



International  
Inequalities Institute

# The inequality triangle in Latin American labour markets

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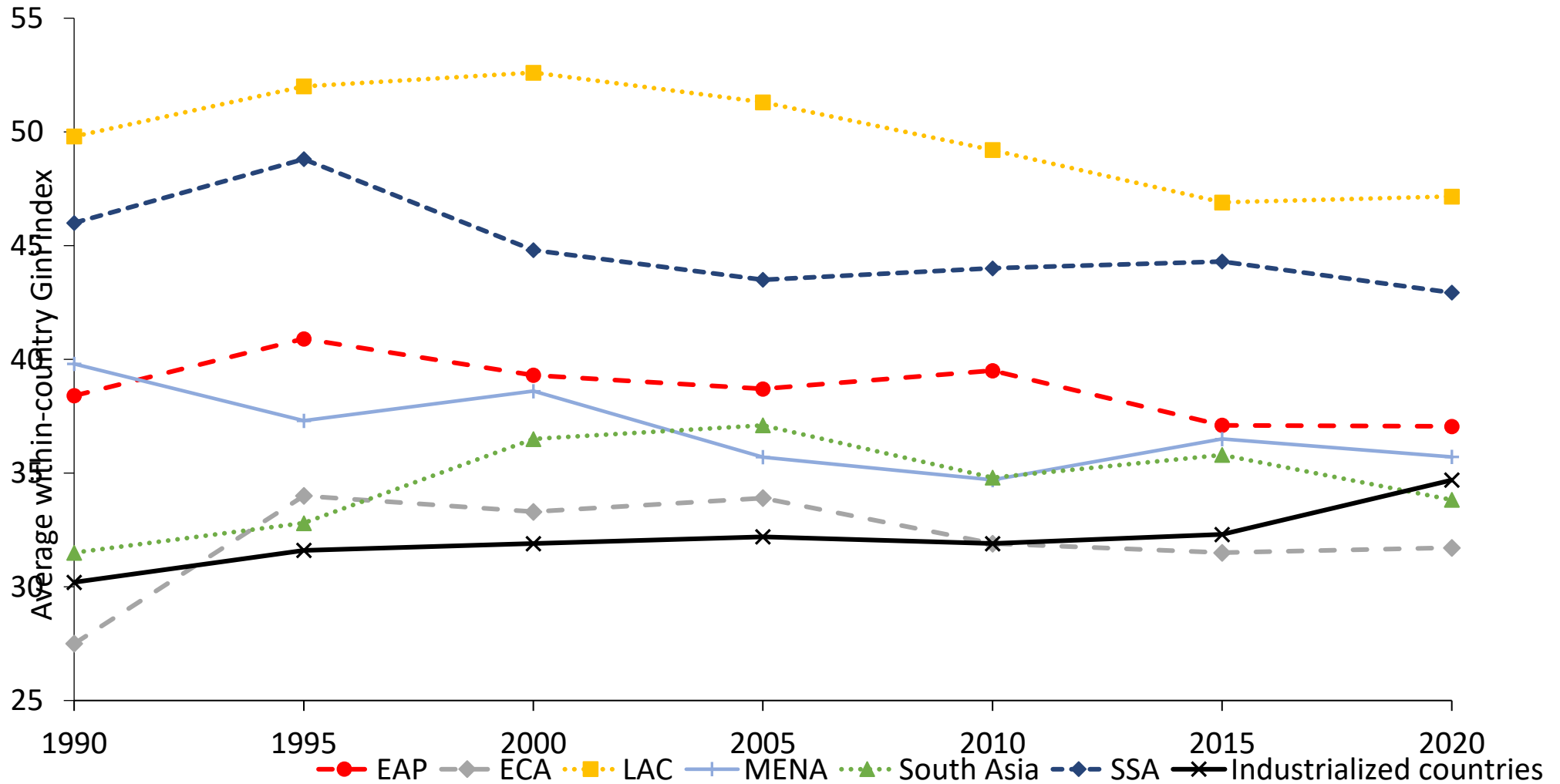
III/LSE and IZA

