Extended abstract:

**Income Mobility in Argentina**

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The paper analyses the variability of labour incomes in Argentina from late eighties to 2005. The magnitude of the income-instability phenomenon is estimated and its determinants are evaluated under different macroeconomic contexts. The document also explores how income fluctuations have affected the inequality of income distribution.

Instability may go hand-in-hand with mobility, which generally means changes in the relative position of incomes in the distribution, or changes in the differentials between them. The existence of a mobility process has an impact on the income distribution. In particular, it could make the degree of concentration, measured by incomes in a given year, overstate inequality in the distribution of more permanent incomes measured as an average over several years. More importantly for the purposes of many diagnostic studies, changes in the degree of mobility may cause changes in current-income inequality to inadequately reflect changes in the inequality of average incomes.

Given the importance of variations in incomes for analysing their level and distribution, this paper will examine the changes in inequality that have occurred in Argentina since the late 1980s. Despite the importance of such issues, only few studies have addressed them in the past. Moreover, the few analyses that have been made use a shorter timeframe than the one considered here; and, in particular, they do not include periods of high inflation. They also fail to explicitly relate the phenomena of instability, risk, mobility and concentration in average incomes.

The analysis of income variability over short periods is a relatively unexplored topic, probably because it is not a significant phenomenon in the world’s leading economies. Nonetheless, in countries such as Argentina, where macroeconomic instability has been a feature throughout much of its modern history, income variability is particularly relevant, irrespective of any distributive impacts — especially, as will be seen, when it seems to persist even in situations of price stability.

This document summarizes the key factors determining instability and its differential intensity between household groups. It also assesses the extent to which changes in instability have affected changes in income distribution. The aim, therefore, is to explore the hypothesis that an increase in inequality, when studied using data from each period or cross-section data (i.e. with current incomes), also reflects changes in the distribution of average incomes. In order to complement the analysis of this issue, the average household income was adjusted for the effect of variability, and its behaviour

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was compared with that of the unadjusted average income. Finally, the income convergence hypothesis is tested using a dynamic pseudo-panel.

Data for Greater Buenos Aires will be used, since this is Argentina’s main metropolitan area and home to nearly one third of the population. The analysis, covering the period 1988-2001 with panel data, will distinguish four periods that are relatively homogeneous in terms of a set of variables that are important for the aims pursued. The temporal and geographic selection reflects the availability of statistical information, since household survey’s microdata are only continuously available for that region and for those years. The period 1985-2005 was analysed using dynamic pseudo-panel data.

One of the main results indicates that the growth in occupational instability registered since the mid-nineties led to a high variability in incomes despite the macroeconomic stability enjoyed throughout the nineties. In addition, a shift in the characteristics of income mobility was verified between the extremes of the period. Moreover, the panorama of growing inequality in the distribution of income is also appropriate to describe what happened with the changes in the distribution of more permanent incomes. Finally, the results obtained show scarce long-term income mobility in Argentina indicating that the income path does not converge to the general mean.