Poverty

19

As a very first approximation, we could consider the average lifespan of a population to be an indicator of how far it has risen from poverty and economic deprivation. Of course, many things affect how long people can expect to live, such as war, epidemics and natural disasters, but throughout history there has been a rough correlation between longevity and prosperity.

When we think of the great achievements of the ancient civilizations of China, Greece and Rome, it is sobering to bear in mind that in none of these places and times did the life expectancy at birth exceed 30. Even in western Europe as late as 1900, this figure was less than 50. Such numbers speak powerfully about the living standards of the majority of the world's population over time.

What about today? Lifespans have increased dramatically, and not only for the richest segment of the world's population. Still, there are noticeable differences in national averages, as Table 19.1 makes clear.

The ratio of the longest lifespan (Japan) to the shortest (Ethiopia, Nigeria, South Africa) is over three-to-two, which is remarkable considering that these are averages over entire national populations.

Clearly these averages disguise very important life expectancy differences within countries, and this can be seen by looking at the United States. A group of researchers led by health economist Christopher Murray divided up America into eight "countries" based on race and location. Those with the longest lifespans were Asian-Americans (wherever they might live); those with the shortest were Blacks living in inner-city neighborhoods. They calculated life expectancy differences between men and women in each group, and their results emphasize that living standards remain highly unequal in the US. Asian men can expect to live more than 15 years longer than inner-city Black men; the corresponding gap is over 12 years for women. "Middle American Whites", those who live neither in rural north-central areas nor in the southeast, have about a 6-year (men) and over 4-year (women) advantage compared to "Middle American Blacks" (neither inner-city nor rural south). The study also found significant mortality differences in comparisons among Whites, among Blacks, and extending to Native residents of the western states. In general, the disparities found by Murray and his colleagues

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Table 19.1 Life expectancy at birth in selected countries, 2009

Country	Life expectancy
Bangladesh	65
Bolivia	68
Brazil	73
China	74
Cuba	78
Egypt	71
Ethiopia	54
France	81
Germany	80
Haiti	62
India	65
Indonesia	68
Japan	83
Kenya	60
Mexico	76
Nigeria	54
Pakistan	63
Philippines	70
Poland	76
Russian Federation	68
South Africa	54
Sweden	81
Thailand	70
Turkey	75
United Kingdom	80
United States	79

Source: World Health Organization Statistical Information System (WHOSIS)

are roughly comparable to those found between rich and poor countries, apart from those, like Nigeria, where health conditions are the bleakest.

We cannot make any direct inferences about poverty from these raw facts concerning life and death, but they do make clear that the most basic necessities all people rely on, that keep them alive to do whatever else they may choose, are still out of reach of many, even in the world's richest countries. In this chapter we will take a closer look at poverty as an economic problem. How is poverty defined and measured? How prevalent is it? What are its causes, and what can be done about it?

19.1 What Is Poverty?

Like unemployment, a concept we will examine in the next volume, poverty took on a new meaning when historical conditions made it possible to imagine a society without it. For most of human history, the poor were simply a part of the whole population, larger in some places and smaller in others, but to all appearances an inevitable fact of nature. If the poor mobilized themselves politically to challenge their place in the world, it was not to escape from poverty (this was not conceivable except in Utopia), but to be treated with justice and sympathy. The demand that poverty itself be eradicated seldom appears in any political program prior to the Industrial Revolution.

Modern definitions of poverty all have the characteristic that they are not inevitable. However defined, it is now within the possibility of existing societies to eliminate poverty from the human condition. From the long historical perspective, this is revolutionary.

Very generally, we can distinguish between two different approaches to defining and measuring poverty, one absolute, the other relative. **Absolute poverty** refers to a lack of a sufficiently high income to purchase what is regarded as a necessary standard of living. Social scientists have drawn up lists of what people in various societies are seen as needing; these items are priced, and individuals are deemed poor if they don't have enough money to buy them. **Relative poverty** occurs when individuals fall below a certain percentage of the average or median income of their population. It is not based on any particular standard of living, but on how far one has fallen relative to the average. As we will see, the capabilities approach of Sen has been used to try to reconcile these two.

Let's take a closer look at absolute poverty. The intuition behind this approach is that we can distinguish between necessities and luxuries, and the poor are those who can't afford the necessities. To make this concept operational, we would need to draw up a list of those necessities and figure out how much they cost. In fact, this is exactly what poverty researchers have done in most countries; the result of their labors is a **poverty line** that sets a minimum income for a family of a given size. If the family receives less than this it is recorded as poor. The method used in the US was developed in the 1960s by Mollie Orshansky, an economist in the US Department of Labor. She found that, on average, a third of all income received by low-income families went to food, so she calculated the cost of the cheapest food basket that would keep a family of four in good nutrition for a month and then multiplied it by three. This determined the poverty line, which could then be adjusted each year based on the changing cost of this food basket. Simple as it is, this approach is still the basis for official calculations of the poverty line in the US, although most poverty researchers regard it as flawed. (It ignores non-cash benefits families receive; it has not been adjusted for the much greater role that non-food expenses, like housing, childcare and medical care, now play in family budgets.)

Ironically, the absolute approach to defining poverty is not so absolute when we need to make international comparisons. What is an absolute necessity in one country turns out to be a luxury in another, or so it seems if the different calculations

are all believed. What would it mean to compare poverty rates if the they result from poverty lines based on contradictory assumptions? To get around this, researchers have proposed setting a single global standard, based on a fixed level of daily income per person. Of course, no single number could ever be correct, so the usual practice is to use a range of numbers, making comparisons at each level.

One simple standard is $1.25 per day, measured using Purchasing Power Parity (PPP) to convert income between different currencies. (PPP is based on comparisons between how much a standard basket of goods costs in different countries.) This cutoff has been promoted by the World Bank in particular as a basis for estimating poverty rates, and it has the advantage of being conservative: it is unlikely that there are many people who would be called poor under this definition who aren't.

Using this yardstick, it is estimated that 1.2 billion people should be regarded as poor as of the last global count in 2010. When one considers how conservative the yardstick is, this number poses a deep ethical challenge. Who are these poor people? Where are they?

The World Bank makes national estimates based on household surveys it conducts around the world. Table 19.2 on the following page shows the household poverty rate for a selection of countries and gives the year the survey data were collected.

Some countries, like Haiti and Nigeria, are predominantly poor, even by the stringent $1.25 a day measure. Others, like Turkey and Mexico, while certainly containing large populations locally regarded as poor, have few citizens falling under this very low poverty line. In some rapidly developing countries, like China, large gaps in the household poverty rate have opened up between urban and rural populations. We will return to the issue of the poverty-reduction benefits of economic growth later in this chapter.

Clearly a limit of just $1.25 a day records the most extreme forms of absolute poverty, but what would we find if we increased it to $2? For the most recent year for which there is evidence, 2010, the numbers are daunting: 2.4 billion people, over a third of the world's population, live below this line. This includes about 67 % of the population of South Asia and 70 % of sub-Saharan Africa, numbers that reflect about a 20 % decline in poverty rates in South Asia but almost no change in sub-Saharan Africa since 1981. On the other hand, in the early 1980s nearly the entire population of China was in poverty according to the $2-a-day standard, but by 2008 only about 27 % still qualified as poor by this criterion, demonstrating that rapid progress is possible.

