FULBRIGHT UNIVERSITY VIETNAM

FULBRIGHT SCHOOL OF
PUBLIC POLICY AND MANAGEMENT

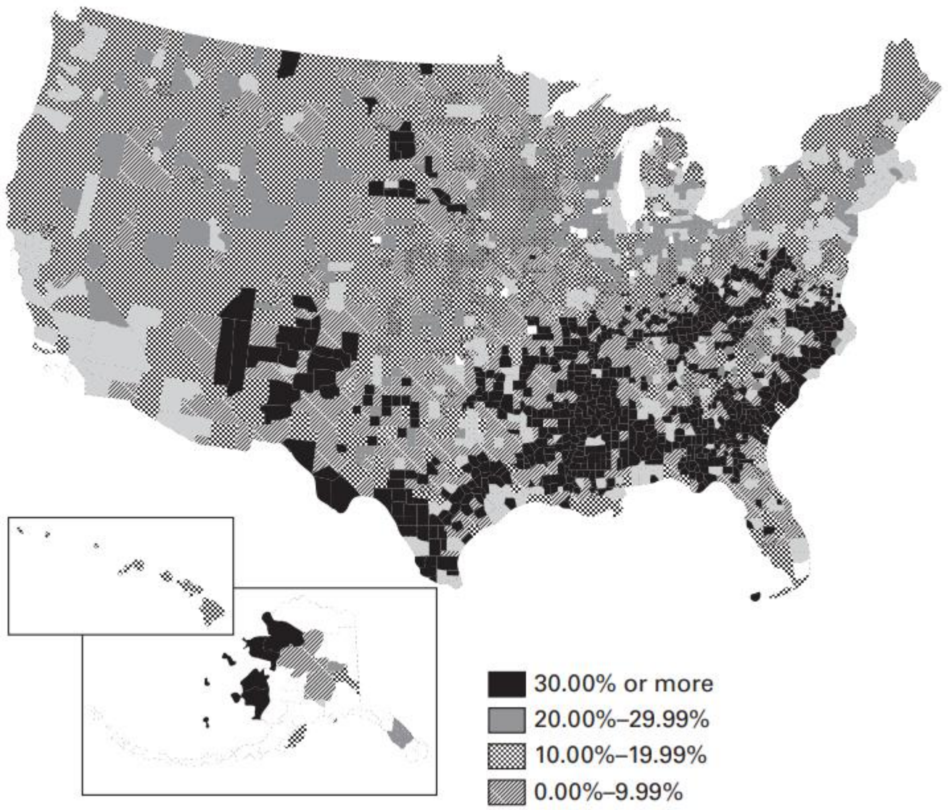
Poverty

Development Policy

Summer 2023

Rural poverty in the United States

- First national "Country Life Survey" in 1908 did not mention rural poverty
- 88% of farmers did not have electricity in 1936.
- Rural poverty in 1960 39%, falling to 17% by 1970 but staying within a narrow band around 15% to the present.
- African-American, Hispanic and native American groups disproportionately poor, and excluded from anti-poverty programs until the 1960s.
- Southern highlands (Appalachia) poorest rural area in the country.



US Rural Poverty by County, 1969

Rural poverty in the United States

Government program	Year
Tennessee Valley Authority Act, landmark legislation to build dams for irrigation, flood control, power generation	1933
Social Security Act created pensions, cash benefits for the poor and children	1935
Rural Electrification Act made loans for electric power to remote areas	1936
Food Stamp Act, provides support for poor families to buy necessities	1964
Social Security Act of 1965 create Medicare for senior citizens and Medicaid for the poor	1965
Appalachian Regional Commission Act to promote growth in 13 states and 423 countries of the Southern Highlands, including highway system to reduce isolation	1965

- 63% of American farmworkers born in Mexico, most of which are undocumented
- Congress has failed to pass legislation to provide these workers with basic protections

Measuring poverty

- Charles Booth produced the first “line of poverty in 1887 to divide London into “people in comfort” and “people in poverty” set in monetary terms
- Seebohm Rowntree’s poverty line in York (1901) based on minimum cost of acquiring adequate nutrition
- Until the 1960s, there was no “economics of poverty”
- Lyndon Johnson declared war on poverty in 1964, but there was no accepted definition of poverty

The headcount poverty rate

- US Social Security Administration produced the first modern poverty line in 1966
- Based on cost of adequate diet and multiplied by 3
- National poverty lines adopted based in similar methods, but no globally recognized poverty line
- World Bank introduced $1 per day poverty line in the 1990 World Development report based on "purchasing power parity" dollars.
- Households that consume less than $1 per day per person are poor.

