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September 2010

Online at <http://mpra.ub.uni-muenchen.de/30457/>
MPRA Paper No. 30457, posted 22. April 2011 / 21:16

GROWTH ELASTICITY OF POVERTY IN THE GLOBE

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This paper highlights the global economic prosperity and portrays the anatomy of poverty in developing countries. It analyses the incidence of rural and urban poverty persisting in fourteen countries including India. It address the contradiction of coexistence of poverty and hyper economic growth in the globe. It is found that the growth elasticity of poverty is very low in developing countries. It argues that economic growth process can be inclusive and sustainable only by curbing the process of marginalization, corruption and exploitation

1.1 Introduction

Poverty anywhere is a challenge to affluence every where. Poverty persists in the midst of prosperity in the world. Poverty involves infinite variety of circumstantial misfortune experienced both at the household level and societal level. The definition and methods of measuring poverty differs from country to country. Poverty is the syndrome of assetlessness, landlessness, joblessness, deprivation and helplessness. It is not a pure economic phenomena . It has social, cultural, political, historical and geographical dimensions. It has many non economic and non quantifiable dimensions. It is lack of livelihood security and food security. It is hunger ,starvation and vulnerability. Poverty has many faces, changing from place to place and across time, and has been described in many ways. Extreme poverty strikes when household resources prove insufficient to secure the essentials of dignified living. Poverty makes them vulnerable to shocks. The very poor are those who can hardly afford more than one meal a day and depend exclusively one single source of income. That fragility is defined by a lack of education, the absence of work opportunities, the diminution of household back-up resources and exclusion from valuable social and decision-making networks. The trend of migration from poor farming regions raises the incidence of urban poverty, especially in the slum zones of the world's major cities. Nevertheless, poverty remains inextricably linked with the disappointing progress in agriculture and industry. Rural poverty rates are more than double than those in cities, often embracing the majority of the rural population. The most persistent poverty is found amongst ethnic minorities, scheduled castes , tribal and indigenous people experiencing discrimination, and nomadic pastoralists and landless labourer toiling on marginal land.

1.2 Growth Outlook for World

After globalization all sectors of different countries of the world seem to be vibrating with economic buoyancy. The GDP growth in the world has been very impressive. Its is shown in the following table- 1. The growth of developing countries is always higher than OECD countries. But in the long run the growth rate is likely to be slow down everywhere across the globe.

Table-1**GROWTH IN GDP—ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT AND THE WORLD**

| | 1994- 2001 | 2002- 2005 | 2002 | 2003 | 2004 | 2005 | 2006- 2009 | 2010- 2015 |
|--------------------|---------------|---------------|------|------|------|------|---------------|---------------|
| OECD | 3.0 | 2.6 | 1.6 | 2.1 | 3.6 | 2.9 | 3.0 | 3.1 |
| Rest | 4.6 | 5.8 | 4.7 | 6.1 | 6.6 | 5.9 | 5.8 | 6.0 |
| World ^a | 2.7 | 1.4 | 1.8 | 2.8 | 4.0 | 3.3 | 3.2 | 3.3 |

^a Measured using exchange rate method.

Sources: *World Economic Prospects* (OEF 2004 and 2005b), EIU (2004), *World Economic Outlook* (IMF 2004f), and ADB staff estimates.

The growth performance of south Asian countries is better than the high income countries and other developing countries. The following table -2 illustrates the growth of real per capital GDP of different regions. It is found that growth of per capita real GDP in developing countries including south Asia is higher than that the world average.

Table-2: Per Capita Real GDP Growth

| Regions | 1980s | 1990s | 2001- 06 | 2006 -15 |
|-----------------------|-------|-------|----------|----------|
| East Asia & Pacific | 5.8 | 6.3 | 6.4 | 5.3 |
| South Asia | 3.3 | 3.2 | 4.5 | 4.2 |
| Developing Countries | 0.7 | 1.5 | 3.7 | 3.5 |
| Europe & central Asia | 0.9 | -1.8 | 5.0 | 3.5 |
| World | 1.3 | 1.2 | 1.5 | 2.1 |

The Common argument is found among many economists is that growth pick up of 1990s and later is the result of the adoption of a pro-market strategy by different countries. This argument is not valid in case of many countries including India.

