

Is there progress in solving the burden of inequality?



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*Latin America: Taking Off or Still Falling
Behind?*

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References

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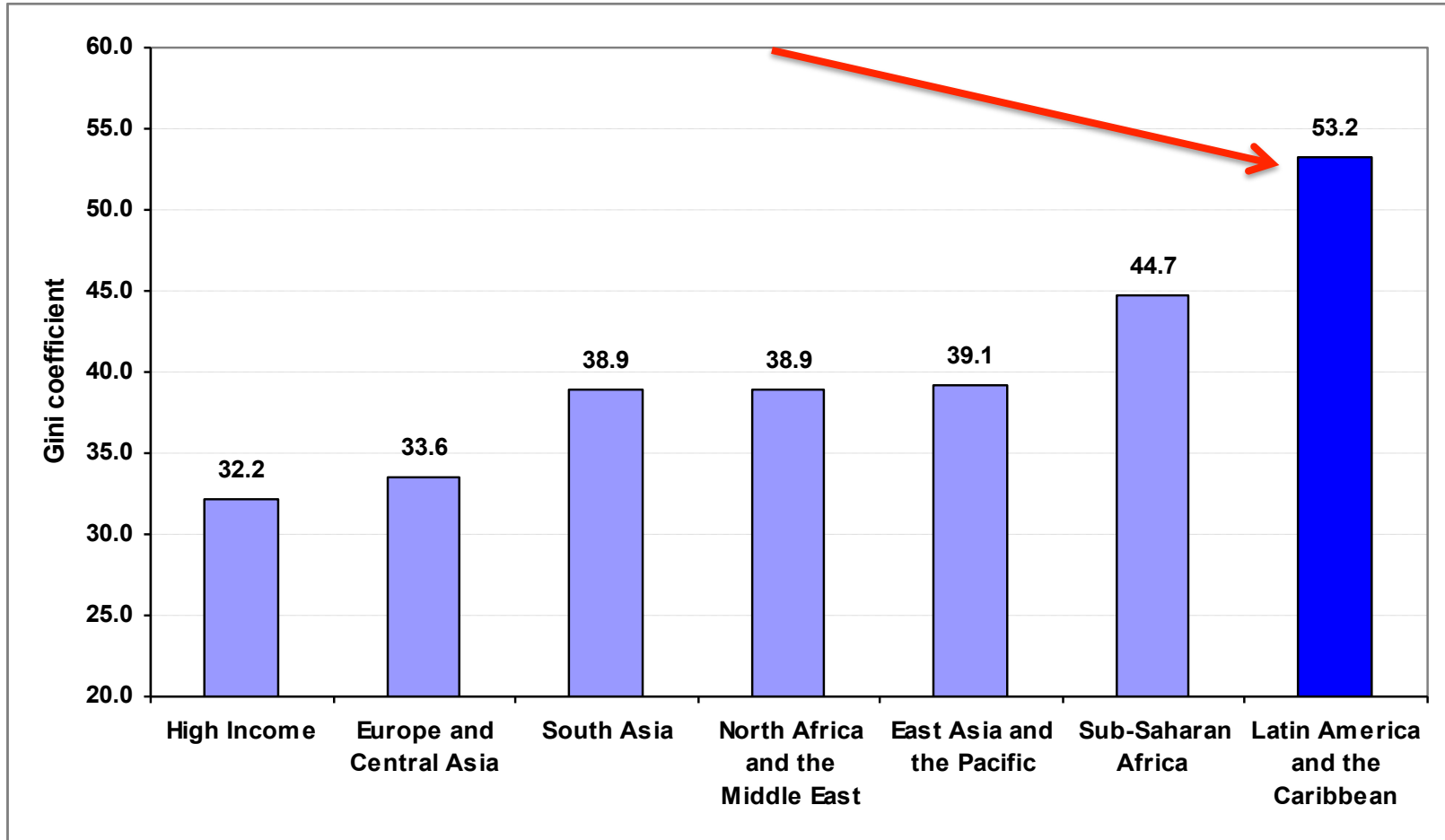
Inequality in LA is high...

...but declining since around 2000

- Decline is pervasive and significant:
 - Statistically significant
 - Larger than the rise in inequality in 1990s
 - Important contribution to the decline in poverty

