

The 8th ASEAN & Japan High Level Officials Meeting on
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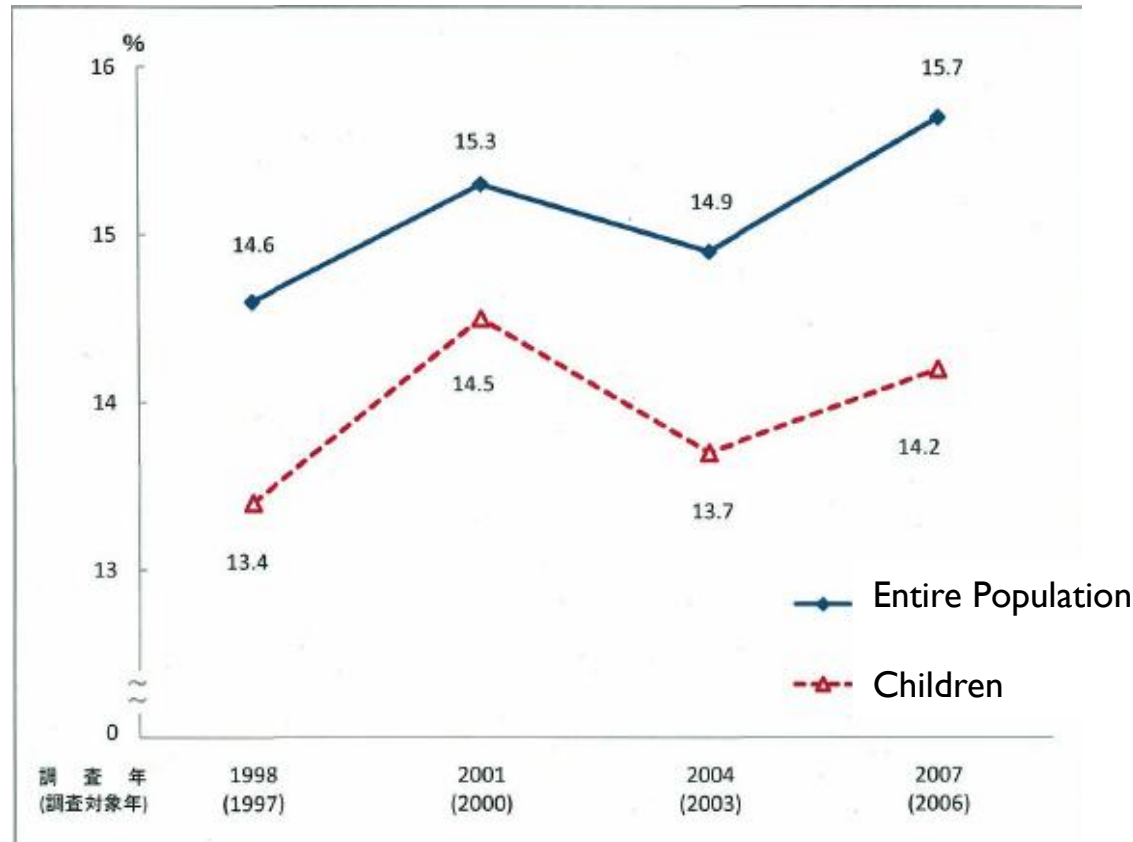
UNDERSTANDING POVERTY : CONCEPTS AND ITS CONSEQUENCES

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Has Japan Eliminated Poverty?

