



Addressing Inequality in Latin America and the Caribbean in Uncertain Times

G24 Meeting – March 2022

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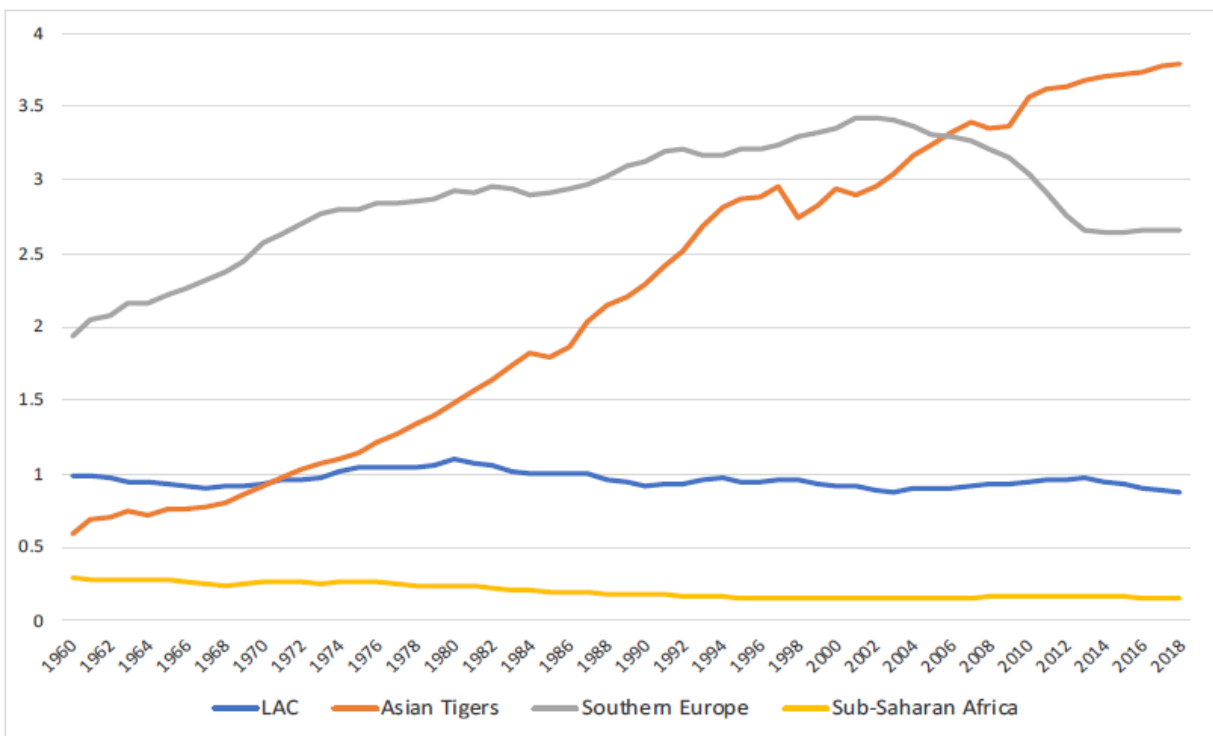


LAC: INEQUALITY AND LOW GROWTH AS STRUCTURAL ISSUES

Economic growth in LAC has been mediocre and highly volatile...

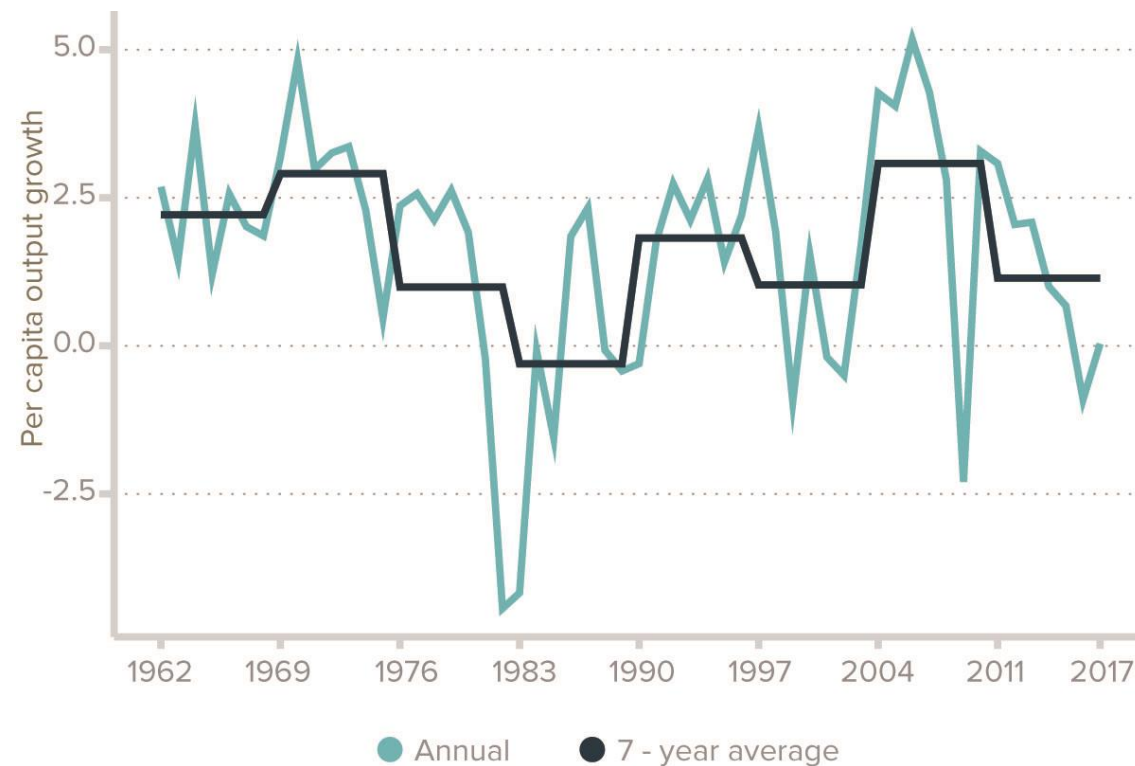


Selected World Regions: Per Capita GDP relative to that of the World



Source: De la Torre and Ize (Forthcoming). Revisiting Latin America's Growth Conundrum: A Macro and Trade Perspective. Commissioned for Yale-UNDP Colloquium.
 Note: LAC is Latin American and the Caribbean as per the World Bank's definition. The Asian Tigers include South Korea, Hong Kong, and Singapore; Southern Europe includes Greece, Italy, Spain and Portugal.

