

**Shared Prosperity  
Paving the Way in Europe &  
Central Asia**

**World Bank**

**Washington DC, April 9, 2014**

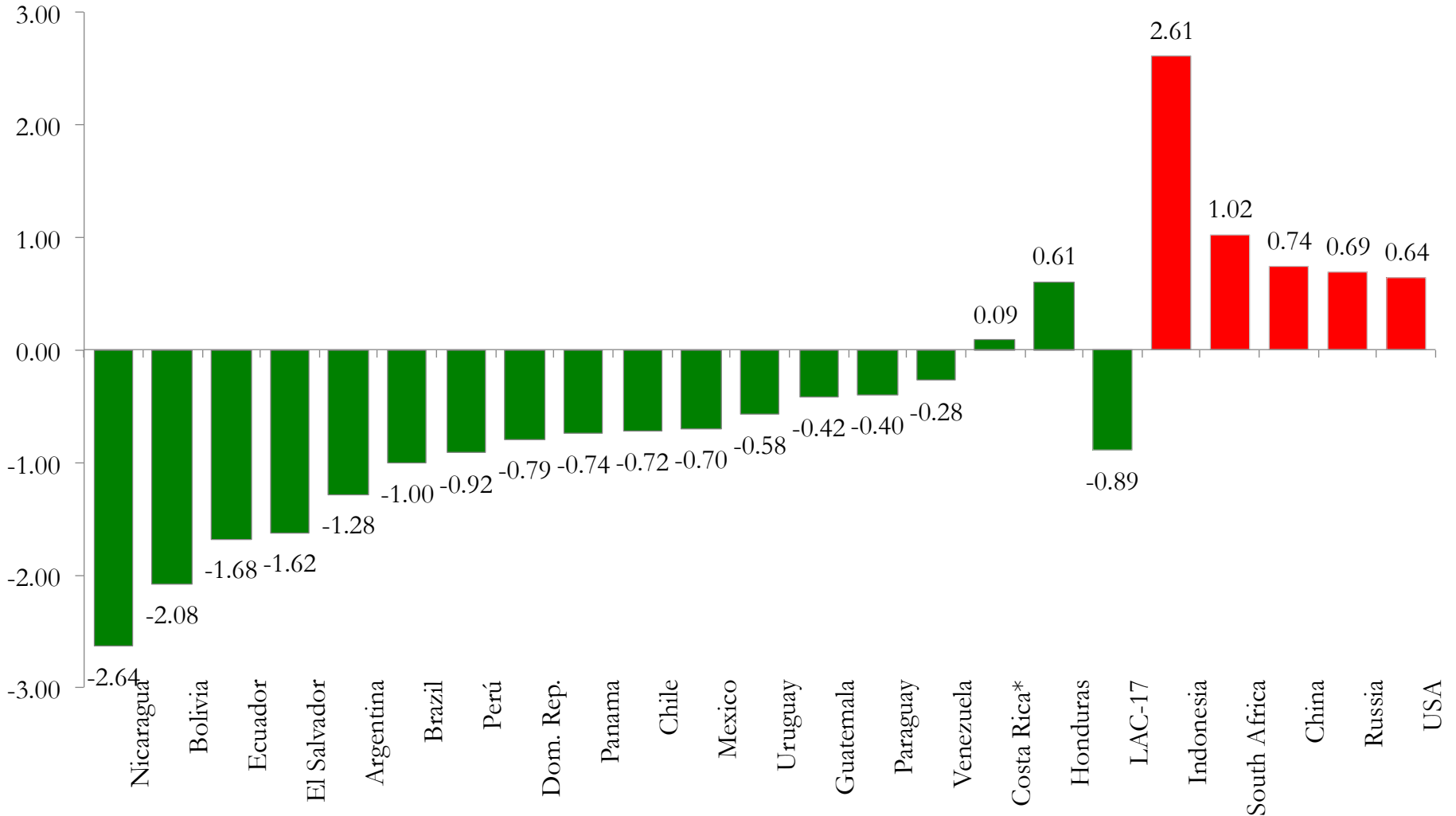
Comments by Nora Lustig

Tulane University

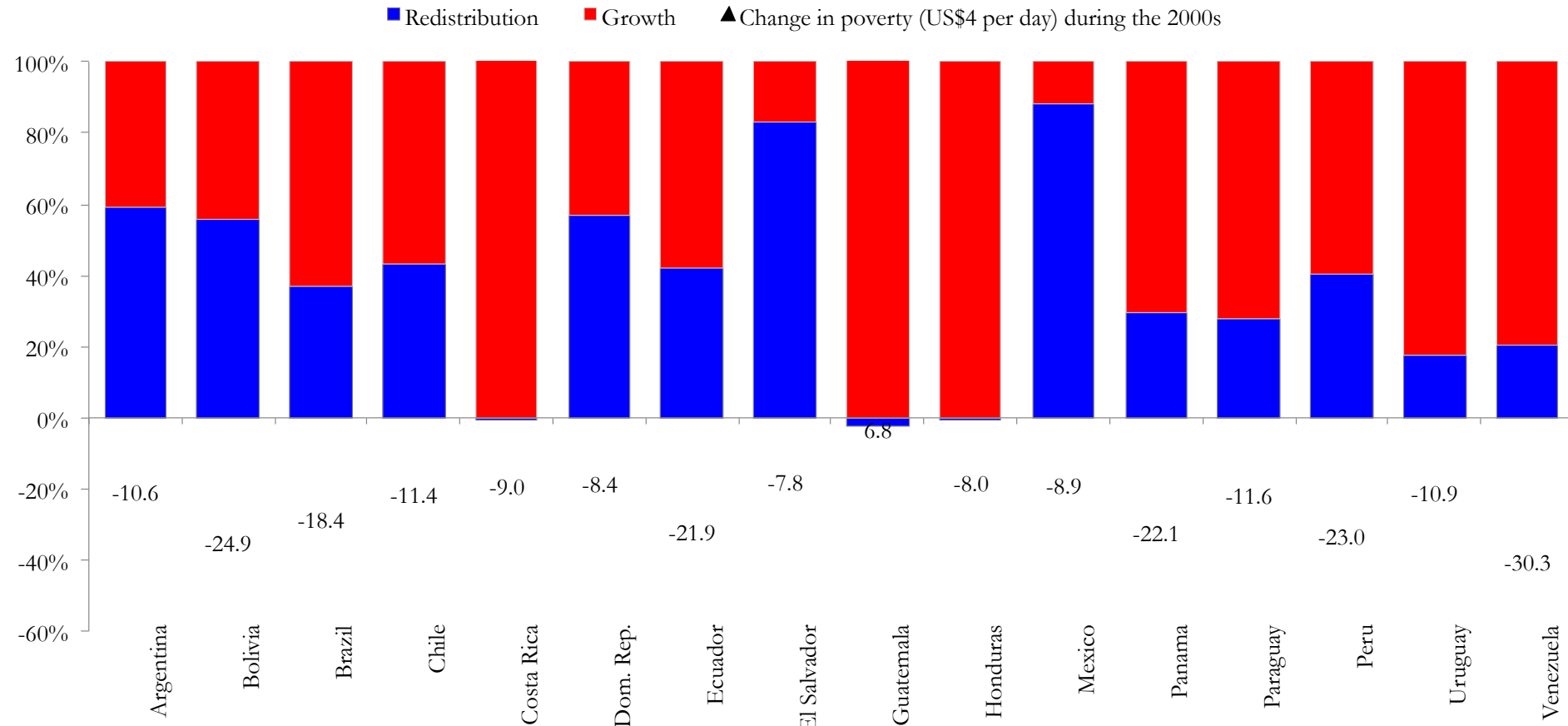
CGD & IAD

# Latam: Inequality in Last Decade

## 2000-2011 (Yearly changes in Gini; SEDLAC, Feb 2014)



# LA Poverty Changes: Redistribution vs Growth (Lustig et al, 2014)



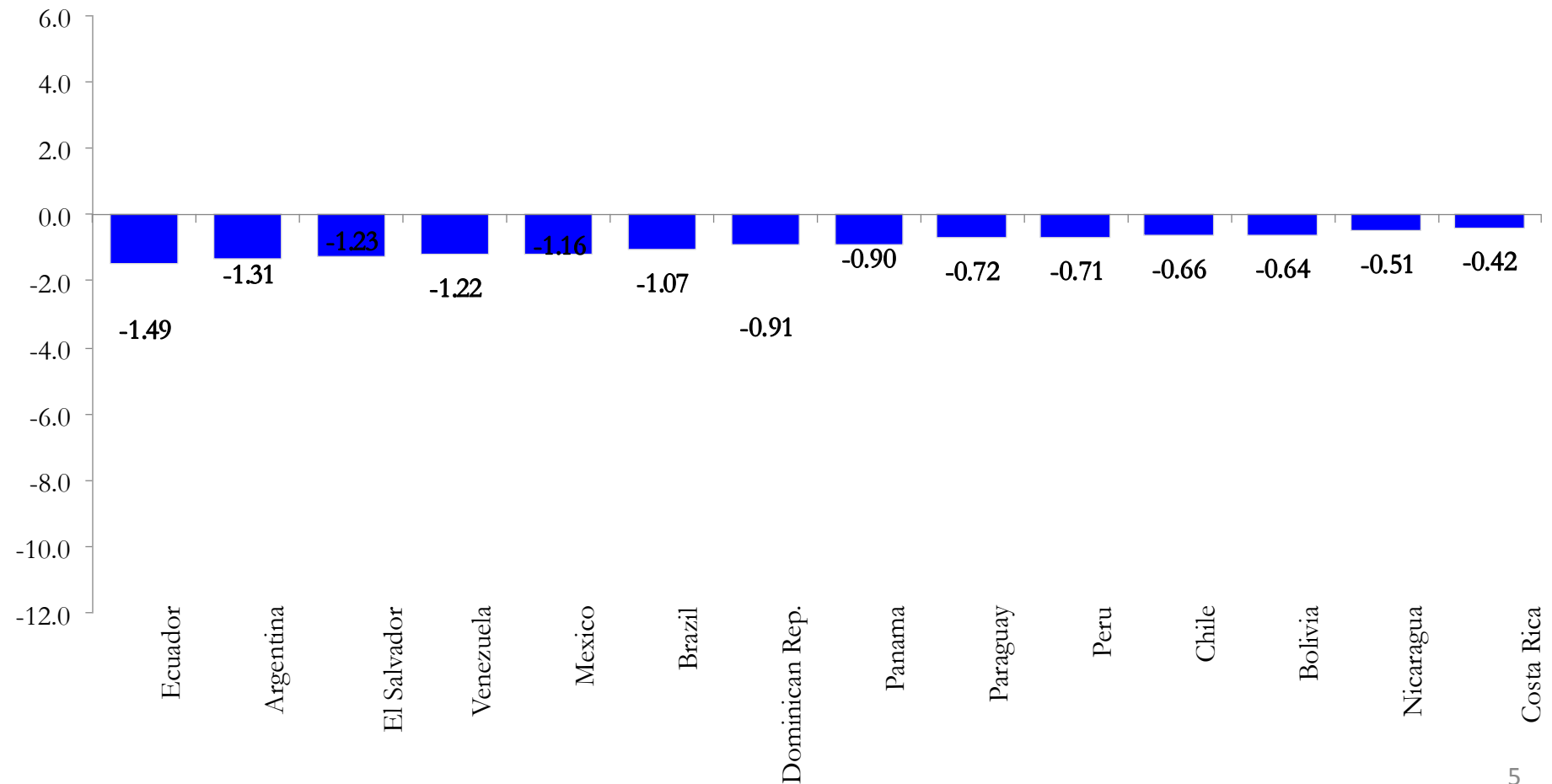
# Determinants of Change in Inequality

Wage Gap (red); Transfers (Green);  
Demographic (Blue) (Azevedo et al. 2012)



# 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



# Determinants of declining inequality in hourly labor earnings

Decline in returns to post-secondary education (skill premium)

- Supply
- Demand
- Minimum wages & unionization
- Lower quality of post-secondary education

# 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

# 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



# www.commitmenttoequity.org

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## 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**, 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.

