



Declining Inequality in Latin America

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and

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SAIS

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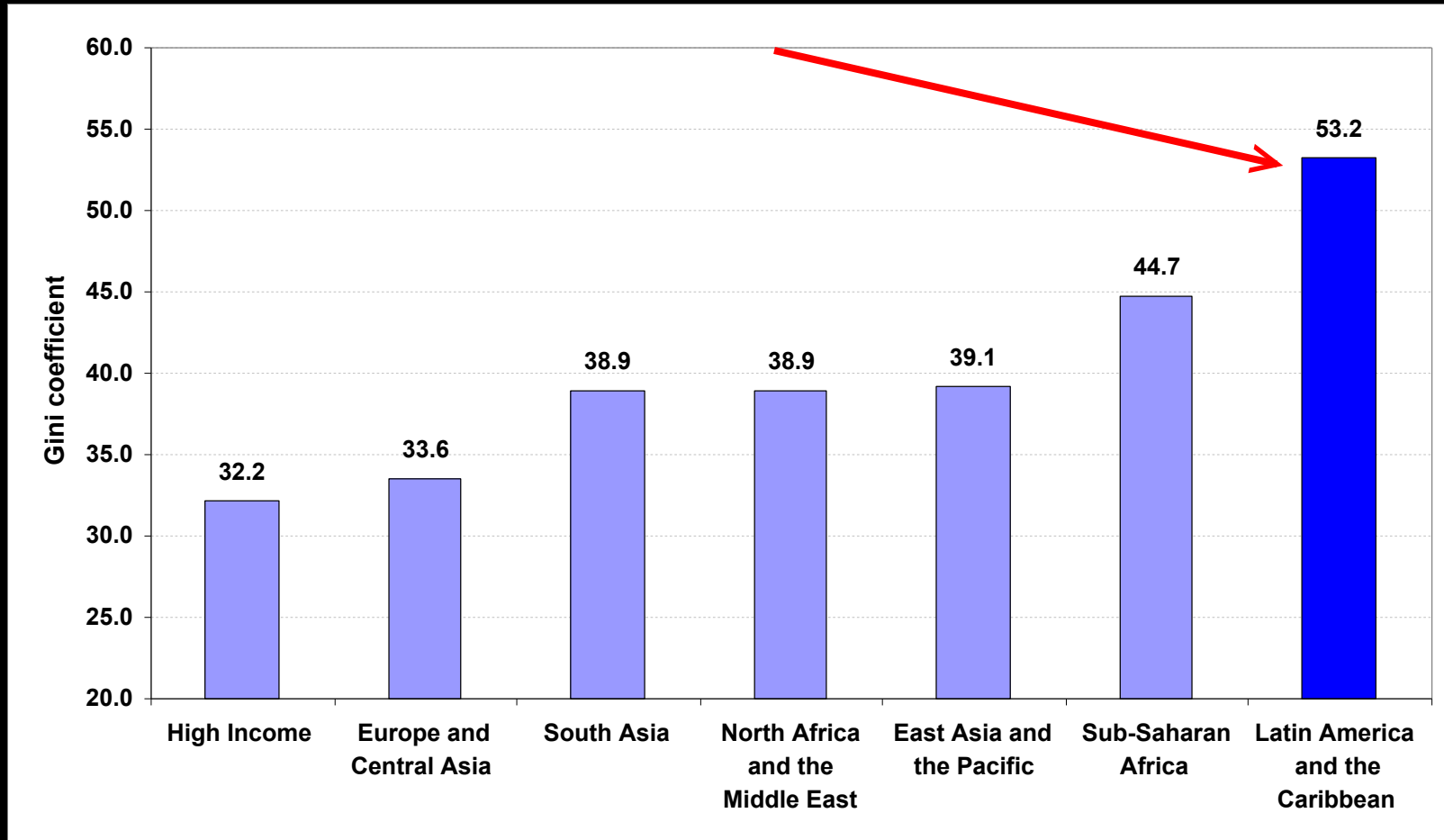
Inequality in Latin America is high...

...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

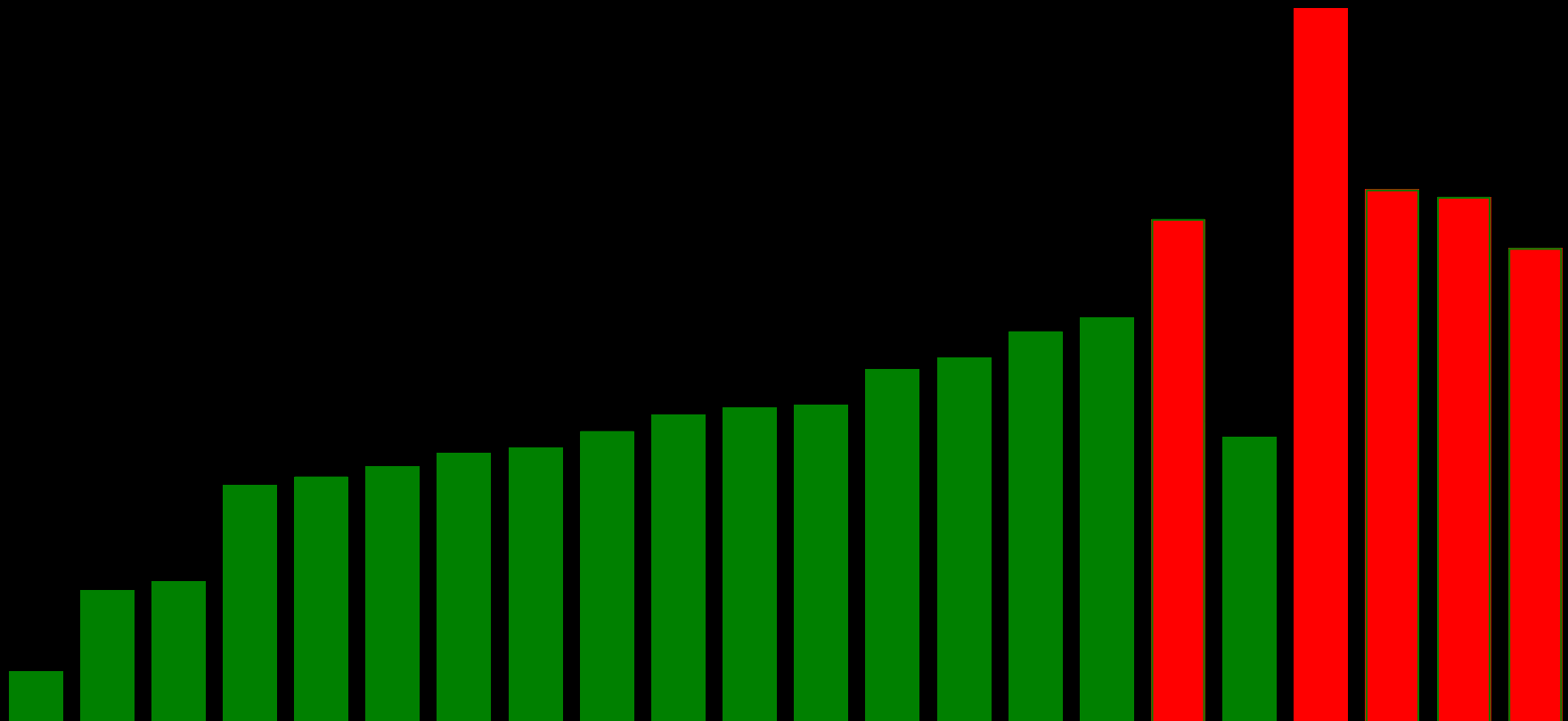
Gini Coefficient by Region (in %), 2004



Ferreira and Ravallion, 2008.