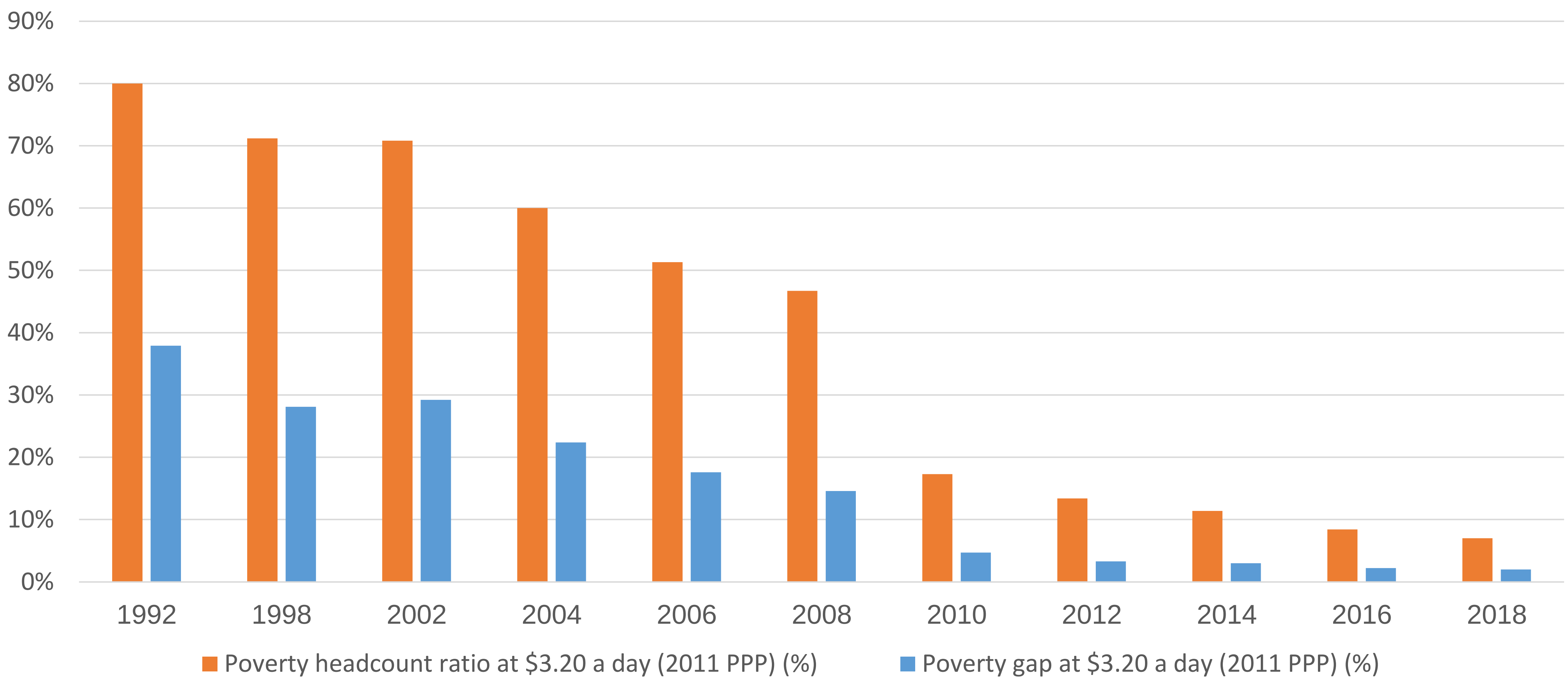
Problems with the headcount poverty rate

- The number of calories a person needs depends on physical activity and other individual characteristics
- Wide range of estimates of minimum caloric requirement across countries: from 2 to 3 thousand calories.
- Whose calories? Do women and children require fewer calories than men?
- Which foods selected to make up those calories? In Vietnam GSO takes the consumption of the 3rd quintile (40-59% in the income distribution)
- This amount then needs to be converted into a monetary measure using prices: but which prices? Where? When? Does the general consumer price index (CPI) apply to the prices paid by the poor?
- Add a non-food component: Varies from 0.5 of food component to 3.0 times. Whose non-food share (Remember Engel's Law)? Education, healthcare, transport?

