

Slower Growth, Poverty and the Expansion of the Middle-class

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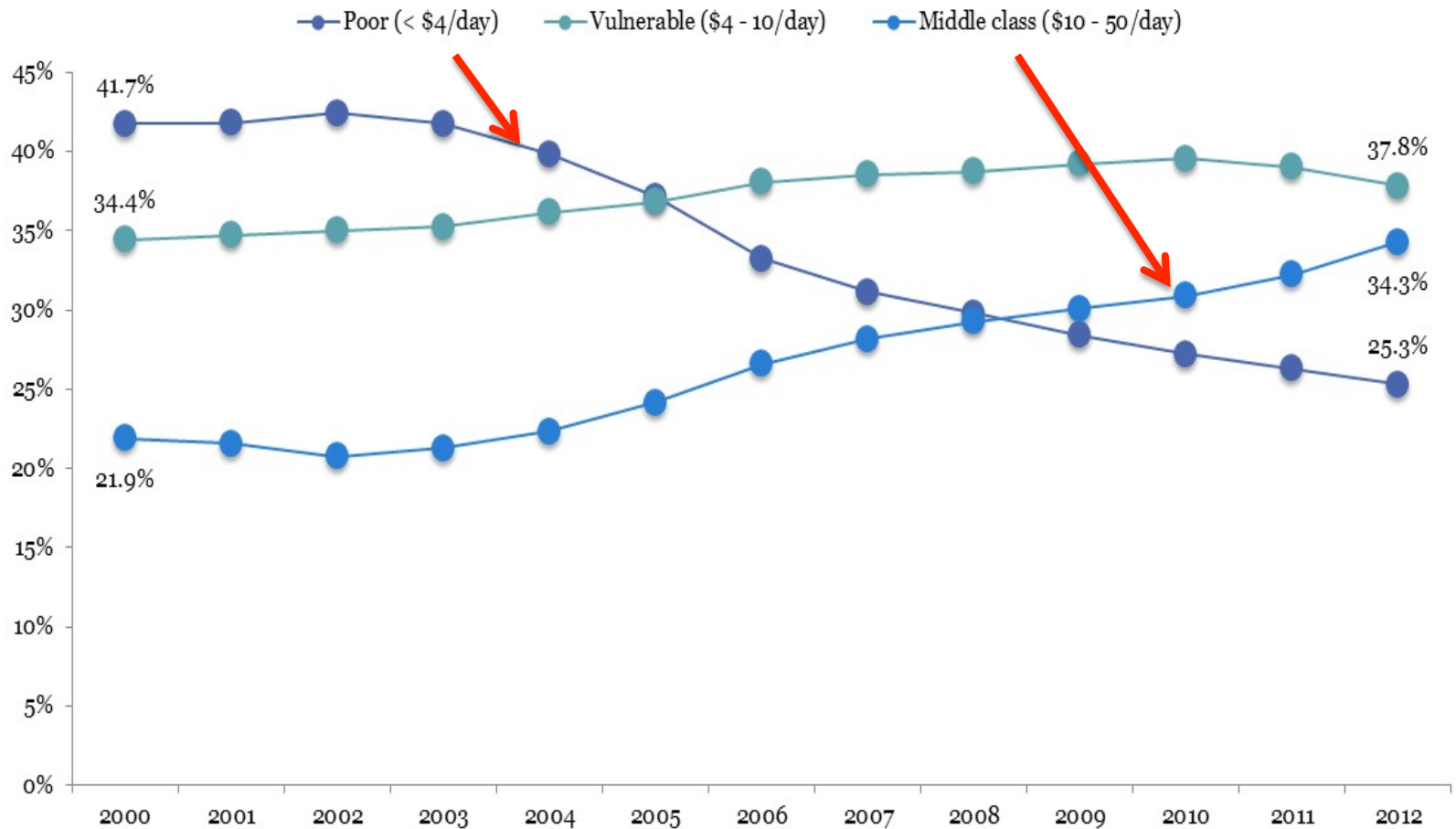
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Universidade de São Paulo
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November 20, 2014

In the 2000s, economic growth and declining inequality led to:

- => significant poverty reduction and

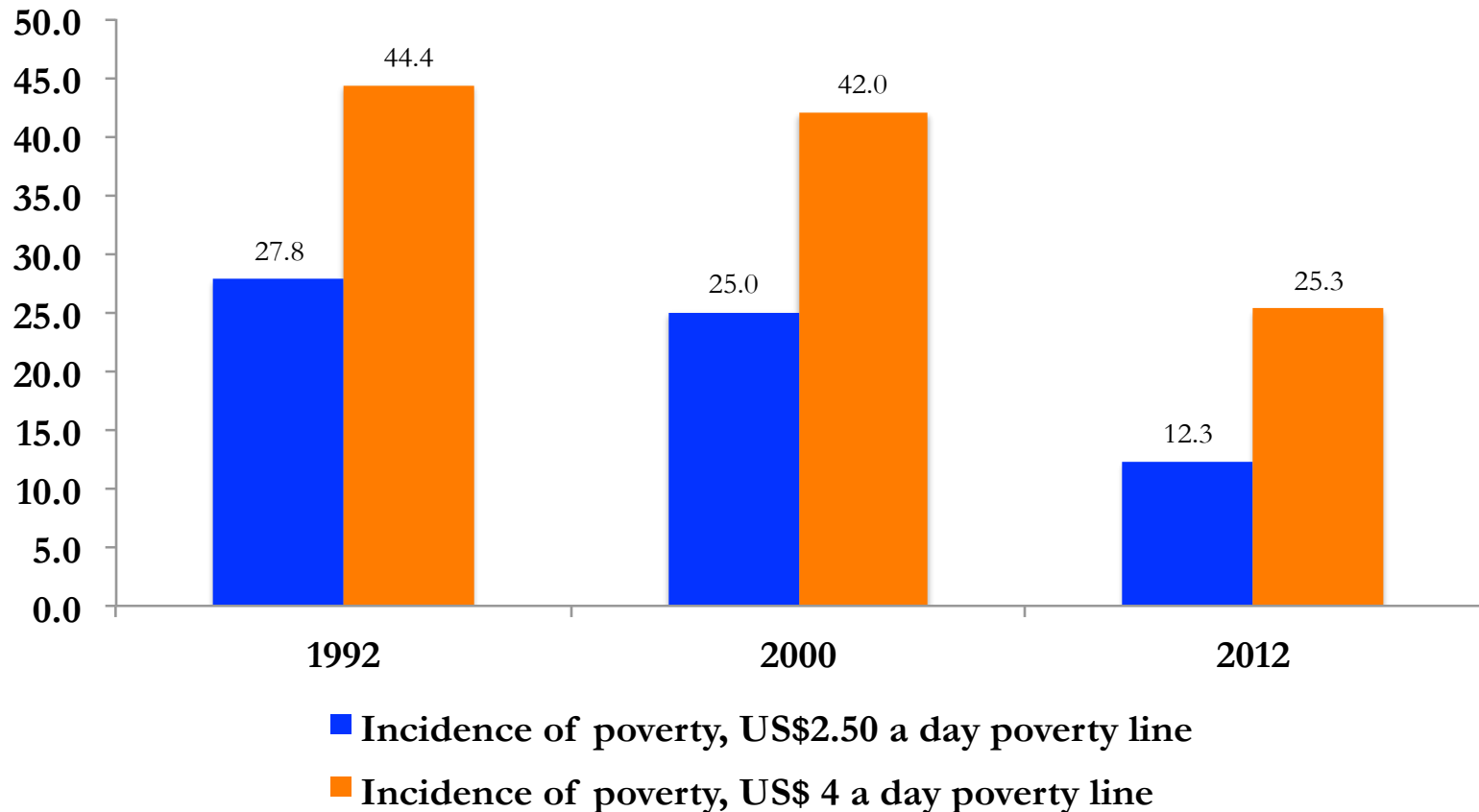
- => a robust expansion of the “middle-class”

