

Inequality and Poverty under the *New Left* in Latin America

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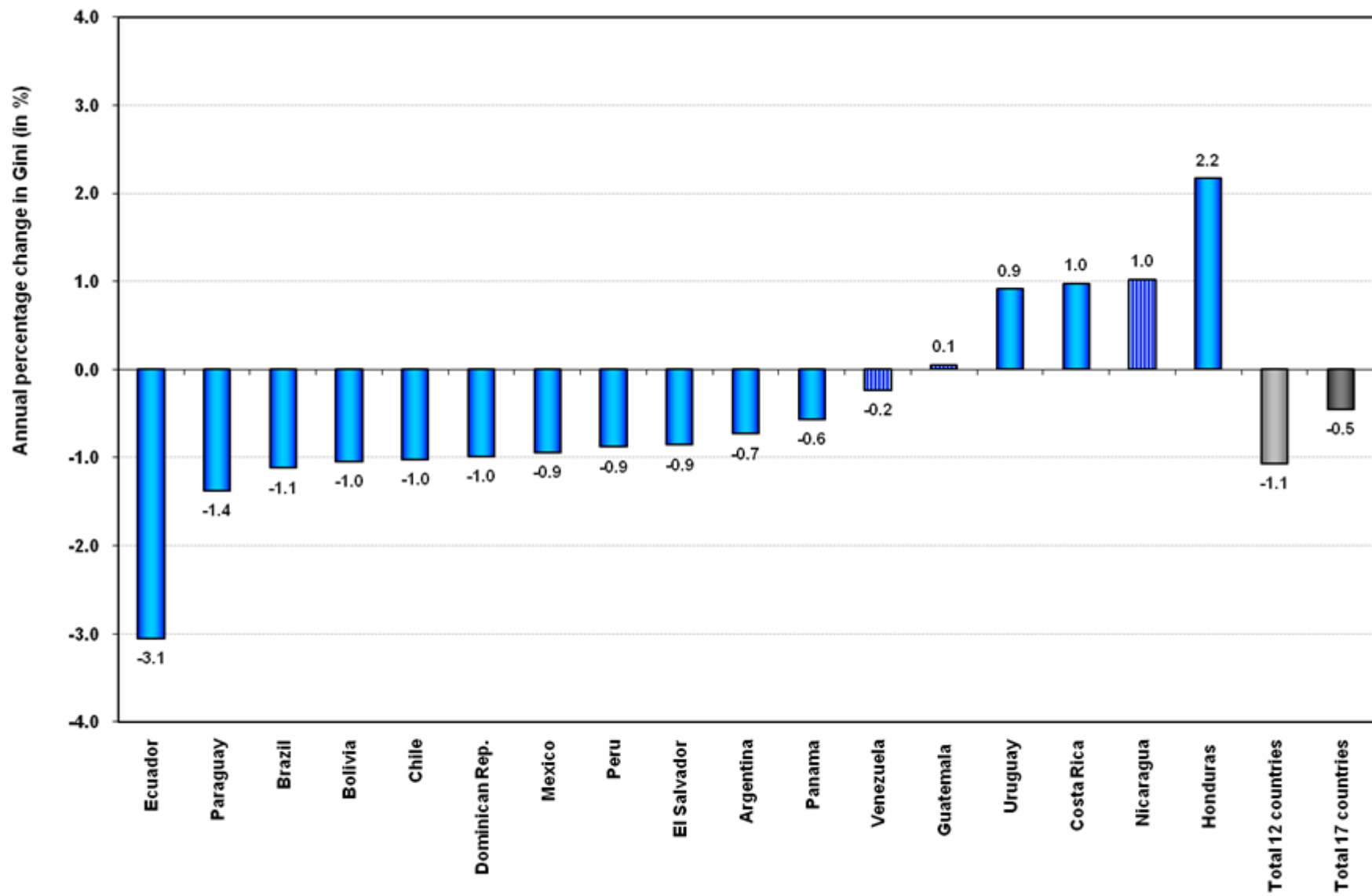
WWC and CGD

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Latin America is the most unequal region in the world

- 19 percent more unequal than Sub-Saharan Africa
- 37 percent more unequal than East Asia
- 65 percent more unequal than developed countries
- However, since 2000...



