

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

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# Structure

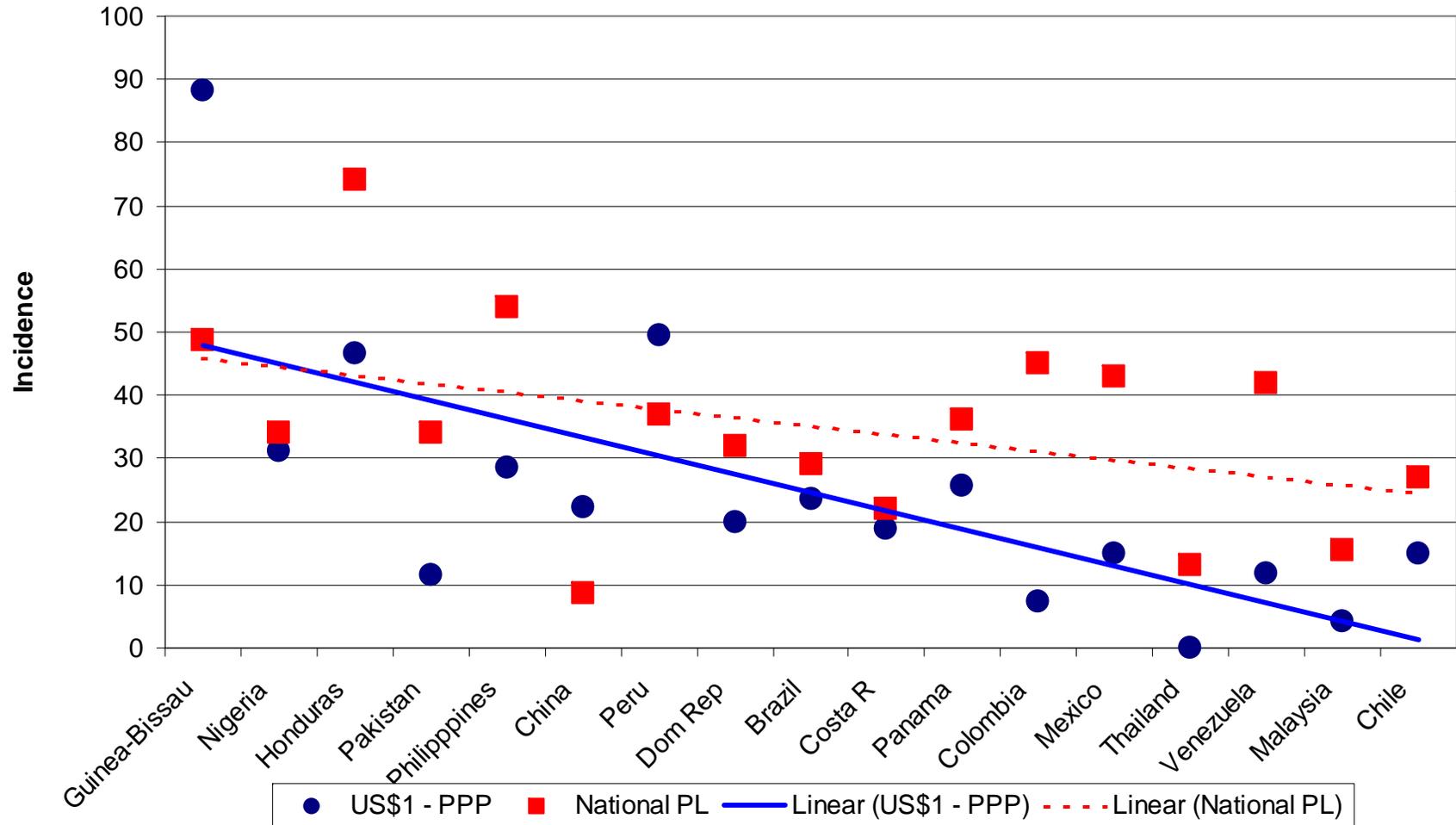
- 1) Introduction
- 2) Some problems with “International Poverty Lines”
- 3) Absolute Poverty, Relative Poverty and Income Distribution through time
- 4) A discussion of conceptual definitions
- 5) Transformational Growth and the variation of the poverty line through time
- 6) Capabilities and International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