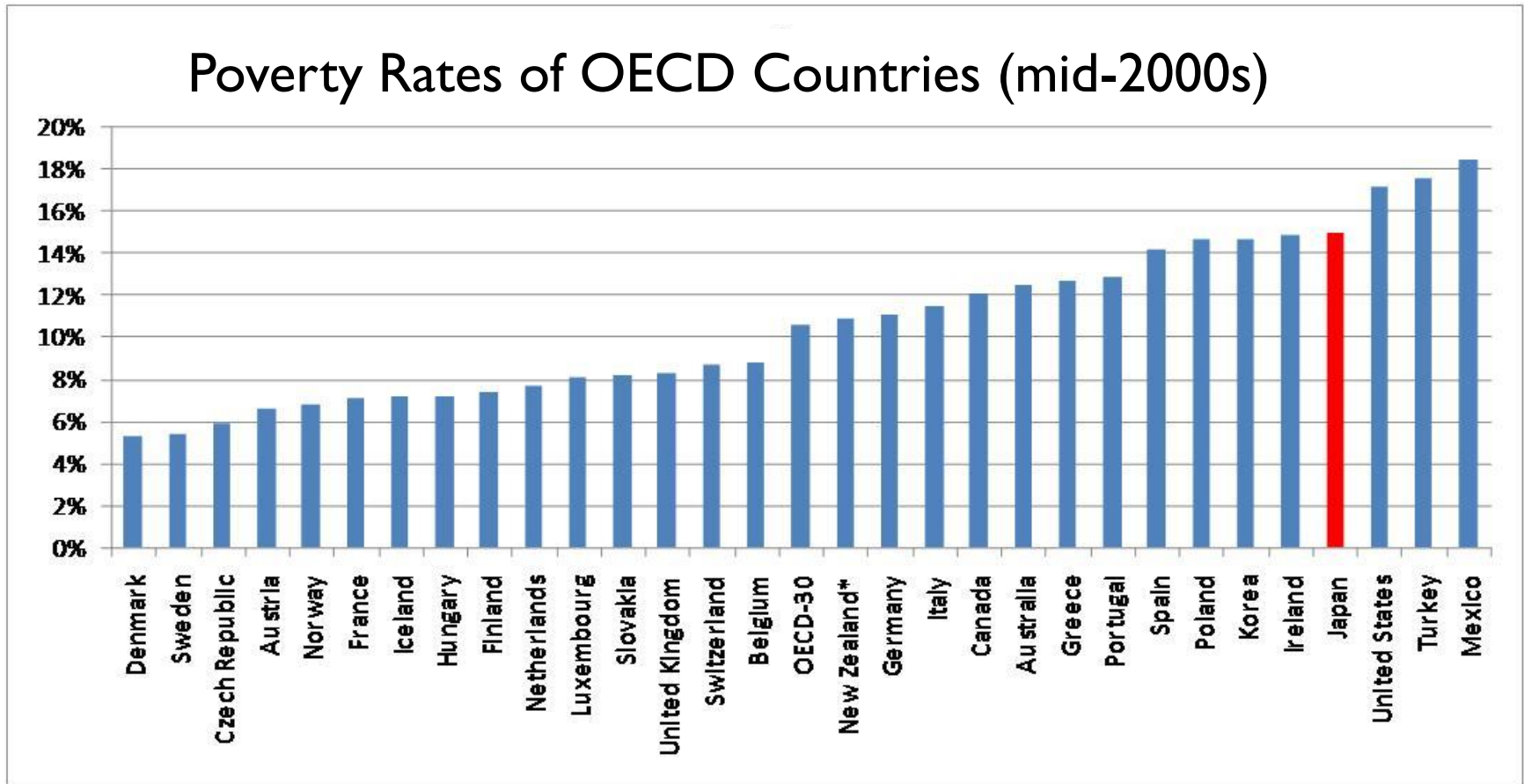
Relative Poverty rate of Japan 1990-2000



Source : MHLW (2009.10)

- Child = Under 18 yrs
- Poverty rate defined by OECD

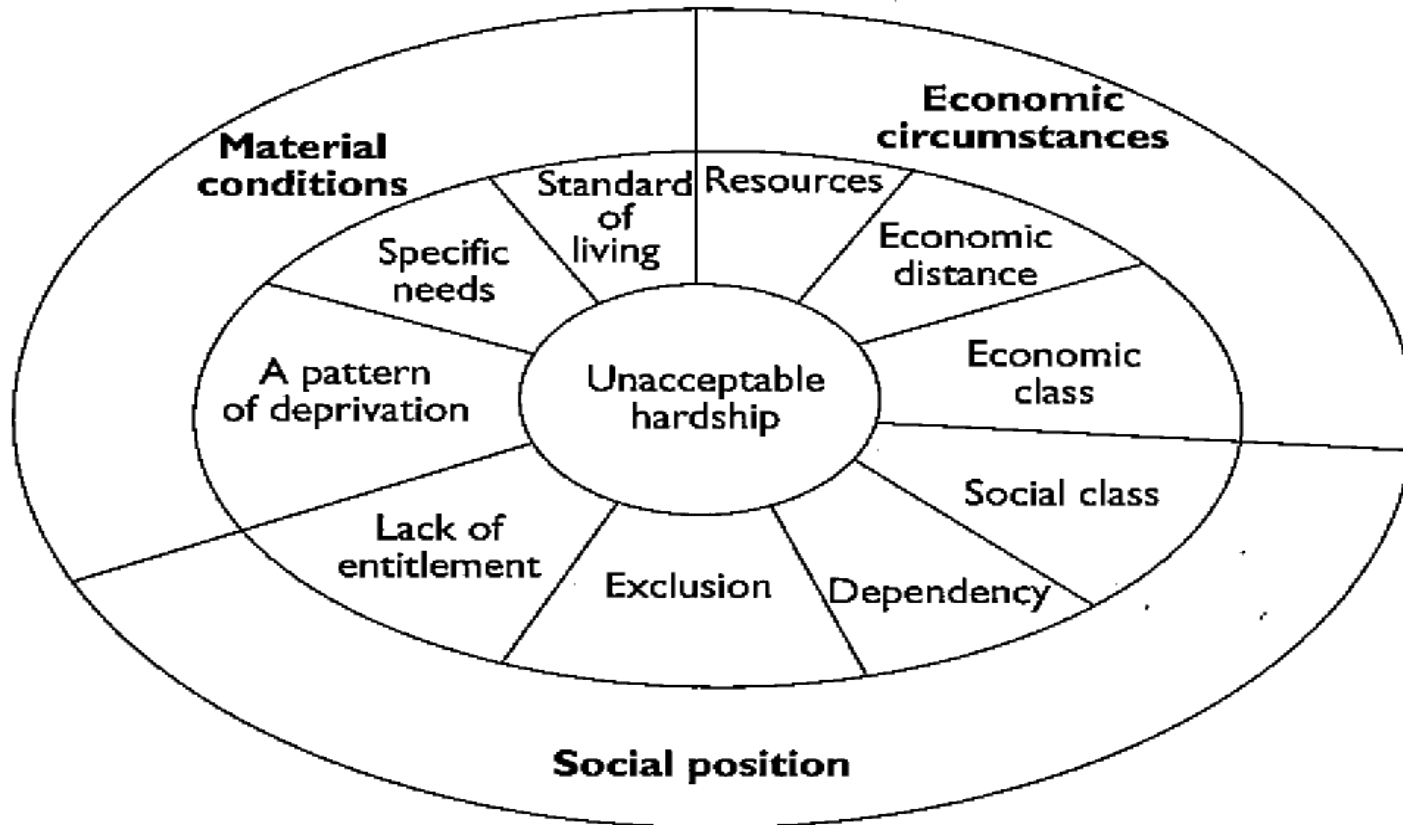
Japan is the 4th highest poverty nation among OECD countries !?



