Economic development

Chapter 5

Poverty

Definition

Poverty is an economic state where people are experiencing scarcity or the lack of certain commodities that are required for the lives of human beings like money and material things. Therefore, poverty is a multifaceted concept inclusive of social, economic and political elements. The word poverty comes from French word **"poverté"** which means **poor.**

TYPES OF POVERTY

Following are the of poverty

1. Absolute poverty.
2. Relative Poverty.
3. Situational Poverty.
4. Generational Poverty.
5. Rural Poverty.
6. Urban Poverty.

Absolute poverty:

Also known as extreme poverty or abject poverty, it involves the scarcity of basic food, clean water, health, shelter, education and information. Those who belong to absolute poverty tend to struggle to live and experience a lot of child deaths from preventable diseases like malaria, cholera and water-contamination related diseases. Absolute Poverty is usually uncommon in developed countries.

2. Relative Poverty:

It is defined from the social perspective that is living standard compared to the economic standards of population living in surroundings. Hence it is a measure of income inequality. For example, a family can be considered poor if it cannot afford vacations, or cannot buy presents for children at Christmas, or cannot send its young to the university. Usually, relative poverty is measured as the percentage of the population with income less than some fixed proportion of median income.

3. Situational Poverty:

It is a temporary type of poverty based on occurrence of an adverse event like environmental disaster, job loss and severe health problem.
People can help themselves even with a small assistance, as the poverty comes because of unfortunate event.

4. Generational Poverty:

It is handed over to individual and families from one generation to the one. This is more complicated as there is no escape because the people are trapped in its cause and unable to access the tools required to get out of it.

5. Rural Poverty:

It occurs in rural areas with population below 50,000. It is the area where there are less job opportunities, less access to services, less support for disabilities and quality education opportunities. People are tending to live mostly on the farming and other menial work available to the surroundings.

6. Urban Poverty:

It occurs in the metropolitan areas with population over 50,000. These are some major challenges faced by the Urban Poor:

- Limited access to health and education.
- Inadequate housing and services.
- Violent and unhealthy environment because of overcrowding.
- Little or no social protection mechanism

Difference between Relative Poverty and Absolute Poverty

Basis	Relative Poverty	Absolute Poverty
Meaning	It is the relative level of poverty among individuals, communities, or countries.	It indicates the total number of persons who are considered to be below the poverty line.
Spread	It is most prevalent in developed nations.	It is a widespread problem in developing nations.
Measure	It can be determined using the Lorenz Curve and Gini Coefficient.	It can be determined using the Poverty line.
Consistency	With the changes in the standard of living, it evolves with time.	It maintains its consistency throughout time.

Basis	Relative Poverty	Absolute Poverty
	Any person not in a position to obtain essential commodities like food, shelter and clothing are said to experience absolute poverty	Relative poverty does not concentrate on biological needs but rather makes a comparison between two people in the environment
	Income Level is considered in Absolute Poverty	It is not considered when measuring relative poverty as a person will still be considered poor despite meeting his.her basic needs
	Absolute poverty, however, does not include a broader quality of life issues or the overall level of inequality in society. What the concept fails to recognize is that individuals also have important social and cultural needs.	Although people living in relative poverty are to an extent well-off compared to those living in absolute poverty, they still cannot afford the same standard of life as other people in society.
	Measured using Poverty Line	Measured Using the Gini-Coefficient and Lorenzo Curve
	It is not possible to completely eradicate absolute	There is a small margin of success where its eradication is concerned
	Quality of life is poor	Quality of life is marginally better as those living under relative poverty have access to health care services

Poverty line

The adequate minimum threshold income level or per capita expenditure for a country's population is known as **Poverty Line**. Simply put, it is a cut-off point on the *Line of Distribution* that divides a country's population into poor and non-poor. Poverty Line is determined in terms of **Monthly Per Capital Expenditure (MPCE)** or **Calorie Intake.**

Poverty Line is the amount of money an individual requires to meet his basic needs. Hence, it is defined as the money value of goods and services required by an individual to provide basic welfare. Poverty Line is used for the measurement of the extent of poverty in a country. People who are living or have income below the poverty line are known as **Poor.** However, people who are living or have income above the poverty line are known as **Non-poor.** Mass poverty is a situation in which a large section of people in the economy is deprived of basic necessities.