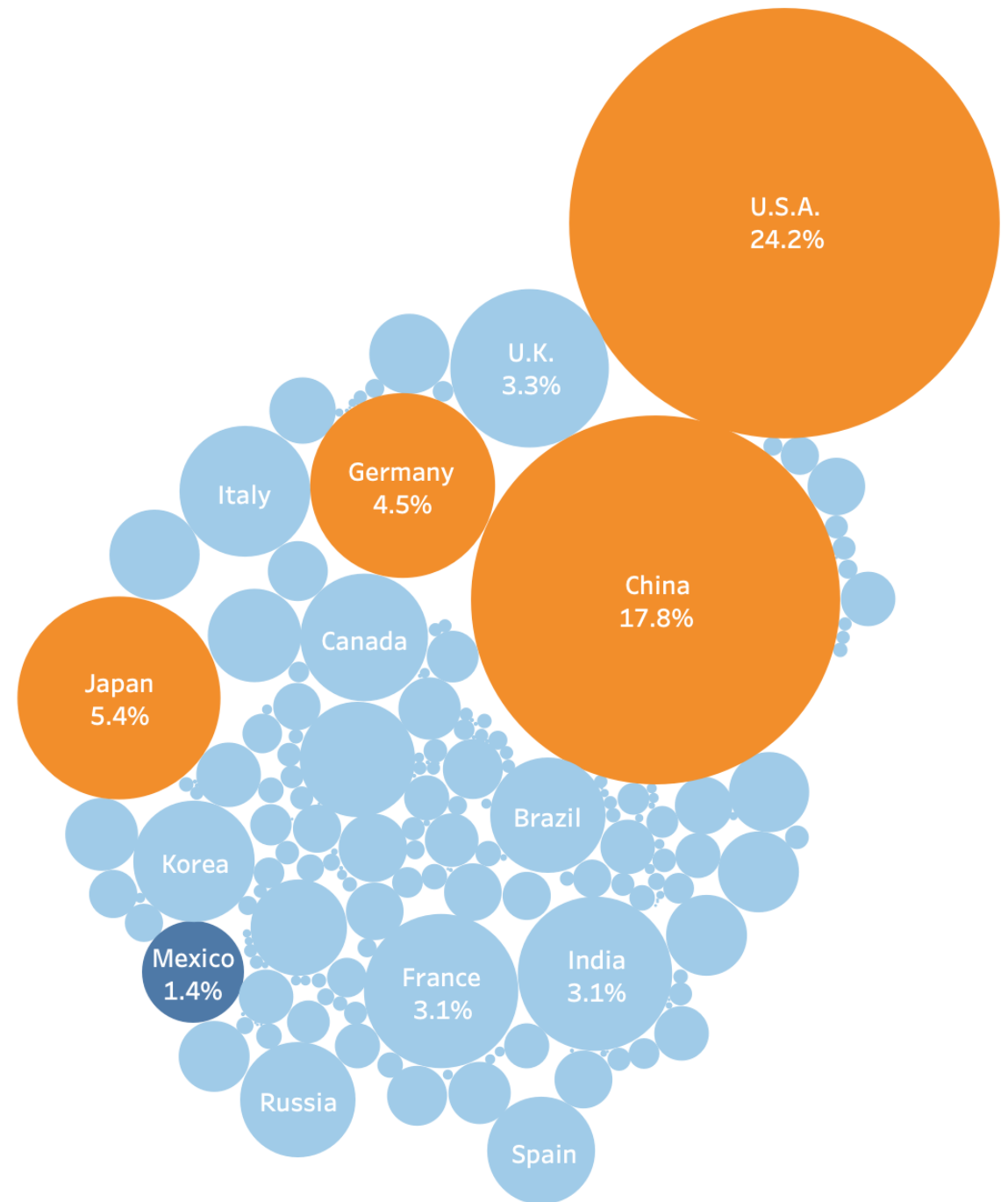
Dynamics of LAC historical per capita output growth, mean country, 1962–2017, %



Source: Fernández-Arias and Fernández-Arias 2021, Background Paper of the UNDP LAC RHDR 2021; data of Penn World Table (database version 9.1), Groningen Growth and Development Centre, Faculty of Economics and Business, University of Groningen, Groningen, the Netherlands, <https://www.rug.nl/ggdc/productivity/pwt/pwt-releases/pwt9.1>.

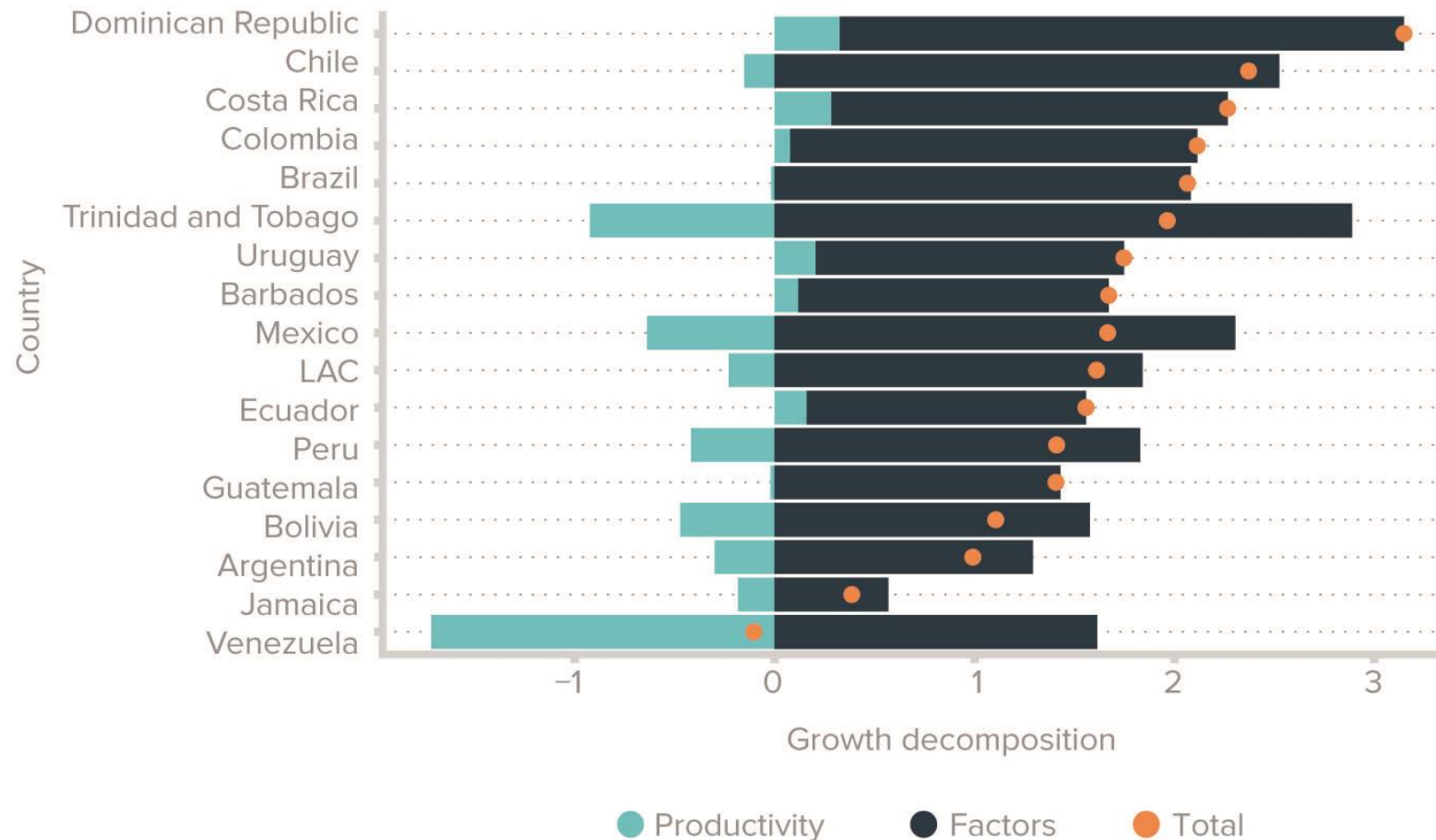
FOUR ECONOMIES REPRESENT 50% OF GLOBAL GDP

LAC represents 5,4% of
global GDP



Behind this is a growth model based primarily on factor accumulation rather than productivity

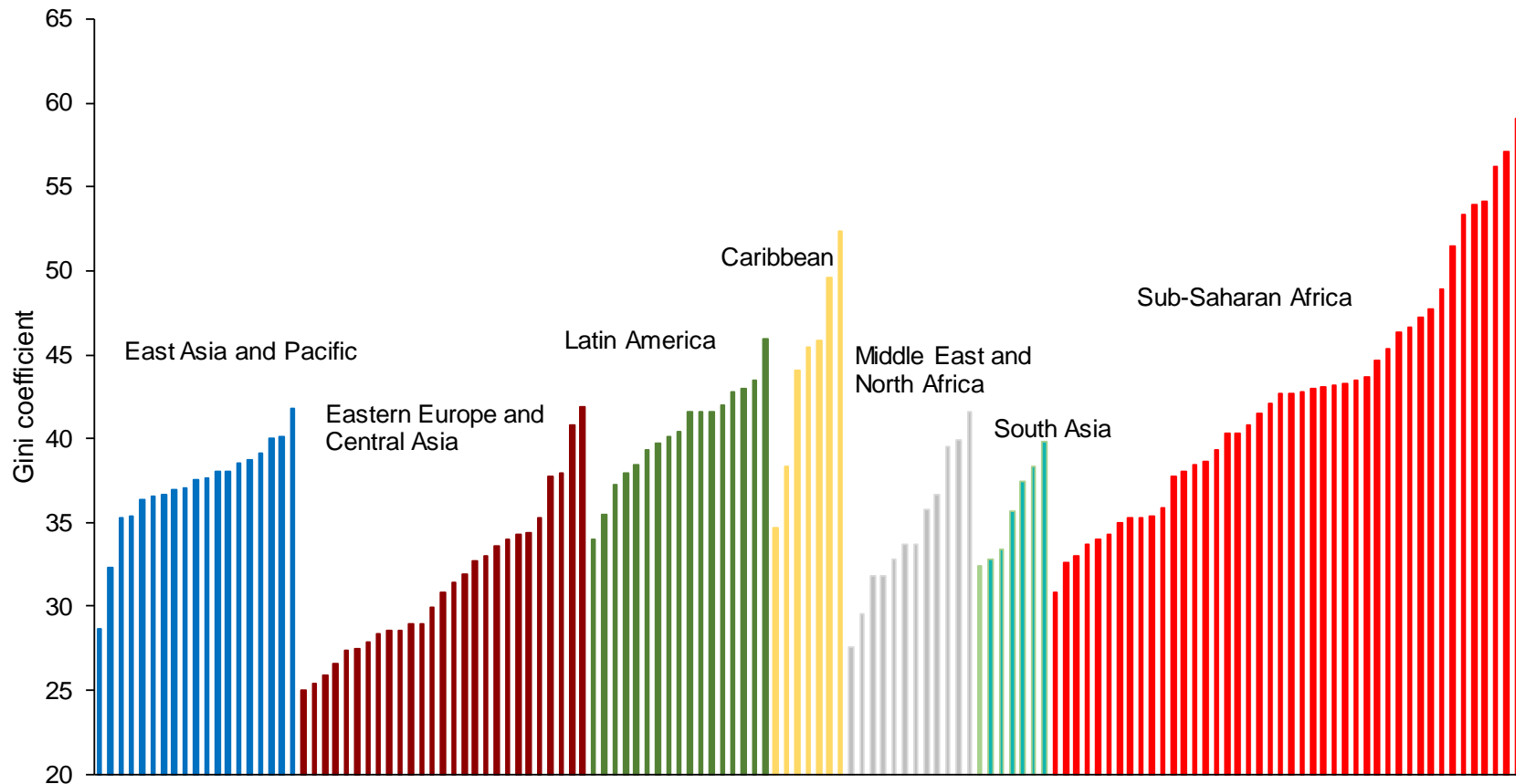
Decomposition of per capita output growth,
LAC, 1962-2017, annualized, %



