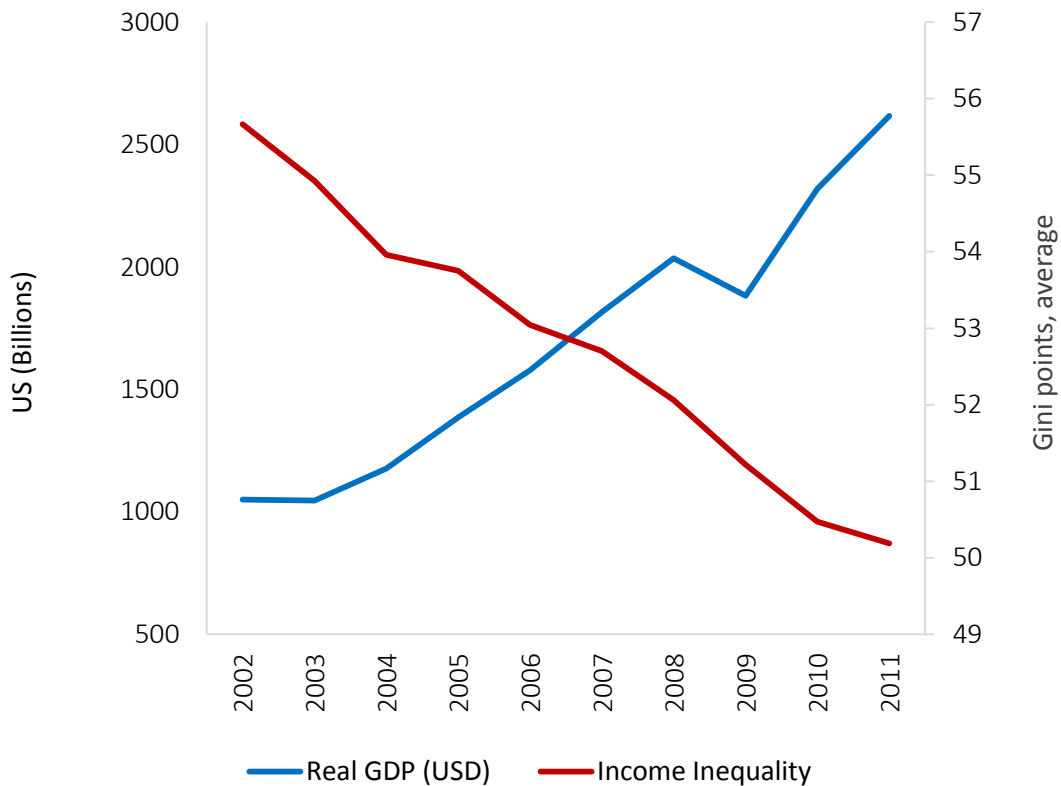


Wage Inequality in Latin America:

