

Inequality and Poverty in Latin America -- ECON 4600-01/6600-01
Undergraduate and Graduate Course
 Fall 2014
Time: MONDAY 3–5:30pm
Location: Tilton 307
Revised October 29, 2014

Instructor

Nora Lustig
 Samuel Z. Stone Professor of Latin American Economics
 Department of Economics
 204 Tilton Hall
nlustig@tulane.edu

Office Hours: Tuesdays 1:30 - 2:30 pm or by appointment; to request an appointment please send an email to the above address.

Teaching Assistant: Samantha Greenspun, sgreens@tulane.edu

Description

Latin America is the region with the highest levels of income inequality and where inequality has been most persistent. However, during the last decade inequality declined in most countries while it rose in other regions. Through comparative and in-depth country studies this course analyzes the dynamics of income inequality and poverty in the region focusing on the role of markets and the state. The course includes a review of quantitative methods to measure inequality and poverty and the theories and methods to analyze their determinants. Students will also learn to assess government efforts to reduce inequality and poverty through taxes and transfers using incidence analysis. The course is open to graduate and undergraduate students in the social sciences. Spanish is not required but students who read Spanish will find it helpful.

Prerequisites: Introductory Macro and Microeconomics or by permission of instructor.

Credit: Undergraduate and graduate course.

Program Outcomes

This course contributes to the program outcomes for the BA and BS degrees in Economics by allowing students to develop and demonstrate competency in specialized fields (income distribution and poverty). It contributes to the program outcomes of Economics and LAS graduate degrees by allowing students to develop and demonstrate competency in specialized fields (income distribution and poverty) and also gain knowledge on specific geographic areas (Latin America).

Objective and Learning Outcomes

The purpose of this course is twofold: a. to develop a broad understanding of the dynamics of inequality and poverty in Latin America and how market forces and government policies affect those dynamics; b. to acquire skills to critically assess the consistency of data on inequality, poverty and social policy from a wide range of sources. By the end of the course, students should have learned: 1. existing methods to measure inequality and poverty, their properties and limitations; 2. the facts on inequality and poverty in Latin America; 3. how to find and assess the quality and consistency of data on inequality, poverty and social policies; 4. existing theories and methods to analyze the causes and consequences of inequality and poverty and apply them to the countries covered in the course; and, 5. the basics of tax and benefit incidence analysis.

Organization

The course will be conducted as a seminar. Students are expected to actively participate in class and interact with the instructor and each other. Careful and critical reading of the materials is a key component of this course.

Readings

Most of the reading materials can be downloaded or will be posted in a shared Dropbox folder. Other readings are available through the library (stacks or online).

Technology

You will need to search for data during class so please bring a laptop set up to use Tulane's network or use computers available in the classroom.

Evaluation

The class will be divided in teams. Each team will work on a particular country chosen from the following list: Bolivia, Brazil, Mexico, Peru and Uruguay.

Undergraduate-level credit

The evaluation is based on *in-class presentations* of pre-assigned readings, an *exam*, and *two assignments*. The *exam* consists of ten short questions on material covered during the course. The *two assignments* consist of in-class workshops and in-class presentations, and a submission of a power point presentation and Excel spreadsheet at the end of the course by each team.

Graduate-level credit

In addition to the *in-class presentations* and the *exam*, students taking the course for Graduate-level credit must submit a *final paper* written individually. The paper must focus on data consistency issues and/or main characteristics of social programs in your pre-assigned country. The paper has to be 10 pages long **MAXIMUM** (font size 12 and double space) including tables, figures and references. Papers should be submitted in Word electronically (via e-mail). Please make sure to put your name and date in the top right-hand corner on first page. Papers should include a section with bibliographical references. Tables and figures should have proper titles and include sources (including the page numbers of the source when applicable) and add as many explanatory notes as needed.

Grading

In-class presentations and participation*	30 %	
Exam**		40 %
Assignments 1 and 2/Paper***	30 %	

*The grade for the in-class presentations shall be the same for all members of the team.

**The exam will not be re-scheduled unless there is signed evidence of a medical or family emergency.

***The *due date* for the power point presentation and Excel spreadsheet (undergraduate students) and the final paper (graduate-level students only) is: **DEC 8 BY 5pm (submit electronically)**. If a team/student cannot deliver the spreadsheet or the paper by the due date, s/he must produce signed evidence of a medical or family emergency. Without such evidence, the grade for the spreadsheet/paper will equal F.

