Backgrounder: Poverty Reduction

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Poverty Trends and Measurements

More than 2.8 billion people, or around half the world's population, live below the international poverty line of US$2 a day. Of those, 1.2 billion people live in extreme poverty, surviving on less than $1 a day. Most of the poor are in Asia and Africa. The incidence of poverty is larger in women than men and higher in rural areas than in urban areas. Vulnerable groups such as the elderly, ethnic minorities, refugees or the disabled are much more affected by poverty. Since 1987, the incidence of poverty has decreased, and the proportion of people living below the dollar-a-day poverty line declined from 28% to 24% of the total population of developing countries. However, in absolute terms, poverty is not decreasing. Population growth remains high in developing countries, and many are born in poverty and destitution. Using World Bank's data, the number of poor people has actually increased since the late 1980s.

The definition and measurement of poverty is a highly political issue. Countries tend to hide the existence of large pockets of poverty as it makes them look underdeveloped and shows up public policy failures. Currently, different countries use different methodologies and are hard to compare - often they are based on the per capita expenditure necessary to attain 2000-2500 calories per day, plus a small allowance for non-food consumption. However, these measures do not adequately reflect other expenses necessary to cover basic needs - clothing, drinking water, housing, access to basic education and health, among others. This is the reason that United Nations institutions started using the one and two-dollar-a-day poverty lines; but these also have obvious flaws. If measurements based on a real minimum consumption basket were used, the number of people living in poverty would soar.

Many argue that poverty is not only income poverty. Poverty also has non-economic dimensions, like discrimination, exploitation, or fear. Other aspects should be considered, such as lack of control of resources, vulnerability to shocks, helplessness to violence and corruption, lack of voice in decision-making, powerlessness and social exclusion. As we expand the definition of poverty, the numbers of people affected by it increase.

Poverty should be distinguished from inequality. Inequality shows the distribution of income, consumption and other welfare indicators in society; as an aggregate, the richest 20% of the world has 89% of world income while the poorest 20% has only 1.2%. The comparison between what the rich and the poor possess raises serious questions on the adequacy of current development models (development for whom?) and generates feelings of injustice and political claims. This is why national estimates of inequality are even less reliable than those on poverty; income disparities are not at the core of national statistical data. The numbers given on inequality often seem unreliable (for instance, Egypt and Indonesia are "officially" more equal societies than Australia or France). United Nations institutions are working towards better monitoring of poverty and distribution data and by now there is conclusive evidence that inequality has been growing in the late decades of the 20th century.

Poverty Reduction in Historical Perspective

Poverty is not a new phenomenon. Many descriptions of Europe in the 19th century describe living and working conditions similar to those seen today in developing countries. Charles Dickens stories of children s misfortunes are analogous to the lives of many working children in contemporary Africa, Asia and Latin America. Friedrich Engels description of Manchester's river Irk industrial ghetto is similar to today s shanty-town scenes from Smoky Mountain in Manila or Nova Iguazu in Rio de Janeiro. What happened in developed countries, the progressive development of citizen rights and welfare, can also happen in developing countries.

Let's take the example of the US in the 1930s. After the 1929 crash and the Depression, poverty was widespread, people migrated with little more to sell than their own labor, mafias were powerful and citizens powerless - once again, a similar situation to today's developing countries. After years of hardship, unemployment and crisis, the Roosevelt Administration embarked on the New Deal, and tried to create a social safety net for the poor. It worked, although mobilizing the economy for World War II helped as well. The US entered a period of prosperity.

At the end of World War II, politicians from the advanced economies were determined that unemployment and economic crisis, which had provoked political crisis and resulted in Communism and Fascism, should never happen again. They accepted that full employment and macroeconomic stability should be the primary national policy objective, and the government got more involved in education, medical care, social and housing assistance, minimum retirement levels, unemployment insurance, employment policies, enforcement of labor laws and regulations. These programs were not new, they had been an essential part in the modernization programs of these wealthier societies at the early stages of their development. It worked again. Postwar policies allowed high productivity gains in the workforce, expanded domestic demand, and increased economic growth. The populations of Europe, Japan, North America, Australia and New Zealand experienced a prosperity unseen in history.