Percentage of population by income groups Latin America, c. 2000-2012



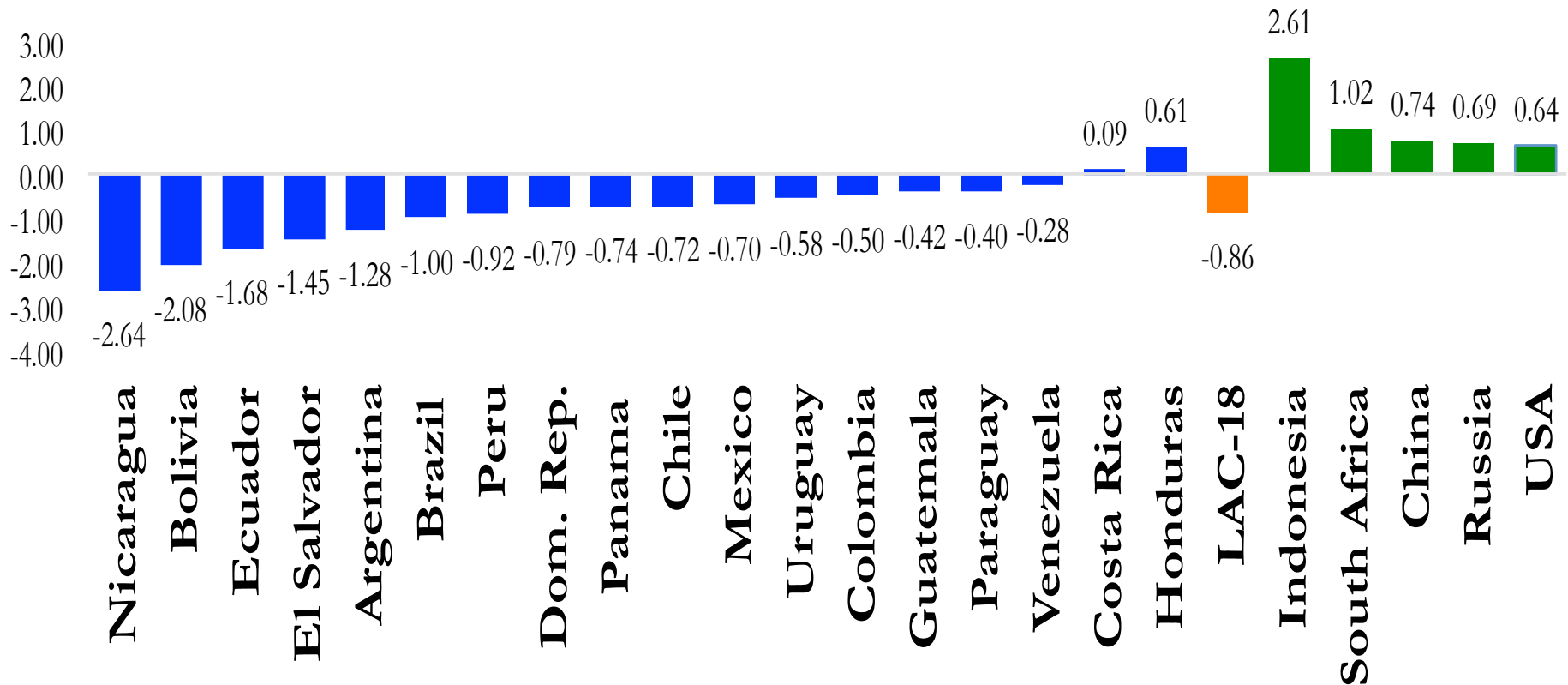
Azevedo, Lopez-Calva, Lustig and Ortiz. 2015. Inequality, Mobility and Middle Classes in Latin America. In Dayton, Jeff (editor)

Decline in Poverty 1992-2012 (Ave. Headcount Ratio in %)



Lustig et al. (2014) based on SEDLAC

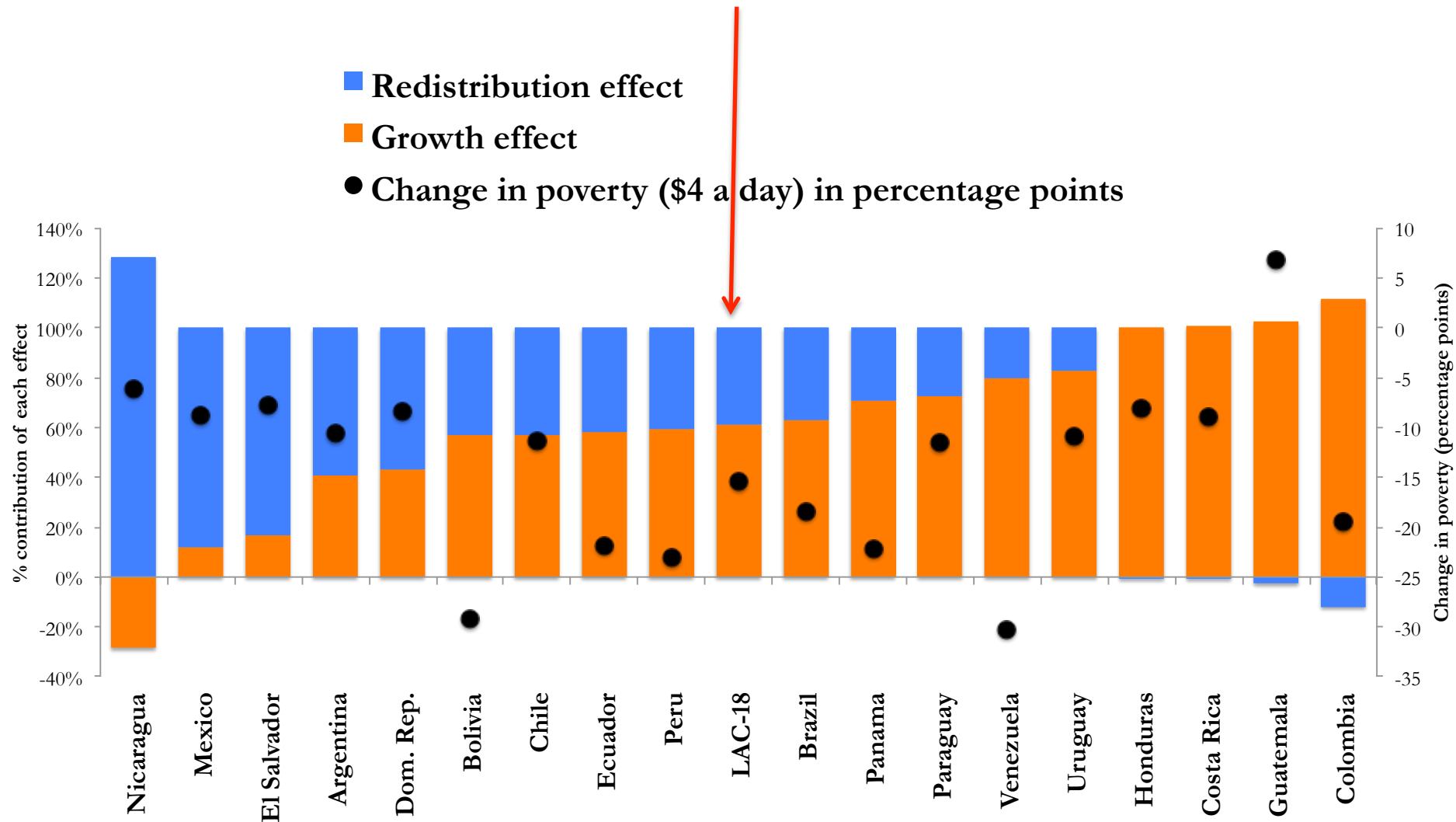
Average Yearly Change in Gini: 2000 (circa) - 2012 (circa)



Lustig et al. (2014) based on SEDLAC

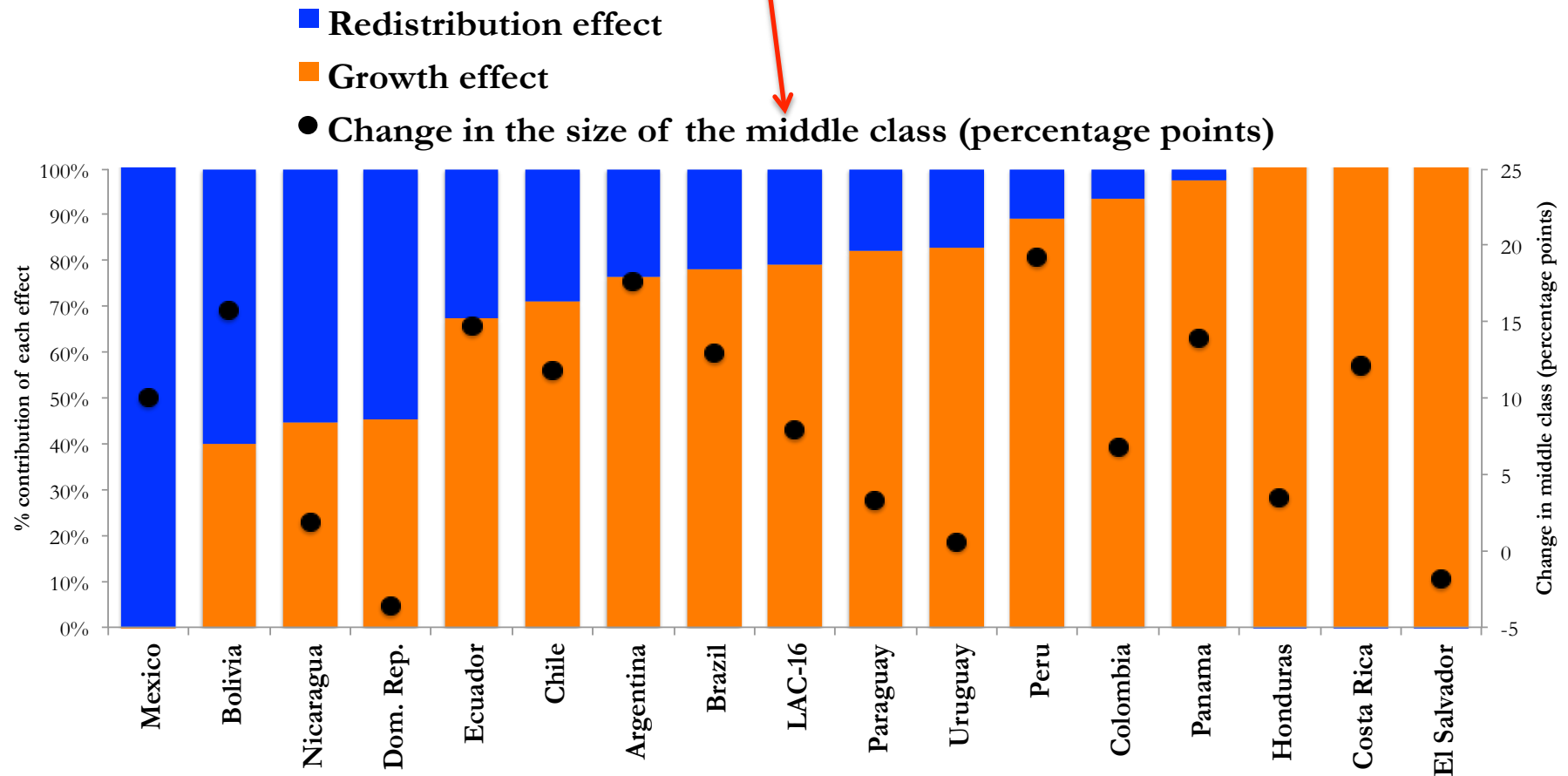
Poverty reduction:

Growth contributed with about 61 percent and inequality reduction with 39 percent c. 2001-2011



Expansion of the middle-class:

Growth contributed with about 79 percent and inequality reduction with 21 percent c. 2001-2011



Lustig et al. (2014) based on SEDLAC

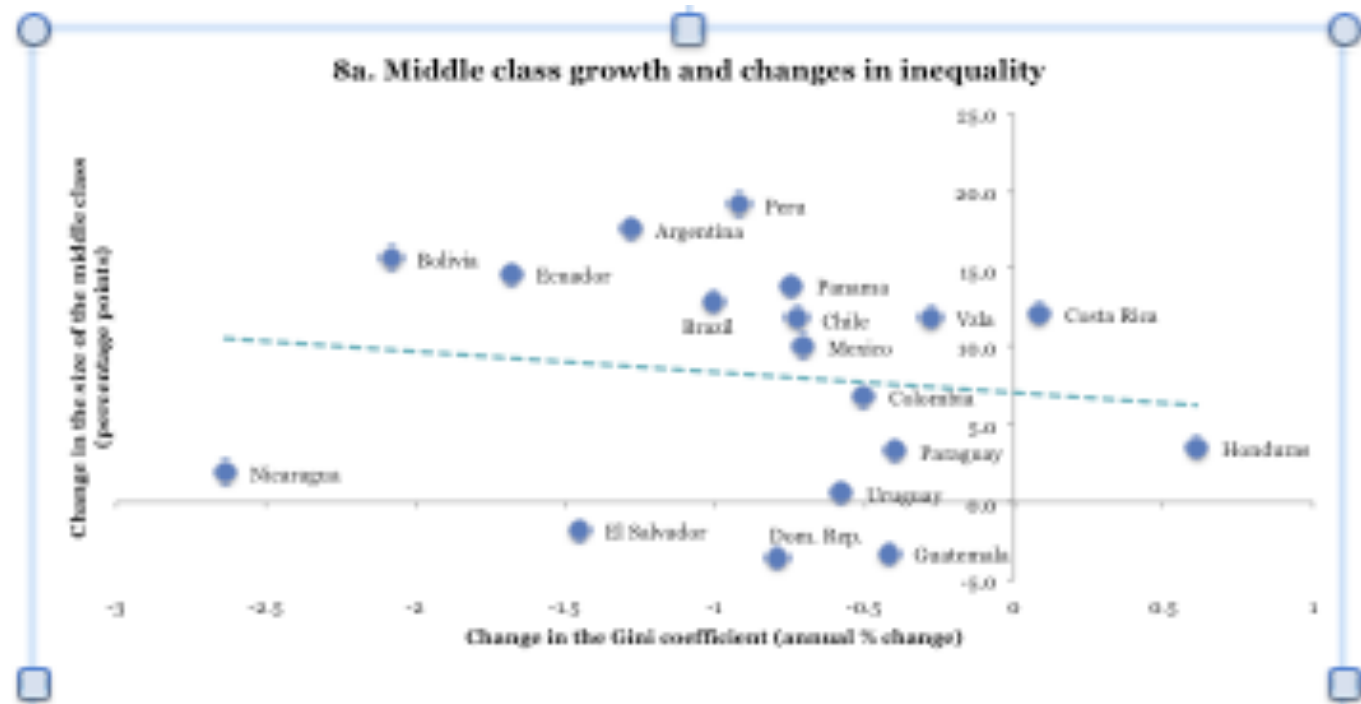
Correlation between changes in the size of the middle class and changes in income per capita; c. 2000-2012

8b. Middle class growth and changes in GDP per capita



Azevedo, Lopez-Calva, Lustig and Ortiz. 2015. Inequality, Mobility and Middle Classes in Latin America. In Dayton, Jeff (editor)

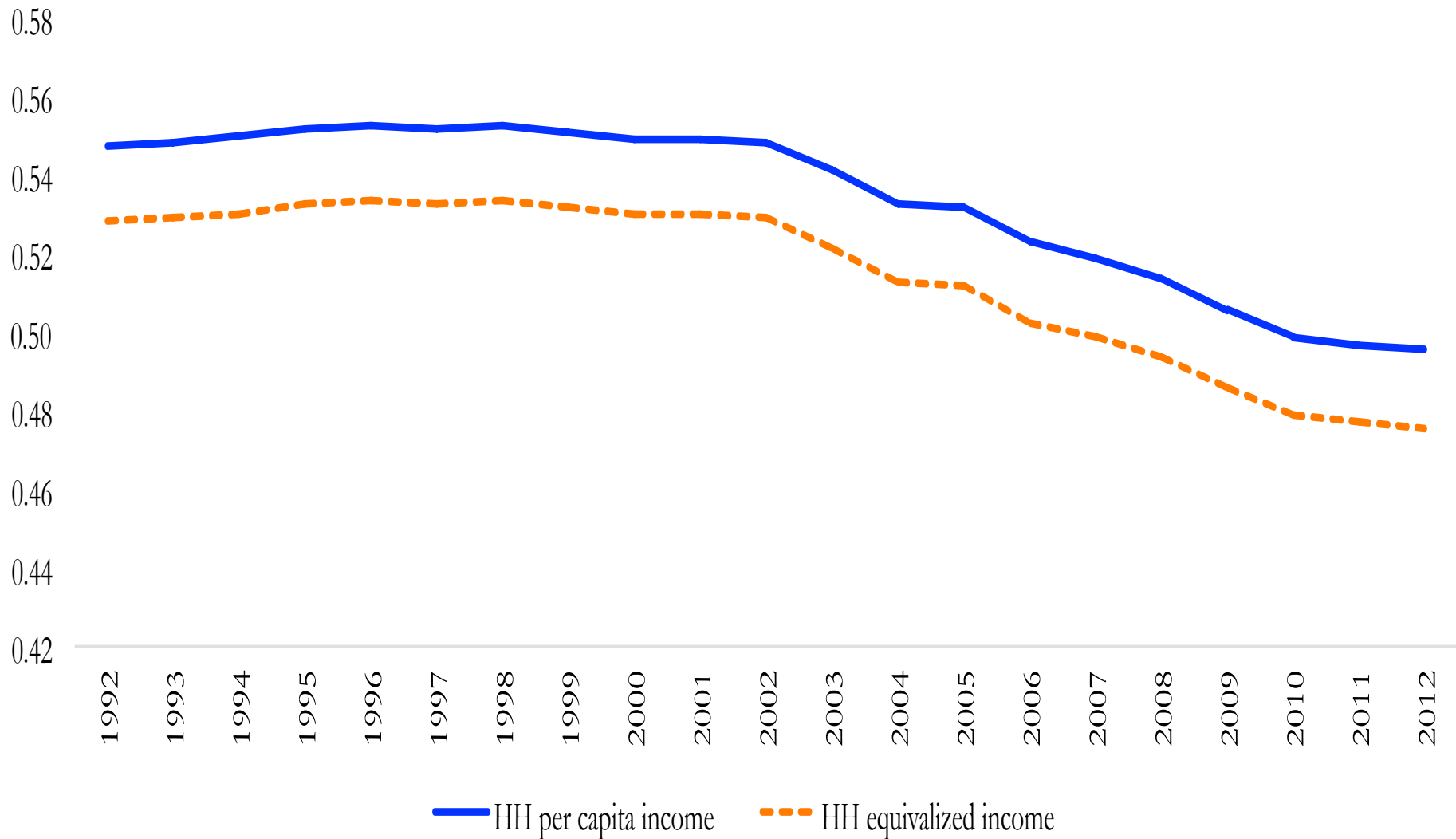
Correlation between changes in the size of the middle class and changes in inequality; c. 2000-2012



