

EXPERTS MEETING

LATIN AMERICAN ECONOMIC OUTLOOK 2011:

***“MIDDLE CLASS & DEVELOPMENT
IN LATIN AMERICA”***

OECD Conference Centre

2, rue André Pascal
75016 Paris, France
(Room CC5)

Paris, 26 -27 April 2010

I. Context: the OECD Development Centre and the Latin American Economic Outlook

The **OECD Development Centre** (www.oecd.org/dev) conducts comparative analysis and promotes informal policy dialogue on development issues of mutual interest to OECD member countries and emerging and developing economies, including those in Latin America. Seven Latin American countries—Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico and Peru—are full members of the OECD Development Centre, represented on its Governing Board. The Centre has an extensive network of counterparts in Latin America, both in academic and policy making circles.

The ***Latin American Economic Outlook (LEO)*** is the annual flagship publication by the OECD Development Centre's Americas Desk. Approaching our fourth edition, LEO is the OECD's reference on development issues in Latin America. The report's conclusions and policy recommendations have been presented in almost all Latin American capitals, as well as in a range of OECD countries; the findings have steered constructive debate on key development issues for the region, and have generated extensive media coverage.

The first edition of the report (LEO 2008) explored some of the critical long-term challenges facing Latin America, such as fiscal legitimacy, pension reforms, the role of multinationals and telecommunications in development and the continent's commercial relations with China and India; the second edition (LEO 2009) analysed the channels by which fiscal policy serves, or fails, development in Latin America; the most recent report (LEO 2010) studied the relationship between migration and development in Latin America, in particular how migration and remittances contribute to growth by reducing inequalities in the region. The fourth edition, LEO 2011 will seek to analyse how development in Latin America might be promoted through a growing middle class.

II. Middle Class and Development in Latin America: leading questions

The middle class is of critical interest as the key factor behind an economy's success (or failure) in reducing poverty and fighting inequalities. In a developing economy -- where in principle growth tends to be more rapid than in mature economies -- many members of the middle class are the formerly poor. Nevertheless, many in the middle class are vulnerable to falling into poverty as the result of a shock to the household (illness, unemployment, retirement) or the economy (recession).

Latin America is a region characterised by very high levels of income inequality. As documented in previous research by the OECD Development Centre (LEO 2009 and LEO 2008), policies in the region are ineffective in reducing inequality through the tax system and the provision of public goods and services. The middle class is consequently in a persisting danger of being reduced, especially nowadays in the context of the recent economic downturn. These circumstances make it necessary to distil empirical evidence on how middle class influences development in Latin America and on the role of some key policies in social mobility.

The *Latin American Economic Outlook 2011* (LEO 2011) builds on the work related to income distribution and social mobility already carried out by the OECD and its Development Centre, and other leading institutions such as the Inter-American Development Bank, the United Nations Economic Commission for Latin America and the Caribbean, the International Monetary Fund and the World Bank. The objective is to look at the key issues of inequality and poverty through the lens of public policies affecting the size and nature of the middle class in the region. It will try to answer to questions such as: Who is middle class in Latin America? Is a broader middle class *per se* something desirable in Latin America? And how can public policies strengthen the size and benefits resulting from the middle class?

In order to answer to these questions, the report will describe the main characteristics of the middle class; it will analyze policies that can prevent downward social mobility at the retirement age as well as policies that can help to promote upward social mobility, in particular education. Finally, it will focus on the middle class's perception of fiscal legitimacy and on the financial impact of current social safety nets on the middle class.

III. Rationale and Structure of the meeting

This Experts' Meeting is expected to generate critical feedback on ongoing background work for LEO 2011, gather new insights from both academia and practitioners and provide a platform for dialogue on key issues surrounding middle class, social mobility and income distribution in Latin America.

The format of the event is very informal and we encourage all participants to enter into the discussion. For this purpose, the structure of the sessions will be quite open; more than half of each session will be dedicated to a roundtable debate. Please note that the meeting will be held in English and Spanish and there will be simultaneous translation available for both languages.

The meeting will begin with a first introduction to the Latin American Economic Outlook 2011, followed by 6 topical sessions as described in the agenda. Each session starts with a short presentation of a *Latin American Economic Outlook 2011* draft chapter; next, a preliminary analysis of the presentations will be carried out by the leading panellists of each session and the discussion will then be opened to comments and reactions from the audience.

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14h -14h30

Latin American Outlook 2011: Introductory remarks

Mario Pezzini, Director, OECD Development Centre

14h30 -16h00

Session I: Macro Overview : Latin America in 2011

Latin American countries had built significant resilience to withstand the global crisis in 2009. Participants will address the following questions:

- How much policy room was left after the hit?
- Crises are always expensive, how did this global crisis affected the main aggregate balance sheets in the region?
- In particular, how financially exposed were public and private agents (households and firms) throughout this crisis? Where do they stand today?
- What are the policy lessons for sustainable development in the region?

Chair:

Luiz de Mello, Economic Counsellor to the Chief Economist, OECD Economics Department (5 min)

Presentation (15 min)

Alejandro Neut, Economist, Americas Desk, OECD Development Centre

Sebastian Nieto Parra, Economist, Americas Desk, OECD Development Centre

Leading panelists:

Mauricio Cárdenas, Senior Fellow and Director of the Latin American Initiative, Brookings Institution

Tomás Málaga, Economic Research Department, Itaú Unibanco (TBC)

Leonardo Villar, Chief Economist and Vice-President, Development Strategies and Public Policy, CAF

16h 00 – 16.30 Coffee Break

16h30 -18h00

Session II: Defining Middle Class in Latin America

This session aims to analyze measurement issues relating to the size of the middle class, by proposing some interclass social mobility indicators and by exploring the characteristics of the Latin America middle class. Participants will address the following questions:

- How is the middle class defined?
- Is the middle class in Latin America mobile? How many of those who were middle class some years ago are middle class now?
- Who is middle class in Latin America? What are their characteristics in terms of occupational choice, levels of education, family and living arrangements, entrepreneurship, etc?

