Declining Inequality in Latin America: Labor Markets & Redistributive Policies

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New Challenges for Growth and Productivity

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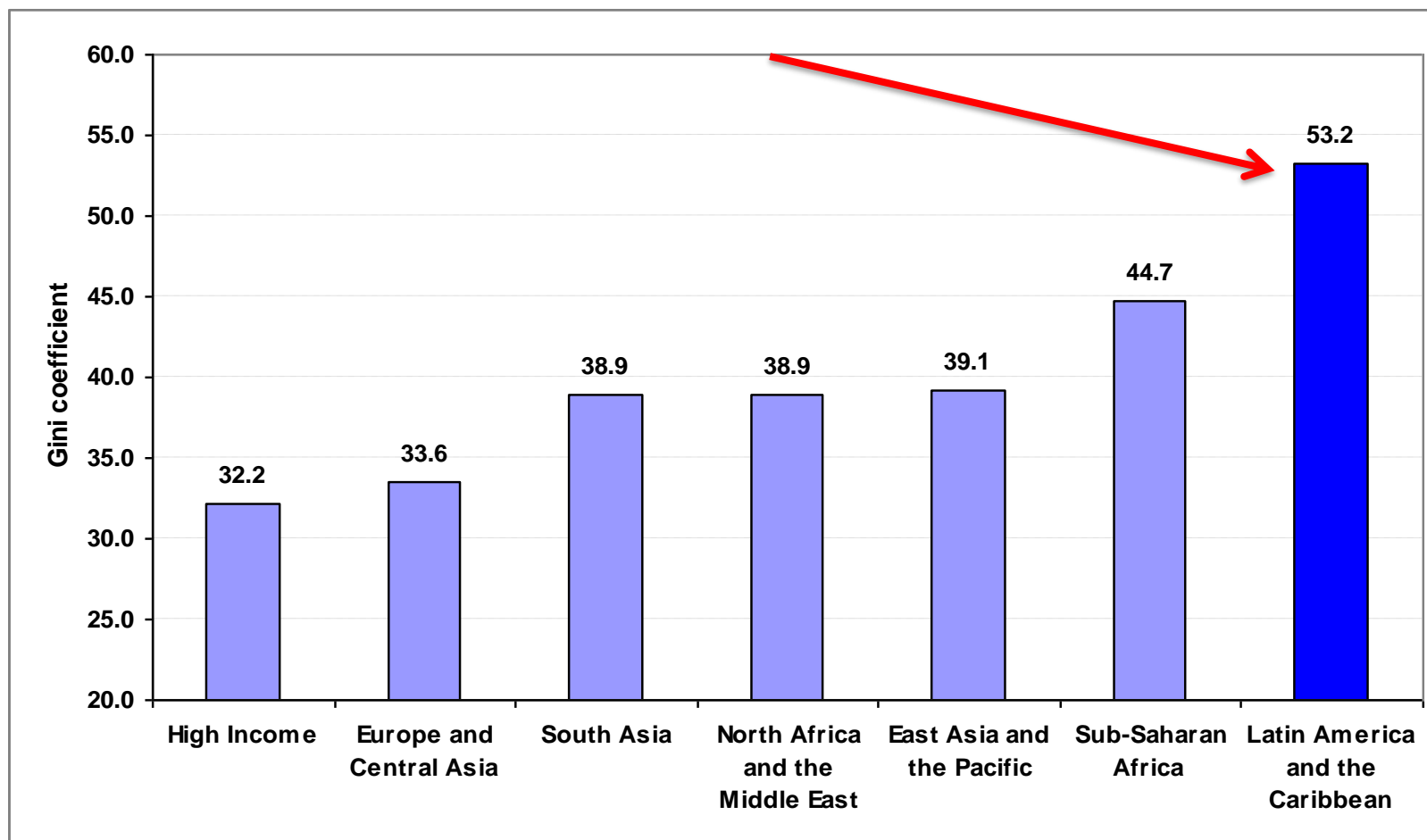Inequality in Latin America is high...

