

Absolute and Relative Poverty

Poverty occurs when individuals or households have insufficient income or resources to achieve an acceptable standard of living.

There are two main measures of poverty: **absolute poverty** and **relative poverty**.

Absolute Poverty

Absolute poverty occurs when individuals cannot afford the basic necessities required for a healthy and safe existence.

Basic necessities include:

- Food and clean water
- Shelter
- Clothing
- Healthcare

In 2025, the World Bank defined extreme poverty as living on less than **\$3.00 per day**, increased from \$2.15 following an update to the international poverty line.

Over 800 million people live in extreme poverty, surviving on less than the World Bank's \$3.00/day .

Relative Poverty

Relative poverty occurs when a household's income is significantly below the typical income in that society. It therefore measures poverty **relative to the living standards of others**.

In the UK, relative poverty is commonly defined as household income below **60% of median household income**.

For example around **16% of people in the UK** live in relative poverty .

Measuring Poverty

Measuring Absolute Poverty

Absolute poverty is measured using a **fixed poverty line** representing the minimum income needed to meet basic needs.

Measures include:

- **International poverty lines** – such as the World Bank's extreme poverty threshold.
- **Basic needs approach** – whether households can afford necessities such as food, shelter and healthcare.

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- **Cost of basic needs** – the cost of a basket of essential goods and services is compared with household income.

Absolute poverty is therefore useful for measuring changes in severe poverty over time and comparing poverty across developing economies.

Measuring Relative Poverty

Relative poverty is measured by comparing household income with the wider distribution of income in an economy.

The most common measure is a percentage of **median household income**. For example, the UK uses a threshold of 60% of median household income.

Causes of Changes in Absolute Poverty

Economic Growth

There is a strong relationship between **economic growth and falling absolute poverty**. Economic growth increases national output and can increase employment and household incomes.

Economic growth → employment and incomes ↑ → household purchasing power ↑ → more households can afford basic necessities → **absolute poverty** ↓

Globally, absolute poverty has fallen significantly. The number of people in absolute poverty fell from around **1.9 billion in 1990 to down to roughly 10% of the world's population today, primarily driven by rapid export led economic growth due to globalisation**.

Government Tax and Benefit Policies

Government intervention can reduce absolute poverty by redistributing income towards vulnerable households.

Benefits → disposable income of low-income households ↑ → ability to afford basic necessities ↑ → **absolute poverty** ↓

Population Growth

Rapid population growth can increase absolute poverty if economic growth and resources fail to keep pace with the growing population.

Population ↑ faster than output → GDP per capita ↓ → pressure on jobs and public services ↑ → ability to meet basic needs ↓ → **absolute poverty may** ↑

Foreign Aid

Foreign aid can reduce absolute poverty where it increases access to essential goods and services such as food, clean water, healthcare and education.

Causes of Changes in Relative Poverty

Progressive Taxation and Redistribution

A **progressive tax system** places a proportionately larger tax burden on higher-income households.

Progressive taxation + redistribution → disposable income inequality ↓ → incomes at the bottom move closer to median income → **relative poverty** ↓

Trade Liberalisation

Trade liberalisation can reduce relative poverty if greater access to international markets increases output and demand for labour.

Trade barriers ↓ → market size ↑ → exports and output ↑ → derived demand for labour ↑ → employment and wages ↑ → household income ↑ → **relative poverty** ↓

Asset Prices

Changes in asset prices can affect relative poverty, particularly through property ownership.

House prices ↑ → wealth of homeowners ↑ → financial position of property owning households improves.

Absolute Poverty vs Relative Poverty

The key distinction is that **absolute poverty is about whether basic needs can be met**, whereas **relative poverty compares living standards with the rest of society**.