# Outline

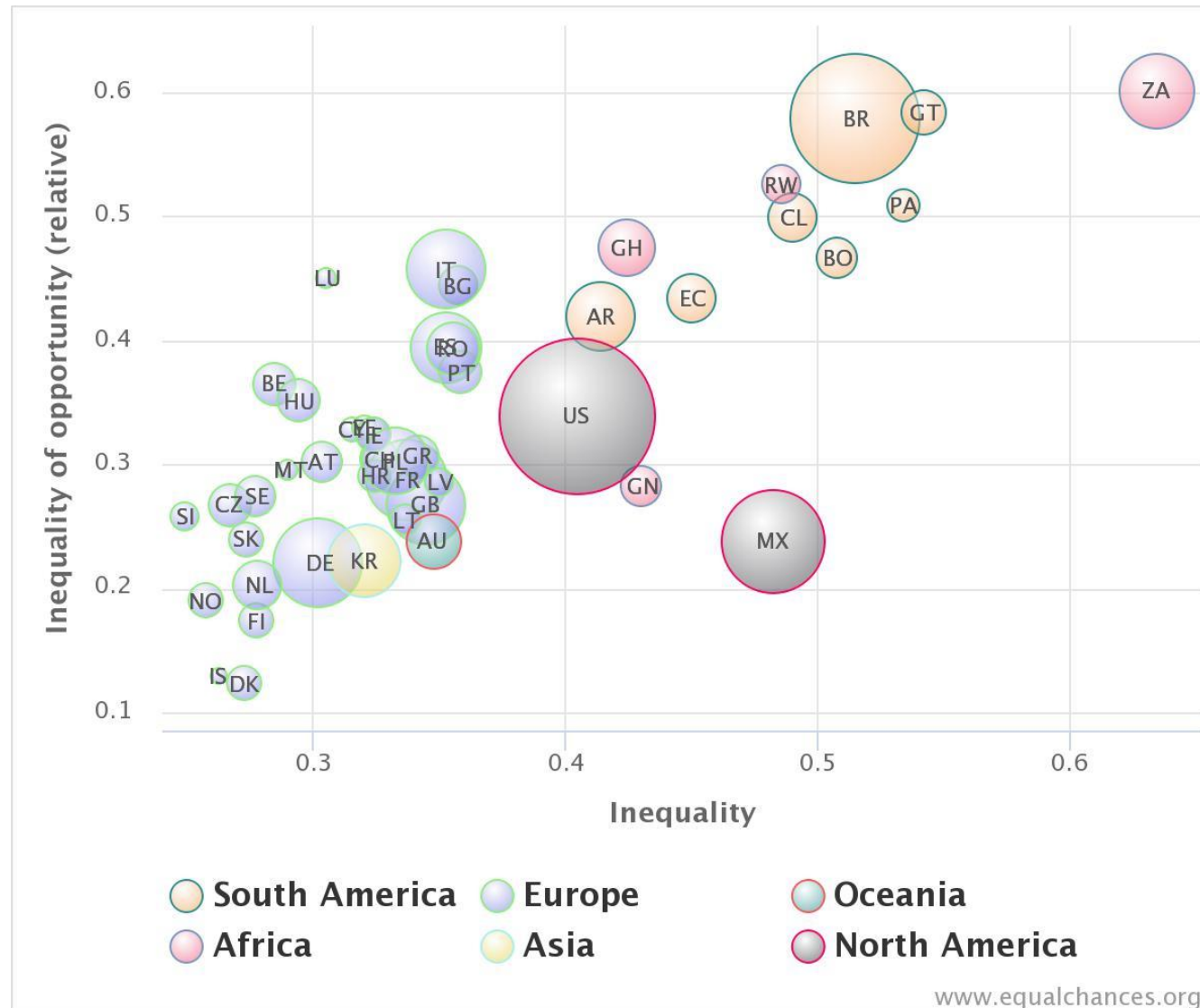
1. High inequality and intergenerational persistence
2. **The supply side:** unequal opportunities for human capital formation
3. **The demand side:** informality and “inequality of firms”
4. Policy questions for breaking the triangle

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

## LAC in the global context over 30 years



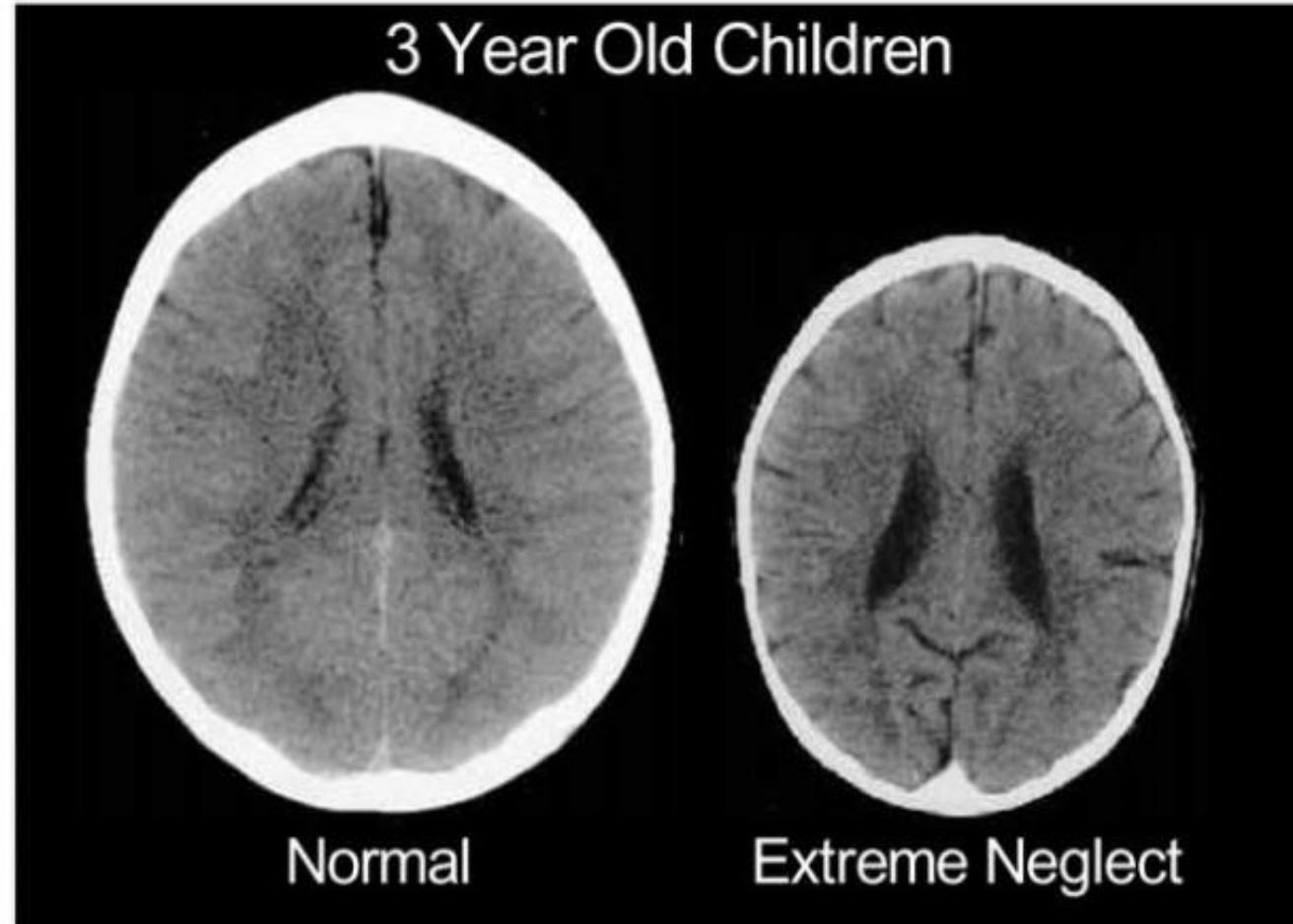
So is intergenerational persistence / inequality of opportunities:  
Vicious circle