The other major approach, relative poverty, is based on the notion that each society has a "normal" standard of living to which everyone aspires (or wishes to surpass). This could be thought of as measured by the income of the average, or median, individual, the one whose income is exactly at the halfway mark in the overall distribution. To be poor, according to this view, is to be very far below this median person—say, at least 50 % below. That is, the technique for establishing a poverty line would be to identify the income of the median individual or household and then divide this by half. Those earning below this line would be regarded as poor. In a society with a relatively equal income distribution (a low Gini

Table 19.2 Percentage of households receiving less than $1.25 PPP per capita per day

Country	Year	Poverty rate
Bangladesh	2010	43.3
Bolivia	2008	15.6
Brazil	2009	6.1
China (rural)	2008	22.3
China (urban)	2008	0.9
Ethiopia	2005	39.0
Guatemala	2006	13.5
Haiti	2001	61.7
India (rural)	2009	34.3
India (urban)	2009	28.9
Indonesia (rural)	2011	15.0
Indonesia (urban)	2011	17.4
Mali	2010	50.4
Mexico	2010	4.0
Nigeria	2009	68.0
Pakistan	2007	21.0
Philippines	2009	18.4
South Africa	2008	13.8
Turkey	2008	0.0
Uganda	2009	38.0

Source: World Bank PovCal Tool

coefficient), this could be a small number; in an unequal society it could be very large, although, obviously, it could never be a majority as absolute poverty could be—and in some places is.

Proponents of the relative poverty approach regard it as far more realistic than absolute measurements. We can understand their discomfort if we look more closely at Table 19.2. Is it credible to say that only about 4 % of all households in Mexico, and hardly any at all in Turkey, are poor? Even a $2 a day standard would result in only about 8 % of Mexicans and 4 % of Turks being considered poor. Yet if we raised the income standard to be more realistic for Mexico, would it become more unrealistic for, say, Mali? Perhaps the only consistent way to measure poverty in both countries would be in relation to their typical, or median, incomes. A resolute defender of an absolute approach to poverty might reply that, yes, only 4 % of Mexicans are subject to the sort of deprivation that almost 70 % of Nigerians face, and this needs to be recognized. Obviously, we are barely scratching the surface of this debate.

Nevertheless, the relative income approach to poverty measurement generally works better for comparisons among more developed countries, where extreme deprivation is uncommon. In Table 19.3 we see how several of the wealthier countries measure up in poverty rates, where the poverty line is set at 50 % of the median income.

Table 19.3 Percentage of population receiving less than 50 % of the median income, 2000

Country	Poverty rate
Canada	11.4
France	8.0
Germany	8.3
Sweden	6.5
United Kingdom	12.4
United States	17.0

Source: Luxembourg Income Study

This clearly demonstrates that it would be a mistake to think that a relative definition of poverty means that high rates of poverty are inevitable; countries can have more equal distributions so that fewer of their citizens fall below half the median income. Poverty in Sweden exemplifies this. In general, English-speaking countries tend to have higher poverty rates, and the United States is a star performer, so to speak, in this respect.

A compromise approach to poverty, which tries to respect both the differences in national norms and the claims of extreme deprivation, has been formulated by Amartya Sen. As discussed in the previous chapter, he takes as his starting point the notion first developed by Aristotle, that it is possible to observe the conditions that make possible a satisfactory life, since all people have common needs. Sen refines this idea by pointing out that, while the needs, or capabilities, may be common, the specific forms they take, and the resources needed to satisfy them, will differ around the world. For instance, mobility is an essential and universal human capability: being able to get to the places we need to go is a necessary part of living a satisfactory life. Yet different societies impose different needs for mobility. In a small, traditional community (the sort that is becoming less common with each passing year) it is enough to get around the village and perhaps to the next village just down the river or over the hill. In a modern city one must be able to get to the essential places for shopping and work. The need is universal, but the manifestation is particular.

By specifying the principal capabilities, researchers can lay the groundwork for national studies of what it takes to exercise them, and the numbers of poor people based on these calculations would indeed be comparable across national borders. The main difficulty, as you would expect, is getting agreement on what the core capabilities consist of and how they should translate into local conditions. In Box 19.1 we present one possible solution to this problem.

Box 19.1: Nussbaum's List of Fundamental Capabilities

Philosopher Martha Nussbaum, a frequent collaborator with Sen, has developed one possible list of basic capabilities in her article "Capabilities as Fundamental Entitlements: Sen and Social Justice" (2003):

1. Life: not having to die prematurely.

(continued)

Box 19.1 (continued)

2. Bodily health: having access to nutrition and shelter, also reproductive health.
3. Bodily integrity: mobility, freedom from physical violation, opportunity for sexual and reproductive choice.
4. Senses, imagination and thought: aesthetic and intellectual opportunity, especially in education; freedom of thought and expression; access to pleasurable experiences.
5. Emotions: the development and exercise of love and attachment, but also grief, desire and justified anger.
6. Practical reason: the freedom and resources to develop a life plan and set of values one deems appropriate.
7. Affiliation: participation in social life, the development and expression of sympathy and compassion, the experience of friendship and justice, being treated with the same respect shown others.
8. Other species: being able to live in relationship to animals, plants and other natural elements, and being able to develop a concern for them.
9. Play: laughing, playing and taking part in recreation.
10. Control over one's environment: the right of political participation, including freedom of speech and organization, and the right to property and equal access to employment opportunities.

One of the striking features of the capabilities approach is its determination to combine economic and social or political criteria that are usually kept apart in discussions of poverty. If Sen and Nussbaum are correct, poor people cannot escape from poverty by giving up religious or political freedom for material gain; if they succeeded at this they would only exchange one form of poverty for another. This is a strong argument against the contrary view, that political and cultural freedoms are luxuries that have no value to those who lack food or housing. But a defender of that view might question whether all the items on Nussbaum's list, assuming we agreed with them, should be given equal status.

A disadvantage of the capabilities approach is that it is inherently less quantitative. It certainly cannot be employed as an algorithm to extract a poverty headcount from census data. This means that we cannot show how it would produce tables like those we saw for the absolute and relative poverty measures. On the other hand, it is highly applicable to policy debates, as we will see later in this chapter.

19.2 Mass Poverty in the Global Economy

As we have already seen, by the most stringent measure of absolute poverty, about a fifth of all those alive today can be said to be poor, and it might be more accurate to describe them as destitute. More flexible measures easily yield two billion or more

people in poverty, and the consequences for life expectancy and health, not to mention the opportunity to enjoy the deeper satisfactions that life offers, are beyond doubt. (Happiness research has confirmed this.) Ending this state of affairs is one of the main challenges facing us in this era.

One of the main causes of poverty throughout history transcends economics: war. Wherever there is violent conflict, large numbers of people lose their livelihood, and hunger and disease normally follow. Even in western Europe, which had been the center of production and commerce for centuries, a large portion of the population remained destitute for several years after the end of the Second World War. Today there are regions in which war remains endemic, and in all of them poverty and forced displacement are serious problems: Uganda, Sudan, Colombia, the Philippines. Without peace and reconciliation there are limits to even the best economic policies.

Yet poverty exists on a mass scale even where war is unknown, and here economics has much to say. In this section we will survey some of the debates among economists over what causes poverty and how it can be alleviated.