The lesson is that poverty can be reduced if governments are committed - and it can be reduced relatively quickly. However, Third World governments are rarely fully committed - poverty reduction is generally only one of many developmental objectives. A significant amount of developing countries are starved of capital, pressured by external debt, and have limited access to developed countries markets to export their products. Social development, such as education, has not been a priority; it been largely neglected, or at best addressed with inadequate resources. In many cases, public policy-making has been captured by some interest groups who benefit disproportionately from public policies, instead of ensuring development for the majority of the population. This is why the poverty reduction debate is highly politicized and ideological.

The Poverty, Inequality and Economic Growth Debate

Many argue that poverty reduction should not be a primary objective for developing countries and that economic growth should be the first priority. Eventually, the benefits of growth will "trickle down" to the poor. Further, academics like Simon Kuznets, the 1971 Nobel Prize laureate in economics, say inequality is necessary in the first stages of development of a country. These views are old but still influential in the development debate. Numerous governments today support what it has been called the "trickle down plus" approach (growth as a first priority, with some limited basic education, water supply and other social development projects).

From a development worker perspective, the debate appears rather sterile - a convenient way to postpone pro-poor policies. It seems obvious that poverty reduction needs economic growth to be sustainable. However, a fixation on growth rates is not enough, and during the last decades there have been significant cases of "jobless growth" where the trickle-down effect does not occur, or occurs only marginally. Different types of growth have different effects on employment; ideally, poverty reduction policies aim for the kind of rapid and stable growth which creates jobs. But fast growth can still be supported effective, even if it doesn t directly create jobs, because it can be adequately taxed to finance social development and stimulate the local economy. Thus the quality of growth matters.

Kuznets' theories have been widely contested. Evidence shows that highly unequal income distribution patterns are obstacles not only to poverty reduction but also to economic growth. By concentrating assets and wealth in the hands of few and maintaining high poverty levels, countries have limited domestic markets; in turn, low domestic demand depresses local enterprises, and keeps them from growing. Additionally, poor living conditions, and particularly malnutrition and poverty in children, damage health, cause death, reduce intelligence, and lower productivity and opportunities for future adults, a high tax to pay for a country. Equitable policies are an indispensable instrument for countries to raise productivity, maintain their international competitiveness, develop domestic markets and continued economic growth.

The **arguments for economic growth first** are:

- A country should save and invest in its first development stages; eventually, the benefits of growth will trickle down to the rest of society
- The rich save more; accordingly, if there are lower wages (higher inequality) there will be higher average savings, and thus faster growth
- Poverty and inequality keep the labor force cheap and thus encourage investment
- Attention should be given to limiting taxation on investors/higher income groups. This can limit available resources for poverty reduction or social development

The **arguments against economic growth first** are:

- Economic growth and poverty reduction should be promoted in parallel from early development stages, as part of the country's modernization strategy and the social contract between the government and citizens
- The quality of growth matters; macroeconomic variables are only aggregates, development requires more than GDP growth, emphasis has to be placed on the process of growth (i.e. employment, distributive aspects,

good governance, correcting market imperfections. ensuring stability instead of volatility) with parallel investments in social development

- The greater the inequality the less the trickle-down effect given that powerful groups would not let their privileges go; inequality fosters distorted development patterns such as dependency on cheap labor (the so-called "race to the bottom," pushing salaries down to the level of the poorest competing country)
- Egalitarian distribution patterns encourage domestic demand and thus growth; greater effective demand (consumption ratios) of the lower income groups generates a larger domestic market
- Raising the incomes of the poor increases productivity of the workforce

Poverty Reduction Policies at the Beginning of the 21st Century

Around three-quarters of the countries in the developing world have anti-poverty plans incorporated in their national planning. These, however, are often underbudgeted, have no target objectives or deadlines. In 1995, the international community set some specific targets at the World Summit for Social Development. These Millennium Development Goals (MDGs) were later endorsed by all countries at the United Nations 55th General Assembly (2000). They include halving hunger and extreme poverty by 2015, and improving a basic set of development indicators, such as achieving universal primary education, reducing infant mortality rates, improving maternal health, promoting gender equality and empowering women, combating HIV/AIDS and malaria, supporting environmental sustainability and consolidating development partnerships. The MDGs are ambitious but achievable provided governments' commitment. United Nations institutions, the OECD, bilateral donors and international NGOs, have all voiced support for the MDG targets.

