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Impacts of Policies on Poverty: The Definition of Poverty

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1 SUMMARY

This module illustrates how poverty can be defined in the context of policy impact analysis. After reporting and discussing the definition of poverty as “the **lack** of, or the **inability** to achieve, a socially acceptable **standard of living**”, it discusses the mono-dimensional and multi-dimensional approaches to the definition of poverty. Furthermore, the module focuses on the absolute and the relative concept of poverty, also drawing some analogies and differences with the concept of food security. A step-by-step procedure, illustrated real case examples, are then provided to guide the reader through the process of poverty definition for policy impact analysis.

2 INTRODUCTION

Objectives

The aim of this module is to briefly illustrate the main approaches to define poverty, distinguishing relative and absolute concepts. It will give the user the possibility to learn the basic differences between these two concepts as well as the appropriate information to discriminate between them. In addition, the user will learn the main logical steps to follow when defining poverty in the context of policy impact analysis.

Target audience

The module targets current or future policy analysts who want to work on poverty issues.

Required background

In order to capture the essential parts of this module, the audience should be familiar with some basic mathematics, statistics and economics and with the basic concepts of income and of income distribution.

It belongs to a set of modules that discuss how to define poverty for policy analysis, how to identify poor and how to measure poverty. To find relevant materials in these areas, the reader can follow the links included in the text to other EASYPol modules or references¹. A set of useful links to related EASYPol modules is provided in a section at the end of the document.

3 CONCEPTUAL BACKGROUND

Many public policies impact poor people. Furthermore, some policies are specifically designed to target the poor in order to fight poverty. In policy work it is therefore important to be able to identify the poor, to simulate the impact of alternative policies

¹ EASYPol hyperlinks are shown in blue, as follows:

- training paths are shown in **underlined bold font**;
- other EASYPol modules or complementary EASYPol materials are in ***bold underlined italics***;
- links to the glossary are in **bold**; and
- external links are in *italics*

on poverty, and to rank policy options according to some poverty impact indicators in order to select the most preferred option. Some tools used for inequality analysis also prove to be useful for poverty analysis. To this respect, the poverty issue may be seen as focusing attention at the bottom end of the income distribution, i.e. as a part of the more general problem of income inequality.

3.1 Basic definition of poverty

Poverty is not a self-defining concept. Experts and academics have suggested many definitions over time. For example, poverty could be the lack of command over commodities in general²; alternatively, it could be the lack of command over some basic goods (e.g., food and housing). More generally, Sen, 1985, argued that poverty is the lack of «capability» to function in a given society. All these definitions point to poverty as a status in which a reasonable standard of living is not achieved. A synthesis of the various positions has been made by the World Bank³:

Poverty is the lack of, or the inability to achieve, a socially acceptable standard of living.

It is worth discussing some keywords contained in this definition.

LACK → The base case situation for the definition of poverty is that where individuals **lack command over economic resources**. For example, an individual may be considered poor if he/she lacks basic food or shelter or, equivalently, if he/she lacks income to buy these basic needs.

INABILITY → This is best associated with the **capability failure to participate in a society**, a concept developed by Sen (1985). Roughly, the idea is that the individual has a space of «functionings», where these latter are either what a person is actually able to do (**realized functionings**) or the set of alternatives he/she has (**real functionings**). This space may be very basic (food, shelter) or complex (freedom, self-respect, social inclusion, etc.). Inability to achieve these functionings makes the individual poor. For example, disability not only reduces ability to earn income (which means lack of command over resources) but also makes it harder to convert income into functionings (even though, in terms of income, that achievement is potentially feasible). According to this view, poverty is a state characterised by levels of capabilities that are, in the view of society, unacceptably low.

STANDARD OF LIVING → Poverty depends on:

a) What is deemed to constitute a socially acceptable standard of living by a given society at a given time. In a society where most people own cars, the use of public transport may be a signal of poverty. Not having a TV in a technologically advanced society might again be an indicator of poverty, while in other countries it may be a luxury good;

² Watts, 1968.

