BOX 6-1 NATIONAL POVERTY LINES IN BANGLADESH, MEXICO, AND THE UNITED STATES

Instead of one official poverty line, Bangladesh has many. Separate poverty lines exist for each of 14 regions to reflect varying costs. Regional lines are further divided into upper and lower levels to capture different intensities of poverty. All poverty lines are based on securing a minimum daily caloric intake of 2,112 calories. The representative bundle of food to obtain these calories was specified in the early 1990s and is made up of 11 items: rice, wheat, pulses, milk, oil, meat, freshwater fish, potatoes, other vegetables, sugar, and fruit. The cost of this bundle is adjusted using a domestic price index. The lower poverty line in each region represents the level of poverty at which a person does not have the resources to meet both food and nonfood requirements and must sacrifice some minimum daily caloric requirement to afford essential nonfood needs. The upper poverty line represents a level of poverty at which a person is able to meet minimum daily food requirements and afford some nonfood expenditures.

Mexico has three official poverty lines that capture a range of conditions of poverty. Within these lines, there is differentiation between rural and urban populations. The lowest poverty line is estimated by calculating the cost of a representative bundle of food, taking into account the differing nutritional requirements of rural versus urban dwellers in terms of daily calories and grams of protein. Falling below this poverty line indicates that a person cannot meet even these minimal daily nutrition requirements. Falling below the second poverty line means the person does not have the resources to meet both daily nutritional requirements and minimum health and educational expenses. The third line indicates that resources are insufficient to pay for all necessary costs of living, including food, education, health, clothing and footwear, housing, and public transportation expenses.

The United States also specifies multiple poverty lines that vary, not by location, but according to household size and age of household members. U.S. poverty lines, like those in Bangladesh and Mexico, start with the cost of a basket of food items. Designed to meet a person's nutritional needs at minimum cost, the bundle of food items used is still based on a 1955 survey of household food consumption. It is made up of servings of milk, cheese, and ice cream; meat, poultry and fish; eggs; dry beans, peas, and nuts; flour, cereal, and baked goods; citrus fruit and tomatoes; dark-green and deep-yellow vegetables; potatoes; other vegetables and fruits; fats and oils; and sugars and sweets. The cost of the bundle of food was multiplied by three to arrive at the poverty threshold because the 1955 survey found that the average family of three or more people spent approximately one-third of its disposable income on food. Since adopting these poverty lines in 1965, the dollar value is adjusted annually to account for price inflation. Neither the bundle of food items nor the portion of income a family spends on food has been adjusted in almost 60 years despite changes in diets and evidence that even poor Americans spend less than one-third of their after-tax income on food.

Sources: Fernando Cortés, Daniel Hernández, Enrique Hernández Laos, Miguel Székely, and Hadid Vera Llamas, "Evolución y características de la pobreza en México en la última década del siglo XX," Economia Mexicana NUEVA EPOCA, vol. XII (2003), available at www.economiamexicana.cide.edu/num_anteriores/XII-2/Fernando_Cortes.pdf. Eloise Cofer, Evelyn Grossman, and Faith Clark, "Family Food Plans and Food Costs: For Nutritionists and Other Leaders Who Develop or Use Food Plans," Home Economics Research Report 20 (Washington, DC: U.S. Government Printing Office, November 1962), available at http://aspe.hhs.gov/poverty/familyfoodplan.pdf, accessed July 2005; Constance Citro and Robert T. Michael, *Measuring Poverty: A New Approach* (Washington, DC: National Academy Press, 1995); World Bank, "Poverty in Bangladesh: Building on Progress," Report 24299-BD (Washington, DC: World Bank, December 2002).

Most nations have their own poverty lines, and these could be used to make international comparisons. One could combine the number who are deemed poor in Bangladesh (daily per person regional poverty lines of between roughly 19 and 32 taka, or US$1.70 and $2.80, PPP) with the number said to be poor in Mexico (poverty lines of 30 to 45 pesos, or US$4.60 to $6.60, PPP) and in the United States (daily per person poverty line of around $15).[18] This would offer a measure of poverty as perceived by each nation. But the resulting differences in poverty rates across nations would themselves be functions of the poverty lines the nations choose. An alternative and more widely adopted approach is to establish a single global poverty line. By applying one common poverty line, often the $1.25-a-day or $2-a-day measure, it may be possible to obtain a more consistent picture of the degree of absolute poverty across countries and regions and of how the number of poor is changing over time.

