

Main Reasons behind Poverty, Its Social Consequences and the Ways to Overcome It (Case of Georgia)

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Abstract: Paper deals with the main reasons causing poverty and its negative social consequences for population. Poverty in post-soviet countries is compared to one in the EU countries and the differences in poverty measurement methodology are discussed. In One section authors discuss in details the poverty in Georgia and changes that occurred in its measurement methodology in last 10 years. In the paper current state of poverty is shown. In the last sections ways for overcoming of poverty are provided together with recommendations that government should follow in order to reduce poverty and increase standard of living in the country.

Keywords: poverty; Georgia; standard of living; subsistence minimum, reasons behind poverty.

1. INTRODUCTION

For Georgia as a country in transition on market economy it's very challenging to create economic environment that is compatible to competitive and market conditions, where properly functioning social sphere provides guarantees for wealth of individuals and the society as a whole and where the priorities of Government are struggling with the poverty and increase of standard of living.

Poverty is very challenging and at the same time main issue as in developing as well as in developed countries. This fact requires deep understanding of the phenomenon of poverty, its origins, reasons behind it and the ways to struggle with it.

Poverty definitions significantly differ over the countries that can be explained by the differences in the levels of economic development. In developed and wealthy countries employment and poverty definitions are closer to high standards than in poor countries.

Poverty is one of the biggest problems that society faces with. Problems like homelessness, violence among family members, health problems and lack of education are prevalent in poor families. That is why poverty is closely linked with multiple economic and social troubles.

Poor families face with huge social problems including: financial poverty - people don't have assets that are necessary for normal living standards, enough revenues and aren't able to make savings; social isolation - families have no access to social services, often live far from communication centers and can't get quality service. In such families access to education is also restricted; Powerlessness - poor families don't have economic freedom and are unable to make impact in social environment and system.

2. MAIN REASONS BEHIND POVERTY

Poverty takes huge resources from people. The main resource in this case is time. Poor people spent their time mainly on efforts towards getting their families and themselves nourished and maintain working ability. Hence, such kind of people are ruled out from expressing their potentials fully that is harmful as for individuals as well as for the perspectives of country's development.

Poverty is a hard socio-economic category and shouldn't be considered separately. Those numerical values that show poverty rate in particular country or region is not enough, because poverty isn't created itself and it is necessary to discuss the factors that conditioned existence of poverty. From these factors insufficient incomes are crucial, because it determines categories of people living below or above poverty threshold. Incomes determine social status of people. People with the highest levels of income are classified as "rich" and the people with the lowest incomes are classified as "poor".

Standard of living are different as among countries as well as within the country. This is because of the differences between social classes with respect to incomes and other indicators of standard of living. Higher levels of Gini coefficient are shown mainly in less developed countries indicating that differentiation in incomes generally is linked with economic development. It is also determined by country's traditions and economic regulations by the government.

In the country with high unemployment rates there is high poverty also. This is because unemployed people are left without stable income and depend on unemployment benefits that means expansion of poor social class. The best way for reducing poverty is increase of employment rate and incomes. In Georgia there are thousands of employed people whose incomes are below subsistence minimum (poverty line).

In the economic literature significant attention is given to economic definition of poverty that describes situation when people with ability to work aren't able to achieve socially acceptable standard of living because of different reasons. This can be explained by various reasons related to jobs – unemployment, nonstable employment, low salaries, delaying wages and etc. Hence, while measuring poverty unemployment has to be stated the main reason behind it. In order to overcome such type of poverty jobs must be created in the country and economically active population be employed. Development of agriculture, domestic manufacturing, industry, trade, construction, financial activities and other spheres of economy will create new jobs and economically active population will be employed.

Besides social inequality some other reasons behind low living standards are mass catastrophes – bad harvest, epidemic, inundation, fires, wars and etc. In modern society low standard of living and poverty are mainly stipulated by low levels of technology, scarce natural-resource potential, improper regulation of economy and etc.

