

# **Declining Inequality in Latin America: Labor Markets & Redistributive Policies**

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*New Challenges for Growth and  
Productivity*

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Inequality in Latin America is high...

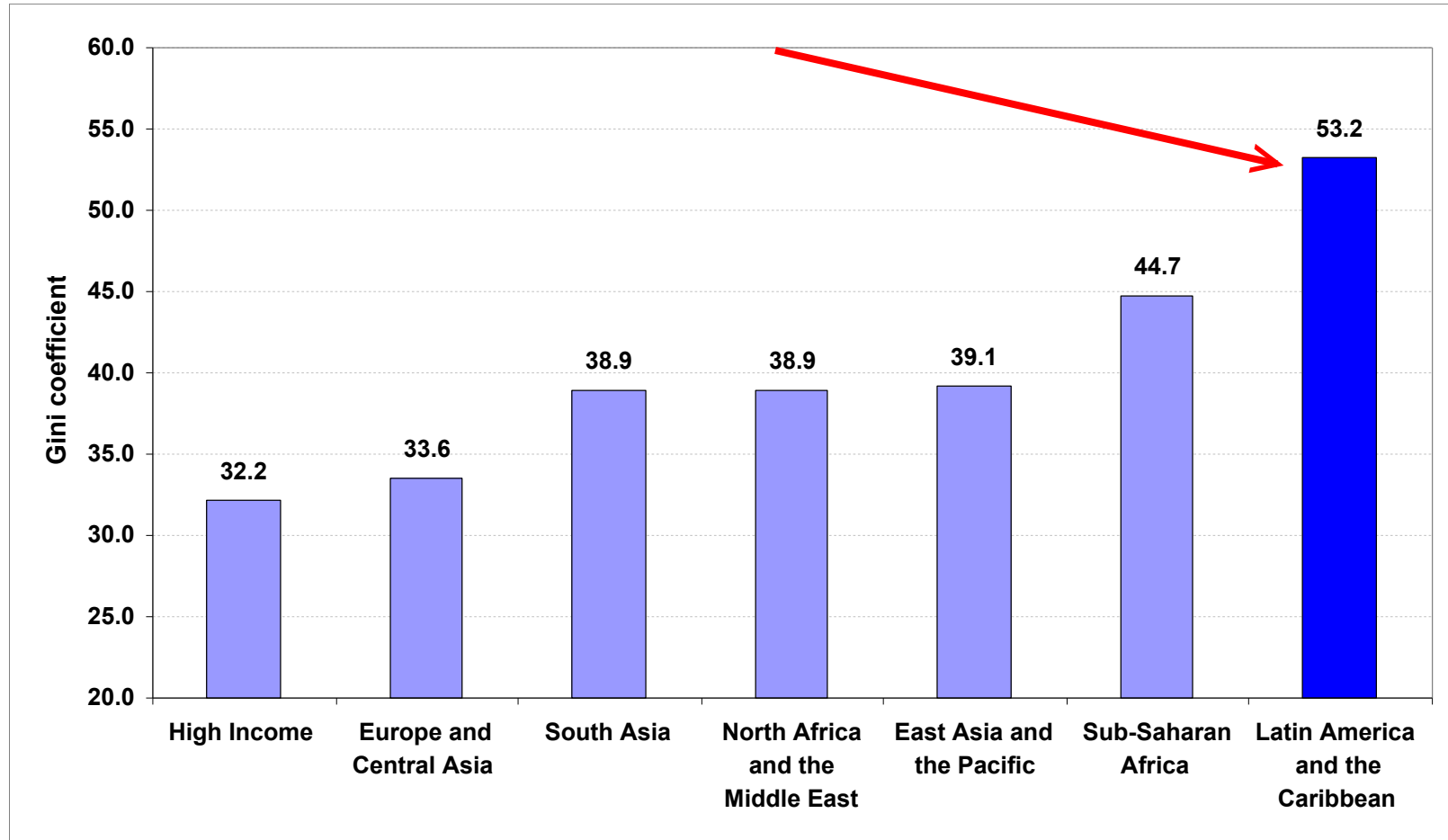
...but declining since around 2000

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

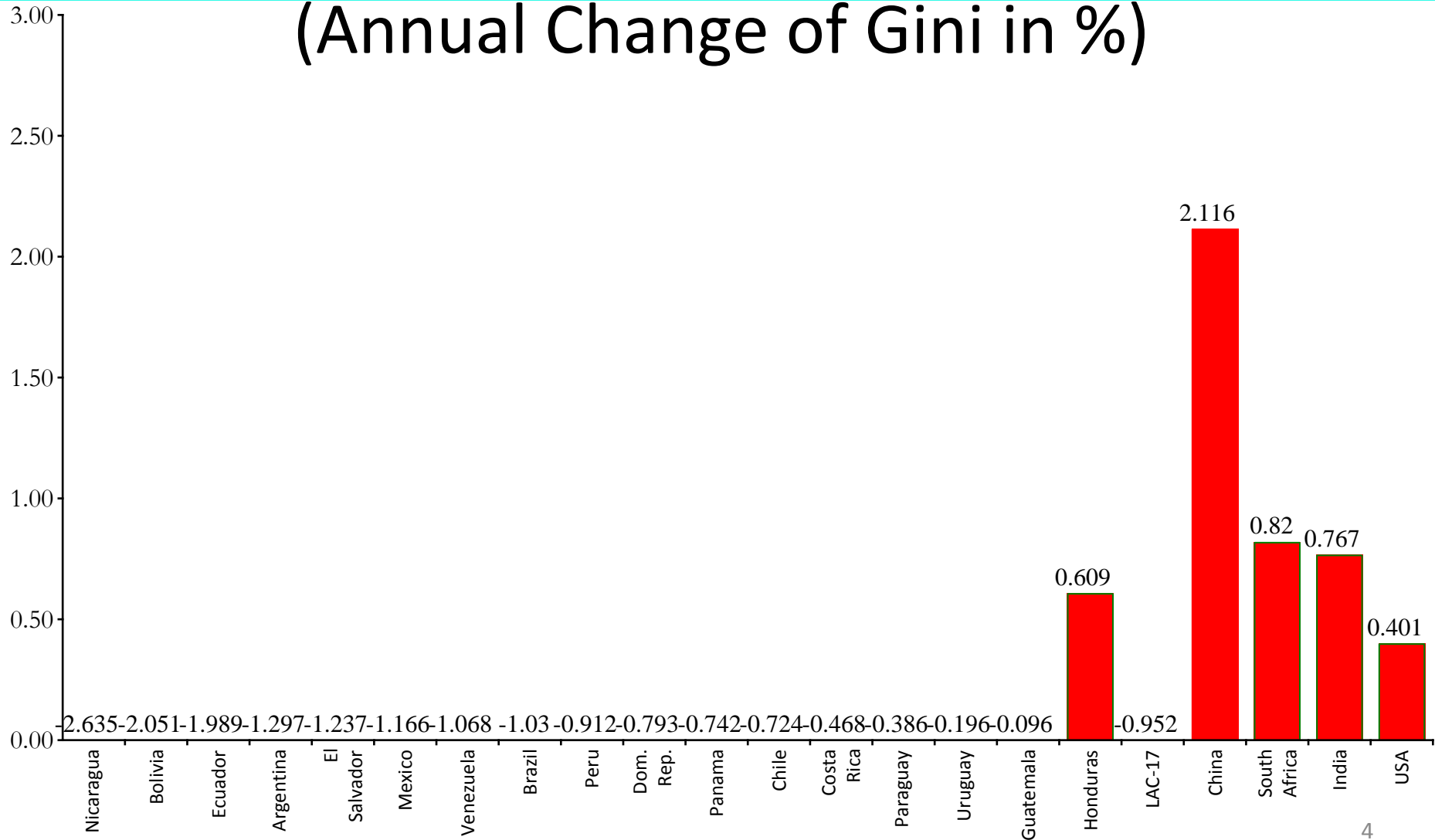
# LATAM IS THE MOST UNEQUAL REGION IN THE WORLD

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