This argument is wrong at least of a vast country like India for three reasons:

- 1) growth pick up began a full decade prior to reforms 1991
- 2) post-1991 industrial growth has not accelerated
- 3) uneven growth across regions defies any simple market logic.

Instead, India's economy has grown briskly because the Indian state has prioritised growth since about 1980, and slowly but surely embraced Indian capital as its main ruling ally. This hyper economic growth has created immense excitement and optimism throughout India. It has been achieved largely due to pro-business policy but not due to free-market policy. This pro-business growth strategy, which promotes the self-sector in the garb of private sector is likely to have adverse distributional and political consequences for the country in the long run. Therefore the ongoing rapid economic growth is unlikely to be compatible with the goal of sustainable development nor consistent with inclusive growth.

1.3 Global Poverty

The World Bank calculates an international poverty line by reference to the average of the national poverty lines in 15 of the world's poorest countries. According to World Bank, the number of people living below the international poverty line of \$1.25 per day fell from 1.8 billion to 1.4 billion between 1990 and 2005. China accounted for 465 million of this reduction, implying that poverty has increased elsewhere over this period. In sub-Saharan Africa, the increase was 100 million. However, expressing global poverty as a percentage reverses the trend due to the rising global population. For example, extreme poverty in sub-Saharan Africa has fallen slightly from 57% to 51% between 1990 and 2005. The wealth of our new millennium has tended to increase inequality rather than reduce poverty. The UNDP has reported that, in 2005, the richest 500 people in the world earned more than the poorest 416 million. Global poverty is then assessed by reference to "data from 675 household surveys across 116 developing countries", according to the World Bank. This data is compared to the \$1.25 benchmark, not by standard currency exchange rates, but by purchasing power parity (PPP) rates which smooth out the different buying power of the dollar in each country. The World Bank figure of \$1.25 per day was intended to be a bottom marker. Unfortunately, the two countries with the largest populations in the world, India and China, have both defined national poverty lines which are even lower. India's poverty line is \$1.02 which gives a national poverty rate of 26%, compared to 42% on the international basis. In China the gap is even wider, tripling its national poverty numbers to over 200 million. These inconsistent measures are the source of much confusion. A second tier international poverty line of \$2 per day is derived from the average of national poverty lines in all lower and middle income countries. The Bank reports that 2.6 billion people live below this benchmark, a figure which has changed little since 1981. Indeed a slightly higher benchmark of \$2.50 per day captures more than half of the world's population.

1.4 Poverty In Asia & Europe

People living with less than \$1 per day constitute the poor of the world. The following table-3 depicts that population below this international poverty line has declined.

Despite these heartening prospects, there is no room for complacency. Globally, there will be a rather extreme regional concentration of poor between 1990 and 2015. BY 2015 it is projected to decrease to the level of 0.9 % in east Europe, 1.2% in China, 12.8 % in South Asia and 0.4 % in Europe and central Asia. Despite these heartening prospects, there is no room for complacency. Globally, there will be a rather extreme regional concentration of poor between 1990 and 2015.