Attendance and punctuality

Students are allowed to miss only one class without excuse. If more than one class is missed (fully or partially), students will be excused only for valid medical or family emergencies. Students must produce signed evidence by the proper authority verifying the reason why they missed a class. Without the signed evidence, 5 percent will be subtracted from final grade for each missed class. If a student misses 4 classes or more, s/he will receive an incomplete for the course. Students are expected to be punctual and stay for the duration of the entire class.

If a student must be late to a class or leave early, s/he should request the instructor's permission in writing.

Please note that the use of cell phones is not permitted. Computers can only be used for the purposes of the course. The use of cell phones or computers for unauthorized purposes will result in a deduction of 5 percent from the final grade for each violation.

Students are expected to remain in the room during the entire class unless exceptional circumstances require them to be excused. There will be a 10-minute break during each session.

Academic honesty

All students are responsible for knowing and adhering to Tulane University's Honor Code, available at <http://tulane.edu/college/code.cfm>.

Assignments for in-class workshops, spreadsheet and final paper (the paper applies to students taking the course for graduate-level credit)**Assignment 1: Assessing the availability and quality of data on inequality and poverty in LA.**

Collect information on inequality and poverty from the following three sources for "your" country for as far back as you can: CEPAL, SEDLAC, and World Bank's POVCAL. Using the existing information and readings describe what happened to inequality and poverty in your country and their determinants. In particular, please address the following questions: Are there discrepancies in levels or trends among the three sources? If there are, what could be the causes? Which source did you decide to use and why? Based on the source that you chose, what is the evolution of inequality and poverty? Are results sensitive to the use of alternative inequality and poverty measures? Which factors explain the observed trends?

Assignment 2: Assessing fiscal policy's impact on poverty and inequality.

Using the Commitment to Equity framework as guidance, assess the extent to which government fiscal policies (taxes and transfers) in your country bring about a significant reduction in poverty and inequality. How progressive are taxes and transfers? How equitable is the access to public education and health? What are the characteristics of your country's flagship cash transfer program? How significant is their contribution to reducing inequality and poverty?

SESSIONS AND READINGS**August 25 and September 8 – Introduction to the Course: Concepts, Measurement and Trends (Lectures)**
(Reminder: September 1 – LABOR DAY: no class)

Haughton, Jonathan and Shahidur R. Khandker. 2009. *Handbook on Poverty and Inequality*, World Bank; chapters 1-6.
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:22405907~menuPK:6626650~pagePK:148956~piPK:216618~theSitePK:430367,00.html>

Szekely, Miguel et al. 2004. "Do We Know How Much Poverty There Is?" *Oxford Development Studies* 32, no. 4: 523-558.

Lustig, Nora. 2013. "Latin America's Inequality Success Story" *Current History*, February, pp. 64-69.

In-class workshop for Assignment 1

Introduction to Data Sources. (See links at the bottom of syllabus)

September 15, 22, and 29--Unequal Latin America (Lectures and Workshops)

- *Inequality and Poverty in Latin America in Comparative Perspective*

Ferreira, Francisco H. G. and Martin Ravallion. 2008. "Global Poverty and Inequality: A Review of the Evidence." Policy Research Working Paper 4623. The World Bank, Development Research Group Poverty Team, May.
<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/0,,menuPK:577938~pagePK:64165265~piPK:64165423~theSitePK:469372,00.html>

OECD. 2010. *Tackling inequalities in Brazil, China, India and South Africa: The role of labour market and social policies*. OECD Publishing, doi: 10.1787/9789264088368-en.

Chen, Shaohua and Martin Ravallion. 2008. "The Developing World Is Poorer Than We Thought, But No Less Successful in the Fight against Poverty." Policy Research Working Paper 4703. The World Bank. <http://www.probeinternational.org/files/The%20developing%20world.pdf>

- *The Rise and Fall of Income Inequality in Latin America*

Alvaredo, Facundo and Thomas Piketty. 2010. "The Dynamics of Income Concentration in Developed and Developing Countries: A View from the Top." In Lopez-Calva, Luis F. and Nora Lustig (eds.) *Declining Inequality in Latin America: a Decade of Progress?* Brookings Institution Press and UNDP.

