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LATIN AMERICA: Poverty progress leaves many vulnerable

OxResearch Daily Brief Service. (Sep 10, 2014).



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Abstract

The risks of a new rise in poverty.

Figures released by the UN Development Programme (UNDP) on August 26 show that, thanks to economic growth and redistributive policies, the poverty rate in Latin America and the Caribbean (LAC) dropped by almost 40% between 2000 and 2012. However, many of the 56 million people who escaped poverty have not achieved the stability of membership of the middle class and instead form part of an intermediate group which, faced with adverse events, can easily slip back into poverty.

Full text

SUBJECT:The risks of a new rise in poverty.

SIGNIFICANCE:Figures released by the UN Development Programme (UNDP) on August 26 show that, thanks to economic growth and redistributive policies, the poverty rate in Latin America and the Caribbean (LAC) dropped by almost 40% between 2000 and 2012. However, many of the 56 million people who escaped poverty have not achieved the stability of membership of the middle class and instead form part of an intermediate group which, faced with adverse events, can easily slip back into poverty.

ANALYSIS: Impacts.

Public demand for improvements in social protection policies is increasingly vociferous.

Persistent income inequality increases vulnerability and represents a driver of protest and potential instability.

Vulnerability has increased even as poverty has dropped in some countries, including the two largest economies, Brazil and Mexico.

The new figures provide greater details of the information contained in the UNDP's 2014 Human Development Report, *Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience*, released in late July. As on other aspects of human development in LAC, including inequality, they show uneven progress (see LATIN AMERICA: Middle class expands, but not equality - November 21, 2012):

In 18 countries with a population of some 528 million (equivalent to 90% of the total LAC population), the number of people living below the poverty line (4 dollars/day adjusted for purchasing power parity) dropped by 56.3 million in 2000-12, reducing the poverty rate from 41.7% to 25.3%.

According to the UNDP, economic growth was the key factor in this reduction, although 38.3% can also be attributed to redistribution (ranging from 100% in Nicaragua and over 80% in Mexico and El Salvador to 0% in Colombia and Costa Rica).

Over the same period, the middle class (10-50 dollars/day) increased by 81.6 million people to 34.3% of the population, up from 21.9% in 2000, swelled by people from both the poor and vulnerable (4-10 dollars/day) segments of the population.

However, the vulnerable segment is now the largest in the region, accounting for 199.7 million people (37.8% of the population), up from 156.5 million people (34.4%) in 2000. When economic growth slows -- as is currently occurring in LAC (see LATIN AMERICA: Gloom deepens as ECLAC cuts outlook - August 11, 2014 and see LATIN AMERICA: Slow growth hits poverty reduction - December 11, 2013) -- or, for example, as a result of a family illness or a natural disaster, this group can readily fall back into poverty, due to factors that include informal employment, lack of health insurance and limited pension rights.

Performance by country.

The performance of LAC countries on poverty, vulnerability and growth of the middle class varies widely even within sub-regions:

Lower poverty, lower vulnerability .

Countries in which a reduction of poverty was accompanied by a reduction in vulnerability included Argentina where, according to the UNDP, poverty dropped by 14.2 points in 2000-12 to 10.8% of the population and vulnerability by 4.0 points to 31.4%.

Similarly, in Chile -- the country which, according to the UNDP, has the region's highest level of human development -- a reduction in poverty from 23.0% in 2000 to 9.9% in 2012 was accompanied by an (albeit small) reduction in vulnerability from 40.9% to 40.5%. At 44.0% of the population, Chile's middle class is the largest in LAC after Uruguay (60.2%) and Argentina (54.4%).

However, the UNDP highlights Peru as the most successful country in raising poor people into the middle class, rather than vulnerability. A drop of 26.3 points in its poverty rate to 24.2% -- of which 71.6% was attributed to economic growth and 28.4% to redistribution -- well exceeded the LAC average.

Although its vulnerable population increased by 6.2 points to 40.0%, the growth of its middle class was the largest in the region, swelling from just 15.2% of the population in 2000 (well below the LAC average of 21.9%) to 34.3% in 2012 (when it equalled the regional average).

Lower poverty, higher vulnerability .

