

Poverty and Inequality under the New Left in Latin America

Comments

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Brief overview

- Relationship between ideology of governing party and poverty/inequality in 2000-2006?
 - Ideology ➡ poverty/inequality
- Focus on
 - Frequency of poverty/inequality changes
 - Magnitude of poverty/inequality changes
- Main conclusion
 - Declines in poverty (HC) and inequality (Gini) appear to be more frequent and larger in countries governed by “leftist” parties during 2000-2006

Outline

- Proposed question and counterfactual
 - Economic growth
 - Right versus left
 - Policy factors
- Drivers of poverty (and inequality) reduction
 - Growth and labor productivity
 - Social policy
 - Moving forward

Proposed question and counterfactual

- During 2000-2006 declines in poverty and inequality appear to be more frequent and larger in countries governed by “leftist” parties
 - Compared to:
 - Achievements under previous (non-leftist) governments in same country (time comparison)
 - Achievements under other (non-leftist) governments in region (contemporaneous spatial comparison)
- Alternative framing of question
 - Are observed changes (more frequent) larger than what would be predicted by economic growth?
 - Given actual growth, are observed changes (more frequent) larger than what would have been achieved by a non-leftist government?

Proposed question and counterfactual: Economic growth (I)

- Output elasticity of moderate poverty: -1.62 (Poverty Group – LAC, WB)

		2000	2001	2002	2003	2004	2005	2006	
Argentina	Actual			57.5	52.2	42.2	36.3		√
	Projected			57.5	50.2	43.7	38.0		
Brazil	Actual			32.9	33.6		27.7		√
	Projected			32.9	33.0	30.8	29.9		
Chile	Actual	20.6			19.0			14.1	√
	Projected ^A	21.2	20.5	20.2	19.2	17.7	16.4	15.5	
Uruguay	Actual					32.1	29.4	27.2	
	Projected					32.1	28.7	25.6	
Venezuela	Actual ^B				62.1	53.9	43.7		
	Projected				62.1	45.8	39.5		

^A From 1998; ^B WB

Proposed question and counterfactual: Economic growth (II)

- Output elasticity of extreme poverty: -2.63 (Poverty Group – LAC, WB)

		2000	2001	2002	2003	2004	2005	2006	
Argentina	Actual			27.5	24.8	16.0	13.0		√
	Projected			27.5	21.9	17.3	13.6		
Brazil	Actual			13.4	14.2		10.1		√
	Projected			13.4	13.5	12.0	11.4		
Chile	Actual	5.7			4.8			3.4	
	Projected ^A	5.5	5.1	5.0	4.6	4.0	3.6	3.2	
Uruguay	Actual				4.0	3.5	1.9		√
	Projected				4.0	3.3	2.7		
Venezuela	Actual ^B				29.8	22.5	17.8		
	Projected				29.8	17.8	13.3		

^A From 1998; ^B WB

Proposed question and counterfactual: Economic growth (III)

- But similar patterns in other countries

		2000	2001	2002	2003	2004	2005	2006	
Bolivia	Actual	65.9	64.0	64.3			59.6	59.7	
	Projected	65.9	66.4	65.8	65.1	62.8	60.4	57.5	
Costa Rica	Actual	24.0	22.9	23.5	21.4	23.9	23.8	22.8	
	Projected	24.0	24.4	24.1	22.3	21.5	20.1	17.8	
Mexico	Actual	53.6		50.0		47.2	47.0	42.6	√
	Projected	53.6	54.6	54.8	54.5	51.9	50.1	47.1	

Proposed question and counterfactual: Left versus right

- Hard to construct counterfactual
 - Have leftist governments produced higher growth? Anecdotal evidence suggests poverty (and inequality?) improvements of similar magnitude in countries with comparable growth records and non-leftist governments
 - Argentina, Brazil and Uruguay \approx Mexico and Nicaragua
 - Venezuela > Costa Rica and Panama
 - Chile \approx Peru
 - Have leftist governments pursued more pro-poor policies?
 - Social expenditure

Proposed question and counterfactual: Policy factors (I)

- Do leftist governments engage in more pro-poor/redistributive policy?
 - Positive economic growth, accompanied by high oil and commodity prices have translated into increased public revenues in numerous countries
 - Proxy: Public social spending (education, health, SN/SS, housing and other) as % of GDP (ECLAD, 2007)
 - Caveat: Pensions and other expenditures included above are often regressive in nature

Proposed question and counterfactual: Policy Factors (II)

