

Conciliating Absolute and Relative Poverty: Income Poverty Measurement with Two Poverty Lines

Benoit Decerf

Abstract

I study income poverty indices in a framework considering two poverty lines: one absolute line capturing subsistence and one relative line capturing social exclusion. I show that poverty indices accounting for these two lines should be hierarchical additive. Hierarchical indices grant a form of priority to subsistence: they always implicitly consider that an absolutely poor individual is more poor than an individual who is only relatively poor, regardless of the income standard in their respective societies. Importantly, classical additive indices are not hierarchical. As a result, they yield debatable poverty comparisons of societies having different income standards. I derive a new (hierarchical) index that generalizes the ubiquitous head-count ratio. This extended head-count ratio is equal to the fraction of absolutely poor individuals plus the fraction of individuals who are only relatively poor multiplied by an endogenous weight.

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Keywords: Income Poverty Measurement, Poverty Line, Relative Poverty, Absolute poverty, Extended Head-Count.