



## Poverty and Social Exclusion in the UK

**Working Paper Methods Series No. 8**

### **Poverty Measurement in Latin America in the Framework of Transformation and Heterogeneity**

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## Poverty and Social Exclusion in the UK

### Overview

The Poverty and Social Exclusion in the UK Project is funded by the Economic, Science and Research Council (ESRC). The Project is a collaboration between the University of Bristol, University of Glasgow, Heriot Watt University, Open University, Queen's University (Belfast), University of York, the National Centre for Social Research and the Northern Ireland Statistics and Research Agency. The project commenced in April 2010 and will run for three-and-a-half years.

The primary purpose is to advance the 'state of the art' of the theory and practice of poverty and social exclusion measurement. In order to improve current measurement methodologies, the research will develop and repeat the 1999 Poverty and Social Exclusion Survey. This research will produce information of immediate and direct interest to policy makers, academics and the general public. It will provide a rigorous and detailed independent assessment on progress towards the UK Government's target of eradicating child poverty.

#### Objectives

This research has three main objectives:

- To improve the measurement of poverty, deprivation, social exclusion and standard of living
- To assess changes in poverty and social exclusion in the UK
- To conduct policy-relevant analyses of poverty and social exclusion

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## Introduction

This paper was prepared for the Second Peter Townsend Memorial Conference - Measuring Poverty: The State of the Art, held in Bristol in January, 2011.

My intention is to highlight aspects of the poverty measurement in South America that are significant in a Conference that is inspired by Professor Townsend work. I do not pretend to present a synthesis of what the countries are doing, that can be found in other sources<sup>1</sup>.

Professor Townsend highlighted, within other positions, two that I want to comment on today in relation to South American work, using the example of Brazil, because its magnitude and heterogeneity allows commenting on a broad spectrum of situations that give a good picture of what happens in many countries.

Those positions were first, that without capturing the central aspects of the policies and influences of important private agents the framework of the evolution of poverty situations lacked elements that are central to explain it. Second that the socio economic, geographical scenario in a moment of time to which the households belonged was determinant to understand their perception of their basic needs and their behaviour in terms of expenditure<sup>2</sup>.

## 1. Poverty reduction measurement in the framework of socio economic transformation

In the first position the case of Brazil and of other South American countries has evolved in the last decade in a new form of political agreement between political and productive actors, quite different from previous decades. It is well known and accepted that within the elements that influence poverty in time the transformation and dynamism of the labour market and the evolution, magnitude, and composition of the social public expenditure are highly important. The crisis of the eighties generated great changes in the labour

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<sup>1</sup> See for example Social Panorama of Latin America, yearly ECLAC publication in <http://www.eclac.org/default.asp?idioma=IN>

<sup>2</sup> See “The Human Condition is Structurally Unequal” by Peter Townsend and David Gordon, Introduction to World Poverty, The Policy Press, Bristol UK, 2002

market. In much aggregated terms in the eighties and nineties according to the countries something between 25 and 50% of the labour market reflected well to new technical and administrative changes that raised their productivity, while reducing in most occasions employment and increasing inequality in national terms. The quality of employment in the rest of the economy decreased in aggregated terms due to the quality of refuge of informal work<sup>3</sup>. On the contrary the level of social public expenditure that suffered during the crisis increased in significant magnitudes. A very particular feature of some South American countries is that sooner or later (in the nineties and 2000<sup>th</sup>) a type of economic and political model gained stability, obtained the best results in economic growth, expansion of formal work and reduction of poverty. Governments that represented centre left parties put in operation policies that created a particular synergy between the public sector and private agents, or looked under other prism constructed a synergy that made it possible to create an important degree of consensus between the most important political and social forces that gave stability to the political and economic systems. Basic elements of this synergy were that the government open field to the expansion of private enterprises, both national and foreign in the sectors of the economy with higher productivity, and kept certain public enterprises in functioning but did not favour expansion to new branches. In those sectors the effect through the labour market was a trend to increase or maintain the great inequality of incomes generated in the labour market that favoured anyhow the reduction of poverty through the increase in coverage of the formal work and general recoveries or increases of per worker income. There were no significant gains of equality in property, and there was an important expansion of credit for consumption of big commercial chains in the urban zone. Simultaneously the governments were successful in expanding the social public expenditure in significant percentages concentrating on the most poor an important part of the increase in pensions and conditioned programs of transfers. The political effect of that policy was extraordinary and raised significantly the support of the governments. The re-election of President Lula de Silva was highly based on his program to fight extreme poverty through public transfers and an increase of the formal work percentages originated in economic expansion. Simultaneously the private sector was satisfied with a conservative policy of the Central Bank and of the minister of Finance. The political evolution and economic policies of Chile and Uruguay, and in the 2000<sup>th</sup> of other South American countries confirms the stability of this synergy.

