

CHILD POVERTY INSIGHTS

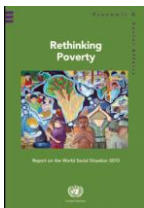
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Rethinking Poverty: Report on the World Social Situation 2010



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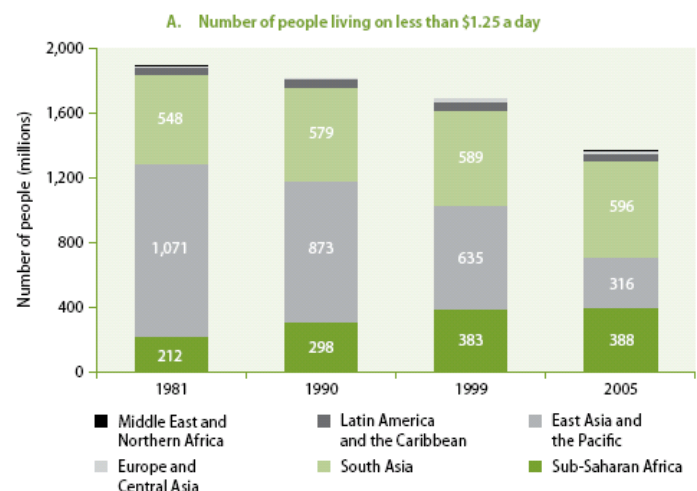
What were some of the striking findings presented in the recent publication, *Rethinking Poverty*?



This year's *Report on the World Social Situation* seeks to contribute to rethinking poverty and its eradication. It affirms the urgent need for a strategic shift away from the market fundamentalist thinking, policies and practices of recent decades towards more sustainable development- and equity-oriented policies appropriate to national conditions and circumstances. Some of the key messages are as follows:

- The number of people living on less than \$1.25 a day declined globally from 1.9 billion in 1981 to 1.4 billion in 2005 according to the World Bank. This decline is largely due to rapid growth in China. However, the absolute number of people living in poverty actually went up during this period in many countries in sub-Saharan Africa, Latin America, the Middle East and Northern Africa, as well as Central Asia.
- The global financial, food, and fuel crises, as well as the ongoing effects of climate change threaten efforts to greatly reduce extreme poverty, undermining some gains achieved since the 2000 Millennium Summit. The negative economic and social impacts of these crises threaten the lives of people living in poverty and call into question the sustainability of global poverty reduction.
- The experience of poverty is multidimensional. A wider definition of poverty, adopted by the 1995 World Summit for Social Development, includes deprivation, social exclusion and lack of participation. Using this broader definition, the situation today may be even more deplorable than a monetary income poverty line would suggest.

Global and regional trends in extreme poverty, 1981-2005



- Experience has shown that current conventional policy approaches to poverty eradication are insufficient and require serious rethinking by policy makers. The challenges to reducing global poverty remain formidable, numerous and complex, and have been exacerbated by the economic crisis. We need to prioritize sustainable development and structural transformation - involving sustained growth, employment and incomes, with inclusive development which benefits people living in poverty.

How would you describe global poverty trends and distribution patterns over the last 20 years?

World leaders agreed in 2000 to halve the number of people living on less than a dollar a day by 2015. 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.

Many analysts have noted shortcomings in making these estimates. The main problem concerns the intrinsic worth of the poverty line as a meaningful measure of poverty. Evidence suggests that such poverty lines misrepresent the actual extent of poverty. For instance, global poverty is said to have declined while global hunger is said to have increased while the poverty line is supposed to be principally determined by the money income needed to avoid being hungry. Also, the new World Bank line is not based on the United States rate of inflation; had it been taken into account, the original \$1.08 a day would have become \$1.45 a day for 2005, with obvious implications for the corresponding estimates of people in poverty, and hence, for the achievement of the Millennium Development Goals poverty target by 2015.

Additionally, the distribution of people living in poverty within and across regions has changed. While 57 per cent of the world's extremely poor lived in East Asia and the Pacific in 1981, the sub-region was home to only 23 per cent of the global 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 distribution of poverty reflects broad changes in economic performance.

