

**How much poverty is there in the Americas?
Knowing is essential to designing poverty
alleviation programs. But we still don't
have a precise answer.**

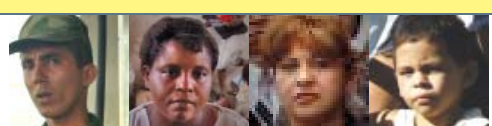
COUNTING



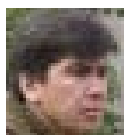
by Sanjay G. Reddy

THE POOR

Historically, especially in Latin America, more effort has gone into assessing the extent of “income poverty” whether individuals possess sufficient income to live a minimally adequate life, than into determining the extent of non-income deprivations such as access to water and sanitation, adequate educational opportunities and basic health care. Thanks to the rising influence of the “human development” perspective that emphasizes non-income achievements, greater attention has been given in recent years to such factors as health status, education, quality of shelter and access to clean water. However, whether or not people have adequate resources to achieve basic requirements continues to be a crucial factor in determining whether a person is poor. It is hard to imagine a practical approach to poverty assessment that could do without it altogether.



THE WORLD BANK'S MONEY-METRIC APPROACH



The most influential approach to income poverty assessment in the regional and global context is the “money metric” approach used by the World Bank. This approach, which employs the “one dollar per day” and the “two dollars per day” international poverty lines, converts these poverty lines into local currencies using “purchasing power parity” conversion factors. It then uses national household surveys to identify in each country the number of

104 to 121 million respectively. These figures compare unfavorably to the estimated rate of reduction of the proportion of poor persons in the world population as a whole, which dropped from 40.14 percent in 1981 to 18.09 percent in 2004 for the \$1-a-day poverty line, and from 66.96 percent in 1981 to 47.55 percent in 2004 for the \$ 2-a-day line.

The World Bank’s approach is superficially attractive. It is easy to grasp for most observers as it uses an apparently familiar standard. However, numerous problems with the method seriously undermine its value. Most importantly, the “money metric” poverty lines employed often fail to express the real costs of achieving the basic requirements of human beings.

In the base country used for the exercise (the United States), for example, even the higher \$2 per day poverty line fails to reflect the costs of meeting basic requirements of human beings, even if these are conceived in a rather conservative way. The “thrifty food plan,” painstakingly produced by the U.S. Department of Agriculture Center for Nutrition Policy and Promotion, estimates the cost per person in the United States of achieving basic

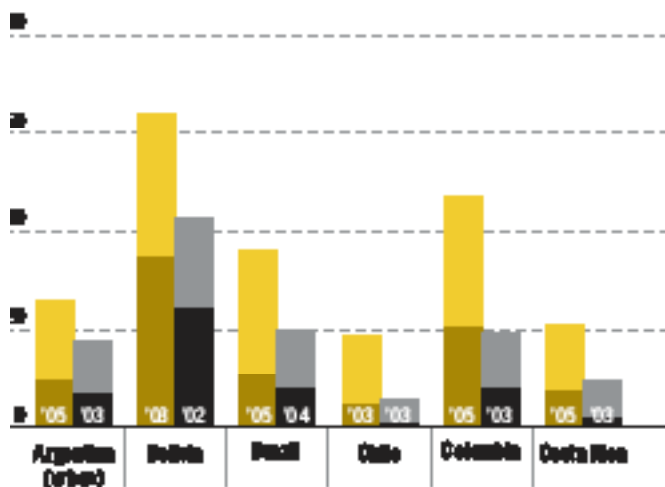
The “money metric” approach employed by the World Bank often fails to express the real cost of achieving the basic requirements.

persons whose local income is lower than the national poverty lines that have been deemed equivalent to the international poverty lines.

The World Bank’s estimates suggest there have been modest reductions in the proportion of Latin Americans living in poverty, while the absolute numbers have increased. The proportion of the population in Latin America and the Caribbean estimated to live beneath the one dollar per day poverty line in 2004, the latest year for which estimates were produced, was 8.64 percent (only slightly lower than its estimated 1981 level of 10.77 percent). The proportion estimated to live beneath the two dollar per day poverty line was 22.17 percent (somewhat lower than its estimated 1981 level of 28.45 percent). Nevertheless, according to the World Bank estimates, the absolute number of people estimated to be living in poverty in the region actually increased between 1981 and 2004 for both the \$1 per day and the \$2 per day poverty lines—from 39 million to 45 million, and from

Sanjay G. Reddy is an assistant professor at the Department of Economics, Barnard College and School of International and Public Affairs, Columbia University.

ECLAC AND THE WORLD BANK



nutritional requirements alone as being considerably higher than this level.

An equally serious problem is that the purchasing power parity exchange rates used to translate these poverty lines into local currency units are inappropriate. The cost of purchasing basic necessities such as food in poorer countries is often similar to that in rich countries as these goods are internationally tradable. However, the purchasing power parity conversion factors used convey the false impression that the cost of living is much lower in poorer countries because they give excessive weight to the fact that services based on labor are less expensive in such countries.