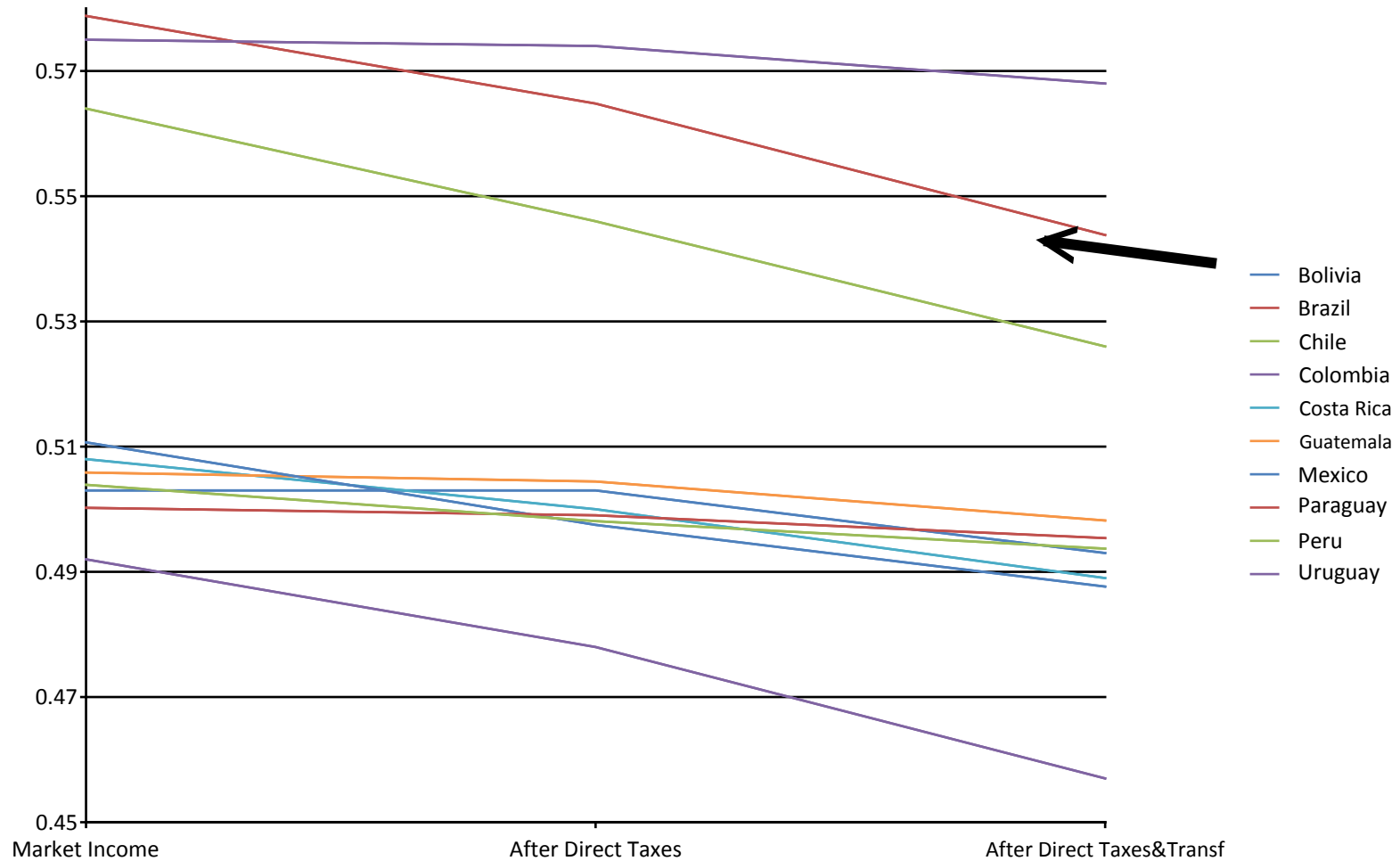
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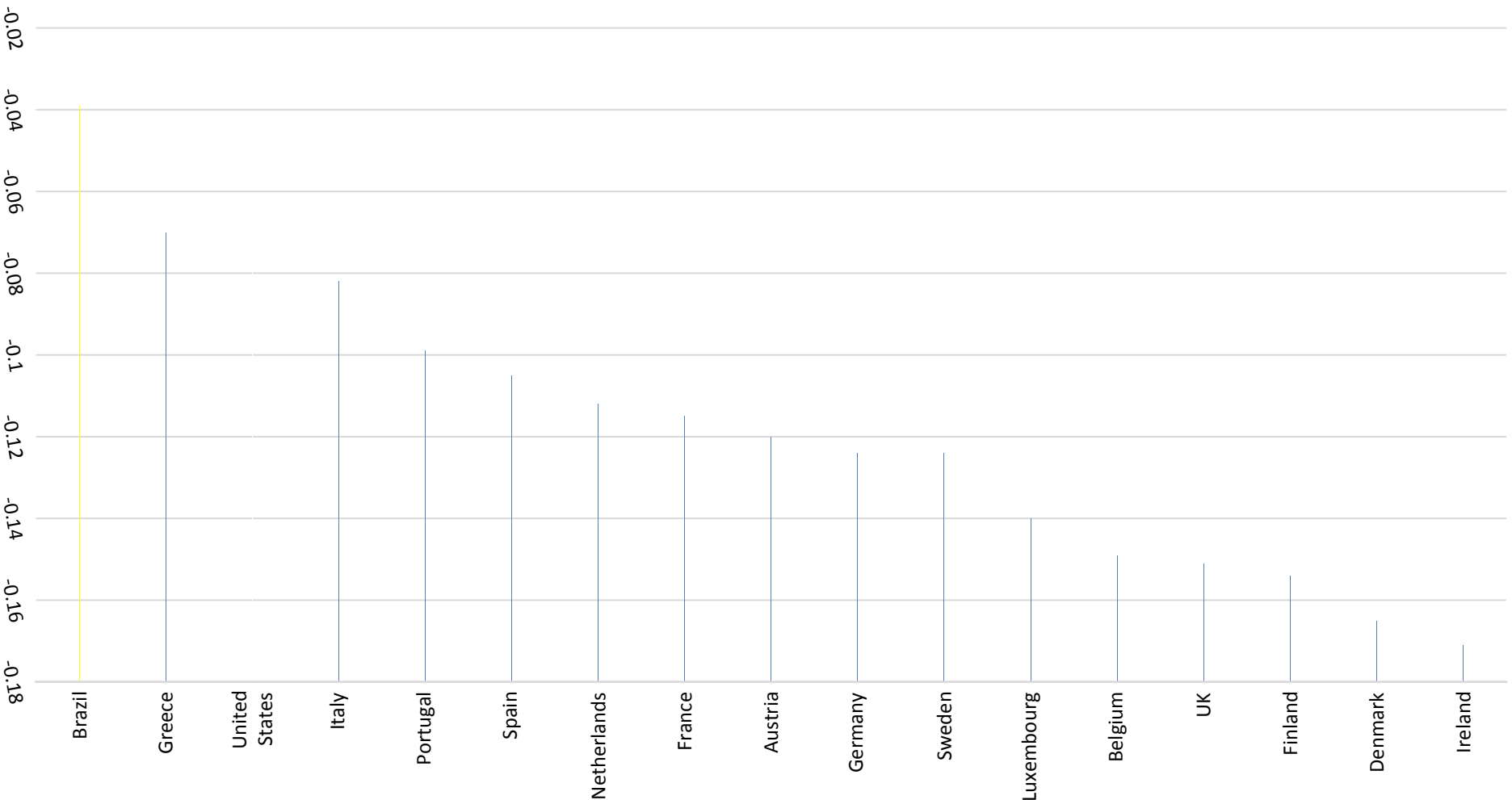
Handbook and Diagnostic Questionnaire

# Fiscal Policy and Inequality

(Gini before and after direct taxes and cash transfers 2009 or 2010)

