The Reduction of Poverty and Inequality

Opening Address to UWI's Conference on the Economy 2013

Euric Bobb, Ph. D.

The theme of this year's Conference, ' *Addressing the Challenges of Poverty and Inequality in the Caribbean*', is a fitting tribute to Ralph Henry who has been something of a lone wolf academic in this field over the last thirty years or so. At the best of times this is not an easy field for a researcher and the task is even more daunting where there is lack of official appreciation of the importance of periodic, comprehensive and scientific surveys of living standards. The cost of such surveys is beyond the reach of the individual researcher who must rely principally on the official statistical office or work commissioned by organizations such as the Caribbean Development Bank.

My approach in this Opening Address is to set a stage for your deliberations. I shall start with a brief overview of the analytical underpinnings of the study of poverty, set a broad context by reviewing trends in Latin America and selected Caribbean countries and conclude with observations on policy towards poverty reduction in Trinidad and Tobago. I have drawn principally on a store of research over many years by the World Bank, Inter-American Development Bank (IDB), the Economic Commission for Latin America and the Caribbean (ECLAC), and the Caribbean Development Bank (CDB).

Measuring Poverty and Inequality

The basic objective of economic policy is to raise the living standards of all citizens. While there has long been concern about the distribution of the benefits of growth, reflected for example in the early adoption of a progressive income tax, wealth and inheritance taxes, policy-makers have too often assumed that a rising tide lifts all boats. Tough adjustment policies adopted in the wake of the economic crisis of the early 1980s, resulted in a "lost decade" throughout Latin America. One consequence of this experience was increasing awareness in the 1990s of the need for explicit recognition of poverty reduction as an overarching goal of economic policy. In other words, the benign view that the benefits of growth would trickle down to the poor was replaced by recognition of the need for active policies to bring those benefits to the poor.

A necessary first step in crafting policies to benefit the poor is clear definition of what we mean by poverty backed by reliable data that enables us to identify the target population. The earliest studies – starting with Rowntree's of the city of York published in 1901- of poverty focused on ***income*** but this was refined to take a broader view based on ***expenditure*** or consumption in recognition of the fact that the quality of life may be enhanced by access to goods and services not requiring a direct outlay from income. A topical example of the difference between using income or expenditure to gauge poverty is the publication last month of the US Census Bureau's official measure of poverty at about 15 percent. However, when account is taken of the impact of the Supplemental Nutrition Assistance Program (food stamps) and the earned income tax credit of $3,000 per year paid to working low-income families with children, the poverty rate is more accurately pegged at about 5.5 percent.[1] Lately, the definition of poverty has been expanded to encompass ***deprivation*** not just of income, consumption or assets, but also **of opportunity**, including crucially having a 'voice' in society by being able to be heard and to hold leaders accountable (***empowerment***).

In practical terms, much of the effort to identify the poor has centered on the concept of consumption. The first of the Millennium Development Goals embraced by the global community in 2000 is the "eradication of extreme poverty and hunger" by 2015. In a global context, attention has focused very much on a definition of the 'poor' as those living on less that USD1 or 2 per day. While useful for cross-country comparisons, these global poverty lines need to be adapted to the circumstances of each country. Essentially, establishing the poverty line consists of pricing a basket

[1] *New York Times* "The Mismeasure of Poverty" September 18, 2013

of goods that provides minimum caloric intake in a particular country (***"indigence line"***) and increasing this figure by a factor that takes account of essential non-food consumption (***"poverty line"***).

Scientifically structured sample surveys of living conditions permit identification of the proportion of the population living in poverty and crucially also those at risk for falling below the poverty line on account of personal hardship, economic crisis or natural disaster. This latter group, known as the ***vulnerable*** population is conventionally set to include those up to 25 per cent above the poverty line. Policy responses for dealing with vulnerability revolve around the mitigation of risk by measures such as diversifying the economy, extending insurance arrangements and operating an effective social safety net.