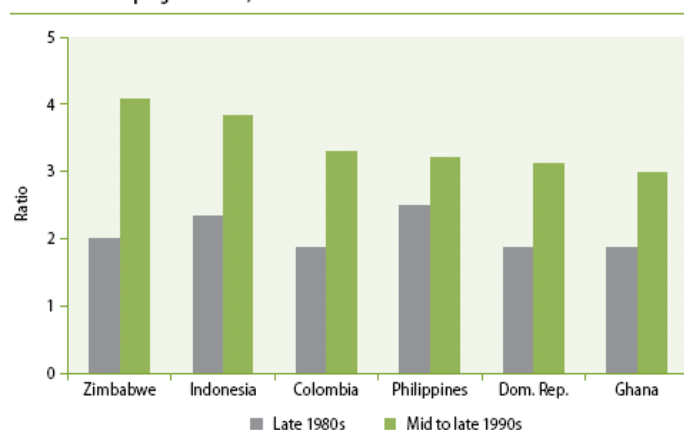
Trends in inequality should also be considered. Not only are there wider income gaps between rich and poor countries, but within-country income inequalities have also increased in the majority of countries during this period: between the early 1980s and 2005, income inequality rose in 59 out of 114 countries for which data are available, and declined in 40 countries.

Why is there a need for rethinking policy approaches?

Although the current monetary poverty-line approach provides a useful definition of absolute poverty and allows for various types of comparison, it nonetheless has considerable shortcomings that could be overcome by multidimensional poverty measurement. The economic crisis has served as a reminder that poverty is not an attribute of a fixed group, but rather a condition that all vulnerable persons 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.

The report critically examines the conventional policy framework and popular poverty reduction programmes in the context of persisting poverty, rising inequality and, until very recently, lacklustre growth performance in many developing countries. There are many arguments that question current approaches based on pro-cyclical macroeconomic policies accompanied by microeconomic interventions targeted at the poor, and emphasize the need for governments to play a developmental role. This would entail an integrated approach to economic and social policies designed to support inclusive output and employment growth as well as to reduce inequality and promote justice in society. Poverty, and its reduction, always occurs within a macroeconomic context. Countries that adopted stabilization measures and structural adjustment programmes generally experienced declines in average economic growth and increases in inequality and poverty during the 1980s and 1990s, especially in Africa and Latin America. In general, macroeconomic stabilization measures led to declines in public investment and

Ratio of under-five mortality rate for the bottom quintile to that for the top quintile, selected developing countries, late 1980s and mid to late 1990s



Source: World Health Organization, Regional Office for the Western Pacific (2002).

effective in actually reducing poverty although some of them have undoubtedly served to ameliorate the crushing burdens of poverty, especially during times of crisis.

Key policies for poverty reduction include:

- **Macroeconomic policies focused on the stability of real output, incomes and employment:** It is necessary to relax unnecessarily stringent fiscal and monetary restrictions and enable countries to use counter-cyclical fiscal and monetary policy to boost employment and incomes, as well as to reduce poverty. This is an urgent need in the current crisis. It is important that macroeconomic stabilization not be limited to controlling inflation, trade and fiscal deficits. Fiscal policy can play an important counter-cyclical role, if resources are accumulated during boom periods and used to fund expansionary policies during downturns. Monetary policies can be supportive by accommodating countercyclical measures and development activities, especially by including measures to promote employment and reduce poverty.
- **Social policy focused on the determinants of asset and income inequality as well as poverty:** Social policy and spending are key to breaking the intergenerational transmission of inequality and poverty. Experiences in many countries have shown that employment and universal social policies are central to poverty reduction. Expansion of social protection programmes (e.g. a social protection floor) is essential to protect society's more vulnerable members against livelihood shocks and risks, enhance the social status and rights of the marginalized and protect workers against ill health, unemployment and destitution, 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. While there has been progress in advancing education and health in developing countries over the last decade, serious gaps remain. There are important disparities in access between children in rich and poor households and in urban and rural areas, among others. Public social expenditures, in particular on education and health, are critical for supporting investment in human resource development. Public social expenditures should be safeguarded and even increased – counter-cyclically – in the current crisis.
- **Promotion of participation, inclusion and voice of poor people:** The importance of participation for poverty reduction and social integration policies is based on the fundamental premise that people, including people living in poverty, have the right to influence decisions that affect their lives. It is crucial to remove barriers to participation and to promote the social inclusion and voice of poor people

Rethinking Poverty: Report on the World Social Situation 2010 is available at:

<http://www.un.org/esa/socdev/rwss/2010.html>

Child Poverty Insights are network members' contributions and do not necessarily represent the views of UNICEF. Please submit your Insights contribution to the editors of the series, Isabel Ortiz, Gaspar Fajth, Sharmila Kurukulasuriya and Louise Moreira Daniels at child-poverty@groups.dev-nets.org

increased the volatility of economic growth and employment. The mixed record of poverty reduction calls into question the efficacy of conventional approaches involving economic liberalization and privatization. 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.

There are grave concerns that targeting is not only expensive, but also excludes many of those who are deserving. Furthermore, many poverty programmes favoured by some donors have not been very