Source : OECD 2008

What is Poverty?

Figure 1.1: Family resemblances between different concepts of poverty



Source: P Spicker, 1999, 'Definitions of poverty: eleven clusters of meaning', in D Gordon and P Spicker (eds) *The international glossary on poverty*, London: Zed Books. Reproduced with permission.

Conceptual understanding of poverty

- ▶ “things which are necessary for a person’s physical, mental, spiritual, moral and social well-being” (UN Convention of Human Rights)
- ▶ “one that affords full opportunity to participate in contemporary society... It is moderate in the sense of laying both above the requirements of survival and decency and well below levels of luxury as generally understood” (US Watt’s Committee)
- ▶ “A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.” (UK MIS)
- ▶ “(to be able to live a) life without shame” (Sen)

Differences between Inequality and Poverty

- ▶ Inequality = Concept describing the status of distribution, without any value judgment; income inequality, land inequality, education inequality, social inequality, health inequality,
- ▶ Poverty = Unacceptable level of living standard; a status which is considered to necessary for a society to take an action (Iwata 2005)

Is it possible to scientifically measure poverty ?

Long History of poverty measurements based on social surveys in the UK

- ▶ Charles Booth, London study (1889)
- ▶ Seebalm Rowntree, First York study (1899)
- ▶ Peter Townsend (1979) *Poverty in the United Kingdom*
- ▶ *Poverty and Social Exclusion Survey (1999, 2010)*

Many social surveys to follow in various countries including Japan

Many Dimensions of Poverty Indexes

- ▶ Objective **vs.** Subjective
- ▶ One-dimensional **vs.** Multi-dimensional
- ▶ Static (One point in time) **vs.** Dynamic (Multi points in time)
- ▶ Head count (household count) = Frequency **vs.** Depth of poverty
- ▶ Absolute **vs.** Relative

Absolute Poverty vs. Relative Poverty

□ Absolute Poverty

A level of minimum need, below which people are regarded as poor, for the purpose of social and government concern, and which does not change over time (OECD)

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. (UN The Copenhagen Declaration and Program of Action, 1995)

Does not change over time, does not change from a society to society, a country to another.

→ Some think this is minimalistic, ignores lifestyle, social relationship and ability to participate in society



□ Relative Poverty

People are relatively deprived if they cannot obtain, at all, or sufficiently, the conditions of life— that is, the diets, amenities, standards and services which allow them to play the roles, participate in the relationships and follow the customary behaviour which is expected of them by virtue of their membership of society. If they lack or are denied the incomes, or more exactly the resources .. to obtain access to these conditions of life they can be defined to be in poverty. (Townsend 1979 in Spicker 2007)

The poverty depends on not only what the poor have, but also on what non-poor.



Absolute and Relative Poverty (Cont'd)

- ▶ Tea in the UK context
- ▶ Even food is different from a culture to culture
- ▶ Each society has “norms” – not ‘averages’, but expectations and rules. (Spicker 2007)
 - ▶ Social relations (e.g. to be able to go to wedding of a relative)
 - ▶ Norms (e.g. have to wear school uniform)
- ▶ Telephone, refrigerator – “needs” change according to development of society

Characteristics of poverty

1. Precarious livelihoods
2. Excluded locations
3. Physical health
4. Gender relationship
5. Lack of Social relationship
6. Lack of security (not having protection)
7. Abuse by those in power
8. Disempowering institutions
9. Weak community organizations (social capital)
10. Limitations on the capabilities of the poor (individual and collective)



Poverty Indexes①

One-dimensional vs. Multi-dimensional

▶ One dimension (or indirect) index

Mostly income or consumption data. Income (or consumption) is regarded as a proxy of the living standard, and low-income (or low-consumption) is defined as poor.

Many empirical studies have found that there is a strong correlation between income and other dimensions of poverty (such as material deprivation, poor health, so forth). However, the correlation is not perfect. Does not take into effect of stock of resources (savings, wealth, social capital, good health, etc.

