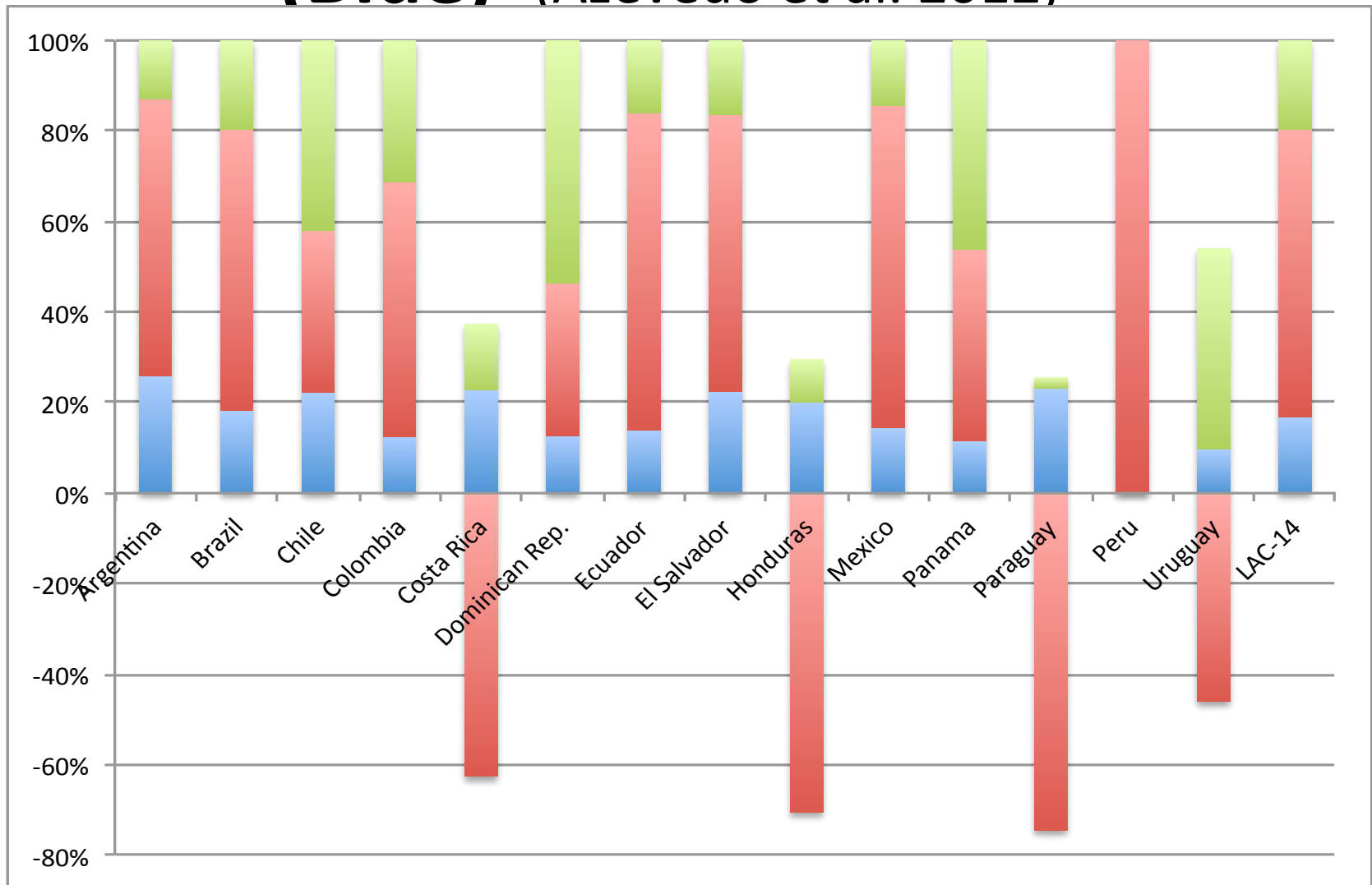


Source: Non-parametric decomposition results from Azevedo et al. (2013a); and parametric results provided by CEDLAS, based on data from SEDLAC (CEDLAS and The World Bank).

Decomposing Decline in Inequality

Labor (red); Transfers (Green); Demog (Blue)

(Azevedo et al. 2012)



Determinants of declining inequality in hourly labor earnings:

Decline in returns to post-secondary education (aka. skill premium)

- Supply
- Demand
- Labor Market Institutions
- Declining “quality” in workers with tertiary degree

Zooming in: Brazil

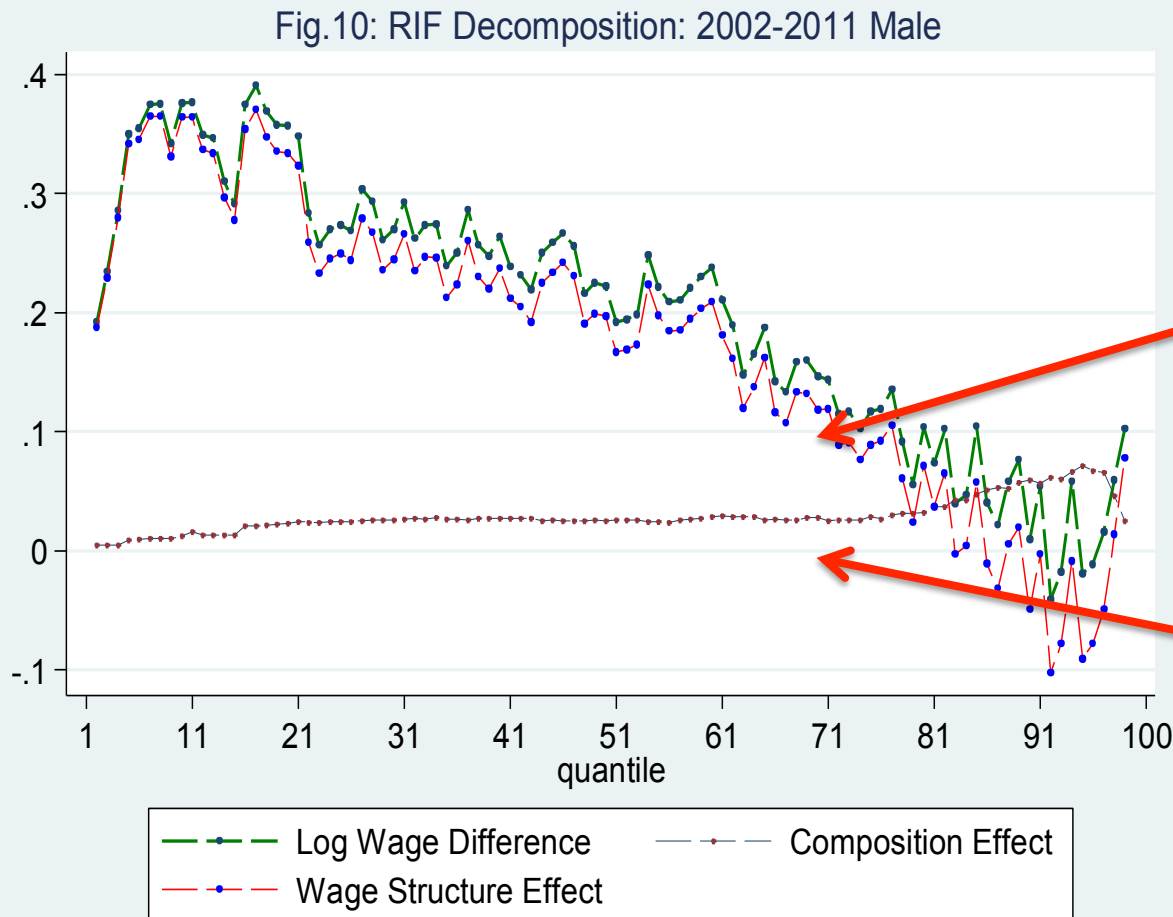
- Low growth during most of the period
- Decomposition:
 - Wage Structure Effect Equalizing
 - Workers' Characteristics Effect Slightly Unequalizing (Bourguignon et al., 2005) “paradox of progress”
- Wage structure effect:
 - Increase in relative supply of skilled workers
 - Increase in relative demand of low-skilled workers
 - Rising minimum wages
 - Declining Absolute real wages for workers with tertiary => degraded tertiary?