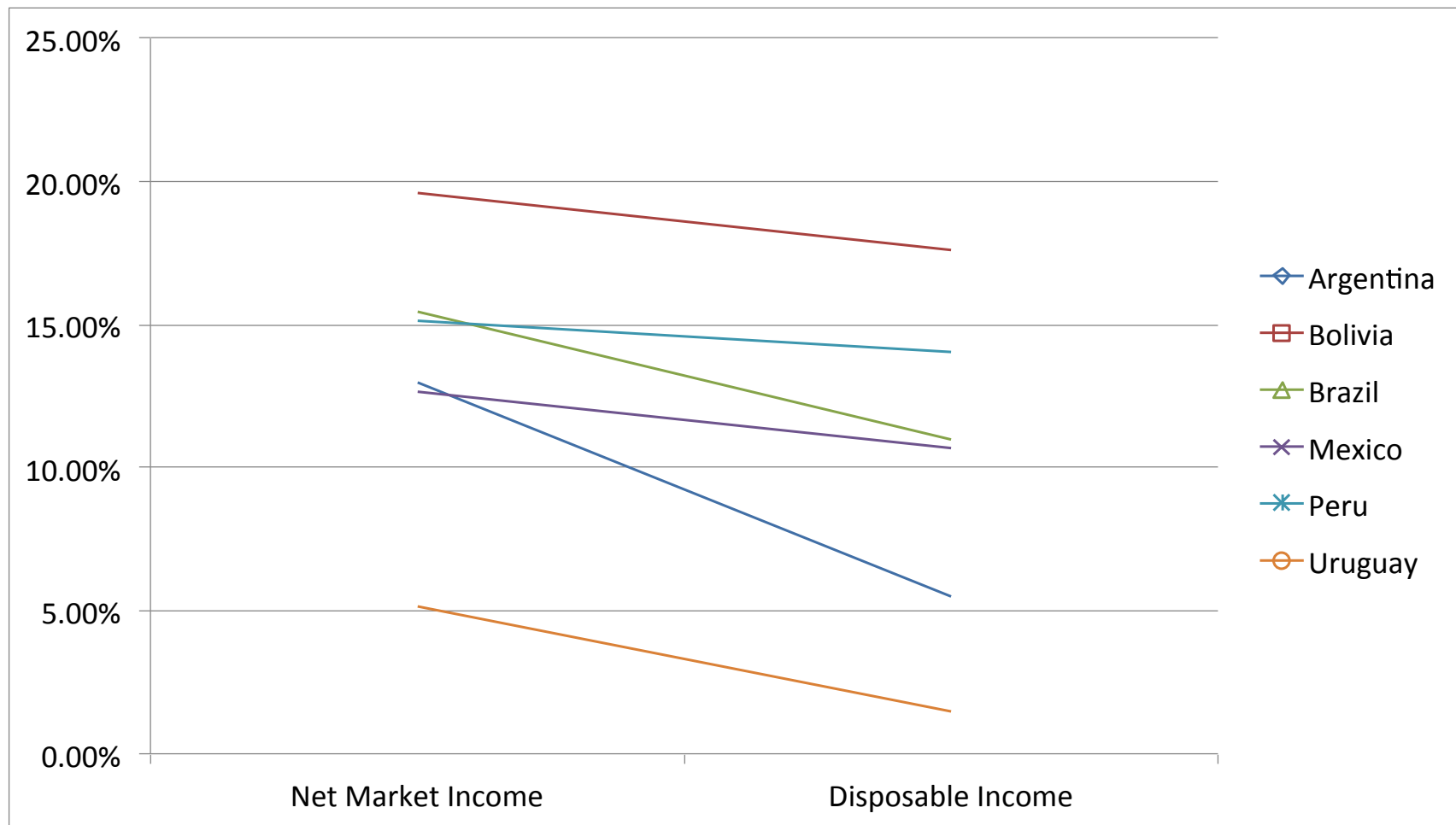


# Inequality Reduction by Direct Taxes and Transfers: Brazil, Europe and US

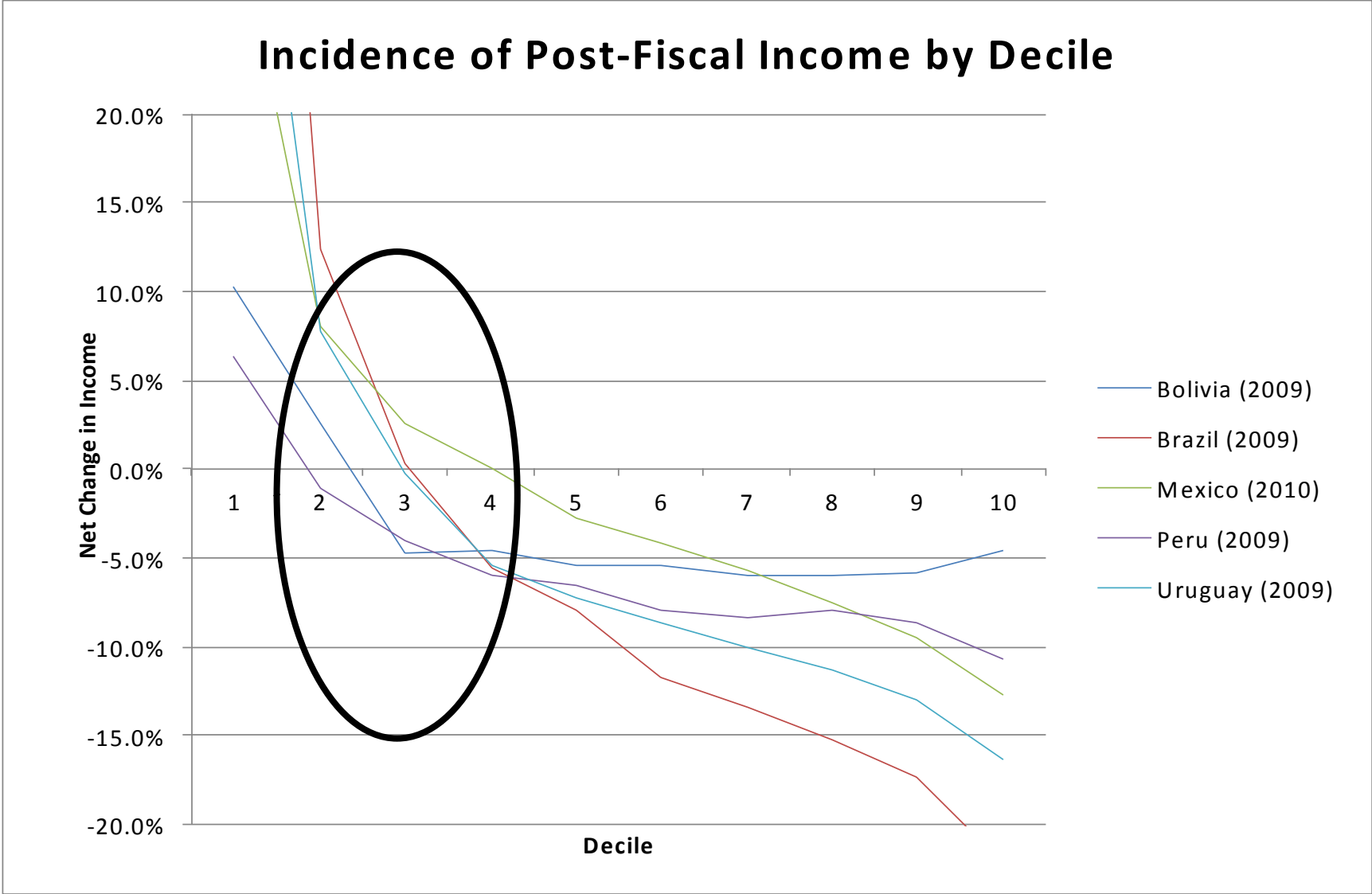


