

Declining inequality in Latin America: a decade of progress?

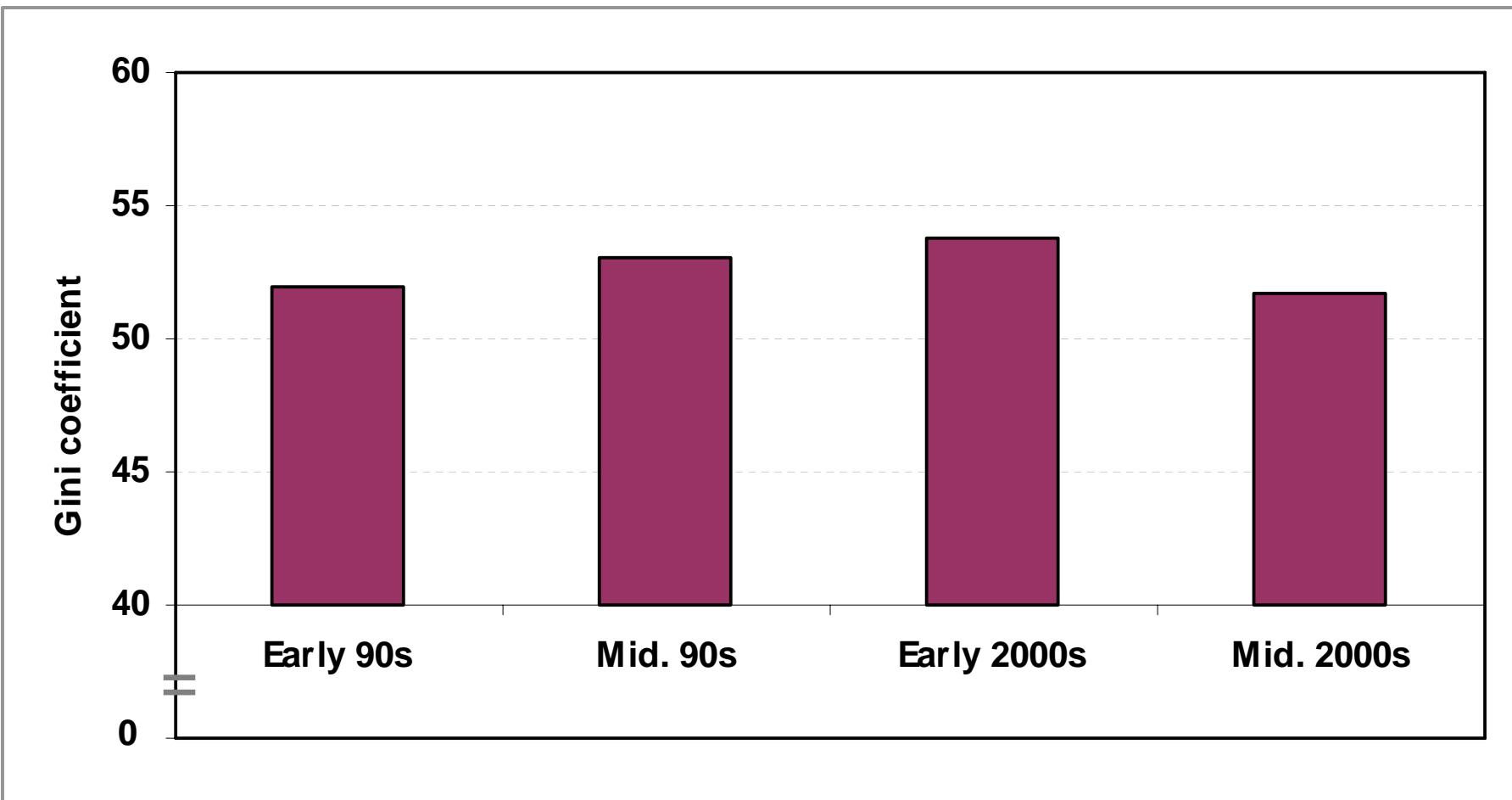
**Eds. Lopez-Calva and Lustig
(Brookings Institution Press and UNDP)**