# Latin America: Declining income inequality by country: 2000-2011

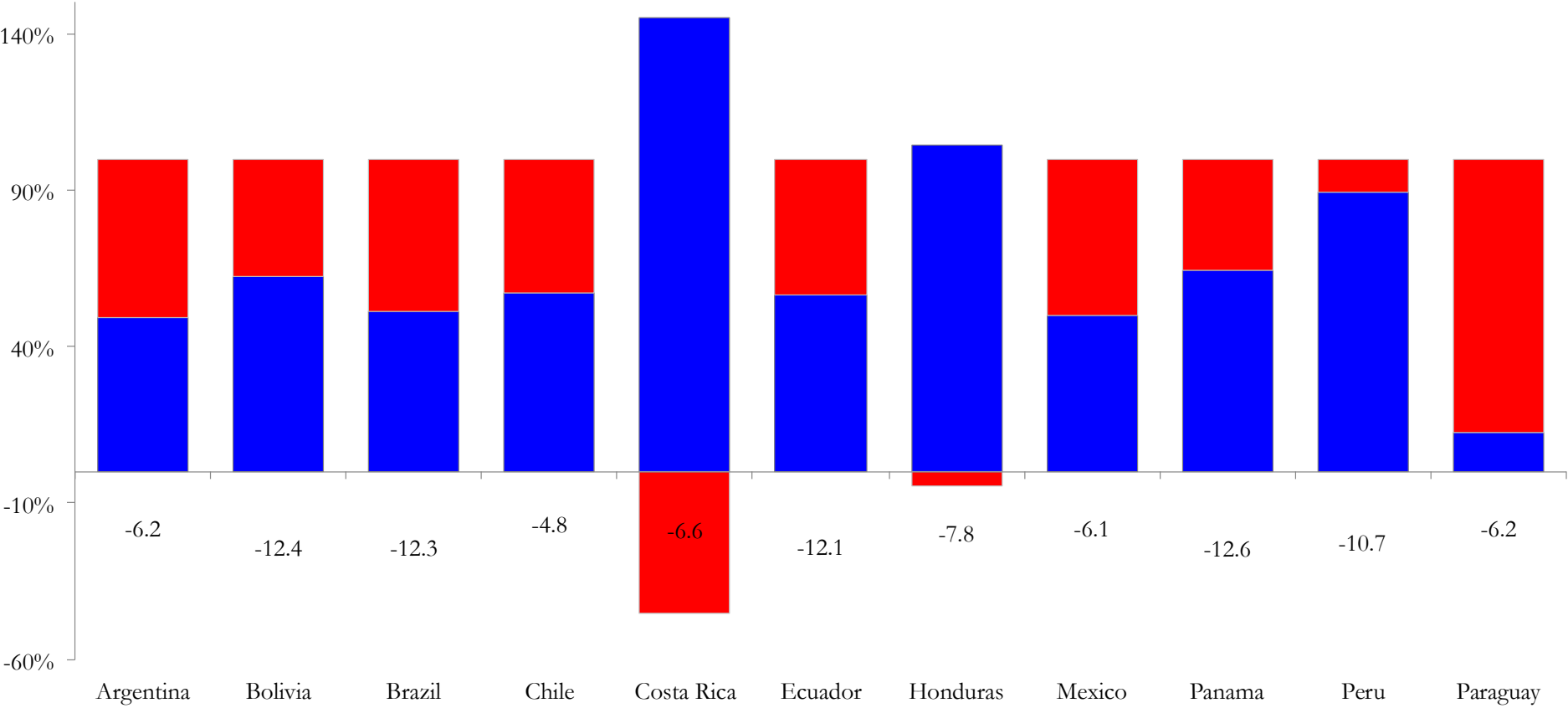
(Annual Change of Gini in %)



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

(Datt-Ravallion Decomp Method)

