

Declining inequality in Latin America: Will the good news last?

Nora Lustig

Professor, Tulane University

Nonresident Fellow, CGD and IAD

LACEA-LAMES

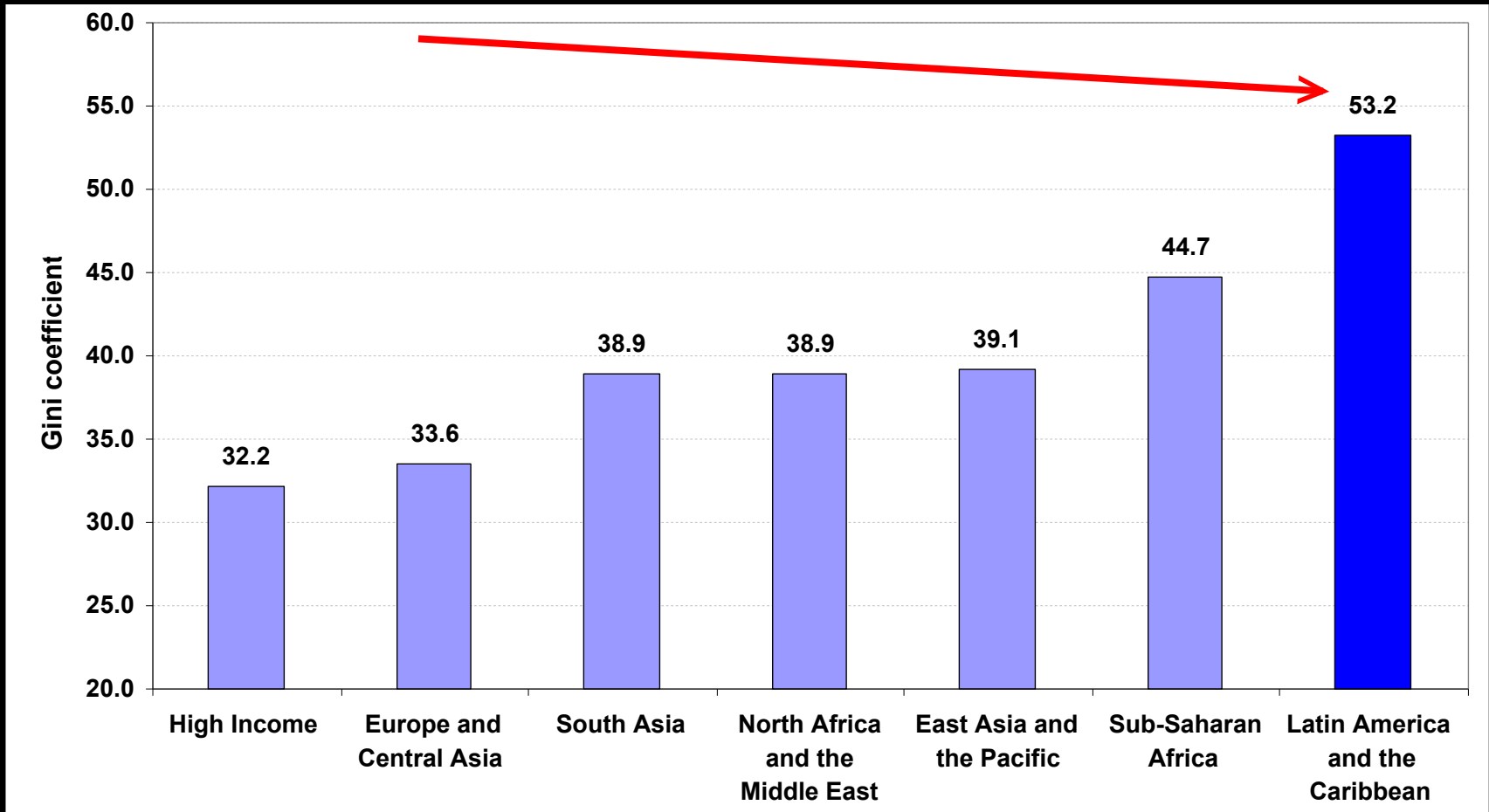
Universidad del Pacífico, Lima, Perú

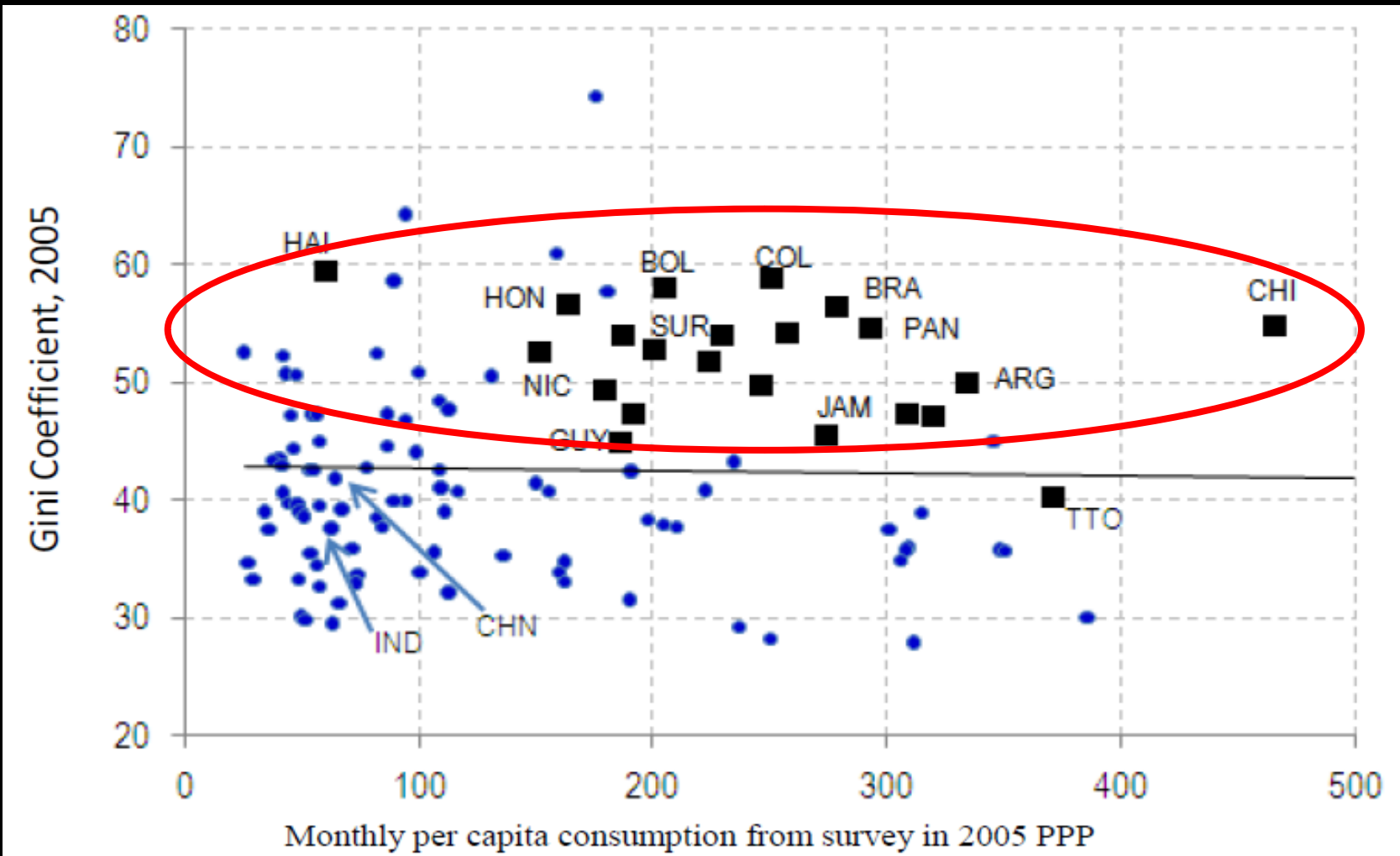
November 1, 2012

- **INEQUALITY** IS A DISTINCTIVE FEATURE OF LATIN AMERICA DUE TO ITS **HIGH LEVEL AND PERSISTENCE**

- LA HAS **EXCESS INEQUALITY**

Gini Coefficient by Region (in %), (around 2004)



