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document 1 of 1

LATIN AMERICA: Poverty, inequality progress slowing

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Abstract

On November 27, the UN Economic Commission for Latin America and the Caribbean (ECLAC) released its Social Panorama of Latin America 2012.

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Full text

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SIGNIFICANCE: According to ECLAC, poverty has continued to decline this year, albeit more slowly than in 2011, while figures for 2011 suggest that progress on reducing the region's highly unequal income distribution has also slowed.

ANALYSIS: Impacts.

The decline in the number of poor and extremely poor is slowing.

Self-employment is highest among the extremely poor, increasing their vulnerability to economic slowdown.

Inequality remains a key issue; in some countries, such as Brazil and Chile, the richest 10% receive close to 40% of national income.

In its latest report, ECLAC estimates that the poverty rate in Latin America and the Caribbean (LAC) has dropped to 28.8% this year, from 29.4% in 2011 and 31.0% in 2010 (see LATIN AMERICA: Poverty fight faces structural barriers - December 5, 2011). This reduction, despite a deceleration of regional growth to an estimated 3.2%, from 4.3% last year, mainly reflects strong labour markets. ECLAC estimates that, in 2012, regional unemployment has shown no change or, possibly, a slight drop on last year's 6.7% (down from 7.3% in 2010 and an average of 9.4% in 2000-09) while real wages have been boosted by low inflation -- 5.5% in the first half of 2012, down from an annual 6.9% in 2011.

	2002		2010		2011	
	Poverty	Indigence	Poverty	Indigence	Poverty	Indigence
Argentina	35.9	14.8	38	28	5.7	1.8
Bolivia	62.4	27.1	62.4	22.4	n/a	n/a
Brazil	37.5	13.2	24.8	7	20.9	6.3
Chile	20.2	9.8	11.5	5.6	11	5.1
Colombia	49.7	17.8	37.3	12.3	34.2	10.7
Mexico	39.4	12.6	36.3	13.3	n/a	n/a
Paraguay	41	19.2	34.8	13.3	48.6	28
Peru	54.7	24.4	51.3	19.6	27.6	8.3
Uruguay	15.4	2.5	8.6	1.4	6.7	1.1
Venezuela	40.6	22.2	27.8	10.7	28.5	11.7

Latin America: poverty rates by country (%)
Source: ECLAC

However, the report points out that some 167 million remain below the poverty line, including 66 million in extreme poverty. It, indeed, estimates that extreme poverty is currently running at 11.4%, showing no significant change on 2011 (11.5%). This would be in line with this segment's lower level of insertion into the formal labour market.

Characteristics of poverty .

As poverty drops, the characteristics of the poor change, while policies need to be ever more finely targeted in order to be efficient and effective in providing relief and achieving further reductions. According to ECLAC, the principal characteristics of poor Latin Americans today include the following:

Urban vs rural. Almost three-quarters of the poor live in an urban area but, among the extremely poor, this drops to around half.

Age. Children (up to age 17) account for 51% of the extremely poor and 45% of the poor as compared to 38% of the vulnerable population (defined as an income between 100% and 150% of the poverty line) and just 23% of the non-vulnerable.

Education. An estimated 45% of the poor (as well as of the vulnerable) did not complete secondary education while, among the extremely poor, half did not finish primary school. Educational coverage has increased rapidly in recent years and 88% of children now complete primary schooling but the figure for secondary schooling, at 33%, remains low. The report also points out that, in 2011, 29% of the vulnerable population had higher education (complete or incomplete), up from 19% in 1999, but the fact that they remain vulnerable indicates that increased education alone is not a guarantee of socioeconomic mobility and can, indeed, be a cause of frustration and discontent.

Labour income. Similarly, income from work appears not to suffice to escape poverty, with ECLAC finding that only some 6% of the poor and 8% of the extremely poor are unemployed. However, only 31% of the extremely poor has a payroll job (as compared to the 43% who are self-employed) while, among the poor, this reaches 50% (and 57% and 64% among the vulnerable and non-vulnerable, respectively). Among the poor and extremely poor, payroll employment is also far more likely to be in a small business (up to five employees).

Women and poverty.

Poverty in LAC is more prevalent among women than men and the gap has, moreover, widened. According to ECLAC, the ratio of poverty among women to that among men reached 1.16 in 2011, up from approximately 1.08 in 2002. The gap is particularly large in Chile, where a woman is almost 50% more likely to be poor, and in Argentina and Uruguay (around 35%).

At the same time, the number of women heads of household has increased and, in 2011, accounted for 28% of

poor and extremely poor households, up from 19% and 18%, respectively, in 1999. This has focused attention on childcare as a means of facilitating women's participation in the workforce, although a recent World Bank study has raised questions about the resulting impact on mobility out of poverty (see LATIN AMERICA: Middle class expands, but not equality - November 21, 2012).

Country trends.

In seven of the twelve countries where figures are available there was a significant reduction in poverty in 2011. The decrease was, in general, largest in countries with the highest poverty rates, including Paraguay (-5.2 points to 49.6%), Ecuador (-4.7 points to 32.4%), Peru (-3.5 points to 27.8%) and Colombia (-3.1 points to 34.2%). However, also in Argentina, where ECLAC estimates that the poverty rate (urban areas) reached just 5.7% in 2011, this represented a drop from 8.6% in 2010. Brazil also continued to show sustained progress, with a poverty rate of 20.9% in 2011, down from 24.9% in 2009.

Venezuela, on the other hand, despite an improvement in income distribution, saw its poverty rate increase from 27.8% in 2010 to 29.5% in 2011 (and extreme poverty from 10.7% to 11.7%) while, in other countries, there was no significant change.

Growth vs distribution .

The inequality of income distribution in LAC -- where, as a simple average for 18 countries, the richest 10% receives 32% of national income and the poorest 40% only 15% -- has been improving in recent years, albeit slowly. Between 2002-11, nine countries saw an annual reduction of least 1% in their Gini coefficient, led by Argentina, Bolivia, Nicaragua and Venezuela where the annual drop reached over 2%. However, this trend slowed in 2011 when only five countries -- Argentina, Brazil, Colombia, Ecuador and Uruguay -- saw a statistically significant decrease.

Moreover, there are important variations between countries in the contribution that improved income distribution has made to poverty reduction:

Distribution-led poverty reduction.

Measured between 2008-11, a reduction in income inequality was more important than growth in reducing poverty in Brazil (where it accounted for 66% of the reduction), Bolivia (65%), Ecuador (64%) and Uruguay (55%) while in El Salvador, Mexico, Nicaragua and Venezuela, it served to offset or attenuate the impact of a drop in real per capita income.

Growth-led poverty reduction.

In Paraguay, on the other hand, growth accounted for 95% of the reduction in poverty, followed by Peru (76%), Argentina and Colombia (73%) and Chile (61%). Meanwhile, in Honduras, Panama and the Dominican Republic, growth prevented an increase in poverty that would otherwise have occurred as a result of a deterioration in distribution.

CONCLUSION: Given that labour income represents around three-quarters of the total income of Latin American households, diversification of the region's production structure into sectors offering more and better opportunities for formal employment will be key for ongoing reductions in poverty and income inequality. The relatively higher poverty rate seen among women, together with their increasing role as heads of household, highlights the importance of developing policies tailored to their particular needs.

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