Inequality of outcomes and opportunity

# Unequal opportunities for human capital formation over the lifecycle

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



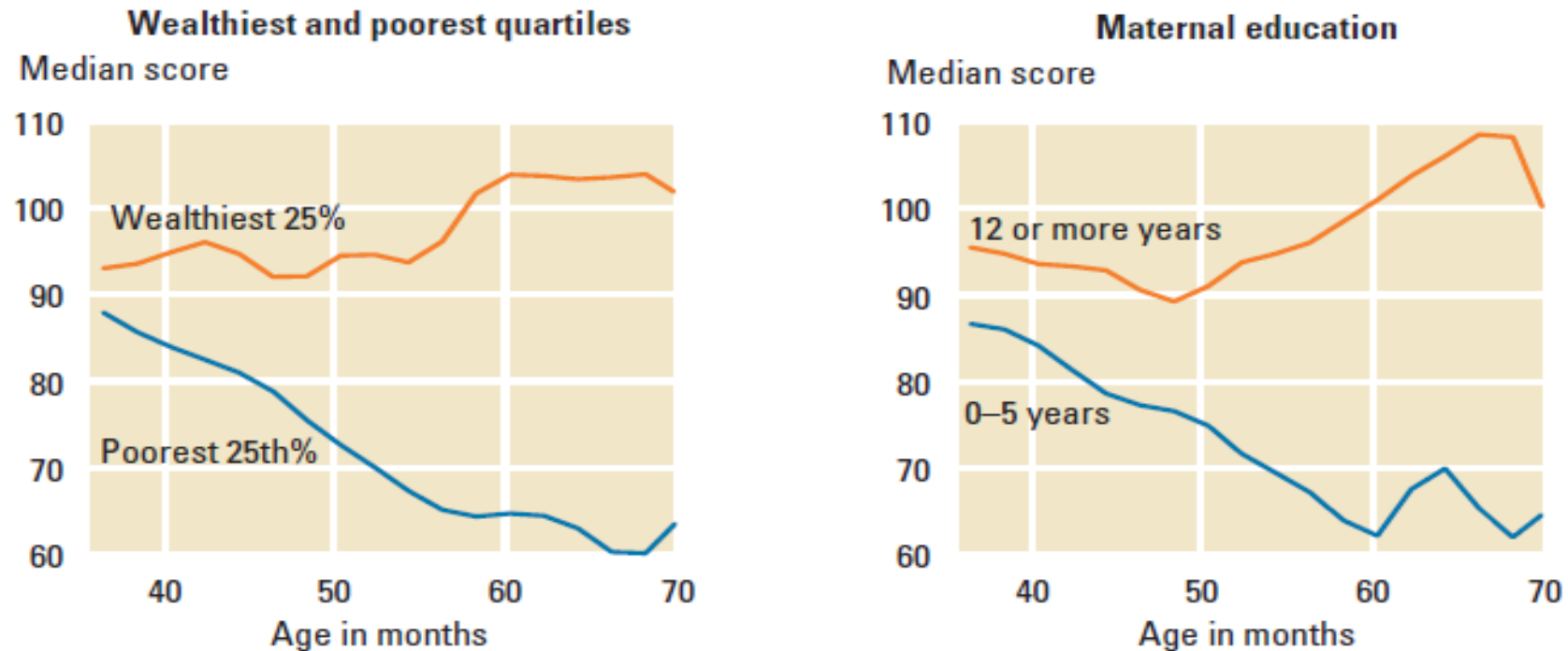
Brain scan of a three year-old with acute developmental gaps (language, tact, and social interactions)

