

Are Estimates of Poverty in Latin America Reliable?

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What is the level of income poverty in Latin America and has it been decreasing? Are current estimates reliable?

The most influential approach to gauging income poverty regionally as well as globally uses the World Bank's international poverty lines of 'one-dollar-a-day' and 'two-dollars-a-day' per person. The Bank uses 'purchasing power parity' (PPP) factors to translate these international lines into local currencies.

The Bank's estimates for Latin America suggest that 8.6 per cent of the region's population was in extreme poverty (living on less than one dollar a day) in 2004 while 22.2 per cent was in poverty (living on less than two dollars a day) (see Table). By comparison, extreme poverty affected 10.8 per cent of the region's population in 1981 and poverty affected 28.5 per cent.

The pace of poverty reduction in Latin America was thus slow—slower than in the entire world. The global percentage of the poor fell from 67 per cent in 1981 to 48 per cent in 2004, with extreme poverty falling from 40 per cent to 18 per cent.

Unfortunately, the Bank's method has serious problems. The most basic is the arbitrary nature of its approach to identifying the poor. In the United States, the reference country for setting the Bank's international poverty lines, even two-dollars-a-day does not reflect the real costs of meeting the basic requirements of a human being.

The 'thrifty food plan' of the U.S. Department of Agriculture estimates the costs just for food at a much higher level than \$2 a day per person. PPP adjustments also distort the results since the costs of food items (which are internationally traded) are much higher in developing countries than this method (which gives great weight to the low cost of services there) suggests.

Thankfully, there is an alternative to the Bank's approach, i.e., the poverty estimates of the Economic Commission for Latin America and the Caribbean (ECLAC). While it has its own deficiencies, ECLAC's approach tries, at least, to use nutritionally anchored poverty lines that capture better the local cost of purchasing basic foodstuffs. It thus better captures the real requirements of human beings.

ECLAC poverty estimates for Latin America are invariably higher than those of the Bank. In 2005, the former suggest that almost

Share of the Population in Latin America in Extreme and Overall Poverty

World Bank Estimates	1981	2004
\$1 a day line	10.8	8.6
\$2 a day line	28.5	22.2
ECLAC Estimates	1990	2005
Lower Poverty Line	18.0	15.4
Upper Poverty Line	41.0	39.8

Source: Reddy and Pogge.

40 per cent of the population was poor (compared to about 22 per cent in 2004 for the Bank) and about 15 per cent was extremely poor (compared to 8.6 per cent for the Bank).

Unfortunately, the ECLAC method has its own flaws. It assumes, for instance, that all households have the same demographic composition. And it estimates non-food requirements in an *ad hoc* manner so that allowances for such requirements vary widely among countries. A third approach (Reddy and Pogge, forthcoming) seeks to improve on the ECLAC method.

This alternative approach would carefully construct poverty lines within each country based on a common underlying conception of the real requirements of human beings. This means that each national poverty line would reflect the local cost requirements of achieving a specific set of universal basic human capabilities. However, the resulting estimates would be comparable because the capabilities would be defined globally.

An example is provided by the ability to be adequately nourished. In this case, the poverty line would reflect the local cost of purchasing commodities with a certain nutritional content. While being locally relevant, such a poverty line would also have a common meaning across space and time.

Thus, it would be possible—especially in contrast to the World Bank method—to conduct meaningful and consistent inter-country comparisons. Such an approach eliminates the need for PPPs, which are invariably arbitrary. Rather, it strengthens and coordinates national poverty estimates, by applying a common and well-grounded conception of poverty in all countries.

Reference:

Sanjay G. Reddy and Thomas Pogge (forthcoming). 'How Not to Count the Poor', in J. Stiglitz, S. Anand and P. Segal (eds.) *Debates in the Measurement of Poverty*, Oxford: Oxford University Press. Available at <http://papers.ssrn.com/sol3/papers.cfm?abstract_id=893159>.