



YOUR LOGO

POVERTY AND INEQUALITY

Faculty of Economics, Thammasat University

MODULE 7

Semester 2 2022

EE463 Globalization and International Development

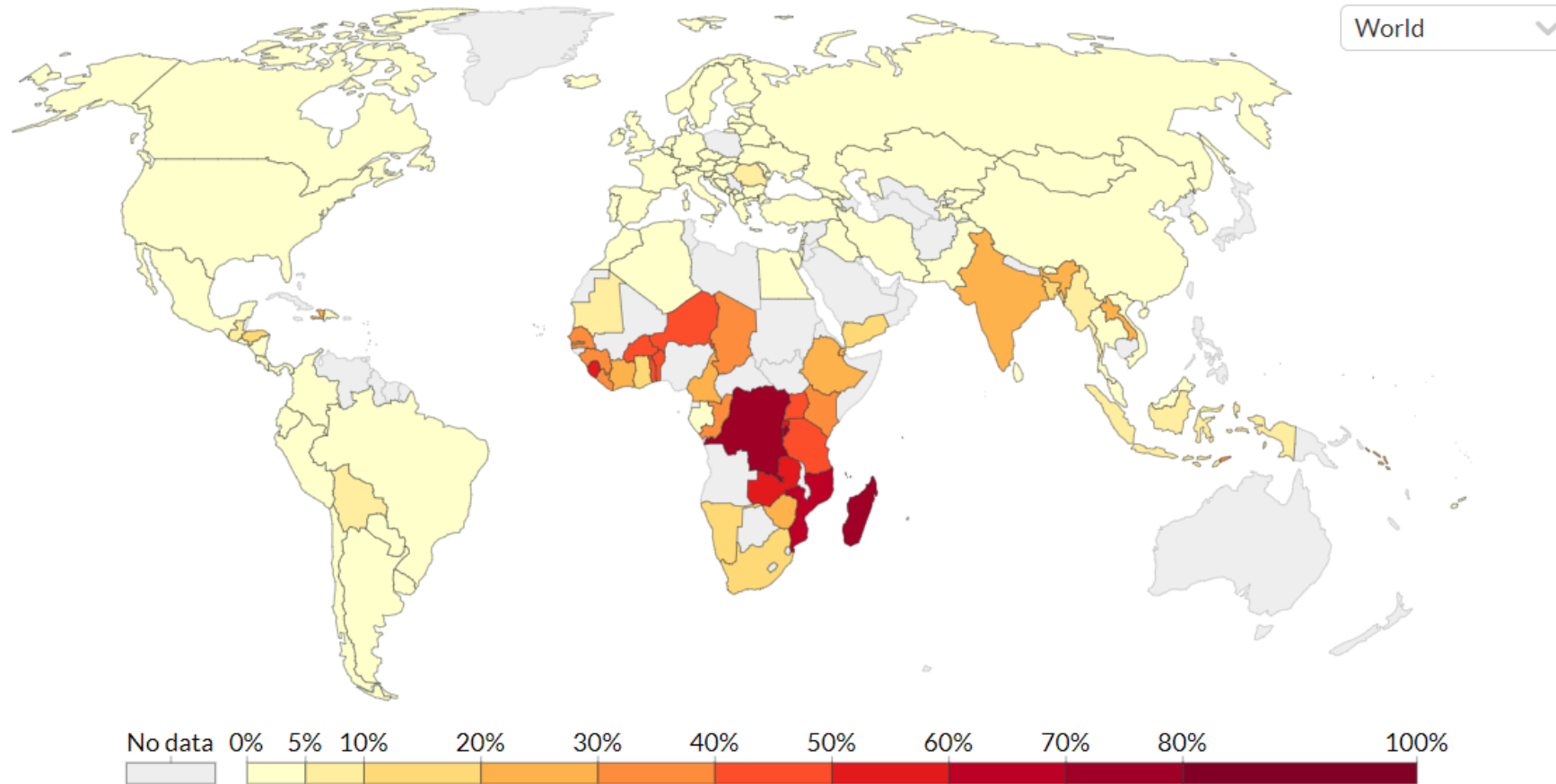
Overview and trends

- **Poverty is widespread**; about 1.4 billion out of the world's population of 7 billion (roughly 20%) live below the poverty line which is \$1.25/day/person
- **Absolute poverty** exists because of low level of productivity and/or the lack opportunities to participate in the economy