Determination of Poverty Line

In India, poverty is determined using Monthly Per Capita Expenditure Method. In this method, the monetary value per capita expenditure of the minimum calorie intake is calculated.

Minimum Calorie Intake:

The Planning Commission of India (currently known as NITI Aayog, has used recommended nutritional requirements (2,400 calories per person per day for rural areas and 2,100 calories per person per day for urban areas) as the basis for defining the poverty line. The calorie intake for rural areas is fixed at a higher rate because the rural workers have to do more physical work as compared to the urban workers.

Monetary Value of Minimum Calorie Intake:

According to NITI Aayog (Planning Commission), the minimum Monthly Per Capita Consumption Expenditure (MPCE) in the year 2011-12 was ₹816 per person in rural areas and ₹1,000 in urban areas.

Poverty Line divides the Poor from the Non-poor:

The poverty line divides the poor from the non-poor. There are various kinds of poor and non-poor. Poor includes absolutely poor, very poor, and poor. However, Non-poor includes Billionaires, Millionaires, Very Rich, Rich, Upper Middle Class, Middle Class, and Not so Poor.

Major Causes of Poverty

1. **Lack of access to education and healthcare:**

Education and healthcare are essential for people to develop the skills and knowledge they need to get a good job and live a healthy life. People who do not have access to quality education and healthcare are more likely to be poor. A child in a developing country may not be able to afford to go to school, or may have to drop out early to help support their family. This can limit their job opportunities and earnings potential.

2. **Discrimination:**

Discrimination based on race, gender, ethnicity, or other factors can prevent people from accessing opportunities and resources. This can lead to poverty. A woman in a developing country may be paid less than a man for doing the same job, or may be denied a job altogether because of her gender. This can make it difficult for her to support herself and her family.

3. **Lack of economic opportunity**:

Economic opportunity refers to the availability of jobs and the ability of people to start and grow businesses. People who live in areas with limited economic opportunity are more likely to be poor. A person who lives in a rural area with few job opportunities may have to travel a long distance to find work, or may have to work in a low-paying job. This can make it difficult to make ends meet.

4. **Conflict and instability**:

Conflict and instability can damage infrastructure, disrupt economic activity, and displace people. This can lead to poverty. A person who is displaced by conflict may lose their job and home, and may have difficulty finding a new place to live and work. This can make it difficult to provide for their basic needs.

5. **Climate change:**

Climate change can lead to poverty by causing crop failures, droughts, floods, and other disasters. This can displace people and make it difficult for them to earn a living. A farmer in a developing country may lose their crops due to drought or flooding. This can make it difficult for them to feed their family and earn an income.

6. **Inequality:**

Inequality refers to the unequal distribution of income and wealth in a society. High levels of inequality can lead to poverty, as the rich get richer and the poor get poorer. A person who lives in a society with high levels of inequality may have difficulty accessing the same opportunities and resources as those who are wealthy. This can make it difficult to break out of the cycle of poverty.

7. **Poor infrastructure:**

Poor infrastructure, such as roads, bridges, and ports, can make it difficult for businesses to operate and for people to access jobs and markets. This can lead to poverty. A person who lives in a rural area with poor infrastructure may have to travel a long distance to get to a market or to a job. This can increase their costs and reduce their income.

8. **Lack of access to finance**:

Access to finance is essential for people to start and grow businesses, and to invest in their education and healthcare. People who do not have access to finance are more likely to be poor. A person in a developing country may not be able to get a loan from a bank to start a business, or may be charged high interest rates on loans. This can make it difficult to start a business or to invest in their future.

9. **Government corruption**:

Government corruption can lead to poverty by diverting resources away from essential services, such as education and healthcare. It can also create an environment where businesses are reluctant to invest. A government that is corrupt may misallocate funds that are intended for social programs, such as education and healthcare. This can deprive people of the services they need to escape poverty.