Before investigating the origins of the $1.25-a-day line and regional trends in poverty, it is worth examining the use of poverty lines in a bit more detail and defining some alternative measures of poverty that can be based on such lines. Figure 6–5 reproduces the frequency distribution of consumption per capita in Bangladesh with

[18] The United States defines poverty depending on the size and composition of a household. Households with children or elderly members are assumed to have different food requirements, leading to different poverty lines. Households with more members are assumed to achieve economies of scale in consumption and this, too, affects their poverty lines. In 2009, daily per capita requirements ranged from $30 for a household with one nonelderly member to $12 for a household of eight with six children. The $15 refers to the average poverty line for households with four members. The reported values for Bangladesh and Mexico refer to their upper poverty lines, as discussed in Box 6–1, for the years 2000 and 2002, respectively.

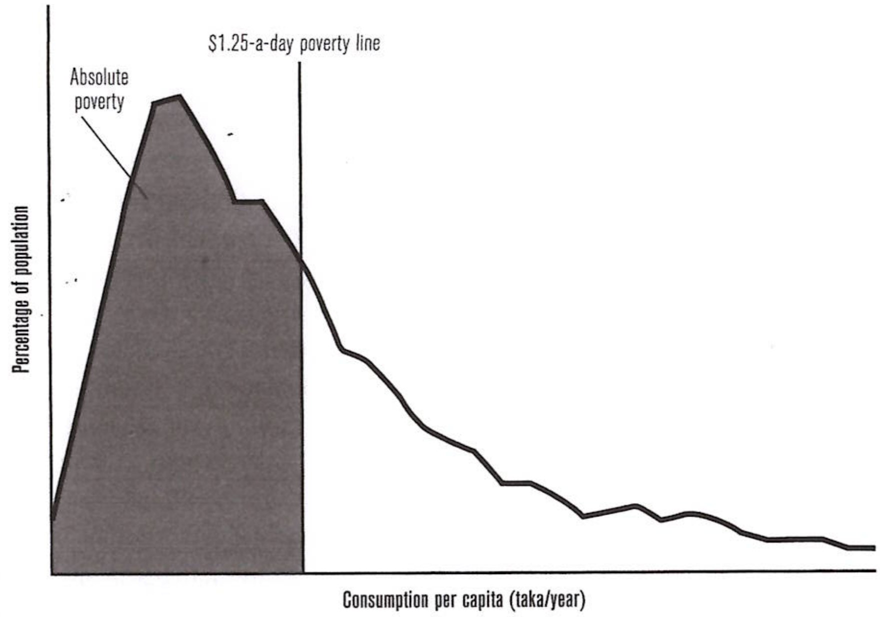

FIGURE 6-5 Absolute Poverty in Bangladesh

Source: Collaboration with Claudio E. Montenegro, World Bank.

the addition of the $1.25-a-day poverty line. Individuals with consumption below the poverty line, some 50 percent of all Bangladeshis, are considered absolutely poor. It should be evident that there is something arbitrary about this distinction between the poor and the nonpoor. Is someone just above the poverty line, with a few taka more of consumption expenditures, living that much differently from someone just below the poverty line? This arbitrary character of poverty lines is inevitable. But poverty lines still are useful in providing a sense of the extent of absolute poverty, a means for assessing the success of policies designed to alleviate poverty, and a mechanism for calling attention to and mobilizing support for reducing human deprivation. Strategies that succeed in reducing the numbers below the poverty line usually spill over and also help the "near poor," those just to the right of the poverty line in the frequency distribution.

Once a poverty line is selected, the extent of absolute poverty can be identified in a number of ways. The simplest is to report the number of people below the poverty line. Equally straightforward is the **head-count index**, the ratio of the number below the poverty line to total population. A third measure, the **poverty gap**, describes the severity of poverty. The severity of poverty refers to both how many people fall below the poverty line and how far they are from that line. Look again at Figure 6–5. Imagine if the frequency distribution below the $1.25-a-day poverty line was somewhat higher closer to the origin and somewhat lower closer to the poverty line. This would mean that poverty was more severe. The same number of individuals might fall below the poverty line but the total amount of income they would need to get to the poverty line is greater. The poverty gap (PG) captures such differences and can be calculated as

$$PG = [(PL - MC)/PL] \times H$$

where PL stands for the poverty line, MC is mean consumption per capita of all individuals below the poverty line, and H is the head-count index. The bracketed term in the equation indicates in relative terms how far the average poor person is from the poverty line; the head-count index then weights this amount by the percent of poor people in the population. The poverty gap, a measure of how much income is needed to get the poor to the poverty line, increases the farther mean consumption of the poor is from the poverty line and the higher the share of the population is below the poverty line.