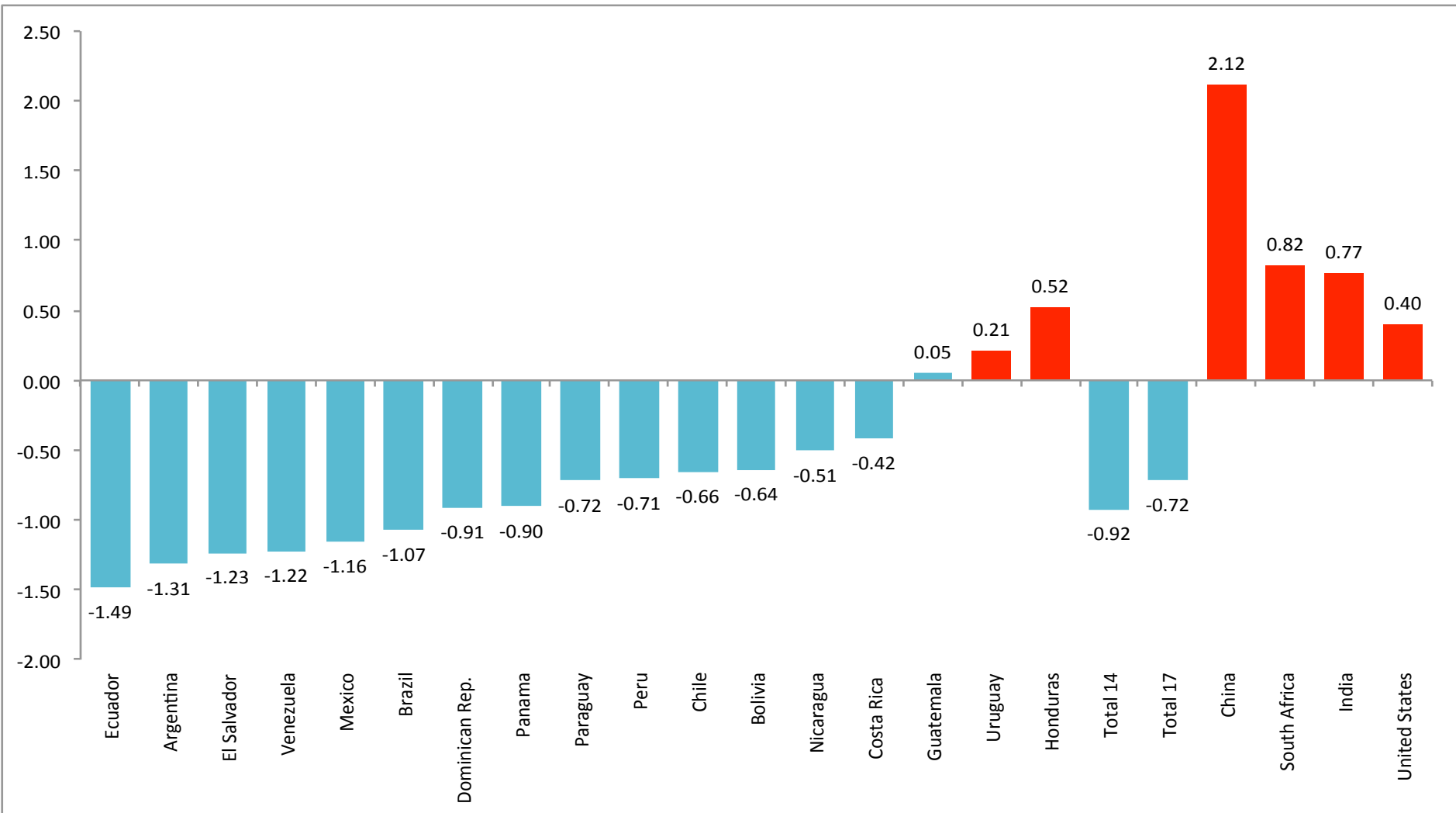
LATAM IS THE MOST UNEQUAL REGION IN THE WORLD

Gini Coefficient by Region (in %), 2004
(Ferreira and Ravallion, 2008)



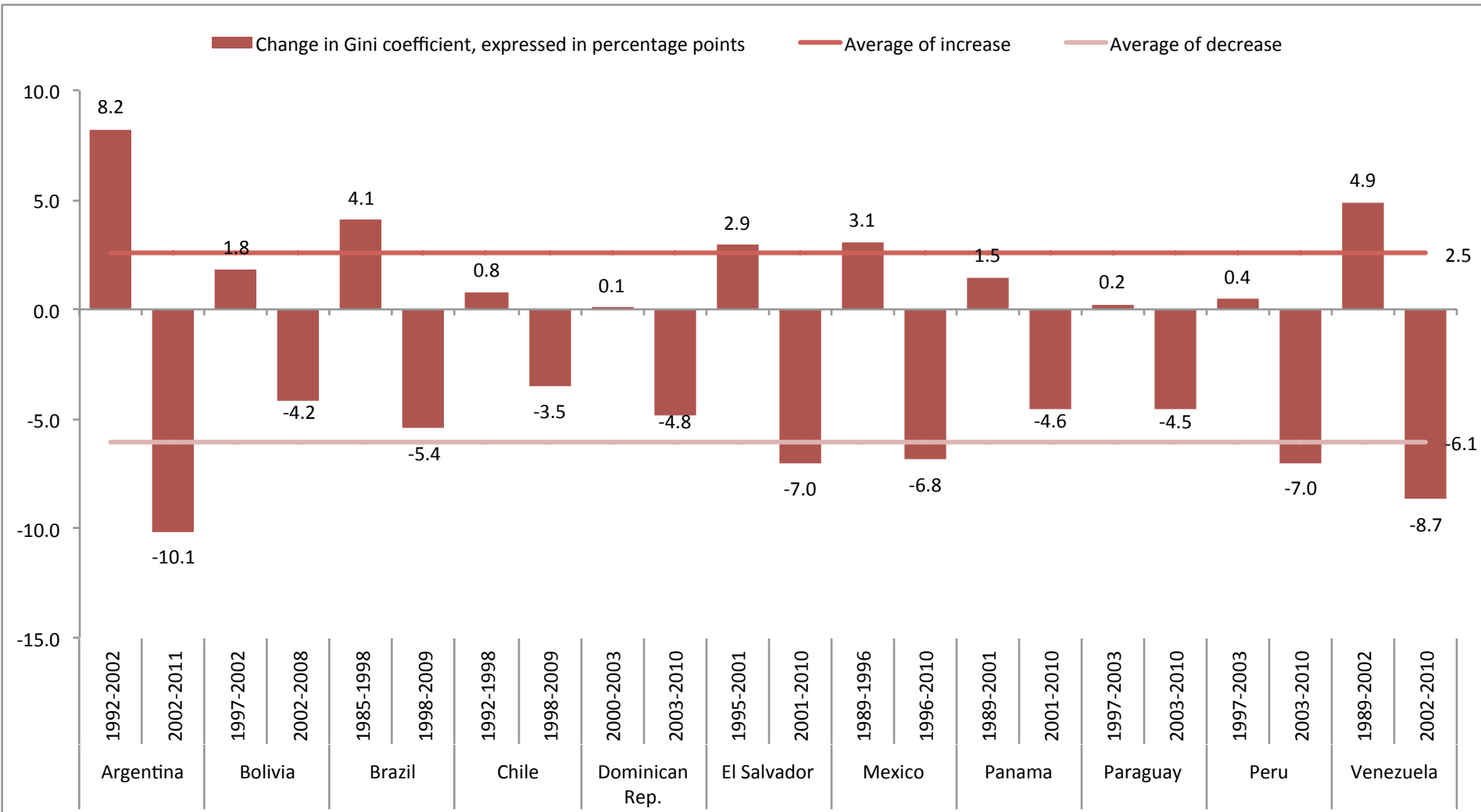
Declining income inequality by country: 2000-2010

(Annual average change in Gini in %)



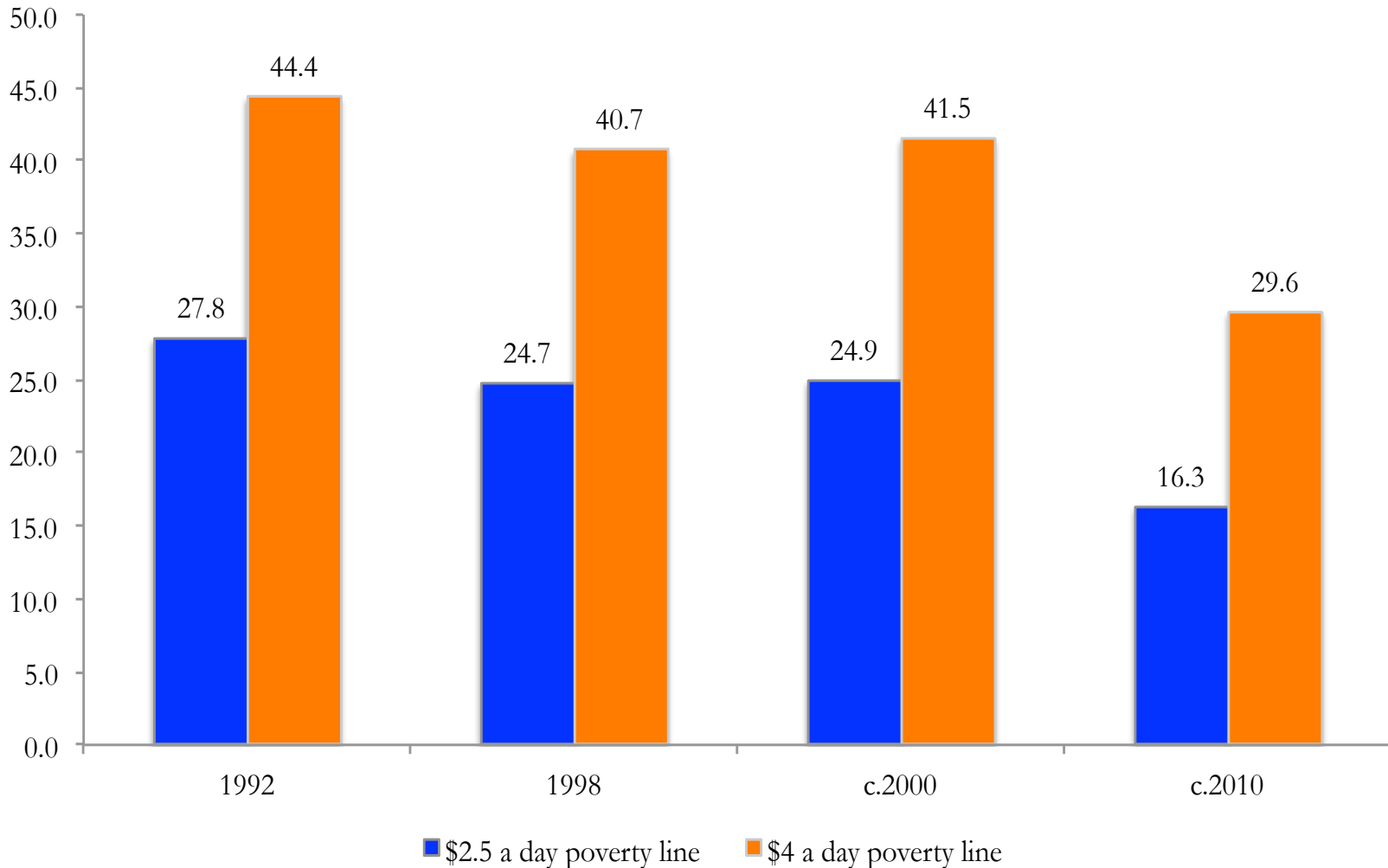
The rise of income inequality in the 1990s and the fall in the 2000s

