Achieving Inclusive Growth: Policy Challenges for Emerging Economies

OECD/EU High-Level Conference

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Context: Poverty has fallen but remains widespread...

- Last 2 decades marked by unprecedented reduction in poverty:
  - Poverty declined 1% annually: from 52.2% in 1981 to 25.7% in 2005 ($1.25/day)
  - In China alone, poverty declined by 475 million

- ....but poverty remains widespread and non-income poverty is sticky:
  - 1.4 billion people live below $1.25/day; 2.5 billion below $2/day.
  - 880 million people are malnourished; 2.5 billion people lack improved sanitation
... and vulnerability is high and rising

- There is rising inequality between regions and within fast-growing countries:
  - Rapid poverty reduction in East Asia since 1990; near-stagnation in Africa; rising vulnerability in ECA;
  - Rising inequality in Vietnam, China, India, Bangladesh and other rapid growers.

- and vulnerability is high and growing:
  - Food/financial crises pushed many into poverty; highlighted the fragility of development gains

Mixed picture on global inequality – driven by China and India

International Inequality  Global Gini 1988-2002

Concept 1: inter-country unweighted
Concept 2: Inter-country weighted by pop
Key questions:

- How does growth translate into employment and earnings opportunities?
  - Jobs and ‘quality’ of jobs
- How fragile are development gains?
  - Vulnerability to shocks
  - Role for “Smart” safety nets
- What role for the state in determining opportunities and outcomes?
  - Ensuring equality of opportunity
  - Capacity and willingness to redistribute

Quantity of jobs vs. quality of jobs
Poor households depend on work but earn little

Employment rates are highest in poor countries

Poverty rates are higher for the employed than the unemployed

![Bar chart showing employment rates by income level and country demographics.](chart.png)
Quality of jobs may matter more than quantity:

<table>
<thead>
<tr>
<th>Country</th>
<th>% change per year GDP</th>
<th>Employment Elasticity</th>
<th>% change in poverty headcount index per year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% change per year Employment</td>
<td>National</td>
<td>Poverty elasticity</td>
</tr>
<tr>
<td>ECA</td>
<td>2.6</td>
<td>-10.1</td>
<td>3.3</td>
</tr>
<tr>
<td>LAC</td>
<td>2.5</td>
<td>-8.4</td>
<td>1.0</td>
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<tr>
<td>EAP</td>
<td>2.1</td>
<td>-4.0</td>
<td>-0.9</td>
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<tr>
<td>MEA/SSA</td>
<td>2.0</td>
<td>-3.5</td>
<td>-0.7</td>
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This crisis: Considerable fall in GDP growth in developing countries

Difference between pre-crisis and post-crisis average GDP growth, by region
Commensurate fall in wage bill
Difference pre-post crisis

But adjustment through earnings growth rather than job creation
Distributional implications 1: simulated changes in household income

% change in household income between benchmark and crisis

- Total HH Income
- HH Labor Income
- HH Remittances

Philippines | Mexico | Bangladesh | Poland

Distributional implications 2: simulated impacts on poverty and inequality

% change in poverty/inequality indicators between crisis and benchmark

- Poverty Headcount
- Poverty Gap
- Gini

Philippines | Mexico | Bangladesh | Poland
Distributional implications 3: who are the crisis vulnerable?

% of crisis-vulnerable household heads who are low-skilled
(0–9 yrs of education)

Philippines, Mexico, Bangladesh, Poland

- Crisis-vulnerable
- Structurally poor
- Entire population

Distributional implications 4: Transition Matrices

- Most people remain within decile but
- Important movements up and esp. down – particularly in middle of distribution
- MX: Largest impact on poor
- PO: Largest movements "up" at bottom due to UI
Menu of options for dealing with labor market–related risks

- **Income Support**
  - Unemployment insurance
  - Training allowances
  - Public works
  - Last resort social assistance

- **Enhance employability**
  - Job search assistance
  - Training/retraining (w or w/o stipends)
  - Apprenticeship, internships
  - Income tax reduction, work credit, restructuring unemployment benefit
  - Mobility allowances

- **Job Protection**
  - Wage subsidies, social security tax reduction
  - On the job retraining, preventative training

- **Job Creation**
  - Public works; public investment program
  - Wage subsidies (for new entrants) / social security tax reductions
  - Start up support; business tax reduction
  - More flexible labor regulations

“Smart” Safety Net programs-1

- Programs that can be easily scaled-up in response to many different kinds of shocks, such as
  - Natural disasters
  - Extreme weather events
  - Food and/or Fuel price increases
  - Policy Reforms
  - Financial crises

- Programs that play a stronger insurance role
  - Many existing safety net (SN) programs serve primarily as instruments of income redistribution in the short-run and in the long-run (e.g. CCT programs)
  - The insurance role of SN requires a flexible budget that can be scaled up rapidly to meet unanticipated circumstances and easily scaled down as economic conditions improve
“Smart” Safety Net programs-2

- Programs that are targeted to the vulnerable households (not just the chronic poor)
- Programs that exploit synergies across sectors
  - e.g. CCT intervene in health, education, and nutrition simultaneously.
- Programs that provide incentives for adaptation, increased agricultural productivity, and resiliency to climatic shocks
  - Ethiopia’s Productive Safety Net Program (PSNP)

What role for State in determining opportunities and outcomes?

- Delivering services and ensuring equality of opportunity
  - Circumstances of birth should not determine a person’s future well-being
- Willingness and capacity to redistribute

Human Opportunities Index (Latin America)
- Completing 6th grade on time
- School enrollment at a specific age
- Infrastructure
  - Clean Water
  - Electricity
  - Sanitation
Two Latin American children: Probability of completing 6th grade on time

- Child with 4 siblings in single-parent rural household, household head without formal education and per capita income of 1 US$ (PPP)
- Child with 1 sibling, in urban two-parent household, household head with secondary education and per capita income of 25 US$ (PPP)

Human Opportunity Index (HOI)

Circa 2005 %
The Human Opportunity Index can vary inside a country

No state in Brazil has an Opportunity Index similar to Chile. Several states have an index inferior to Guatemala.

Opportunity Index of completing 6th grade on time

Fiscal policy influences the income distribution
Little capacity to redistribute in many emerging economies

Low tax collection

Low coverage of Social Protection

Additional slides
New poor relatively more likely to reside in urban areas than chronic poor... but less likely to reside in urban areas than the average household.

Similar pattern across countries, but differences more acute in Philippines and Mexico (higher level of urbanization? higher rate of poverty reduction in urban areas in recent years?) and no differences in Poland (higher level of penetration of off-farm activities in rural areas).

Mexico

Important differences across groups within country

Crisis more likely to affect/increase numbers of “working poor”

Among employed, higher risk in services and manufacturing
Characteristics of the crisis-vulnerable (IV)

- Significant losses in household income among new poor in crisis, compared to average household
- Changes driven primarily by labor income in PH, MX, and Poland and non-labor income in BD (remittances)
- Off-setting impact of UI in Poland