

Inequality and productive structure: new evidence at the world level

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Abstract

The connection between a country's productive structure and its distribution of income is in the basis of economic development ideas. Differences in sectoral structures between countries as well as changes in these structures, may help to understand the levels of income inequality prevailing in different countries as well as inequality trends. Of course, differences in productive structures are associated with a number of other factors, such as the quality of institutions, human capital accumulation, even macroeconomic factors, so the connection between income inequality and the productive structure is mediated by several dimensions.

Many authors have proposed that structural transformation can lead to economic growth, but it can also generate higher income inequality. It has also been suggested that different natures of structural transformation may lead to different evolutions of income inequality. Despite the importance of these connection in theoretical terms, the evidence is not abundant, among other things because of the difficulties to reflect in a specific measure the multiple dimensions that constitute a productive structure. Moreover, the evidence is sometimes controversial, a fact that may reflect difficulties to get good quality data with a wide coverage for both income inequality and features of the productive structure.

The paper analyses the combined evolution of income inequality and the sectoral production structure around the world, in a framework of fixed-effects regressions including various controls. For income inequality, we build upon WIID dataset, which has a wider coverage than others, with a richer representation of low-income countries or from regions with poorer data. To reflect the production structure and the process of structural transformation, we consider three alternative approaches: the share of different productive sectors, the importance of informality, and the economic complexity of the economy. We explore heterogeneities between countries according to their income levels, as well as regional differences. We specifically want to address if the relationship between the productive structure and inequality changes at different regions, as well as to explore the dynamics of the underlying link.