

## Evolution of Thinking about Poverty<sup>1</sup>

### *Abstract*

This essay focuses on the manner in which the answers to the following two questions evolved:

- How should poverty be defined and measured?
- What policies and strategies reduce poverty so defined?

Both the questions are related – the definition of poverty drives the choice of policies.

Over the years, the definition of poverty has broadened. So have the relevant set of policies. Thinking about poverty can be considered to have evolved in three phases. To begin with (i.e., in phase I), poverty was defined as the lack of ability to purchase goods (income). During phase II, the definition was expanded to embrace human development dimensions such as longevity, literacy, and healthiness. The concept developed further during phase III and included vulnerability, risk, powerlessness, and lack of voice.

Two broad conclusions of this essay are:

- Despite broadening the definition of poverty, there is no significant change in the proportion of poor in a country/ community. Thus, there is a close correlation between the various aspects of poverty – income, health, political rights, etc. The broader definitions improve our understanding of poverty, and the design and implementation of specific poverty reduction programs.
- We need to examine two interactions: (a) within various elements and (b) within the elements and poverty. This examination helps us to come up with appropriate policy measures. The various aspects of poverty interact in important ways, and policies can have synergies. Poverty reducing strategies must recognize these interactions among policies and take advantage of synergies.

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### **1. Phase I: Income and Expenditure Based Thinking**

To start with, poverty was defined as “the state of one who lacks a usual or socially acceptable amount of money or material possessions.” This definition contains two important ideas. *First*, whom we identify as poor will be different at different times and in different societies – what is “socially acceptable” in India may differ from that in the U.S.A. Therefore, the poverty lines would change over time within countries as average incomes rise and views about the “minimum necessities” evolve. The amount needed to “get along” rises with an increase in overall income in the nation. *Second*, poverty is based on the ability to purchase goods and services (money) or on their ownership (material possessions).

A general rise in living standards and technology progress has the following impact on poverty as defined above. (a) New consumption items, initially viewed as luxuries, come to

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<sup>1</sup> Summary of: Ravi Kanbur and Lyn Squire (2001), “The Evolution of Thinking about Poverty: Exploring the Interactions” in Meier, Gerald M and Stiglitz, Joseph E. (Ed.) *Frontiers of Development Economics – The Future in Perspective*, World Bank and Oxford. Summarized by M. Vijaybhasker Srinivas (2007).

be seen as conveniences and then as necessities. (b) Changes in the ways in which the society is organized may make it more expensive for the poor to accomplish a given goal. Example: Widespread automobile ownership leads to deterioration in public transportation. (c) General upgrading of social standards makes things more expensive for the poor. Example: Housing code requirements that all houses have indoor plumbing add to the cost of housing.

Consequent to the above idea of poverty, a *poverty line* is defined as a “socially acceptable” amount of money required “to obtain the minimum necessities for the maintenance of merely physical efficiency” appropriate to the specific circumstances. People with an income or expenditure less than the poverty line are considered poor. Most analysts prefer expenditure than income for calculating the poverty line, as: (a) expenditure is far easier to measure, and (b) unlike incomes that vary across seasons and time, the households try to even out (smoothen) their consumption to obtain a uniform living standard.

Though poverty line is used widely, it has several deficiencies. It does not allow for cost-of-living differentials within countries, distinguish between transient and chronic poverty, consider value of goods and services not delivered through the market mechanism, consider intra-household allocation of expenditure, and deals only with rudimentary differences in household size and composition.

Techniques exist to overcome the above deficiencies, but they involve cost (and appropriate data). Therefore the question: when is it reasonable to ignore these deficiencies and when are they critical?

We can ignore the deficiencies for overall monitoring of poverty. Here the issue would be the extent to which the quantitative significance of these deficiencies changes through time or differs across countries. However, we cannot ignore the deficiencies to design specific, poverty-reducing actions. Such design requires precise measures of poverty because we need to ensure equal treatment of equals. Using more precision, we may be able to treat equal households equally; but may not be able to treat equal individuals equally. This is due to the differences in the intra-household allocation of food and income, which are not captured by the measures.

Though conceptually deficient, this approach helped generate data in several countries. This data improved our knowledge of poverty substantially and clarified the links between growth in national income and changes in inequality.