Human's social status and role in the society, his/her income and financial wealth depends on external and personal factors. Personal factors include: person's level of education, professional skills, will, goals and etc. External factors are shaped by the legal structure in the country and its traditions. Poverty, first of all, affects human's health, worsens physical and spiritual state. Insufficient nutrition, bad sanitary conditions, improper health, water and infrastructure systems, low level of education and culture, exhausting work, continuous sorrow severely affects human's physical and moral conditions. One of the reasons behind poverty is hopelessness that accompanies hard life conditions. Hopelessness makes people unbelieving that one day they will overcome poverty. Losing belief causes inactivity that increases poverty in the country.¹

Different standard of living lead to different lifestyles in population. In the socially diverse society it's not possible to exist similar lifestyles. Characteristics of poor population's lifestyles are unstable financial conditions, fear of future and losing job, financial barriers to getting knowledge and etc.

"Poverty restricts people from getting high quality social services. Poor families have more obstacles in getting quality health services and paying for these services are also big problem for their budgets. Child in poor family has less chance of going to kindergarten, school and faces with the risk of finishing school untimely. Children's wealth, their development and future prospects are also affected by the poverty. Also, there is a risk of transmission of poverty from generation to generation".²

3. POVERTY IN THE EU AND POST-SOVIET COUNTRIES

Poverty and economic inequality are among main problems in today's world. Poverty is heavy burden to any society. Poor families are more vulnerable to homelessness, violence among family members, health problems and low levels of education. Hence, poverty is linked with multiple economic and social troubles. In spite of the high paces of

¹ See Abesadze R., Some social-economic aspects of living standard and poverty of population, PaataGugushvili Institute of Economics, scientific works' proceeding III, Tb. 2010, p. 11 (in Georgian)

² See Children Poverty in Georgia, Final report, Tb. 2008, p. 2 (in Georgian)

globalization standard of living differ significantly over the countries. As a percentages of population poverty are the highest in South Saharan and South Asian countries. High levels of poverty exist in East Asian, Latin Americas and Caribbean countries. Relatively high levels of poverty can be seen in Eastern and Southern parts of Europe. Lower levels of poverty are seen in North and West Europe, Central Asia and North America. With regard to the continents Africa has the highest poverty rate while this indicator is the lowest in Europe. The major part of poor people live in countries with developing and transitional economies.

Poverty means insufficient incomes (monetary and non-monetary) to satisfy minimum levels of financial and spiritual needs that are essential for physiological and spiritual development. It encompasses physiological (food, clothes, shoes, home and etc.), psychological (hope, backing, love, fear and etc.) and social (safety, respect, order and etc.) needs. It is clear that if there are injustice and fear in the country people will not feel safe and all financial assets will be inefficient and useless for human's spiritual development.

In the economic literature there are also differentiated absolute and relative poverty.

Absolute approach considers those households and individuals as poor who possess resources less than objectively determined absolute minimum. In this case poverty threshold is represented by subsistence minimum and the population whose incomes are below the living wage are considered as poor.

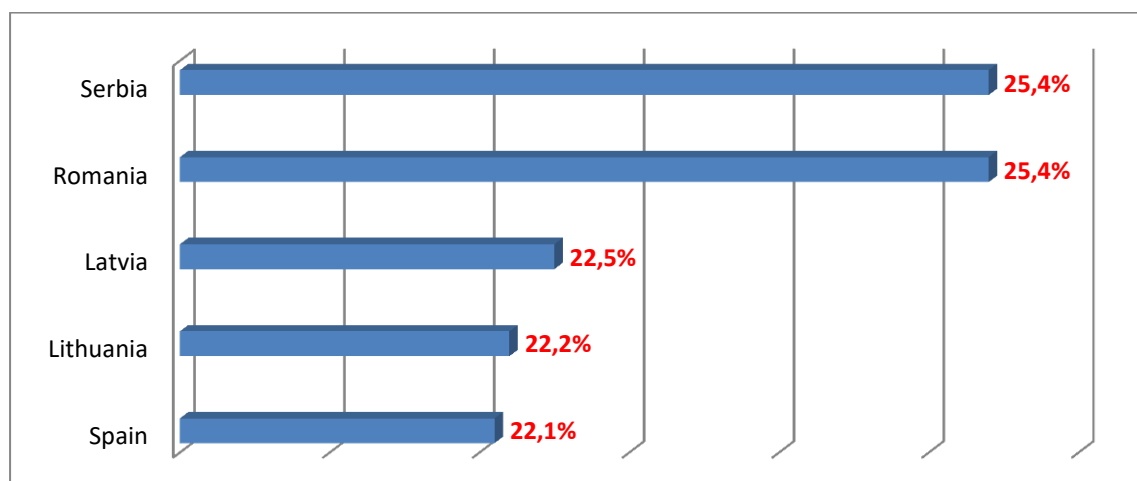
Relative approach considers population as poor who has less financial resources than the richest class in the country. Comparison occurs on the basis of average incomes of the poorest class and average incomes of the richest class.