It is interesting to note that since 1990 the countries that reduced in higher degree poverty were Chile, Brazil, Costa Rica and Uruguay. Especially in South America the models and synergy of the governments of Chile, Brazil and Uruguay have strong similarities.

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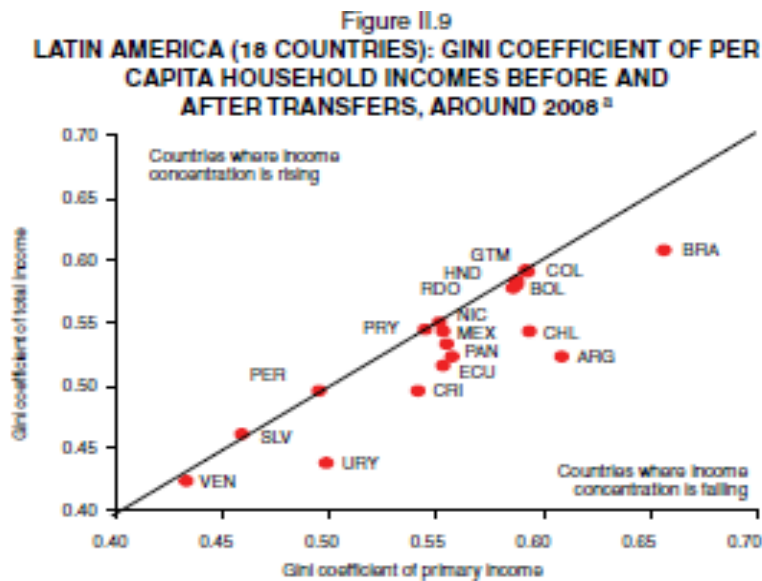
<sup>3</sup> See Equity in Latin America Since the 1990s, by Pedro Sáinz, included in Flat World, Big Gaps, edited by Jomo K.S. with Jacques Baudot, published by Zed Books Ltd, Orient Longman Private Limited, and Third World Network; march 2007.

The consequences of this evolution on the measurement of poverty have been important. All countries and ECLAC have a good record of increasingly measuring periodically household monetary income. In the last twenty years with different rhythms and calendars they have made progress in incorporating non monetary income of the private sector in rural areas and income derived from occupancy of dwellings owned by them. Below the case of Brazil will be commented in more detail. Due to the importance of the social public expenditure there is a growing recognition of the need to study more carefully the transfers of the government, monetary and non monetary type. Simultaneously interviews as those being done today in the UK project could help to know better the perception of the poor on these two types of transfers. The public programs that are conditioned and highly associated to welfare transfers pursue, in different degrees increasing the consumption of the poor and increasing the human capital. The role of these components in short periods of time shows that the increase in consumption through monetary transfers produces important political effects while the appreciation of non monetary transfers in education and health that pursue more equality of opportunities of the poor, also seem to generate important political effects, at least when they mean access to programs that help, for example, to treat catastrophic illness or access to higher education of young students belonging to low income households. The coverage of the welfare programs that are conditioned has been estimated for 2009 in 101 million persons, while the ECLACs estimates of poverty in the region were for that year of 190 million persons.