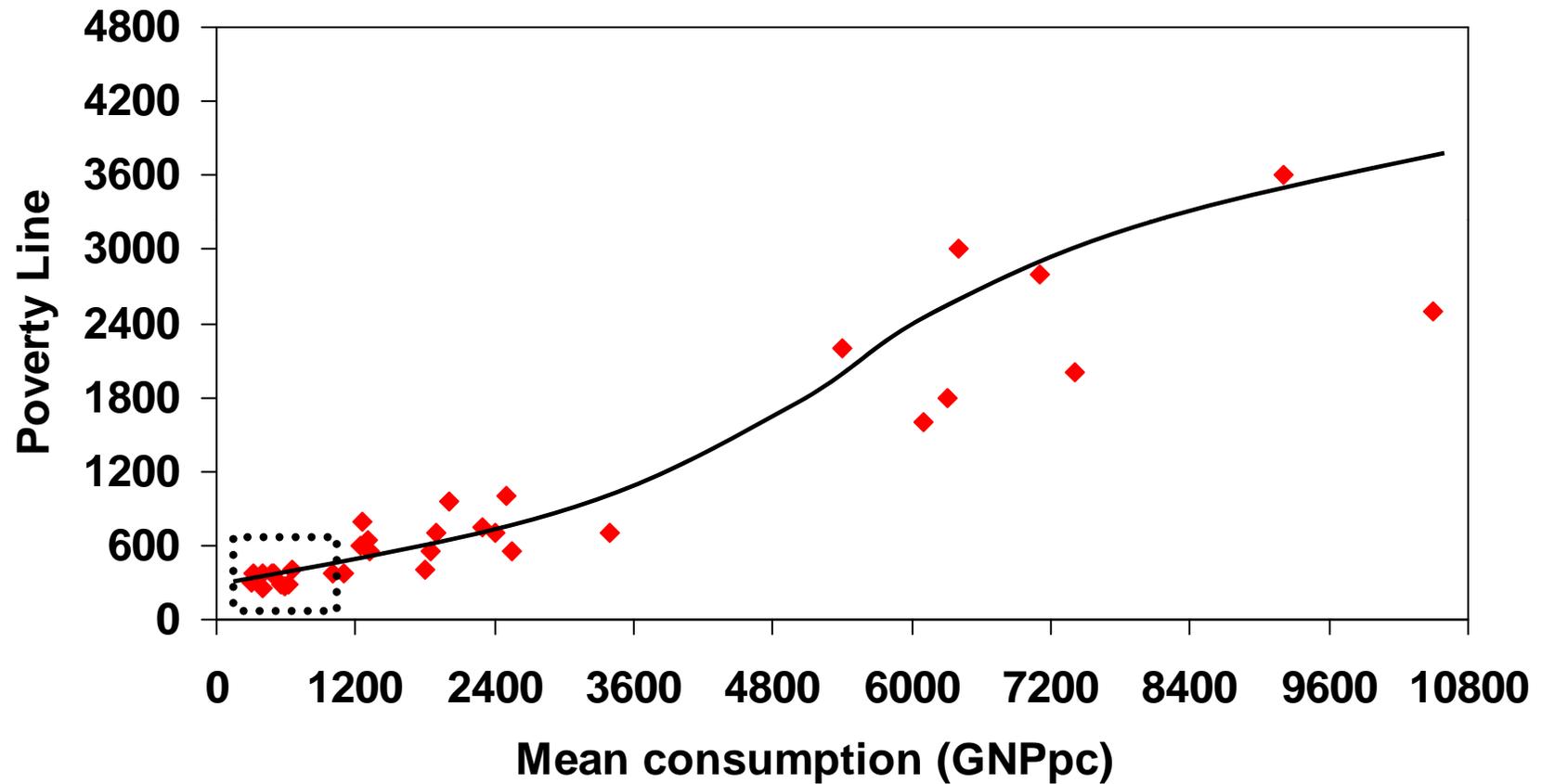
## Per capita income and poverty lines



