

How Poor and Unequal is Latin America and the Caribbean?

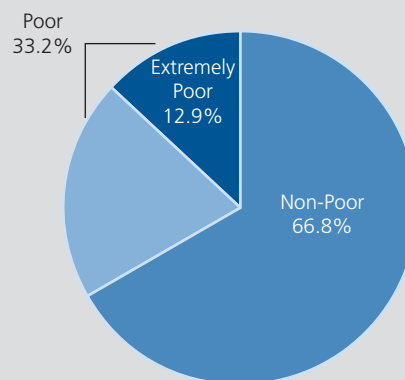
IN THIS BRIEF:

Poverty and inequality have decreased recently in much of Latin America—the result of strong growth and innovative social programs. The United Nations estimates that the number of poor dropped by nearly 17 percent between 2002 and 2007—a significant achievement for the region’s governments.¹ Inequality has also declined a bit, particularly in the region’s largest countries. Clearly, good policy can pay off.

But how widespread has progress been, and how long will it last? How does it compare with other parts of the world? This essay attempts to summarize what the best current data tell us about poverty and inequality in Latin America, and to determine whether we should be optimistic or pessimistic about the future.

Roughly one out of every three Latin Americans is poor (defined as not having sufficient income to satisfy their basic needs). One out of every eight is extremely poor (defined as being unable to meet their basic nutritional requirements, even if they spend all their money on food—Figure 1).²

Figure 1. Poverty in Latin America, 2008



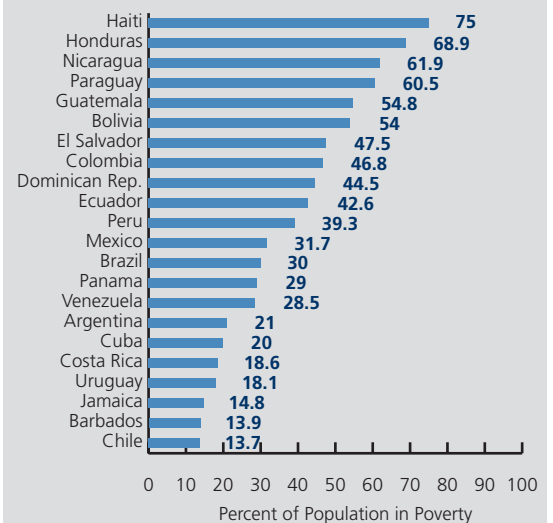
Source: ECLAC, Social Panorama 2008, Figure I.1, p. 4 (Spanish edition).

Note: Figure refers to: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Uruguay, Venezuela and Haiti.

Poverty levels vary substantially among and within countries, however (Figure 2). After Haiti, Central American countries tend to have the highest poverty rates. Roughly seven out of every ten people live in poverty in Honduras and Haiti—two of the region’s poorest countries. In contrast, only about one out of every eight people lives in poverty in Chile and Barbados—two of the richest. Latin America’s two largest countries, Brazil and Mexico, have poverty rates that are similar and rank just below the regional average. But roughly half of the region’s poor live in these two countries, even though they are classified as upper-middle income by the World Bank.³

Latin America’s poverty rates are lower than in most other developing regions. Rates are lower than in South Asia, Sub-Saharan Africa, East Asia and the Pacific, but higher than in Eastern Europe and Central Asia.⁴ On the other hand, Latin America’s extreme poverty rates are relatively high, given the region’s level of development. Despite having GDP per capita levels (adjusted for the cost of living) that are well above those of the Middle East and North Africa, it has higher levels of extreme poverty.⁵

Figure 2. Poverty Rates, by Country, 2007



Source: ECLAC Social Panorama 2008, Table A1 p. 81 (Spanish edition); ECLAC Social Panorama 2007, Table I.3 p. 62 (Spanish edition).

Note: Data are for closest year available to year listed. Data for Argentina, Cuba, and Uruguay are for urban areas only. Data for Cuba refers to “population at risk of poverty”.

