

Poverty and Low Earnings in the Developing World *

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Absolute poverty: a problem of enormous proportions

The primary concern of this chapter is absolute poverty – that is, the inability to attain a specified standard of living, often measured in terms of income or consumption. Absolute poverty is what the United States uses when it gauges poverty according to a fixed amount of real income: \$21,756 a year for a family of four in 2009, the latest year available. It is also what India uses when it gauges poverty according to a set amount of monthly per capita consumption: 580 rupees in urban India and 446 rupees in rural India, reflecting cost-of-living differences between urban and rural India. (The exchange rate is approximately 45 Indian rupees to the U.S. dollar.)

More than three billion people in the world live in absolute poverty: specifically, 1.4 billion people consume less than 1.25 U.S. dollars per person per day, and another 1.7 billion between 1.25 and 2.50 dollars a day (Chen and Ravallion, 2010). These dollars are adjusted for what money will buy in different countries and at different times. (The technical name for this is Purchasing Power Parity.) All of the poverty figures presented in this chapter are PPP-adjusted.

Where do the world's poor live? Using the \$1.25 line, the Chen-Ravallion data show that half the world's poor are concentrated in just two countries, India (456 million) and China (208 million). Another fourth of the world's poor are in sub-Saharan Africa (391 million). The remaining fourth are to be found in the rest of South Asia, the rest of East Asia, Latin America and the Caribbean, Eastern Europe and Central Asia, and the Middle East and North Africa.

What the developing countries have is an employment problem – that is, poverty among those who work – rather than an unemployment problem. While more than 200 million people were unemployed in the world in 2011, some 1,300 million people (i.e., 1.3 billion) belonged to the working poor, which the ILO defines as workers who lived in families below the internationally-used two dollar a day poverty line. In other words, 85% of the world's poor are working. The relevance of these numbers for policy will be discussed further later in this chapter.

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And fourth, in today's globalized world, few competitive advantages are sustainable. Exceptions to this generalization arise when there are insurmountable barriers to entry, historically-conferred advantages, or network economies. Thomas Friedman (2005) narrates a traditional African proverb:

Every morning in Africa, a gazelle wakes up.

It knows it must run faster than the fastest lion or it will be killed.

Every morning a lion wakes up.

It knows it must outrun the slowest gazelle or it will starve to death.

It doesn't matter whether you are a lion or a gazelle.

When the sun comes up, you better start running.

As a sign of the globalized world in which we live, this proverb had been translated into Mandarin and posted in a factory owned by an American auto parts manufacturer operating in China!