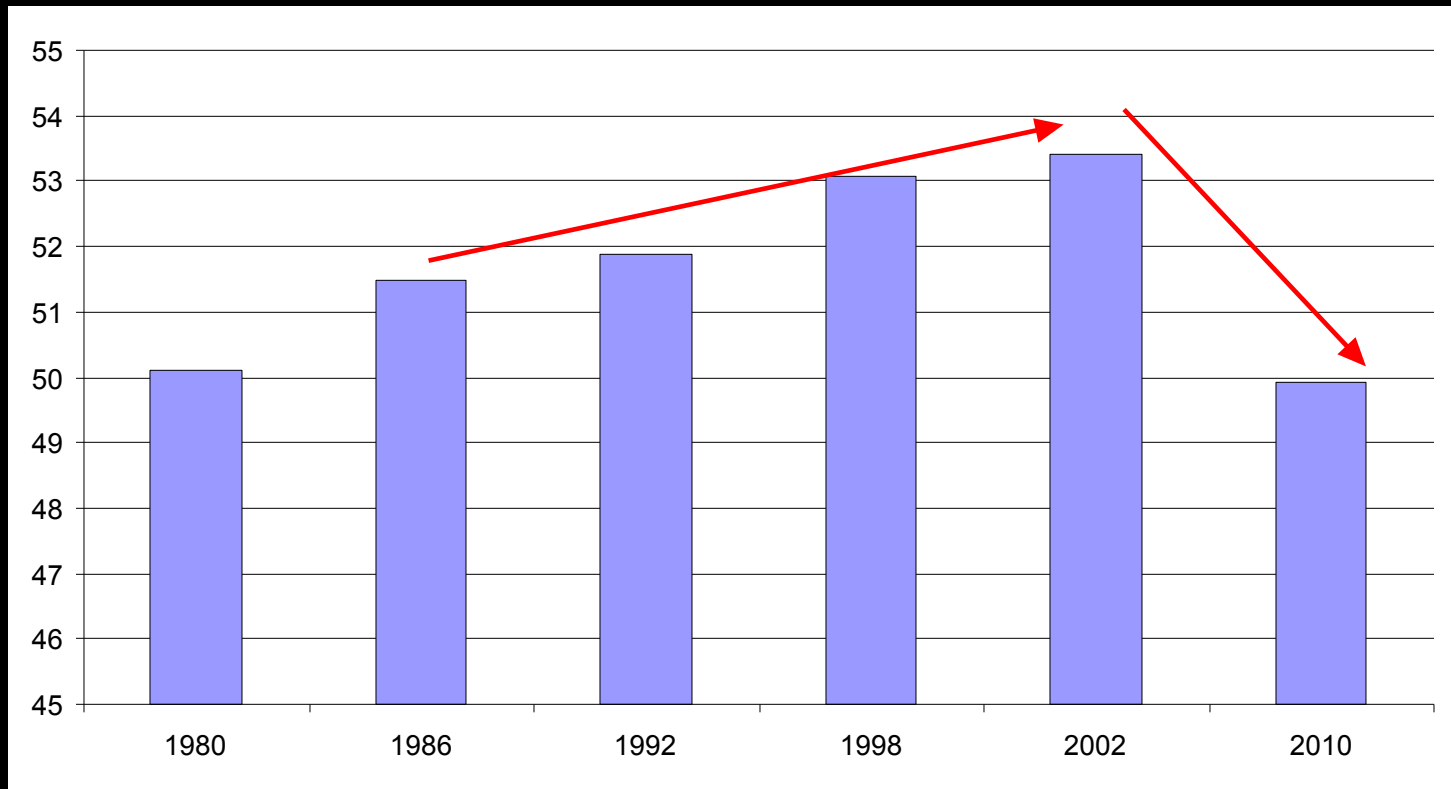


- AFTER RISING IN THE 1990S
INCOME **INEQUALITY** IN THE 2000S
UNAMBIGUOUSLY **DECLINED IN**
ALMOST EVERY COUNTRY

- **IT HAS BEEN ON THE RISE IN THE REST**
OF THE WORLD

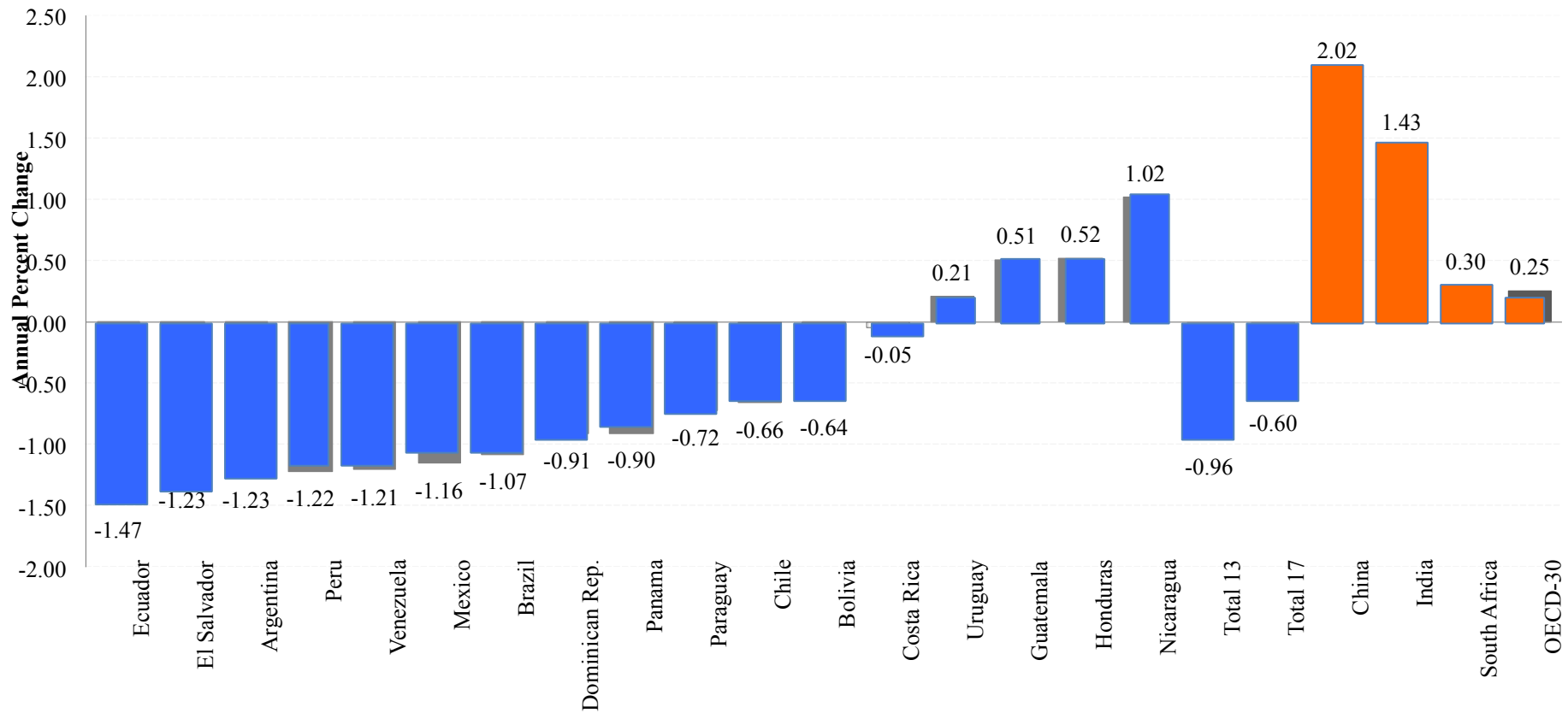
Inequality in LA: 1980-2010

Gini coefficient – Household per capita income