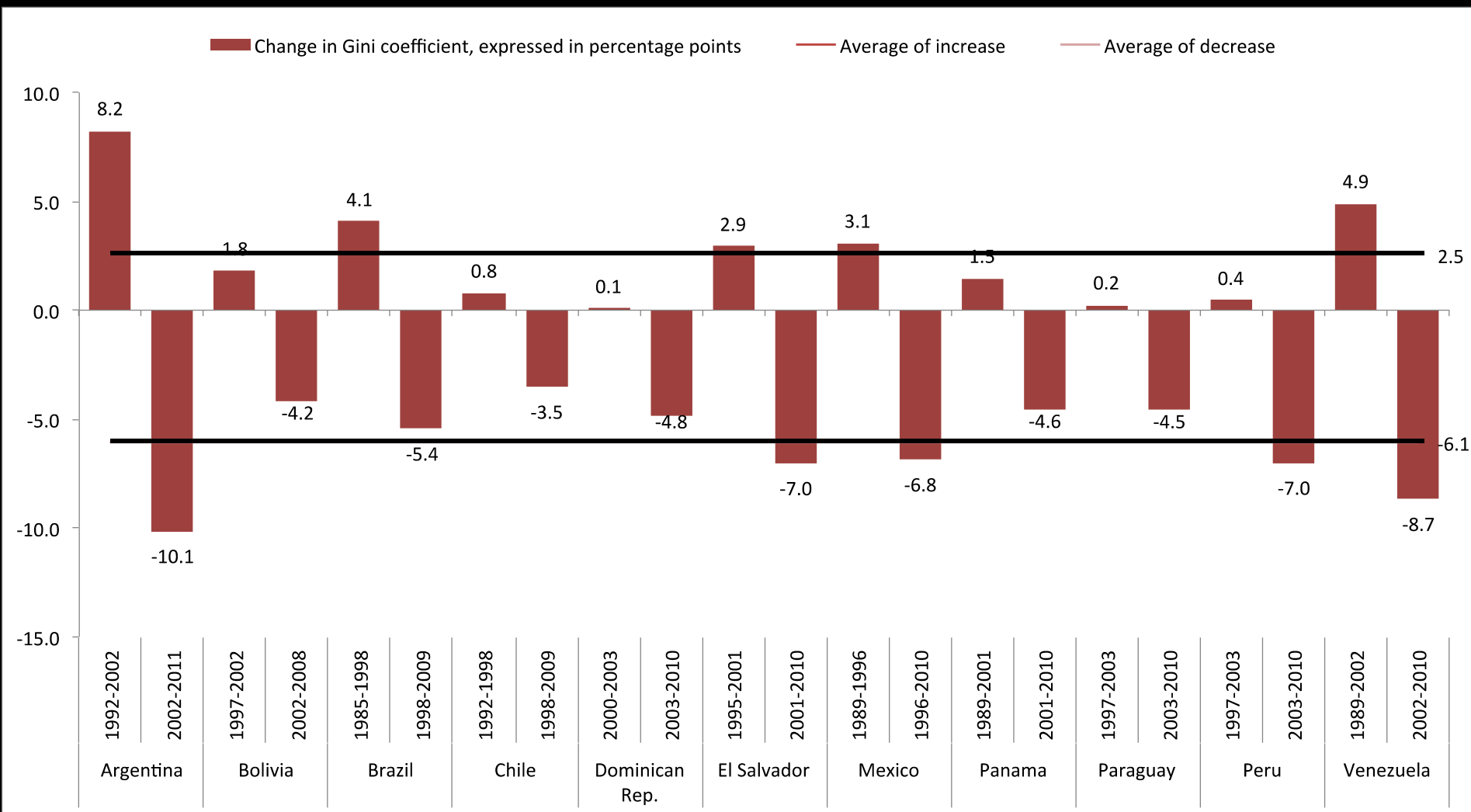
Inequality declined during the 2000's

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

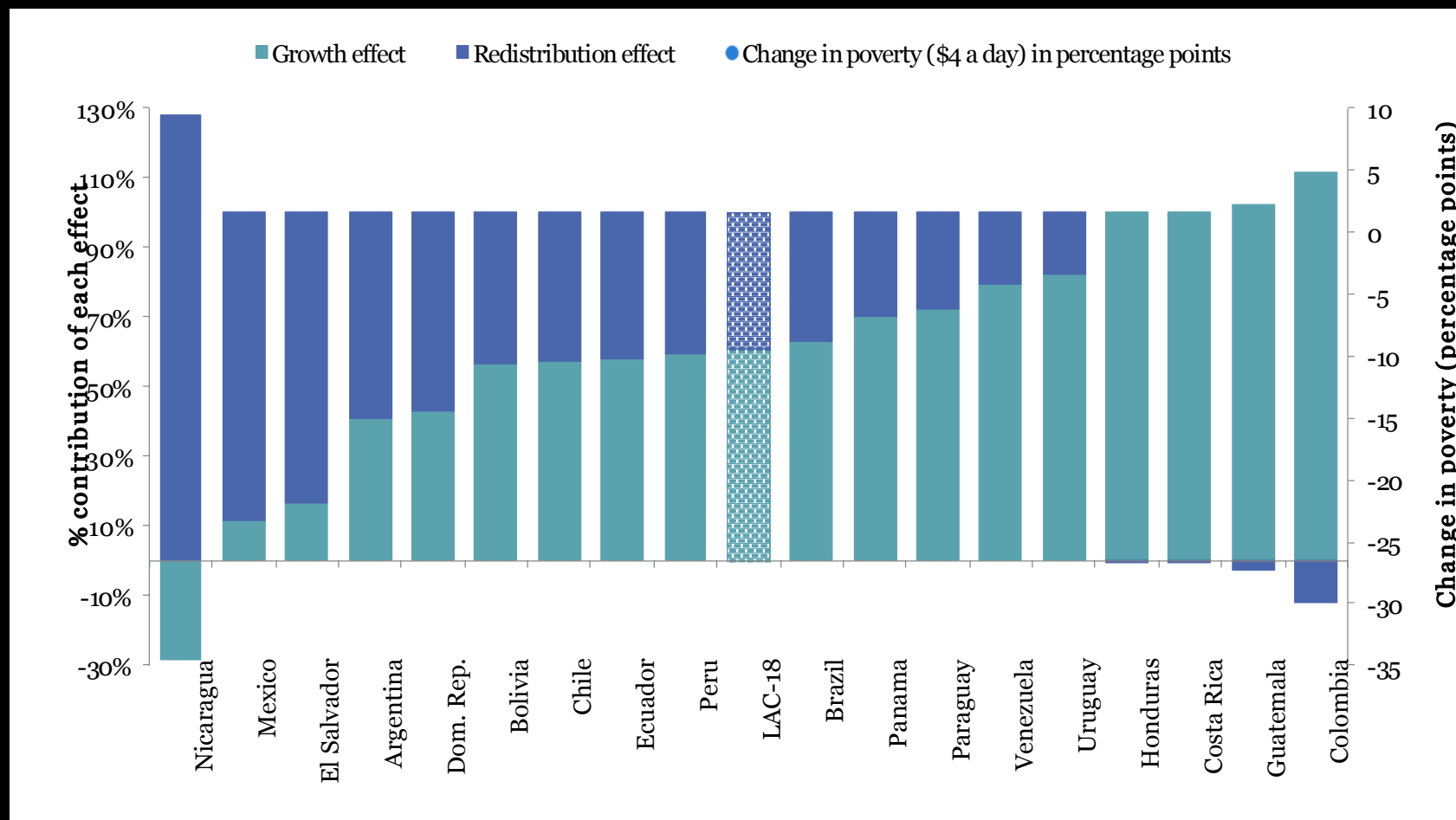


The decline of income inequality in the 2000s has been higher than the rise in the 1990s

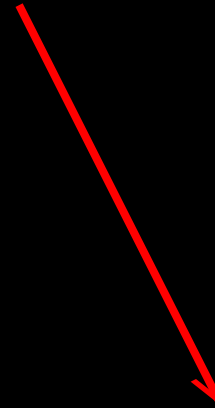
(Annual average change in Gini in %)



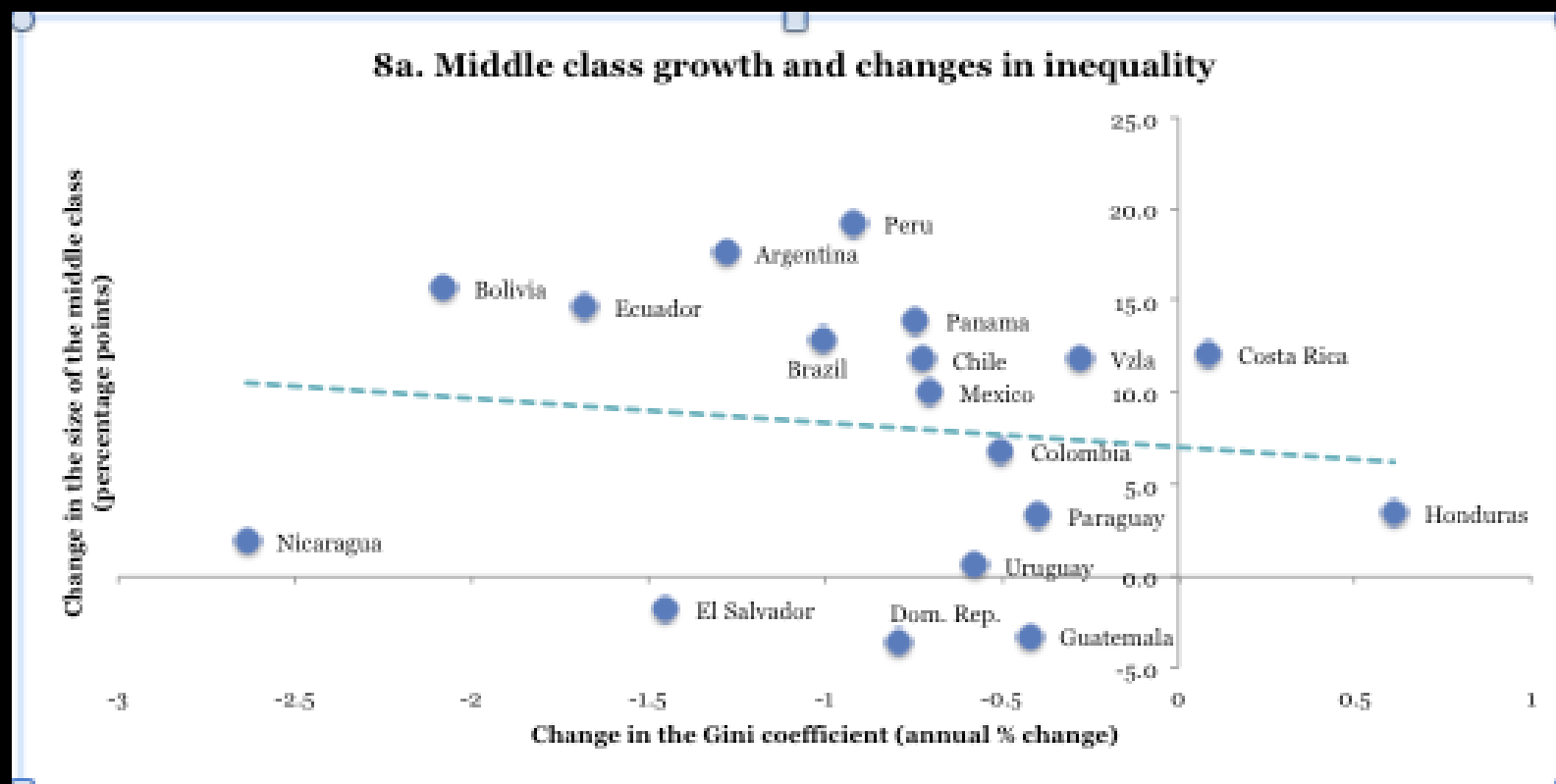
On average, 39 percent of the reduction in poverty was due to the decline in inequality c. 2001-2010



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



The faster the decline in inequality, the fastest 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

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)

