

# Summary



*Vice Presidency of Sectors and Knowledge  
Institutional Capacity and Finance Sector Department  
Fiscal and Municipal Management Division  
Research Department*

## Fiscal Policy for Sustainable and More Equitable Growth in Latin America and the Caribbean

It is a well documented fact that, over the last several decades, Latin America and the Caribbean (LAC) has lagged behind most other regions, especially Asia, in its growth performance. Although the region recovered faster than most others (except Asia) from the global financial crisis of 2008-09, and is expected to outpace them in 2010-11, a number of concerns—particularly those related to overheating risks—persist in regard to the sustainability of recent performance. It is also widely recognized that, despite significant progress in reducing poverty and inequality over the last ten or so years, LAC remains on average the most unequal region in the world. There is growing theoretical and empirical evidence that high inequality also contributes to mediocre growth performance.

In addition, there is widespread recognition in the region that shortcomings in fiscal policies have contributed to its sub-par growth performance. The literature has focused much attention on the impact of fiscal policy on short-term output fluctuations (its stabilization function), but less on how fiscal policy affects the long-term growth rate. This policy-oriented research project will provide a basis for the formulation of country-specific fiscal policy reforms aimed at promoting higher sustainable and equitable growth over the medium to long term in Latin America and the Caribbean.

The IDB is inviting research institutions to submit policy-oriented research proposals that aim to shed light on the effects of selected fiscal policies on growth in Latin America and the Caribbean and to recommend feasible and effective growth-enhancing fiscal reforms. The proposals may cover one or more countries of the region. They should clearly justify the choice of fiscal policies to be assessed (tax or expenditure policies, or of fiscal institutions, such as fiscal rules, intergovernmental fiscal relations, stabilization funds for non-renewable commodity producers) and how they are related to obstacles to medium and long-term growth. That choice may be motivated by the identification of those policies in previous analytical work as key roadblocks to growth, and/or by their central role in the current policy debate in the country/countries under consideration.

Section I of this call for research proposals provides a brief motivation for the project. Section II provides an overview of the literature on fiscal policy and growth. Section III describes the specific objectives and requirements of the project. Sections IV through VI provide details on administrative arrangements for the project. An appendix on the determinants of growth and a comprehensive bibliography are also provided as references.

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