(Annual average change in Gini in %)



Poverty: 1992-2010

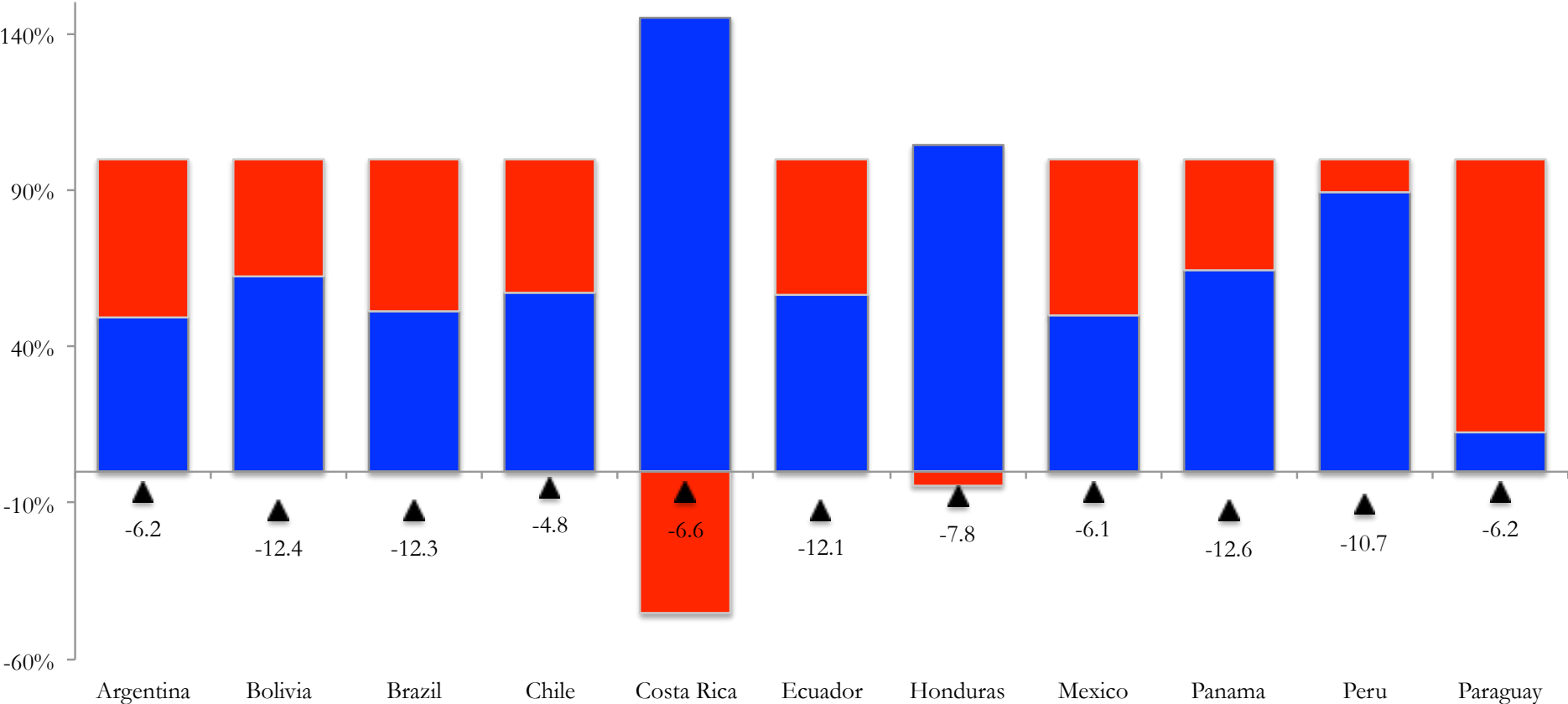
(Headcount Ratio in %)



