

2. "POVERTIES" AND WEALTH

Competing Definitions and Alternative Approaches to Measurement

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ABSTRACT

"Rich" and "poor" are multidimensional concepts of considerable value in comparative social research. This chapter discusses conceptual and methodological issues associated with their use and is divided into three parts. Part I briefly discusses national and international efforts at developing systems of national accounts on which contemporary approaches to "wealth" and "poverty" assessment are based. Part II identifies the major concepts associated with comparative poverty and wealth assessment in the context of national accounting systems. Part II also focuses on the application of selected "poverty" and "wealth" concepts to various population groups and identifies some of the causal explanations associated with the application of each concept. Part III discusses recent efforts at constructing more comprehensive measures of poverty and wealth assessment. The composite indexes summarized in Part III suggest the need for more multidimensional approaches to understanding the concepts of "rich" and "poor" and "poverty" and "wealth" if we are to succeed in better understanding their origins and social functions. The chapter also draws on selected international data to illustrate a number of concepts associated with comparative poverty and wealth research. These data offer unique insights into both the meaning of the concepts and the methodologies associated with their use.

INTRODUCTION

Final work on this chapter occurred just as the *World Economic Forum 2002* (WEF) and the *World Social Forum 2002* (WSF) were concluding in New York and Porto Alegre, respectively. Both meetings were held in the aftermath of the destruction of the World Trade Center in New York City and the bombing of the Pentagon in suburban Washington – two of the most potent symbols of the West's global economic and military superiority. Both meetings succeeded in attracting thousands of participants from around the world albeit the high level of personal wealth, political power and economic prowess associated with those attending the WEF differed dramatically from those attending the WSF. Predictably, the substance of the two forums also differed, i.e., representatives attending the WEF extolled the benefits of economic globalization in redressing the social and economic problems confronting rich and poor countries¹ and participants at the WSF blamed globalization for increasing global poverty, social injustice, political instability and environmental degradation². Although held in the same hemisphere and at the same time, the two groups met in cities separated by thousands of miles and, thereby, averted the militant confrontations that had plagued other recent economic summits – Seattle, Quebec City, Wash-

ington and Genoa. But the issues driving globalization and its challenges were not averted³. But neither meeting succeeded in producing a workable plan of action for ameliorating the most egregious forms of social inequality associated with the shift toward a global economy and, with it, the establishment of interlocking cultural, political and military institutions⁴.

Whatever one's view of the legitimacy of the claims made by either the WEF or the WSF, the content of both meetings dramatized the profound ideological differences associated with the globalization movement. On no issue, though, were the differences that distinguish the two groups from one another clearer than their competing formulations of the role of globalization in contributing to the wealth and poverty of nations and individuals.

PART I: THE SEARCH FOR NATIONAL ACCOUNTING MEASURES

The search for reliable national accounting measures of poverty and wealth has been on-going for at least two hundred years. England and Harris (1998) credit the 17th century British statesman Sir William Petty as having devised one of the first operational systems of national income estimates. Today, of course, national accounting statistics – including *gross national product* (GNP) and *gross domestic product* (GDP) – are used in all areas of economic policy, especially by governments in shaping fiscal and monetary policies and by private corporations in choosing between competing investment alternatives. National accounting statistics also have been used to guide the economic reforms of developing countries – particularly those that depend on the World Bank and the International Monetary Fund for large-scale loans and technical assistance (World Bank, 1990 and 2001). National accounting statistics also are used in arriving at estimates of national wealth and poverty and in establishing baselines against which the effectiveness of poverty alleviation efforts can be assessed.