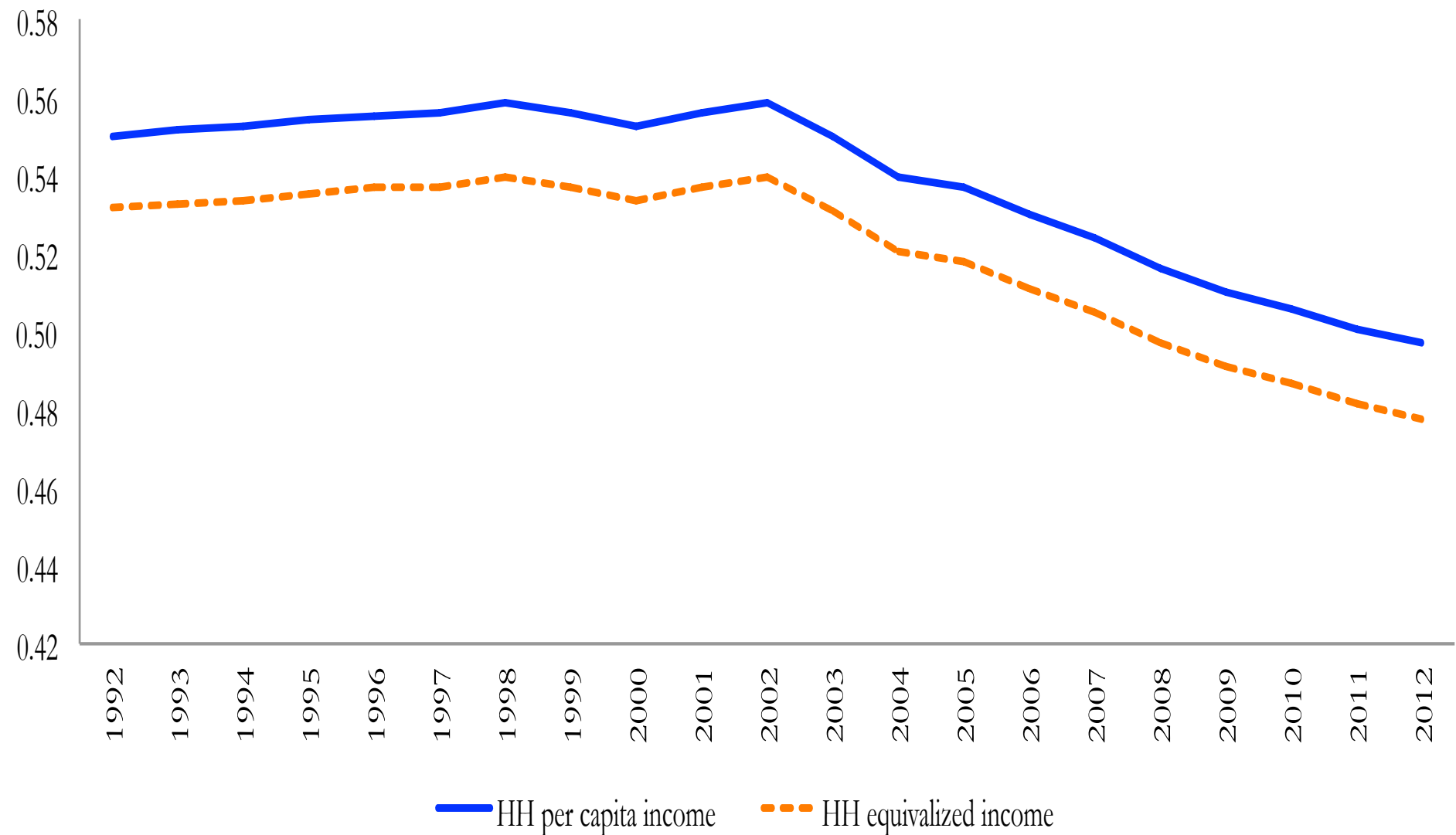
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- With slower growth, we know that-- everything else equal-- the reduction in poverty and the expansion of the middle-class will also proceed at a slower pace
- Will inequality increase, stay the same or decline?
 - Who knows, but let's make some conjectures