Lustig, Nora and Leonardo Gasparini. 2011. "The Rise and Fall of Income Inequality in Latin America," Chapter 28 in Jose Antonio Ocampo and Jaime Ros, eds., *Oxford Handbook of Latin American Economics*, Oxford University Press, August.

Gasparini, Leonardo, Guillermo Cruces and Leopoldo Tornarolli. 2011. "Recent Trends in Income Inequality in Latin America." *Economia. The Journal of the Latin American and Caribbean Economic Association*. Spring: 147-201.

Lustig, Nora, Luis F. Lopez-Calva and Eduardo Ortiz-Juarez. 2013. "Deconstructing the Decline in Inequality in Latin America," *Tulane University Economics Working Paper 1314*, New Orleans, Louisiana, April 2013 and *World Bank Policy Research Working Papers 6552*, Washington, DC, July. <http://ideas.repec.org/p/tul/wpaper/1314.html> and http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=649372&piPK=64165421&menuPK=64166093&entityID=000158349_20130731085829

- *Historical Roots*

Sokoloff, Kenneth, and Joyce Robinson. 2004. "Historical Roots of Inequality in Latin America". In *Inequality in Latin America and the Caribbean. Breaking with History?* coordinated by David De Ferranti, Guillermo Perry, Francisco H. G. Ferreira, and Michael Walton. Chapter 4. Washington, D. C: World Bank.

http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/06/22/000160016_20040622141728/Rendered/PDF/28989.pdf

Frankema, Ewout. 2009. "The Colonial Origins of Inequality: Exploring the Causes and Consequences of Land Distribution," in Klasen, Stephan and Felicitas Nowak *Lehmann Poverty, Inequality, and Policy in Latin America*, MIT Press. (not available online)

Prados de la Escosura, Leonardo. 2005. "Growth, Inequality and Poverty in Latin America: Historical Evidence, Controlled Conjectures," *Working Paper 05-41, Economic History and Institutions Series*, Universidad Carlos III de Madrid, Spain, June.

- *Ethnic Discrimination*

Cunningham, Wendy, and Joyce Jacobsen. 2004. "Group-Based Inequalities: The Roles of Race, Ethnicity, and Gender." In *Inequality in Latin America and the Caribbean. Breaking with History?*, coordinated by David De Ferranti, Guillermo Perry, Francisco H. G. Ferreira, and Michael Walton. Washington, D.C: World Bank. Chapter 3.

http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/06/22/000160016_20040622141728/Rendered/PDF/28989.pdf

Marquez, Gustavo, Alberto Chong, Suzanne Duryea, Jacqueline Mazza, and Hugo Nopo, coordinators. 2007. *Outsiders? The Changing Patterns of Exclusion in Latin America and the Caribbean*. Washington, D.C: IADB. <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1154386>

Ñopo, Hugo. 2012. *New Century, Old Disparities: Gender and Ethnic Wage Gaps in Latin America*, Inter-American Development Bank. (available on IADB's website)

In-class workshop for Assignment 1

October 6 and 13 -- Inequality and Poverty in Latin America (in-class presentations)

- *Bolivia team (comments by Mexico team)*

Gray Molina, George and Ernesto Yañez. 2009. "The Dynamics of Inequality in the Best and Worst of Times, Bolivia 1997-2007," UNDP, mimeo.

World Bank. 2005. *Bolivia Poverty Assessment: Establishing the Basis for Pro-Poor Growth*. Poverty Reduction and Economic Management Sector Unit, Latin America and the Caribbean Region, World Bank, Washington, DC, December.

Paz Arauco, Veronica, George Gray Molina, Wilson Jimenez and Ernesto Yañez. 2014. "Explaining Low Redistributive Impact In Bolivia," *Public Finance Review*, Vol. 42 No. 3, 326-345.

- *Brazil team (comments by Peru team)*

Barros, Ricardo P., Rosane Mendonca and Sonia Rocha. 1995. "Brazil: Welfare, Inequality, Poverty, Social Indicators and Social Programs in the 1980s," in Lustig, Nora *Coping with Austerity. Poverty and Inequality in Latin America*, Brookings Institution, Washington, DC.

Ferreira, Francisco H. G., Phillipe G. Leite and Julie A. Litchfield. 2007. "The Rise and Fall of Brazilian Inequality: 1981-2004." *Macroeconomic Dynamics* (June): 1-32.