The head-count index, tells us what proportion of the population is poor, and the poverty gap tells us proportionately how far below the poverty line the mean income of the poor falls. Neither indicator is sensitive to changes in the income distribution among the poor, and by relying on the mean income gap, PG places equal weight on an individual just below the poverty line and on another individual who might be quite far below the line. These shortcomings are addressed simply by squaring PG. This third indicator, known (it's not surprising) as the poverty gap squared, places greater weight on incomes that fall farther below the poverty line and thus more fully captures the severity of poverty. These three indicators together provide a much richer picture of the various dimensions of poverty than any one of them alone.

WHY $1.25 A DAY?

The first widely used global poverty line was a $1 a day and had its origins in the late 1980s. To determine the extent of absolute poverty in the world, the World Bank's 1990 World Development Report (WDR) examined a set of 34 country-specific poverty lines from both developing and developed nations. As expected, these poverty lines generally rose with income level. Focusing only on the low-income nations in this group, the country-specific poverty lines tended to fall within a range of $275 to $370, measured in terms of 1985 PPP dollars per person per year. The upper bound of this range, just over $1 a day, was adopted as a global poverty threshold.

To chart changes in poverty over time, it is necessary to increase the poverty line in local currencies in response to changes in domestic prices. Ideally, this would be done using a price index based on the goods the poor tend to consume. In practice, a nation's consumer price index is used. To assess what happened to regional and global poverty since 1985, researchers have done more than just adjust the original $1-a-day poverty line by domestic price inflation. The most recent estimate defines *extreme poverty* as living below $1.25, measured in terms of 2005 PPP dollars.

To compute this latest global poverty line, researchers were aided by an expanded compilation of poverty lines, now including 74 developing countries, as well as new estimates of purchasing power parity, which, for the first time, included price surveys for China. The new compilation of poverty lines was especially important because the composition of low-income nations changed between 1985 and 2005. The original $1-a-day poverty line reflected national poverty lines, including those of Bangladesh, Egypt, India, Indonesia, Kenya, Morocco, and Tanzania. Economies in sub-Saharan Africa were underrepresented. Rather than relying on an inflation-adjusted value of the poverty line defined by this earlier group of countries, researchers at the World Bank repeated the original exercise and determined a new poverty line based on 15 of today's poorest countries.[19] The new group includes 13 sub-Saharan countries, Nepal, and Tajikistan. The average of the national poverty lines of this group is $1.25 a day, which is thought to be more representative of how the poorest nations define absolute poverty. The median poverty line of all developing economies in the sample was $2.00 a day, which is often used as a measure of poverty in middle-income economies, especially in Latin America and eastern Europe.

New estimates of purchasing power parity were equally important in establishing the $1.25-a-day poverty line and in assessing the extent of poverty. If two people have the same purchasing power, they should be considered poor or not poor independent of where they live. But if they live in different countries they use different currencies and face different prices. As discussed in Chapter 2, we cannot rely on comparisons made using market exchange rates as a way to ensure that these two people living in different countries will be evaluated similarly. This is because of the importance of nontraded goods in consumption. To capture PPP, economists rely on detailed price surveys in individual countries. Prices in shops and stalls of specific items, including everything from 500-gram packages of durum spaghetti to low-heeled ladies' shoes, are collected. These surveys are conducted under the auspices of the United Nations International Comparison Program (ICP) and offer estimates of PPP.

The most recent poverty estimates rely on ICP surveys from 2005, which have several important advantages over previous rounds. One problem in comparing prices in different countries is accounting for the quality of goods. Nontraded goods may be cheaper in poor countries than in rich countries, but some of this difference may be due to inferior quality, leading to an underestimation of PPP in poor countries. The 2005 ICP made corrections for this problem. It also expanded country coverage; China participated for the first time. Given the size of China's population and its success in reducing poverty, accurate measures of its PPP were critical for improved estimates of global poverty. Finally, the most recent estimates of global poverty were aided by improved coverage of the household surveys needed to make poverty estimates. Over 1.2 million households were part of 1 of 675 surveys taken

19. S. Chen, M. Ravallion, and P. Sangraula, "Dollar a Day Revisited," *World Bank Economic Review* 23, no. 2 (2009).

in 115 countries and covering over 90 percent of the population of low- and middle-income nations. Based on these new sources of information, it was possible not only to estimate poverty in 2005 but also to reestimate values back to 1981.

Figure 6–6 presents the most recent poverty estimates by World Bank economists Shaohua Chen and Martin Ravallion. The headline news from these new estimates was that "the developing world is poorer than we thought, but no less successful in the fight against poverty." The key reason for finding more poverty was that the latest PPP estimates indicated that the cost of living in developing countries, including China and India, was higher than previously thought. Consumption expenditures therefore purchased less, causing poverty levels to rise, not only for 2005 but also in the revised poverty counts going back to 1981. As far as the world's poor was concerned, nothing had changed. The difficulty of their circumstances remained the same. It was only the official count of the number of poor that had gotten worse.

