



25 Measuring and Evaluating Poverty

CHAPTER SUMMARY

This chapter examined the evaluation of thinking around poverty, the main approaches to poverty measurement, and the importance of poverty measurement for policy. It is evident that poverty is a fluid concept and that its meaning differs depending on time, place, and group under consideration. Monetary poverty and multi-dimensional poverty represent two broad but main categories of poverty measurement. While monetary poverty measurement has dominated development discourse until recently (and some may argue it still does), multi-dimensional poverty measurement has gained prominence and is now considered a viable or preferred alternative by some. Ultimately, poverty is in the “eye of the beholder”: different approaches to poverty measurement suggest different magnitudes of the problem and identify different groups as being poor. Complementary and comprehensive poverty measurement is therefore essential for gaining insight into the reality on the ground and allowing for the formulation of adequate and appropriate policies.

VIDEO RESOURCES

Silver Donald Cameron. Bhutan: The Pursuit of Gross National Happiness

<https://www.youtube.com/watch?v=1CLJwYW6-Ao>

Time 16:56

Silver Donald Cameron is the host and executive producer of the ambitious environmental web site TheGreenInterview.com. He is also the author of numerous plays, films, radio and TV scripts, an extensive body of corporate and governmental writing, innumerable magazine articles, and 17 books. In The Green Interview, Silver Donald conducts in-depth interviews with leading environmental figures from around the world.

What is “Gross National Happiness”?

<https://www.youtube.com/watch?v=7Zqdqa4YNvI>

Time 3:29

“Gross National Happiness” is explained in three minutes.

Human Development Index

<https://www.youtube.com/watch?v=BF9Mn85O1YI>

Time 12:25

This topic video looks at the Human Development Index published each year by the UN Development Programme. It includes data from the 2015 HDI including adjustments for gender and income inequality.

Do World Bank Loans Help Poor Countries or Aggravate Poverty?

<https://www.youtube.com/watch?v=3EmbJqqzIuE>

Time 2:02:26

The World Bank has long been criticized by non-governmental organizations, such as the indigenous rights group Survival International, and academics. This included its former Chief Economist Joseph Stiglitz, Henry Hazlitt and Ludwig Von Mises. Henry Hazlitt argued that the World Bank along with the monetary system it was designed within would promote world inflation and “a world in which international trade is State-dominated” when they were being advocated. Stiglitz argued that the so-called free market reform policies which the Bank advocates are often harmful to economic development if implemented badly, too quickly (“shock therapy”), in the wrong sequence or in weak, uncompetitive economies.

One of the strongest criticisms of the World Bank has been the way in which it is governed. While the World Bank represents 188 countries, it is run by a small number of economically powerful countries. These countries (which also provide most of the institution's funding) choose the leadership and senior management of the World Bank, and so their interests dominate the bank. Titus Alexander argues that the unequal voting power of western countries and the World Bank's role in developing countries makes it similar to the South African Development Bank under apartheid, and therefore a pillar of global apartheid.

Lorenz Curve and Gini Coefficient

<https://www.youtube.com/watch?v=yN1alTAMo3w>

Time 4:49

Income Inequality can be measured graphically by a Lorenz Curve or mathematically using the Gini Coefficient. This video explains how both of these work.

How Is Poverty Measured?

<https://www.youtube.com/watch?v=mFHctW3zQgg>

Time 3:13

This three minute video explains the methodology that we used, how it works and why it is important.

REVIEW QUESTIONS

1. What is Amartya Sen's account of poverty?
2. Discuss the monetary poverty.
3. Discuss the food poverty line.
4. What is the "Big Mac Index"? Explain it briefly but clearly.
5. Discuss Amartya Sen's capability approach.
6. Explain briefly individual poverty measure.
7. Describe in brief the conceptual and normative dissonance between monetary and multi-dimensional poverty approaches.

