

Workshop on Inequality, Poverty and Politics

International and local experts met to debate the topic "Inequality, Poverty and Politics", in the international workshop organized by RIDGE in Montevideo on 24-25 March, 2015. The main topic discussed was in relation to the different mechanisms for alleviating poverty and inequality. The discussion was centred around papers focusing on the role of education, culture, labor market institutions and political participation as important mechanisms for the transmission of poverty and inequality.

The debate on the transmission mechanisms of poverty and income inequality is not an ended debate in the economic development literature. However, some stylized facts in the literature were presented by Ferreira. First, there is no clear relationship between economic growth and inequality. At least for a sample of countries, inequality and economic growth are not correlated. Second, economic growth is associated to poverty reduction. Third, the larger the initial inequality in a given country, the higher the growth rate needed to achieve the same level of poverty reduction. Finally, institutions matter for poverty and income inequality reduction. The pattern of economic growth plays an important role in explaining poverty reduction.

As pointed out by Ferreira, institutions matter. In this line of research, the literature on economic development stresses out that poverty and inequality can be reinforced through the political economy channel. Policies intended to favor poorer households through, for example, public expenditure on education and health, are influenced by voters' preferences in elections. In turn, politics tends to react to voters' preferences through implementing policies affecting public expenditures. Therefore, if poorer citizens do not vote, their preferences in terms of public expenditures would not be represented, having effects on the way politicians target public expenditure.

In this line of research, **Ferraz** presented a case study where a re-registration program implemented in Brazilian municipalities (*Electoral Revision Program*) had the unintended effect of disenfranchising poorer citizens impacting public services delivered to poorer households. The findings suggest that municipalities with low education levels and low media penetration had larger falls in registration and participation rates. In turn, newly elected mayors responded to this change by reducing public expenditure in areas that disproportionately benefit poor and uneducated voters (education and health).

Labor market institutions for poverty reduction matter also. Despite poverty reduction observed in the last decade in the LAC region, people still experience poverty and extreme poverty. **Maurizio** exposed the factors explaining poverty transitions in five Latin American's countries, namely Argentina, Brazil, Costa Rica, Ecuador and Peru for the period 2003 to 2012. The main result of this study stresses the important role played by the labor market events, such as changes in the number of employed members, changes in hourly earnings; and to a less extent to non-labor episodes as income variations are due to variations in pensions or transfers, in the improvement of household living conditions.

Policy implications derived from this study call for improvements in school quality in order to alleviate poverty. Also, labor market policies are needed. Priority should be given to efforts that

aim to prevent low and medium-low income workers from facing income-reducing events and mitigate their negative impacts. A central preoccupation of these strategies should be, on the one hand, a reduction in the share of highly unstable informal and precarious employment and, on the other hand, an extension of the unemployment assistance.

Also, **Firpo** explained that in the Brazilian case, inequality was mainly reduced over the period 1995 to 2012 due to a decline in inequality in labor earnings. This pattern is mainly explained by demographic, spatial and institutional factors. In particular, during this period, lower gender and race wage gaps, lower urban and regional wage premia, and an increase in the proportion of workers in the formal sector, are the main factors that explain the decreasing trend in inequality in Brazil. Therefore, policies aiming to reduce gender and race gap would positively influence inequality, as well as improvements in the labor market institutions.

Income inequality and poverty could also be influenced through external shocks. This is the Chilean case presented by **Pellandra**. In this case, the boom price experienced in copper over 2003 to 2011 reduced, in the short-run, poverty rates and income inequality in regions with higher exposure to the price shock compared to other regions. But policy interventions are mandatory for poverty and inequality reduction in the long-run. Indeed, the reduction in the wage gap observed is mainly due to a decline in skilled premium associated to demand labor factors, suggesting that the relative decline in the demand for skilled workers may have been a response to the quality of skills. Overall, Pellandra concludes that the Chilean educational system may not be producing the types of skills needed by the labor market. Therefore, policies are needed that aim to provide skilled workers in line with the mining sector.

Parental traits are transmitted over generations affecting children's well-being, by influencing individuals' decisions in terms on, for instance, education. Thus, poverty and inequality can be transmitted over generations. Then, policies aiming to compensate children from disadvantaged parental background could affect children schooling transitions.