10. **Weak institutions**:

Weak institutions, such as the judiciary and the police, can make it difficult for people to protect their rights and to enforce contracts. This can create an environment where businesses are reluctant to invest and where people are more likely to be exploited. A person who lives in a country with weak institutions may be less likely to invest in their education or to start a business, as they may not be confident that their rights will be protected.

NOTE The reverse headings will be solution

Measuring inequality and poverty

Poverty can be measured by following factors

Size Distributions

The personal or size distribution of income is the measure most commonly used by economists. It simply deals with individual persons or households and the total incomes they receive. The way in which that income was received is not considered. What matters is how much each earns irrespective of whether the income was derived solely from employment or came also from other sources such as interest, profits, rents, gifts

Income inequality The disproportionate distribution of total national income among households. The income inequality is one of the most common factor for the measurement of poverty and inequality it can be measured by Lorenz curve and Ginni cooefficient

Lorenz curve

The **Lorenz curve** graphically shows the degree of income or wealth inequality in an economy. It was developed by economist Max O. Lorenz in 1905. the **Lorenz curve calculation** provides an innate and complete understanding of income distribution. Moreover, it provides the basis for inequality measurements through the Gini index.

There are several important components to understand when analyzing a Lorenz curve:

- The *x-axis* is often denoted as the percentile. In the graph above, the x-axis is the percentile of net worth ranking compared to other U.S. households.
- The *y-axis* is often denoted as the cumulative percentage of occurrences. In the graph above, the percentages represent the cumulative amount of net worth of households.
- The *line of equality* is demonstrated by a 45-degree, upward-sloping line. In the graph above, it is denoted as the dashed line.
- The *Lorenz curve* is demonstrated often by an upward-sloping but often exponentially rising curve. In the graph above, it is denoted as a solid line.

- The Gini coefficient (discussed below) is the gap between the line of equality and the Lorenz curve.

Gini Coefficient?

The Gini coefficient (Gini index or Gini ratio) is a statistical measure of economic inequality in a population. The coefficient measures the dispersion of income or distribution of wealth among the members of a population.

A coefficient of zero indicates a perfectly equal distribution of income or wealth within a population. A coefficient of one represents a perfect inequality when one person in a population receives all the in**Principles of the Gini Coefficient**

The Gini coefficient is one of the most utilized measures of economic inequality because it aligns with the following principles:

1. Anonymity

The coefficient does not disclose the identities of high-income and low-income individuals in a population.

2. Scale of independence

The calculation of the Gini coefficient does not depend on how large the economy is, how it is measured, or how wealthy a country is. For example, both rich and poor countries may show the same coefficient due to similar income distribution.

3. Population independence

The coefficient does not depend on the size of the population.

4. Transfer principle

The coefficient reflects situations when income is transferred from a rich to a poor individual.

come, while other people earn nothing.

Functional Distributions

The second common measure of income distribution used by economists, the functional or factor share distribution of income, attempts to explain the share of total national income that each of the factors of production (land, labor, and capital) receives.

Difference Between Absolute and Relative Poverty

Poverty can be defined as the state in which an individual or household is not able to fulfil the minimum consumption needs. It is not always about money, but it also entails access to basic facilities such as proper hygiene, sanitation, food, shelter, drinking water, health, education, transport, whose absence as a whole, is regarded as **poverty**. It can be absolute poverty or relative poverty. **Absolute poverty** is when there is an absence of a minimum level of subsistence needed for the basic well being.

On the other hand, when poverty is measured in relative terms, such as income or consumption of other people, it is called **relative poverty**.

The word **poverty line** is often used in relation to poverty, which means an estimated minimum household income threshold, which is required to fulfil the basic necessities of life. Any person or family below this threshold is called as poor. This article will help you understand the difference between absolute and relative poverty.