ANSWER KEY: REVIEW QUESTIONS

1. Amartya Sen argued that poverty is not all about income or living standards but rather about having the capabilities to achieve and live the lives that people value. His “capability approach” and its influence on thinking about development and poverty reduction were so ground breaking that he was awarded the Nobel Prize in Economics in 1998. In terms of poverty measurement, it inspired wider thinking around multi-dimensional poverty and the notion that poverty is a broader concept and should include more indicators for it to capture all the different elements. (pp. 483–484)
2. Monetary poverty remains the most prominent approach in measuring poverty (Sumner, 2007) and is based on a number of assumptions about how monetary resources can be translated into fulfillment of basic needs. What makes the monetary approach so appealing is its intuitive nature and that the use of money as the main indicator makes for a very versatile measure that can provide information about the number of people living in poverty but also about how poor they are and where they are (p. 484).
3. Five basic steps are required to set the food poverty line: First, a “poor” reference group is selected, which, in the present case, is the second quartile (25 per cent) of the consumption distribution, i.e. the bottom 25–50 per cent. Second, the number of calories consumed by this reference group is calculated. This step requires information on the quantities of food items consumed and the caloric content of these food items. Third, the minimum required caloric intake is calculated for different population groups based on nutritional norms. In Myanmar, different calorie requirements have been set for males, females, children and urban/rural dwellers. Fourth, the food actually consumed by the reference group is “scaled up or down” until it reaches the minimum required level of caloric intake. In practice, this means that the “basket” of foods consumed stays the same but the level is increased or decreased. Finally, the cost of this new scaled food basket is calculated, and represents the food poverty line. It should be noted that the “food poverty” line is very meagre indeed. It represents the amount required to meet caloric requirements assuming that all household income is spent on food. As such, it represents a level of extreme hardship (p. 486).
4. A simplified and more intuitive version of PPP exchange rates is the “Big Mac Index.” The Big Mac Index was invented by The Economist in 1986 as a light-hearted and simplified version of the PPP principle, calculating the price of a highly standardized product—the Big Mac—in US dollars using market exchange rates. The Big Mac PPP exchange rate between two countries is obtained by dividing the price of a Big Mac in one country (in its currency) by the price of a Big Mac in another country (in its currency). This value is then compared with the actual exchange rate; if it is lower, then the first currency is under-valued (according to PPP theory) compared with the second, and conversely, if it is higher, then the first currency is over-valued (p. 487).
5. While the capability approach originates from the 1970s, Amartya Sen’s *Development as Freedom* (1999) provides helpful insight into the meaning of the approach. He specifically sets the capability approach apart from the monetary approach by stating that the “capability approach” addresses poverty as “the deprivation of basic capabilities rather than merely as lowness of incomes.” The space it operates in is “that of the substantive freedoms—the capabilities—to choose a life that one has reason to value” (Sen, 1999: 74). Capabilities thus refer to being able to do or be according to someone’s values, thereby taking into account a complex combination of an individual’s set of valued choices and degree of freedom and agency to act upon such choices. Sen writes that “[c]apability is thus a kind of freedom: the substantive freedom to achieve . . . various lifestyles. For example, an affluent person who fasts may have the same functioning achievement in terms of eating . . . as a destitute person who is forced to starve, but

the first person does have a different ‘capability set’ than the second (the first can choose to eat well and be well nourished in a way the second cannot”(Sen, 1999: 75). Given the focus on individual values and freedom to live up to such values, Sen has always been opposed to formulating a universal set of capabilities. Other scholars operationalizing the capability approach, most notably Martha Nussbaum, advocate a more prescriptive approach that includes the establishment of context-specific lists of basic capabilities.

6. One of the criticisms of the monetary approach is that income is measured at the household level and that assumptions are made about the extent to which this is shared within the household and poverty is distributed across household members. This is of particular concern when considering the situation of vulnerable groups such as children and women. Although widely expressed with respect to monetary approaches, this critique also holds for many multi-dimensional approaches to poverty measurement, including the MPI, as indicators refer to issues at the household rather than individual level. The Individual Deprivation Measure (IDM) was developed to address this shortcoming and particularly to give insight into differences in multi-dimensional poverty across gender. It does so by including mostly indicators that are measured at the individual level, such as those related to health care, clothing, personal care and hygiene, and freedom from violence. Such a measure presents an improvement in terms of capturing poverty status at the individual level but poses challenges in terms of data availability because many of the indicators are not available in current data sets.
7. Conceptual and normative dissonance between monetary and multi-dimensional poverty approaches is increasingly corroborated by empirical findings. The evidence base regarding incongruent outcomes when using different measures is rapidly expanding. Studies investigating the mismatch of poverty outcomes often explore two elements, namely, the extent to which measures report different headcount rates and to what extent they identify different groups as being poor or deprived. Findings from existing studies largely suggest that the use of monetary and multi-dimensional measures results in different pictures of poverty, pointing towards a modest, even limited, overlap of results. Evidence originates from high-income countries and low- and middle-income country settings, and indicates that monetary and multi-dimensional poverty measures do in fact lead to different headcount rates and that these different approaches identify different groups as being poor. Such differences are exemplified even further when asking people about their own experiences of living in poverty. (p. 493)