▶ Multi-dimensional (or direct)

Acknowledging that the poverty surfaces in many dimensions (such as health, housing condition, material possession, social relationship, etc.), measures many different data spanning many dimensions.

- poor in one dimension does not necessarily mean poor in another.
- the issue of compounding different dimensions, and determining poverty threshold.

Poverty Indexes ② Static vs. Dynamic

▶ Static (One point in time)

Measures poverty in one specific time point.

Poor in one year may not be poor in another.

By measuring savings and other accumulative wealth, it is possible to deduct poverty status in the past, but it is not certain.

Cannot distinguish Chronic poverty and transient poverty.

▶ Dynamic (Multiple points in time)

Acknowledges that poverty is a process of downward spiral.

Can distinguish between chronic and transient poverty.

Need a panel-data set to measure.

Poverty Indexes ③

Head count vs. Compound Index

- ▶ Head (household) count

Ratio of those who are poor. Frequency of Poverty.

For example: Poverty rate

Does not distinguish between deep and shallow poverty

Easiest to understand, yet, easy to misguide.

- ▶ Compound Index

Considers frequency and depth of poverty.

For example: Poverty gap, Sen indexes, etc.

Hard to understand conceptually

Unraveling Effects of Poverty and Inequality

Is it enough to simply solve the absolute poverty?

Effects of Poverty on an individual

- ▶ Poverty inhibits development of human capital
 - ▶ Poverty not only inhibits the development of human capital for that certain individual and reduces his/her productivity, but reduces purchasing power and savings of those at the bottom of the society as a whole, and thereby reduces economic growth.
- ▶ Poverty fosters criminal activity and social instability
 - ▶ Poverty reduces the opportunity cost of those at the bottom of the society to engage in criminal activities.
 - ▶ Criminal activities and social instability not only requires the state to spend direct resources on justice system, police, etc., but they also reduce the productivity of those who engage in such activities, and also hampers productive investments in the poor areas.

Does Inequality and/or poverty foster (inhibit) economic growth?

- ▶ Kuznets(1955): Kuznets' Curve predicted that inequality rises initially as a nation develops and then lowers
 - ▶ However, this theory was developed using early 19th century data on three countries, and the same pattern cannot be seen in other countries lately.
- ▶ 1990's: Era of Cross Country Analysis
 - ▶ Early empirical evidences using cross country data show that the growth and equality are negatively associated, i.e. more unequal, higher growth.
- ▶ 2000's : Era of Panel data analysis
 - ▶ However, after more sophisticated panel data analysis show that after controlling for country specific effects, the growth and equality are positively associated at least in developed countries.

Poverty and Growth

- ▶ More precise measurement of distribution, looking at the lower section of the income pyramid shows that **poverty** and growth is definitely **negatively correlated**.
- ▶ Income share of middle quintile has positive relationship with growth (Partridge 1997 in US GAO)
- ▶ Poverty rate, independent from inequality, has negative effect on growth (Dev Bhatta 2001 in US GAO)
- ▶ Income inequality in upper income strata fosters growth, but income inequality between middle and low strata hampers growth (Voitchovsky2005 in US GAO)

Then, is it only poverty that we need to address?

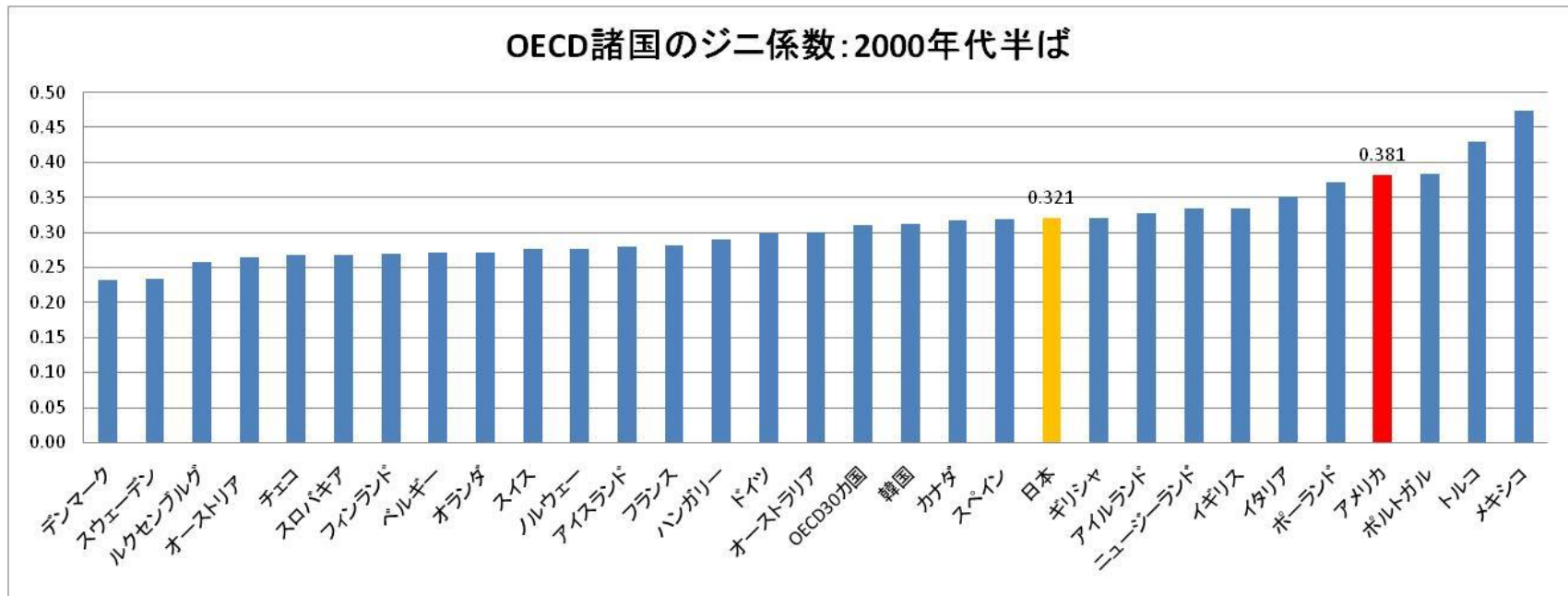
Some say “Inequality is GOOD”

