



[Academic Script]

A. K. Sen's concepts of Absolute and Relative poverty

Subject:	Business Economics
Course:	B. A. (Hons.), 6 th Semester, Undergraduate
Paper No. & Title:	Paper – 641 Elective PaperE2 – Economic Growth and Policy
Unit No. & Title:	Unit – 3 Human Capital-Education, Intellectual Capital & Poverty
Lecture No. & Title:	Lecture – 3 A. K. Sen's concepts of Absolute and Relative poverty

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1. Introduction

After studying the importance of health and education in development, we must understand the concepts of absolute and relative poverty. While it is not easy to define poverty, in simple sense absolute poverty is the deprivation of monetary resources to buy basic necessities of survival and relative poverty is the inequality in income distribution between different percentile groups of population. However, income is not the only criterion for defining absolute and relative poverty. According to UNDP, poverty is a multidimensional issue requiring a wide range of measures. Amartya Sen gave a more intriguing understanding of poverty.

The objectives of this session are:

1. To delve into the understanding of poverty as given by A. K. Sen.
2. To understand the meaning of entitlements.
3. To know how lack of entitlements are at the root of the issue of poverty.
4. To comprehend Sen's idea regarding absolute and relative poverty.
5. To grasp the concept of poverty measurement in Sen's writings. In his work, *Poverty and Famines – an Essay on Entitlement and Deprivation* (1981), Sen explains that people starve (do not have basic necessities) because they do not have ownership claims over things which can be exchanged for food or are worthy of exchange in a market situation.

Ownership of exchangeable things is one type of entitlement.

What is Ownership Relation?

It is the legitimate right over things, which entitles a person to use those to buy necessities for one's own self. The ownership of land is an entitlement to use the resources on land to produce something and sell in exchange of food.

The right to inherit is a claim on ownership of assets which are inherited and which can buy necessities.

Legitimate ownership is one which is accepted by a society. The society accepts a person's right over a resource which she exchanges for say, food.

Thus, according to Sen, ownership relations are one type of entitlement relations and in a market economy, entitlements include the following:

1. Trade-based entitlement: One is entitled to own what one obtains by trading something one owns with a willing party/parties.

2. Production-based entitlement: One is entitled to own what one gets by undertaking an economic activity.

3. Own-labour entitlement: one is entitled to one's own labour power and thus can trade labour or produce tradable goods with own labour.

4. Inheritance and transfer entitlement: One is entitled to own what is willingly given to one by another who legitimately owns it. In a simple sense, one is entitled to have what is given in inheritance or in gift.

5. Entitlement over unclaimed objects: One may find an object which is not claimed by anybody and thus comes in the ownership of one who finds it.

6. Government provided entitlements: One has entitlements over subsidies, coupons, money transfers provided by the government.

If the bundle of goods or entitlements which a person has is accepted in the market system, one can buy necessities and will not be poor.

However, if one does not have enough goods or if goods which one has are not acceptable in the market for exchange, then one is deprived of the opportunity to buy necessities and hence remains poor.

The exchange worthiness of entitlements:

Poverty arises when the entitlements owned by some individuals are not accepted in the market for exchange or are exchanged for very little value.

For example, the labour of an unskilled worker is not exchanged for a value (wage) enough to buy him his basic requirements. While, the owner of a land can produce one's own food if need arises. Besides, when the price of goods rise in the market, the purchasing power of money wage falls and hence a farm labourer's entitlement which is the money wage falls short in fulfilling her basic needs. While a share cropper on land will have claim over some portion of crops.

Hence in the study of poverty, it is important to look at the ownership pattern as well as the exchange entitlements.

Many times, in developed countries people do not starve in famines not because they are rich, but because the social security arrangements give them entitlement to buy food. In other words, social security arrangements help them to hold on for a longer time during famines or in a situation of unemployment.

2. The supply side

On the supply side of essential goods, the arrangement of production and distribution are both equally important.

Definitions of Poverty

Sen confirms three types of poverty given by Rein (1971); viz., (1) subsistence poverty (2) inequality and (3) externality.

According to Sen, the first focus of poverty should be on the question 'who'. And the answer is, 'those whose consumption falls short of the norms defined by the poverty line are poor'.

The second question he asks is if poverty concerns (1) only the poor (2) the non-poor or (3) the poor and the non-poor both.

The notion of absolute poverty is thus given by the number of people who cannot meet their subsistence needs defined by the poverty line.

The notion of relative poverty is certainly about the inequality in the distribution of entitlements among different percentile groups of population.