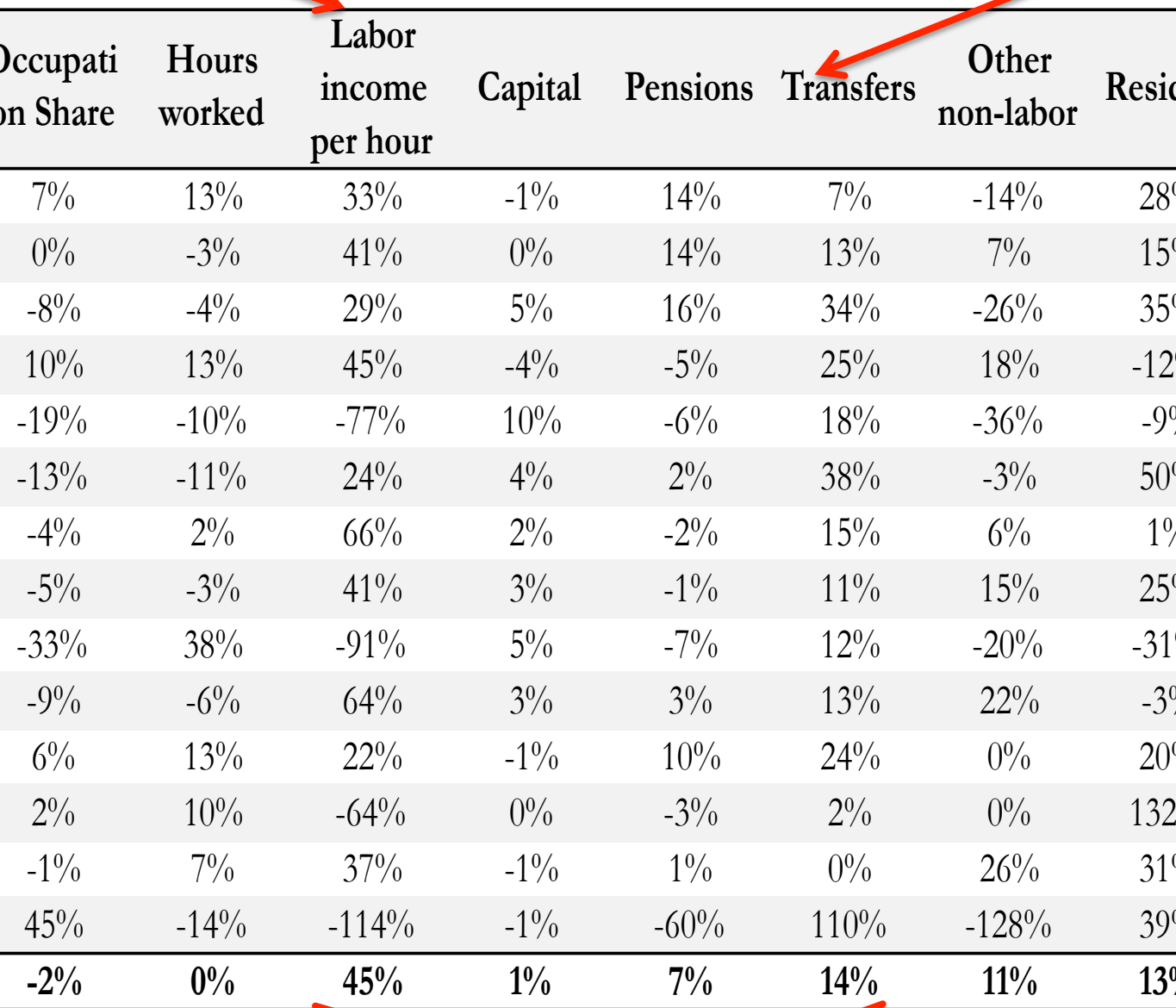
Decomposing the change in poverty in the 2000s: growth vs. redistribution

(Datt-Ravallion Decomp Method)

■ Growth ■ Redistribution ▲ Change in poverty (\$2.5 a day) during the 2000s*



- Determinants:
 - Declining inequality of hourly labor income
 - Larger and more progressive transfers
 - Lower dependency ratios
- Decomposition of decline by income source, 16 countries (Azevedo et al.)



	Adult population	Occupation Share	Hours worked	Labor income per hour	Capital	Pensions	Transfers	Other non-labor	Residual
Argentina	14%	7%	13%	33%	-1%	14%	7%	-14%	28%
Brazil	12%	0%	-3%	41%	0%	14%	13%	7%	15%
Chile	18%	-8%	-4%	29%	5%	16%	34%	-26%	35%
Colombia	10%	10%	13%	45%	-4%	-5%	25%	18%	-12%
Costa Rica	28%	-19%	-10%	-77%	10%	-6%	18%	-36%	-9%
Dominican	9%	-13%	-11%	24%	4%	2%	38%	-3%	50%
Ecuador	13%	-4%	2%	66%	2%	-2%	15%	6%	1%
El Salvador	15%	-5%	-3%	41%	3%	-1%	11%	15%	25%
Honduras	26%	-33%	38%	-91%	5%	-7%	12%	-20%	-31%
Mexico	13%	-9%	-6%	64%	3%	3%	13%	22%	-3%
Panama	6%	6%	13%	22%	-1%	10%	24%	0%	20%
Paraguay	20%	2%	10%	-64%	0%	-3%	2%	0%	132%
Peru	0%	-1%	7%	37%	-1%	1%	0%	26%	31%
Uruguay	24%	45%	-14%	-114%	-1%	-60%	110%	-128%	39%
LAC-14	12%	-2%	0%	45%	1%	7%	14%	11%	13%

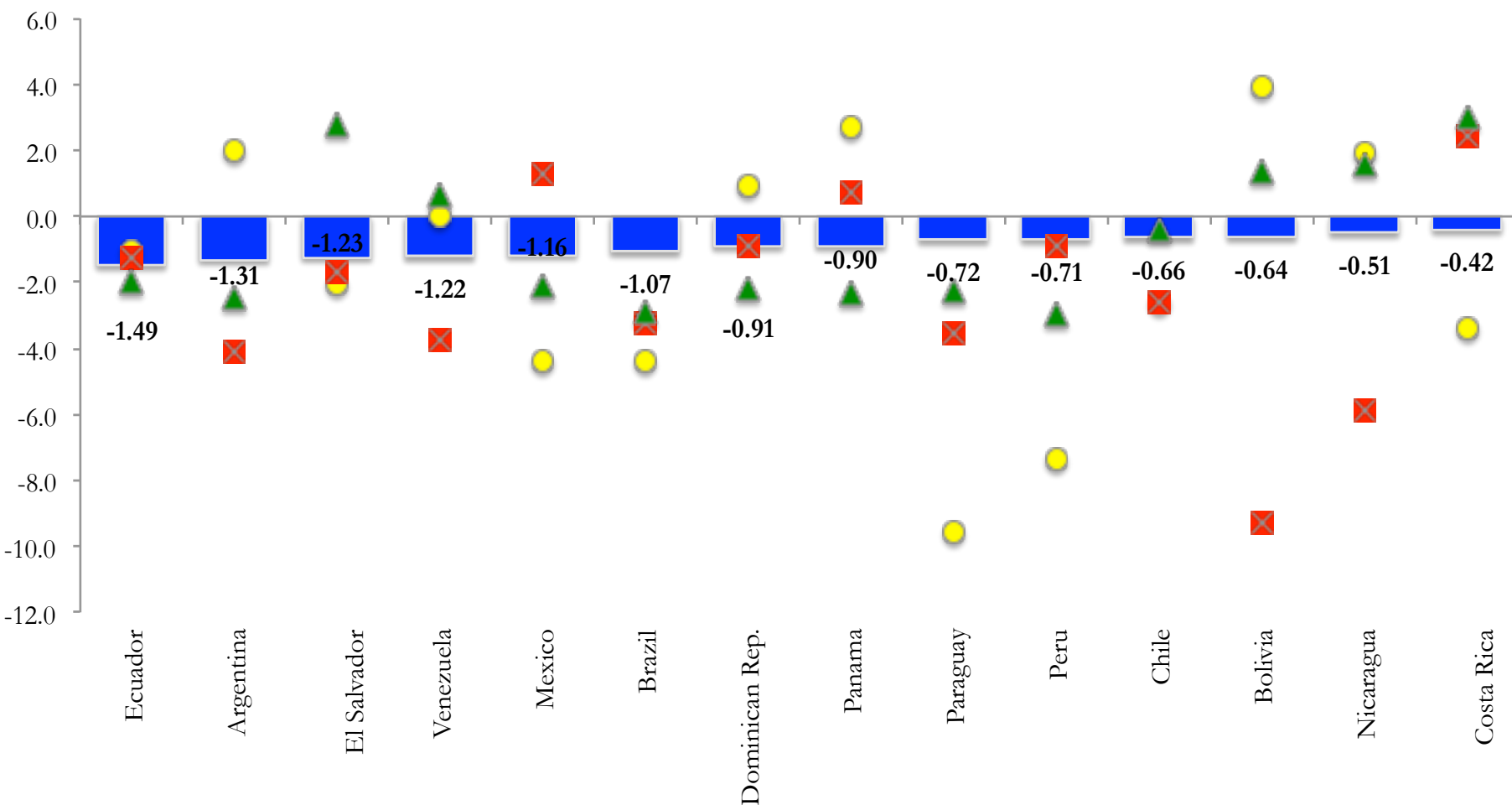
- Determinants of declining inequality in hourly labor earnings:

=> Decline in returns to education (skill premium)

- Supply
- Demand
- Institutions
- Degraded tertiary

Changes in returns to education: 2000-2010 (vis a vis incomplete primary or no education)

- Change in Gini
- Change in returns on primary schooling
- Change in returns on secondary schooling
- Change in returns on tertiary schooling



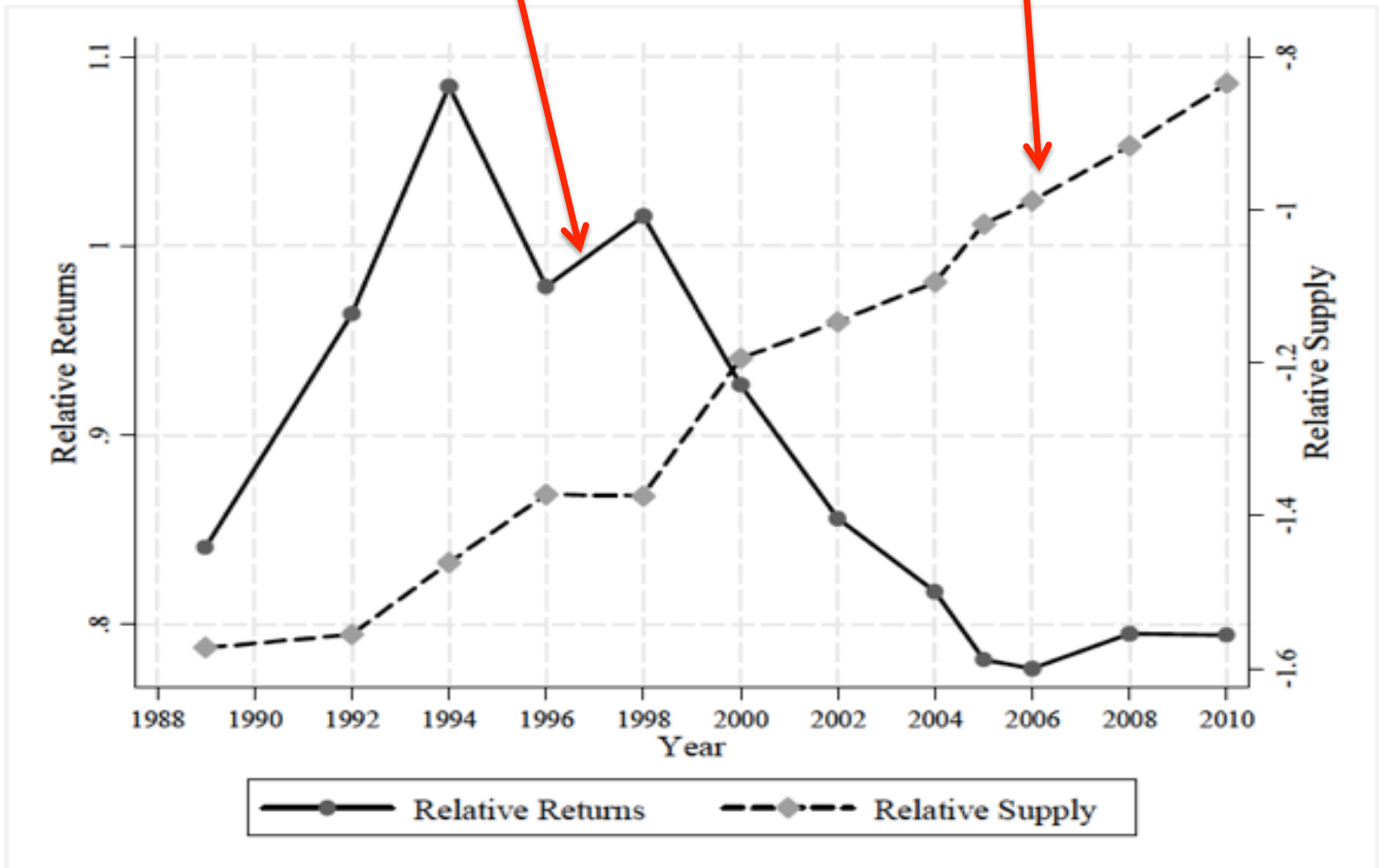
Wage Premium: Supply (blue) vs Demand (demand)

	Supply	Demand	
	2000s	2000s ($\sigma=2$)	2000s ($\sigma=3$)
Argentina	2.4	-2.3	-4.7
Bolivia	5.1	-4.1	-8.7
Brazil	4.4	-1.9	-5.1
Chile	1.1	-2.7	-4.7
Colombia	6.0	2.1	0.1
Costa Rica	3.4	3.0	2.8
Ecuador	3.4	-3.0	-6.3
El Salvador	-0.3	-0.4	-0.5
Honduras	2.3	-1.4	-3.3
Mexico	2.2	-3.5	-6.3
Nicaragua	6.6	-7.2	-14.1
Panama	2.4	-2.2	-4.4
Paraguay	6.1	-5.2	-10.8
Peru	3.8	-1.8	-4.6
Uruguay	1.1	-0.6	-1.4
Venezuela	4.2	-5.4	-10.3
Mean	3.4	-2.3	-5.1

Source: Gasparini et al., 2011

Mexico: Relative returns and relative supply, 1989-2010

(High school and more vs. secondary or less; Campos et al.)



Summing up...

- Declining hourly earnings inequality
 - In Tinbergen's race between education and technology, education might have the upper hand
- However,
- Evidence that it is supply-driven may not be robust enough
 - Role of institutional factors and 'degraded tertiary' hypothesis need to be analyzed more systematically

What do we know about capital income?