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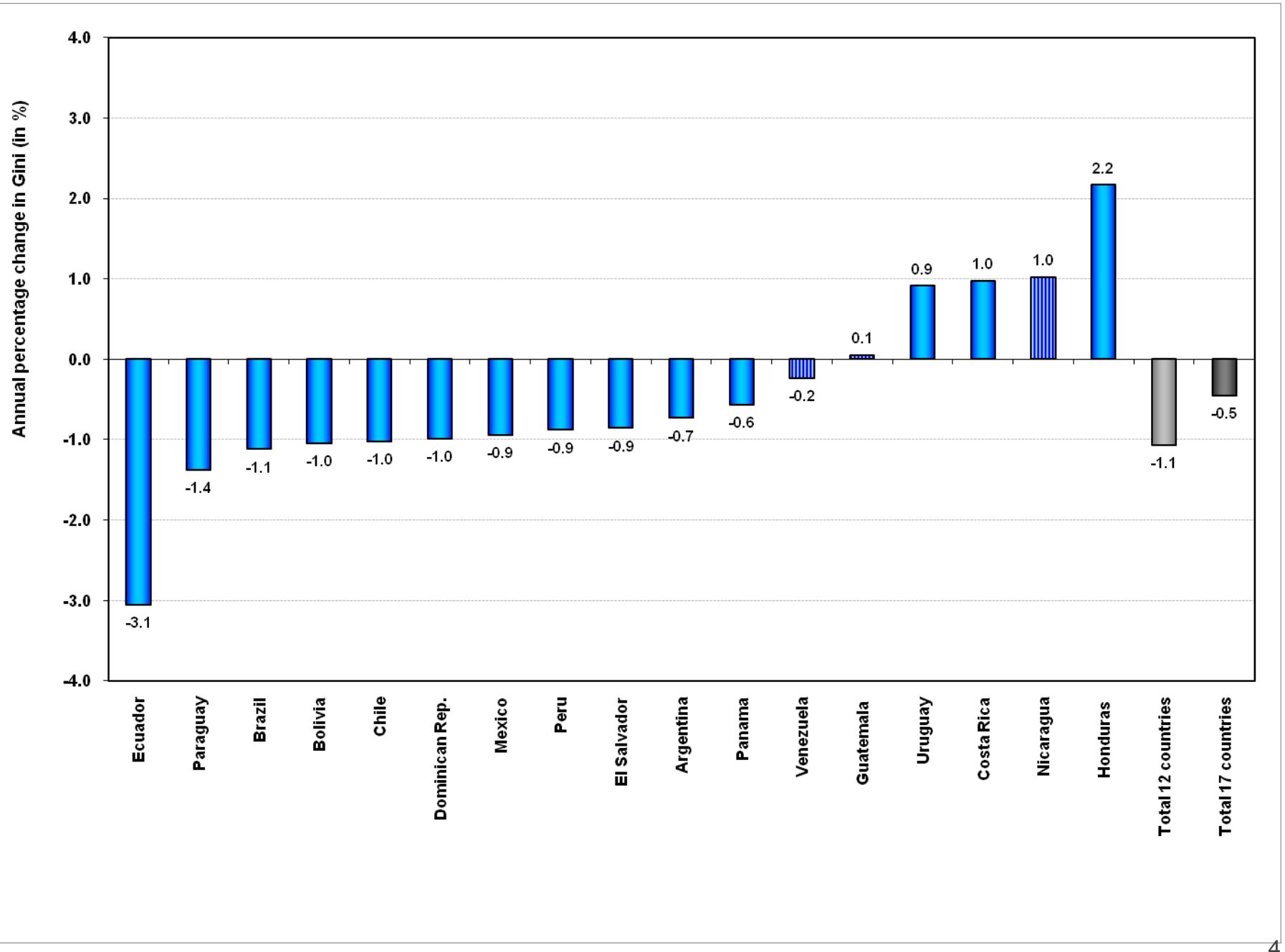
Brookings Institution
Washington, DC, June 14, 2010

Gini Coefficient for Latin America: early 1990s-mid 2000s



Declining Inequality in LA

- Inequality in most Latin American countries (12 out of 17) has declined (roughly 1.1% a year) between (circa) 2000 and (circa) 2007.
- Except in one case, decline is statistically significant.



Different trend patterns for top, middle and low income classes

Gains and losses of income shares by quintile, 1990s and 2000s



Source: OECD. *Inequalities in emerging economies* (2010, forthcoming). China refers to urban areas only.

The decline in inequality has been widespread

The decline took place in:

- Persistently high inequality countries (Brazil) and normally low inequality countries (Argentina)
- Fast growing countries (Chile and Peru), slow growing countries (Brazil and Mexico) and countries recovering from crisis (Argentina and Venezuela)
- Countries with large share of indigenous population (Ecuador and Peru) and with low share (Argentina)
- Countries governed by leftist regimes (Brazil, Chile, Venezuela) and non-left regimes (Mexico and Peru)

Main Questions: Why has inequality declined in Latin America? Are there factors in common?

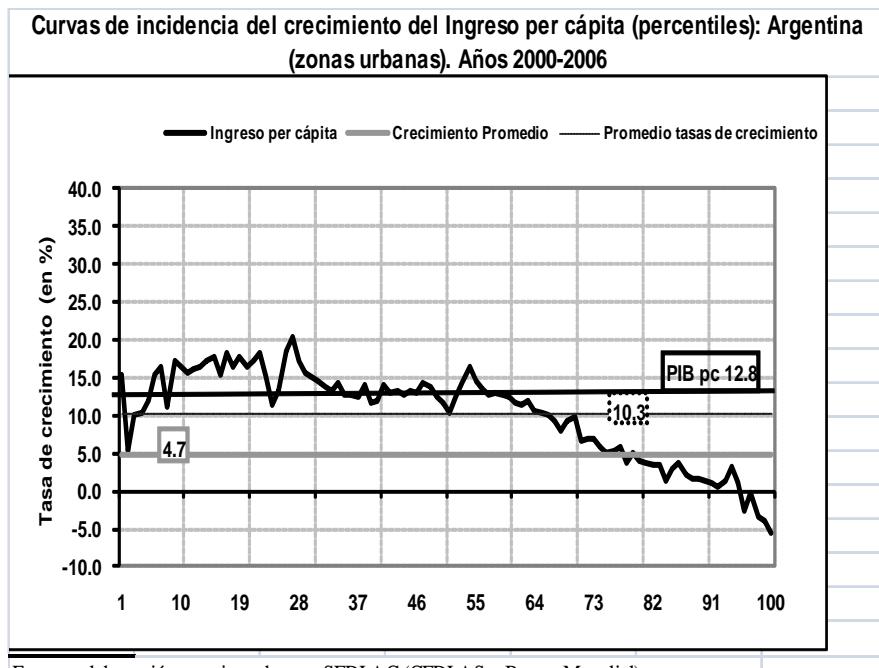
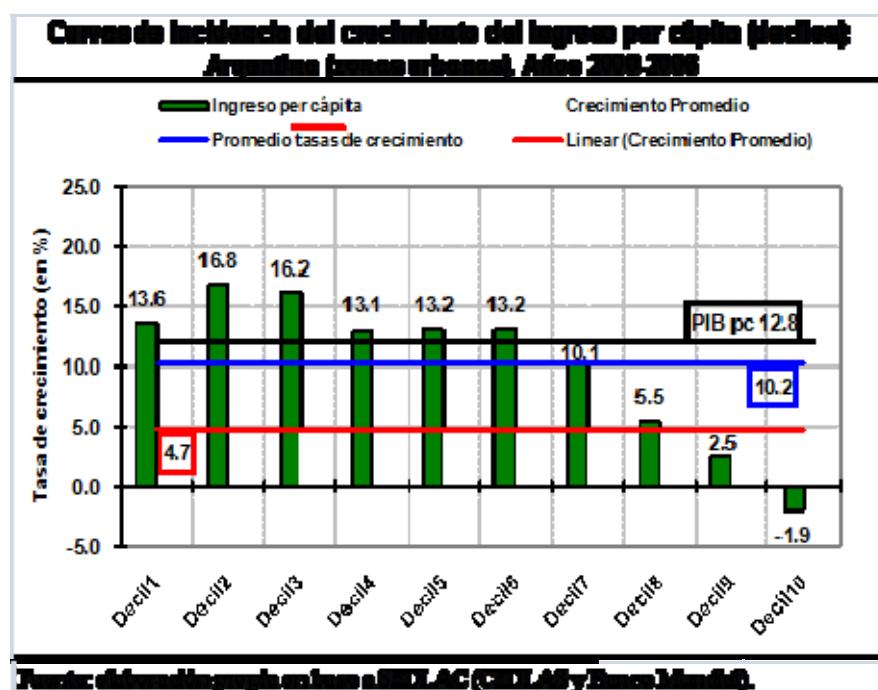
- In-depth analysis in four countries:
 - Argentina (Gasparini and Cruces) (urban; 2/3 of pop)
 - Brazil (Barros, Carvalho, Mendoca & Franco)
 - Mexico (Esquivel, Lustig and Scott)
 - Peru (Jaramillo & Saavedra)
- Representative sample of Latin American diversity: high/medium/low ineq; high/low growth; high/low share of indigenous pop; left/non-left regimes
- All four went through market-oriented reforms in 1990s.
- Changes are statistically significant and there is Lorenz dominance.

