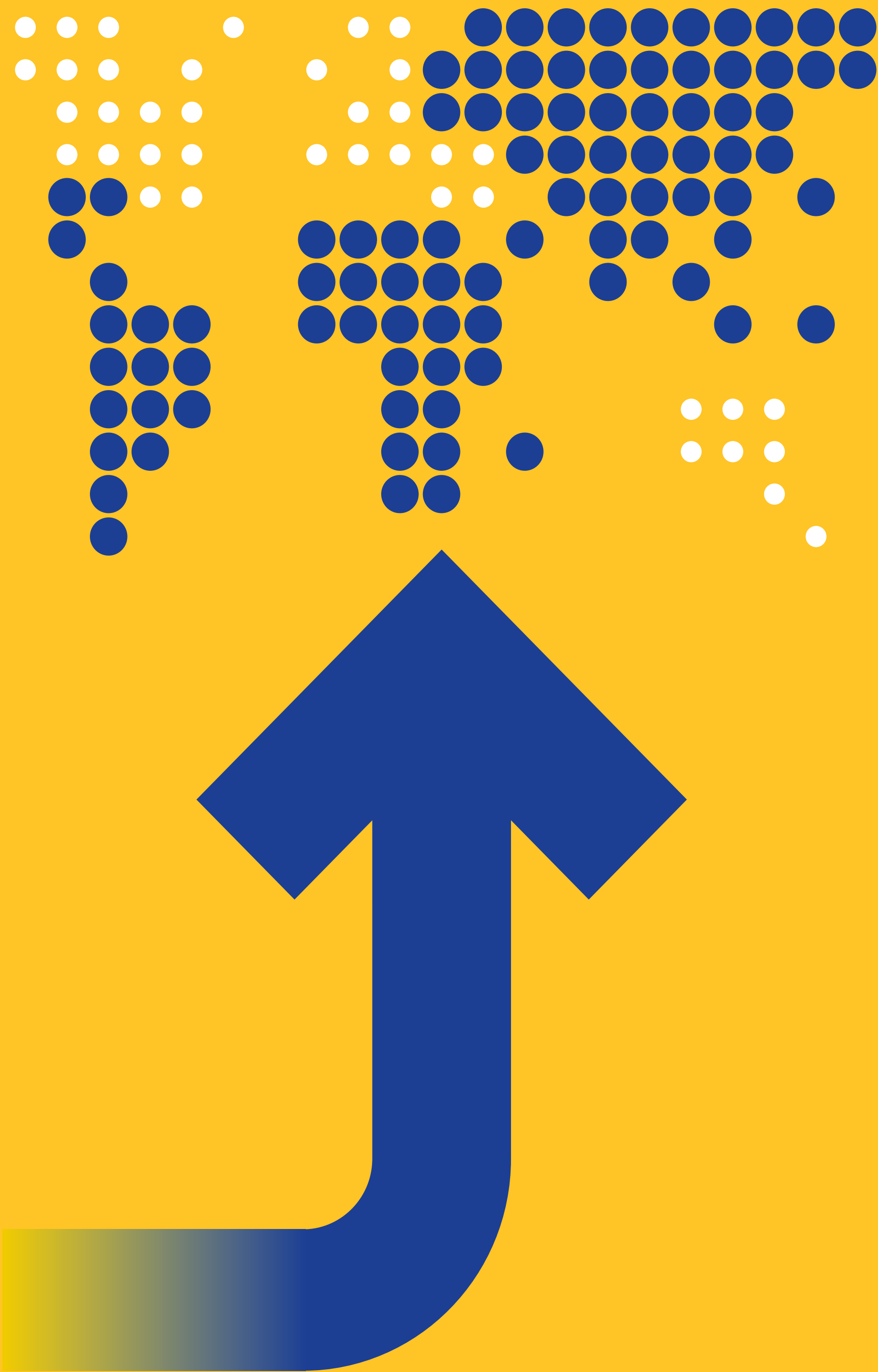
EMERGING MARKETS FORUM

2016 GLOBAL MEETING

Eradicating poverty, reducing inequality, and promoting sustainable development

OCTOBER 9-11, 2016 WASHINGTON, D.C.



Emerging Markets Forum
A nonprofit initiative of the Centennial Group

Eradicating poverty, reducing inequality, and promoting sustainable development

Chapter 15

Alejandro Toledo

Introduction[1]

In the past two decades, Latin America has gone through a major transformation. It could even be called a renaissance. This renaissance could continue for many decades, transforming most Latin American countries into highly developed, socially more equal, and deeply democratic societies. In these societies, today's poor and lower middle classes would be full participants in vibrant, socially progressive, diverse national cultures, both part of and very influential in shaping the global knowledge economy. Yet, there is no assurance that the renaissance will continue. Latin America is at a crucial moment.

Vision for a shared society

This chapter proposes a vision for Latin America of an inclusive, shared society—economically, socially, and politically. Recent research by the World Bank and others suggests that shared societies enjoy considerably higher economic growth. If economic well-being is a combination of sustained economic growth with equitable distribution of its gains for all, then shared societies are more likely to achieve it. Shared societies also create a virtuous and self-reinforcing cycle that generates more economic dividends by ensuring that everyone shares (and reinvests) the gains from economic growth. Shared societies' economies also have reduced costs related to intersocietal tensions, like law enforcement, security, and the repair of damage caused by violence or protests.

The Club de Madrid has led the way in pushing for the creation of global and local shared societies through the shared societies project. If societies actively work to construct a shared society, the vision for Latin America's future will be achieved. By our Club de Madrid definition—a "shared society" is a socially cohesive society. It is stable, safe. It is where all those living there feel at home. It respects everyone's dignity and human rights, while providing every individual with equal opportunity. It is tolerant. It respects diversity. A shared society is constructed and nurtured through strong political leadership.