Ferreira, Francisco H. G. and Ricardo Paes de Barros. 2005. "The Slippery Slope: Explaining the Increase in Extreme Poverty in Urban Brazil: 1976-96." In *The Microeconomics of Income Distribution Dynamics in East Asia and Latin America*, edited by Francois Bourguignon, Francisco H. G. Ferreira and Nora Lustig. Washington, D.C: Oxford University Press. Chapter 4.

Barros, Ricardo Paes de, Mirela de Carvalho, Samuel Franco, and Rosane Mendonça. 2010. "Markets, the State, and the Dynamics of Inequality in Brazil." In Lopez-Calva, Luis F. and Nora Lustig (eds.) *Declining Inequality in Latin America: a Decade of Progress?* Brookings Institution Press and UNDP.

Lustig, Nora, Luis F. Lopez-Calva and Eduardo Ortiz. 2013. "Declining Inequality in Latin America in the 2000s: The Cases of Argentina, Brazil, and Mexico," *World Development*, Vol. 44, 129-141.

Higgins, Sean and Claudiney Pereira. 2014. "The Effects of Brazil's Taxation and Social Spending on the Distribution of Household Income," *Public Finance Review*, Vol. 42 No. 3., 346-367.

Soares, Sergei, Rafael Guerreiro Osório, Fábio Veras Soares, Marcelo Medeiros, and Eduardo Zepeda. 2009. "Conditional Cash Transfers in Brazil, Chile and Mexico: Impacts upon Inequality." In *Poverty and Inequality in Mexico and Selected Latin American and Caribbean Countries*, edited by Nora Lustig and Jacques Silber. Estudios Económicos, El Colegio de México numero extraordinario (febrero).

- *Guatemala team (comments by Uruguay team)*
Readings are saved in dropbox Guatemala folder
- *Mexico team (comments by Bolivia team)*

Campos, Raymundo, Gerardo Esquivel, and Nora Lustig. 2012. "The Rise and Fall of Income Inequality in Mexico, 1989-2010". WIDER Working Paper 2012/10. Helsinki: UNU-WIDER. Available at: http://www.wider.unu.edu/publications/working-papers/2012/en_GB/wp2012-010/_files/87071273342992419/default/wp2012-010.pdf

Legovini, Arianna, César Bouillon and Nora Lustig. 2005. "Can Education Explain Changes in Income Inequality in Mexico?" In *The Microeconomics of Income Distribution Dynamics in East Asia and Latin America*, edited by Francois Bourguignon, Francisco H. G. Ferreira and Nora Lustig. Washington, D.C: Oxford University Press. Chapter 8.

Esquivel, Gerardo, Nora Lustig, and John Scott. 2010. "A Decade of Falling Inequality in Mexico: Market Forces or State Action?" In Lopez-Calva, Luis F. and Nora Lustig (eds.) *Declining Inequality in Latin America: a Decade of Progress?* Brookings Institution Press and UNDP.

Lustig, Nora, Luis F. Lopez-Calva and Eduardo Ortiz. 2013. "Declining Inequality in Latin America in the 2000s: The Cases of Argentina, Brazil, and Mexico," *World Development*, Vol. 44, 129-141.

Scott, John. 2014. "Redistributive Impact and Efficiency of Mexico's Fiscal System," *Public Finance Review*, Vol. 42 No. 3, 368-390.

- *Peru team (comments by Brazil team)*

http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/05/11/000012009_20060511144754/Rendered/PDF/298251PE0rev0pdf.pdf

Jaramillo, Miguel. 2014. "The Incidence of Social Spending and Taxes in Peru." In Lustig, Nora, Carola Pessino, and John Scott, editors, *Fiscal Policy, Poverty and Redistribution in Latin America*, Special Issue, *Public Finance Review*, Vol. 42 No. 3, 391-412.

- *Uruguay team (comments by Guatemala team)*

Amarante, Veronica, Marco Colafranceschi, Andrea Vigorito. 2011. "Uruguay's Income Inequality and Political Regimes during 1981-2010," *Working Paper No. 2011/94*, UNU-WIDER, Helsinki, December.

Bucheli, Marisa, Nora Lustig, Maximo Rossi and Florencia Amabile. 2014. "Social Spending, Taxes, and Income Redistribution in Uruguay," *Public Finance Review*, Vol. 42 No. 3, 413-433.

World Bank. 2013. "Uruguay Public Expenditure Review: Mitigating Fiscal Risks," Poverty Reduction and Economic Management Sector Unit, Latin America and the Caribbean Region, World Bank, Washington, DC, April.