World poverty map

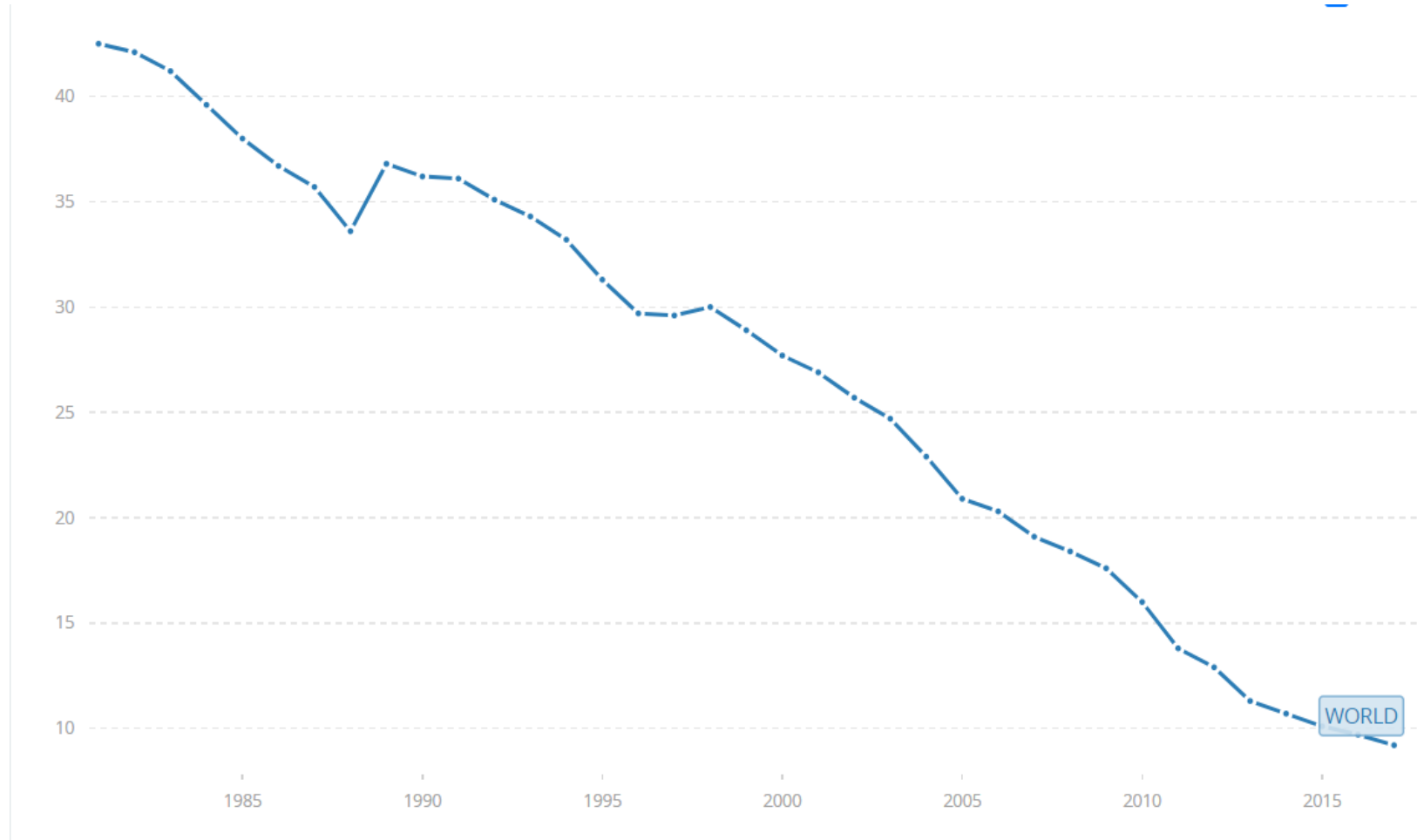
Share of the population living in extreme poverty, 2017
(Living below the international poverty line of \$1.25 per day)



Source: World Bank

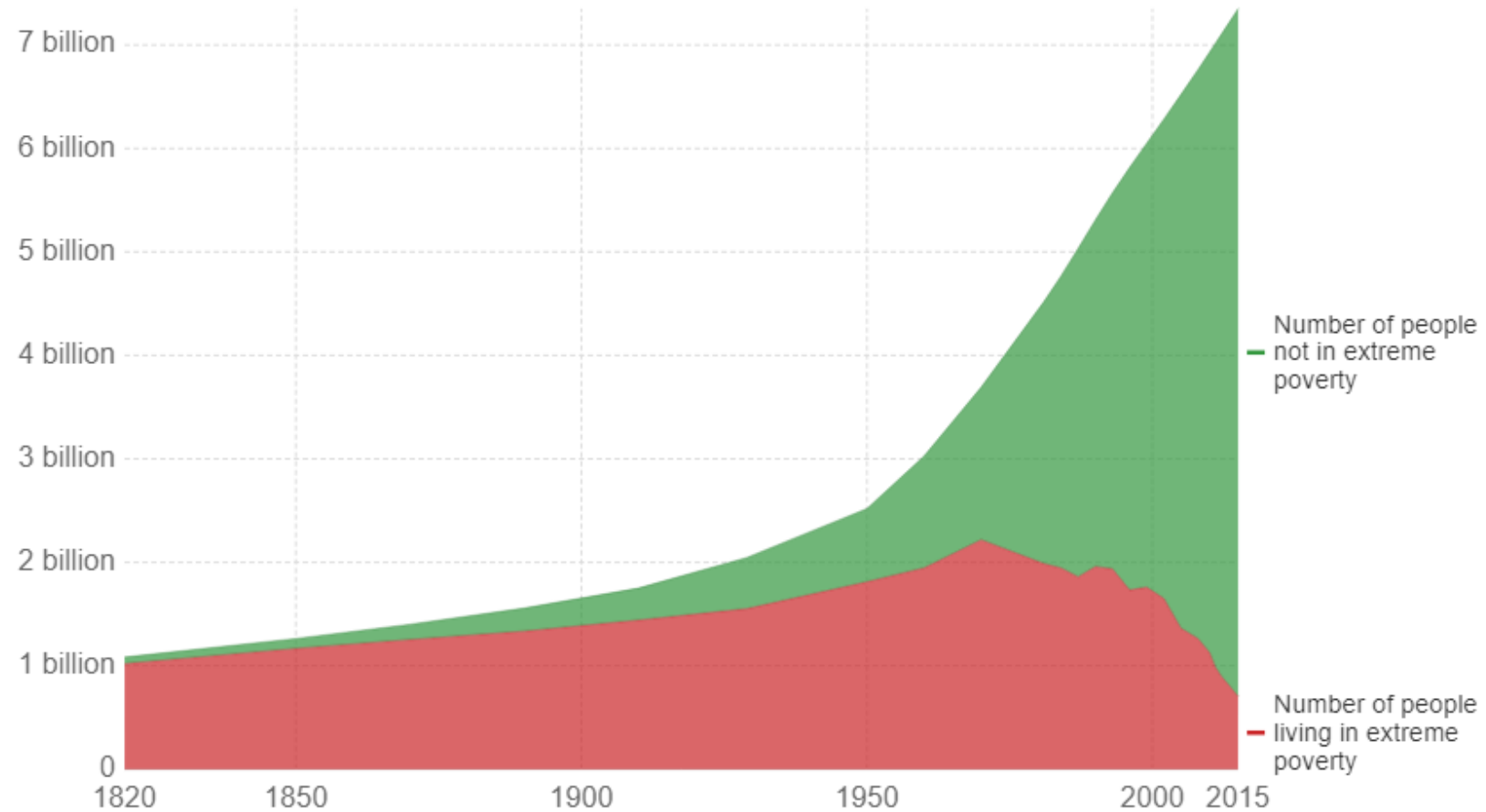
Is poverty declining or increasing?