A number of basic principles are essential for building shared societies and they include:

- Respect for the dignity of every individual.
- Equality and fairness. True equality and fairness do not really exist where there is still discrimination, marginalization, or a lack of opportunity for all.
- Respect for human rights and the rule of law. This means that political leaders, business owners, workers, field laborers, and all members of society alike must adhere to the rule of law.
- Democracy. Strong, functioning democracies enable people to overcome their own self-interest and work toward the benefit of all. In true democracies, individuals can express their aspirations and needs, while simultaneously building social cohesion.

This chapter is not concerned only with economic growth.

Economic growth is a means to an end. Economic growth alone is not sufficient to improve people's well-being, to give equal opportunity for all, or to ensure the possibility of future growth and stability. In this chapter's vision of a shared society, Latin Americans would enjoy the benefits of economic growth that are created from focusing on sustainable development and investing in the minds and health of people and societies to ensure equal opportunities for all.

Latin America would have evolved from being dependent on the export of raw materials to being exporters of knowledge-based products and services. With healthy citizens who are well versed in science, technology, and innovation through a quality education, the economy will be strong, resilient, and less vulnerable to exogenous shocks.

This would be a Latin America in which a child's future does not depend on her gender, her family's income, where she lives, what language she speaks at home, or the color of her skin or the shape of her nose.

1. This Chapter is part of *The shared society: a vision for the global future of Latin America* (Toledo 2015).

Development is synonymous with improvements in people's well-being, not simply improvements in a nation's GDP.

Latin Americans would be aware of the incredible resources they are blessed with in the cultural diversity of their people and encourage this diversity because they know it will inspire new and unique perspectives on challenges and spark creativity in the development of solutions.

The region must ensure that all citizens have the opportunity to develop the capabilities they need to succeed in the life of their choosing. To do this, Latin America must invest in the health and minds of its people. It must ensure equitable and universal access to basic services like water, sanitation, and electricity; health care services; and quality education. Without basic utilities or health services, children cannot develop to their full potential physically or mentally.

Providing equitable and universal access to quality education is nonnegotiable. Education can set you free. While the region has made great strides to provide equal access to education, educational quality is low across the board, and, in addition, it is inequitably distributed. Education liberates "the noises of the stomachs and the noises of the streets" because education helps individuals become active, productive, engaged members of our society and our economy. Quality education is an essential part of a shared society, and of this vision, by midcentury the region will have developed a high-quality school system that serves all of children. Commodity prices might drop tomorrow, but investments in children's minds can never be taken away.

This would be a Latin America that is conscious of how decisions about growth and development affect environmental and social sustainability. It would be a region fully aware of climate change, and it would make active decisions to reduce or offset its contribution to it. Latin America has been blessed—or cursed, depending on how one looks at it— with bountiful natural resources. Possibly cursed because as a result of Latin America's easy access to revenues through natural resources, the region has tended to ignore the need to invest in its people. In the long term the knowledge and capabilities of its citizens will be more important to the health of society than natural resources, especially if Latin America continues to deplete its natural wealth. But natural resources can also provide the funding needed to invest in its people.

Latin America today has an enormous and unique opportunity. No other region has its abundance of natural resources and macroeconomic flexibility, combined with high levels of national language homogeneity and cultural and historical commonalities. This gives the ability to integrate the region in terms of infrastructure and trade and to develop comparative and competitive advantages that enable the region to compete in the global economy. Latin America is also fortunate to be well positioned geographically to collaborate with the fastest-growing region in the world—the Asia-Pacific rim. If the region makes this leap, Latin America will be a region that stands on its own feet. Latin America will have learned from its mistakes and cultivated independence, health, and knowledge at the individual and community levels, which will lead to economic independence, growth, and a horizontal relationship power-wise with the rest of the world at the national and regional levels.

With the right set of policies and politics, Latin America will be an economic powerhouse by the middle of this century.

Reducing inequality as an imperative for promoting sustainable development

To achieve the vision spelled out earlier in this chapter, Latin America needs to be much more equitable and more socially inclusive. Steady, long-term economic growth is clearly important to these objectives; however, economic growth is not the end but rather the means to development. Development is synonymous with improvements in people's well-being, not simply improvements in a nation's GDP. Money does not have an intrinsic value. The value of money is in what it can purchase, and what it is used to purchase—for example, access to health care, schooling, food, and housing—can improve personal welfare and

The fundamental lesson for leaders is that if governments are meant to help enable their citizens to live productive and fulfilling lives, they should focus on ensuring access to these constituent freedoms instead of just trusting that economic growth will automatically provide them.

shape the nature of society. If the goal is to have a shared society—if it is to have healthy societies, healthy economies, and healthy democracies—it is necessary to invest in the minds and well-being of all our people.

Until relatively recently, many development theorists and policy makers seemed to focus on economic growth without considering whether it was the kind of growth that improved people's quality of life. During the 1980s and 1990s, the development theory in vogue was neoliberalism, which promoted, among other things, free markets and secure property rights. It also advanced the "trickle-down" hypothesis, which claims that any economic growth, even when it benefits only a small, already well-off group of families at the top of the income pyramid and is initially hard on the poor, is good for the entire society because the wealth will trickle down to the "bottom" as the wealthy spend what they have earned. In this framework, inequality was not regarded as quintessentially bad but simply as a step along the way to greater economic progress.

These ideas still hold sway in policy circles, but they have been widely criticized. First, while economic growth is an essential part of addressing poverty, economic growth is not sufficient to reduce poverty. The real question is, who receives the benefits of economic growth? In part, this depends on levels of inequality. Inequality and poverty are intricately related, and it turns out that initial levels of inequality have been shown to have a dual effect on poverty. They may slow economic growth (making the benefits "pot" smaller than it could be), while also reducing the portion or share of the economic growth that poorer people receive (Birdsall & Londoño 1997; Wodon and Yitzhaki 2002). This connection with poverty means that inequality should be particularly important to all policy makers and leaders who are interested in reducing national or global levels of poverty. So reducing poverty and inequality can also be a means to achieving the more traditional measure of development—economic growth.

