

# **Growth, Redistribution, Poverty and the Middle Class**

Nora Lustig  
Tulane University  
CGD and IAD

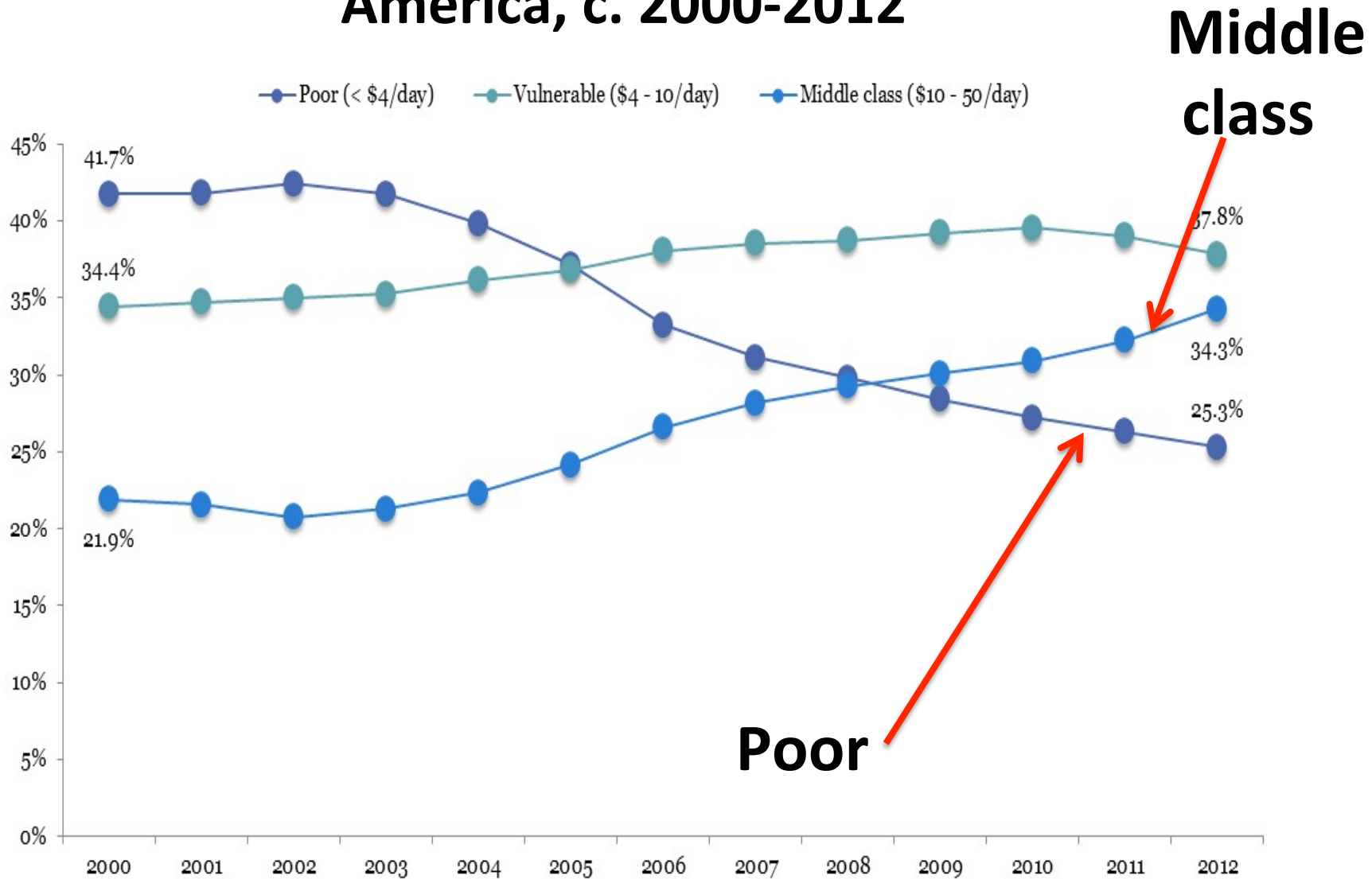
Center for Global Development  
Washington, DC  
February 25, 2015

