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Top Income Shares and Mobility Patterns in Uruguay During 2009-2017

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Although many studies based on household surveys data show that Latin American countries experienced a significant fall in personal income inequality in the last fifteen years, tax records evidence for specific countries suggests that inequality trends are sensitive to the data source and choice of measure. At the same time, due to the lack of longitudinal information, there is limited evidence on whether income distribution variations affected short and medium-term income dynamics and were coupled with increased intra-generational economic mobility.

Using a unique array of merged employer-employee- longitudinal tax records micro-data that covers 70% of the Uruguayan population aged 20 and over, we analyze the 2009-2016 evolution of the primary income distribution, and carry out comparisons to harmonized household survey data. At the same time, we provide estimations of income and employment mobility in Uruguay, focusing on top income groups dynamics. Our findings show that (1) pre-tax and post-tax income inequality measured on the basis of synthetic indexes decreased in both data-sets, with a milder fall in tax records than in comparable household surveys; (2) the top 1% income share remained stable at 14% in the period of inequality fall (2009-2013) and grew thereafter; (3) in spite of the inequality decline, top income positions are highly persistent: at the top 1%; the average persistence rate is around 80%, being slightly lower for women (relative to men) and higher for capital and self-employment income earners than for wages, salaries and pensions; (3) the comparison between annual and permanent income-based inequality measures suggests that the equalizing effect of income mobility is modest, at least for the short period considered (1.4 p.p. and 0.5 p.p. reduction in the Gini index and the top 1% income share respectively); 4) top income earners benefited to a larger extent from employment mobility than the remainder sectors of the population; (5) finally, personal income taxation in Uruguay redistributes roughly 2 p.p. of the Gini index and 2 p.p. in the share of the top 1%, suggesting that household surveys overestimate its redistributive effect.

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Note: this paper will be presented by Mauricio De Rosa or Joan Vila.