- ▶ Inequality is a result of individuals’ effort and ability. Inequality fosters competition which gives incentive to work harder.

But others say “Inequality is BAD”

- ▶ Inequality fosters “unfair” competition.
- ▶ Too much inequality causes people to lose incentive.

Japan as “unequal” society



- ▶ The myth of Japan as an equal society

How does inequality affect society?

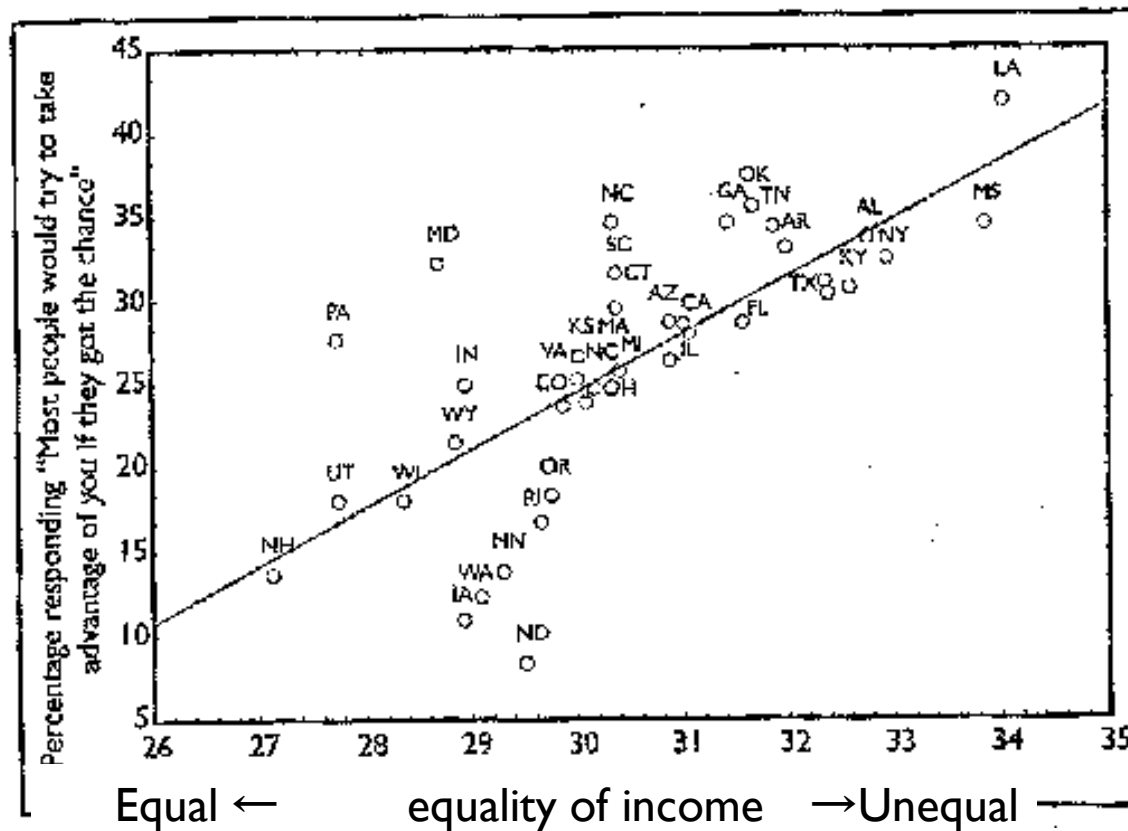
- ▶ There are amounting evidences that that **inequality** is detrimental to people's health, social relations, social trust and social capital.
- ▶ It is not just that there are more unhealthy people in an unequal society, but the distribution of health of entire population shifts towards ill health.