- Worldwide poverty is declining
- Percentage of people living below poverty line, 1980-2015, world figures



What about absolute poverty?

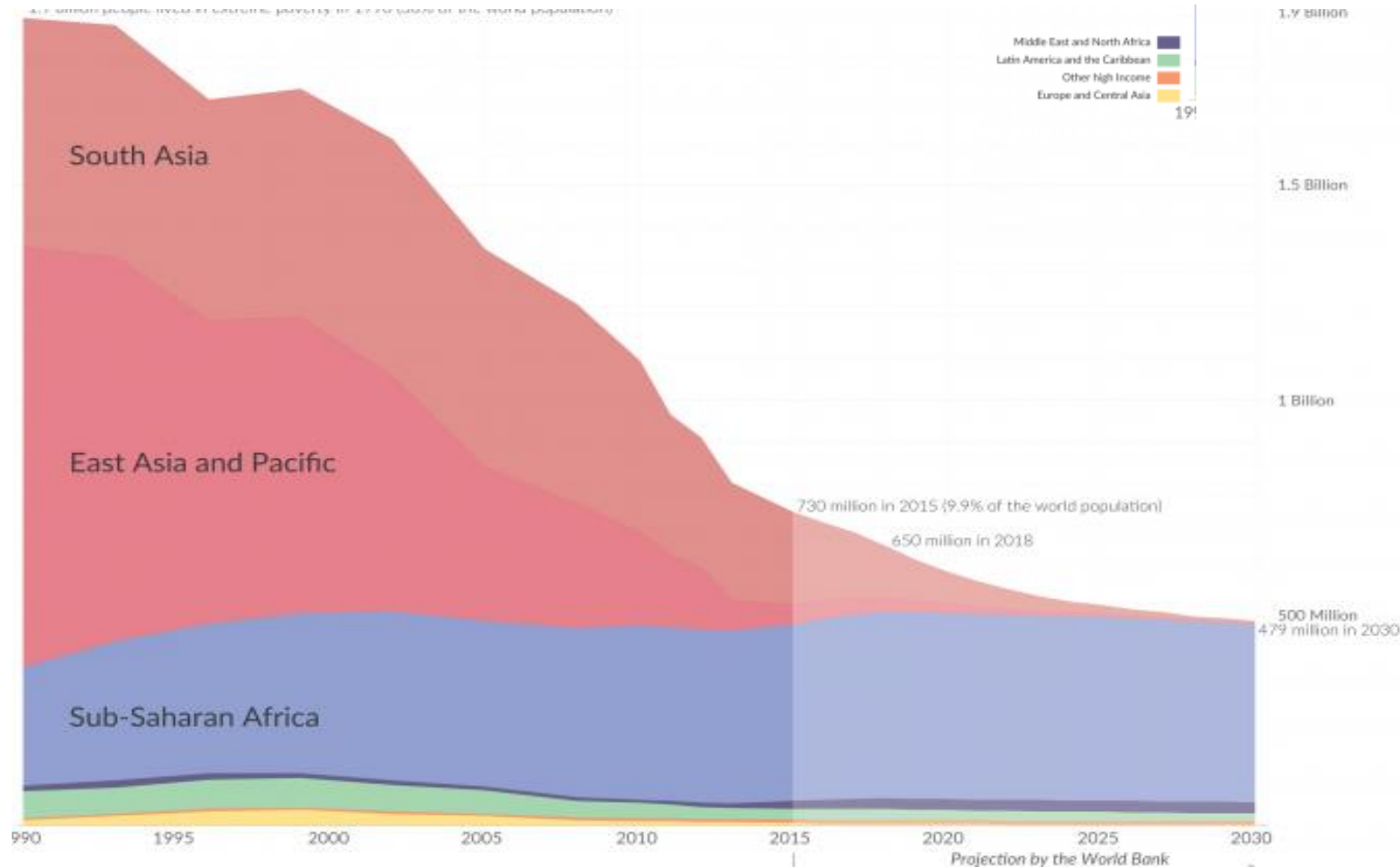
- However the absolute number remains high
- World population living in extreme poverty, 1820-2015