Brazil: Decline in Wage Inequality

Table 1: Dispersion of Real Wages: 2002-2011, Male aged 16-65

	2002	2003	2004	2005	2006	2007	2008	2009	2011
	Hourly Wage								
Male Sample									
Mean	4.63	4.38	4.25	4.35	4.57	4.65	4.80	4.98	5.15
Median	2.50	2.41	2.42	2.39	2.55	2.66	2.79	2.91	3.11
Gini	0.52	0.51	0.50	0.50	0.50	0.49	0.48	0.48	0.47
Theil	0.57	0.54	0.52	0.53	0.54	0.52	0.51	0.53	0.48
90-10	7.79	7.27	7.05	6.60	6.75	6.12	6.11	6.00	5.60
50-10	2.08	2.01	2.00	1.83	1.87	1.84	1.85	1.82	1.79
90-50	3.75	3.62	3.53	3.60	3.60	3.33	3.30	3.30	3.13
Obs	44097	43480	47187	49734	51479	51519	53825	55138	49419

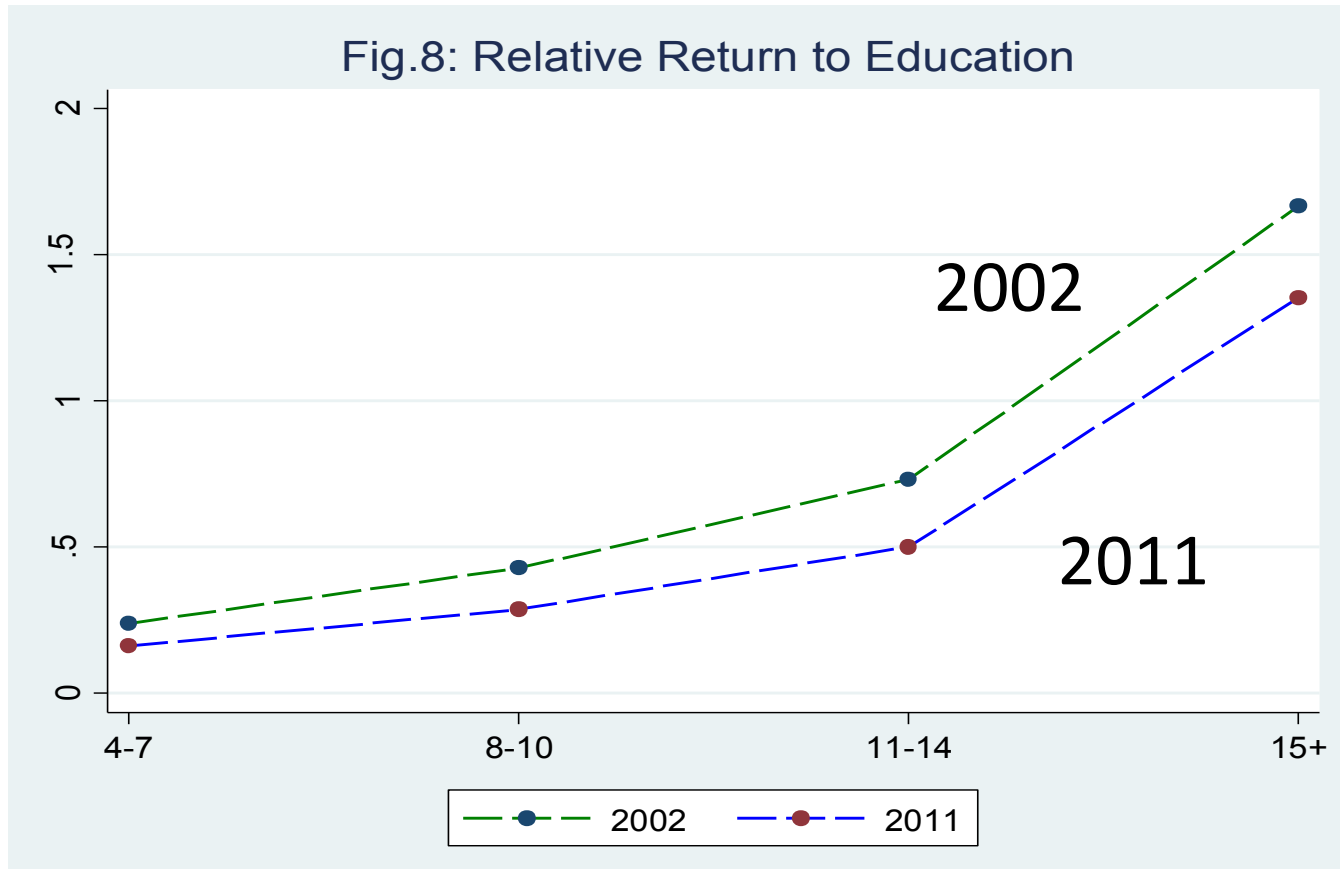
Brazil (RIF) Decomposition (2002-2011):

