Facts, Puzzles and Surprises in Inequality Research
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Consequences of Economic Inequality for Economic Performance
Columbia University
New York, December 3, 2014
Two Themes

• Inequality in Latin America

• Fiscal Policy, Redistribution and Poverty Reduction in the Developing World
Inequality in Latin America

In the 1990s:
• Tepid growth
• Stable and high inequality

In the 2000s:
• Higher growth, primarily in commodity exporters
• Generalized decline in inequality
  – High growth and low growth countries
  – Governed by left and nonleft regimes
  – Commodity exporters and commodity importers
Latin America: Weighted averages of the Gini coefficient
(18 countries; 1992-2012)

(Lustig et al., 2014)
Latin America: Yearly Change in Gini Coefficient (circa 2000 - circa 2013)

(Lustig et al., 2014)
WHY?
Nonparametric

Parametric

- Labor income
- Other non-labor income
- Capital
- Transfers
- Pensions
- Adult population

(Lustig et al., 2014)
Zooming in

Brazil
Brazil: Wage Inequality of All Workers
Gini Coefficient of Hourly Wages

Wang, Yang. 2013. “Decomposing the Changes in Male Wage Distribution in Brazil.” Tulane University, Ph.D. field paper
Difference in Log Hourly Wage. Base Period 2004

Wang, Yang. 2013. “Decomposing the Changes in Male Wage Distribution in Brazil.” Tulane University, Ph.D. field paper
Brazil: Decline in real wages for workers with tertiary education

Wang, Yang. 2013. “Decomposing the Changes in Male Wage Distribution in Brazil.” Tulane University, Ph.D. field paper
Brazil: Human Capital (2002-2011)

- Wage Structure Effect => Equalizing
- Composition Effect => Slightly Unequalizing

Wang, Yang. 2013. “Decomposing the Changes in Male Wage Distribution in Brazil.” Tulane University, Ph.D. field paper
Brazil: Rising minimum wage

Wang, Yang. 2013. “Decomposing the Changes in Male Wage Distribution in Brazil.” Tulane University, Ph.D. field paper
Brazil: Decline in skill premium coincides with the expansion of the relative supply of workers with tertiary education.

Zooming in Mexico
Mexico: Decline in Wage Inequality (Gini)

<table>
<thead>
<tr>
<th>Year - Quarter</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000q2</td>
<td>0.3</td>
<td>0.35</td>
</tr>
<tr>
<td>2001q2</td>
<td>0.4</td>
<td>0.45</td>
</tr>
</tbody>
</table>

Campos, Lopez-Calva and Lustig “Declining wages for college-educated workers in Mexico: disentangling the age, cohort and education effects,” to be presented at *Latin American Inequality in the Long-run*, Buenos Aires, December 5, 2014
Mexico: Wages by Education Level
Difference in Log Hourly Wage. Base Period 2008:1

Campos, Lopez-Calva and Lustig “Declining wages for college-educated workers in Mexico: disentangling the age, cohort and education effects,” to be presented at Latin American Inequality in the Long-run, Buenos Aires, December 5, 2014
Mexico: Average Monthly Earnings for College-Educated Workers

Campos, Lopez-Calva and Lustig “Declining wages for college-educated workers in Mexico: disentangling the age, cohort and education effects,” to be presented at Latin American Inequality in the Long-run, Buenos Aires, December 5, 2014

• Wage Structure Effect
  => Equalizing

• Endowment Effect
  => Slightly Unequalizing

In contrast to Brazil, in Mexico minimum wages did not increase at all...

Real Minimum Wage and Unionization: 1988-2010

A. Real Minimum Wage Index (December 2010=100)

B. Unionization Rate

Mexico: Decline in skill premium coincides with the expansion of the relative supply of workers with tertiary education.

References

Fiscal Policy, Redistribution and Poverty Reduction in the Developing World
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www.commitmenttoequity.org
Redistribution in Europe, the US and developing countries

Change in Gini: Disposable vs. Market
(in GINI points)

Indonesia (2012)
Guatemala (2010)
Colombia (2010)
El Salvador (2011)
Sri Lanka (2009)
Peru (2009)
Bolivia (2009)
Ethiopia (2011)
Costa Rica (2010)
Mexico (2010)
Argentina (2011)
Poland
Brazil (2009)
Chile (2009)
Greece
Cyprus
Latvia
Slovakia
Italy
Hungary
Malta
Luxembourg
Belgium
United Kingdom
Ireland

Source: for US and for CEQ countries see Lustig (2014) and references at the end; for Europe: EUROMOD for EU, Higgins et al. (2014) and references at the end; for Europe:

Note: in these calculations contributory pensions are part of market income and NOT treated as a government transfer.
Sources: for US and for CEQ countries see Lustig (2014) and references at the end; for Europe: EUROMOD for EU, Higgins et al. (2014)  
Note: in these calculations contributory pensions are part of market income and NOT treated as a government transfer.
However, paradox disappears once one disaggregates into Europe and US.
Sources: Lustig (2014) and references at the end.
Note: in these calculations contributory pensions are part of market income and NOT treated as a government transfer.
Results sustained even when one adds indirect taxes
Direct Transfers (net of direct taxes) reduce poverty (except in Ethiopia)

Change in Headcount Ratio ($2.5 PPP/Day): Disposable vs. Market Income (in percentage points)
Indirect Taxes increase poverty over and above market income poverty in several countries

Change in Headcount Ratio ($2.5 PPP/Day)
(in percentage points)
Note that Net Indirect Taxes can be equalizing and yet poverty increasing: Ethiopia
CEQ Teams
(Year of Survey; C=consumption & I=income)(MWB Version)


2. **Armenia (2011; I):** Stephen Younger and Artsvi Khachatryan (May 31, 2014; paper)


5. **Chile (2009, I):** Jaime Ruiz-Tagle and Dante Contreras (Oct. 25, 2014)

6. **Colombia (2010, I):** Marcela Melendez, Nora Lustig and Valentina Martinez (May 2014)

7. **Costa Rica (2010; I):** Pablo Sauma and Juan Diego Trejos (February 2014; paper)


11. **Indonesia (2012; C):** Jon Jellema and Matthew Wai-Poi (Sept. 9, 2014)


15. **South Africa (2010; I):** Ingrid Woolard, Precious Zikhali, Mashekwa Maboshe, Jon Jellema (Aug. 25, 2014)

16. **Sri Lanka (2009/10; C):** Nisha Arunatilake, Gabriela Inchauste and Nora Lustig (April 8, 2014; paper)