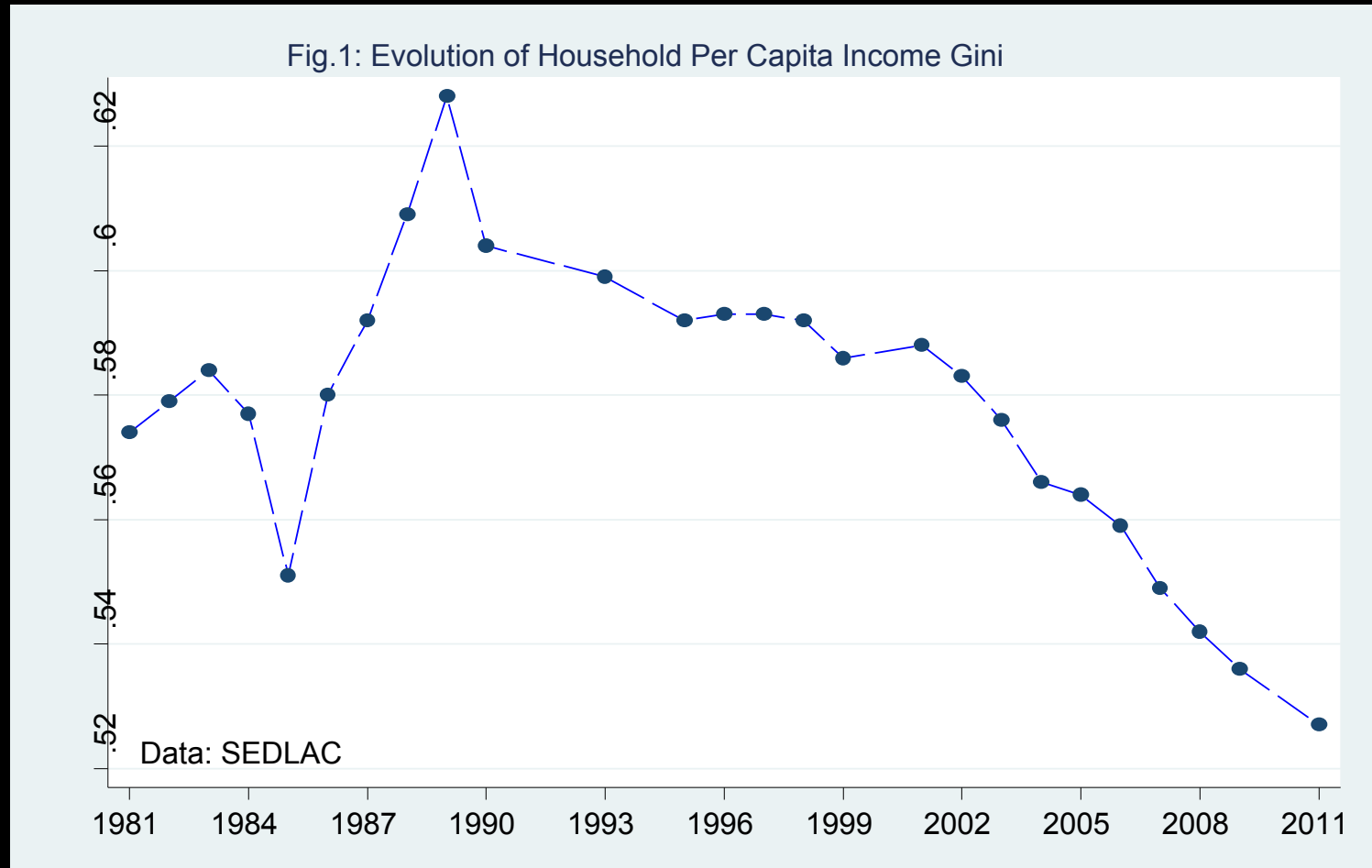
- Supply
- Demand
- Labor Market Institutions
- Declining “quality” in workers with tertiary degree

Zooming in

Brazil

Zooming in

Brazil: Decline in Inequality (Gini)



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

Zooming in: Brazil

- Low growth during most of the period
- Decomposition of change in wage inequality:
 - Change in Relative Wages => Effect Equalizing
 - Change in Composition for Education and Experience => Slightly Unequalizing (Bourguignon et al., 2005) “paradox of progress)

Zooming in: Brazil

- Relative Wages 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?

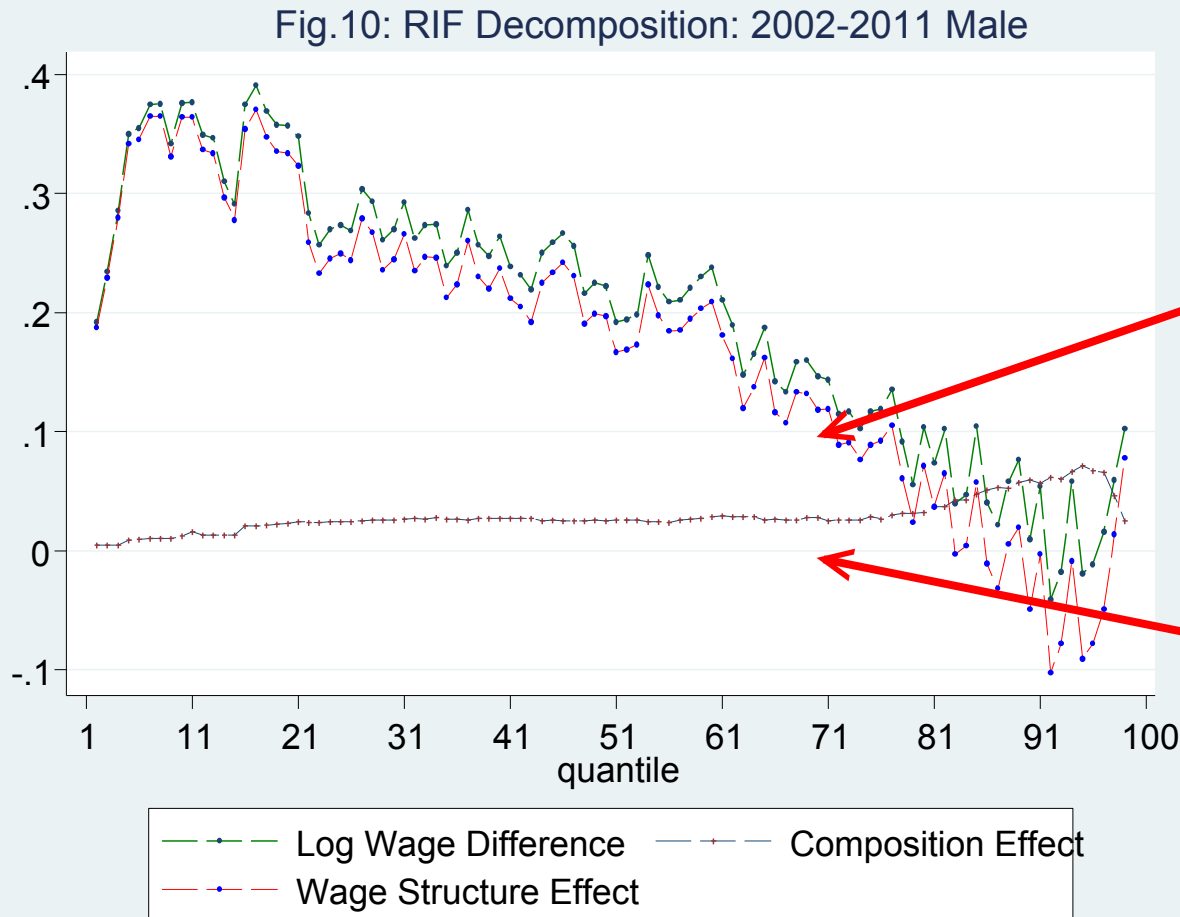
Brazil: Decline in Wage Inequality

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

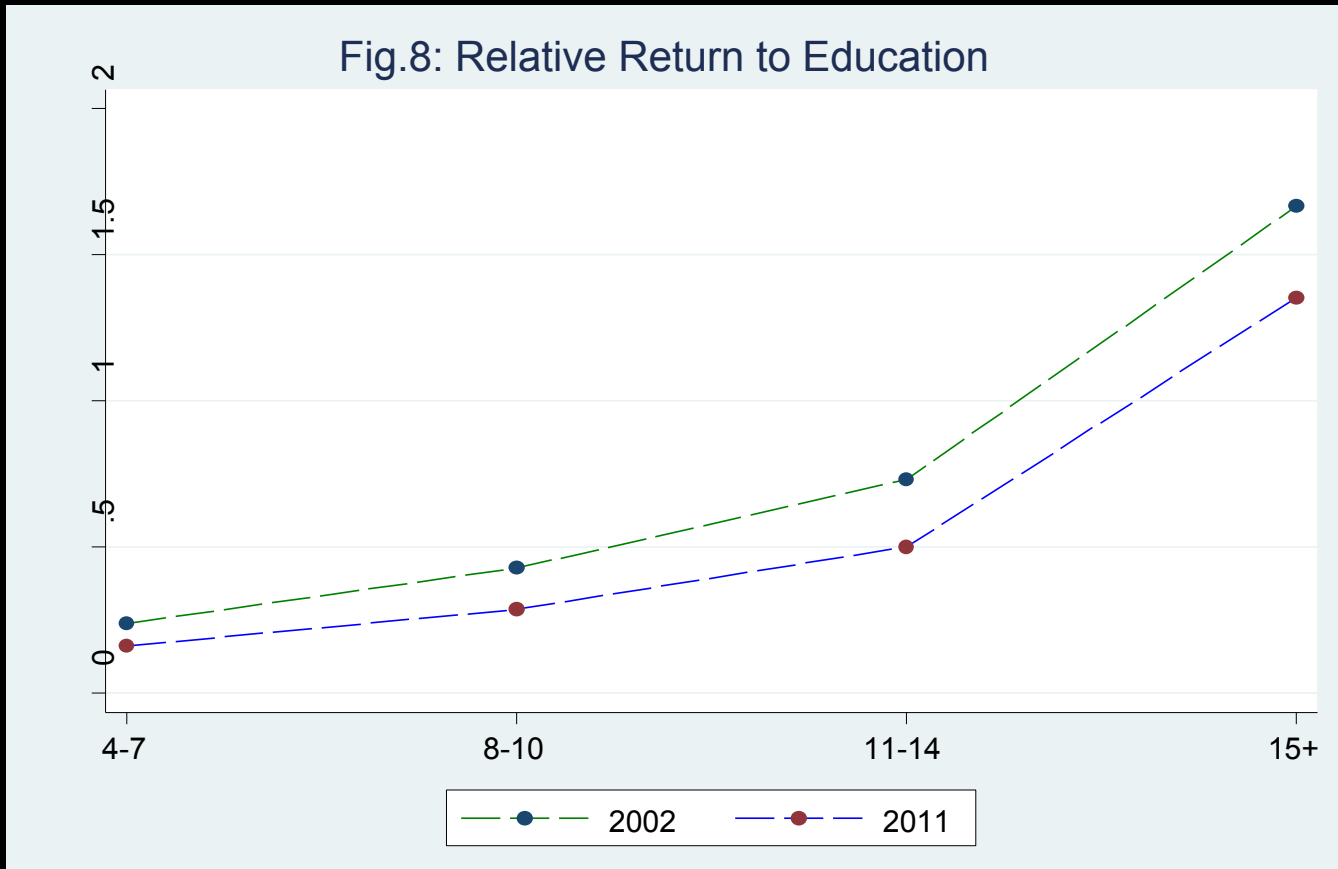
	2002	2003	2004	2005	2006	2007	2008	2009	2011
	Hourly Wage								
<i>Male Sample</i>									
Mean	4.63	4.38	4.25	4.35	4.57	4.65	4.80	4.98	5.15
Median	2.50	2.41	2.42	2.39	2.55	2.66	2.79	2.91	3.11
Gini	0.52	0.51	0.50	0.50	0.50	0.49	0.48	0.48	0.47
Theil	0.57	0.54	0.52	0.53	0.54	0.52	0.51	0.53	0.48
90-10	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 (2002-2011):

