Transformational Growth and Monetary Poverty: An approach for inter-country and inter-temporal comparisons

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1) Introduction
2) Some problems with “International Poverty Lines”
3) Absolute Poverty, Relative Poverty and Income Distribution through time
4) A discussion of conceptual definitions
5) Transformational Growth and the variation of the poverty line through time
6) Capabilities and International Comparisons
7) Summary and Conclusions
Some problems with “International Poverty Lines”

• Modern Income (consumption) definitions of poverty

“A person is poor in any period if, and only if, her or his access to economic resources is insufficient to acquire enough commodities to meet basic material needs adequately.” (Lipton, 1997)

“Poverty... lack of command over basic consumption needs, and the poverty line [is] the cost of those needs” (Ravallion and Bidani, 1994)

• Based on the work of Rowntree at the turn of the century and Orshansky in the 1960s
National vs international poverty line

Per capita income and poverty lines

1 US$ a day: Origins

Mean consumption (GNPpc)

Poverty Line

0 1200 2400 3600 4800 6000 7200 8400 9600 10800
1US$ a day: Origins

Enlarged view

Poverty Line

Mean consumption (GNPpc)
National vs international poverty line

Incidence according to the National PL and the International Poverty Line

2/3
1/3

1/3
2/3
Some examples

<table>
<thead>
<tr>
<th>Country</th>
<th>National PL</th>
<th>1US$ a day</th>
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<tbody>
<tr>
<td>Algeria</td>
<td>22.6</td>
<td>Less than 2</td>
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<td>Azerbaijan</td>
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<td>China</td>
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<td>18.5</td>
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<td>Egypt</td>
<td>22.9</td>
<td>3.1</td>
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<td>Indonesia</td>
<td>27.1</td>
<td>7.7</td>
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<tr>
<td>Sri Lanka</td>
<td>25.0</td>
<td>6.6</td>
</tr>
<tr>
<td>Trinidad &amp; T</td>
<td>21.0</td>
<td>12.4</td>
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Absolute Poverty, Relative Poverty and Income Distribution through time: Reducing poverty, increasing disparities

Income

Poverty Line

Income poverty = 40%

Income poverty = 20%
Absolute Poverty, Relative Poverty and Income Distribution through time

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*(Absolute) Poverty Line = 12*
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(Absolute) Poverty Line = 12

(Relative) Poverty Line = 1/2 of average income
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(Absolute) Poverty Line = 12

(Relative) Poverty Line = 1/2 of average income

T1: 75/5 = 15, thus (relative) poverty line = 7 1/2  & Relative Poverty = 20%
T2: 200/5 = 40, thus (relative) poverty line = 20  & Relative Poverty = 40%
Temporary conclusion

Absolute poverty is better, conceptually, than relative poverty

But absolute poverty is not absolute
A discussion of conceptual definitions

“Every man is rich or poor according to the degree in which he can afford to enjoy the necessities, conveniences and amusements of human life”

(Adam Smith, 1776).
A discussion of conceptual definitions

“The power of the labourer to support himself, and the family which may be necessary to keep up the number of labourers, does not depend on the quantity of money which he may receive for wages, but on the quantity of food, necessaries, and conveniences become essential to him from habit, which that money will purchase”

(David Ricardo, 1817).
A discussion of conceptual definitions

“There enters into the determination of the value of labour-power a historical and moral element. Nevertheless, in a given country, at a given period, the average quantity of the means of subsistence necessary for the labourer is practically known”

(Karl Marx, 1867).
Transformational Growth

Ontology: Steady State Economic Growth does not exist

Economic Growth is irregular
Transformational Growth

Ontology: Steady State Economic Growth does not exist
Economic Growth is irregular
However, it is not random
“Old” and “New “ economic cycle
Different types of cycles for different periods
(characterized by institutions, technology and market structures)
However, it is not random

“Old” and “New “ economic cycle

Different types of cycles for different periods
(characterized by institutions, technology and market structures)
Transformational Growth (continued)

Institutions, technology and market structures are not completely independent of each other. They are also endogenous to the TG process (from “Size of the market determines division of labor” to “size of aggregate demand influences economically viable technology and market structure”).

Income distribution changes along TG process.
Consumption patterns change along TG process.
Transformational Growth and the definition of the poverty line

As new Goods and Services (G&S) are introduced and diffused consumption patterns change. First they may be luxuries, eventually they become a “must have”.

It is the TG process that determines which G&S are necessities, amusement and conveniences morally accepted by habit as minima not to be poor
Transformational Growth and the variation of the poverty line through time

Poverty line changes but not automatically. There is no specified income-elasticity precisely because TG and the concomitant income distribution are not steady.

“War on Poverty” cannot be won once and for all. It is continuous as economies evolve and new consumption products and patterns emerge and are diffused.
Capabilities and International Comparisons

Sen’s Capabilities (Functionings) occupy a middle space between utility and commodities. Supposedly better than either for interpersonal comparisons and distributive assessments. Extremely difficult to measure in practice. Diverse and contradictory literature and “lists”
Capabilities and International Comparisons (II)

Clearest point (after debate with Townsend):
Although “Capabilities” may be universal and absolute, the way to fulfill them vary with time and space

I.e. Absolute poverty is not absolute when comparing across countries

Most attempts at measuring capabilities are static (unlike TG) due to inter-country focus
Summary and Conclusions

“International poverty line” is a mirage unless it is grounded on attaining minimum standard of living in every country.

Absolute Poverty is a better measure than Relative Poverty.

Absolute Poverty is not absolute. It varies in time and space. Variation is not haphazard, it is grounded in TG process. Thus, poverty lines should be recalculated periodically (e.g. every 10 years) based on “practical knowledge.”

Redistributive policies constantly needed.