■ 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

# 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

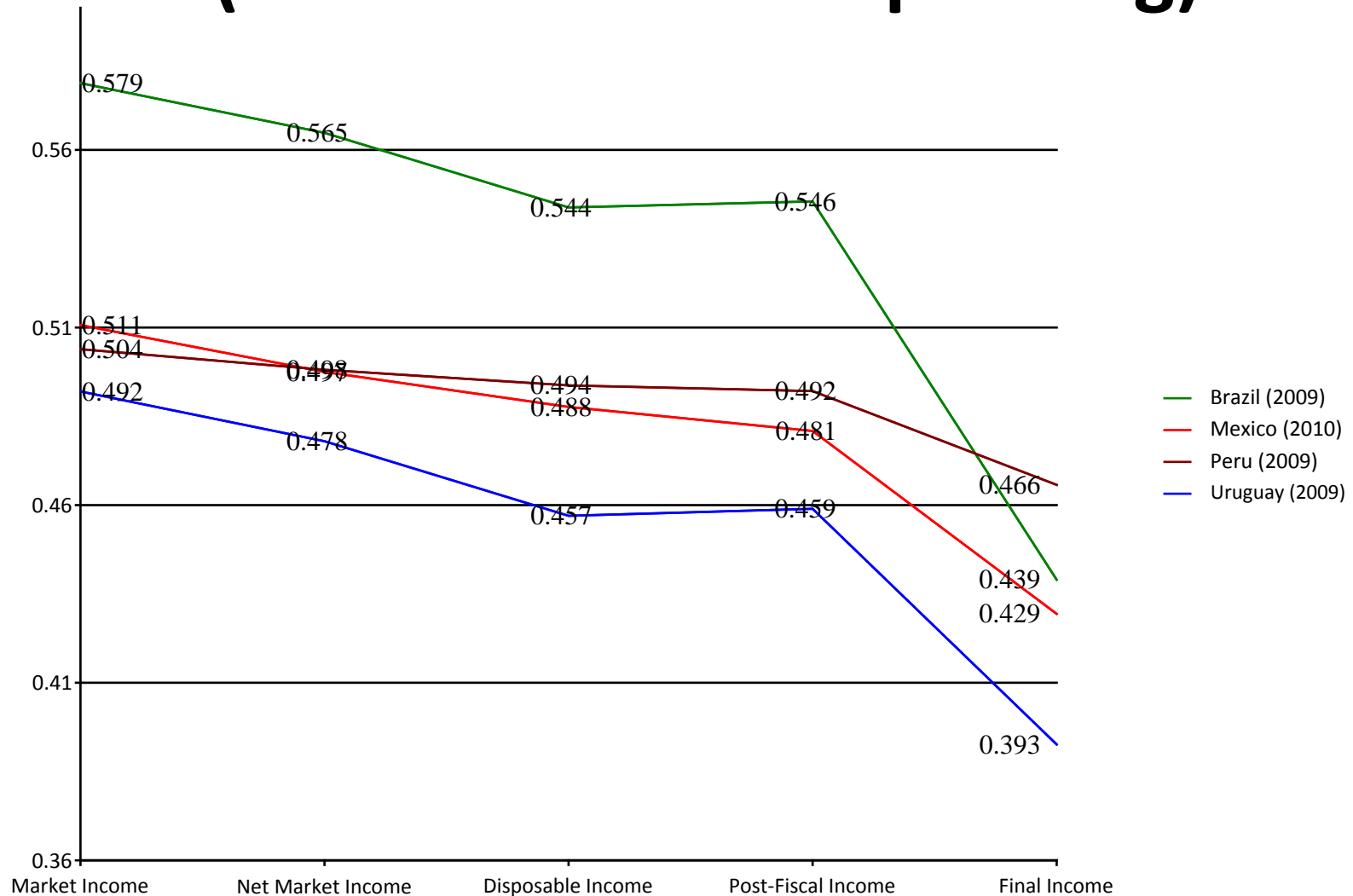
- Argentina:
  - High growth due to post-2002 recovery
  - Devaluation in early 2000s => increase in relative demand of low-skilled workers
  - Very pro-active labor market policies
- Brazil:
  - Low growth during most of the period
  - Increase in relative supply of skilled workers
  - Increase in relative 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.commitmentoequity.org](http://www.commitmentoequity.org)