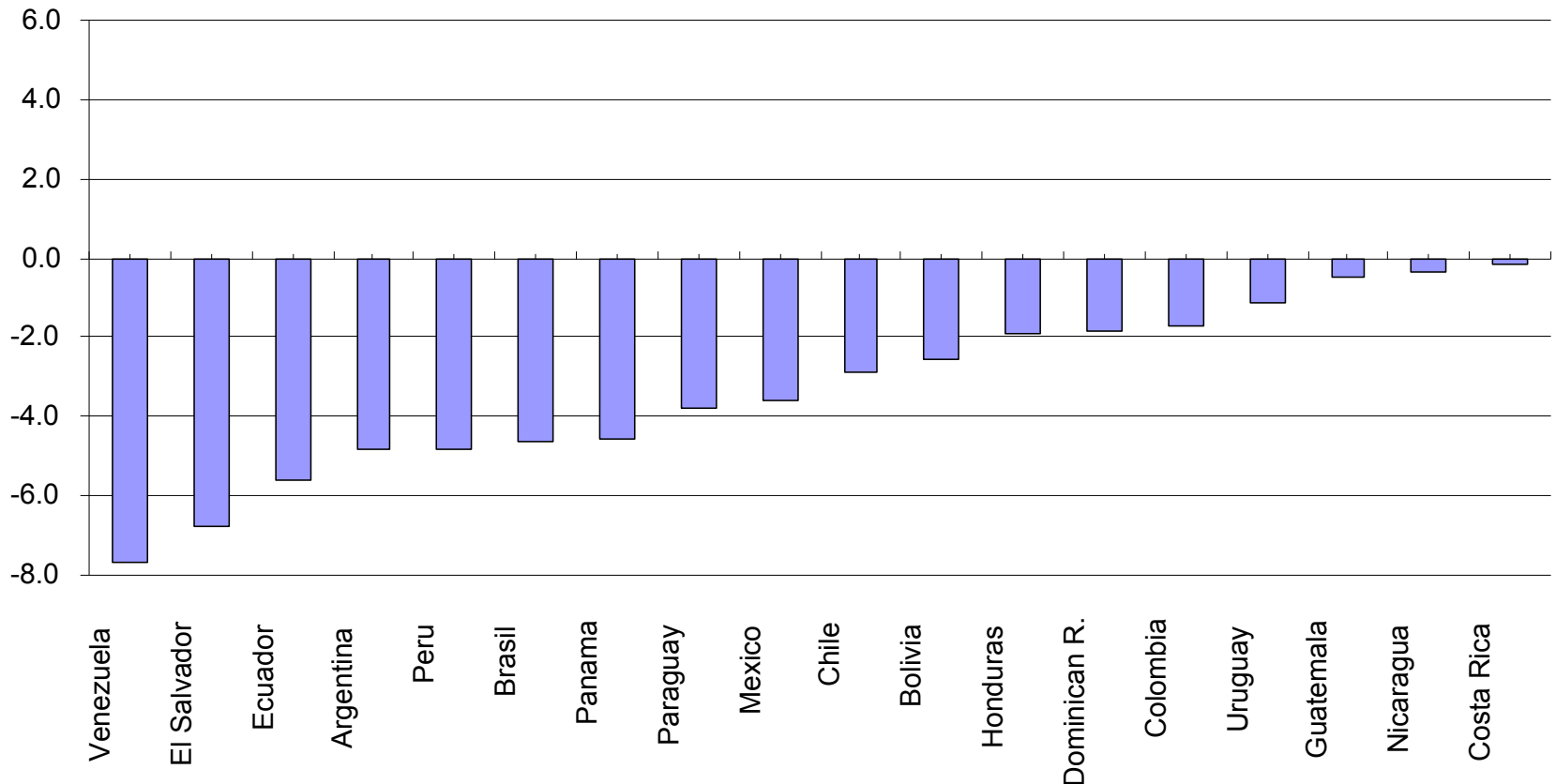
Source: own estimates based on SEDLAC (CEDLAS and World Bank).

Declining Inequality in Latin America by Country: 2000-2010 (annual % change in Gini; Lustig et al 2012)



The trend has continued and now all 18 countries show a decline

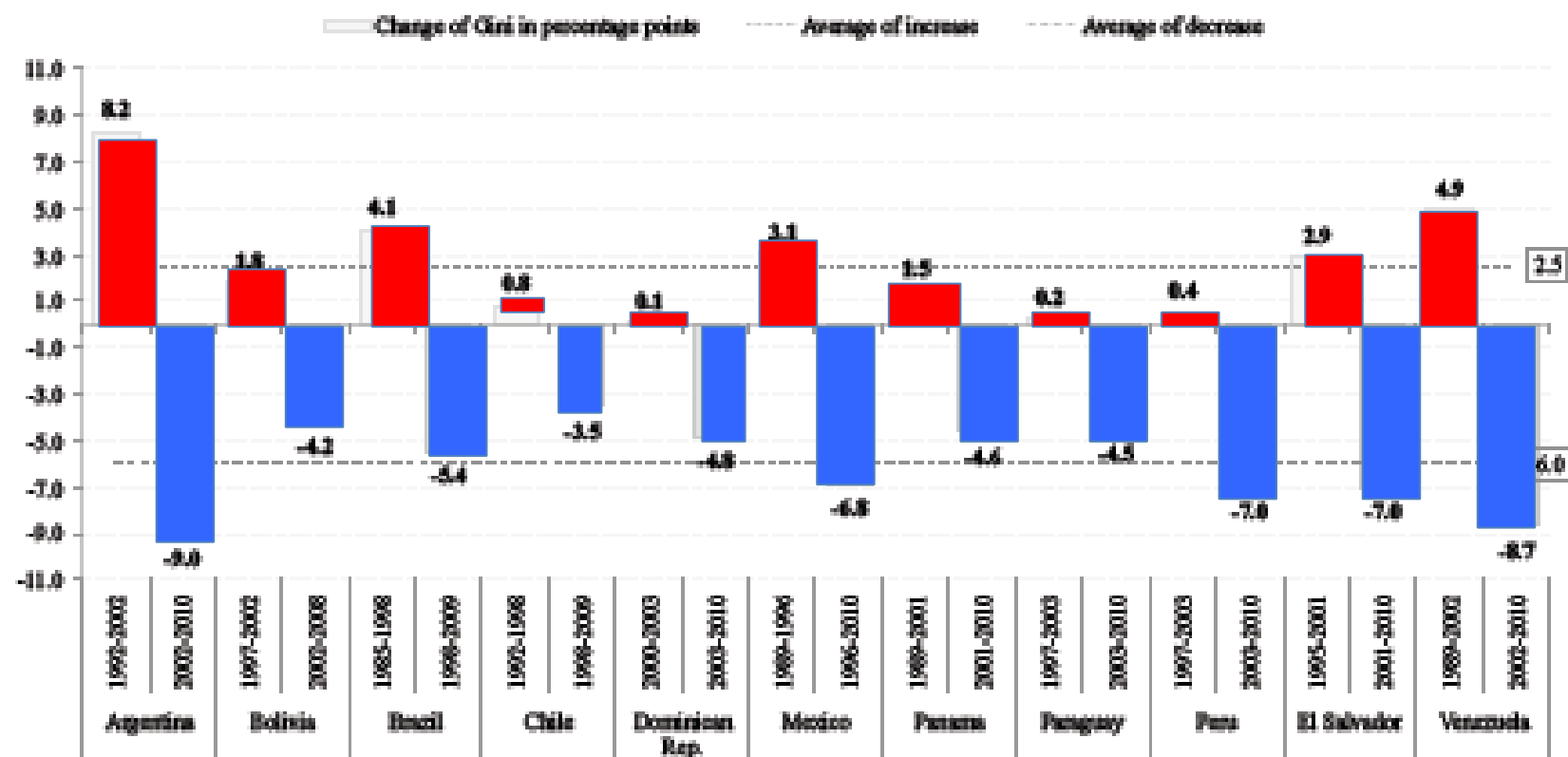
Change in Gini coefficient (Gasparini, May 2012)