The most obvious answer, and for some the most important factor, is insufficient economic growth. Average incomes can rise only if the overall economy grows faster than population, and in much of the world such growth has been lacking. It is undeniable that poverty is a far less severe problem in the high-income countries that have experienced decades or even centuries of sufficiently rapid economic growth, and that it is most widespread in sub-Saharan Africa, where population growth generally outstrips economic progress. Until recently, it was the official position of the World Bank, for instance, that measures that promote economic growth should be given priority, even if they have direct costs for the poor. Thus, Bank policy-makers called for an end to food and fuel subsidies and for increased fees for water and education, believing that this would stimulate the economy and lead to eventual reductions in poverty.

In recent years, however, opinion has turned against this strategy. In some parts of the world, particularly in sub-Saharan Africa and Latin America, inequality is so great that families at the bottom end of the income distribution may see no improvement at all from growth and may even fall further behind. Moreover, there is no magic formula for making stagnant economies grow more rapidly. The result is that experts at the World Bank have turned to what they call "pro-poor growth", a combination of growth-oriented measures along with policies that specifically try to help the poorest portion of the population. We will see many examples of this orientation in the next few pages when we turn to issues of human development.

In general, mass poverty in the developing world is accompanied by a number of related problems, such as poor health conditions, inadequate education, lack of access to credit (and economic opportunity more generally) and harmful child labor. These should really be seen as a complex whole, since it is difficult to pull apart the strands of mutual causation. Nevertheless, researchers have tried to isolate some of the particular mechanisms at work, to get a better sense of their relative importance as well as the types of interventions most likely to be effective.

1. Health. We have already seen that poverty is loosely correlated with reduced life expectancy, but the ability of people to enjoy and make use of the years available to them is even more at risk. Many of the conditions that plague poor populations, like diseases from contaminated water supplies or infections like malaria, are largely preventable and seldom occur in regions where people can afford to avoid them. Poverty undermines health, but poor health also reproduces poverty. Unhealthy people are less able to study and work, and when they become sick or disabled their care becomes a burden on their families. When life and health are uncertain people are less motivated to invest in education or other future-oriented commitments.

To tackle ill health in a systematic manner, it is useful to have an idea of what diseases and other health threats are the most important in a given population. The World Health Organization, a branch of the United Nations devoted to improvements in public health, publishes this information in its period reports on the global burden of disease. The measurement it uses is the **Disability Adjusted Life Year,** or DALY. This measures the portion of a year lost due to a disease or injury, where a full year would mean a year of premature death. For instance, losing a limb would be registered as a fraction of a life year; if several people lost a limb, this would be equivalent to one person dying. The weights given to specific disabilities is determined by surveys of health professionals. The DALY is not without problems, but it represents one way to reduce the many forms of injury and disease to a single numerical index.

To see the usefulness of the DALY, consider Table 19.4 on the next page, extracted from the WHO's database on the global burden of disease and injuries; it shows the total DALY's lost worldwide due to various causes.

Many of these problems, such as those relating to childbirth, water quality and the control of communicable diseases, could be greatly reduced by investments in public health. At the same time, the pervasive effects of these threats to health exacerbates poverty and cuts into the resources that could otherwise be available to deal with them.

Other organizations prefer an alternative measure, the QALY, which stands for a **Quality Adjusted Life Year**. This purports to express the loss of health as a percentage of a full year of life based on the effect ill health has on the subjective well-being of its victims. You might think of losing half a QALY as losing half the perceived value of being alive for an additional year. Weights used in calculating QALY's are derived from general population surveys.

Using measurements like QALY's and DALY's, aid organizations have begun to funnel large amounts of money into disease prevention programs in the developing world. The hope is that, by concentrating assistance where it is needed most, these programs will have a bigger effect than those in past years. For instance, there is evidence to indicate that lifting the scourge of malaria from sub-Saharan Africa all by itself could produce a visible increase in economic growth.

Table 19.4 Global disability adjusted life years lost due to selected causes (2004), in millions

Birth complications	97.2
Cancer	75.4
Childbirth (women)	33.6
Depression	67.1
Diarrhea	54.3
Heart diseases	147.9
HIV/AIDS	85.5
Malaria	34.6
Nutritional deficiencies	34.3
Respiratory infections	96.8
Traffic accidents	38.6
Total: 1488.7	

Source: World Health Organization Global Burden of Disease project

2. Education. It would not be an exaggeration to say that those countries which have achieved near-universal success in basic education, and which have also educated many of their inhabitants at a higher level through secondary schools and universities, are the same countries that have undergone prolonged periods of economic growth and have dramatically reduced their rates of poverty. Ever since the first economic studies of education were completed in the 1950s and '60s, showing that the rate of return to investments in teachers and classrooms exceeds most other investments that could be made in developing countries, economists have urged countries to give education the highest priority. Their advice has not changed since then.

On an individual level, the evidence is indisputable that more years of education translate into far higher average future earnings; a reasonable rule of thumb would be 10 % more income per year for each year of additional schooling. This is an extraordinary rate of return. Studies at the national level are less conclusive, but economists are inclined to believe that differences in education explain about a fourth of the international differences in economic progress.

Once we go from generalities to specifics, however, the issue becomes more complicated. It is not enough to build lots of schools and tell parents to send their children there; the schools must be of a high enough quality that actual learning takes place, and this must be visible to parents. This means more teachers and better training for them, but that in turn depends on prior investments in higher education. Schools must be geographically and financially accessible to families, a problem in rural and low-income areas. Thought must be given to setting up curriculum which speaks to the needs of students and their families, and that adapts itself to the particular situation of ethnic minorities, immigrants and other special populations.

3. Credit. Every day ordinary people in the high-income countries take out loans to buy a car or a house, to pay for a college education, or to start a business. They may not be happy with the terms of these loans, but the simple ability to acquire credit is seen as a normal aspect of the economy. In developing countries much of the population has no access to credit at all, or access only on the most unfavorable terms, at interest rates well above 100 % per year. People would borrow at those rates only under the most extreme conditions.

It is worth reflecting for a moment on what this situation means for those who are cut off from credit. Borrowing to open or expand a business is out of the question. Every investment must be paid for out of current income, even those with a very high rate of return, like those for education. Unexpected health care costs may be unaffordable, and treatable health conditions are simply allowed to get worse. Also, interruptions in income due to bad harvests or spells of unemployment mean interruptions in consumption, even in essential nutrition.

In recent years there has been a concerted effort to bring access to modest amounts of credit to low-income households around the world. The pioneer of this movement is Mohammed Yunis, who founded the Grameen Bank in Bangladesh in 1983 and who was awarded the Nobel Peace Prize in 2006. This bank specializes in making what are called micro-loans to very low-income women, using peer pressure among borrowers to ensure repayment. (Borrowers are combined into groups, and if one borrower fails to repay all are penalized.) This bank currently has almost seven million borrowers, and its model has been replicated around the world.

Micro-credit has proved to be a controversial topic among those who study poverty and economic development. Its supporters see it as a crucial first step toward giving the poor the resources to help themselves out of poverty, and they point to the crippling effect that lack of access to credit can have for those at the edge of survival. Critics are less impressed. They claim that the amount of credit involved is rarely enough to lift a family out of poverty, and that the end result may be only that, in addition to all the other burdens of poverty, the poor now find themselves having to pay off loans as well. Both sides may be right to some extent, but the better alternative to micro-loans might be even more access to credit, not less. At the same time, there are limits to the extent to which increased borrowing opportunities can make up for the lack of steady income.