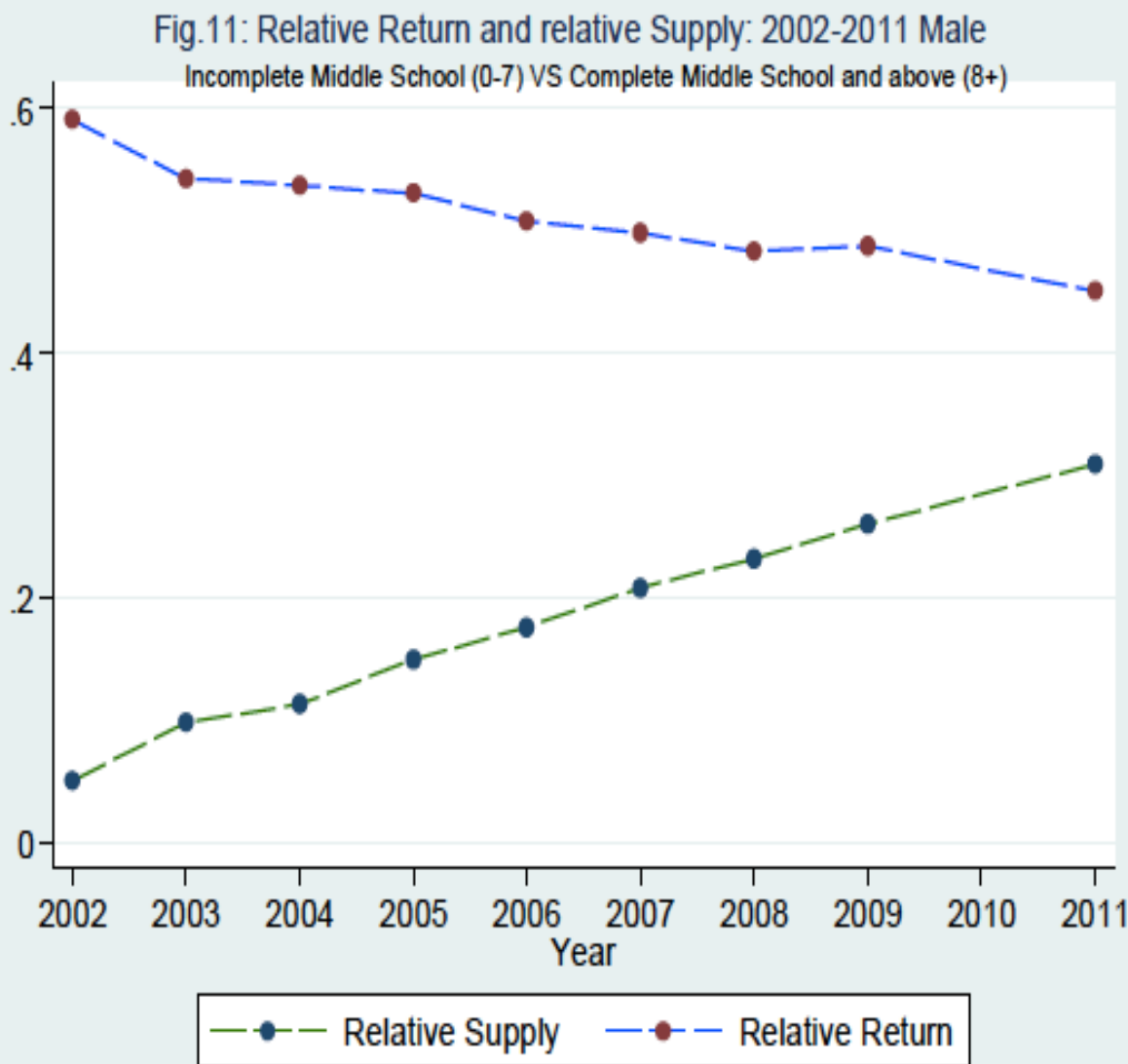
- Relative Wages
=> Equalizing
- Composition Education & Experience
=>Slightly Unequalizing



Brazil: Decline in relative returns to education



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

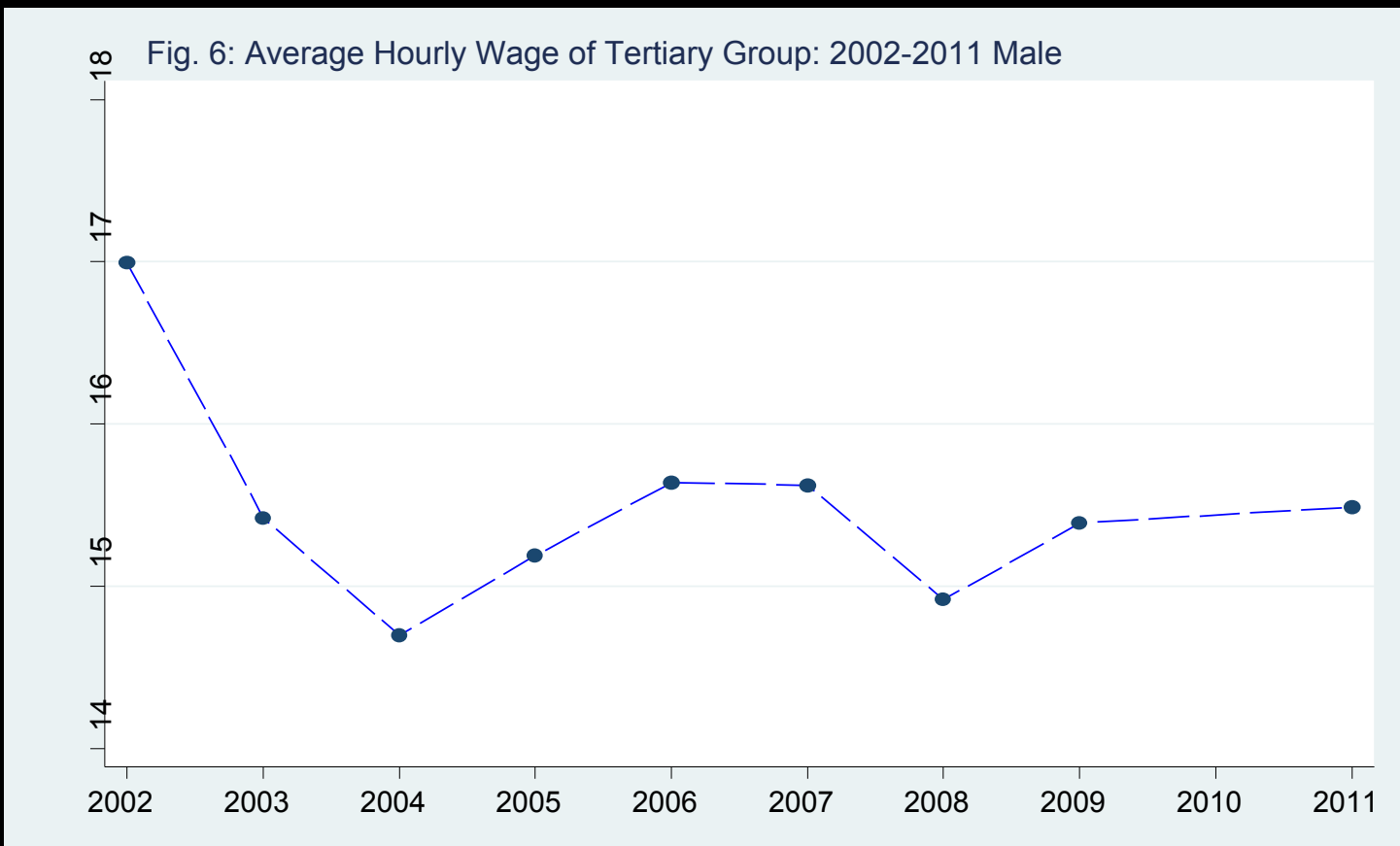


Brazil: Rising minimum wage



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

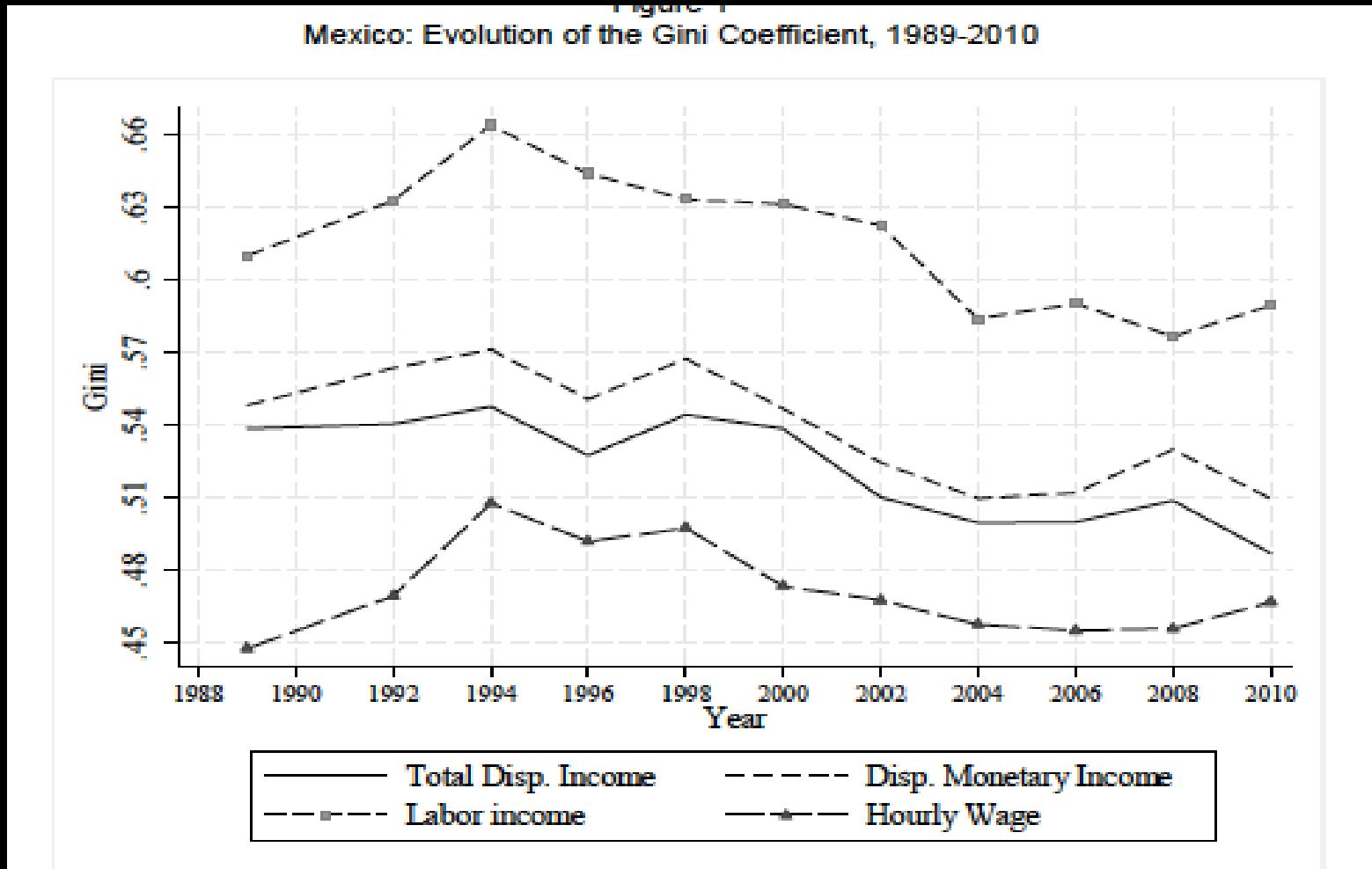
Brazil: Decline in real wages for workers with tertiary