There is no country in the world without poverty. Even in the USA 14.8% of population live below the poverty threshold.³

In EU countries poverty threshold is considered to be 60% of median incomes. In Georgia's neighboring countries, Azerbaijan, Armenia and Russia, also in Central Asian countries official poverty rate is measured related to the subsistence minimum. In Georgia till 2004 poverty rate was measured related to subsistence minimum, but after 2004 it is measured related to 60% and 40% of median consumption, that will be discussed in more details in the following section.

In the Post-Soviet countries the lowest levels of poverty can be seen in Baltic countries, followed by Eastern European and South Caucasian countries. The highest poverty rate is shown in Central Asian countries.

In the Europe (graph 1 and graph 2) the highest poverty rates are in Serbia and Romania (25.4%). The highest living standards and the lowest poverty rate is in Iceland (9.6%). Also, low levels of poverty are in Norway – 11.9%, Netherlands – 12.1%, Denmark – 12.2% and Finland – 12.4%. Poverty rate related to subsistence minimum in South Caucasian countries are as follow: Azerbaijan - 12.0%⁴, Armenia - 30.0%⁵, Russia - 11.0%.



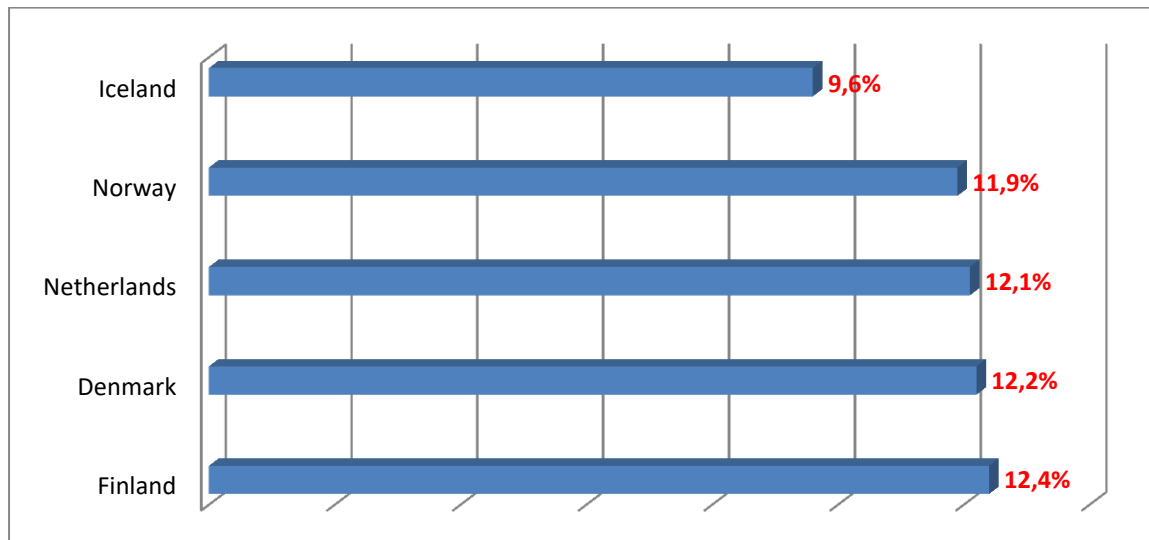
Graph 1: Top 5 Countries with the highest At-risk-of-poverty rate in Europe, 2015 (60% of median income)⁶

