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Introduction

Stephan Klasen and Felicitas Nowak-Lehmann D.

The causes and consequences of high inequality in incomes, assets, and many aspects of well-being in Latin America has recently (re-)emerged as a central research and policy issue. While in previous decades, concern about high inequality in Latin America was, following Kuznets' seminal work in the 1950s, largely focused on the impact of the development process on inequality, the new emerging literature is considering the reverse causality, i.e. the impact of inequality on the development process. Prominent examples of this renewed emphasis are a number of reports produced recently by the World Bank, including the recent World Development Reports on Poverty (World Bank, 2000) and Equity (World Bank, 2005), as well as reports focusing on Latin America, including the 2004 report 'Inequality in Latin America: Breaking with History' (World Bank, 2003) and the recent 2006 report 'Poverty Reduction and Growth: Virtuous and Vicious Circles' (World Bank, 2006). Similarly, academic research has taken on this issue with renewed vigor, as shown, for example, by works of Eicher and Turnovsky (2003), Deininger and Squire (1998), Forbes (2000), among many others.

There are a number of reasons that have led to this re-emergence of inequality as a central research and policy issue in Latin America as well as the new emphasis on its development impacts. First, inequality was and is extremely high in Latin America. As shown in Table 1, Latin America continues to have the dubious distinction of having the highest income inequality in the world, as measured by the Gini coefficient. Using other measures, or other dimensions, of inequality (e.g. assets) would yield similar results. More disconcerting is the persistence of inequality in Latin America across time. In contrast to the hope held out by the Kuznets Hypothesis that inequality will eventually decline with development, it has remained extremely high through the past 30 years and changed little even during episodes of fast economic growth. In contrast to the long secular and large decline in inequality in rich countries that took place between about 1930 and 1970, we have not experienced a similar secular trend in any Latin American country (or, for that matter, in other developing regions, see Table 1). In fact, most evidence points to a small but significant rise in inequality in most developing countries since the early to mid-1980s (Grün and Klasen, 2003; Cornia and Court, 2001). Latin America is no exception although the extent of increases in inequality since the 1980s vary by country and time period and there is some evidence that inequality has declined again in some countries by a small amount in the last few years (particularly in Brazil, see World Bank, 2006). The resilience of high inequality in Latin America to vastly different policy regimes and policy

interventions is remarkable and somewhat disconcerting. Neither the statist development strategies of the 1950s and 1960s nor the liberal market reforms of the 1980s and 1990s have greatly affected inequality, nor have great swings from populism to orthodox market fundamentalism.

Second, inequality is not only persistent in the aggregate, but it is also persistent across generations of individuals as mounting research on the inter-generational transmission of inequality is pointing out (World Bank, 2003, 2005).

Third, the detrimental effects of inequality for economic and human development have become more apparent recently. As has been shown theoretically as well empirically, high inequality not only translates into higher absolute income poverty at any given level of mean incomes, but it also reduces the poverty reducing impact of economic growth (e.g. Bourguignon, 2003; World Bank, 2000; Klasen, 2003). Latin America's very poor progress in reducing absolute poverty in recent decades is thus not only a consequence of its poor growth performance, but also its high inequality (World Bank, 2006).

Fourth, there is growing evidence that high inequality, particularly asset inequality, is detrimental to economic growth itself. While the empirical evidence is still under some dispute (see, e.g. Deininger and Squire, 1998, Forbes, 2000; Klasen, 2003; Banerjee and Duflo, 2003), the evidence is mounting that such a negative effect exists particularly in countries displaying particularly high inequality, with Latin America often being cited as the most prominent example of a high inequality region with a relatively poor growth performance, particularly in the past 20 years. The channels through which this effect is transmitted range from capital market failures that prevent the poor in high inequality countries to invest in human and physical capital or to insure against risk, social and political instability that deter investment, to social conflict leading to inefficiencies, economic and political uncertainties and growth collapses, to name the ones most prominently discussed in the literature (e.g. Alesina and Rodrik, 1995; Rodrik, 1998; Deininger and Squire, 1998; World Bank, 2003, 2006).

