The inequality triangle in Latin American labour markets

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Outline

1. High inequality and intergenerational persistence
2. The supply side: unequal opportunities for human capital formation
3. The demand side: informality and “inequality of firms”
4. Policy questions for breaking the triangle
Income (and earnings) inequality is particularly high in LAC

LAC in the global context over 30 years

Income (and earnings) inequality is particularly high in LAC.

Source: updates on Mahler, Yonzan and Lakner (2022), by courtesy of the authors.
So is intergenerational persistence / inequality of opportunities: Vicious circle
Unequal opportunities for human capital formation over the lifecycle

Brain scan for a three year-old with median cognitive skills

Brain scan of a three year-old with acute developmental gaps (language, tact, and social interactions)

Source: Perry (2002): “Childhood Experience and Expression of Genetic Potential”, *Brain and Mind*
Unequal opportunities for human capital formation over the lifecycle

Figure 2 Opportunities are determined early
Cognitive development for children ages three to five in Ecuador differs markedly across different family backgrounds.

Wealthiest and poorest quartiles

Maternal education

Source: Paxson and Schady (2005a).
Note: Median values of the test of vocabulary recognition (TVIP) score (a measure of vocabulary recognition in Spanish, standardized against an international norm) are plotted against the child’s age in months. The medians by exact month of age were smoothed by estimating fan regressions of the median score on age (in months), using a bandwidth of 3.

Source: Paxson and Schady, JHR, 2007
Unequal opportunities for human capital formation over the lifecycle

Distributions of reading test scores, conditional on father’s occupation.

Source: Barros, Ferreira, Molinas & Saavedra (2008)
Unequal opportunities for human capital formation over the lifecycle: inequality in educational outcomes

Source: Ferreira, Firpo and Messina, WBER, 2022
Unequal opportunities for human capital formation over the lifecycle: **Amplified by high returns to schooling in the LM**

Source: Ferreira, Firpo and Messina, WBER, 2022
The demand side: Informality and “inequality of firms”

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The demand side: Informality and “inequality of firms”

The demand side: Informality and “inequality of firms”

Policy challenges for breaking the triangle

Inequality of outcomes: wages, quality of employment

Supply side: inequality in human capital / capabilities

Demand size: Inequality of firms
Policy challenges for breaking the triangle

1. Supply side
   - High-quality early childhood interventions
   - Investing in teaching / pedagogy
   - Promoting adult skills
   - Cash transfers / graduation programmes

2. Demand side
   - Eliminate policies that keep firms sub-optimally small
   - De-link formal benefits (e.g., pensions, health insurance) from formal employment
   - Simplify firm taxes, registration bureaucracy
   - Improve enforcement
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Gracias por su atención.
Obrigado pela atenção.