# Evolution of Poverty and the Size of the Middle Class in the 2000s

In the 2000s, economic growth and declining inequality led to

- significant poverty reduction: proportion of poor declined from 42 to 25 percent
- a robust expansion of the middle-class: proportion of middle class population rose from 22 to 34 percent

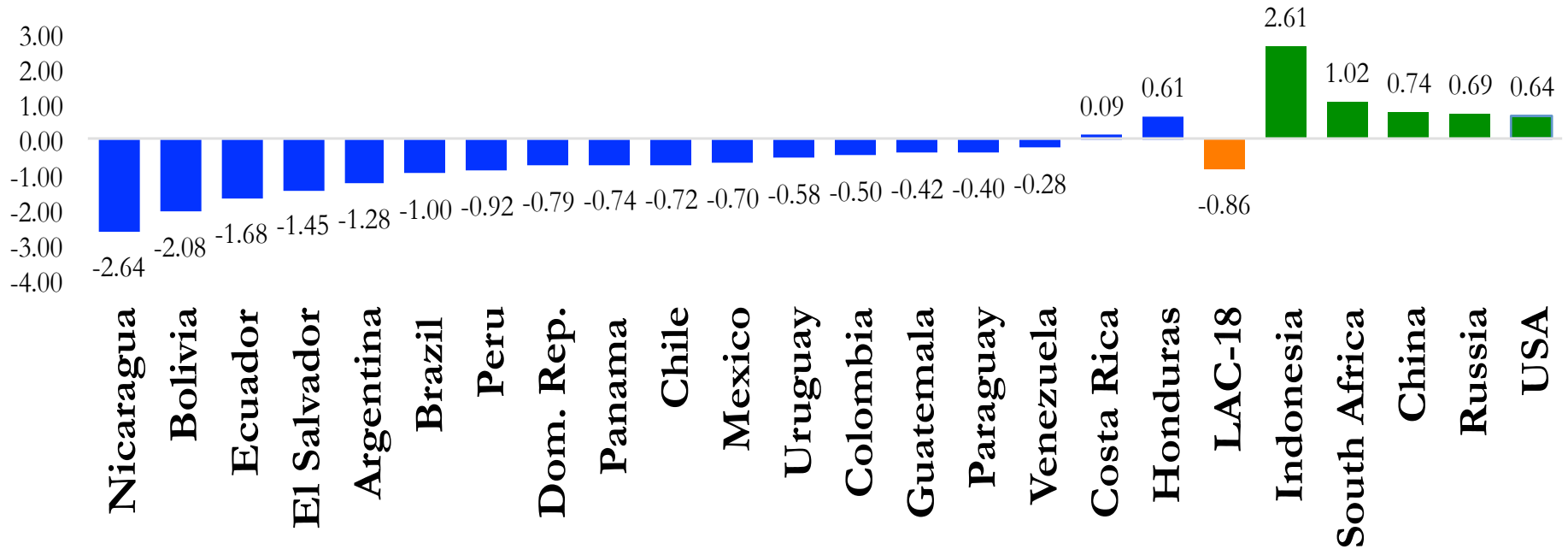
# Percentage of population by income groups Latin America, c. 2000-2012