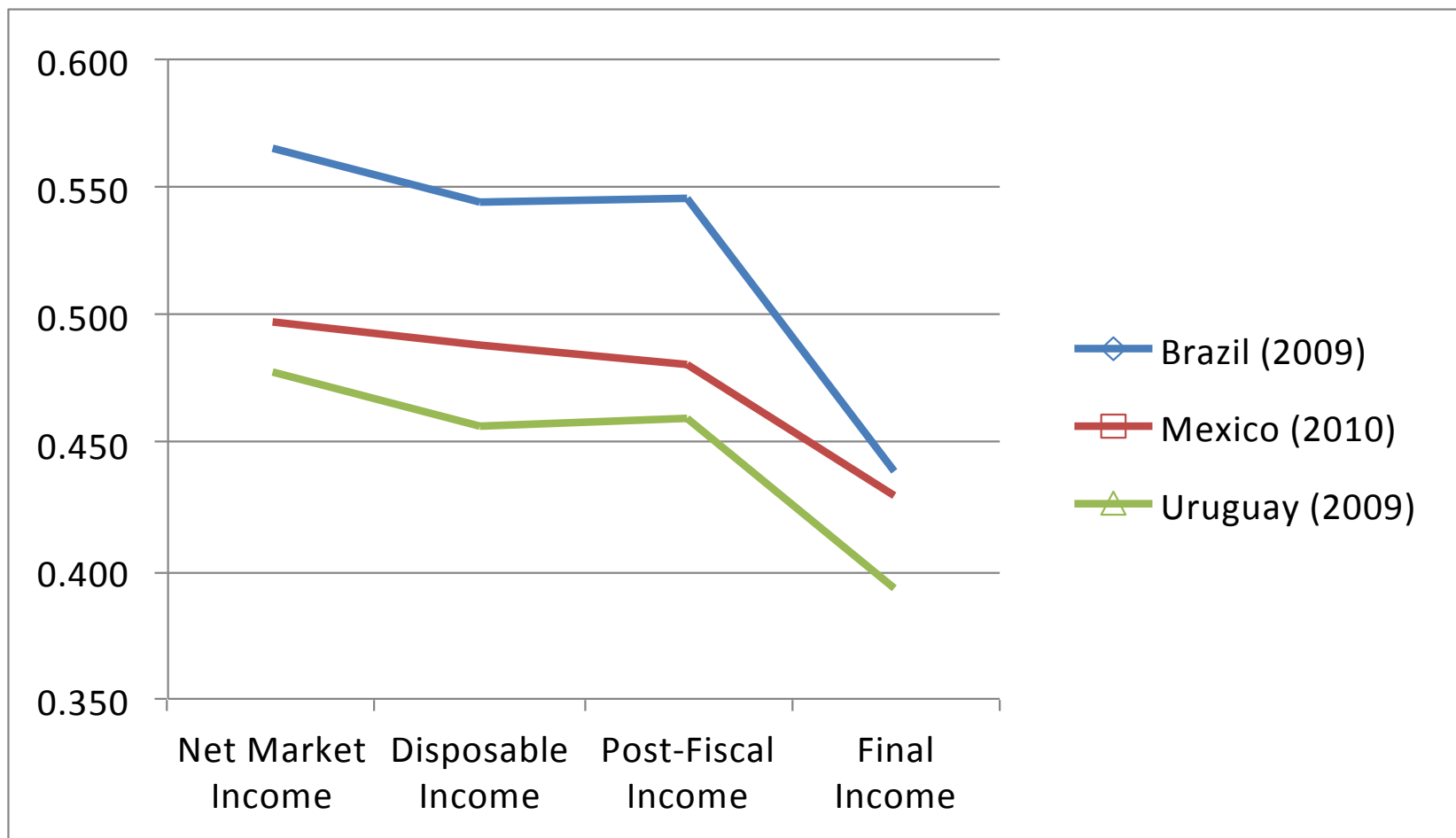
# Inequality Reduction: Brazil, Mexico, Peru and Uruguay (2009)