Inequality changes in Argentina, Brazil, Mexico and Peru (2000-2006)

(Data: household surveys)

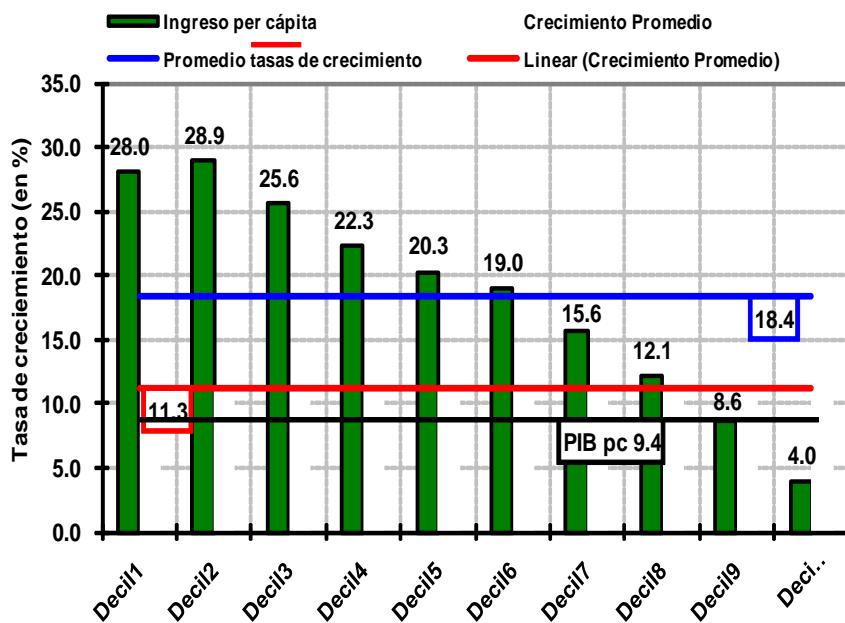
	Argentina (urban)		Brazil		Mexico		Peru	
	2000	2006	2001	2006	2000	2006	2001	2006
Gini ** (%)	50.4	48.2	58.8	54.8	52.9	49.9	52.4	49.3
Centile 90/10 ** (%)	11.9	11.2	15.7	12.5	11.4	8.9	11.7	10.6
Poverty (2.5 a day) ** (%)	14.2	11.0	27.4	19.5	21.9	13.9	29.9	20.4

Argentina: Growth Incidence Curves

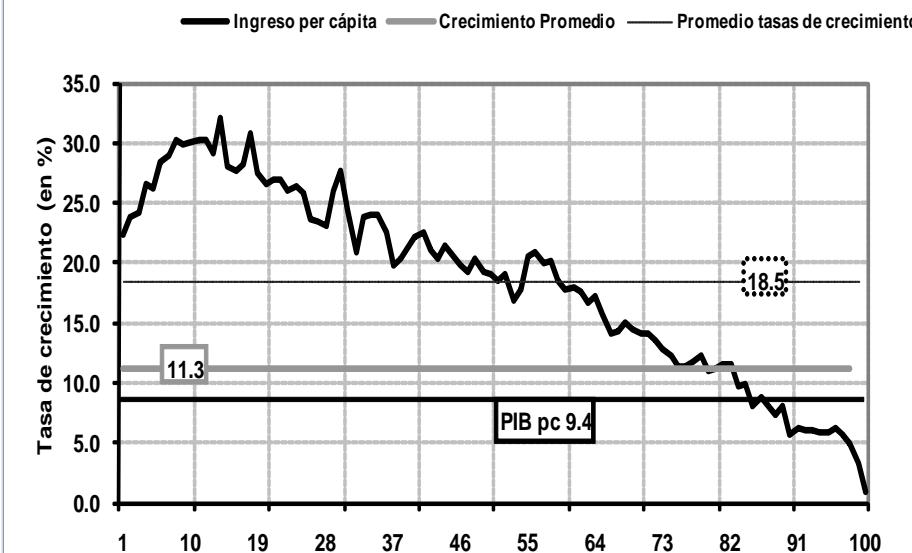


Brazil: GICs 2001-06

Curvas de incidencia del crecimiento del Ingreso per cápita (deciles):
Brasil. Años 2001-2006