4. Child labor. It is common to think of child labor as a consequence of poverty, but from a long run, multigenerational point of view, it is also a cause. This is an emotional topic for those on all sides of the debate, and there are many misconceptions to be cleared up.

First, not all work by children should be understood as “child labor”. The International Labor Organization, a part of the UN system specialized on labor issues, has promulgated a set of agreements (conventions) that specify the ages and types of labor that determine whether children should be counted as laborers. It is the combination of inappropriate work (too demanding or time-consuming) and inappropriate age that makes the difference. No reasonable person is saying that children should never do light work for money, much less normal household chores.

A recent ILO convention singles out the "worst forms" of child labor for immediate action; these include prostitution, soldiering, transporting contraband, coercive (bonded) labor and such dangerous activities as underground mining and working with toxic chemicals and heavy equipment.

In 2013 the ILO published its most recent estimates of the number of child laborers worldwide. It reports that 168 million can be put into this category under the terms of the relevant ILO conventions. Within this group, 85 million were thought to be in hazardous activities and several million more in the "unconditional worst forms" of prostitution, war, contraband and bonded work. These estimates were for the year 2012 and were based on household surveys administered with the assistance of the ILO.

A second misconception is that most child laborers work in factories making goods for sale in the shopping malls of rich countries. Of course, some child labor does take this form, but very little. About two-thirds of all child laborers are involved in agriculture, and the majority work for household enterprises—that is, their own parents. But there are misconceptions within misconceptions. Working in agriculture is not always the "natural", healthy life it is often pictured as, since it can mean working with dangerous equipment and chemicals, large animals and long, back-breaking hours. And parents, while usually well-meaning, can unintentionally expose their children to hazardous conditions due to a lack of sophistication in identifying health risks and a lack of money (credit) to improve work methods. Sadly, the sweatshops conscientious consumers in the rich countries worry about often provide better working conditions than the farms and small workshops most children are found in. (This does not exonerate the sweatshops, of course.)

A third misconception is that child labor is simply the product of poverty, and that it will disappear automatically, so to speak, as incomes rise. There is more than a grain of truth in this view, since child labor is a much greater problem in poor countries than rich ones, but it is also far too simple. The most important problem with this generalization is that countries with similar levels of average income can have very different rates of child labor, depending on the measures they've taken to combat it. We will consider some of these measures shortly. Also, since child labor is a cause of poverty, just as poverty is a cause of child labor, a wait-and-see attitude is not justified. Finally, there continues to be a child labor problem even in the wealthy countries, especially among at-risk groups like immigrants and discriminated-against minorities, so overall economic growth is not a sole answer.

Why does child labor reproduce poverty? The main reason is that it competes with education, which, as we have seen, is one of the most important contributors to economic progress. One has to be careful with this claim, however. Many children both work (even to the point of being child laborers) and go to school. Also, some children neither work nor go to school, so simply prohibiting children from working is not very productive. Sometimes families need the income brought in by some children to provide the resources for their brothers or sisters to get an education. Nevertheless, on average too much work reduces the likelihood of additional schooling, and child laborers tend to get lower grades and learn less when they

do attend class. It is above all for this reason that money spent to reduce child labor is an investment that will repay itself many times over.

A second potential negative effect of child labor is on other forms of human capital, especially physical and psychosocial health. Unfortunately, we have little systematic data regarding these impacts and have to rely mostly on impressionistic information. We have too many stories of children suffering muscular-skeletal disorders at an early age, reduced eyesight, respiratory diseases and similar problems to ignore their debilitating consequences. Similarly, too much work too soon can have the effect of narrowing a child's imagination or sense of personal potential, and this can just as surely lead to a lifetime of dull survival. As health and psychological realism become more influential in economics, we can expect more research into these aspects of child labor.

The most powerful intervention to reduce child labor is the payment of **conditional cash transfers** to low-income parents. These funds are intended to replace the earnings or other economic contributions of their children, and they come with a stipulation: children must actually attend school and perform well enough to continue moving through the system. (It is also common to require parents to bring their children to health clinics on a regular basis.) This approach was pioneered in Brazil, where it has had a dramatic impact on both child labor and education outcomes, and Mexico; now many countries in Latin America, Asia and sub-Saharan Africa have programs along similar lines. Expanding them, which is a problem of politics as well as financing, is the most important front in the struggle against child labor.

Meanwhile, the worst forms of child labor require the attention of economists, social workers and activists in local communities. Interventions take many forms, such as information programs for parents, technical and financial assistance to employers so they can make production more adult-oriented, and rehabilitation programs to help children overcome the aftereffects of harmful work. Perhaps the final misconception concerns these types of interventions: contrary to common portrayals in the popular press, policing and punishing employers, while sometimes necessary, is the last rather than the first line of defense. Many of the employers themselves face a difficult battle for survival in the informal economy and are not necessarily happy with the work they ask children to do for them.

Box 19.2: The Millennium Development Goals

A Millennium Declaration was signed by 147 governments at the United Nations Millennium Summit in September, 2000. It sets a 2015 deadline for achieving eight general goals:

1. Eradicate extreme poverty and hunger. Two targets: reduce by half the proportion of people living on less than a dollar a day, and reduce by half the proportion of people who suffer from hunger.
2. Achieve universal primary education. Target: ensure that all boys and girls complete a full course of primary schooling.

(continued)

Box 19.2 (continued)

3. Promote gender equality and empower women. Target: eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015.
4. Reduce child mortality. Target: reduce by two thirds the mortality rate among children under five.
5. Improve maternal health. Target: reduce by three quarters the maternal mortality ratio.
6. Combat HIV/AIDS, malaria and other diseases. Two targets: halt and begin to reverse the spread of HIV/AIDS, and halt and begin to reverse the incidence of malaria and other major diseases.
7. Ensure environmental sustainability. Three targets: integrate the principles of sustainable development into country policies and programs, reverse loss of environmental resources; reduce by half the proportion of people without sustainable access to safe drinking water; achieve significant improvement in lives of at least 100 million slum dwellers, by 2020.
8. Develop a global partnership for development. Seven targets: transparent and fair trading and financial systems; trade preferences, debt relief and development assistance for the least developed countries; recognize special needs of landlocked and small island states; long-term debt sustainability for all developing countries; decent and productive work for youth; providing access to affordable essential drugs in developing countries; making new technologies, especially in information and communication, more widely available. (Summary)

Are these goals too ambitious or not ambitious enough? Some criticize them for implicitly accepting too much poverty, even as they try to reduce its hardship. (There is no general call for poverty reduction except for the most destitute spending less than a dollar a day.) On the other hand, as of this writing the agreed-upon time allotted for achieving these goals is winding down, and insufficient progress has been made toward several of them.

This brief survey of the main contributors to mass poverty focuses on the economic side of the problem, especially the role of human capital. Just as important, however, is the political side, which has to do with the reasons why effective economic (and other) policies are not always implemented. Here there are two closely-related issues, the quality and character of political institutions and the political influence of the poor. You might think that these matters lie outside the scope of economics, but economists have studied them intensively in recent years, and in any case they are crucial to understanding why such a grave problem has continued to exist for so long.