	2002-2003	2004-2005	Change in country
Bolivia	13.6	18.6	5.0
Brazil	19.1	22.0	2.9
Nicaragua	8.8	10.8	2.0
Peru	8.0	8.9	0.9
Ecuador	5.7	6.3	0.6
Jamaica	9.6	9.9	0.3
Venezuela	11.7	11.7	0
Argentina	19.4	19.4	0
Colombia	13.5	13.4	-0.1
Guatemala	6.5	6.3	-0.2
Mexico	10.5	10.2	-0.3
DR	7.4	7.1	-0.3
Cuba	29.2	28.7	-0.5
Paraguay	9.0	7.9	-1.1
Costa Rica	18.6	17.5	-1.1
El Salvador	7.1	5.6	-1.5
Honduras	13.1	11.6	-1.5
Chile	14.8	13.1	-1.7
Uruguay	20.9	17.7	-3.2
Panama	17.3	8.0	-9.3

Drivers of poverty and inequality declines:

Context

- Poverty reduction can be explained by a combination of:
 - Increases in labor productivity (intensive margin)
 - Increases in labor supply (extensive margin)
 - Increases in non-labor income
 - Interaction between factors above
- Strong economic growth in the region in 1990s and 2000s, but poverty declines only in 2000s
- Poverty reduction accompanied by
 - Falling or stagnant labor productivity
 - Appearance and expansion of well-targeted safety nets (e.g. CCTs)
 - Oportunidades (MX)
 - Bolsa Familia (BR)
 - A Trabajar and Jefes y Jefas (AR)

Drivers of poverty and inequality declines: Growth and labor productivity

Decomposition of Changes in GDP/head (in multiples of poverty line)

	GDP/head (c.1990)	GDP/head (c.2006)	change in GDP/head (2- 1=4+5+6)	change in labor income per worker	change in workers per population	change in non- labor income per head
	1	2	3	4	5	6
Argentina	6.19	6.71	0.52	-1.97	0.41	2.08
Bolivia	3.34	3.42	0.08	-0.77	0.43	0.42
Brasil	4.93	7.90	2.97	0.31	0.64	2.03
Chile	4.73	7.74	3.01	1.86	0.98	0.17
Colombia	2.90	4.04	1.14	0.23	0.11	0.80
Costa Rica	4.08	5.81	1.73	0.82	0.73	0.18
Ecuador	2.37	4.00	1.63	0.61	0.55	0.47
El Salvador	2.84	3.09	0.25	-0.01	0.12	0.14
Guatemala	2.19	2.94	0.75	0.12	0.33	0.31
Honduras	1.64	1.96	0.32	-0.19	0.21	0.31
Mexico	3.59	4.46	0.87	-0.10	0.78	0.19
Nicaragua	1.89	2.22	0.33	-0.11	0.46	-0.02
Panama	4.20	5.41	1.21	0.11	0.68	0.41
Paraguay	3.39	3.33	-0.06	-0.42	0.17	0.19
Peru	3.19	2.99	-0.20	-0.27	-0.03	0.09
Rep. Dom.	3.94	4.29	0.35	-0.83	0.26	0.92
Uruguay	6.18	5.55	-0.63	-0.72	0.01	0.08
Venezuela	3.55	4.06	0.51	-0.23	0.75	-0.02

Source: León, Arturo (2008), cuadro 23

Drivers of poverty and inequality declines: Social policy and safety nets

- Consolidation and expansion of SS and safety nets throughout the region
 - Very positive development
 - Independent of ideology of governing party
- Positive changes in non-labor income in most countries
 - Includes public transfers *and* remittances
- Distribution of (additional) non-labor income (especially public transfers) has been relatively pro-poor
 - E.g. Barros et al. (2006) – Approx 40% of poverty (inequality) reduction in Brazil is explained by changes in non-labor income

Drivers of poverty and inequality declines: Heterogeneity and sustainability

- Labor income as one of main drivers behind poverty and inequality declines, but significant amount of heterogeneity across countries
 - Brazil: Expansion of social programs
 - Chile: Increase in labor earnings of poor workers
 - Mexico: Expansion of social programs *and* increase in remittances and labor earning of poor workers
- Sustainability?
 - Recent efforts to consolidate/expand safety nets have relied on relatively strong fiscal positions (economic growth, high commodity and fuel prices)
 - Can this be sustained in context of current crisis/lower fuel and commodity prices?
 - Can poverty/inequality decline further without increases in labor productivity?