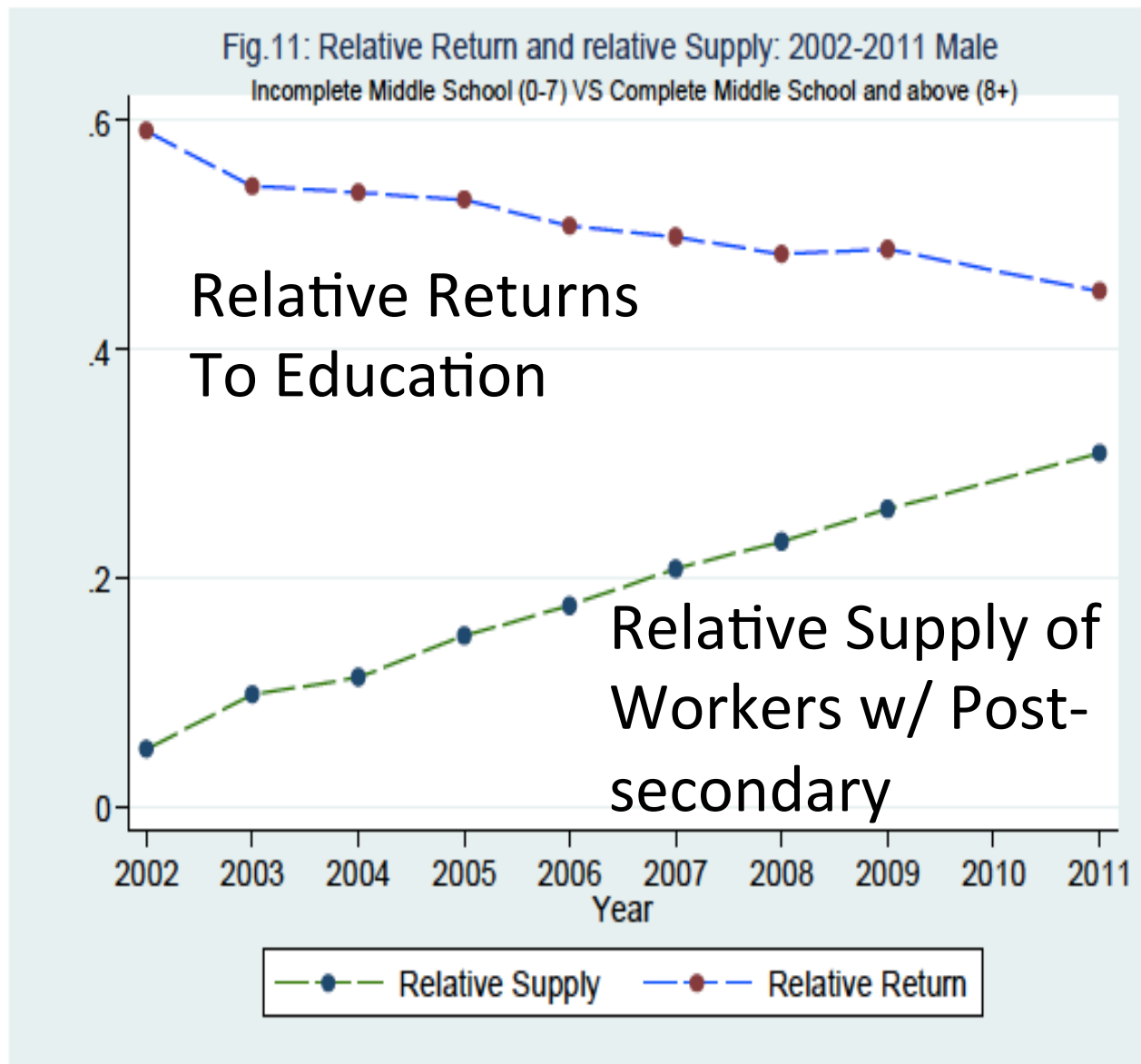


• Changes in
Wage
Structure
Equalizing

• Changes in
Workers'
Characteristics
Slightly
Unequalizing

Brazil: Decline in relative returns to education or “skill premium”





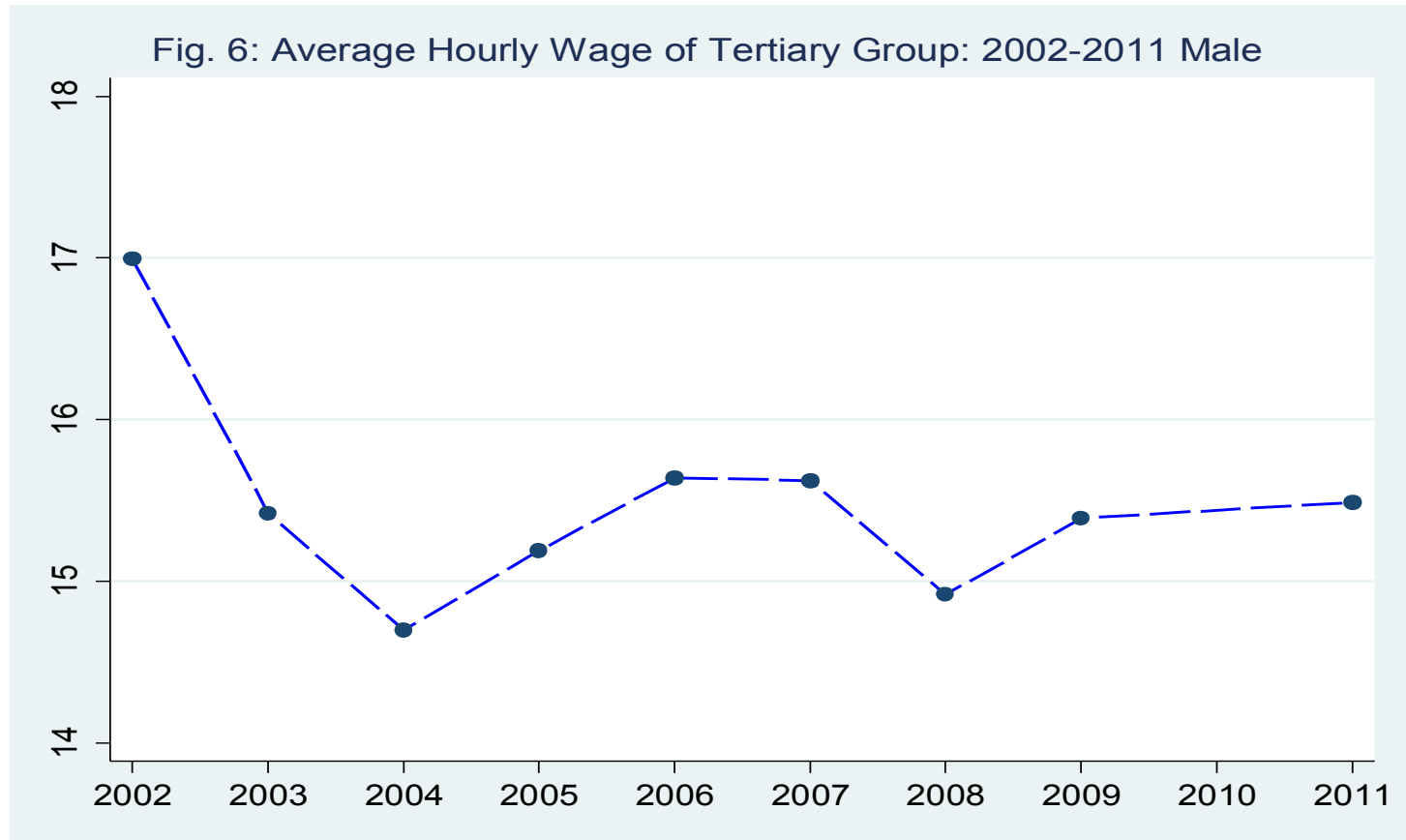
Brazil: Decline in skill premium coincides with the expansion of the relative supply of workers with post secondary education

