

# *Poverty Reduction and Growth: Virtuous and Vicious Circles*

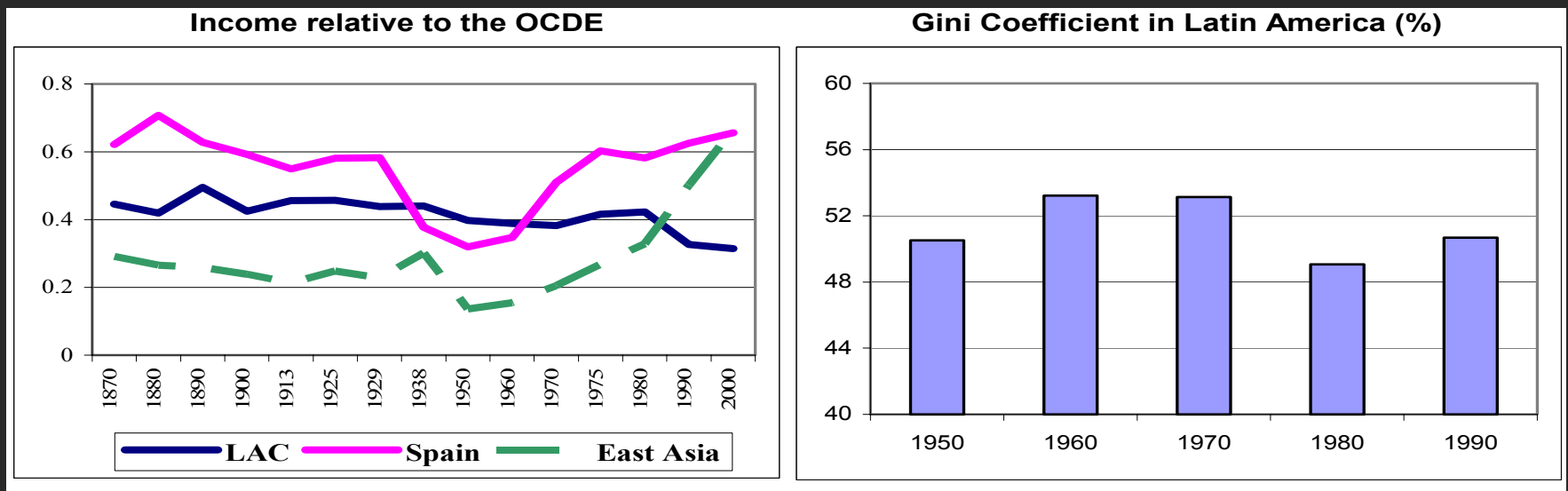


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# Poverty is not new in Latin America

- Twin disappointments of low growth over the past 100+ years & persistently high inequality levels...



- ...explain why poverty levels are still so high in the region
  - 25% of Latin Americans live on less than US\$2 a day.
- This picture is maintained when we adopt broader measures of poverty.



# Poverty reduction in LAC will require growth enhancing and inequality reducing measures...

- ...with a different emphasis in different countries:
  - Poorer and more equal countries: **Growth**
  - Richer and more unequal countries: **Changes in inequality**

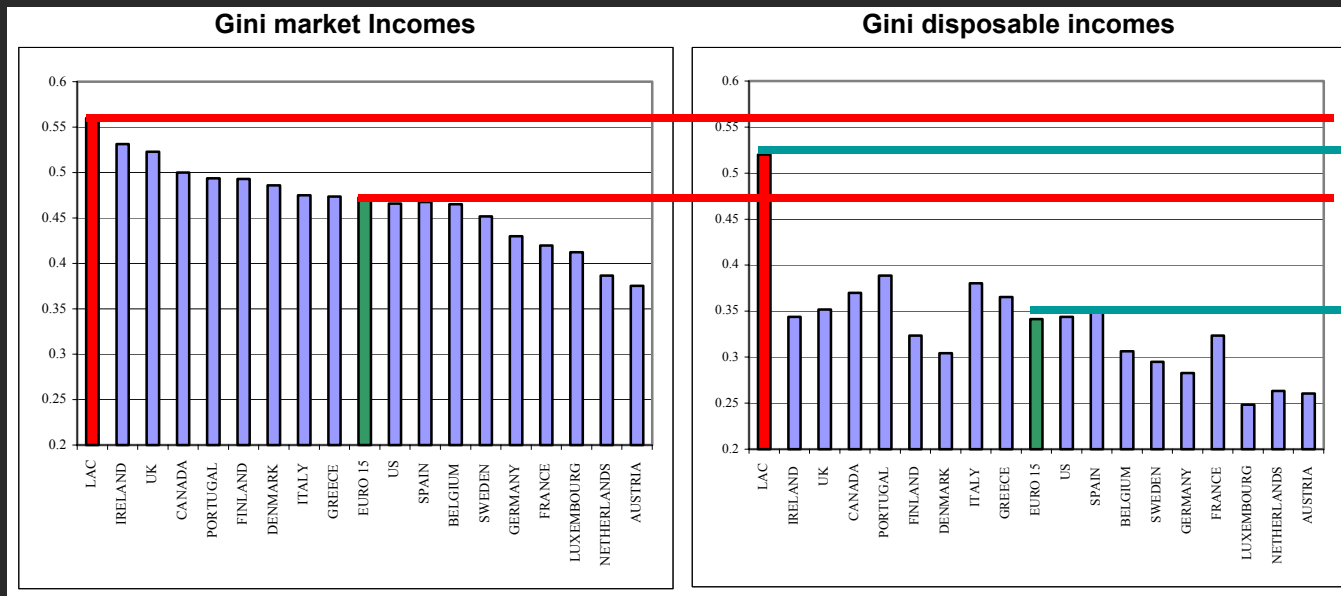
**Growth rates that have the same poverty impact than a 1 percent decline in the gini coefficient.**