³ See, World Bank, 2001, *Poverty Manual*, (Chapter 1: [The Concept of Poverty and Well-Being](#)).

b) How this standard is measured, i.e, what is the variable or the set of variables used to “capture” the standard of living.

3.2 Uni-dimensional versus multi-dimensional poverty

The standard of living, and therefore poverty, may be represented by a **UNI-DIMENSIONAL** indicator (e.g. income) or a **MULTI-DIMENSIONAL** approach (e.g. income, health conditions, family status, etc.). In the first case, poverty is defined by **income poverty** and the standard of living is defined in the space of **economic welfare**, a narrower concept than well-being. In the second case, the concept of poverty is closer to **well-being**, where other welfare indicators support income in defining poverty. Any choice entails additional problems.

- In the case of the **uni-dimensional approach**, you have to define what the appropriate single monetary indicator for standard of living is. There are two natural candidates here, **income** and **expenditures**. Total expenditures are often used as an indicator of poverty, as they better reflect the concept of **permanent income** of an individual.
- In the case of the **multi-dimensional approach**, you have to define what the appropriate list of poverty indicators is and how to weigh them in order to get a comprehensive vision of poverty. For example, if you have low incomes and good health, are you richer than an ill individual with more income? If you are illiterate, yet in good health and with enough food, are you poor? An alternative view of the multi-dimensional approach could be that of «explaining» poverty with a set of indicators, leaving the task of defining how poverty is explained by which factor⁴ to statistical techniques. This raises the objection that simple correlation is not a causal relation: are you poor because you are in bad health? Or are you in bad health because you are poor? The answers to these questions may entail quite different anti-poverty policies.

Because of the various possibilities to define poverty, it is worth stressing that:

It is important to tailor the concept of poverty on the appropriate context, as there is not a general concept that we can safely assume to hold for all countries at all times.

In what follows, the focus will be on «**lack of command** over economic resources» and on a **uni-dimensional** approach. The «capability» approach, although stimulating, has given rise to an enormous strand of literature, most of which rather technical. Furthermore, this latter approach is harder to make operational in terms of identifying poor and measuring poverty and is left for more advanced material.

Finally, an issue that will not be pursued any further in the text, a slightly different perspective is taken by UNDP, where poverty is taken to be a denial of human rights, i.e. those rights that are inherent to the person and belong equally to all human beings.

⁴ An example of this approach is the principal component analysis. See, for example, Cavatassi *et al.* 2004. One of the most popular approaches to measure welfare in a multi-dimensional perspective is the Human Development Index (HDI) developed by the United Nations.

According to UNDP, the **human rights-based** approach to poverty reduction espouses the principles of universality and indivisibility, empowerment and transparency, accountability and participation. It addresses the multi-dimensional nature of poverty beyond the lack of income⁵. UNDP (2003) states that the respect for human rights is a necessary condition for socio-economic outcomes. This human rights-based definition challenges, to some extent, the opportunity that poverty is to be measured by a uni-dimensional criterion based on income and/or expenditure levels⁶.

3.3 Absolute versus relative poverty

Poverty may be thought of as either an **ABSOLUTE** or **RELATIVE** concept.

The **ABSOLUTE** concept of poverty refers to a standard of living defined in absolute terms. In this case, poverty is usually measured by the value, in real terms, of a given level of goods ensuring some form of **minimum subsistence** (e.g., the value of basic food or the minimum income required to have decent lives). The first attempts to define poverty as an absolute concept have taken into account the minimum diet cost, i.e. the minimum cost, for each household, to achieve a given energy intake⁷. This approach has two fundamental shortcomings: a) minimum diet costs may vary among households as they do not all share the same preferences of nutrition patterns; b) non-food items are not considered⁸.

The **RELATIVE** concept of poverty, on the other hand, refers to a standard of living defined in relation to the position of other people in the income/expenditure distribution. In this sense, poverty is basically a phenomenon of inequality. For example, one could define as poor those individuals that have incomes below 50 per cent of the average income of the society. Therefore, if average income grows because richer people gain more, people in relative poverty might increase. This concept automatically reflects changing social and economic conditions in a given country. The main shortcomings of this approach is that if poverty is defined as a fixed percentage of some synthetic indicator of the income distribution (e.g., mean or median), there will be no possibility to eradicate poverty, unless the income distribution becomes perfectly egalitarian⁹.