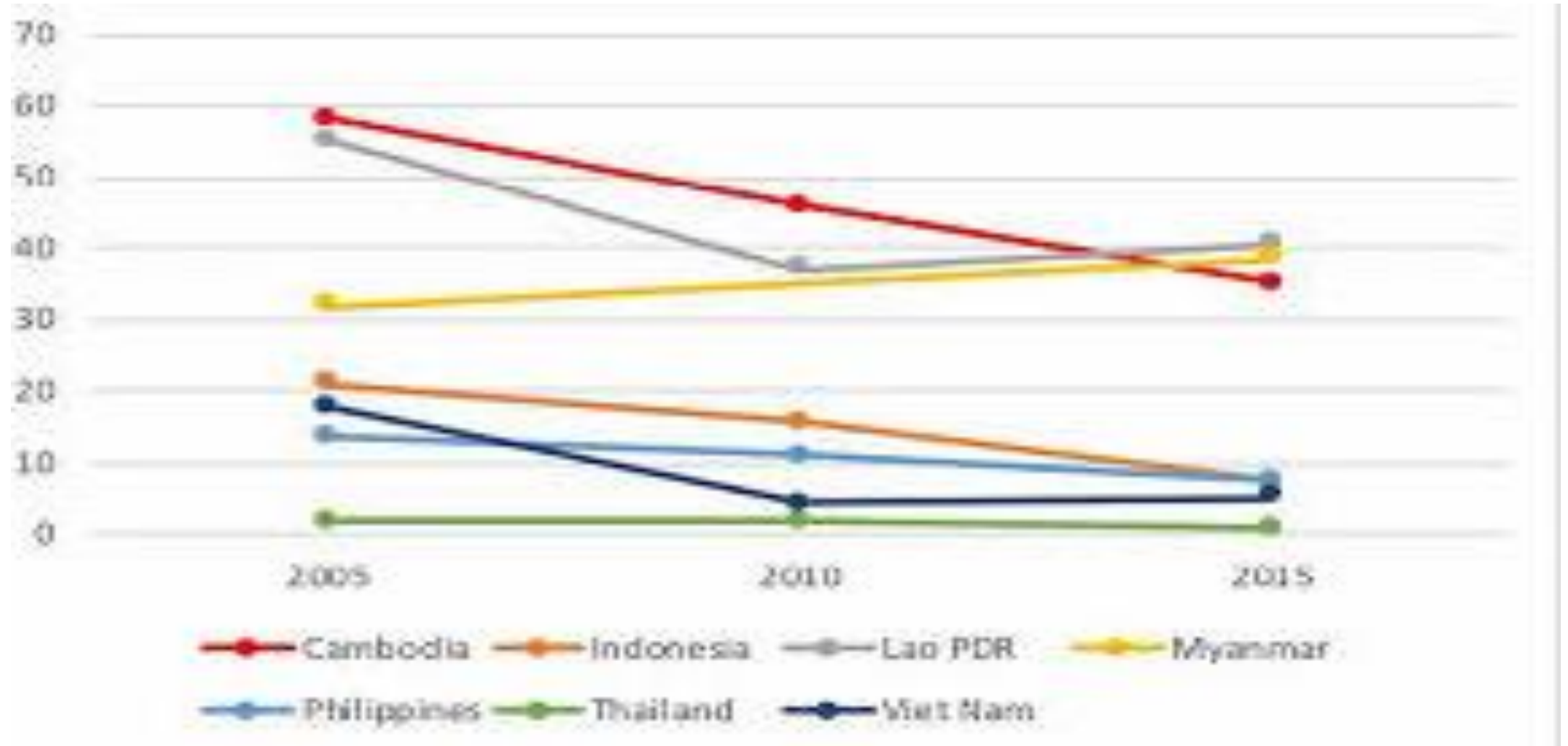
Source: World Poverty in absolute numbers - OWID based on World Bank (2016) and Bourguignon and Morrisson (2002)
OurWorldInData.org/extreme-poverty/ • CC BY-SA

Where the poor live

- In 1990, most of the poor lived in South Asia, East Asia, and Sub-Saharan Africa
- In 2015, most of the world's poor lived in South Asia and Sub-Saharan Africa; the rising affluence of China greatly reduced poverty
- By 2030, most of India's poor will be reduced; those living in Sub-Saharan Africa will likely to remain poor

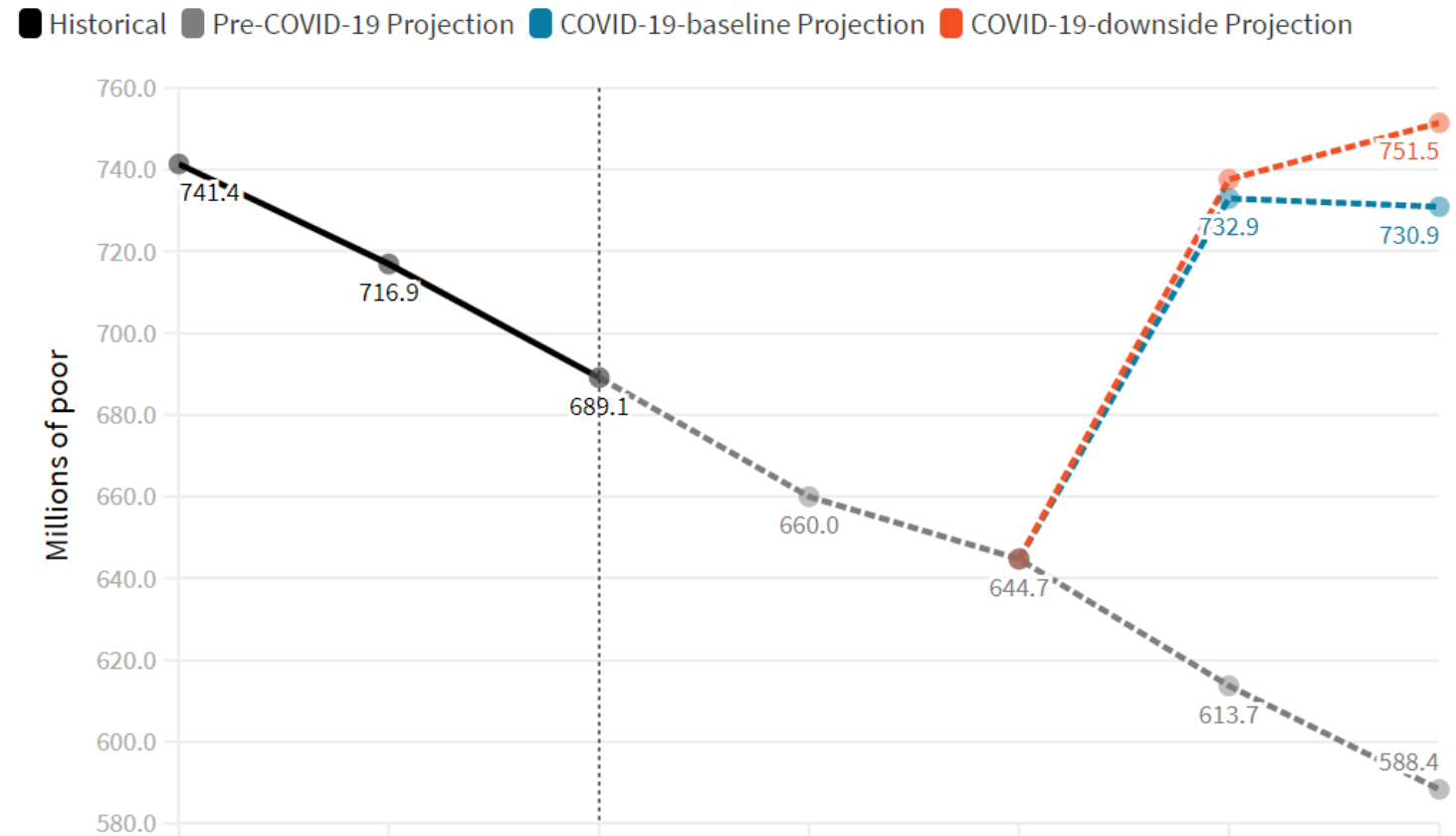


Poverty reduction in Southeast Asia, 2005-2015



Poverty reduction impact of COVID-19

- The pandemic-induced global new poor is estimated to be between 119-124 million in 2020
- In 2021, the estimated COVID-19-induced poor is set to rise to between 143-163 million