Understanding the Past to Prepare for the Future

Latin America's remarkable story

It is possible to grow with equity



Key findings

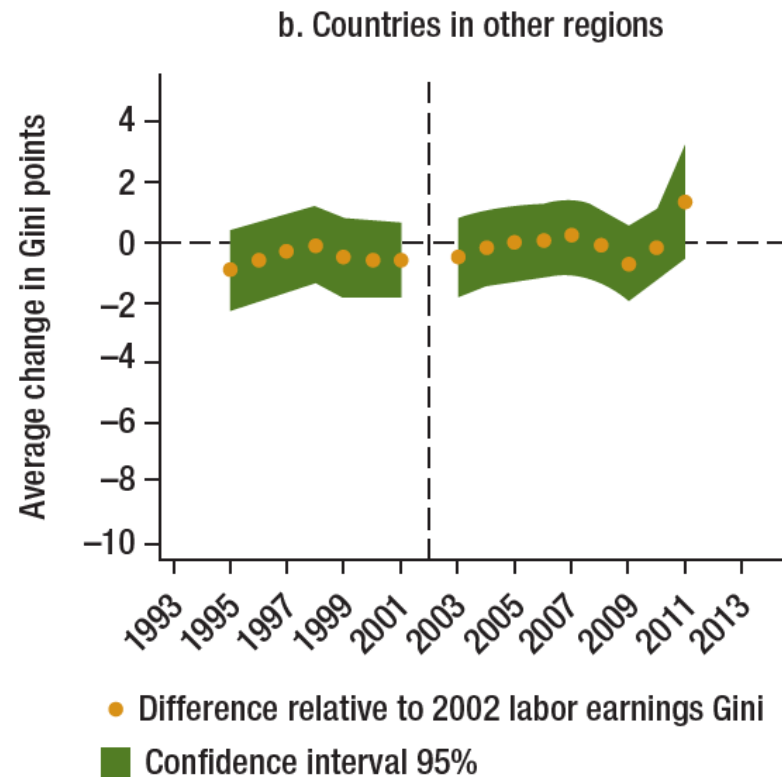
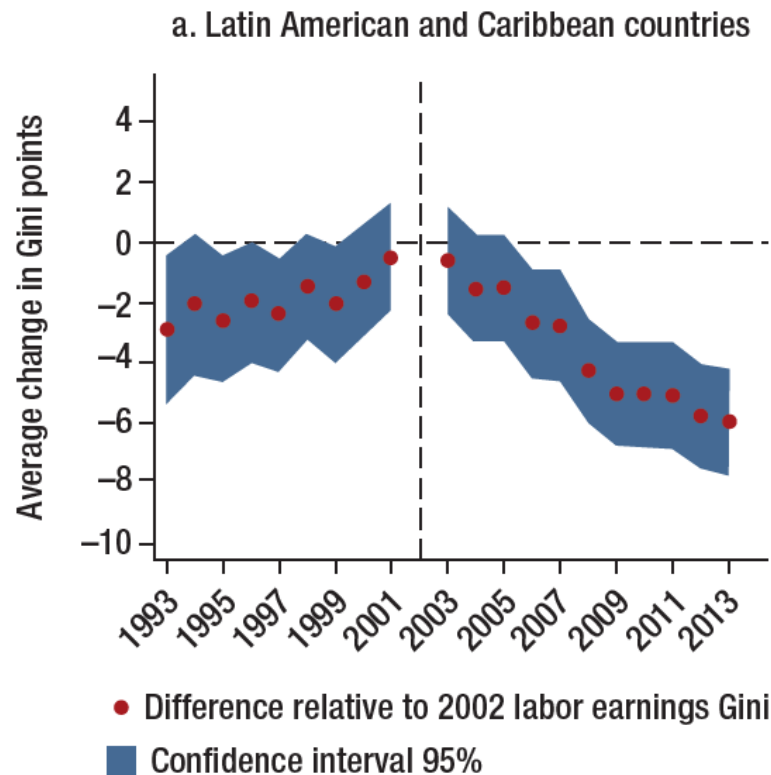
- **Wage inequality fell throughout Latin America—
unique in the World**
- **Why?**
 - Growth
 - Education
 - Other Forces
- **The future with lower growth**
 - Slower wage inequality reduction
 - Further progress will require extra work