Fifth, there is growing debate and awareness about the well-being costs of high inequality in Latin America. Given inequality aversion for which there is convincing evidence from Latin America (e.g. World Bank, 2003), high inequality carries a welfare costs which can be sizable (see Grün and Klasen, 2006). Investigations of subjective well-being also point to the welfare costs of high inequality in Latin America. Moreover, since the 1980s, inequality has increasingly been associated with economic insecurity not only of the poor, but increasing sections of the middle class which has strongly undermined social cohesion and increased social and political conflict (Rodrik, 2001).

Sixth, while there was a time where inequality was seen as a necessary evil to promote incentives and efficiency, survey evidence from Latin America clearly points to the fact that inequality is now seen as too high and as unfair (World Bank, 2005, 2006). Of particular concern is here that much of existing

inequality in Latin America is in fact inequality of opportunities, i.e. inequality related to one's origin, race, sex, or parental background, which is seen as particularly reprehensible (e.g. Roemer, 1998; World Bank, 2005).

Seventh, the recent rise of populism in many Latin American countries (including Venezuela, Peru, Bolivia, and Argentina) has partly emerged as a result of the general dissatisfaction with high inequality, high poverty, poor growth, and social exclusion of minorities and marginalized groups. Clearly, inequality and persistent poverty is having a serious impact on political developments.

Lastly, the data and methods to analyze inequality and poverty and its linkages to growth and policy interventions have dramatically improved in recent years. Regarding data, the implementation of standardized regular representative household income surveys in nearly all Latin American countries in the past 10-15 years has enabled researchers to study poverty and inequality levels, trends, and determinants that was impossible in prior years where all that was available were occasional snapshots from a single household survey. This has also enabled an analysis of regional poverty and inequality dynamics which showed that regional inequality is an important driver of national inequality (World Bank, 2006). In addition to regular household surveys, specialized surveys, some using randomized designs, have allowed researchers to study the impact of particular government programs (e.g. Todd and Wolpin, 2005; World Bank, 2004). Regarding methods, there have been great improvements in combining micro and macro data to analyze and simulate the impact of policies on poverty and inequality as well as significant improvements in studying the spatial dimension of poverty and inequality, including the question of spatial poverty traps.

Table 1 Gini Coefficients by Region

	1970	1980	1990	2000
Latin America	59.3	53.0	58.2	59.5
South Asia	35.5	37.2	35.2	40.6
East Asia	32.9	33.3	37.9	41.8
Sub-Saharan Africa	51.8	52.1	56.2	54.6
OECD	37.7	37.5	39.0	40.1

Source: Grün and Klasen, 2006. The data refer to population-weighted averages for a consistent sample of countries (37 countries in total comprising some 75% of the world's population). The data have been adjusted to account for differences in survey design and income concept used.

Clearly, the high and persistent inequality in Latin America is one of the central, if not the central, economic policy challenge for Latin American policy-makers and we have new tools and data at hand to study this issue. So it is not surprising that there has been such a resurgence of interest in analyzing

dynamics and determinants of poverty, inequality, and the relationship of policy affecting them in Latin America.