First Year in Which Inequality Started to Decline

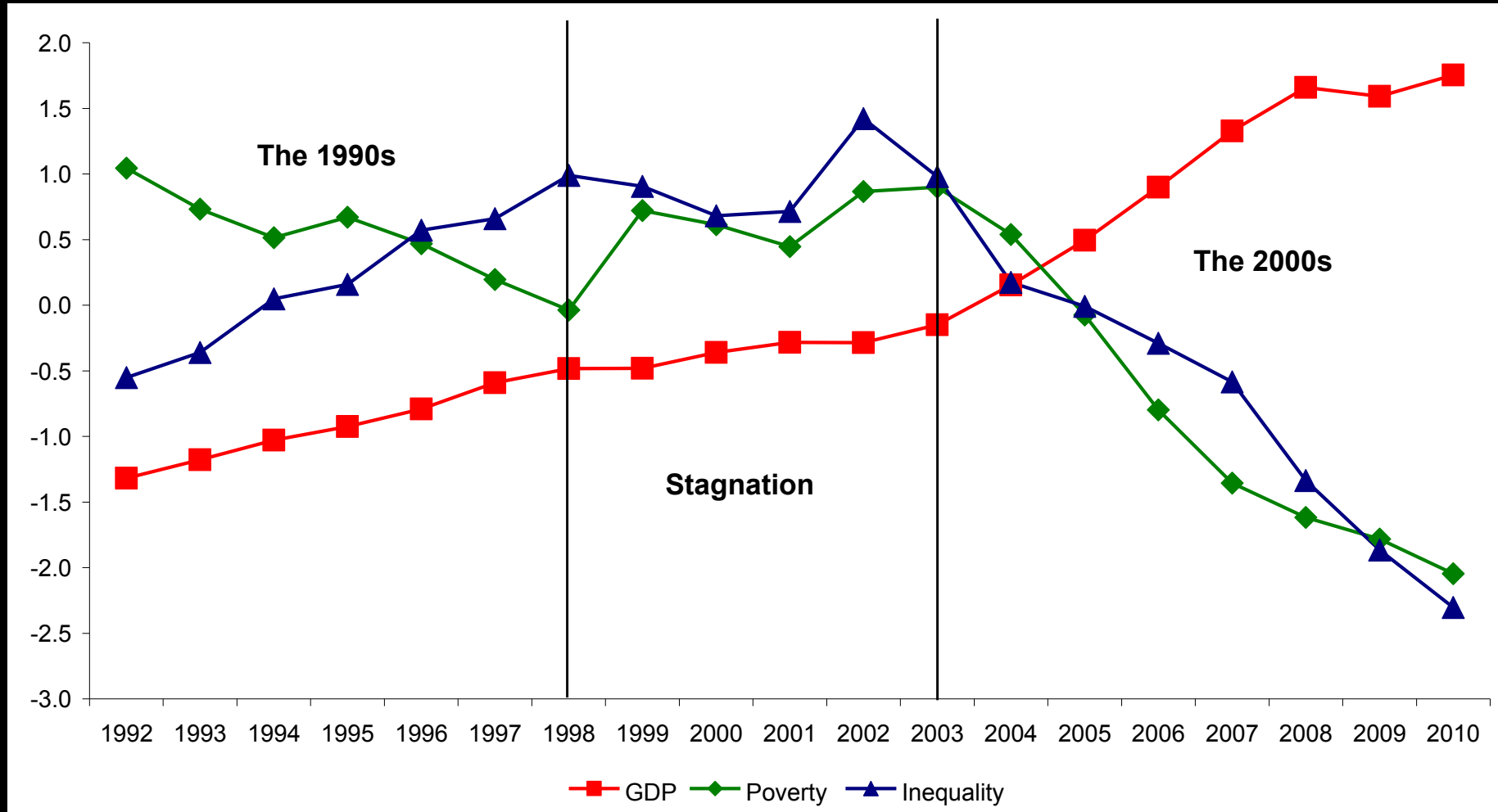
Figure 2 – The Rise and Fall in Inequality

(Changes in the Gini coefficients in percentage points)



Source: Authors' calculations based on data from SEDLAC (CEDLAS and The World Bank), March 2012 (<http://sedlac.econo.unlp.edu.ar/eng/>)

Poverty, growth and inequality



Source: SEDLAC (CEDLAS and World Bank).

THE REDUCTION IN INEQUALITY —ON AVERAGE—ACCOUNTED FOR...

- FIFTY PERCENT OF THE OBSERVED DECLINE IN POVERTY
- TWENTY FIVE PERCENT OF THE INCREASE OF THE MIDDLE CLASS (\$10 TO \$50 PPP/DAY)

Figure 3 – Latin America: Decomposing the Changes in Poverty into Growth and Redistribution (2000s)

