Determinants of Poverty
Turkey and Multi-Country Analysis

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ABSTRACT

In this study, the definition of poverty and the determinants of poverty are discussed in detail. After examination of the poverty situations of all income groups according to World Bank classification have been analyzed separately by the method of regression. According to the analysis conducted by the method of dynamic panel generalized least square regression, impact on current poverty from the previous year and the current growth of poverty has been observed, yet the effects of inflation on poverty are controversial. The exchange rate is not included in the regression because the two-main macroeconomic discussed determinants of poverty in the literature are used in the regression as control variables that there is multicollinearity between exchange rate, growth and inflation. This study points out that in the struggle against the poverty, the most important contribution is gained with economic growth. Since high volatility in price level and exchange rates prevents the growth, inflation and exchange rate policies assessed in the perspective of the importance of growth policy.

KEYWORDS

Exchange Rate, Inflation, Macroeconomics, Microeconomics, Poverty, Poverty, Regression, Turkey

INTRODUCTION

According to the Global Humanitarian Assistance Report (GHAR) 2018, 2 billion people in the world try to survive in poverty and 753 million people try to survive in extreme poverty. While, the people who survive in poverty try to live on 3.2 USDs a day, the one who live in extreme poverty try to survive with less than 1.9 USD a day. Poverty is a problem a developing country like Turkey. In the recent years, various reforms have been made to solve this problem. Henceforth, according to Human Development Index 2015, Turkey is in the high human development category with 0.791 index value and ranked 64th out of 188 countries (UNDP 2016). The poverty studies made on Turkey recently is focused on the determination of poverty level and characteristics of the one who live in poverty. However, this study is intended to review the issue poverty with respect to its reasons and evaluate the position of Turkey with similar states.

This study is composed of four sections involving introduction and result. In the first part of the study, different definitions of poverty are examined. In the second part, the determinants of the poverty are indicated. Two main headlines are used in this part. In macroeconomic instability heading; effects of macroeconomic factors such as growth, inflation, exchange rates, and trade policy are discussed. In structural factors headings; microeconomic or household-based factors such as geographical

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factors, education, inequality, and birth rates are presented. Data and econometric analysis are in the third part of the study. In the econometric method section, with using 124 countries 1981-2010 data series, determinants of poverty are analyzed. The reason of why the data set involves 1981-2010 is the inadequacy of the data.

DEFINITION OF POVERTY

The definition of poverty varies according to the context of the situation and who is defining it (Dartanto, Otsubo, 2013: 2-4). The World Bank (WB) and United Nations (UN) define poverty as follows:

‘Poverty is pronounced deprivation in well-being and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one’s life.’ (Haughton, Khandker, 2009, p. 1).

‘Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one’s food or a job to earn one’s living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living in marginal or fragile environments, without access to clean water or sanitation.’ (UN-World Summit for Social Development (WSSD), 1995).

In general poverty is defined as incapability of providing minimum (socially accepted) living standards or basic needs (WB, 2005, p. 9). Yet, this definition is problematic that what the minimum living standards are and basic needs or how to measure them (Kabaş, 2009, pp. 1-6). Living standards and basic needs are varying from country to country even among individuals. Reaching a welfare threshold means in developed countries benefiting from cultural activities and information communication technologies on the other hand in some poor countries maintaining living standards is surviving from starvation and famine (WB, 2005, pp. 14-15; Şeker, 2008, pp. 7-8).

While defining poverty, primarily notions of monetary and non-monetary poverty should be discussed (UN, 2009: 49-53). Non-monetary poverty contains not only monetary dimensions such as inadequate income or consumption, but also other social dimensions such as inefficiency in communication, weakness in social relations, inability to locate in social activities (Kabas, 2009, pp. 7-11; Şeker, 2008, pp. 9-13; Doğan, 2014: 11). In the monetary approach, poverty is then determined by whether the consumption or income level of an individual under a defined poverty line or not. The critical point in this approach is individuals have financially sufficient sources to purchase their requirements. This is the most conventional and preferred way in the literature to discuss and comparing poverty. First of all, after setting or determining a threshold or minimum expenditure level, it is easy to measure. Second, it allows comparing between countries or regions (WB, 2005, pp. 9-10). The second way is asking people whether they have enough food or income or whether they are satisfied. This is harder than first way and limited international or interregional comparisons (WB, 2005, pp. 9-10; Doğan, 2014, pp. 35-39; Kabaş, 2009, p. 22).

The Nobel laureate economist Amartya Sen articulated the broadest view that poverty arises when individual lacks key capabilities and so has insufficient sources or education, or inadequate social security circumstances, or insecurity, or low self-confidence, or a sense of powerlessness, or the absence of rights such as freedom of speech (WB, 2005, pp. 9-10, Kabaş, 2009, pp. 20-23). Regardless this way, poverty is a multi-dimensional phenomenon, and less amenable to simple solutions. In
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