While this renewed research interest has already generated many new insights, analyses, and policy recommendations, many open questions remain. Among them I will highlight a few that appear to be of particular relevance for understanding inequality and poverty dynamics as well as their policy drivers. First, the linkages between growth, inequality, and poverty in Latin America need further clarification. While the cross-country literature has generated important insights in this area, more analyses at the country and even sub-national level are required to understand these complex relationships and their most important determinants. Of particular relevance is to examine these relationships in the Latin American context of high economic instability with recurrent economic and financial crises, particularly in the 1990s. Second, measuring and addressing poverty remains a critical research area. While there is now good data and analysis on monetary poverty measures, non-monetary including subjective indicators of well-being often tell a different story that needs to be considered when analyzing poverty trends and determinants. Also, developing context-specific poverty reduction policies in Latin America remains a challenge for research and policy analysis alike and more work in this area is certainly still needed. Lastly, these issues need to be considered in an economic environment, where trade, migration, and economic integration are of particular importance. Thus the role of trade and migration in generating, sustaining, or reducing inequalities between and within countries is an area that requires further analysis. In particular, given the increasing migration from poorer Latin American countries to richer ones and to the United States, both the determinants of that migration as well as the consequences for poverty and inequality require further analysis. Similarly, Latin America opened up its economies in the 1980s and 1990s while pursuing attempts to further regional integration. The impact of these trends on inequality and poverty within and between countries remains an area of active investigation.

The papers in this volume were selected from a conference entitled 'Poverty, Inequality and Policy in Latin America' that took place at the Ibero-America Institute for Economic Research in Göttingen, Germany in July 2005 which was funded by the German Science Foundation and co-sponsored by the CESifo research network. In the remainder of this introduction, we briefly summarize the contributions, their relationship to the open questions raised above, and close by identifying open research and policy questions.

The present volume encompasses three main themes. In the first, linkages between growth, inequality and poverty are examined at the regional, national, and sub-national level. In Chapter I.1, Verónica Amarante gives a comprehensive overview of the literature on the relationship between growth and inequality, and presents her own findings on Latin America. She approaches the problem from two different perspectives: first, by examining the effect of income growth on inequality (testing the Kuznets curve), and second, by

investigating the link between inequality and income growth (analyzing the determinants of growth), building on previous research in the empirical growth literature. Amarante uses panel data for 22 Latin American countries and reestimates the Kuznets equation under alternative panel specifications. While a simple cross-section analysis reveals no relationship between growth and inequality, in the fixed effects specification, the existence of a Kuznets curve is confirmed for Latin America and Amarante finds a threshold value of \$3,526, above which growth decreases inequality and below which growth increases inequality. Turning to the inverse relationship—her second approach, the relationship between inequality and growth—the empirical evidence from panel studies is mixed and not robust. Pooled OLS and random effects specifications suggest that inequality does not have a significant impact on subsequent growth. When utilizing a fixed effects specification, however, the finding is very different: inequality now has a positive and significant effect on subsequent growth. Amarante additionally finds that in fixed effects models the effect of inequality on growth depends on the level of per capita GDP. For the GMM (Generalized Method of Moments) estimation, inequality and the interaction between inequality and GDP levels lose significance. Amarante concludes that although there is abundant empirical evidence on the link between inequality and economic performance, the results are not at all conclusive and the debate in the empirical literature remains open. A major finding of her study is that the results of cross-sectional analyses cannot be confirmed by panel analyses and vice versa.

The following four papers examine the relationship between growth, inequality, and poverty at a more disaggregated level, either focusing on particular historical episodes in a country or using sub-national data. In Chapter I.2, “Growth, Inequality and Poverty: Some Empirical Evidence from Minas Gerais State, Brazil,” Rosa Fontes, Elydia Silva, Luiz F. Alves, and Geraldo E. S. Júnior study empirically the linkage between economic growth and income inequality in towns and microregions of the Brazilian state of Minas Gerais from 1970 to 2000. In order to test the income convergence hypothesis, they perform convergence tests (absolute β -convergence, conditional β -convergence, and σ -convergence) and analyze the role of human capital in growth for the 66 microregions of Minas Gerais. Furthermore, they compare the very rich regions and very poor regions of the state to study the relationship between regional inequality and poverty. Using the σ -convergence test, Fontes et al. find little evidence of income convergence and inequality reduction over the past 30 years. Most of their estimations reveal a negative and highly significant relation between initial income and the rate of income growth during the period, suggesting that in general, the poorer regions and towns grew more than the richer ones (absolute β -convergence). Further analyses also confirm that conditional β -convergence took place, since proxies of human capital played an important role in Minas Gerais income convergence and growth. Despite absolute and conditional β -convergence the authors also identify “convergence

clubs” among the poor and very poor regions, as well as among the richer ones, leading to different long-term steady states. This tendency shows an inability of the poor microregions to escape from the poverty trap, and highlights the need for public policies designed to overcome this obstacle and permit greater income equalization within Minas Gerais.