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

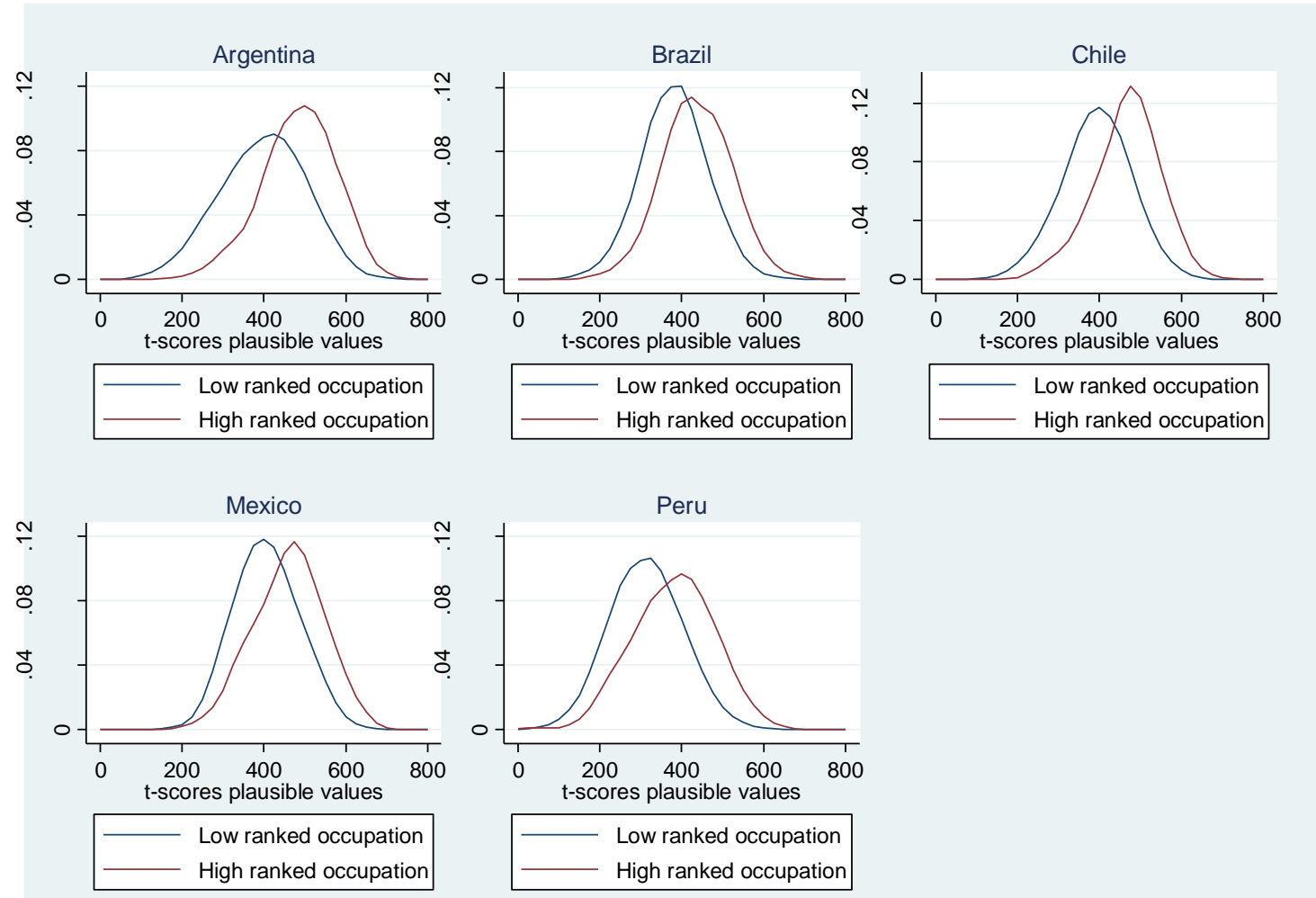


Source: Paxson and Schady (2005a).

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.