Since 2000:

- Inequality in most Latin American countries has declined and
- Extreme poverty has declined at a faster pace than before
- These trends have coincided with a growing number of countries governed by the left

Since 2000:

- In 2009, ten countries—around two-thirds of the region's population—were being governed by regimes that have been classified as leftist:
 - Argentina (2003), Bolivia (2006), Brazil (2003),
 - Chile (2000), Ecuador (2007), El Salvador (2009),
 - Nicaragua (2007), Paraguay (2008),
 - Uruguay (2005) and Venezuela (1999).

Since 2000:

- Among the left, (WWC's project on New Left in LATAM)
 - *Social democratic* left regimes (Brazil, Chile and Uruguay)
 - *Populist* left regimes (Argentina, Bolivia, Ecuador, Nicaragua and Venezuela)

Main question:

- Do the trends in poverty differ in countries that are governed by the left?
 - Compared to previous and contemporary non-leftist governments
- The answer is, in general, yes
 - Descriptive statistics
 - Econometric analysis

17 LAC were divided into three groups:

- Social democratic left (Brazil, Chile and Uruguay)
- Populist left (Argentina and Venezuela)
- Nonleftist (all the others)
 - (Bolivia, Ecuador, El Salvador, Nicaragua and Paraguay were not included among *new left* because there were no, or just one, data points since leftist governments took office.)
- Two indicators:
 - frequency (i.e. the number of countries of the total in each group) at which inequality and poverty declined
 - rate with which poverty and inequality declined in countries from each group.
- Data: SEDLAC (CEDLAS and the World Bank).
<http://www.depeco.econo.unlp.edu.ar/cedlas/sedlac/>

The results can be summarized in the following three conclusions:

- First, comparing to the past, in a country now governed by the left poverty and inequality either began to decline, or declined more rapidly, than under previous regimes
 - except in Venezuela where the evolution of poverty and inequality has been volatile, and overall, levels of poverty and inequality came back to levels similar to prior years.

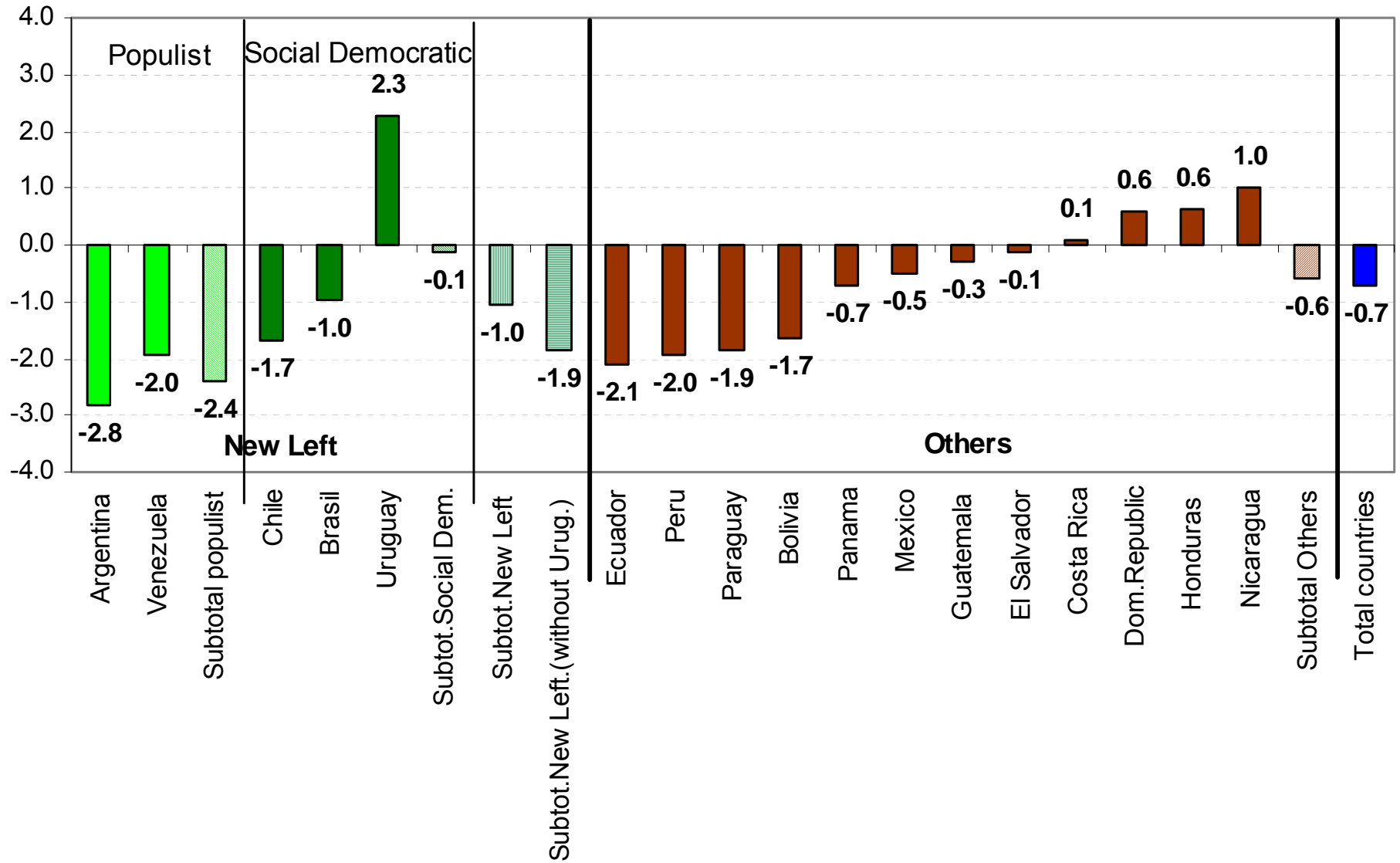
The results can be summarized in the following three conclusions:

