Poverty *2

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The poverty concept seeks to measure unmet human needs. It measures the difficulties experienced by different individuals in a given society and aggregates them into a single number, which allows the achievement of social inclusion policies and guide their design. We describe the concept of poverty and compare it with others. We focus our attention on the design of these policies. We emphasize useful aspects in defining social goals as a mechanism for mobilizing and coordinating actions by the State and society towards overcoming poverty.

Concepts – In the outset is necessary to point out similarities and differences between some concepts somewhat related to the poverty measures discussed here. First, the concepts of social welfare and poverty both seek to aggregate the level of welfare of different individuals in a given society into a single number. This allows simple comparisons in the same society over time or between societies. The difference is that the first concept takes into account all the individuals of a given society while the second one only captures those within a certain parameter, called the poverty line. The idea of poverty concept is precisely to capture this discontinuity among those who participate minimally in the citizenship from those who are on the sidelines.

There are indicators of poverty with many dimensions and simple ones with a single dimension only. In the first case, we have those that take into account the lack of access to other basic elements like sanitation, electricity among others. The Latin American economic literature has used the concept of Unsatisfied Basic Needs (NBI) in which the proportion of the population that does not have access to a given basic basket of goods or services is computed. The Human Poverty Index (HPI), conceived and monitored by the United Nations Development Program (UNDP), follows the line of its Human Development Index and computes the lack of access to items such as income, education and health.

Even within the exclusive scope of the monetary dimension there is a choice between the dimensions of income and consumption expenditure in the calculation of poverty. Consumption expenditures are generally viewed as a better unit of measure because people's level of welfare is more related to what they consume than to the value of their incomes. Given the tradition of Brazilian household surveys of asking people's income, this is not the path generally taken in the estimates of welfare found in Brazil, although there is some change in this direction given the diffusion of national wide surveys on family budgets.

Poverty lines - Although less complex, poverty rates with a single monetary dimension are more common because of their operability. The calculation of indicators of poverty as insufficiency of income requires the establishment of a line below which individuals are considered poor. Indigence lines calculate monetary values for basic caloric needs to be met. In the case of poverty, in addition to food expenses, housing, clothing, transportation, etc. are considered. The calculation of poverty lines includes all the methodological choices of the indigence line, incorporating the consumption of other goods and services.

At FGV Social, we opted for a poverty line based only on minimum food needs, set by WHO (2288 calories / day) and translated into monetary values using the consumption habits of people between the poorest 20% and 50% . The result is a monthly line-up of R$144 per person, valued at national average prices in September 2009 (R$ 203 in 2014).

The proximity to other values that are subject of debate for public programs make this line particularly useful. The *Bolsa Família* program, for example, sets as maximum access to some benefit families with R$140/month per person. People with incomes over this amount do not have access to the social benefits associated with the program.

We avoid the use of minimum wage bands for at least two reasons. Firstly, the purchasing power of the minimum wage has changed systematically over time. At the time of the 2000 Census the FGV line exceeded the 1/2 minimum wage line. In 2009, the line was equivalent to just 1/4 of the minimum wage adjusted by the National Consumer Price Index (INPC) of IBGE. That is, the use of the minimum wage fails to keep purchasing power constant over time, fact that would be an initial motivation for its use as an absolute poverty line. Moreover, the use of the minimum wage do not take account regional differences in the cost of living, while our poverty line does.

There are also relative lines in which some distribution parameter is used (such as a given fraction of the median income) so that wealthier societies have higher absolute poverty line levels. The analysis of absolute poverty lines calculated for a large sample of countries separately shows a positive relationship between the level of income adjusted by the cost of living and the fixed absolute poverty line. This shows that, in the end, absolute poverty is based in relative terms on the conditions of different countries.

In fact, each of us has a specific poverty line in our heads. The IBGE Life Standards Survey, using World Bank methodology, contains questions about each person's subjective poverty line. A question of particular interest here is: considering your family, what would be the lowest monthly income needed to cover food expenses? The average response is 40% higher than the FGV line.

Brazil should needed to adopt, once and for all, an official poverty line. The United States did so in 1963. India and Ireland followed. The adoption of an official line is the first goal to be achieved if we are to adopt poverty reduction goals over time. The key is to adopt a line, regardless of the arbitrated value. The most interesting official line would be above any local idiosyncrasy. As the goal of fighting misery transcends mandates of governments and national borders, it is also possible to choose the lines of $1 or $2 per person adjusted by purchasing power parity (PPP) that takes into account differences in the cost of living between countries. It should be remembered that the line would be in *reais*: once the initial value in *reais* was calculated, this would be adjusted by the official domestic CPI index.

Aggregation - In addition to the arbitrariness of the poverty or indigence line, we have a number of other subjective - and arbitrary - elements involved in the process of aggregation of the poor. Income-based (or consumption) poverty literature generally uses three indicators in poverty analysis. First, the ratio called the proportion of the poor (P^0) which is the portion of the population whose per capita family income is below an arbitrary poverty line.

P^1 is a more interesting indicator, since P^0 takes into account only the intensity of poverty. P^1 reveals how much additional income people should receive to meet their basic needs. The utility of P^1 in the design of social policies is direct, since it is able to inform the minimum values necessary to eradicate misery. The underlying hypothesis is that every person would receive just enough to take him to the poverty line.

For example, in the case of the line of R$144 who has income of R$1.00 would gain R$143. While those who received income above R$144 would receive nothing. Today the cost to eradicate poverty would be estimated at R$1.8 billion monthly, about 4% of the family income, which would give on average about R$36.00 for the 50 million miserable. The other question was how each of the 120 million Brazilians above the poverty line should contribute on average to the complete alleviation of misery? Answer: R$15,00 per month.

Finally, the indicator known as P^2 squares the income gap of the poor, prioritizing public actions towards the most deprived. If the stated goal were to reduce P^0, there would be spurious incentives for the adoption of policies focused on the segment just below the poverty line and not on the more miserable ones. In addition to this inversion of priorities, the focus of redistributive policies would be quite sensitive to the arbitrary choice of the misery line.

In the case of P^2, regardless of the arbitrated line, the priority is always directed to those with lower income. The adoption of P^2 corresponds to the institution of a kind of social elevator that would start from zero income. The goal of reducing poverty by giving top priority to actions targeted at the poorest is fiscally more efficient.

Another related issue is that social goals should somehow take into account the trajectory over time of the chosen indicator. For example, if the target is to halve the proportion of poor by a certain date, say January 1, 2015, the cheapest way to achieve it would be to complete the income of the 50% less miserable to the line the day before, December 31, 2014.

In short, the P^0 counts the poor, P^1 counts the money that is lacking to put an end to the problem and P^2 gives us the north of the actions, it says where to begin with. Social policy priorities are misdefined by the proportion of poor (P^0), its implication is "first the least poor."

Despite the complexity associated with the greater poverty aversion of P^2, its corollary "first the poorest" seems to us ethically more appropriate. It is also necessary to take into account the trajectory of social indicators through a calculation of present value, for example. It may seem overbearing, but social goals are to be taken seriously, just as inflationary goals are. The attack on ignorance requires intelligence. The poor deserve more than poor policies. It is not enough to count poor people, but the poorest should count more on the formulation of social goals.

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