Poverty gap

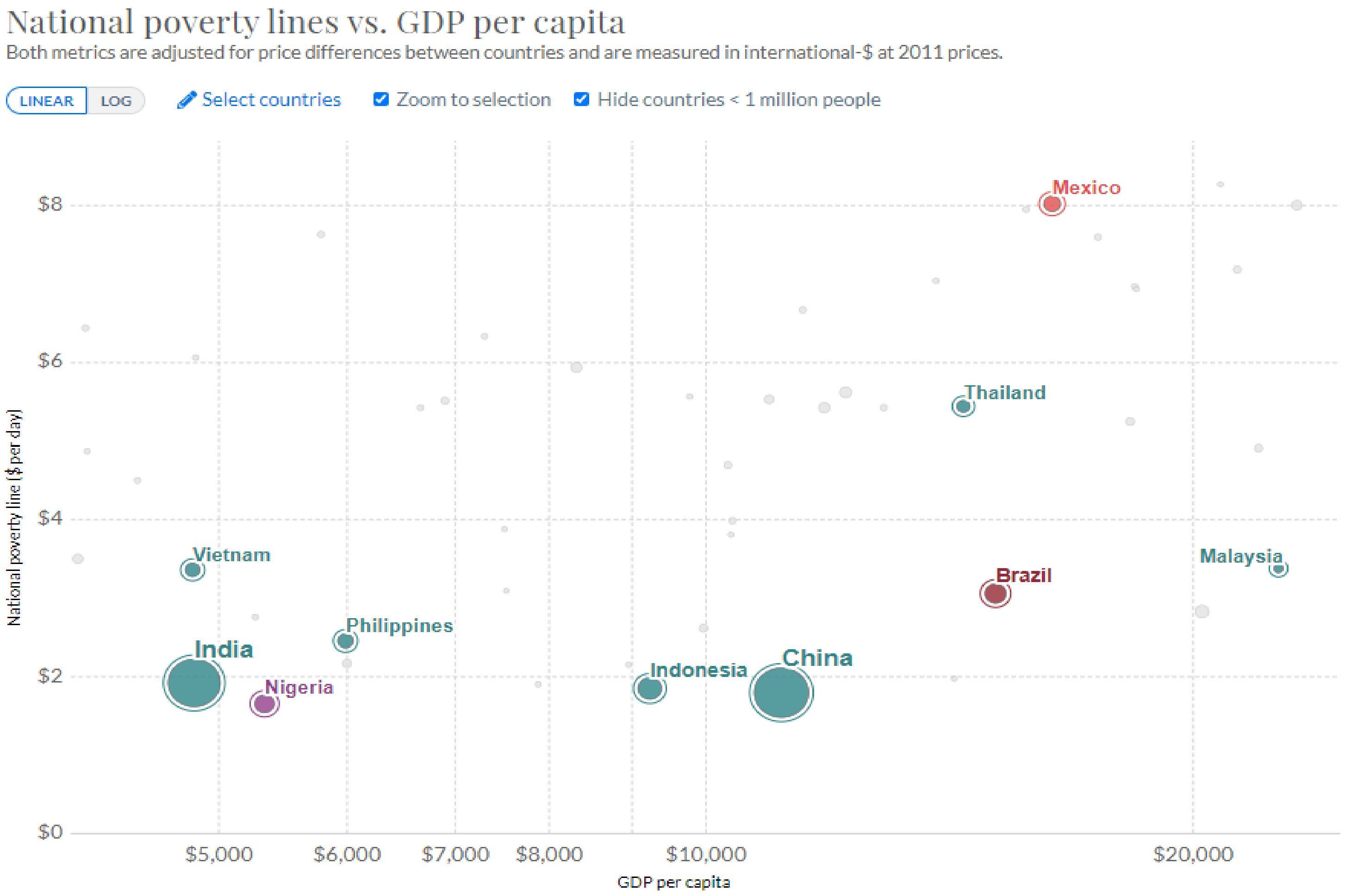
- Headcount poverty rate measures the extent of poverty but doesn’t tell us how far poor people are from the poverty line (the depth of poverty)
- Poverty gap measures how much income (or consumption) is needed to bring everyone up to the poverty line
- $PG = \frac{1}{N}\sum_{j=1}^{q}\left(\frac{z-y_j}{z}\right)$ where N is the population, q is the population below the poverty line z, y_j is the income (consumption) of poor person j.
- A PG of zero (0) would mean that no one is poor
- A PG of one (1) would mean that the entire population has no income. A larger number means more people are far below the poverty line.
- With a PG of 5%, a population of 10 million and a poverty line of $500 per year it would take $250,000,000 (5% x 10,000,000 x $500) to bring everyone in poverty up to the poverty line.

