

Income distribution in Chile

José De Gregorio

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Why We Worry about Inequality?

- For ethical reasons
- It also affects the potential for growth, since high inequality deteriorates policies and other factors that foster growth.
 - The evidence of direct effects of inequality on growth is not conclusive, although it seems the direct effect is negative.
 - However, inequality induces distortions and bad policies (De Gregorio y Lee, *Economia*, 2004)

	Dependent variable	Gini index
(1)	Growth rate regression	-0.001 (0.018)
(2)	Fertility (log)	1.335 (0.146)
(3)	Government consumption/GDP	0.143 (0.036)
(4)	Secondary school enrollment	-0.800 (0.098)
(5)	Rule-of-law index	-0.869 (0.126)

Source: De Gregorio and Lee (2004)

Inequality and distortions

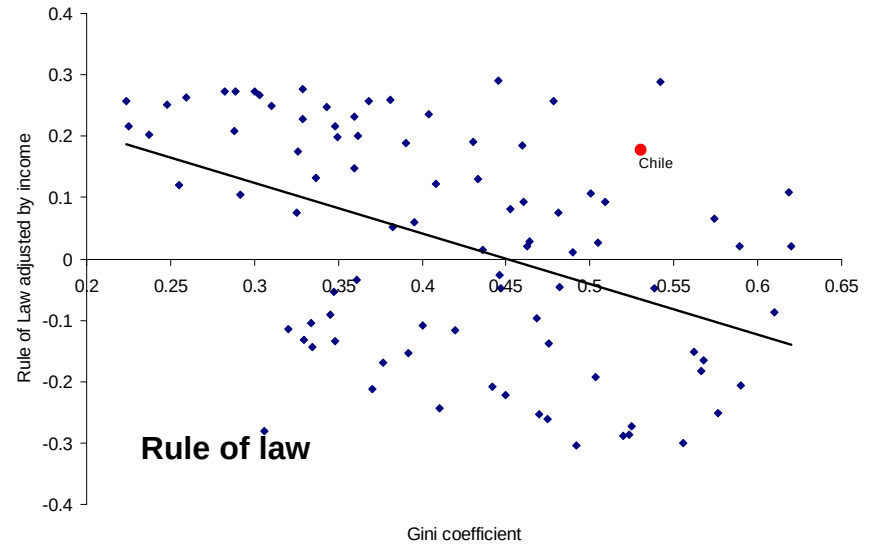
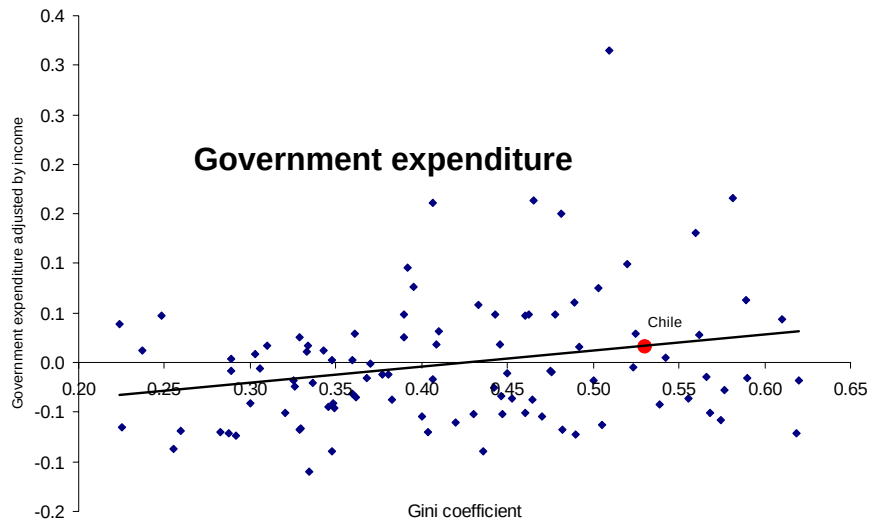
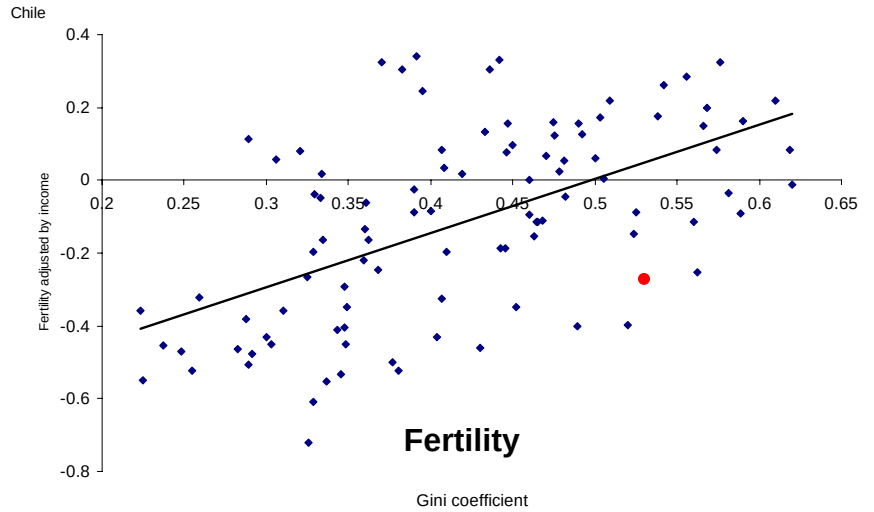
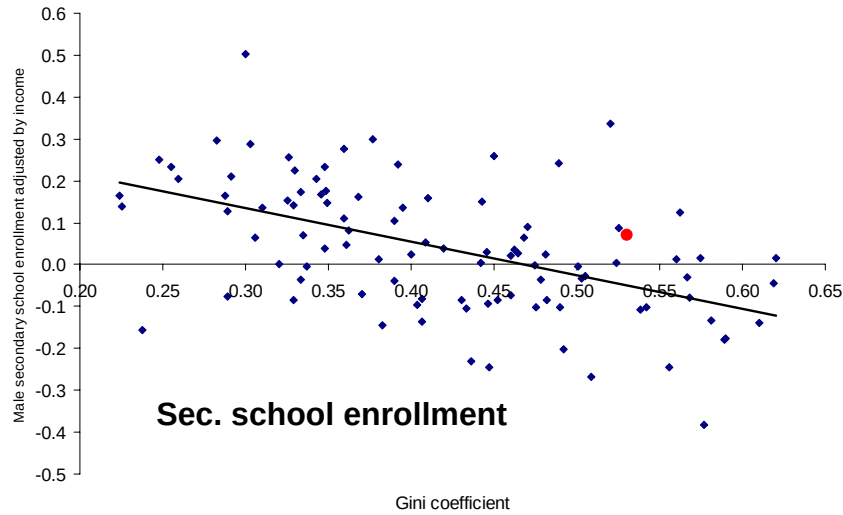
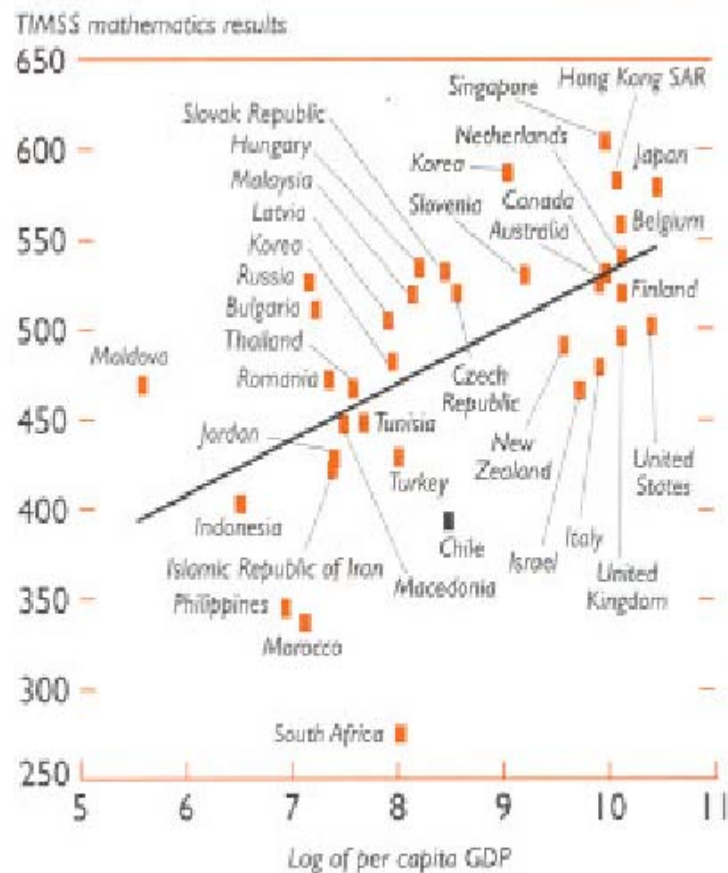
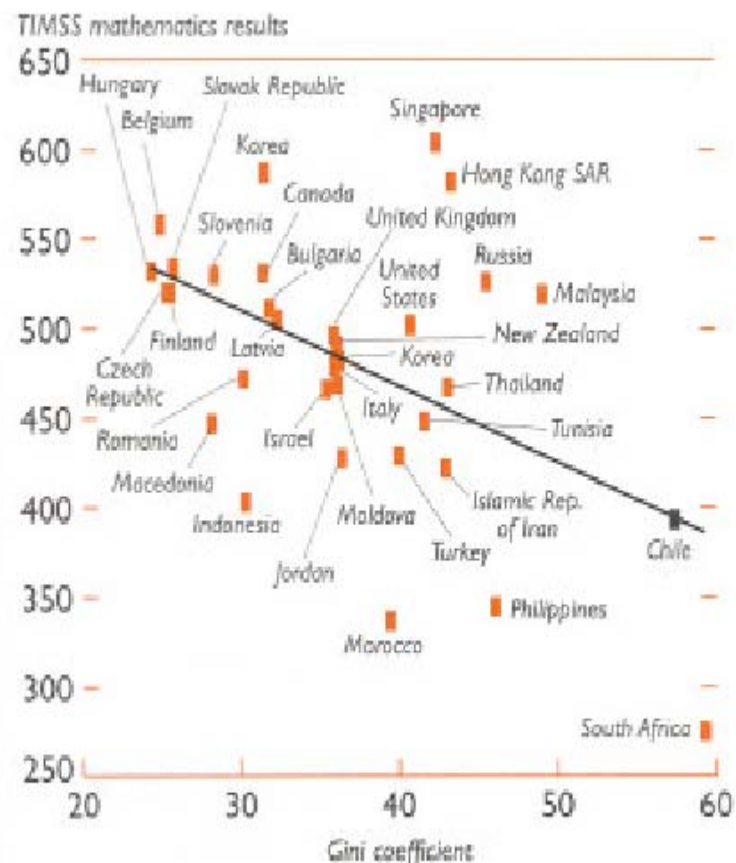