In many European countries the measure of poverty is a ***relative income*** concept rather than absolute income. The poverty line is defined as one-half of the median household income with the intention of taking fuller account of the income needed for minimum comfort by the customary standards of the particular society. In principle, the relative poverty line sits at a higher income than the absolute poverty line since the latter is defined by bare essentials. Interestingly, in Latin America the relative poverty line defined at one-half of median income lies above the absolute poverty line in only three (Argentina, Chile and Uruguay) of eighteen countries.[2] This perverse relationship between relative and absolute poverty in Latin America may be explained by the chronic inequality in the distribution of income, a characteristic that will tend to depress median income.

Inequality in the distribution of income has been a newsworthy topic in recent times. Only two years ago the "We're the 99 per cent" demonstrations grabbed headlines in the United Kingdom, the United States and elsewhere among high-income countries. Conventional wisdom in the economics profession once held that

[2] ECLAC *Social panorama of Latin America 2012* p.22

over the long course of rising per capita income and standard of living, inequality in the distribution of income would diminish – I refer here to the inverted-U Kuznets Curve that recognized initial rising inequality with growth but falling after some threshold owing to strong trickle down of benefits to the lower end of the income distribution. At first blush, cross-country empirical data may seem to support this view. For example, according to the World Development Report 2011, the ***Gini coefficient*** is above 0.5 for 12 of 19 Latin American countries[3] but at or below 0.4 for 13 of 14 OECD countries[4]. However, both across and within countries there is strong evidence to refute this hypothesis. The actual course of changes in income distribution depends on factors such as differential productivity increases across sectors, the pattern of growth, the level of unemployment at any given rate of growth and coverage of social safety nets. Let me illustrate the interplay of such factors in the case of the United States by quoting from the *New York Times* of September 11, 2013:

> "Thanks to a new analysis of Internal Revenue Service figures … we now know that, in 2012, … the wealthiest 1 per cent of Americans earned more than 19 percent of the country's household income – the biggest share since 1928. The top 10 percent took in a record 48.2 percent of total earnings… since the recession ended in 2009 the richest 1 percent have captured 95 percent of the income gains."

Latin America – the Lost Decade and After

During the 1960s and 1970s, Latin America was among the fastest growing regions in the world, sustaining an average annual growth rate of about 5.5 per cent. By 1980, 40.5 per cent of the regional population or about 136 million people were estimated to be poor, including 62 million living in indigence. The imperative of

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[3] Bolivia, Brazil, Colombia, Dominican Republic, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay and Peru. Chile is 0.2, while Argentina, Costa Rica, Ecuador, El Salvador, Uruguay and Venezuela lie between 0.4 and 0.5

[4] Belgium, Canada, Denmark, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland. The Gini coefficient for the United States was 0.408

economic adjustment during the 1980s saw the average growth rate fall to 1.3 per cent, the lowest among all regions of the world. At the same time, the rate of inflation surged reaching annual rates in triple or higher digits in many countries. Slow growth translated into loss of jobs and stagnation of income while inflation seriously eroded purchasing power, especially for low-income households that spend a high proportion of income on essentials, particularly food. By 1990, the poverty rate had jumped to 48.4 per cent or 204 million persons, that is, fully 68 million people or one-half of the full headcount of poor at the start of the decade had joined the ranks of the poor. Although the rate of poverty began a gradual decline with economic recovery and reduction of inflation in the 1990s, the number of persons living in poverty continued to rise until a peak of 225 million in 2002.

In the first decade of the new millennium, Latin America began to reap the fruits of its deep economic reforms in an environment of a more open and expanding global economy. The rate of growth picked up, inflation fell to single digits virtually everywhere and there was strong inflow of foreign capital and remittances. The rate of poverty and of indigence fell by 2012 to 28.8 per cent and 11.4 per cent, respectively, and the number of people living in poverty fell to 167 million or 58 million fewer than at the peak. This improvement was spread across the region. According to World Bank data, over the decade starting in 2001, the poverty headcount ratio fell annually by between 2 percent and 5 percent in Peru, Uruguay and Brazil and between 1 percent and 2 percent in Ecuador, Colombia, Bolivia, Paraguay, Nicaragua and Venezuela. The poverty rate increased only in El Salvador and the Dominican Republic in each case by less than 1 percent. Estimates suggest that perhaps 85 percent of the reduction in poverty is attributable to the growth of these economies.

