



# Report on the World Social Situation 2010

## Rethinking Poverty

### Executive Summary

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#### Introduction

Fifteen years ago, global leaders at the World Summit for Social Development in Copenhagen described poverty eradication as an ethical, political and economic imperative, and identified it as one of the three pillars of social development. Poverty eradication has since become the overarching objective of development, as reflected in the internationally agreed development goals, including the Millennium Development Goals which set the target of halving global extreme poverty by 2015.

Judging from statistics, there has been some success in reducing global poverty levels. According to the World Bank, the number of people living on less than \$1.25 a day in developing countries declined from 1.9 billion to 1.4 billion between 1981 and 2005 at 2005 purchasing power parity. In addition, the proportion of people living in extreme poverty dropped from 52.0 to 25.7 per cent during this period.

Improvements in overall poverty levels have largely depended on growth. Countries or regions that have experienced strong growth during the last two decades have managed to reduce poverty levels, particularly in urban areas. It is the success of China and East Asia, and to some extent India, that has largely driven global poverty trends downward. However, not every region or country has recorded such remarkable progress. The absolute number of people living in poverty has gone up in several countries in sub-Saharan Africa, Latin America, the Middle East and Northern Africa, as well as in Central Asia.

Viewed in terms of the wider definition of poverty adopted by the 1995 Social Summit, which includes deprivation, social exclusion and lack of participation, the situation today may be even more deplorable than a money income poverty line would suggest.

The recent food and energy crises made hundreds of millions more vulnerable to hunger and poverty. Moreover, the current global financial and economic crisis threatens to wipe out much of the modest progress in poverty reduction achieved since the 2000 Millennium Summit, while climate change increasingly threatens the lives of people living in poverty. The negative economic and social impacts of these crises highlight vulnerability to poverty and call into question the sustainability of global poverty reduction. This further underscores the need to rethink poverty reduction strategies and, more broadly, the underlying development paradigm.

The *Report on the World Social Situation 2010* seeks to contribute to rethinking poverty and its eradication. Following the review of global poverty trends contained in chapter II, chapters III and IV reflect on broader issues of measurement, with a view to widening the understanding of poverty in its various dimensions. They underscore the fact that the issue of poverty reduction is a great deal

more nuanced and complex than the narrow technocratic vision underlying the conventional wisdom. Chapters V through VIII critically examine the conventional policy framework and popular poverty reduction programmes in the context of the persistence of poverty, rising inequality and lacklustre growth performance in many developing countries until very recently. Chapter IX argues that a commitment to eradicating poverty and to enhancing equity and social integration requires consistent actions directed towards sustainable economic growth, productive employment creation and social development, entailing an integrated approach to economic and social policies for the benefit of **all** citizens. Moreover, it calls for more developmentally oriented and progressive State activism and universalism – as opposed to selectivity – in this approach.

## Assessing progress in poverty reduction

Poverty is most often measured in monetary terms, captured by levels of income or consumption per capita or per household. The commitment made in the Millennium Development Goals to halve the number of people living on less than a dollar a day by 2015 represents the most publicized example of an income-focused approach to poverty.

Based on this measure, the last 20 years have seen significant reductions in the depth and severity of extreme poverty in the developing world. Despite continued growth in the global population as well as the population of less developed regions, the absolute number of people living below the poverty line was on the decline over the period from 1981-2005. However, the distribution of people living in poverty within and across regions has changed.

While 57 per cent of the world's extreme poor lived in East Asia and the Pacific in 1981, those countries were home to only 23 per cent of all poor in 2005. In contrast, the share of the world's extremely poor people increased in South Asia, from 29 per cent in 1981 to 43 per cent in 2005, and more than doubled in sub-Saharan Africa, from 11 per cent to 28 per cent between 1981 and 2005.

