

Poverty Lines

The principle underlying the setting of a poverty line is the welfarist argument that there is some reference level of welfare below which the individual must be deemed poor. For informing anti-poverty policies, a poverty line should be absolute in the space of welfare.

What do we understand by poverty lines being absolute in the space of welfare? How do we usually draw a poverty line that ensures that the poverty lines are absolute in the space of welfare? What are the underlying assumptions made in this method?

Explain Weak Pareto principle in the context of setting poverty lines.

Think of a poverty line as the threshold of income or consumption expenditure at which an individual or a family barely able to meet their bare minimum needs.

A poverty bundle is that bundle of bare minimum needs.

Now this bundle can correspond to some reference level of utility for given prices. In that case the poverty line corresponds to the consumer welfare definition of poverty.

In addition, one can think of this bundle is the minimum set of resources required to achieve a set of functionings. In this case the poverty line corresponds to the capability approach.

The normative question in both these frameworks is that of the choice of poverty bundle. In the former case, one can think of this as the problem of choosing the appropriate level of reference utility. In the capability approach, one has to take a normative decision on the set of “adequate” functionings.

Food intake method versus cost of living method and its implication for urban and rural poverty lines

Cost of living method translates the principle of “fixed welfare at the poverty line” to practice by taking the minimum bundle and finding the cost of consumption for that bundle by multiplying it with the prices.

Food intake method translates the principle of “fixed welfare at the poverty line” to practice by finding the expenditure corresponding to the minimum energy requirement for a subgroup. This expenditure is the poverty line.

Does this poverty line account for non-food expenditure?

Typically, this poverty line is set separately for rural and urban areas. However, food energy intakes tend to be higher at any given level of income in rural areas. **Why?**

	Head-count index (% poor)	
	Urban	Rural
<u>Indonesia</u>		
Food energy method	16.8	14.3
Cost-of-basic needs method	10.7	23.6
<u>Tunisia</u>		
Food share method	7.3	5.7
Cost-of-basic needs method	3.5	13.1

Explain FEI and CBN give inconsistent results.

Food share version of cost of basic needs method

Poverty Line = $\frac{\text{Cost of food-energy requirement}}{\text{Food-share of "poor"}}$

Why is the cost of minimum energy requirement divided by the share of food expenditure? Does this poverty line account for non-food expenditure?

Example: Cost of energy requirement = \$100, and food share is 0.3 for the “poor”. So, cost of the full consumption bundle would be 333.3. The underlying assumption is that the “poor” have the same mapping between food consumption and food expenditure as they have between non-food consumption and non-food expenditure. This is method is usually used when you do not have price data. This method was used for deciding poverty line in the US.

Relative Poverty Lines

What is difference between absolute and relative poverty lines? Can one argue that absolute poverty lines are not absolute in the welfare space but relative poverty lines are?

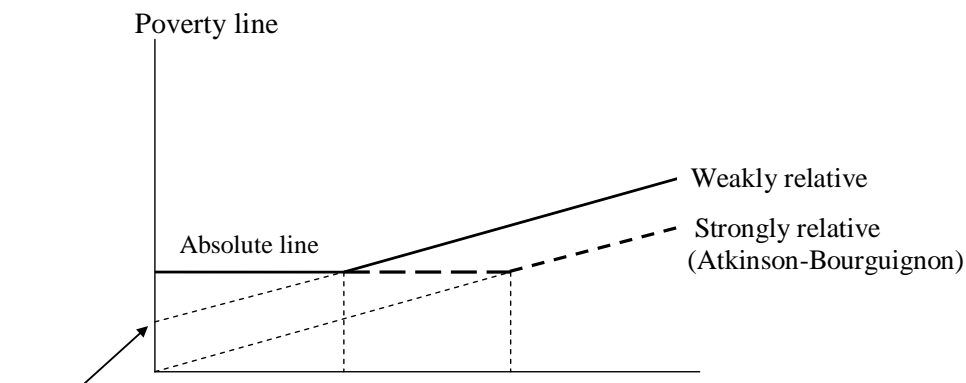
Strongly Relative Poverty Lines

$$Z = kM$$

where M = mean/median, and k is some fraction.

Let's say M is median and k is 1. How many people would be considered poor by this definition of poverty line?

UK Labour Government set poverty at 60% of the median level. Poverty among children and pensioners falls between 2010 and 2014 and started increasing in 2015. How do we interpret these? Why might this measure of poverty actually fall during recession?



Why might we not want to have strongly relative poverty lines?