Absolute and relative concepts of poverty have been widely debated in specialised literature. The main result is that «poverty is neither a strictly absolute nor a strictly

⁵ See, for example, UNDP, 2003.

⁶ The multi-dimensional nature of poverty is developed by UNDP through the use of the Human Development Index (HDI), the Gender-related Development Index (GDI) and the Human Poverty Index (HPI).

⁷ This approach has been pioneered by Rowntree, 1901, and Booth, 1902, in Great Britain. The most popular application of an absolute concept of poverty in industrialised countries is by Orshansky, 1965, for the US. For a basic and descriptive review of the concepts of absolute and relative poverty, see Seidl, 1998. A critique of the absolutist view of poverty has been developed by Rein, 1970. Poverty concepts are also discussed for the UNDP by Lok-Desallien, 1997. This latter paper is one of a series of Technical Support Documents (TSD) developed by UNDP in 1997.

⁸ The main aspects of these methods are discussed in the EASYPol Module 005: [Impacts of Policies on Poverty: Absolute Poverty Lines](#).

⁹ This concept has been developed by Fieghen et al., 1977. who argued that with a relative definition of poverty, «the poor are always with us».

relative concept»¹⁰. On the other hand, Sen, 1983, attempts to put in a hierarchy the two approaches. He defines poverty as “absolute deprivation”, that may be interpreted as a preference for the absolute concept of poverty when a contradiction arises between absolute and relative concepts of poverty¹¹. Sen basically rejects the relative concept of poverty, arguing that there is an irreducible absolutist core in the idea of poverty, regardless of relative positions (e.g., hunger and starvation may unequivocally be indicators of poverty).

In addition, Sen, 1983, argues that absolute and relative concepts should not be confused with **VARIABILITY OVER TIME**, although variability over time introduces, in the poverty concept, some elements of relativity. He argues that there is a difference between achieving **relatively less** than others and achieving **absolutely less** than others. On this ground, he rejects relativity. However, he recognizes that achieving *absolutely less* may change over time, according to major changes of society and the economy. Absolute poverty concepts may therefore be subject to **variations over time**, as poverty is always a function of variables reflecting social and economic conditions. For example, non-food items thought of as non-essential at one stage of the development, may become essential some years later, calling for an integration of the list of goods ensuring minimum subsistence. This updating of the absolute concept of poverty, however, is less automatic in nature than the updating of the relative concept, where the link with the income distribution prevailing in a given year is parametric (e.g. 50 per cent of mean income).

Absolute poverty concepts could also be adjusted for **variability over space**, when comparing poverty across countries. For example, meat may be included in a minimum subsistence basket in industrialised economies and not in less industrialised countries. Using the same basket in different circumstances might be quite misleading about the relative level of poverty across countries. In this sense, absolute concepts of poverty, at a given time, are relative to the prevailing economic conditions.

This leads us to state that:

Both the absolute and the relative concepts of poverty may be variable in time and space.

3.4 Poverty versus food security

Of interest is also the issue of how to relate the definition of poverty to that of **food security**. By food security, we mean the physical and economic access at all times to sufficient, safe and nutritious food to meet the dietary needs and food preferences for an active and healthy life¹². Strictly related to this definition is also that of **vulnerability**,

¹⁰ Seidl, 1988, p. 79.

¹¹ Seidl, 1988, p. 79, defines this concept as a lexicographic preference for absolute concepts of poverty.

¹² See, World Food Summit, 1996. See also, the IFAD, 1996. The paper for the World Food Summit suggests that increased agricultural production and rural incomes be complemented with a strategy to move rural investment projects further towards improved nutrition.

which refers to people's propensity to fall, or stay, below a pre-determined food security threshold¹³.