The changing regional picture of the distribution of poverty also reflects broad changes in economic performance. These poverty and population dynamics have occurred in the midst of an expanding global economy, which has resulted, on average, not only in higher per capita incomes in both developed and developing countries, but also in wider income gaps between rich and poor countries. Within-country income inequalities also increased in a majority of countries during this period: between the early 1980s and 2005, income inequality rose in 59 out of 114 countries for which data are available and declined in 40 of those countries.

## Measuring poverty

In order to fully comprehend the nature and extent of poverty, as well as to develop and evaluate anti-poverty policies, there must be clarity on the definition and measurement of poverty. Whereas most developing countries continue to measure absolute poverty in terms of income, most developed countries now focus on relative poverty defined by a poverty line measured as a

proportion of the median per capita yearly income. This relative measure is significant in that it reflects the critical inequality dimension of poverty. Other non-income dimensions, such as educational, health and environmental deficits, and more recently, social exclusion, are also receiving greater attention.

Although the current monetary poverty-line approach provides a clear and accessible definition of absolute poverty and allows for various types of comparison, it nonetheless has considerable shortcomings. Variations and limitations in methodology and convenient economic assumptions can underestimate and short-change the poor, for example, by neglecting disparities within households and overestimating access to publicly provided services. Both conceptual and methodological improvements to the current poverty-line approach should continue to be explored and pursued.

The experience of poverty is multifaceted, multidimensional and subject to volatility, and encompasses time and relativity dimensions. As such, it cannot be defined by a single expenditure criterion that separates the poor from the non-poor. Multiple indicators are needed to capture its scale and dimensions, such as measures of the depth of – and vulnerability to – poverty.

One alternative strategy to targeting the poor based on the income poverty line is to address all deficits in specific dimensions through the provision of access to all persons in the form of rightful entitlements. This universalist approach extends to those faced with deficits within any dimension of well-being, whether in a state of money poverty or not.

## **The social exclusion approach to poverty analysis**

Poverty eradication strategies must progress from an abstract focus on the incidence of poverty, to an understanding of its lived experience that is based on accurate identification of people that are in poverty. At the same time, there is a need for more analysis of the structures and dynamic processes that produce poverty, as well as vulnerability and the movement of households into and out of specific states of deprivation.

The social exclusion approach to poverty analysis focuses on the non-material dimensions of deprivation and takes account of the concept of identity and social relations that engender deprivation. Social exclusion exists across all societies in numerous and often compounded forms, affecting people of all ages and backgrounds – from women and migrant workers to the Roma in Europe and indigenous groups in Latin America.

The lens of social exclusion allows one to isolate and address those processes which create deprivation in society. By fostering social cohesion and the realization of rights of individuals and groups, the promotion of social inclusion effectively complements other poverty reduction strategies.

## **The economic environment for poverty reduction**

Poverty reduction, or lack thereof, always occurs within a macroeconomic context. Countries that adopted stabilization measures and structural adjustment programmes experienced declines in average economic growth and increases in inequality and poverty during the 1980s and/or the 1990s, especially in Africa and Latin America. In general, macroeconomic stabilization measures led to declines in public investment and increased the volatility of economic growth and employment. Reductions in public investment in health, education and other social programmes disproportionately affected people living in poverty. They were also adversely affected by increased output volatility, especially since unskilled workers tend to be the first to lose their jobs, and because job recovery lags behind output recovery.

In general, people living in poverty and those at risk of poverty are most vulnerable to fluctuations in income and employment. Broad-based stabilization policies that reduce such fluctuations and recognize the direct link between decent employment and poverty can greatly enhance the effects of economic growth on poverty reduction.

Monetary and exchange rate policies should play a supportive role and accommodate Governments' need for development activities and counter-cyclical measures. Besides being counter-cyclical, fiscal policies in developing countries should also be developmental and inclusive. In many developing countries, this will require explicitly addressing the needs of food security and agricultural development through rural banking and other inclusive finance initiatives. Governments should consider reintroducing specialized development banks, especially to promote employment-intensive small- and medium-size enterprises and agriculture.