To a considerable extent, the map of the world that shows us where mass poverty continues to exist coincides with the map of former colonies of the European powers with non-European majorities. Even though decades or even centuries have elapsed since the achievement of independence in these regions, evolution

towards democratic and rule-based political institutions has been limited, with too few exceptions. Government has often been what social scientists, borrowing from the lexicon of biology, call predatory: its principle function is to extract resources from society for the benefit of those with access to political power. Elections, when they occur, are frequently seen only as contests between rival groups seeking to benefit from this access. (Aspects of the competition for the spoils of power occur in all existing regimes, of course, but where it is the main activity of government the problem is really serious.) The intermediate levels of the political hierarchy in such systems are marked by relations of clientelism, networks of personal loyalty of underlings to those above them who supply patronage and protection.

It should be obvious that political systems in which patronage and corruption are widespread will not be effective mechanisms for implementing policies to combat poverty. Major areas of expense, like schools and roads, are seen as opportunities for enrichment for those with the right connections, so not enough money makes its way to the teachers and cement-mixers who do the actual work. There is widespread agreement that more resources need to be funneled into activities that promote the development of human capital, but it is not always clear how the money can get safely from those who now have it to those who need it. Unfortunately, the recognition of this problem by those who study development and poverty has not yet had much influence on the ostensibly "honest" governments and corporations in the developed world that continue to do business with, and in many cases intervene in support of, openly predatory regimes in poor countries.

Related to the problem of corruption and government predation is the tendency for political systems in developing countries to be indifferent to the needs of their poorest citizens. This should not come as a surprise, of course, since economic clout is a source of political power everywhere, and the poor by definition have the least. Nevertheless, the situation becomes dramatic when poverty is a mass phenomenon, and the needs of the poor are so vivid. In much of the world it remains the case that, whenever poor people organize for political or economic power, they are at risk of violent repression. Even in more liberal societies the poor generally have little access to communications media or established political parties.

Recognition of these difficulties has led to heightened interest in **NGO's** (non-governmental organizations) in recent years. Those providing money and expertise to development projects often see such voluntary groups as more reliable partners than the governments who are officially in charge of the region or issue. Thus, rather than work with a government forestry department, those promoting sustainable livelihoods for people living in forested areas might work with environmental or social organizations created by the local people themselves. This has had contradictory impacts on these NGO's. On the one hand, the infusion of outside resources, such as money from foreign sponsors, makes it easier to overcome the collective action problem and achieve effective cooperation, for reasons that should be apparent based on the analysis in Chap. 10. On the other, NGO's too can be corrupted by the sudden flow of money in regions where poverty is the norm, coming to resemble the governments to which they were originally an alternative.

Putting the two halves together, there is widespread agreement that addressing the challenge of mass poverty in the developing world requires progress on crafting policies, getting the money to pay for them and fostering democratic and honest social institutions that can administer them. Seeing this as an interconnected problem brings us once again to the capabilities argument laid out by Sen and Nussbaum. It would be tempting to divide Nussbaum's list (Box 19.1) into two groups, the "most urgent" capabilities having to do with life, health and access to credit and employment, and then a second "when we get around to it" group focusing on social and political life. Experience shows, however, that without the second there is little hope for the first. This holistic approach to combating poverty has become the dominant view—but on-the-ground implementation still requires attention to all the details of information-gathering and analysis, and the use of economic and other social science techniques to improve policies and organizational performance.

19.3 Poverty Among Riches

As we saw in Table 19.3, poverty has not disappeared from the upper-income countries. There are large differences in their overall poverty rates, however, and in the poverty trends over time and among particular demographic and social groups—and the purpose for having theories about poverty is to explain these facts and suggest remedies. This is a tall order, one we can only begin to address in the pages to come.

As before, our exemplar will be the United States, which has the highest poverty rates of any wealthy country. Our measurement approach will be absolute poverty, using the much-debated official poverty line developed in the 1960s and since updated. This almost certainly underestimates true US poverty, but it is convenient for our purposes, since the government provides a wealth of data based on it. We can begin with the overall time trend, as presented in Fig. 19.1.

The first big story is the dramatic reduction in poverty between 1959 and 1968, as the economy grew quickly—the 1960s was the best single decade for US economic growth—and as the programs from the "War on Poverty" (a set of government anti-poverty programs) were put into place. Income growth during those years were tilted toward the bottom: those earning least at the end of the 1950s saw their incomes grow faster than those at the top.

The second, less satisfying story, is that progress has essentially ended during the four decades following 1968; in fact, there have been substantial periods in which the rate of poverty has actually increased. Rapid economic growth during the late 1990s was the only bright spot during this long episode. In general, economic growth has tilted away from the poor, and, with a few exceptions we will note briefly, new government programs were not forthcoming.

As for the ethnic and racial composition of poverty, Table 19.5 sends mixed signals:

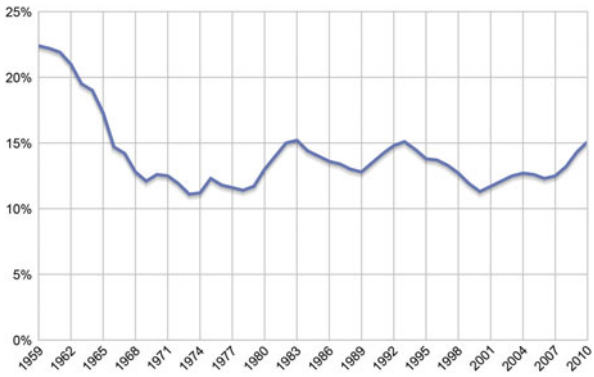

Fig. 19.1 Percent of US population living in poverty, 1959–2010. (*Source*: Economic Policy Institute)

Table 19.5 Hispanic and Black poverty rates as a multiple of White rates, 1973–2010. (US)

	1973	1980	1990	2000	2005	2010
Hispanic/White	2.9	2.8	3.2	2.9	2.6	2.7
Black/White	4.2	3.6	3.6	3.0	3.0	2.8

Source: Economic Policy Institute

On the one hand, there has been noticeable progress in reducing the disparities, especially between Blacks and Whites. On the other, the poverty rate for both minority groups (which are overlapping, since many Hispanics are also classified as Black) remains more than twice as high as for Whites, surely an unacceptable situation. Why these inequalities persist, and what we can do about them, is a major area of disagreement in the study of poverty.

So let's turn to the explanations. There are two major schools of thought in this field. One holds that the main explanation for poverty lies in the characteristics of the poor themselves. If the poor were like the rest of the population, according to this view, poverty would largely disappear. The other is that it is the inequality of the reward structure—too many low-wage or insecure jobs, too much unemployment—that constitutes the true cause of poverty, and that changing this situation, rather than changing the poor, is the key to progress. We will look at each in turn.

1. The poor are the problem. Poor people are not a random cross-section of the population; they are disproportionately less educated, in poorer health, have less job experience, more likely to have children (or be children), and more likely to be single mothers raising families on their own. They are also more likely, as we have seen, to be Black or Hispanic, but a large part of that racial or ethnic effect is actually attributable to these other differences of human capital, position in the labor market and family status. (But it should not be assumed that these "other" differences are not themselves the result of discrimination, as was pointed out in the previous chapter.) If the various social and economic characteristics of the poor could be changed, maybe they would find ways to extricate themselves from poverty.