Latin America's reduction in wage inequality in the 2000s

Facts

LAC sharply reduced wage inequality, going against the global trend

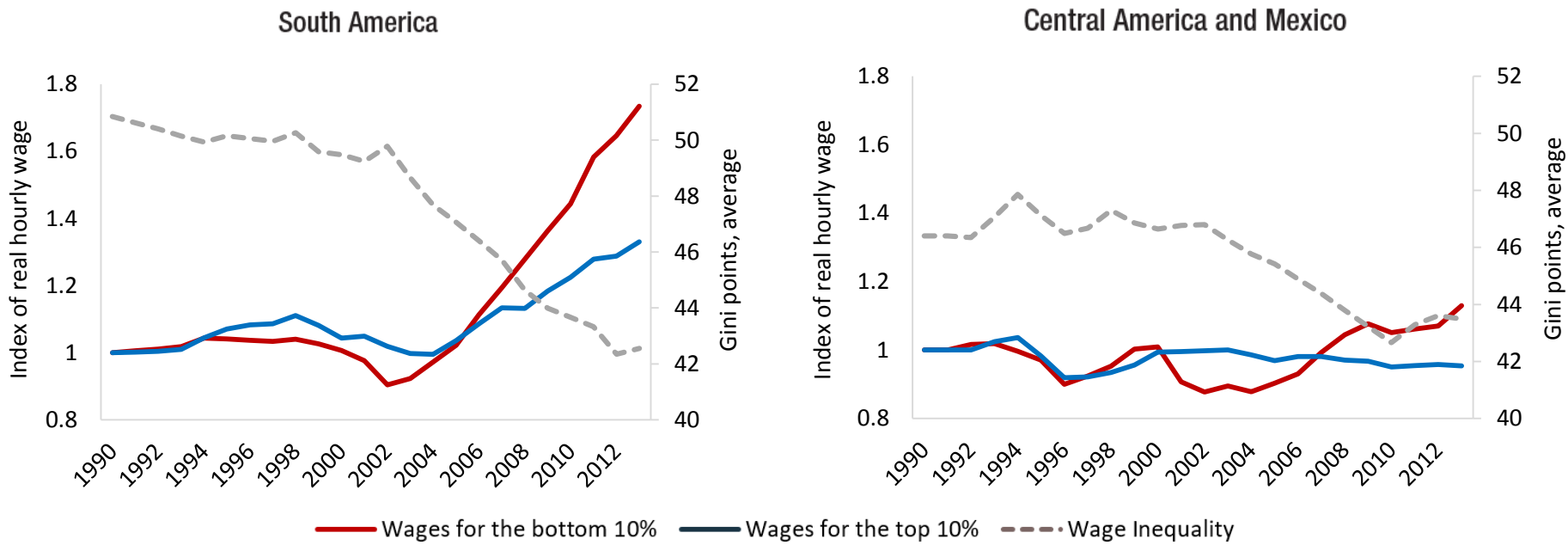
Wage inequality across regions relative to 2002



Regionwide phenomenon (in 16 out of the 17 countries)

How did wage differences between workers narrow?

Wage inequality and real wages



Wage gaps fell between low and high-skilled workers, but also between workers with the same skill level



More than half of the inequality reduction occurred between workers with the same skill level who worked in different firms

To summarize

- **Stronger reduction in South America**
- **Faster wage growth for low than high skilled workers**
- **More equal wages across firms (within skill groups)**