In this context, the multilateral financial institutions (such as the World Bank, Asian Development Bank, AFDB, and InterAmerican Development Bank, with the support of the IMF) changed their operational objectives from economic growth to poverty reduction - at least rhetorically. That has been a very important change, full of controversy - the old "growth versus poverty" debate reemerged and remains active in almost all country policy dialogues. The following is a summary of an internationally agreed agenda for poverty reduction.

1. Diagnosing obstacles to poverty reduction and agreeing strategies to overcome them: The first stage consists of understanding why poverty exists in a particular country, agreeing on a poverty measure, reviewing the obstacles to reduce poverty. The Poverty Reduction Strategy Papers (PRSPs), or any other internationally agreed similar documents, are drafted in most developing countries to identify medium- and long-term targets for the country's poverty reduction strategy.

2. Priority policies for poverty reduction: Poverty reduction will not be achieved by charity-type safety nets alone. Poverty reduction requires structural changes at the economic, political and social levels. Taking into consideration different terminology used by different international institutions, the agreed priorities for poverty reduction could be summarized as follows:

(a) Promoting pro-poor growth: That means promoting quality, non-volatile growth that supports employment and well-being, with attention to distributive aspects and good governance. The private sector is seen as the engine of growth and employment; for the private sector to contribute to poverty reduction, an enabling environment and effective regulatory framework should be enforced to promote competition, enforce fair practices and standards, and ensure that essential goods and services are affordable and reach the poor. Public sector investment should focus on complementing the private sector and serving the poor. That means investing in agriculture instead of defense, rural electrification programs instead of big power plants, farm-to-market roads instead of major motorways.

(b) Extending opportunities for the poor by making it possible for them to build, buy or have access to housing, land, or farms; to loans for small businesses; and to training and education.

(c) Ensuring good governance by supporting efficient, accountable, transparent, and responsive public administrations, with a mandate and capacity for pro-poor interventions; ensuring legal systems that are equitable and accessible to the poor; enforcing law and order; building public management free of political distortions with decentralized mechanisms for broad-based participation in the delivery of public services and efforts to minimize the likelihood of these services being captured by local elites; promoting progressive tax systems and adequate allocations for social services; fighting nepotism and corruption.

(d) Empowering the poor and excluded groups by enhancing their capacity to influence the institutions that affect their lives and strengthening their participation in political and economic processes. Organizing the poor and excluded groups to fight for their rights was a critical factor in promoting social progress in developed countries - social development would have not happened without the fight of unions and civil rights groups. Empowerment and social mobilization are intrinsically linked to the broader agenda of good governance, transparency, and accountability of the government to its citizens.

(e) Investing in social development. All developing countries have developed social policies over the last decades, Ministries of Education, Health and Welfare exist in most countries; however, they have often failed to ensure social services to the poor. This lack of effectiveness is normally due to (i) limited coverage, serving only a portion of the population, more males than females, and often serving the wealthiest segments of society instead of the poor; and (ii) insufficient funds, incorrectly distributed among programs. Typical examples are national programs subsidizing universities instead of basic education, or large cardiology hospitals in the capital instead of health clinics in villages. Financing has been curtailed during the 1990s due to anti-inflationary austerity programs and debt crisis. Increasing investment in social development and reforming sectoral priorities to ensure servicing the poor are imperatives to achieve the Millenium Development Goals.

(f) Fighting Gender Disparities. The increasing feminization of poverty is now a well-recognized trend. The gender division of labor and responsibilities for household welfare translate in non-paid work and lack of opportunities; additionally, male migration in search of work has placed a large burden on women, especially those with several dependents that become women-headed households. Gender disparities frequently result in gender based inequality in access and control of resources and discrimination against women's basic rights, e.g. education, employment, inheritance, registration. To reduce poverty and to advance the status of half the world's population, support must be provided to the development of gender-sensitive policies and programs.

(g) Reducing vulnerability and risks to the poor. Measuring income poverty can provide a snapshot of poverty at one point, but poverty is not a static condition, many individuals and households with incomes near the poverty line face various risks that can plunge them into poverty. Risks may include covariant risks such as natural disasters; civil conflicts; economic downturns, financial crisis, or idiosyncratic household reversals, such as crop failures, unemployment, illness, work injury, disability, death, and old age, threatening the future of the household and its members. A combination of social insurance, safety nets, disaster prevention/mitigation programs, and emergency relief are essential to provide security to the poor and vulnerable groups.