Panel A: Weighted averages of the Gini coefficient; 18 countries

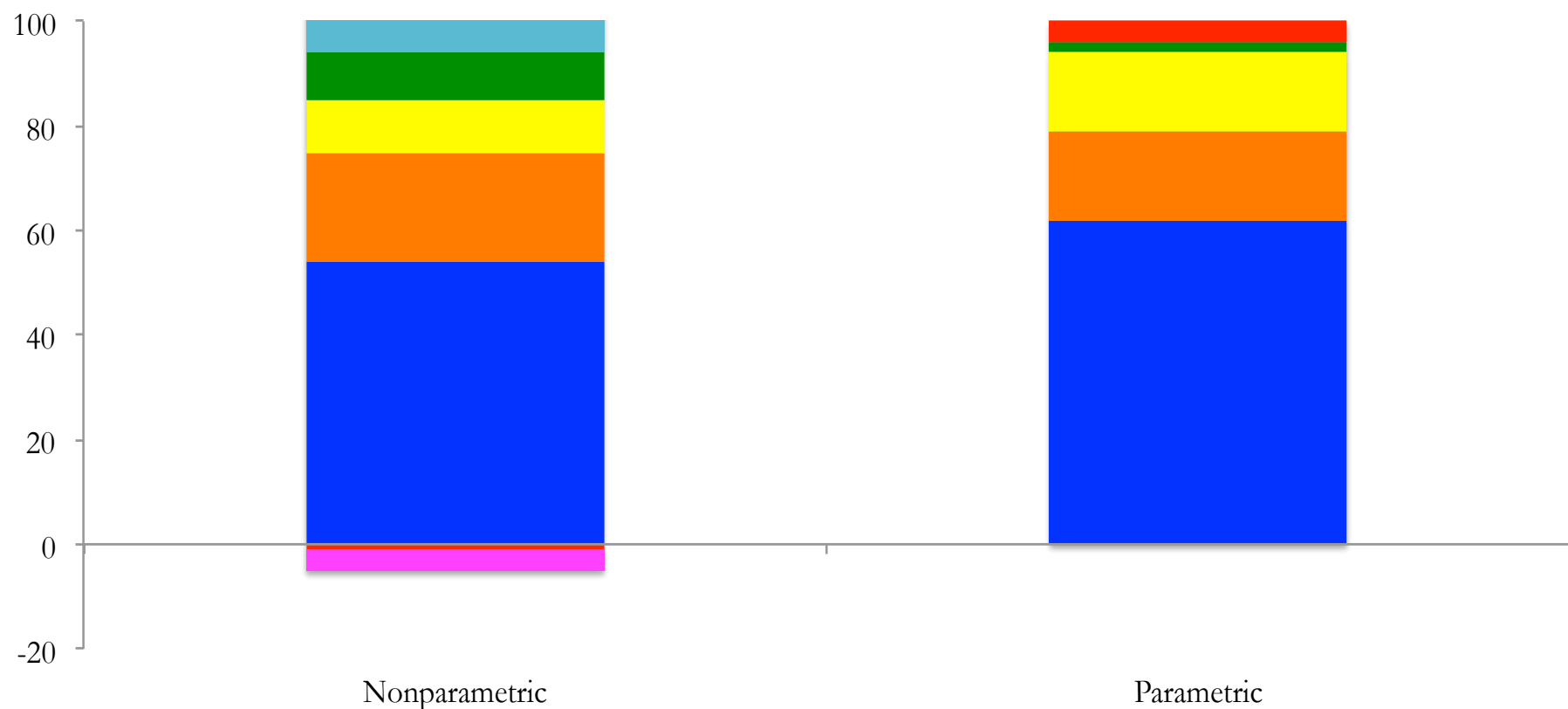


Panel B: Weighted averages of the Gini coefficient, excluding Mexico



Determinants of the decline in inequality: candidates

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



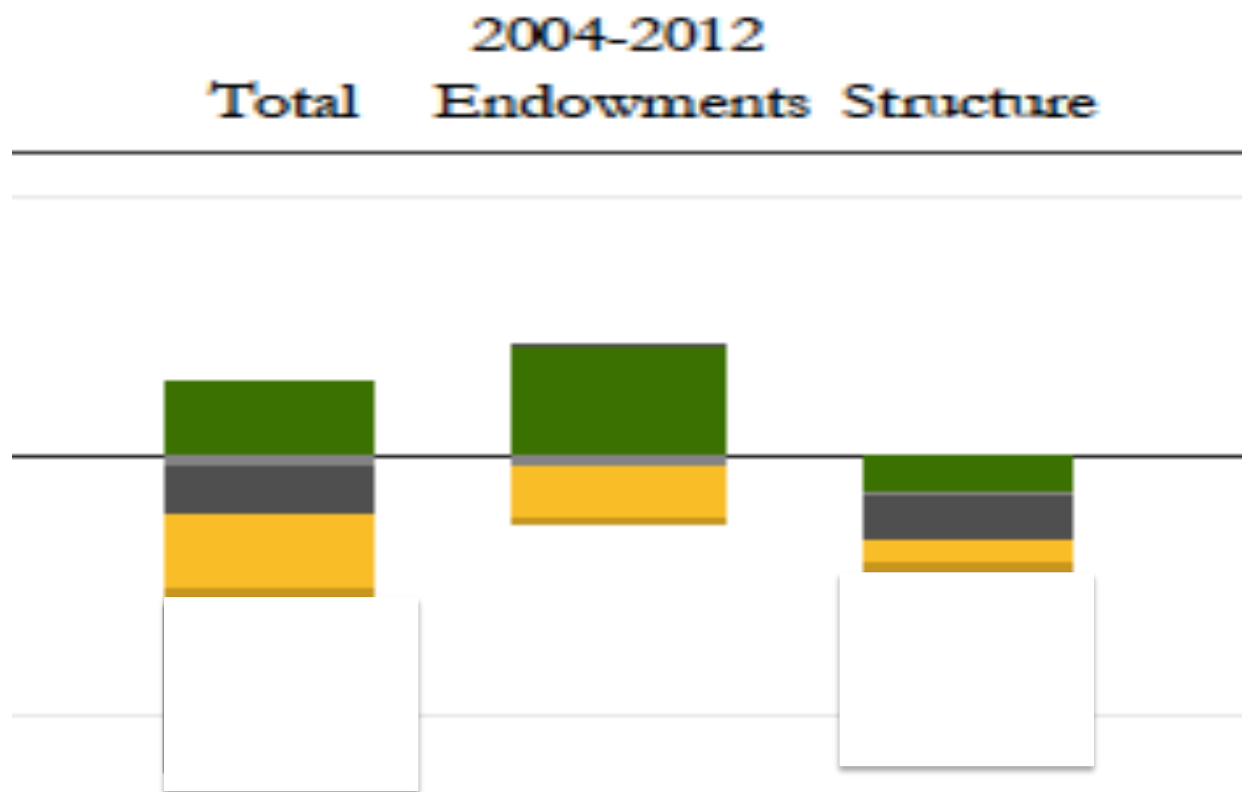
- Labor income
- Transfers
- Other non-labor income
- Pensions
- Capital
- Adult population
- Occupation share

- Government transfers (including noncontributory pensions)
 - With countries facing fiscal retrenchment, transfers will probably not continue as a major force; may even get eroded with inflation
- Remittances
 - With US recovery, remittances are likely to continue being a positive equalizing force
- Labor earnings inequality
 - Wage structure effect
 - Composition effect (education and experience)

Zooming in

Brazil

Brazil: Decomposing: human capital, gender/ race, urban/rural, minimum wage, informality

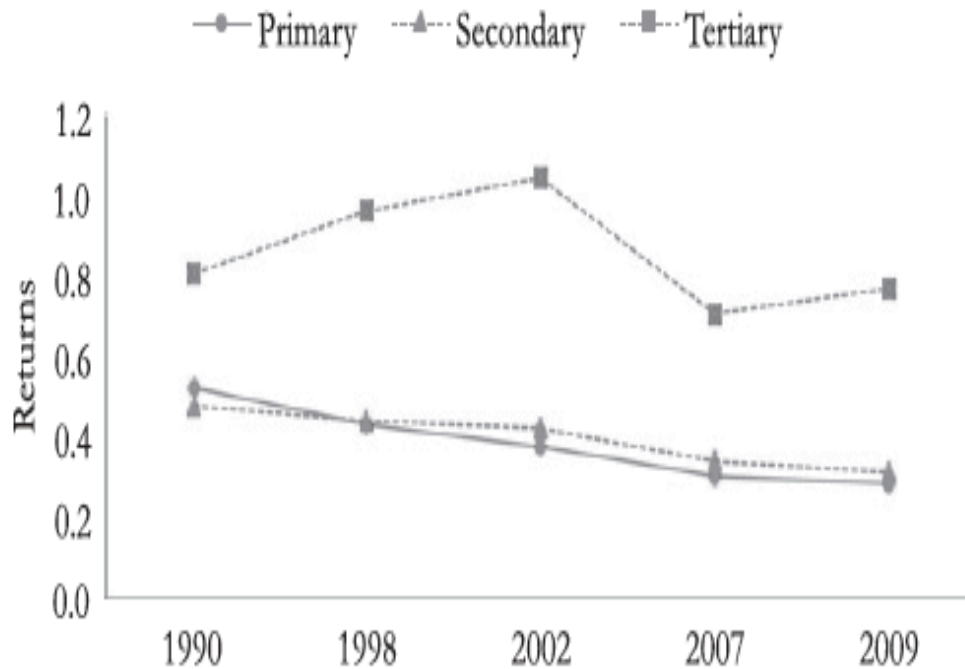


■ Human Capital ■ Gender&Race ■ Urban/Rural&Regions ■ Min wage ■ Informality

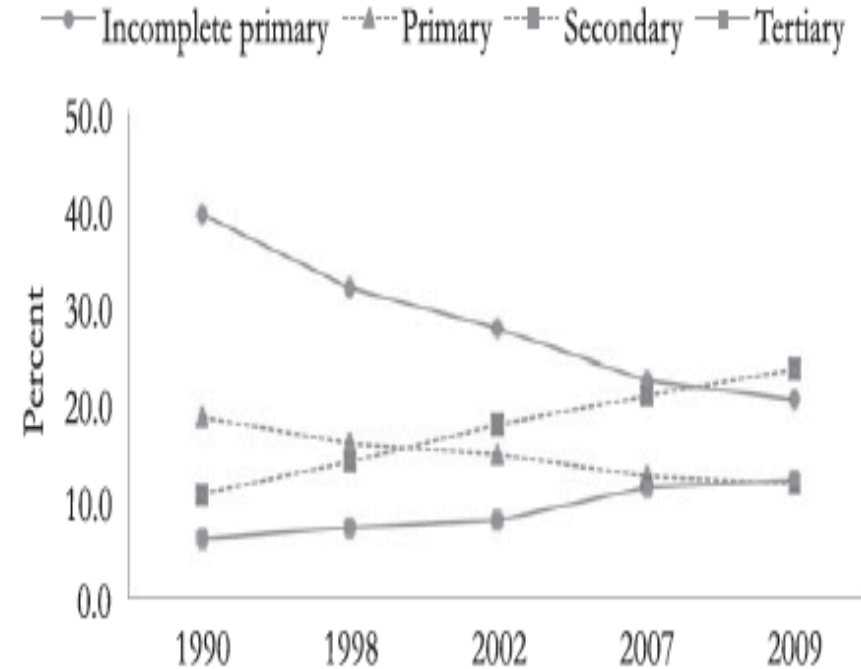
Source: Ferreira et al. (2014)