³<http://www.census.gov/topics/income-poverty/poverty.html>

⁴<http://www.stat.gov.az/source/others/H.Aliyev/Pdf/339-526.pdf>

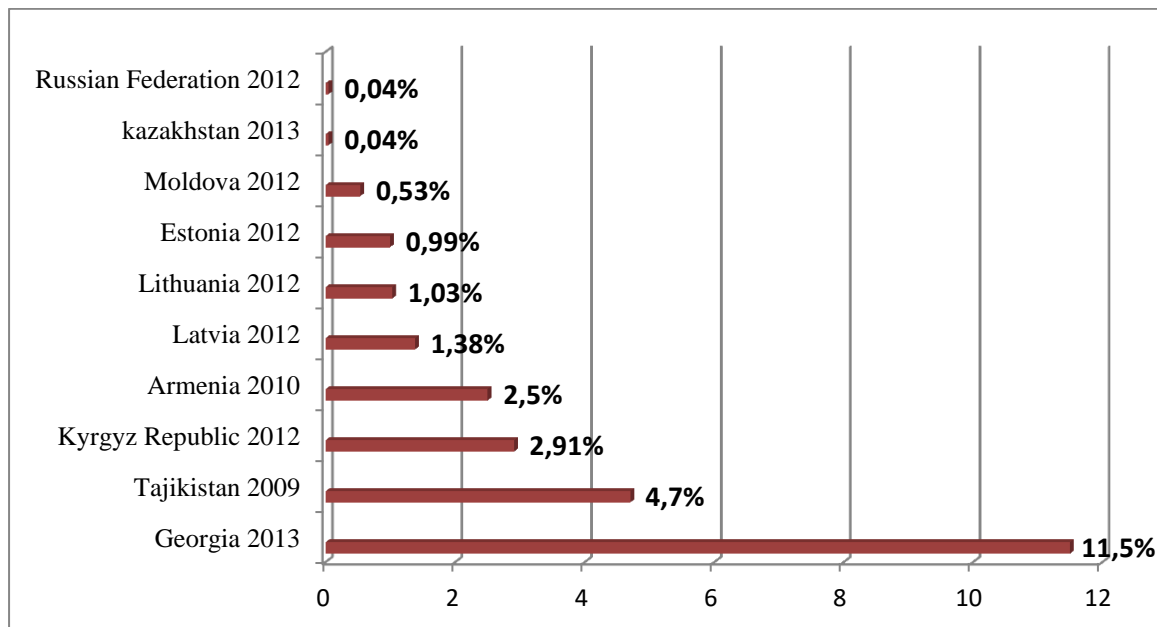
⁵<http://www.armstat.am/en/?nid=126&id=15005&submit=Search>

⁶<http://www.census.gov/topics/income-poverty/poverty.html>



Graph 2: Top 5 Countries with the lowest At-risk-of-poverty rate in Europe, 2015⁷

Let's discuss absolute poverty (percentage of population whose daily income is less than 1.9 USD). According to the World Bank data⁸ poverty rate in the world was 37.1% in 1990 and 12.7% in 2012. According to this data average standard of living in the world is better now, but poverty still remains as a big problem, especially in African countries. For example, in Democratic Republic of Congo poverty rate is at 77.18%. Graph 3 below shows poverty rates in Post-Soviet countries. According to these data the lowest poverty rates are in Russia and Kazakhstan, while the biggest rate is in Georgia (11.5%).



Graph 3: Poverty headcount ratio at \$1.90 a day in Post-Soviet Union Countries (% of population)

Providing Georgia a transitional country with low standard of living, in our opinion, in the short run adopting the practice of poverty calculation related to subsistence minimum that is accepted in developed countries will not be optimal decision. It will be better to set methodologically approved line and calculate poverty rate related to this line.

In the quantitative point of view while poverty line will be subsistence minimum it will be calculated in absolute values.

