

Facts, Puzzles and Surprises in Inequality Research

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**Consequences of Economic Inequality for Economic
Performance**

Columbia University

New York, December 3, 2014

Two Themes

- Inequality in Latin America
- Fiscal Policy, Redistribution and Poverty Reduction in the Developing World

Inequality in Latin America

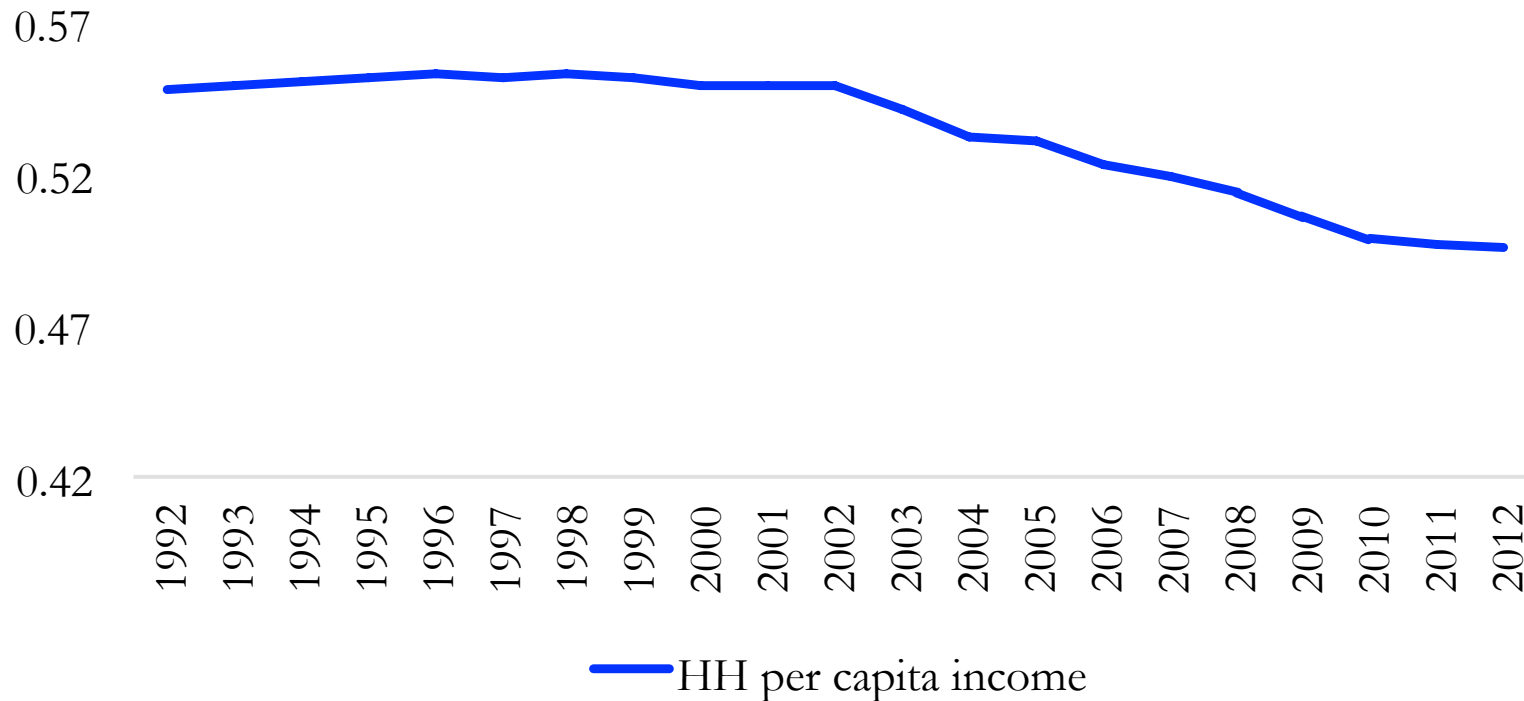
In the 1990s:

- Tepid growth
- Stable and high inequality

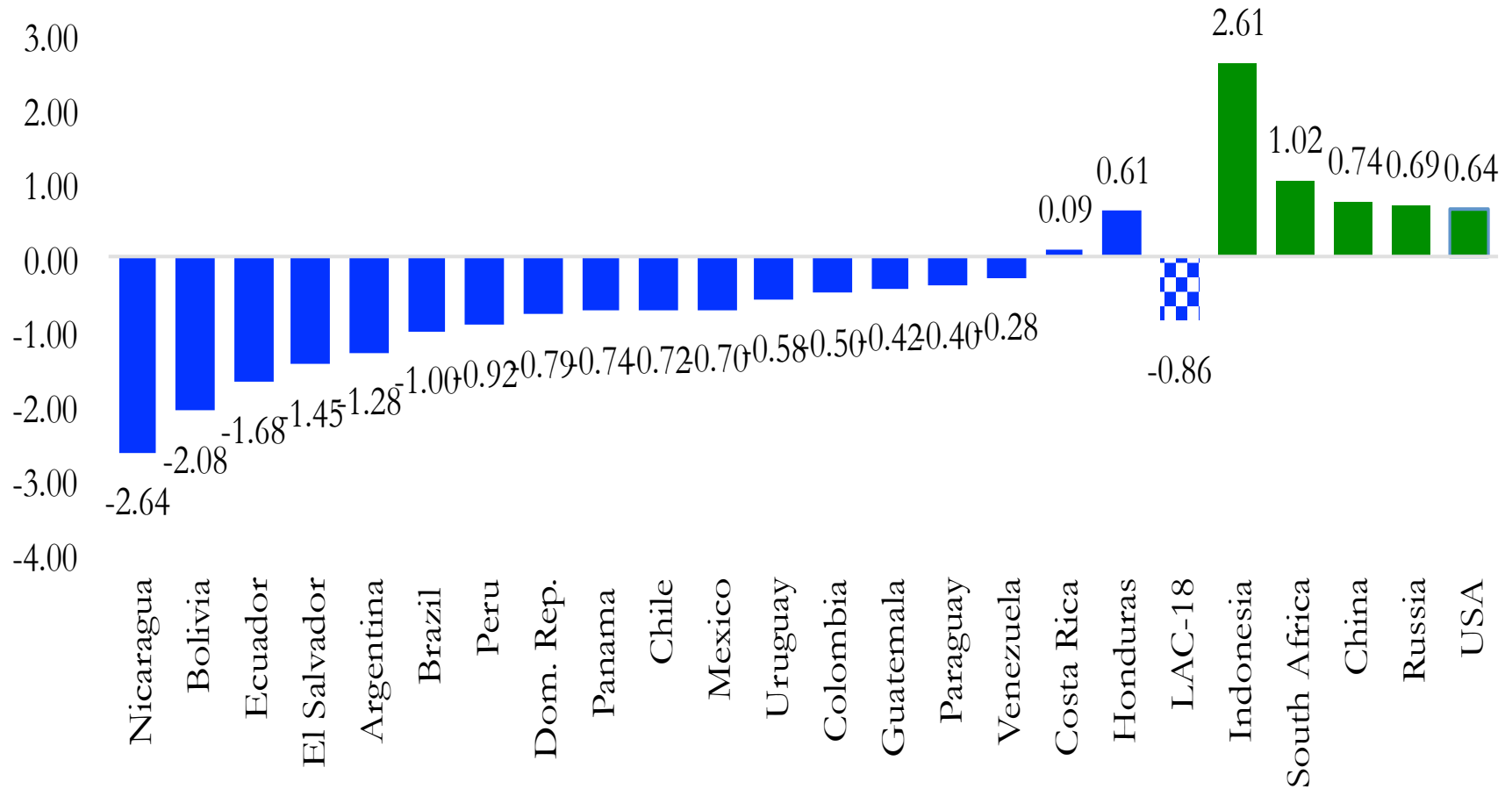
In the 2000s:

- Higher growth, primarily in commodity exporters
- Generalized decline in inequality
 - High growth and low growth countries
 - Governed by left and nonleft regimes
 - Commodity exporters and commodity importers

Latin America: Weighted averages of the Gini coefficient (18 countries; 1992-2012)

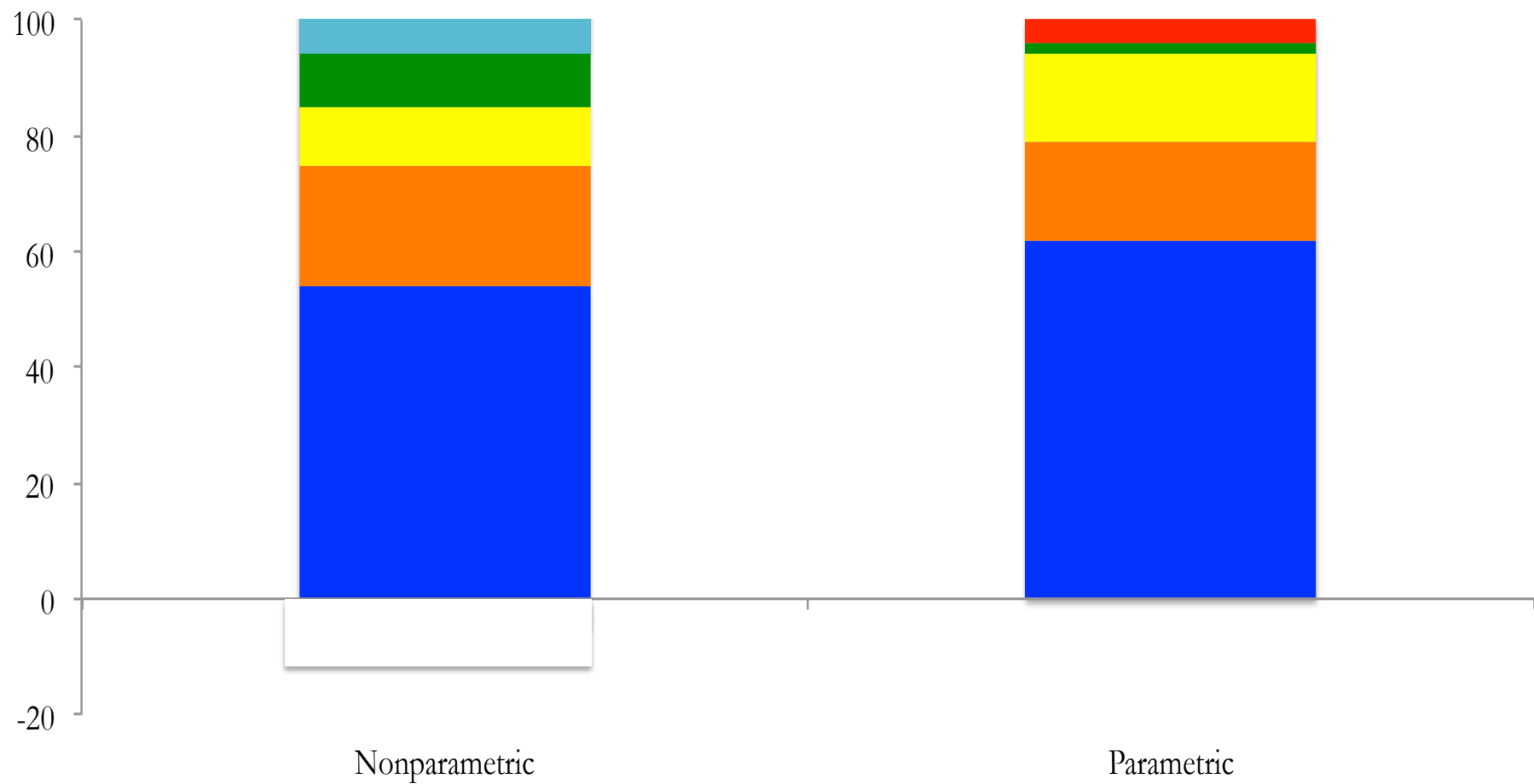


Latin America: Yearly Change in Gini Coefficient (circa 2000 - circa 2013)



(Lustig et al., 2014)

WHY?