Brazil: Rising minimum wage

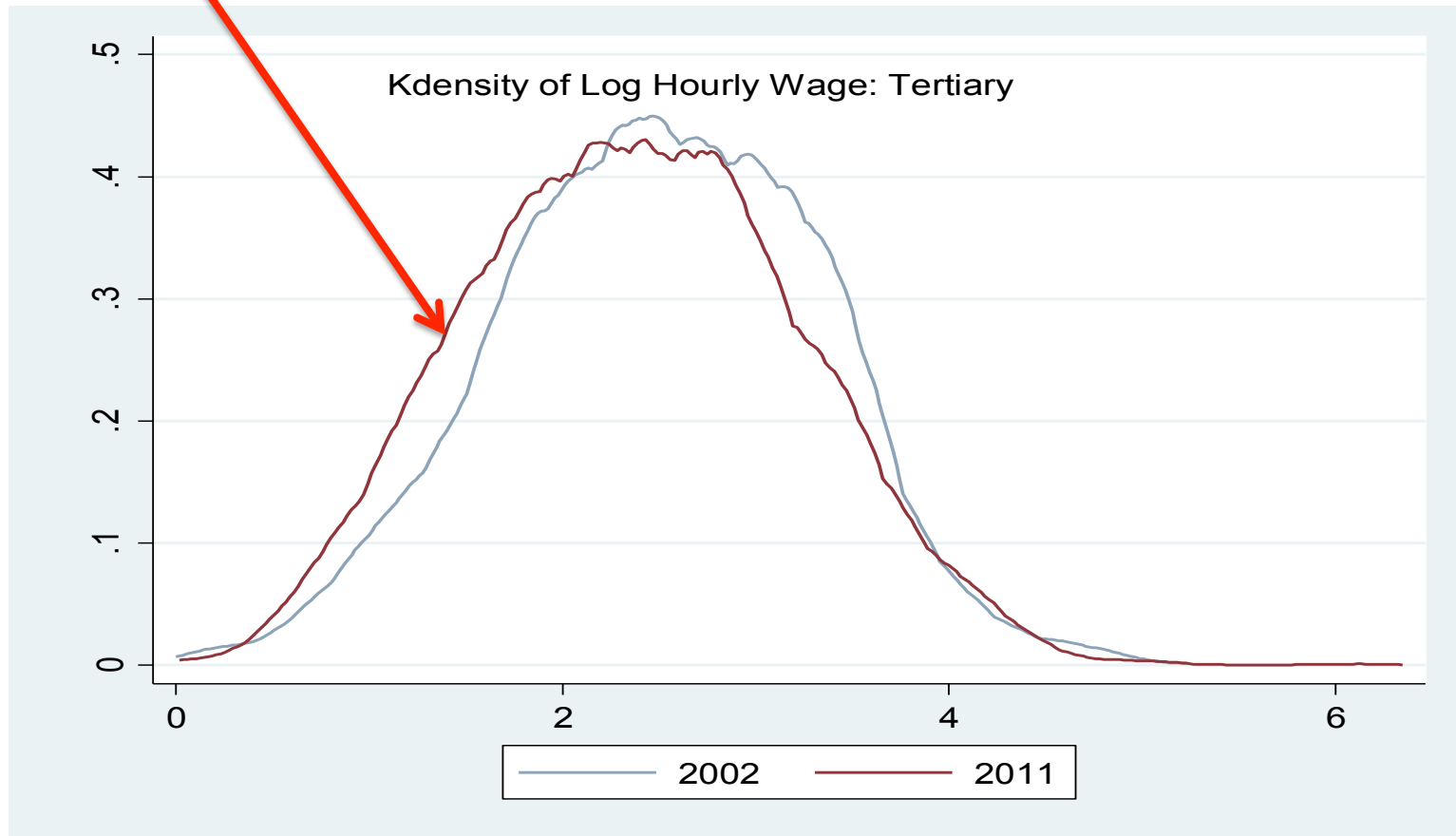


Wang, Yang. 2013. "Decomposing the Changes in Male Wage Distribution in Brazil." Tulane University, Ph.D. field paper

