What is in it for policy makers in LAC?

By Katia Vostroknutova, Lead Economist @LAC MTI
Recovery agenda in LAC

• Inequality, jobs
• Fiscal space
• Social unrest
• “Living another lost decade”

• Trade-offs are starker than in other MIC regions
• Social and fiscal closely connected
• No wonder:
  • EMDEs choose high speed/ fast impact
  • More “brown” than “green”

What is the greatest problem facing your country?
All LAC % Latinobarometro 2018

- Delinquency/Security
- Under/Unemployment
- Economy
- Politics
- Corruption
- Education
- Health
- Poverty
- Violence/Gangs
- Food Security
Inserting climate into the development agendas

• ...Means giving viable choices/calculated trade-offs (e.g. green tax externality)

• Need for a different strategy (from Paris to Mexico City)
  • LAC is a carbon sink. Role of small MICs in mitigation
  • The unfortunate history of “picking winners” in LAC – Must do better now
  • Lack of productivity is closely linked to distortions (e.g. Levy 2021, on social protection system)
  • High informality interferes with policy outcomes (e.g. vehicle/property taxes)

• The Post-COVID LAC Regional report “New ideas for a (green) recovery”
  • Puts fiscal constraints front and center
  • Cost/benefit analysis of policy options/packages
  • To deliver in 4 dimensions: growth, fiscal, equity, and green
Why these papers are great

• Climate and policy: Pigato-Rafaty-Kurle
  • Links between short-term objectives and long-term outcomes
  • Benchmarking/cross-country comparisons

• Revenue/jobs/growth nexus: Heine-Schoder
  • Acknowledging policymakers “walk the fine line” (and giving us tools!)
  • Costs/benefits of fiscal policies
  • Differentiated by fuel prices level, business cycle
  • Principles of successful recovery
  • Informality and upstream/downstream implementation

• Spending composition: Catalano-Forni
  • Developing/detailing all-of-economy models
  • Link to energy prices
  • Trade-off investment/spending: Helpful for adaptation policy costing
  • Focus on policy packages and joint policy impact
We look forward to more insights...

• ...To support “evidence-based arguments for GRID”
• Refocus on adaptation (in a more systematic way)
• Better macro models that include fiscal, sectors, climate, and distributional side
  • Informality
  • Feedback loops with specific sectors: energy, forest/land
  • Policy instruments: fiscal, labor market
• More tailoring to MICs issues and attention to policy trade-offs
  • Small MICs are “climate-takers”
• Deepening understanding of cost-benefits of specific policies
  • Climate impact of traditional policies
  • Fiscal/output/jobs impacts of “green” policies