Inequality levels remain persistently high, with LAC countries among the most unequal in the world



Gini coefficient of household consumption by region

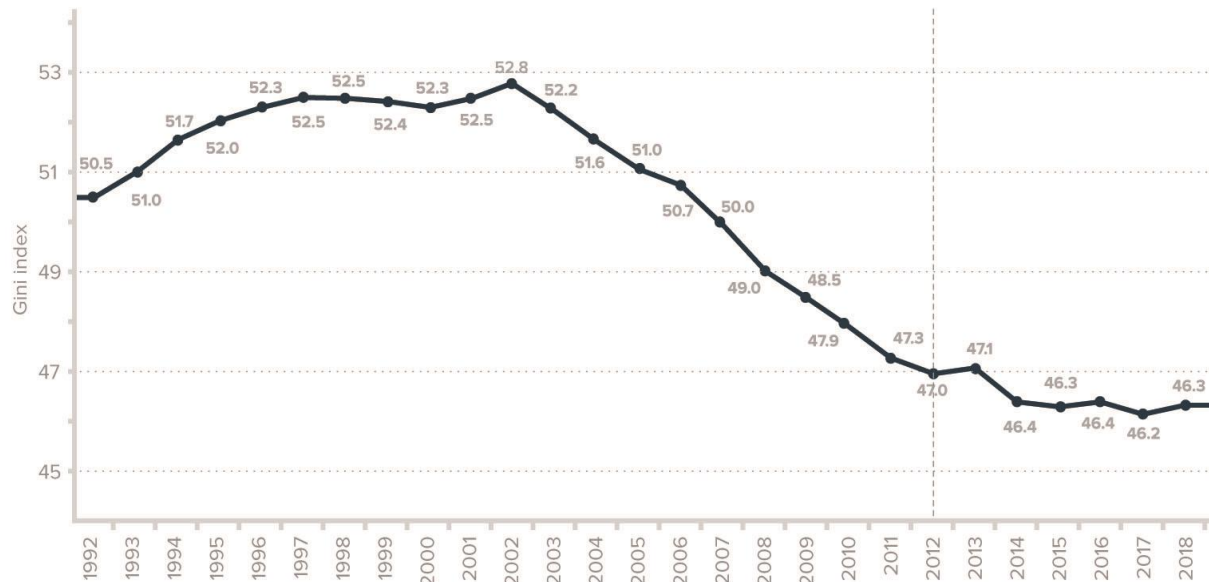


Source: Gasparini and Cruces (2020), Background paper for UNDP RHDR (2021)

While inequality declined in the early 2000s (driven largely by growth & social spending)...

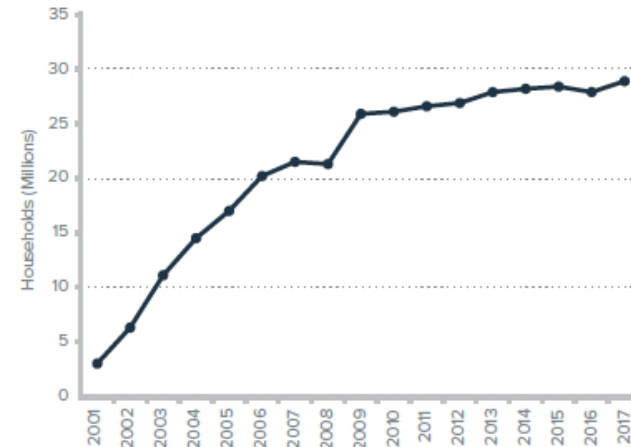


Income inequality (Gini index 1992–2018)



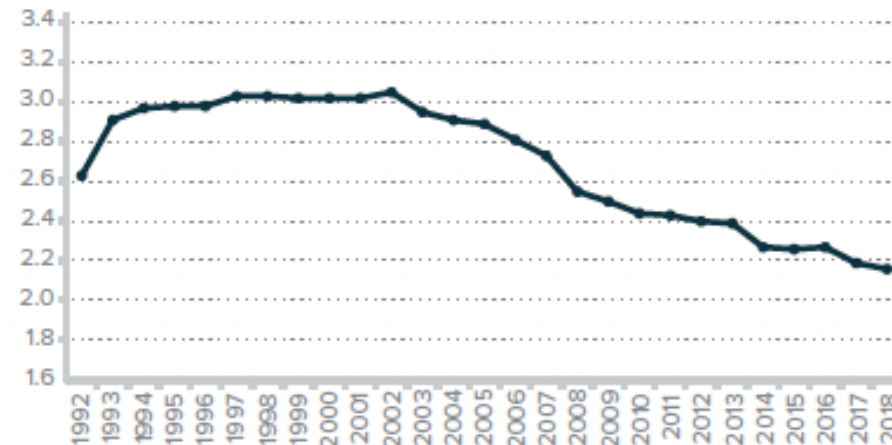
Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, <http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/>.
 Note: Unweighted mean of the national Gini indices of the distribution of household per capita income. Data refer to all Latin American countries except El Salvador and Guatemala.