**Latin America's reduction in wage
inequality in the 2000s**

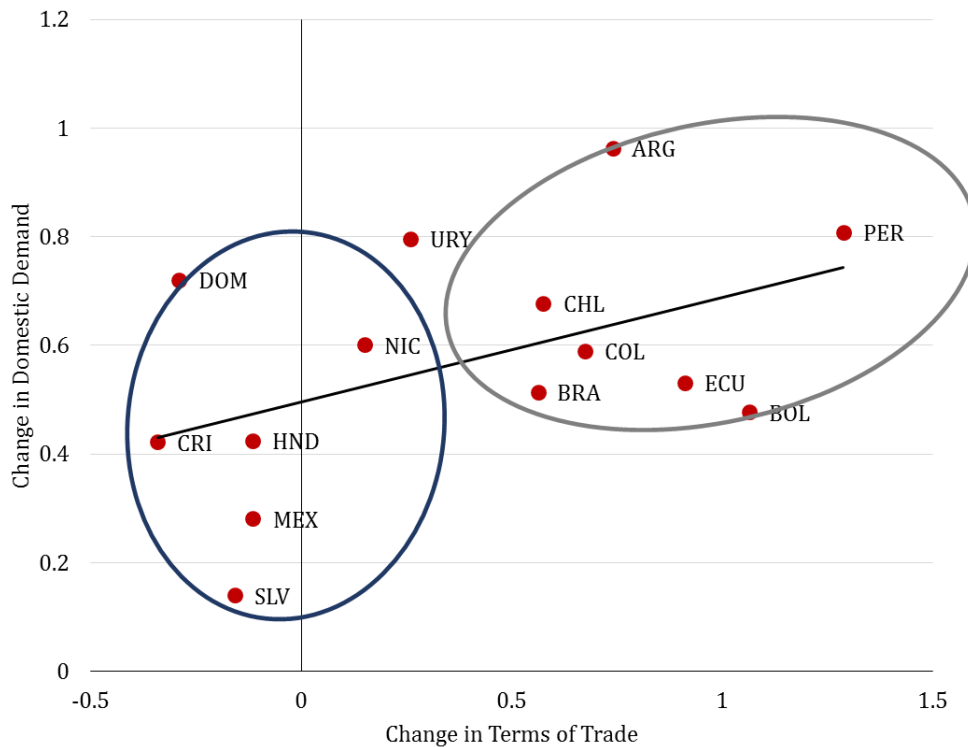
Causes

1. Growth

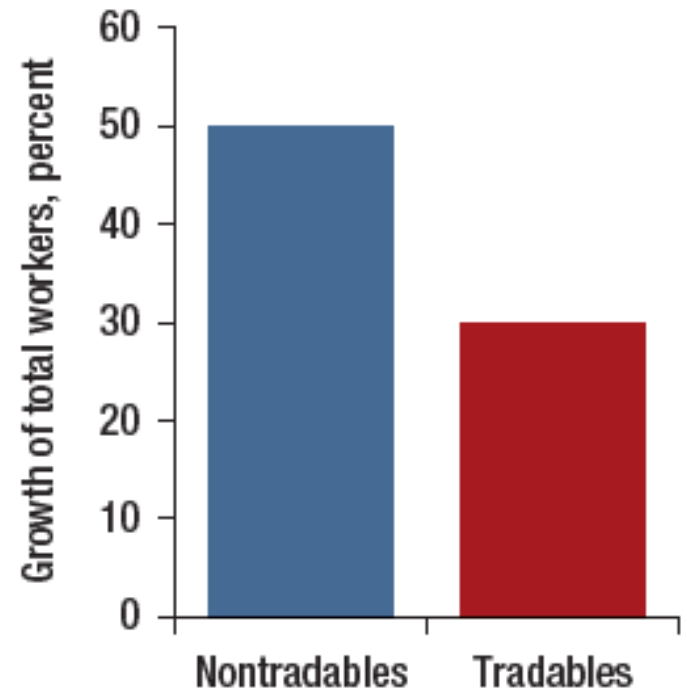
- Pattern (not just level) of growth mattered
- Real exchange rate appreciation in South America caused by the commodity boom and other forces
- Contributed to the reduction in wage inequality within skill groups

Growth in South America fueled employment in both the tradable and nontradable sector

Change in Domestic Demand and Terms of Trade, 2005–2011



Employment Growth, by Sector Type, in South America, 1994–2013



Growth, through real exchange rate appreciation, led to more equal wages across firms