Efforts have been made to explore the effects of transfers on the situation of households. The creation of surveys to capture in more detail the access of households to monetary and non monetary transfers or a more in detail study of the figures of social public expenditure made it possible to deduce the nature and magnitude in terms of income of the households receiving the transfers. This has for example allowed calculating some interesting effects in income distribution with and without the effect of transfers. A figure prepared by ECLAC<sup>4</sup> shows the effect on the Gini coefficient on using the monetary income and the expanded income.

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<sup>4</sup> See ECLAC Social Panorama 2009, <http://www.cepal.cl/publicaciones/xml/0/37840/PSI2009-chap2-trends.pdf>



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the relevant countries.

<sup>a</sup> Primary income after tax and social security contributions.

In the majority of countries there is an important effect of the transfers on the Gini coefficient, especially on countries where the monetary component of transfers is important, as is the case of Brazil, Chile and Uruguay, as mentioned before. Other countries where transfers are very component but non monetary, as is the case of Venezuela, show practically no effect. When a survey that covers access to non monetary transfers is available the effect can be captured in aggregated terms.

Within public expenditure, retirement benefits and pensions constitute the big major component in per capita terms. Between 1990 and 2008 it increased from 119 to 310 US\$ dollars (at 2000 prices), being a 33 and a 38% of the total respectively. This monetary component of income has played an important role in the income of households. When compared to primary income at the end of the period, retirement benefits represented 21.3% and pensions a 12.7% of total income for the poorest decile. In fact when transfers are added to primary income there is an important redistribution of households in total income. Therefore this transfer associated to the social public policies has played a major role in the reduction of poverty and in the political effect of these transfers.

A parallel effort is underway to measure better non public transfers or public-private partnerships, as in the areas of retirement funds and health. It is related to new demands on the National Accounts and Public Finance Statistical systems, and efforts to relate results with household surveys results. Recent preliminary information published by OECD attributes a 2.7% of GDP to private social expenditure, while in Chile very preliminary estimates to get a picture of orders of magnitude were made of private social spending

by non financial corporate enterprises in the areas of health care, education and social protection, specifically for older adults. In 2003-2007 that spending reached a level similar to public social spending that averaged 12.6% of GDP.

To better understand the role of the increase of the social public expenditure in a world level scope conference, and especially to help experts of the developed countries to understand the nature of the situation I present some figures on the topic.

The level of social public expenditure of Latin American Countries as compared to European countries is extremely reduced. Therefore the marginal effect, especially for the poor of the increases registered in the nineties and 2000<sup>th</sup> is very important. As can be seen in the Table 1 the level of per capita social expenditure in most Latin American countries was very low in most of them, especially when compared with European standards. It should be kept in mind that the figures on public finances, especially those of expenditure were weak, including the problem of central and decentralized expenditure, but these ECLAC s estimates get as near as possible to actual figures. The changes of the per capita social expenditure between 1990 and 2008 are very significant. If a simple average for countries is used it increased in 150%, while a weighted average gives an increase of 86%, due fundamentally to the weight of Argentina that in 1990 was the only country on top of \$1000 US dollars in 1990 (1179 dollars). For the majority of countries it meant a per capita growth of more than 5% per year. Furthermore, the effort in social public expenditure increased as a percentage of public expenditure and there was a significant effort to concentrate it in the households with lower incomes. Therefore as a summary the social public expenditure played an important role in the fight for reducing poverty. When the transfers were monetary it was possible to capture the effect in most of the surveys that expanded the questionnaire to ask for public monetary transfers. As a result and according to ECLACs figures the Latin American population in poverty decreased from 40.5 to 33% (based fundamentally in monetary income plus imputed income for dwelling services when occupied by owners), while extreme poverty decreased from 18.6 to 12.9%.



TABLE 1<sup>5</sup>  
SOCIAL PUBLIC EXPENDITURE (SPE)

NUMBER OF COUNTRIES -LATIN AMERICA			
	1990	2000	2007
	PER CAPITA SPE		
LESS THAN 100	7	2	0
BETWEEN 100-	9	11	10
MORE THAN 500	4	8	9
	SPE ON GDP		
LESS THAN 5%	3	1	0
BETWEEN 5-10%	11	12	7
BETWEEN 10-15%	2	1	9
BETWEEN 15-20%	5	4	2
NORE THAN 20%	1	3	4
	SPE ON PUBLIC EXPENDITURE		
LESS THAN 50%	17		4
MORE THAN 50%	10		11

## 2. Different norms and their influence on expenditure patterns in socio economic and geographical scenarios in Brazil.