Food insecurity may therefore fall closely related to an *absolute* concept of poverty, in particular to those absolute concepts emphasising the lack of a given “**level**” of food as a primary source of poverty. On the other hand, food security depends on three main factors: availability, stability and accessibility. **Availability** and **stability** may be thought of propaedeutical to guarantee **accessibility**. Access can be organised if food is available and stable. To make food available, a given country should be able to either grow or import sufficient food. Furthermore, this process should be relatively stable over time. But the final step is that households should have sufficient income (or other entitlements) to purchase food. Absolute concepts of poverty, therefore, mainly focus on the ability of households to purchase food. They are therefore most related to accessibility, rather than availability and stability.

In this sense, food security, in terms of **access**, and absolute concepts of poverty are closely related. On the other hand, food security may be thought of as a wider concept than those underlined by absolute poverty, as it requires policies for availability and stability of food. The former (availability) is related to the way in which food is produced, imported and stored; the latter (stability) is related to the way in which food is made available (market functioning and integration) and to the stock management. Access, instead, is mainly related to how households can buy food (purchasing power, resources, etc.)¹⁴.

The discussion so far carried out shows that the concepts of absolute and relative poverty, even though logically distinct, have common features. The above definition by the World Bank refers to the inability to achieve a “**socially acceptable standard of living**”. Note that this socially acceptable standard of living can be defined only by making recourse to a value judgement on what it is considered socially acceptable at a given time and in a given space. In communities where hunting is the primary source of food, a socially acceptable standard of living could be assured by having enough meat or fish to eat at the end of the day. In industrialised societies the socially acceptable standard of living could not be achieved unless everybody owns a TV or goes to school. Therefore, the inability to achieve any *absolute standard* (whatever defined) often implies some *relative view* of poverty.

Analogously, the concept of food insecurity, i.e. the situation where people fall below a **pre-determined food security threshold**, requires a value judgement (i.e. to pre-determine) on what is deemed to be the appropriate threshold, e.g. what is considered an “active and healthy life”. There is no doubt that the appropriate threshold of food may vary enormously across different societies. Romer Løvendal et al. (2004; 3), explicitly recognize that “the nature of this minimum welfare threshold depends on the outcome in which one is concerned”.

¹³ See, for example, Romer Løvendal *et al.*, 2004. On food security, see also the material released by the Food and Insecurity Vulnerability Information and Mapping System (FIVIMS), FAO.

¹⁴ Extensive work on food security can be found also in eleven technical guides released by IFPRI, 1999.

Finally, the definition of poverty given by Sen, 1992, in terms of “**unacceptably low levels of capabilities**” (see above) leaves us with the question of what “unacceptably low” means. The most likely answer is that “unacceptably low” is related to what a society, at a given point in time, considers as an unacceptably low level, which involves a value judgment that contains some elements of relativeness.

The following paragraph will help you to have a comprehensive view of the two approaches.

4 A STEP-BY-STEP PROCEDURE TO DEFINE POVERTY

In order to define poverty the following steps must be taken in mind:

- **Analyse the context in which poverty analysis has to be carried out and the specific goals of the poverty analysis.** Poverty analysis should start with a macro-view of the area or society to be analysed. In particular, the geographic distribution of the main socio-economic variables should be spelled out and their variability over time and space assessed. In the meantime, the goals of the poverty analysis have to be clarified: what type of policy is under investigation? Is the policy under investigation likely to have different impacts in different areas? Are the policy impacts likely to be different in different points in time?
- **Choose the time and space dimension of the analysis.** On the basis of the preliminary considerations carried out in step 1, the analyst chooses the dimension of the analysis, i.e. whether it is more meaningful to assess poverty over time, across space or at a given point in time. For example, the stability of socio-economic indicators across different areas of a given country may suggest a nation-wide analysis. Alternatively, their variability among regions may suggest a poverty assessment by areas¹⁵. In the same vein, stability or variability over time may suggest a static or dynamic analysis, respectively¹⁶. On the other hand, policies aimed at, or likely to affect in different ways various areas may suggest a detailed area analysis.
- **Identify likely welfare-sensitive items.** This step amounts to identifying a set economic resources the lack of which are likely to cause the inability to achieve a “**socially acceptable standard of living**”. On the basis of the analysis carried out in Step 1, here you have to define the appropriate list of variables that are likely to cause inability to achieve an acceptable standard of livings (e.g. income, food,