ECLAC'S NUTRITIONALLY-BASED APPROACH

There is an alternative approach. It reflects the pioneering efforts of the Economic Commission for Latin America and the Caribbean (ECLAC) to produce comparable estimates of poverty for countries in the region. While the poverty estimates produced

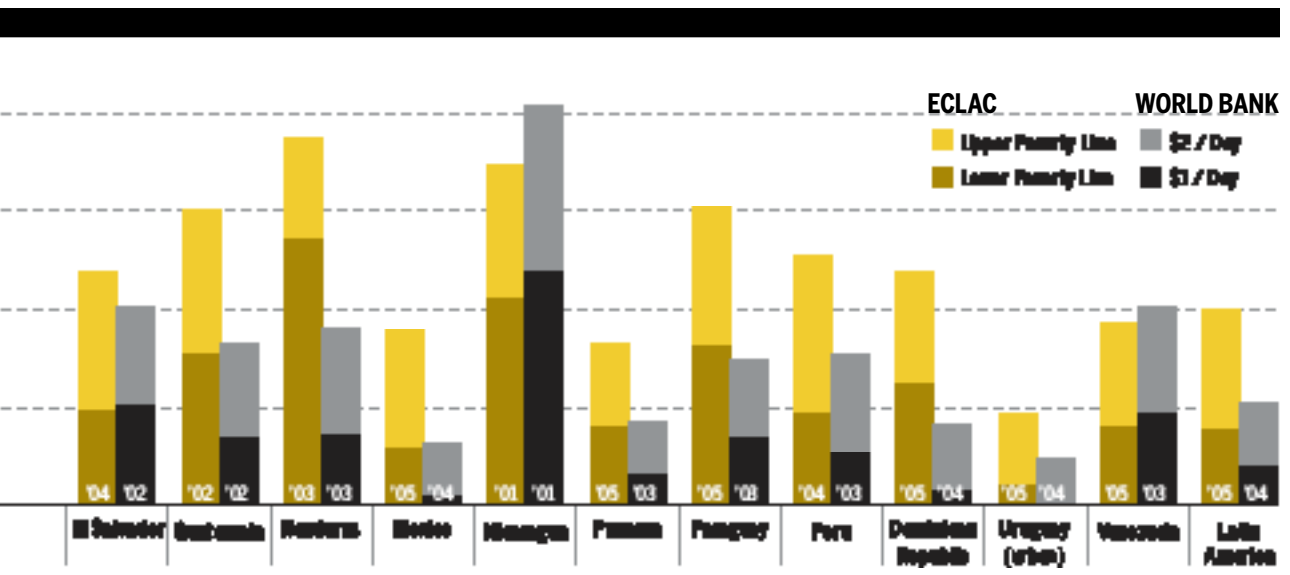


by ECLAC have shortcomings, they have the merit of being loosely based in nutritionally anchored poverty lines intended to capture the local cost of purchasing basic food-

stuffs and other essentials. They are therefore more clearly related to the real requirements of human beings than the poverty lines employed by the World Bank in its regional and global poverty estimates.

Significantly, [see TABLE 1] for both the lower poverty line (intended to capture “indigence” or “extreme poverty”) and the higher poverty line, the estimates of poverty produced by ECLAC are almost always much higher than those produced by the corresponding lower and higher poverty lines of the World Bank. Indeed, in some instances the proportion of persons estimated to be poor according to ECLAC’s lower poverty line is greater than the proportion estimated to be poor according to the World Bank’s higher poverty line.

The discrepancy between these two sets of estimates for Latin America raises concerns about the validity of the estimates of poverty produced by the World Bank for the world as





well as the region. The ECLAC estimates are better grounded in the real requirements of human beings. They show, interestingly, that the trend of poverty reduction in Latin America for countries for which data is available since 1990 (the year employed as the baseline for the first Millennium Development Goal of halving world poverty) is not very impressive—despite the notable economic growth during the same period.

THE CAPABILITY-BASED ALTERNATIVE

The ECLAC poverty estimates represented an advance when the methodology underlying them was first established in the late 1970s (by the distinguished Latin American economist Oscar Altimir). However, they can be improved upon a great deal. The approach adopted by Altimir constructs a poverty line for each country on the implicit assumption that all house-

requirements of human beings. It would, in principle, enable countries to improve the basis for calculating national poverty lines and simultaneously make the resulting poverty estimates more comparable across countries. Under this approach, national poverty lines would be established that reflect the local cost of achieving a specific set of universally specified elementary human capabilities (such as the ability to be adequately nourished, to live a long and healthy life, to have adequate shelter from the elements, and perhaps to appear in public without shame). In initial work with co-authors, I have shown that existing household surveys can be used to develop poverty comparisons, based on nutritional capabilities, between countries (specifically Nicaragua, Tanzania and Vietnam) in different regions. Such comparisons give rise to rather different conclusions than does the World Bank's approach. However, comprehensive exercises taking account all of the

relevant human capabilities have not yet been attempted. Initial efforts on these lines are being undertaken in certain developed countries (for example, in Canada, which has been developing a related measure of poverty, called the 'Market-based Measure').

