

# Notes on Poverty and Inequality

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*This paper looks at a broad UN definition of poverty beyond the simply economic, bringing together the 'capabilities' approach and the 'rights-based' approach. It goes on to discuss the importance of inequality and poverty from a pragmatic and a moral point view, stressing the role of inequality in perpetuating poverty.*

This background paper was written as a contribution to the development of *From Poverty to Power: How Active Citizens and Effective States Can Change the World*, Oxfam International 2008. It is published in order to share widely the results of commissioned research and programme experience. The views it expresses are those of the author and do not necessarily reflect those of Oxfam International or its affiliate organisations.

## What is poverty? Quotes from key sources

*'If you want to do something and have no power to do it, it is talauchi (poverty).'* (Narayan, 2000)

Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and lack of freedom (Narayan, 2000).

Poverty is often measured in economic terms: 'one billion people live on less than one dollar a day'. This is because a person's income is a major determinant of their standard of living. Higher income allows a person to invest in important things like land, education and health – and often to achieve social and political influence. Of course, income is not the only factor that influences quality of life. In some cases, societies have achieved better general standards of living than might have been expected given their income levels. In others, high incomes have translated into less improvement in welfare than might have been expected. For this reason, other indicators such as life expectancy and literacy are sometimes used when quantifying poverty. (UNDP, Human Development Report, 1990)

However, statistical measures alone do not take account of the myriad social, cultural and political aspects of the poverty. Poverty is not only deprivation of economic or material resources but a violation of human dignity too. The UN provides a broader definition of poverty:

*'a human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights.'* (UN, 2001).

The UN definition brings together two important and related themes in contemporary understandings of poverty: the 'capability approach' of Nobel-prize winning economist Amartya Sen and the 'human rights' approach.

The 'capability approach' addresses poverty as 'the deprivation of basic capabilities rather than merely as lowness of incomes.' (Sen, 1999). Suggested basic capabilities for a life with human dignity include the capability to live a human life of normal length, to ensure one's bodily health and integrity, to be treated as someone whose worth is equal to that of others, to have control over one's political and material environment. (Nussbaum, 1999). The understanding of poverty as a deprivation of these capabilities thus includes situations of low income, under-nourishment, illiteracy, premature mortality, and also social stigmatisation and low self-esteem. The capability approach allows some situations of relative poverty (e.g. people in poverty in the UK living on less than 60 per cent of median income) to be viewed as absolute poverty (see also below - notes on inequality).

The 'human rights approach' sees poverty as a violation of economic, political, social and civil rights. These may include the right to health, the right to an adequate standard of living and the right to education and employment opportunities. These rights are established in numerous international documents, including the UN Charter, the Universal Declaration on Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

The idea of human rights may be interpreted as implying the following moral principle: the capabilities of human beings should not be permitted to fall below a certain level, insofar as nation-states and the international community are able to produce that minimum threshold for everyone. To the extent that citizens affect the actions of their governments and public agencies, they are responsible for the implementation, or failure to implement, the conditions that promote a fair level of capabilities for everyone. The advantage of the human rights approach is that it helps determine

where responsibility lies for tackling poverty. In principle, human rights are everyone's business. (Garret, 2004).

Perhaps more important than academic definitions of poverty is the lived experience of people in poverty. At its most basic, poverty is experienced as a source of pain. Sometimes this is physical, as in the case of violence or ill health; at other times it is emotional or psychological. There is often a perception that people in poverty are to blame for their circumstances – even if they are striving hard to overcome them – which can lead to a sense of stigma or shame. If people in power refuse to listen or respond to the needs of people in poverty, as happens all too often, there may also be a sense of helplessness. People in poverty do influence the course of their own lives: but poverty makes it harder for them to do so.

Oxfam's last attempt to define poverty occurred in 1998 in the Fundamental Review of the Strategic Intent (FROSI). After noting four major approaches to poverty (income poverty, the capability approach, relative poverty and social exclusion), the review came to the following conclusion:

*'One approach is insufficient to define poverty in totality. In particular, there are four aspects: not having enough to live on, not having enough to build from, being excluded from wealth, and being excluded from the power to change things for the better.'*

*This not only sits comfortably with our analysis and Oxfam's beliefs, but also reflects the outlook of poor people themselves. Further, it is only when looking at the four aspects together that Oxfam can gain insights into the causes of poverty and its solutions.'* (Oxfam, FROSI)

## **Why does inequality matter in a poverty context?**

There are two main arguments about the importance of inequality in the poverty debate. One is pragmatic, arguing that inequality can *exacerbate* poverty; the other is moral, arguing that inequality is a *form* of poverty.