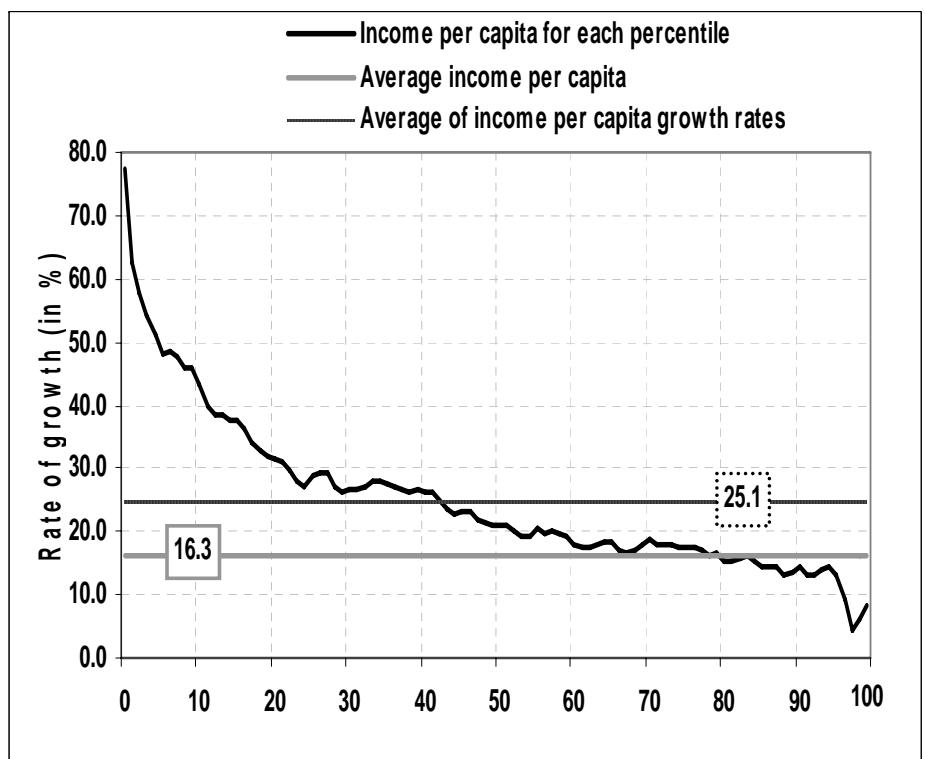
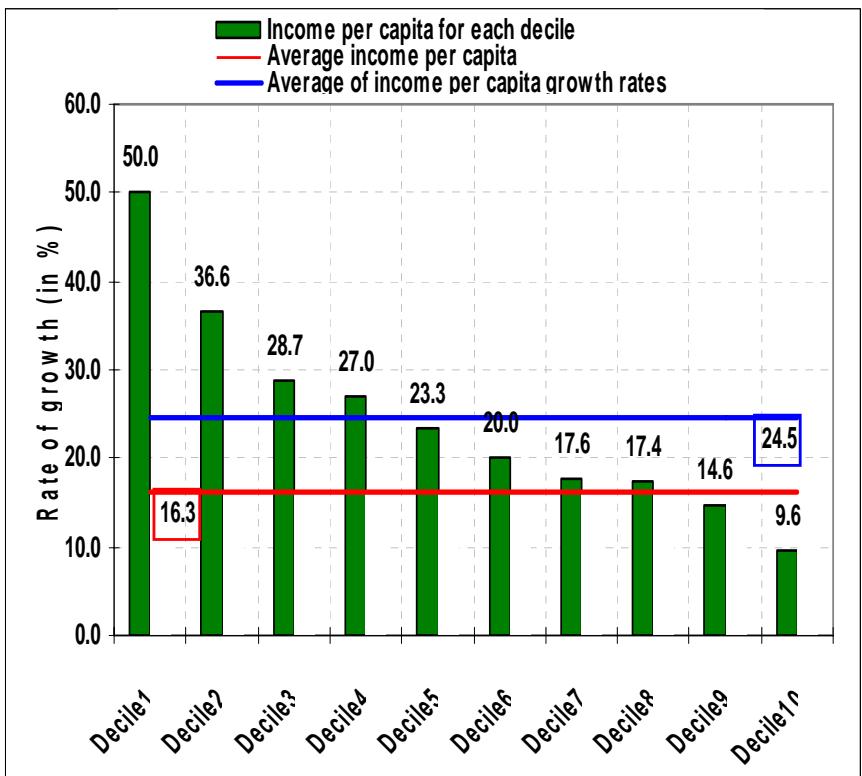
Curvas de incidencia del crecimiento del Ingreso per cápita (percentiles): Brasil. Años 2001-2006