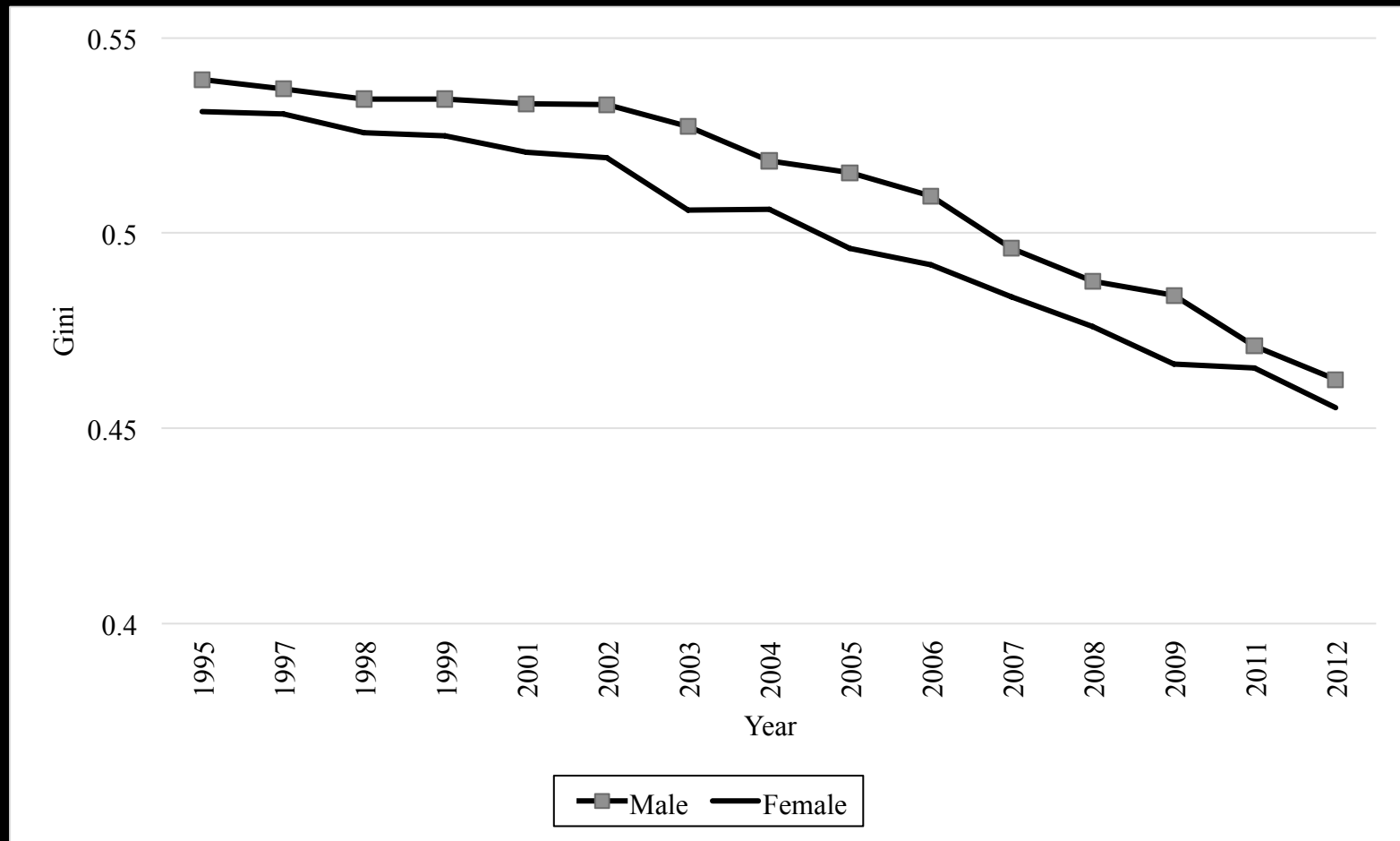
- Labor income
- Transfers
- Other non-labor income
- Pensions
- Capital
- Adult population

(Lustig et al., 2014)