- Second, from 2003 to 2006, reductions in inequality as well as in poverty and extreme poverty occurred with greater frequency in leftist than in non-leftist countries.

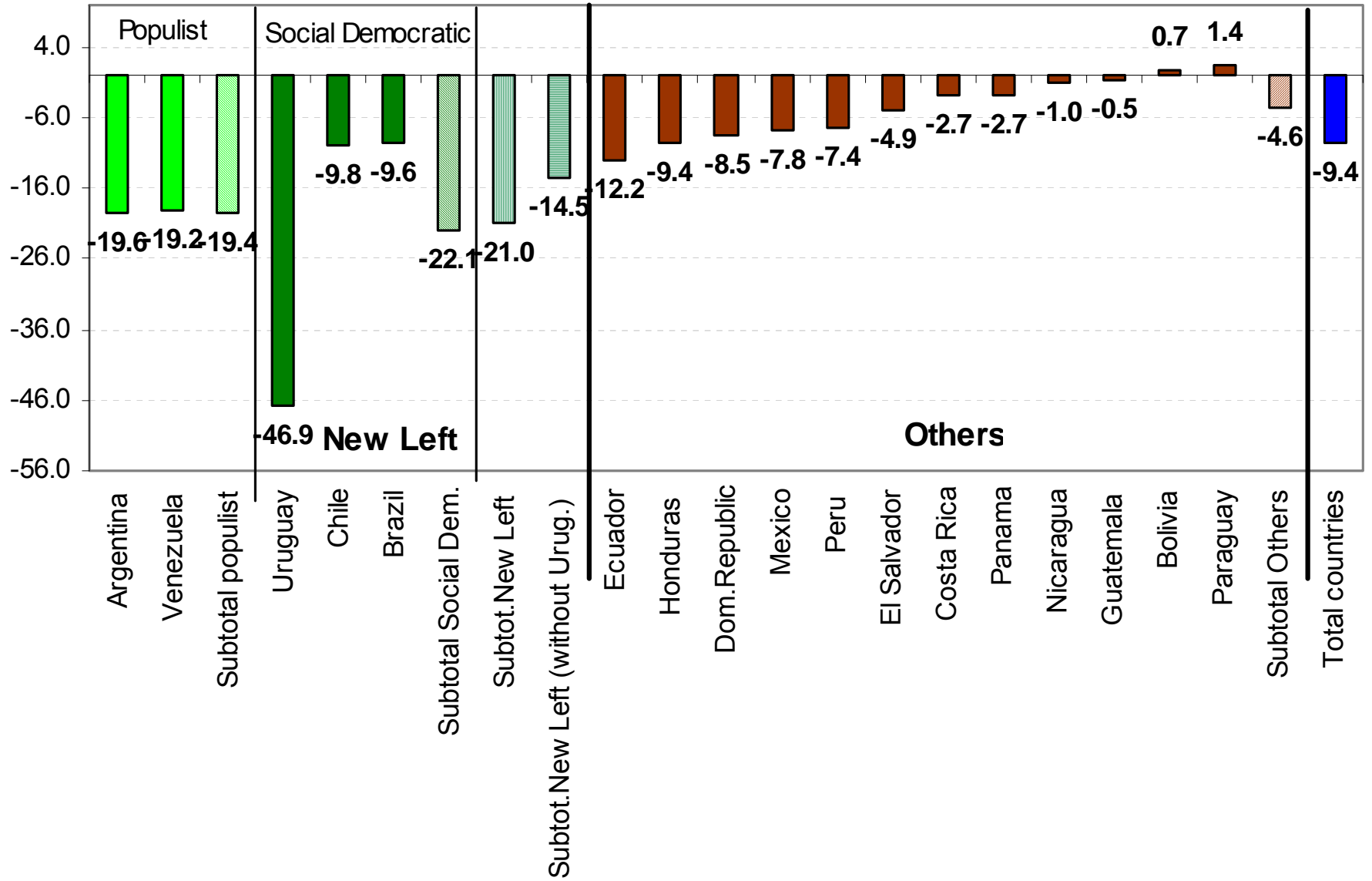
The results can be summarized in the following three conclusions:

- Third, inequality and poverty declined at rates twice or three times faster (or more in the case of extreme poverty) in countries governed by the left
 - Within the group of countries governed by the left, inequality and poverty fell more rapidly in populist left regimes

Gini Coefficient



Extreme poverty



At least three caveats:

- Results limited to a small set of countries governed by new left and a few years (2003-06 for the contemporaneous comparison)
- Can't attribute causality based on descriptive statistics. What if inequality and poverty declined because of the commodity price boom?
- Even if populist regimes are proven to be more redistributive in the short-run, this could be at the expense of macroeconomic stability and growth in the medium term

What happens if we control for...

- Boom in commodity prices and invariant factors affecting inequality across countries (for example, the share of indigenous population, quality of education, etc.)?
- Using regression analysis on a panel of 17 countries for 1988-2008, preliminary results suggest that political regime affects inequality and poverty outcomes (Lustig & McLeod, in progress)

Table 1: Inequality levels in Latin America (Gini Coefficient)

Dependent Variable: (t-statistics in parentheses)	3 year panel estimates			with fixed effects^{1/}		
	Gini Coefficient			Gini Coefficient		
	1.1	1.2^{3/}	1.3	1.4	1.5^{3/}	1.6
Per capita income \$ppp 2005 (log)	-3.2 <i>-(3.4)</i>	-3.2 <i>-(3.4)</i>	-2.8 <i>-(3.1)</i>	-0.5 <i>-(0.1)</i>	-1.2 <i>-(0.6)</i>	-0.8 <i>-(0.2)</i>
Net barter terms of trade (log)	2.8 <i>(0.9)</i>	2.9 <i>(1.0)</i>	5.0 <i>(1.4)</i>	-4.1 <i>-(2.7)</i>	-3.6 <i>-(2.6)</i>	-4.2 <i>-(2.7)</i>
Government spending % GDP (log)	8.3 <i>(6.7)</i>	8.4 <i>(6.7)</i>	8.5 <i>(6.8)</i>	3.5 <i>(2.8)</i>	4.0 <i>(3.5)</i>	3.5 <i>(2.8)</i>
Social Democratic Regime (0,1) Eqs 1.2 & 1.5 SDR*public spending Eq. 1.3 cumulative regime years Eq. 1.6 SDR*Terms of Trade	1.1 <i>(0.9)</i>	0.4 <i>(0.8)</i>	-0.04 <i>-(0.2)</i>	-2.5 <i>-(2.5)</i>	-1.1 <i>-(4.0)</i>	-1.0 <i>-(2.9)</i>
Left-Populist Regime (0,1) Eqs 1.2 & 1.5 LPR*public spending Eq. 1.3 cumulative regime years Eq. 1.6 LPR*Terms of Trade	-3.3 <i>-(2.4)</i>	-1.3 <i>-(2.5)</i>	-2.9 <i>-(4.8)</i>	1.0 <i>(0.8)</i>	0.0 <i>(0.1)</i>	0.4 <i>(0.8)</i>
Fuel exports % of merch exports	-0.07 <i>-(0.3)</i>	-0.06 <i>-(0.3)</i>	0.03 <i>(0.2)</i>	0.62 <i>(3.8)</i>	0.59 <i>(4.2)</i>	0.63 <i>(3.8)</i>
Constant	48 <i>(3.1)</i>	47 <i>(3.1)</i>	34 <i>(1.9)</i>	66 <i>(2.1)</i>	69 <i>(4.1)</i>	69 <i>(2.3)</i>
Number of Observations	78	78	78	85	85	85
Number of Countries 2/	16	16	16	17	17	17
Adjusted R ²	0.35	0.35	0.40	0.84	0.84	0.84
Std Error of Regression	3.8	3.8	3.7	2.1	2.0	2.1
Mean dependent variable	53	53	53	52	52	52