Zooming in Mexico

Zooming in 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,

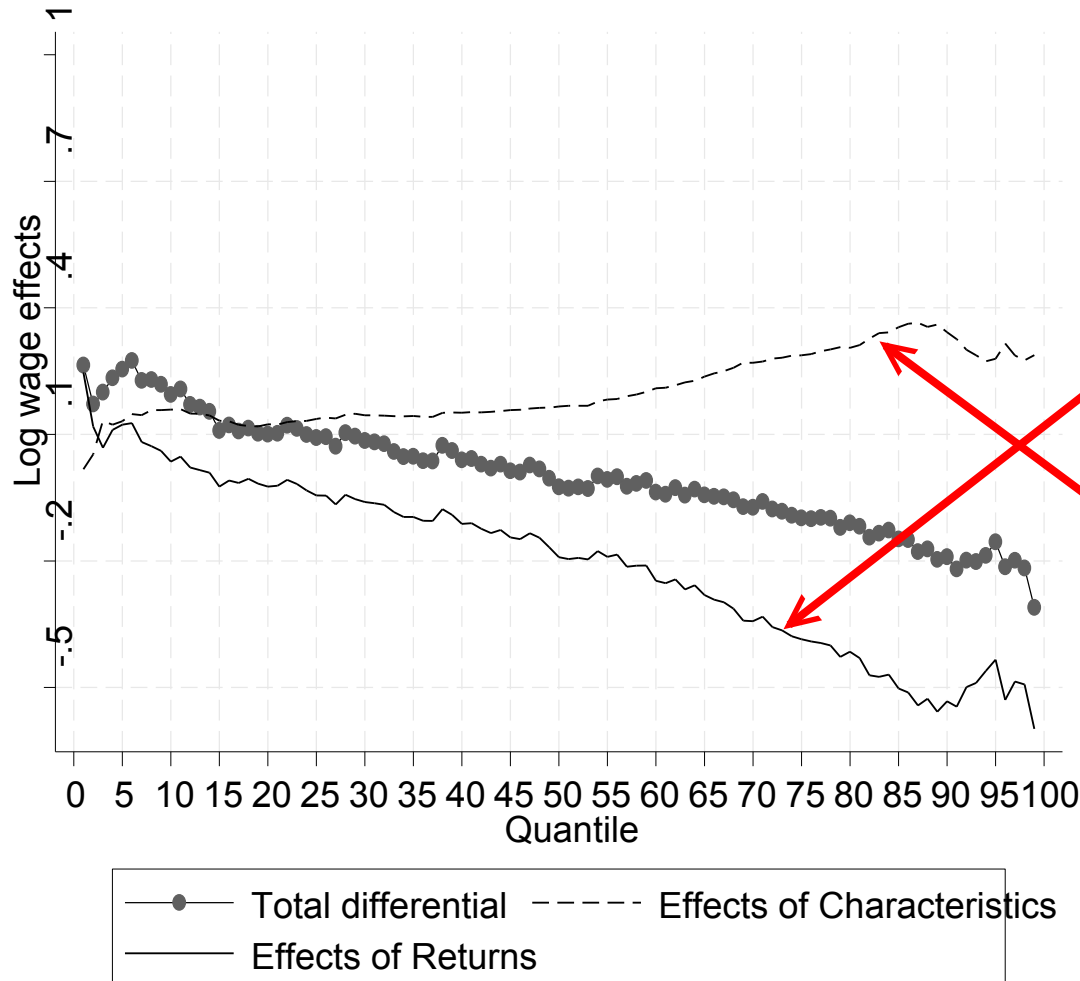
Zooming in: Mexico

- Low growth
- Decomposition of change in wage inequality:
 - Change in Relative Wages => Effect Equalizing
 - Change in Composition for Education and Experience => Slightly Unequalizing

Zooming in: Mexico

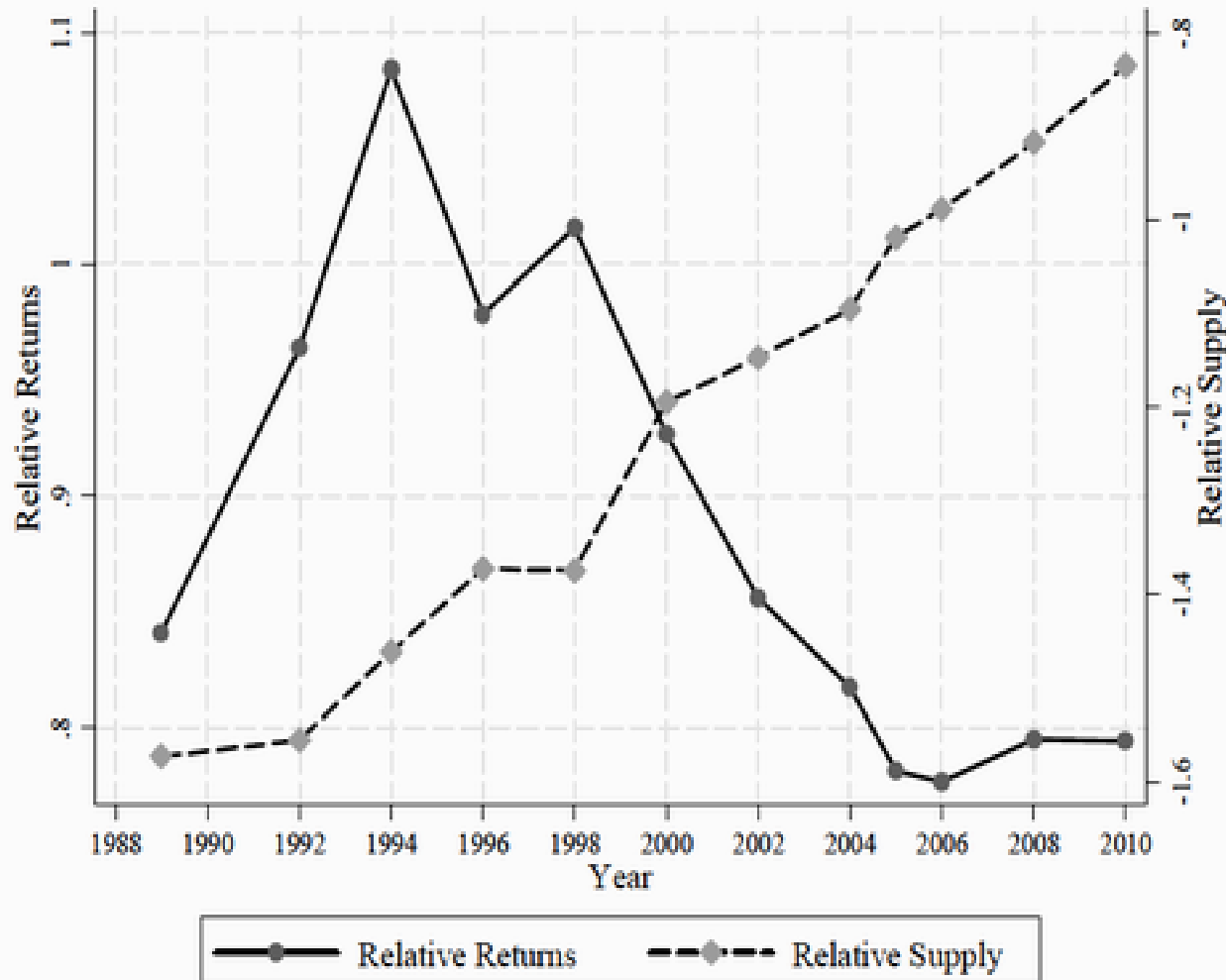
- Change in Relative Wages
 - Increase in relative supply of skilled workers
 - Minimum wages and unionization no effect
 - Degraded tertiary?