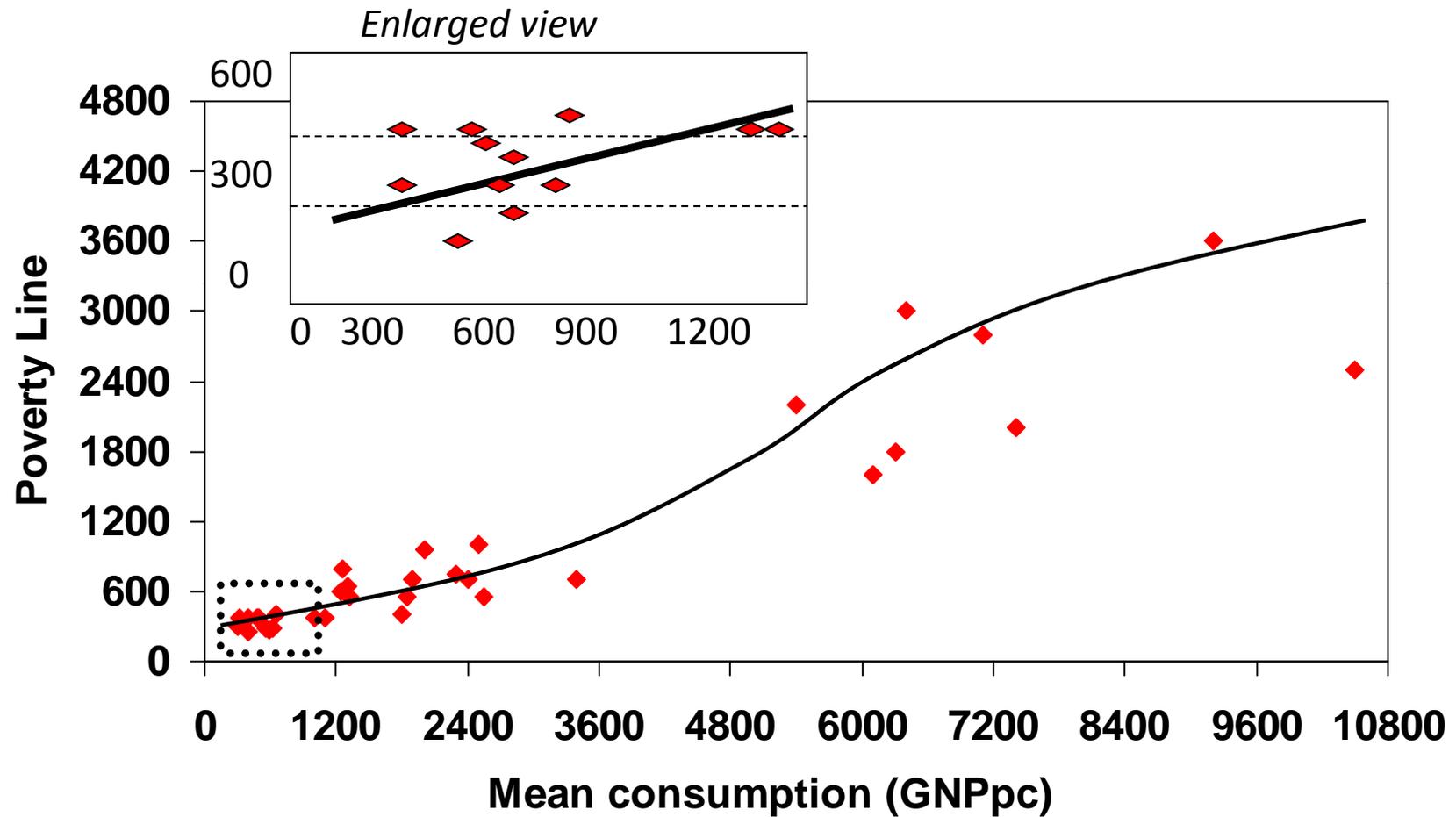
Source: World Bank (1998) and ECLAC (1998)