In the second position of Professor Townsend examined here the study on Brazil using the 2002-2003 income and expenditure survey offered a great opportunity to study how different were the differences between rural and urban, and between people of different levels of income in each media. The figures gave surprises in relation to previous studies. The great political objective of President Lula was to fight hunger. The assumption was that a significant percentage of the rural population had so low incomes that even if they expended all the income in food they will not meet minimum nutritional standards and live with hunger. When based in the 2002-2003 survey different baskets of food were constructed for 5 rural areas of Brazil and self consumption was well measured the percentage of population with an income below the cost of the basket was very low.

<sup>5</sup> Due to difficulties in making figures comparable the quantity of countries is not the same in the different years considered. All the values used are in 2000 US\$ dollars.

It is unusual that countries measuring absolute poverty lines construct 20 different baskets of food for different geographical contexts. It is also unusual that due to the method of moving quintiles used to identify reference groups it becomes possible to study among other characteristics the differences in types of monetary and non monetary income, the structure of expenditure, the evolution of prices for an important set of goods, within other characteristics for 81 moving quintiles in 20 geographical contexts.

With this information the difference of value of food baskets was examined. Two surprising features had to be explained. Up to these exercise countries normally operated with a national line of poverty, in many occasions with a rural and urban line of poverty, and in exceptional cases with more lines but less than five, of which most were corrections based on prices of one national basket.

Therefore when there were big differences in the urban area between the value of the food basket between contexts and the rural food baskets had a relatively very low value in relation to the urban areas this constituted a surprise that needed an explanation.

**TABLE 2**  
**VALUE OF THE FOOD BASKET IN CONTEXTS**

	<u><b>2002/03</b></u>
Belém	88,71
Norte Urbano	69,91
Norte Rural	44,40
Fortaleza	82,95
Recife	107,04
Salvador	90,10
Nordeste Urbano	71,98
Nordeste Rural	48,47
Belo Horizonte	61,21
Sudeste Urbano	74,89
Sudeste Rural	49,53
Rio de Janeiro	122,11
São Paulo	132,69
Curitiba	90,49
Porto Alegre	99,99
Sul Urbano	93,08
Sul Rural	62,48
Distrito Federal	130,76
Centro-Oeste Urbano	78,09
Centro-Oeste Rural	49,85

The value of the food basket of 4 of 5 rural areas is less than 50 reais, while the cost of urban basket ranges from 61 to 133 reais. As a consequence the percentage of poor and extreme poor in the rural areas descended in relation to previous estimates from within the highest values to the lower in the country.

The explanation of these changes is related to “norms of reference”. The structure of supply and prices of the rural areas privileges forms of self consumption of production, that in occasions does not have an important urban market and therefore reduced prices. Strong on cañories with nutritional gaps.

An examination of relative prices shows that there is a set of products with prices near the price of sugar, used as a reference for the cheapest massive food product. Products could be classified in those of very low price, low price and higher cost.

**TABLE 3**  
**RELATIVE PRICES OF FOOD ITEMS**

<b>TYPE OF FOOD</b>	<b>PRICE PER CALORIE</b>	<b>TIMES THE PRICE OF SUGAR</b>
BREAD	0,0055	4,1
RICE	0,0019	1,4
SOJA OIL	0,0014	1,1
BEAMS	0,0030	2,3
SOFT DRINKS	0,0096	7,1
WHEAT FLOUR	0,0022	1,6
TAPIOCA FLOUR	0,0015	1,1
SUGAR	0,0015	1,1
SUGAR	0,0013	1,0
FIRST QUALITY BEEF MEAT	0,0161	12,0
SECOND QUALITY BEEF MEAT	0,0114	8,5
INDUSTRIALIZED FISH AND MEAT	0,0081	6,1
FRESH FISH	0,0173	12,9
CHICKEN	0,0066	4,9
COW MILK	0,0072	5,4
CHEESE	0,0104	7,8

The importance of the differences in prices is extremely important to understand the differences in values of the baskets. To give an example if a rural household uses Tapioca Flour and a urban household uses bread the price of a calorie is practically 4 times higher. If the composition of baskets in terms of calories is divided between items with very low (less than 2.3), low

(between 2.3 and 4), and higher prices (more than 4) the relative weight in calories of different prices is quite different in the contexts considered.