Source: Higgins et al. (2013) for Brazil and US;  
Immervoll et al. (2009) for Europe

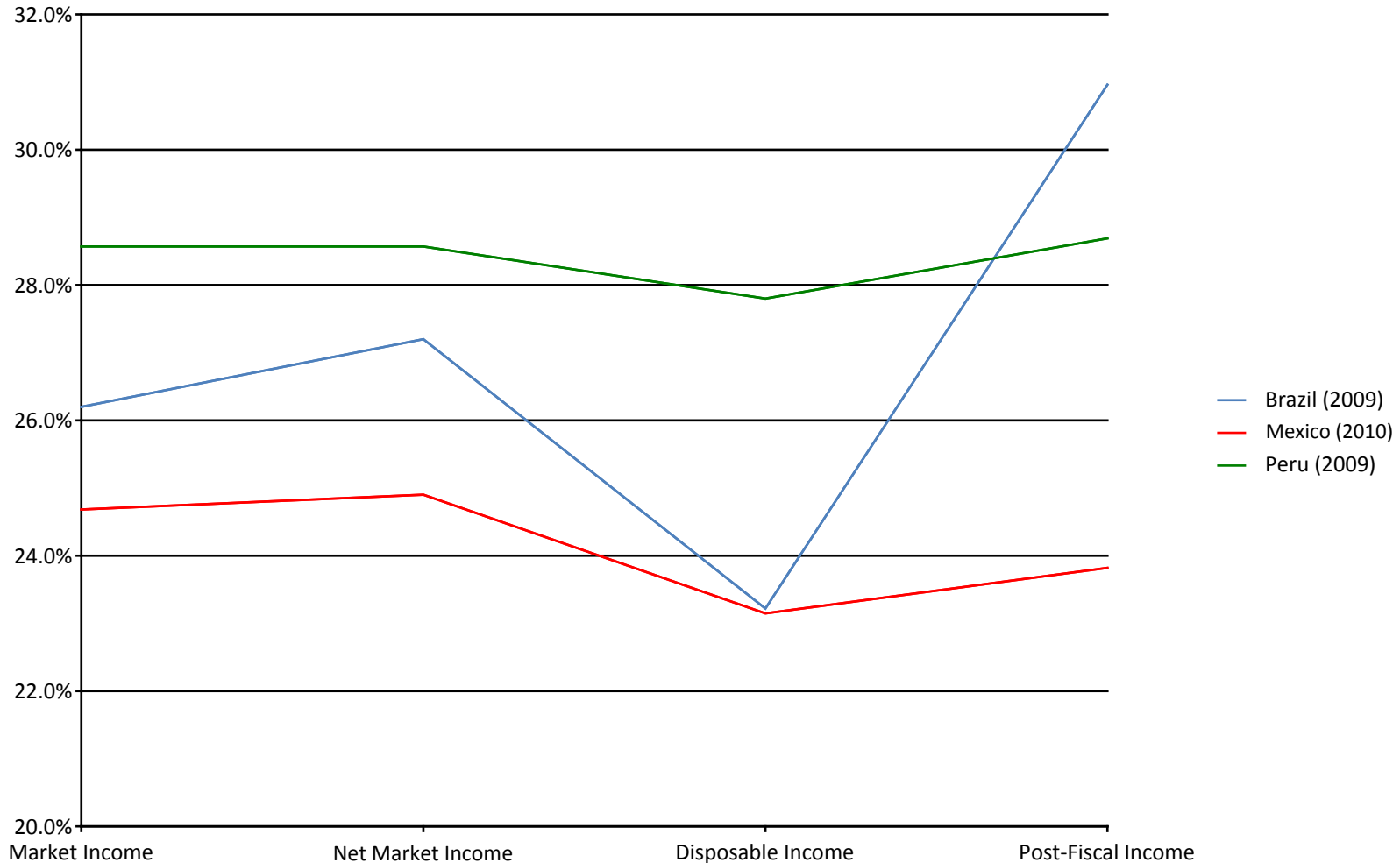
# Headcount: Before and After Cash Transfers



