Comments to
“Long Run Income Distribution Dynamics: The Case of Chile 1990-2017”
Blundell – Corral – Gómez-Lobo

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Verifies important fall in inequality

• Robust to all possible inequality measures.
• The main objective of the paper is to identify its main causes.
• The paper concludes that its mainly a result of the increase in the returns to unobserved skills of persons with “lower” levels of education.
• Observables do not explain much. A rather unusual answer, hence innovative.
• Though I must say I believe the Gini coefficient of education is an overlooked observable that could have important explanatory power.
• Lack of theoretical framework: if we take the variance of the Mincer equation, that would give us an equation with the variance of education and the variance of the ROR to education as explanatory variables.
• However, granting it is right, what could be behind this?
Public versus private employment

• It is common for the public sector to pay higher salaries to less educated persons than those paid by the private sector.
• And lower salaries to highly educated persons, than those paid by the private sector.
• The wage-education curves cross.
• Hence a change in composition, due to more public employment may imply higher returns to persons with lower education, to those that have the best abilities to be employed in those jobs.
• In Uruguay I have observed an important distortion to the wage distribution due to this (a spike in the lower tail of the distribution) that among other things distorts the decision to educate more.
Better quality education for those from poor families

• There is evidence of an overall increase in quality if we look both at PISA scores and SIMCE scores.
  • At least until 2017

• In the literature there has not been much analysis on which income groups have been favoured.

• As a hypothesis one could think the worst schools would have more room for improvement. And the worst schools usually teach children from poorer families.

• And we do have evidence on this.
Evidence of a higher increase in quality for certain groups

- In the paper “Improvements in the Quality of Basic Education: Chile’s experience” by Wales-Ali-Nicolai-Morales-Contreras (2014)

- Page 17: “A narrowing of the gap in test results can also be seen between different income groups, with the poorest gradually catching up with other income groups”.

- In its figure 6, it shows the gap in scores narrows between Q1 and Q5 kids. From 60 to 40 points.
  - Q1 score/Q5 score goes up from 79% to 86%.

- And one can also appreciate that only the quality of education received by the lower two quintiles has a noticeable increase. These are also the children that most probably will educate themselves less.
Answering the question “why did inequality go down” is key

• Because less inequality is not always good, even though in the press it appears many think so
• Inequality can diminish for good or bad reasons (from the point of view of society)
• Better quality education for kids of poor homes is good
• A fall in the returns to experience may imply there are important rigidities in the labour market
• CASEN 2022 appears to be a case where the reasons are “bad”, less inequality in the midst of all autonomous incomes falling.
  • If all incomes converge towards zero we will have very little inequality but no one would be cheering
There is other relevant evidence in the paper

• Of some developments I find key to understand the recent past

• For example, evidence of the *relative* deterioration in the incomes of higher educated individuals in younger cohorts
  • The deterioration is relative to older cohorts
  • And relative to less educated persons in their own cohorts (a key conclusion of the paper)
  • And these were the cohorts that made most use of expensive credit opportunities

• The frustration that may accompany this relative deterioration may have played an important role in the 2019 upheaval.