### 1.1. Policy Considerations

Reducing poverty was therefore seen as expansion of per capita income or economic growth. But, there is no clear relationships between inequality and rate of growth, and growth and the initial distribution of assets. This is due to the following reasons:

- Different countries followed different policies.
- Institutional capacities of the countries to implement the policies varied.
- Growth and inequality are also subject to external trends and shocks.

However, what is clear is that inequality is persistent over time in many countries. Therefore, poverty reduction policies should aim at improving growth and equality at the same time, or at least at mitigating inequality-generating growth with pro-poor measures.

At the policy analysis level, growth and inequality need to be treated together as some variables involve trade-off, and as growth is much more sensitive than equality to policy interventions.

This is not to say that there are no policies that benefit both. Openness, financial depth, and land redistribution emerge as policies that consistently spur growth across different situations. With the significant exception of openness to trade, these policies benefit equality, although these results do not hold across different situation. Further, a strong growth performance with even a relatively modest reduction in inequality will have a tremendous impact on the incomes of the poor.

In this context, WDR 1990 pointed to the following policies: a stable macroeconomic environment (to encourage private investment), relatively undistorted sectoral terms of trade (to avoid bias against agriculture), relatively undistorted factor markets (to avoid capital intensive production), and public provision of infrastructure especially to rural areas (to avoid urban bias).

Countries where growth increased with little negative effects on equality emphasised human development. They invested heavily in education and health as a contributing factor to growth and also as a benefit in its own right.

## **2. Phase II: Human Development**

In theory, the definition of poverty based on consumption captures the value of publicly provided goods and services. In practice, many such goods and services are not considered as they are often supplied free of charge or are highly subsidized. This is specially true in the case of education and health services. The definition also failed to capture the benefit of public goods like spraying swamps to eliminate malaria for example. But the level and quality of basic education and health services, including public goods, varied significantly across countries. Therefore, social indicators were included to arrive at an overall assessment of living standards.

The effort is to “supplement” the consumption-based poverty measure with others, such as nutrition, life expectancy, under 5 mortality, and school enrolment rates. The key word is ‘supplement’— the social indicators are providing information not captured in conventional measures of poverty.

The emphasis on living standards was high during this period. Income was viewed as an input to the more fundamental goal of enhanced living standard. Income may be important to obtain these outcomes, but there is no guarantee that income would be transformed into these outcomes.

Amartya Sen is a supporter of this approach. He defines poverty in terms of “capabilities”. A capability is the substantive freedom that people enjoy to lead the kind of life they value. The aspects of life that the people could value are social functioning, better basic education and healthcare, and longevity. By this approach, people are poor if they do not have the required capabilities. The arguments in favour of the capability approach are: (a) poverty can be characterized by capability deprivation, since these are intrinsically important while low income is only instrumentally significant; and (b) low income is not the only influence on capability deprivation; and the impact of income on capabilities is variable among different

communities, families, and individuals. While capability improvement leads to greater earning power, the reverse may not always be true. Therefore, the citizens should be well prepared in terms of capabilities to take advantage of economic opportunities.

UNDP played a leading role in defining poverty in terms of human development (HD). It introduced several measures including the Human Development Index (HDI) and the Human Poverty Index (HPI). HPI concentrates on *three aspects* of human deprivation – longevity, literacy, and living standard. *Longevity* is measured by the percentage of people who die before age 40. Measure of *literacy* is the percentage of adults who are literate. The measure for *living standard* is obtained by a combination of (a) the percentage of the population with access to health services, (b) the percentage of the population with access to safe water, and (c) the percentage of malnourished children under five. While information on each aspect is valuable, aggregation into a single index leads to some issues.

- Individual household information is absent and hence the information relevant to the policy is lost.
- The calculation of a single index from many numbers involves using weights. A universal agreement on these weights is absent.

Being a national average, HPI can be used to rank the countries across the world. We cannot use it to identify the poor. This is a short coming of HPI. However, household-level data of HD measures are becoming available. This information shows that households that are poor according to the expenditure-based measure also score badly on the indicators of wellbeing. However, this does not mean that the identification of the poor using different definitions of poverty will lead to exactly the same results. While there is clearly an overlap, the correspondence is not 100%.

