

Measuring Poverty:

Poverty is a state or condition in which an individual lacks the financial resources and essentials for a basic standard of living. Poverty can have diverse environmental, legal, social, economic, and political causes and effect. When evaluating poverty in statistics or economics there are two main measures: *absolute poverty* which compares income against the amount needed to meet basic personal needs, such as food, clothing, and shelter; secondly, *relative poverty* measures when a person cannot meet a minimum level of living standards, compared to others in the same time and place. The definition of *relative poverty* varies from one country to another, or from one society to another.

There are several definitions of poverty depending on the context of the situation it is placed in. It usually references a state or condition in which a person or community lacks the financial resources and essentials for a basic standard of living.

United Nations: Poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to, not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living in marginal or fragile environments, without access to clean water or sanitation.

World Bank: Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life.

European Union (EU): Poverty is measured in relation to the distribution of income in each member country using relative income poverty lines.

Causes of poverty:

Poverty is caused by a complex, interlocking set of factors including lack of access to quality education, healthcare, and financial services, alongside systemic issues like inequality, corruption, conflict, and climate-induced disasters. It is maintained by low wages, high unemployment, and inadequate infrastructure, often creating a cycle where hunger and malnutrition diminish productivity.

Here are the primary causes of poverty:

1. Economic Factors:

- **Low Wages and Unemployment:** Insufficient income from employment or a lack of job opportunities keeps families in poverty.
- **Inequality:** Unequal distribution of income and resources, where a small percentage of the population controls the majority of wealth, limits opportunities for the poor.
- **Lack of Infrastructure:** Poor public works, such as inadequate transportation, sanitation, and communication systems, limit economic growth.
- **Inflation:** Rising prices for basic necessities, such as food and fuel, can make them unaffordable for low-income households.

2. Social and Structural Barriers

- **Lack of Education/Illiteracy:** Limited access to quality education restricts job opportunities and keeps individuals in low-paying work.
- **Poor Healthcare Systems:** Lack of access to medical care and high medical expenses can exhaust savings and lead to debt.

- **Discrimination and Social Exclusion:** Marginalization based on caste, gender, or social status restricts access to resources, education, and employment.
- **Population Growth:** Rapid population growth, particularly in developing regions, can strain resources and infrastructure.

3. Environmental and Geopolitical Factors

- **Climate Change and Natural Disasters:** Floods, droughts, and other disasters destroy homes, crops, and livelihoods, particularly affecting those relying on agriculture.
- **Conflict and Instability:** War and violence destroy infrastructure, displace populations, and halt economic activity.
- **Corruption:** Weak governance and corruption hinder the effective implementation of poverty alleviation programs.

The Poverty Cycle:

- **Hunger and Malnutrition:** Poor nutrition leads to poor health, which reduces the ability to work or attend school, perpetuating the cycle.
- **Lack of Assets:** A lack of savings, land, or other assets means people cannot recover from economic shocks or disasters.

Poverty line:

Poverty is primarily measured by defining a "**poverty line**".

The **poverty line** represents the minimum income or consumption level required to meet basic needs like food, clothing, shelter, health, and education.

It varies by country and time, with India traditionally using nutrition-based, per-capita expenditure thresholds (e.g., Tendulkar/Rangarajan committees), while the World Bank uses an international standard of \$3/day for extreme poverty.

Measurement: Poverty measurement is critical for targeting aid and evaluating policies, but it can vary significantly across different times and countries.

A common method used to estimate poverty in India is based on the **income or consumption** levels and if the income or consumption falls below a given minimum level, then the household is said to be **Below the Poverty Line (BPL)**.

Poverty Estimation in India:

- According to recent reports, more than a quarter of the population living in rural areas of India is below the poverty line. Out of the total population living in the rural parts of India, **25.7%** is living below the poverty line whereas in the urban areas, the situation is a bit better with **13.7%** of the population living below the poverty line.

In India, the Planning Commission (now NITI Aayog) previously used NSSO consumption data to set poverty lines. Current discussions often reference Tendulkar (₹816/month rural, ₹1,000/month urban, 2011-12) or higher Rangarajan estimates.

The international poverty line, which is used to measure extreme poverty in low-income economies, is set today at \$3.00 per person per day. According to the latest data, around 1 in 10 people globally are estimated to be living in extreme poverty, a significant share of whom are in Sub-Saharan Africa or fragile and conflict-affected situations.