Mexico (1996-2010):



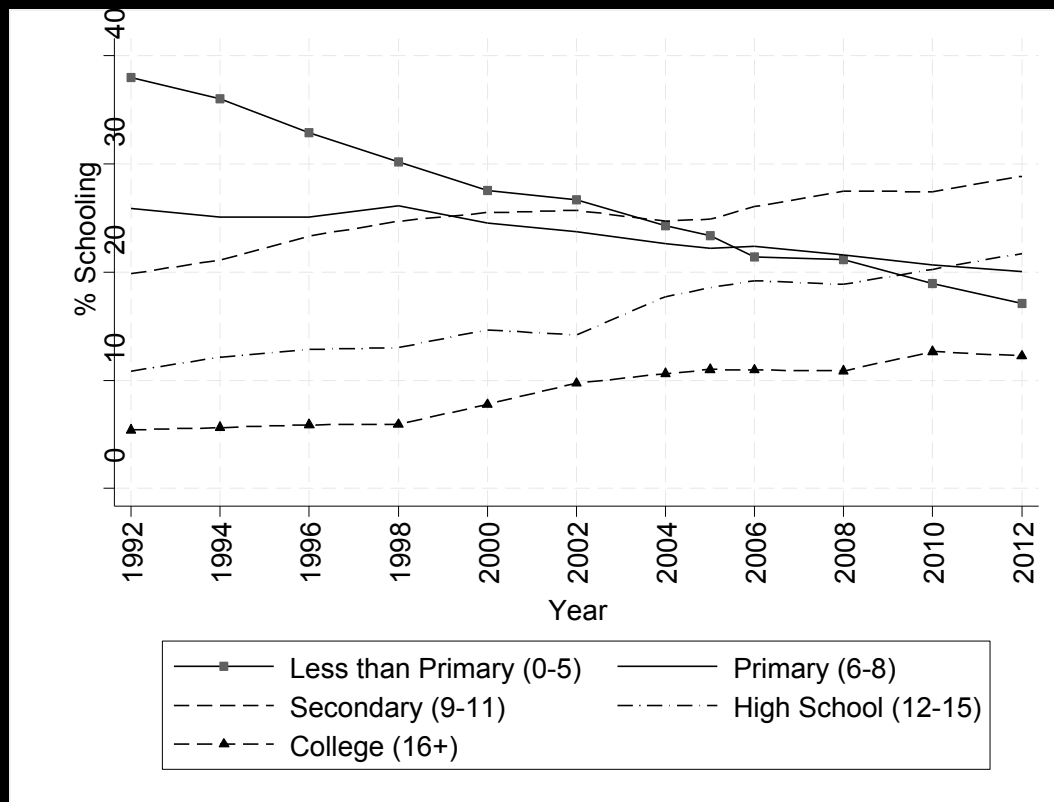
- Relative Wages
=> Equalizing
- Composition Education & Experience
=>Slightly Unequalizing

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



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: Changes in Schooling

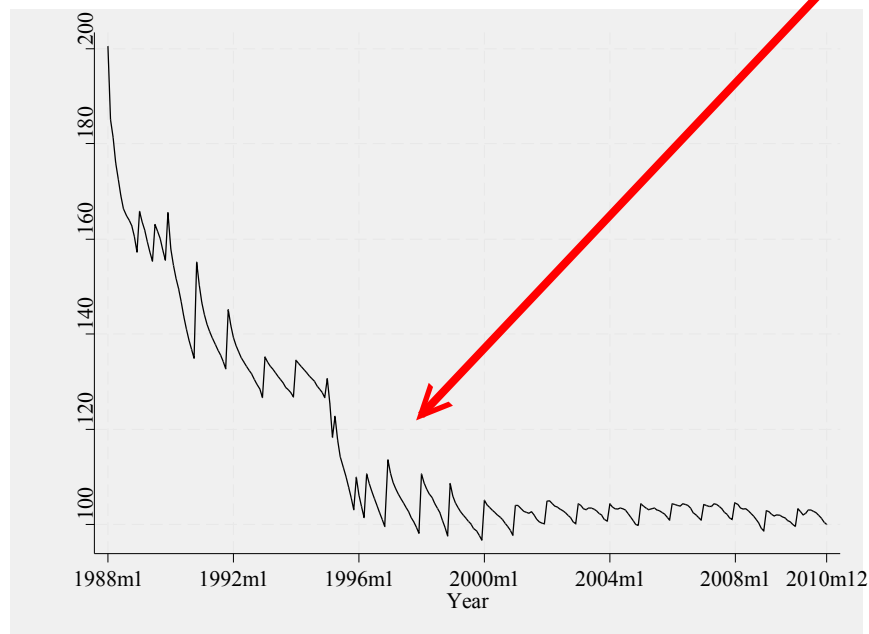


Note: Population age 20-65, ENE from 2000-2004 and ENOE 2005-2014. Representative at the national level. Full sample.

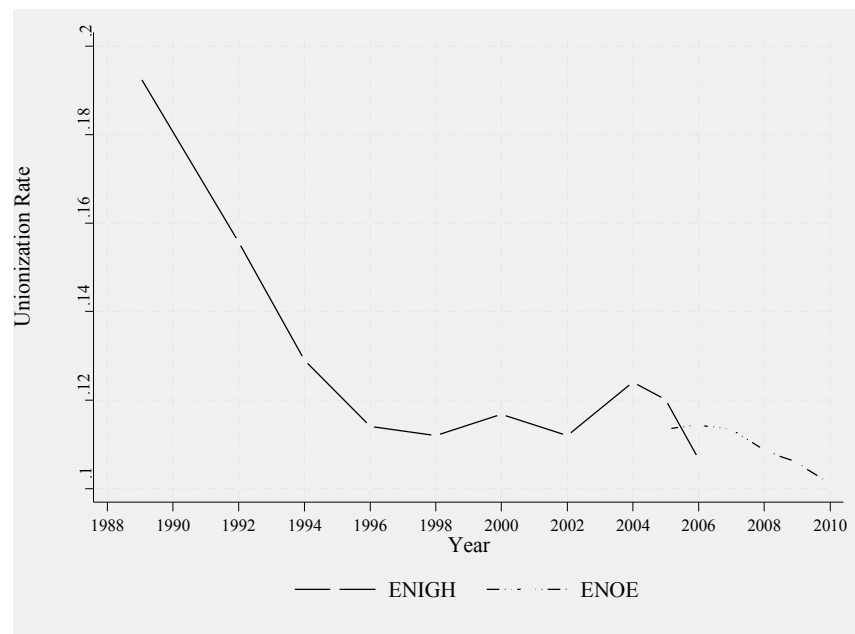
In contrast to Brazil, in Mexico minimum wages did not increase at all...

Real Minimum Wage and Unionization: 1988-2010

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

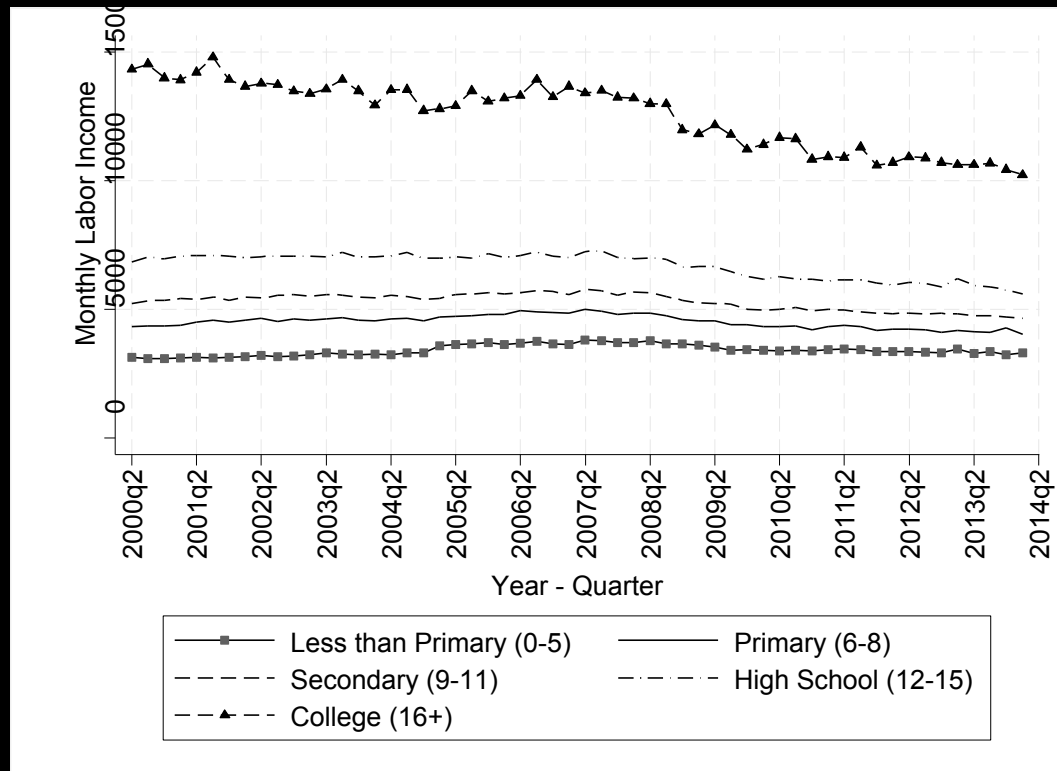


B. Unionization Rate



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,

Income: education



Campos, Lopez-Calva and Lustig (2014) Note: Population age 20-65, ENE from 2000-2004 and ENOE 2005-2014. Representative at the national level. Sample restricted to those with valid labor income. All employment: salaried, self-employment and employers. Constant Mexican Pesos 2014:1.

Government Transfers

How redistributive are Latin American governments?