“ While nearly every country has managed to reduce poverty since 2002, only one —Chile— has managed to lower poverty rates significantly and consistently since 1990. Many countries (Argentina, Colombia, Mexico, Peru, Dominican Republic, Uruguay and Venezuela) have mixed records, with significant increases and decreases in poverty rates. Others (Bolivia, Honduras and Nicaragua) have had relatively stagnant poverty rates, at least until recently. ”

Poverty has only recently begun to decline

After remaining relatively unchanged for over two decades, the region’s poverty rate has dropped recently—from 44% in 2002 to 33% by 2008—and extreme poverty dropped from over 19% to under 13% (Figure 3). The United Nation’s Economic Commission for Latin America and the Caribbean (ECLAC) projects that the region is on track for reaching the Millennium Development Goal of halving the 1990 extreme poverty rate by 2015.⁶ The global economic crisis, however, will almost certainly jeopardize recent progress.

Regional trends conceal widely different national experiences. While nearly every country has managed to reduce poverty since 2002, only one—Chile—has managed to lower poverty rates significantly and consistently since 1990. Many countries (Argentina, Colombia, Mexico, Peru, Dominican Republic, Uruguay and Venezuela) have mixed records, with significant increases and decreases in poverty rates. Others (Bolivia, Honduras and Nicaragua) have had relatively stagnant poverty rates, at least until recently.⁷

How unequal is Latin America and the Caribbean?

Latin America is the most unequal region in the world (Figure 4).⁸ Based on the most commonly used indicator of income inequality, the Gini index, five of the world’s ten most unequal countries are Latin American.⁹ One of them—Brazil—accounts for nearly one-third of the region’s population. Even the most equal Latin American countries tend to be more unequal than the most unequal European countries.¹⁰

Inequality in Latin America is due substantially to the extraordinary concentration of income at the top of the income scale—and its absence at the bottom. The richest fifth of Latin America’s population receives nearly three-fifths of total income, while the poorest fifth receives

just 3 percent (Figure 5). In every other region of the developing world, the poor receive a higher share of total income (Figure 6). Although the extent of inequality varies a great deal, virtually every Latin American country for which we have data is highly unequal.

Inequality has declined, but not by much

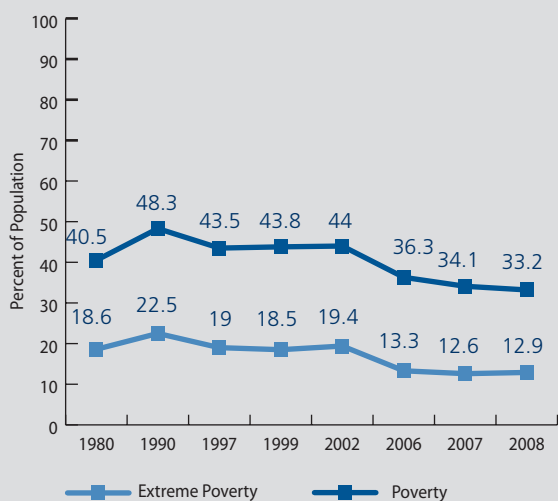
Trends are at least moderately positive. Inequality has declined in nearly half the region’s countries over the past 15 years, including the two largest—Brazil and Mexico. Although limited in scope, these improvements are a welcome change for a region whose inequality has historically been high and rooted in its colonial past. On the other hand, several countries that traditionally have been less unequal than others, such as Venezuela, Costa Rica and Uruguay, have seen inequality stagnate or increase.¹¹

Grounds for optimism?

While Latin America’s recent progress is encouraging, it is hard to argue that the region has found the key to reducing its persistent poverty and inequality. Most of the gains have coincided with five years of extraordinary economic growth (which has increased employment among the poor) and an increase in the flow of remittances (which has put cash in the pockets of many poor families). The global economic crisis will almost certainly reduce growth and remittances significantly, putting progress in reducing poverty and inequality at risk.