## (Taxes and Social Spending)

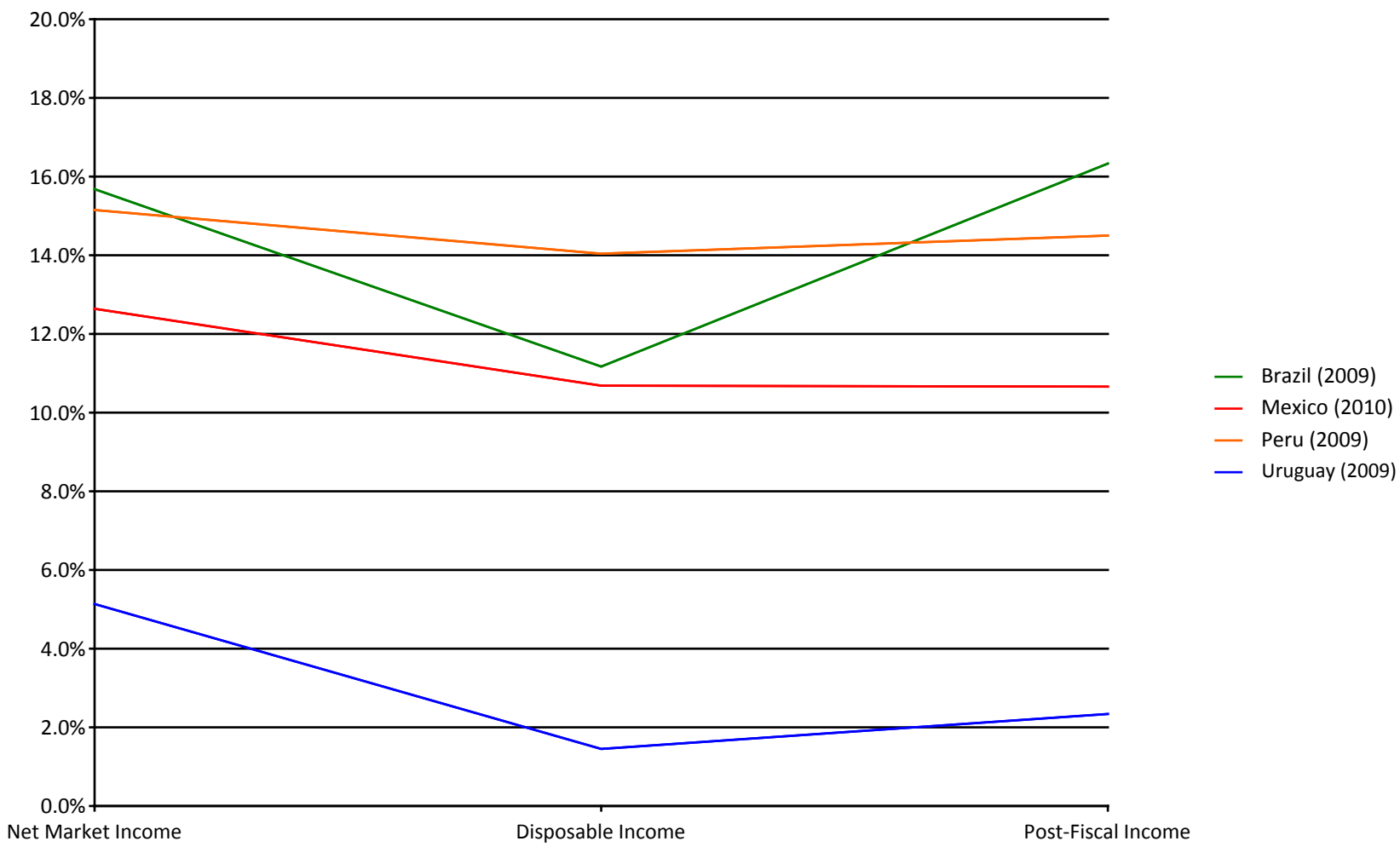


# **Inequality Reduction: Mexico 1996 vs. 2010 (Impact of Social Spending)**

# Mexico still less redistributive than