Absolute Poverty

- **Absolute Poverty:** According to **United Nations World Summit for Economic Development**, absolute poverty is a condition characterized by **severe deprivation of basic human needs**, including food, safe drinking water, sanitation facilities, health, shelter, education and information.

Absolute poverty, often synonymous with 'extreme poverty' or 'abject poverty', refers to a set standard which is consistent over time and between countries. This set standard usually refers to "a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services." Having an income below the poverty line, which is defined as an income needed to purchase basic needs, is also referred to as *primary poverty*.

- It depends not only on income but also on access to social services.
- **Poverty Threshold:** The poverty threshold in absolute measurement of poverty is set using the **monetary value** of the basket of **essential products (required for basic needs)** and every household whose income is less than this value will be classified as poor.
- **Limited Scope:** Absolute measurements of poverty, used by the World Bank and developing countries like **India**, rely on a poverty line which remains constant across geographies and over time.

Relative Poverty

- **Relative Poverty:** It is present when a household income is lower than the **median income** in a particular country and is used mainly by the **developed countries**.

Relative poverty views poverty as socially defined and dependent on social context. It is argued that the needs considered fundamental is not an objective measure and could change with the custom of society. For example, a person who cannot afford housing better than a small tent in an open field would be said to live in relative poverty if almost everyone else in that area lives in modern brick homes, but not if everyone else also lives in small tents in open fields (for example, in a nomadic tribe). Since richer nations would have lower levels of absolute poverty, relative poverty is considered the "most useful measure for ascertaining poverty rates in wealthy developed nations" and is the "most prominent and most-quoted of the EU social inclusion indicators".

Usually, relative poverty is measured as the percentage of the population with income less than some fixed proportion of median income.

- Those who fall into the category of relative poverty are not necessarily deprived of all basic needs, but may not experience the same standard of living as the majority of society or in other words, they are **relatively deprived**.
- **Poverty Threshold:** In this method certain percentage of **economically bottom population** is always considered below the poverty line.

Methods of Measuring Poverty:

- **Absolute Poverty Line:** Uses a fixed standard, such as the World Bank's international poverty line, to measure the ability to meet basic survival needs.
- **Relative Poverty Line:** Measures poverty relative to the living standards of the majority in a society (e.g., income below 60% of the median).

- **Multidimensional Poverty Index (MPI):** Evaluates deprivations across health, education, and standard of living, rather than just income.
- **Consumption-Based Measure:** Focuses on what a household actually consumes rather than earns, often used to determine the poverty line.

Methods to Measure Poverty:

1. Headcount ratio (HCR):

The headcount ratio (HCR) measures the proportion of a population living below the poverty line. It is calculated by dividing the number of poor individuals (H) by the total population (N), often expressed as a percentage:

$$\text{Formula: } HCR = (H/N) \times 100$$

Formula Components:

- **(Number of Poor):** The total count of people or households whose income or consumption is below the defined poverty threshold.
- **(Total Population):** The total number of people or households in the area

2. Poverty gap ratio (PGR):

The poverty gap ratio (PGR) measures the depth of poverty by calculating the average shortfall of the poor from the poverty line, expressed as a ratio of the poverty line. It represents the total resources required to bring all poor individuals up to the poverty line.

Formula: $PGR = 1/N \times \sum (Z - Y_i/Z)$

Key Variables:

- **N:** Total population (including poor and non-poor).
- **Z:** Poverty line threshold.
- **Y_i:** Income (or consumption) of the i-th poor individual.
- **(Z - Y_i):** The poverty gap for an individual.

Interpretation:

The ratio is generally between 0 and 1. A higher ratio indicates that, on average, the poor are further below the poverty line. It is often expressed as a percentage, indicating what percentage of the poverty line would have to be transferred to the poor to eliminate poverty.

3. The Multidimensional Poverty Index (MPI):

The Multidimensional Poverty Index (MPI) is an international measure of acute poverty developed by the UNDP that captures severe deprivations in **health, education, and standard of living**. Unlike income-based poverty, it identifies, at a household level, individuals who are simultaneously deprived in at least one-third of 10-12 weighted indicators.