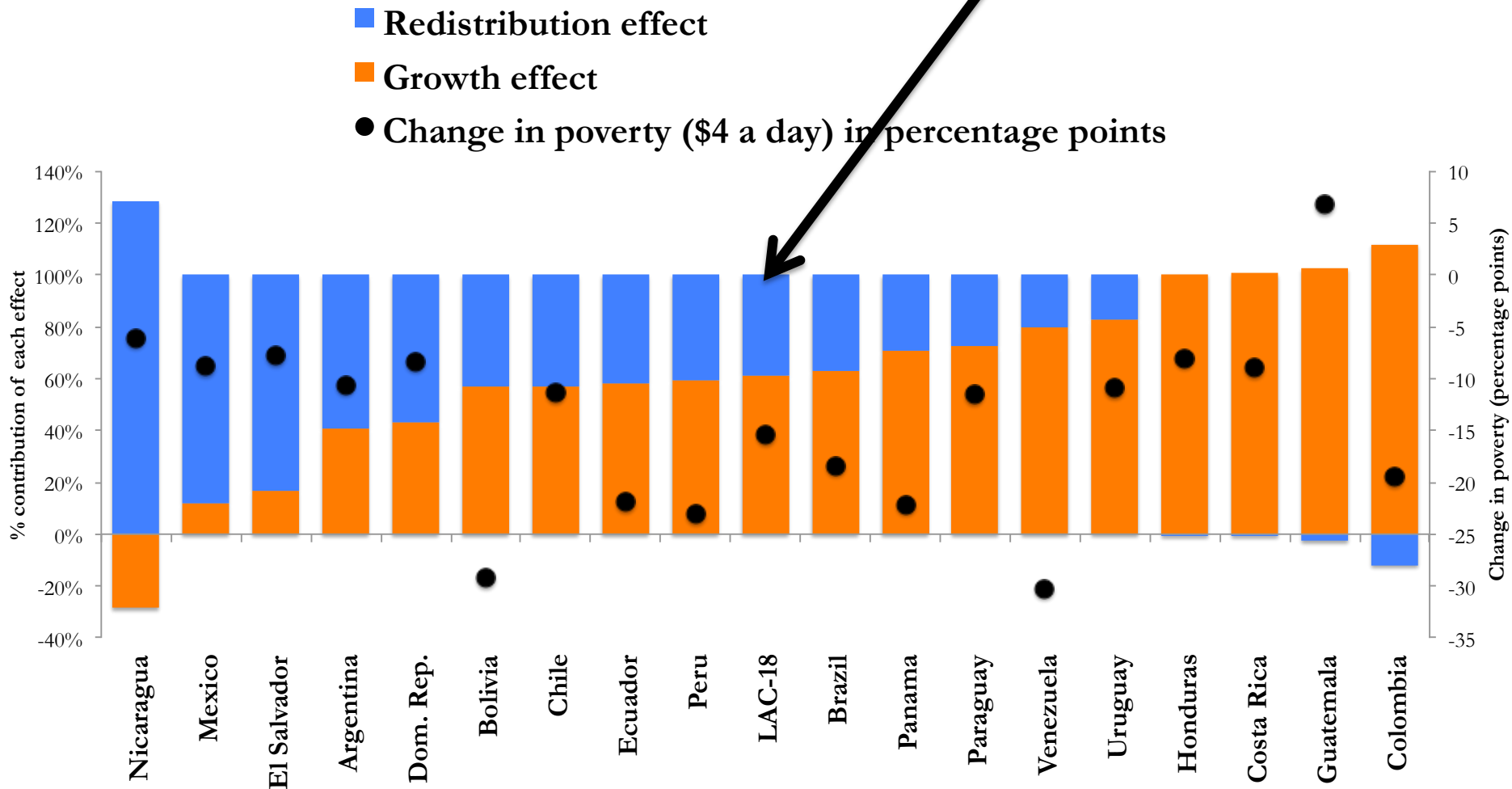
**Growth or redistribution?**

# Inequality declined in most countries

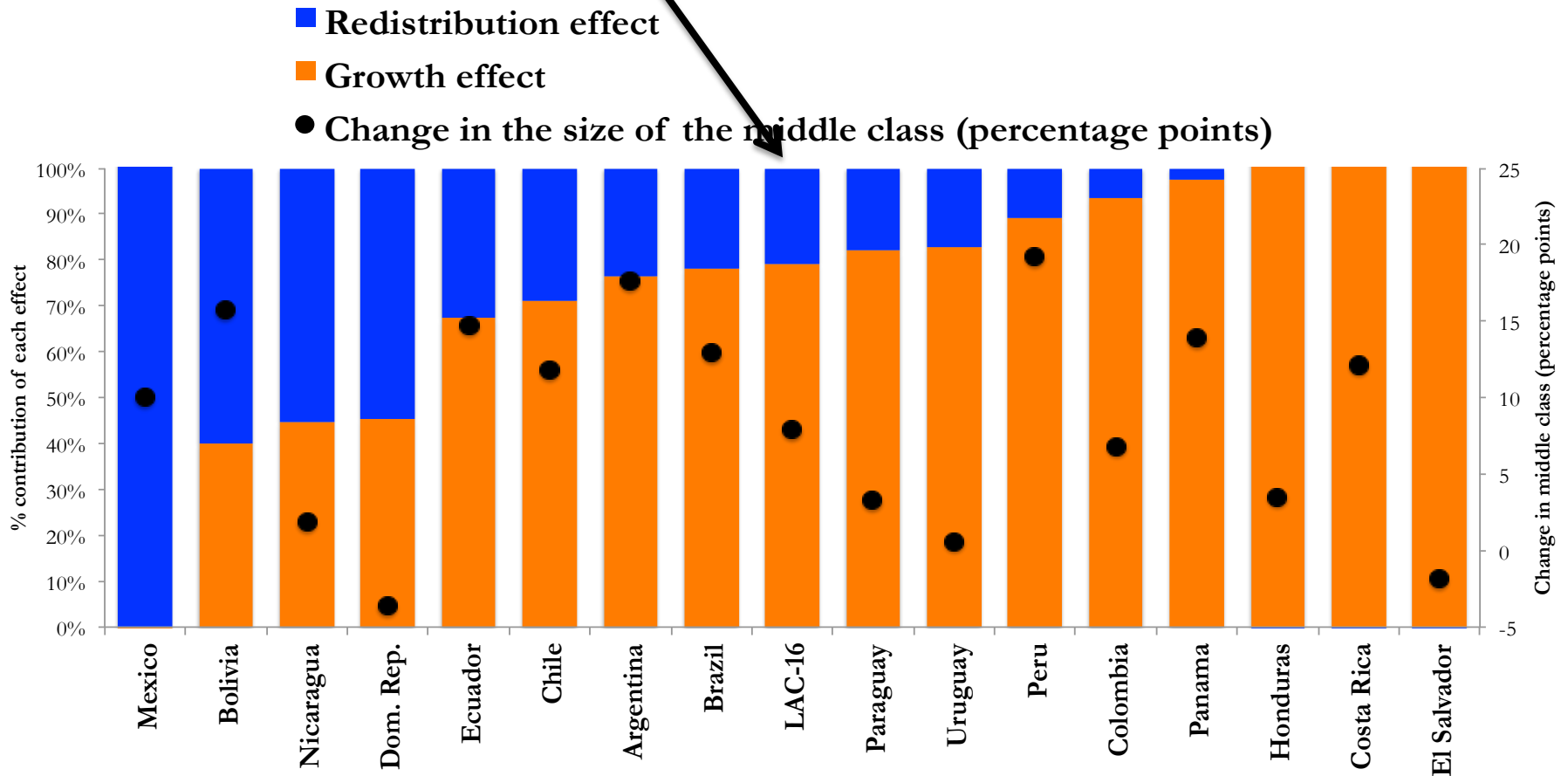
## Average Yearly Change in Gini: 2000 (circa) - 2012 (circa)



# Poverty reduction: growth contributed with 61 percent and inequality reduction with 39 percent, on average



# Expansion of the middle-class: growth contributed with about 79 percent and inequality reduction with 21 percent, on average



**Why did inequality decline?**



# Determinants of the decline in inequality

- Decline in inequality of labor income
- Larger and more progressive government transfers
- Expansion of private transfers: remittances

