



Development Policy

POVERTY AND POVERTY ALLEVIATION

In 1936 88% of American farmers did not have access to electricity



Sam Rayburn, Speaker
of the U.S. House
1940-1961

- Two nations: city dwellers (lights, running water and washing machines) and country folk
- Market failure: Electricity companies said it was too expensive to bring electricity to countryside because there was no demand; but there would be no demand as long as country folk were poor.
- President Roosevelt created the Rural Electrification Authority in 1936, to lower construction costs with low-interest loans → more construction meant falling costs per km and cheaper electricity
- Sam Rayburn: “We want to make the farmer and his wife and family believe and know that they are no longer the forgotten people.”

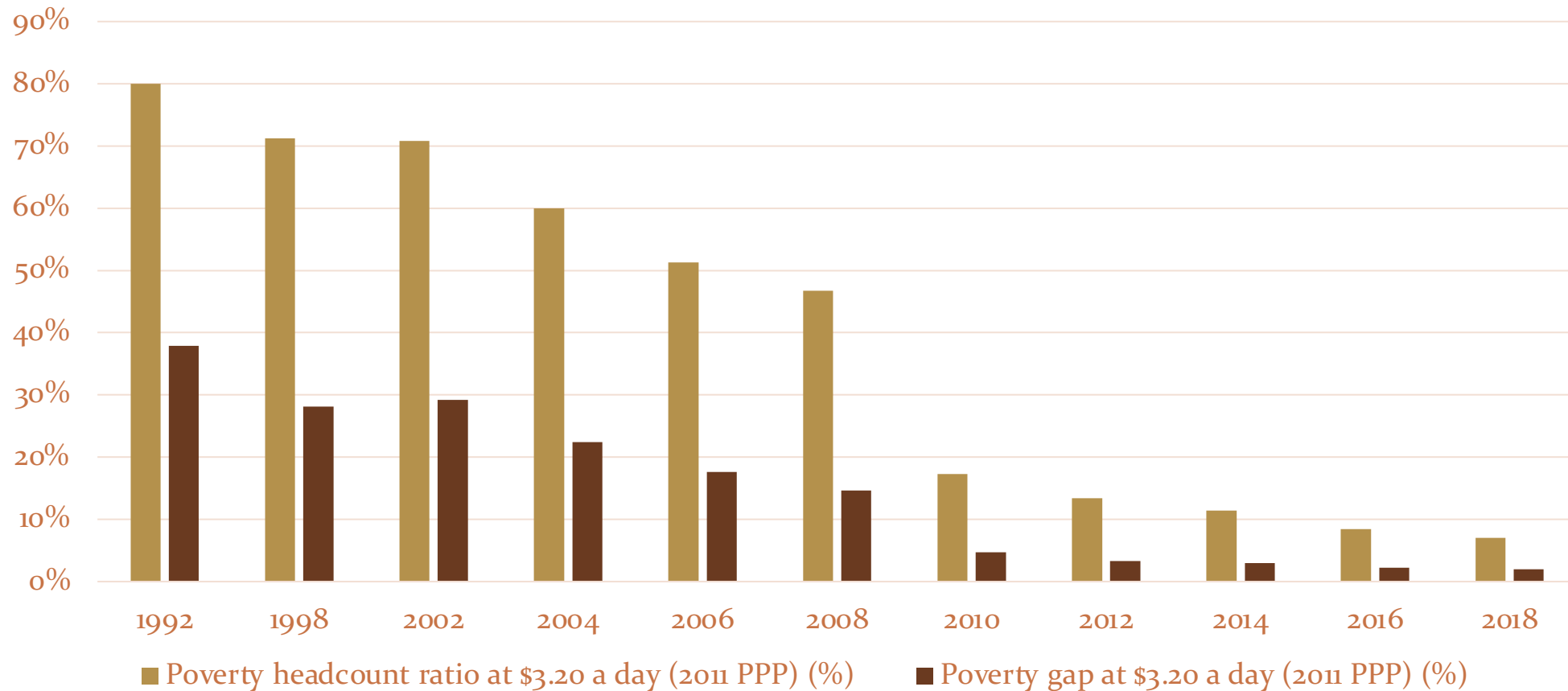
What is the headcount poverty rate

- Early poverty estimates (20th century) derived from caloric requirements, still the basis of most national poverty lines.
 - But the amount of calories we need depends on physical activity
 - 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.