   ...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
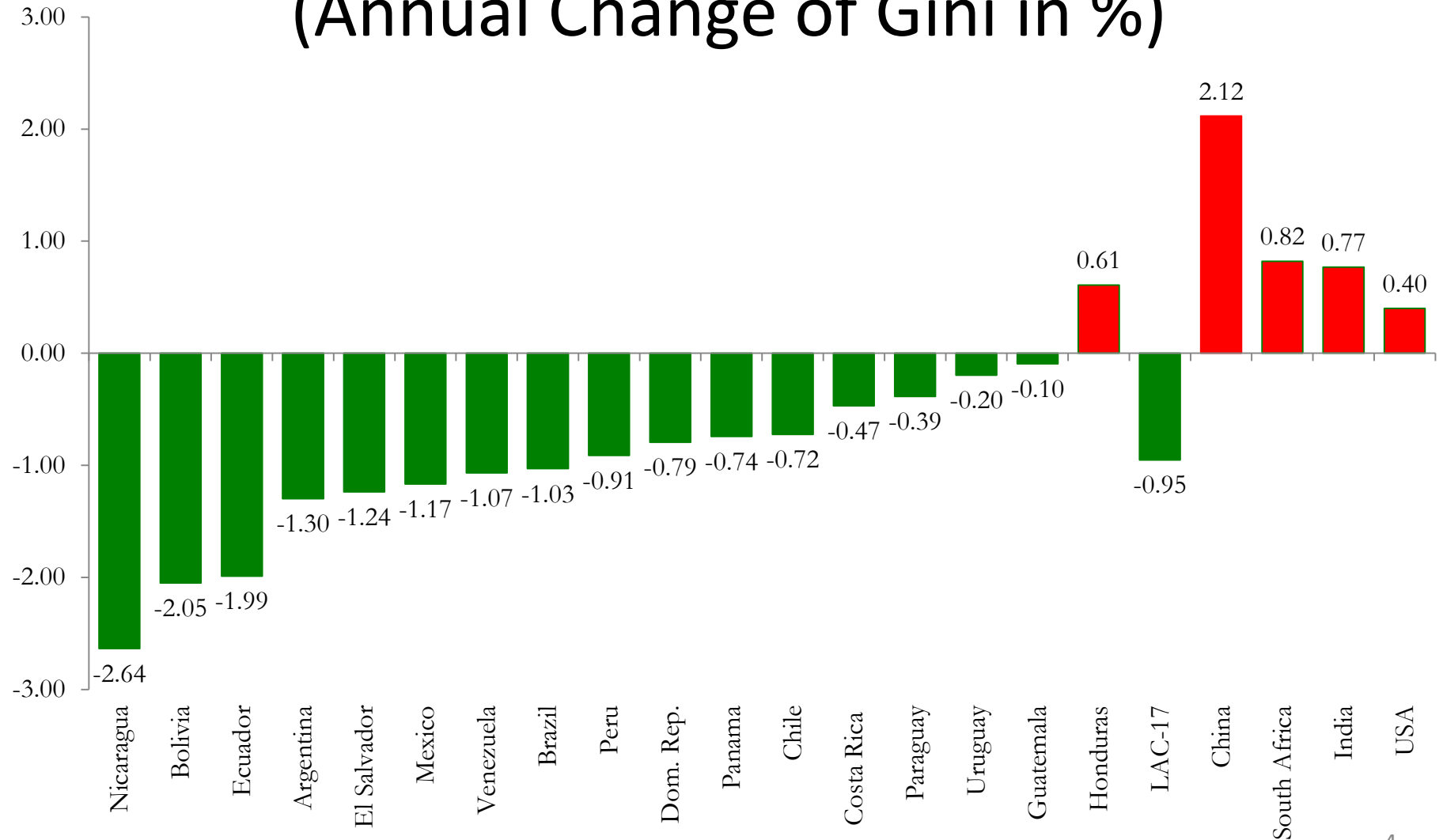- In commodity exporters and importers