### **The pragmatic approach**

The availability of internationally comparable data since the mid-1990s has led to a proliferation of cross-country studies examining the effect of initial inequality on growth. Starting with results from Persson and Tabellini (1994) and Alesina and Rodrik (1994), the majority of studies have found inequality to have a significantly negative impact on growth. Benabou (1996) compares the studies; the more recent draft World Development Report (2006) confirms his interpretation. A number of explanations have been proposed as to why inequality should inhibit growth including capital market imperfections, political economy considerations and social conflict.

A note of caution: causal links between inequality and growth probably goes in both directions, and there have been some challenges to the statistical results. Still, two recent studies add weight to the idea that inequality is harmful to growth. Birdsall and Londono (1997) find strong evidence that high *asset* inequality inhibits growth, while Barro (2000) finds that inequality is a particular hindrance to growth in developing countries.

As well as being bad for growth, inequality is certainly bad for poverty reduction at any level of growth. For example: if the poorest decile (10 per cent of the population) only has a one per cent share in national income, as in Lesotho, then, even if there is no worsening in inequality, this decile will capture only one per cent of the benefits of growth. At current rates of growth, it will take the average person in the poorest decile of Lesotho 48 years to escape absolute poverty – four times as long as her counterpart in Indonesia, even though the two countries have similar GDP per capita levels and similar growth rates. The difference is purely due to greater inequality of income distribution in Lesotho.

## The moral approach

Inequality is sometimes seen as a form of poverty, and the capability approach to poverty shows us why. By definition, any society with inequality means that some people have less money, resources or power than others do. These people will often be described as 'relatively poor' but there are sometimes questions about whether they are 'absolutely poor'. From a purely financial perspective, they may even seem well off. Can someone living in Europe or North America, however low their income, really be compared to someone in a Least Developed Country who earns less than one dollar a day?

At this point it is helpful to think in terms of human freedoms or capabilities. The requirements to realise one's basic needs are often higher in rich countries. For example, a secondary education may be necessary to find a steady job in industrialised countries, whereas this may not be necessary in a developing country. Someone with material resources may thus still be 'absolutely poor', i.e. lacking basic capabilities.<sup>1</sup> This may explain why almost all societies place some intrinsic value on equality, as well as much political philosophy, the international system of human rights, and many of the core moral and ethical teachings of the world's leading religions.

## How inequalities interact and are perpetuated

Inequality is not just about income. Different ethnic, racial or religious groups often have different rights or opportunities. In almost all societies, women and men face different expectations, are accorded different opportunities and have different degrees of access to resources. Various kinds of inequality interact, so access to schooling, clinics, water and sanitation, electricity and other infrastructure is systematically unequal across categories such as geographic location, gender, ethnic, racial or social group.

Recent research also highlights the 'stickiness' of poverty – that is, the extent to which it persists across generations – the ultimate form of chronic poverty. Disadvantaged children from families at the bottom of the wealth distribution do not have the same opportunities as richer children to receive good quality education. So, they can expect to earn less as adults. If wealth is in any way related to political participation, they will – like their parents – be less able to participate in the political process, and thus less able to influence decisions to improve public schools for their children. And the cycle continues. This phenomenon is known as the 'inequality trap.' (World Development Report, 2006).

In Ecuador the three-year-olds from all socio-economic groups have similar test scores for vocabulary recognition and are close to a standard international reference population. But by the time they are five, all have faltered relative to the international reference group, except for those in the richest groups and with highest levels of parental education.

Source: *World Development Report, 2006, Exec. Sum.*

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<sup>1</sup> The capability approach also helps explain why we tolerate basic levels of inequality in outcomes - we would expect some differences due to preferences, talents, effort and luck - but find severe differences in outcomes distressing, and inequality of opportunities likewise.

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