

# Promoting Equity in Cuba during Transition:

A few remarks based on theory and experience

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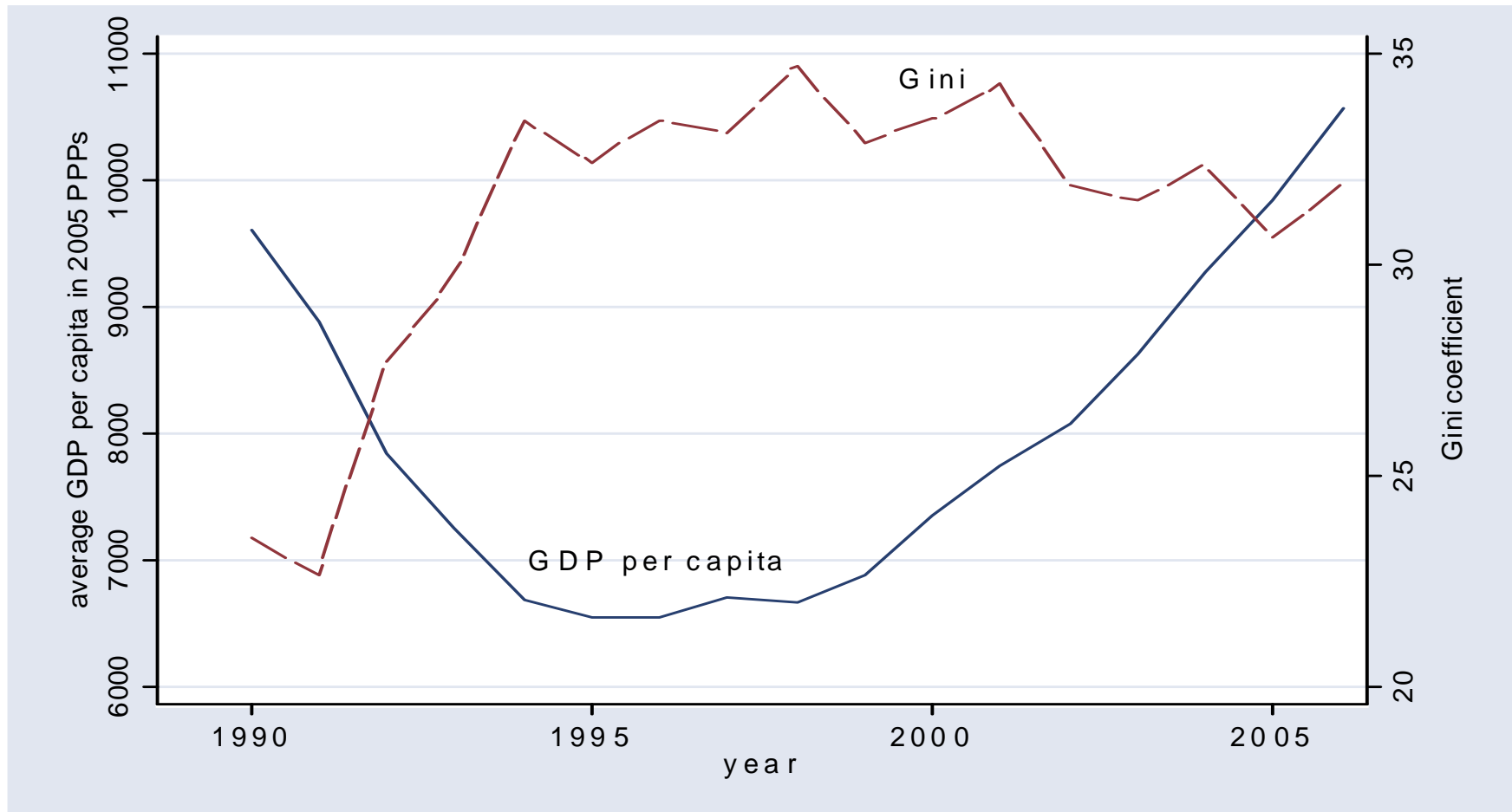
# Plan of the talk

1. What do we mean by “equity”?
2. Rising inequality during transition.
3. Some causes of rising inequality.
4. Policy implications (for Cuba?)