17 countries

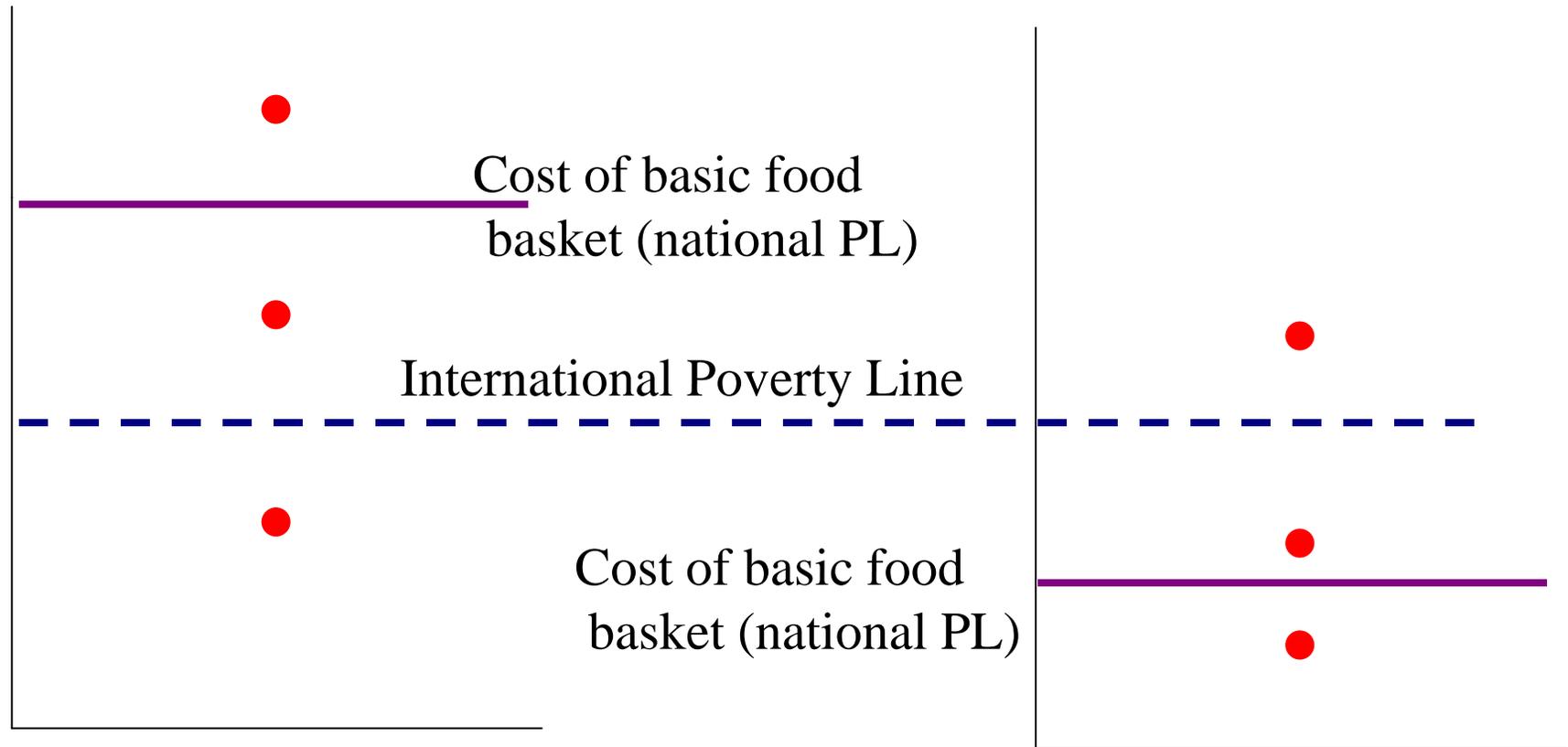
# 1US\$ a day: Origins



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# National vs international poverty line



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Incidence according to the National PL