LATAM IS THE MOST UNEQUAL REGION IN THE WORLD

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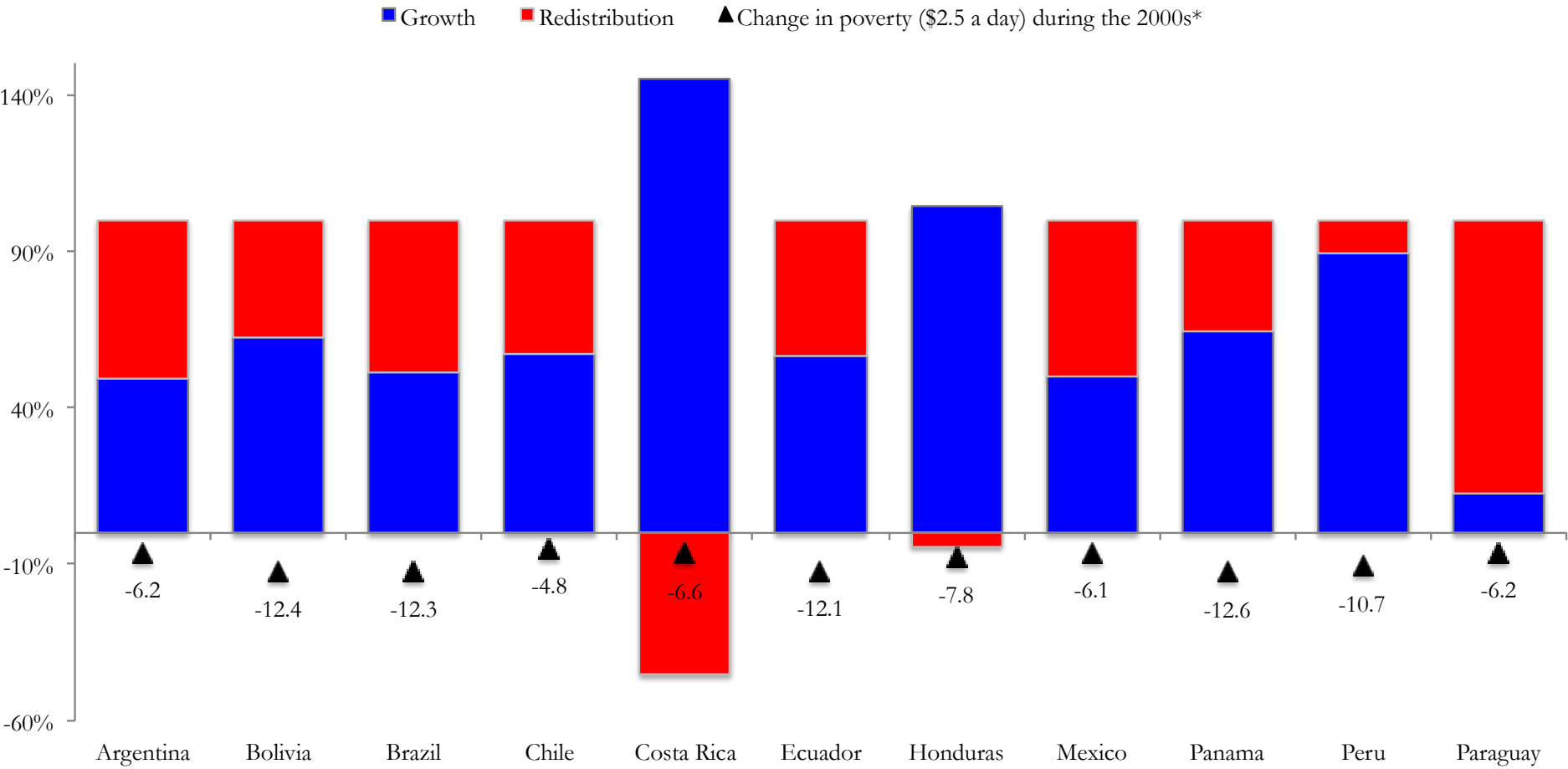### (Ferreira and Ravallion, 2008)

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*

Argentina	Bolivia	Brazil	Chile	Costa Rica	Ecuador	Honduras	Mexico	Panama	Peru	Paraguay
-6.2	-12.4	-12.3	-4.8	-6.6	-12.1	-7.8	-6.1	-12.6	-10.7	-6.2

- 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)
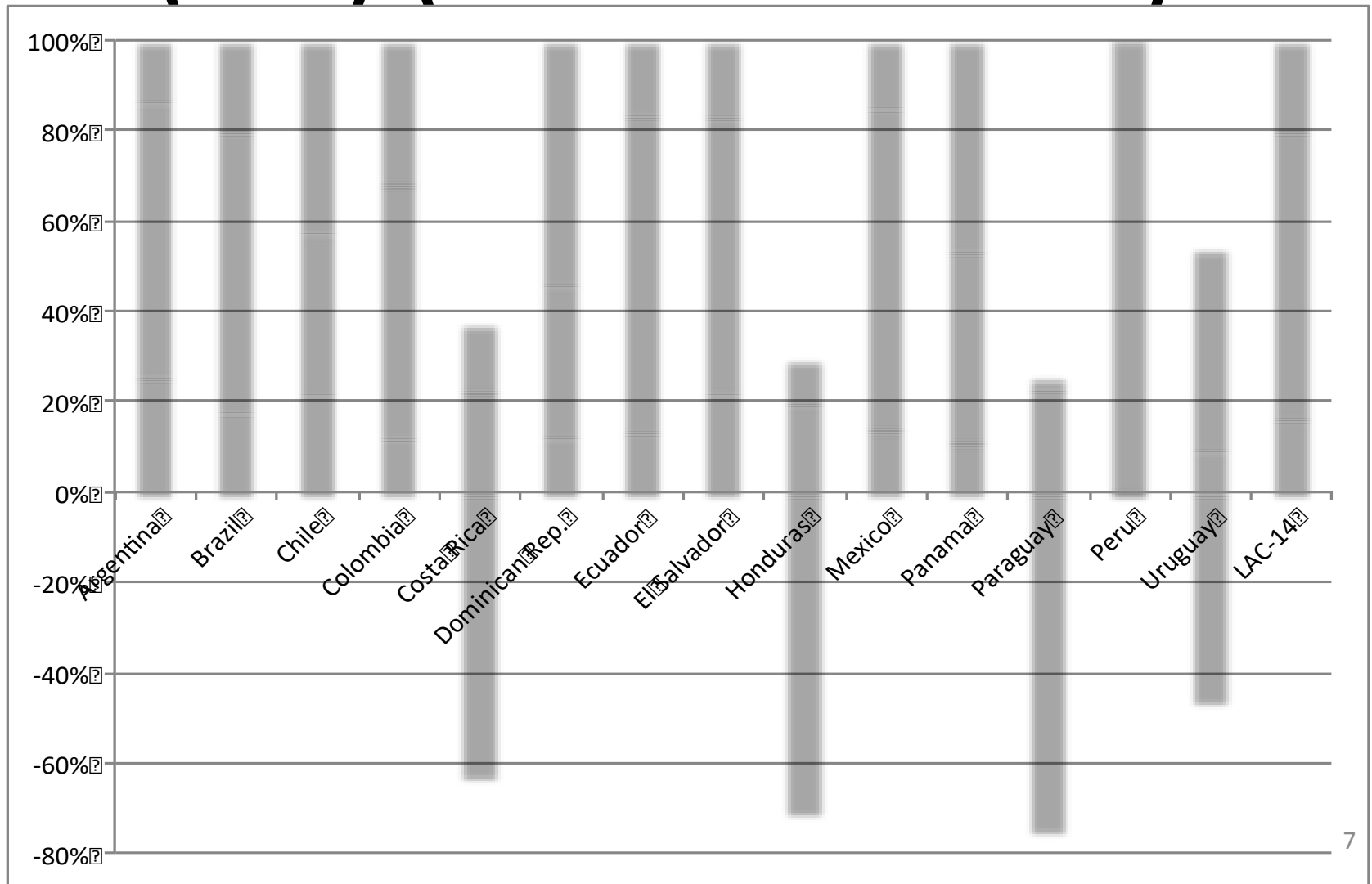
Determinants of declining inequality in hourly labor earnings:

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
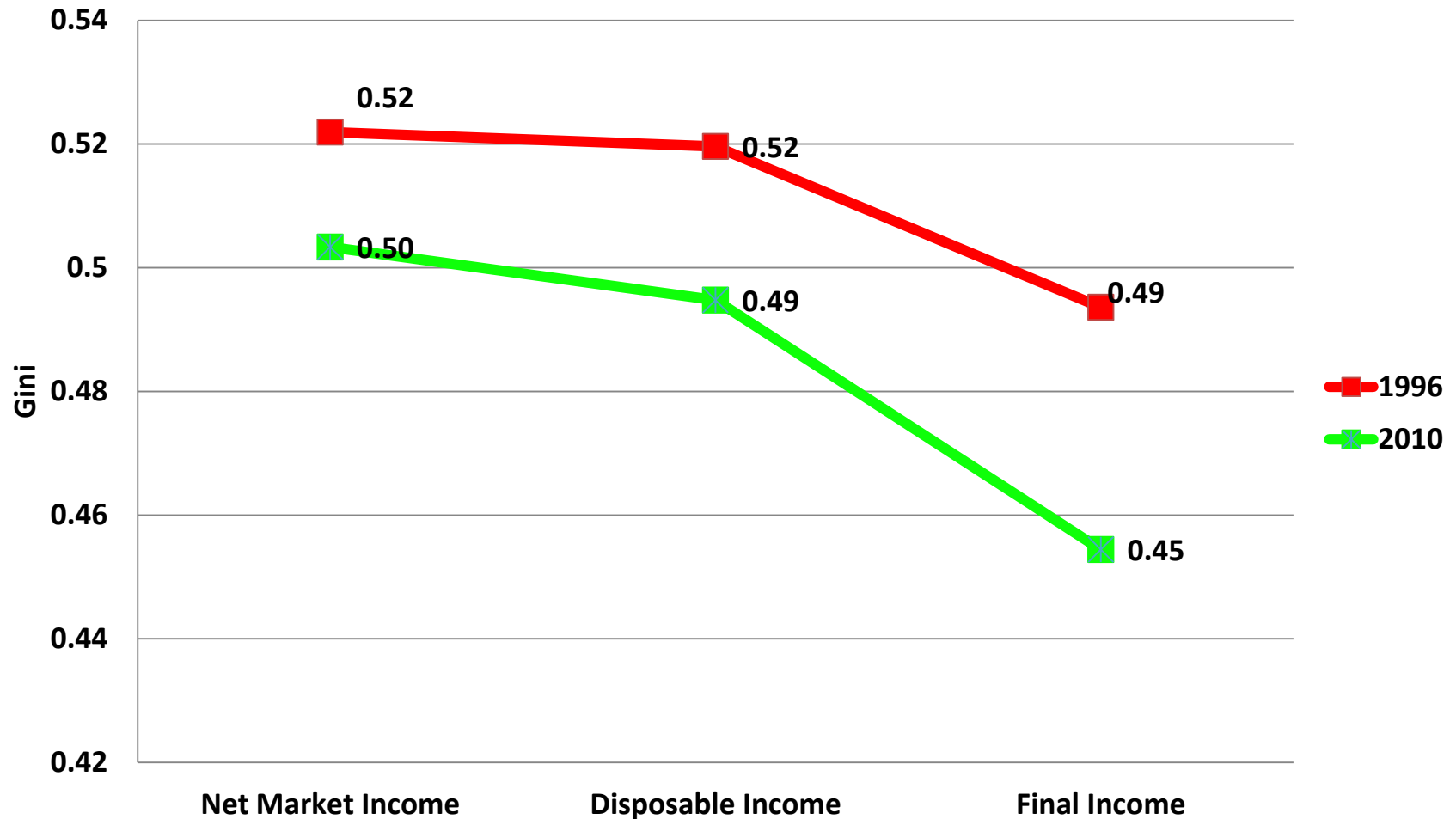
- www.commitmentoequity.org