¹⁵ To this purpose, the technique of **poverty mapping** is found extremely useful when significant geographic variation of the standard of living is expected in a given country. Poverty mapping involves techniques that permit sufficient disaggregation of a poverty measure to local administrative levels or small geographical units. The methods used vary from participatory poverty profiles to sophisticated econometric techniques, but are more related to poverty measurement than to the definition of poverty. On this topic, see Davis, 2003, and Petrucci *et al.*, 2003. See also Deichmann, 1999.

¹⁶ An example of poverty assessment over time and space for Costa Rica can be found in Cavatassi *et al.*, 2004.

shelter, etc.). In doing this, consider that over a significant time span, the characteristics of goods may change (from necessity to luxury goods, etc.). Also consider that across space, some goods may be more important in, say, rural areas than in urban areas. Therefore, as far as the required information is available, it is important to select those goods that have less variability over time and across space in order to get meaningful results in terms of comparable standard of living. On the other hand, different goods may enter the list in some years or in some regions. For example, if electricity is available to all urban households but only to a fraction of rural households, it may be taken as an appropriate variable to measure the standard of living of rural households, much less to measure the standard of living of urban households. This task is usually accomplished by browsing household expenditures, if available. Data may reveal the consumption pattern of different households in different areas and with different size and composition. This may help selecting necessity goods. Alternatively, you can resort to interviewing households and/or expert judgement. In any case, you should take into account that obtaining information on which specific goods are needed may be much more difficult than obtaining information on total income and/or expenditures.

- **Select crucially welfare-sensitive items**, within those identified in Step 3, which define the standard of living. The list of items obtained by Step 3 can be very long. You may have to shorten it, in order to provide a clearer picture of poverty. The easiest way is to use just one indicator, e.g. income (a uni-dimensional approach). But in particular cases, it may be worthwhile to add some other indicators to income to define poverty, like health status, educational level, availability of some services, etc., as they may give contradictory indications, at least at an aggregate level (a multi-dimensional approach – see example below)¹⁷. Note, however, that indicators other than income, at a household level, are often correlated with income. Households with higher incomes are usually in better health, relatively more educated and dispose of basic services (water, electricity, etc.). When data are available at household level, it is therefore strongly suggested to look at income first and, possibly, to complement the analysis with a correlation between income and other non-income indicators. This may help in depicting poverty more clearly.

- **Choose whether to adhere to an absolute or relative concept of poverty.** There is no a definite solution to this issue. The proper choice may be taken considering what has been developed at point 1. Note that this choice is aimed at setting a benchmark against which poverty indicators are then assessed. For example, assuming that, income is set as the proper indicator, if the absolute poverty concept is chosen. The benchmark may be, say, US\$2/day. On the other hand, if the relative poverty concept is chosen, the benchmark may be, say, 30 per cent of mean income. It is apparent that relative poverty is automatically updated to income growth and therefore more suitable for time comparisons. Absolute poverty is instead relatively more useful when poverty is compared across space, as it provides a common threshold against which measuring the situation of different countries or regions.

¹⁷ Useful references for a multi-dimensional approach are Filmer and Pritchett, 1998, and Cavatassi *et al.*, 2004, both using a principal component analysis. The principal component analysis is a factor analysis aimed at reducing a given number of variables by extracting a linear combination which best describes them and at transforming them into one index.

Figure 1, below, gives a synoptic view of these steps to define poverty.