Comparison Chart

BASIS FOR COMPARISON	ABSOLUTE POVERTY	RELATIVE POVERTY
Meaning	Absolute poverty is a state in which a person or family is highly deprived of the basic needs making their livelihood difficult.	Relative poverty is a condition when a person or family is unable to reach the minimum average living standard, in the society.
Indicates poverty in relation to	Level of income needed to fulfill basic needs.	Economic status of others in society.
Standard	Remains consistent over time.	Changes over time.
Measure	Measured using poverty line	Measured using the Gini Coefficient and Lorenz Curve
Eradication	Not possible	Possible
Found in	Developing countries	Developed countries

Definition of Absolute Poverty

Absolute poverty can be defined with the help of basic poverty line. When the income of the household is below the poverty line, then the person or family is regarded as poor. It indicates a failure in meeting the basic necessities of life (i.e. food, water, clothing and shelter) and access to the amenities like sanitation, education, medical care, information, etc., which is necessary for an individual's physical and social well being.

In absolute poverty, we compare the income of the household, with the standard minimum income of the household. This standard minimum income threshold is different in different countries and is based on the overall economic condition. And so it helps in ascertaining the poverty level in different countries, as well as at different points in time.

Definition of Relative Poverty

Relative Poverty refers to the state in which a person lacks the least amount of income required to maintain the normal standard of living, in the society to which they belong. The ones who are not able to maintain the accepted standard of living in society, then they are considered impoverished, as they are relatively poor than the other members of society.

The word 'relative' means 'in comparison to', so here we define poverty concerning the overall distribution of income or consumption of a person, family, or nation in comparison to the other person, family or nation.

The increase in the wealth of the society results in the increase in income of its members and resources they can afford, which changes the society's standard of living and so relative poverty changes with time.

Key Differences Between Absolute and Relative Poverty

The difference between absolute and relative poverty can be drawn clearly on the below-given grounds:

1. Absolute poverty is one in which the income of the family or household is below the defined level, and so they cannot afford basic subsistence. On the other hand, relative poverty refers to the person's way of life, which is comparatively below than the minimum acceptable standard of living in the society or region.

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2. Absolute poverty represents poverty with respect to the minimum level of income needed to meet the basic needs. Conversely, relative poverty indicates the economic status of a person in comparison to others in society.
3. Absolute poverty remains consistent over time. As against, relative poverty, changes over time, with the increase in income and standard of living.
4. Absolute poverty can be measured with the help of the poverty line. In contrast, relative poverty can be measured through the Gini Coefficient and Lorenz Curve.
5. Eradication of relative poverty is possible, but it is not in the case of absolute poverty.
6. Absolute poverty is a common issue in developing countries. As opposed to relative poverty, is mainly found in a developed country.

Conclusion

In absolute poverty, people are considered as poor when they fall below the poverty line, whereas in relative poverty people who fall below the existing standard of living in society. So, absolute poverty describes the people who are deprived of the basic necessities of life, whereas, relative poverty, measures the difference in resources and inequality of income, in comparison to others.

Following definitions are from another source:

What is the difference between absolute poverty and relative poverty? This is a question that many people are asking these days. The answer is not always clear, but in this article, we will try to explain the differences between these two types of poverty. Absolute poverty is defined as a state in which a person cannot meet their most basic needs, such as food, clothing, and shelter. Relative poverty, on the other hand, refers to a situation in which a person's income falls below a certain percentage of the national median income.

What is Absolute Poverty?

As we mentioned before, absolute poverty is a state in which a person cannot meet their most basic needs. This means that if you are in absolute poverty, you are not able to get the minimum amount of food, clothing, and shelter that you need to survive. In other words, you are living in dire circumstances. According to the World Bank, absolute poverty is defined as "a situation in which people are deprived of safe drinking water, food, sanitation facilities, health care, shelter, and clothing."

What is Relative Poverty?

Relative poverty, on the other hand, refers to a situation in which your income falls below a certain percentage of the national median income. This means that if the median income in your country is $100, and you are earning $60, you are considered to be in relative poverty. The national median income changes from country to country, so the amount of money that you need to live above the poverty line also changes.

In most developed countries, the official poverty line is set at 50% of the median household income. This means that if you are earning less than 50% of what the average person in your country is earning, you are considered to be in relative poverty.