Brazil: Decline in absolute wages for workers with tertiary



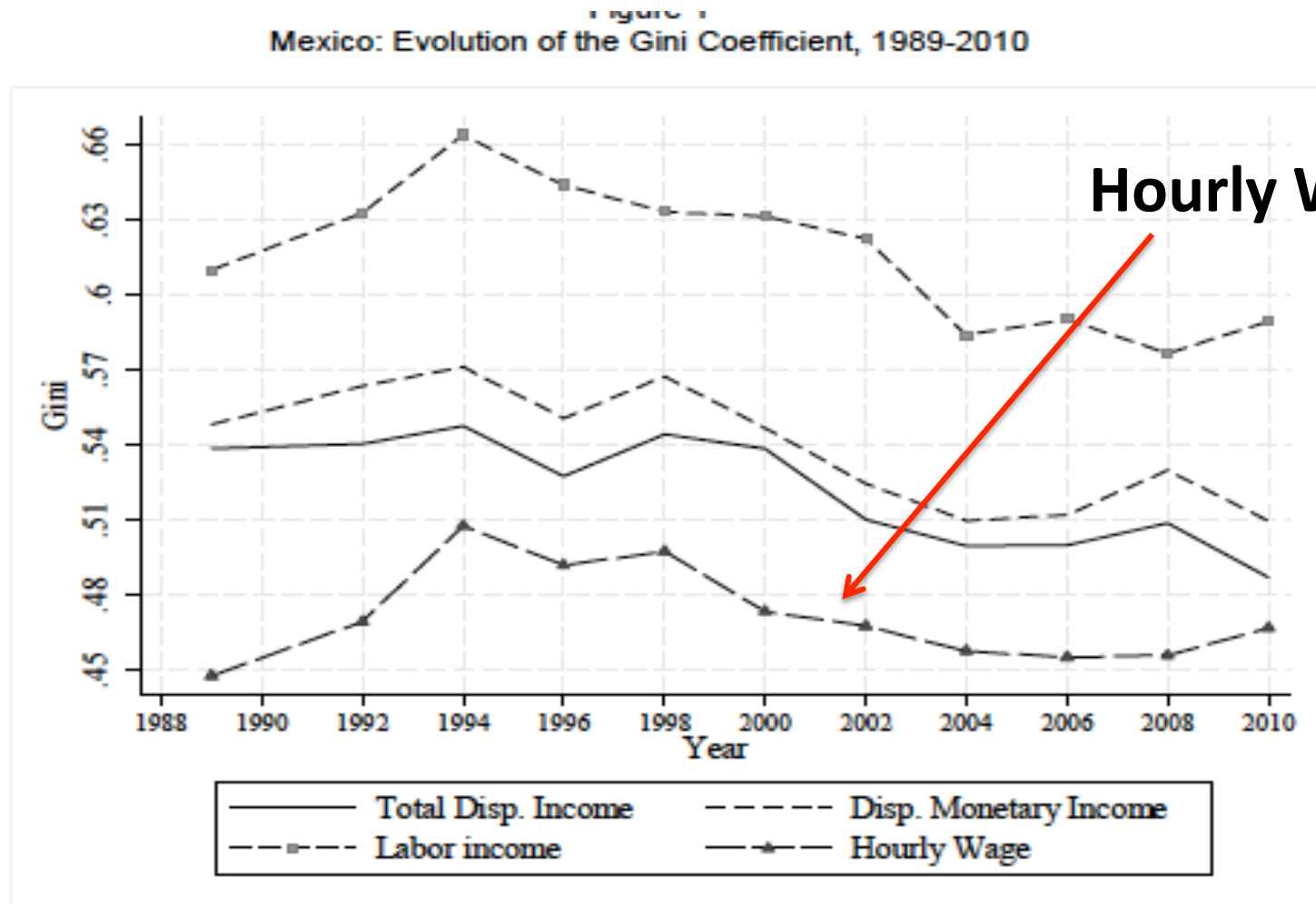
“Degraded” Tertiary? Brazil 2002-2011



Zooming in: Mexico

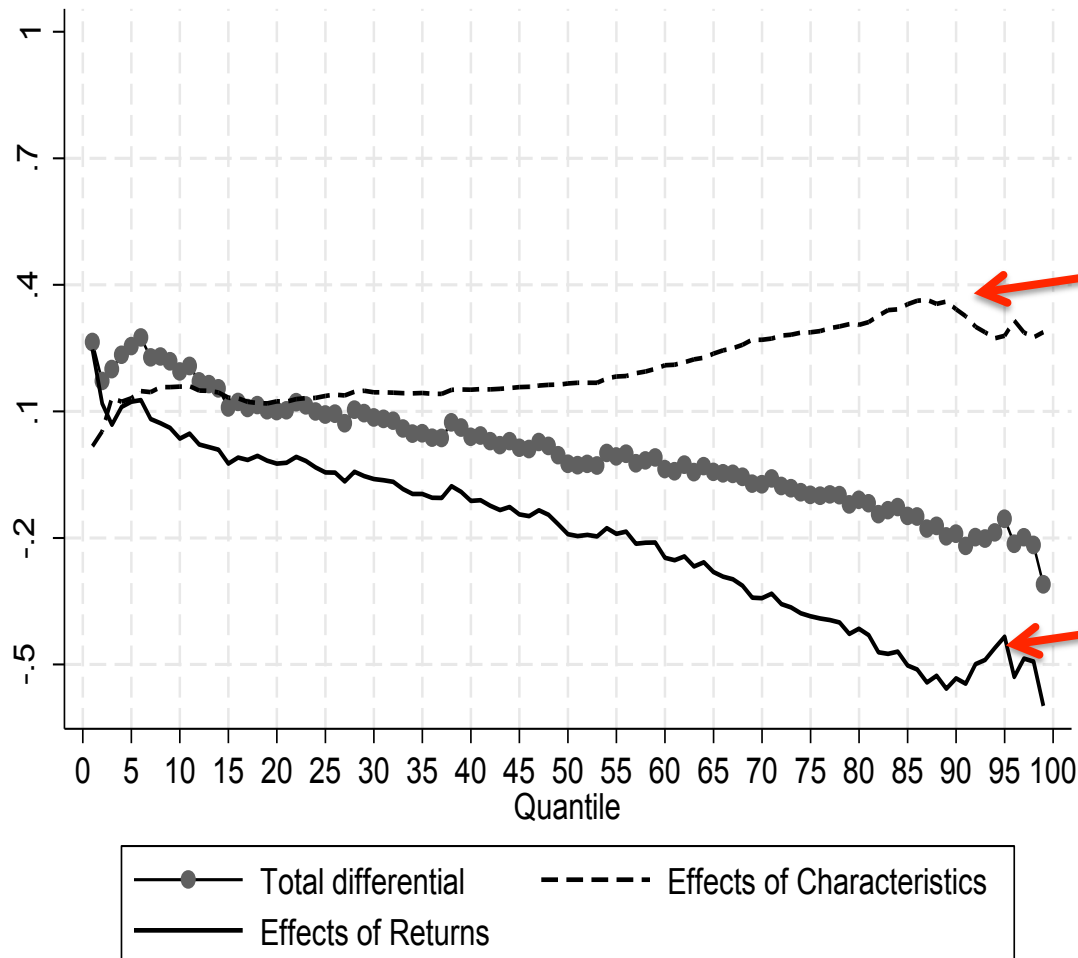
- Low growth
- Decomposition:
 - Wage Structure Effect Equalizing
 - Composition Effect Slightly Unequalizing (Bourguignon et al., 2005) “paradox of progress)
- Wage structure effect:
 - Increase in relative supply of skilled workers
 - Minimum wages and unionization no effect
 - Degraded tertiary?

Mexico: Decline in Inequality (Gini)



Campos, R., G. Esquivel and N. Lustig. 2014. "The Rise and Fall of Income Inequality in Mexico, 1989–2010," Chapter 7 in Giovanni Andrea Cornia, ed., *Falling Inequality in Latin America: Policy Changes and Lessons*, WIDER Studies in Development Economics, Oxford University Press,

Mexico (RIF) Decomposition (1996-2010):

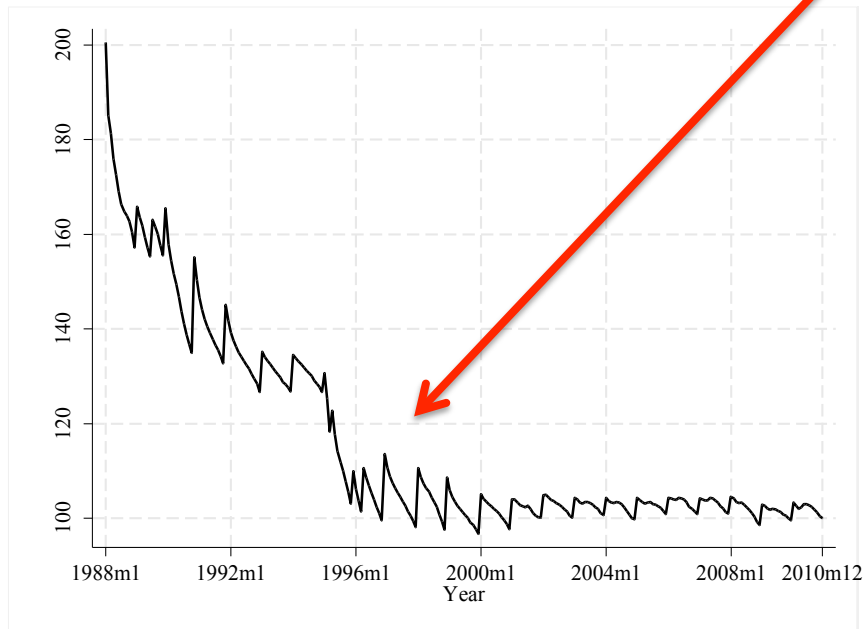


- Changes in workers characteristics
• => unequalizing
- Wage Structure Effect
=> Equalizing

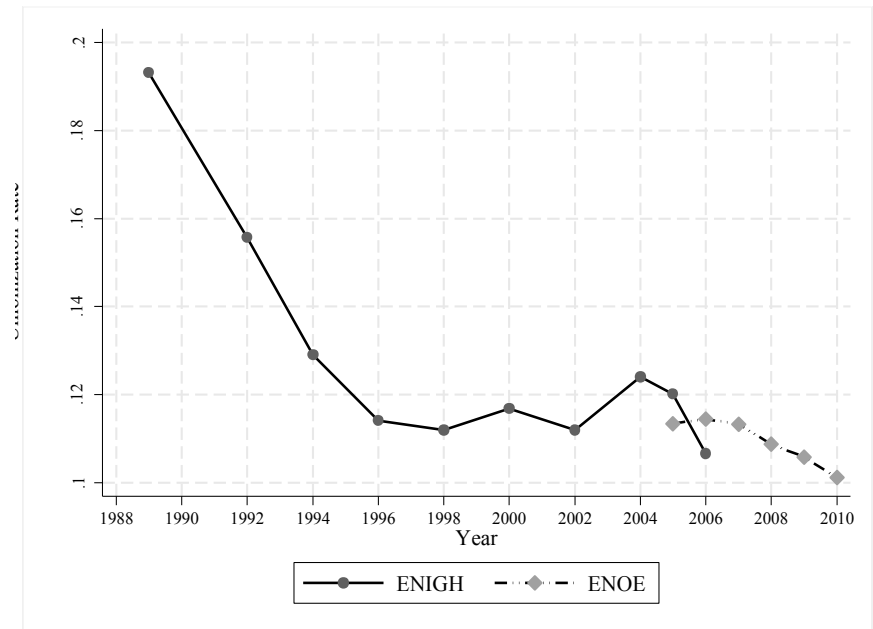
In contrast to Brazil, in Mexico minimum wages did not increase at all...