It can be seen in Table 4 that the low prices in the rural areas go from 69 to 79%, while in urban areas is around 50% in Sao Paulo and Rio and near 40% in the federal district (Brasilia). It is also relevant that food outside the household is important and becomes a necessity in urban areas. An in depth study of the structure of consumption in urban zones differs significantly from that of rural zones. A combination of needs of expenditure such as transport and of possibilities such as health and education items in the urban areas introduces the possibility of substitution that does not exist in that extent in rural areas.

TABLE 4

PERCENTAGES OF CONTENT OF CALORIES OF THE FOOD BASKET WITH DIFFERENT RELATIVE PRICES IN DIFFERENT CONTEXTS

CONTEXT	VERY LOW COST	LOW COST	HIGHER COST	OUTSIDE HOME	VERY AND LOW COST	HIGHER AND OUTSIDE
1.00 Belém	30,9	22,9	32,1	14,1	53,8	46,2
2.00 Norte Urbano	46,2	18,5	23,7	11,6	64,7	35,3
3.00 Norte Rural	60,6	14,1	22,5	2,8	74,7	25,3
4.00 Fortaleza	34,7	27,8	24,1	13,4	62,5	37,5
5.00 Recife	16,0	37,3	25,7	21,0	53,3	46,7
6.00 Salvador	30,9	32,5	22,0	14,6	63,3	36,7
7.00 Nordeste Urbano	40,0	28,7	20,3	11,0	68,7	31,3
8.00 Nordeste Rural	50,3	28,9	13,7	7,2	79,2	20,8
9.00 Belo Horizonte	47,1	29,7	15,3	7,9	76,8	23,2
12.00 Rio de Janeiro	27,9	24,3	29,5	18,4	52,2	47,8
15.00 São Paulo	24,3	24,1	28,3	23,3	48,4	51,6
16.00 Sudeste Urbano	46,4	23,7	21,1	8,8	70,1	29,9
17.00 Sudeste Rural	49,7	26,0	16,5	7,8	75,7	24,3
18.00 Curitiba	37,7	23,8	26,1	12,3	61,6	38,4
19.00 Porto Alegre	32,6	26,1	29,6	11,7	58,7	41,3
20.00 Sul Urbano	31,9	24,3	30,3	13,5	56,2	43,8
21.00 Sul Rural	47,4	21,6	25,3	5,7	69,0	31,0
22.00 Distrito Federal	22,4	18,4	23,3	35,8	40,9	59,1
23.00 Centro-Oeste Urbano	46,8	16,8	21,7	14,8	63,5	36,5
24.00 Centro-Oeste Rural	61,8	17,1	16,2	4,9	78,9	21,1

The study, of which two features have been introduced, is extent and will be compared with the results of the 2007-2008 of family budgets now becoming available.

Finally these comments are consistent with an IBGE study, where the zones that were the most critical in the documents that were used to prepare the Map of Hunger, one of the guidelines of the President Lula program to reduce poverty, show high degrees of obesity. This is consistent to the access in those contexts of low income households to food with high calories and low cost. This has open ground to an important debate on the criteria used to measure poverty in terms of calories and not consider the nutritional aspect in a wider perspective. But perhaps more important, it has shown that within poor households under absolute poverty lines, there is a great heterogeneity. It becomes evident that policies to reduce poverty require a set of policies that may be different in different geographical contexts. Understanding the geographical reference, and the norms that guide behaviour in those contexts, seem to confirm Professor Townsend view on how relative is poverty of households to the social environment in which they live and search for policies that within the concept of lack of resources accept the different nature of resources needed and necessities in different contexts and social strata.