Measuring poverty

- Poverty and inequality are related but are not the same
- For example, the bottom quintile (20%) in an advanced country may be much better off than the bottom quintile in a less developed country
- Poverty line: a specific monetary value based on the amount of some minimal consumption basket of food and basic necessities (e.g., 2,000 calories/day; \$1.25 per day)



Overview and trends

- Raising people out of poverty requires economic growth; without economic growth people will remain poor
- However economic growth alone is not sufficient; equitable distribution of income is also important



Vulnerability

- Vulnerability to adverse shocks: although people are above the poverty line, external conditions (economic/financial crisis, natural disaster) may cause them to fall below the poverty line
- This group is therefore vulnerable and require government intervention



Measuring inequality

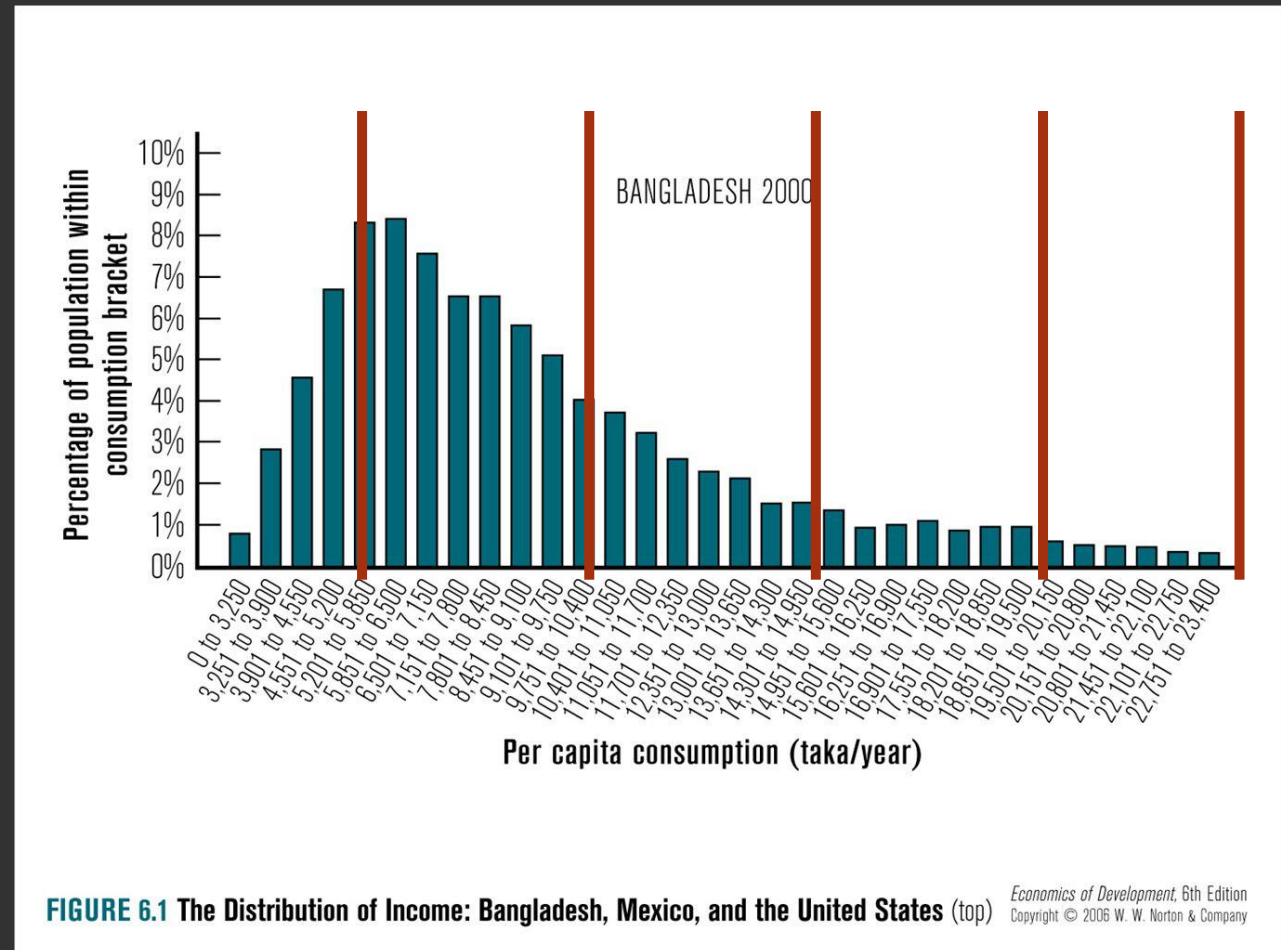
Inequality can be visualized and/ or measured using:

- frequency distribution of income
- the Lorentz curve
- the Gini coefficient



Frequency distribution of income—Bangladesh

- The shape of the frequency distribution tells us how income is distributed in society
- Bangladesh's frequency distribution of income is skewed to the left (lower incomes)