Real Minimum Wage and Unionization: 1988-2010

A. Real Minimum Wage Index (December 2010=100)

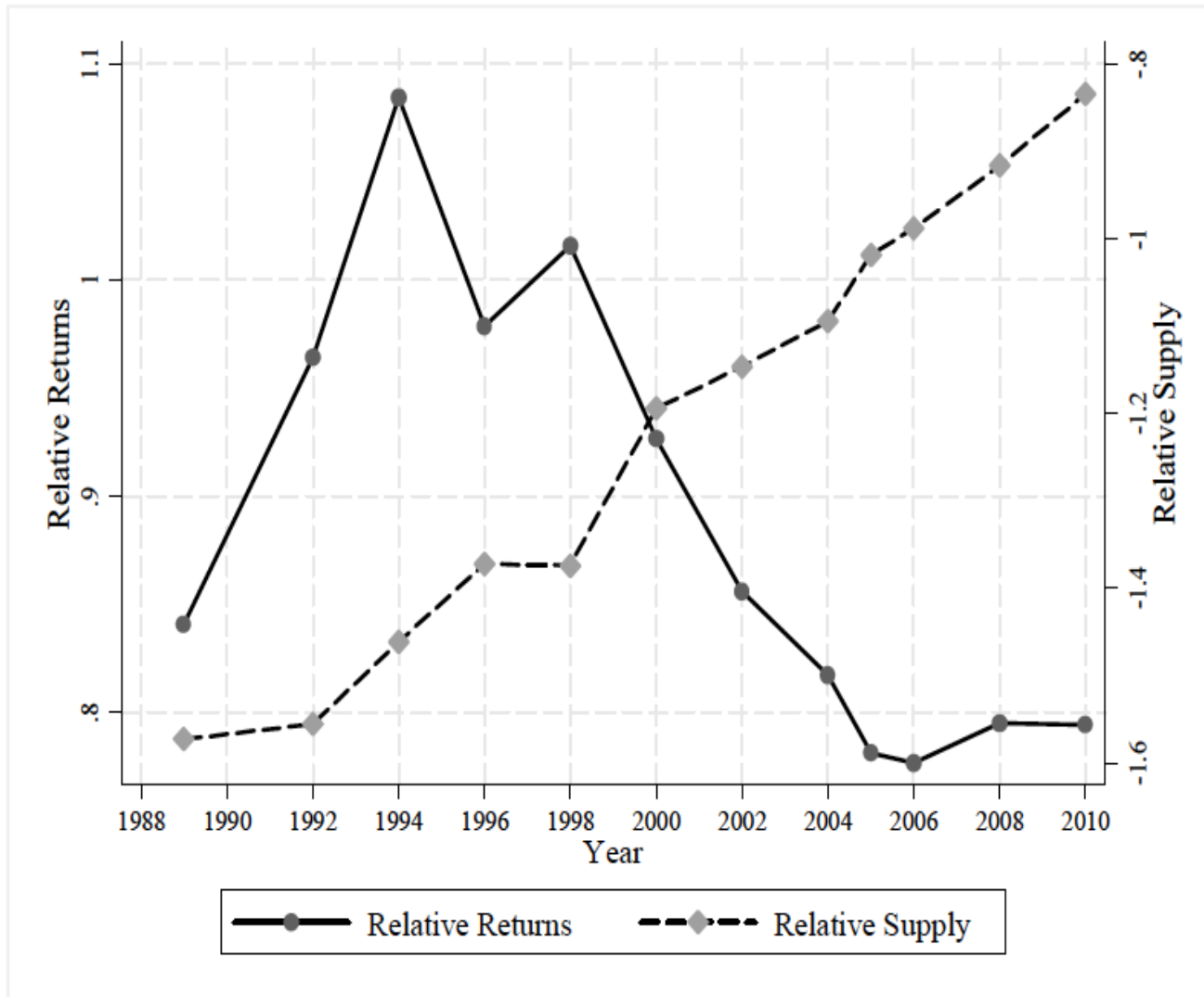


B. Unionization Rate



Campos, R., G. Esquivel and N. Lustig. 2014. "The Rise and Fall of Income Inequality in Mexico, 1989–2010," Chapter 7 in Giovanni Andrea Cornia, ed., *Falling Inequality in Latin America: Policy Changes and Lessons*, WIDER Studies in Development Economics, Oxford University Press,

Mexico: Relative returns and relative supply, 1989-2010
(High school and more vs. secondary or less)

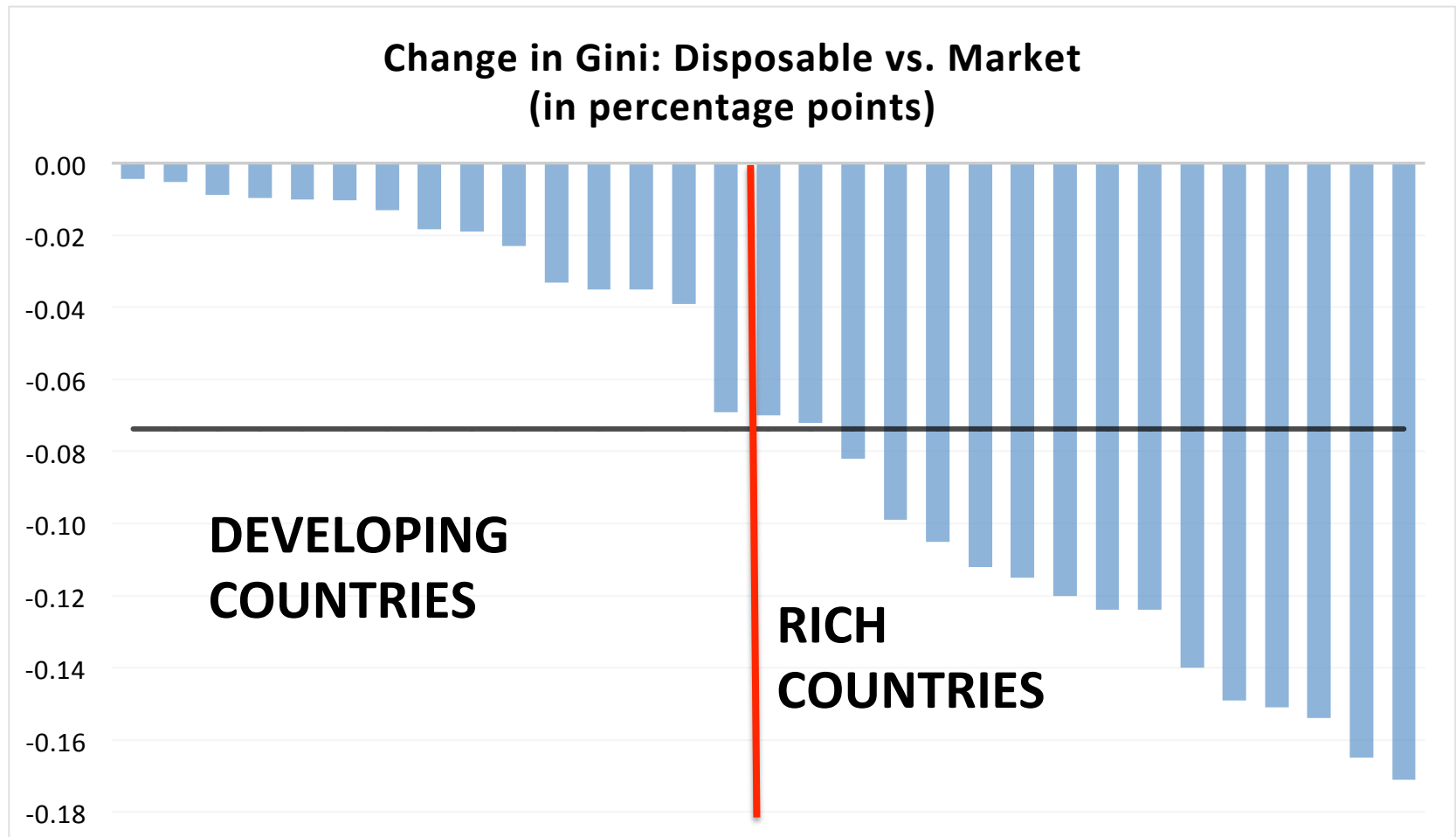


Mexico:
Decline in
skill premium
coincides with the
expansion of the
relative supply of
workers with post
secondary
education