peers

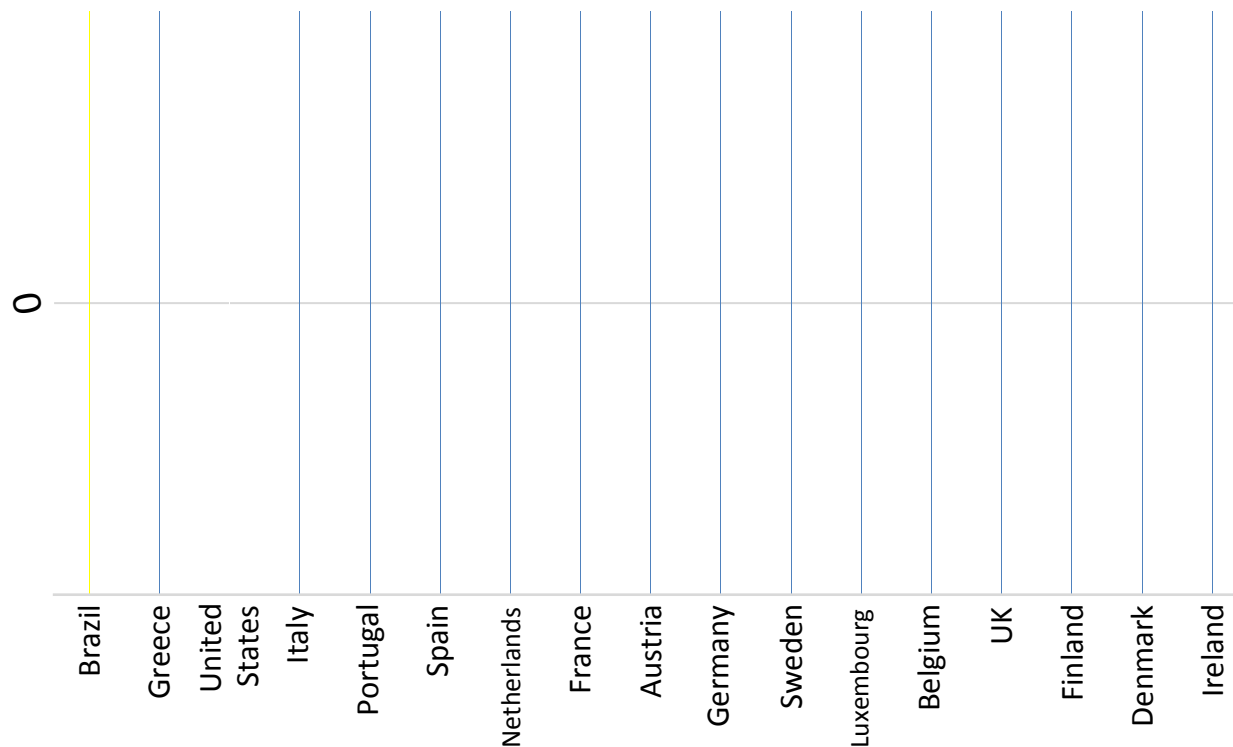


# Poverty Reduction: Brazil, Mexico, Peru and Uruguay (Income Taxes, Cash Transfers and Consumption Taxes; Poverty line US\$2.50 ppp/day)