During the first phase, the poor gained indirectly from broad-based growth. But from the perspective of HD, a poverty-reducing strategy will not be successful unless it focuses on equity-improving growth, and therefore uses additional policy instruments. The elements to focus on increase. And therefore, it is important to understand the interactions among various elements and between the elements and growth.

Given the various vicious circles in which the poor find themselves in, it is difficult to decide where to begin the improvement in the provision of social services. The difficulty is compounded by the fact that relationships among the elements are not very clear. For example, many studies concluded that mothers' education has a strong positive effect on their children's health. This occurs because education enables the mother to obtain and process information. A study from Brazil in 1986 showed that parents who regularly made use of the mass media had healthier children as measured by height for age. Once variables for use of the media are included, mother's years of schooling no longer have an independent effect. Further, many studies showed that better health improves school attendance and performance. Thus, the question is where to start: girl child education, access to mass media, or health of the girls?

## **2.1. Policy Implications**

There are important linkages between human development and income earning capacity. Income is a major determinant and outcome of human development. Poor use their labour to participate in growth. But poverty – lack of education, poor nutrition and health – reduces

their capacity to work. Thus, without the basic building blocks of HD, the poor are unable to take advantage of income earning opportunities that come with growth. At the same time, society suffers the loss of their potential contributions. Therefore, the provision of basic social services, besides being important in its own right, constitutes an important element in the growth of a society.

There is a broad correlation between income levels on one hand and life expectancy, literacy, and infant mortality on the other. But growth in income does not automatically improve health status or educational attainment. Similarly, improved health or better education do not necessarily lead to an increase in income. *First*, the resources generated by growth may not be used to promote improvements in other indicators. Growth provides an opportunity but that opportunity has to be seized. *Second*, the structures and processes found in the society may not pass on the benefits of growth to the poor. For example, the improved variety of a crop that increases the yield benefits only the land owner and not the labour.

But the situation could be changed. The poor could doubly benefit from growth in income as well as human development when countries use the benefits of growth to finance basic healthcare and access to education for all. We also need to ensure that the structures and processes change to pass on the benefits of growth to the poor. According to WDR 1990, progress on these two fronts mutually reinforced each other and that one without the other was not sufficient.

Incorporating longevity and literacy as dimensions of poverty expands the range of policy instruments available to alleviate poverty. Even if their incomes do not increase, policies that improve the health of individuals and increase their capacity to absorb and exchange information improve the quality of their lives. Experience shows that poor benefit a lot when government combines policies to improve health/education with action designed to promote growth.

### **3. Phase III: Vulnerability and Voice**

#### **3.1. Asking the Poor**

The measures of poverty in both the Phase I and II were based on household surveys and an arbitrary cut-off separating the poor from the non-poor. An alternative empirical approach involved asking people what, according to them, constitutes poverty. Participatory poverty assessments are open-ended, interactive and qualitative. These allow people to describe what constitutes poverty in whatever dimension they choose.

The findings from participatory exercises elaborated, or validated conclusions drawn from conventional poverty assessments. These assessments paid special attention to the process of conducting the exercise. The aim of the exercises was engaging a range of stakeholders, generating involvement, maximizing local ownership and building commitment to change. The participatory poverty exercises were country specific reflecting the country context, the time available and the information needs of policymakers.

Two aspects of poverty, which were not captured in Phase I and II, emerged from participatory assessments: (1) vulnerability, and (2) lack of voice.

## Vulnerability

The concern here is with risk and volatility of incomes. This is often expressed as a feeling of vulnerability. Poverty is not only a state of having little, but also of being vulnerable to losing the little that one has. Vulnerability also means the probability of being exposed to a number of other risks such as violence, crime, natural disasters, being pulled out of school, etc.

Vulnerability has two sides: (1) the external side of exposure to shocks, stress and risk; and (2) the internal side of defencelessness, or a lack of means to cope without damaging loss. Outside sources of risk range from irregular rainfall and epidemics to crime and violence, as well as the structural vulnerability of homes and civil conflict. Interaction with the poor in strife torn area of Tajikistan indicated that they perceived peace and security as the highest priority, even over better food and shelter. With peace, people in Tajikistan felt that the economic and political situation would improve and so would physical security. Faced with a great deal of risk, the poor try to minimize their vulnerability to disaster by diversifying their income. But as we shall see, these kinds of coping mechanisms are inadequate.

