“Correcting course” on poverty and inequality reduction in LAC

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Course correction is needed

- **Poverty reduction has stalled.** Poverty reduction was slowing before 2020, poverty increased by historic proportions in 2020, and recovery has been weak. The 2030 target is out of reach.

- **2020 saw the first increase in global inequality in decades** and has been followed by a divergent recovery.

- **Improving fiscal policy can help correct course**, but it requires ambitious efforts. Policies that bring long-run growth have the highest impact, particularly in poorer economies. Redistributive policies are impactful in upper-middle income countries.
At a **global level**, we are no longer on track to end poverty by 2030.
Decades of successful progress in global poverty reduction stopped in 2020.

2022 is on track to be the second-worst year for poverty reduction in the last 22 years (after 2020)

The global extreme poor are concentrated in Sub-Saharan Africa.

At higher poverty lines, the regional distribution of the global poor changes.

Global inequality increased in 2020 for the first time in decades.

Poverty increased in most countries in 2020, inequality change within countries more mixed

Diverging pathways out of the pandemic have exacerbated global inequality, with richer countries recovering faster than poor countries.

Estimates based on Mahler et al. (forthcoming); Poverty and Inequality Platform; Global Economic Prospects.
Other measures of poverty underscore challenges of the moment

The nonmonetary dimensions of pandemic impacts may ultimately prove to be even more costly
If the learning losses from school closures are not addressed, then the future poverty implications from lower productivity and growth may exceed the poverty increases witnessed in 2020 and 2021.

Poverty is much higher than the extreme poverty line suggests
Using the median poverty line of upper-middle income countries ($6.85) shows that nearly half the world’s population (47 percent) was living in poverty in 2019.
By 2030 poverty will be 6.8 percent. Recent setbacks have put the goal of reducing global poverty to 3 percent by 2030 almost out of reach, and there is an urgent need to correct course.
The fiscal response to COVID-19 protected welfare, but less so in low- and middle-income countries.
In LAC, countries are recovering but continue to face structural challenges related to the unevenness of the development process.
Both the level and shape of growth in LAC has changed.

Source: World Bank Poverty & Equity LAC Team for Statistical Development
And income remains highly concentrated at the top.

Source: World Bank PIP Platform
The unevenness of the development process generates conflict, reflected in a **constant demand for the redistribution of resources and power**.
If there is no effective mechanism to process these tensions, this can lead to “exit”

- Violence
- Migration
- Informality
- Crisis of representation
- Opting out of public services
Despite being home to ~8% of the global population, LAC is home to ~37% of global homicides.
Over the past 30 years, the number of LAC-born people living abroad has increased almost 3 times.
<table>
<thead>
<tr>
<th>Country</th>
<th>Share of labor force de facto excluded</th>
<th>Share of labor force that is poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honduras</td>
<td>82</td>
<td>50</td>
</tr>
<tr>
<td>Peru</td>
<td>77</td>
<td>24</td>
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<td>Brazil</td>
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<td>20</td>
</tr>
<tr>
<td>Chile</td>
<td>35</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Levy and Cruces 2021, Background Paper of the UNDP LAC RHDR 2021; UNDP calculations using national household surveys. Note: Workers in households under the poverty line of $5.50 a day, 2011 PPP.
In some LAC countries, private security workers equal or far outnumber public police officers.

There is a rise in “anti-system” attitudes among LAC voters

People in LAC show a commitment to elections, but want a radical change in the political landscape

If the next presidential elections were being held this week, what would you do?

New political parties are emerging to process the discontent in Latin America

Average age of winning parties in presidential elections has dropped substantially in the last 10 years

Source: LAPOP, Americas Barometer. Vanderbilt University (UNDP RBLAC, Graph For Thought)

Source: UNDP RBLAC, Graph For Thought.
The number of protests in LAC doubled between 2018-2021

En ALC, el número de protestas se duplicó entre 2018 y 2021
Los datos presentan las cifras trimestrales para cada año

Notas: omitimos las protestas por el aumento a los precios de los combustibles en mayo de 2018 en Brasil. Estos datos son valores extremos.
Promoting an inclusive recovery will require rethinking fiscal policy.
The road ahead requires fiscal policies that...

In the **short-term**
- Strengthen safety nets to support vulnerable households (for example, through the provision of targeted cash transfers)

In the **long-term**
- Invest in the productive capacity of the poor (for example, through investments in high quality universal services such as education and health)
- Build coherent social protection policies that reduce informality and enhance growth potential
This means not only thinking about how much fiscal space is available.
But also about **how effectively** existing fiscal space is being used.

**Figure 2.16.** Cost of Waste and Inefficiencies in Public Spending in LAC as a Percent of GDP and 

b. As percent of total public spending

Source: World Bank LAC Economic Review (October 2022). "New approaches to closing the fiscal gap"
Ultimately addressing this is a question of “governance”

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Thank you

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