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Declining Inequality in Latin America in the 2000s: The Cases of Argentina, Brazil, and Mexico

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Summary. — During 2000–10, the Gini coefficient declined in 13 of 17 Latin American countries. The decline was statistically significant and robust to changes in the time interval, inequality measures, and data sources. In depth country studies for Argentina, Brazil, and Mexico suggest two main phenomena underlie this trend: a fall in the premium to skilled labor and more progressive government transfers. The fall in the premium to skills resulted from a combination of supply, demand, and institutional factors. Their relative importance depends on the country.

Key words — income inequality, skill premium, government transfers, Latin America

1. INTRODUCTION

Inequality is a distinctive feature of Latin America due to its high level and persistence. [1] After rising in the 1990s, however, income inequality in the 2000s unambiguously declined in the majority of countries. From an (unweighted) average of 0.530 in the late 1990s, the Gini coefficient for household per capita income [2] fell to 0.497 in 2010. [3] Of the 17 countries for which there is (reasonably) comparable data, 13 experienced a decline (while the Gini increased in other parts of the world) (Figure 1). [4] Existing analysis suggests that the decline in inequality is robust to the selection of the time interval, income variable, inequality measure, and data source. [5]

The order of magnitude of the decline is nontrivial and in all but one case statistically significant. [6] As shown in Figure 2, in the 11 countries for which the comparison is possible, the decline in the 2000s was higher than the increase in inequality in the 1990s (in the cases where there was such an increase). Furthermore, a Datt–Ravallion decomposition of the changes in poverty during the 2000s reveals that the reduction in inequality—on average—accounted for 50% of the observed decline in poverty; the lowest contribution was found in Peru (10.8%) and the highest in Paraguay (89.9%) [7] (Figure 3).

Inequality in Latin America is linked to state-capture on the part of predatory elites, capital market imperfections, inequality of opportunities (in particular, in terms of access to high-quality education), labor market segmentation, and discrimination against women and nonwhites. [8] Hence, the observed fall in inequality is good news both in terms of fairness and efficiency.

What factors are behind the decline in inequality in Latin America in the 2000s? Here we examine the role played by demand and supply of labor by skill, institutional factors such as minimum wages and unionization rates, and government transfers in accounting for changes in inequality in the three largest (measured by GDP) countries in Latin America: Argentina (urban), [9] Brazil, and Mexico. The three countries analyzed in this paper can be considered a representative sample (not in the statistical sense, but in terms of their characteristics) of middle-income countries in Latin America. It includes a country that experienced relatively high growth rates (Argentina) and two countries where growth was modest (Brazil and Mexico) during the period of analysis; one of the most unequal countries in Latin America (Brazil); a traditionally low-inequality country, which witnessed the largest increase in inequality in the region over the past three decades (Argentina); and, finally, two countries governed by leftist regimes (Argentina and Brazil) and one country governed by a nonleftist regime (Mexico). It should also be noted that Mexico and Brazil are the countries in which the inequality decline started the earliest (1996 and 1998, respectively).

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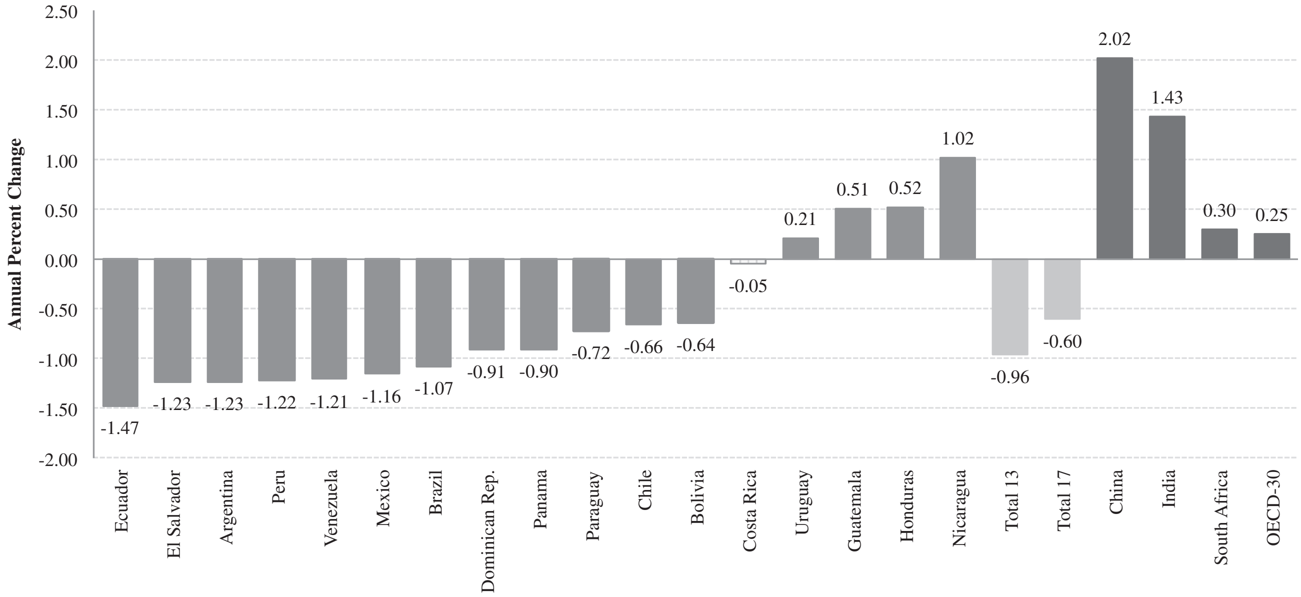