Employing the $1.25-a-day poverty line, the good news is that the number of people living in absolute poverty fell by almost 520 million people, from 1.90 in 1981 to 1.38 billion in 2005. This represents an incredible achievement in reducing human deprivation. The bad news is that 1.38 billion people in poverty still accounts for more than one out of every five people living in developing nations. A closer look at regional patterns also reveals how isolated and uneven the fall in poverty has been. Almost the entire decline occurred in East Asia, and within East Asia most of the

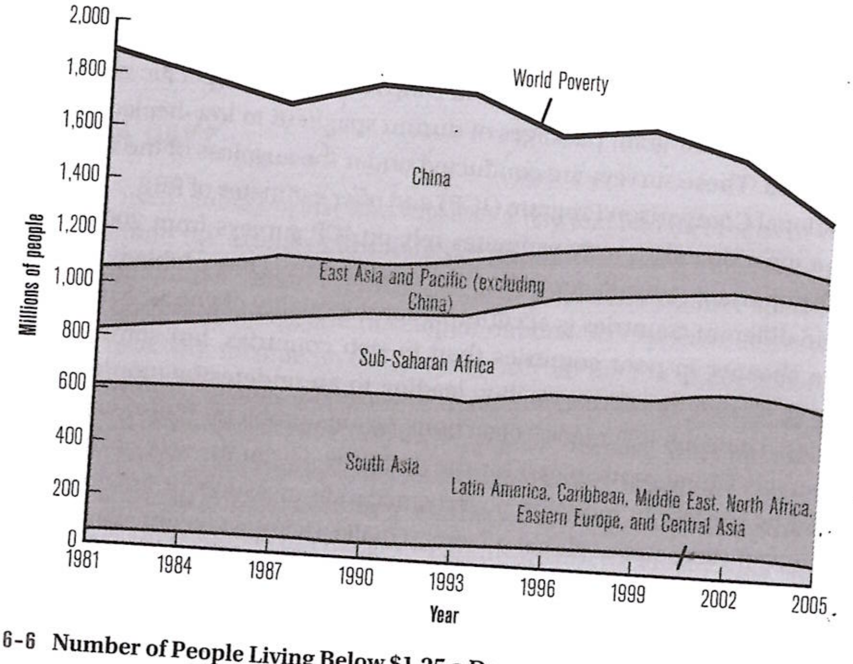

FIGURE 6–6 Number of People Living Below $1.25 a Day

Source: S. Chen and M. Ravallion, "The Developing World Is Poorer Than We Thought, but No Less Successful in the Fight Against Poverty," *Quarterly Journal of Economics* 125, no. 4 (2010).

decline is due to China's success. Over 600 million fewer Chinese people lived below $1.25 a day in 2005 than did in 1981. Many observers trace the start of China's success to the economic reforms of the late 1970s, which decollectivized agriculture and encouraged farm households to produce and market more of their output, pulling them out of poverty.

Poverty reduction was dramatic throughout all of East Asia, with large declines in Indonesia, Malaysia, South Korea, Taiwan, and Thailand. But in absolute terms, given the size of China's population, China's success dominates the global decline. By comparison, South Asia, dominated by India, saw an increase of almost 50 million in the number of poor. In sub-Saharan Africa, the trend was worse. As the population of this region grew, so did absolute poverty, from 214 million in 1981 to 391 million in 2005.[20] Trends in other regions add little to the aggregate picture for two reasons: Their population size is relatively small and, as mostly middle-income nations, the share of their populations living at only $1.25 a day was and remains low.

Trends in absolute numbers are one way to mark the progress made against absolute poverty. But it is not the only way. The head-count index presents poverty relative to population size and reinforces both the good and bad news on poverty (Table 6–2). In 1981, China's head-count index was 84 percent; by 2005, it was down to only 16 percent. In South Asia, the incidence of poverty also declined significantly, from just over 59 percent to 40 percent. Sub-Saharan Africa showed a modest decrease, from 54 to 51 percent. Latin America also had limited success at decreasing its poverty rate; the head-count index fell from 11.5 to 8.4 percent. Given their generally middle-income status, $1.25 a day is not the most meaningful poverty line for eastern Europe and central Asia (ECA) or for the Middle East and North Africa (MENA). Both regions have had poverty rates in the single digits for the past 25 years, although ECA experienced an increase in poverty since 1981 while MENA saw a decline. For the developing world as a whole, there has been a significant decline in the percentage of people who experience the grinding poverty of living below $1.25 a day. Approximately 52 percent of the developing world fell below the $1.25-a-day poverty line in 1981; 24 years later, this ratio stood at 25. Can similar progress be made over the next 20 years?