Viet Nam poverty headcount and poverty gap at $3.20 per day poverty line



Variations in poverty lines

- No relationship between GDP per capita and poverty line
- Indonesia and China set lower poverty lines than poorer countries
- Vietnam's poverty line high relative to income per capita



Source: D. Jolliffe & E. Prydz (2016) "Estimating international poverty lines from comparable national thresholds," Journal of Economic Inequality, *14(2), 185-198.*

Relative vs absolute poverty

- Headcount poverty is an example of absolute measures of poverty (other might be “capabilities” or “full community participation”
- Relative poverty measures: Poverty defined in relation to some measure of prevailing levels of consumption or income
- Poverty defined as ½ of median consumption: Rises as median consumption rises
- No need for arbitrary decisions about minimum standards
- Automatically rises and falls as economy grows or contracts
- Combined absolute and relative poverty: “Anchored” relative poverty line defined as % of median consumption but cannot fall below some minimum consumption level (European Union “at risk of poverty”)

Multidimensional poverty and the Sustainable Development Goals

What and whom are being measured?

- Consumption vs Expenditure vs Income
- Poverty headcount higher with income than consumption
- Consumption ≠ Expenditure (e.g. owner-occupied housing)
- Individuals, households or families?
- Child poverty cannot be understood without information about the family: equivalence scales; do disabled people need more expenditure?
- Narrower household definition (eg "cooking pot") produces higher poverty rate but also excludes important information about survival strategies: eg migration
- Intra-household inequality: How are decisions made within the household?
- Economies of scale in household consumption? Cost of durable goods.

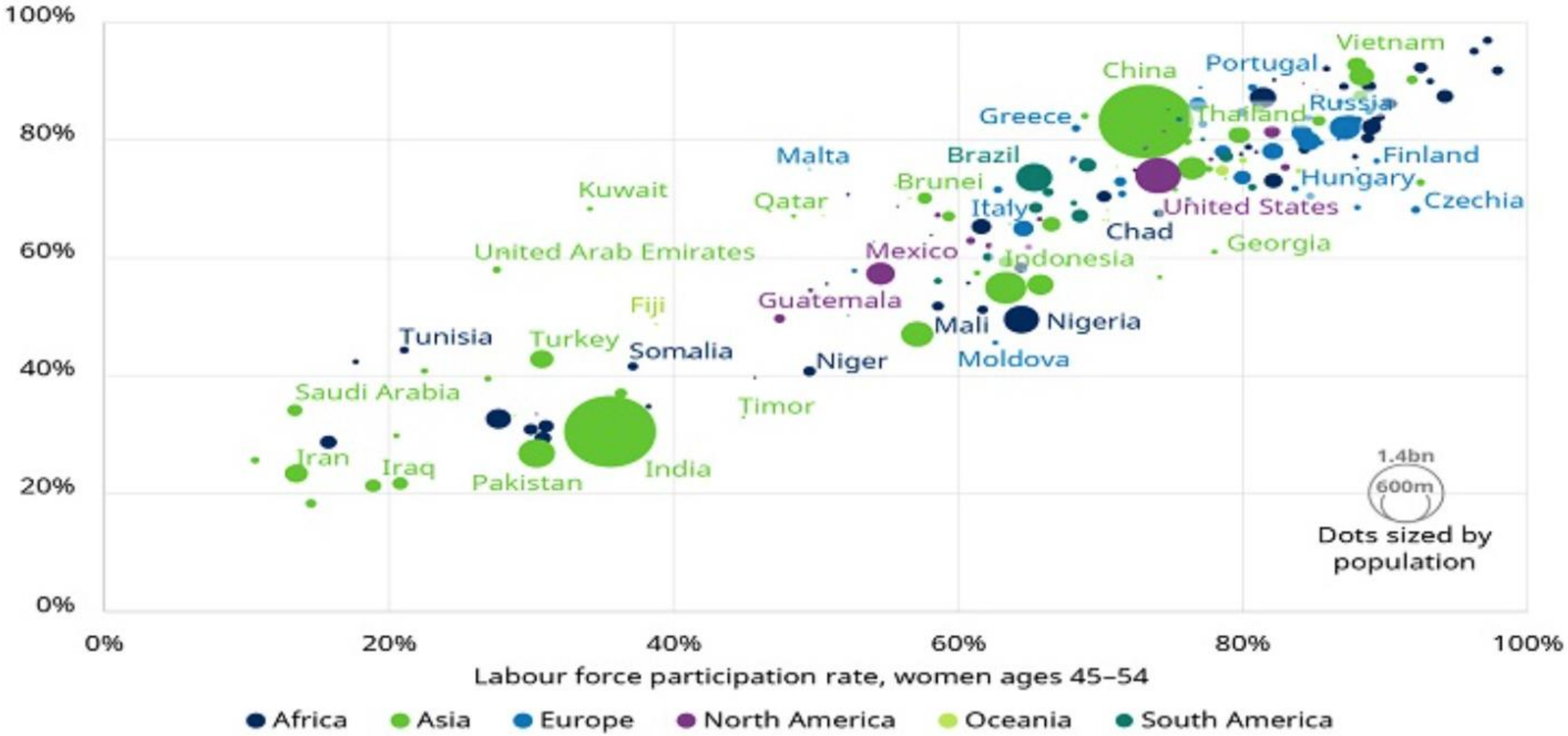
Why does poverty rise and fall?

