

## Extreme poverty has doubled

NORA CASTAÑEDA

RAÚL CUBAS<sup>1</sup>



Measurements using the Absolute Normalised Privation Index reveal a significant increase in poverty since 1983. The number of poor people has increased and their incomes have decreased, making it harder for them to purchase the consumption basket that covers their basic needs. The problem is even more serious when we consider the growing number of families living in extreme poverty.

According to the ECLAC report, Preliminary Balance of the Economies of Latin America and the Caribbean, (December 1999), “the recession that began in 1998 sharpened in the first semester of 1999 and, although there was a slight recovery afterwards, production fell by 7% for the year, leading to widespread unemployment. This was a result of the fall in oil production (determined by OPEC) and the contraction in global demand resulting from the loss of available income; the contraction of public spending; the lack of funding; and the climate of political uncertainty resulting from the change of government and the drafting and approval of the new constitution. The rise in oil prices at the end of the first quarter (along with the decrease in imports) generated a heavy surplus in the current account of the balance of payments, a high level of international reserves and a real appreciation of the Venezuelan currency, the bolívar. This last effect, along with the weakness of demand, helped to reduce inflation, which fell to approximately 20%.”

According to CEPAL, “the economic recession caused a rise in unemployment, which had been about 11% since 1997. In the third quarter of 1999, unemployment reached 15.4%, ... despite government efforts to provide relief in previous months through investments in infrastructure and housing construction. In May, public officials were granted a salary raise of 20%, equal to the expected rate of inflation, which served as a reference point for salary adjustments in the private sector.”

The corrected growth rate for 1999 was -6.1% of GDP; this indicator was around 3.2% for the year 2000. The inflation rate continued to fall from July 1999 to June 2000 with a 15.4% variation, while the price of oil rose by 60%. The government played an important role in the design of the OPEC strategy that led to the increase in oil prices. Higher prices for Venezuelan oil resulted in a significant reduction of the commercial deficit and the country’s current account deficit, without this leading to capital flight.

On 9 March 2001, the private consulting firm *Datanálisis* reported that unemployment fell from 18.4% in February 2000 to 15.2% in January 2001, while the informal sector continued to grow. According to President Hugo Chávez Frías,<sup>2</sup> quoting a Central Office of Statistics and Information (OCEI) source, 28% of the heads of household are women, and of these households 32% are poor, and 36% are between 30 and 44 years of age. Fifty-one per cent of the female population over age 15 had not gone beyond primary school and 10% was illiterate.

### Measuring poverty

In 1998, the Economic Research Department of the Central Bank of Venezuela published a study called “The evolution of poverty in Venezuela”<sup>3</sup> based on the methodology proposed by Amartya Sen.<sup>4</sup> The study elaborated a compound index that may include the rate of incidence (defined as the proportion of the total population whose income or whose current basic consumption leaves any one of its basic needs unsatisfied), the gap between the income of the poor and the poverty line, and the distribution of income among the poor.<sup>5</sup> As poverty grows, the index moves toward 100.<sup>6</sup>

Following this methodology, researchers elaborated a poverty index for Venezuelan households. The first step in the process was to identify the poor, define the basic consumption baskets as “food normative” and “basic normative,” and adjust for variations the price indexes for food groups, drinks and tobacco. Using the Central Bank of Venezuela and their own calculations as sources, researchers created a framework that shows that from 1990 to 1996, the cost of the Food Normative Basket increased from VEB 7,121 to VEB 102,375 and the Basic Normative Basket rose from VEB 14,243 to VEB 204,750.

Subsequently, the rate of incidence was taken as the most common measurement of general poverty and extreme poverty. Extreme poverty increased from 29.45% in 1990 to 65.32% in 1996, while general poverty went from 70.36% to 85.78%.

Families surveyed by OCEI were found to “under-declare” their income, and the possibility of overestimating the rate of incidence was considered. Lourdes Urdaneta believes that overestimation of poverty occurs because the total incomes are not measured. “...The available data is normally provided by the Household Survey produced by the OCEI for the purpose of measuring the level and

3 José Ignacio Silva and Reinier Schliesser. *Evolution of poverty in Venezuela*. Central Bank of Venezuela. Caracas, 1998. This investigation covers “the phenomenon of poverty in different areas, analyses the recent economic evolution and the parallel evolution of social policy implementation. For the purpose of quantifying the phenomenon, Amartya Sen’s methodology is used (centred on the analysis of a poverty index evolution, called “Absolute Normalised Privation Index”) to build the poverty index for general poverty and extreme poverty for Venezuela from 1976 to 1996 by semester. The evolution of both indexes is evaluated. An increase began at the end of the 1970s, with the increase observed in the extreme poverty index being more pronounced... The evolution presented by the main macroeconomic variables (exchange rate, *per capita* GDP, accumulation of physical capital *per capita* and inflation) explains the 55% growth in both poverty indexes, while the solidification of poverty is responsible for 37% of this increase.”