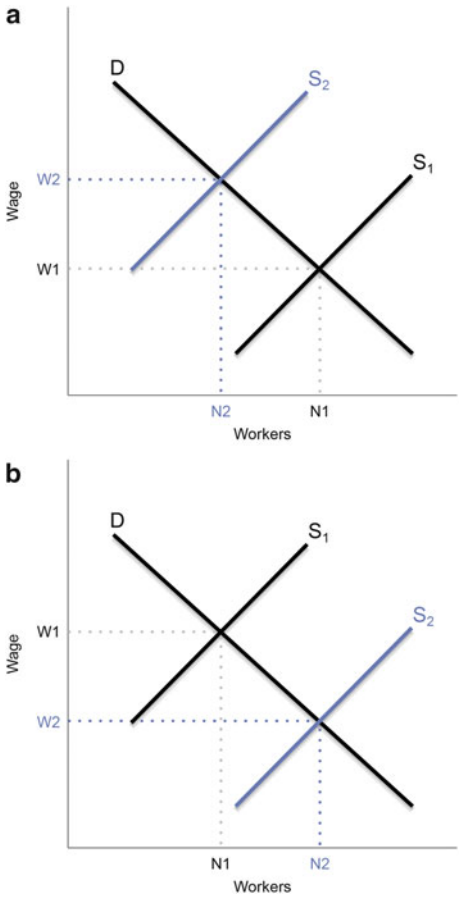

Fig. 19.2 Shifts in wages and employment for low- and high-skill jobs due to shifts in supply. (**a**) In the market for low-skilled jobs, the supply of low-qualified workers declines from S_1 to S_2, leading to fewer jobs (N_1-N_2) at a higher wage (W_2-W_1). (**b**) In the market for high-skilled jobs, the supply of highly-qualified workers increases from S_1 to S_2, leading to more employment (N_2) but at a lower wage (W_2)

There is a logical basis for this hope, drawn from the supply-and-demand model of the labor market. Suppose there are two types of jobs, low-skill and high-skill, and two types of workers, low-qualified and high-qualified. "Qualification" in this context can be thought of as a combination of a good educational background, good health, productive work skills and other attributes that might make the worker a suitable candidate for the high-skill job. Let's see what happens over two time periods. In the first, few workers are highly-qualified; in the second a large number of low-qualification workers are moved into the high-qualification camp. If there is no change in the labor demand curves for the two kinds of jobs, and if supply and demand in the labor market are equalized at an equilibrium wage, Fig. 19.2a, b show us what will happen.

In the market for low-skilled jobs, employment would shrink, while wages would rise. Workers whose qualifications had improved would shift to the market for high-skilled jobs, where employment would increase. While there would be a decline in wages for the higher-skilled workers, workers as a group (high- and

low-qualifications combined) would benefit, since more would be working at the better jobs. Depending on how large the wage increase would be in the low-skilled labor market, poverty could be reduced or even eliminated. (Elimination would depend on the rate of unemployment at equilibrium, where the number of unfilled jobs approaches the number of workers looking for jobs, and on the provision of programs to provide benefits to unemployed workers.) As we have already seen in Chap. 16, few economists today regard the simple model behind Fig. 19.2 as an adequate description of how labor markets really work, but some think its main insights are still valid. Even if wages and employment are not quite predictable in this way, surely there must be *some* effect of changes in labor supply along these lines.

Let's take a closer look at some of the characteristics of "low qualification". One of the most important is education. Adults with no more than a high school education are about twice as likely as the more educated portion of the population to be earning low wages that put them at risk of being in poverty. This ratio becomes about three-to-one when we look only at high school dropouts. It makes intuitive sense that, in an economy that has continued to become more technologically sophisticated, those without a strong educational background would be at a disadvantage.

Another factor is health. A recent study found that in 1997, whereas only 6 % of those who reported no disabilities lived in poverty (according to the official poverty line), 12 % of those who said that they had difficulty in at least one area of physical functioning were poor, and this figure rose to 23 % for those who said they couldn't perform at least one such function on their own. This strong relationship between disability and poverty exists despite government programs, like Social Security, that provide income to disabled people. Ill health is also a major determinant of household bankruptcy in the United States.

A set of factors that have attracted increasing attention are combined under the term "social capital"; all of them have to do with the community environments poor people are exposed to. The effects are most apparent in neighborhoods where at least 40 % of the inhabitants are poor. Over one in ten poor people in the United States live in concentrated poverty areas like this; the fraction is almost twice as high for poor Blacks. Similar neighborhoods, where concentrated poverty and racial or ethnic segregation reinforce each other, can be found in other high-income countries, like Britain and France. Negative effects of this situation include:

- Poor schools: these neighborhoods usually have worse schools, despite having higher percentages of students with special needs. Test scores in reading and math are nearly always lower and dropout rates higher.
- Poor social services: essential services like police, fire protection, trash collection and emergency medical care are frequently substandard. The residents of these neighborhoods have less clout with the political and other power centers that decide where resources will be allocated.
- Poor employment options. Because social problems are severe and social services insufficient, businesses are reluctant to locate in such communities.

Often the better job opportunities are far away, and not easily reached by public transportation.

- Poor job networks. A large percentage of jobs are acquired through networks of friends and family. When an entire community is "out of the loop" economically, individuals will have no way to find out where the best opportunities are.
- Lack of role models. People acquire study and work habits largely as a result of the influence of those around them, their reference group. If you don't know people who have benefitted from hard work and a long time horizon, you will be less likely to take on those traits yourself.

Research has found some support for each of these, but we should be careful not to read too much into them. Many superb students emerge from poverty-stricken schools, and most poor people show a capacity for very hard work. (The poor may well work harder than the rich on average.) Moreover, most poor people do not live in areas of high poverty concentration.

The final, and most controversial, factor we will look at is the tendency for many single mothers to end up in poverty. Figure 19.3 on the next page shows the likelihood of single mothers in the US with children under the age of 18 being in poverty as a multiple of the poverty rate for married couples, also with children of this age range.

To interpret this chart, consider how it is calculated. In 1974, for example, 6.0 % of married couples with children were in poverty, but 43.7 % of single mothers were. This gives us a multiple of approximately 7.3, a measure of the relatively greater poverty risk associated with being a woman with children, and not sharing their care and support with a married (male) partner. When put this way, it is clear that both of these characteristics provides an important part of the risk: women earn less than men and bearing the burden of raising children alone is even more difficult.

Figure 19.3 demonstrates that being an unmarried mother is a considerable economic risk, but one that has been slowly declining over the past three decades as discrimination against women in the labor market has diminished and as childcare opportunities have expanded. (The composition of the single mom group has also changed in the direction of those in a better socioeconomic position.) The biggest improvements occurred during the period 1978–1985, however, and progress has largely stalled since then.

For some, the big story is that these women have children and yet are unmarried. In their view, the best anti-poverty policies would be those that discourage childbearing outside of marriage and encourage marriage for those with children. It is not clear how these objectives could be realized, however. It is difficult to regulate sexual behavior, and bad marriages can be more harmful than no marriages at all. Nevertheless, it is the case that many men could do more to support the children they are responsible for, and that efforts to encourage them to take a bigger role should be explored.