Before trying to answer that question, it is worth considering the severity of poverty as measured by the poverty gap (Table 6–2). In 1981, absolute poverty was severe in the most populous regions of the developing world. In East and South Asia, as well as in sub-Saharan Africa, the poverty gap ranged from 20 to 36 percent. But, by 2005, the poverty gap had fallen to 10 percent or less everywhere but in sub-Saharan Africa,

20. S. Chen and M. Ravallion, "How Have the World's Poorest Fared Since the Early 1980s?" *World Bank Research Observer* 19, no. 2 (2004). The authors point out that the earlier their estimates, the less confident they are in the results because of the paucity of household surveys from the early 1980s. This is especially true in Africa. The trend toward increasing absolute poverty in sub-Saharan Africa is not in doubt, but the magnitude of this increase may not be precise.

TABLE 6-2 Absolute Poverty* by Region, 1981–2005

REGION	NUMBER OF POOR (MILLIONS)			HEAD-COUNT INDEX (PERCENT)			POVERTY GAP (PERCENT)		
	1981	1990	2005	1981	1990	2005	1981	1990	2005
East Asia	1,071.5	873.3	316.2	77.7	54.7	16.8	35.5	18.2	4.0
(China only)	(835.1)	(683.2)	(207.7)	(84)	(60.2)	(15.9)	(39.3)	(20.7)	(4.0)
South Asia	548.3	579.2	595.6	59.4	51.7	40.3	19.6	15.2	10.3
Sub-Saharan Africa	213.7	299.1	390.6	53.7	57.9	51.2	22.9	26.6	21.1
Latin America and Caribbean	42.0	42.9	46.1	11.5	9.8	8.4	4.0	3.6	3.2
Middle East and North Africa	13.7	9.7	11.0	7.9	4.3	3.6	1.6	0.9	0.8
Eastern Europe and Central Asia	7.1	9.1	17.3	1.7	2.0	3.7	0.4	0.6	1.1
Total†	1,896.2	1,813.4	1,376.7	51.8	41.6	25.2	21.3	14.2	7.6
(Total excluding China)	(1,061.1)	(1,130.2)	(1,169.0)	(39.8)	(35.0)	(28.2)	(n.a.)‡	(n.a.)	(n.a.)

*Absolute poverty refers to a poverty line of $1.25 a day (PPP, 2005).
†Total refers to low- and middle-income nations only.
‡n.a., not available.

Source: S. Chen and M. Ravallion, "The Developing World Is Poorer Than We Thought, but No Less Successful in the Fight Against Poverty," *Quarterly Journal of Economics* 125, no. 4 (2010).

where it remained at over 20 percent. Almost 1.4 billion people still lived on less than $1.25 a day in 2005, but most of them had gotten a good deal closer to this bare minimum of consumption.

China's success at lowering its poverty gap from 39 to 4 percent is an unprecedented achievement in human history. It also holds some promise for what is possible and, therefore, what nations in sub-Saharan Africa might achieve in the next few decades. Much of sub-Saharan Africa began the twenty-first century with a poverty gap well below China's level 25 years earlier. However, the challenge facing Africa is greater. In 1981, China had a more equal distribution of income than is typical of most African nations. Therefore, African growth rates have to be even faster than China's or policies of redistribution greater for absolute poverty to fall as rapidly. It is hard to envision such outcomes. China benefited from a fundamental transformation in its economy, which brought tremendous economic progress. It is hard to identify anything in Africa comparable to China's transition out of socialism and toward the market that has the potential to produce sustained growth rates in output approaching double digits. Reducing absolute poverty in sub-Saharan Africa remains a huge challenge to both African nations and the global community.

DISSENTING OPINIONS ON THE EXTENT OF ABSOLUTE POVERTY

With something as complex as estimating the amount of absolute poverty in the world, it should come as no surprise that not everyone agrees with the numbers. Some criticize the estimates as too low; others claim they are too high.

The somewhat arbitrary nature of any poverty line already has been identified. Is someone living on just less than $1.25 a day poor, whereas someone consuming just over $1.25 a day not poor? Princeton economist Angus Deaton has a different concern. He devoted his 2010 presidential address to the American Economic Association to the latest round of poverty estimates and argued that the $1.25-a-day poverty line is *too high*! The latest poverty estimates raise the number of poor in 2005 by close to half a billion people compared to using the previous method and applying it to 2005. This is a huge increase for a measure of *absolute* poverty, which is intended to stay constant in real terms over time.