Beneficiaries of CCTs in Latin America



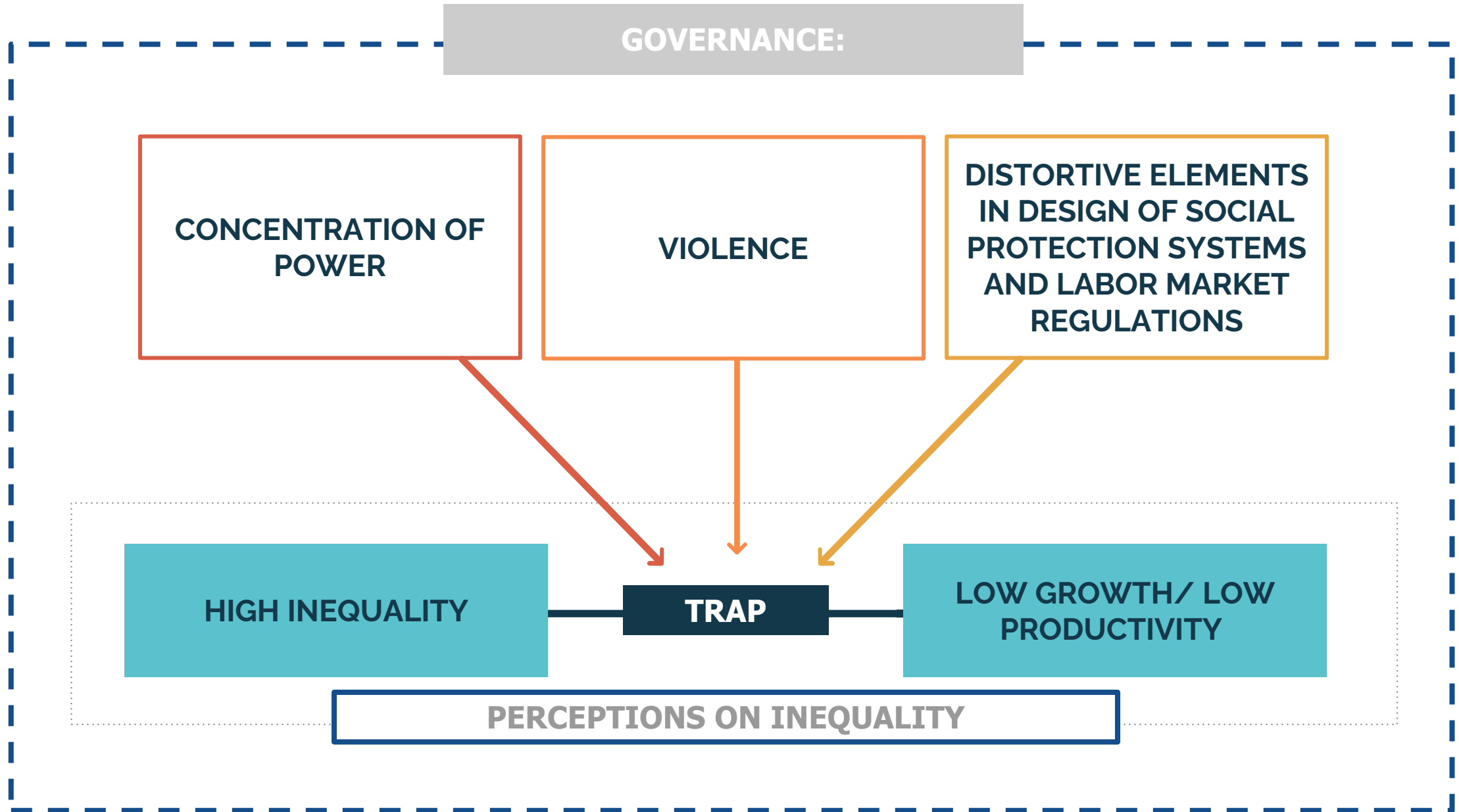
Source: Gasparini 2019; data of Non-contributory Social Protection Programmes Database, United Nations Economic Commission for Latin America and the Caribbean, Santiago, Chile, <https://dds.cepal.org/bpsnc/cct>.

Conditional wage gaps by skill in Latin America



Source: Gasparini and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; data of SEDLAC (Socio-Economic Database for Latin America and the Caribbean), Center for Distributive, Labour, and Social Studies, Facultad de Ciencias Económicas, Universidad Nacional de La Plata, La Plata, Argentina, and Equity Lab, Team for Statistical Development, World Bank, Washington, DC, <http://sedlac.econo.unlp.edu.ar/wp/en/estadisticas/sedlac/estadisticas/>.

LAC FINDS ITSELF IN A LOW-GROWTH, LOW-INEQUALITY TRAP



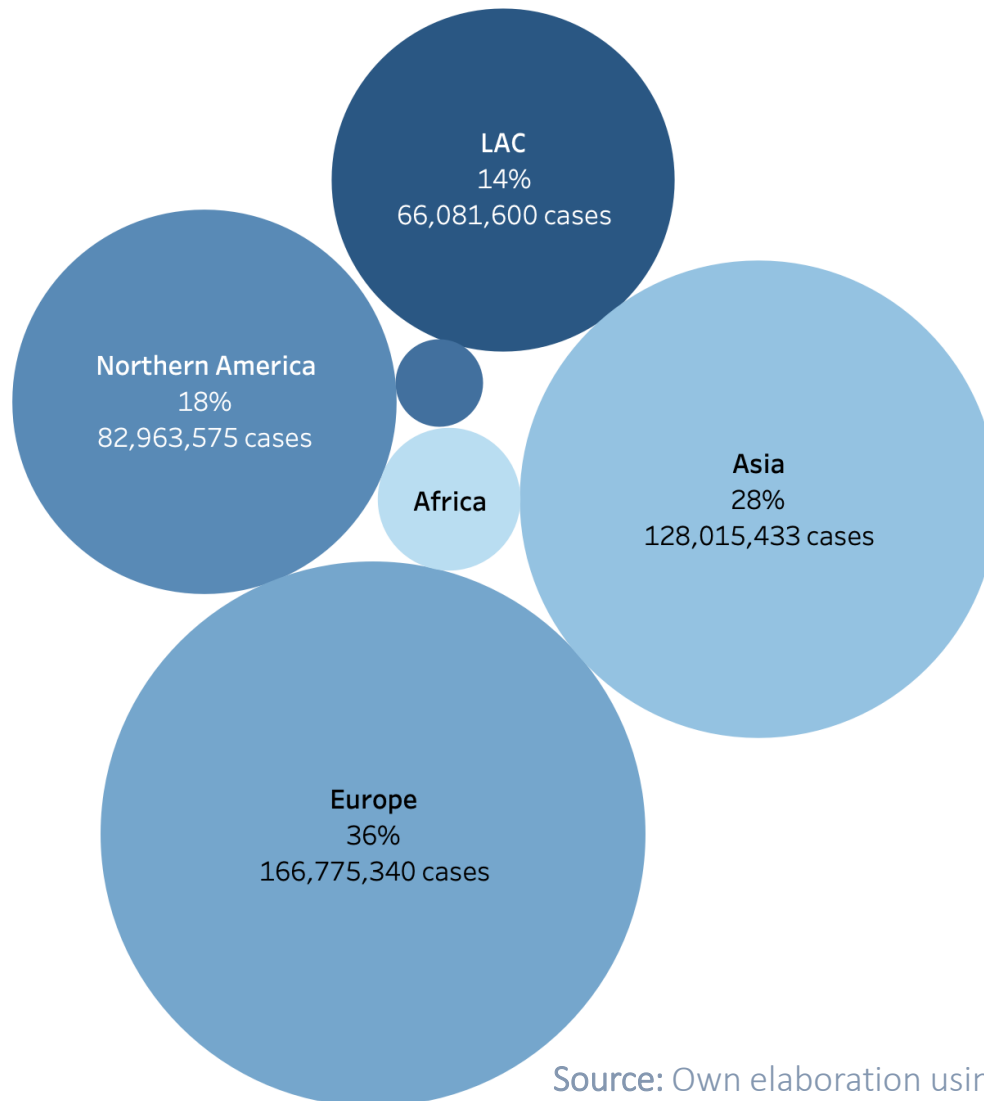


**THE FUTURE
IS NOT WHAT
IT USED TO BE**

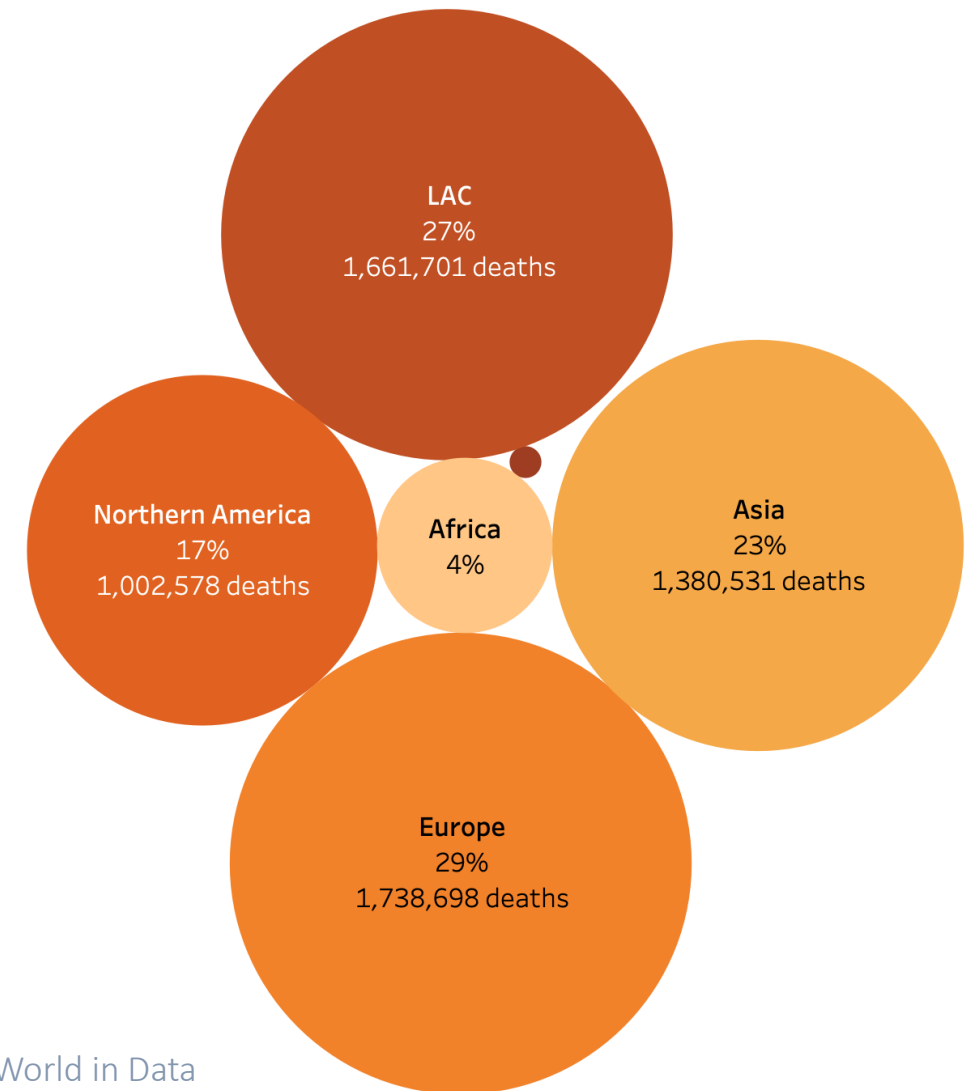
While LAC represents 9% of the world population, 27% of deaths globally