Figure 8.3. Selected Economies: TIMSS Mathematics Results and Income, 1999



Sources: Trends in International Mathematics and Science Study (1999); and IMF, World Economic Outlook.

Figure 8.4. Selected Economies: TIMSS Mathematics Results and Inequality in Income, 1999



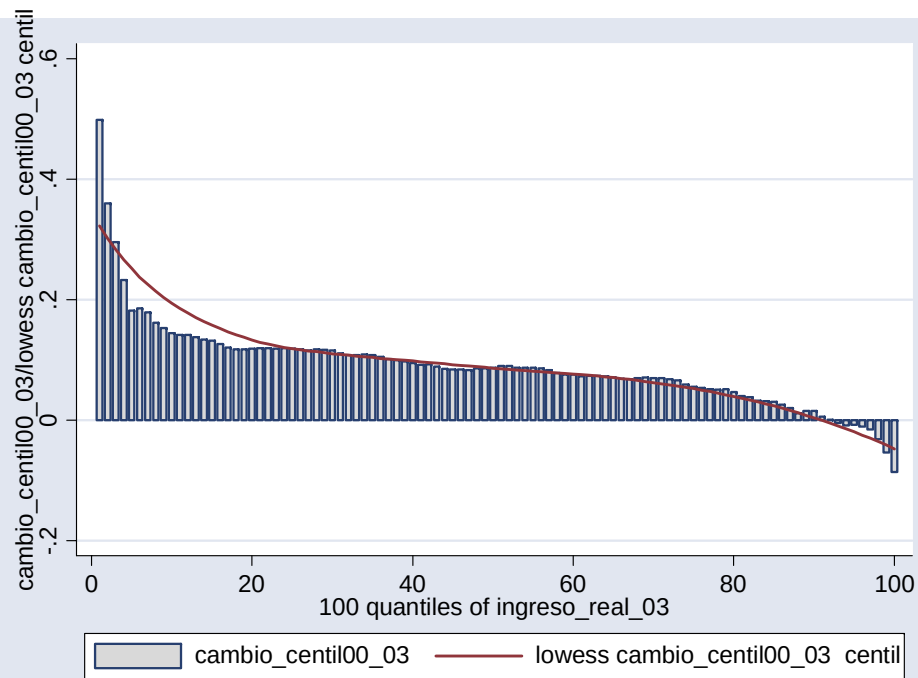
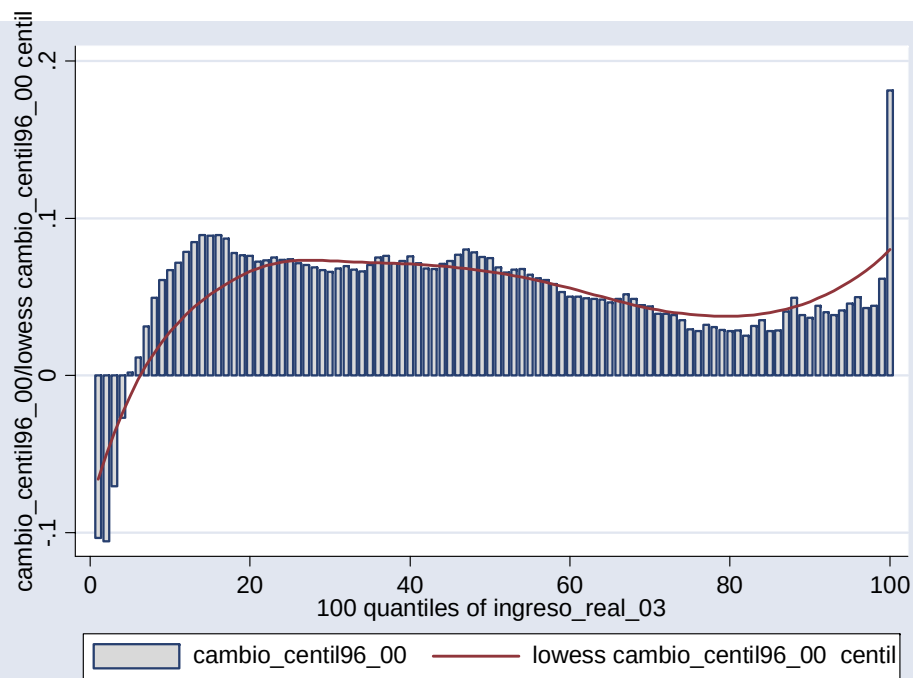
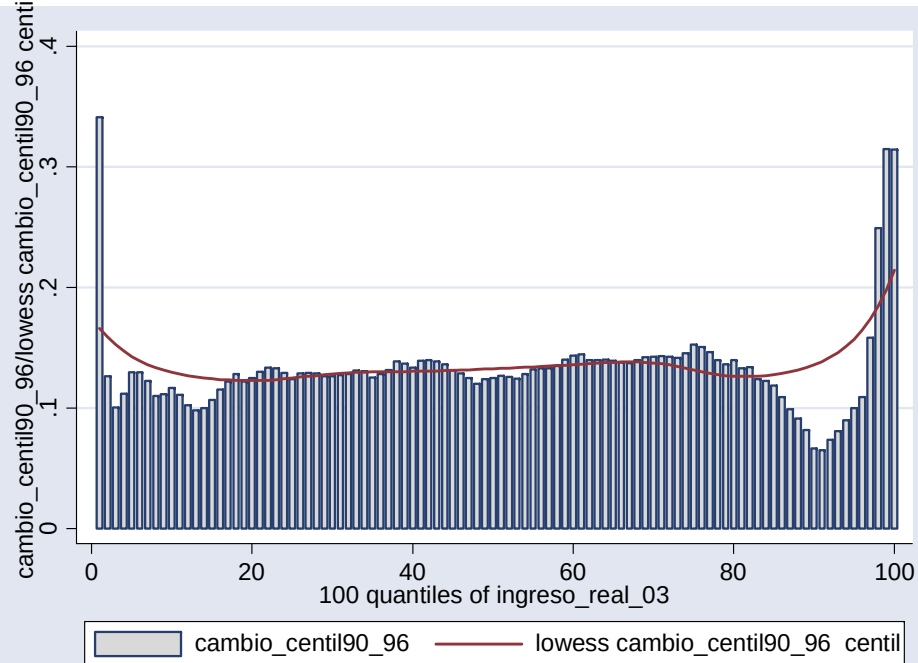
Sources: Trends in International Mathematics and Science Study (1999); and World Bank, World Development Indicators.