Bolivia achieved the region's largest poverty reduction of 32.2 points to 26.1% but, at 16.9 points, the increase in its vulnerable population to 44.6% in 2012 was the largest in the region, giving it the second largest vulnerable segment after Venezuela (47.7%).

Similarly, in Brazil, Mexico and Colombia, vulnerability increased as poverty dropped. In Mexico, an 8.8-point reduction in poverty was accompanied by a 5.4-point increase in vulnerability while Brazil achieved an 18.6 point reduction in poverty with a 5.0-point increase in vulnerability.

Development of middle class .

In most countries, even those where vulnerability increased, the middle class continued to grow. However, there were four exceptions:

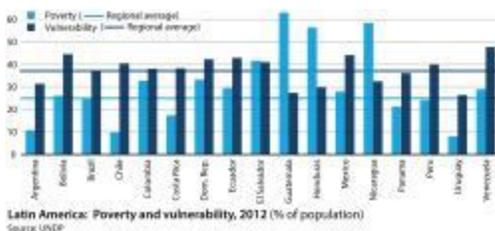
El Salvador, with a 1.8-point drop to 16.8% of the population;

Guatemala (3.3 points to 9.0%);

Honduras (0.2 points to 12.8%); and

the Dominican Republic (3.7 points to 23.2%).

In the latter three countries, poverty also increased in 2000-12.



Overall human development performance.

In the UNDP's Human Development Index (HDI) which, besides poverty, includes factors such as income distribution and educational and health standards, LAC also showed a mixed performance.

Compared to other developing regions, it had the highest HDI, with 0.740 points (on a scale of 0 to 1) as compared, for example, to East Asia and the Pacific with 0.703 points. This reflected factors such as higher life expectancy, years of schooling and per capita income.

However, its progress has slowed and, although this is a phenomenon common to other regions, LAC's average gain in 2008-13 as compared to 1990-2000 approximately halved, a larger drop than in any other regions except the Arab States. The report attributes this partly to the 2008-09 international economic crisis and its impact on the region's mostly commodity-exporting economies.

Similarly, despite achieving the largest drop in inequality, due partly to the expansion of education and transfers to the poor, LAC remained the most unequal in terms of income distribution (see LATIN AMERICA: Poverty moves fail to tackle inequality - September 29, 2010). This factor alone reduced the region's HDI in 2013 by 36% as compared, for example, to 28% for sub-Saharan Africa.

CONCLUSION: In addition to the transfers traditionally used to address poverty and still required in LAC, the emergence of this vulnerable segment of the population as the largest in the region calls for efforts substantially to increase the reach and strength of social protection policies in areas such as healthcare, unemployment insurance and pensions. This will put important pressure on fiscal resources at a time of slowing growth and on governments' ability to design well-targeted and effective policies.

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Details

Subject	Economic conditions; Social conditions & trends; Education; Employment; Fiscal policy; Economic growth; Public policy; Poverty; Wages & salaries
Location	Latin America, Caribbean area, Argentina, Brazil, Central America, Chile, Colombia, Mexico, Peru, Uruguay, Venezuela
Company	United Nations, UN
Classification	9173: Latin America 1110: Economic conditions & forecasts 1220: Social trends & culture
Identifier / keyword	Latin America, Caribbean area, Argentina, Brazil, Central America, Chile, Colombia, Mexico, Peru, Uruguay, Venezuela, Economic conditions, Social conditions & trends, Education, Employment, Fiscal policy, Economic growth, Public policy, Poverty, Wages & salaries
Title	LATIN AMERICA: Poverty progress leaves many vulnerable
Publication title	OxResearch Daily Brief Service
Pages	n/a
Publication year	2014
Publication date	Sep 10, 2014
Year	2014
Publisher	Oxford Analytica Ltd

Place of publication	Oxford
Country of publication	United Kingdom
Publication subject	Business And Economics
Source type	Reports
Language of publication	English
Document type	News
ProQuest document ID	1561078148
Document URL	http://libproxy.nps.edu/login?url=http://search.proquest.com/docview/1561078148?accountid=12702
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Last updated	2015-01-26
Database	ProQuest Central

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