

Abstract for “Recent changes in income inequality in Latin America: a factor components analysis”

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After a decade of increase in income inequality in the region during the 90s, most Latin American countries experienced a decreasing trend in their income inequality indicators during the 2000s. A turning point can be identified in many countries in the region in 2002 and 2003, when a trend down began (ECLAC, 2011). These are obviously good news after the lack of improvement in previous decades, although the position of Latin America as the most unequal region in the world still remains unchanged.

This recent decline in income inequality in the region has drawn the attention of scholars and institutions, and previous research has addressed this question, both through country case studies (see Gasparini and Cruces, 2010; Barros et al, 2010; Esquivel et al, 2010; Jaramillo and Saavedra, 2010; Ponce and Vos, 2012; Amarante et al, 2011; among others) and cross country analysis (ECLAC, 2011; Gasparini et al, 2011; Cornia, 2012; Damill and Frenkel, 2012). This paper reviews that discussion, and aims at contributing to it, by providing new evidence through a cross country study of factor decomposition of inequality for five Latin American countries (Argentina, Chile, Colombia, Ecuador, and Uruguay). These countries experienced a decrease in income inequality during the last years of the 2000s, whereas during the previous decade the trend in inequality was increasing or at most, stable.

Methodologically, the paper follows a large literature on decompositions of inequality indexes by factor components (see Shorrocks, 1982; Jenkins, 1995; Lerman and Yitzhaki, 1985 for key references). The objective is to analyze the contribution of each source of income to overall inequality in three points in time (around 1990, 2002 and 2011), as well as decompose their changes during that period, in order to compare the importance of different factors and disentangle if there is a common pattern among countries.

The exercise is performed on the basis of original income vectors compiled by household surveys, and also using ECLAC's adjusted income vectors, which are made in order to reach consistency with National Accounts figures, and which also include estimations of imputed rent. Income factors include wages, self employment income, capital income, contributive transfers and other transfers. For the last decade, wages are separated in their formal and informal components, defining formality as contributing to social security.