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The nexus between poverty and deprivation in Vietnam

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Abstract

Unlike previous studies' finding on western and developed economies, income is a significant determinant of multidimensional deprivation in Vietnam. This first study on a developing country also incorporates food security in a latent class framework to compute a new multidimensional deprivation index. It was found that chronic poverty and not transient poverty has a detrimental effect on multidimensional deprivation and thus current poverty alleviation programs should potentially be tailored according to these poverty types to effectively combat multidimensional deprivation. The finding that 20% of non-poor are most deprived with 85% of this group living in urban Vietnam also points to the need for a new form of targeted policy.

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1. Introduction

To date, the literature on income poverty and its dynamics is very rich, and more recently, there is growing interest in the measurement and analysis of multidimensional poverty. This is seen in the global effort by the Oxford Poverty and Human Development Initiative (OPHI) to measure multidimensional poverty index for as many countries as possible. Alkire and Santos (2014) from the OPHI explain that the MPI complements income poverty analyses in the developing world

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by bringing information from a different angle, focused directly on actual deprivation. Income is arguably an important aspect of multidimensional poverty because income can be spent on a wide range of goods and services to satisfy and fulfill other basic human needs. And it has been widely acknowledged that the reduction of income poverty (which is unidimensional) is necessary but not sufficient for sustained development and growth, especially for developing economies which have been successful in income poverty reduction. Consequently, this questions the relevance of current income poverty alleviation policies in the economy and raises concerns as to whether these policies should be replaced, and/or different groups of people should be targeted.

For this purpose of policy making, the relationship between income poverty and multidimensional poverty needs to be examined in a robust manner. This is done in three ways in this paper. First, multidimensional poverty is measured incorporating food security using a latent class model (LCM) for the first time. Given the heightened concern for food security of late in both the developing and developed world, and the fact that food is necessary to keep one alive, this basic aspect of deprivation cannot be possibly ignored. Second, there is potential endogeneity between income poverty and multidimensional poverty as being multidimensionally deprived can affect work productivity and income. Thus the existence of endogeneity is tested and taken into account within the modeling framework so as to provide unbiased results. Third, an attempt is made to examine the impact of two different types of income poverty, given by persistent and transient poverty, in the literature. Several studies (Duclos, Araar, & Giles, 2010; Barrientos, Hulme, & Shepherd, 2005; Gaiha & Deolalikar, 1993) have highlighted the need for such a distinction between the poverty types based on differences in policy attitude and responses that these poverty types call for.

To date, the relationship between income poverty and multidimensional poverty remains an empirical question. In 2010, the OPHI embarked on a major cross country comparison of the derivation of a MPI (see Alkire & Santos, 2010) based on 10 indicators, broadly grouped into education, health, and living standards. This study found a mismatch between income poverty (measured by GDP per capita) and MPI using data on 18 countries (not including Vietnam), especially for the poorer economies. Although the potential existence of the relationship between the two poverty measures has generated considerable interest, country specific studies are however limited to the United States (Mayer & Jencks, 1989; Rector, Johnson, & Youssef, 1999; Short, 2005; Iceland & Bauman, 2007; Waglé, 2008), the United Kingdom (Bradshaw & Finch, 2003), New Zealand (Perry, 2002), and some countries in the European Union (Layte, Maître, Nolan, & Whelan, 2001; Ramos, 2008; Aristei & Perugini, 2010; Labeaga, Molina, & Navarro, 2011; Ayala, Jurado, & Pérez Mayo, 2011). The conclusion from these studies is that there is a weak relationship between income and multidimensional poverty.

Thus there is a dearth in studies examining the relationship between income poverty and multidimensional poverty (hereafter referred to as deprivation to avoid confusion when using the term income poverty) using data on adults in developing countries. While both income poverty reducing and multidimensional deprivation reducing programs are favored in developing countries, these countries often do not have sufficient resources to implement both types of programs. Hence policy makers look for empirical evidence to support the notion that programs addressing income poverty reduction also help reduce multidimensional poverty. Although there are many studies that have computed MPI for a range of developing and semi-developed countries¹, they have however

¹ These include Israel, Romania, Poland, Colombia (see Lemmi & Betti, 2006; Kakwani and Silber eds. 2008), India and China (Mishra and Ray, 2012) and several African countries (see Asselin ed. 2009; Kakwani & Silber eds., 2008) amongst others.

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