## 2. Rising inequality during transition.

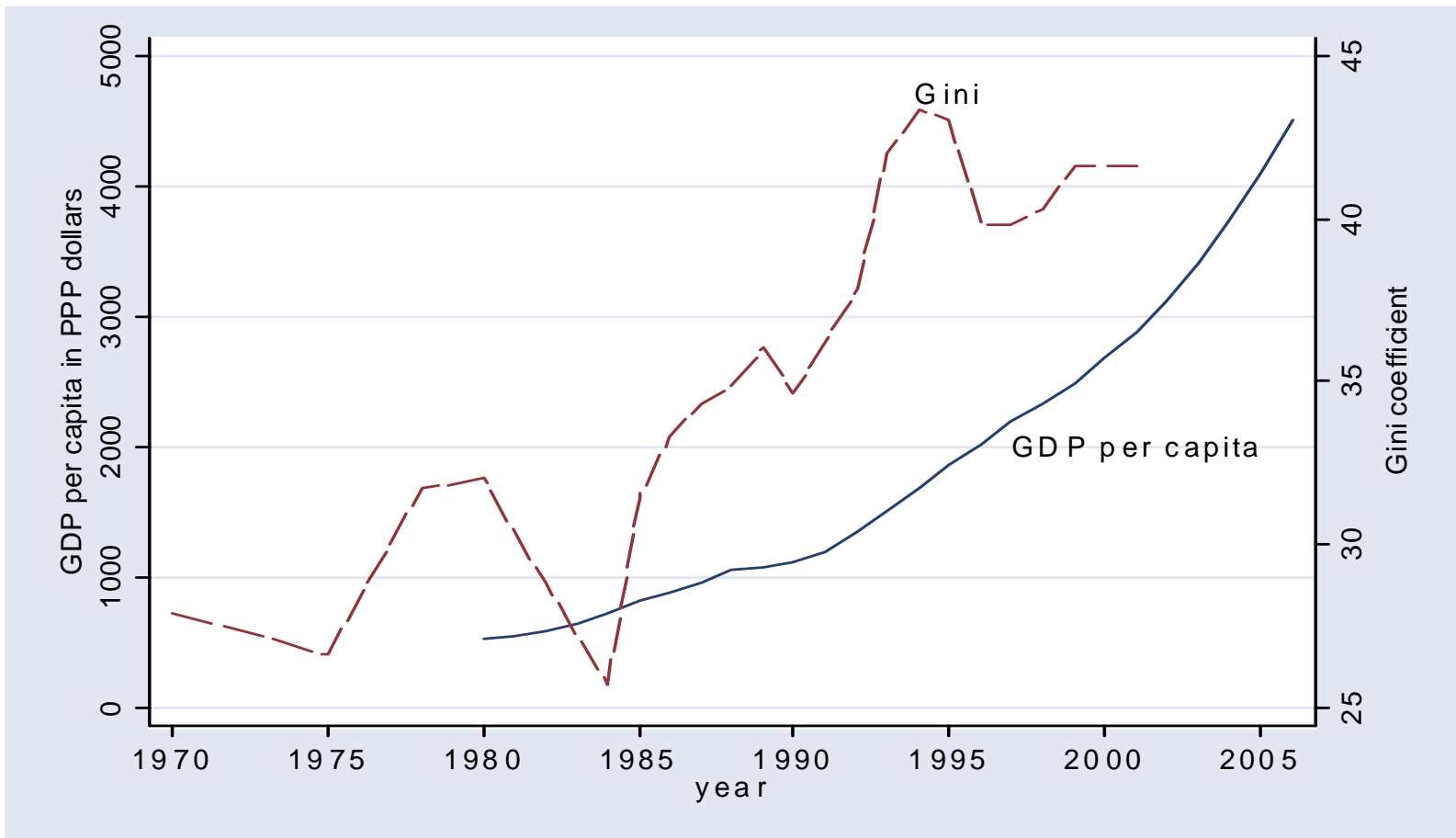
Output and Inequality dynamics: 26 transition economies, 1990-2006



Source: Courtesy of Branko Milanovic, from his Global Inequality Dataset.