The poor suffer from risk because they lack the means to protect themselves adequately against it – this is what makes them vulnerable. If any unforeseen event occurs, the poor have few assets to dispose of in addressing the problem, or the depletion of those assets must plunge them further into long-term poverty. And they often cannot borrow to meet their needs. Reducing risk expands the range of opportunities available to the poor. By this, they would be able to take advantage of all the strategies to reduce poverty (health, education, or income-earning possibilities). Even such victories that the poor can achieve on their own in improving their lot ultimately suffer from excessive fragility. Risks associated with being poor may wipe out hard-won gains overnight. In many cases, risk prevents the poor from undertaking possibly high-return activities.

Several households may be BPL as per national standards, but above the margins as set by the local community during PPA. These households consider themselves as coping. This indicates that the idea of a secure livelihood is given higher importance than fluctuating but higher incomes. The common characteristics of the poor that emerge during PPA are a combination of age, childlessness and social isolation for widows and divorcées. Thus the local understanding of poverty has more to do with vulnerability than mere income poverty. These also clarify the meaning of vulnerability as lacking the means to cope.

## Voice

Lack of voice and political rights, often described as a sense of powerlessness, is described by some as the most fundamental characteristic of poverty. This is revealed when the poor describe their interactions with government employees and institutions. They lack political power. ‘A feeling of powerlessness and an inability to make themselves heard’ is the dimension of being voiceless. Where there is interaction between those in power and the poor, it is more one sided – with those in power dominating the discourse.

### **3.2. Use of PPA**

PPA brings out the complexity and diversity in people’s views about poverty. Their views on the causes of poverty and its cures can influence public efforts in ways that may be overlooked by conventional surveys. Their insights indicate actions which provide high

benefits with a low financial costs. Thus, PPA can lead to public action perceived by the poor as beneficial to them.

On the other hand, including vulnerability and powerlessness in the definition of poverty does not change our view of who is poor significantly. Income poverty and lack of voice tend to go together. But, we do not have household-level measures of vulnerability or powerlessness and so cannot distinguish the poor (in these dimensions) from the non-poor. Moreover, measures of exposure to risk could be very high for individuals with very large incomes. This is clearly not what people have in mind when they refer to vulnerability. Therefore, empirical evidence on the overlap between these measures of poverty and a consumption based one is not yet conclusive.

### **3.3. Policies to Improve Coping with Risk**

Expanding definition of poverty by including risk and lack of voice expands the policy choices available to improve the conditions of the poor. The usual remedies for risk are borrowing and insurance. But these are rarely available to the poor and the lack bears heavily on the poor. For example, one year's crop failure in China resulted in 10% decline in consumption in the following year for the richest third of households and 40% for the poorest tenth of households. Similarly, ICRISAT survey found that the average variation of household income was 40 percent.

Poor households react to income volatility in two ways. (1) They may adopt production plans or employment strategies to reduce their exposure to the risk of adverse income shocks even if this entails lower average income. (2) They may also try to smooth consumption by creating buffer stocks, withdrawing children from school, and developing informal insurance and credit arrangements. These efforts are both costly and inadequate. The cost rises because the poor face a bitter trade-off: they can accept risk that could lead to disastrous fluctuations in consumption, or minimize risk in ways that perpetuate poverty.

The risks of the poor are not only at the household level but also at the village, region, or national level. As the risks are at higher level, the efforts of poor are inadequate and the poor are unable to insure. The coping mechanisms, although providing some protection in the short run, limit the poor's long-run prospects of escaping poverty. The informal mechanisms of insurance are inadequate to cope with systemic risk that exists at the village level or higher. The villagers are unable to protect themselves from these risks with even the best within-the-village insurance mechanisms.

To counteract the effects of crises on the poor, governments must provide safety nets to cushion the blows and keep the way open for the future. Government's ability to provide adequate safety nets is hindered by the information problems that plague credit and insurance markets. These problems are being overcome through two recent innovations: group screening and monitoring, and self-revelation of information.