Figure 1. *Declining inequality in Latin America by Country: 2000–10 (annual % change in Gini). Source: Authors' calculations based on data from SEDLAC (CEDLAS and The World Bank), March 2012 (http://sedlac.econo.unlp.edu.ar/eng/) for Latin American countries; and OECD (2010) for China, India, South Africa and OECD-30. Note: Solid bars represent cases where changes are statistically significant based on SEDLAC's estimates. Data for Argentina and Uruguay are for urban areas only. In Uruguay, urban areas covered by the survey represent 80% of the total population; in Argentina, they represent 66%. The average change in the Gini for each country is calculated as the percentage change between the end year and the initial year divided by the number of years; the average for the total is the simple average of the changes by country (thirteen countries in which inequality fell). The years used to estimate the percentage change are as follows: Argentina (2000–10), Bolivia (2001–08), Brazil (2001–09), Chile (2000–09), Costa Rica (2001–10), Dominican Republic (2000–10), Ecuador (2003–10), El Salvador (2000–10), Guatemala (2000–06), Honduras (2001–10), Mexico (2000–10), Nicaragua (2001–05), Panama (2000–10), Paraguay (2001–10), Peru (2001–10), Uruguay (2000–10), and Venezuela (2000–10). Using the bootstrap method, with a 95% significance level, the changes were not found to be statistically significant for Costa Rica (represented by grid bars in the figure). The years used in nonLatin American countries are as follows: China (1993-mid 00s), India (1993-mid 00s), South Africa (1993–08), and OECD-30 (mid 80s–mid 00s).*

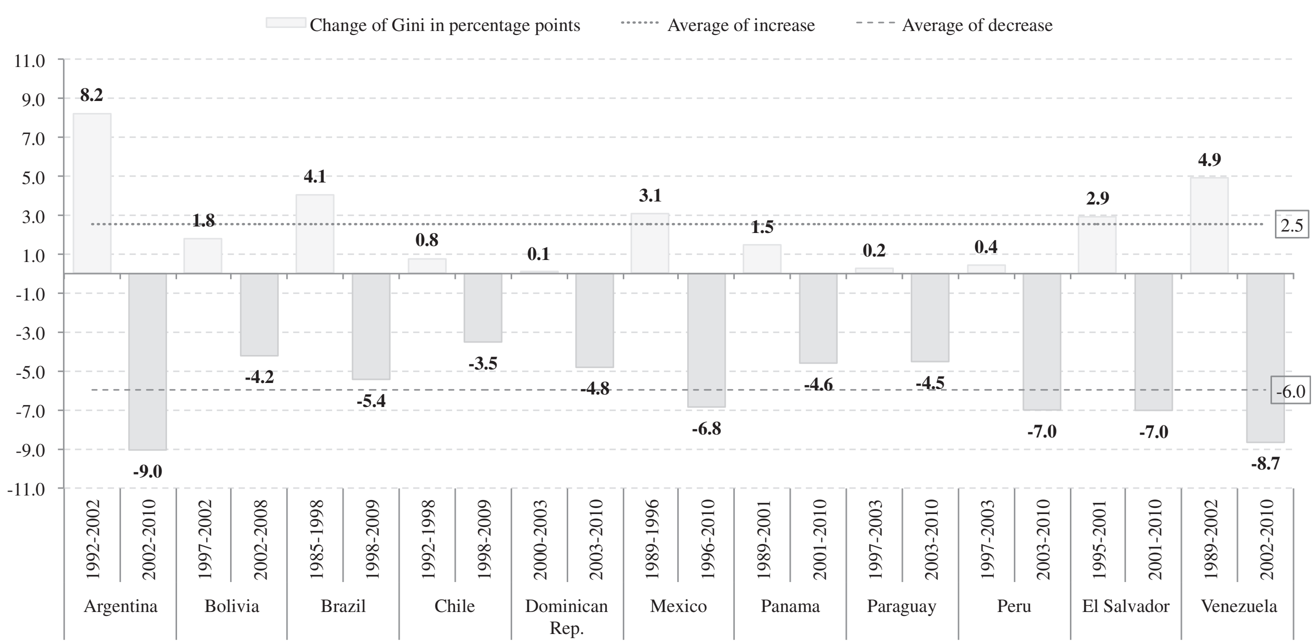

Figure 2. *The rise and fall in inequality. (Changes in the Gini coefficients in percentage points.) Source: Authors' calculations based on data from SEDLAC (CEDLAS and The World Bank), March 2012 (http://sedlac.econo.unlp.edu.ar/eng/). Note: Change in percentage points of the Gini coefficient before and after the inequality started to decline. Although inequality in Ecuador declined since 2003, there were no observations for earlier years.*

This paper uses evidence from our own research as well as that of others. In particular, we draw on results from the research project "Markets, the State and the Dynamics of Inequality in Latin America" coordinated by Luis F. Lopez-Calva and Nora Lustig, and sponsored by the United Nations Development Program (UNDP). [10] More specifically, we draw