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?)
1. **What do we mean by “equity”?**

- Avoidance of extreme deprivation.

![Diagram showing the relationship between Endowments, Opportunities, Process, and Outcomes.](source: WDR 2006: Equity and Development)
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).

3. Some causes of rising inequality.

• Permanent (new steady-state)

2. Wage decompression

\[
\log y_{it} = \beta_t \log s_{it} + \log \theta_{it}
\]

\[
y_{it} \sim LN\left(\beta_t \mu_s, \beta_t^2 \sigma^2_s + \sigma^2_{\theta t}\right)
\]

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

Some causes of rising inequality.

- Permanent (new steady-state)

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.

3. Some causes of rising inequality.

- **Temporary: Inflation**

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

<table>
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<th>First</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
<th>Fifth</th>
<th>Sixth</th>
<th>Seventh</th>
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<td>(1.39)</td>
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<td>0.012</td>
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<td>(0.30)</td>
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<td>(1.74)</td>
<td>(1.41)</td>
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</tr>
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</table>

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.