#### **Group lending**

The costs of collecting information and enforcing repayment can be significantly reduced through group lending. Since groups of poor people may know quite a bit about each other and have many opportunities to interact and enforce their social expectations of each other's behaviour, such groups may apply for joint loans and monitor each other to ensure repayment. Thus the information burden to the lender is significantly reduced and the poor

pay less for the uncertainty lenders have about them. This idea, pioneered by Grameen Bank in Bangladesh, has now spread in various forms to many countries. However, not all such programs are financially sustainable. Two options are suggested in this regard.

- Focussing on simple programs with simple administrative procedures and ‘minimalist credit’ approach.
- Subsidizing administrative costs of programs with significant poverty-focus and outreach.

The issue here is whether subsidies used for this purpose are a better way of helping the poor than subsidies used for other purposes and that calls for careful evaluation of the impact of alternative actions.

The evidence of benefit of group lending is mixed. While there is evidence of substantial benefit, there is also evidence that group lending significantly increased consumption. To give another interpretation, Morduch finds no increase in consumption but does find evidence of consumption smoothing. Even if the benefits of group-lending are limited to consumption smoothing, this may lead to long-run gains that are not being captured in the surveys currently available. As stated above, the ability to smooth consumption is important not only for its immediate benefit but because it may help households pursue longer run strategies to escape poverty that might otherwise be considered too risky.

The issue of inter-linkages is also evident in another way. There is evidence that participation in micro-credit programs leads to an improvement in nutritional indicators and on children’s schooling and that access to credit has an ‘empowering’ effect on female borrowers giving them greater control of various aspects of their lives.

Savings offer another means of smoothing consumption, though this has received adequate attention.

### Self-revelation of information

The innovation of self-revelation of information has been used effectively in public works schemes. A World Bank project in Argentina in 1997 offered low-wage work on community projects in poor areas, and more than half the participants were from the poorest 10 percent of the population. While the basic approach has merit, issues now revolve around how to keep administrative costs down, and how to draw the balance between asset creation and insurance. Programs that offer guaranteed employment provide the greatest insurance but may not create the most productive assets.

Public insurance schemes may displace private efforts. That is why it is important to understand people’s preferences for allocating time. For example, in one rural Indian village, the public works participants mostly shifted their time out of being unemployed, so that their opportunity costs are low and their net benefits from the program are high. In another village, public-works employment mostly replaced wage labour and own-farm work, leading to a substantially higher opportunity cost and lower net benefits.

Social security benefits “crowd out” private transfers: receiving social security reduces the probability of receiving a private transfer by about six percent. The response is stronger in the Philippines, where Cox and Jimenez found that private transfers would be 37 percent higher in the absence of retirement income. While these factors should be borne in mind when designing public action, there are two reasons to persevere with public schemes. First, as we

see from these examples, the offset is not one-for-one. And second, insurance against village-wide or region-wide risks is unlikely to be accomplished through informal mechanisms.

### **3.4. From Isolation to Participation**

As a result of the expansion of the definition of poverty, the poor's voice became more apparent at the project level. This also followed the realizations that (a) The top-down solutions have often failed. (b) The poor have better knowledge of their situation and their needs. (c) The poor can contribute to the design of policies and projects intended to better their lot.

And once they have a say in design, they are also more committed to implementation. In this manner, participation by the intended beneficiaries improves project performance.

The interactions between voice and other development outcomes and between risk and other development outcomes are less well understood and researched.

## **4. Conclusions**

While the different methods of defining and measuring poverty will inevitably identify different groups as poor, the evidence suggests that the differences may not be that great. The way in which poverty is defined drives the strategy for dealing with it. One result of the broadening of the definition is the consideration of more policy instruments for the task of reducing poverty. However, issues emerging from the interactions among different aspects of poverty call for a careful integration of policies.

When the focus was confined to income, the key interaction was between per-capita growth and changes in equality. As the definition expanded to include health status, literacy, and so on, the key interactions to focus are those between income and other dimensions of wellbeing. When we consider risk, vulnerability, and voice, then safety nets, access to credit, and participation emerged as critical to the poor's ability to take advantage of risky, poverty-reducing opportunities and to shape economic policy and programs to their benefit.

However, some more research has to be undertaken to understand the interactions between various elements that describe poverty and the policies that could help in reducing the poverty.