# Determinants of the decline in inequality

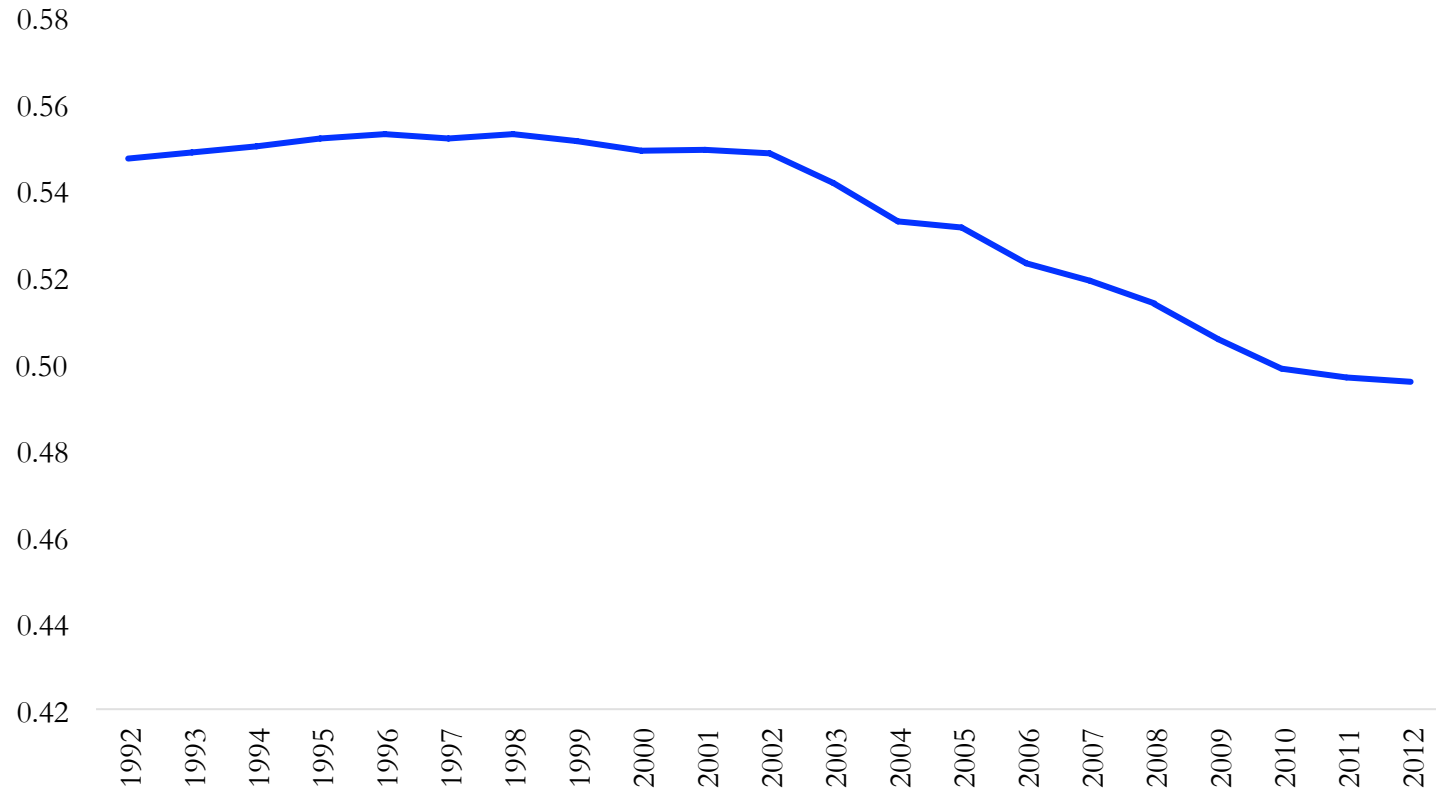


**What to expect in more  
challenging times?**

# Growth and Redistribution

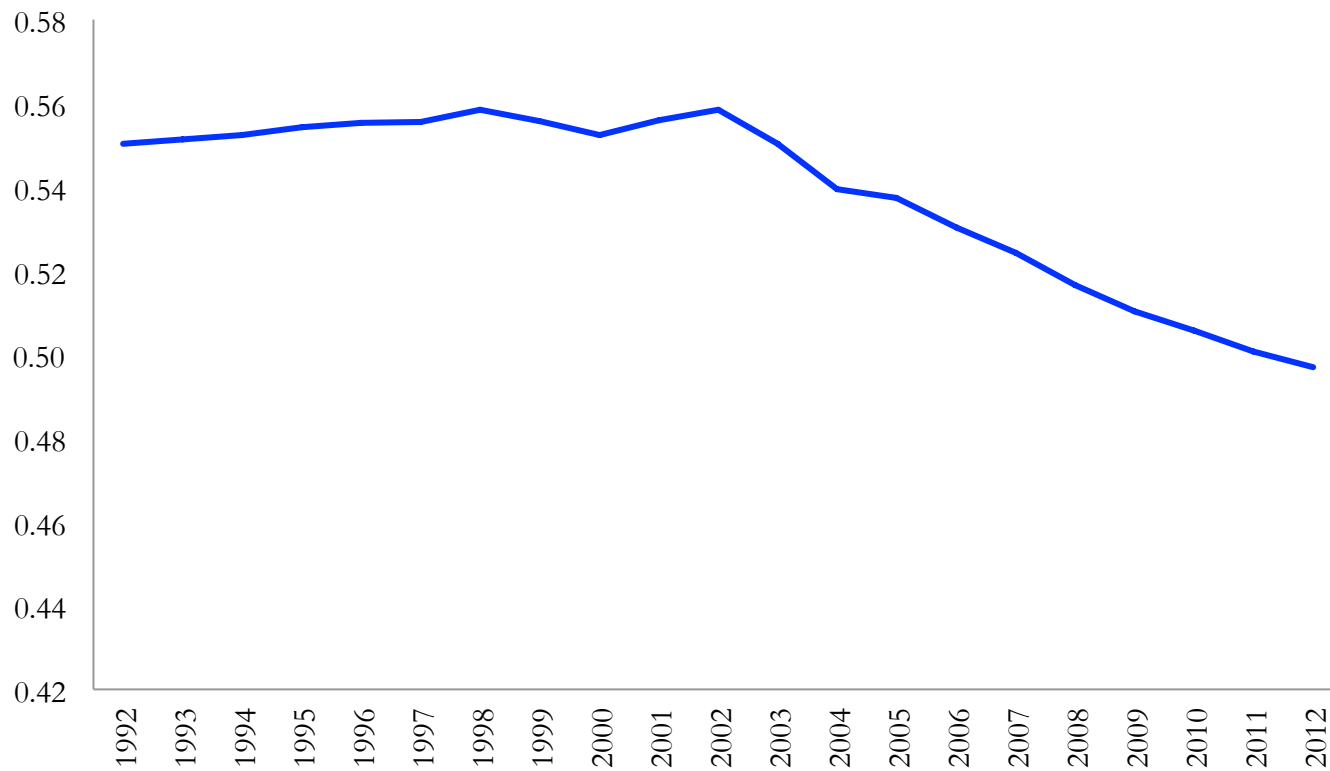
- Slower growth will cause poverty to rise and the size of the middle class to shrink
- However, the impact will depend on the evolution of inequality
- Will inequality increase, stay the same or decline?

# Inequality: 1992-2012



Weighted averages of the Gini coefficient; 18 countries

# Inequality: 1992-2012 (without Mexico)



Weighted averages of the Gini coefficient, excluding Mexico

# Determinants of the decline in inequality

- Labor earnings
- Government transfers
- Private transfers

# Labor earnings

Lower labor demand and fiscal consolidation imply that

- Market-determined wages at the bottom, will grow less, not at all or decline
- Real minimum wages cannot continue to rise

But wages of skilled workers are also likely to continue to decline

- Net effect will depend on which factor dominates



# Government transfers

With most countries facing limited or no fiscal space, or worse

- Transfers will not continue to be an important equalizing force
- Some countries may even have to cut them down
- In others they will get eroded by inflation

# Private Transfers: Remittances

- With US recovery, remittances are likely to continue being a positive equalizing force

# References

- Azevedo, J. P., L. F. Lopez-Calva, N. Lustig, E. Ortiz-Juarez (2015) “Inequality, Mobility and Middle Classes in Latin America”, in: Dayton-Johnson, J. (2015) *Latin America’s Emerging Middle Class*. Palgrave McMillan.
- Lustig, N., L. F. Lopez-Calva, E. Ortiz-Juarez (2014) “Deconstructing the Decline in Inequality in Latin America,” in Basu, Kaushik and Joseph Stiglitz, eds. *Proceedings of IEA roundtable on Shared Prosperity and Growth*, 2015, Palgrave-Macmillan.

Thank you