In the main, GNP, GDP and their associated concepts appear to have served the measurement needs of economists reasonably well. However, in recent years these concepts have come under sharp criticism, especially for their under-accounting of the “true costs” of economic production, i.e., pollution (Hardoy et al., 1995; Repetto et al., 1989), resource depletion (Cobb & Cobb, 1994; Editors, 1998; El Serafy, 1993), and what Leipert (1989) refers to as “defensive expenditures” (i.e., environmental damages, the social costs of road accidents and extended travel). Nor do these concepts account for the value of the non-marketed goods and services produced by women, children, and others in the household economy (Henderson, 1996; U.S. Census Bureau, 1995). Nor do they account for the economic costs associated with diversity-related social conflict and civil unrest (Boucher et al., 1987), human rights violations (Amnesty International, 2001), war (Dupuy, 1993; Sayigh, 1998), or the broader societal implications of inequality (Brady, 2001; Cohen, 1998).

Among others, economist Robert Eisner has called for the creation of “better measures of economic activity (...) which capture as fully and distinctly as possible both the flow of current consumption and the accumulation of capital contributing to future welfare” (1989: pp. 2,7). Even Simon Kuznets, one of the chief architects of the system of national accounts, recognized the essentially normative nature of these

systems and called for their continuous updating so as to better reflect changing societal norms regarding various forms of production (Kuznets, 1941: pp. 3-4).

PART II: NATIONAL ACCOUNTING SYSTEMS AND POVERTY

Part II of the paper is divided into seven sections each of which introduces the reader to a different dimension of comparative poverty and wealth research. Part II contains many figures which, in addition to identifying the major economic concepts used in comparative economic research, also provide operational definitions for these concepts.

a. The Economic Building Blocks

Table 1: The Building-Blocks of National Economic Accounting

Concept	Definition and Uses
Gross National Product (GNP) and Per Capita GNP	GNP comprises GDP plus net factor income from abroad, which is the income residents receive from abroad for factor services (labor and capital), less similar payment made to non-residents who contribute to the domestic economy. Per capita GNP, in turn, reflects GNP divided by the number of people in that economy. As a measure of poverty, per capita GNP reflects access on the part of individuals or other economic units (usually families or households) to resources below average per capita product or income level (usually referred to as the poverty "threshold").
Gross Domestic Product (GDP) and Per Capita GDP	GDP is the total output of goods and services for final use produced by an economy regardless of the allocation to domestic and foreign claims. GDP does not include deductions for depreciation of physical capital or depletion and degradation of natural resources. Per capita GDP is derived by dividing GDP by the number of persons participating in the national economy (usually based on mid-year population estimates).
Purchasing Power Parity (PPP)	A concept developed at Penn for the United Nations International Comparison Programme (Summers & Heston, 1991), PPP represents "the purchasing power of a country's currency, i.e., the number of units of that currency required to purchase the same representative basket of goods and services (or a similar basket of goods and services) that a US dollar (the reference currency) would buy in the United States." PPP is widely used throughout the UN system to correct for distortions that results when using unadjusted GNP and GDP statistics alone.

Table 1 contains operational definitions of the two most widely used concepts in national income accounting, i.e., *Gross National Product* (GNP) and *Gross Domestic Product* (GDP). The table also contains a third concept, *Purchasing Power Parity* (PPP), developed by Summers and Heston (1991) for the United Nations International Comparison Programme. In effect, PPP measures the purchasing power of

local currencies in securing a pre-determined basket of goods and services relative to an internationally determined norm. In doing so, PPP “smooths out” the distortions in income measurement that result when using unadjusted GNP or GDP statistics alone. The three concepts form the conceptual building blocks upon which much of comparative research on poverty and wealth rests.

b. Income Poverty

Table 2 identifies the major concepts associated with *income poverty* used by comparative researchers. These concepts reflect variations of GNP, GDP, or PPP but, in addition, specify *income thresholds* below which a designated portion of the population is judged to be *poor*.