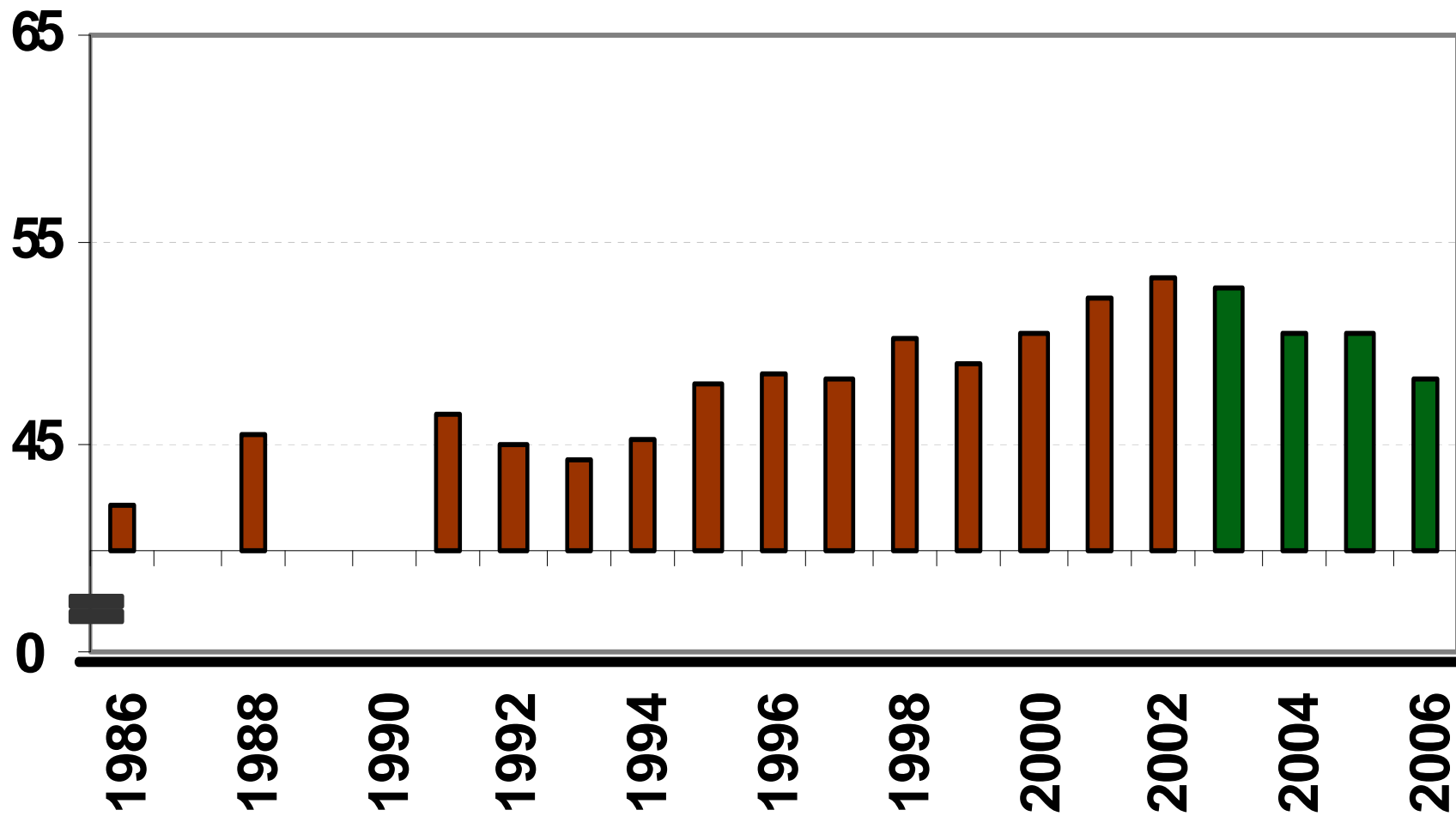
Econometric results:

- 1. Under both social democratic and populist regimes public spending tends to reduce inequality
 - even though public spending for the region as a whole is not progressive.
- But...