In Chapter I.3, “Pro Poor Growth in Colombia 1996-2004” Adriana Cardozo investigates whether economic growth in Colombia has benefited the poor. Based on data from the Colombian household surveys, her study aims at evaluating whether growth in Colombia was pro-poor from 1996 to 2005 by deriving growth incidence curves (GIC) and calculating the pro-poor growth rate (PPGR) developed by Ravallion and Chen (2003). After reviewing the concepts underlying the idea of pro-poor growth as well as of two of the most widely used techniques for calculating it, Cardozo analyzes GICs from 1996 to 1999, 1999 to 2002, and 2002 to 2005 to capture the effects of the economic slowdown, crisis, and recovery periods separately. Her results show that when applying a strict interpretation of the aforementioned methodology, growth in Colombia was indeed pro-poor between 1996 and 2005 given that the PPGR was higher than the mean growth rate (0.94 vs. 0.43). Nevertheless the difference is very small and the methodology does not indicate anything about how great the difference needs to be to conclude that growth was truly beneficial to the poor relative to the non-poor. A more balanced conclusion would be that growth was very low and was not averse to the poor (relative to the non-poor), yielding an almost unchanged incidence of poverty after 1996. Separating the results into smaller periods reveals an even clearer picture. From 1996 to 1999, the economic slowdown affected the poor much more severely than the non-poor. In both urban and rural areas, income fell more dramatically for the extremely poor. Between 1999 and 2002, all GICs have a positive slope, and growth was pro-poor as shown by the PPGR results, which are heavily influenced by a statistical effect of income moving back to the levels observed before the economic crisis. In the period 2002-2005, gains from economic recovery were stronger, and income growth was pro-poor in urban and rural areas as well as for Colombia as a whole. Regional comparisons show that it was only in the Pacific region that growth was clearly anti-poor, while in the others, the results for the country as a whole hold: low income growth rates and small differences between the mean growth rate and the PPGR.

The following chapter also deals with the poverty and inequality impact of an economic crisis. In Chapter I.4, “Crisis and Recovery in Argentina: Labor Market, Poverty, Inequality and Pro-poor Growth Dynamics” Melanie Khamis examines the development of employment, unemployment, poverty, and inequality in Argentina in the period 2001-2004. Using micro-level household data from the official Argentine household survey (EPH), she studies labor market dynamics, poverty, income changes, and pro-poor growth features of the Argentine economy during the crisis of 2001-2002, the early recovery period of 2002-2003, and the later recovery period of 2003-2004. As to the labor market

dynamics, Khamis finds that the economic crisis and the recovery were largely reflected in the general labor market trends: increased unemployment and inactivity alongside decreased employment during the crisis, and the reverse picture during the recovery period. With respect to economic sectors, four emerged as the most dynamic in terms of changes in employment, unemployment, and inactivity: the manufacturing sector; other services; the construction sector; and the trade/retail, restaurants and hotel sector. Poverty and extreme poverty increased substantially during and after the crisis of 2001-2002, and in the period 2002-2003, poverty rates and indigence rates still showed small increases despite the continuation of government programs providing subsidies to the poor (through the Plan Jefes workfare program). A trend toward decreasing poverty and indigence was seen in the period from October 2002 to the second half of 2004. All inequality measures agree that inequality increased in Argentina during the 1990s, whereas they disagree over what happened between 2001 and 2003. Indices that attach greater weight to the bottom of the income distribution find a fall in inequality (Atkinson with parameters 1 and 2, and entropy with parameter 0) since relative incomes of the very poor increased. When using equivalized household labor monetary income or another inequality indicator, an increase in inequality is found between 2001 and 2003. Answering the question of whether Argentine growth cycles have been pro-poor, she finds that the poor experienced a very strong decline (-36.70 percent) in their household income in the period 2001-2002. In the period 2002-2003, their income increased by 7.27 percent and in the period 2003 and 2004, pro-poor growth was even higher at 15.40 percent. It has to be kept in mind, however, that both the growth component and redistribution (through government transfers) are important in explaining poverty and indigence changes for Argentina during the period 2001-2004. The pro-poor features of the early recovery period (2002-2003) were mainly accounted by government transfers (through Plan Jefes), whereas in the later stages of recovery (2003-2004), income increases among the poor were less a result of government transfers than of the pro-poor pattern of growth itself.

