Declining Inequality in Latin America: Labor Markets & Redistributive Policies

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Inequality in Latin America is high...
...but declining since around 2000

Decline is pervasive and significant
• Larger than the rise in inequality in 1990s
• Important contribution to the decline in poverty
• In countries with high growth & low growth
• In countries with left and nonleft governments
• In commodity exporters and importers
LATAM IS THE MOST UNEQUAL REGION IN THE WORLD

Gini Coefficient by Region (in %), 2004
(Ferreira and Ravallion, 2008)
Latin America: Declining income inequality by country: 2000-2011

(Annual Change of Gini in %)
Decomposing the change in poverty in the 2000s: growth vs. redistribution

(Datt-Ravallion Decomp Method)
• Determinants:
  – Declining inequality of hourly labor income
  – Larger and more progressive transfers
  – Lower dependency ratios
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
- Pro-active Labor Policies
- Degraded tertiary
Argentina, Brazil and Mexico

• Argentina:
  – High growth due to post-2002 recovery
  – Devaluation in early 2000s => increase in relative demand of low-skilled workers
  – Very pro-active labor market policies

• Brazil:
  – Low growth during most of the period
  – Increase in relative supply of skilled workers
  – Increase in relative demand of low-skilled workers
  – Pro-active labor market policies

• Mexico:
  – Low growth
  – Increase in relative supply of skilled workers
  – No pro-active labor market policies
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.

- Benefit and tax incidence analysis for 11 countries.

- [www.commitmenttoequity.org](http://www.commitmenttoequity.org)
Inequality Reduction: Brazil, Mexico, Peru and Uruguay (2009) (Taxes and Social Spending)

- Brazil (2009)
- Mexico (2010)
- Peru (2009)
- Uruguay (2009)
Inequality Reduction: Mexico 1996 vs. 2010

(Impact of Social Spending)
Mexico still less redistributive than peers
Poverty Reduction: Brazil, Mexico, Peru and Uruguay
(Income Taxes, Cash Transfers and Consumption Taxes; Poverty line US$2.50 ppp/day)
Inequality Reduction by Direct Taxes and Transfers: Brazil, Europe and US

- Direct taxes and transfers reduce inequality by 7.0 percentage points in US & 3.9 percentage points in Brazil

Source: authors’ calculations for Brazil and US; Immervoll et al. (2009) for Europe
How should we measure inequality to monitor how equitable societies are?

Two points:

• Regardless of the measure of choice => before/after government taxes and transfers

• Data:
  – Household surveys a good source mainly for labor income and government transfers
  – But rich are not captured; use tax returns as suggested by Top Incomes Project (Alvaredo, Atkinson, Piketty, Saez)
FIGURE 3
Top 1% income share in Colombia, 1993-2010

Source: Table A4.
References


Thank you!