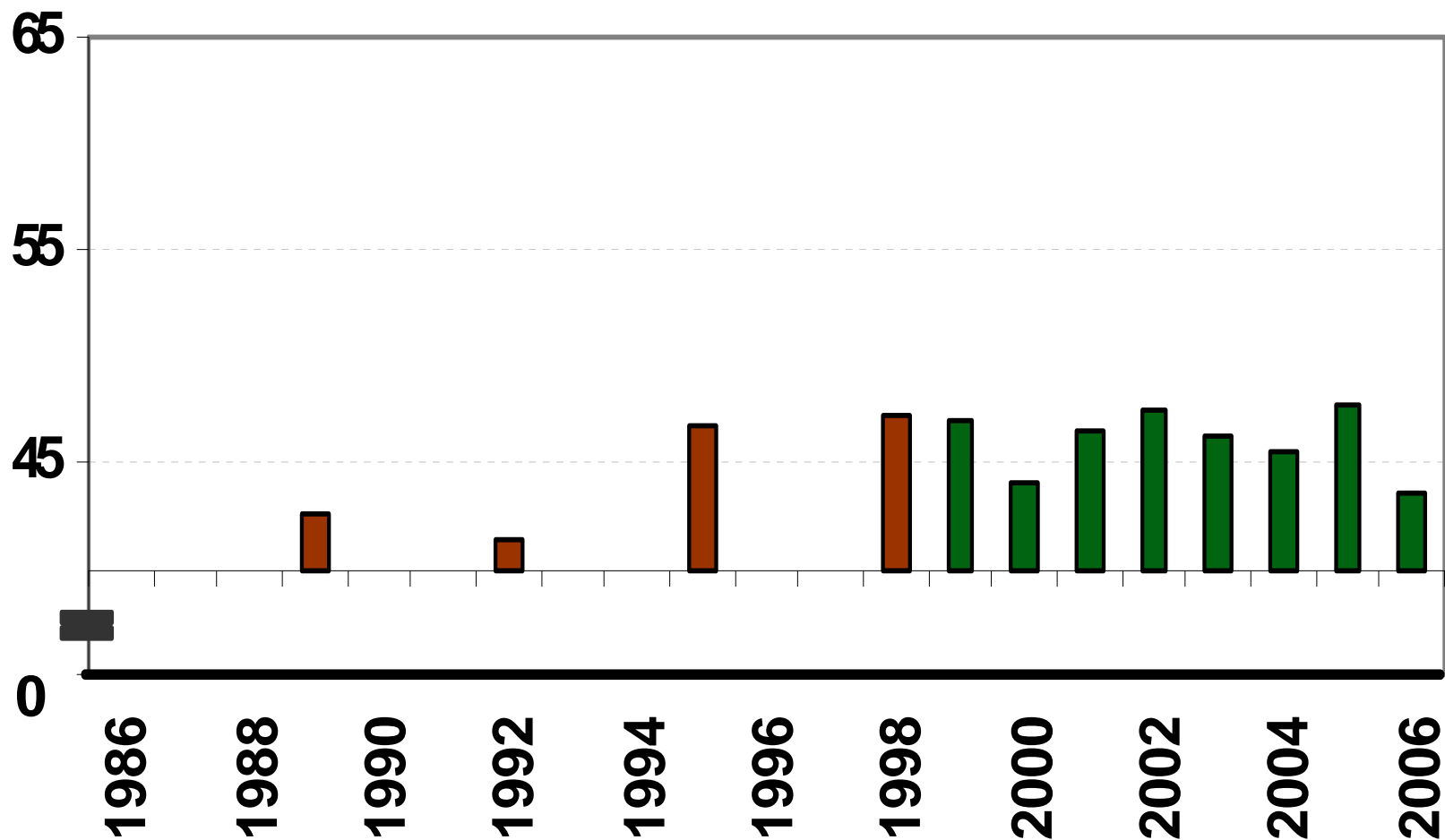
Econometric results:

- 2. Inequality reducing impact of public spending in the populist regimes of Argentina, Bolivia and Venezuela disappears (econometrically, that is) once one controls for the commodity price boom (2002-2008).
- Historically, Argentina and Venezuela had lower levels of inequality than other Latin American countries, so a return to “normal” levels of inequality also helps explain part of the sharp post-2003 fall in inequality in both countries