Total confirmed cases of COVID-19 by region



Total COVID-19 deaths by region

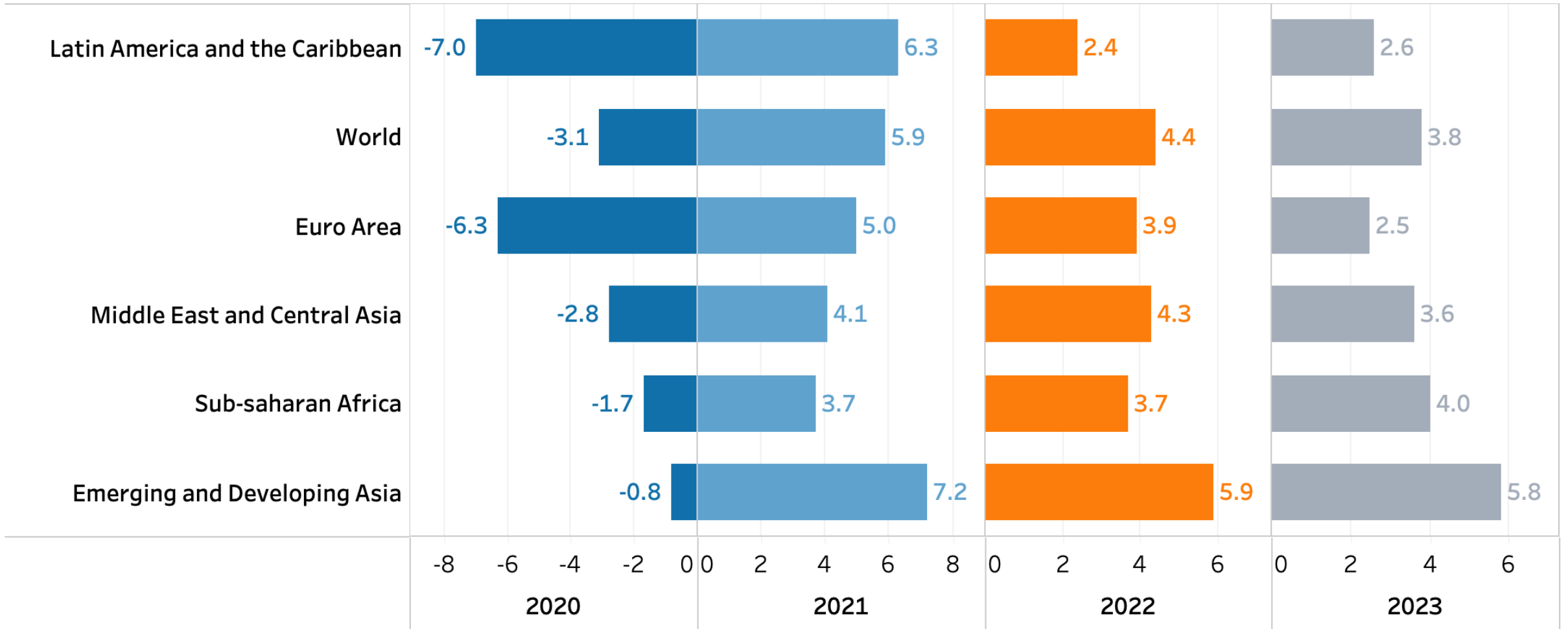


Source: Own elaboration using Our World in Data

Recovery is not growth

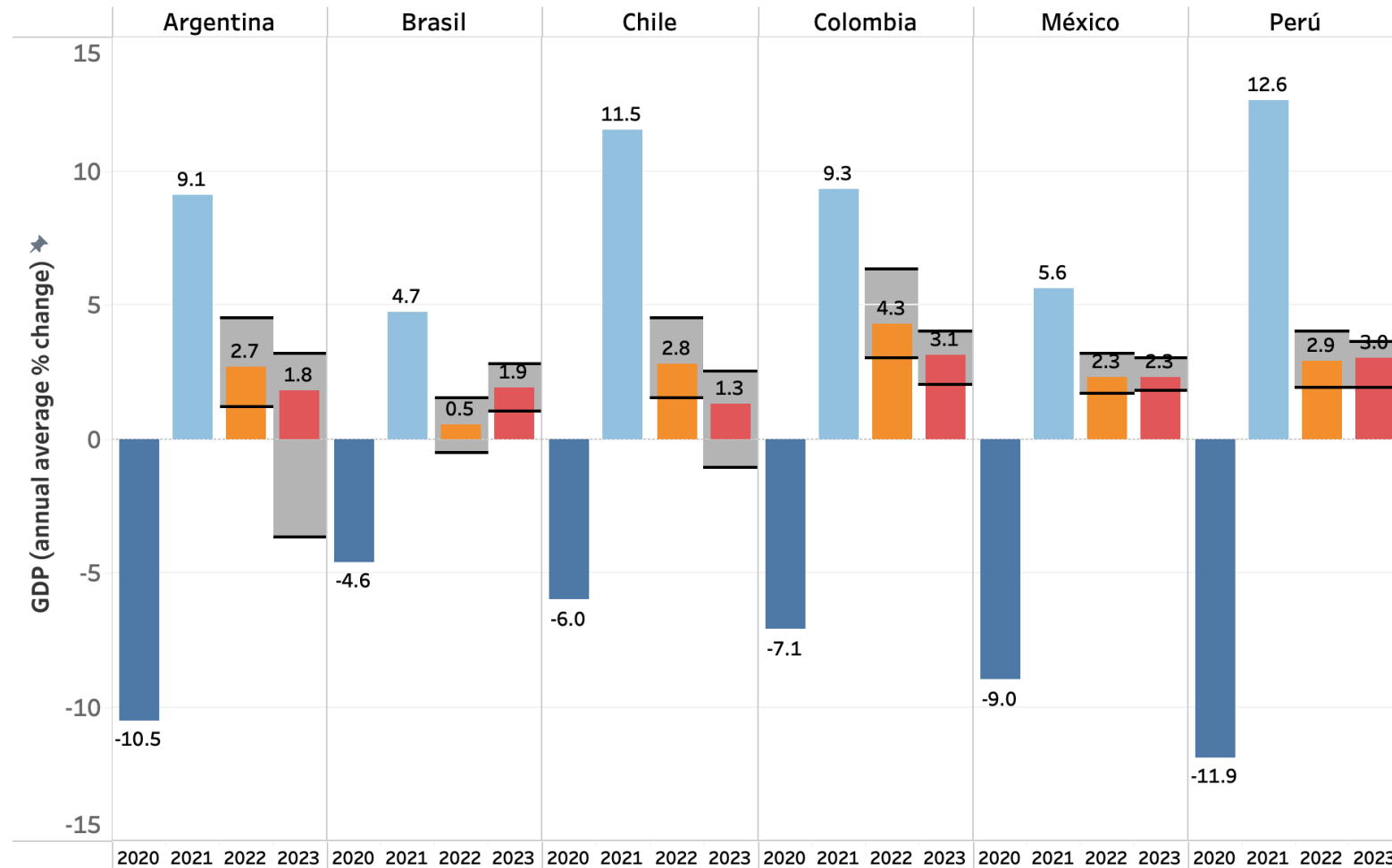


Real GDP (Percent change from previous year)