- Household Surveys are not a good source
- Use Tax Returns as suggested by Top Incomes Project (Alvaredo, Atkinson, Piketty, Saez)
- Results for Colombia are very telling (Alvaredo and Londono)

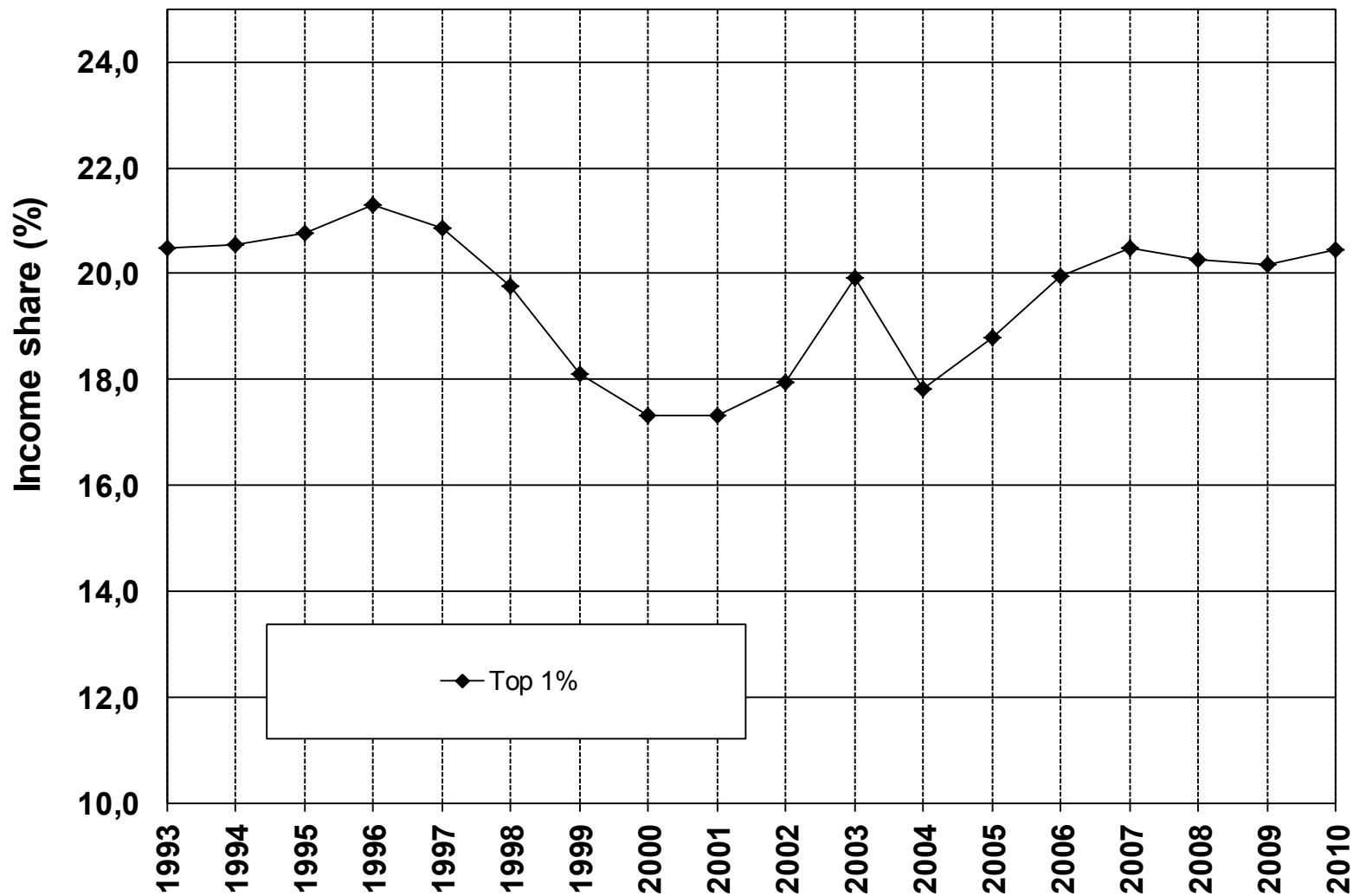


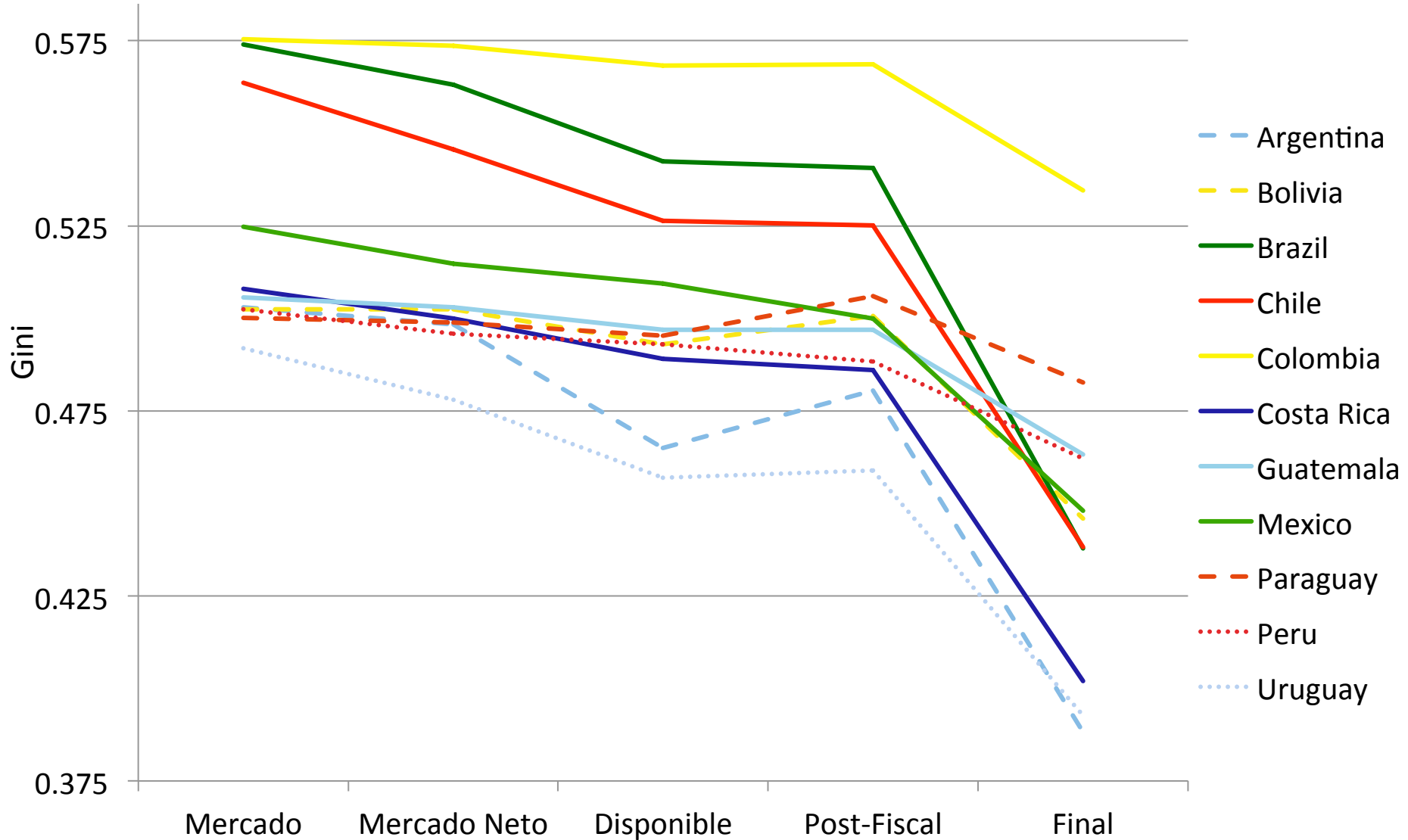
FIGURE 3