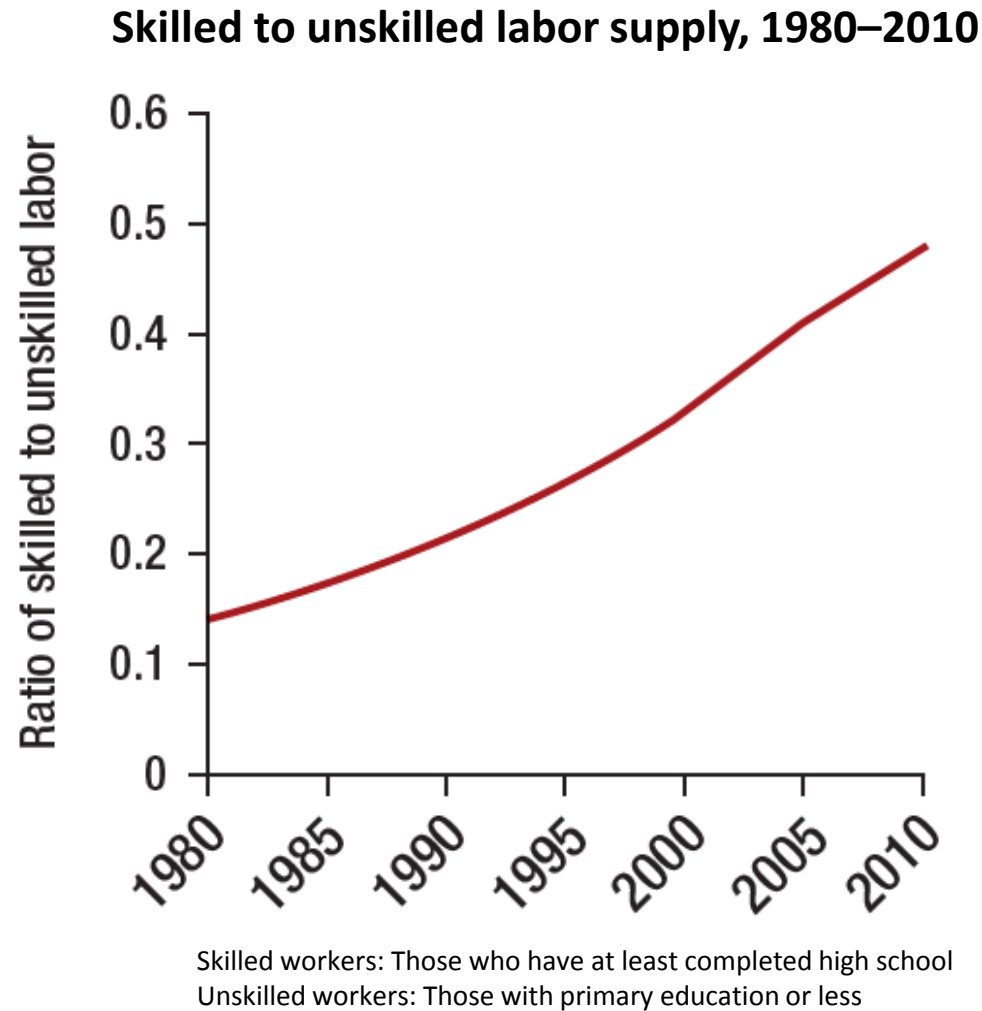
Two channels

- Expansion of the nontradable sector, where wages are more similar across firms
- Decline in export participation reduced wage dispersion across employers

2. Education

- It wasn't just growth
- Remarkable expansion of access to education
- More equal wages by skill