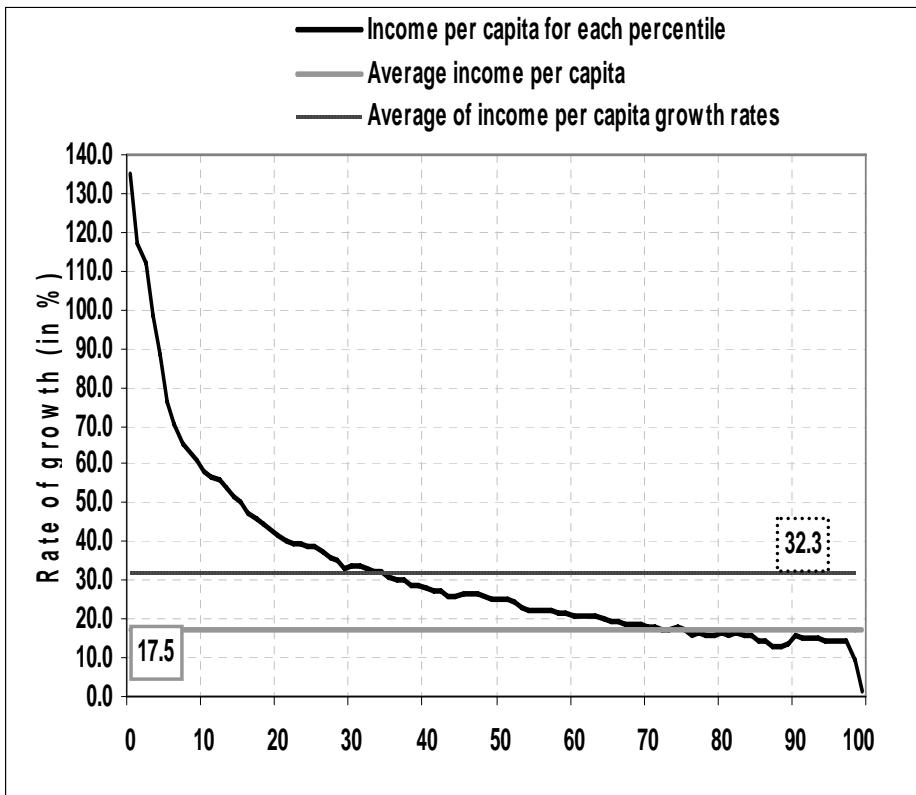
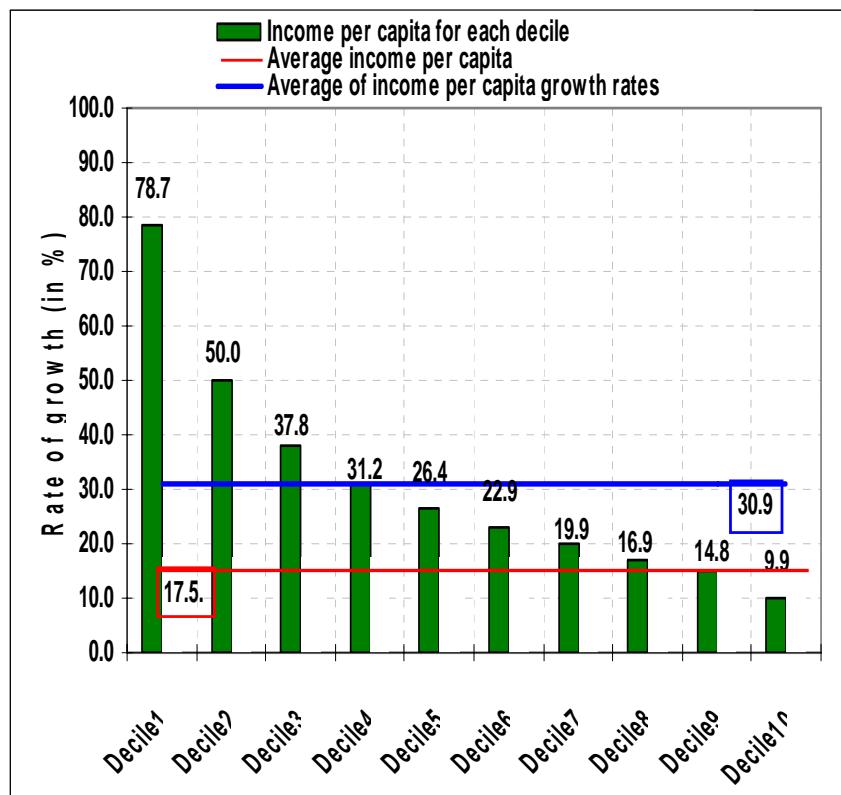
Fuente: elaboración propia en base a SEDLAC (CEDLAS y Banco Mundial).