Table-3: Population(Millions) Living On Less Than \$1 Per Day

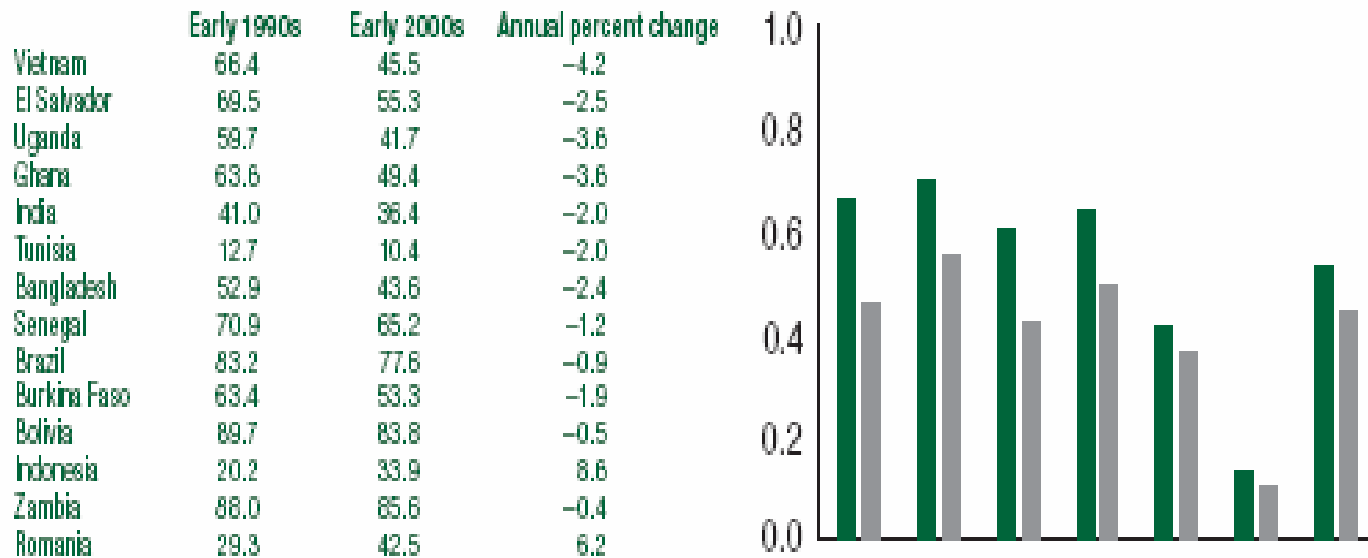
| Region | 1990 | % | 2002 | % | 2015 | % |
|---------------------|--------|------|--------|------|-------|------|
| East Asia & Pacific | 472.0 | 29.6 | 214.0 | 14.9 | 14.0 | 0.9 |
| China | 375.0 | 33.0 | 180.0 | 16.6 | 11.0 | 1.2 |
| South Asia | 462.0 | 41.3 | 437.0 | 31.3 | 232.0 | 12.8 |
| Europe and CA | 2.0 | 0.5 | 10.0 | 3.6 | 4.0 | 0.4 |
| Total | 1218.0 | 27.9 | 1011.0 | 21.1 | 617.0 | 10.2 |

a. Rural Poverty :

We estimated rural poverty in selected fourteen countries . It is found that after globalization we notice that Percentage of rural poverty has increased in Indonesia and Romania . It is depicted in Figure-1. But poverty in rural areas has decreased in other countries among which Vietnam has reduced it poverty by 4.2% annually followed by Uganda and Ghana. But India has been able to reduce it poverty from 41% in early 1990s to 36.4% in early 2000s. India's rural poverty has fallen by 2% per annum during 1990s and 2000s.

Figure-1

Rural poverty headcount (percent, selected years, early 1990s–early 2000s)

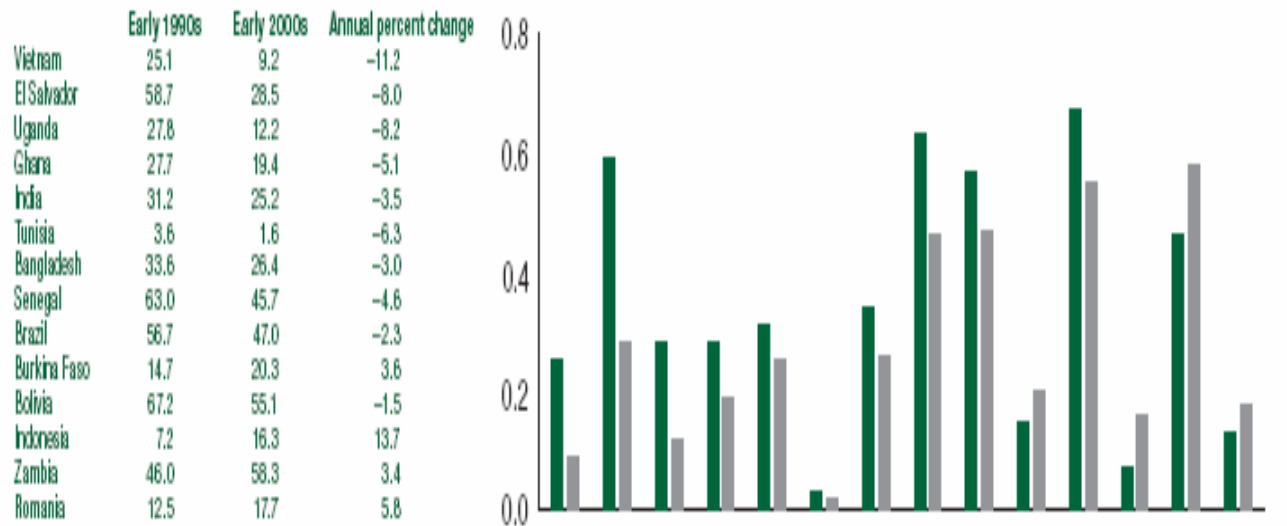


b. Urban Poverty :