⁷<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tespm010&plugin=1>

⁸<http://povertydata.worldbank.org/poverty/home/>

People are considered as poor if their incomes are lower than subsistence minimum. Poverty rate is share of poor people in the total number of population and is calculated by dividing poor people by the total number of population. While reducing poverty rate in the country absolute approach should be used. When people cross this poverty line country will get better standard of living. In Georgia and other developing countries where the poverty is topical issue, defining subsistence minimum and considering it in social policy are crucial, because poverty implies such conditions in which only maintaining workability of people is possible.

Statistical analysis of socio-economic indicators of population, their structural analysis and understanding of it in dynamics show picture of standard of living in the country. Results regarding the standard of living are valid if the indicators measuring standard of living are valid. Because of this it is important to have such valid indicators. For this purpose it's essential to do methodological work and achieve international comparability.

4. POVERTY IN GEORGIA

Let us discuss poverty rate in Georgia (related to subsistence minimum). Period from 1997 to 2003 is taken. In 1997 this value was 44.2%; 1998 – 45.9%; 1999 - 51.3%; 2000 - 51.8%; 2001 - 51.2%; 2002 - 52.1%; 2003 - 54.5%.⁹ In these years poverty rate has been increasing and reached its maximum in 2003. In this period half of the population of Georgia officially lived in poverty that makes impression about standard of living in Georgia for that period.

Annual statistics report in 2005 showed that in 2004 poverty rate was reduced by 2.5% and constituted 52.0%. In annual statistics report in 2006 different figures appeared about poverty rate according to which in the first quarter of 2004 this value was 32.8% and annual average was 35.7% in 2004. This is 1.5 times less than it was shown in annual statistics report in 2005.

Let us compare absolute values of subsistence minimum calculated in the reports of 2005 and 2006. In 2004 absolute poverty threshold for one man with workability was reduced by 52 GEL, from 137.1 to 84.3 GEL. When the factual incomes were compared to the reduced subsistence minimum it resulted in 1.5 times decreased poverty rate (Figure 1).

| years | 2002 | 2003 | 2004 | 2005 |
|---|-------|-------|--------------|------|
| values | | | | |
| Subsistence minimum (According to the statistical report of 2005) | 125.4 | 130.7 | 137.1 | – |
| Subsistence minimum (According to the statistical report of 2006) | – | – | 84.3 | 92.6 |

Figure 1. Living wage for man with workability (FEL), 2002-2005 years¹⁰

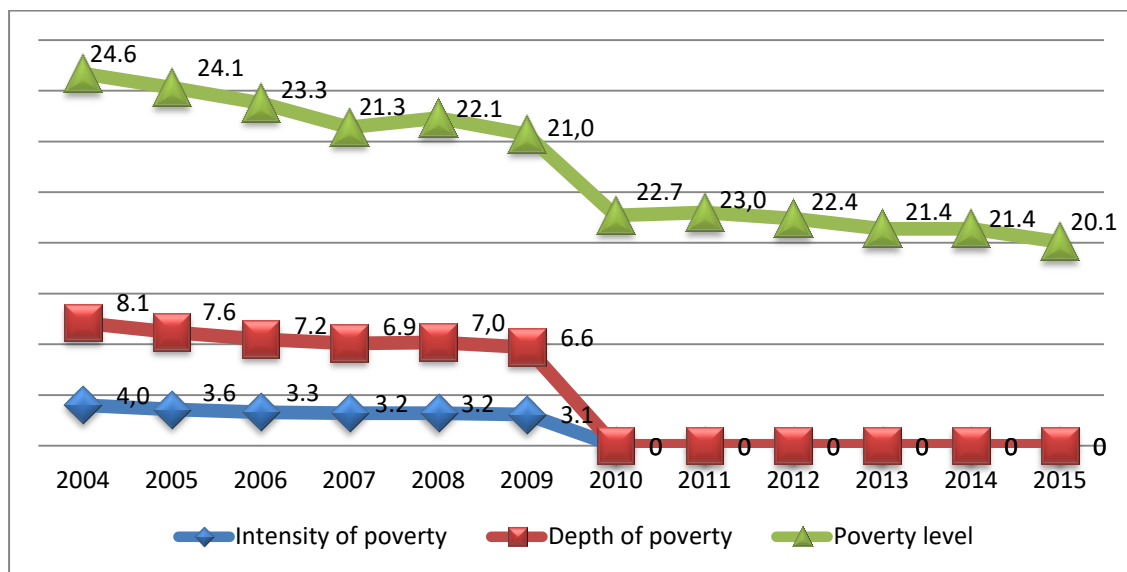
From 2004 poverty is measured related to 60% and 40% of median consumptions and none of them is calculated related to the subsistence minimum meaning that actually, we don't have official statistics regarding the number of poor people and poverty rate.