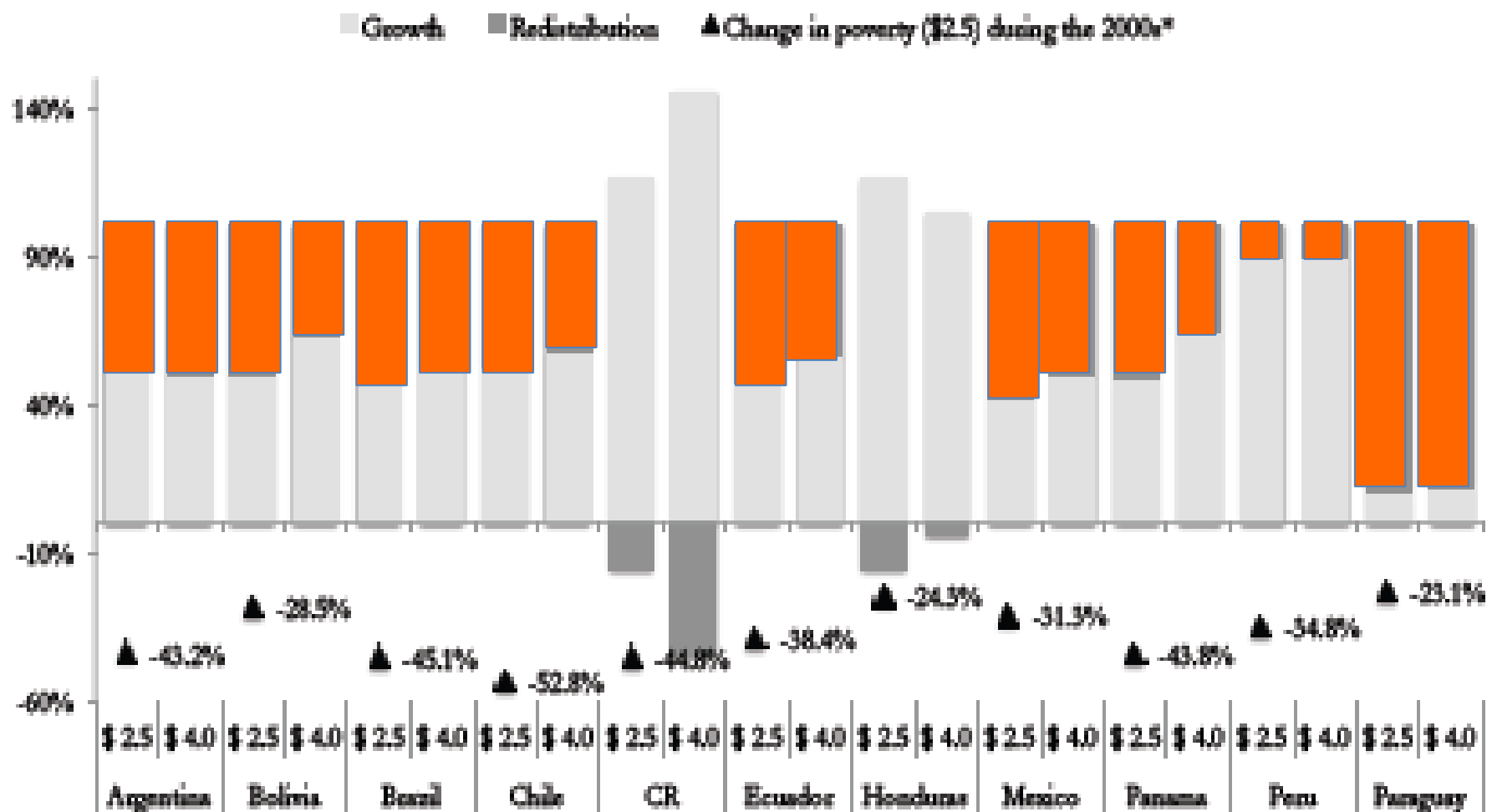
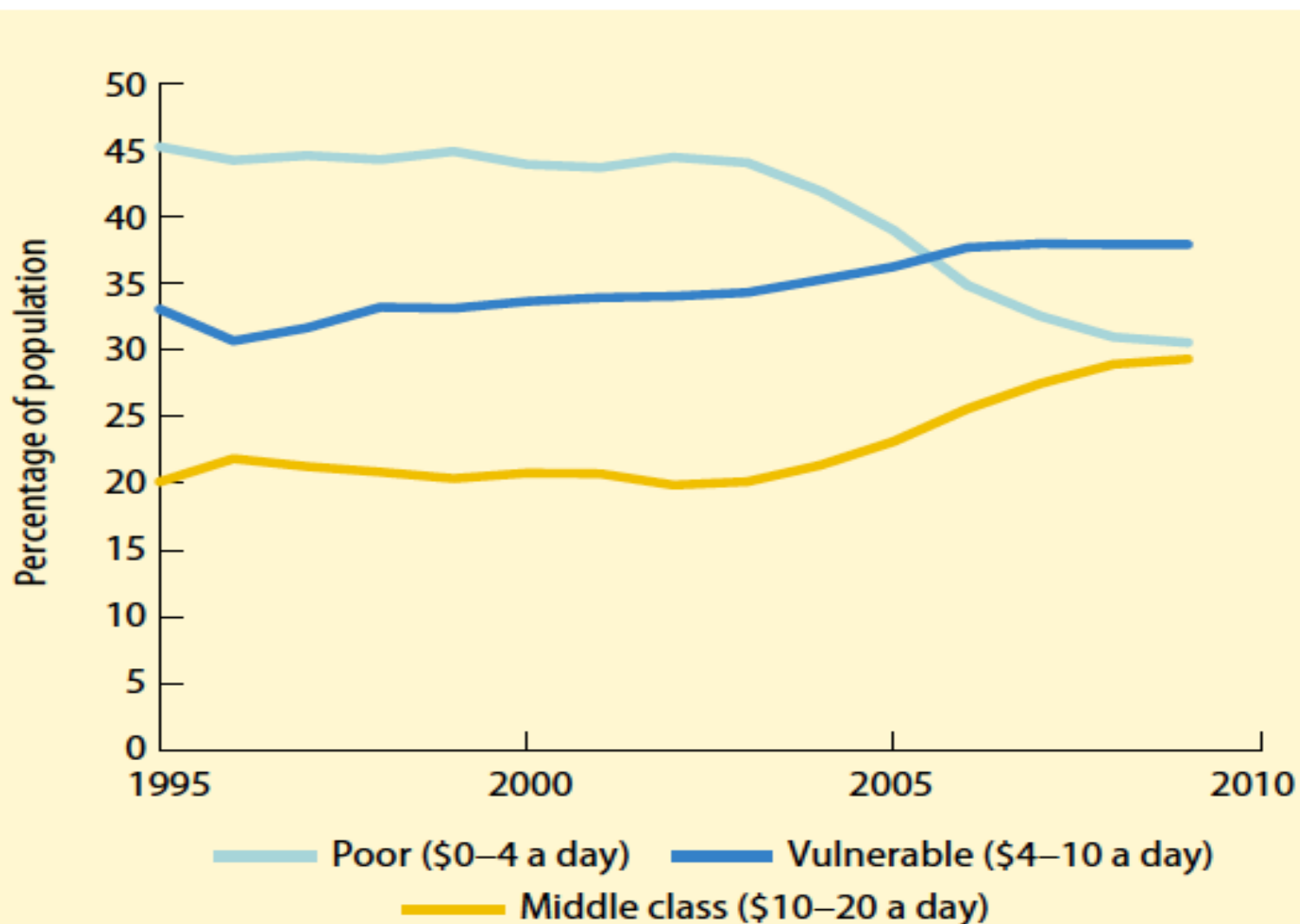


FIGURE 0.2 Trends in middle class, vulnerability, and poverty in Latin America and the Caribbean, 1995–2009



WHAT FACTORS ARE BEHIND THE DECLINE IN INEQUALITY?