Frequency distribution of income—Mexico

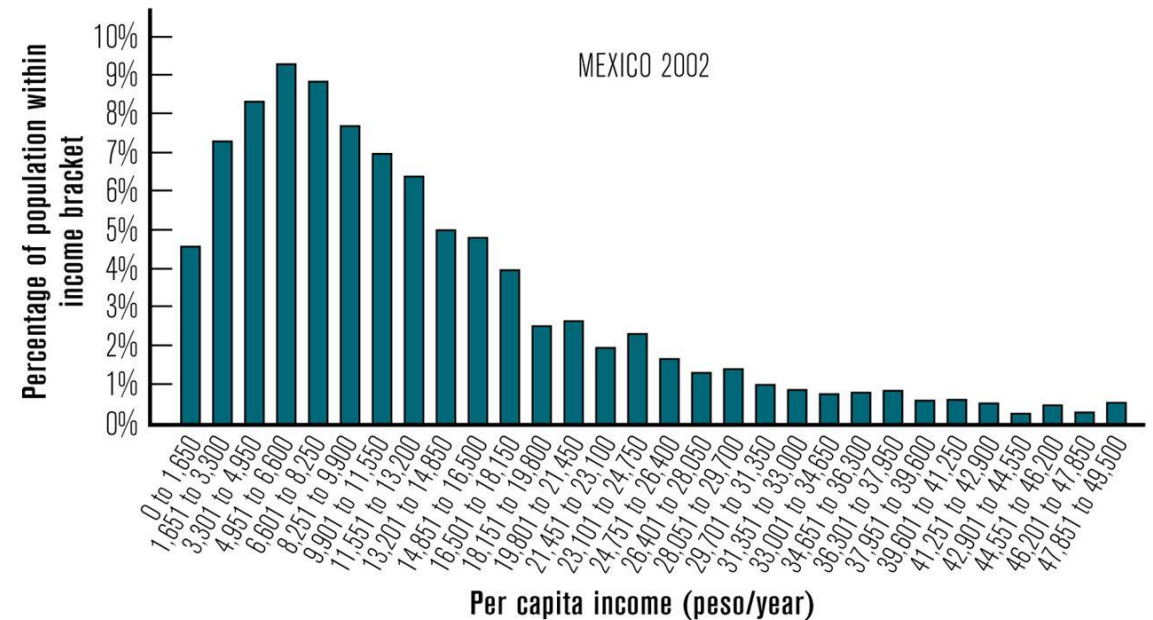


FIGURE 6.1 The Distribution of Income: Bangladesh, Mexico, and the United States (mid)

Economics of Development, 6th Edition
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Frequency distribution of income—USA

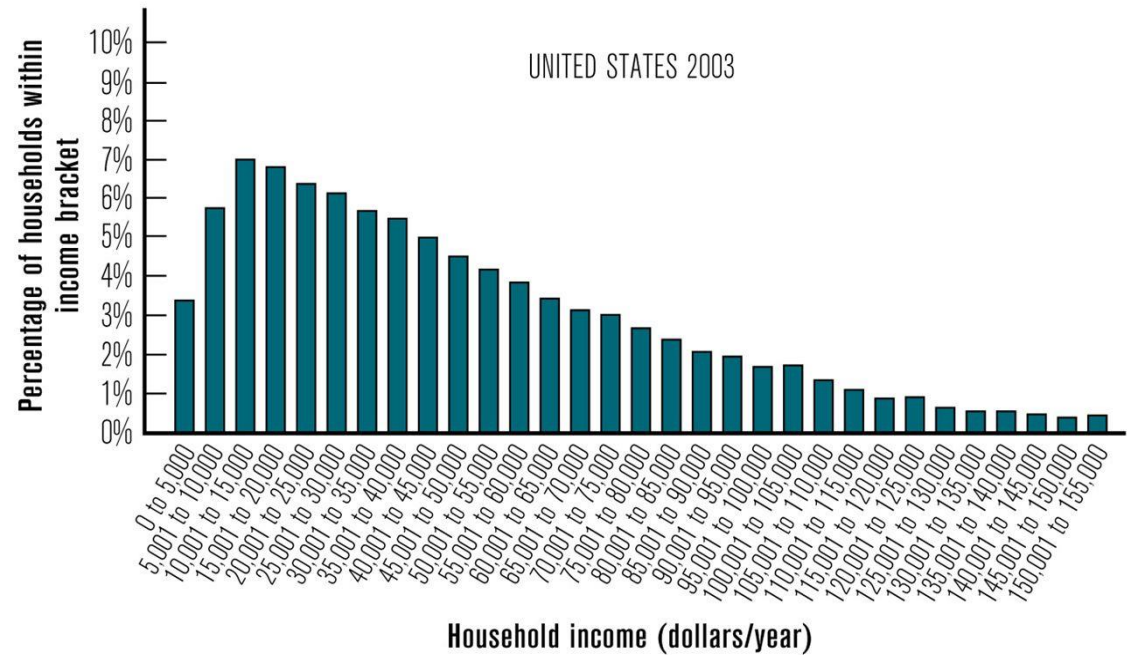


FIGURE 6.1 The Distribution of Income: Bangladesh, Mexico, and the United States (bot)