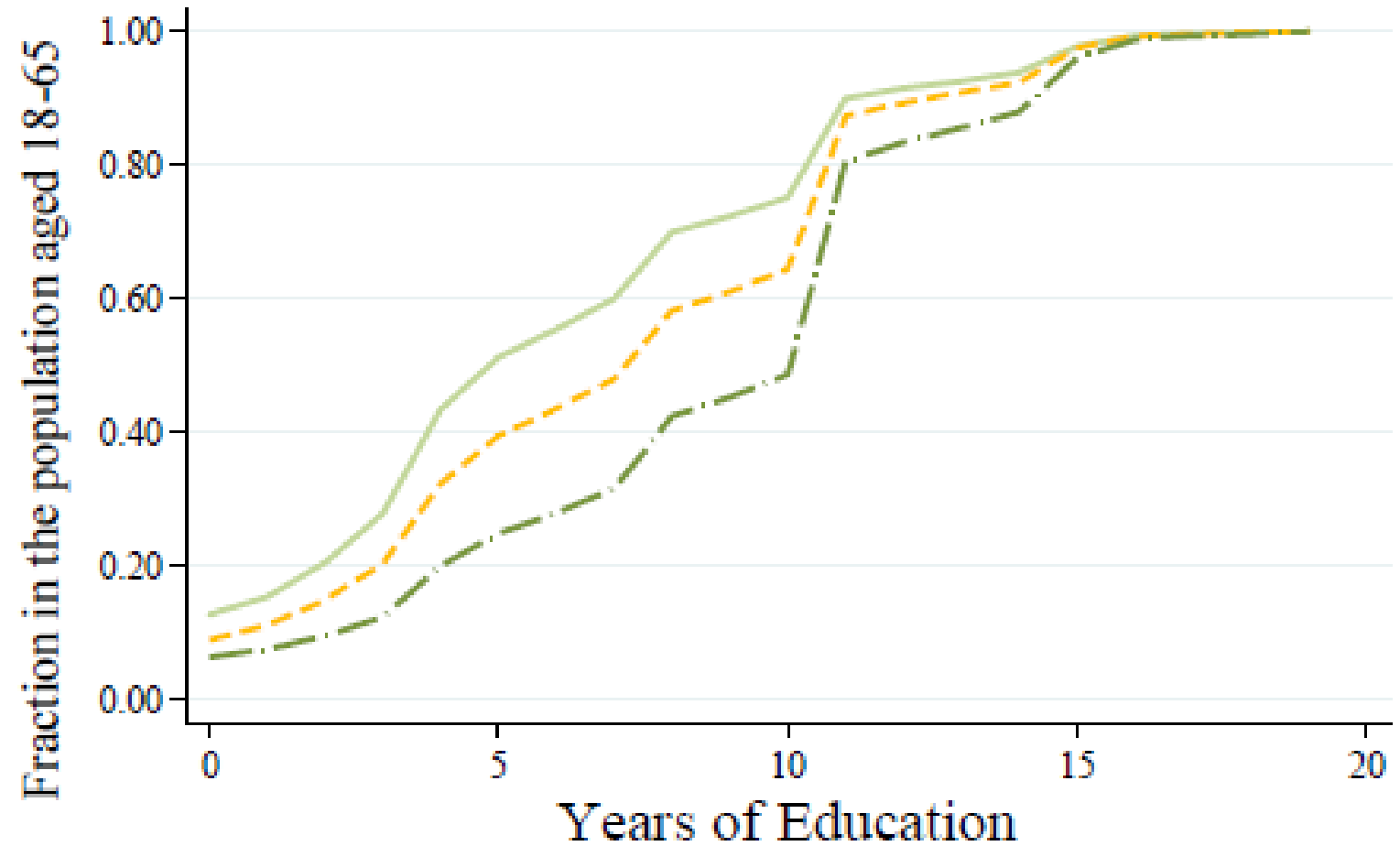
# Unequal opportunities for human capital formation over the lifecycle

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



Source: Barros, Ferreira, Molinas & Saavedra (2008)

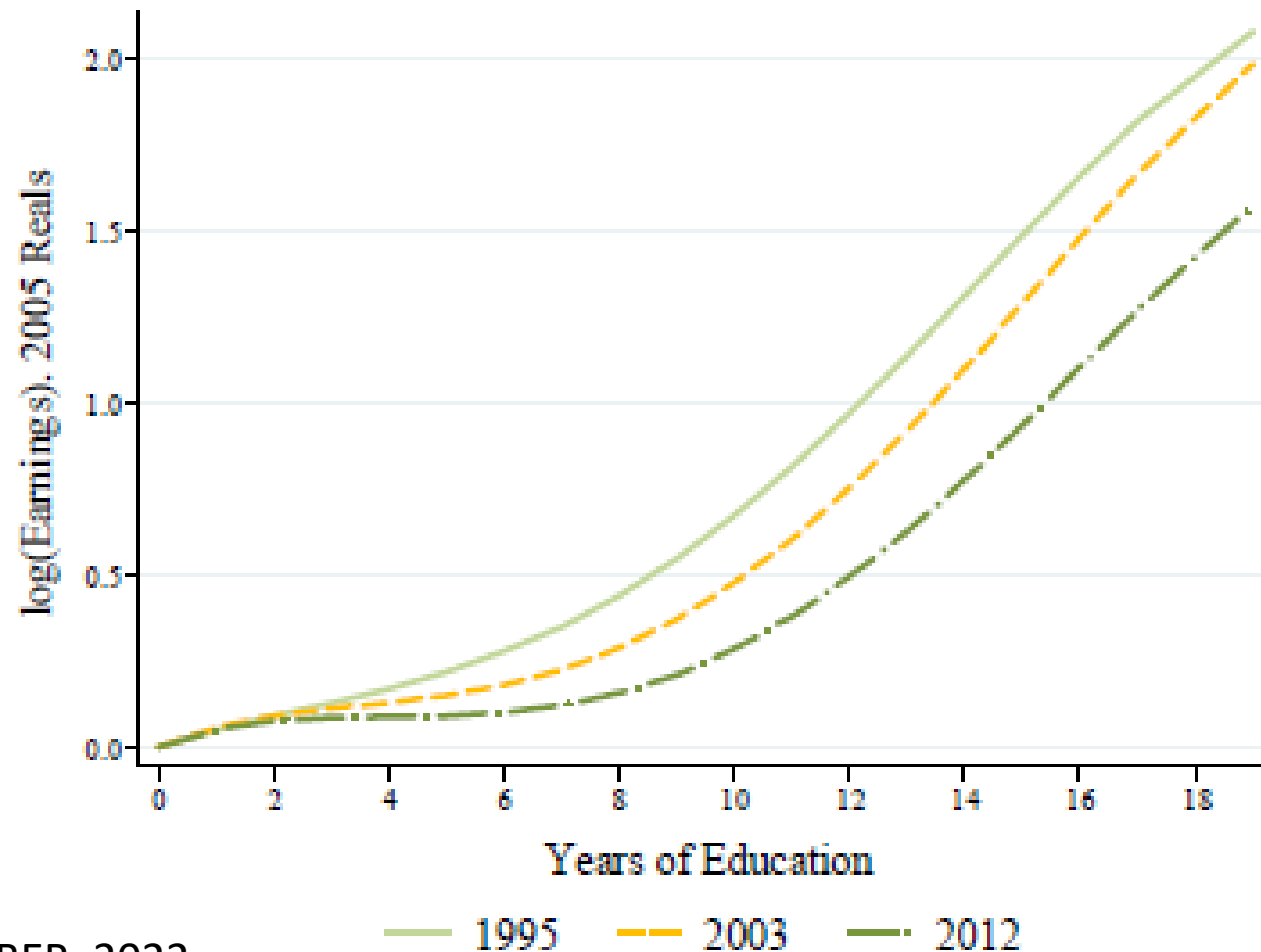
# Unequal opportunities for human capital formation over the lifecycle: **inequality in educational outcomes**