Second, focusing on economic growth as a single development goal ignores what people actually care about—quality of life. In the 1990s, while many countries were successful in terms of their rate of economic growth, they still had large proportions of citizens who lived in poverty or did not have access to basic services. Economic growth was not improving well-being the way it was meant to. The recognition that economic growth was a means to, and not just an ultimate goal of, development seemed to have been forgotten. Economists and development theorists began to consider ideas of development beyond the world of economics and to explore how they could define development differently—not just in terms of an abstract "income per capita" but rather in terms of human "capabilities" and freedoms.

Amartya Sen, a Nobel Prize–winning economist, is the best-known proponent of the human capability perspective on development. His writings advanced the "development as freedom" concept that identifies key opportunities people must access to develop the capabilities they need to be able to freely choose their own life path. He makes the case that education and health care, as well as political and economic participation, are "constituent" freedoms, meaning they are essential in their own right (not just as a means to increasing economic growth). They are needed "to realize human potential in a broader sense" (Sen 2001; Watkins 2000). The United Nations Development Programme (UNDP) defines this as "people's effective freedom to choose between options they consider valuable and have reason to value" (UNDP 2010).

The fundamental lesson for leaders is that if governments are meant to help enable their citizens to live productive and fulfilling lives, they should focus on ensuring access to these constituent freedoms instead of just trusting that economic growth will automatically provide them. Sen himself defines the goal as "advancing the richness of human life, rather than the richness of the economy in which human beings live, which is only a part [of human experience]" (UNDP 2015)." This is aligned closely with the vision of a shared society.

Almost half the world's wealth is owned by 1 percent of the population, and the bottom half of the world's population owns the same as the richest 85 individuals in the world.

Why do we care about inequality?

Income inequality is starkly on the rise across the world. According to Oxfam, almost half the world's wealth is owned by 1 percent of the population, and the bottom half of the world's population owns the same as the richest 85 individuals in the world. Since 1980, the richest 1 percent have increased their share of income in 24 out of 26 countries for which data are available (Lagarde 3 February 2014). This worrisome situation applies for developed and developing countries. In the United States, the share of income taken by the top 1 percent has more than doubled since the 1980s, returning to where it was on the eve of the Great Depression. Since 2009, the richest 1 percent has captured 95 percent of all income gains, while the bottom 90 percent has gotten poorer. The International Labour Organization affirms that labor's share of income has fallen over the past two decades in 26 out of 30 advanced economies—even though labor productivity has risen. There is no doubt that inequality is one of the most entrenched scourges of our age. Inequality is highlighted in this chapter because inequality and poverty are intricately related and because inequality is also directly related to well-being. If issues of inequality are not addressed, it is much more difficult to address poverty. A country that has eliminated poverty but remains highly unequal will not be a shared society and will continue to experience social unrest.

As mentioned, high initial levels of inequality can slow economic growth and reduce the share of the economic growth that poorer people receive. These effects have been attributed to a variety of factors, ranging from inequality established during the colonial era to government ineffectiveness to inequalities in access to social services. While many maintain that inequality affects only the poor, we believe inequality hampers the achievement and well-being of even the most privileged—thereby putting a cap on a society's potential in a broad set of economic and social domains.

Wilkinson & Pickett (2011) call developed countries with high levels of inequality (such as the United States) societies that have achieved material success but social failure. How or why this is the case can be seen in the research of Neckerman & Torche (2007) and Wilkinson & Pickett (2011), who explore the consequences of inequality in a society. Their list of social ills either caused or exacerbated by inequality comprises a surprising number of diverse problems, including:

- Poorer health—increased obesity, heart disease, and so on, and decreased
- Life expectancy
- Decreased educational performance, particularly of poorer children
- Increased crime, especially violent crime and homicides, and increased incarceration for all types of crime
- Increased mental illness and negative effects on individuals' sense of
- Psychological well-being
- An increased proportion of teenage births, infant mortality, and lower
- Overall children's well-being
- Decreased social mobility or "equality of opportunity" (individuals
- Are more likely to remain in the income stratum of their parents)
- Diminished levels of trust in, and connectedness with, fellow citizens

What is striking about the evidence presented by Wilkinson and Pickett and Neckerman and Torche is that these effects are found in all strata of society. For example, while poor children do much better educationally in more equal countries, the wealthiest children in more equal countries also do better than the wealthiest children in unequal countries.

The societal effects of inequality suggest that, ultimately, inequality contributes to the slow breakdown of community, and thus society, through increased alienation from fellow citizens, increased segregation, decreased social mobility, and increased frustration, anger, and psychological angst

Measuring inequality in terms of income (as the Gini coefficient or the decile distribution does) probably underestimates the extent of inequality with respect to what is really important—access to opportunities or the development of capabilities—because it does not include differential access to basic services, wealth, and social capital.

regarding a social and political system that does not seem to serve the interests of the majority. If Latin America is going to make its leap forward to becoming a socially inclusive society, the region must tackle inequality head on.

Where is Latin America in terms of inequality?

Over the past two decades, Latin America has made progress in terms of reducing income inequality. The standard way to measure inequality is with the Gini coefficient. The Gini coefficient calculates how equally or unequally a population's income is distributed. It can range from 0, which represents everyone having an equal share of wealth, to 1, which represents one person having all the wealth. The closer to 1 a population is, the closer it is to perfect inequality.

The average Gini coefficient for Latin America has decreased from 0.5311 in 2000 to 0.4933 in 2010 (World Bank 2015c). In almost all Latin America countries, the Gini coefficient in 2010 was lower than it was in 2000 and, in fact, lower than it has been for 30 years. It is one of the only regions that has decreased inequality (as measured by the Gini and by the distribution of income by deciles) since 2000.

However, Latin America is still the most unequal region in the world in terms of income inequality. It is promising that some progress has been made in terms of decreasing inequality, but inequality among and within countries remains very high. On average, the top 10 percent of income earners in the region received 38 percent of income in 2012, down from 43 percent in 2002; the bottom 40 percent received 12 percent of the income, up from 10 percent in 2002. Table 15.1 shows the distribution of income by deciles in different countries in the early 2000s and in 2011-12. The important point to note is that the bottom 40 percent of income earners still earn only 12 percent of all income. In Peru, the bottom 40 percent of income earners increased their share somewhat more, but only from 11 to 13 percent in 12 years of very rapid growth.