In 2004-2015 poverty rate had been decreasing related to the 60 percent of median consumption and resulted 4.5% point decrease in 11 years dynamics. After 2009 there are no values regarding the poverty depth published that makes analysis of poverty even harder.

Here also should be noted that poverty rate calculated in relation to 60% of median consumption is not factual indicator of the poverty. Median consumption is a value showing that the half of the population consume below it and other half consume above it. Hence, along with the increase in standard of living of population median consumption also increases. 60% and 40% of median consumptions are relative indicators and in any country they won't be more than 25-30%. Because of this we can't determine poverty rate in Georgia with this indicator.

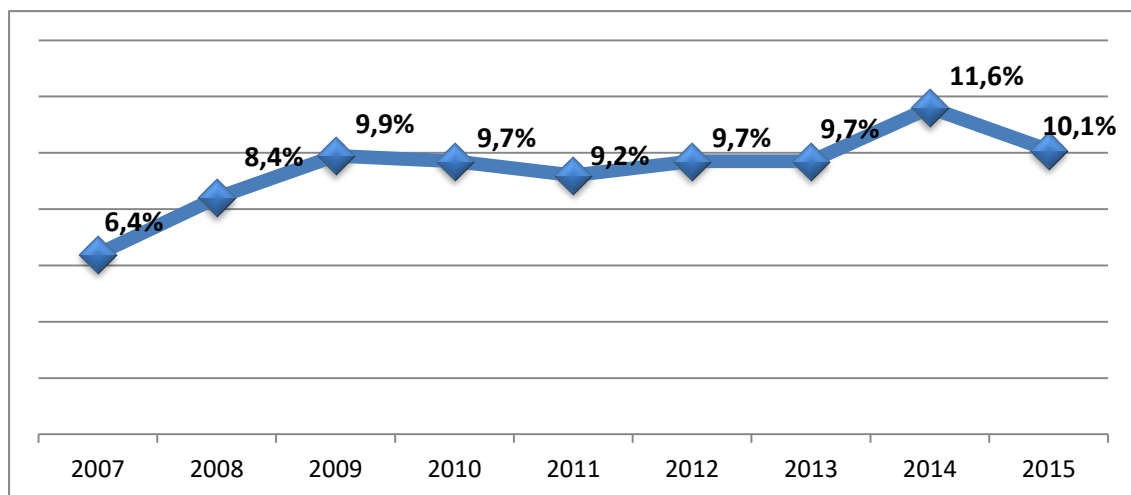
⁹See "National Statistics Office of Georgia, Georgia's annual statistics report", 1999, p. 76; 2000, p. 81; 2002, p. 81; 2004, p. 87. (in Georgian)

¹⁰ See "National Statistics Office of Georgia, Georgia's annual statistics report", 2005, p. 88, 2006, p.69 (in Georgian)



Graph 4: Poverty rates relative to 60% of median consumption, 2004-2015 (% to sum)¹¹

Based on the data from Social Service Agency, National Statistics Office of Georgia provides information regarding the share of people below poverty threshold in average annual population for the period of 2007-2015 (Graph 5). Absolute and relative values of people living below the poverty threshold is increased in 2015 relative to 2007. Despite the increase this poverty rate is very low. Here the issue is validity of point estimation system of conditions of poor people and the problems that they face with. There are many poor families who can't get assistance from government because of the higher ranking points they have got because of possessing different household goods that today mustn't be considered as luxurious.