Figure 1 - A step-by-step procedure to define the concept of poverty

STEP	OPERATIONAL CONTENT
1	Analyse the environment in which poverty is to be measured. Tailor the concept of poverty to the context by using a macro-analysis for the relevant socio-economic variables
2	Choose the dimension of the analysis. A single point in time? Over time? Over space? Refer to the results of Step 1
3	Define the economic resources for which lack of command is causing inability to achieve acceptable standard of living. Income? Goods? Take into account the results of Step 1
4	Select what are judged the best indicators within those listed in Step 2. Define whether the approach should be unidimensional (e.g. income) or associated to other social indicators (e.g. health status, education level, etc)
5	Choose the concept of poverty. Absolute or relative? Consider Step 1

5 EXAMPLES ON POVERTY DEFINITION

Let us now describe some real-world studies where the steps identified above can be either explicitly or implicitly followed.

5.1 Jamaica's Food Stamp Program¹⁸

This is a World Bank paper where the authors assess the anti-poverty effect of the Jamaican Food Stamp Program, implemented by the Jamaican Government in 1984.

Step 1 – Context and goals of the poverty analysis. In order to assess the anti-poverty effect of the Jamaican Food Stamp Program, the authors start by investigating the policy context (p.2). They say that: «Jamaica's policy reform efforts cover over a fifteen year span and have yielded mixed results. The **oil shocks** of the early 1970s coupled with the **decline in prices of bauxite** – the major export crop – resulted in a **decline in real**

¹⁸ Ezemenari and Subbarao, 1998.

GDP and labor income in 1973 and 1980. In order to minimize the adverse consequences of a decline in income, the government increased **public expenditures on social services**, expanded **employment in the public sector**, increased the **money supply and wages**. As a result, government expenditure as a percent of GDP increased from 5 percent to 24 percent of GDP. The **share of subsidies** in national disposable income increased from 2 percent to 6 percent between 1976 and 1977. By 1980, the **fiscal deficit** as a percent of GDP was 18 per cent. In 1984, the government implemented strict **fiscal austerity programs** and cut public employment, labor costs, and social services. **Minimum wages** fell by 11.8 percent from September 1983 to July 1985. Fifty of 330 **public entities** were phased out. **Price controls** and **subsidies** were removed, and **minimum farm-gate prices** for key export crops were introduced. Generalized **food subsidies** were replaced by a targeted food assistance to the poor. **Fiscal and monetary policies** continued to be expansive, fueling **inflation**. The **exchange rate** was fully liberalized in October 1991, which was followed by a substantial devaluation of the Jamaican dollar. The Government of Jamaica implemented the Food Stamp Programme in **1984**.»

Step 2 – Time and space dimension of the analysis. Since the study concentrates on the impact of a specific policy on poverty in Jamaica, the spatial dimension of analysis is the whole country. As data on food stamp programs and households are available from 1989 to 1991, the time dimension of the analysis is three years. The authors justify this, by saying that «the period 1989-1991 was chosen because there was a gradual devaluation of the Jamaican dollar during this period ending in the major devaluation of 1991» (p.15). Note that, ideally, the time dimension of this analysis could have been extended from 1984 to more recent years. However, because of lack of data, the time span was limited to three years. This suggests that both time and space dimension may sometimes be constrained by the availability of information.

Step 3 – Likely welfare-determining items. The kind of economic resource in which authors are interested, is the **consumption expenditure** before and after the Food Stamp Program. A level of consumption expenditure below a given threshold is taken as an indicator of poverty. The authors explicitly argue that «**household expenditures** are used as the measure of welfare».

Step 4 – Crucial welfare-determining items. In step 3, the authors do not provide a list of items without which cause an “unacceptable standard of living”. However, they implicitly agree on the fact that insufficient household expenditures causes the inability to achieve an acceptable standard of living. In this simpler case, therefore, there is no problem of selection. From the presence of only one indicator, it follows that the approach is **uni-dimensional**.

Step 5 – Absolute versus relative poverty. The concept of poverty chosen by the authors is implicitly **absolute** and defined in terms of expenditure. They experiment two absolute expenditure levels as thresholds for acceptable standard of living: J\$ 6,198 and J\$ 3,657 (both at 1991 prices). The fact that they choose absolute levels of expenditures means that thresholds for acceptable standard of living would not be automatically updated with a growth in household expenditure. This choice may be due to various reasons. One may be that other economic parameters linked to standard of living in

Jamaica are defined in terms of absolute income levels, as it is the minimum wage (see Step 1).