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Mexico: GICs 2000-06



Peru: GICs 1997-2006

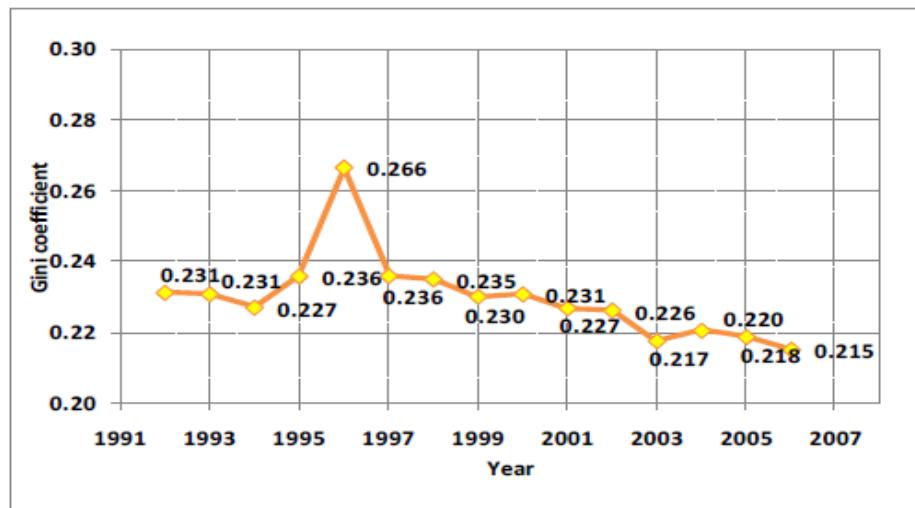


Summary of findings

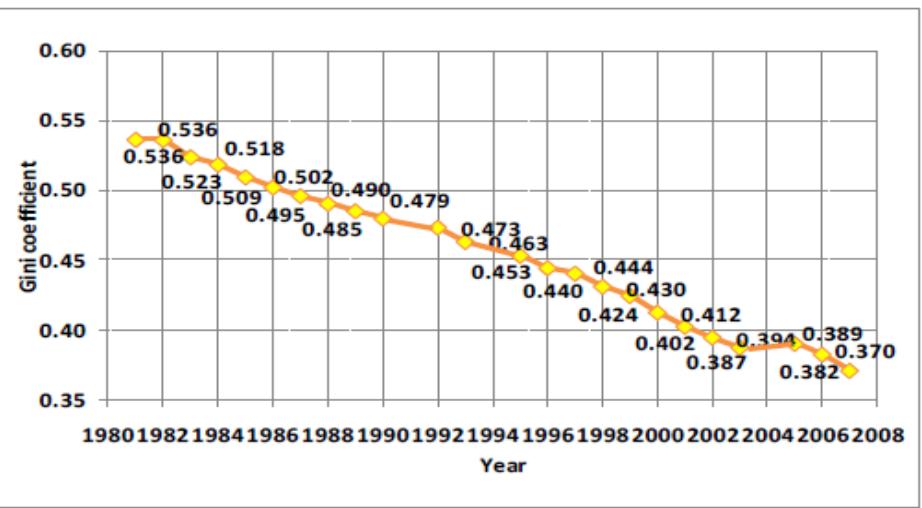
- Three leading factors:
 - a reduction in inequality of education
 - a decline (increase) in relative returns to tertiary/secondary (incomplete primary) education
 - Increase in government transfers' size and progressivity (more pro-poor)
- The first two largely explain the decline in the skilled/unskilled earnings gap and overall labor inequality
- The third explains the decline in non-labor inequality

Gini coefficient for population between ages 25 and 55

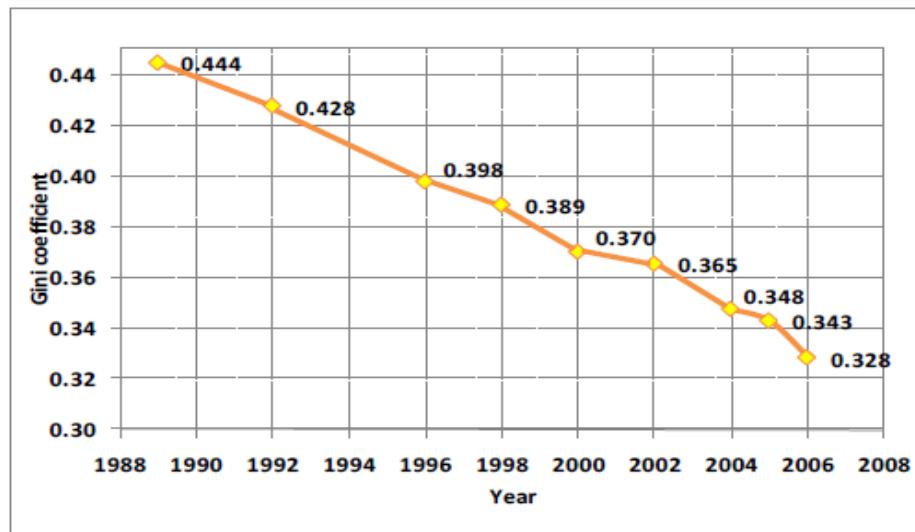
Argentina (urban areas): 1992 – 2006



Brazil: 1981 - 2007



Mexico: 1989 – 2006



Peru: 1997 - 2007

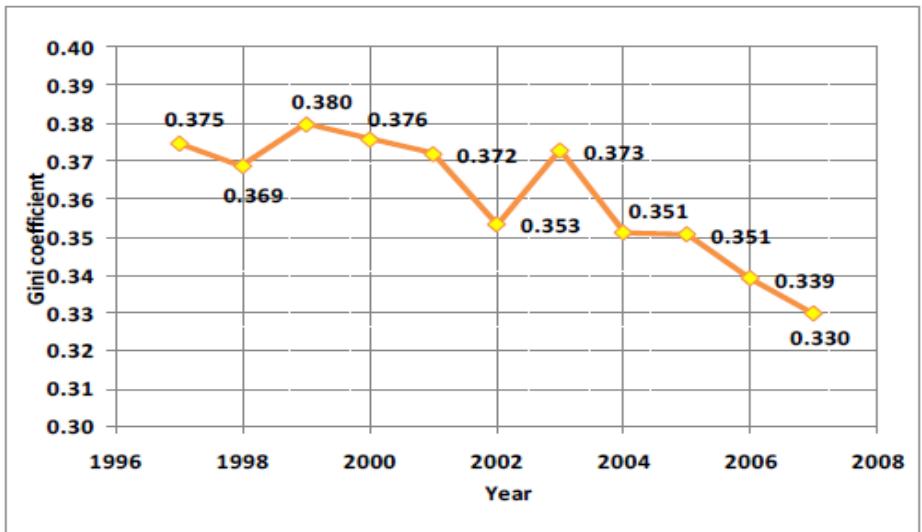
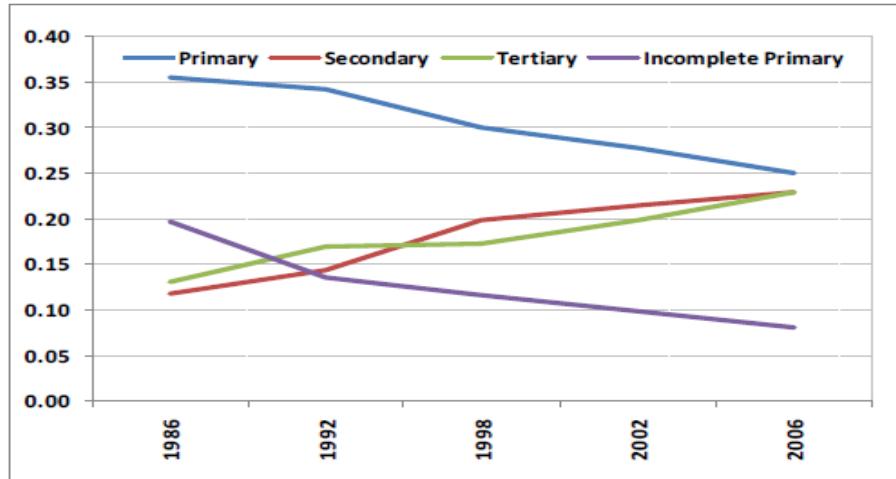
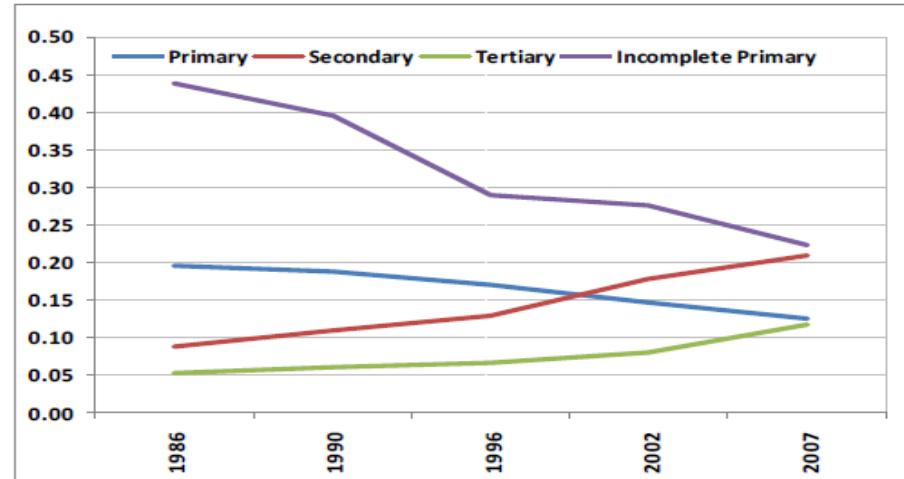


