Outline

1. What do we mean by vulnerability to poverty
2. Defined as probabilities of falling back into poverty
3. Defined as perceptions of being vulnerable
4. Other definitions of middle class/vulnerability
5. Closing remarks
1. Vulnerability to Poverty: Ex-ante

✓ Poverty:
  ✓ **Ex-post**: consumption or income realized

✓ Vulnerability to Poverty:
  ✓ **Ex-ante**: those who are expected to be poor in the future
  ✓ Relevant for forward-looking anti-poverty interventions
  ✓ Dual-definition: Middle class.

✓ Information on who is poor today is good guide only if people are persistently poor.
  ✓ Need to define a new objective measure

✓ Different approaches to define vulnerability to poverty
  ✓ Evolving field of analysis
2. Defining vulnerability by probabilities of falling into poverty

- Lopez-Calva and Ortiz-Juarez (2014)
  - Panel data information
- Middle Class: Households with less than 10% probabilities of falling into poverty
  - Income level that corresponds to 10% probabilities of being poor in the future
  - Measured over predicted income for stability
- Application for Latin American countries show line at $10/day per capita 2005 PPP
- Application for Georgia

3. Defining vulnerability by perceptions

✓ Ferreira et al. (2013)
  ✓ Subjective approach
  ✓ Cross-sectional data

✓ Lowest income level around which more people regard themselves as middle class than as poor or "lower class."

✓ Application to Latin America show very similar results for some countries
  ✓ Colombia $9.3/day
  ✓ Mexico $9.5/day
  ✓ Peru $10.5/day

Source: Ferreira et al (2013)
4. Other definitions of middle class

✓ Some ad-hoc definitions of the middle class ignore the existence of a vulnerable groups, and may define thresholds too low for the region

✓ Banerjee and Duflo (2008): $2 \leq y_i \leq $10 a day
✓ Ravallion (2010): $2 \leq y_i \leq $13 a day

✓ Other ad-hoc definitions are based in benchmark countries:

✓ Kharas (2010): $10 \leq y_i \leq $100 a day
✓ Milanovic and Yitzhaki (2002): $12 \leq y_i \leq $50 a day

✓ Definitions of middle-class based on percentiles may implicitly define the vulnerable, but are not comparable across countries:

✓ Birdsall, Graham, and Pettinato (2000): $0.75*y(p50) \leq y_i \leq 1.25*y(p50)$
✓ Alesina and Perotti (1996): $p40 \leq p(yi) \leq p80$
5. Closing remarks

- Vulnerability to poverty: ex-ante measure
- Definitions based on different methodologies can coincide (e.g. Latin America)
- Definitions based on global definitions may need to be adapted to country context
- Evolving area of analysis
  - Refinements on methodologies
  - Use of cross-sectional data
- More relevance as poverty in the Eastern Europe and Central Asia region continues falling
Thanks!

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References

• World Bank (2017) South Caucasus in Motion: Economic and Social Mobility. Mimeo.