Macro-economic policies were buttressed by increased expenditure for social services and targeted programs specifically designed to alleviate poverty. Conditional cash transfer programs became a flagship of the latter type of policy. In essence, families (typically women in the household) receive a monthly cash grant on condition of ensuring that the children attend school, participate in nutrition programs and see the nurse or doctor regularly. The jury is still out on whether these programs can indeed break the cycle of inter-generational transmission of poverty, but there is no doubt about their beneficial short-term impact.

The report *Social Panorama of Latin America* published by ECLAC provides data on trends in poverty on an annual basis for eighteen countries. These countries not only consider the reduction of poverty an important public policy, but have also taken steps to gather the information required to follow progress, identify problems and formulate changes. It is revealing that not one English-speaking Caribbean country is included in this annual review.

The Caribbean – what do we know?

The Caribbean Development Bank (CDB) has undertaken *Country Assessment of Living Conditions (previously Country Poverty Assessments)* in several English-speaking Caribbean countries since 1995. Typically, one or two point estimates are available for countries such as Antigua & Barbuda, Barbados, Dominica, Grenada, St. Kitts & Nevis and St. Vincent & the Grenadines. Estimates of household poverty range from a low of 15% in Barbados (2010) to above 30% (2008) in Grenada. One has to be cautious, however, in making comparisons among countries from these studies for reasons such as methodological differences and the significance of the reference year (for example, a few years after a hurricane). The only broadly comparable data covers only four countries and is between one and two decades old:

Poverty rate at USD 2 per day:

Guyana	1993 – 17.1%	1998 – 18.0%
Jamaica	2002 – 8.5%	2004 – 5.4%
Saint Lucia		1995 – 40.6%
Trinidad & Tobago	1988 – 8.6%	1992 – 13.5%

Source: World Development Report 2013

Basically, authorities in the English-speaking Caribbean have not given priority to understanding the nature and dynamics of poverty in our countries. There is even anecdotal evidence of governments refusing to accept grant funds for undertaking surveys!

The highest quality time series is available for Jamaica where there has been collaboration with the World Bank over an extended period to mitigate the impact on poor families of that country's many years of economic stagnation. The poverty headcount in Jamaica fell from 30.4 per cent in 1989 to 9.9 percent in 2007, but rose subsequently to reach 17.6 per cent in 2010. Given the country's indifferent economic performance, special programs for the poor take on added significance. A flagship initiative, launched in 2002 by consolidating existing activities, is the Program for Advancement through Health and Education (PATH) which provides:

- Grants for poor children up to age 19, conditioned on school attendance (at least 85%) and preventive health care visits (for example, every 2 months up to 1 year old)
- Social assistance grants for vulnerable groups such as the elderly poor, poor persons with disabilities, young mothers from poor households.

PATH is estimated to reach about 50 per cent of its potential beneficiaries.

Trinidad and Tobago

A *Survey of Living Conditions* was conducted in 1992 and again in 2005 and a *Household Budget Survey* in 1997/98. The summary results tell us that the rate of poverty rose from 21 per cent in 1992 to 24 per cent in 1998 before falling to 16.7 per cent in 2005, while the incidence of indigence fell from 11 per cent through 8.3 per cent in 1998 to 1.5 per cent in 2005. This is not surprising since in the late 1990s, the country was about to enter into a period of sustained growth after its long decline that started in the mid-1980s. Some of you may well be asking how is the level of poverty in Trinidad and Tobago similar to Jamaica's, given the divergent economic fortunes of the two countries since the late 1970s? The answer, of course, is that the poverty lines are set at the national level rather than some common global standard such as consumption equivalent to USD 2 per day.

In both 1995 and 2005, poverty in Trinidad and Tobago was closely associated with

- Unemployment or unskilled work (the working poor)
- Low levels of education
- Female-headed households
- Larger family sizes and overcrowding

The highest incidence of poverty was in the north-east and south-west of Trinidad, but the largest number of poor lived in the north-west, mainly around Port-of-Spain. Inequality in the distribution of income was relatively constant (0.39 in 2005, 0.42 in 1995) much lower than in Latin America and similar to many OECD countries.

