Preface

During the nineteen seventies, Latin America was a promising region and seemed to have prosperous development perspectives. However, the nineteen eighties went by as the “lost decade” for most countries, mainly due to external debt crises. Although overall development perspectives were reduced during this period, the region harbored good economic performers, such as Chile, or even within some countries more and less prosperous regions remained, such as the south of Brazil compared to the northern region. Nevertheless, this better performance did not benefit large parts of the population. Until today poverty remains a non-resolved problem, even in Chile and Brazil. Paraguayan economic history is similar and at the same time different to this general trend. Even if there were no debt crises in the eighties and important growth rates in the second half of the seventies, poverty remained a non-resolved problem in the eighties and an increasing problem during the nineties. Looking back in time, prior to 2005, it would seem that Paraguay, in a way, is locked in what is known as a “low growth high poverty trap”. Understanding the performance of poverty and inequality over a period of more than 10 years can throw new light on structural causes behind what seems to be a “low growth high poverty high inequality trap” in Paraguay.

In recent years, there has been increasing empirical evidence worldwide that inequality levels and inequality changes are powerful determinants for poverty levels. Reducing poverty might be a tool for inequality reduction, if the effects of inequality on poverty are well understood, and vice versa.

This dissertation focuses on poverty and inequality issues in Paraguay during the nineties. In the first chapter, poverty levels and their spatial distribution are estimated. The second chapter searches for the effects of income and education inequality on growth, using the results of the first chapter as input. In chapter three, a decomposition of changes in inequality is carried out in order to better understand what the dynamics behind inequality changes are and what their impact on poverty is. The chapters are written to be read separately, consequently, some methodological repetitions were included.

Persistent poverty can be a serious impediment for growth. In the first chapter, a poverty and inequality mapping exercise shows that poverty levels and their spatial patterns were almost the same at the beginning of the 1990s and during the first few years of the 2000s. A small poverty decrease during the second half of the 1990s was not sustainable. So in a way, this is evidence that we have persistent poverty in Paraguay.
However, there may be some opportunities to reduce poverty without necessarily going through an important economic growth. In India, there are some states that are more efficient than others in reducing poverty through growth. Some of their strategies attack poverty in an attempt to reduce inequality even if there is not much economic growth. Consequently, there seems to be an interesting link between inequality and growth. To better understand which links existed between inequality and income growth during the nineties in Paraguay, chapter 2 takes the results from chapter 1 (estimated mean incomes by district) and examines the impact of initial income and education inequality on income growth. Since this exercise is based on poverty maps, this allows for the corroboration of spatial patterns and regional differences in the effects of income and education inequality on income growth.

Chapters 1 and 2 portray almost unchanged poverty levels at the beginning and at the end of a ten-year period, while also showing some reduction in income inequality. Questions on what drives inequality reduction during a period of almost inexistent economic growth and poverty reduction are answered halfway through chapter 3. These answers are the result of a microeconometric decomposition based on three different household surveys.