Measuring inequality in terms of income (as the Gini coefficient or the decile distribution does) probably underestimates the extent of inequality with respect to what is really important—access to opportunities or the development of capabilities—because it does not include differential access to basic services, wealth, and social capital (such as social networks that can help with finding work). It is likely that an inequality measure that took these factors into account would find inequality even higher than it appears in the Gini coefficient, particularly because wealth is distributed much more unequally than income almost everywhere in the world.

UNDP's Human Development Index (HDI) gives a sense of the negative impact inequality has on well-being (Table 15.2). When adjusted for inequality, the HDI shows significant change in the levels of human development in each region. Whereas Latin America scores 0.73 on the HDI overall, once inequality is incorporated, this falls to 0.54—a loss of 26 percent.

High levels of inequality negatively affect well-being, cohesion, and inclusion. Though some of the structural sources of inequality may be difficult to address in the short term, if there is no plan to tackle inequality, it will be nearly impossible to be successful in combating the other challenges discussed below. And it would be nearly impossible—even if high economic growth rates could be maintained with these levels of inequality—to achieve our 2050 vision of an inclusive, shared society.

Apart from being high, inequality in Latin America has been persistent and associated with low mobility. First, looking at the persistence of inequality—the most unequal countries in the early 2000s were also the most unequal in 2010. In the *Regional human development report for Latin America and the Caribbean 2010*, UNDP (2010) found a high relationship between the level of education of one generation and the next, which was within the range of 0.37 and 0.61, while the United States' coefficient relationship was 0.21.5 These results indicate that in 16 Latin American countries, the level of education of a generation

Inequality in Latin America and the Caribbean has been persistent and accompanied by low mobility among the population, making it difficult to fight, especially when public spending on primary education has been regressive.

Table 15.1: The bottom 40 percent of income earners earn only 12 percent of all income

	Percentage Change in the Share of National Income, 2000-2002 to 2011-2012			
Country/years	**Bottom 40% of Income Earners**	**Middle 40% of Income Earners**	**Top 20% of Income Earners**	**Bottom 10% of Income Earners**
Bolivia				
2000	6.2	26.0	67.6	52.0
2011	12.2	36.8	51.2	34.0
Brazil				
2000	7.2	25.2	67.8	52.8
2011	9.8	29.6	60.8	46.2
Chile				
2000	10.2	28.4	61.4	46.2
2011	12.4	30.2	57.4	42.2
Colombia				
2000	10.2	28.4	61.4	46.2
2011	10.6	31.4	57.8	41.8
Costa Rica				
2000	12.6	35.6	52.0	35.2
2011	11.6	33.2	55.2	38.2
Ecuador				
2000	10.2	29.0	60.8	45.4
2011	13.2	34.6	52.0	35.6
Mexico				
2000	10.6	30.6	59.0	43.2
2011	12.8	32.2	54.8	39.4
Peru				
2000	10.8	32.6	56.6	40.6
2011	13.4	36.6	49.6	33.4
Venezuela				
2000	12.8	36.0	51.4	34.4
2011	15.6	38.2	46.0	29.6
Latin America (simple average)				
2000	10.1	30.9	59.0	43.0
2011	12.2	33.5	54.3	38.2

Source: UN Economic Commission for Latin America and the Caribbean (2015)

influences the next one more than twice as much as it would in the United States. The probability that a person reaches at most the educational level of his or her parents is higher in Latin America and the Caribbean than in other high-income countries. As mentioned above, education is a determinant of a person's income, so the above statistics point to a close correlation between intergenerational income and persistent inequality (Vásquez 2013).

Poverty can be viewed in terms of vulnerability and insecurity—an individual or household's ability to absorb unanticipated economic shocks like theft, illness, loss of a job, and so on.

Table 15.2: Latin America's HDI score falls 26 percent once inequality is incorporated

Human Development Index (HDI), by World Regions, 2012										
	HDI	Inequality-adjusted HDI (IHDI)		Inequality-adjusted Life Expectancy Index		Inequality-adjusted Education Index		Inequality-adjusted Income Index		
Region	**Value**	**Value**	**Loss (%)**	**Value**	**Loss (%)**	**Value**	**Loss (%)**	**Value**	**Loss (%)**	
Arab States	0.652	0.486	25.4	0.669	16.7	0.320	39.6	0.538	17.5	
East Asia and the Pacific	0.683	0.537	21.3	0.771	14.2	0.480	21.9	0.455	27.2	
Europe and Central Asia	0.771	0.672	12.9	0.716	11.7	0.713	10.5	0.594	16.3	
Latin America and the Caribbean	0.741	0.550	25.7	0.744	13.4	0.532	23.0	0.421	38.5	
South Asia	0.558	0.395	29.1	0.531	27.0	0.267	42.0	0.436	15.9	
Sub-Saharan Africa	0.475	0.309	35.0	0.335	39.0	0.285	35.3	0.308	30.4	
World	0.694	0.532	23.3	0.638	19.0	0.453	27.0	0.522	23.5	

Source: UNDP (2013)

Second, low mobility has been due to resistance to any effort to eradicate poverty. There has been no equitable growth in Latin America and the Caribbean. Growth has been concentrated at the top of the population pyramid. This characteristic can be represented by relating the Gini index to GDP per capita. Milanovic and Muñoz de Bustillo (2008) found that these two factors are independent, concluding that the income received by economic growth has not been redistributed to the poor. Inequalities in education also play an important role in mobility in the region. In short, inequality in Latin America and the Caribbean has been persistent and accompanied by low mobility among the population, making it difficult to fight, especially when public spending on primary education has been regressive. According to the World Bank, expenditure in the region per student in primary education fell from 12.6 percent of GDP per capita in 2000 to 12.4 percent in 2008 (Vásquez 2013).