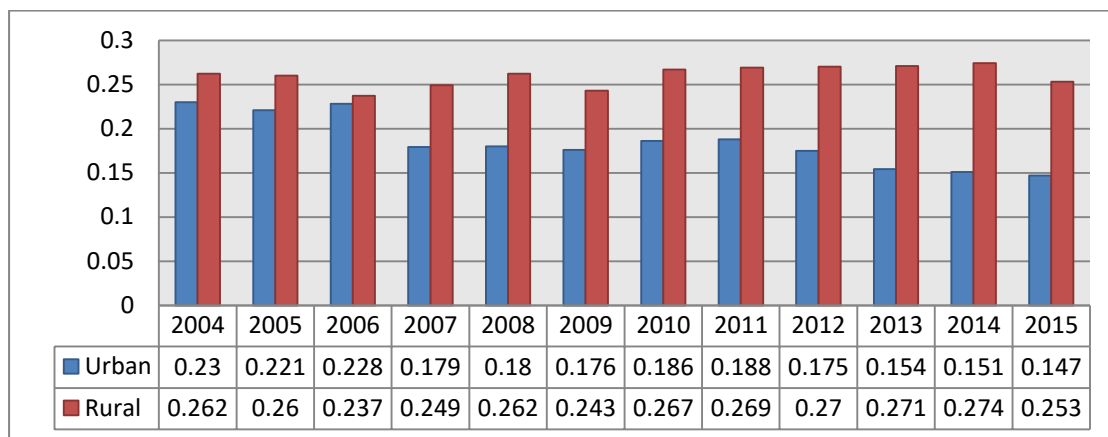
Graph 5: Share of people below the poverty threshold in Georgia, 2007-2015 (% to sum)¹²

Let us discuss poverty rate with respect to urban-rural areas (graph 4). This value decreased in the urban areas and stayed almost same in rural areas.

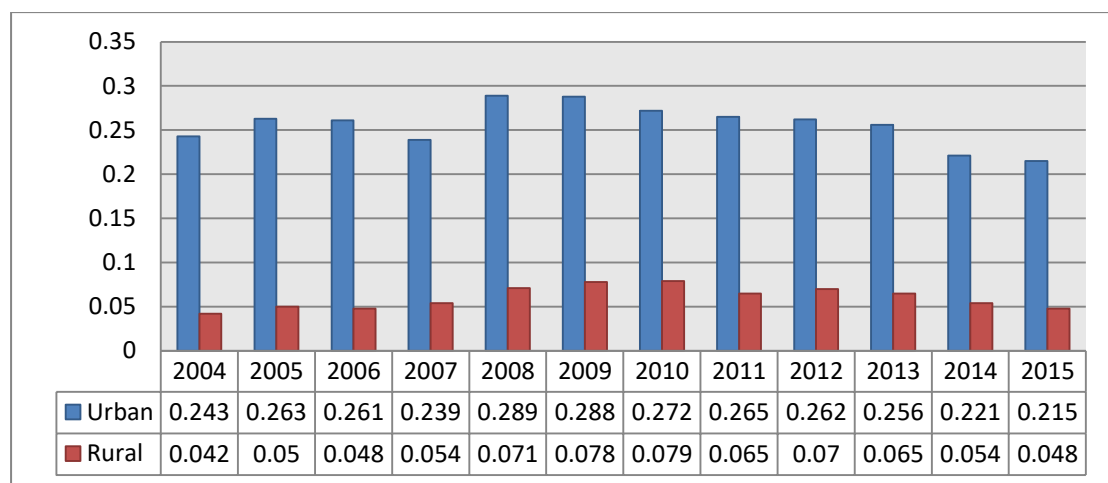
In 2015 poverty rate in rural areas were higher (25.3%) than in urban areas (14.7%). At the same time unemployment rate in rural areas was 4.8% and in urban areas it was 21.5% (Graphs 6 and 7). It is clear that these two facts are inconsistent with each other, because in the region where unemployment rate is high poverty rate should also be higher. In our case it is vice versa. Actually, high employment rate in villages is achieved by existence of self-employed people who aren't hired and are family members who work without salaries.