1/3

1/3

and the International Poverty Line

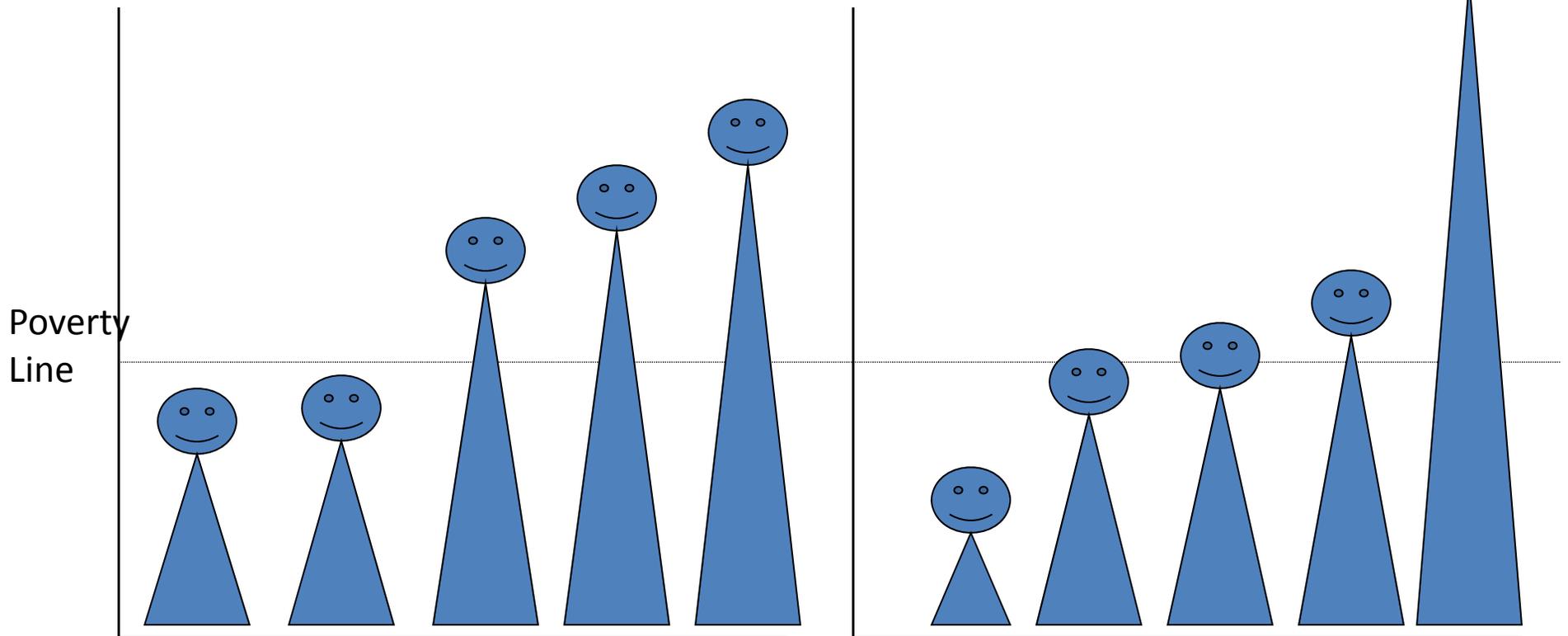
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## Some examples

	National PL	1US\$ a day
Algeria	22.6	Less than 2
Azerbaijan	68.1	Less than 2
China	4.6	18.5
Egypt	22.9	3.1
Indonesia	27.1	7.7
Sri Lanka	25.0	6.6
Trinidad & T	21.0	12.4

# Absolute Poverty, Relative Poverty and Income Distribution through time: Reducing poverty, increasing disparities

Income



Income poverty = 40%

Income poverty = 20%

# Absolute Poverty, Relative Poverty and Income Distribution through time

	1	2	3	4	5	Total
T1	5	10	15	20	25	75

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T1:  $75/5 = 15$ , thus (relative) poverty line =  $7 \frac{1}{2}$  & 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

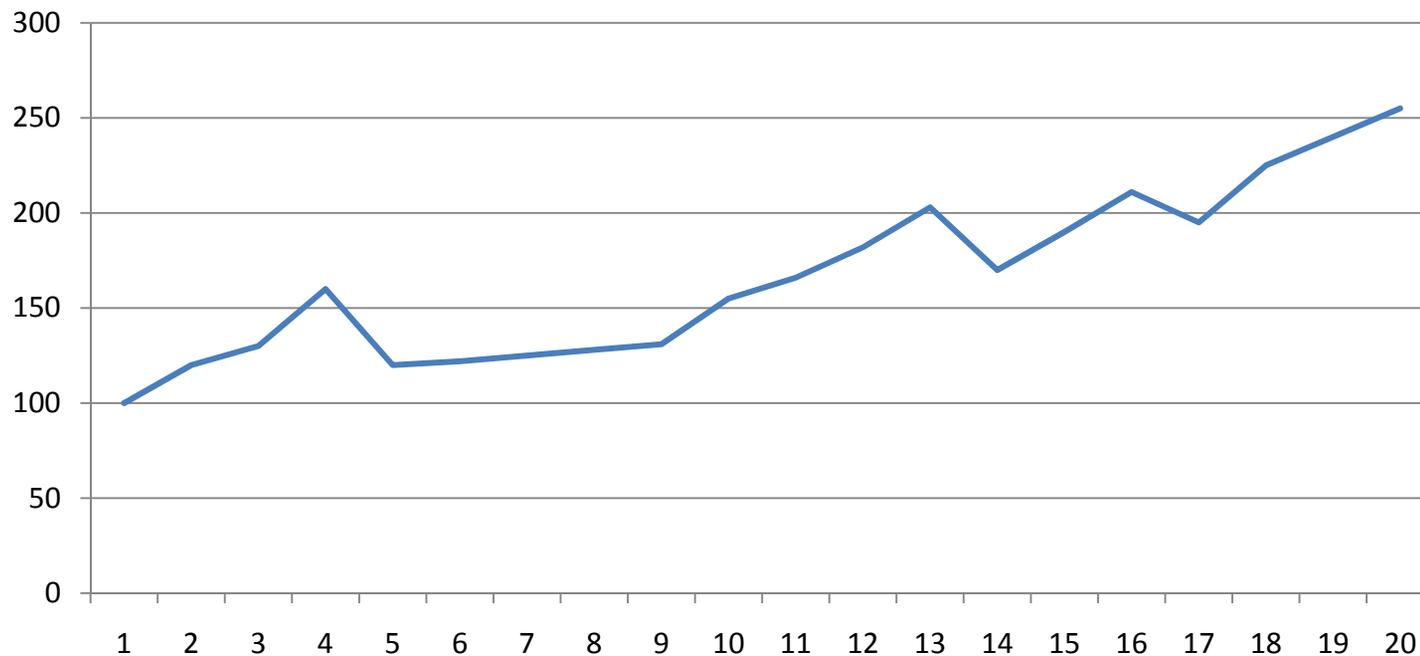
“There enters into the determination of the value of labour-power a **historical and moral element**. Nevertheless, in a given country, at a given period, the average quantity of the means of subsistence necessary for the labourer is practically known”