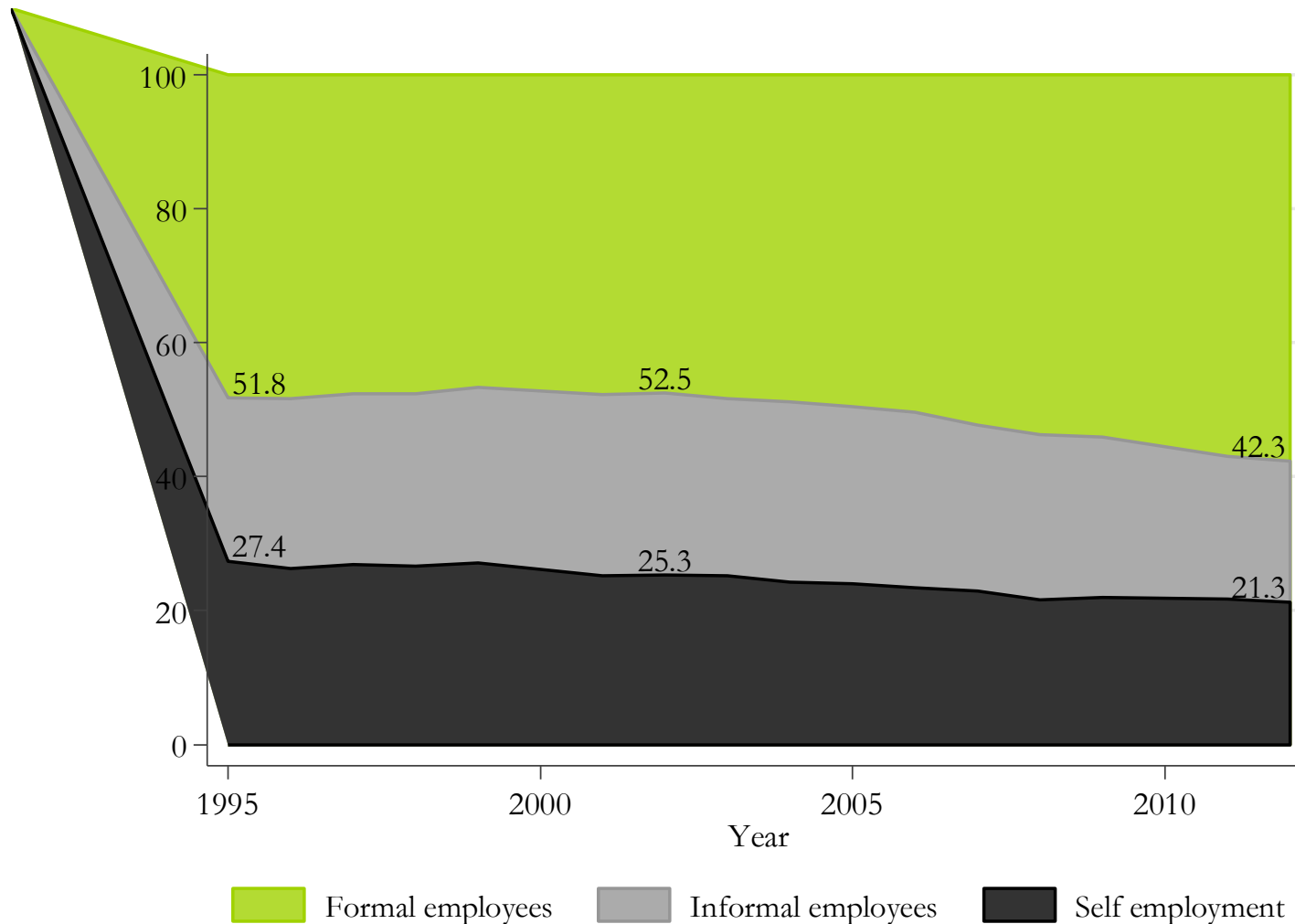


# Unequal opportunities for human capital formation over the lifecycle: **Amplified by high returns to schooling in the LM**

Panel A. Education.