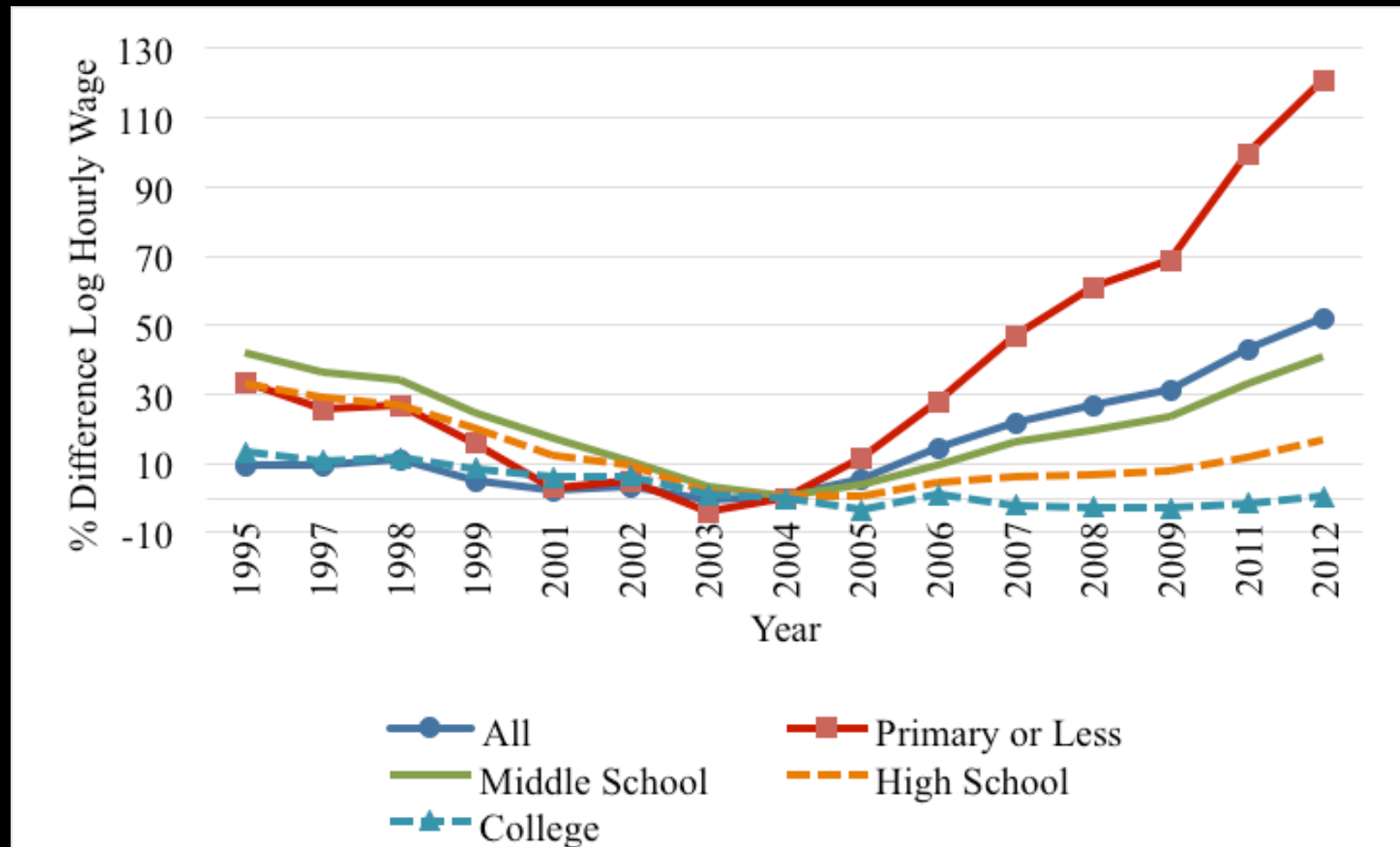
Zooming in Brazil

Brazil: Wage Inequality of All Workers

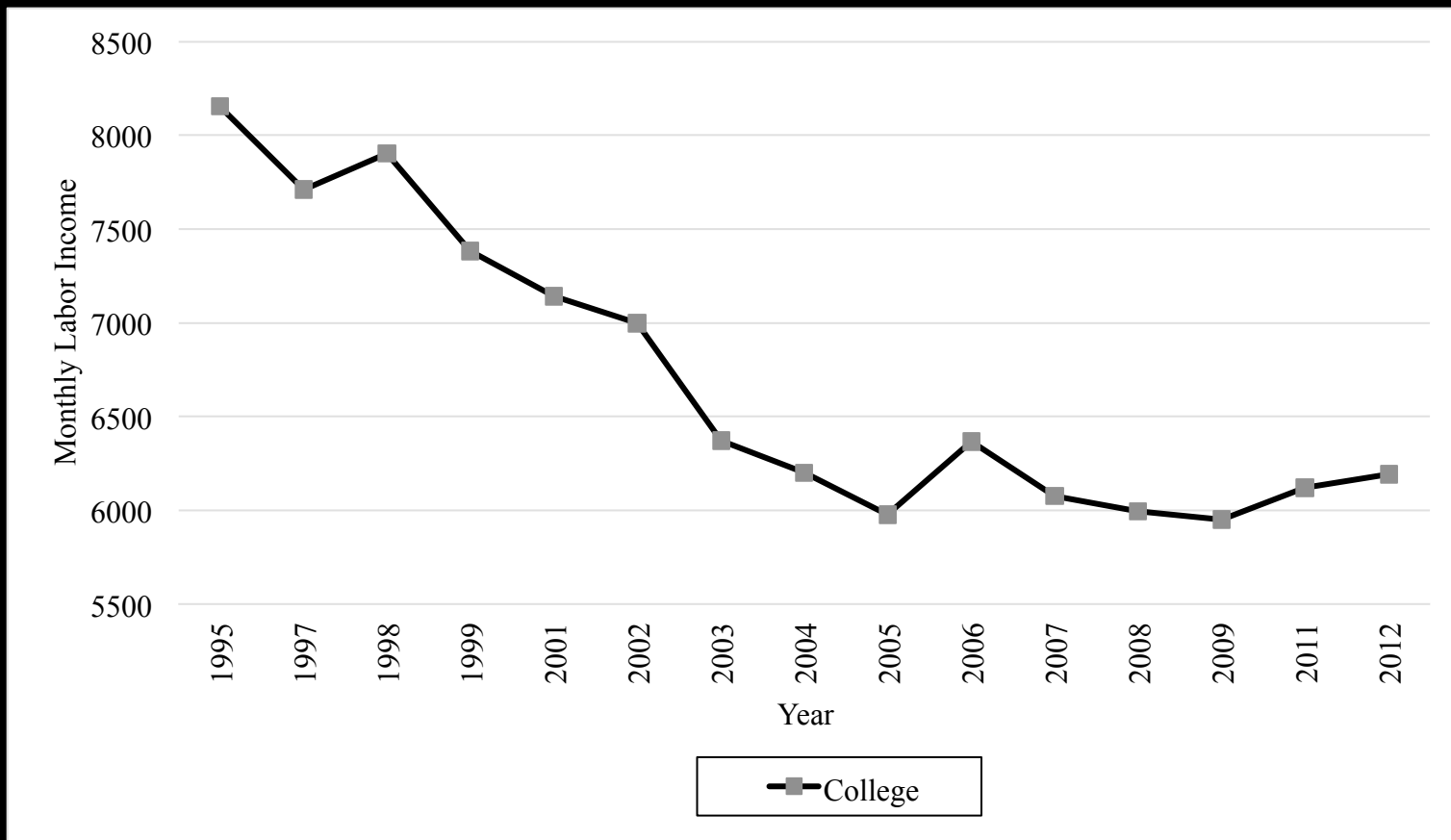
Gini Coefficient of Hourly Wages



Difference in Log Hourly Wage. Base Period 2004

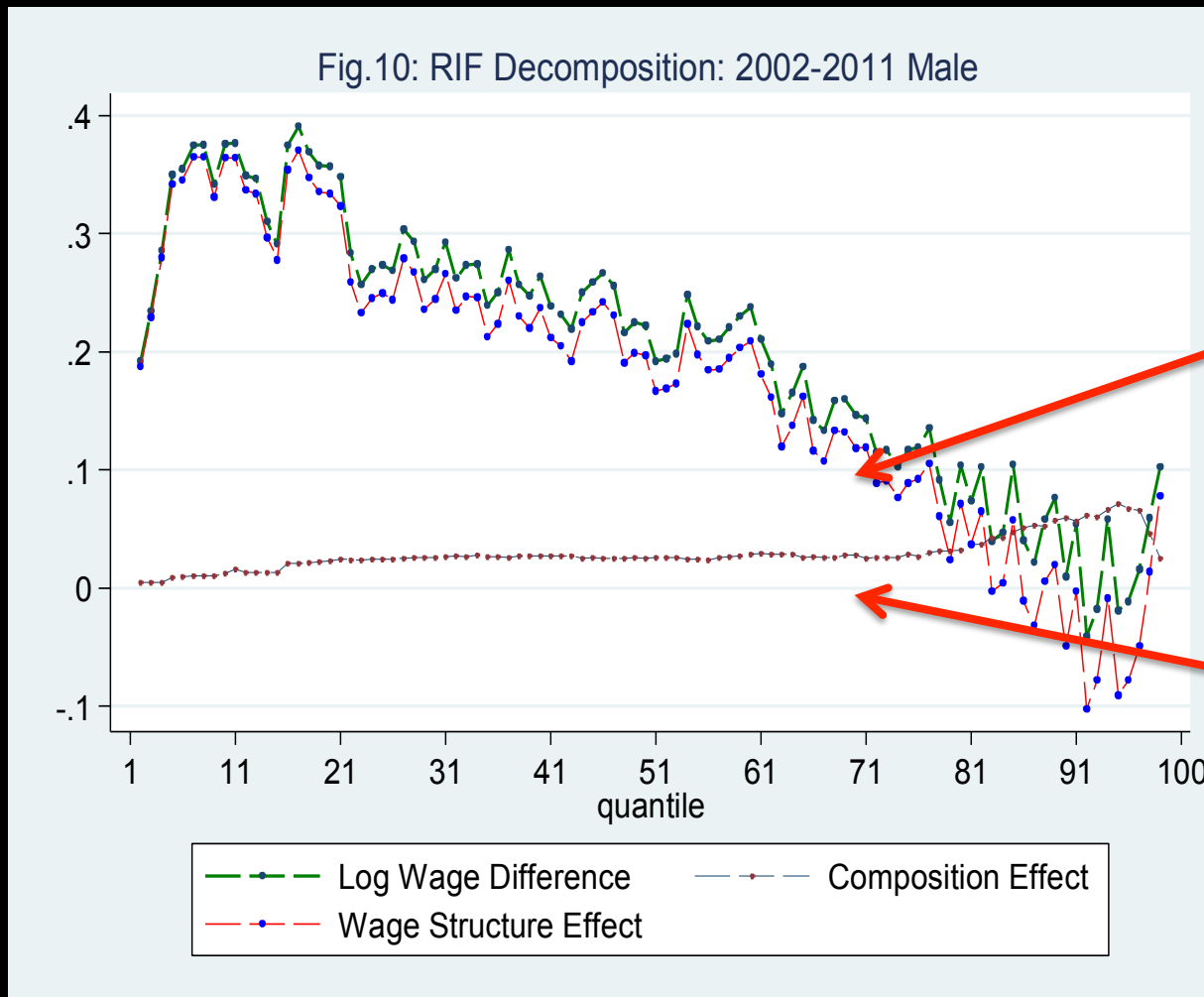


Brazil: Decline in real wages for workers with tertiary education



Brazil: Human Capital (2002-2011)

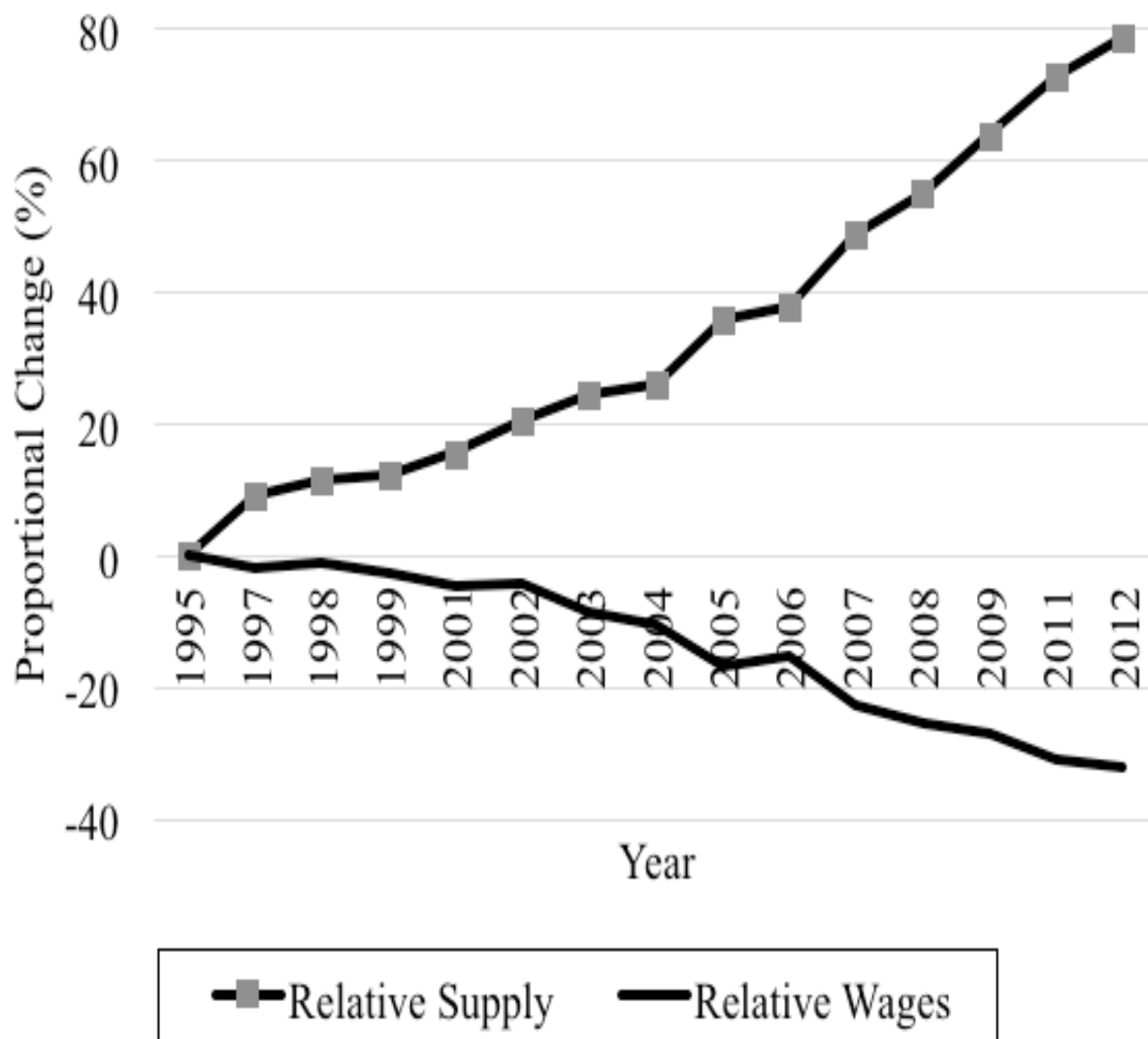
- Wage Structure Effect
=> Equalizing
- Composition Effect
=> Slightly Unequalizing