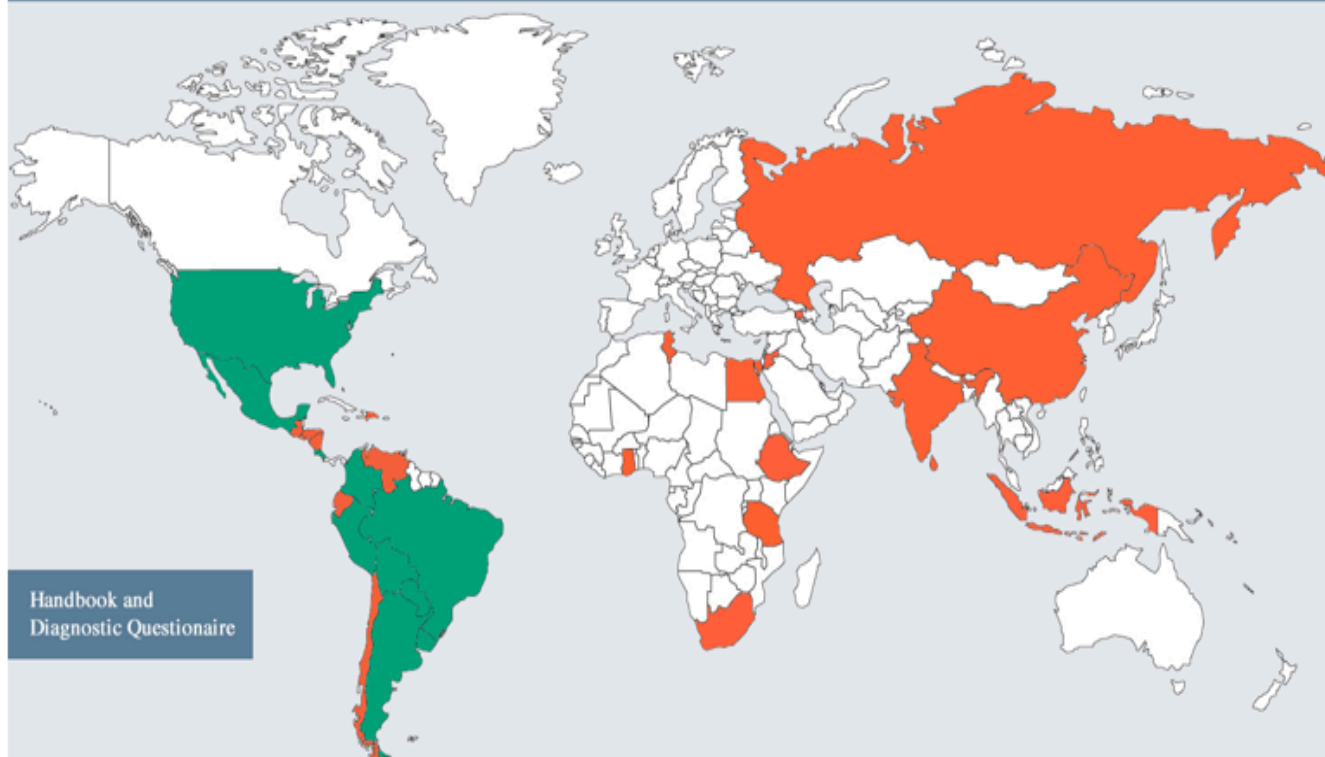
- Decomposition of changes in inequality by income source show that transfers is, on average, the second most important proximate determinant of decline in overall inequality
- Social spending and tax incidence analysis for 14 countries (8 from Latin America)
- www.commitmentoequity.org

What is CEQ

The Commitment to Equity (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. Directed by [Nora Lustig](#), the CEQ is a joint project of CIPR and the Department of Economics at Tulane University and the Inter-American Dialogue.

[Read More](#)

Browse map for Publications by Country

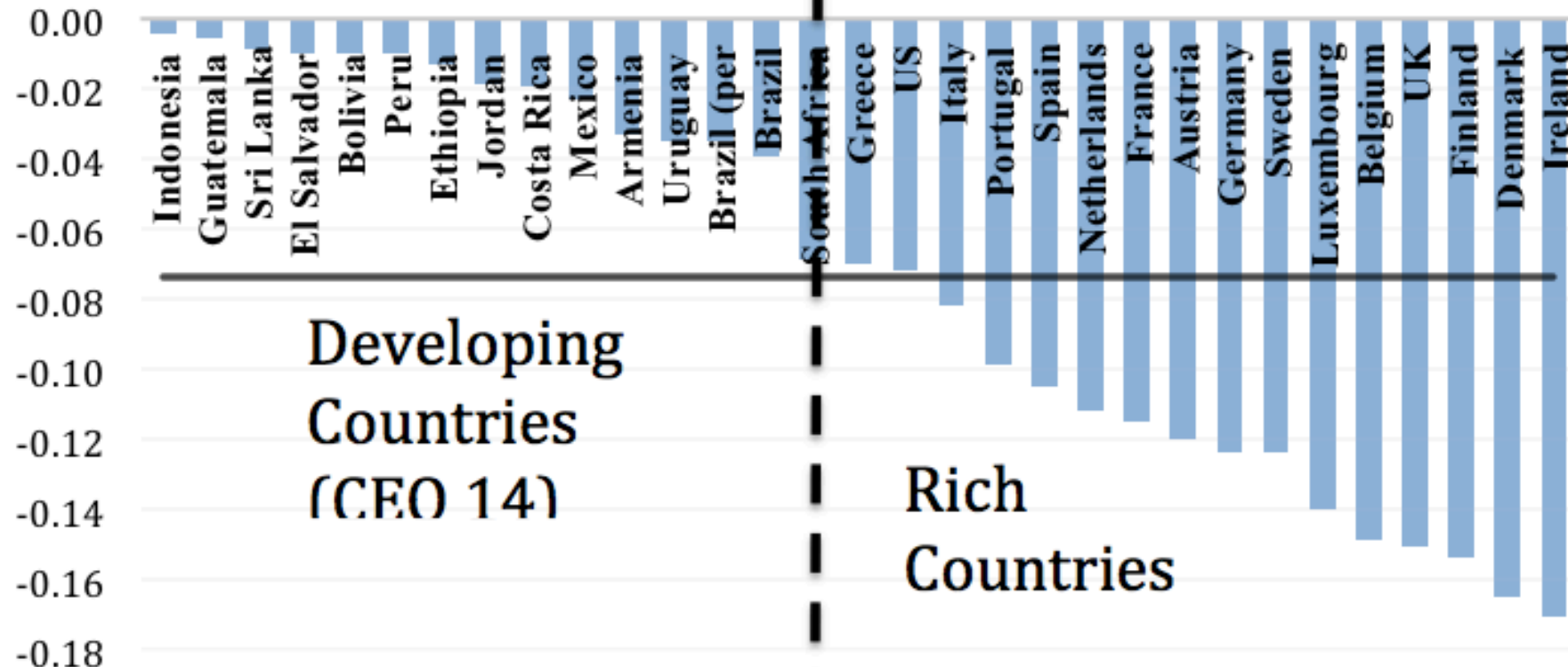


Redistribution in the rich and developing countries



COMMITMENT
TO EQUITY

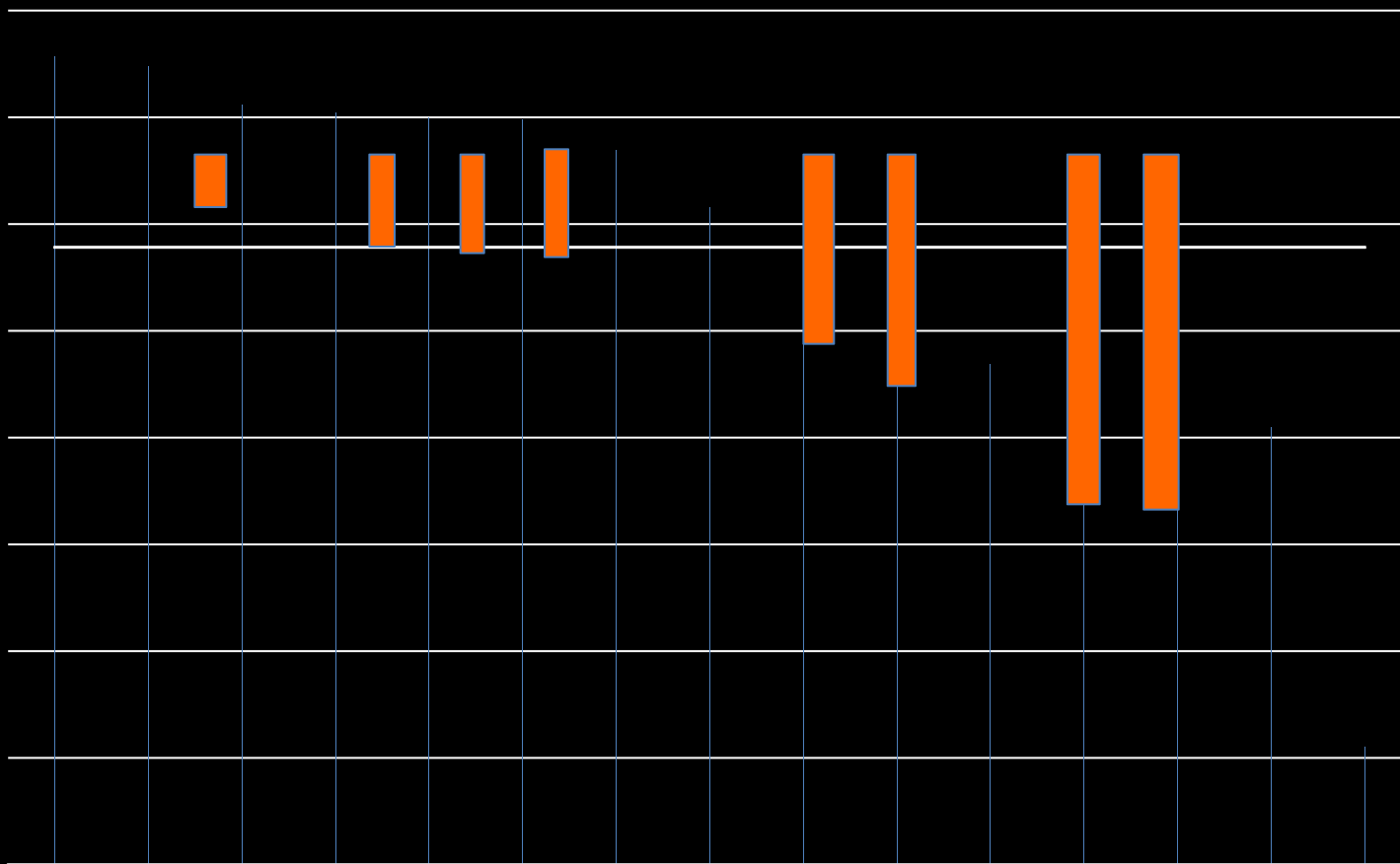
**Change in Gini: Disposable vs. Market Income
(in GINI points)**



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.

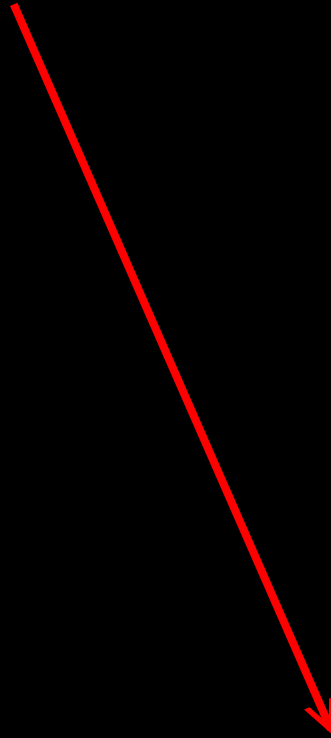
Zooming in (CEQ 14 countries; LA 8 in red)



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.