Staying with Argentine but covering a longer time period, María Santos examines regional inequality in Chapter I.5 in her paper "Factors Influencing Income Inequality across Urban Argentina". She uses a panel dataset of 38 cities (cross-sections) over the period 1998-2003. The urban agglomerations covered by the survey contain 71% of the urban population of Argentina, and 62% of the entire country's population in the following six statistical regions: Greater Buenos Aires, Northeast Argentina, Northwest Argentina, Cuyo, Pampeana and Patagonia. Santos assesses inequality using four different measures: the Gini coefficient, the Theil 1 and Theil 2 indices, and the coefficient of variation (CV). In the period 1998-2003, she finds a steady increase in inequality over time with a peak in 2002 after the December 2001 crisis and a decline after 2002. However, the overall increase in inequality between 1998 and 2003 is relatively small. Inequality across the six statistical regions (in other words, the inequality

rankings) changed over the period under analysis: in 2003, all inequality measures ranked Greater Buenos Aires (GBA) as the most unequal region, followed by the Northeast and Northwest. In the panel analysis, inequality is explained by labor market characteristics (unemployment rate, returns to education, share of the employed in the secondary sector), human capital assets (proportion of people who completed primary school, secondary and higher education, demographic characteristics (proportion of indigenous households, age distribution of the population) and level of development characteristics (per capita electricity consumption, its square, percentage of population with unsatisfied basic needs). The study finds that unemployment and higher returns to education increase inequality, and a higher share of employed people in the secondary sector decreases inequality. The rate of primary education has a strong inequality-decreasing impact, whereas the rate of secondary education appears to have an inequality-increasing impact. The dependency index has the expected positive coefficient and is significant. The log of per capita electricity consumption, the proxy for GDP per capita, is significant and positive in all cases. And the percentage of people with unsatisfied basic needs is significant and positive for all inequality measures, except for CV. These results suggest that urban agglomerations are more unequal—not just because they are located in a particular region such as the North, for example, but because compared to other cities, they are likely to have a lower proportion of the population with primary education, less developed industrial sectors, and higher unemployment. These regions may also have a high level of structural poverty and dependency, and are affected by the presence of indigenous groups in the local population.

Chapter II moves to poverty analysis and poverty policy. In Chapter II.6, “The Determinants of Subjective Poverty: A Comparative Analysis in Madagascar and Peru”, Javier Herrera, Mireille Razafindrakoto, and François Roubaud concentrate on the subjective evaluation of poverty. Recent studies in developed countries have found that subjective well-being is based not only on monetary income and consumption but also on other factors such as employment and health. This paper examines the factors that determine households’ subjective evaluation of their living standards through a comparative analysis of data from two developing countries, Peru and Madagascar. In their study, Herrera et al. use a database of first-hand observations to group objective individual variables (households’ socio-economic characteristics, environmental and individual trajectories provided by the two panel studies) together with corresponding questions on subjective well-being for both countries. The study confirms how important it is to study the non-monetary dimensions of poverty in developing countries: including these dimensions doubles the explanatory power of the econometric models of subjective well-being. It is interesting to note that overall, the results produced by Herrera et al. confirm the well established findings on determinants of subjective well-being from developed countries and speak in favor of applying a similar methodology in developing countries. Nonetheless, a few significant