Brazil: Rising minimum wage



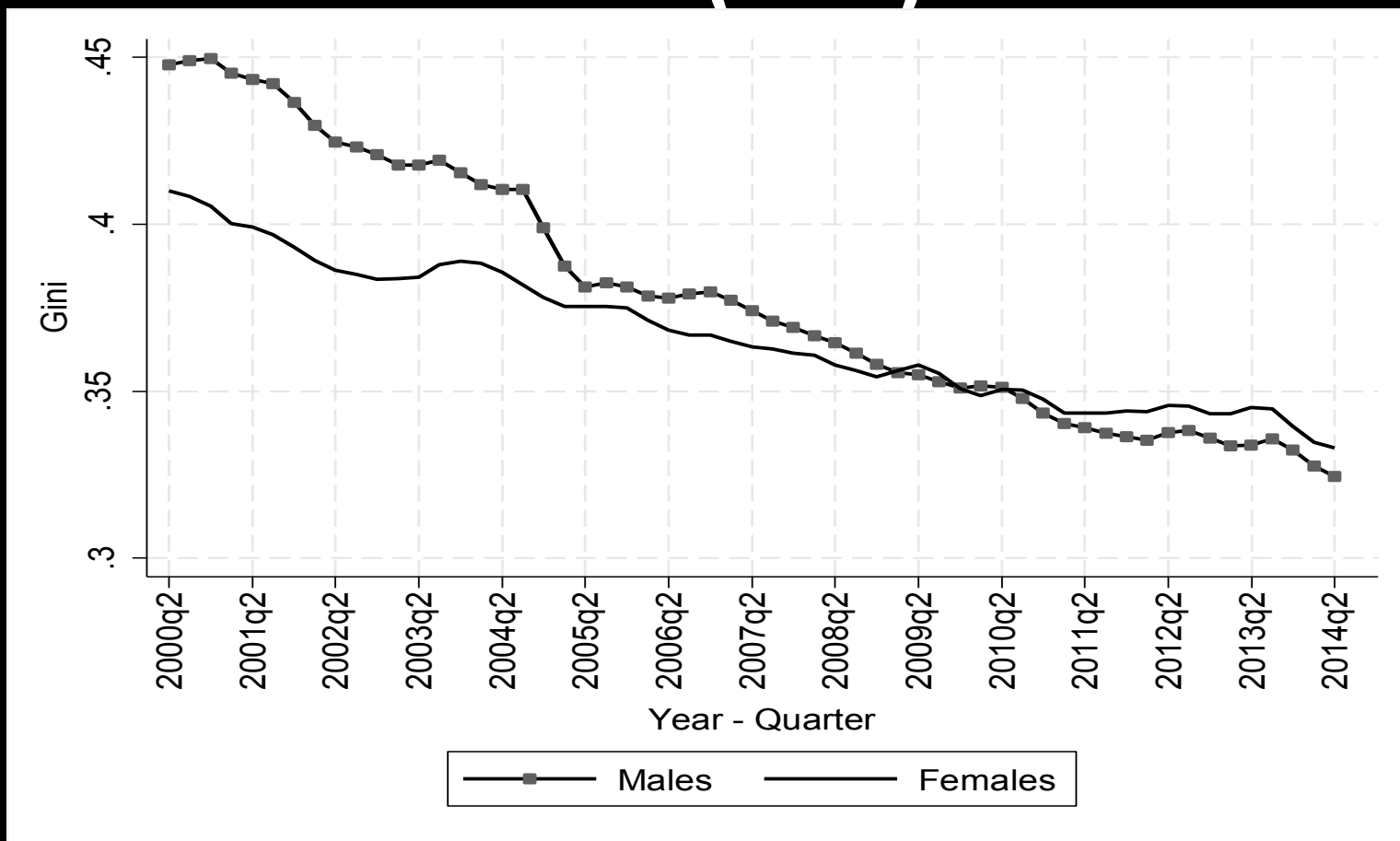
Wang, Yang. 2013. "Decomposing the Changes in Male Wage Distribution in Brazil." Tulane University, Ph.D. field paper



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

Zooming in Mexico

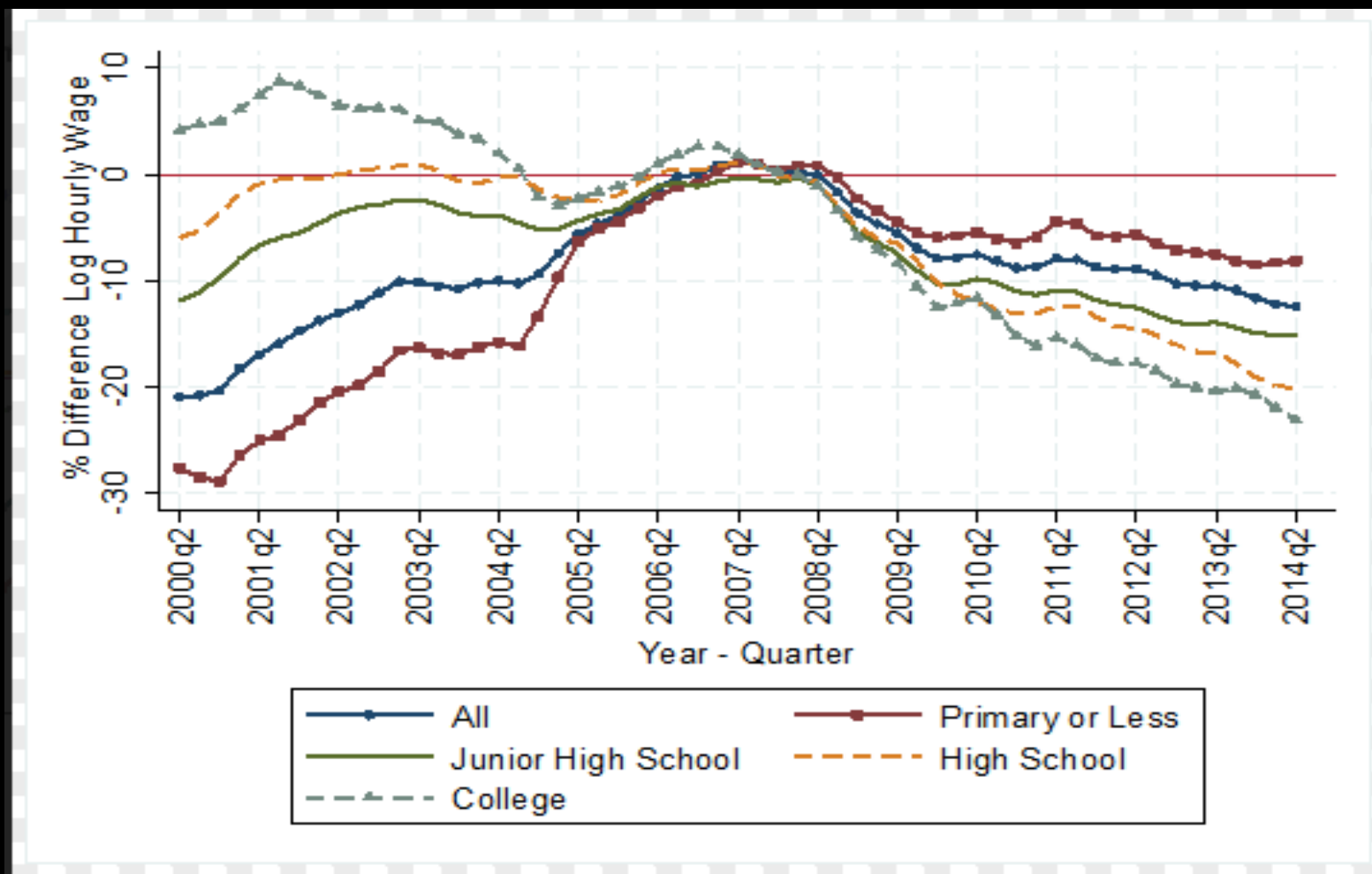
Mexico: Decline in Wage Inequality (Gini)



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: Wages by Education Level

Difference in Log Hourly Wage. Base Period 2008:1



Mexico: Average Monthly Earnings for College-Educated Workers

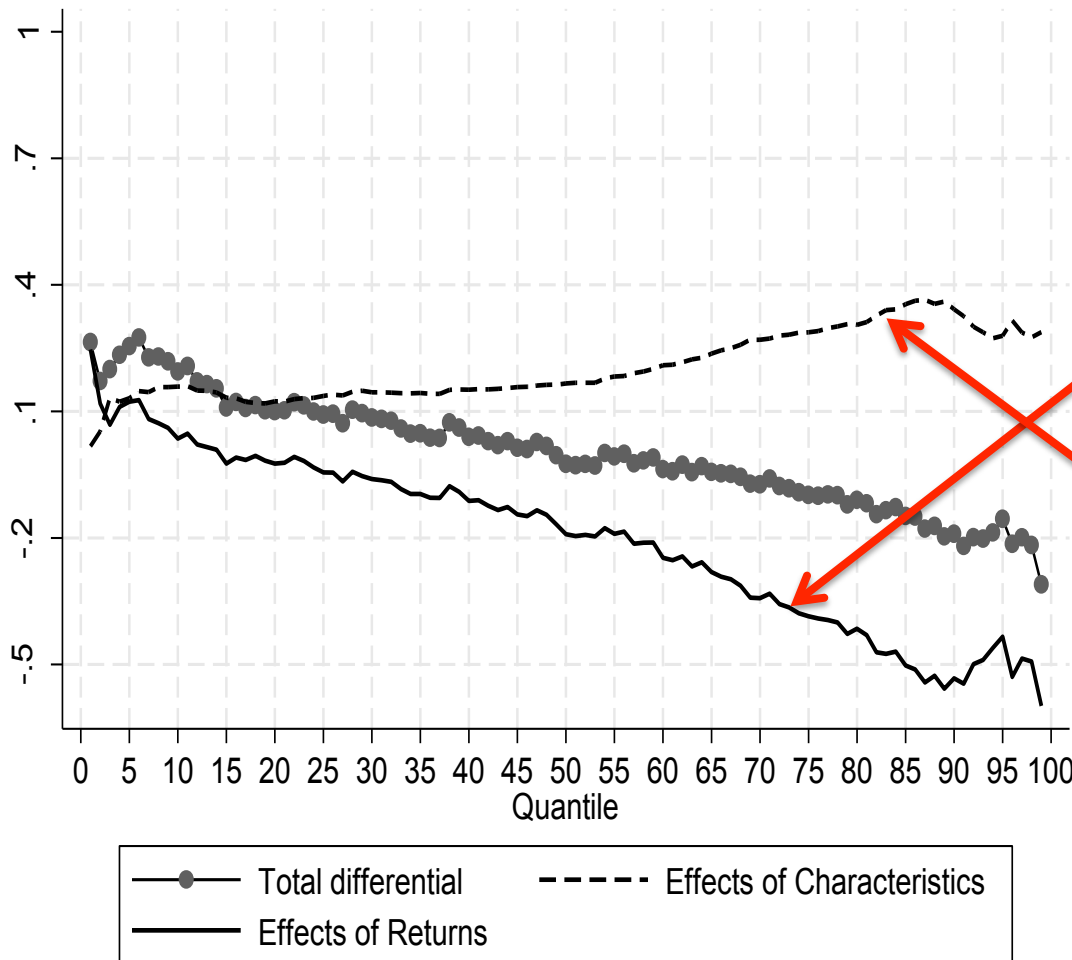


Campos, Lopez-Calva and Lustig “Declining wages for college-educated workers in Mexico: disentangling the age, cohort and education effects,” to be presented at *Latin American Inequality in the Long-run*, Buenos Aires, December 5, 2014

Mexico: Human Capital (1996-2010):