For others, the problem is the bind that women with children face in an unsupportive society. As we have seen, despite an encouraging trend, women still

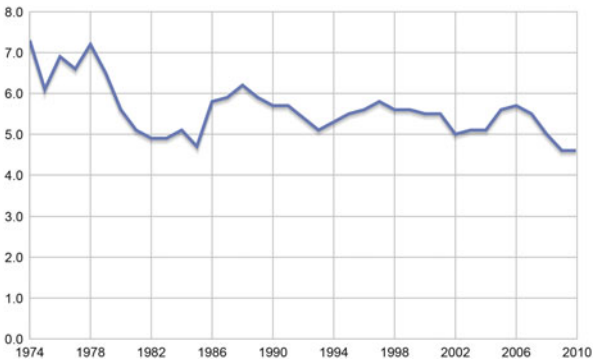

Fig. 19.3 Ratio of the percentage of single mothers to married couples in poverty, both with children under 18, US, 1974–2010. (*Source*: Economic Policy Institute)

earn less than men on average, and the sorts of jobs that many low-income women tend to have—jobs that are predominantly female in composition—pay less, like childcare workers and nursing home attendants. Few jobs, except those for highly-trained managers and professionals, are likely to offer the flexibility that parents need, as children do not get sick only on holidays. Paid childcare, despite the low wages of the child-minding workforce, tends to be expensive. These factors add up to create a great challenge for women raising children alone.

Policy ideas stemming from the overall perspective we have been considering, that the characteristics of the poor are the problem that needs to be addressed, follow from the diagnoses. Some of these are:

- Investments in education. More programs to help at-risk children succeed at school have been called for. Research shows that interventions at an early age, even before first grade, are especially effective. Recent initiatives to withdraw funding from schools with poorly-performing students have been controversial, however.
- Encouraging work. There has been an international trend toward altering benefit programs to push poor recipients into paid employment. This has been most pronounced in the US, where changes in the system during the Clinton administration have cut benefits substantially, with the loss being made up by more hours of work. Some public benefits are now directly tied to work hours, such as the Earned Income Tax Credit.
- Childcare benefits. To make it easier for single mothers in particular to enter the labor force, there is now a trend toward payments to compensate for the cost of paid childcare. The country that has gone the furthest in this direction is France, where public childcare programs are available for the majority of parents, whether male or female, single or in couples.
- Residential desegregation. Neighborhoods with highly concentrated poverty are often the result of racial segregation. Programs that encourage this segregation, such as certain types of zoning and home ownership subsidies, could be cut back. There could be stronger enforcement of laws prohibiting discrimination in housing and bank lending, and low income families could be given vouchers

that they could spend on housing in any location they choose. By breaking up high-poverty neighborhoods, the effects of insufficient social capital could be reduced.

2. The distribution of income and wealth is the problem. Proponents of this view sometimes use the following parable. Consider the children's game, musical chairs, in which a group of children walk around a number of chairs as music is being played. When the music stops the children must find a chair to sit in, but there are fewer chairs than children. Those who are unable to find a chair in time leave the game. A few more chairs are removed, and the next round begins. The game continues until there is just one chair and one winner.

One could imagine that, if the stakes were higher—if significant money or other rewards were involved—programs might be set up to help the children who had the most difficulty getting to a chair. We could improve their reaction times, their ability to see quickly which chairs are empty, their speed at darting to a seat. In this way we could help particular children compete more effectively in musical chairs, but what we couldn't do is change the number of losers in each round, since this is determined by the number of chairs compared to the number of children. The game is set up to systematically exclude players each round, and this is true even if the same children seem to do worse each time the game is played. Those who see only which children are slower or faster and fail to recognize the structure of the game as a whole would be missing the most important factor.

For many observers, this is the story with much of our research and policy concerning poverty in wealthy countries. True, some people are much more likely than others to end up poor, but while their characteristics may explain why they, rather than some others, are the ones who end up on the bottom, they don't explain why the bottom exists in the first place. According to this view, many "anti-poverty programs" serve only to shift poverty from some groups to others.

How reasonable is this position? In its support, we can cite the inequality data we examined in the last chapter. In less regulated economies like the US, as many as a quarter of all available jobs put their holders at risk of being poor; the percentage is much lower in the more regulated economies of western Europe, but even there it is believed to be growing. Unemployment presents a starker picture yet. As we will see in the next volume, policy-makers have been willing to accept unemployment rates far beyond the level that would produce a relatively equal numbers of workers seeking jobs and jobs seeking workers as portrayed by the Beveridge Curve. Whether this is a good idea is something we will explore when we discuss the topic in detail, but for now the point is that, if a particular level of excess unemployment is regarded as acceptable, some people must be in the position of not having work. Unless there are generous public programs to provide other forms of income, they are quite likely to be in poverty. Improving the job-hunting skills of the unemployed will not help much if the unemployment rate as a whole is kept at a high level.

On the other hand, the musical chairs analogy is too extreme. The number of chairs in our economies—the number of jobs that pay wages above the poverty level—is not controlled by some sadistic game director. It is the outcome of

millions of decisions by workers, employers, borrowers, lenders and consumers, as well as by policies set by governments and the pressures of civil society organizations. The qualifications of low-income adults are part of this complex system, and if they are changed, the number of good jobs should change too. The model behind Fig. 19.3 may exaggerate this effect, but the effect is not likely to be zero.

From the standpoint of the structural view of poverty, the important question is, what factors tend to promote the shift toward low-wage work? There is a large international body of research on this topic, but the center of attention has been the US, where the shift has been most pronounced. While there is dispute about the precise size of the different influences, most researchers agree on a common set:

- The erosion of minimum wage regulations. The minimum wage set by the Federal Government has not kept up with either inflation or the rise in average wages, so it is possible for the worst-paying jobs to pay that much less. Women workers have been affected by this process to a greater extent than men.
- The declining power of unions. Fewer workers in the US are members of unions, as we saw in Chap. 16, and the bargaining power of unionized workers has steadily diminished. This has removed an important protection at the bottom end of the labor market. The wages of men and especially Black men have been disproportionately affected by this trend.
- Deregulation. Some industries, like trucking and communications, used to be closely regulated by the government and are now largely deregulated. The increased competition has intensified pressure on employers to hold down labor costs, and one result is that more jobs in these sectors pay poverty-level wages.
- Global competition. Workers in the higher-income countries increasingly find themselves in competition with workers in the developing world. One consequence is that employers can use the threat of relocation to increase their bargaining power with their workforce. In addition, many of the jobs that used to pay relatively higher wages to less-qualified workers in the developed world have vanished. (This has been due to changes in technology as well as the global relocation of production.) In a simple supply and demand model, this would be represented by a shift in the labor demand curve for these workers to the left, reducing their wages and employment prospects. Also, immigration may have played a role in heightening competition and lowering wages in some portions of the labor market in developed countries, although this is an area of intense controversy.

