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Skill Premium, Labor Supply, and Changes in the Structure of Wages in Latin America*

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Abstract

After a decade of increasing wage inequality, this paper documents a sharp compression in the distribution of wages in Argentina and Chile during the 2000s. In Brazil, wage inequality has steadily declined since the early 1990s. Counterfactual exercises show that the evolutions of the schooling and experience premiums are key determinants of the decline in inequality. The 2000s witnessed a rapid decline in the schooling and experience premiums, at the same time as the working population was aging and becoming more educated. To understand these changes, the paper develops a model of imperfect substitution across experience and education groups and estimates the relevant elasticities of substitution. Changes in labor supply contributed significantly to the decline of the experience and education premiums, but are not enough to account fully for the observed changes. The demand for experience shifted in favor of younger workers, while the relative demand for college graduates declined during the 2000s.

JEL classifications: E24, J20, J31

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*The views expressed in this article are those of the authors and not those of the Inter-American Development Bank.

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