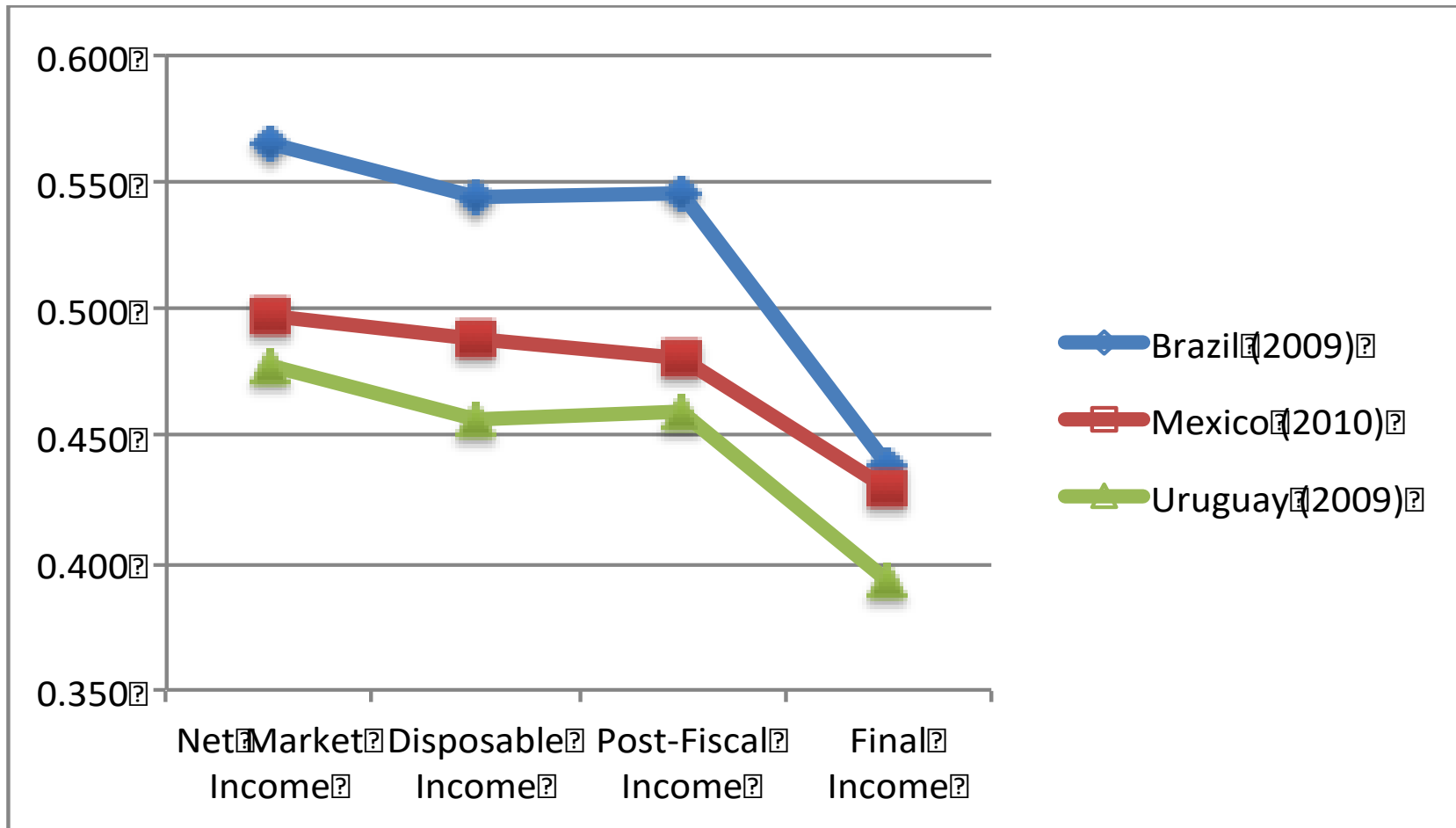# Inequality Reduction: Brazil, Mexico, Peru and Uruguay (2009) (Taxes and Social Spending)