## 2. Rising inequality during transition.

Output and inequality dynamics: China, 1970-2005



Source: Courtesy of Branko Milanovic, from his Global Inequality Dataset.

## 2. Rising inequality during transition.

- But by no means everywhere as fast...
  - Czech Republic
  - Slovakia
  - Vietnam
- Are examples of (very different) countries that have achieved growth with limited rises in income or consumption inequality.
- Their experience might warrant further scrutiny by the Cubans.

### 3. Some causes of rising inequality.

- Permanent (new steady-state)

#### 1. Privatization

- Changes wealth distribution
  - Capture of assets by new/old “oligarchs”
- Changes occupational choices
  - Access to new opportunities unevenly distributed
- Changes prevailing public sector wages
  - Even if privatization is ‘egalitarian’, it may lead to wage losses for those who remain in public sector (as employer of last resort).

Source: Ferreira (1999): “Economic transition and the distributions of income and wealth”, *Economics of Transition* 7 (2): 377-410.

### 3. Some causes of rising inequality.

- Permanent (new steady-state)

#### 2. Wage decomposition

$$\log y_{it} = \beta_t \log s_{it} + \log \theta_{it}$$

$$y_{it} \sim LN\left(\beta_t \mu_s, \beta_t^2 \sigma_s^2 + \sigma_{\theta t}^2\right)$$

- Allowing for greater returns to skills may be OK  
(particularly if access to quality education is universal)
- Greater risk needs greater risk management.

Source: Ferreira (1999): “Economic transition and the distributions of income and wealth”,  
*Economics of Transition* 7 (2): 377-410.

### 3. Some causes of rising inequality.

- Permanent (new steady-state)