Table 2: Measures of Income Poverty

Concept	Definition and Uses
Income Share	The distribution of income or expenditure (or share of expenditure) accruing to percentile groups of households ranked by total household income, per capita income or by expenditure. Shares of population quintiles and the top decile in total income or consumption expenditure are used in calculating income shares. The concept is especially valuable for assessing the degree of income inequality between clusters of income earners in developing countries and for analysis of poverty trends within economically advanced countries (Atkinson et al., 1995; Smeeding & Rainwater, 2001).
Income Poverty	The amount of money below which individuals are unable to purchase the goods and services needed to sustain life with dignity. Income poverty often is expressed as a percentage of the average or median income earned by a country's population (usually set at 40 % to 60 % of median income). Income poverty takes into account only money that flows directly to individuals or other economic units but not money obtained by individuals from informal work (i.e., the so-called “grey” economy), from other legal sources (e.g., lottery winnings, interest on hidden savings) or from illegal sources (e.g., the so-called “black” economy).
Poverty Line/ Poverty Threshold	The Poverty Line (or poverty threshold) refers to the amount of income below which an individual, family, or other social units is judged to be poor. Owing to differences in overall levels of socioeconomic development, poverty thresholds vary from country to country and from subregion to subregion. The World Bank has assigned the following poverty thresholds to individuals living in the following country groupings (World Bank, 2000): <i>Developing Asia and Africa</i> : \$1 or less per day (\$365 per year); <i>Developing Latin America</i> : \$2 or less per day (\$730 per year); <i>Central and Eastern Europe and the Commonwealth of Independent States (CIS)</i> : \$4 or less per day (\$1,460 per year); <i>Organization for Economic Cooperation and Development countries (OECD)</i> : \$15 or less per day (\$5,475 per year).

Table 2: Measures of Income Poverty (continued)

Concept	Definition and Uses
Poverty Gap	Calculated as the average difference between the poverty line (or threshold) and actual income (or consumption) for all poor households (World Bank, 2001), poverty gap is expressed as a percent of the poverty line. The concept also distinguishes between gradations of poverty, i.e., from the "poor" to the "poorest of the poor" and reflects the depth of poverty in a given economy.
Absolute Poverty	Absolute poverty refers to the income level below which a minimum diet and essential non-food requirements are not affordable. Absolute poverty is usually measured as some percentage of the basic standard (often 80 %) and reflects the inability of people to satisfy the basic needs required to live life with dignity.
Extreme Poverty	Extreme poverty refers to failure of human survival arising from an inability to satisfy basic needs. Extreme poverty is associated with recurrent, often long-term, incapacity of people (and societies) to meet the requirements for life itself, i.e., poverty associated with protracted famines, natural disasters, recurrent civil or military conflict, exposure to life threatening communicable and infectious diseases (HIV), among other causes.
Consumption Poverty	Consumption poverty measures poverty on the basis of goods and services that are actually consumed by individuals – e.g., of food, shelter, clothing, health care, education – rather than income alone. The concept also takes into account all cash and non-cash subsidies for food, housing, health care, education, etc. (Rainwater, 1990; U.S. Bureau of the Census, 1995; Wolfe & Moffitt, 1991). Obviously, the number of people assessed to be "poor" is considerably lower using consumption rather than income approaches to poverty determination.

Figure 1 illustrates the use of the *poverty line* and *income threshold* concepts when applied to analysis of global income poverty. The data summarized in the figure are based on a 1998 survey conducted by the World Bank of the total number of people estimated to be surviving on US\$ 1 or less per day (World Bank, 2000). The figure also reports the percentage of the population for world regions that live under the income threshold. The two concepts provide dramatic evidence of the uneven distribution of income poverty for the world's major geographic regions, i.e., the highest numerical concentration of the world's income poor are located in South Asia (522 million people), *but* a higher proportion of the population of Sub-Sahara Africa are poor than those living in Asia (i.e., 46 % vs. 40 %). The two concepts are valuable tools for establishing baselines against which both income distribution patterns can be determined and national efforts at reducing income inequalities can be assessed.

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Rich and Poor

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