differences emerge from this study. First, the data on Peru and Madagascar confirm that there is a positive, significant correlation between subjective well-being and monetary income, but that this correlation is significantly less than 1. In Madagascar, the poorer country, the strength of an association between subjective well-being (SWB) and income is higher than in the middle-income country, Peru. In both cases, other dimensions of well-being (such as health, education and job quality, but also family structures) play a non-negligible role. Furthermore, social interactions and trajectories also affect perceptions of well-being. With a fixed personal income, the average level of income in the neighborhood has a negative impact on SWB, confirming the rivalry hypothesis. Past income has a positive impact in both countries, partly capturing an effect of permanent income. Finally, social capital, social origins, and the ethnic factor (in Madagascar) have a significant impact on the perception of well-being. Apart from these commonalities, which prove the relative robustness of the results, interesting differences between Peru and Madagascar also emerge. Whereas local inequalities play a positive role in the perception of well-being in Peru, they play a negative role in Madagascar. The authors put forward the hypothesis of two different models of mobility and social norms: in the first model (Peru), inequalities are apparently seen as the result of strong social mobility, which is valued highly by the population; while in the second (Madagascar), social homogeneity is valued more highly, being viewed as the basis and/or the result of social relationships.

The objective of Chapter II.7, “Geography, Livelihoods, and Rural Poverty in Honduras: An Empirical Analysis Using an Asset-Based Approach”, by Hans G.P. Jansen, Paul B. Siegel, Jeffrey Alwang, and Francisco Pichón, is to develop a conceptual and analytical framework that can be used to simulate and better understand the prospects for growth and poverty reduction in rural Honduras. Jansen et al. employ complementary quantitative and qualitative methods of analysis driven by an asset-based approach. Justifying this emphasis by the high inequalities found in the distribution of productive assets among Honduran households and geographical areas, the authors focus on household assets (broadly defined to include natural, physical, human, financial, social, and locational assets) and the combinations thereof that would be needed to take advantage of economic opportunities. They examine the relative contributions of these assets and identify the combinations of productive, social, and location-specific assets that matter most for raising incomes and taking advantage of the prospects for poverty-reducing growth. They use factor and cluster analysis techniques to identify and group different livelihood strategies, and econometric analysis to investigate the determinants of different livelihood strategies and the major factors affecting income. Spatial analysis, community livelihood studies, and project assessments are also brought in to complement the more quantitative household survey data.

Five key findings with important strategic implications emerge. First, the rural areas of Honduras show significant heterogeneity in terms of asset

endowments. Even areas with high economic potential often suffer from persistently high poverty because the poor simply lack the basic assets needed to capitalize on the existing potential. Second, poverty is deep and widespread in rural Honduras—particularly in the hillside areas, where most households have limited assets on which to base their livelihood strategies. The high poverty density of hillside areas and the fact that some 80 percent of all rural poor are located there should make these areas a main target of national rural poverty reduction strategies. Furthermore, the overlap between high poverty rates and high poverty densities there means that investments in the hillside areas have good chances of reaching significant proportions of the country's rural poor, and a minimal risk of 'leakages'. Third, although agriculture should form an integral part of the rural growth strategy for hillside areas, its potential is limited. Public policies and investments must focus on issues of food security, natural resource security, access to land and forests, infrastructure provision, improved natural resource management, non-agricultural rural employment, and migration in order to foster broad-based and sustainable agricultural growth and to reduce rural poverty. Fourth, there is a need to move from geographically untargeted investments in individual assets toward a more integrated and geographically based approach that promotes complementarities among different measures. A multi-sector investment program is needed to upgrade and improve access to household assets and to generate and foster complementarities. Finally, asset investment programs need to be adapted to the specific needs of regions and households. While some household asset programs should be national in nature, others require local adaptation and should run in tandem with the national measures, but should focus on the specific needs of regions and households. Investment strategies should be formulated on a broad regional basis, but options within regions should be tailored to local asset bases.