•Wage
Structure
Effect
=> Equalizing

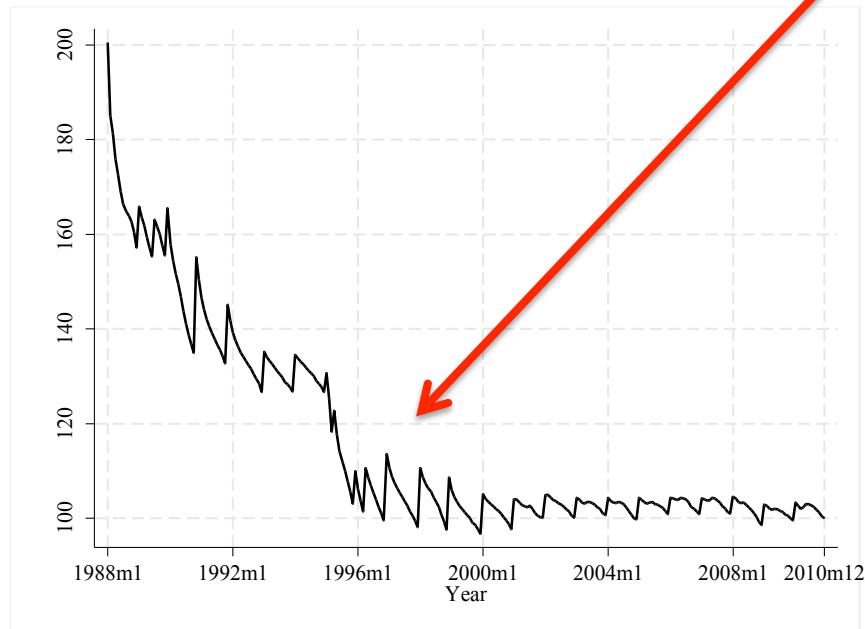
•Endowment
Effect
=>Slightly
Unequalizing



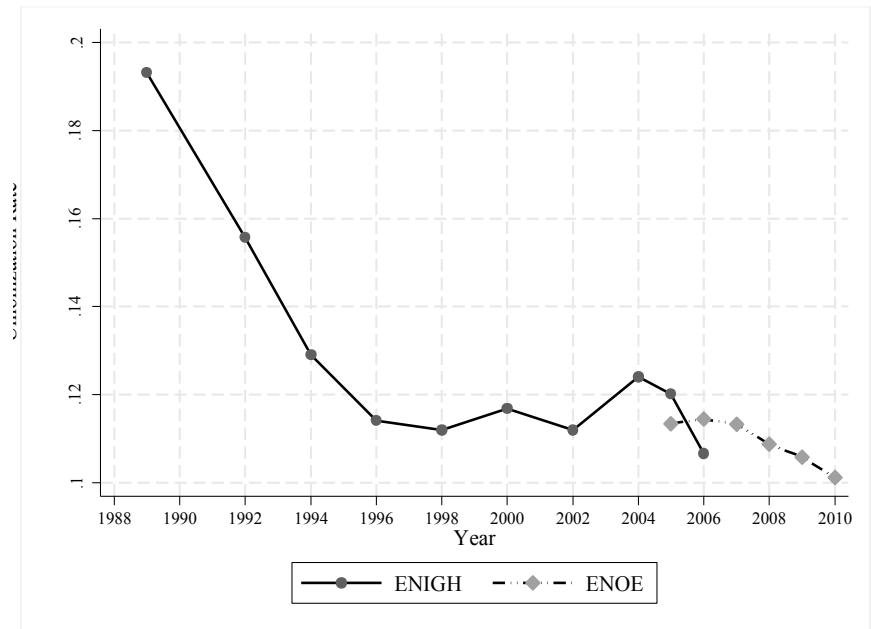
In contrast to Brazil, in Mexico minimum wages did not increase at all...

Real Minimum Wage and Unionization: 1988-2010

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

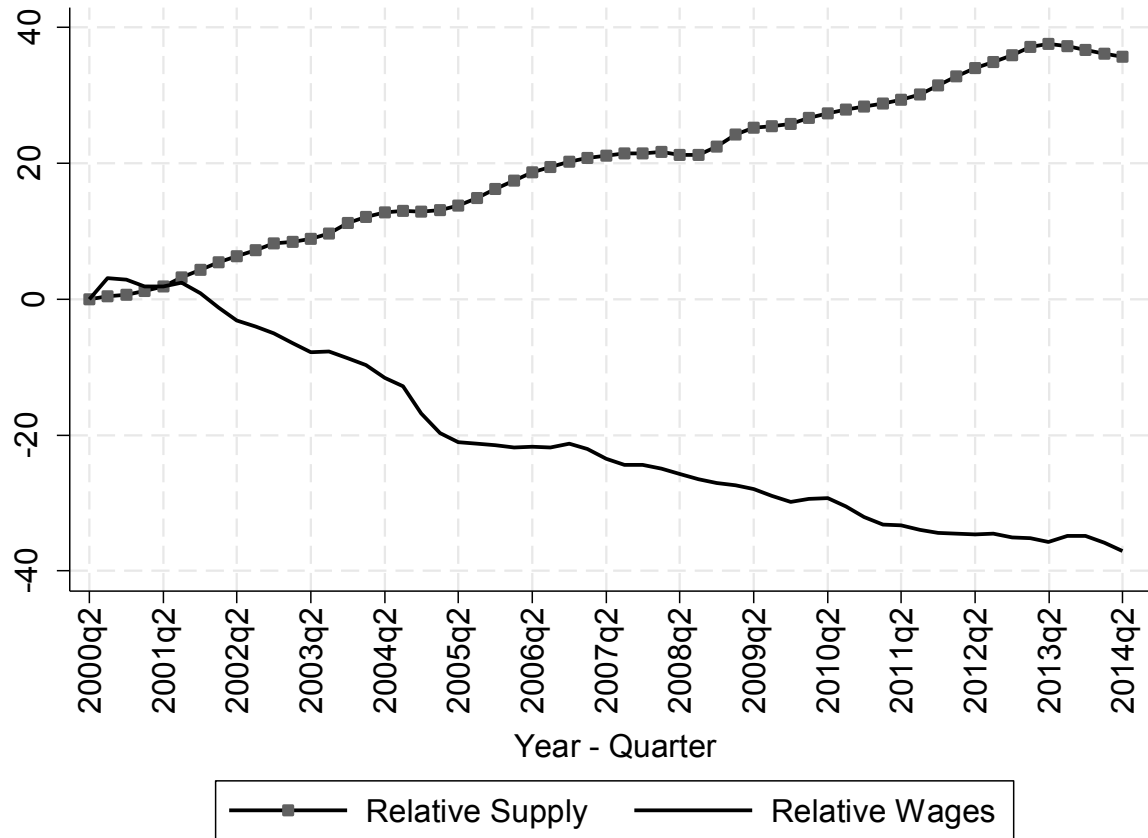


B. Unionization Rate



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:
Decline in
skill premium
coincides with the
expansion of the
relative supply of
workers with
tertiary 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,

References

- Azevedo, J. P., L. F. Lopez-Calva, N. Lustig, E. Ortiz-Juarez (2015) “Inequality, Mobility and Middle Classes in Latin America”, in: Dayton-Johnson, J. (2015) *Latin America’s Emerging Middle Class*. Palgrave MacMillan. Bourguignon, F., F. Ferreira and N. Lustig. 2005. *The Microeconomics of Income Distribution Dynamics in East Asia and Latin America*, Oxford University Press, Washington, DC.
- 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
- Ferreira, F .H. G., S. Firpo, and J. Messina (2014) “A More Level Playing Field? Explaining the Decline in Earnings Inequality in Brazil, 1995-2012”, IRIBA Working Paper: 12, The University of Manchester.
- Ferreira, Francisco H.G, Julian Messina, Jamele Rigolini, Luis F. Lopez-Calva, Maria Ana Lugo and Renos Vakis. 2013. “Economic Mobility and the Rise of the Latin American Middle Class.” Washington, D.C: The World Bank.
- Lopez-Calva, L. F. and N. Lustig. 2010. *Declining Inequality in Latin America: A Decade of Progress?*, Brookings Institution Press and UNDP.
- Lustig, N., L. F. Lopez-Calva, E. Ortiz-Juarez. 2014. “Deconstructing the Decline in Inequality in Latin America,” in Basu, Kaushik and Joseph Stiglitz, eds. *Proceedings of IEA roundtable on Shared Prosperity and Growth*, 2015, Palgrave-Macmillan
- Wang, Yang. 2013. “Decomposing the Changes in Male Wage Distribution in Brazil.” Tulane University, Ph.D. field paper.

Fiscal Policy, Redistribution and Poverty Reduction in the Developing World

When using material in this ppt please cite as:

- Lustig, Nora. 2014. “Fiscal Policy, Inequality and the Poor in the Developing World. Round 1.” *CEQ Working Paper No. 23*, Center for Inter-American Policy and Research and Department of Economics, Tulane University and Inter-American Dialogue, forthcoming.

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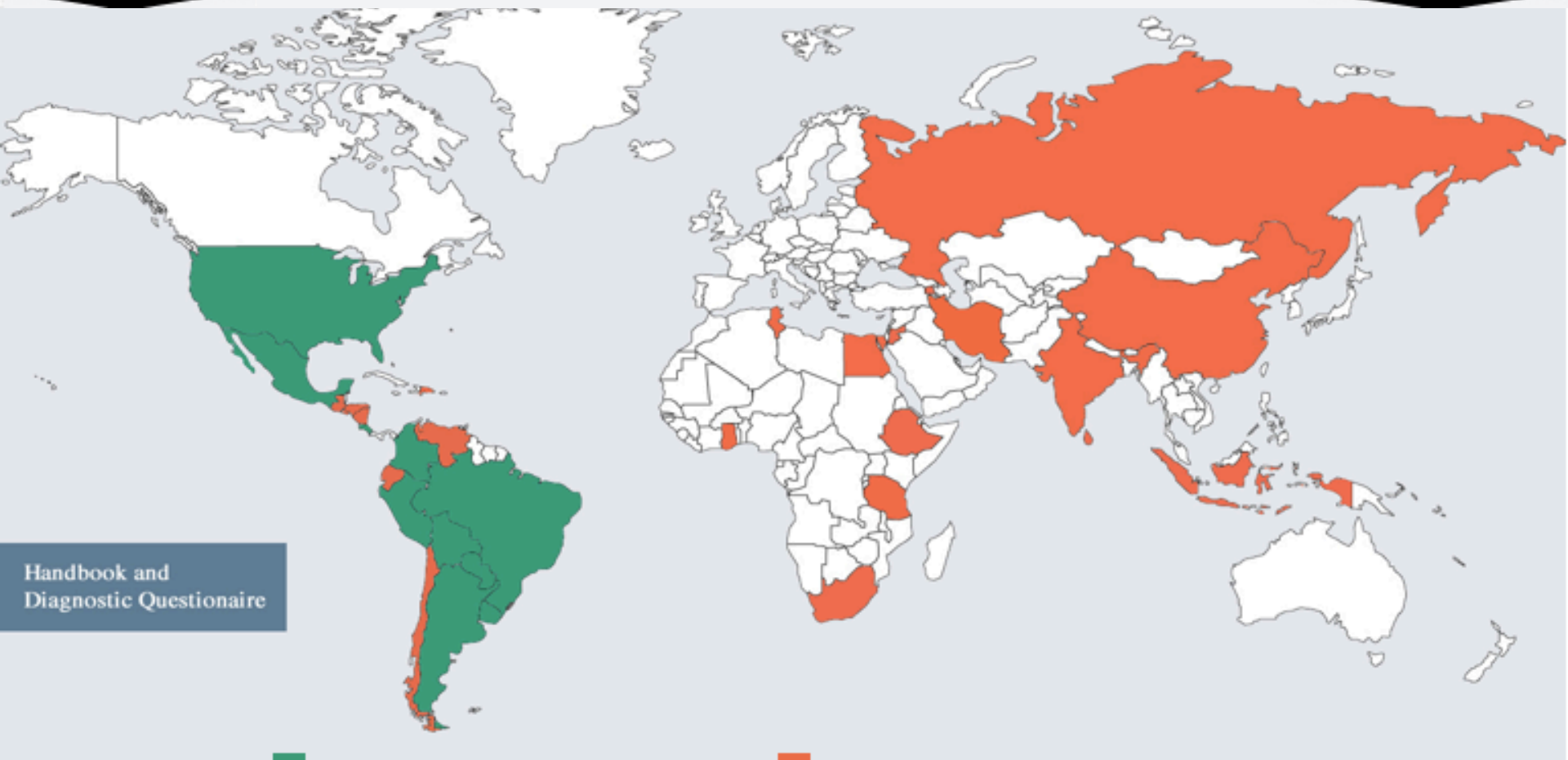
ABOUT US

