Economic Inequality and Intergenerational Transfers: evidence from Mexico

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Outline

- Introduction
- Methodology
- NTA by SES: Mexico 2004
- NTA by SES: Mexico 1994 vs. 2004
- Conclusions
- Appendix
Introduction
Per capita labor income and consumption: 23 economies around 2000


*Note:* Values are normalized by mean labor income of ages 30-49 in each economy.
Lifecycle deficit: Mexico 2004

Funding sources for persons 65 and older

Note: See Figure 1.5 for the names associated with the abbreviations.

Income inequality

- It has the potential to undermine the economic prosperity of nations and their political stability (Stiglitz, 2012)
  - “There is little income mobility – the notion of America as a land of opportunity is a myth.”
  - “And America has more inequality than any other advanced industrialized country…”

- Latin America has been traditionally regarded as the most unequal region of the world (Gasparini et al., 2010; Gasparini and Lustig, 2011)

- “Rent seeking: Mexico”
  - Extreme wealth and corporate control in the business sector: Monopolistic corporations (PEMEX, TELCEL, TELMEX, TELEVISA, etc…)
  - Groups that were part of Mexico’s corporatist inheritance: Unions (Education, PEMEX, Electricity, etc…)

Inequality in Latin America and the World

Inequality in Latin America and the world
Share of deciles in income distribution


Gini coefficients
Countries around the world

Source: Gasparini et al. (2010).
A map of inequality in Latin America
Gini coefficient
Distribution of household per capita income
Around 2006

Source: Gasparini et al. (2010).
BMV: Concentration

Good news?

- Reduction of inequality in Latin America during the 2000s (Gasparini and Lustig, 2011)

Factors behind a decreased in inequality (Gasparini and Lustig, 2011).

1. Fall in the earnings gap of skilled/low-skilled workers,
2. Increase in government transfers targeted to the poor.
Inequality in Mexico
Gini coefficient 1984-2006 using alternative income definitions

Source: Esquivel, Lustig and Scott (2010).
Progresa/Oportunidades and other subsidy programs

Source: Own win information from SHCP.
## Socioeconomic status (SES)

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Level of education</th>
<th>Years of education (completed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Non, kindergarten, or incomplete primary</td>
<td>[0, 6)</td>
</tr>
<tr>
<td>II</td>
<td>Primary, or incomplete lower secondary</td>
<td>[6, 9)</td>
</tr>
<tr>
<td>III</td>
<td>Lower secondary, or incomplete upper secondary</td>
<td>[9, 16)</td>
</tr>
<tr>
<td>IV</td>
<td>Undergraduate, Master, or PhD</td>
<td>16 or more</td>
</tr>
</tbody>
</table>
Assumptions

Flow identity:

\[ C(x) - Y^I(x) = \tau^+(x) - \tau^+(x) + Y^a(x) - SY^I(x). \]

Flow identity (subpopulation):

\[ C(x, s) - Y^I(x, s) = \tau^+(x, s) - \tau^+(x, s) + Y^a(x, s) - SY^I(x, s). \]
## Lifecycle deficit: Mexico 2004

The figure shows the lifecycle deficit for Mexico in 2004, comparing labor income and consumption relative to the mean YL 30-49. The data is sourced from Mejía-Guevara (2011).

<table>
<thead>
<tr>
<th>Age</th>
<th>Labor income</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>0.4</td>
<td>0.8</td>
</tr>
<tr>
<td>5-9</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>10-14</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>15-19</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>20-24</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>25-29</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>30-34</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>35-39</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>40-44</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>45-49</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>50-54</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>55-59</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>60-64</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>65-69</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>75+</td>
<td>1.2</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Lifecycle deficit by SES: Mexico 2004

* dashed lines represent national averages. Source: Own based on ENIGH 1994 and 2004.
Per capita age reallocations: Mexico 2004

Per capita age reallocations by SES: Mexico 2004

Funding sources for young and the elderly by SES: 2004

NTA by SES: Mexico 1994 vs. 2004
Labor income by age: 1994 vs. 2004

Labor income by age and SES: 1994 vs. 2004

Total consumption by age: 1994 vs. 2004

Education spending by age: 1994 vs. 2004

Education spending by age and SES: 1994 vs. 2004

Education spending by SES: 1994 vs. 2004

Private and Public

<table>
<thead>
<tr>
<th>Stratum</th>
<th>1994</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>8.2</td>
<td>8.2</td>
</tr>
<tr>
<td>II</td>
<td>10.7</td>
<td>10.8</td>
</tr>
<tr>
<td>III</td>
<td>10.6</td>
<td>10.6</td>
</tr>
<tr>
<td>IV</td>
<td>14.3</td>
<td>13.1</td>
</tr>
<tr>
<td>National</td>
<td>5.1</td>
<td>7.6</td>
</tr>
</tbody>
</table>

Education spending by SES: 1994 vs. 2004

Health spending by SES: 1994 vs. 2004

Private and Public

% of total consumption per stratum

1994

I: 7.5
II: 4.9
III: 4.1
IV: 2.8
National: 4.9

2004

I: 5.4
II: 4.2
III: 3.5
IV: 2.8
National: 4.0

Health spending by SES: 1994 vs. 2004

Net public transfers: 1994 vs. 2004

Net public transfers by age and SES: 1994 vs. 2004

Cash transfers: 1994 vs. 2004

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>5.0</td>
<td>4.1</td>
</tr>
<tr>
<td>I</td>
<td>2.1</td>
<td>4.2</td>
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<tr>
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<td>1.9</td>
</tr>
<tr>
<td>III</td>
<td>2.2</td>
<td>0.8</td>
</tr>
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<td>0.8</td>
<td></td>
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% of total consumption per stratum

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<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>III</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>IV</td>
<td>1.5</td>
<td>2.1</td>
</tr>
<tr>
<td>National</td>
<td>1.5</td>
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</tr>
</tbody>
</table>

% of total consumption per stratum

Net private transfers by age: 1994 vs. 2004

Asset-based reallocations by age: 1994 vs. 2004

Funding sources for young and elderly: 1994 vs. 2004

Conclusions
Conclusions

- Income inequality is a persistent phenomenon in Mexico, but it has declined recently,
- Recent evidence suggests that a fall in the earnings gap of skilled/low-skilled workers and an increase in government transfers targeted to the poor are factors that explain this reduction in inequality,
- An analysis of Mexican NTA between 1994 and 2004 supports that evidence,
- NTA analysis by SES reveals very important differences in the reallocation of economic resources among subgroups.
- Specifically, it suggests that, compared to 1994, inequality of labor income was reduced and public cash transfers and education became substantially more progressive and, thus better targeted to the poor one decade later.
Appendix
BMV: Concentration

- Foreign financial groups: 34.5%
- Grupo Carso and Affiliates: 42.2%
- Other: 23.3%

Total consumption by age and SES: 1994 vs. 2004

Lifecycle deficit by SES: 1994 vs. 2004

Net private transfers by age and SES: 1994 vs. 2004

Asset-based reallocations by age and SES: 1994 vs. 2004

Funding sources for young and the elderly by SES: 1994