Deaton traces the problem to how the poverty line was constructed. He is not persuaded that the 15 countries used to establish the new poverty line were the right ones. He notes that the small nation of Guinea-Bissau, with a population of about 1.5 million people, was included in the construction of the new poverty line, but India, with a population exceeding 1 billion people, was excluded. India has a national poverty line below $1.25 a day but is now judged as having many more poor people because of a standard determined by the poverty conditions prevailing in Guinea-Bissau (where the poverty line is above $1.25 a day) and other smaller economies. Deaton favors using a weighted average of national poverty lines from a much larger group of developing nations so that the weights reflect the number of poor people living in each nation. These and other recommended adjustments result in a global poverty line of less than $1 a day and a world poverty count in 2005 of well under 1 billion.[21]

Some commentators disagree with Deaton and see $1.25 a day as *too low* a threshold for defining absolute poverty at a global level. This cutoff has been described as "destitution" and may be too low to serve as an effective benchmark for poverty alleviation. Others are critical of what they consider the particularly arbitrary nature of any international poverty line. They argue that the use of one global poverty line bears too little relationship to national poverty lines and therefore defines poverty in way that may have little relevance to the actual bundles of goods poor people need to purchase to attain their basic needs.[22] This latter argument has special merit for middle-income nations whose poverty lines tend to be above $1.25 a day. Still others contend that even $2 a day is too low a threshold for a *global* poverty line (Box 6-2).

[21] A. Deaton, "Price Indexes, Inequality, and the Measurement of World Poverty," *American Economic Review* 100, no. 1 (2010).

[22] See *In Focus: Dollar a Day: How Much Does It Say?* International Poverty Centre, UN Development Programme, September 2004. www.ipc-undp.org/pub/IPCPovertyInFocus4.pdf.

BOX 6-2 WHO IS *NOT* POOR?

Economist Lant Pritchett argues against $1.25 a day and even $2 a day as legitimate measures of *global* poverty. He suggests instead a poverty line no less than $15 a day (2000, PPP), close to the lower bound of the prevailing poverty lines in high-income nations. Pritchett argues as follows:

> Because poverty is a social construct each country should be free to set its own definitions of poverty and its own poverty line. . . . But for setting a common, international standard for income poverty—for what constitutes "unacceptable" deprivation in the human condition or inadequate income in a globalized world—it seems grossly unfair that a person is "poor" if born in one country and yet is "not poor" with a level of real income *ten times* lower if born in another. That is, while India might set a poverty line that is attuned to its capabilities and circumstances and the USA another, for international comparisons choosing the lower line implies that what is "unacceptable" deprivation for a US resident is acceptable for another human being simply because of their residence.

Pritchett goes on to demonstrate that the World Bank's poverty lines are grossly inconsistent with achieving minimally acceptable levels of such indicators of physical well-being as infant mortality and stunting, the latter referring to the fraction of children whose height for age is less than two standard deviations below medical norms.

Pritchett recommends defining $1.25 a day as "destitution," $2 a day as "extreme poverty," and $15 a day as *global* poverty. He concludes, "This simple shift in definitions allows continuity and comparability with previous measures of poverty while embracing a new bold vision of what the dream of a world free of poverty really means."

Sources: Lant Pritchett, "Who Is *Not* Poor? Proposing a Higher International Standard for Poverty" CGD Working Paper 33 (Washington, DC: Center for Global Development, November 2003); Lant Pritchett, "Who Is *Not* Poor? Dreaming of a World Truly Free of Poverty," *World Bank Research Observer* 21, no. 1 (2006).

POVERTY TODAY

In 2005, 2.6 billion people, 47 percent of the population of all low- and middle-income economies, fell below the $2-a-day poverty line. Regional head-count indices reached as high as 73 percent in South Asia and sub-Saharan Africa. China stood at 36 percent, and Latin America at 17 percent. When comparing world regions at $2 a day, poverty remained most severe in sub-Saharan Africa (it has the highest poverty gap), but there were still more than three times the number of poor in all of Asia than in sub-Saharan Africa (Figure 6-7). What has happened since 2005?