PUBLICATIONS

EVENTS

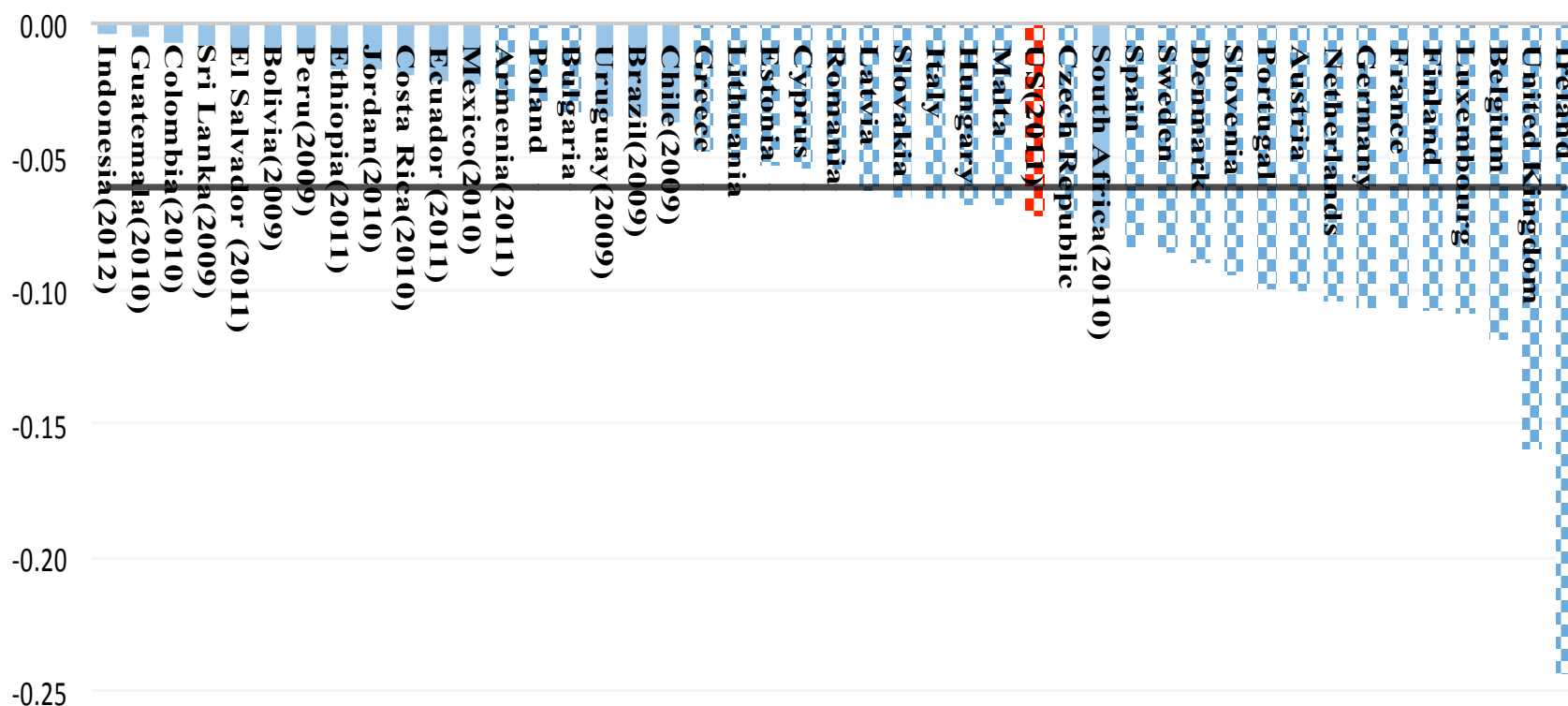
INDICATORS

NEWS



Redistribution in Europe, the US and developing countries

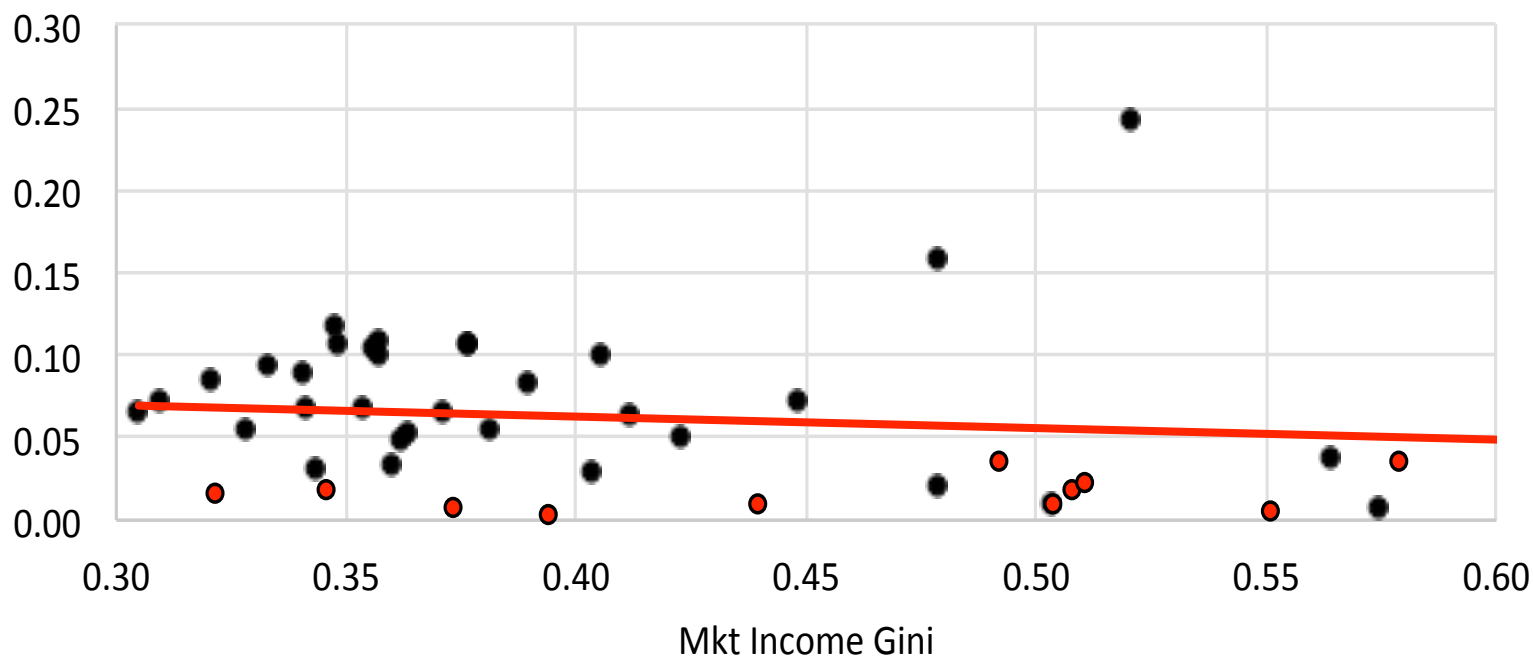
Change in Gini: Disposable vs. Market
(in GINI points)



Sources: for US and for CEQ countries see Lustig (2014) and references at the end; for Europe : EUROMOD for EU, Higgins et al. (2014) f
Note: in these calculations contributory pensions are part of market income and NOT treated as a government transfer.

Robinhood Paradox

Change in Gini points: Disposable vs. Market Developing Countries, Europe and US (decline in Gini points shown in positive quadrant)



Sources: for US and for CEQ countries see Lustig (2014) and references at the end; for Europe : EUROMOD for EU, Higgins et al. (2014) f
Note: in these calculations contributory pensions are part of market income and NOT treated as a government transfer.

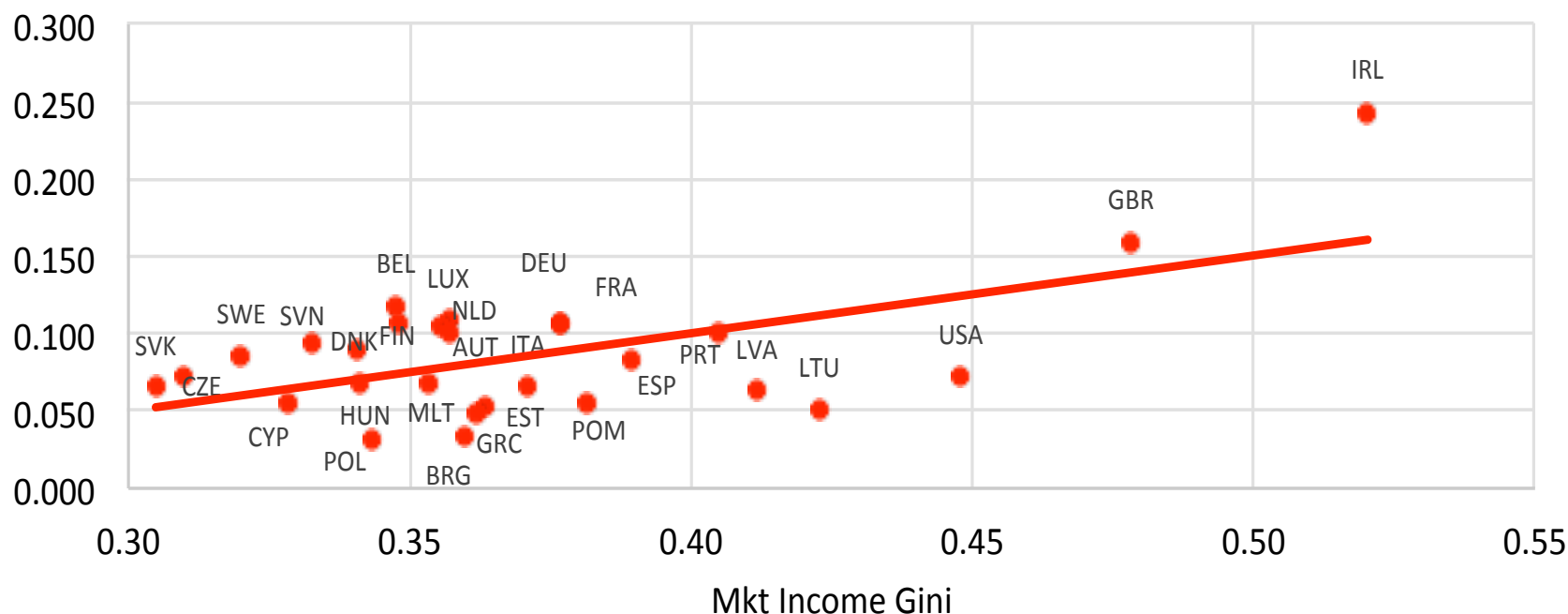
However, paradox disappears once one disaggregates into Europe and US



