

# POVERTY REDUCTION AND GROWTH: VIRTUOUS AND VICIOUS CIRCLES

*Guillermo E. Perry*

*Omar S. Arias*

*J. Humberto Lopez*

*William F. Maloney*

*Luis Serven*



THE WORLD BANK  
Washington, D.C.

# Contents

<b>Foreword.</b>	<b>.xi</b>
<b>Acknowledgments.</b>	<b>.xiii</b>
<b>Acronyms and Abbreviations.</b>	<b>.xv</b>
<b>Chapter 1: From Vicious to Virtuous Circles.</b>	<b>.1</b>
Poverty as a multidimensional and dynamic concept	.1
The twin disappointments: Destiny or choice?	.2
The link from growth and development to income-poverty reduction	.4
Closing the virtuous circle: The link from poverty to growth	.5
Global convergence clubs	.6
Does poverty matter for growth?	.7
Regional convergence clubs	.8
Household-level poverty traps	.9
Implications of the report	.11
Pro-growth poverty reduction	.15
Notes	.19
<b>Chapter 2: Dimensions of Well-Being, Channels to Growth.</b>	<b>.21</b>
Income poverty	.21
Beyond income and consumption	.27
Why not just ask them?	.29
Snapshots vs. movies: Life-cycle welfare, mobility, and risk	.31
Intergenerational mobility	.37
Conclusion	.40
Annex 2 A: Estimating the monetary value of mortality changes	.41
Annex 2B: A tractable welfare measure that captures income, mobility, and risk	.42
Annex 2C: Intergenerational mobility in Latin America: Country comparison	.42
Notes	.42
<b>Chapter 3: How Did We Get Here?</b>	<b>.45</b>
Per capita income in Latin America: A long-run comparative perspective	.46
Long-run inequality	.53
Notes	.56
<b>Chapter 4: The Relative Roles of Growth and Inequality for Poverty Reduction.</b>	<b>.57</b>
The relative roles of growth and income distribution for poverty reduction	.59
Growth and inequality: Bringing country specificity into the picture	.63
Concluding remarks	.70
Annex 4A: Testing for lognormality of income	.71
Notes	.72

<b>Chapter 5: Pro-Poor Growth in Latin America.</b>	<b>.75</b>
Are all pro-growth policies equally pro-poor? . . . . .	.76
Does the composition of growth matter? . . . . .	.89
The role of taxes and transfers in reducing income inequality. . . . .	.92
Concluding remarks. . . . .	.100
Annex 5A: Simulating the impact of pro-growth policies on poverty_____	.101
Notes. . . . .	.102
<b>Chapter 6: Does Poverty Matter for Growth? . . . . .</b>	<b>.103</b>
A poverty-traps view of the development process. . . . .	.104
Empirical evidence on poverty traps. . . . .	.108
What is the empirical evidence on poverty's impact on growth? . . . . .	.115
Transmissions channels from poverty to growth? . . . . .	.118
Concluding remarks. . . . .	.123
Annex 6A. . . . .	.124
Notes. . . . .	.126
<b>Chapter 7: Subnational Dimensions of Growth and Poverty. . . . .</b>	<b>.129</b>
What is spatial inequality, how is it measured, and what are the regional trends? . . . . .	.129
Identifying spatial concentration. . . . .	.130
Why do we observe regional convergence clubs? . . . . .	.135
Does migration work as an equilibrating mechanism? . . . . .	.138
The link back to growth and policy issues. . . . .	.139
Conclusions. . . . .	.143
Notes. . . . .	.143
<b>Chapter 8: Microdeterminants of Incomes: Labor Markets, Poverty, and Traps? . . . . .</b>	<b>.145</b>
The distribution of earnings: The role of worker endowments and labor markets_____	.146
Microdrivers of changes in the income distribution. . . . .	.151
Determinants of income dynamics: Lessons from rural El Salvador_____	.152
Implications for policies. . . . .	.159
Annex 8A: Data and methodological details. . . . .	.160
Notes. . . . .	.162
<b>Chapter 9: Breaking the Cycle of Underinvestment in Human Capital in Latin America. . . . .</b>	<b>.165</b>
The educational transition in the region: Slow and unbalanced progress. . . . .	.166
Poverty and human capital: A two-way relationship. . . . .	.167
Human capital formation: Sources of underinvestment traps. . . . .	.169
The educational ladder in Latin America: A persisting educational divide. . . . .	.171
Liquidity constraints, family factors, and educational investments: A sneak preview. . . . .	.178
The private value of schooling: How much does it pay? To whom? . . . . .	.181
Short-term or long-term poverty: Which is more pressing for schooling investments? . . . . .	.190
Implications for human capital formation policies. . . . .	.194
Investing now: The demographic window of opportunity. . . . .	.196
Annex 9A: Data and methodological details. . . . .	.197
Notes. . . . .	.199
<b>Bibliography. . . . .</b>	<b>.203</b>
<b>Index. . . . .</b>	<b>.217</b>