- A FALL IN THE PREMIUM TO SKILLED LABOR
- HIGHER AND MORE PROGRESSIVE GOVERNMENT TRANSFERS

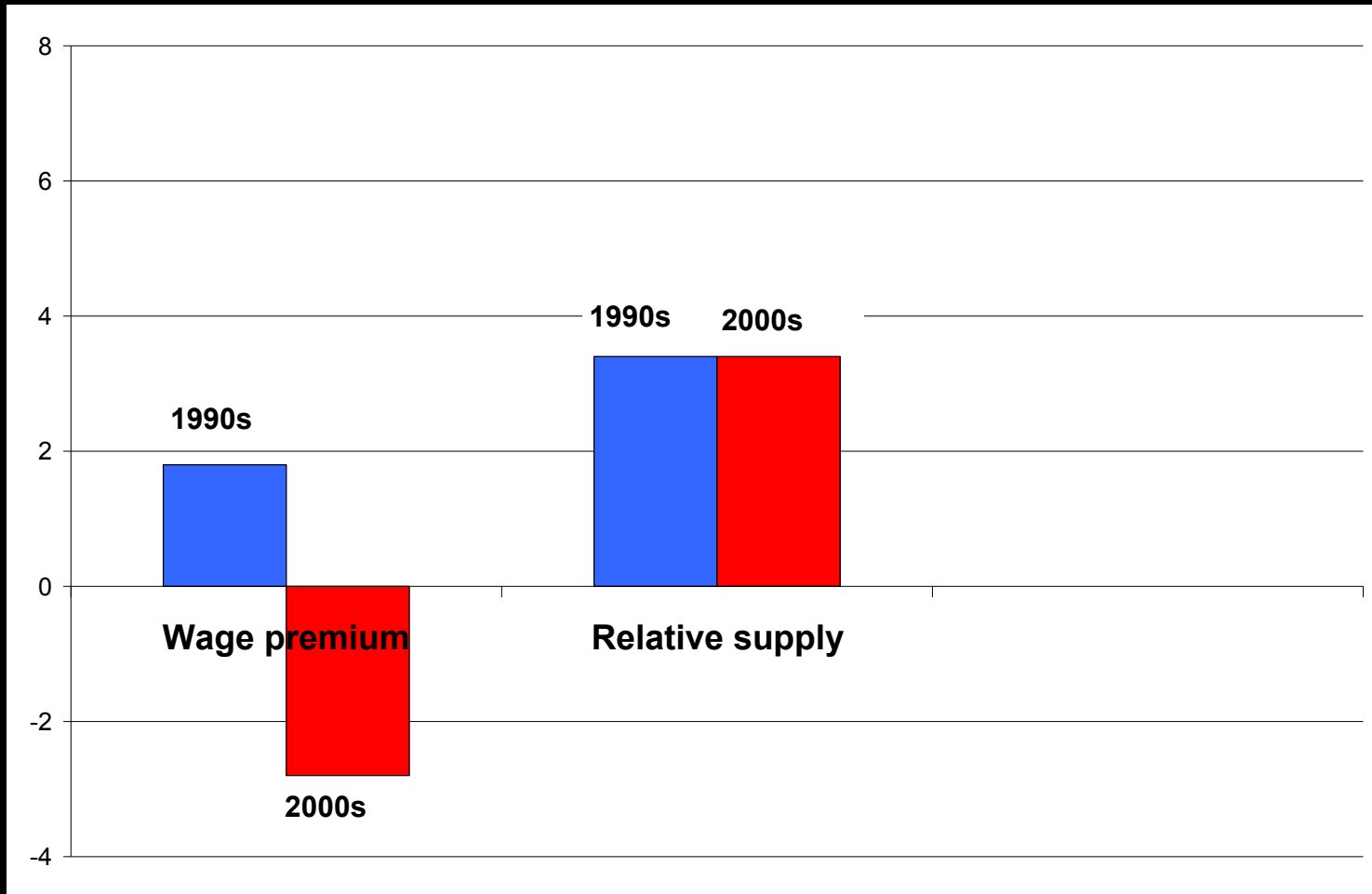
THE FALL IN THE SKILL PREMIUM DUE TO:

- **CHANGES IN THE COMPOSITION OF DEMAND AND SUPPLY OF LABOR BY SKILL (MARKETS)**

- **INSTITUTIONAL FACTORS SUCH AS RISING MINIMUM WAGES AND UNIONIZATION (STATE ACTION)**

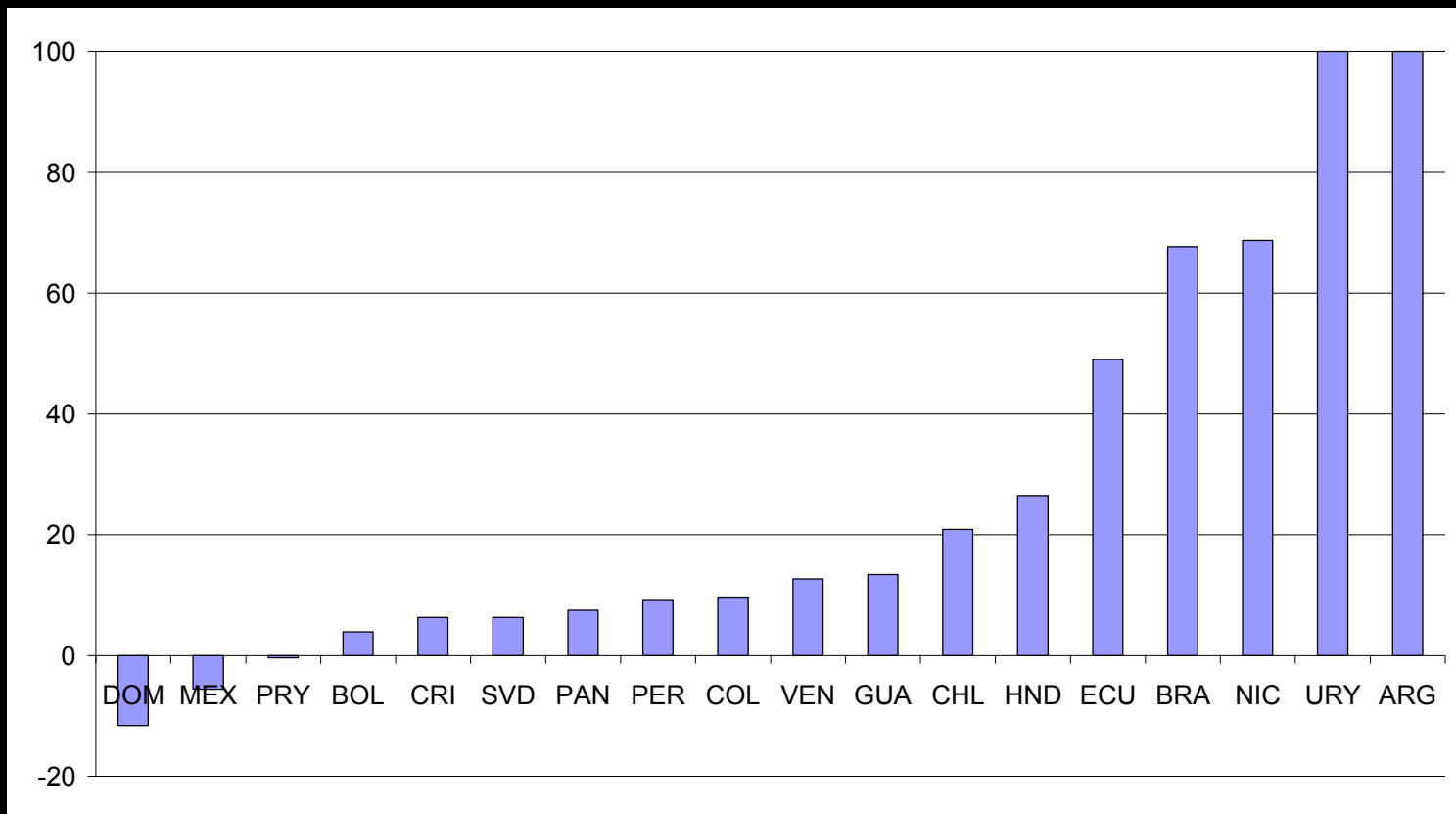
DECLINING SKILL PREMIUM AND RELATIVE SUPPLY OF SKILLED LABORS

Annual changes in skilled/unskilled wage gap, and relative supplies

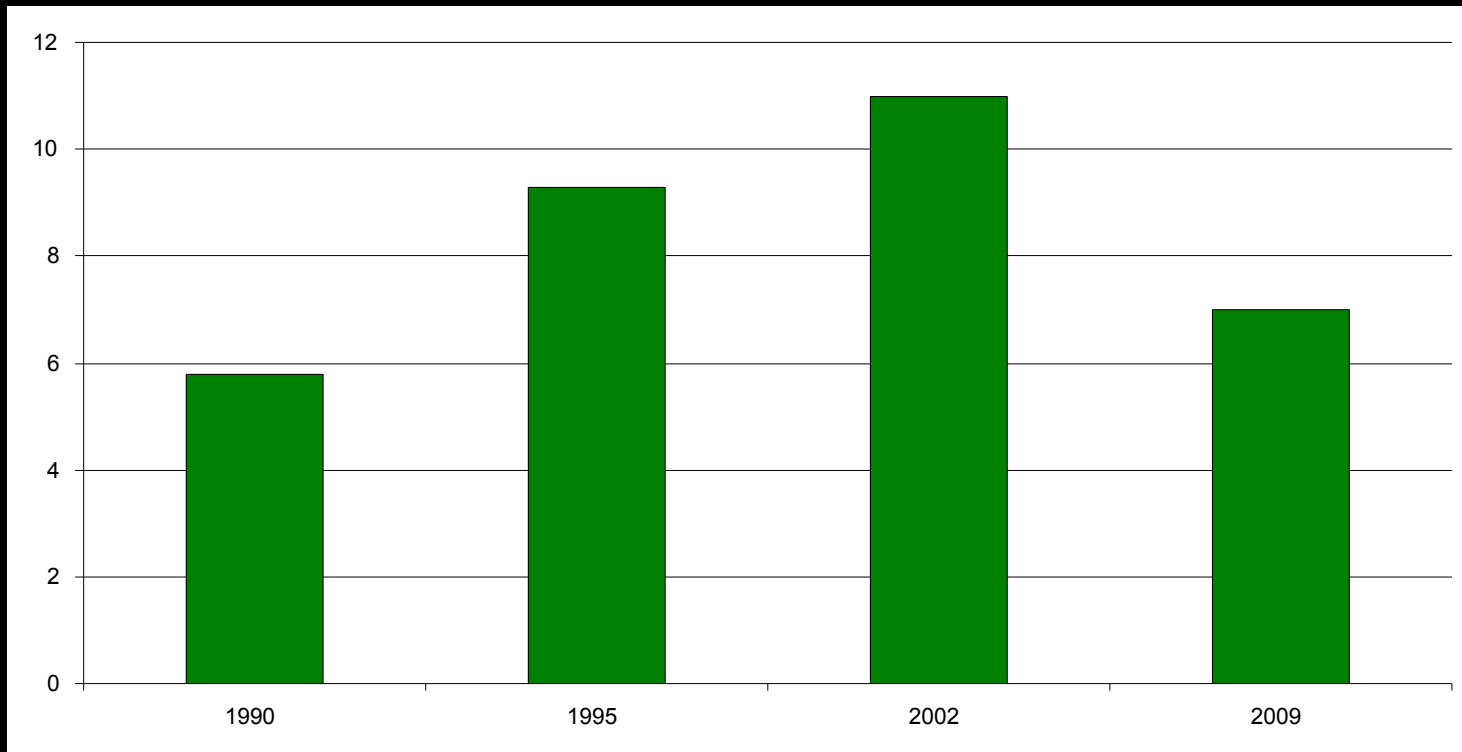


Source: Gasparini, Galiani, Cruces and Acosta (2011).

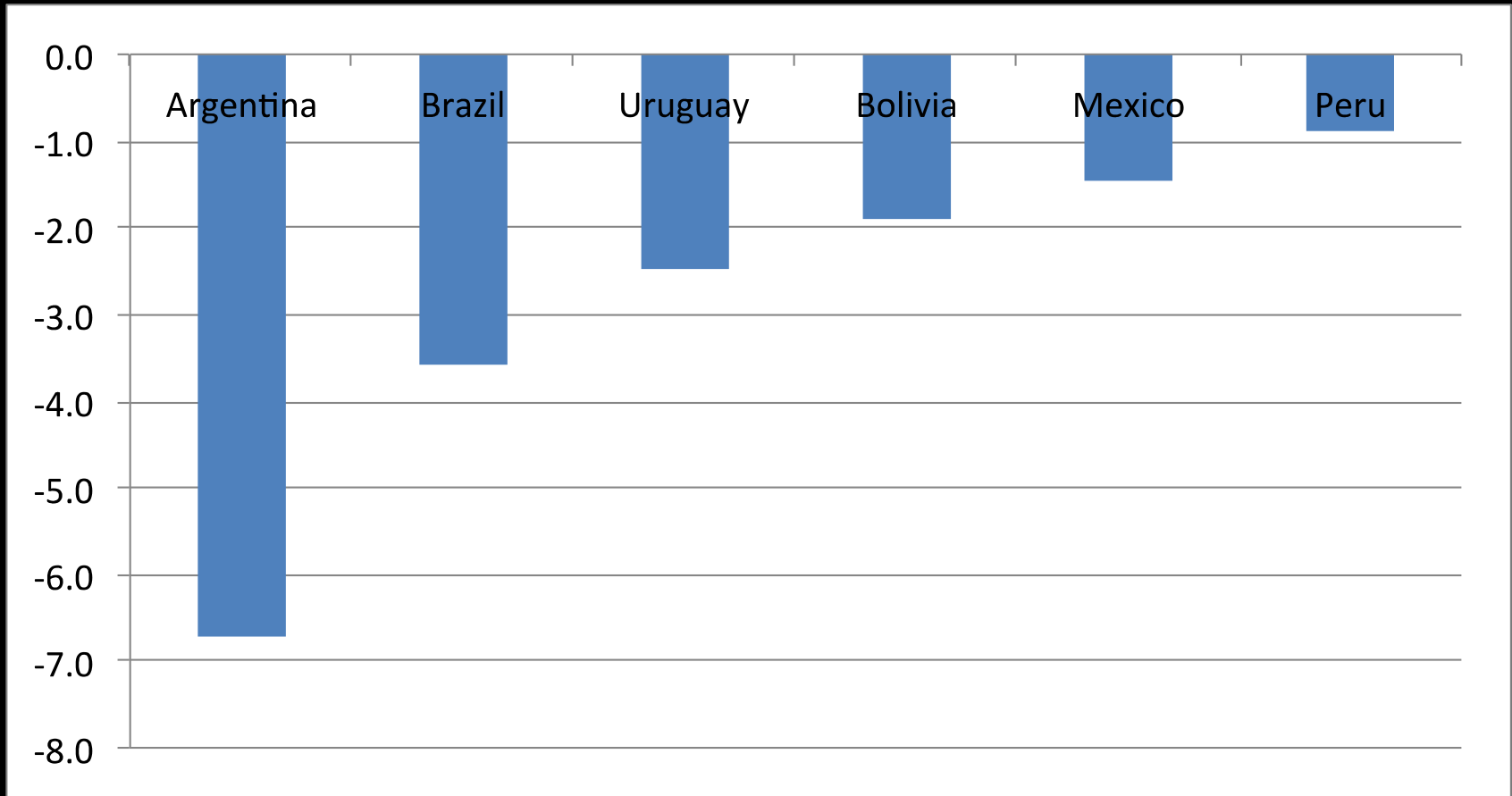
MINIMUM WAGES



UNEMPLOYMENT RATE



Cash Transfers and Inequality (decline in Gini in %)