When we computed urban poverty in selected 14 countries, it is found that after globalization percentage of urban poverty has increased in Indonesia, Romania, Zambia and Burkina Faso. It is shown in Figure-2. But poverty in urban areas has decreased in other countries among which Vietnam has reduced its poverty by 11.2% annually followed by Uganda and El Salvador. But India has been able to reduce its urban poverty from 31.2% in the early 1990s to 25.2% in the early 2000s. India's urban poverty has fallen by 3.5% per annum during the 1990s and 2000s.

Figure -2:

Urban poverty headcount (percent, selected years, early 1990s–early 2000s)

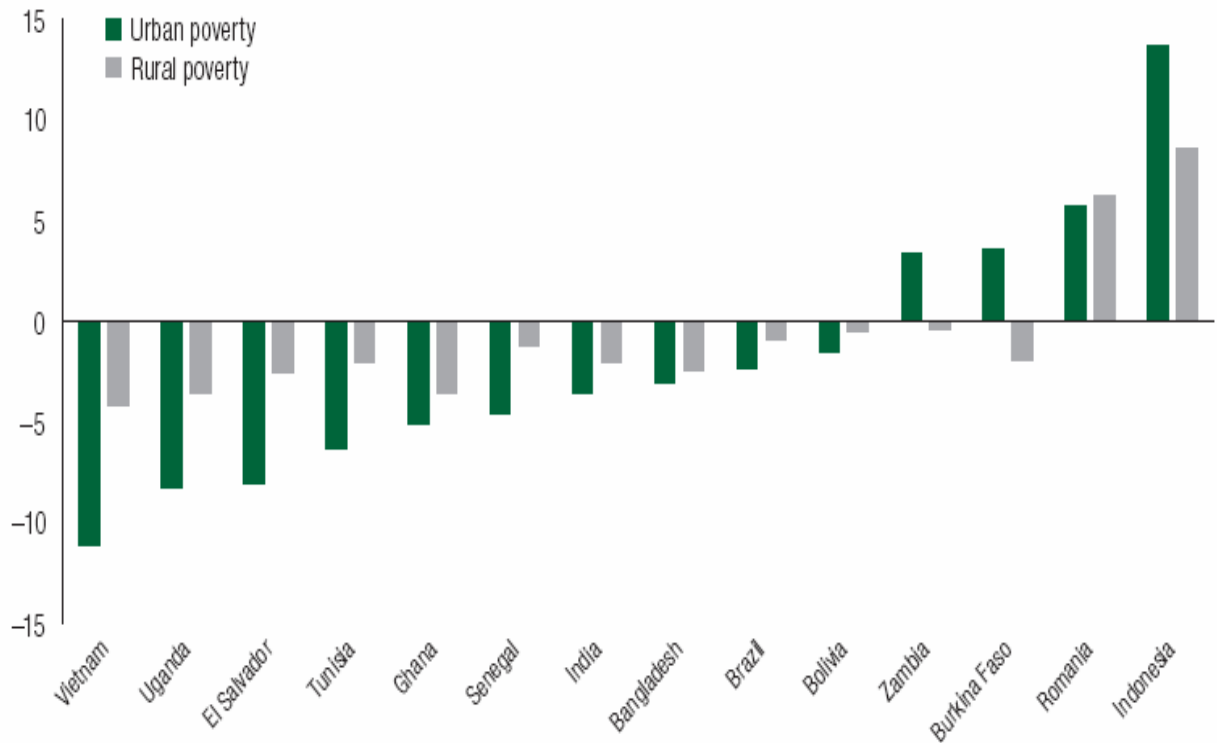


Source : World Bank study,2005

It is also observed that urban poverty has decreased more than rural poverty in most of the countries. But in Zambia and Borkina Faso rural poverty has increased while urban poverty has declined. It is illustrated in Figure-3. Both rural and urban poverty has increased in Romania and Indonesia.