Why do we care about poverty?

Closely related to inequality is the issue of poverty. The effects of poverty go well beyond a lack of money. The actual experience of poverty is devastating to people's health, psychological sense of well-being, and life opportunities. In his paper "When deprivation and differences do matter: multidimensionality of poverty in Latin America and the Caribbean," Enrique Vásquez questioned to what extent one-dimensional indicators of poverty such as monetary poverty are able to reflect people's deprivation and welfare. He calls for an urgent change of perspective toward a more complete picture of the problems faced by the poor (Vásquez 2013).

In this sense, poverty can be viewed in terms of vulnerability and insecurity— an individual or household's ability to absorb unanticipated economic shocks like theft, illness, loss of a job, and so on. When you are poor, even a small, unanticipated shock can send your household over the edge into extreme hardship. You constantly live on the

Globally, around 1.7 billion people in the 109 countries included in the MPI analysis live in multidimensional poverty.

brink, and the stress from this aspect alone has serious long-term implications for the health of poor individuals and, ultimately, for our societies.

The eradication of poverty should be perhaps the first and most important goal of any democratic government. It is already a primary social concern of the world's multilateral institutions like the UNDP and the World Bank. This is why this chapter's vision for Latin America argues that poverty must be eradicated by 2050.

What is poverty?

While this may sound like a question with an obvious "right" answer, there is actually a lot of disagreement about how best to measure poverty. Historically, poverty has been measured using either income or expenditure. Some organizations use the poverty lines of $2.00 and $1.25 for poverty and extreme poverty, respectively, while others use $4.00 and $2.50. This is also called monetary poverty.

This measure of how much an individual earns per day is still widely used, but a growing number of organizations, economists, governments, and activists have rejected it as the best measure of "real" poverty. This is because the income/expenditure account of poverty probably underestimates the extent, depth, drama, and deprivation of poverty, which are affected by much more than just income. For example, the Oxford Poverty and Human Development Initiative (OPHI 2013) found that poor people themselves describe poverty and ill-being as encompassing far more than just money. For them, it includes poor health and nutrition, a lack of adequate sanitation and clean water, social exclusion, low education, bad housing conditions, violence, shame, disempowerment, and more. These conditions are correlated with income but may continue even as income rises if society does not simultaneously focus on them as associated conditions.

It is clear that the effects of poverty are multidimensional and compound one another. They are not just about low income, just as development cannot be measured by economic growth alone. Vasquez highlighted the importance of a multidimensional indicator for Latin America because it would allow for a more complete analysis of the deprivations of people in different dimensions and for a resolution of the paradox between growth and conflict in the region.

To address this gap between what is measured and what is known to be true about the actual lived experience of poverty, new approaches to measuring poverty have been developed. These include the Human Development Index (HDI), the Multidimensional Poverty Index (MPI), the Human Opportunity Index (HOI), and the Happy Planet Index (HPI), among others. Instead of using the flawed income-only measure to assess levels of poverty, it is necessary to look at a number of dimensions that better reflect the real experience of poverty.

This chapter draws on the Multidimensional Poverty Index (MPI)[2] for reflections on poverty. It is well aligned with the sense of the multifaceted nature of poverty that is essential to capture when discussing the issue. The MPI takes into account a number of factors, including health, education, and living standards, which can be seen in Table 15.3. Across the ten indicators used to measure deprivation, if a family is considered deprived in more than one-third of the indicators, then it is considered MPI poor.

Globally, around 1.7 billion people in the 109 countries included in the MPI analysis live in multidimensional poverty. This indicates that about one-third of the population lives in "acute" poverty in those countries. This exceeds the estimated 1.3 billion people there who live on $1.25 per day or less (considered "extreme" poverty by the World Bank's income measures), but it is below the share who live on $2.00 per day or less. According to Sabina Alkire and Maria Emma Santos (2010), the differences between the measures can be attributed to the fact that the MPI measures the deprivations people experience directly, rather than using monetary poverty as a proxy.

2. The MPI was developed by the Oxford Poverty and Human Development Initiative (OPHI), which is part of Oxford University, and the Human Development Report Office of the UNDP.

Poverty is not equally distributed across the Latin American region. Central American and Andean countries have much higher percentages of their population living in poverty than the Southern Cone countries of Argentina, Chile, and Uruguay.

Table 15.3: Multidimensional Poverty Indicators used to measure deprivation

Dimension	Indicator	Deprived if…	Relative Weight
Education	Years of schooling	No household member has completed five years of schooling	0.167
	Child school attendance	Any school-aged child is not attending school in years 1 to 8	0.167
Health	Mortality	Any child has died in the family	0.167
	Nutrition	Any adult or child for whom there is nutritional information is malnourished	0.167
Standard of living	Electricity	The household has no electricity	0.056
	Sanitation	The household's sanitation facility is not improved (according to the MDG guidelines), or it is improved but shared with other households	0.056
	Water	The household does not have access to clean drinking water (according to the MDG guidelines) or clean water is more than 30 minutes walking distance from the home	0.056
	Floor	The household has dirt, sand or dung flooring	0.056
	Cooking fuel	The household cooks with dung, wood, or charcoal	0.056
	Assets	The household does not own more than one radio, TV, telephone, bike, motorbike, or refrigerator and does not own a car or a truck	0.056

Source: Alkire & Santos (2010, p. 17), Oxford Poverty and Human Development Initiative (2013), and Vasquez (2013)

As might be expected, then, different measures of poverty give slightly different perspectives on the situation. The benefit of the MPI, as opposed to using only monetary poverty indicators, is that interventions can be targeted directly to the deprivations a certain population is actually experiencing. For instance, despite being "equally poor," it could be the case that one country's population is deprived of access to basic services but has access to health care, while in another country the situation is reversed. The programs and policies needed for attacking poverty in those two countries would be radically different. Using the MPI rather than income allows policy makers to target interventions directly where they are needed.