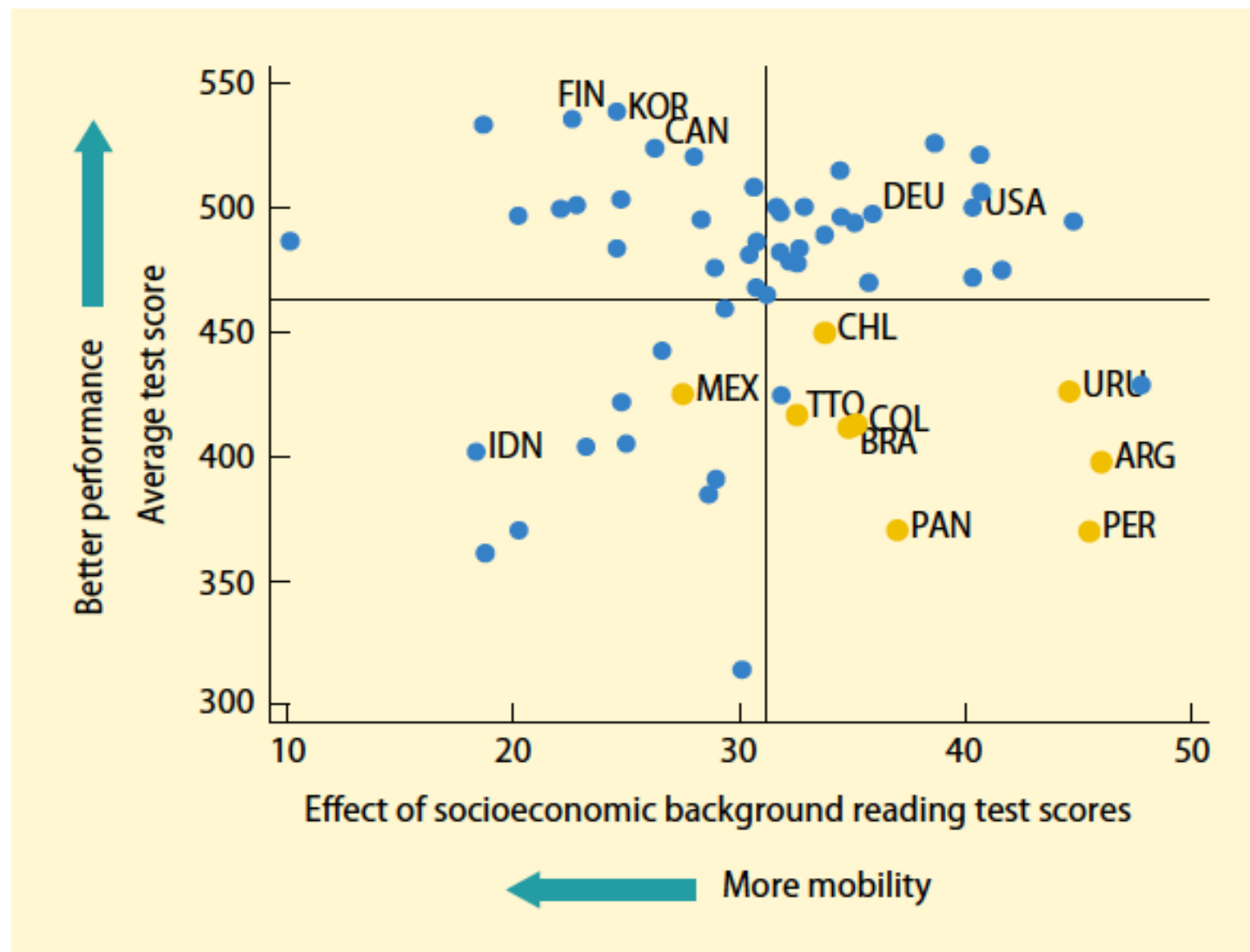
What explains decline in skill premium

- Relative demand of educated workers rose more slowly in the 2000's (Argentina, Brazil and Mexico)
- Relative supply of educated workers rose faster than demand in the 2000's (Brazil, Mexico)
- Minimum wages, unions (Argentina, Brazil, Ecuador, Venezuela)
- Reduction in unemployment/commodity boom (Argentina)
- “Degraded” tertiary? (Chile)

TREND OF DECLINING INEQUALITY MAY NOT CONTINUE ...

- **LOW QUALITY OF EDUCATION**
STRONG BARRIER TO EDUCATIONAL
UPGRADING
- **FISCAL SPACE DRYING UP**
- **COMMODITY BOOM MAY PETER OUT**

FIGURE 0.5 Relationship between average PISA test scores and intergenerational mobility across 65 countries, 2009



Source: PISA 2009 data.

References:

- Campos, R, G. Esquivel and N. Lustig, 2012. "The Rise and Fall of Income Inequality in Mexico: 1989-2010," Working Paper, WIDER, January. http://www.wider.unu.edu/publications/working-papers/2012/en_GB/wp2012-010/
- Cruces, G., Garcia-Domenech, C., Gasparini, L. 2011. *Inequality in education. Evidence for Latin America*. UNU-WIDER, Working Paper No. 2011/93.
- Ferreira et al. 2012. *Economic Mobility and the Rise of the Latin American Middle Class*. World Bank
- Gasparini, L. 2012. "Recent trends in inequality in LA," ppt presentation Universidad Carlos III, Madrid, May 2012.
- Lustig, N., L. F. López-Calva and E. Ortiz-Juarez (2012). "Declining Inequality in Latin America in the 2000s: The Cases of Argentina, Brazil, and Mexico," *World Development*. Forthcoming.
- Gasparini, L., Galiani, S., Cruces, G. & Acosta, P. 2011. *Educational upgrading and returns to skills in Latin America. Evidence from a supply-demand framework, 1990-2010*. World Bank Policy Research Working Paper 5921.
- López-Calva, L. F. and N. Lustig. 2010. *Declining Inequality in Latin America: A Decade of Progress?* Edited by Luis F., Brookings Institution and UNDP.
- Lustig et al. 2012. "The Impact of Taxes and Social Spending on Inequality and Poverty in Argentina, Bolivia, Brazil, Mexico and Peru: A Synthesis of Results," *Tulane University Economics Working Paper 1216*, New Orleans, Louisiana, August 2012. <http://ideas.repec.org/p/tul/wpaper/1216.html>

THANK YOU