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Inequalities in Emerging Market Economies: What Role for Skills and Education ?


Some Observations

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**OECD,Paris ,
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www.oecd.org/els/social/inequality/emergingeconomies

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What Role for Skills and Education

Two questions

1. Does Income inequality increase education inequality?
2. Does education inequality increase income inequality ?

Do we see virtuous or vicious circles ?

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Does Income Inequality increase Education inequality

- For developed countries: educational background and income parents affect positively quality and quantity of pre school , school, post compulsory education and life long learning (Machin 2009)
- Not clear whether income levels or income distribution is the major determinant for education inequality but most likely relate (Machin 2009)
- Conclusion for developed economies better public education institutions can reduce inequality in education

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Addison and Rahman (2003) found for a sample of 41 developing countries that a high level of initial household income inequality is a strong determinant for skewed public spending away from primary education.

How to avoid such a vicious circle ?

Solution is not to decrease expenditure on Tertiary and Secondary education but to reduce non essential other government spending, rationalize public expenditure or increase the tax base

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What is the effect of Education (inequality) on Incomes (inequality) ?

Question needs to be posed in a dynamic context :

Early Rate of return studies show higher rate of return to primary education (Psacharopoulos, 1985) , but these huge differences reduced over time

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What Role for Skills and Education

Rate of return of education analysis used:

- To argue that expenditure on education in general is paying off
- To guide allocation of resources between various levels of education (often primary versus tertiary)

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- Often ex post analysis is used for ex ante policy guidance : i.e the existing wage or income inequality is built into to assumptions without questioning whether exogenous or endogenous factors will change this inequality.
- Fallacy of composition in rate of return studies : Expected earnings (differentials) are not constant (greater supply of education may lead to pressure on wage)

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Rate of return does not take into account the unequal nature of labourmarket :

“ While in urban West Africa high levels of education are given more value in the relatively smaller section of salaried employment, observed skills like education appear to be fairly unprofitable in the large self-employment sector”

“ the fact that only the small formal urban sector both seem to absorb highly educated workers and provide huge skill premiums may be an important reason for the observed low demand for education and high drop out rates” Dimova, Nordman and Roubaud , 2010

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- Rate of return analysis omits important effects of education.
- Education has other influences on hh income inequality than through wages , many indirect effects (health , political participation , family etc)

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Different type of education influencing Income Distribution

Two historical examples :

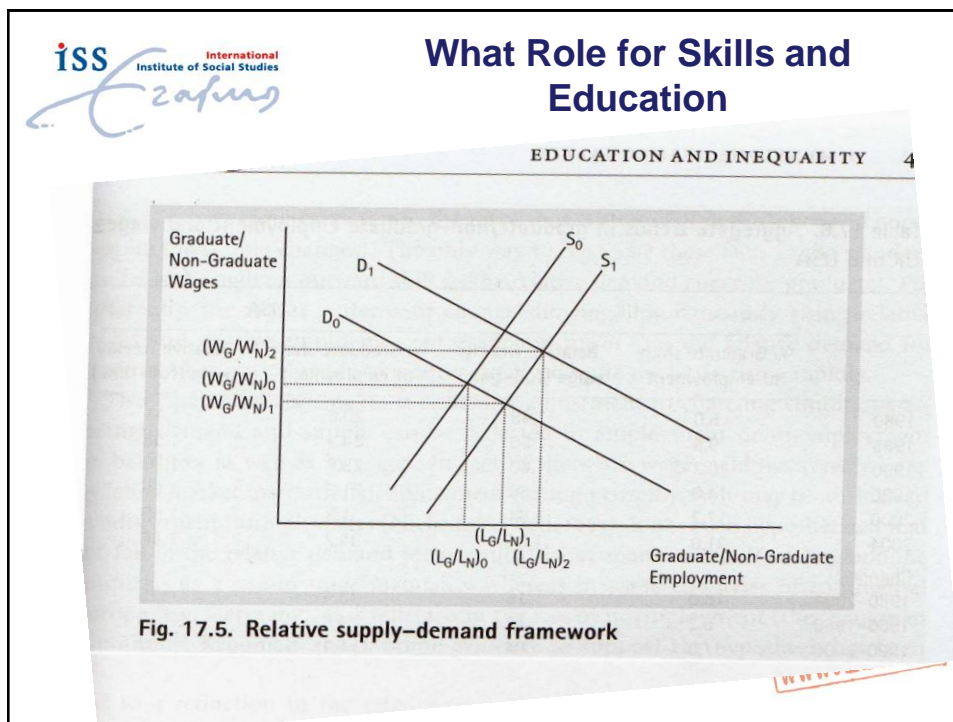
- In the Fifties massive supply of primary and secondary education in Korea and Taiwan led, in combination with land redistribution, to low hh income inequality ('Redistribution before Growth' Adelman 1979)
- Kenya and Tanzania :Kenya more unequal school system more private secondary education less emphasis on primary education . Tanzania more emphasis on Primary Education. Now pressure in Tanzania: Lack of higher educated ...upward wage pressure...increase hh income inequality (Knight and Sabot 1990)

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- Effect of education on income inequality can be explained as a race between education and technology (Tinbergen 1975)
- Assuming that technology is skill demanding .
- Technology in 19th skills displacing now skills enhancing !!

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- But Tinbergen thesis for developed economies (with good primary and secondary education)
- Is Education Supply and Technology Independent of each other ?(Acemoglu 2002)
- Effect of globalization (Freeman 2009)

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- Are rising inequalities between skilled and unskilled wages due to skills based technological change or to globalization
- First order effect due to technological change (Jansen and Lee 2007) ,but... technological change driven by globalization

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Increase in overall Inequality	Brasil _	China ++	India +	S Africa +-
Education as explanatory factor for inequality	Average income 35 % explanatory factor (both for h.h inc and lab income) p32	Inequality College education Single largest factor p 8 p 19	Wage Inequality Education 33 percent p15 (Also for hh inequality education important explanation p15)	Income inequality Unemployment important factor Problem of low qualification and low quality p12
Technological change	average Incomes influenced ao by increase year of schooling + Fall in rate of return – p34		College education as explanatory factor increased P 16	Skill based technological change p18 Excess demand for skills , but education difference between employed and unemployed declining p43
Policy proposals	Bolsa program expansion plus higher education p43	Access rural migrants to (higher)education p42	Undo the educational divide p32	expansion Tertiary and quality improvement Primary and Secondary Education p44

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What Role for Skills and Education

- The challenge , especially for open economies , is to have coherent national and international policies dealing with employment , incomes and labour markets.
- Continued emphasis on good public education at all levels
- If skill large premiums remain, inequality need to be reduced through increased education expenditure and related fiscal policies
- This implies at international level Tax coordination, and serious proposals to tax Brain Drain

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