4 Amartya Sen. “About concepts and measurements of poverty.” *External Commerce*, Vol. 42, N° 4, Mexico, April 1992.

5 *Ibid.* p. 19.

6 *Ibid.* p. 23.

1 The authors thank Lourdes Urdaneta, Adicea Castillo and Marisol Castañeda for their contributions.

2 Sunday radio program “Hello President”, 18 March 2001.

characteristics of employment and unemployment. For this reason, the survey only includes one general question about income...<sup>7</sup>

The next step in the process was to study aggregate characteristics of poverty, starting by calculating the standardised gap between income and the cost of both baskets. In 1990, this gap was calculated at 0.3159 for extreme poverty and 0.4688 for general poverty. By 1996, extreme poverty was measured at 0.4743 and general poverty at 0.6396.

Combining the rate of incidence and the standardised income gap, a poverty measurement for absolute privation called the Absolute Normalised Privation Index was elaborated.<sup>8</sup> This elaboration also yielded an index for extreme privation. The Absolute Normalised Privation Index went from 32.98% in 1990 to 54.86% in 1996 and Extreme Privation went from 9.30% to 30.98% in the same period.

The study revealed that poverty measured through the Absolute Normalised Privation Index increased significantly starting in 1983. A growing proportion of families had incomes below the level needed for basic necessities, and the gap between the poverty line and the average income deficit widened. The number of poor people increased and their incomes decreased, making it harder for them to purchase their basic needs.<sup>9</sup>

The number of families whose incomes are below what is needed for the basic food basket (extreme poverty) has grown faster than the number of families with enough income to cover this basket, but not enough to surpass the poverty line (general poverty). This reveals deterioration in the pattern of poverty, which is expressed in irreversible effects on those who suffer it—malnutrition, the inability to work, social deterioration, *etc.*<sup>10</sup>

The “Second National Survey of Family Budgets,” begun in 1997 sought information on the income and spending of the families. This survey discovered that 40% of family incomes come from transfers. According to more recent data from OCEI, poverty has continued to grow and income distribution is highly concentrated: 95% of households have monthly incomes under VEB 300,000 (USD 425 at March 2001 exchange rate). Statistical problems make the OCEI data unsuited for calculating the Gini coefficient.<sup>11</sup>

### Agenda Venezuela: the cure is worse than the disease

A social program known as “Agenda Venezuela” was launched in April 1996, “with the objective of reversing economic deterioration, improving the quality of life of Venezuelans and struggling against poverty. The Agenda, which included a number of economic measures (stabilisation and structural adjustment), had a negative impact on all economic and social sectors...”<sup>12</sup>

In 1999 and 2000, the struggle against poverty included, among other things, the creation of the Unitarian Social Fund and the Sovereign Bank of the People. The former had to center its attention on people made homeless by the natural disaster that occurred in the country in December of 1999. At present, work is being done on the creation of a system of microfinance and the Women’s Bank. ■

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- Centro de Estudios de la Mujer - Universidad Central de Venezuela (CEM-UCV)  
(Centre of Women’s Studies - Central University of Venezuela)  
<nocasta@reacciun.ve>
- Frente Continental de Mujeres (Continental Women’s Front)
- Programa Venezolano de Educación-Acción en Derechos Humanos (PROVEA)  
(Venezuelan Education Program-Action on Human Rights)  
<provea@derechos.org.ve>

7 Lourdes Urdaneta. *Concentration of income in Venezuela*. Caracas, March 2001.

8 *Ibid.*

9 *Ibid.* p. 69.

10 *Ibid.*

11 “...statistical problems inherent to the OCEI Household Survey ... did not allow us to obtain trustworthy results, forcing us to abandon these calculations...” José Ignacio Silva *et al.* *Op cit.* p 30.

12 Héctor Silva M. *The economic and the social in development theories*. Caracas: FONVIS, November 1999. p. 14.