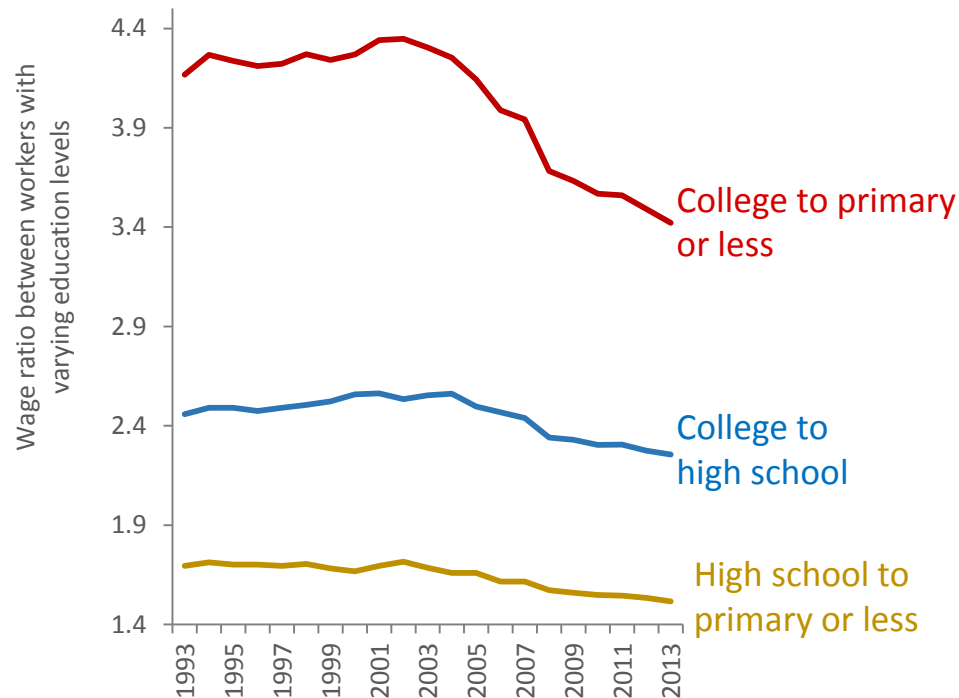
Large expansion of access to education



In 25 years, Latin America achieved close to full gross enrollment of girls in high school. Today the average education level of the labor force is 9 years, in 1990 it was 6 years.

Education ties together the reduction in inequality in low and high growth countries

Returns to education in Latin America and the Caribbean, 1993-2013



Difference in pay between less and more educated workers fell as bottlenecks in access were removed, but remains very high

3. Other forces

- Informality and minimum wage
- Played a secondary role
- Had a non-negligible impact, but only in some countries

The role of informality and minimum wage

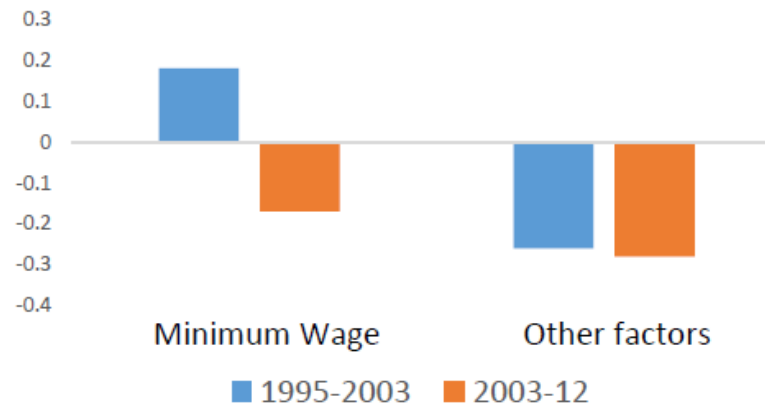
Reduction in informality

- Equalizing in the 2000s in Argentina, Brazil, Mexico and Peru, but not in Chile and Uruguay

Rising Minimum wage

- Reduced inequality in Brazil, but only during the boom
- Not an important factor in Bolivia, Colombia, Mexico, Paraguay, Peru and Uruguay