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Change in Gini points: Disposable vs. Market Europe and US

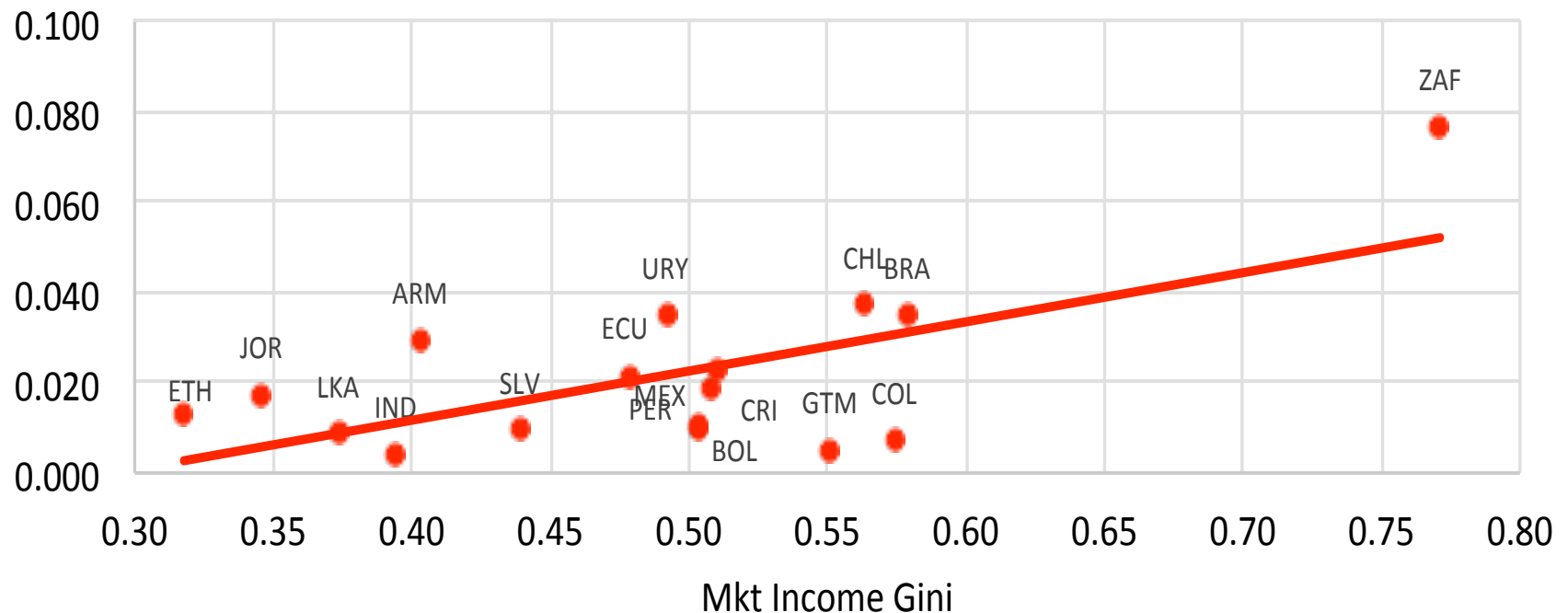
(decline in Gini points shown in positive quadrant)



Sources: : for US and for CEQ countries see Lustig (2014) and references at the end; for Europe : EUROMOD for EU, Higgins et al. (2014) f
Note: in these calculations contributory pensions are part of market income and NOT treated as a government transfer.

And also, ...

Change in Gini points: Disposable vs. Market Developing Countries (CEQ 16) (decline in Gini point shown in positive quadrant)

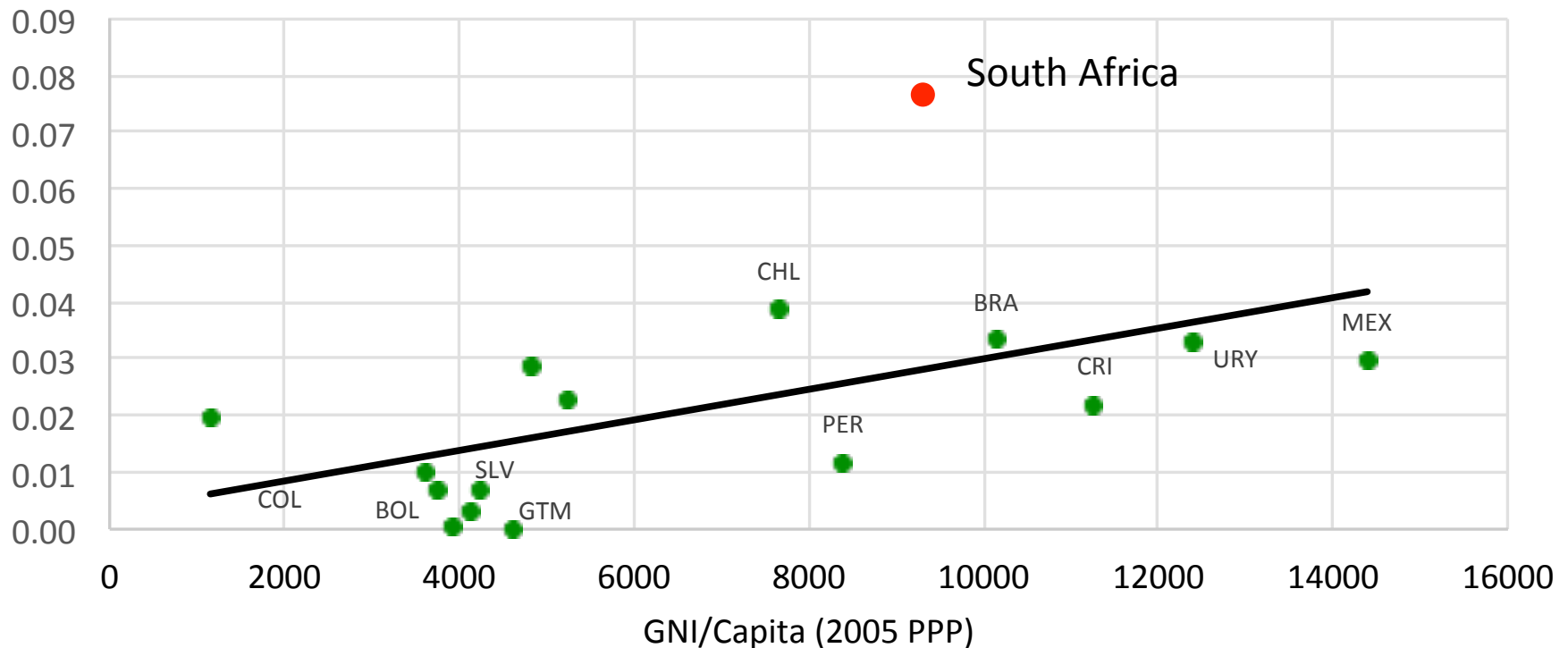


Sources: Lustig (2014) and references at the end.

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

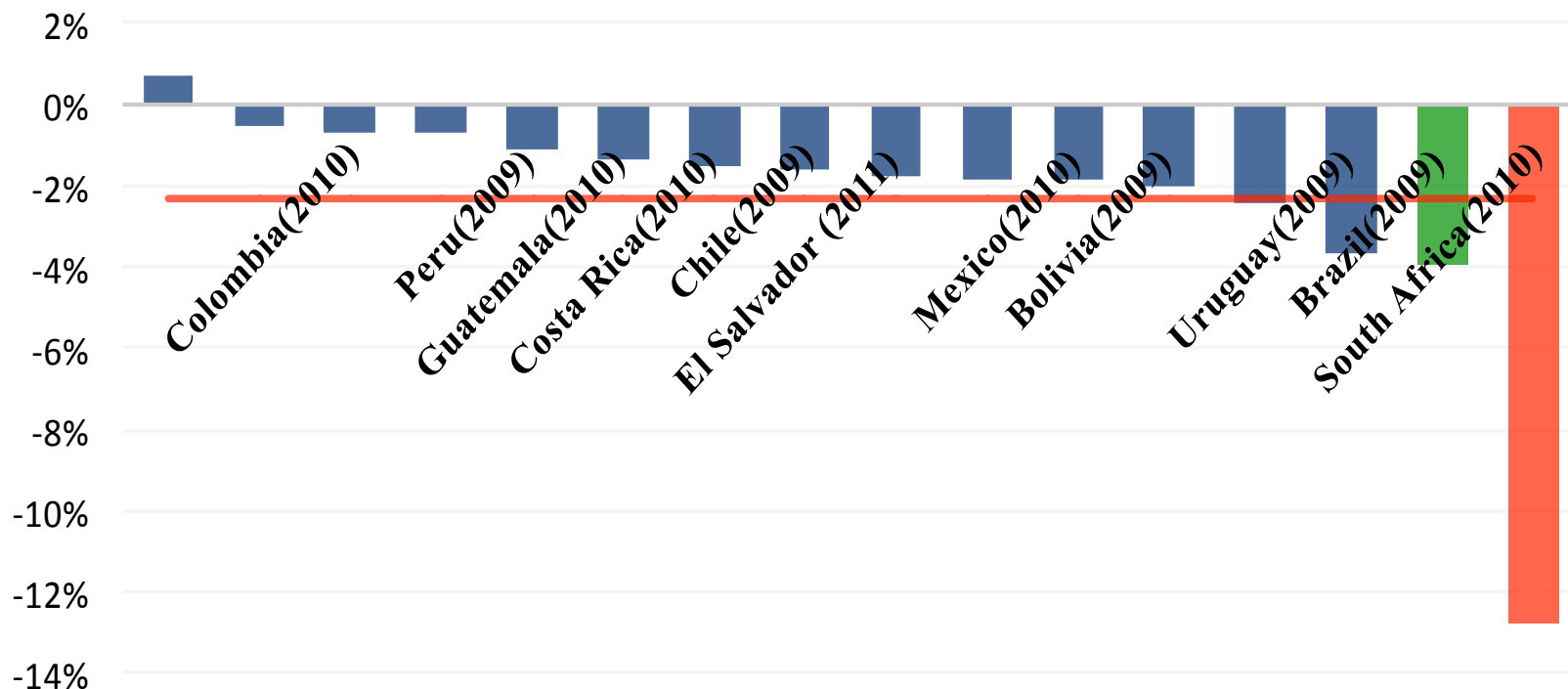
Results sustained even when one adds indirect taxes