Figure 1. Composition of Adult Population by Educational Level: Argentina, Brazil, Mexico and Peru

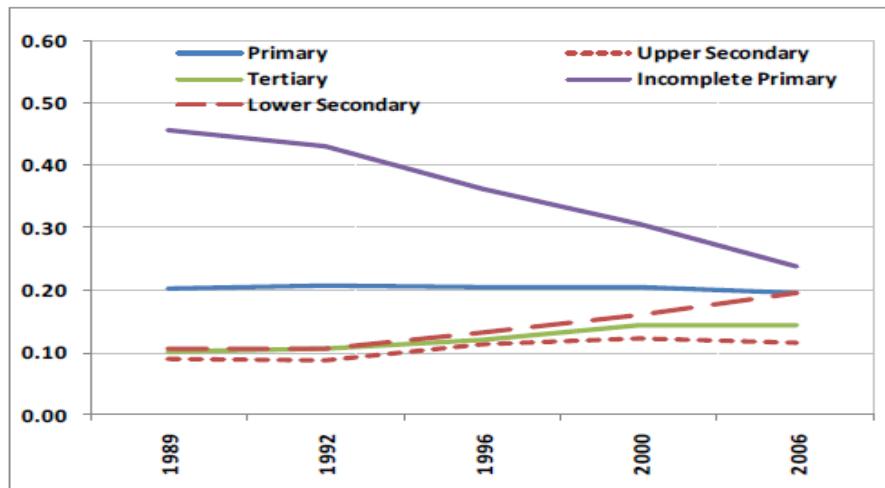
Argentina (urban areas): 1986 – 2006



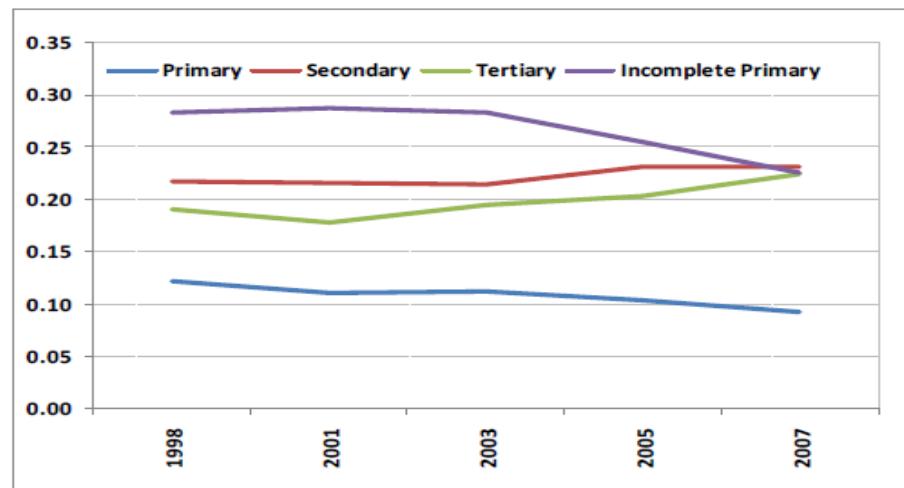
Brazil: 1986 – 2007



Mexico: 1989 – 2006

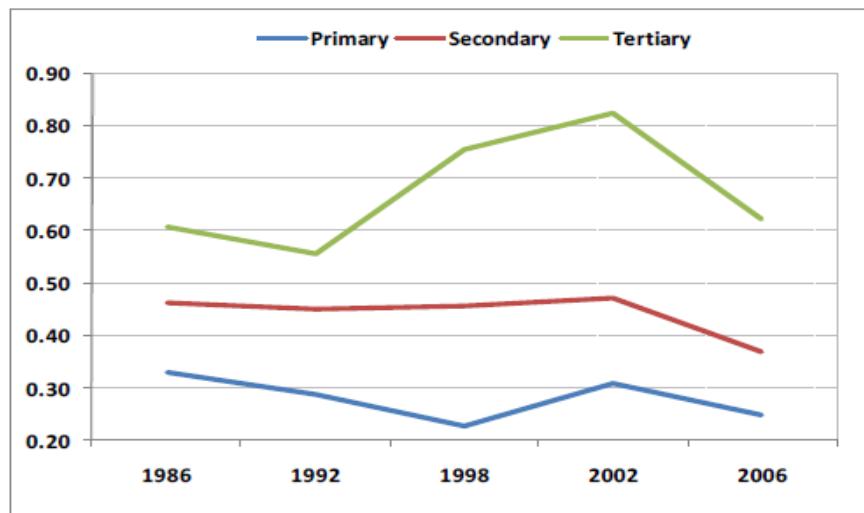


Peru: 1998 – 2007

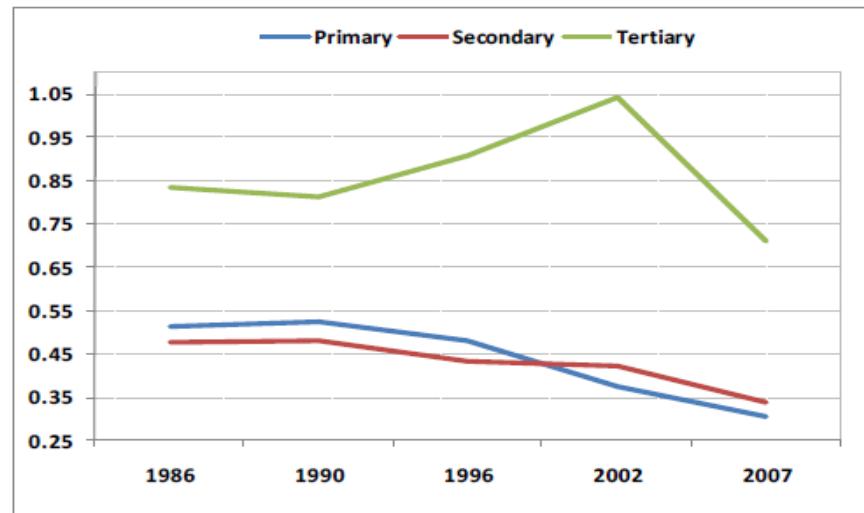


Coefficients of primary and secondary over omitted variable (non – primary or without education) for total working men

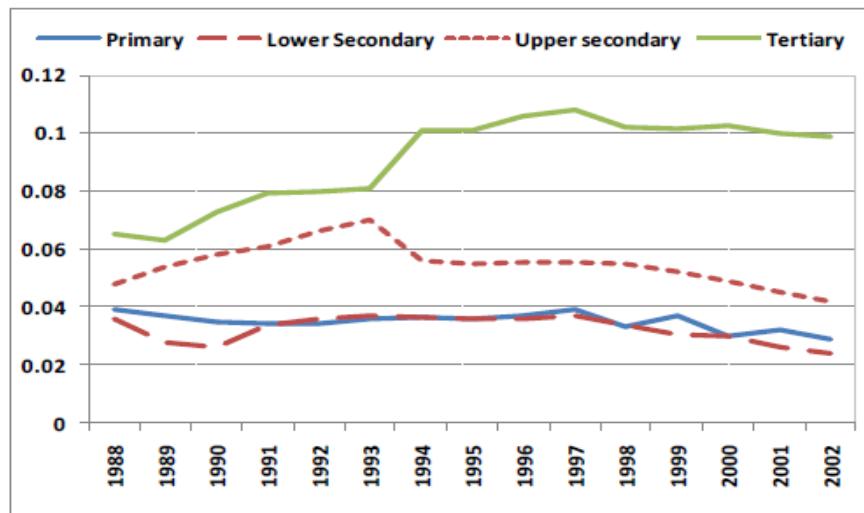
Argentina (urban areas): 1986 – 2006



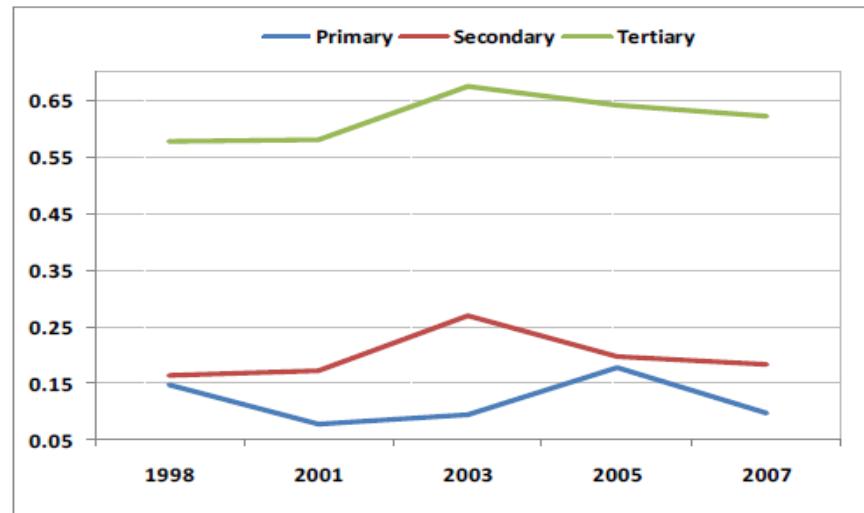
Brazil: 1986 - 2007



Mexico: 1988 – 2002



Peru: 1998 - 2007



Why has inequality in non-labor incomes declined?

- In the four countries government transfers to the poor rose and public spending became more progressive
 - In Argentina, the safety net program *Jefes y Jefas de Hogar*.
 - In Brazil and Mexico, large-scale conditional cash transfers => can account for between 10 and 20 percent of reduction in overall inequality. An effective redistributive machine because they cost around .5% of GDP.
 - In Peru, in-kind transfers for food programs and health. Also access to basic infrastructure for the poor rose.

Conclusions

- In the race between skill-biased technological change and educational upgrading, in the last ten years the latter has taken the lead (Tinbergen's hypothesis)
- Perhaps as a consequence of democratization and political competition, government (cash and in-kind) transfers have become more generous and targeted to the poor
- Will the momentum towards a less unequal Latin America continue?

THANK YOU