# 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



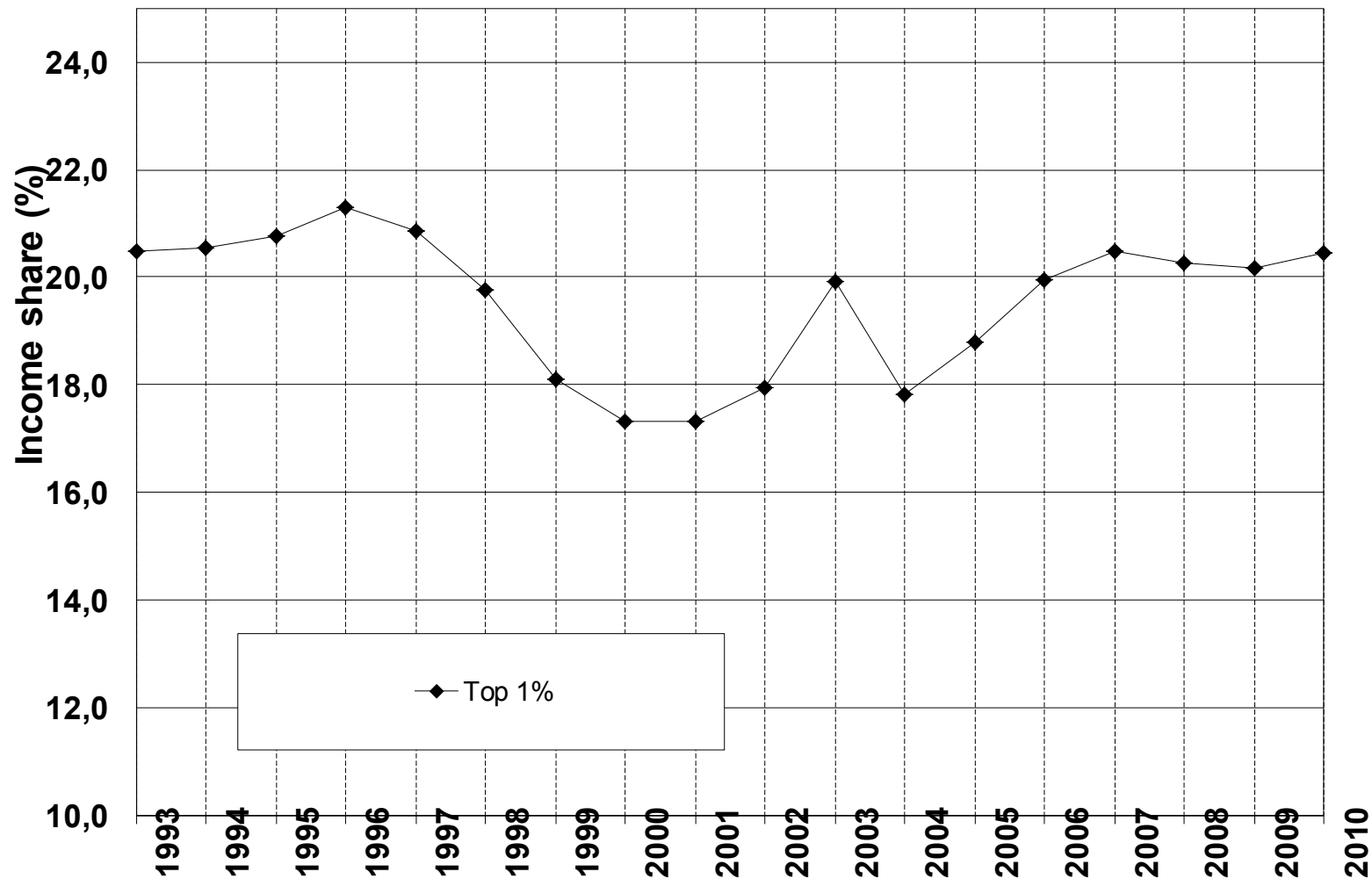
Source: authors' calculations for Brazil and US; Immervoll et al. (2009) for Europe

# 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

# Commitment to Equity (CEQ), joint project of Tulane University and Inter-American Dialogue.

[www.commitmenttoequity.org](http://www.commitmenttoequity.org)



## What is CEQ

The Commitment to Equity (CEQ) is a joint project of CIPR and the Department of Economics at Tulane University and the Inter-American Dialogue. Directed by [Nora Lustig](#) and [Peter Hakim](#), the CEQ was designed to analyze the impact of taxation and social spending on inequality and poverty in individual countries, and provide a roadmap for governments, multilateral institutions, and nongovernmental organizations in their efforts to build more equitable societies.

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[4/1/2013](#): CEQ Working Paper 13, An Overview, is now available. [Link](#).

[3/21/2013](#): CEQ Featured at Colombia Equity Day Event

[3/11/2013](#): Brazilian President Dilma Rousseff announced the end of federal indirect taxes on all items in the basic needs basket.

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Thank you!