Brazil: Relative Supply and Relative Returns

Brazil 1990-2009



Brazil 1990-2009



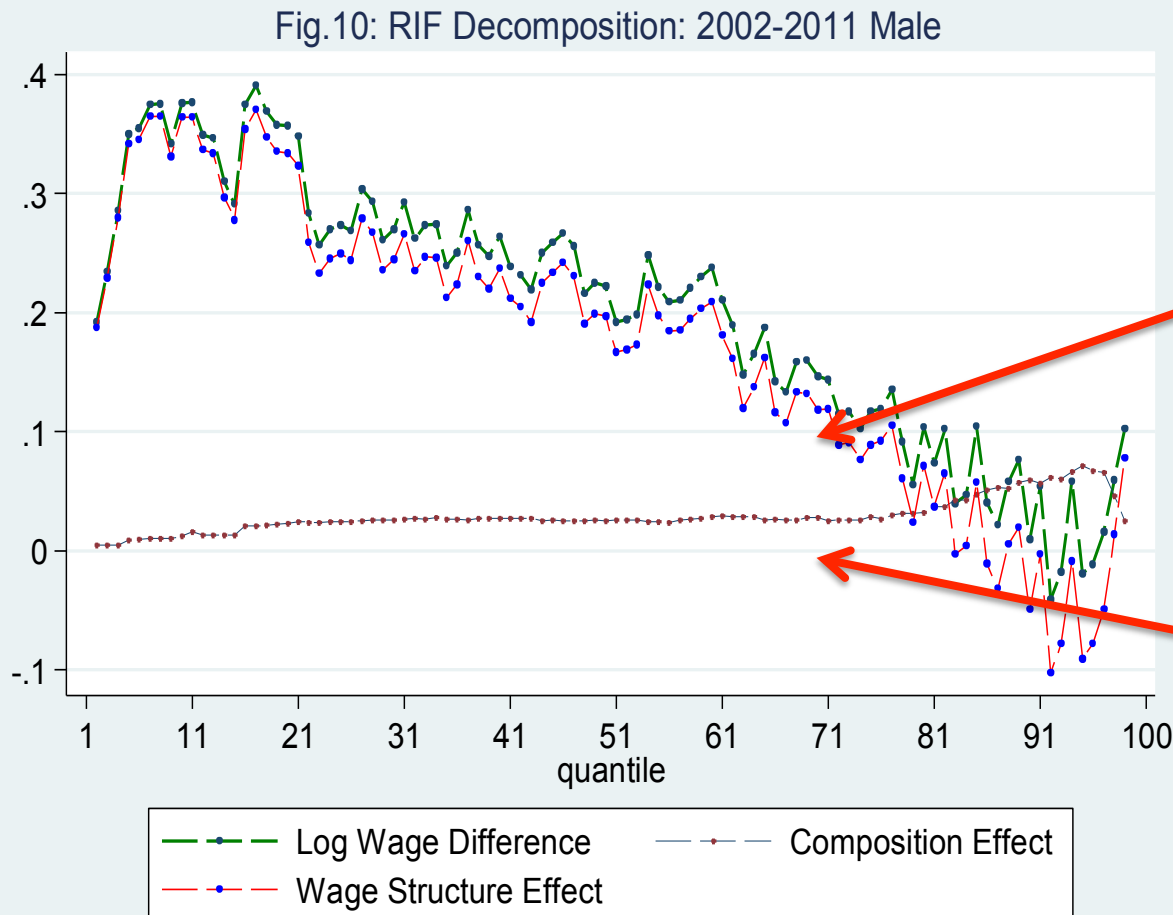
Brazil: Education and Experience

- Decomposition of change in wage inequality:
 - Pay Structure Effect: Change in Relative Wages => Equalizing
 - Endowment Effect: Change in Composition for Education and Experience => Slightly Unequalizing (“paradox of progress”)

Brazil (2002-2011):

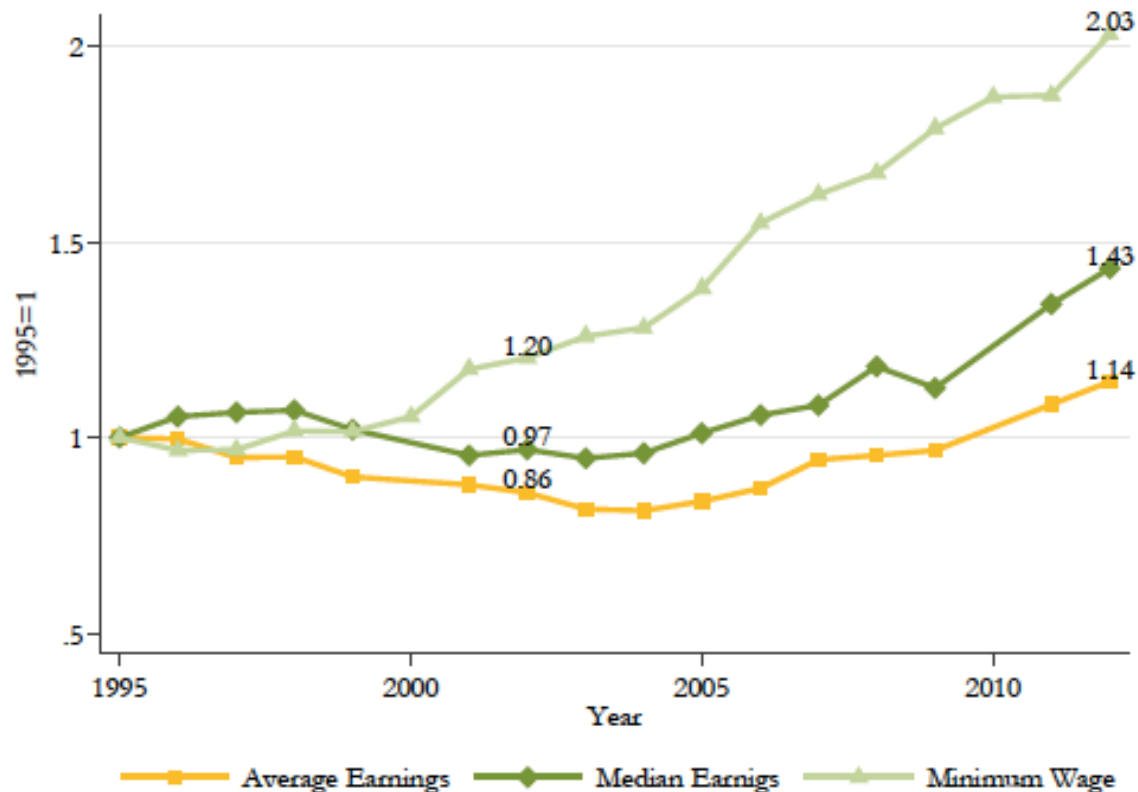
- Relative Wages
=> Equalizing

- Composition Education & Experience
=> Slightly Unequalizing



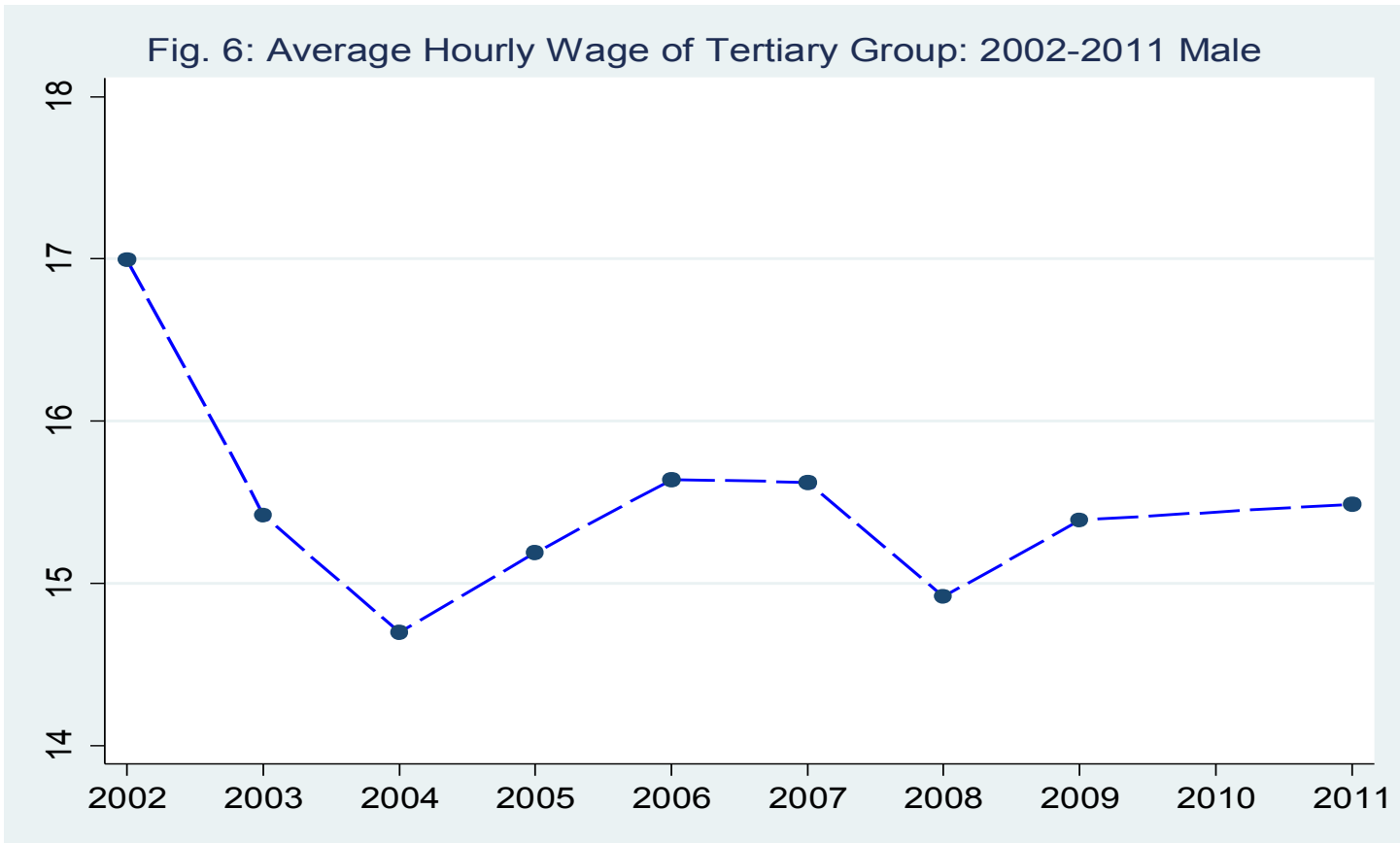
Brazil: Rising minimum wage

Figure 5: Minimum wages and the evolution of earnings: 1995-2012.