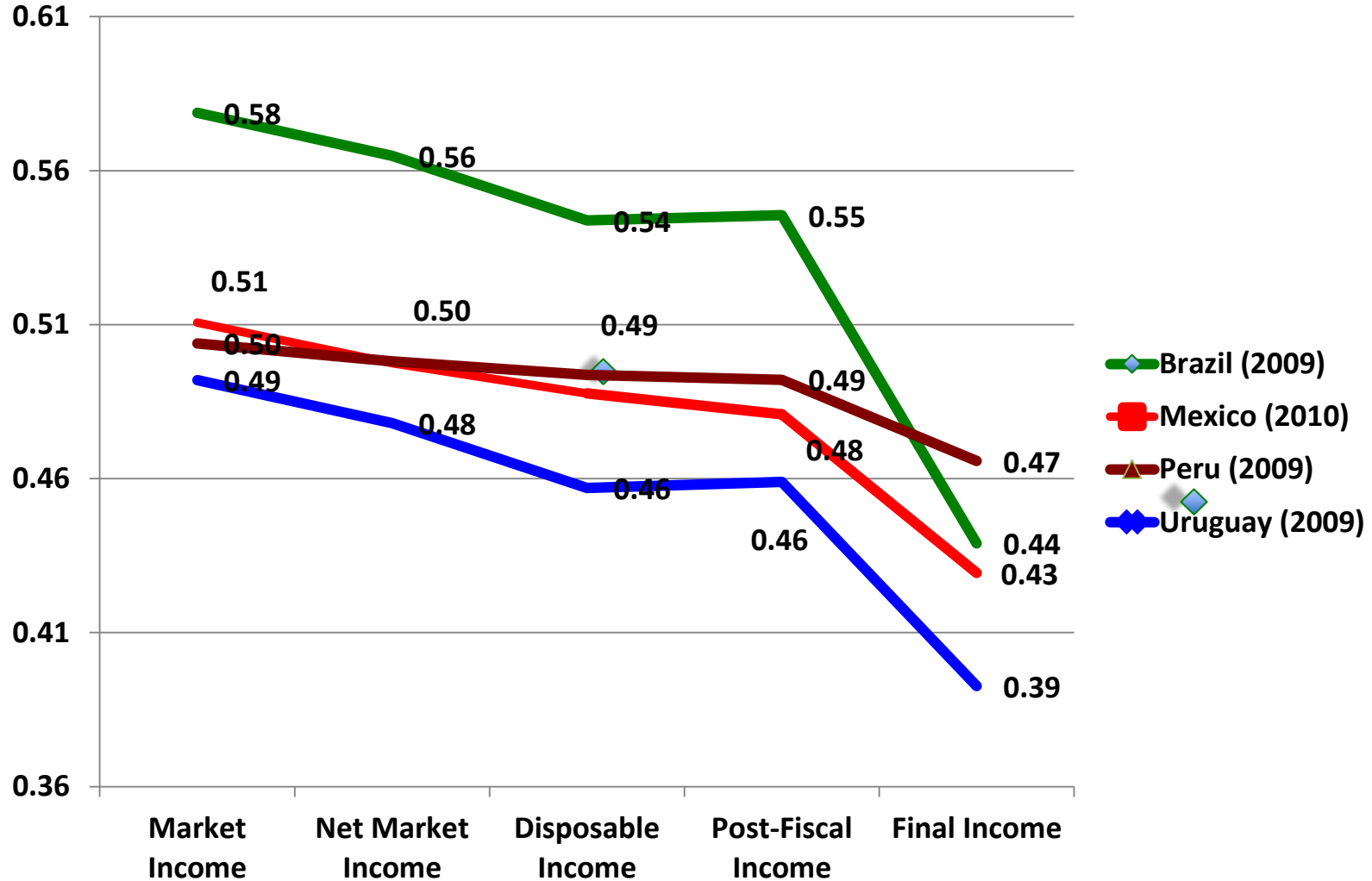
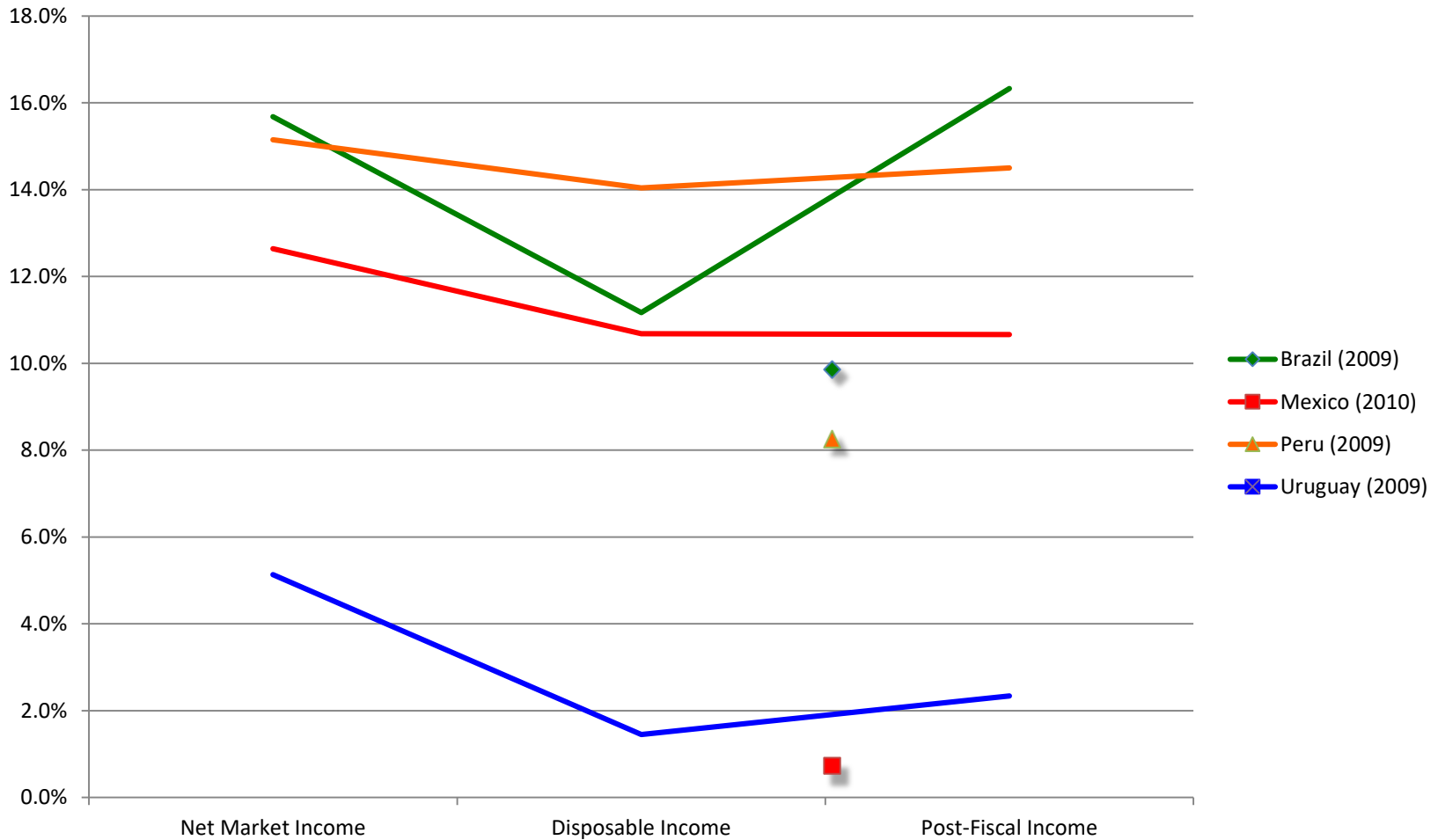# Inequality Reduction: Mexico 1996 vs. 2010
(Impact of Social Spending)