#### 3. Development of new markets in previously purely publicly-provided (private) goods

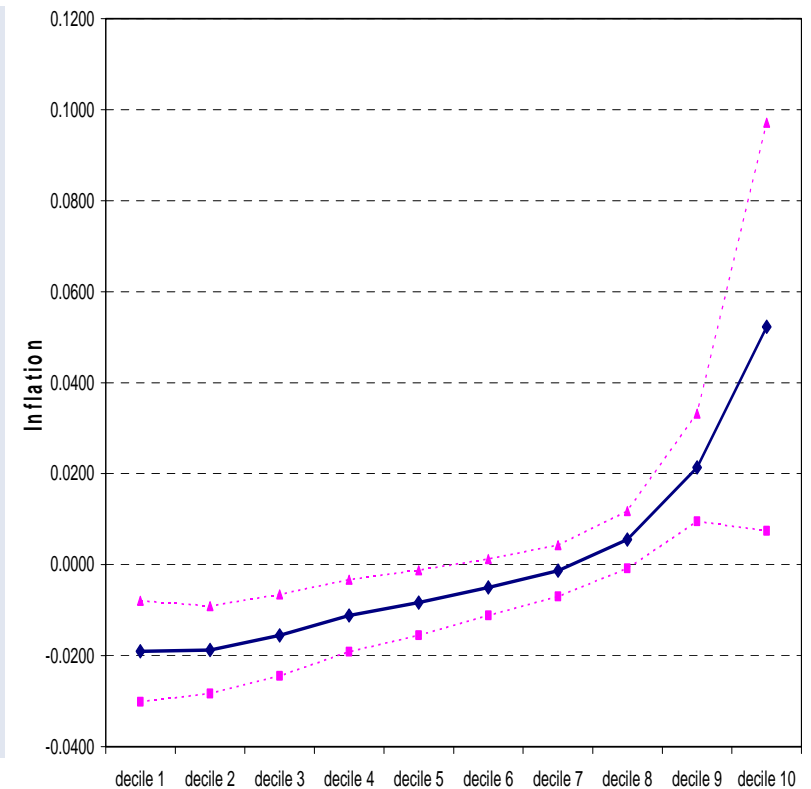
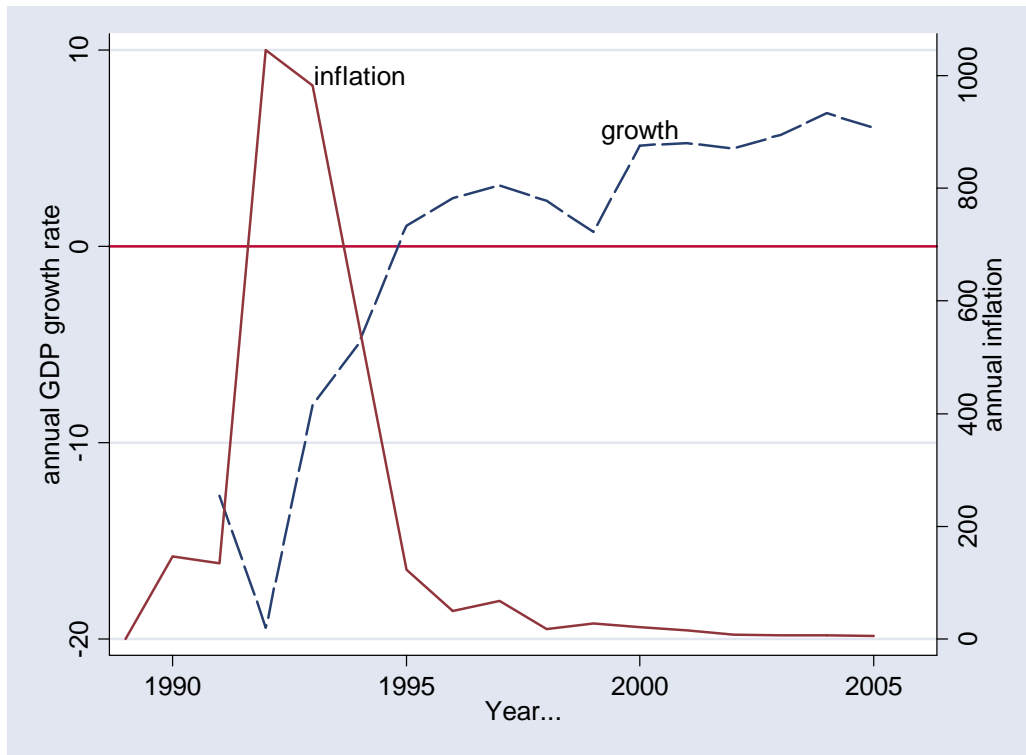
- Education
- Health care
- Infrastructure
- Transport and communications

Richer agents are better able to top-up public provision, thus raising expected returns to their investment projects. Unequal opportunities ensue.

Source: Ferreira (1999): "Economic transition and the distributions of income and wealth", *Economics of Transition* 7 (2): 377-410.

### 3. Some causes of rising inequality.

- Temporary: Inflation



Source: Milanovic and Ersado (2008): "Reform and inequality during the transition: An analysis using panel household survey data, 1990-2005", World Bank.

Table 2. Explaining decile shares in transition countries (with individual EBRD indexes)