Figure-3 :

Annual change in poverty headcount (%)



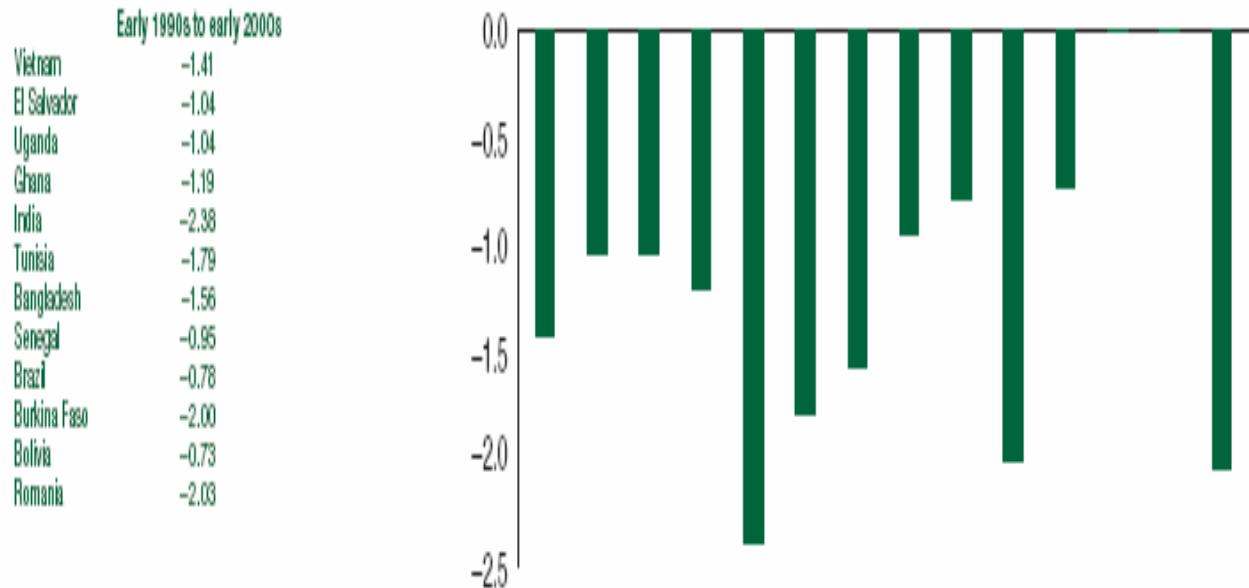
1.5 Growth Elasticity of Poverty

Economic growth has favourable effect on poverty reduction in all countries except Zambia and Indonesia. It is depicted in the following Figure no.4. Therefore growth elasticity of poverty is negative for 12 countries but positive for two countries. The growth elasticity poverty is the highest for India followed by Romania and Borkina Faso. This implies that the percolation effect of higher economic growth is significant for India and Romania. But the effect of economic growth on poverty reduction in India is lower than China, Singapore, Thailand and Malaysia.

Figure-4:

Growth elasticity of poverty (selected years, early 1990s–early 2000s)

Note: Data for Indonesia and Zambia are not included as they had negative growth.



1.6 Global income Inequality:

It is also seen from the following table No.4 that poverty very high in India. Population living below \$2 per day comprise of 86 % of India's population, while it is 52% in case of China. It is also noticed that Gini coefficient is very high in Brazil, Thailand, EU and USA, which indicates that income inequality is embedded in economic growth and prosperity. Confluence of economic growth does manifest in social polarization.