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
- Social spending and tax incidence analysis for 14 countries (8 from Latin America)
- www.commitmenttoequity.org

Redistribution in the rich and developing countries

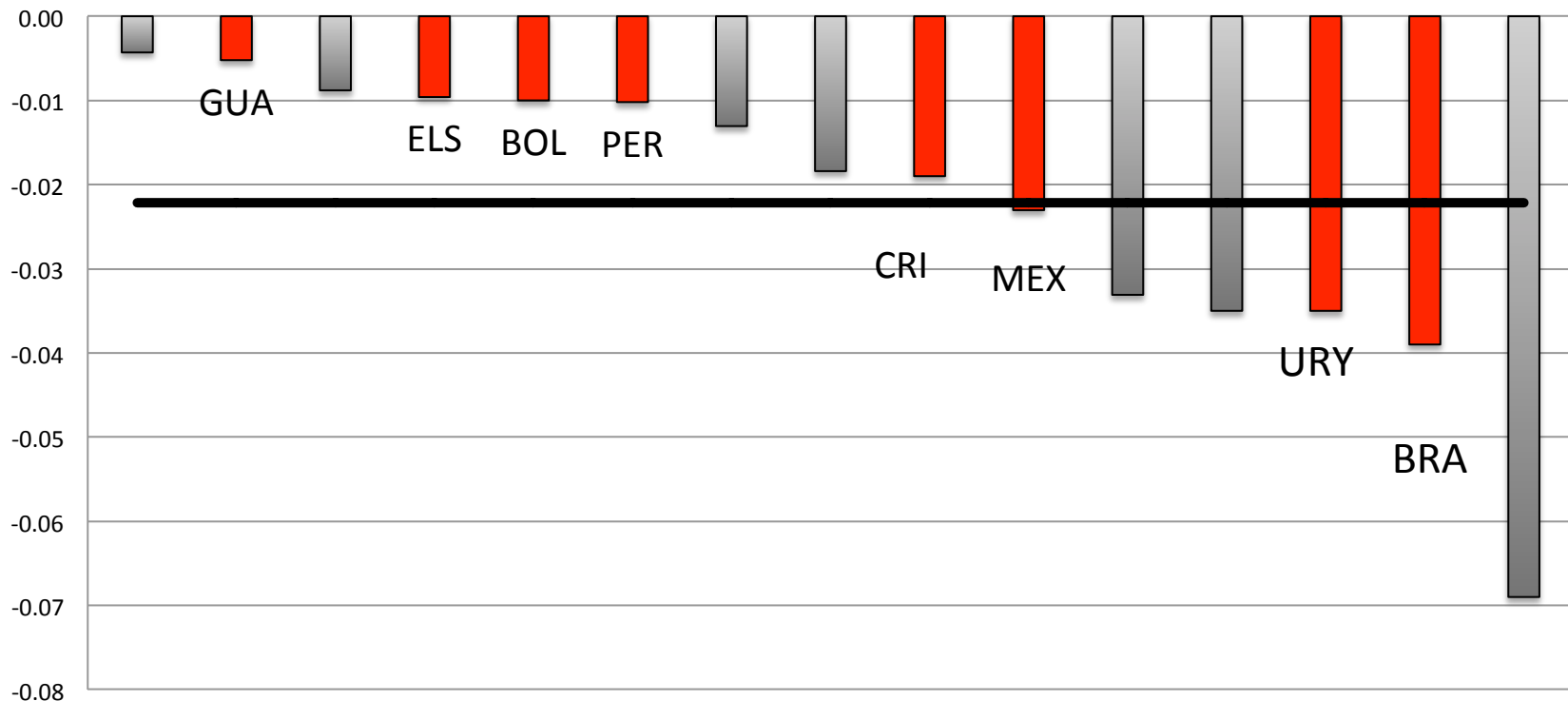


Sources: Immervoll et al. (2009) for EU and for CEQ countries see Lustig (2014) and slides at the end.

Note: in these calculations contributory pensions are part of market income and NOT treated as a government transfer.

Zooming in (CEQ 14 countries; LA 8 in red)

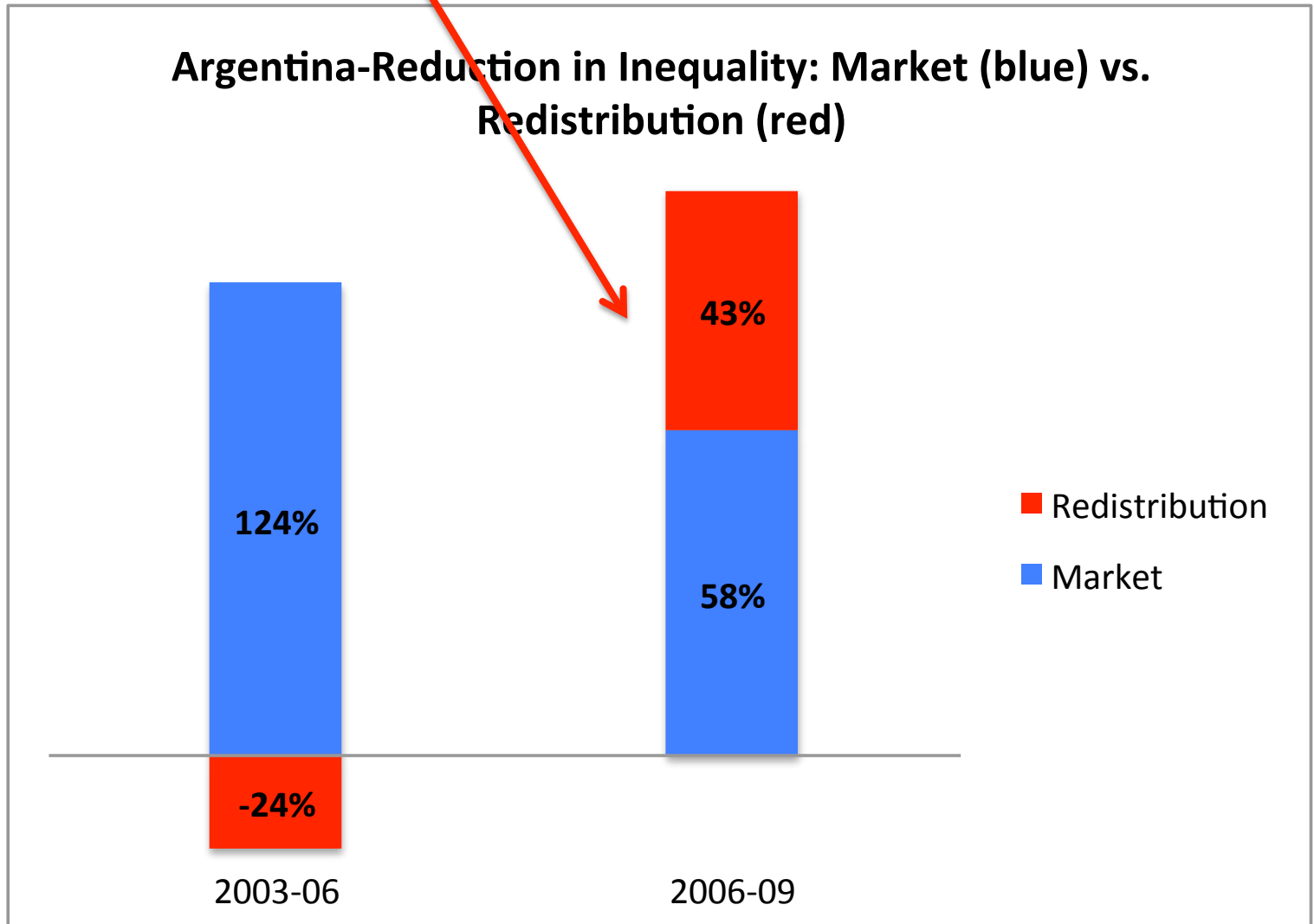
Change in Gini: Disposable vs. Market
(in percentage points)