	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Tenth
Growth	-0.332 (3.50)**	-0.133 (1.63)	-0.068 (0.89)	-0.047 (0.69)	-0.039 (0.63)	-0.040 (0.75)	-0.006 (0.13)	0.034 (0.65)	0.185 (1.76)	0.446 (1.16)
Inflation	-0.021 (3.68)**	-0.021 (4.14)**	-0.018 (3.87)**	-0.014 (3.26)**	-0.012 (3.11)**	-0.009 (2.65)**	-0.004 (1.48)	0.004 (1.39)	0.025 (3.95)**	0.068 (2.91)**
Large scale privatization	-0.017 (1.15)	-0.022 (1.72)	-0.010 (0.82)	-0.004 (0.35)	0.002 (0.23)	0.002 (0.23)	0.002 (0.30)	0.012 (1.44)	0.039 (2.32)*	-0.004 (0.06)
Small scale privatization	0.036 (2.44)*	0.037 (2.94)**	0.033 (2.77)**	0.027 (2.56)*	0.021 (2.17)*	0.014 (1.71)	-0.002 (0.21)	-0.024 (2.96)**	-0.034 (2.08)*	-0.108 (1.82)
Governance and enterprise restructuring	-0.028 (1.38)	-0.021 (1.22)	-0.024 (1.52)	-0.022 (1.56)	-0.023 (1.82)	-0.023 (2.03)*	-0.017 (1.67)	-0.016 (1.42)	-0.010 (0.44)	0.183 (2.27)*
Prices liberalization	0.029 (1.69)	0.024 (1.60)	0.018 (1.27)	0.013 (1.06)	0.006 (0.52)	-0.000 (0.03)	-0.006 (0.70)	-0.009 (0.90)	-0.002 (0.10)	-0.073 (1.04)
Trade & foreign exchange liberalization	-0.017 (1.27)	-0.005 (0.43)	-0.002 (0.18)	-0.003 (0.33)	-0.004 (0.48)	-0.004 (0.51)	-0.006 (0.80)	-0.011 (1.50)	0.009 (0.62)	0.043 (0.78)
Competition policy	0.022 (1.31)	0.003 (0.23)	-0.003 (0.20)	0.002 (0.15)	0.009 (0.79)	0.019 (1.98)*	0.021 (2.50)*	0.013 (1.36)	-0.021 (1.12)	-0.065 (0.95)
Banking system liberalization	-0.015 (0.85)	-0.012 (0.81)	-0.013 (0.91)	-0.009 (0.74)	0.001 (0.06)	0.008 (0.86)	0.018 (2.01)*	0.030 (3.09)**	0.018 (0.91)	-0.025 (0.36)
Infrastructural reform	-0.039 (2.32)*	-0.044 (3.06)**	-0.045 (3.32)**	-0.034 (2.85)**	-0.034 (3.12)**	-0.030 (3.22)**	-0.020 (2.29)*	0.005 (0.58)	0.054 (2.91)**	0.187 (2.74)**
Capital market reform	-0.011 (0.70)	-0.012 (0.89)	-0.005 (0.38)	-0.004 (0.34)	-0.005 (0.50)	-0.005 (0.52)	-0.001 (0.12)	0.008 (0.97)	0.011 (0.67)	0.022 (0.35)
Exp_gdp	-0.001 (0.61)	-0.000 (0.24)	0.000 (0.44)	0.001 (0.93)	0.000 (0.74)	0.000 (0.10)	-0.000 (0.41)	0.000 (0.28)	0.002 (1.82)	-0.002 (0.67)
Polity2	0.008 (3.23)**	0.009 (4.08)**	0.008 (4.06)**	0.007 (3.70)**	0.006 (3.43)**	0.004 (2.98)**	0.002 (1.74)	-0.002 (1.41)	-0.006 (2.17)*	-0.037 (3.52)**

Source: Milanovic and Ersado (2008): “Reform and inequality during the transition: An analysis using panel household survey data, 1990-2005” , World Bank.

## 4. Policy implications (for Cuba?)

1. Prevent inflation.
2. Keep control of privatization process and avoid elite capture of assets and institutions.
  - Broadly speaking: maintain “rule of law”
3. Promote access to new opportunities in the private sector to the less privileged.
  - Reduce “bad” bureaucracy and red-tape.
  - Introduce “fair” regulation, credit, training, etc.
4. As state exits “private good” sectors, keep a strong presence in “public capital” sectors.
5. Replace SOE-based welfare programs with suitable safety nets targeted to the poor.