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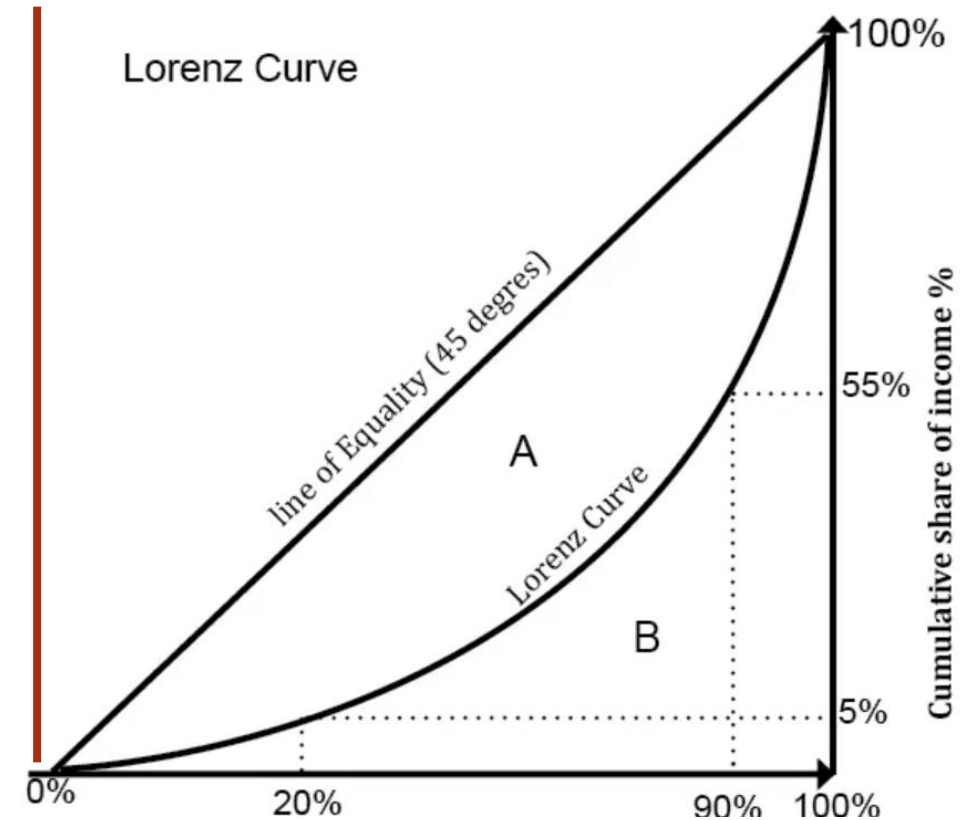
Income distribution: Bangladesh, Mexico, USA

QUINTILE	SHARE OF TOTAL CONSUMPTION OR INCOME		
	BANGLADESH (2000)	MEXICO (2002)	UNITED STATES (2003)
Bottom 20%	9.0	3.5	3.4
Second 20%	12.5	8.2	8.7
Third 20%	16.0	13.3	14.8
Fourth 20%	21.5	21.2	23.4
Top 20%	41.0	53.7	49.8

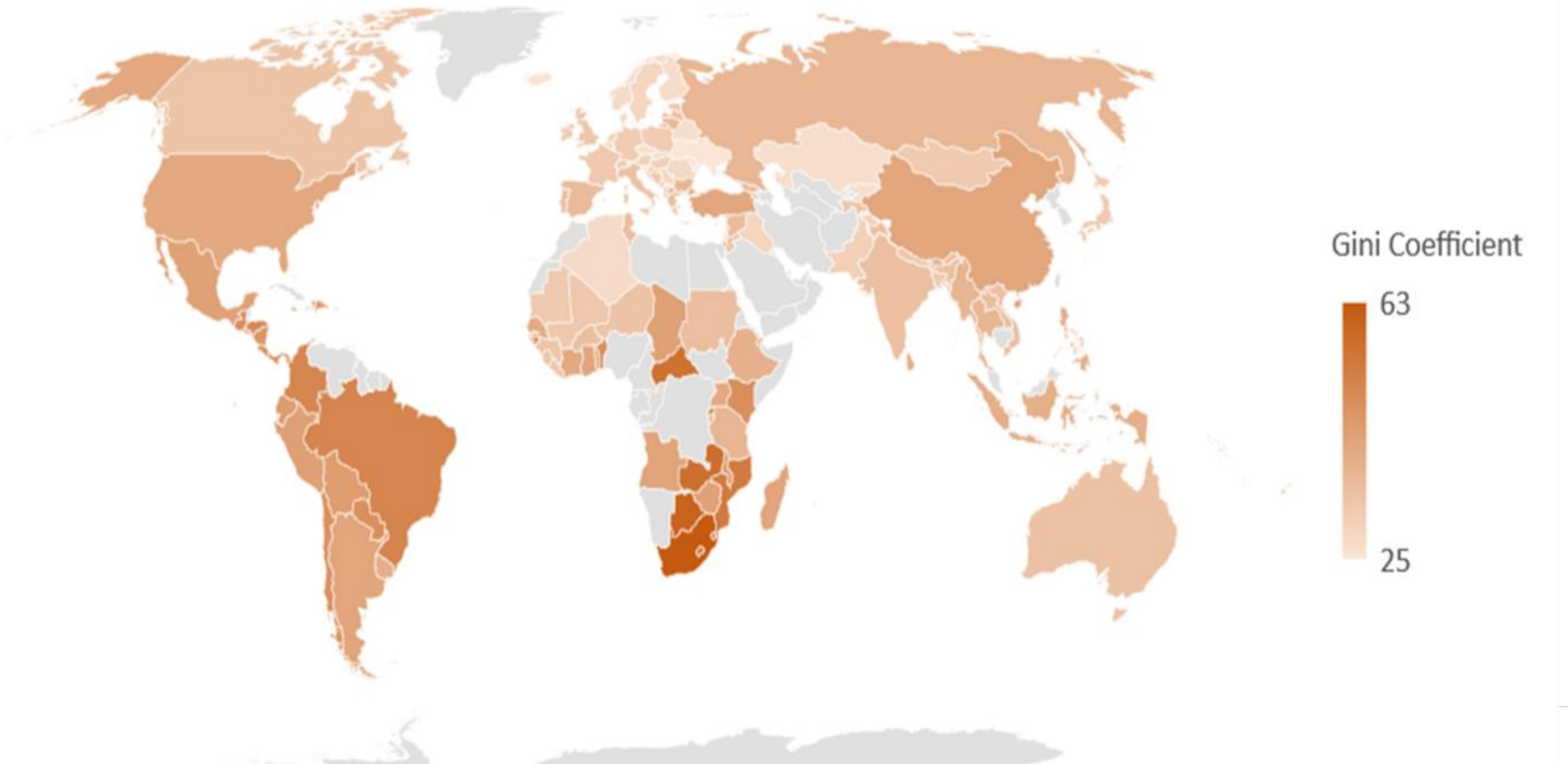
Sources: Collaboration with Claudio E. Montenegro, World Bank; *U.S. Current Population Survey*, March supplement, March 2004.