In Latin America, the Mexican government was the first country to adopt the MPI as its measure of poverty; other countries' governments have expressed interest. In all likelihood, all countries will eventually adopt a measure similar to this one.

What are the levels of poverty in Latin America?

Using traditional measures of low wages, absolute levels of poverty have declined substantially in Latin America over the last decade. Between 1992 and 2011, extreme poverty (below $2.50 per day) in the region had fallen from 27.5 percent to 12.6 percent and poverty (under $4.00 per day) has fallen from 44.5 percent to 35.8 percent of the population. Table 15.4 shows how that differs across the major regions of Latin America.

Poverty is not equally distributed across the Latin American region. Central American and Andean countries have much higher percentages of their population living in poverty than the Southern Cone countries of Argentina, Chile, and Uruguay. The extended Southern Cone includes Brazil and Paraguay, and their poverty rates are much higher.

Some nuances also exist. For example, going back to the definitions of Table 15.3, the percentage of poor in Guatemala is lower than in Honduras, but a higher proportion of Guatemala's poor are living under conditions of severe deprivation—meaning they are deprived in terms of

Changes in and access to education and basic services can definitively contribute to the multidimensional poverty reduction in Latin America and the Caribbean.

Table 15.4: Between 1992 and 2011, extreme poverty in Latin America had fallen from 27.5 to 12.6 percent

Poverty Rates in Latin America, by Region, 1992-2011										
	$2.50/day poverty line					$4.00/day poverty line				
Region	**1992**	**1998**	**2003**	**2011**	**Change 1992-2011**	**1992**	**1998**	**2003**	**2011**	**Change 1992-2011**
Extended Southern Cone										
Poverty (percent)	30.5	22.3	24.7	10.7	-9.7	46.7	37.3	40.6	21.5	-25.2
Number of poor (millions)	63.8	51.1	60.5	28.6	-35.2	97.8	85.3	99.2	57.3	-40.6
Andean region										
Poverty (percent)	26.5	25.3	29.4	12.2	-14.3	43.8	42.5	48.9	25.8	-18.0
Number of poor (millions)	25.3	27.1	34.2	15.8	-9.5	41.9	45.6	56.8	33.4	-8.5
Central America										
Poverty (percent)	23.1	27.2	21.4	16.1	-7.0	41.3	45.3	38.6	32.7	-8.7
Number of poor (millions)	28.7	37.5	31.6	26.2	-2.4	51.3	62.5	57.0	53.1	1.9
Latin America										
Poverty (percent)	27.5	24.4	24.8	12.6	-14.8	44.5	40.8	41.9	25.8	-18.8
Number of poor (millions)	117.7	115.4	126.2	70.6	-47.1	190.9	193.3	212.8	143.8	-47.1

Source: CEDLAS and World Bank (2013)

more than half of the MPI indicators (Alkire, Conconi, and Roche 2013).

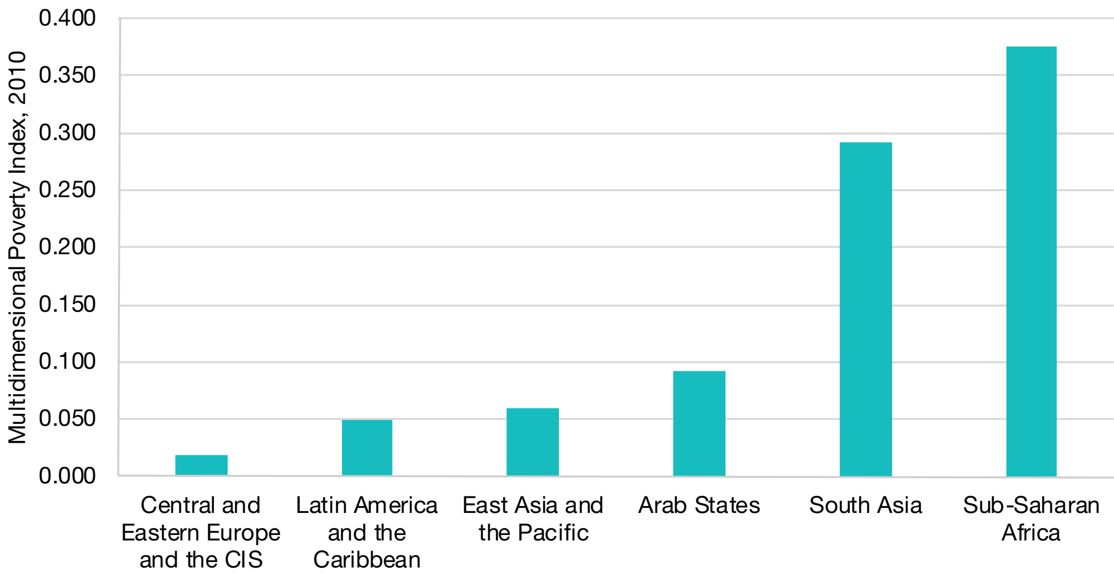
Policy-wise, this more nuanced analysis is more useful. It shows where each country could get the most "bang for its buck" in terms of MPI poverty interventions. For instance, in Uruguay, 96 percent of its relatively low levels of poverty come from lack of access to education, while in Peru, 60.6 percent of the relatively high levels of poverty come from not having access to basic living standards.

The MPI has been calculated for 18 countries in Latin America and the Caribbean (Vásquez 2013, Alkire & Santos 2010). According to the findings, Latin America was the second least-poor region worldwide in 2010, with an MPI of 0.048 (Figure 15.1). According to this methodology, 51 million poor people, or 10.4 percent of the population, resided in this region. However, these data were highly variable among countries, ranging from 1.6 percent of poor people in Uruguay to 57 percent in Haiti. However, there were differences between subregions because poverty was higher in the Andean and Central American countries and relatively lower in the Southern Cone. Education and living standards were the prevalent problems of Latin America and the Caribbean in 2010, and they accounted for 39.04 percent and averaged 35.57 percent of the MPI in 2010, respectively. Therefore, changes in and access to education and basic services can definitively contribute (and in that order of importance) to the multidimensional poverty reduction in Latin America and the Caribbean. In conclusion, the MPI is a useful tool that can better guide policy decision makers to determine which deprivation to prioritize when solving the problem of poverty.