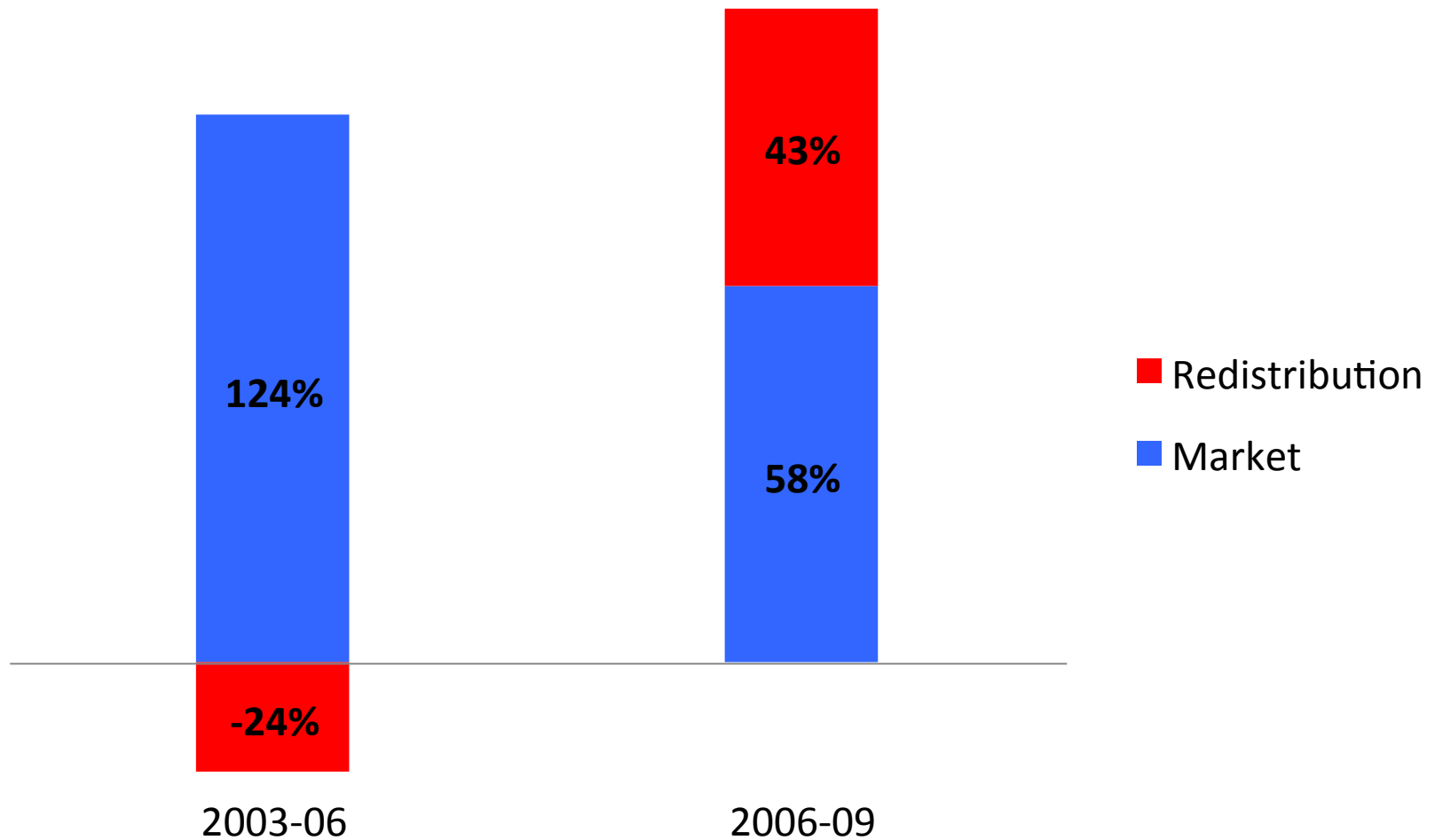
# However, net Payers to the Fisc: Left Not More Pro-poor