Inequality and Social Relations

- ▶ Previously, individual's behaviour (kind-unkind, sociable-unsociable, hostile-friendly, so on.) is random combination of personalities governed by DNA, so on.
- ▶ However, social surveys reveal that people's behavior and likeliness to trust others is very different from a region/country to another.
- ▶ Individual's behavior is affected by **Inequality** in society.
- ▶ “**Social Capital**” (Putnam 2000) capacity of people to act with others, to trust one another, to build a community

Unequal Society has less social capital

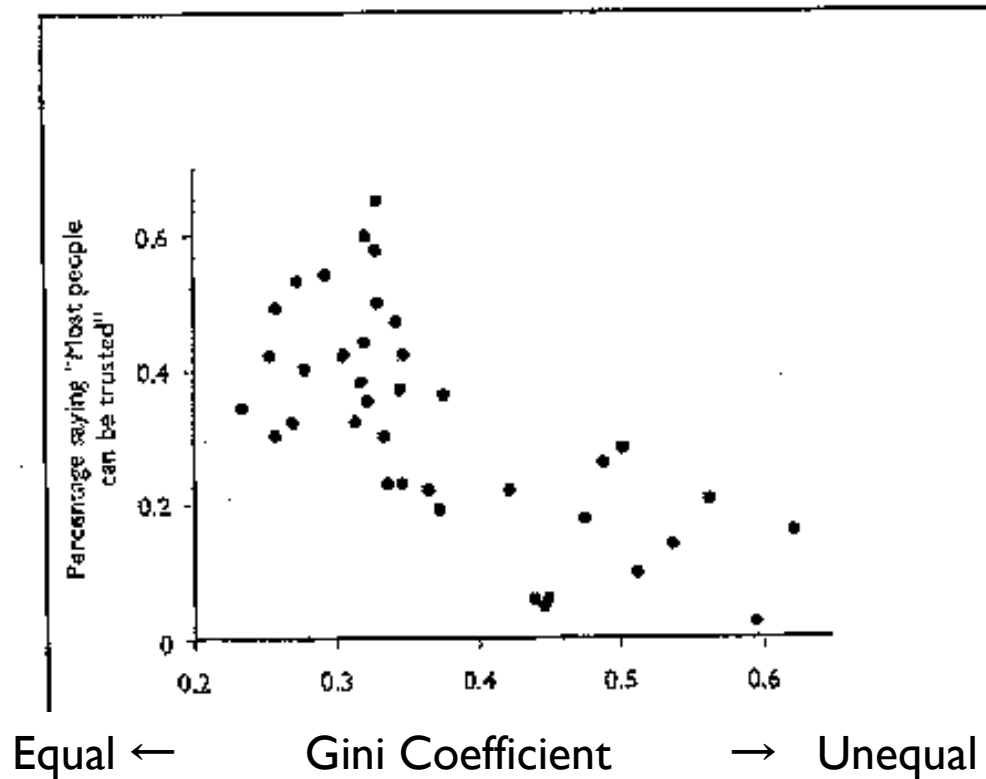
where income differences are greater



Source: Kawachi & Kennedy (1997) (in Wilkinson, p.41, Fig 2)



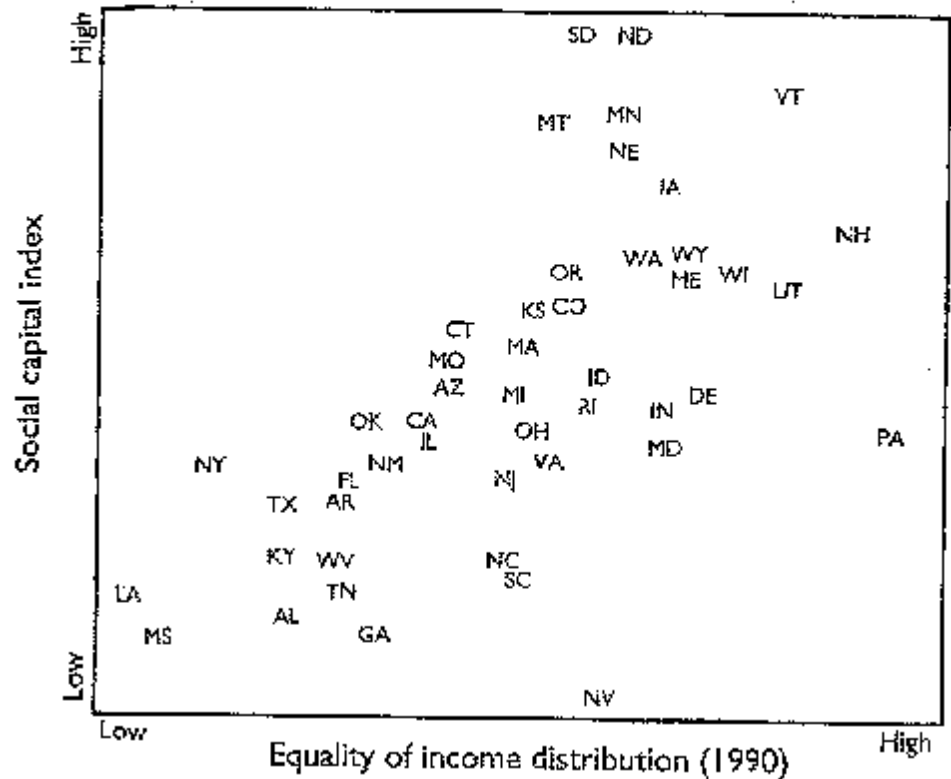
Figure 2.2: People trust each other less in countries with larger income differences



