

# GLOSSARY

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## POVERTY

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Glossary\*  
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Although poverty is usually defined as a *lack of money or insufficient money or lack of assets*, there is no generally accepted definition of poverty. According to the *Scottish Poverty Information Unit* (BBC, 2005) people live in poverty when they are denied an income sufficient for their material needs and when these circumstances exclude them from taking part in activities that are an accepted part of daily life in that society. Thus, poverty can be seen in different forms, including the lack of income and means required for securing a sustainable existence; famine and under-nutrition; bad health, inaccessibility or limited accessibility to education and other basic services; increased mortality, including mortality from illness, homelessness and inadequate dwelling conditions; insecure environment, social discrimination and isolation. An important feature of the negation of human rights is non-participation in decision making and in the civil, social and cultural life of community. Poverty multi-dimensionality is manifested in a situation of a sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate

standard of living and other civil, cultural, economic, political and social rights.

Poverty is usually divided into *income* – without the possibilities to meet basic needs - and *non-income* – concomitant with some other features important for life mostly linked with the level of education, health and suchlike. The health situation and indices concerning the nutrition and literacy of the population are usually included in an analysis of non-income poverty. However, more attention is dedicated to *absolute* and *relative* income poverty. The World Bank (2000) definition says that a person can be considered poor if his or her income level falls below some minimum level necessary to meet basic needs. This level varies from time, place and society, according to level of development, societal norms and values.

*Absolute poverty* measures the proportion of a population surviving on less than a specific amount of income. This specific amount is *the poverty line*. *Absolute poverty lines* set an absolute minimum standard of living and are typically based on a fixed basket of food products (deemed to represent the adequate minimum nutritional intake necessary for good

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health) plus an allowance for other expenditures (such as housing and clothing). Hence absolute lines can vary across countries, depending on the composition of the consumption basket. While there is clearly some arbitrariness in determining what is adequate, the notion of a poverty line still provides a useful benchmark for analysis and comparisons.

*Relative poverty lines* define poverty relative to national living standards because, irrespective of absolute needs, people may consider themselves poor when their living standards are substantially below those of others in their country. Relative poverty lines are usually set as a fixed percentage of median or mean equivalent household income. The World Bank (2000) calculates poverty profiles using 50 percent of median income as a base for international comparison. Absolute and relative poverty rates show the average for the whole population and do not indicate who is better, or who is worst off. Thus, it is necessary to determine poverty rates for particular population groups.

It is very important to fix on the manner of measuring poverty, because this will determine (or confuse) attempts to formulate sensible policies for helping the poor and for the redistribution of income. The most commonly used way for measuring poverty is based on income or consumption levels. Information on consumption and income is obtained through sample surveys, during which households are asked to answer detailed questions on their spending habits and sources of income. Such surveys are conducted more or less regularly in most countries. These sample survey data collection methods are increasingly being complemented by par-

ticipatory methods, where people are asked what their basic needs are and what poverty means for them.

The calculation of the poverty rate is exposed to methodological limitations that we will try to explain.

It is common to measure inequality in living standards using income or expenditure across individuals *in a given month*. However, due to problems in measuring poverty, income or expenditure in a given month is only an imprecise measure of the living standard of a household. In order to obtain a more representative approximation of inequality, it is better (and more complicated) to reckon poverty and inequality using data over a longer period (presumably over four periods like, for example, the average in the current month, 12, 24 and 36 months ago) than data for a single month.

*Census income consists only of the family's cash receipts*. To understand the significance of this fact, we require a definition of *income*. A person's income during a given period is the sum of the amount consumed during that period and the amount saved. A family's income consists not only of the cash it received but also *in-kind receipts* – payment to individuals in commodities or services as opposed to cash. Thus, the census measure underestimates income by the amount of in-kind receipts. One major form of in-kind income is the value of the time adults devote to their household. The official data miss important differences in the levels of economic resources available to single-parent versus two-parent families, two parent families with both parents working versus those with one parent at home. In-kind income is also provided by durable goods. The most important example is a

house, which provides its owner with a flow of housing services. The value of these services is the cost to the homeowner of renting a comparable dwelling. Thus, if a family owns a house that could rent for HK 2,000 per month, this amount should be included in its income.

*The official figures ignore taxes.* Specifically, all of the income data are before tax. Hence, the fact that the income tax system takes a larger share of income from high- than from low-income families is not reflected in the numbers.

The official figures exclude in-kind transfers from government. Although the figures include some other cash transfers from the government, they exclude *in-kind transfers* - payments from the government to individuals in commodities or services as opposed to cash.

Finally, there are problems in *defining the unit of observation*. Most people live with others, and at least to some extent make their economic decisions jointly. Should income distribution be measured across individuals or households? If economies are achieved by living together, should they be taken into account in computing an individual's income? For example, are the members of a two-person household with total income of HK 3,000 as well off as a single individual with HK 1,500? Although two may not be able to live as cheaply as one, they may be able to live as cheaply as 1.5. If this is true, the members of the couple are better off in real terms. But finding just the right adjustment factor is not easy.

Especially for countries in transition, researchers mostly use measures of poverty and inequality based on consumption (money expenditures plus the value of food produced on the household plot).

Grootaert and Braithwaite (1998) believe that this measure is more accurate than income due to the high volatility of current income, since people are paid very irregularly, with several months of wage arrears being common. Furthermore, income underreporting is widespread, because survey respondents are not willing fully to disclose illegal or semi-legal income sources. Finally, produce from the household plot has become a mainstay of food consumption and this is not a standard component of monetary income. However, the above discussion suggests that it might be fruitful to consider income and expenditure not as alternative, but rather as complementary, measures of well-being. Support for this approach is provided by Atkinson (1989), who distinguishes between two conceptions of poverty: a *standard-of-living approach*, which emphasises minimum levels of consumption of goods and leads naturally to an expenditure-based measure, and a *minimum-rights approach*, which emphasises the provision of minimum incomes but does not prescribe how they should be spent.

In contemplating policies that might alleviate poverty, it is sometimes helpful to know how far the poverty population lies below the poverty lines. The *poverty gap* measures how much income would have to be transferred to the poor population to raise every household's income to the poverty line (assuming the transfers have no effects on the recipients' work effort).

*Poverty intensity* is a common indicator taking into account the number of poor, the depth of poverty and inequality among the poor. For practical purposes, the percentage change in the poverty intensity can be approximated as the sum

of the percentage changes of the poverty rate and the average poverty gap ratio.

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