Contribution of the Minimum Wage to the Change in Wage Inequality, Brazil



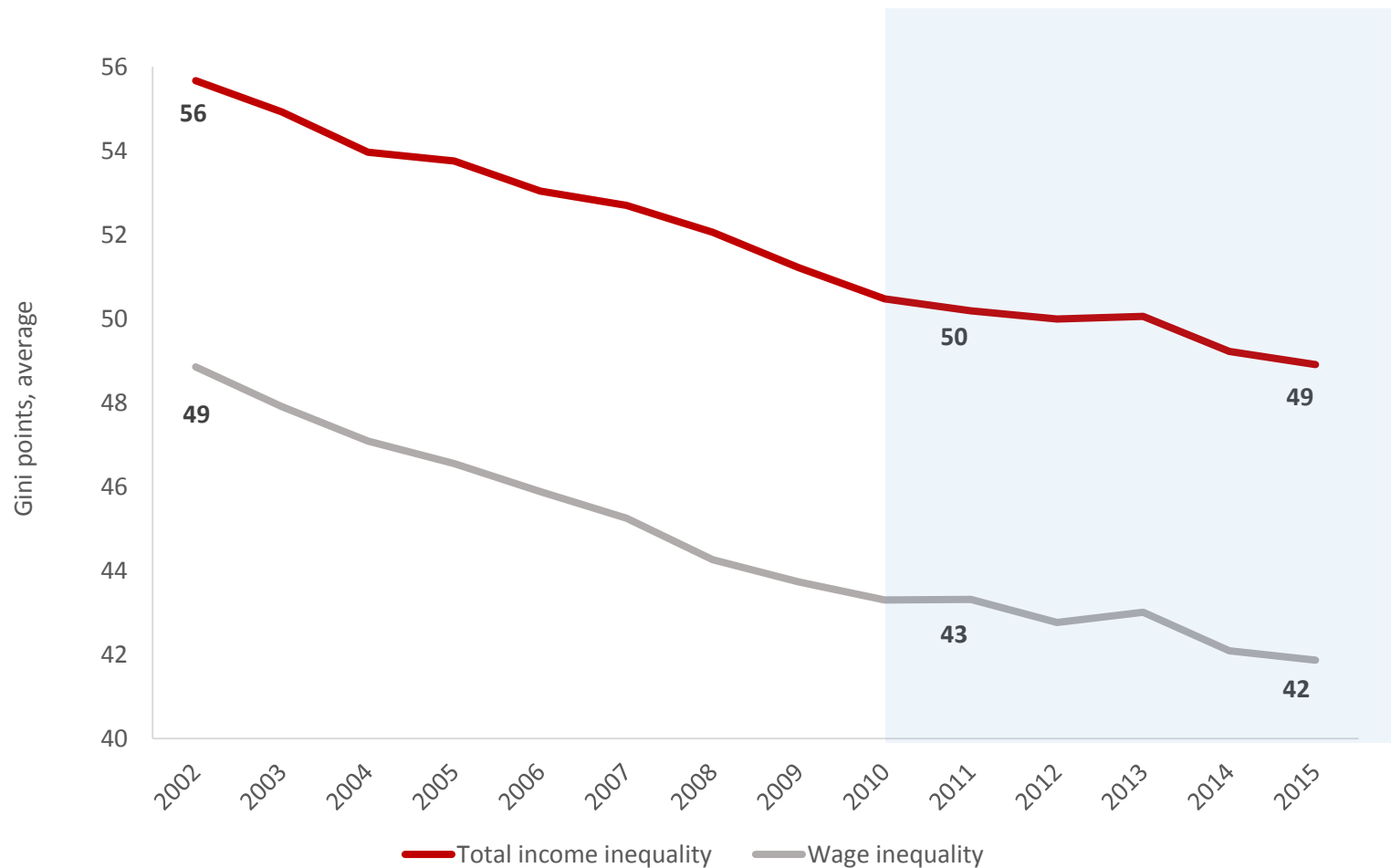
To summarize

- **Economic growth and better access to education were the primary drivers**
- **Other forces (informality and minimum wage) had a smaller role**