# 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)

Legend:
- Brazil (2009)
- Mexico (2010)
- Peru (2009)
- Uruguay (2009)

X-axis: Net Market Income, Disposable Income, Post-Fiscal Income

Y-axis: 0.0% to 18.0%

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

Change between Market and Disposable Income Ginis
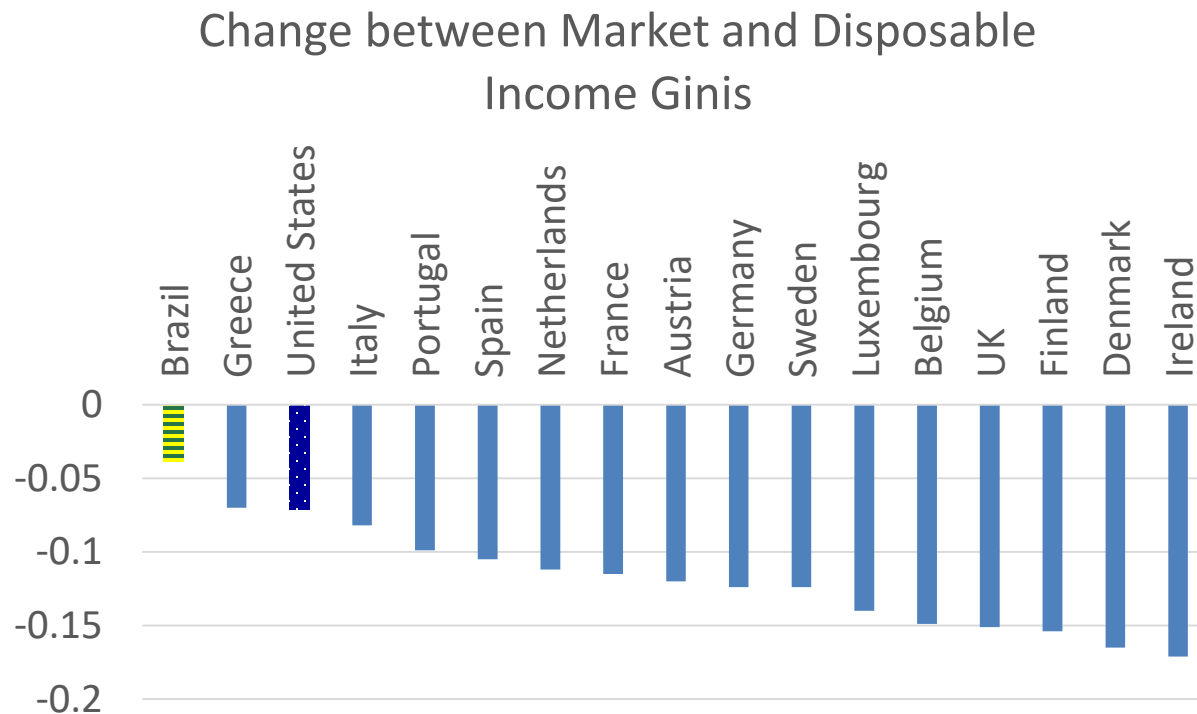
Source: authors' calculations for Brazil and US; Immervoll et al. (2009) for Europe

