

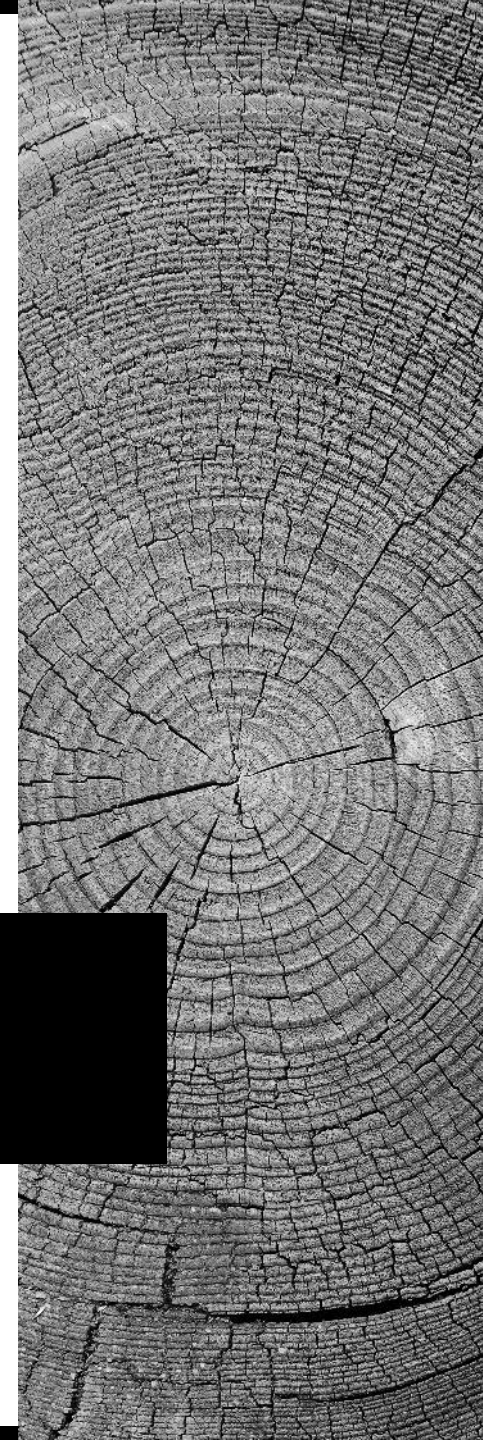


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# POVERTY AND POVERTY ALLEVIATION

*Development Policy*

*FSPPM*



# IN 1936, 88% OF AMERICAN FARMERS DID NOT HAVE ACCESS TO ELECTRICITY



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

- The US was two separate nations: city dwellers (lights, running water and washing machines) and country folk, living in darkness, living lives of hard labor, deprivation and poor health
- Market failure: For private electricity companies it was too expensive to bring electricity to the countryside
  - Limited demand (farmers were poor)
  - Expensive to build infrastructure to deliver power
- Rural Electrification Authority created 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.”



# MEASURING POVERTY: THE HEADCOUNT

## POVERTY RATE

- Early poverty estimates (20<sup>th</sup> century) derived from caloric requirements, still the basis of most national poverty lines.
  - But the number of calories we need 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 3<sup>rd</sup> 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?