Change in Gini: Post-fiscal vs. Market
(decline in Gini points shown in positive quadrant)

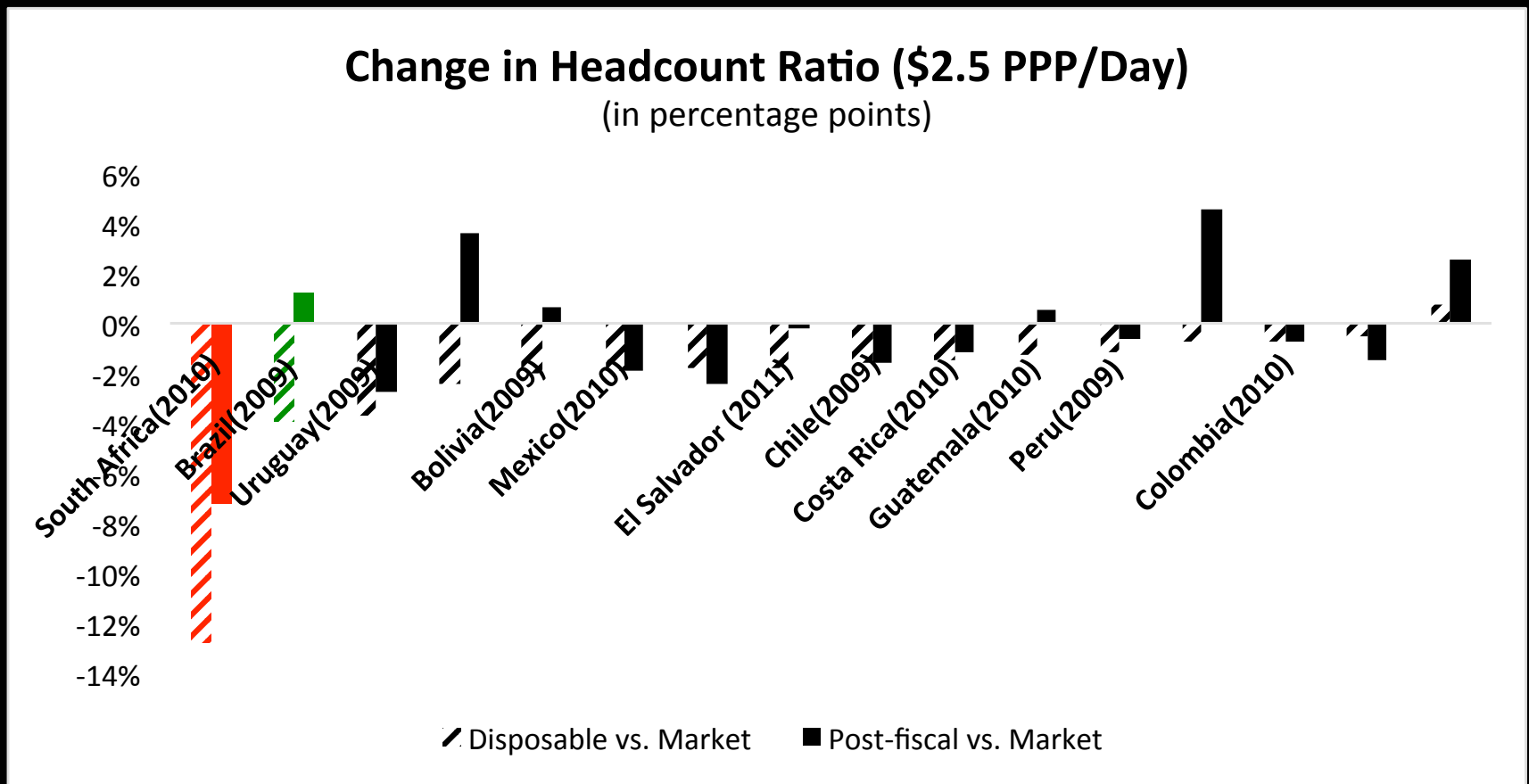


Direct Transfers (net of direct taxes) reduce poverty (except in Ethiopia)

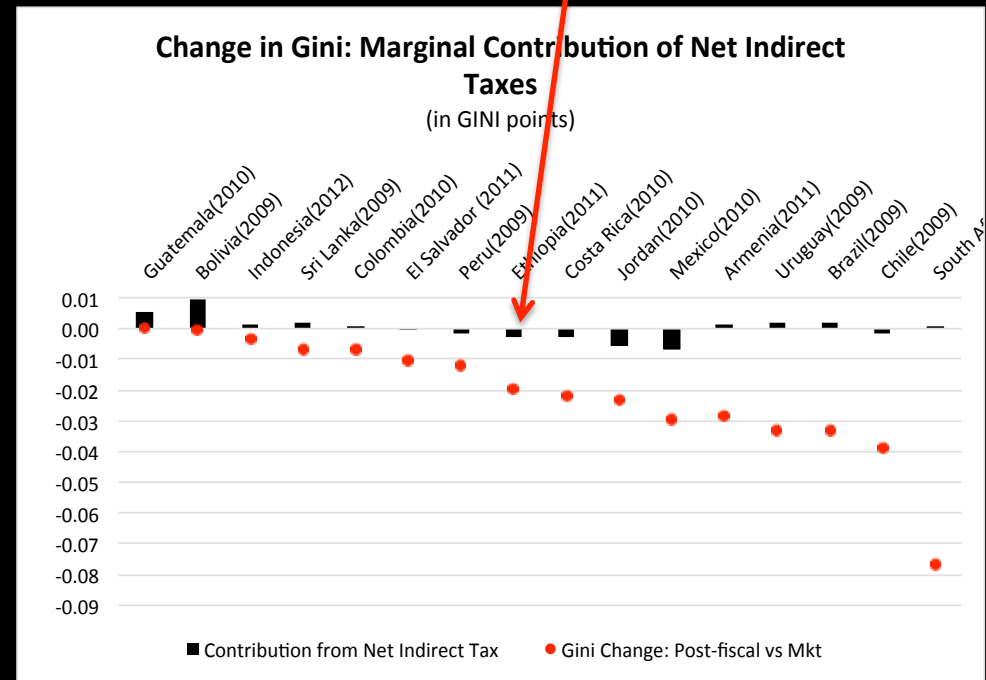
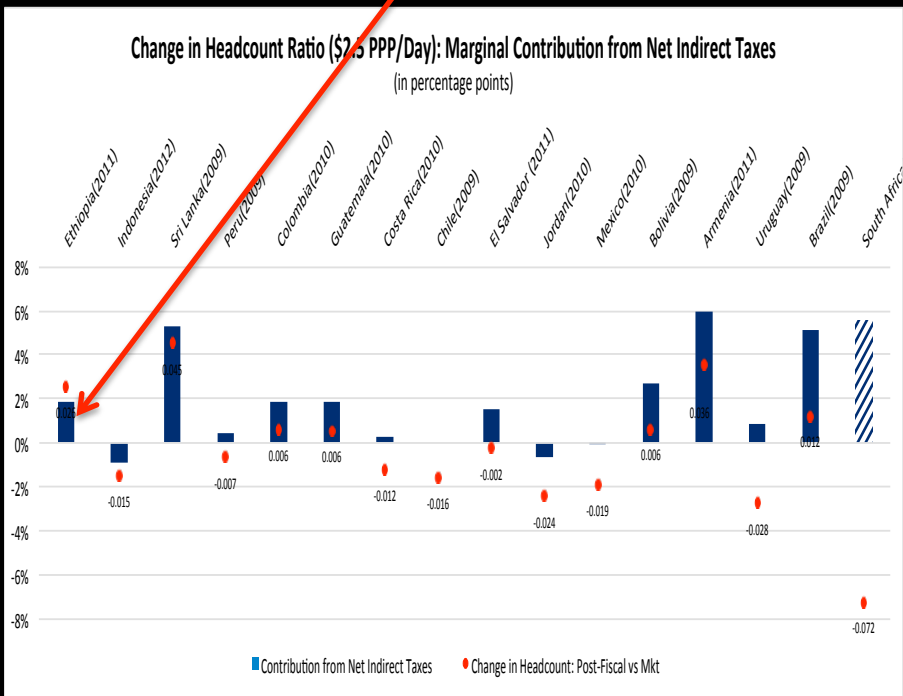
**Change in Headcount Ratio (\$2.5 PPP/Day):
Disposable vs. Market Income**
(in percentage points)



Indirect Taxes increase poverty over and above market income poverty in several countries



Note that Net Indirect Taxes can be equalizing and yet poverty increasing: Ethiopia



CEQ Teams

(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 (May 31, 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. **Chile (2009, I): Jaime Ruiz-Tagle and Dante Contreras (Oct. 25, 2014)**
6. **Colombia (2010, I): Marcela Melendez, Nora Lustig and Valentina Martinez (May 2014)**
7. **Costa Rica (2010; I):** Pablo Sauma and Juan Diego Trejos (February 2014; paper)
8. **El Salvador (2011; I):** Margarita Beneke, Nora Lustig and Jose Andres Oliva (March 11, 2014)
9. **Ethiopia (2010/11; C):** Ruth Hill, EyasuTsehaye, Tassew Woldehanna (Sept. 28, 2014)
10. **Guatemala (2011; I):** Maynor Cabrera, Nora Lustig and Hilcias E. Moran (August 27, 2014)
- 10 **Indonesia (2012; C) :** Jon Jellema and Matthew Wai-Poi (Sept. 9, 2014)
- 11 **Jordan (2010; C) :** Morad Abdel-Halim, Shamma Adeeb Alam, Yusuf Mansur, Umar Serajuddin, Paolo Verme (May 16, 2014)
- 12 **Mexico (2010; I):** John Scott (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
- 13 **Peru (2009; I):** Miguel Jaramillo (CEQ Web Dec 2013) *Public Finance Review*, May 2014, Volume 42, Issue 3
- 14 **South Africa (2010; I):** Ingrid Woolard, Precious Zikhali, Mashekwa Maboshe, Jon Jellema (Aug. 25, 2014)
- 15 **Sri Lanka (2009/10; C):** Nisha Arunatilake, Gabriela Inchauste and Nora Lustig (April 8, 2014; paper)
- 16 **United States (2011; I):** Sean Higgins, Nora Lustig, Whitney Ruble and Timothy Smeeding (paper Oct. 2014)
- 17 **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