The last chapter addresses questions of trade and migration. In the first contribution, Chapter III.8, "Trade versus Migration, and the Role of Diversity: A Simple Analytical Framework", Leonardo Auernheimer develops a theoretical model to explain migration dynamics, which is particularly relevant to explain migration dynamics between Latin America and the US. In it, migration is determined not only by real wage differentials but also by a preference for 'cultural' homogeneity: thus, social interaction factors also play a role. Auernheimer distinguishes four cases of migration equilibria. In the first, no migration occurs, since the gains in real wages for migrants are dominated by the loss of cultural homogeneity. In the second, the migration equilibrium is extremely unstable, being determined by only one (very low) desirable level of migrants in the host country. Backward migration results if this (low) level is surpassed (for example, if migrants face unfriendly treatment) or if migration does not occur due to the host country's cultural unattractiveness to migrants. In the third case, migration is dominated by the wage differential. There is also a unique value for the ratio of migrants to total labor in the guest country, but the ratio is much greater than in the second case, and therefore, migration always

takes place. The most interesting case is the fourth, where the model obtains two equilibrium values for migration: if migration is below the lower equilibrium value, there is no incentive to migrate to the host country, and backward migration would even occur. If migration is above the upper equilibrium value, some migrants would return home because of a feeling of no longer being welcome in the host country. Only if migration remains between its upper and lower equilibrium values would migration take place. The particularly interesting implication of this scenario is that migrants and host country residents will have different preferences regarding trade versus migration. While the host country residents would favor migration over trade, the migrants would favor trade over more migration. It would be well worth considering whether this model can help understand the politics of immigration in the US, with respect to Latin American immigrants.

In Chapter III.9, "South-South Trade Agreements, Location of Production, and Inequality in Latin America", Alessia Lo Turco investigates the impact of the Latin American South-South Agreements (MERCOSUR, CAN (Andean Community) and the CACM (Central American Common Market) on the concentration of production and the divergence or convergence of income levels in Latin America. To examine how Regional Free Trade Agreements (RTAs) potentially lead to concentrations in production she uses panel analysis using a model that investigates the determinants of industry location. Lo Turco finds that production concentration increased in a number of sectors, especially in the Central American Common Market (Costa Rica, El Salvador, Guatemala) and the Andean Community (Colombia, Ecuador). To deal with the issue of inequality, she uses a model based on aggregated data to determine whether the three regional south-south trade agreements have contributed to convergence or a divergence in income levels among the countries involved. A difference-in-differences approach is used to separate the integration effect from the general path of development in Latin America. A central outcome of Lo Turco's study is that MERCOSUR and CACM have led to a divergence in income levels, while the renegotiation of the Andean Pact (CAN) has fostered a convergence.

The chapters in this volume add considerably to our understanding of the dynamics of inequality and poverty in Latin America as well as the scope for policy to address this issue. Nevertheless, open questions remain. The role of migration and migration policies for Latin American economic development will be a subject that will require further scrutiny, both on the theoretical but particularly on the empirical front. The evidence of large differentials in regional development is similarly intriguing but calls for more research to solidify the results, examine the determinants of spatial poverty traps in more details, and study whether these traps have become more or less severe over time. The impact of economic crises on poverty and inequality, at the national and sub-national level, will remain an active area of research as long as Latin America's growth trajectories remain so unstable. Lastly, most research will be needed on the multi-dimensionality and subjectivity of poverty in Latin

America. The experience of the 1990s demonstrates that moderate growth with some income poverty reduction has done little to reduce the social unrest and instability which have given rise to the re-emergence of populism in an increasing number of countries in recent years. Unless the problems of high inequality and poverty, objectively measured and subjectively felt, are addressed, more instability in Latin America is bound to lie ahead.

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