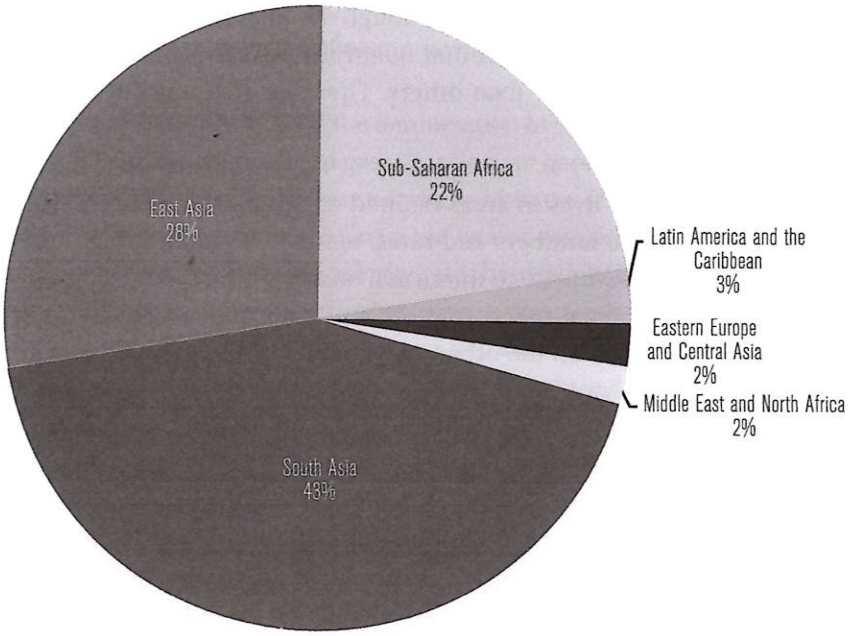

FIGURE 6-7 Regional Distribution of People Living below the $2-a-Day Poverty Line, 2005
Source: S. Chen and M. Ravallion, "The Developing World Is Poorer Than We Thought, but No Less Successful in the Fight Against Poverty," *Quarterly Journal of Economics* 125, no. 4 (2010).

The simple answer is that we do not really know. The data required for making estimates of global poverty are considerable and the exercise is not undertaken frequently. Following the financial crisis of 2008, which began in the United States and quickly spread to other nations, there was considerable fear that developing nations would be hit hard. Many were but certainly not all; China and India continued to grow rapidly. The World Bank estimated that 64 million people in developing nations were pushed into "extreme poverty" (under $1.25 a day) because of the crisis. But the years leading up to the crisis were years of strong growth in many regions of the world, and 2010 saw a faster rebound for developing regions than many expected. Far more people are thought to have escaped poverty between 2005 and 2010 than the number pushed back into poverty because of the global financial crisis. Because economic growth tends to be good for the poor, a point we return to below, there is every reason to believe that the number of absolutely poor people as well as the percentage that are poor will be much lower in the second decade of the twenty-first century than in the first.

WHO ARE THE POOR?

If the World Bank's estimates for 2005 are correct and nearly three out of every four Africans and South Asians lived below the $2-a-day poverty line, it might be easier to identify the nonpoor than the poor. This is a somewhat cynical response to the question, Who are the poor? Even though the majority of African and South Asian populations live in conditions that qualify as poverty, some live well below the poverty line and are poorer than others. There are defining characteristics of extreme poverty.

The twenty-first century is the first time in human history that the majority of the world's population lives in areas defined as urban. Nevertheless, rural poverty, in terms of absolute numbers and rates, tends to be higher than urban poverty. This may come as a surprise to the casual observer who contrasts the image of rural villages, with their open spaces and often picturesque arrangements of straw huts and basic dwellings, with the urban squalor and densely settled and seeming disorganization in the shantytowns and favelas[23] common to large cities in low- and middle-income nations. What the casual observer fails to see are the lack of opportunities in rural areas. There are fewer ways to earn income, less education and healthcare, and often more vulnerability to the weather and forces of nature. Within rural areas, poverty often is most common among landless casual laborers or, in sub-Saharan Africa, among pastoralists. Individuals often choose to leave the countryside for the slums of the city because there are more economic opportunities in urban areas.

In addition to the rural–urban divide, poverty rates vary by regions within countries. Two examples are northeast Brazil and the Indian state of Uttar Pradesh, which for decades have been pockets of deep and persistent poverty compared to the rest of their respective countries. The persistence of regional poverty reflects both the limits of spreading development from one region to another and the constraints individuals may face in escaping poverty by migrating from one region to another. Poverty also has a racial and ethnic face. Scheduled castes in India, certain ethnic minorities in eastern Europe including Roma, and indigenous groups in the Andean region all experience poverty rates in excess of others in their societies.

Looking at poverty from the perspective of gender requires consideration of intra-household distribution, the sharing of resources within family units. Most studies of gender roles and opportunities in developing and developed nations conclude that women are disadvantaged relative to men along many dimensions.[24] Women have less access to property rights, including ownership of land, and often are denied inheritance. Girls have tended to receive less primary and secondary education than boys, although in many countries and regions this is no longer the case. Labor markets tend to discriminate against women, paying them less than men for the same work. Combining the work done at home with that done for income,

[23]The origin of the word *favela* is the Morro de Favela hillside in Rio de Janeiro, Brazil, where freed slaves established a community of squatters in the late nineteenth century. Over time the term has been adopted to describe any urban slum, especially in Latin America.

[24]This discussion draws from World Bank, *Engendering Development* (Washington, DC: Oxford University Press, 2001).

women tend to work many more hours per week. Domestic violence against women is all too common. Sex-selective abortion favors the birth of boys over girls in many parts of the world.