What is the difference between multidimensional and monetary poverty? The figure for the multidimensional poor population in Latin America and the Caribbean (10.40 percent) was among the values obtained using the monetary poverty threshold of $1.25 (7.40 percent) and $2.00 (15 percent) in PPP terms. Figure 15.2 shows the divergences between the two methodologies for a group of countries in the region. It can be observed that in some cases multidimensional poverty is greater than monetary poverty, while

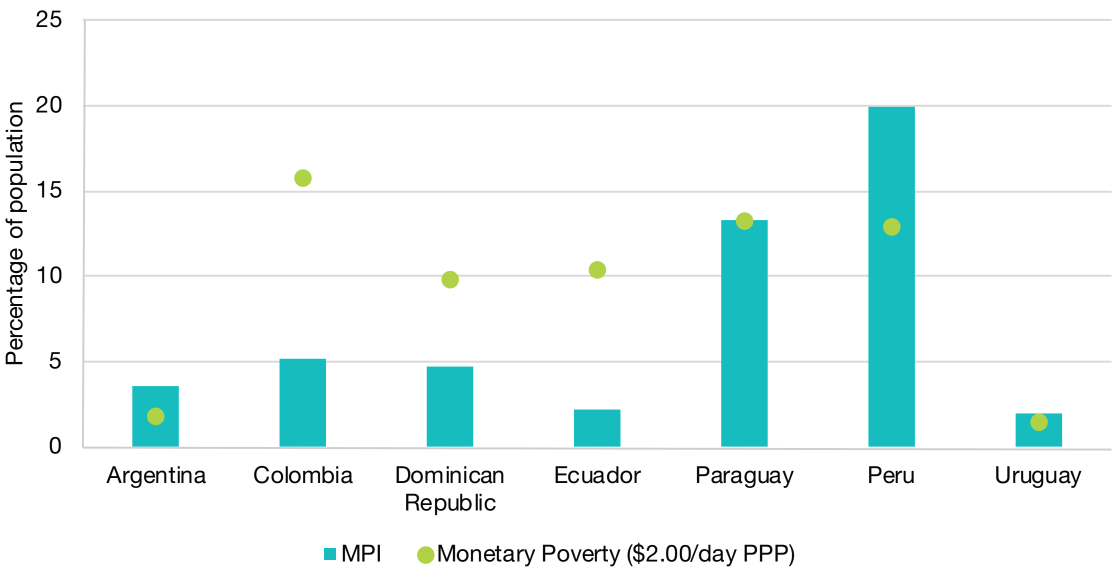
In some cases multidimensional poverty is greater than monetary poverty, while in others it is the opposite.

Figure 15.1: Latin America was the second least-poor region worldwide in 2010



Source: Alkire & Santos (2010)

Figure 15.2: In some cases, multidimensional poverty is greater than monetary poverty



Note: Multidimensional poverty data correspond to 2011 while the monetary poverty data are for 2012. It is assumed that there were no significant variations in the level of poverty between 2011 and 2012.
Source: UNDP 2010; World Bank 2015c

Economically active women have more years of schooling than working men, but they earn at least 10 percent less than their male counterparts.

in others it is the opposite. According to Alkire & Foster (2011), these divergences appear because multidimensional poverty measures deprivations directly as opposed to monetary poverty. People may obtain different results when converting their income to reduce deprivation in other dimensions, e.g., differences in education spending. In summary, each method measures something in particular and uses certain variables despite using the same sources of information, such as household surveys respective to each country.

Who are the poor?—Gender and ethnic disparities

Latin America is an incredibly diverse region in terms of ethnicity and culture. Over 400 different ethnic groups live in Latin America and the Caribbean. This brings a wealth of experiences and perspectives into society. Latin America is rich in its diversity.

However, historic disparities and residual discrimination mean that inequality is not equally distributed in our region. Still, today, within the high levels of inequality in Latin America, clear divisions along geographic, ethnic, and gender lines persist. Each of these three aspects is correlated with inequities in earnings, and they are also interrelated and mutually reinforcing.

Geographically, people living in rural areas tend to be poorer than those in urban areas. Table 15.5 shows the difference between urban and rural poverty in Latin America and the Caribbean according to the income measure of poverty as reported by the Economic Commission for Latin America and the Caribbean (ECLAC).

Many of the poorest Latin Americans are self-employed as subsistence farmers in rural areas. This rural-urban difference is complicated by the fact that across Central America and in many of the Andean countries, the majority of rural subsistence farmers are indigenous. Even outside subsistence farming, the gaps between rural indigenous workers and rural white workers are larger than in urban areas (Ñopo 2012).

There are also considerable earnings gaps between men and women. Economically active women have more years of schooling than working men, but they earn at least 10 percent less than their male counterparts (Ñopo 2012). They are also underrepresented at the managerial position levels. While there are clear gender differences across economic sectors, e.g., men tend to work in construction and agriculture, while women dominate the social and personal services sectors, evidence suggests this is not the source of the gender earnings gap (Ñopo 2012). Interestingly, although women across the region earn, on average, less than men at all ages and at every level of education and in all types of employment, it is only in rural areas where women earn at levels comparable to men.

Unequal gender pay is often taken for granted as "simply the way things are" in the region—"hierarchical segregation—the fact that managers tend to be men

Table 15.5: **People living in rural areas tend to be poorer than those in urban areas**

Percentage of Population Living Below the Poverty and Extreme Poverty Lines, by Urban and Rural Areas						
	Poverty			Extreme Poverty		
Year	Total	Total Urban Area	Total Rural Area	Total	Total Urban Area	Total Rural Area
1990	48.4	41.4	65.2	22.6	15.3	40.1
2005	39.7	34.0	59.8	15.4	10.3	33.3
2010	31.0	25.5	52.4	12.1	7.6	29.5
2011	29.4	24.2	49.8	11.5	7.2	28.8

Note: Data as of December 6, 2012. Estimates are based on the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela
Source: UN Economic Commission for Latin America and the Caribbean (2015)

If today's children do not have the opportunity to develop their minds and bodies, they will grow to be adults who have limited opportunities.