Table-4 : Some Poverty Indicators across Nations

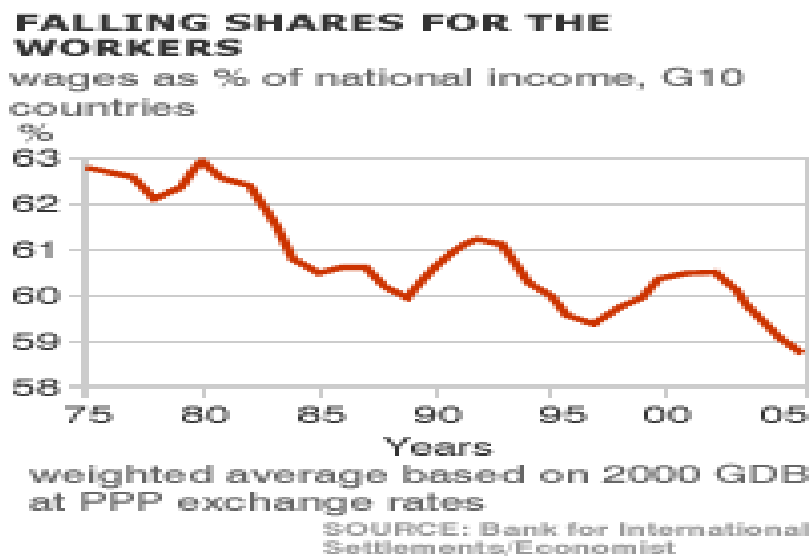
| Countries | Gini (Year) | % Population with less than \$ 2 per day | % Population below poverty line |
|-----------|-------------|--|---------------------------------|
| US | 45 (2004) | 0 | 12 |
| EU | 32 (2003) | 0 | 6.5 (France) 5.9 (Austria) |
| China | 44 (2002) | 52.6 | 10 |
| India | 32.5 (2000) | 86.2 | 25 |
| Singapore | 42.5 (1998) | 0 | n.a |
| Thailand | 51.1 (2001) | 28.2 | 10 |

| | | | |
|--------|-------------|------|----|
| Brazil | 59.7 (2004) | 26.5 | 22 |
|--------|-------------|------|----|

1.7 Labour Share in GDP.

Poverty and inequality is persisting in the globe due to the fall in worker's share in all economic activities. It is illustrated in figure -5 that the wage share of workers as a percentage of national income has been declining in G10 countries. Because the space for capital is ever increasing due to the mechanization process around the globe. The ever increasing capital output ratio is resulting in negative correlation between output and employment in different countries, more sharply in emerging economies of the world.

Figure- 5



1.8 Poverty in India

India is acclaimed as the economic superpower, fourth largest economy with second fast growing country in the world. But it continues to remain one of the poorest countries in the world. India has one-third of the world's poor. After globalisation the recent economic growth of India have mainly helped upper and middle class Indians. About 34.7% of India population still live on less than US\$1 a day and 79.9% live on US\$2 per day. About 260 million live (on less than \$1 a day) in poverty. According to the World Bank estimate of 2005, 42% of India's falls below the international poverty line of \$1.25 a day (PPP, in nominal terms Rs. 21.6 a day in urban areas and Rs 14.3 in rural areas); having reduced from 60% in 1980. According to the criterion used by the Planning

Commission of India 27.5% of the population was living below the poverty line in 2004–2005, down from 51.3% in 1977–1978, and 36% in 1993-1994. While poverty rates in India are high, they are not at par with what neighbouring Pakistan and Bangladesh experience.

The India State Hunger Index 2008 is measured by the International Food Policy Research Institute. Punjab has the best nutritional situation, whereas malnutrition in Madhya Pradesh is worse than in Ethiopia or Sudan. India has a higher rate of malnutrition among children under the age of three (46% in year 2007) than any other country in the world. Despite significant economic progress, 1/4 of the nation's population earns less than the government-specified poverty threshold of 12 rupees per day (approximately USD \$0.25). Official figures estimate that 27.5% of Indians lived below the national poverty line in 2004-2005. A 2007 report by the state-run National Commission for Enterprises in the Unorganised Sector (NCEUS) found that 77% of Indians (or 836 million people) lived on less than 20 rupees (approximately USD \$0.50 nominal; \$2 PPP) per day.

Poverty in India is reducing but it continues as a major national issue. Rural Indians depend on unpredictable agriculture incomes, while urban Indians rely on jobs that are, at best, scarce. Since its independence, the issue of poverty within India has remained a prevalent concern. Millions of people in India are unable to meet the basic standards, and according to government estimates, in 2007 there were nearly 220.1 million people living below the poverty line. Nearly 21.1% of the entire rural population and 15% of the urban population of India exists in this difficult physical and financial predicament. The division of resources, as well as wealth, is very uneven in India - this disparity creates different poverty ratios for different states. For instance, states such as Delhi and Punjab have very low poverty ratios. On the other hand, 40-50% of the populations in Bihar and Orissa live below the poverty line. Recently Tendulkar reports and Saxena Committee report have estimated that degree poverty in backward states like Orissa is above 57%.