(Karl Marx, 1867).

# Transformational Growth

Ontology: Steady State Economic Growth does not exist

Economic Growth is irregular



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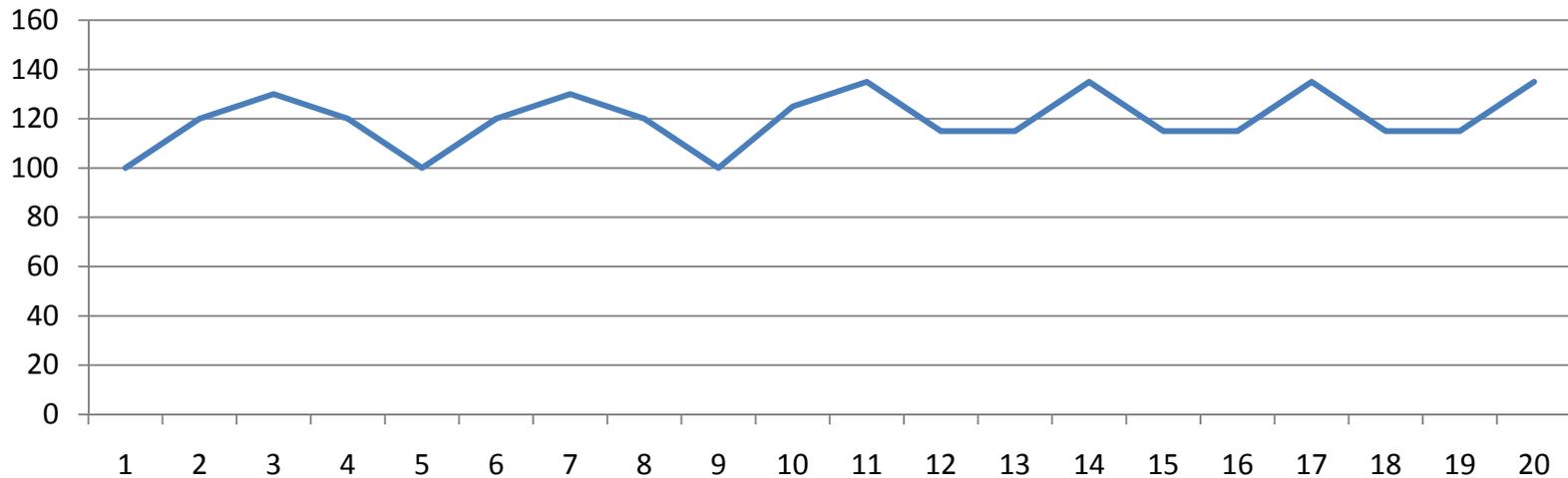
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However, it is not random

“Old” and “New “ economic cycle

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

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## 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