Overall, macroeconomic policies must look beyond keeping inflation and fiscal deficits under control. They must aim at stabilizing the real economy and reducing fluctuations of output, investment, employment and income. Fiscal policy can play an important counter-cyclical role, if resources are accumulated during boom periods and used to fund expansionary policies or targeted interventions during downturns. Monetary policies can be supportive by accommodating counter-cyclical measures and development activities, especially if they are not limited to keeping inflation low, but also include measures such as specialized credit regulation to promote employment and reduce poverty.

## **Labour market and social policies for poverty reduction**

The centrality of productive employment and decent work for all to poverty reduction is widely recognized and accepted. However, the creation of productive and decent jobs has failed to receive the prominence it deserves on the development agenda over the past three decades. In fact, erosion of labour standards within economic liberalization programmes was condoned and, in many cases, promoted on the assumption that it would spur economic growth, which, in turn, would lead to

employment creation, as long as labour markets remained flexible. Yet, increased labour-market flexibility has instead often resulted in insecure work status, employment and income. This trend has been accompanied by increasing informalization of work, even in developed countries.

The global financial and economic crisis has resulted in massive job losses. Besides posing serious threats to social spending and social stability, given the long lag in employment recovery, the increase in global unemployment will, in all likelihood, erase the progress made over the last decade to reduce extreme poverty through the generation of decent work opportunities for all. Job losses disproportionately affect people living in poverty and those at risk of slipping into poverty. In the long term, active labour-market policies should aim to develop an education and training system that enhances the productive potential and employability of the workforce.

Social protection policy measures and programmes can reduce poverty and vulnerability. They seek to protect society's more vulnerable members against livelihood shocks and risks, enhance the social status and rights of the marginalized, protect workers, and reduce people's exposure to risks associated with ill health, disability, old age or unemployment. Once a social protection system is in place, it is much easier to pursue enterprise-level flexibility and to cope with global economic downturns.

Investments in education can play a key role in poverty reduction owing to its growth-promoting effects. Progress by developing countries in the last decade on many education indicators has been impressive. However, serious gaps remain. There are important disparities in access to education between boys and girls, between children in rich and poor households and in urban and rural areas, among others.

Improvements in health have a positive effect on economic development as well, although the challenge is to reduce inequality in access to health care. Therefore, public health services are a key aspect of government services affecting the health of poor people. The critical issue will be how best to ensure that these services actually reach them.

The importance of participation for poverty reduction and social integration policies is based on the basic premise that people, including people living in poverty, have the right to influence decisions that affect their lives. Poverty itself is a major barrier to participation, yet without promoting participation and inclusion, poverty reduction policies may not only be rejected as paternalistic, but also never be properly implemented. Hence, it is important to remove barriers to participation and to promote active participation.

As poverty in many countries has barely declined or even increased despite some economic growth, it has become clear that growth, by itself, does not reduce poverty. In fact, neither macroeconomic recovery nor even growth necessarily translates into poverty reduction. Consequently, many governments and development agencies have created or supported various programmes to reduce poverty, involving microcredit, land titling or even "bottom of the pyramid" marketing to the poor.

Overall, in several developing countries, the levels of per capita social spending still remain below levels attained in the 1970s. Neither quality nor coverage have improved much, e.g., with the emphasis on social safety nets rather than universal social protection. In some countries, the already inadequate social infrastructure in areas such as health and education, have actually deteriorated. Notwithstanding the desirability of improving efficiency in social policy, the costs of targeting and conditionalities, both administrative and in terms of exclusion, need to be critically revised.

## Conclusions and recommendations

The challenges for poverty reduction remain formidable, numerous and complex, and have been exacerbated by the global financial and economic crisis. It is imperative that the mixed record so far leads to serious rethinking of policy approaches that have dominated the discourse on growth and poverty to date. Prioritizing sustainable development and structural transformation involving sustained growth, employment and incomes, with inclusive development which benefits people living in poverty, must be advanced.