Source: Ferreira et al. (2014)

Brazil: Decline in real wages for workers with tertiary



Zooming in

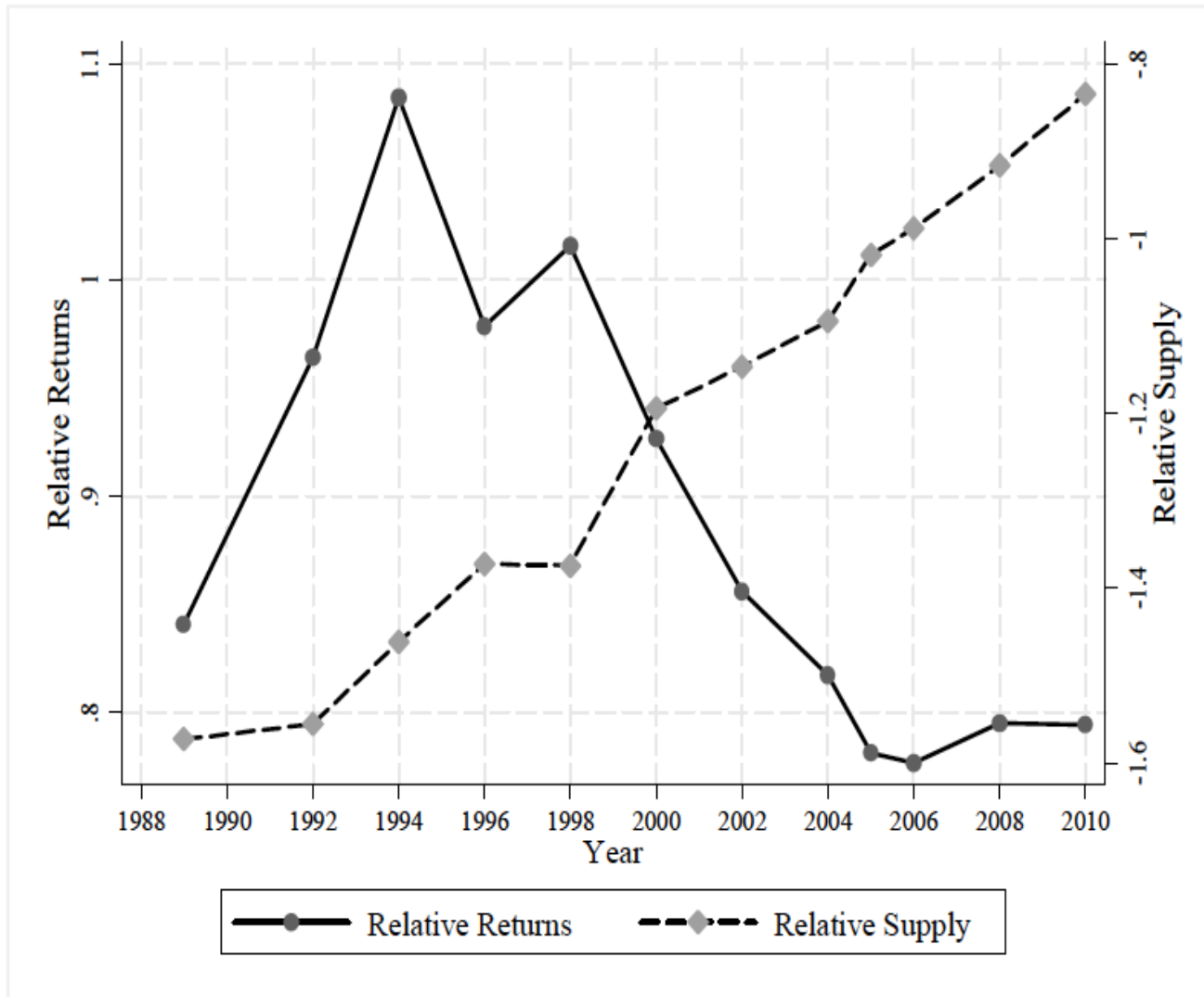
Mexico

Mexico: Decomposing: occupation, age, gender, urban/rural, informality



Campos, Lopez-Calva and Lustig “Declining wages for college-educated workers in Mexico: disentangling the age, cohort and education effects,” to be presented at *Latin American Inequality in the Long-run*, Buenos Aires, December 5, 2014

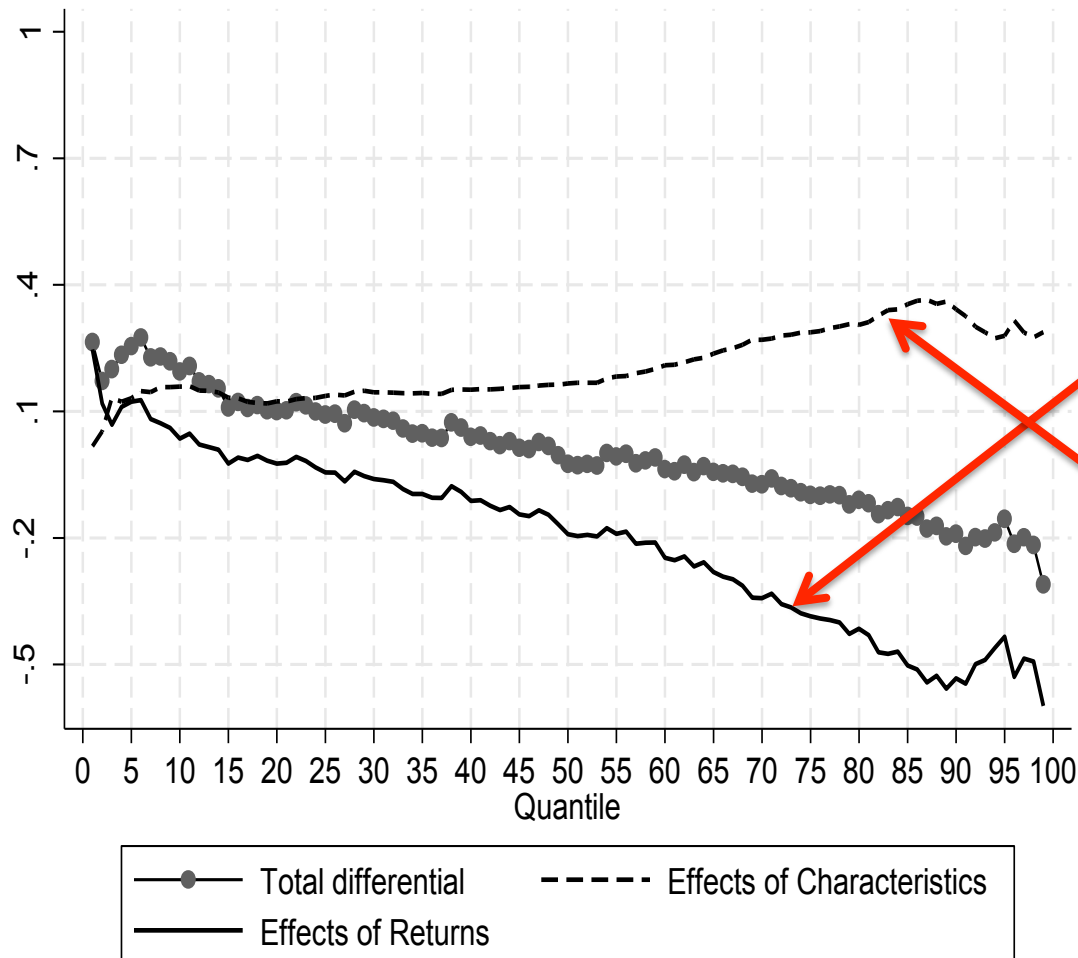
Mexico: Relative returns and relative supply, 1989-2010
(High school and more vs. secondary or less)



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

- Decomposition of change in wage inequality:
 - Pay Structure Effect: Change in Relative Wages => Equalizing
 - Endowment Effect: Change in Composition for Education and Experience => Slightly Unequalizing (“paradox of progress”)

Mexico (1996-2010):



•Relative Wages
=> Equalizing

•Composition Education & Experience
=>Slightly Unequalizing

Zooming in: Mexico

Change in Returns

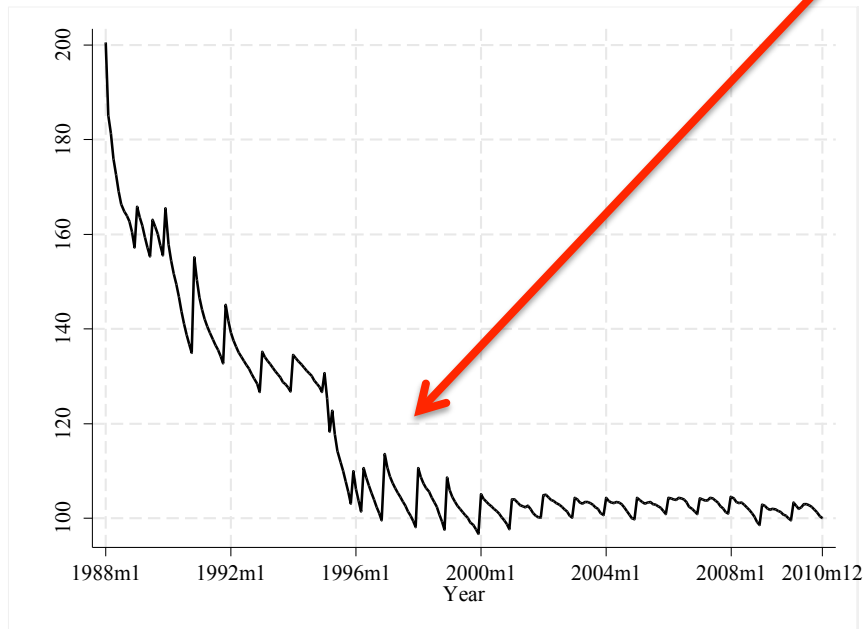
- Minimum wages and unionization no effect
- Increase in relative supply of skilled workers
- Degraded tertiary?
- Skills obsolescence?