Another part of the gain has been due to the growth of conditional cash transfer (CCT) programs, which provide a cash stipend to poor families in return for positive behaviors such as keeping children in school. CCTs have been credited with reducing poverty significantly in several of the region’s countries, including the two

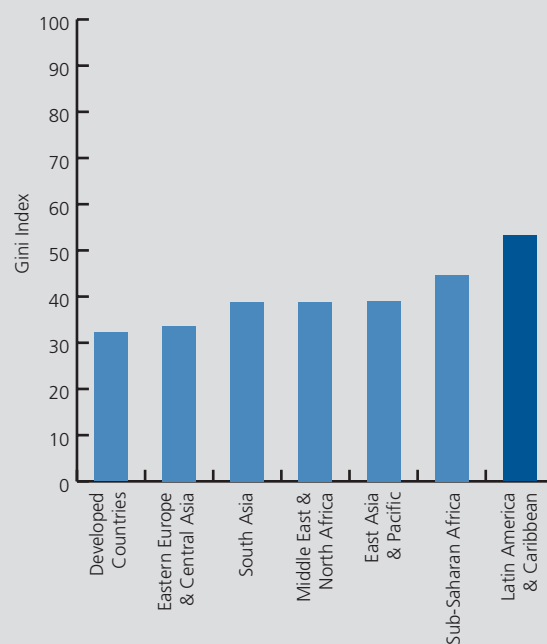
Figure 3. Poverty in Latin America, 1980 – 2008



Source: ECLAC, Social Panorama 2008, Figure I.1, p. 4 (Spanish edition).

Note: Figure includes: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Uruguay, Venezuela and Haiti.

Figure 4. Inequality, by Region, 2004



Source: Lopez-Calva, Luis Felipe and Nora Lustig. Eds. Forthcoming. *Declining Inequality in Latin America: A Decade of Progress?*. Brookings Institution Press.

largest— Brazil and Mexico. Despite their success, CCTs are at best a short-term solution and their impact on human capital is mixed.¹² In all countries, they account at most for a relatively small proportion of social spending.¹³

Beyond the CCTs, there is little evidence that major improvements in social policy have been crucial in bringing down poverty and inequality over the past two decades. To be sure, many governments have sought to improve social services, significantly increasing social expenditures, targeting the poor, and decentralizing programs to more accountable local governments.¹⁴ But these efforts—however substantial—have had limited impact. Most experts argue that much of public spending (including social spending) is either neutral or regressive—failing to redistribute income to the poor.¹⁵ Public education and health services, which largely serve the poor, suffer from low quality in almost every country.¹⁶

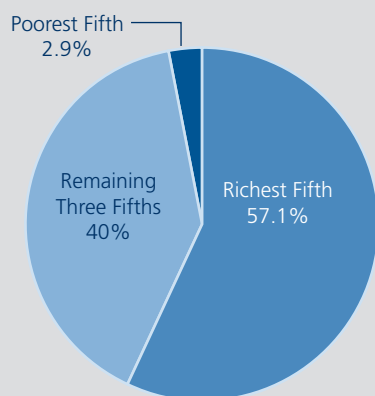
Thus it is hard to be optimistic. Latin America has not yet found an effective strategy for reducing poverty and inequality—or for bringing its poorest citizens into the economic and political mainstream. The region’s continued failure to promote adequate social progress places its political stability at risk, and makes it more difficult to attract the investment necessary for economic growth. Social policy in Latin America needs to be significantly revamped and strengthened.