Income poverty declined significantly between the mid-1970s and the end of the 1980s. The decline was more pronounced between 1977-78 and 1986-87, with rural income poverty declining from 51% to 39%. It went down further to 34% by 1989-90. Urban income poverty went down from 41% in 1977-78 to 34% in 1986-87, and further to 33% in 1989-90. **After** post-economic reform period evidenced both setbacks and progress. Rural income poverty increased from 34% in 1989-90 to 43% in 1992 and then fell to 37% in 1993-94. Urban income poverty went up from 33.4% in 1989-90 to 33.7% in 1992 and declined to 32% in 1993-94.

Table- 5 : Profile of Poverty in India(in %)

| Year | 1972-73 | 1977-78 | 1983-84 | 1987-88 | 1993-94 | 1999-00 | 2004-05 | 2007 |
|----------------|---------|---------|---------|---------|---------|---------|---------|------|
| Round | -- | 32 | 38 | 43 | 50 | 55 | 61 | 63 |
| Rural | 54 | 51 | 45.6 | 39 | 35 | 27.09 | 28.34 | 21.7 |
| Urban | 44 | 38 | 42 | 40 | 41 | 23.62 | 25.21 | 15.1 |
| Poverty | 51 | 48 | 44.5 | 38.9 | 36.0 | 26.9 | 27.5 | 19.8 |

Also, NSS data for 1994-95 to 1998 show little or no poverty reduction. The evidence till 1999-2000 was that rural poverty had increased during post-reforms period. However, the official estimate of poverty for 1999-2000 was 26.1%, a dramatic decline that led to much debate and analysis. The latest NSS survey for 2004-05 shows poverty at 28.3% in rural areas, 25.7% in urban areas and 27.5% for the country as a whole, using uniform recall period consumption. These suggest that the decline in rural poverty over the period during 1993-94 to 2004-05 actually occurred after 1999-2000. In summary, the official poverty rates recorded by NSS are as shown in the above table-5. Poverty in India persists due to both economic and non economic factors. The economic factors are correlates while non economic factors are the causes of poverty in India. It is very widespread and acute. The failure of macro-economic policies of the 1980s and 1990s created pressure on world leaders to find an approach which delivered measurable results for poverty reduction. This led to the Millennium Declaration, committing governments to eight Millennium Development Goals (MDGs) with targets to be met by 2015. Apart from the goal to provide primary education for all, the targets aim for reduction rather than elimination of poverty.

Since the early 1950s, government has initiated, sustained, and refined various planning schemes to reduce poverty in India. The central Govt and the State Govts of India have implemented several programmes to eradicate poverty in India. Despite all these schemes and programmes, there is persistence of poverty and malnutrition among people. According to the *New York Times*, it is estimated that about 42.5% of the children in India suffer from malnutrition in India. The World Bank, citing estimates made by the World Health Organization, states "that about 49 per cent of the world's underweight children, 34 per cent of the world's stunted children and 46 per cent of the world's wasted children, live in India." The World Bank also noted that "while poverty is often the underlying cause of malnutrition in children, the superior economic growth experienced by South Asian countries compared to those in Sub-Saharan Africa, has not translated into superior nutritional status for the South Asian child.

The poverty ratio in India has declined over the last two decades. The several rounds of NSS data depicts that both rural and urban poverty have reduced after 1970s. It is largely due to economic growth. The rate of decline in poverty is much slower in rural areas as compared to urban areas. Rural poverty ratio declined at an annual rate of 2.5% during 1970s and 1980s. During 1990-98 the rate has dropped to 0.73. On the other hand the urban poverty declined at the rate of 2% per annum during 1970s and 1980s and at 3.05 % during 1990-98.

In 1947, the average annual income in India was \$439, compared with \$619 for China, \$770 for South Korea. But South Korea became a developed country by 2000s. At the same time, India was left as one of the world's poorest countries. India had Hindu rate of growth which stagnated around 3.5% from 1950s to 1980s, while per capita income averaged 1.3%. License Raj prevailed with elaborate licenses, regulations and the accompanying red tape. Corruption flourished under this system. The labyrinthine bureaucracy often led to absurd restrictions. India had started out in the 1950s with: high growth rates, openness to trade and investment, a promotional state, social expenditure awareness and macro stability. But we ended in 1980s with low growth rates (Hindu

rate of growth), closure to trade and investment, restrictive state (License Raj), inability to sustain social expenditures. Poverty has decreased significantly since 1980s but India currently adds 40 million people to its middle class every year. An estimated 300 million Indians now belong to the middle class; one-third of them have emerged from poverty in the last ten years.