Lorentz curve

- Developed by Max Lorentz (1905); shows the distribution of income (or wealth) within an economy
- Cumulative percent of income/ consumption is plotted against cumulative percent of recipients
- Shows the cumulative share of income from different sections of the population
- If there was perfect equality the poorest 20% of the population would gain 20% of the total income; likewise the poorest 60% of the population would get 60% of the income

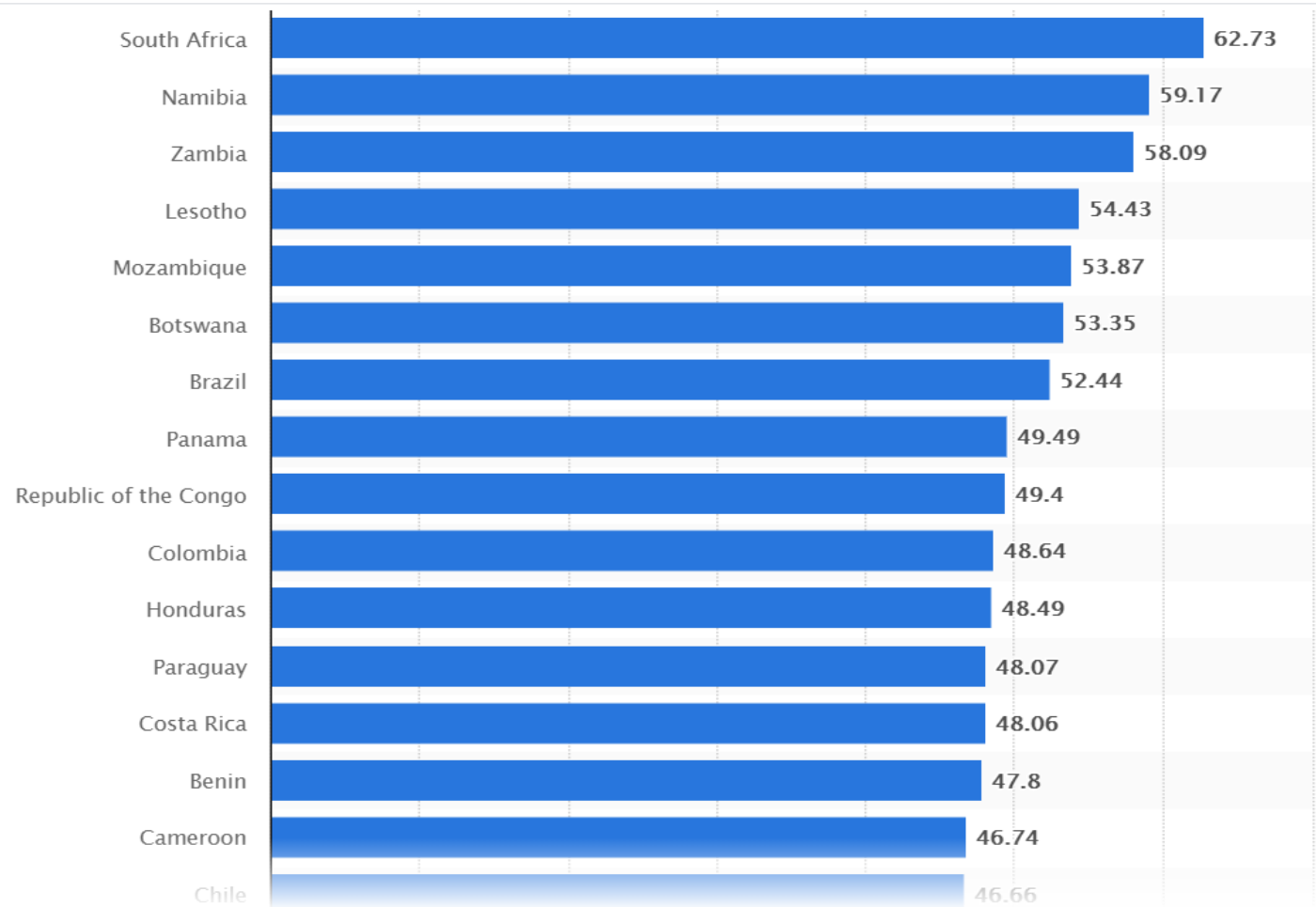


Gini coefficient comparisons



Gini coefficient

- The **Gini coefficient** is a single number aimed at measuring the degree of inequality in a distribution.
- Often used in economics to measure how far a country's wealth or income distribution deviates from a totally equal distribution
- Gini coefficient = 1 means total inequality; if it is = 0 then it means all receive an equal share



Case 1: Declining inequality

- During the American occupation of South Korea, land was redistributed from Japanese owners to Korean farmers. This policy decreased inequality
- In Eastern European and former states of the Soviet Union embarked on reforms, which resulted in decreasing inequality



Case 2: Increasing inequality

- South Africa has one of the highest Gini coefficient which means that inequality is high. This is a result of apartheid policies in the past which segregates blacks and whites
- High inequality in Latin America is due to land ownership in the hands of a few



Strategies to reduce poverty

Promote market-oriented growth

- Ensure macroeconomic stability
- Facilitate open trade and investments
- Increase investments in infrastructure
- Improve credit markets



Strategies to reduce poverty

Invest in human capital:

- Promote health and education
- Provide basic services to the poor

Provide cash transfers

Develop social safety nets



Poverty and government role

People are poor because they

- lack opportunities and assets
- are beyond the reach of the market (old, the sick, handicapped)
- have no support networks

The poor are vulnerable to systemic shocks; which market cannot resolve

Therefore government intervention is required:

- income/cash transfers
- safety nets



Cash transfers and safety nets

Cash transfers can take the form of

- cash grants
- food vouchers
- food distribution programs

Safety nets are similar to cash transfers

- safety nets apply to households that are not necessarily poor
- applies to those that have temporary shortfalls in consumption
- example: public employment scheme; cash-for-work



Conclusion

Poverty is diminishing in countries that are growing rapidly, while in the absence of economic growth rising poverty is virtually unavoidable

Some methods of poverty intervention such as improving opportunities and providing income transfers and safety nets



THANK **Y**OU!