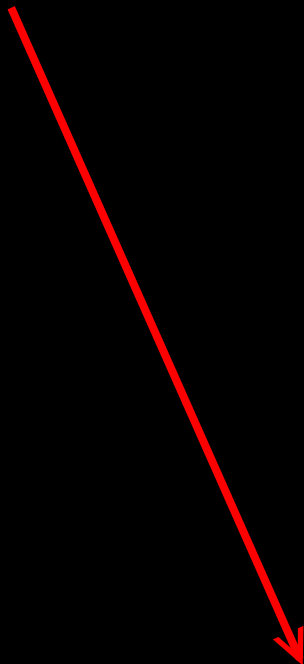
Redistribution rises with income per capita



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.

.... the more unequal, the more redistribution



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

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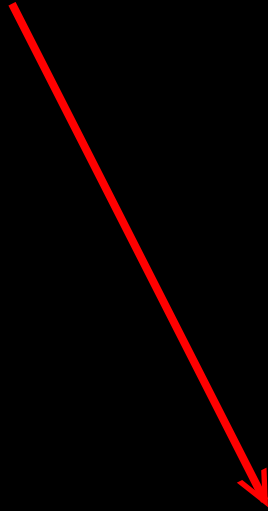
Higher inequality is associated with more redistributive “effort:” spending on transfers/GDP rises with inequality



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.

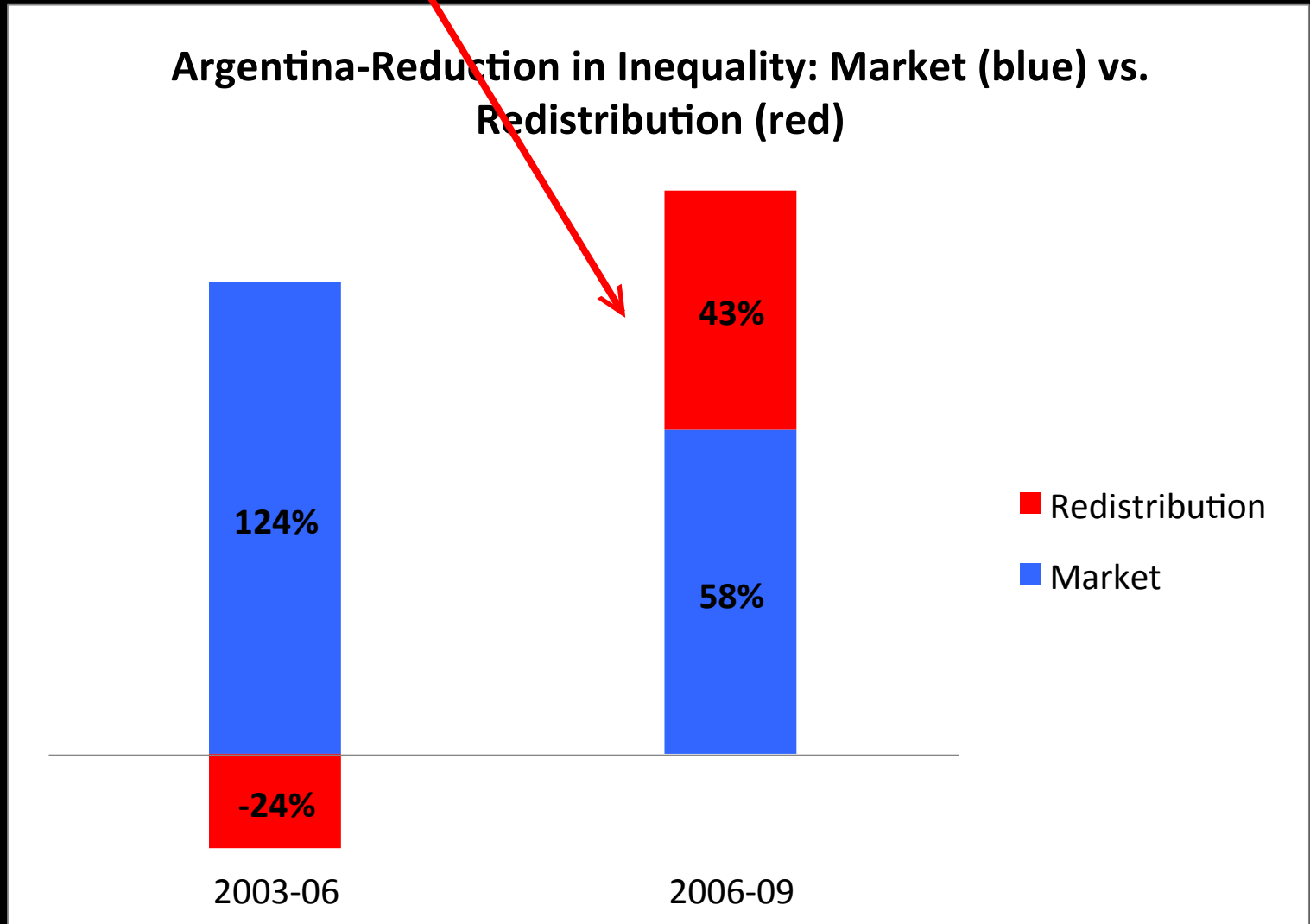
...and so does social spending/GDP



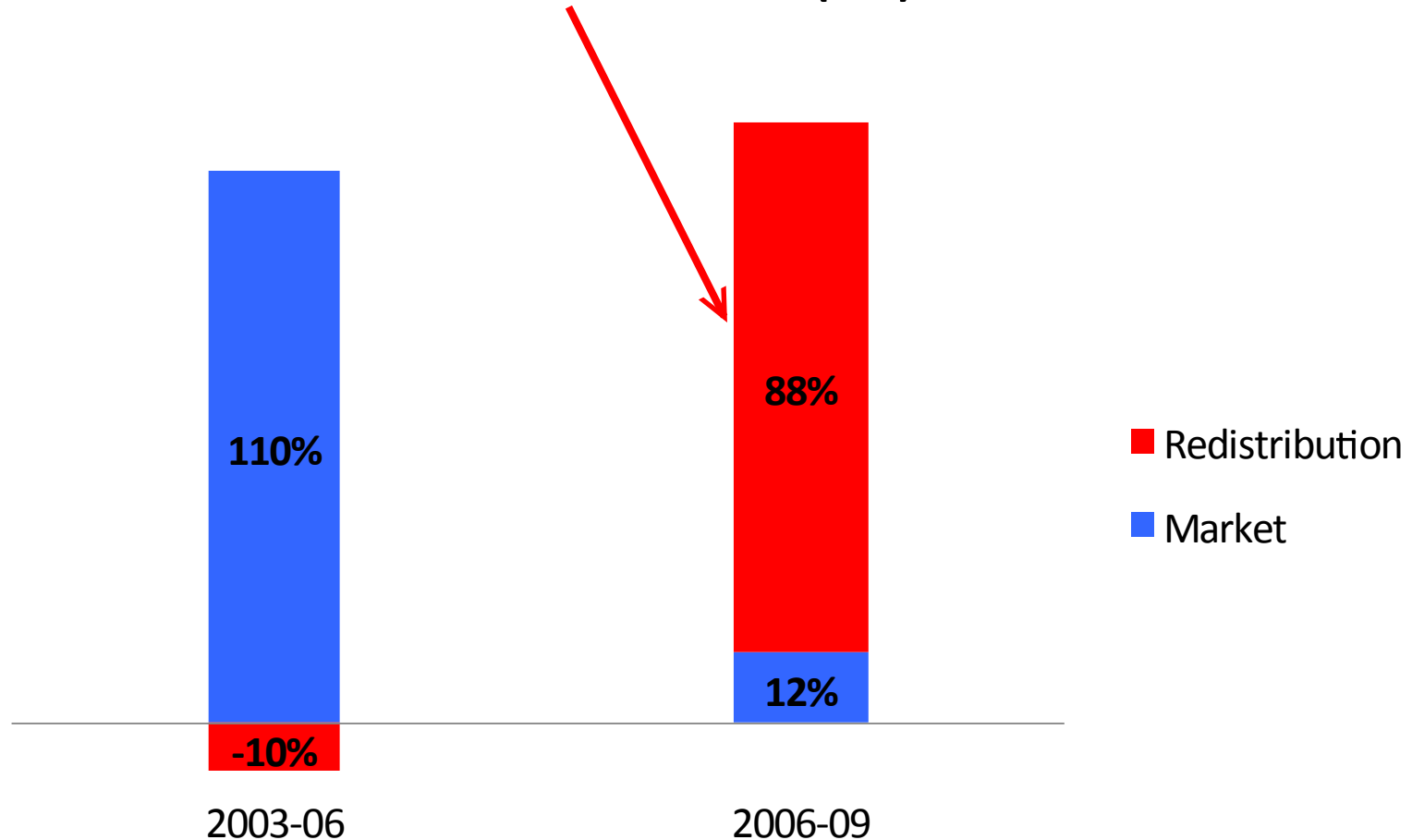
Sources: Lustig (2014) and slides at the end.

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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. **Armenia (2011; I):** Stephen Younger and Artsvi Khachatryan (March 12, 2014; paper)
3. **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
4. **Brazil (2009; I):** Sean Higgins and Claudiney Pereira (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
5. **Costa Rica (2010; I):** Pablo Sauma and Juan Diego Trejos (February 2014; paper)
6. **El Salvador (2011; I):** Margarita Beneke, Nora Lustig and Jose Andres Oliva (March 11, 2014)
7. **Ethiopia (2010/11; C):** Ruth Hill, EyasuTsehay, Tassew Woldehanna (April 30, 2014)
8. **Guatemala (2011; I):** Maynor Cabrera, Nora Lustig and Hilcias E. Moran (April 13, 2014)
9. **Indonesia (2012; C) :** Jon Jellema and Matthew Wai-Poi (February 18, 2014)

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

- 10 **Jordan (2010; C)** : Morad Abdel-Halim, Shamma Adeeb Alam, Yusuf Mansur, Umar Serajuddin, Paolo Verme (April 18, 2014)
- 11 **Mexico (2010; I)**: John Scott (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
- 12 **Peru (2009; I)**: Miguel Jaramillo (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
- 13 **South Africa (2010; I)**: Ingrid Woolard, Precious Zikhali, Mashekwa Maboshe, Jon Jellema (May 5, 2014)
- 14 **Sri Lanka (2009/10; C)**: Nisha Arunatilake, Gabriela Inchauste and Nora Lustig (April 8, 2014; paper)
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