Source: IMF -WEO January 2022

In 2022, LAC is expected to grow at 2.4%, but across countries high variance in growth projections

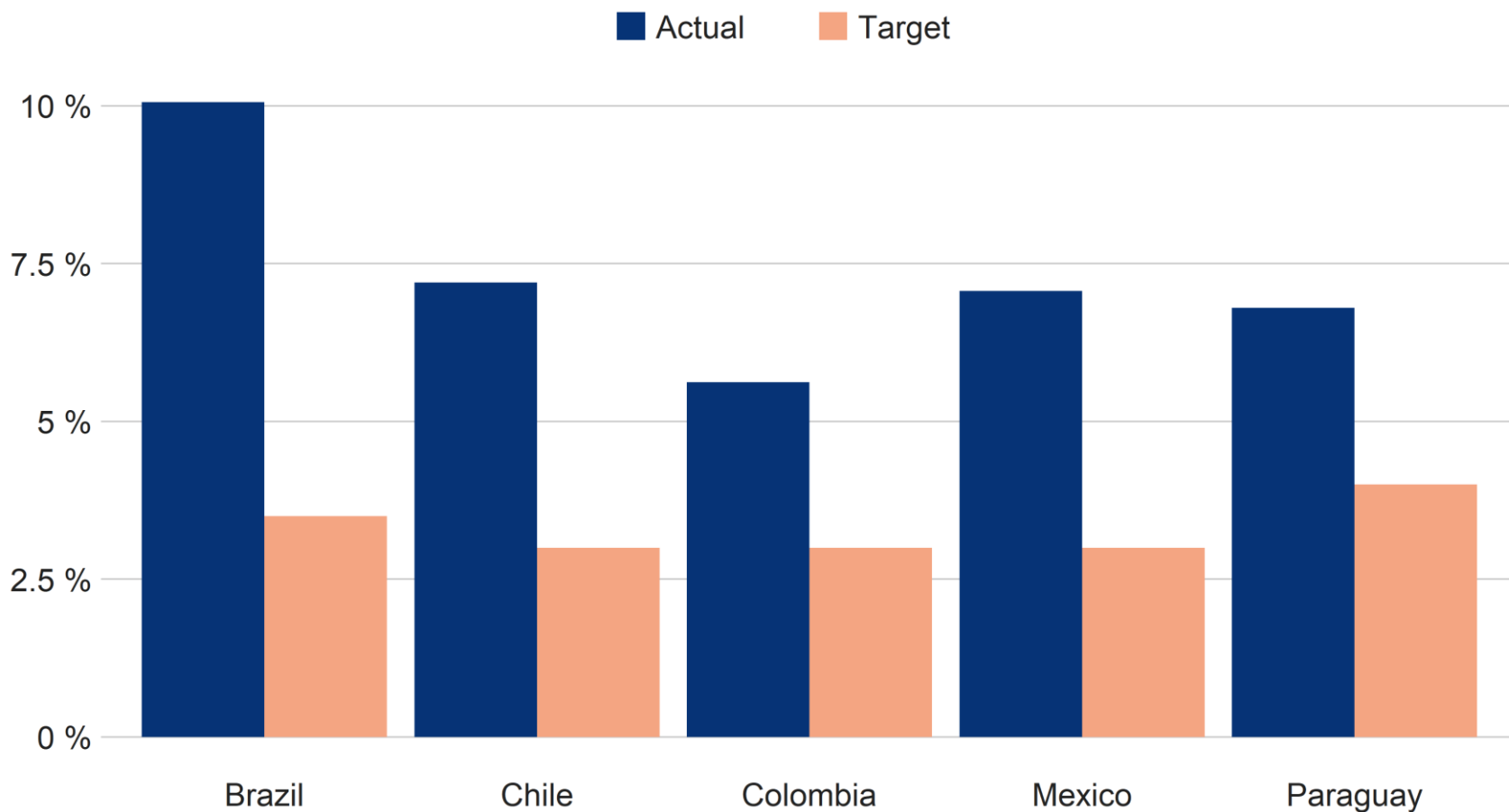


Source: Consensus Forecast Feb 2022

In 2021, many LAC countries experienced inflation rates significantly above targets

LAC, price pressures

(Interannual inflation rates)



Source: Own elaboration, based on central bank data.

Source: Central Banks in LAC

LAC, policy interest rates (%)



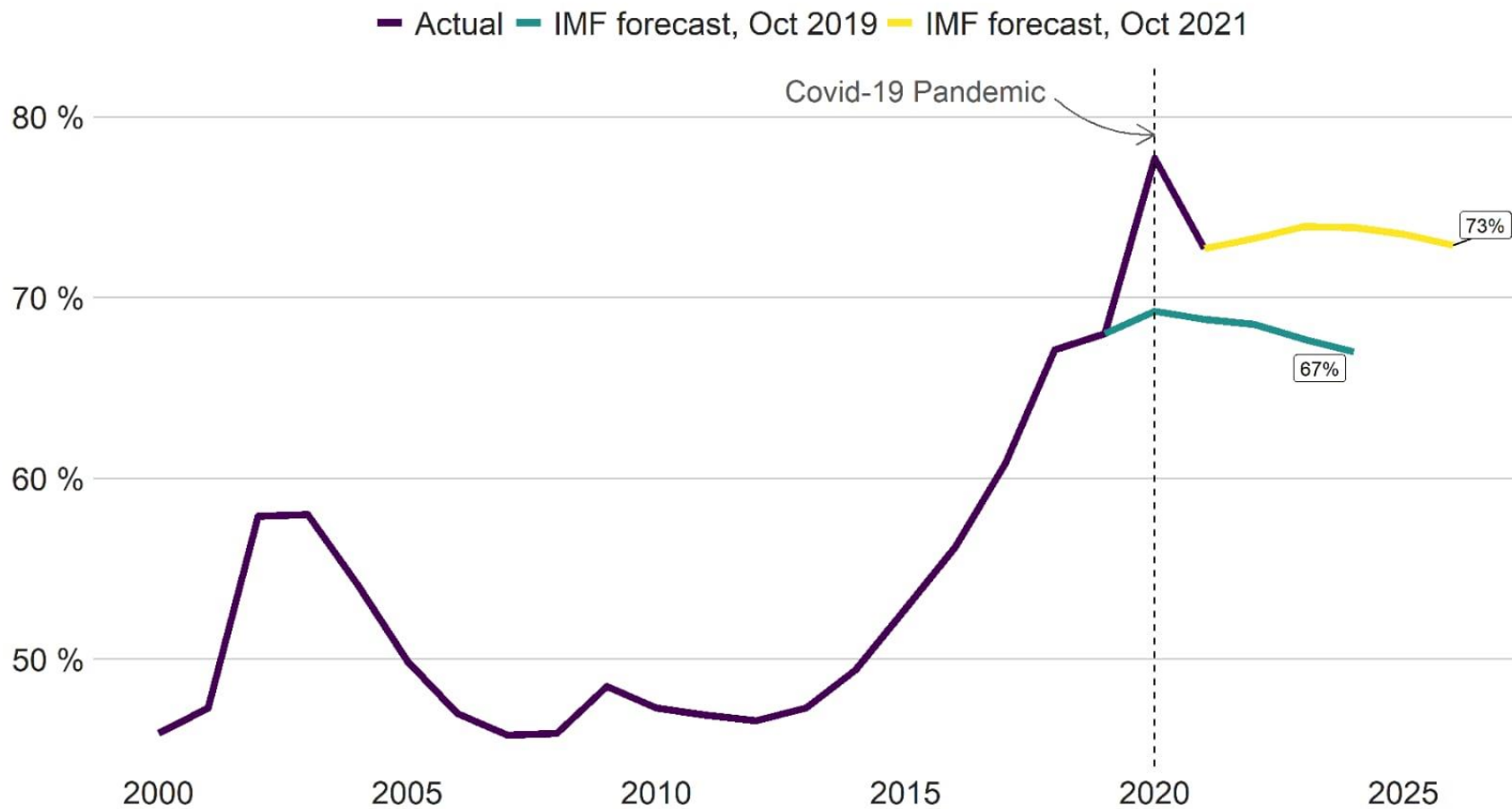
Source: Own elaboration, based on central bank data.