5.2 Poverty in the Russian Federation¹⁹

This paper, prepared within the University of Amsterdam (Netherlands) analyses household poverty in Russia.

Step 1 – Context and goals of the poverty analysis. The analysis of the socio-economic framework in which the poverty analysis has to be carried out is not directly accomplished by the authors. Nevertheless, they refer to a series of studies on the Russian Federation where a macro-view of the socio-economic context is offered.

Step 2 – Time and space dimension of the analysis. The spatial dimension of the analysis is confined to a nation-wide view of the Russian Federation. The time dimension is dictated by available data and confined to two years, 1997 and 1998.

Step 3 – Likely welfare-determining items. The authors try to take into account different sets of economic resources. In two cases, the indicator is mainly expressed in monetary terms: the first is the **total financial situation of the family**; the second is **monthly income net of taxes**. In another case, in order to find an overall index of satisfaction with one's own life, they complement income indicators with "**all aspects of life**", such as: "marital happiness", "number of friends", "having a partner", "having work", "family size" and "age".

Step 4 – Crucial welfare-determining items. In the two cases where only the monetary indicator is judged the best indicator of standard of living, the approach is uni-dimensional. In the case where other aspects of life are included as determinants of the standard of living, the authors end up to select just one of them, family size. In this case, the approach is bi-dimensional in the sense that it takes into account **income** and **family size** at the same time.

Step 5 – Absolute versus relative poverty. The authors note that the official poverty line, in Russia, is defined as the cost of achieving a subsistence food basket multiplied by 1.3. This official measure of standard of living somehow embodies both absolute and relative elements. The **absolute element** is cost of a "minimum" food basket, which can be considered a sort of subsistence food requirement.. The **relative element** is that an "acceptable standard of living" should take into account also non-food items, the reason why the cost of the food basket is multiplied by 1.3. This means that if the cost of food basket increases, the acceptable standard of living is automatically updated. The authors also estimate by their own acceptable standard of living in **absolute** terms with an econometric procedure.

¹⁹ Ferrer-i-Carbonell and Van Praag, 2000.

5.3 Income poverty in advanced countries²⁰

In this “Luxembourg Income Study (LIS)” working paper, the authors analyse income poverty in more industrialised countries. Also in this case, some of the steps of the analysis are clearly spelled out.

Step 1 – Context and goals of the poverty analysis. The focus on advanced countries leaves the authors with some space to assume that these countries are relatively homogenous in terms of social and macroeconomic variables. This may be seen as a shortcut for Step 1. However, pooling some countries for poverty analysis always requires that you understand the basic analogies and/or differences among them. This should never be a random mix of countries.

Step 2 – Time and space dimension of the analysis. The spatial dimension of the analysis is defined by the set of “**advanced countries**”. The time dimension of the analysis covers all years available from the Luxembourg Income Study, on which the study is based.

Step 3 – Likely welfare-determining items. The variables defining the absence of an “acceptable level of living standards” are clearly listed by the authors, when they refer to general approaches to poverty analysis. They list: a) disposable income; b) consumer expenditures; c) consumption; d) earnings capacity; e) wealth; f) choice sets; g) utility; h) capabilities. The authors argue that the ideal variables might differ from what one *can* empirically use (due, for example, to availability of data). For example, lifetime “utility” could be a good proxy for investigating poverty; capabilities may better reflect what people *can do* and not only what people *have*.

Step 4 – Crucial welfare-determining items. The complexity of most items listed above is explicitly recognized by the authors. Therefore, they end up with using **income** as a relevant economic resource the lack of which may undermine the standard of living. The main justification is that data are more easily available and that income is one of the most “common” indicators. With income as the only indicator, they adhere to a **uni-dimensional** approach to poverty analysis.

Step 5 – Absolute versus relative poverty. Most of the authors’ analysis is carried out by using **60 percent of the current median income** as a threshold to discriminate poor and non-poor. Therefore, they adopt the concept of **relative** poverty. Income growth would automatically update the threshold.