- Consumption vs Expenditure vs Income
- When labor earnings go up, poverty falls. And vice versa
  - Productivity growth is necessary for labor earnings to go up, but not sufficient
  - Who receives the benefits of productivity growth → land owners or farm workers?
  - How many more jobs are created when productivity increases?
- Kalecki: The wage goods constraint and the price of food
  - If the supply of food does not adjust quickly to rising demand, inflation will lower the real wages of workers in both industry and agriculture
  - But don’t farmers benefit from rising food prices? How much food consumed in rural areas is bought in markets by people working for wages?

Labor markets and rural poverty

- Consumption surveys focus on living standards but do not tell us about household survival strategies
- Central importance of labor markets, availability of work and the level of wages relative to the prices of essentials
- Migration and remittances are important survival strategies → under-appreciation of rural-to-rural migration
- Gender-division of labor: In many societies women excluded from good jobs (construction, driver) and left with bad jobs (domestic service)
- Control of female labor by men.

Female labor force participation



Source: ILO, Our World in Data. 605772

Krishna 2004: Dynamic poverty studies

- Rajasthan, India village survey
- Problem with poverty lines is that we assume that the poor are always the same people

		25 years ago	
		Poor	Non-poor
Now	Poor	17.8% remained poor	7.9% become poor
	Non-poor	11.1% escaped poverty	63.2% Remained non-poor

- In every year, some people fall into poverty and others escape poverty.
- Figuring out who is entering and who is leaving poverty has important policy implications.
- Requires panel data or tracking the same households over time

Falling into poverty

- Three principal factors (85% of cases)
  - Health and health-related expenses, disability
  - Social expenses (weddings and funerals)
  - Debt (usually because of health or social expenses)
- Rarely because of unemployment: Few can afford to not work
- Large household size is not important – it may be an asset (depending on how one defines the household)

Escaping poverty

- Diversification of income, usually related to finding employment in the city
- Migration for waged employment (usually in the informal sector)
  - Critical role of information on jobs from personal contacts
  - Importance of steady wage employment
  - Close relationship between “good” jobs and education
- Role of public sector employment (schools, clinics, etc) in rural areas.

Some policy implications

- Poverty measures are based on methodological choices, most of which can be contested.
- The official discourse focuses on measuring poverty and not enough on poverty dynamics, especially the importance of rural labor markets.
- The prices of necessities are an important determinant of poverty levels.
- Migration is a principal rural poverty escape strategy: reducing barriers to migration (household registration system) is good for the poor.

Discussion questions

1. Discuss the shortcomings of the headcount rate of poverty as a measure of economic well-being.
2. Given what we know about agriculture and poverty, what policies are most likely to result in a sustained reduction in the incidence of rural poverty?