The evidence in Chile

Evolution of Income Distribution - GINI households



Changes of income by centil: 1990-96, 1996-2000, 2000-03

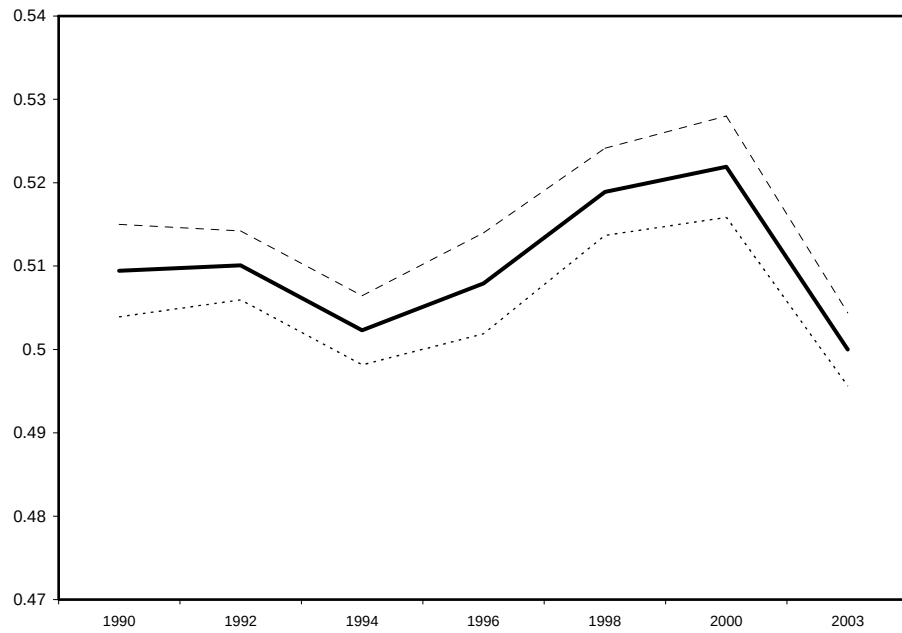


Issues

- What are the right figures?
- How do different surveys compare? Can we use CASEN now and U. de Chile since the 60s?

Excluding the Top

99%



90%



By Age

<25 years



>55 years



By Gender

Male



Female



What we conclude from this evidence?

- The increase in labor force participation of women has an equalization effect.
- As inequality declines within the young and focusing policies in the old (pension reform) would reduce aggregate inequality.
- Excluding top incomes does not change the patterns of inequality.
- Caveat: Not considered the “between effects”

The Role of Fiscal Policy

Figure 6: Distribution of Transfers

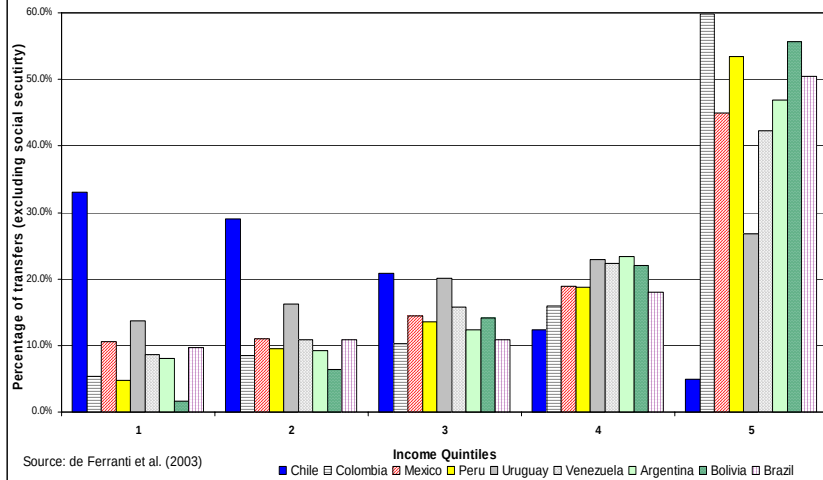


Figure 7: Gross national income, total and quintile I (2003)