Chair:

Martine Durand, Director, OECD Statistics Directorate (5 min)

Presentation (15 min)

Francesca Castellani, Economist Senior Specialist, Inter-American Development Bank, IADB

Gwenn Parent, Consultant, Americas Desk, OECD Development Centre

Leading panelists:

Luis Felipe Lopez Calva, Chief Economist, Regional Bureau of Latin America and the Caribbean, UNDP

Eduardo Lora, Chief Economist, Inter-American Development Bank, IADB

Marcelo Neri, Professor, Getulio Vargas Foundation

27 April 2010

9h00-10h30

Session III: Pensions & Informality: Fighting Backwards Social Mobility

The high levels of labour informality in Latin America might explain not only the reduced size of the middle class in the region, but also an interaction with the existing social protection systems. This session will analyse likely social protection policies that avoid downward social mobility at retirement age. Participants will address the following questions:

- How many middle class citizens are informal?
- Are pension systems adequate for middle class citizens?
- Which second generation pension reforms may help to fight downward mobility in a context of high informality?

Chair:

André Laboul, Head, Financial Affairs Division, OECD Directorate for Financial and Enterprise Affairs (5 min)

Presentation (15 min)

Rita da Costa, Consultant, Americas Desk, OECD Development Centre

Juan R. de Laiglesia, Economist, Global Development Division, OECD Development Centre

Leading panellists:

Rafael Rofman, Lead Social Protection Specialist, Latin America and the Caribbean Region, The World Bank

Lars Osberg, Professor, Dalhousie University, Canada

David Tuesta, Chief Economist, Global Trends, BBVA Research Department

10h30 -11h00 Coffee Break

11h00 -12h30

Session IV: Fiscal impact on income distribution & Fiscal Legitimacy in the middle class

This session will explore the role of middle class as a bastion of democratic consolidation in Latin America. This session tackles the issue from two perspectives: on one hand the perceptions of the population regarding fiscal legitimacy and on the other hand the empirical evidence on the actual impact of the fiscal burden for the middle class. Participants will address the following questions:

- What is the attitude of the middle class with respect to democracy? How do these aspects interact with the issues of fiscal legitimacy?
- How does the perception of social mobility affect the attitude towards democracy and the role of the public sector (provision of services, taxation and redistribution)?
- Does the middle class carry an excessive burden of financing the State or is it a net beneficiary of government policies?

Chair:

Joaquim Oliveira, Head, Division for Regional Competitiveness and Governance, OECD Directorate for Public Governance and Territorial Development (5 min)

Presentation (15 min)

Bárbara Castelletti, Consultant, Americas Desk, OECD Development Centre

Angel Melguizo, Economist, Americas Desk, OECD Development Centre

Leading panellists:

Martin Hopenhayn, Director, Social Development Division, Economic Commission for Latin America and the Caribbean, ECLAC

Jamele Rigolini, Senior Economist, Latin America and the Caribbean Region, The World Bank

Francisco Rodriguez, Head of Research Team, Human Development Report, UNDP

12h30 -14h00 Lunch - Marshall Room

14h00 -15h30

Session V: Education as a tool for Social mobility

This session will document the low levels of educational mobility in the region and discuss the potential of education policy to increase upward social mobility in the region. By exploring the importance of family socio-economic background on educational and labour market outcomes this session will try to find best practices to make education an effective tool for the middle class and upward mobility. Participants will address the following questions:

- How does parental education and family conditions affect educational outcomes in the region? Does the middle class have access to education in similar terms as the better-off?
- To what extent does access to education translate into better opportunities in the labour market? Is the problem primarily of endowments (quantity of education) or returns (quality of education)?
- What are the best instruments to create more opportunities for the poor and the middle class? Which instruments at each level (early childhood, secondary, tertiary) are the most effective?

Chair:

Barbara Ischinger, Director, OECD Directorate for Education (5 min)

Presentation (15 min)

Christian Daude, Economist, Americas Desk, OECD Development Centre

Alba Martinez, Consultant, Americas Desk, OECD Development Centre

Leading panellists:

Lykke Andersen, Director, Institute for Advanced Development Studies

George Psacharopoulos, formerly of London School of Economics and the World Bank

Florencia Torche, Assistant Professor, Department of Sociology, New York University

15h30 -16h00 Coffee Break

16h00-17h30

Session VI: Policy Session

This session will consist of a roundtable discussion led by Latin American policy makers. The aim of this session is to provide a set of practical policy recommendations to increase upward mobility and strengthen social safety nets for the middle class in Latin America. Participants will address the following questions:

- What are the practical implications for policy makers?
- What are the best practices in Latin America in promoting upward mobility while limiting downward flows for vulnerable households?
- What can Latin America and the OECD learn from each other?

Chair:

Jeff Dayton-Johnson, Head, Americas Desk, OECD Development Centre (5 min)

Leading panellists:

Gustavo Merino Juárez, Vice-Minister for Prospection, Planning and Evaluation, Ministry of Social Development (Sedesol)

Juan Mauricio Ramírez, Deputy Manager, Planning National Department, Colombia

Lúcia Maria Modesto, National Secretary of Citizen's Income, Brazilian Ministry of Social Development and Fight against Hunger (TBC)

17h30-18h00

Concluding remarks

Mario Pezzini, Director, OECD Development Centre