Top 1% income share in Colombia, 1993-2010

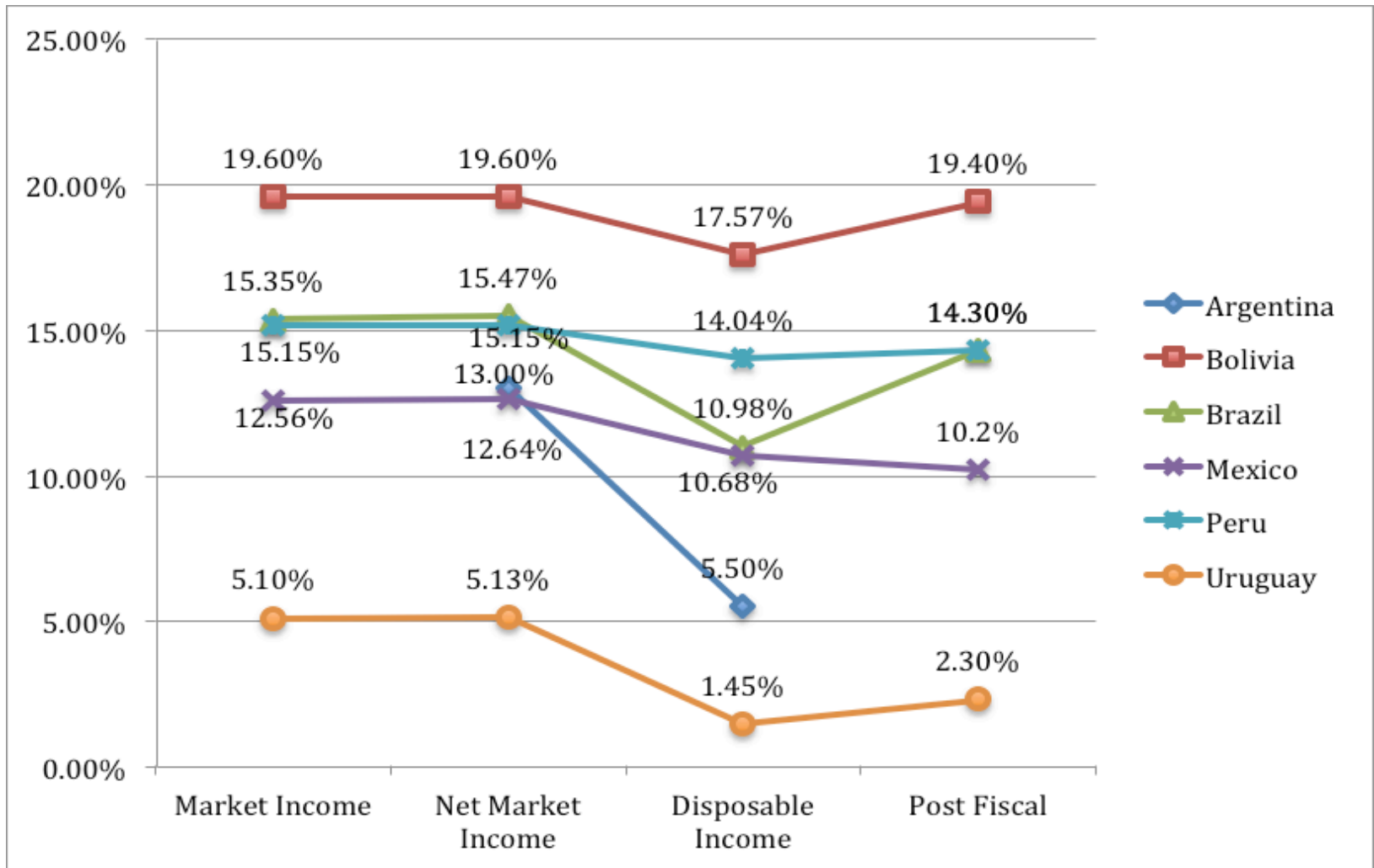
How redistributive are Latin American governments?

- 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.commitmentoequity.org

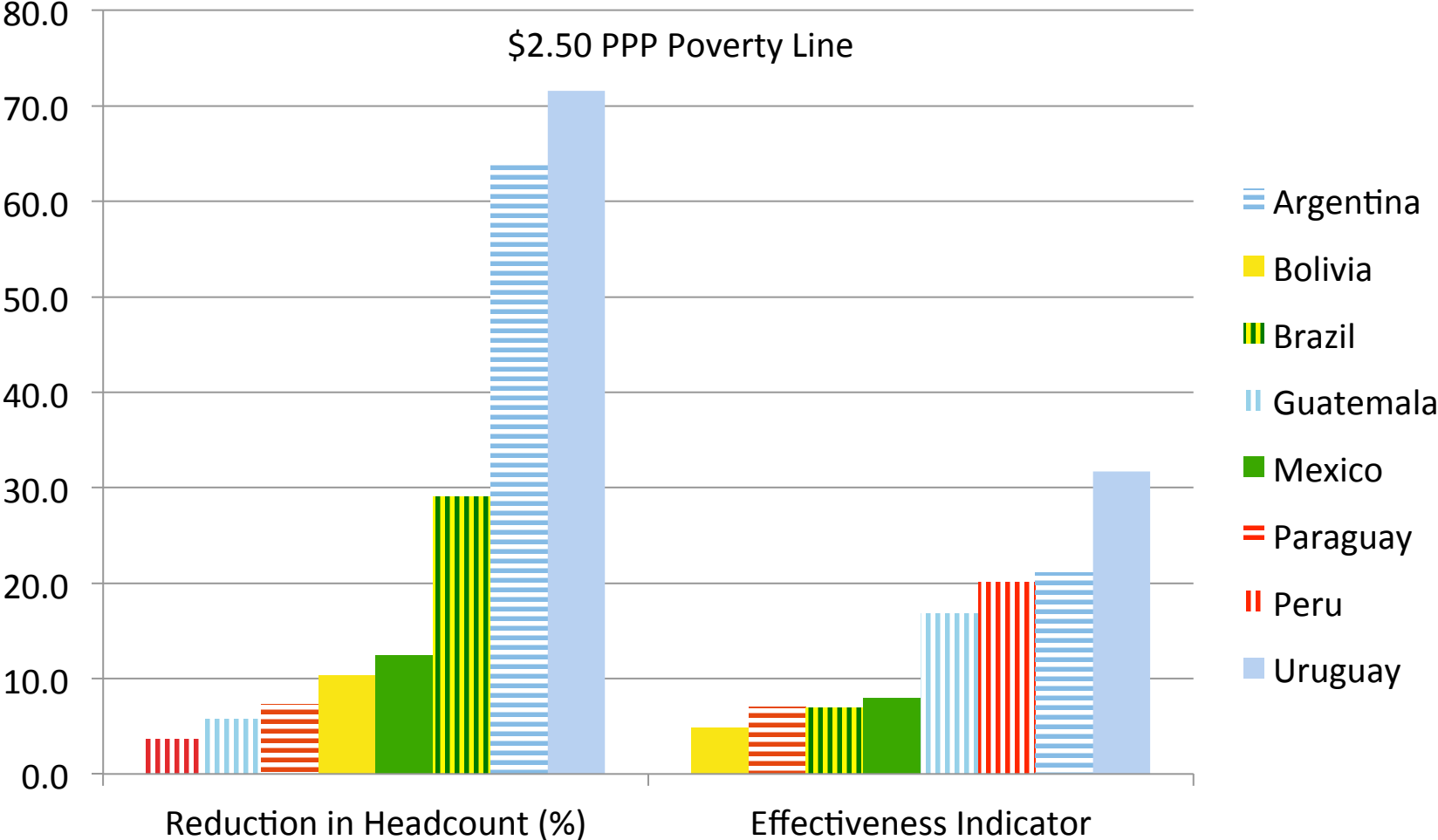
Tracing the Gini coefficient from Market to Final Income