Gini Coefficient (in %): Argentina



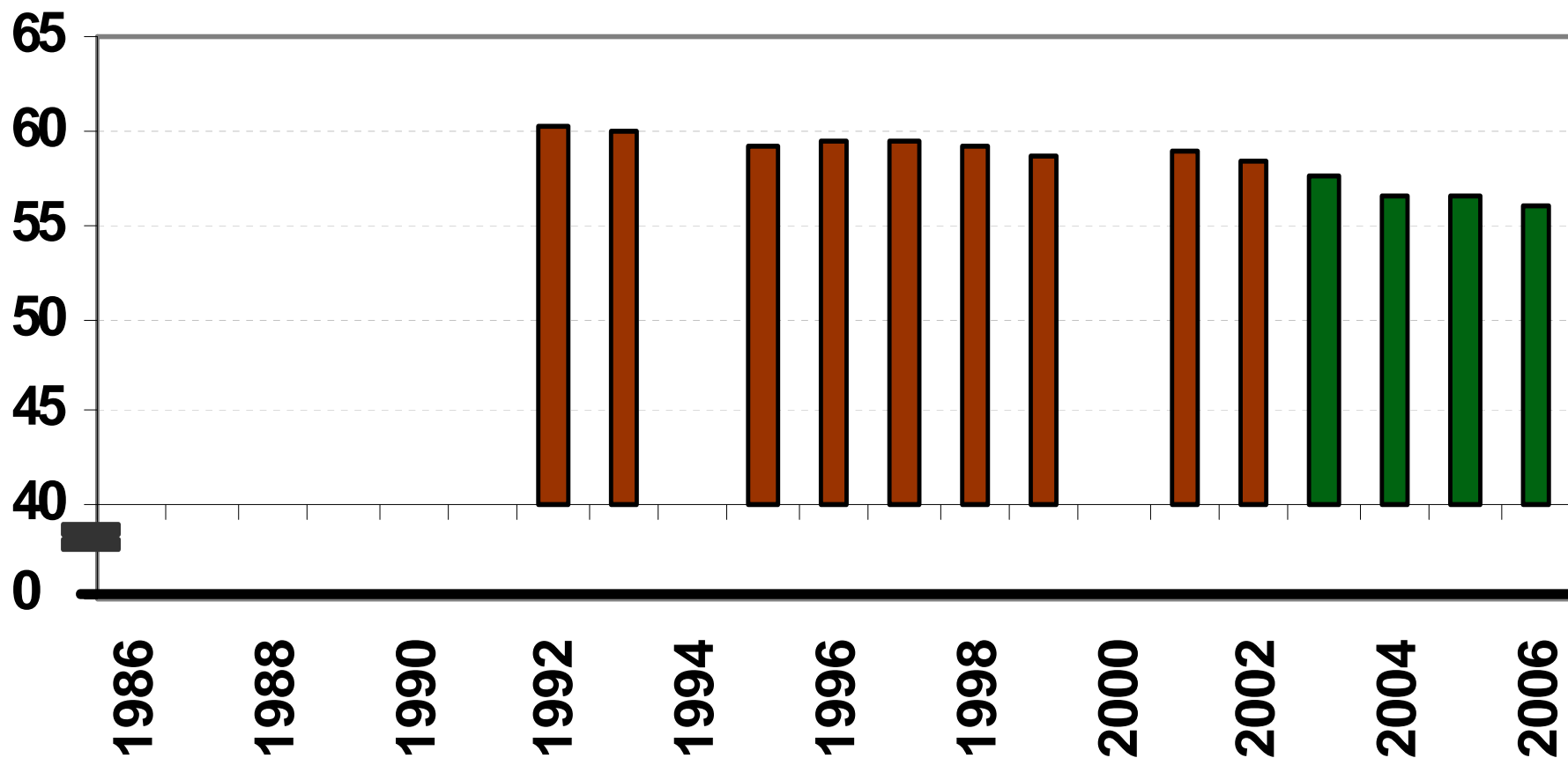
Gini Coefficient (in %): Venezuela



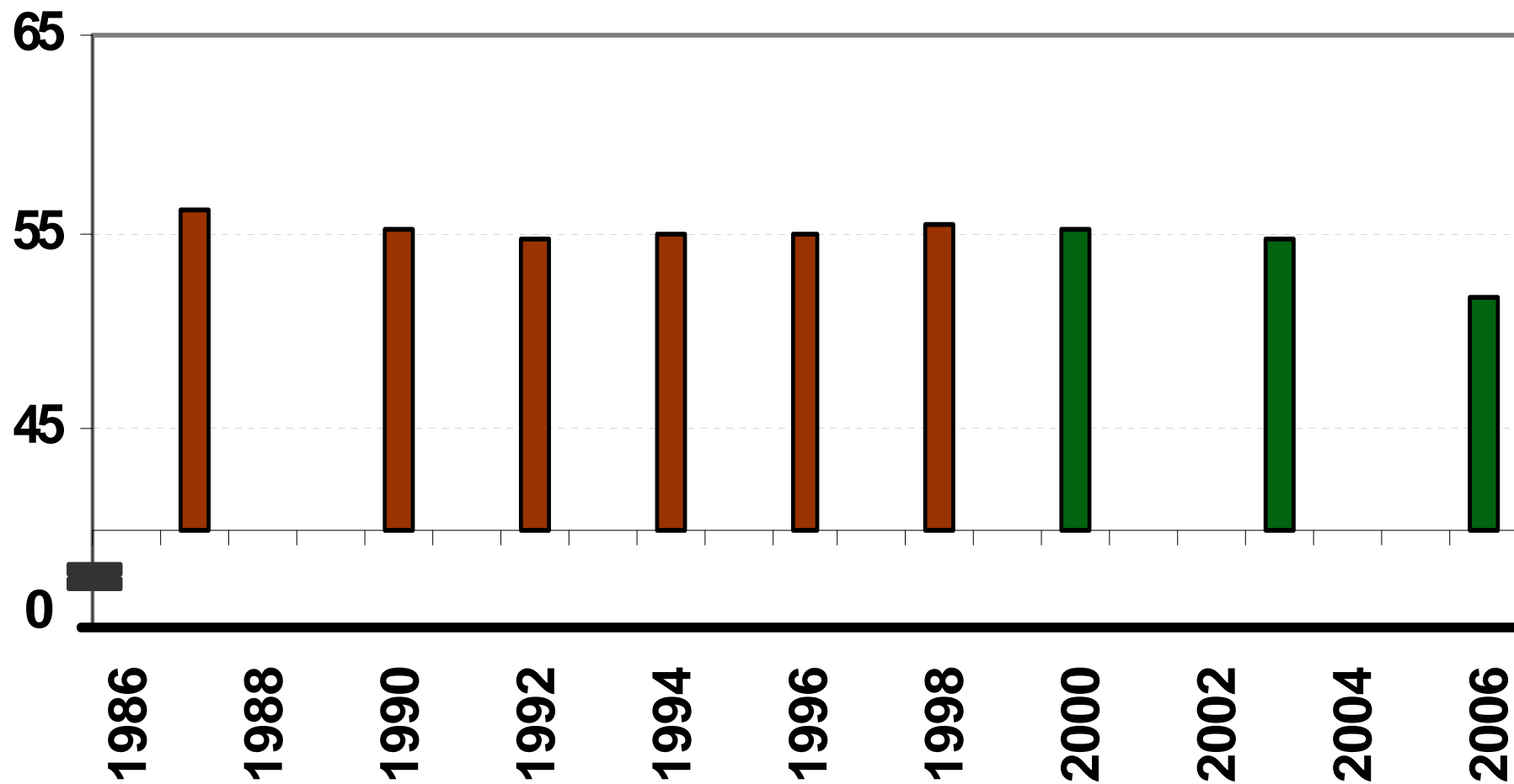
Econometric results:

- 3. In contrast, the evidence for **social democratic regimes** is conclusive: even when controlling for the commodity price boom inequality fell faster in the social democratic regimes (Brazil, Chile and Uruguay) where public spending in particular reduced inequality.

Gini Coefficient (in %): Brazil



Gini Coefficient (in %): Chile



Some further thoughts

- No inequality convergence: some high inequality countries are experiencing declines and some low inequality countries, after experiencing an increase, are reverting to their “normal” levels of inequality

Some further thoughts

- The main drivers behind the decline in inequality in Latam (Lopez-Calva & Lustig/UNDP):
 - A reduction in skilled-unskilled wage gap
 - More equal distribution of educational attainment
 - A larger share of public spending going to the poor
 - To a lesser extent, lower family size and more working adults per household, particularly among the poor

Some further thoughts

Past policies:

- In Brazil and Chile, partially due to reaping benefits of expanding coverage of basic education for more than a decade

Under new left:

- But, more fiscal resources devoted to transfers to the poor under the new left
- And programs which expand school enrollment of poor children in basic education

THANK YOU