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# LATIN AMERICA: Austerity may risk poverty progress

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## Abstract

Poverty and income inequality.

On January 26, the UN Economic Commission for Latin America and the Caribbean (ECLAC) released its latest annual report on poverty and income distribution. In a mixed picture marked by important differences between countries, it found that progress in reducing total poverty has stalled, and extreme poverty has increased slightly. However, income inequality appears to be continuing to diminish, although more slowly than before the 2008-09 crisis.

## Full text

SUBJECT:Poverty and income inequality.

SIGNIFICANCE:On January 26, the UN Economic Commission for Latin America and the Caribbean (ECLAC) released its latest annual report on poverty and income distribution. In a mixed picture marked by important differences between countries, it found that progress in reducing total poverty has stalled, and extreme poverty has increased slightly. However, income inequality appears to be continuing to diminish, although more slowly than before the 2008-09 crisis.

ANALYSIS: Impacts.

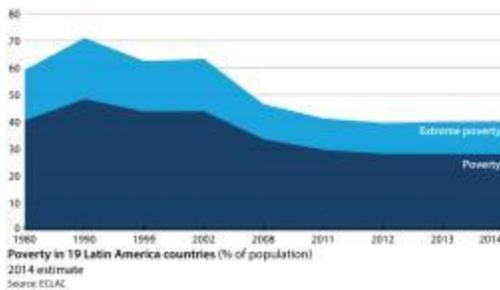
Since 2011, government social spending again appears to have become pro-cyclical, hampering progress on poverty.

The gender gap remains the largest stumbling block to reducing poverty and inequality.

In the poorest countries, there are not only more poor people but they also suffer more types of deprivation.

In its Social Panorama of Latin America 2014, ECLAC estimates that, after dropping sharply in 2002-12, Latin America's poverty rate has since held steady at around 28% (equivalent to some 167 million people) while extreme poverty crept up from 11.3% in 2012 to 11.7% in 2013 and an estimated 12.0% last year (approximately 71 million people).

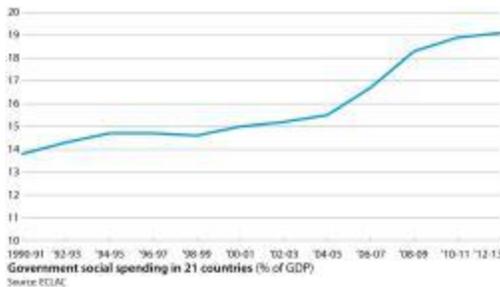
Given demographic growth, this means there are now more poor Latin Americans than in 2012 (although fewer than in 2011) (see LATIN AMERICA: Poverty progress leaves many vulnerable - September 10, 2014).



ECLAC attributes this disappointing performance to the deceleration of the region's GDP growth, which dropped from 4.2% in 2011 to 2.6% and 2.7% in 2012 and 2013, respectively, and an estimated 1.1% last year (see LATIN AMERICA: Tepid recovery on the cards for 2015 - December 3, 2014).

Partly as a result of this downturn and tighter fiscal accounts, the growth of government social spending has also decelerated since the 2008-09 crisis and, in 2010-13, held steady at around 19% of GDP.

Country variations.



Within this overall picture, the report -- based on government household surveys -- found significant differences between individual countries:

In six of the twelve countries where information for 2013 is available, total poverty dropped markedly compared to the previous year. They included countries where poverty is high -- led by Paraguay, with a drop from 49.6% in 2012 to 40.7% in 2013, and El Salvador (45.3% to 40.9%) -- but also, at the other

end of the poverty scale, Chile. At 11.0% in 2012, its poverty rate was the region's third lowest after Argentina (4.3%) and Uruguay (6.1%) but, in 2013, it achieved a reduction to 7.8%. (Argentine poverty rates are disputed as they are based on government inflation and price data widely regarded as implausible ( see ARGENTINA: Poverty woes may scupper transparency moves - May 9, 2014).)