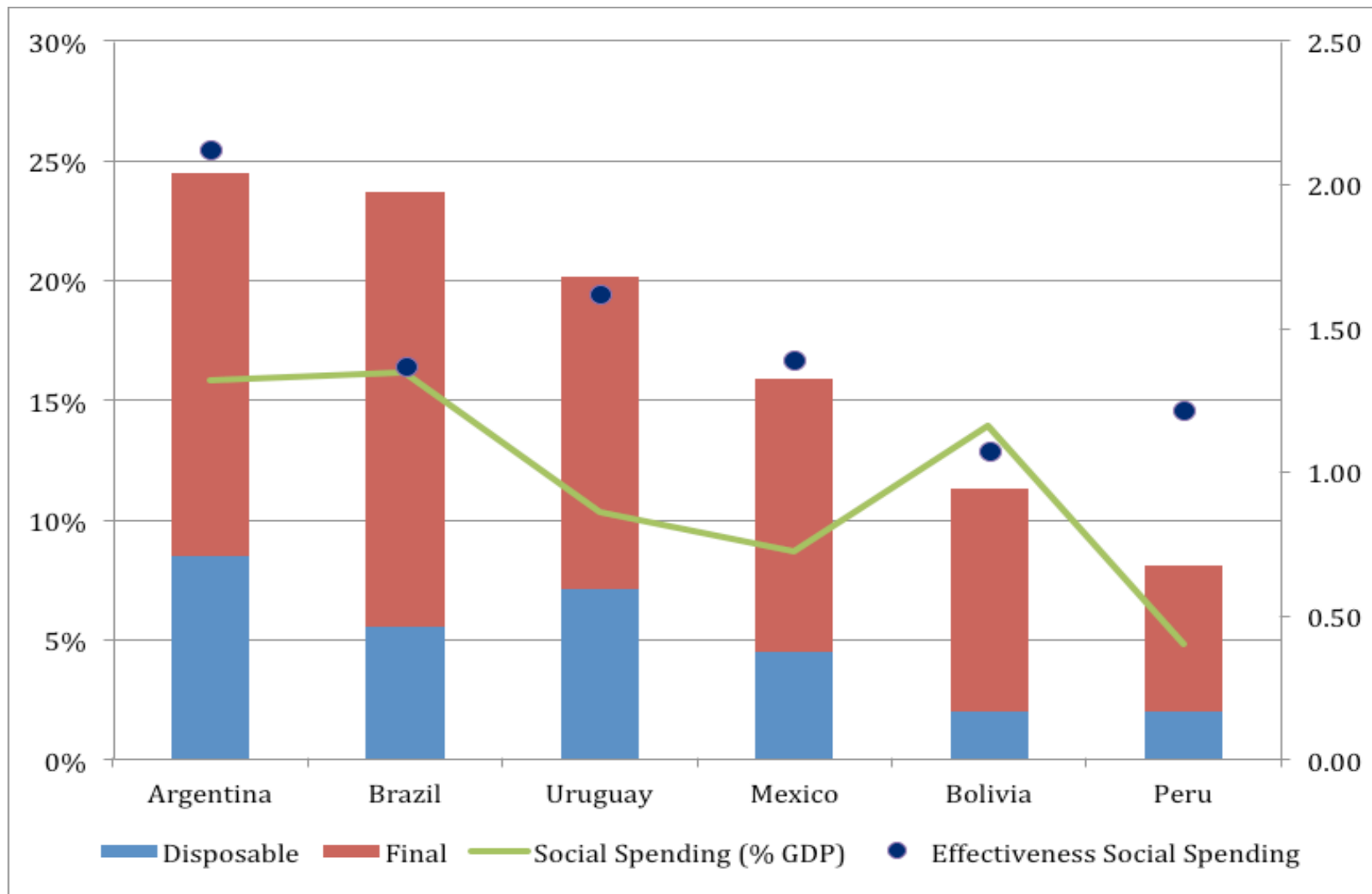
Tracing the Headcount Ratio from Market to Final Income



Cash Transfers and Poverty Reduction

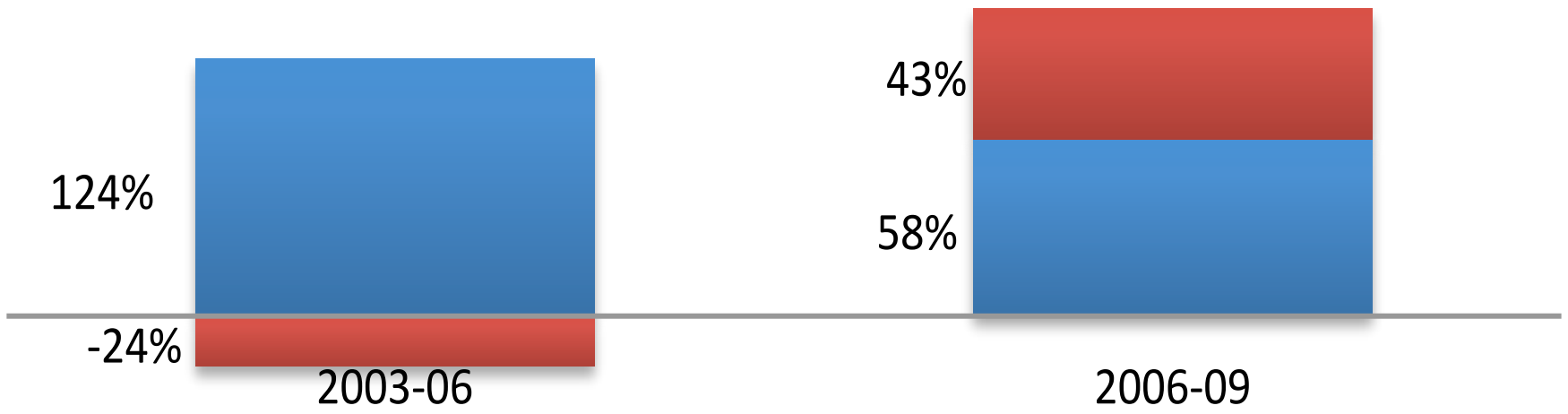


Reduction in inequality with respect to Market Income Gini coefficient, Social Spending, and Redistributive Effectiveness



Argentina-Reduction in Inequality: Market (blue) vs. Redistribution (red) Chart Title

■ market ■ redistrib



Argentina-Reduction in Poverty: Market (blue) vs. Redistribution (red)

■ market ■ redistrib



That's all folks...