Across administrations formed by different political parties, various policies and programs though not specifically targeted at the reduction of poverty have contributed handsomely to that goal. These include universal access to primary and secondary education, a major increase in opportunities for tertiary education, school nutrition program. Progress in other areas such as health services, affordable housing, sanitation and reliable supplies of potable water has been modest despite major expenditure in these areas.

In addition, the government spends substantial sums on transfers to households and communities in the name of poverty reduction. In FY2013, total expenditure on these programs was $3.7 billion, of which $2.4 billion or two-thirds was allocated to the Senior Citizens' Grant. The main programs may be grouped as follows (FY 2013 expenditure):

Transfers to households and communities

- Senior Citizens' Grant ($2,435 million)
- Public Assistance Grant ($281 million)
- TT Card ($211.2 million)

- Utilities Assistance Program ($3 million)
- National Social Development Program ($83.8 million)
- National Self-help Commission
- Micro-enterprise Grant

Make Work Programs

- Unemployment Relief Program ($452 million)
- Community-based Environmental Protection and Enhancement Program ($468.2 million)

The main issues to be debated about these programs are: definition of **beneficiarie**s, effective **targeting**, **sustainability** and monitoring **results.** These are well illustrated by questions that even the casual observer will have about the Senior Citizens' Grant:

- The maximum Senior Citizens' Grant expressed in constant $2005 is 2.5 times higher than the poverty line and 2.1 times above the vulnerability line – if the underlying rationale is assistance to the elderly poor, is the grant too generous?
- Although the actual amount paid to a beneficiary is reduced from the maximum based on a sliding scale that takes account of other income, the average grant paid is 87.5% of the maximum, suggesting that most beneficiaries receive at or close to the maximum. Is the process for verification of income reliable?
- In the census year (2011) the 77,415 beneficiaries of this program represented 65% of the population over age 65, that is, 2 of every 3 senior citizens qualified for the grant. Is targeting rigorous enough? We know from the *Survey of Living Standards* that the top three quintiles of the income distribution, whose minimum expenditure is twice as high as the poverty line, obtained an average of 5 per cent of their income from the Senior Citizens' Grant.

- With the country’s demographic profile, an increasing share of the population will belong to the 65+ age group in the years ahead. Is the program sustainable in its current form?

I have posed these questions in relation to the Senior Citizens’ Grant, but similar issues arise for all the targeted poverty reduction programs. Indeed, there is need for clarity even in the definition of potential beneficiaries: URP targets “unemployed persons in the age range 18 -65”; CEPEP is for “unemployed adults”; the TT Card is for “indigent and vulnerable households”; Public Assistance for “persons unable to support themselves” and the Utilities Assistance Program is targeted at “persons living in poverty and eligible elderly persons”. With identical criteria for eligibility under different programs, how successful are administrators in preventing double dipping by beneficiaries?

An indispensable requirement for good policy making is structured research to assess the effectiveness of existing programs and identify what modifications may enhance the probability of achieving program goals. In this connection it is sad commentary that in 2013 the frame of reference for discussing poverty and inequality in Trinidad and Tobago is a Survey of Living Standards conducted in 2005. This is not the only area of official statistics in which as a country we fail miserably to meet the highest standards or any standard at all, as eloquently argued by my colleague, Terrence Farrell, in a recent op-ed piece in the *Express.*

Conclusion

Let me summarize.

- The reduction of poverty and income inequality is centre stage in political economy debates worldwide.
- The main vehicle for making significant advance in this crusade is robust economic growth that generates an adequate number of remunerative jobs in an environment of low inflation.

- There is nothing automatic about improvement in income distribution as a country reaches higher levels of per capita income.
- In Latin America where we can chronicle major reduction in the incidence of poverty, targeted conditional cash transfer programs have played an important part in buttressing the benefits flowing from stable macro-economic performance.
- In the English-speaking Caribbean – with the possible exception of Jamaica- we have to do a much better job in gathering and analyzing data on poverty as a prerequisite for designing effective programs aimed at reducing poverty.
- In Trinidad and Tobago, it is imperative to launch comprehensive review of poverty reduction programs to improve targeting, ascertain results, redesign for effectiveness and, above all, to ensure sustainability.