October 20 -- Social Policy in Latin America: Social Protection and Cash Transfers (Lecture and Workshop)

Ferreira, Francisco and David Robalino. 2010. "Social Protection in Latin America. Achievements and Limitations." *Policy Research Working Paper 5305*. World Bank, Washington, DC, May.

Barrientos, Armando. 2011. "On the Distributional Implications of Social Protection Reforms in Latin America," Working Paper No. 2011/69, UNU-WIDER, Helsinki.

Fiszbein, Ariel and Norbert Schady *with* Francisco H.G. Ferreira, Margaret Grosh, Nial Kelleher, Pedro Olinto, and Emmanuel Skoufias. 2009. *Conditional Cash Transfers. Reducing Present And Future Poverty*, World Bank, Chapter 1.

In-class workshop for Assignment 2

October 27 – Incidence of Taxes and Transfers in Latin America (Lecture)

Houghton, Jonathan and Shahidur R. Khandker, *Handbook on Poverty and Inequality*, chapters 9 and 15.
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:22405907~menuPK:6626650~pagePK:148956~piPK:216618~theSitePK:430367,00.html>

Breceda, Karla Rigolini Jamele and Jaime Saavedra (2008). "Latin American and the social contract : patterns of social spending and taxation," Policy Research Working Paper 4604, The World Bank.

Goni-Pacchioni, Edwin A., J. Humberto López and Luis Servén (2011). "Fiscal redistribution and income inequality in Latin America," *World Development*, 39 (9), 1558-1569.

Lindert, Kathy, Emmanuel Skoufias and Joseph Shapiro (2006). "Redistributing Income to the Poor and the Rich: Public Transfers in Latin America and the Caribbean," Discussion Paper 0605. World Bank.

Lustig, Nora, et al. *The Impact of Taxes And Social Spending on Inequality and Poverty in Argentina, Bolivia, Brazil, Mexico, Peru and Uruguay: An Overview*, CEQ Working Paper No. 13; revised August 2013. www.commitmenttoequity.org

In-class workshop for Assignment 2

November 3 – EXAM (Proctored by Samantha Greenspun)

November 10 and 17 (Samantha Greenspun) -- In-class workshop for Assignment 2

NEW! November 24: In-class presentations for Assignments 1 and 2

Note: all presentations will take place on November 24 from 3pm – 7pm. There will be no class on December 1.

-----0-----

Websites for Assignments 1 and 2

1. CEPAL (UN Economic Commission for Latin America and the Caribbean)

CEPALSTAT is the gateway to all the statistical information of Latin America and the Caribbean countries collected, systematized and published by ECLAC. The availability of timely statistical information is essential for socio-economic and environmental analysis and for various decision-making processes. ECLAC has been contributing in the dissemination of relevant data in the economic, social and environmental fields for Latin America and the Caribbean through various means. While most of the information disseminated is produced by official agencies of countries and international agencies, its systematization and documentation constitutes a contribution for users of regional data.

http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/Portada.asp?idioma=i

2. SEDLAC (Socio-Economic Database for Latin America and the Caribbean)

SEDLAC includes statistics on poverty and other distributional and social variables from 25 Latin American and Caribbean (LAC) countries. All statistics are computed from microdata of the main household surveys carried out in these countries using a homogenous methodology (data permitting). Statistics are updated periodically. SEDLAC allows users to monitor the trends in poverty and other distributional and social indicators in the region. The dataset is available in the form of brief reports, charts and electronic Excel tables with information for each country/year. In addition, the website visitor can carry out dynamic searches online.

<http://sedlac.econo.unlp.edu.ar/eng/>

Methodology: <http://sedlac.econo.unlp.edu.ar/eng/methodology.php> - guide dl

3. PovcalNet (World Development Indicators)

There are 331 WDI that cover 214 economies from 1960 to 2011 and are updated Quarterly. Information on WDI for poverty and inequality is found at PovcalNet.

<http://data.worldbank.org/data-catalog/world-development-indicators>

<http://iresearch.worldbank.org/PovcalNet/index.htm>

Methodology: <http://iresearch.worldbank.org/PovcalNet/index.htm?0,2>

4. Social Spending by Country (CEPAL)

http://dds.cepal.org/gasto/indicadores/ficha/?indicador_id=1