Country	Compensatory growth rate	Country	Compensatory growth rate
Argentina	2.5	Peru	1.6
Chile	2.4	St. Lucia	1.5
Brazil	2.3	Guatemala	1.5
Mexico	2.1	Paraguay	1.5
Costa Rica	2.1	El Salvador	1.4
Colombia	2.1	Venezuela	1.2
Trinidad and Tobago	2.0	Ecuador	1.1
Dominican Republic	1.9	Nicaragua	1.1
Panama	1.9	Guyana	1.1
Belize	1.8	Bolivia	1.0
Uruguay	1.8	Honduras	0.8
Jamaica	1.7		



# Pro-poor growth policies should be complemented with pro-poor interventions

- Differences in income inequality due to inequality of opportunities and redistribution: A 50-50 story.



- Public spending is very progressive in the OECD but less in LAC.
- Tax collection in LAC is low, especially in progressive taxes such as income and property



# But fast sustained growth will also require poverty reduction...

## ■ Poor countries

- Part of the population with no access to financial services and education systems -> lower physical and human capital investment

## ■ Poor regions

- Low human and physical capital -> less attractive to investors

## ■ Poor families

- Face imperfect credit markets -> invest less
- Face lower returns to education -> underinvest in human capital
- Face worse health care -> less productive

This raises the possibility of a vicious circle in which low growth results in high poverty and high poverty in turn, results in low growth.



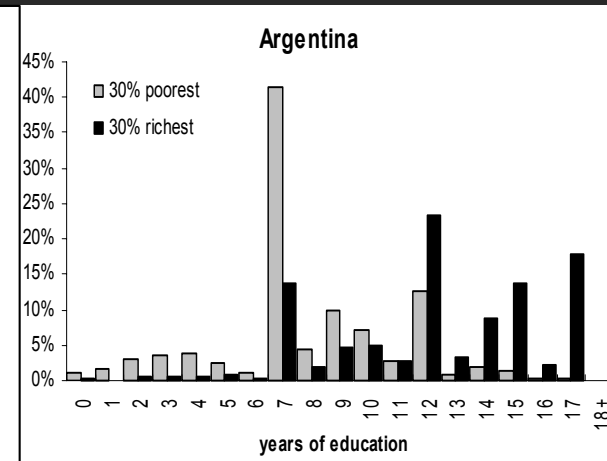
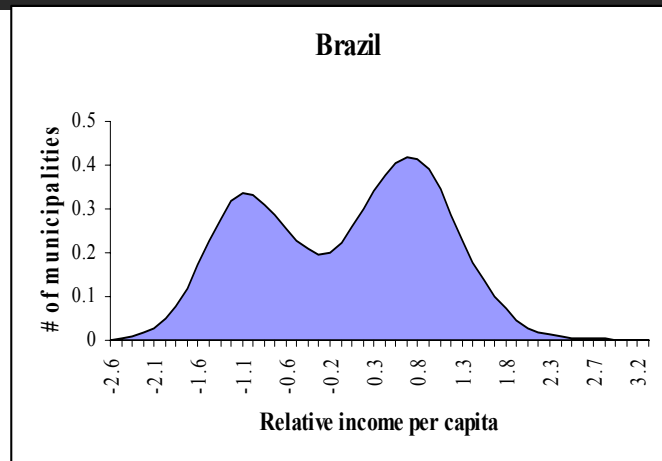
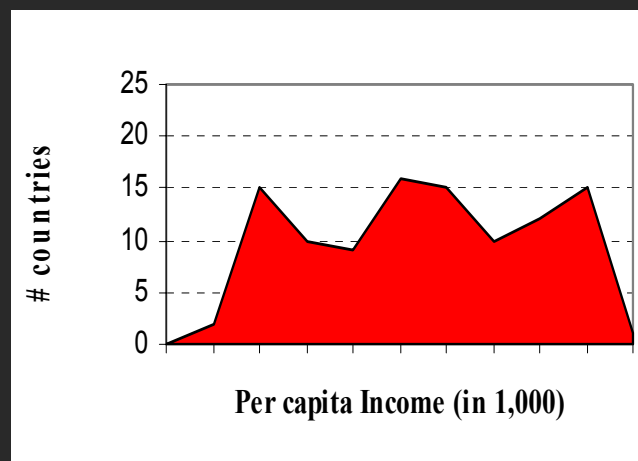
# Some empirical evidence to back the vicious/virtuous circles view

Convergence clubs at the following levels

Country

Regional

Household



- Econometric analysis that indicates that on average 10 percentage points of poverty (cet. par.) would lower
  - **growth** by about 1 percentage point
  - **investment** by 5 percentage points of GDP (if shallow financial system)
  - **educational attainment** and **innovation**, and increase **risk**.



# Main Policy Implications

- **Pro-Poor Growth vs. just Pro Growth debate**
  - Poverty reduction needs growth, but reverse also true.
  - Policies need to take account of direct and indirect effects on growth and poverty.
  - Policy packages are more than the sum of its parts: e.g. trade opening with increased access to education and infrastructure and compensation measures.
- **Pro Poor Growth vs. Pro-Poor Policies:**
  - Complement equality of opportunities with redistribution through taxes/transfers.
- **Pro Growth Poverty Reduction- New emphasis**
  - Poverty Reduction effects on growth can be enhanced: eg, CCT lower short run poverty and increase human capital; safety nets that encourage efficient risk taking.



# THE END