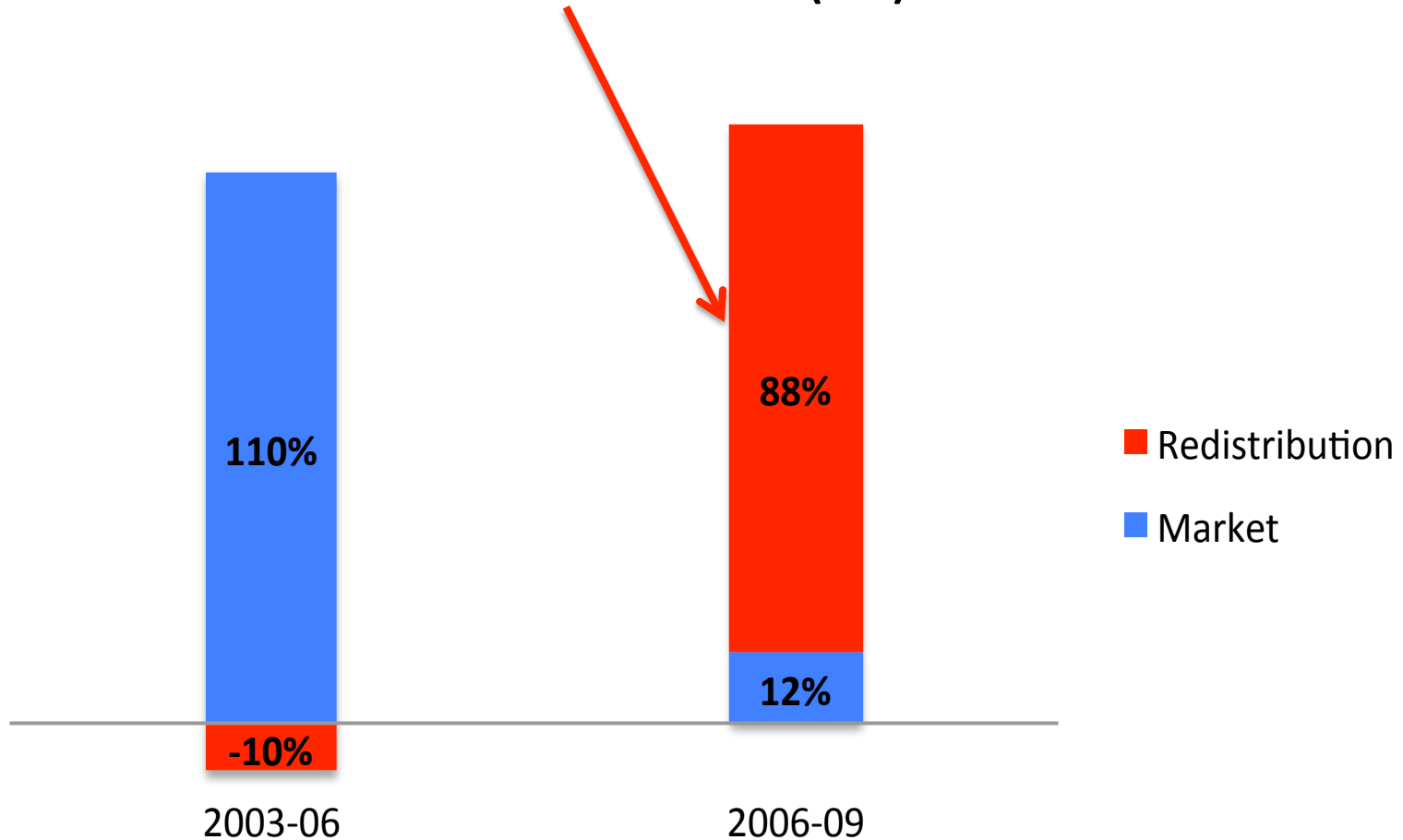
Sources: Lustig (2014) and slides at the end.

Note: in these calculations contributory pensions are part of market income and NOT treated as a government transfer.

Argentina: Rising role of transfers



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



Mexico: Rising role of transfers

Mexico: The impact of cash transfers on inequality and poverty, 1996, 2000 and 2010

		Net market income	Disposable income
1996	Gini	0.522	0.520
	% change with respect to net market income	—	-0.4%
	Headcount index (\$2.5 PPP)	30.2%	29.9%
	% change wrt net market income	—	-1.0%
2000	Gini	0.544	0.539
	% change wrt net market income	—	-0.9%
	Headcount index (\$2.5 PPP)	22.1%	21.6%
	% change with respect to net market income	—	-2.3%
2010	Gini	0.503	0.495
	% change wrt net market income	—	-1.7%
	Headcount index (\$2.5 PPP)	13.8%	11%
	% change with respect to net market income	—	-20.1%

Campos, R., G. Esquivel and N. Lustig. 2014. "The Rise and Fall of Income Inequality in Mexico, 1989–2010," Chapter 7 in Giovanni Andrea Cornia, ed., *Falling Inequality in Latin America: Policy Changes and Lessons*, WIDER Studies in Development Economics, Oxford University Press,

Thank you!

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(Year of Survey; C=consumption & I=income)(MWB Version)

1. **Argentina (2009, I):** Nora Lustig and Carola Pessino (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
2. **Bolivia (2009; I):** Veronica Paz Arauco, George Gray-Molina, Wilson Jimenez and Ernesto Yañez (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
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5. **El Salvador (2011; I):** Margarita Beneke, Nora Lustig and Jose Andres Oliva (March 11, 2014)
6. **Guatemala (2011; I):** Maynor Cabrera, Nora Lustig and Hilcias E. Moran (April 13, 2014)

(Year of Survey; C=consumption & I=income)(MWB Version)

- 10 Mexico (2010; I):** John Scott (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
- 11 Peru (2009; I):** Miguel Jaramillo (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
- 12 United States (2011; I):** Sean Higgins, Nora Lustig, Whitney Ruble and Timothy Smeeding
- 13 Uruguay (2009; I):** Marisa Bucheli, Nora Lustig, Maximo Rossi and Florencia Amabile (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
- **Research Assistant:** Yang Wang, Tulane University