Sen uses two statements to explain these two notions of poverty:
(1) There is less deprivation in community A than in community B in terms of some common standard, e.g. the notions of minimum needs prevailing in community A.

(2) There is more deprivation in community A than in community B in terms of their respective standards of minimum needs, which are a good deal higher in A than in B.

The first statement relates to absolute poverty and the second to relative poverty.

The externalities of poverty pertain to offences committed by the extremely poor owing to poverty and hence hurt the society. Hence the society must not let anybody become so poor. And, hence poverty should concern the poor and the non-poor both.

3. Measures of poverty

While measuring poverty the direct method or the income method may be used.

In the direct method an aggregate number of people whose consumption baskets leave some basic needs are unsatisfied is obtained.

In the income method, the basic needs are identified; the amount of money needed to buy the basic needs is calculated. This income required to buy bare necessities of life is called poverty line and people with incomes lesser than this are called poor.

The direct method is a better measure as it does not alter with the purchasing power of income. According to the income method when necessities get costlier, the number of people below poverty line will increase and the already poor will get poorer.

However, in both the methods it may become a challenge to put constraints on 'tastes'. Bare minimum needs may be defined at various levels of tastes. Putting severe taste restrictions in the income method would mean adopting a cost minimizing poverty line.

If a rich person decides to fast until death then the by a generalized direct method, this person would fall in the category of poor. However, in such a case, the income method proves superior as it measures a persons' ability to meet basic needs. The income method is not merely a rough aid to measure a person's actual consumption, but it is a measure of ability to buy consumption goods.

The income method proves superior when a measure of actual numerical distance away from poverty line is to be obtained.

On the other hand the income method becomes unrealistic when consumption patterns are not uniform. When different social groups or people from different regions in the same country have non-uniform consumption patterns, a poverty line cannot be realistically identified.

For example, if some social groups are purely vegetarian and some are non-vegetarian while few are vegans then the cost of minimum requirements will differ as prices of goods under each category of consumption will differ.

When, a poverty line is drawn at some income required per person to fulfil basic needs, it becomes arbitrary in the sense that it does not differentiate the difference in requirements for different age groups. The food requirement for children, youth and adults are different. A common income line will not consider such differences.

While using the income method, the issue of relative poverty emerges when one tries to choose from the following three approaches of the income method:

- (1) put the same weight on each household, irrespective of size;
- (2) put the same weight on each person, irrespective of the size of the family to whom they belong; and
- (3) put a weight on each family equal to the number of equivalent adults in it.

Sen's critique to the standard measures of poverty

1. Head-count index: A widely used measure of poverty was the head count index 'H'. It is given by the proportion of poor who is identified as poor. If q number of people who are poor and n is the total population then

$$H = \frac{q}{n}$$

Sen considers that it is important to measure the distance of people from the poverty line. It is important to assess the number of people just below the poverty line or those who are way below the poverty line. The head-count index is insensitive to this.

2. Poverty-gap (Income gap ratio): Poverty-gap is the aggregate short-fall of income of all the poor from the specified poverty line. The index can be expressed as the percentage short-fall of the average income of the poor from the poverty line. This measure is denoted by I and is called the 'income-gap ratio'.

Sen points out that the income-gap ratio I is completely insensitive to transfers of income among the poor so long as nobody crosses the poverty line by such transfers.

If any policy transfers some money from individual 'A' to individual 'B' when both are below the poverty line, but 'A' is more away from the poverty line than 'B' the money transfer from 'A' to 'B' is regressive and it renders 'A' more poor than before.

I does in a way ignores the number of people below poverty line. Sen rejected both these measures of poverty.

Sen's Relative Deprivation Axiom

Sen suggested that if all poor (those below the poverty line) are ranked in an order where higher rank means more poor, then the measure of absolute poverty also captures relative poverty. In other words, a poverty measure capturing this aspect of relative deprivation must make the weight on a person's income short-fall increase with his rank value $r\{i\}$.

This is the axiom of 'Ranked Relative Deprivation' (axiom R) and it focuses on the distribution of income among the poor.

Sen's Normalized Deprivation Axiom

In the words of Sen (1981),

"It is understood that, H catches one aspect of overall deprivation, viz. how many (never mind how much), while I catches another aspect of it, viz. how much on the average (never mind suffered by how many). In the special case when all the poor have the same income, H and I together may give us a fairly good idea of the extent of poverty in terms of over-all deprivation. Since the problem of relative distribution among the poor does not arise in this special case, we may settle for a measure that boils down to some function of only H and under these circumstances. A simple representation of this, leading to a convenient normalization, is the product HI . This may be called the axiom of 'Normalized Absolute Deprivation' (axiom A)".