**Is the economic slowdown
increasing wage inequality?**

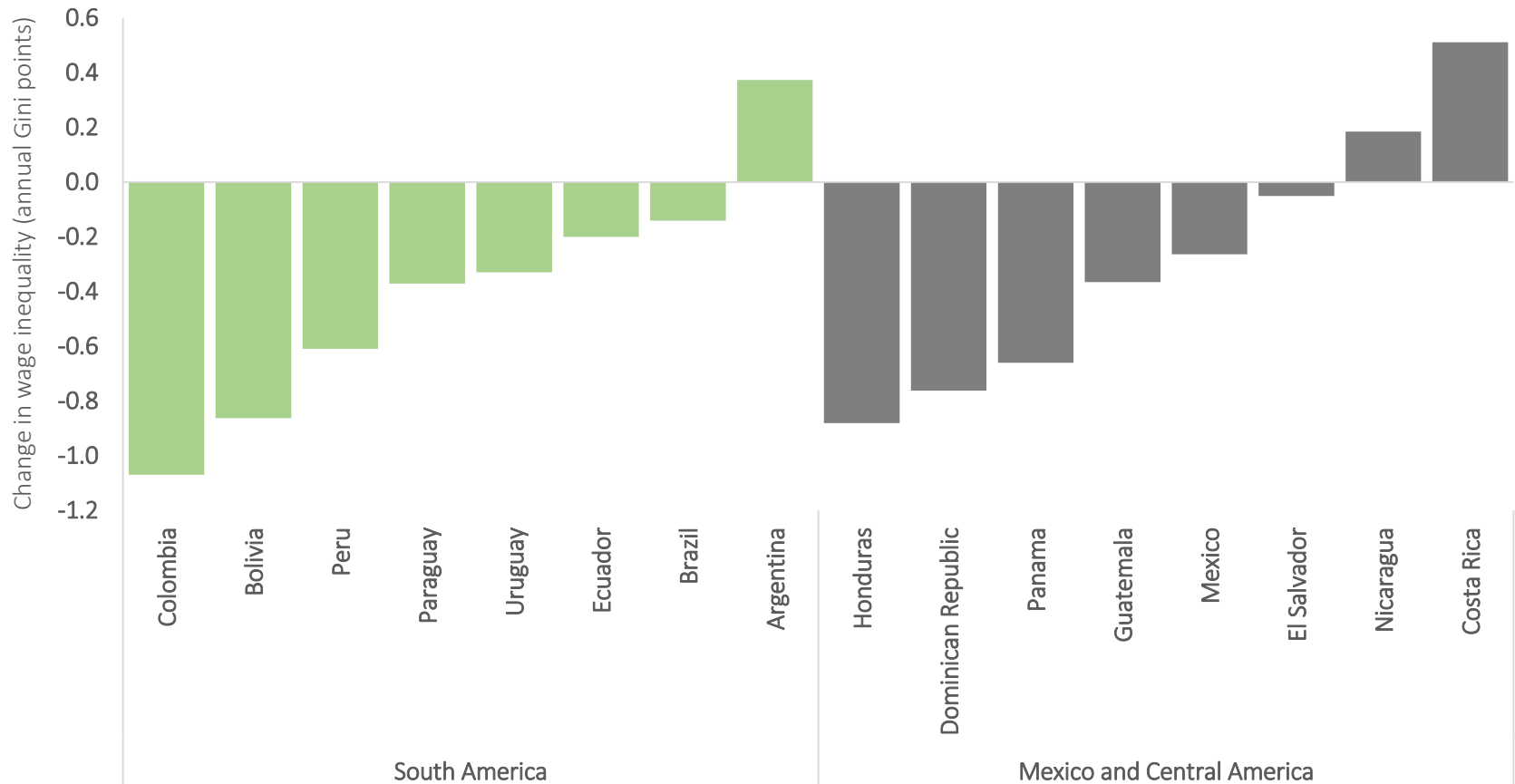
Slowed wage inequality reduction after the mid-2011 slowdown in growth

Wage and Total Income Inequality in Latin America, 2002-2015



Because of the economic slowdown, further progress will require extra work

Annual Changes in Labor Gini Index, 2012–15



Reduction in countries in South America now looks very similar to that of Mexico and Central America

**How to
prepare for the future?**

The future: How will wage inequality drivers evolve?

- **Education expanding, fueling equalization**
- **New pattern of slower growth will slowdown wage inequality reduction**
 - Two effects of real exchange rate adjustment
 - Higher demand in the tradable sector
 - New exporting opportunities
- **Less space for minimum wage hikes**

Towards growth with equity: A two-pillar approach

- **Don't hinder productivity growth**
 - Remove policies that protect inefficient firms (e.g. corporate subsidies)
 - Reform antitrust and competition policies
 - Don't fear technological change

- **Continue to expand the coverage and quality of education and training**
 - Improve public schools attended by the poor
 - Enhance quality (not just access)
 - Training

Link to the report:

<https://openknowledge.worldbank.org/handle/10986/28682>

Thank you!