Policy, from this perspective, should center on changing the structure of the economy as it results from these and other factors. The goal would be to promote greater equality in wages and incomes, especially at the lower end of the distribution. Indirectly, it is hoped that this will also provide greater incentives for those currently mired in poverty to put more effort into work and school, since the rewards will be seen as worth it. Currently on the agenda are measures such as:

- Living wage ordinances. Proponents feel that the national minimum wage in the US is so far below what is required that local initiatives will be needed to make

up the difference. Cities and states have been encouraged to mandate "living wages" linked to the official poverty line; full-time workers at such a wage would no longer be at risk of living in poverty. Sometimes the laws are directed at particular employers, such as those who do business with government or operate in a particular sector, like retail sales.

- Labor law reform. Existing labor laws are viewed by many as putting excessive barriers in front of workers wishing to form unions and providing too little clout if they succeed. Reform measures include simplifying the process by which a majority of a company's workforce chooses a union, allowing union membership on an individual basis (whether or not a majority of coworkers agree), and increasing penalties on employers who violate existing rules.
- **Comparable worth**. This would extend anti-discrimination statutes to require that jobs of comparable economic value pay comparable wages irrespective of whether those who hold them are predominantly male or female. This would particularly improve the earnings of single mothers, but critics fear that administering the law would interfere too much on the prerogatives of employers.
- Managed trade. Various proposals have been put forward to moderate international competition in labor markets. They include the incorporation of labor standards, such as the freedom to join unions, in international trade agreements and measures to prevent highly unbalanced trade, so that job gains and losses from trade are not too unequal.

Both views, that the poor are the problem and that the structure of the economy is the problem, have been presented in rather exaggerated terms, as if one could put all the weight on just one side or the other. Both have to be at least partially true, although the extent and severity of poverty may be due more to one than the other. Since political and economic resources are not infinite, choices have to be made about which factors are the most important, so presenting them as opposite sides of an argument is probably justified.

One last point should also be made: up to now, we have reviewed the various forces that might be responsible for the level of poverty found in the higher-income countries with an eye toward policies that could reduce it. Nevertheless, whatever the level of poverty generated by low wages or unemployment, it is possible to offset it through direct income transfers. These can take the form of progressive taxes which gather more revenues from those earning the highest incomes and public assistance programs that make payments to those at the bottom. These are sometimes seen as an alternative to programs that would reduce poverty generated in the private economy. It should be noted, however, that tax and assistance programs are not without their own effects on markets, and that the cost of these programs depends on the amount of poverty markets generate. Thus, while income transfers can moderate the effect of poverty, they are not a substitute for policies that target the factors that determine how much of this poverty there will be.

The Main Points

1. The simplest measure of poverty is expected years of life. Countries and communities with high levels of poverty have shorter average expected lifespans.
2. There are two main approaches to defining poverty. Relative poverty is defined as income falling below some proportion of the median, for instance incomes less than half the median. Absolute poverty is measured in relation to the cost of a bundle of goods and services believed to constitute a minimum for adequate well-being; those whose income is insufficient to buy this bundle are defined as poor. Absolute poverty is most appropriate for developing countries, where $1.25 and $2.00 per day (in purchasing power parity dollars) are commonly used poverty lines; relative poverty is a better indicator for higher-income countries. The capabilities approach of Sen and Nussbaum combines elements of both absolute and relative indicators.
3. Mass poverty is a fundamental problem across the world, affecting billions of people. It is a product of insufficient economic growth as well as the maldistribution of the gains from growth. Contributing factors include ill-health, lack of education, little access to credit and widespread child labor. The majority of child laborers work in agriculture, in household enterprises; even so, their work often disrupts education and may leave long-lasting physical or psychological scars. In recent years there has been a large increase in the number of countries with income transfer programs under which poor households are given a regular stipend, usually in return for fulfilling education and health obligations toward their children.
4. Much of the effort against extreme poverty is summed up in the Millennium Development Goals, which set numerical targets in eight broad areas, such as health, nutrition, hygiene and education. These goals were selected to achieve a consensus among international organizations, national governments and large NGO's. The deadline is 2015; a few of these goals have already been met and several may be met soon, but others are now out of reach. Planning is under way for a new set of goals for the post-2015 world. At the same time, there is recognition that it is not enough to have a desirable set of goals; the responsiveness and integrity of governments is needed to implement them.
5. Poverty persists in upper-income countries as well, particularly in the United States. Little progress has been made since the "War on Poverty" of the 1960s. There is considerable disagreement among economists who try to explain this. Some see the main barriers resulting from the characteristics and behavior of poor people themselves—their lack of education, generally poorer health, lack of social capital, and the extent of female-headed households. These analysts tend to favor programs such as increased investment in education, changes in how school systems are run, greater financial incentives for accepting low-wage work (or penalties for refusing it), and efforts to break up segregated neighborhoods in order to build social capital among the poor.

6. Others emphasize the effects that changes in the economy have had on those vulnerable to poverty—continuing racial and gender discrimination, the lack of public support for children, and the general increase in the inequality of earnings, particularly as it is reflected in the expansion of the low-wage portion of the labor market. Policies inspired by this view include increases in the minimum wage, changes in labor law to reduce the barriers to unionization, tighter restrictions on discrimination, and measures to moderate the competitive pressures on the labor market stemming from international trade.

► Terms to Define

Absolute poverty
Comparable worth
Conditional income transfers
Disability adjusted life year
NGO's
Poverty line
Quality adjusted life year
Relative poverty

Questions to Discuss

1. Try to imagine yourself as a typical person living in ancient Greece or China. How would your way of life be affected by your expected lifespan? In particular, how would this affect the sorts of choices you would be likely to make regarding the age to begin full-time work, the investments you would make in the construction of buildings and tools, and in the other aspects of life we now regard as "economic"?
2. How would you define poverty as it might apply to yourself? That is, on what basis would you decide whether you should be regarded as being poor in the present or at any future time? Do you think a relative or absolute standard is more appropriate for answering this question? Why?
3. Would it be possible to remove any of Martha Nussbaum's ten capabilities without harming the rest? To put the question somewhat differently, is it necessary that all of them be fulfilled concurrently, or might it be possible to put some on a fast track and get to the others at a later time? Why?
4. One of the difficult questions facing global public health policy is how to set priorities for the allocation of limited resources. One could imagine four different criteria: minimizing deaths, minimizing loss of DALY's, minimizing loss of QALY's, and minimizing the negative impacts of poor health on economic growth. Which of these would you favor? Why?
5. Based on the brief survey of factors associated with mass poverty, what is your assessment of the Millennium Development Goals? Do they include targets that are of lesser importance? Do they leave out anything you would view as

essential? What can be done to make it more likely that these goals will actually be achieved?

6. Throughout history, children have always worked at the most demanding jobs they were capable of, at the earliest possible age. Only in recent decades have we come to see child labor as a problem. How would you reconcile these two facts? Was child labor a problem in the past, but unrecognized? Or is it less a problem today than commonly thought? In your answer you should try to be explicit about the opportunity costs of child labor and also the costs of removing children from work.
7. Do the citizens of wealthy countries have an obligation to provide funding to help meet the Millennium and other development goals? On what do you base your answer? If your answer is yes, what would be a reasonable percentage of national income that should be put into development funds? How does this compare to the amounts currently being spent?
8. How much weight would you give to the characteristics-of-the-poor versus the structure-of-the-economy approaches to explaining poverty in the US and other developed countries? Which factors on each side do you regard as most important? Why? Do you have any personal experience or know anyone who has had experience that supports or undermines one of these arguments?