Source : Uslaner (2002) in Wilkinson, p.42

- ▶ Community activities (volunteer activities, local involvement – sports, PTA, hobby groups, voting in local elections, reading local newspaper, etc.) and income inequality has negative relationship (Putnam et al. 1993)

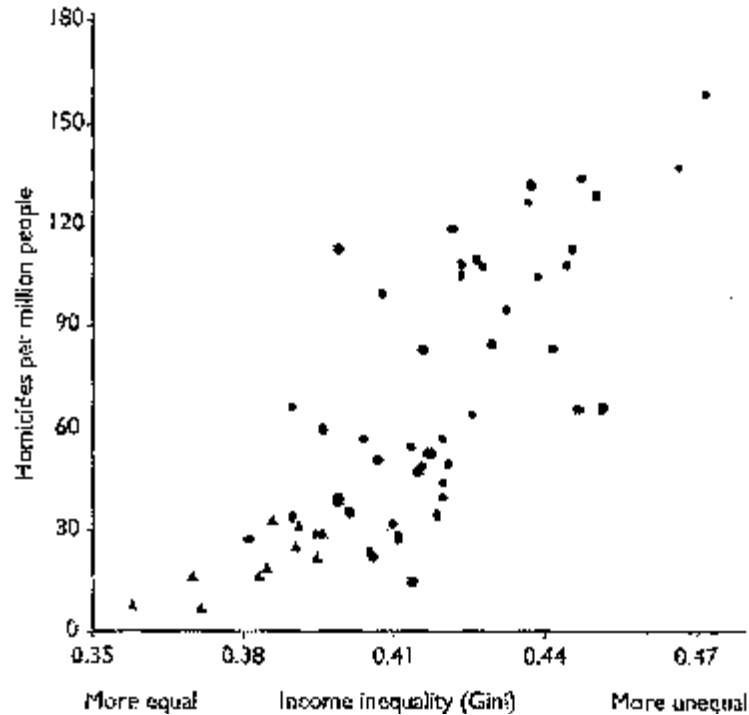
Figure 2.3: Social capital is higher in U.S. states in which incomes are more equal



Source: Putnam 2000 in Wilkinson, p.45 F.2.3

Inequality and Crime (Homicide)

Figure 2.4: Homicide rates in relation to income inequality among U.S. states and Canadian provinces