There is high level of dependence on primitive methods of agriculture. There is a surplus of labour in agriculture. Farmers are a large vote bank and use their votes to resist reallocation of land for higher-income industrial projects. While services and industry have grown at double digit figures, agriculture growth rate has dropped from 4.8% to 2%. About 60% of the population depends on agriculture whereas the contribution of agriculture to the GDP is reduced to about 18%. Agriculture sector has remained very unproductive with high degree of disguised and seasonal unemployment. There is little modernization of agriculture despite some mechanization in some regions of India. The irrigation facilities are not growing in large part of the country.

1.9 Concluding Remarks

The above analysis with secondary data can be summed up in five conclusions as follows.

1. Growth is a necessary condition but not sufficient condition for reducing poverty. The employment elasticity of investment in all sectors of global economy has been declining. Capital-output ratio has been increasing in all economic activities. Productivity, efficiency and profitability are rising in the corporate sector, but its percolation effect on the society is less than significant. The share of labour in the global GDP is continually declining. Different countries have been experiencing dramatically increase income inequality. This is not a surprise to most people. The insensitivity towards the process of marginalization has been increasing with the prosperity at the top. The economic process interlocks poverty instead of addressing it. The rise in inequality is explained in terms of an increase in the relative share of output going to capital as compared to labour, and drop in the rate of labour absorption and the rapid growth of the services sector. The truth is that while a minority of the population (around 20 per cent) has indeed benefited greatly from the economic policies and processes of the last decade, for the majority of the rural population and a significant part of the urban population, things have become worsened.

2. Globally, there will be a rather extreme regional concentration of poor between 1990 and 2015. Confluence of economic growth manifest in social polarization and regional concentration of poverty. There are two contrasting and complementary reasons reducing global poverty. First reason is ethical. It springs from religious teaching. This finds secular expression in the 1948 Universal Declaration of Human Rights which asserts that "everyone has the right to a standard of living adequate for the health and well-being of himself and of his family." The second reason lies in self-interest. In a globalised world, countries large and small are interdependent. Poverty anywhere is a threat to prosperity every where. Extreme poverty is the engine of international labour migration which the richer countries are notoriously reluctant to accommodate. The spread of any disease is more difficult to control if weak countries lack capacity to deliver an appropriate

response. Whilst the risk of terrorism is often complex in origin, extreme poverty is the ideal recruiting ground for its foot soldiers.

3. India has been experiencing very impressive economic growth during last two decades. It has attained the distinction of fourth largest economy and the second fastest growing economy of the world. However “Economic Growth”, per se, is not sacrosanct. The growth elasticity of poverty is very low in India compared to many countries. Regional disparity has been increasing along with higher economic growth. The poorest 75% of the Indian population lives in the poorest regions, and particularly in the rural areas of India. India’s economic growth process of last two decades is unlikely to become sustainable nor inclusive. Therefore higher growth is not the best antidote for removing mass poverty and unemployment.

4. Income inequality is greater than it has ever been in world economic history. The richest 25% of the world's population receives 75% of the world's income, even when adjusting for Purchasing Power Parity. Economic growth that does not lead to sharp and sustained reductions in poverty may create more problems than it solves. Similarly, if rapid growth is achieved at the expense of a worsening in the distribution of resources, it ultimately becomes unsustainable, since it engenders social tensions.

5. There is most remarkable improvement in consumption urban rich class but the most dramatic evidence is for the bottom 80 per cent of the rural population whose per capita consumption has actually declined since last two decades of impressive economic growth. The inequality arise out of the differences in the capabilities and ownership of assets. The hyper growth of informal sector in developing countries is fueling the growth of inequality by powerful process of casualisation and contractualisation. Corruption and exploitation is the major cause of poverty and inequality across the world. Hyper consumerism has raised the propensity to maintain higher standard of living by making black money or easy money has increased. Gradually illegal activities are finding greater permissiveness in the society. Ironically corruption is often associated with efficiency . Therefore illegal accumulation of money in one generation results in wealth-inequality for the succeeding generations. Thus inequality of income and wealth prevails in the long run. Poverty can be reduced by curbing the process of marginalization and wealth accumulation.

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