5.4 Mono versus multi-dimensional definition of poverty

The following example is taken from Gillespie, 1990, and is aimed at illustrating how income and other social indicators may give contradictory prescriptions in a low-income country. Pakistan’s per capita income, at that time, was about US\$ 350. The average income per capita of low income countries was US\$ 290. According to this indicator, Pakistan should not be considered as a poor country. However: a) primary school enrolment rates were 61 per cent for boys and 32 per cent for girls, below the

²⁰ Jäntti and Danziger, 1999.

corresponding figures for low income countries; b) Pakistan had a ranking of four among the highest percentages of low birth weight babies; c) maternal mortality was among the highest in the world; d) the female to male ratio was the lowest in the world.

5.5 Variability of the poverty concept across space

An interesting example of how the definition of poverty may vary across countries may be taken from the experience of the European Union (EU). In assessing poverty, as reported in de Vos and Zaidi, 1998. Two alternatives are discussed: a) the European Union-wide concept of poverty; b) the country-specific concept of poverty. They argue that if the EU is to be considered as one society, the level of resources necessary to reach the minimum level of living in the society is the same throughout the Union. However, in reality there are serious doubts as to whether the EU can really be considered as one society with one minimal level of living. An inhabitant of Luxembourg with the average resources of a Portuguese would definitely be considered poor according to the standards of her society, while someone living in the countryside of Portugal with the resources of the average Luxembourger would certainly be considered well-off.

6 CONCLUSIONS

The discussion about absolute versus relative poverty, the variability of the poverty concept over time and across space and the link between poverty and food security have been discussed in qualitative terms. This discussion is preliminary to quantitative poverty analysis. The accurate analyst will possibly experiment with different concepts of poverty, in order to make his/her analysis robust to changes in the way poverty is defined.

7 READERS' NOTES

7.1 Time requirements

Time required to deliver this module is estimated at about two hours.

7.2 EASYPol links

This module is propaedeutical to the investigation of other poverty issues. The modules included herebelow follow a logical order:

- EASYPol Module 005: [Impacts of Policies on Poverty: Absolute Poverty Lines](#)
- EASYPol Module 006: [Impacts of Policies on Poverty: Relative Poverty Lines](#)
- EASYPol Module 007: [Impacts of Policies on Poverty: Basic Poverty Measures](#)
- EASYPol Module 009: [Impacts of Policies on Poverty: Distributional Poverty Gap Measures](#)
- EASYPol Module 010: [Impacts of Policies on Poverty: Generalised Poverty Gap Measures](#)
- EASYPol Module 035: [Impacts of Policies on Poverty: Dominance and Poverty](#)

7.3 Frequently asked questions

- ✓ **How should poverty be defined?** Poverty can be defined as the lack or the inability to achieve a socially acceptable standard of living. See paragraph 3.1 for different facets of this phenomenon.
- ✓ **Is poverty merely a lack of income or can it be a more general lack of command over other economic and social resources?** This is related to uni-dimensional or multi-dimensional notions of poverty. Income may command more control on many economic resources; nevertheless, poverty may be related to the absence of other fundamental aspects of life (see, for example, the human rights-based approach by UNDP or the capability approach by Sen). See paragraph 3.1.
- ✓ **Is relative poverty a more satisfactory concept than absolute poverty?** A consensus has not yet been found on this question. Note that also absolute concepts contains some elements of relativity in the way the acceptable standard of living is defined. See paragraph 3.2.
- ✓ **What is the relation between poverty and food security?** Food security may be thought of as a component in an absolute concept of poverty. On the other hand, poverty, as an individual or household feature, is mostly related to the “access to food” dimension of food security, rather than to availability and stability.
- ✓ **Can the concept of poverty take into account non-food items?** Non-food items may well constitute the set of necessary choice to achieve an acceptable standard of living (e.g. shelter). The main problem is how to choose these elements. See paragraph 4 and some examples in paragraph 5.

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