This approach would give rise to comparable poverty estimates because the poverty lines defined would be grounded in common underlying concepts. Consider, for example, the ability to be adequately nourished. To assess whether a household has resources sufficient for its members to achieve this elementary capability, a poverty line appropriate to a specific household would reflect the local cost of purchasing commodities with a required nutritional content (which may be specified, for example, in terms of food energy and nutrient norms, and can be informed by the previous work of the World Health

Under this new approach, national poverty lines would be established to reflect the local cost of achieving a set of universally specified elementary human capabilities.

holds in a country have the same demographic composition as the nation as a whole. It also adopts an ad hoc approach to making allowance for non-food requirements, which results in substantively different allowances from country to country.

For these reasons, even the ECLAC poverty lines may not correspond to the real requirements of people. Developing a better approach to estimating to regional and global poverty is therefore still necessary.

Such an approach, which derives inspiration from the "capability" approach of Amartya Sen, would carefully construct poverty lines within individual countries so that they each reflect a shared underlying conception of the real (food and non-food)

requirements of human beings. It would, in principle, enable countries to improve the basis for calculating national poverty lines and simultaneously make the resulting poverty estimates more comparable across countries. Under this approach, national poverty lines would be established that reflect the local cost of achieving a specific set of universally specified elementary human capabilities (such as the ability to be adequately nourished, to live a long and healthy life, to have adequate shelter from the elements, and perhaps to appear in public without shame). In initial work with co-authors, I have shown that existing household surveys can be used to develop poverty comparisons, based on nutritional capabilities, between countries (specifically Nicaragua, Tanzania and Vietnam) in different regions. Such comparisons give rise to rather different conclusions than does the World Bank's approach. However, comprehensive exercises taking account all of the

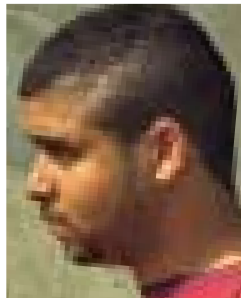




The ECLAC estimates show that the trend in poverty reduction in Latin America is not very impressive despite notable economic growth.




Organization and other agencies). While being locally relevant, such poverty lines would also—by their construction—have a common meaning (in terms of nutritional achievement) across space and time. Of course, to be convincing, an exercise of this kind must make allowance for a range of non-nutritional capabilities as well. There is reason to suspect that such an approach would lead to higher poverty estimates in a number of Latin American countries than are currently produced even by ECLAC, since its method has made rather modest allowance for non-nutritional requirements.



well not be reached by its target year of 2015. Indeed, the absolute number of poor persons in the world may even increase.

The relatively poor record of Latin America in poverty reduction in the last 25 years underlines the need for new efforts in the region. It cannot be assumed that economic growth will automatically ensure robust poverty reduction. Monitoring poverty credibly is merely a necessary condition for developing workable growth and anti-poverty strategies.

Much depends not only on the extent to which growth can be sustained in Latin America and other parts of the developing world, but on whether strong linkages can be created between economic growth and poverty reduction, in part through public action to ensure a broad distribution of productive assets and skills, high rates of returns to those assets and skills, and the presence of supportive social safety nets. Such efforts will involve nothing less than the democratizing of the market economy in Latin America. 

LATIN AMERICA'S RECORD

The deficiencies of current methods of measuring poverty in the region matter globally as well. Assessments of the effectiveness of worldwide anti-poverty efforts depend greatly on our judgments of the estimated extent and trend of poverty in Latin America and other key regions. Rapid poverty reduction in China is only sufficient to ensure world poverty reduction if the Chinese poor are assumed to constitute a large share of the world poor. If the number of poor people in Latin America, sub-Saharan Africa, and other regions of the world that have experienced sluggish poverty reduction (if they have experienced it at all) is larger than has generally been thought, then the estimated extent of world poverty reduction will be correspondingly smaller. An implication is that the first Millennium Development Goal may

REFERENCES

Chen, S. and M. Ravallion (2004), "How Have the World's Poorest Fared Since the Early 1980s?", *The World Bank Research Observer*, Vol. 19 No. 2, pp. 141-169.

ECLAC, *Social Panorama of Latin America, Economic Commission for Latin America and the Caribbean, Statistical Annexes (Spanish version)*, 269-270, 2003. URL: http://www.ECLAC.cl/publicaciones/SecretariaEjecutiva/8/lcg2068/Anexos_2000.pdf

ECLAC (2006), *The Cepal Statistical Yearbook For Latin America And The Caribbean, 2006*. [Available on http://www.cepal.cl/publicaciones/xml/4/28074/LCG2332B_1.pdf]

Reddy, S. and T. Pogge (forthcoming), "How Not to Count the Poor", in *Debates in the Measurement of Poverty*, ed. Stiglitz, J., Anand, S. and P. Segal, Oxford: Oxford University Press, available in working paper form at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=893159