Note: Latest rate as of Jan 2022

With inflation rates above central bank's targets, interest rates have started to rise

LAC's Debt/GDP ratio has been increasing for over a decade

LAC, gross public debt as % of GDP



Source: Own elaboration, based on data from IMF.



**ADDRESSING INEQUALITY
REQUIRES RETHINKING
THE SOCIAL CONTRACT**

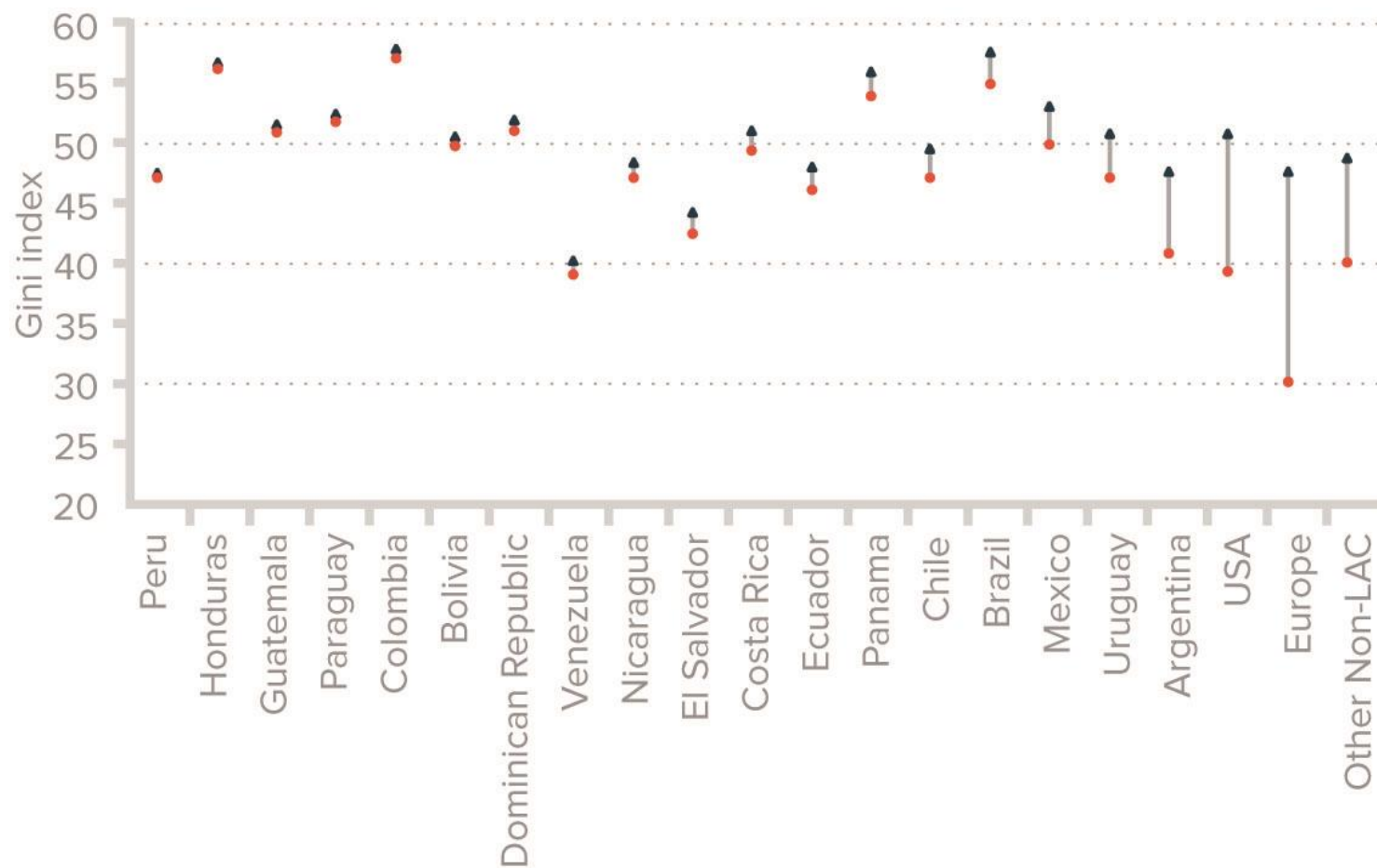
Three characteristics for a social contract to be stable



One building block of a renewed social contract, which helps manage risk collectively is social protection

There is little redistribution through the fiscal system in LAC

Gini indices before and after taxes and transfers, circa 2014



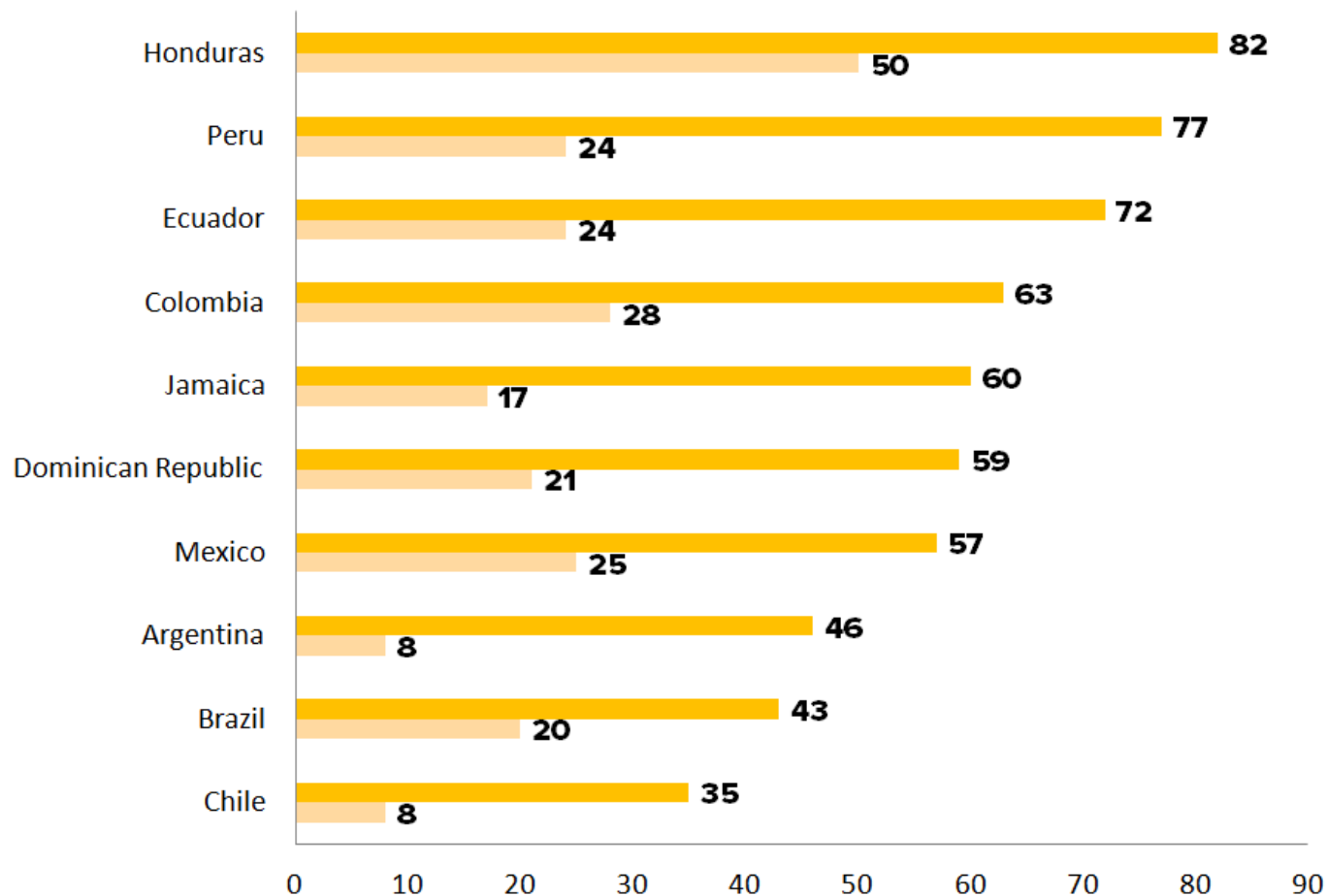
● Gini before taxes and transfers ● Gini after taxes and transfers

Source: UNDP elaboration based on OECD Database and CEQ Data Center on Fiscal Redistribution, Commitment to Equity Institute, Tulane University, <https://commitmenttoequity.org/datacenter/>.