Key Aspects of the MPI:

- **Dimensions&Indicators:** The index consists of three main dimensions— Health, Education, and Living Standards— broken down into indicators like nutrition, schooling, sanitation, electricity, and housing.
- **Methodology:** It utilizes the Alkire and Foster (AF) method, which allows for tracking the proportion of poor people (incidence) and the intensity of their deprivation.
- **Global vs. National:** The Global MPI covers over 100 developing countries, while India's National MPI, produced by NITI Aayog, includes 12 indicators tailored to national developmental goals.
- **Purpose:** It acts as a policy tool to identify specific areas of deprivation, helping governments target resources to the poorest households.
- **Interpretation:** A higher MPI value indicates greater poverty. For instance, in 2023, India had an MPI value of 0.069, with roughly 42% intensity of deprivation.

Components of the National MPI (India):

1. **Health:** Nutrition, child/adolescent mortality, maternal health.
2. **Education:** Years of schooling, school attendance.
3. **Living Standards:** Cooking fuel, sanitation, drinking water, electricity, housing, assets, bank accounts.

According to the Global Multidimensional Poverty Index 2025, approximately 1.1 billion people live in acute multidimensional poverty across 109 countries.

Effects of Poverty:

Poverty has devastating, multi-dimensional effects, including chronic hunger, malnutrition, poor health, and high infant mortality. It severely limits access to quality education and economic opportunities, causing intergenerational cycles of, and contributes to social exclusion, gender inequality, and higher crime rates.

Main impacts of poverty include:

- **Poor Health:** Lack of resources causes malnutrition, stunting in children, and limited access to healthcare, leading to higher disease rates (e.g., malaria, tuberculosis). It increases chronic stress and poor mental health outcomes.
- **Low Educational achievement:** Children in poverty face educational barriers, including, but not limited to, malnutrition, poor housing, and lack of supplies, leading to lower academic achievement and higher dropout rates.

Over 25% of children in India do not attend school, according to UNICEF. Boys are less likely than girls to get kicked out of school. Despite the fact that women and men must be treated equally under Indian law, particularly those from lower social strata, women are nevertheless seen as less than men. Due to their lack of education, their chances of earning a respectable income in India are slim.

- **Restricts Economic and Social mobility:** Poverty restricts social mobility, often trapping families in a cycle of poverty for generations. It contributes to housing instability, including homelessness.
- **Risk of Safety and Environment:** Impoverished areas often suffer from lack of, or degraded, infrastructure (clean water, sanitation) and higher crime rates, leading to increased risk of violence and exploitation.
- **High Infant Mortality Rate:** Over 1.4 million children in India die before turning five every year, making it one of the countries with the highest child mortality rates in the world. The primary causes of

death are pneumonia, malaria, diarrheal diseases, and chronic malnutrition.

- **Malnutrition:** India is the country with the highest rate of malnutrition with more than 200 million people suffering from it, including 61 million children.
- **Child Labour:** Government statistics indicate that 12.5 million children between the ages of 5 and 14 are working in India, despite the fact that child labour for those under the age of 14 is illegal. In addition, 65 million children between the ages of 6 and 14 do not attend school and work instead in private homes, businesses, quarries, farms, and even prostitution.
- **Child Marriage:** Although it is against the law for children to marry, it is still practiced in a few Indian communities. Young women give birth to children while still in their early years. Many people die before reaching the age of adulthood. Many parents push their children to marry young in the hopes of leading better lives because of their poverty
- **Low Purchasing Power:** In a country in which the per capita income and purchasing power of a poor country or household fall below a specified minimum standard, there is a shortage of medical facilities, low productivity, and there is illiteracy. In society, this led to epidemics and diseases.
- **Increased Criminal Activity to meet Fundamental Needs:** Poor people will indulge in socially inappropriate behaviours, including drug addiction, crime, prostitution, violence, and terrorism to survive. These factors weaken social norms, moral principles, and human self-worth, and as a result, more and more members of the community exhibit intolerance and disrespectful behaviour towards one another on a regular basis.
- **Exploitation of People:** The living conditions of the poor are terrible, and some family members of these people pass away from famine or hunger. When government institutions fail to defend the rights of the poor, it leads to parents selling their children into slavery because they cannot afford to feed or care for them. This is a danger to the social structure.

Poverty is a significant driver of gender inequality, with women and girls disproportionately affected, often with less access to education and employment.

Poverty, nutrition, and economic development:

Poverty, nutrition, and economic development are deeply interconnected in a vicious cycle, where poor nutrition hinders economic growth and perpetuates poverty, while low income limits access to nutritious food. Malnutrition reduces labour productivity and cognitive ability, with every \$1 invested in nutrition yielding up to \$23-\$138 in economic returns, essential for breaking the poverty trap.