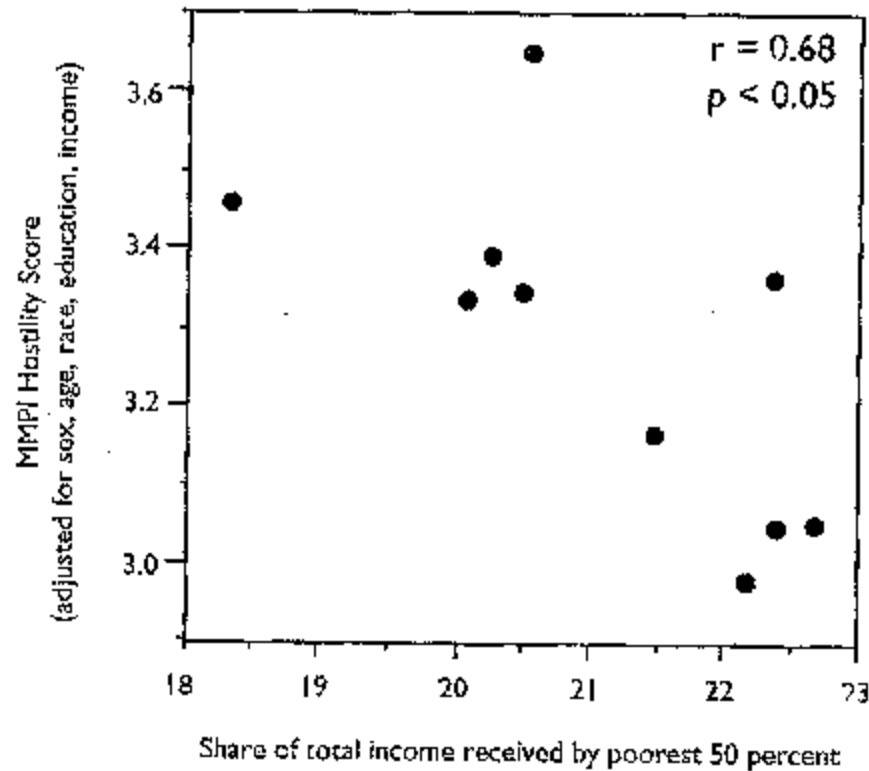


Unequal ← % of income earned by bottom half of the society → Equal

- ▶ Unequal regions have higher homicide rate

Inequality and Hostility of People

Figure 2.6: Hostility levels are lower in more equal cities



Unequal ← % of income earned by bottom half of the society → Equal

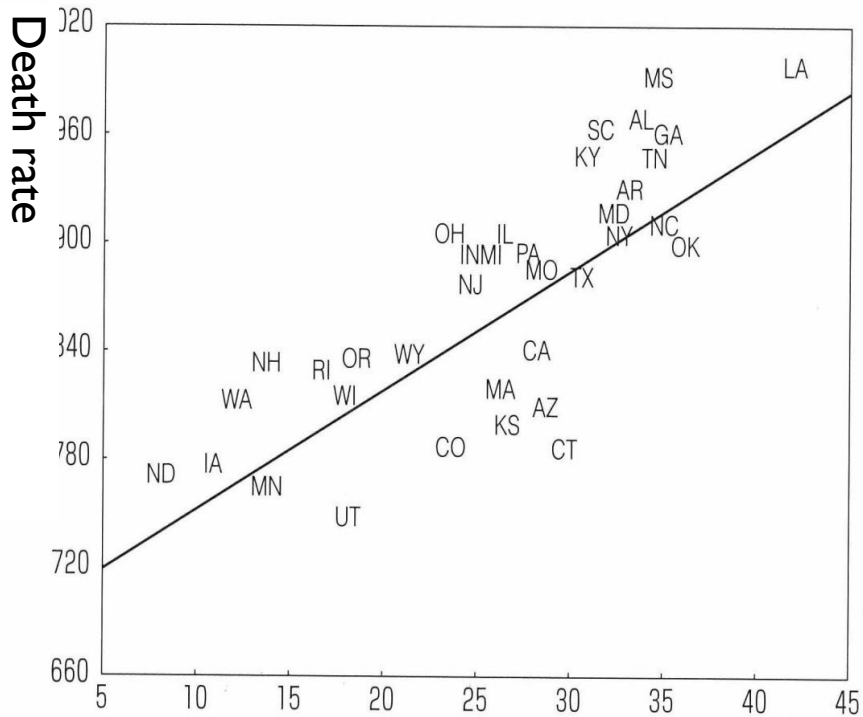


Unequal society are :

- ▶ Less likely for people to vote (undermining democracy),
 - ▶ more likely that people are prejudiced against minorities,
 - ▶ more likely that women's status is lower;
-
- ▶ There are not independent facts. Inequality affects the **quality** of a person-to-person relationship within the society.
 - ▶ → and that affects people's health.

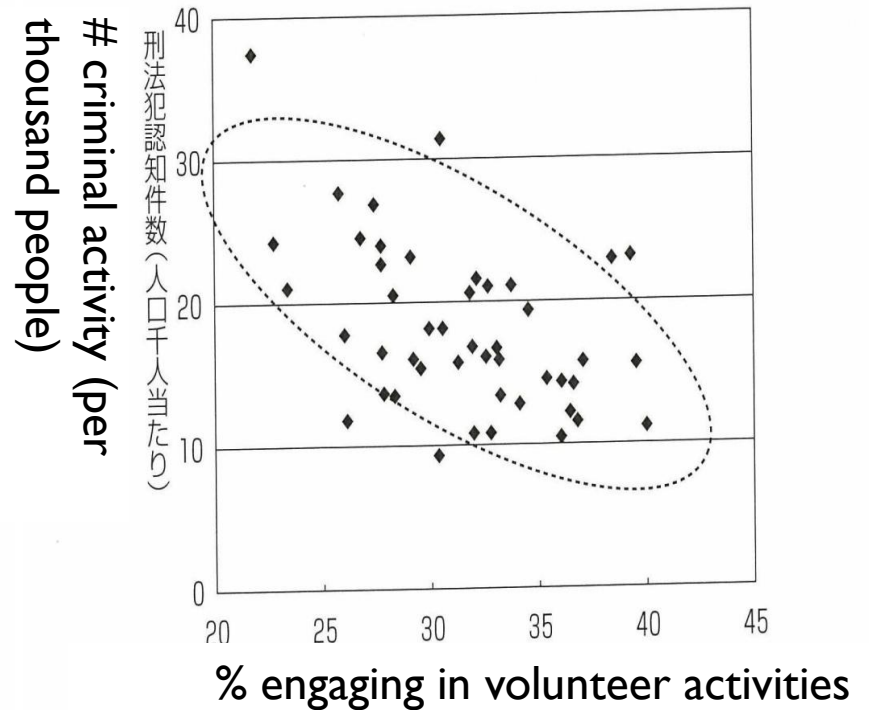
Social Trust and Health and Crime

Death Rate and Social Trust



% answering yes to "most people try to take advantage of me"

% participating in volunteer activities, and Crime rate



Conclusion

- ▶ In a modern society, poverty is not just about survival. It is about participation, opportunities, not living without shame, e.g. to be able to function fully as a citizen.
- ▶ Poverty is detrimental not only for that person's well-being, but also for the nation as a whole, and eventually, for the economic development as well .
- ▶ The undermining culprit is inequality – of opportunities and of participation.

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