Poverty headcount and poverty gap in Vietnam at \$3.2 international poverty line

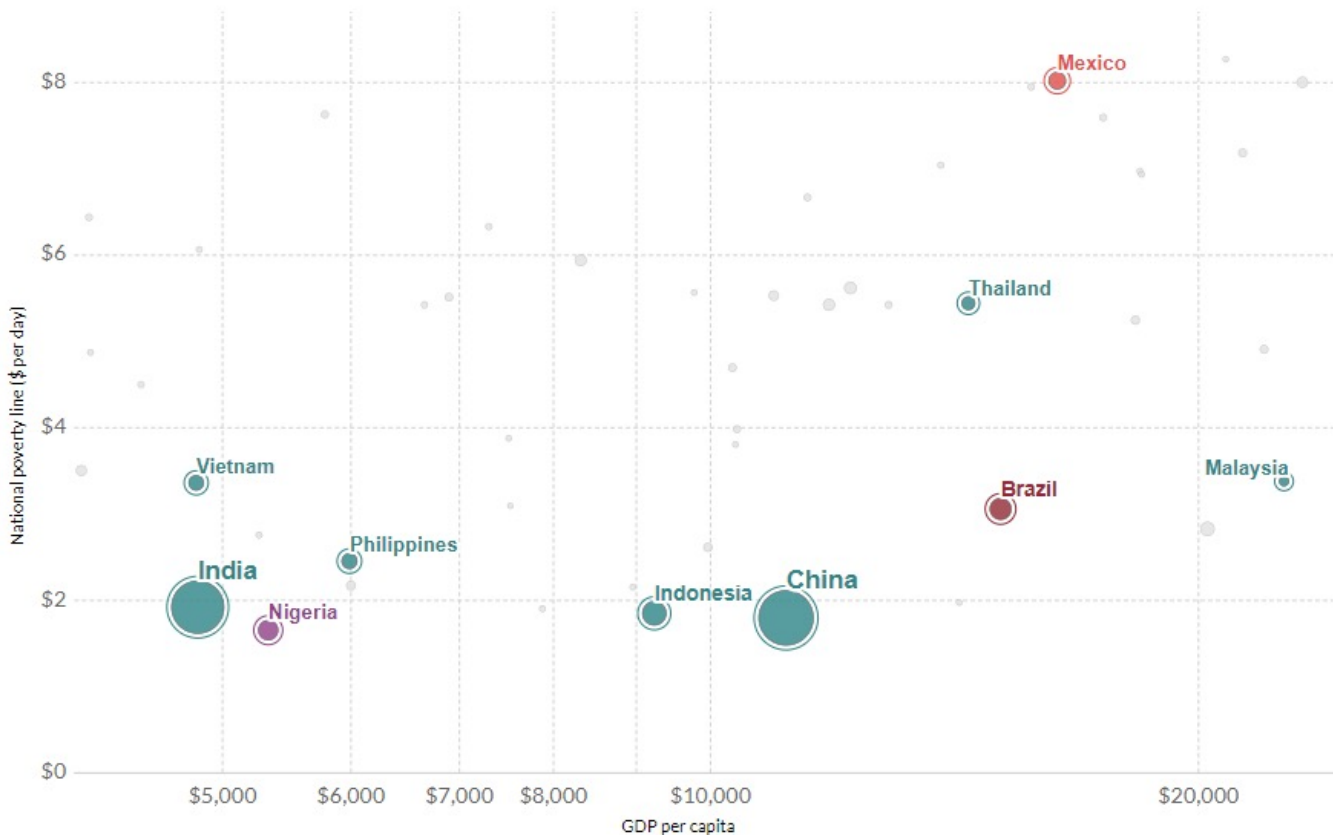


Variation in national poverty lines

National poverty lines vs. GDP per capita

Both metrics are adjusted for price differences between countries and are measured in international-\$ at 2011 prices.

Zoom to selection Hide countries < 1 million people



- No relationship between GDP per capita and poverty line
- Indonesia and China set lower poverty lines than poorer countries
- Vietnam's poverty line high for 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 $\frac{1}{2}$ 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”)

What and Whom are being measured?

- Consumption vs Expenditure vs Income
 - Poverty headcount higher with income than consumption
 - Consumption \neq 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.

Multidimensional poverty: MDGs and SDGs



The politics of multidimensional poverty

- Components of multidimensional indices often highly correlated
- Opportunity to reflect international conventions, eg UN declarations on children's rights, rights of indigenous people, people with disabilities, etc
- Opportunity for participation and discussion
- Opportunity to emphasize education and health indicators (stunting, wasting)
- Opportunity to show how multiple forms of deprivation interact
- But impulse to combine disparate indicators into a single indices lacks theoretical justification

Why does poverty rise and fall?

- 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.

Krishna 2004: Poverty dynamics in Rajasthan, India

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

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 problems with static measures of poverty and the policy implications of shifting to dynamic measures of poverty.
2. Discuss the role of labor markets in poverty reduction.