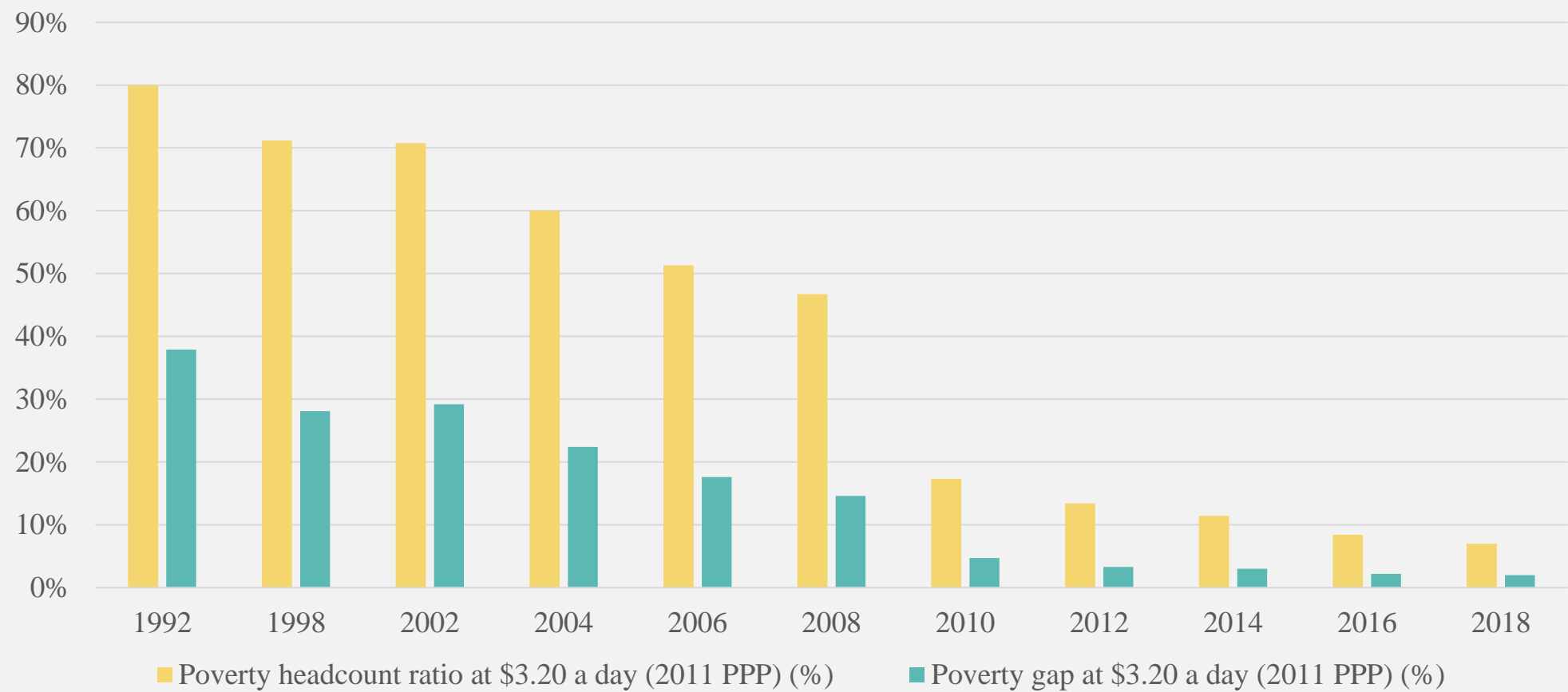
# POVERTY GAP

- 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 ( $5\% \times 10,000,000 \times \$500$ ) to bring everyone in poverty up to the poverty line.





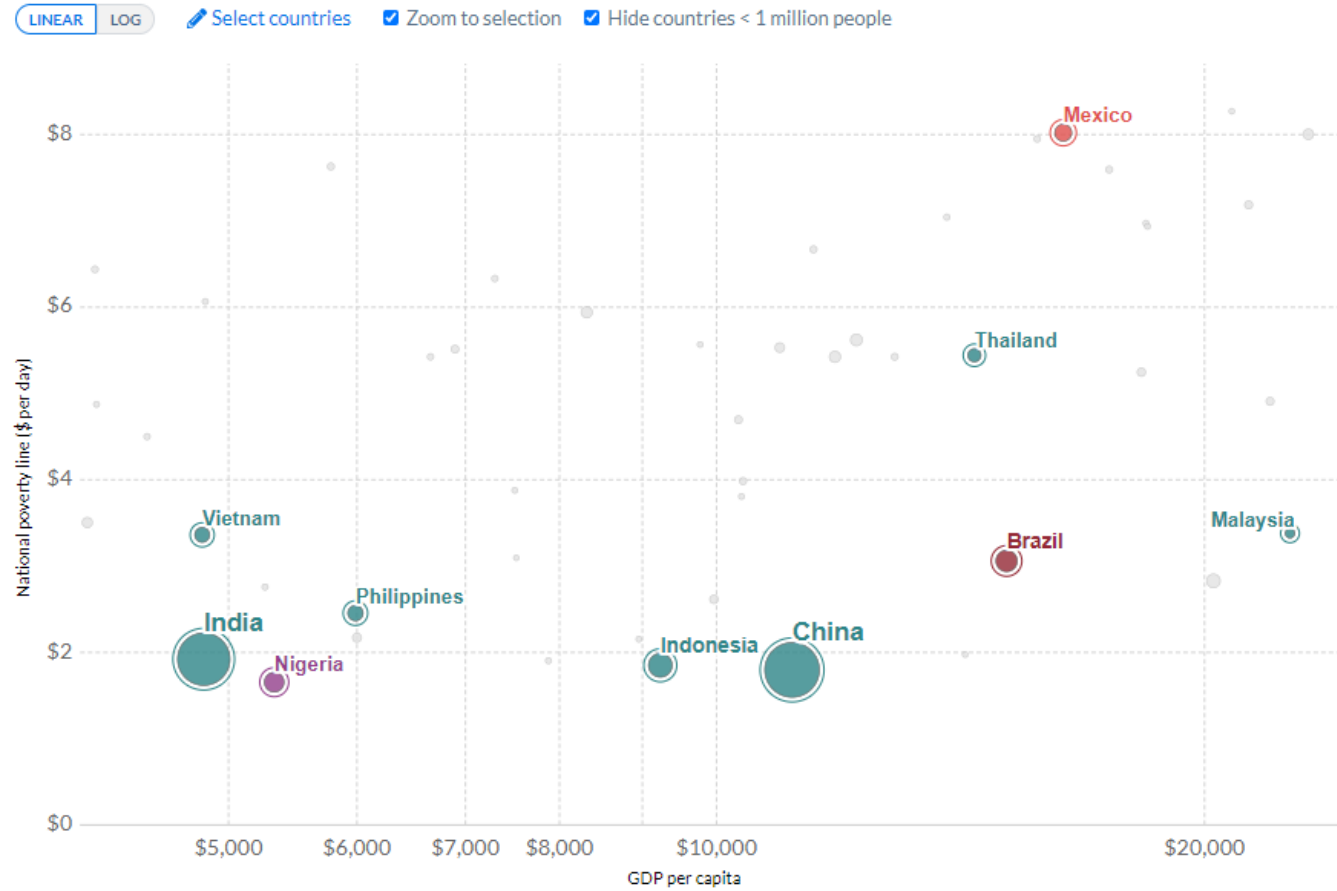
# POVERTY HEADCOUNT AND POVERTY GAP IN VIETNAM AT \$3.2 INTERNATIONAL POVERTY LINE



# 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.



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

- 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

# 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

Now	25 years ago		
		Poor	Non-poor
	Poor	17.8% remained poor	7.9% become 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 shortcomings of the 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?