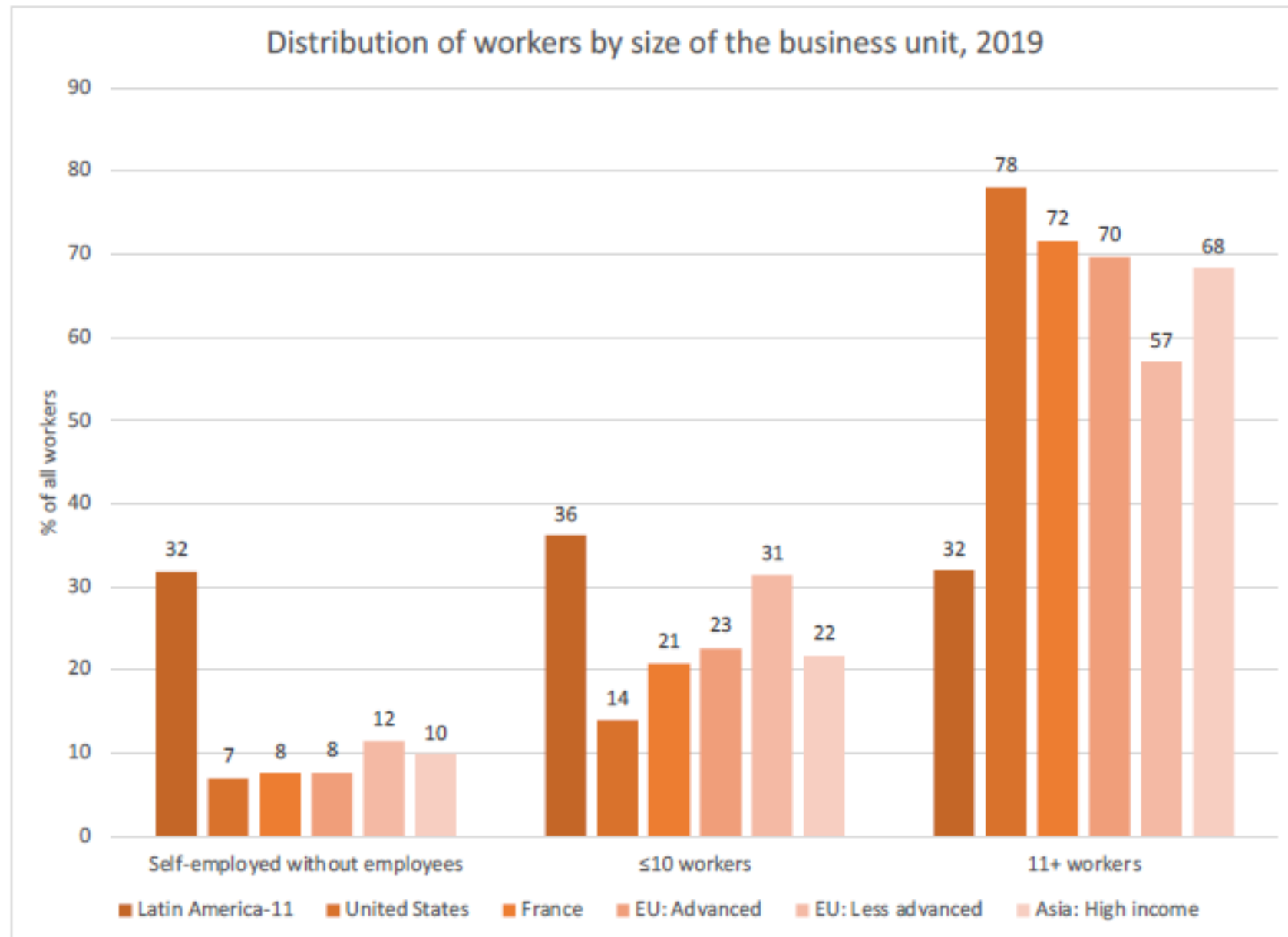


# The demand side: Informality and “inequality of firms”



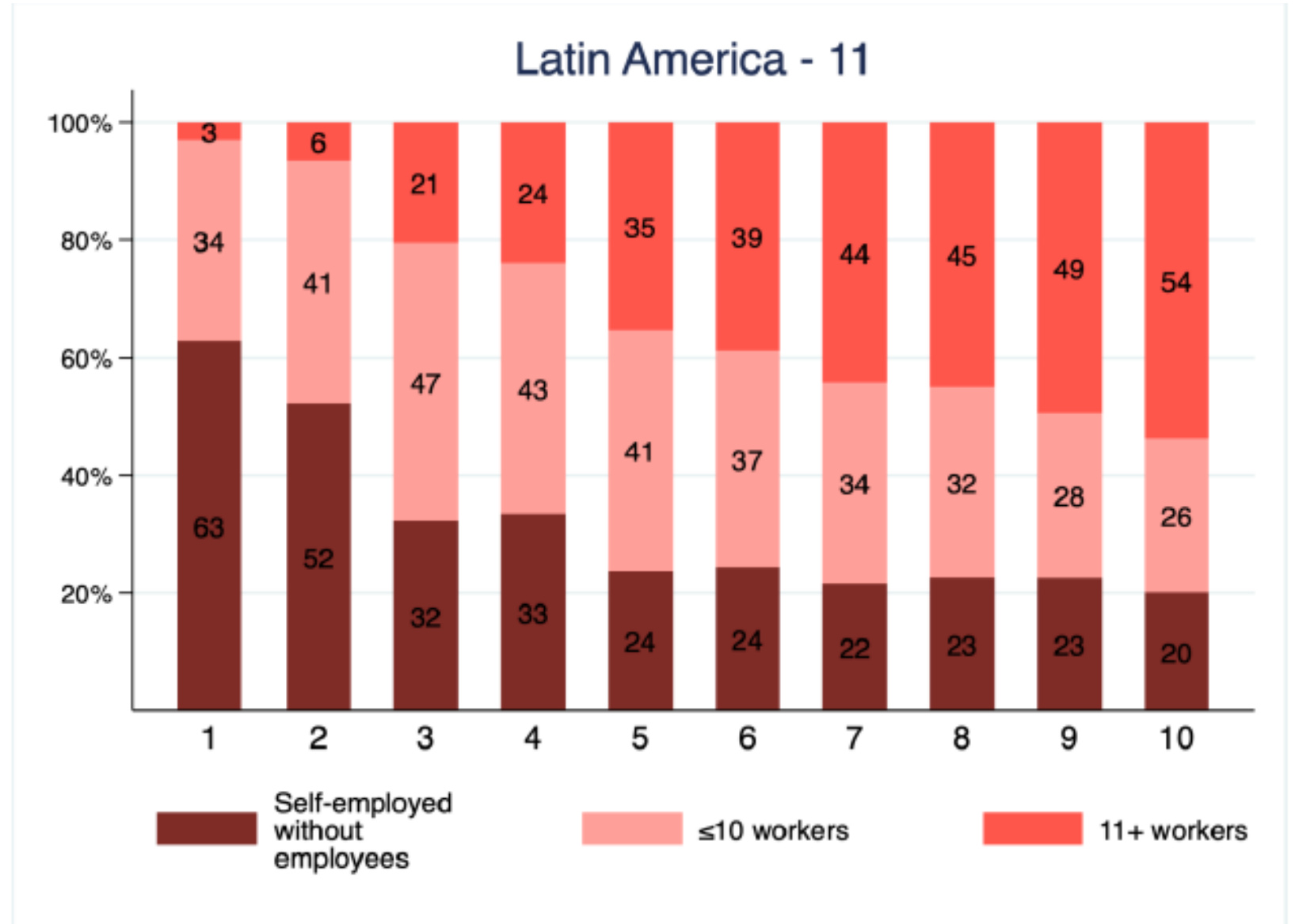
# The demand side: Informality and “inequality of firms”

Source: Eslava, M., M. Meléndez, I. Flores, L. Tenjo and N. Urdaneta. (2023). Market structure and income inequality in Latin America. Mimeo.



Composition of employment by firm size for each earnings decile