(white) and subordinates women (minorities)—is commonly accepted as the norm in the region's labor markets" (Ñopo 2012).

However, this is not how things should be. To achieve a socially inclusive society, each and every one of these aspects needs to be addressed simultaneously in a coordinated and consistent manner. All people, regardless of gender, race, ethnicity, language, or birthplace, should be given the opportunity to be productive, welcomed members of society. All people should be given fair and equal pay for their work, regardless of whether they are a man or woman and regardless of the shape of their nose or the color of their skin.

Child Poverty

Along with the gender and ethnic disparities, it is important to discuss the serious issue of child poverty in Latin America. Children do not get a second chance at receiving a healthy start in life, and they rarely get another opportunity to access quality basic education. This means that childhood poverty almost guarantees the intergenerational transmission of poverty and inequality.

If today's children do not have the opportunity to develop their minds and bodies, they will grow to be adults who have limited opportunities. Their capabilities, according to Sen's definition of the word, are stunted because of factors outside their control. In terms of reducing intergenerational poverty in the long term, perhaps what needs to concern us most is the welfare and well-being of children today.

A recent ECLAC and UNICEF study used a multidimensional framework (similar to the MPI) to measure child poverty in Latin America. Factors such as nutrition, access to drinking water, quality of housing, and school attendance were included in the study. Using these metrics, nearly half (45 percent) of all children living in Latin America are affected by at least one "moderate to severe deprivation" (UNICEF and ECLAC 2010). This means that right now over 80 million Latin American children's opportunities to develop to their full potential are being compromised.

Of course, Latin America is as diverse in this aspect as it is in others. The study finds that some countries, like Chile, Costa Rica, and Uruguay, have less than 25 percent of their children living in poverty, while others, like Bolivia, El Salvador, Guatemala, Honduras, and Peru, have over 66 percent of children living in poverty. Figure 15.3 shows the distribution of child poverty across the region.

Overall, progress has been made in reducing poverty, but it is still unequal progress and has not yet created the kind of inclusive society envisioned for the region. Certain groups are still more likely than others to live in poverty, and millions of children are struggling with basic necessities.

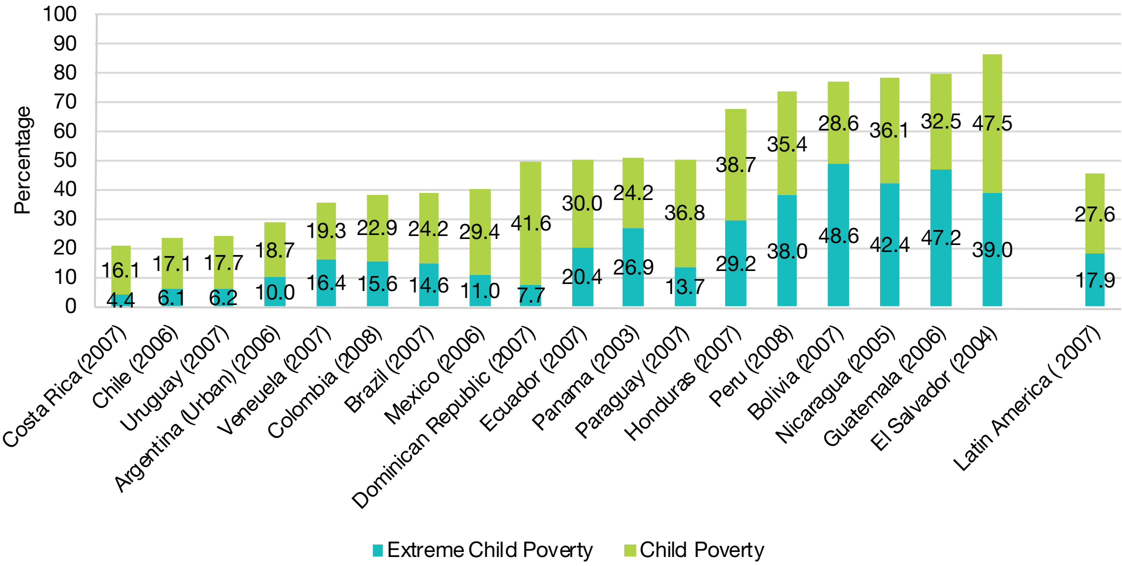
Latin America must ensure that average per capita income keeps rising and that the fruits of economic growth are distributed more equally, because both growth and distribution are keys to the reduction of poverty. Yet, the additional challenge is that poverty and inequality can not be reduced solely through macroeconomic policy. The issues surrounding an inclusive society are intricately related to social dimensions of well-being, such as health, education, and security, which are not necessarily just related to average per capita income. These aspects need society's focused attention. It is important how much people earn, but available health, education, and security services not only improve earning capacity but directly improve people's everyday sense of well-being.

Summing up

There is no doubt inequality is one of the most entrenched scourges of the region. Inequality and poverty are intertwined. If Latin America does not address issues of inequality, it is much more difficult to address poverty. A country that has eliminated poverty but remains highly unequal will not be a shared society and will continue to experience social unrest. This chapter examined the situation of inequality and poverty in Latin America and presented the results of several measures of these phenomena in the region. "Monetary poverty measures" are insufficient. Latin America needs a multidimensional

High initial levels of inequality can slow economic growth and reduce the share of the economic growth that poorer people receive.

Figure 15.3: Bolivia, El Salvador, Guatemala, Honduras. Nicaragua, and Peru have over 65 percent of children living in poverty



Source: UN Economic Commission for Latin America and the Caribbean (2015)

approach to poverty, such as the one introduced earlier. As mentioned, high initial levels of inequality can slow economic growth and reduce the share of the economic growth that poorer people receive.