Campos, Lopez-Calva and Lustig (in progress)

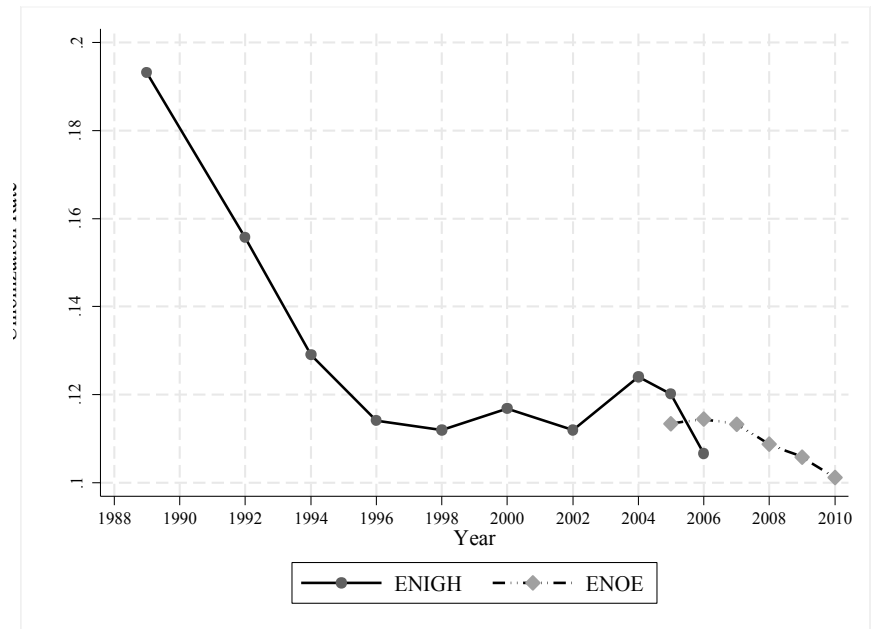
In contrast to Brazil, in Mexico minimum wages did not increase at all...

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: Average Monthly Earnings for College-Educated Workers



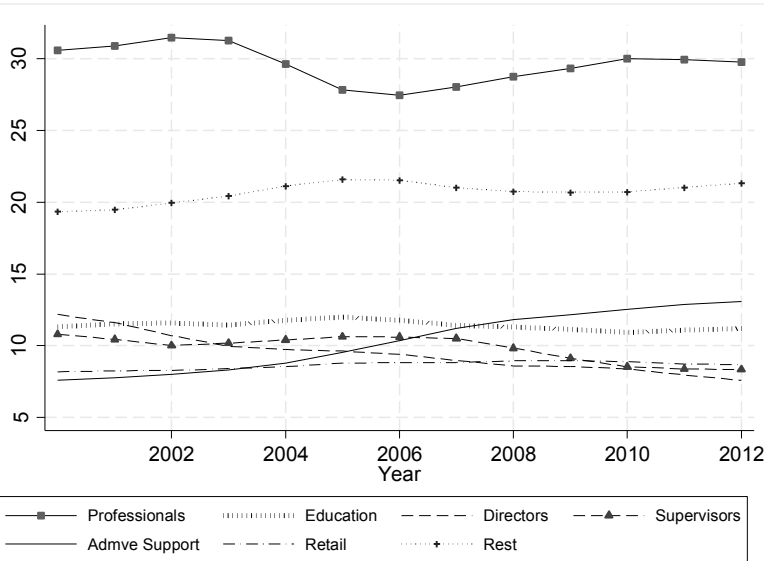
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Mexico: Employment Structure of College-Educated Workers

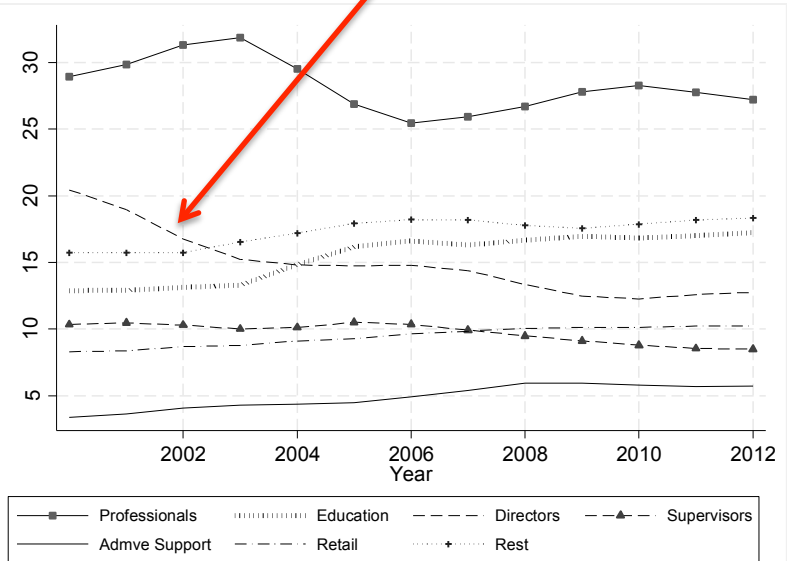
A. Age 23-44

B. Age 45-65

1. Age 23-44



2. Age 45-65

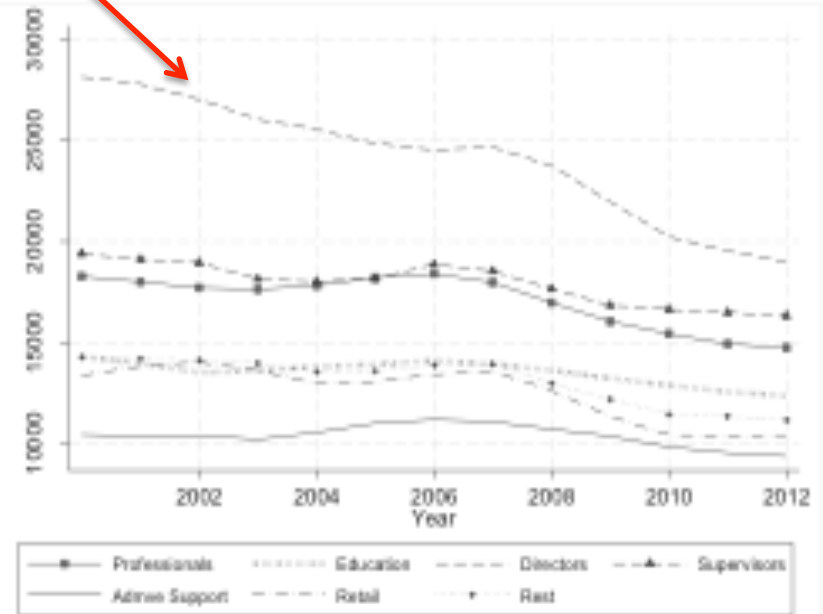
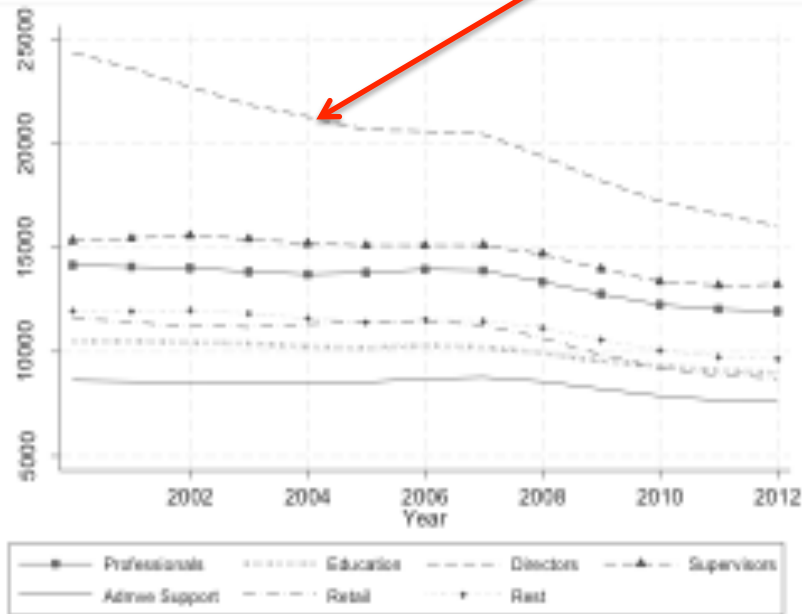


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Mexico: Earnings by profession of College-Educated Workers

A. Age 23-44

B. Age 45-65



Campos, Lopez-Calva and Lustig “Declining wages for college-educated workers in Mexico: disentangling the age, cohort and education effects,” to be presented at *Latin American Inequality in the Long-run*, Buenos Aires, December 5, 2014

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Obrigada!
¡Gracias!
Thank you!