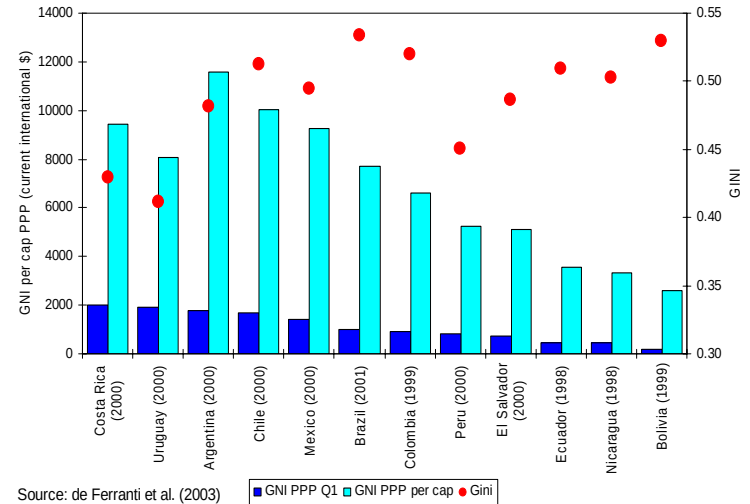


Figure 8: Social Expenditure Impact on GINI

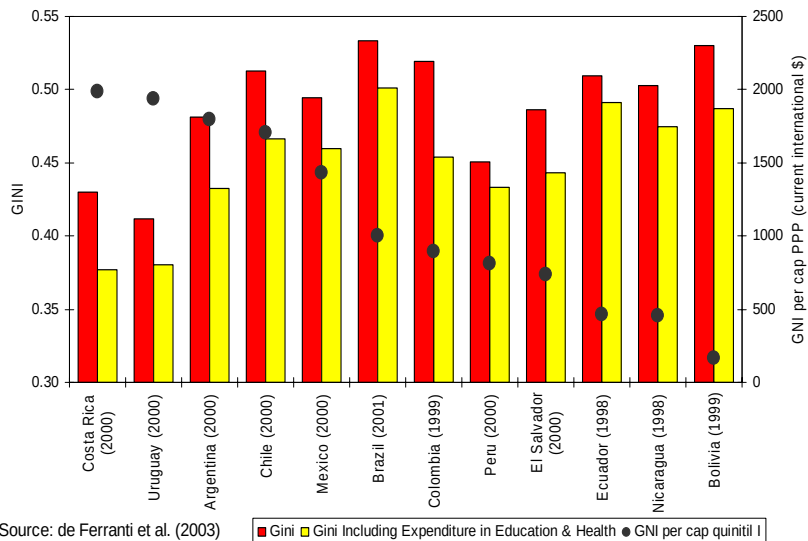
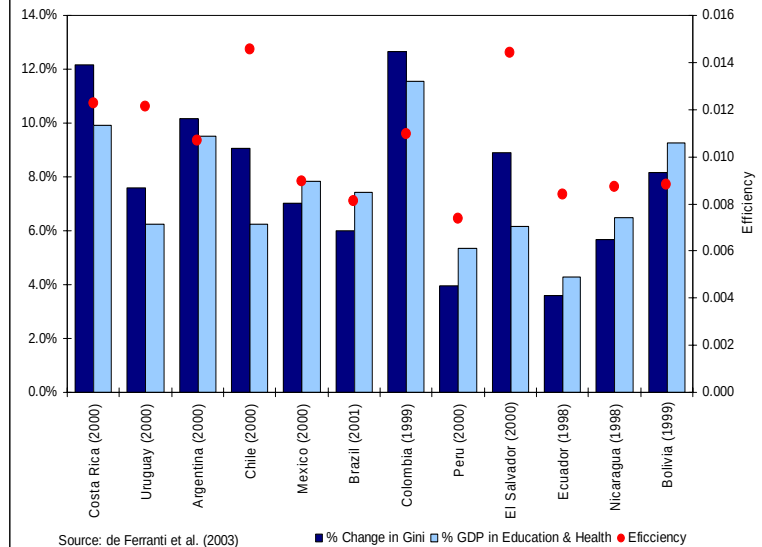


Figure 9: Efficiency of Public Expenditure



Concluding comments on policies

- Education helps a lot, but do not expect short run effects, it will take very long (De Gregorio and Lee, RIW, 2002).
- Fiscal policy: How to tax and how much? Engel et al. (JDE, 1999) against Serven et al. (2006). Limits on the tax burden depend on inequality.