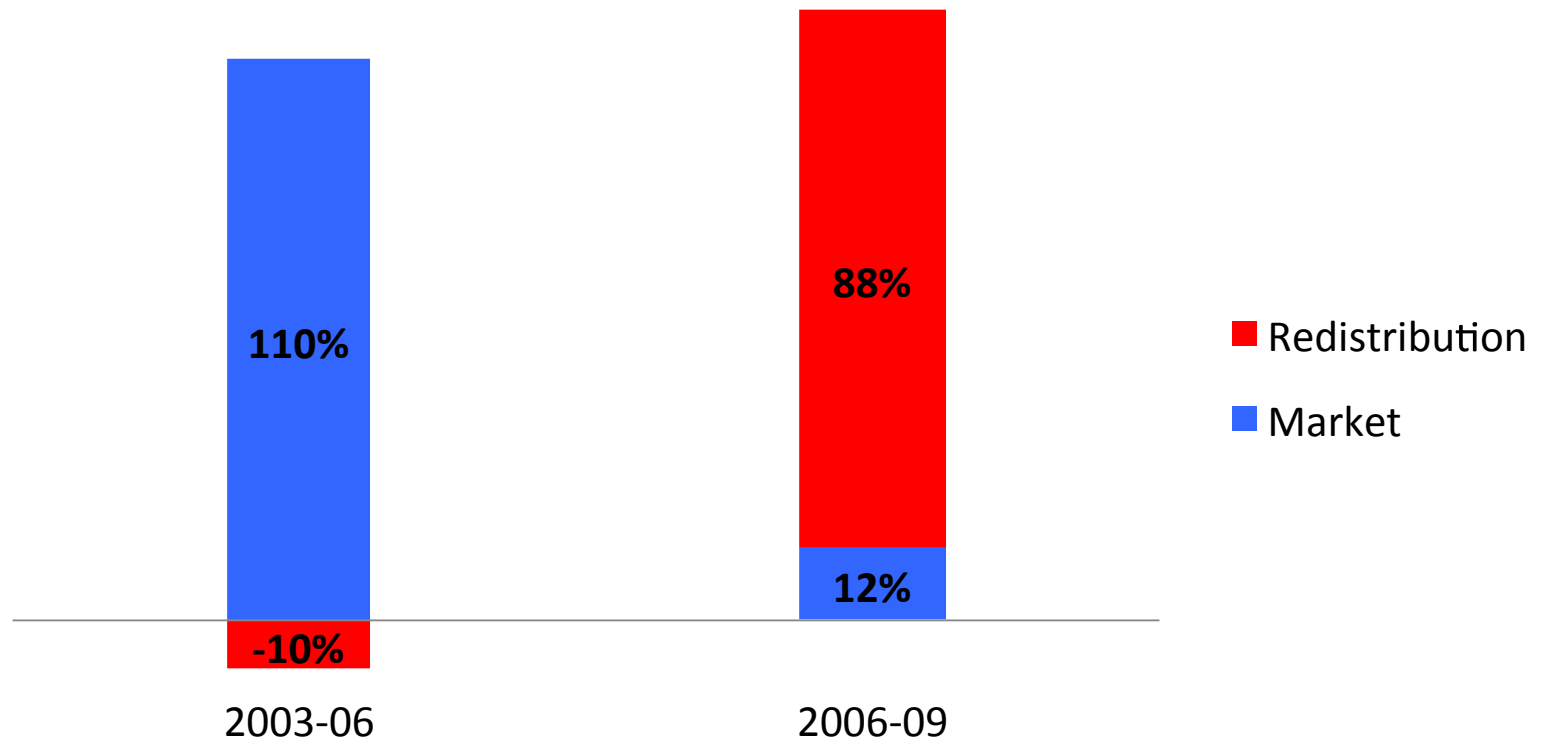
# And, consumption taxes offset the poverty-reducing effect of cash transfers in Brazil (and Bolivia)



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



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





# **Argentina: Evolution of Pensions**

**(Lustig and Pessino, 2014; this and next two slides)**

# Shared Prosperity and ...

- Shared Prosperity
  - Is it a goal?
- Poverty
  - Do the goals overlap or does addressing poverty require to focus on a larger population group? Or, a smaller one?
- Inequality
  - Are determinants correlated?

# Shared Prosperity and ...

- Mobility
  - Is the bottom 40 percent always composed by the same group of people (dynasties) or different people but with similar characteristics (i.e, the unemployed)? => Losers, winners and social stability
- Top Incomes
  - Assets and returns to assets: how are they distributed and how are returns determined? => State capture and sustainability

# Shared Prosperity and ...

- Pre-fisc vs. post-fisc
  - How much does income growth of bottom 40 percent depend on government transfers
    - Contributory pensions: government transfer?
    - Rank hh by market income or disposable income?
  - Who are the net payers to the fiscal system?
  - Is there significant impoverishment due to taxes?
  - Who is subsidizing who?