Today, fiscal systems in LAC redistribute very little

Population legally excluded from contributive social security systems, employment stability and minimum wage.

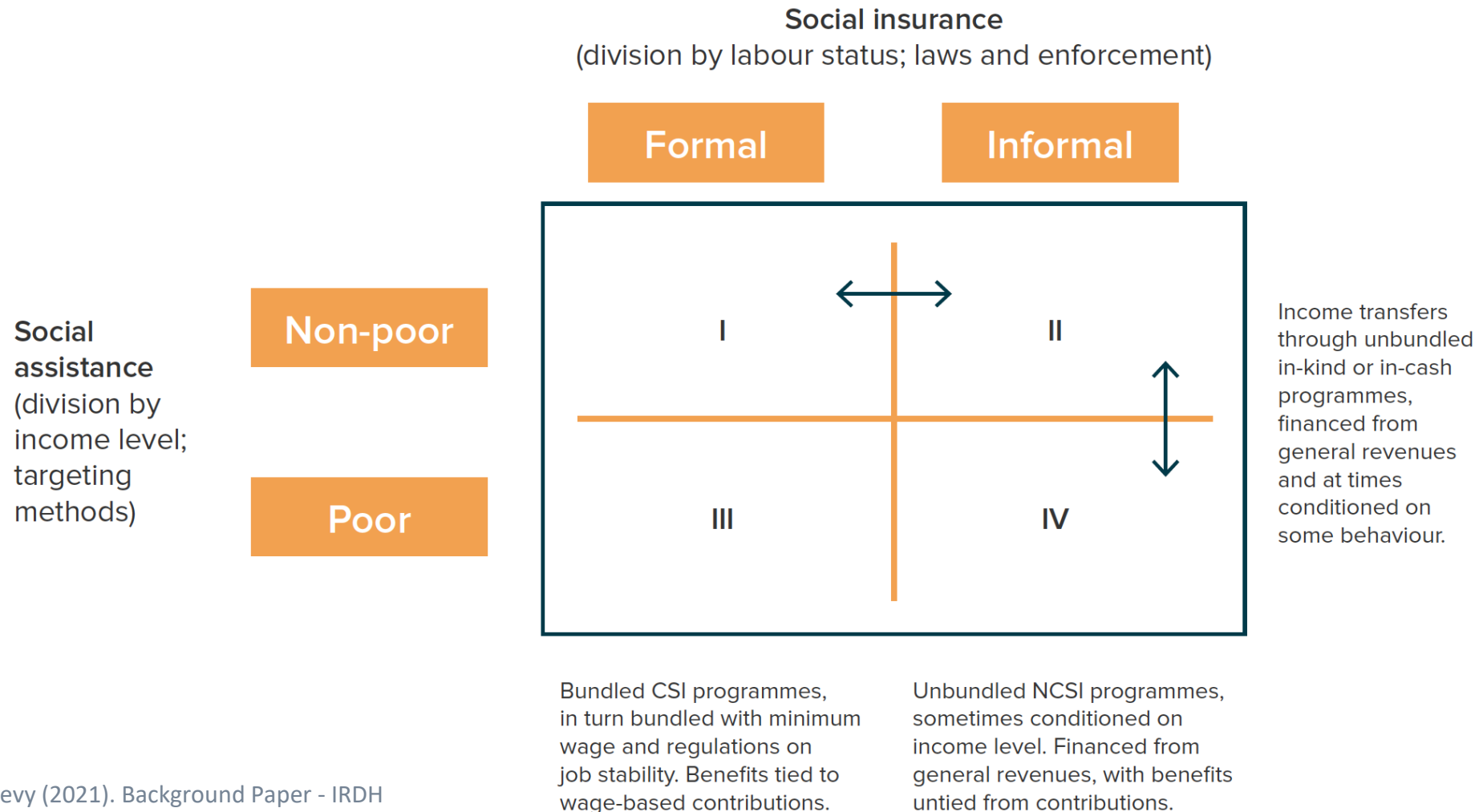
● Share of labour force de facto excluded ● Share of labour force that is poor



Source: Levy (2021). Background Paper - IRDH UNDP LAC 2021.

The region's current social protection policies do not do enough to protect informal workers or low-income households against risks, redistribute income toward the poor, or incentivize productivity growth.

Social insurance and social assistance are complements and not substitutes in a working social protection system



Social protection as a fundamental entry point to collectively manage risk



Given political incentives for short-term solutions, policy responses tend to be **fragmented and ineffective**—and in some cases, can even end up deepening existing distortions.

Only by addressing the **complexity of the interactions** between the core variables that underlie the trap's perpetuation will the region ultimately be able to break this cycle.

While there are many different possible entry points, **universal social protection systems** are a key solution for to jointly addressing many of these different elements.

LAC needs to move towards social protection systems that are:



This requires that:

- All the population exposed to a given risk needs to be covered through the same program.
- The source of financing should be the same for each program, based on the type of risk covered.
- When programs provide in-kind benefits, quality should be the same for all.

Is it possible?: it depends on the quality of governance: *An infinity loop*

Power Asymmetries

De Jure Power

De Facto Power

Rules

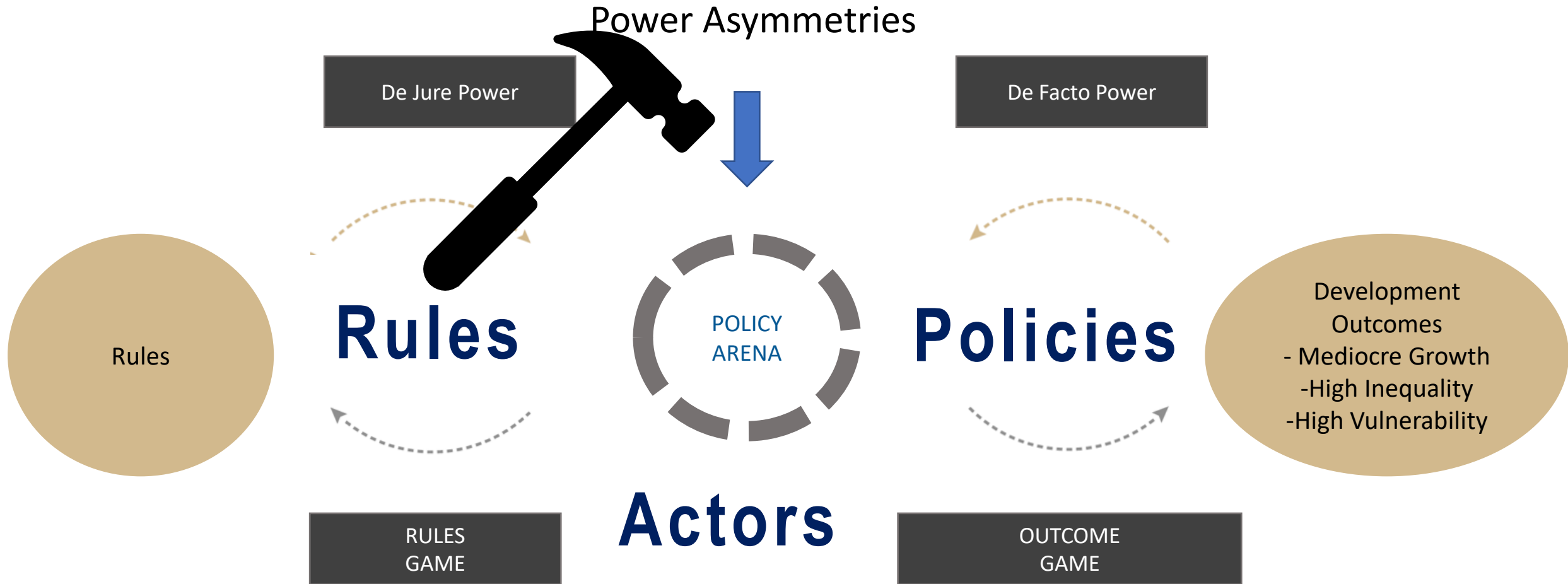
POLICY
ARENA

Development
Outcomes
- Mediocre Growth
- High Inequality
- High Vulnerability

RULES
GAME

OUTCOME
GAME

Channels for change





THANK YOU
@LFLopezCalva