The poverty line between the poor and the non-poor has become less clear but also less significant. The economic crisis has served as a reminder that poverty is not an attribute of a fixed group, but rather a condition that all the vulnerable risk experiencing at some point in life. It is essential for people to be healthy, educated, well housed and fed to be more productive and to contribute in turn to society. Approaches to poverty reduction should therefore be developmental and holistic, integrating economic and social policies to achieve people-centred development outcomes.

Social policy should focus on the determinants of wealth and income distribution as well as generating decent employment. Social policy and spending are key to breaking the intergenerational transmission of inequality and poverty. The scope of social policy is multidimensional. Without detracting from other efforts on the social front, growth strategy, programmes and policies involving human resources, employment and social protection should be equity-promoting.

Experiences in many countries have shown that decent work is central to income generation for people living in poverty that leads to poverty reduction. Therefore, an employment strategy aimed at promoting decent work should be fundamental for any equitable and sustainable development strategy, while macroeconomic policy must include employment creation.

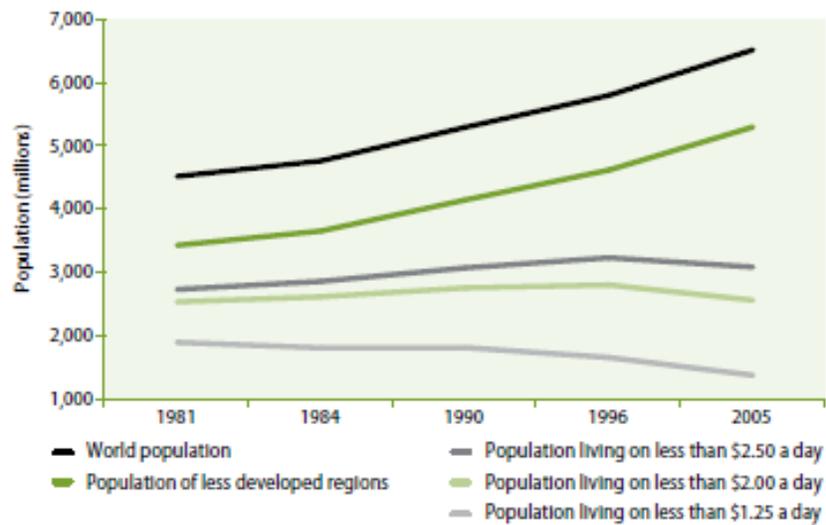
The development of human resources is a key component of a comprehensive development strategy since it has a simultaneous impact on poverty reduction, inequality, growth as well as social integration. Public social expenditures, especially in education and health, are critical for human resources development. Public social expenditures should be safeguarded and even increased – counter-cyclically – in the current crisis. This should also be incorporated into stimulus packages and international support to low-income developing countries.

Improved social protection systems are also key to an integrated approach to eradicating poverty and improving equity. These systems should provide universal coverage and cover basic risks, particularly against ill health, ageing and unemployment, in an integrated package. The current global crises and their impacts on workers in developed and developing countries alike further underscore the importance of providing a social protection floor for the poor as well as the non-poor. For people living in poverty, some basic social protection will help them avoid falling deeper into poverty; for the non-poor, it will reduce their vulnerability to poverty.

With rising inequality, social integration becomes more elusive. Social cohesion and solidarity are fundamental for development and social progress, and efforts to develop and reinforce institutions and mechanisms encouraging social integration must be sustained. Promoting inclusion and reducing deprivation strengthens democratic institutions and processes, making social and economic relations more harmonious, and provides a firm foundation for long-term development and prosperity.

Finally, reducing poverty requires efforts not only at the national level, but also for the international community to promote more effective social investment efforts for greater solidarity and equity. Such commitments should also be reflected in greater aid and in opening up markets to products from developing countries.

World population and number of people living in poverty, 1981-2005



Sources: United Nations, Department of Economic and Social Affairs, Population Division; and World Bank, Development Research Group (2009).

Poverty trends over time, with and without major countries and regions, 1981-2005



Source: World Bank, Development Research Group (2009).