One example is exposed by Silva for the Brazilian case. She provided evidence on the positive effects of a Conditional Cash Transfer (CCT) program named *Bolsa Familia* which aims to alleviate poverty and improve children educational outcomes. This program significantly reduced dropout rates and higher grade advancement rates. In terms of cycles, the effect is higher in more advanced cycles. Also, grade promotion effects are more pronounced among elementary and high school pupils. By regions, the program has an important effect on decreasing school dropout in the two regions with the largest amount of students: the Northeast (the poorest region) and the Southeast (the richest one). Also, Lotti presented evidence on the positive effects of the *Pel-Ca* (*preescolar en la casa*-home- preschool) on women empowerment and children educational attainment. This program was implemented for the first time in 2005 by the AVSI NGO in a poor neighborhood in Quito, Ecuador. By training mothers on acquiring knowledge and home and personal practices, the program has delivered two main results. First, the program reduced the drop-out rate from school and improved their school grades and scores in cognitive tests. Second, participant mothers are more likely to be employed, to be employed in formal jobs, in full time jobs and to earn higher wages than non-participant mothers. Also, participant mothers gain autonomy in intra-household decisions.

It is important to note that CCT programs and other public policies targeting vulnerable households, largely rely on how poverty indexes are elaborated. **Yalonetzky** called the attention

on this issue by providing theoretical and empirical evidence on the properties that poverty indexes should address. Indeed, multidimensional indicators measuring different dimensions of well-being should be carefully designed in order to correctly target population. This is not a minor issue, since rankings obtained by poverty scores are used, for instance, to target population, affecting policy implications derived from this indicator.

Regarding intergenerational transmission of parental traits, **Nollenberger** highlighted the importance of parental cultural background and institutions on girls' educational outcomes. Wage gender gap was found in the literature to be related with field choice for college graduates, which in turn is associated with performance in math. Then, by using information on second generation migrants from a broad set of countries living in twelve host countries, this study explores the factors associated with boys outperformance in math test scores in comparison to girls. The findings suggest that cultural beliefs on gender role are transmitted from parents to their children, which in turn explains greatly the difference in math performance between girls and boys. In particular, positive attitudes towards the role of women in society increases girls' maths scores. Also, that positive cultural views towards women seem more important in increasing a girls' math score when she attends a school where the concentration of immigrants or the ratio of boys to girls is greater. Their results are suggestive on the importance of schools and peer within schools as a mechanism for transmitting culture.

During the last decade, LAC countries increased education demand for the most vulnerable and poorer population. Indeed, access to education has largely increased in the LAC region. However, quality in education seems to be stagnated in the region. This is the main message given by **Ñopo**, who addressed school quality in LAC countries by studying the schooling premium for immigrants educated in their country of origin and living in the US for the period 1980 to 2000. For the period in question, the findings suggest that schooling premium shows stagnation or decline in school premium for LAC immigrants in comparison to other immigrants in the US. Then, if schooling premium in the host country could be associated with school quality in the country of origin, the study stresses that the educational system in the LAC region is at least stagnated. Then, public interventions intended to improve the quality of education in the LAC region are mandatory.

One example of policy intervention aiming to improve quality in education is provided by **Machado**. She presented evidence on whether the *Plan Ceibal*, the first One Laptop per Child (OLPC) program ever implemented, has influenced on children test scores in math and reading in Uruguay. This program aims to promote digital inclusion among Uruguayan children. It also intends to improve learning both at school and at home. Her findings suggest the program had no impact on either reading or math scores. Important notes highlighted by Machado, are that teacher training has been, up to now, optional. Also, that every-day laptop use at class is not widespread across all public schools. Besides, laptops' main use in class is to search for information in the internet. These characteristics provide a hint on why it is reasonable not to find an effect on these skills.

Policy recommendation calls for a transformation in the teaching-learning process. In order to impact learning, technology must be conceived as a tool that radically changes the teaching and learning process. In this context, the role of teachers should no longer be to transfer knowledge but to convey learning attitudes, support peer learning, and help children in converting information into knowledge.



Finally, experts were invited to discuss about “*Perspectives in Cash Transfer programs in Latin America*”. All experts agreed on the positive effects of the CCT programs on poverty alleviation, decline in income inequality, increase in consumption, and improvements in health and education experienced in LAC countries. However, there is mixed evidence on the effects of CCT programs on labor market outcomes, such as job informality or labor supply.

The main challenges of the region are therefore to improve job access and job quality, and to improve the educational systems in the region. Therefore, the experts call for a new debate on which instruments are needed to achieve poverty alleviation and decline in income inequality at the time employment and quality in education are improved. CCT programs should also be discussed, especially in terms of their conditionalities, institutional coordination and new technologies for improving their implementation. In this sense, CCT programs were mainly implemented in order to alleviate poverty in the region in a context of high poverty rates and lack of access to labor markets. But other social policies besides CCT programs are available to reduce poverty and income inequality that be considered, such as interventions in labor market, in the educational system or by fiscal reforms.