NOTES & REFERENCES

- 1 Economic Commission for Latin America and the Caribbean (ECLAC). 2008 *Panorama social de América Latina 2008*. Santiago Chile: United Nations.
- 2 The rates and definitions are based on national poverty and indigence lines adopted by the countries, and published by ECLAC. The World Bank estimates of poverty and indigence are lower, but the World Bank uses a methodology that abstracts from the national poverty and indigence lines to compare across regions.
- 3 World Bank. 2008. Data & Statistics. Countries Classification. Online. & ECLAC. 2008. *Panorama social de América Latina 2008*.
- 4 Authors’ comparisons for poverty between regions based on the \$2.50 line in PPP 2005 prices. Comparisons for extreme poverty based on \$1.25 line in PPP 2005 prices. Data found in Chen, S. and M. Ravallion. 2008. *The developing world is poorer than we thought, but no less successful in the fight against poverty*. Policy Research Working Paper 4703. Washington DC: World Bank.
- 5 Authors’ calculations based on data from Chen, S. and M. Ravallion. 2008. *The developing world is poorer than we thought, but no less successful in the fight against poverty; authors compared regions using GDP per capita in PPP 2005 prices using data from World Bank 2008*. World Development Indicators, 2008.
- 6 ECLAC. 2008. *Panorama social de América Latina 2008*.
- 7 Authors’ analysis of changes in poverty rates. Poverty rates are based on national poverty lines and published in ECLAC CEPAL stat. Online.
- 8 Most Latin American Gini indices “...are based on income data while those in other parts of the world are consumption based, and this is important because gini indices based on consumption data tend to be lower than gini indices based on income data.” Gini indices for Latin America could be lower if they were based on consumption. However, even if all of Latin America’s consumption-based Gini indices were lower, “...the only region that would have inequality levels above those found in Latin America is Sub-Saharan Africa.” Lopez, J.H., and G. Perry. Feb 2008. *Inequality in Latin America: Determinants and Consequences*. Policy Research Working Paper 4504. Washington DC: World Bank.
- 9 Authors’ analysis based on World Bank. 2008. World Development Indicators, 2008. Table 2.8 Authors ordered countries from highest to lowest based on the most recent Gini index available. Countries without data were not included in the list.
- 10 Goñi, E., J.H. López, and L. Servén. Jan 2008. *Fiscal Redistribution and Income Inequality in Latin America*. Policy Research Working Paper 4487. Washington DC: World Bank.
- 11 Analysis based on change in Gini Index. Gini Indices are based on per capita income and are from CEDLAS and World Bank, Socio-Economic Database for Latin America and the Caribbean (SEDLAC). Online.
- 12 Fiszbein, Ariel and Norbert Schady. et al. 2009. *Conditional Cash Transfers: Reducing Present and Future Poverty*. Washington DC: World Bank.
- 13 ECLAC. 2007. *Social Panorama of Latin America 2007*. Santiago Chile: United Nations.
- 14 See Birdsall, Nancy, Augusto de la Torre and Rachel Menezes. 2008. *Fair Growth: Economic Policies for Latin America’s Poor and Middle-Income Majority*. Washington DC: Brookings Institution Press.
- 15 See Lopez-Calva, Luis Felipe and Nora Lustig. Eds. Forthcoming. *Declining Inequality in Latin America: A Decade of Progress?* Brookings Institution Press. & Goñi, E., J.H. López, and L. Servén. Jan 2008. *Fiscal Redistribution and Income Inequality in Latin America*.
- 16 See Pan American Health Organization (PAHO) Regional Office of the World Health Organization. 2007. *Health in the Americas, 2007*. Volume I – Regional. Washington DC: PAHO & PAHO. 2008. *Integrated Delivery Network: Concepts, Policy Options, and Road Map for Implementation in the Americas*. Renewing Primary Health Care in the Americas Series. Washington DC: PAHO. Available Online. & Partnership for Educational Revitalization in the Americas (PREAL). 2005. *2006 Quantity without Quality: A Report Card on Education in Latin America*. A Report of the PREAL Advisory Board. Washington DC, Santiago: PREAL.

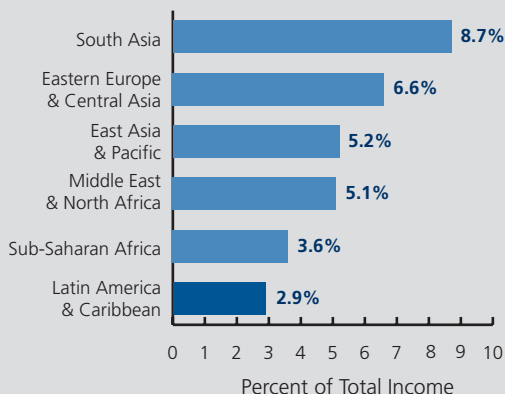
“ Latin America has not yet found an effective strategy for reducing poverty and inequality...”

Figure 5. Distribution of Income, Latin America and the Caribbean, 2008



Source: World Bank, World Development Indicators, 2008. Figure 1k.
Note: Region is defined by the World Bank. Data are World Bank staff estimates.

Figure 6. Poorest Fifth’s Share of Total Income, by Region, 2008



Source: World Bank, World Development Indicators, 2008. Figure 1k.
Note: Regions are defined by the World Bank. Data are World Bank staff estimates.

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