The demand side: Informality and “inequality of firms”

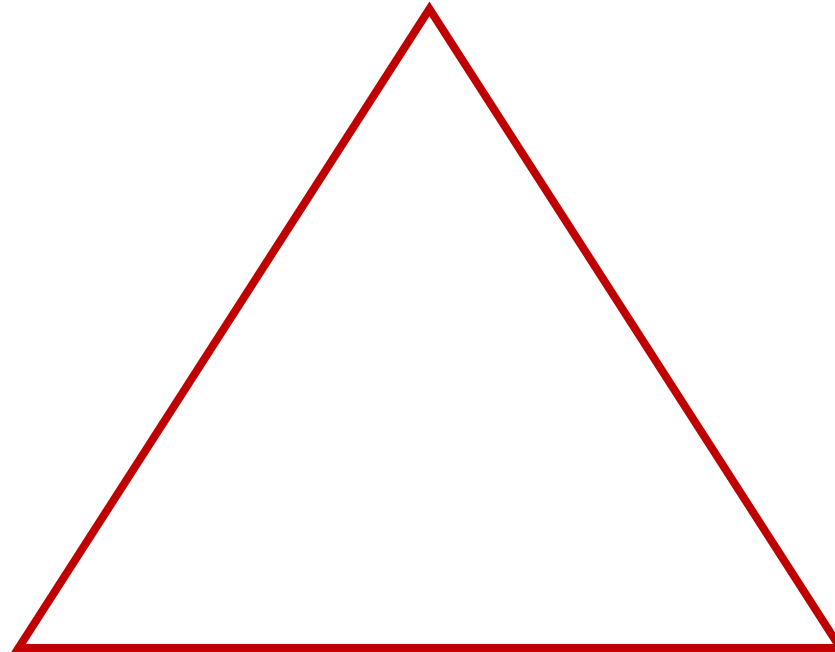


Source: Eslava, M., M. Meléndez, I. Flores, L. Tenjo and N. Urdaneta. (2023). Market structure and income inequality in Latin America. Mimeo.

Source: Eslava et al (2023).

# 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

Thank you for your attention.

Gracias por su atención.

Obrigado pela atenção.