Precise Axiomatic Measure of Poverty:

Using the relative and normalized deprivation approaches, Sen gives the precise axiom of poverty as **$P = H\{I + (1 - I)G\}$**

Where, 1 is the rank of the least poor and

G is the Gini coefficient of the distribution of income among the poor.

I is the poverty gap (Income gap ratio).

Human Development Index:

Sen and [Mahbub ul Haq](#) developed the Human Development Index which was used in the World Development Report of 1990. We have seen this in one of our earlier lectures.

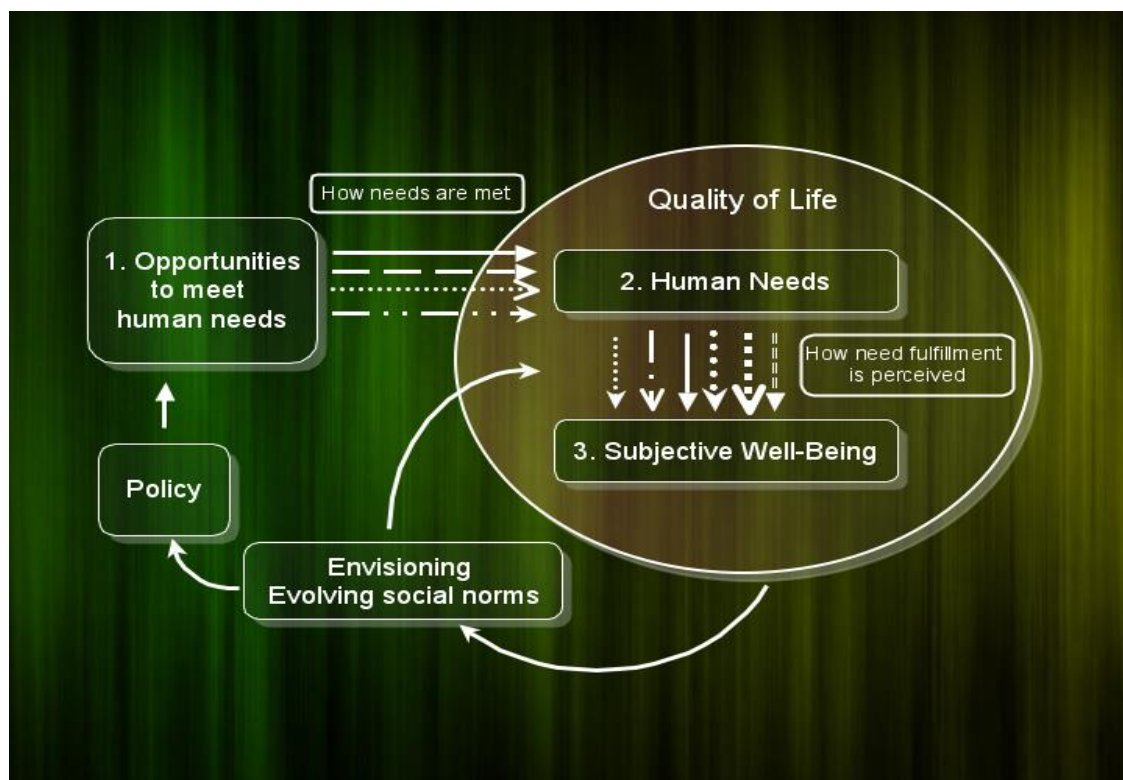
4. Capability approach

According to Sen's capabilities approach, development should focus on maximising what an individual can choose to achieve in life such as the ability to choose the many different cultural

values and practices to adopt etc. This will ultimately affect the individual's well-being which is defined as the actual enjoyment of the individual's choices deriving from the range of options available to them. Therefore, unlike utilitarianism and libertarianism, the capability and well-being approach is holistic in the sense that it looks at the range of options available for the individual to choose from and the freedom to exercise that choice.

In this approach, poverty is looked upon as an issue of rights and access.

A nation which cannot provide certain rights and capabilities to the citizens is poor.



Amartya Sen proposed that there are five general freedoms upon which capabilities lay, and the denial of these will give rise to deprivation or poverty:

1. Political freedom including civil rights;
2. Economic facilities which includes access to credit;

3. Social opportunities which include arrangements for access to health care, education and other social services;
4. Transparency in relations between people and between people and governments; and
5. Protective security which includes social and economic safety nets such as unemployment benefits and famine and emergency relief.

5. Summary

Thus, poverty is not restricted to income deprivation or consumption of basic necessities, it is related to the right to live a life of dignity and have access to opportunities of various kinds.