Another five countries also saw reductions, albeit more modest. They included Brazil (18.6% to 18.0%) and Uruguay (6.1% to 5.7%).

Poverty rose in only one country, Venezuela. Here, an increase from 25.4% in 2012 to 32.1% in 2013 undid much of the reduction it had previously achieved from 37.1% in 2005.

In most of these twelve countries, extreme poverty also dropped, in some cases such as Paraguay significantly. The key exception was Brazil where the 0.6 percentage point drop in total poverty was almost matched by a 0.5 percentage increase in extreme poverty to 5.9%.

Income inequality.

Despite the stalling of poverty reduction, progress continued on income inequality, with improvements in 14 of the 15 countries with updated information (the exception was Costa Rica):

Gini index.

Between 2002 and 2013, the average Gini index for these 15 countries dropped from 0.542 to 0.486, with the largest falls in Bolivia, Uruguay and Argentina (urban areas only in the latter two cases). However, in several countries, including Venezuela, Ecuador and Paraguay, the improvement slowed in 2008-13 as compared to 2002-08.

Distribution by quintile .

In 2008-13, the average share of the richest one-fifth of the population dropped from 48.4% to 46.7% while that of the poorest fifth increased from 5.2% to 5.6%. The reduction in the share of the richest fifth was largest in Uruguay, Brazil and Argentina; the increase in the share of the poorest fifth was largest in Uruguay and Argentina. In Paraguay, the share of the richest fifth showed a small increase and that of the poorest fifth a small decrease, suggesting that it was economic growth rather than redistribution that explained its success in reducing poverty.

Gender, poverty and income inequality.

The report highlights how gender gaps in the labour market are hampering the region's progress in reducing both poverty and income inequality:

Labour market insertion. Despite a gradual increase in women's workforce participation, the average employment rate for women in Latin America and the Caribbean was only 65% that for men in 2012 (see LATIN AMERICA: Female employment gains salience - October 1, 2013). According to ECLAC, closing this gap would reduce poverty measured as per capita household income in all countries (by between 12 percentage points in El Salvador and Nicaragua and 1 percentage point in Argentina). Similarly, it would improve the Gini index in all countries, when expressed as a percentage, by 1-4 percentage points.

Earnings. Similarly, ECLAC estimates that equal pay for equal work would reduce countries' poverty rates by up to 14 percentage points (Bolivia) and the Gini index by up to eight points (also in Bolivia).

Multi-dimensional poverty.

As well as income poverty, the report includes a measurement that takes into account deprivation across five areas: housing; basic services; education; employment and social protection; and standard of living, with the latter including possession of durable goods as well as monetary income ( see LATIN AMERICA: Education ills threaten social progress - April 29, 2014; and see LATIN AMERICA: Middle class expands, but not equality - November 21, 2012). As a regional average, this multi-dimensional poverty indicator dropped from 39% in 2005 to 28% in 2012, with reductions in all 17 countries studied, led by Bolivia, Peru and Argentina.

In 2012, the highest multi-dimensional poverty rates were found in Nicaragua (74.1%), Honduras (70.5%) and Guatemala (70.3%) -- also the countries with the highest income poverty rates -- followed at some distance by Bolivia (58.0%). The lowest rates were in Chile (6.8%), Argentina (8.1%) and Uruguay (9.0%).

Considering the regional average, monetary poverty was contributed most to multi-dimensional poverty (28%) in 2012, followed by lack of education (12%). The contribution of monetary poverty, however, tended to be larger in those countries with lower total poverty rates -- and, in Chile, reached 41% -- whereas in countries with the highest poverty rates, it was makeshift housing, insufficient electricity and lack of durable goods that made the largest contributions.

CONCLUSION: In 2015, the region's economies are forecast to grow, but, according to ECLAC, by only

2.2%. Due partly to lower commodity prices, fiscal accounts are also likely to weaken. This suggests that the region's governments will have to focus on the effectiveness of public policies that promise the greatest gains, such as women's incorporation into the labour market, if they are to achieve progress on poverty.

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## Details

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