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)
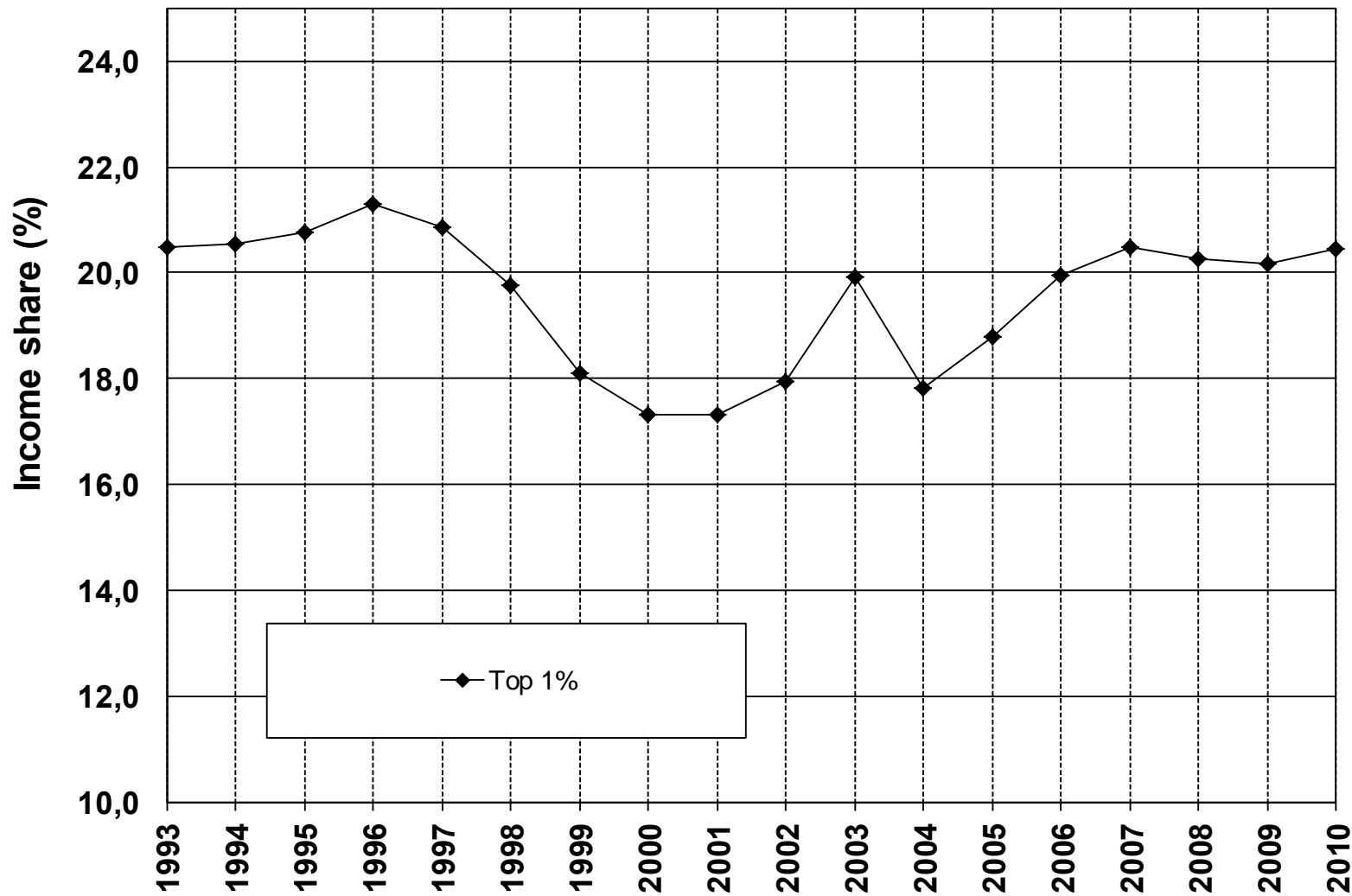
FIGURE 3

Top 1% income share in Colombia, 1993-2010

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

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Slide 5:

Thank you!