Given all these disadvantages, the feminization of poverty seems straightforward. But it is not. Measures of individual consumption are based on household data, and it is difficult to disentangle who consumes what within the family. Some goods, including housing, are jointly consumed. Given the lack of data on individual consumption by gender, some studies compare poverty rates between households headed by men and women. The results are inconclusive. Some categories of women-headed households do quite poorly. For example, widows without male heirs in India and elderly women on pensions in eastern Europe have particularly high poverty rates. But other women-headed households, including unmarried women working in urban areas and married women with husbands working abroad and sending remittances, may experience lower-than-average poverty rates. Studies of nutrition that assess the degree to which the needs of females versus males are met find some evidence of the relative deprivation of females but the results vary widely across regions of the world and even within countries. Despite the lack of evidence on the feminization of poverty, it is hard to imagine that reducing gender inequality would not also help reduce poverty in general.

LIVING IN POVERTY

You now know how economists define poverty, how many poor people there are, and a bit about the characteristics of the poor. What do we know about the lives of the poor? You might think living below $1.25 a day implies living on the edge of subsistence and leading a monotonous life with few choices. But this is not the case. The poor are a heterogeneous group who do not devote all their resources to food, who engage in a variety of economic activities, and who pursue strategies to reduce the risks associated with their vulnerable economic situations.

Social scientists, especially anthropologists, have been studying the poor for a long time.[25] This work has been complemented more recently with the collection of household-level surveys that include the poorest families. Many of these surveys have been part of the World Bank's Living Standards Measurement Study (LSMS) surveys, the first of which were undertaken in Côte-d'Ivoire and Peru in 1985. The LSMS and other similar surveys have been used to obtain counts of the poor and to understand the circumstances and behavior of poor households. MIT economists

[25] In 1953, Sol Tax, an anthropologist, published *Penny Capitalism* (Washington, DC: Smithsonian) based on his observation of the lives of a poor indigenous community in Guatemala. Tax observed that members of the community were efficient in their use of time and other resources despite their poverty.

Abhijit Banerjee and Esther Duflo employ 13 of these surveys from around the developing world to create a profile of the economic lives of the poor.[26]

Banerjee and Duflo find that, on average, poor households do not put every penny into purchasing more calories. Food represents about half to three-quarters of total consumption expenditures. For those living under $1.25 a day, the elasticity of spending on calories relative to total food expenditures is about 0.5,[27] suggesting that the poor care about what they eat as well as how much they eat; how food tastes matters even when one is poor. The poor, like the rest of us, spend money on nonessential items, including alcohol, tobacco, festivals (funerals, weddings, and religious holidays), radios, and televisions. The health of the poor is far more compromised than that of the nonpoor. In a number of surveys that ask about health, Banerjee and Duflo find that a family member often is reported to have been bedridden for a day or more during the past month. In the Udaipur district in India, 43 percent of households reported that members did not have enough to eat throughout the year, and 55 percent of adults were anemic.

In their productive activities, the poor tend to diversify their labor time, pursuing multiple opportunities rather than specializing. Among rural households, almost all farm their own land, but this is not their only or even their primary source of income. Poor men often work as daily laborers; poor women might sew, gather fuel, or run small eateries (for example, selling dosas in the morning in India). In one survey of rural West Bengal in India, the median family had three working members engaged in *seven* different occupations. Household members in poor families may engage in temporary migration to obtain work, usually for not more than a month or two. Permanent migration of the poor out of West Bengal is rare, and most migration for work is not far from where the poor live. Reliance on multiple occupations and a willingness to temporarily migrate to find work are strategies that reduce risk. If one activity is no longer available or remunerative, another can be pursued. Such a strategy has its costs. By not specializing and investing in specific skills, it is hard to achieve economies of scale and to gain the productivity required for higher income.

While the poor are often entrepreneurial and lead diverse lives, it would be a mistake to romanticize their situation. Living under $1.25 is a constant struggle filled with uncertainty and vulnerability. Among the poor we can identify a group of "ultra-poor," who find themselves barely surviving. A study by the International Food Policy Research Institute (IFPRI) found that in 2004, 162 million people were ultra-poor,

[26]A. Banerjee and E. Duflo, "The Economic Lives of the Poor," *Journal of Economic Perspectives* 21, no. 1 (2007). Also see their book *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* (New York: Public Affairs, 2011).

[27]Calories are obtained from different types of food. Coarse grains, like rice and wheat, are inexpensive to buy and offer an individual relatively cheap calories. Meat is expensive making the calories obtained from meat consumption more costly ones. By investigating the foods poor households consume to obtain their calories, it is possible to estimate the elasticity of spending on calories relative to total food expenditures.