3. Country ownership, policy dialogue and the political economy of reform: National administrations are usually not opposed to poverty reduction but find themselves in situations in which powerful ministries or vested interest groups fight for privileges and unjustified shares of the budget, collapsing resources for poverty reduction. A good stakeholder analysis of the winners and losers of reform may facilitate the process, by making the trade-offs transparent; public expenditure reviews are also useful tools to bring transparency and rationality to decision making. The international community can play a very positive role in promoting reforms by hosting open discussions with government and civil society groups, in the context of policy dialogue. A good country poverty reduction strategy is not sufficient, a participatory process is essential to ensure its implementation. Successful programs are normally those that are supported by the serious political commitment of the country's leadership, and agreed on by most significant groups in the country.

Things to Watch Out For - Distinguishing Between Rhetoric and Practice

- Where are budgetary allocations going? Is spending pro-poor? (applicable to government or any institution - i.e. ministry, international organization). Is spending centered on sustaining administrative structures, vested interests, or crowding out private sector?
- Are key sectoral programs (agriculture, infrastructure, education, health, pensions, etc) working to reduce poverty? Who benefits? What are the major obstacles to the poor to participate in economic activities and benefit from development?
- How are government revenues collected? Is a progressive tax system enforced?
- Are corruption and crime disrupting investment and civil activities? Do all citizens have equal access to justice, security and services? Is the government effectively fighting discriminatory practices against gender, caste,

race, or religious beliefs? Are communities organized and are aware of mechanisms to protect them from abuse?

- What have been the social impacts of recent economic policies? (impacts on labor and employment, impacts on prices of essential goods and services, impacts on gender and vulnerable populations)
- How is progress measured - How is the poverty line calculated and have there been any changes in the methodology?

Conclusion: Understanding Poverty on a Global Scale

The latest thinking on poverty reduction focuses on the need to understand poverty on a global scale.

Firstly, because poverty is re-emerging in developed economies, poverty is no longer a Third World phenomenon. Two decades of neoliberal policies have eroded the living conditions of citizens in the West. The end of the post-war boom in the 1970s made Organization for Economic Cooperation and Development (OECD) policy makers abandon Keynesian approaches and replace them with supply-side policies, under the correct assumption that growth would be helped if companies sharpened their competitive edge. But global demand continued stagnating leading to a squeeze of corporate profits, shakeout of labor, slow down of growth of fixed investment and thus a decrease in demand for capital. This generated pressure on lowering wages and eventually made the welfare state unsustainable (at current contribution levels), given it was not designed for such numbers of unemployed and elderly people. Gross public sector debt became as high as 70% of national income in OECD countries, and this made policy-makers to further curtail social expenditures and privatize social services. Paradoxically, most of these savings went to support private sector companies in the public effort to generate growth (tax breaks, incentives, bailouts, etc), so the average citizen has experienced a significant decrease in welfare, while growth has remained low, unemployment and public debt high, because this neoliberal short-term policies do not address the long-term structural causes of the problem: overproduction and global excess capacity in a context of weak effective demand. In the meantime, until a global solution maybe agreed, poverty and unemployment continue to increase in OECD countries.

Secondly, it is necessary to think globally because some of the causes of poverty in developing countries are due to international policies that governments cannot influence (for instance, lack of access to developed countries markets). Reducing poverty will require a concerted international effort. Additionally, developing countries were forced to adopt the same orthodox model applied to developed economies - the so-called "Washington Consensus" polices (structural adjustments, reducing controls on capital and trade, curving public expenditures, privatization). This led to maintaining or deepening social deprivation, instead of investing in human capital as part of national development strategies, to the point that the 1980s-2000s have been called "the lost decades".

The new century starts with profound changes. Globalization is shifting trade, investment and technology, changing values; it is also generating economic interdependence and vulnerability to economic shocks and downturns. If no social policies are in place, countries may experience mounting unemployment, poverty, marginalization and political conflict, given that populations pay the short-term costs of crisis. For globalization to be accepted, it will require better management, a "New Deal" for both developed and developing countries, in which the benefits of globalization are shared by all - instead of few. Further, the reduction of poverty at a global scale will likely boost global demand and productivity. Thus the reduction of poverty may not only alleviate human suffering, a goal in itself, but also have a primary role to sustain growth and well-functioning markets.