The Vicious Cycle: Poverty and Nutrition

- **Poverty Drivers:** Low wages, unemployment, and economic inequality directly cause poor nutrition.
- **Impact on Health:** Poverty restricts access to nutritious food, leading to stunting, wasting, susceptibility to illness, and compromised cognitive development.
- **Economic Impact:** Malnutrition reduces the intellectual and physical capacity of the workforce, limiting the potential to earn and hindering economic growth.

Nutrition as Economic Development

- **High ROI:** Investing in nutrition is not charity but a high-return economic policy. School meal programs, for example, generate US\$4– \$11 in returns for every dollar spent.
- **Productivity Gains:** Better nutrition raises cognitive skills and physical capacity, leading to better school performance and stronger economic growth.

- **Intergenerational Impact:** Improving nutrition for children not only stops the immediate cycle of poverty but also increases their future economic potential, fostering long-term economic development.
- **Double Burden:** While undernutrition remains a primary concern, many countries are facing the rise of overnutrition (obesity) alongside poverty.
- **Policy Shift:** Tackling malnutrition requires tackling poverty through job creation and food security, as well as direct nutritional interventions to improve productivity.

Poverty and economic development:

Poverty and economic development have a complex, bidirectional relationship, where economic growth generally reduces poverty by creating jobs and raising incomes, while high poverty levels hinder development by restricting human capital, education, and investment. Sustainable, inclusive growth is vital, as high inequality can diminish the poverty-reducing effects of economic development.

Economic development is the most powerful tool for reducing poverty, as it creates jobs, increases incomes, and improves quality of life. Sustained economic growth facilitates investment in health and education, enabling people to escape poverty, while poverty itself hinders development by limiting human capital and productivity. Effective poverty reduction requires inclusive growth, social protection, and targeted structural changes.

Main Connections Between Development and Poverty

- **Job Creation:** Economic growth creates employment opportunities, which are the primary way people move out of poverty.
- **Virtuous Circle:** Increased income allows households to invest in health, education, and skills, which in turn boosts productivity and fuels further economic growth.
- **Impact of Growth:** Research indicates that a 10% increase in a country's average income reduces the poverty rate by 20– 30%.
- **Structural Transformation:** Shifting from agrarian to industrialized, service-oriented economies often lead to higher wages and improved living standards.
- **Impact of Growth on Poverty (Trickle-Down Effect):** Economic growth is a primary driver of poverty reduction. As GDP increases, opportunities for employment and income growth usually rise, reducing both monetary and multi-dimensional poverty.
- **Impact of Poverty on Development:** Poverty poses a significant barrier to economic development. It creates a cycle where low income leads to low savings, low investments in education and health, reduced labor productivity, and overall economic stagnation.
- **The Role of Inequality:** Growth does not always guarantee poverty reduction if there is high income inequality, which can cause development benefits to skip the poorest populations.
- **Bidirectional Linkages:** Poverty reduction is a key goal of development, but in turn, lifting people out of poverty enhances overall market demand, boosts productivity, and drives further economic growth.

Factors Influencing the Relationship:

- **Employment:** High unemployment rates are strongly associated with increased poverty, often negating the benefits of economic growth.

- **Social Investment:** Investing in education, healthcare, and infrastructure (human capital) is crucial for translating economic growth into sustainable poverty reduction.
- **Structural Barriers:** Political instability, weak institutions, and discrimination can trap populations in poverty despite overall economic growth.

Challenges in Reducing Poverty

- **Inequality:** If economic benefits are not widely shared, growth might not effectively reduce poverty.
- **Vicious Cycle:** Poverty restricts access to education and healthcare, leading to low productivity that hinders economic growth.
- **External Shocks:** Events like the COVID-19 pandemic can erase years of progress in reducing extreme poverty.
- **Employment Quality:** Simply increasing the number of jobs is not enough; the quality of employment (fair wages, safety) is crucial for improving welfare.

Strategies for Success

- **Inclusive Growth:** Policies should focus on job creation that engages the poor and vulnerable populations.
- **Social Protection:** Implementing measures like social safety nets can help protect vulnerable populations from poverty.
- **Human Capital Investment:** Improving access to healthcare and education is essential for long-term development.
- **Sustainable Development:** Integrating economic, social, and environmental goals helps ensure lasting reductions in poverty.