¹¹http://geostat.ge/?action=page&p_id=187&lang=geo

¹²http://geostat.ge/?action=page&p_id=145&lang=geo



Graph 6: Poverty rate in rural and urban areas, 2004-2015 (relative to 60% of median consumption)¹³



Graph 7: Unemployment level in rural and urban areas (%), 2004-2015¹⁴

These graphs are presented to show incompatibility of poverty and unemployment values. Despite fact that poverty and unemployment are calculated according to the internationally accepted methodology it is also fact that official statistics data in Georgia don't represent reality that causes discontent and critics in society. The problem is not in the inaccurate methodology. The problem is in its perception and economic conditions in the country. For example, many people criticize fact that man is considered to be employed if he possess at least 1 ha of agricultural land. Although, such kind of methodology is used in the EU countries, people there don't criticize it. The reason is that in developed countries like Germany, France, Netherlands and etc., the value of 1 ha agricultural land is much bigger than in Georgia. Hence, people in the EU can generate needed financial and non-financial sources to cultivate this land and/or develop their business, while in Georgia farmers who hold little land are unable to do this. Because of this, methodology shouldn't be criticized. In villages as in the country it is essential that price of land be higher that will help farmers to attract more finances, avoid poverty and being considered as employed.

5. HOW TO OVERCOME POVERTY

Many government programs were created in Georgia and huge amounts of money were allocated for them but general level, depth and intensity of poverty wasn't changed.

Policy oriented towards increasing standard of living should be conducted with the focus on three main blocks: economic, social and environmental development. From Georgian reality it can be said that the first step towards increasing standard of living must be overcoming the poverty.

¹³http://geostat.ge/?action=page&p_id=187&lang=geo

¹⁴http://geostat.ge/?action=page&p_id=145&lang=geo

Along with the tough economic state of the country society requires more social programs. When there is recession in the country and the domestic manufacturing is shrinking, ability of government to allocate additional resources for social programs is limited. In such case pressure on budget is increased. Government is forced to increase taxes, that reduces incomes of entrepreneurs and workers that leads to new social tensions.

In market economy product is bought by people who are able to buy it and not by people who need it the most. Part of economists consider to solve this problem by socialist approach and demand to reallocate wealth from rich class to poor one. But this is not effective and hinders accumulation of wealth in society. Private property is inevitable for economic growth and increase of standard of living. New entrepreneurs should emerge who will create economic wealth, be free economically and won't be dependent on government assistance. In Georgia as in other Post-Soviet countries the most assets are owned by the government and don't function. Such assets include: land (government ownership - 60%); natural resources: gold, ferrous, copper, marble, coal and etc. (government ownership - 100%); timber (government ownership - 100%) and governmental buildings. For economic development and increase of standard of living it is necessary to transmit these assets from government to citizens. Now these assets have no price. After transmitting in private property they will have market price and their proprietors will manage to attract finances, make additional investments and get respective revenues that will help to overcome poverty and achieve economic development and increased standard of living.

Annual growth in incomes is 113% and in expenses - 110%. If this trend maintains after population will satisfy basic consumption needs they will be able to make investments that will generate even more revenues for them and increase their standard of living that will in turn affect economic development of the country.

If we analyze decile coefficient of income differentiation to see how many times average monthly income of 10% of population with the highest incomes exceed on the same figure of 10% of population with the lowest incomes, it will appear that the most poor class (I decile group) get only 1.7% of total incomes that is 19.8 times less than that of the richest class (X decile group). Despite the decreasing dynamics it is still high value and shows high level of differentiation between revenues of rich and poor people.

Inequality in incomes of population is one of the problems while analyzing poverty and it is a wrong way if we decide to reallocate wealth from rich to poor. This would restrict rich class from further development of their business, production and employ more people. Problem should be solved not by reducing revenues of rich people but by giving more financial and economic freedom to poor people. Government shouldn't intervene in economy and market processes, business should act in free competition that will increase incomes of poor people. Obviously, differentiation in assets will remain and it is inevitable, but it is normal if people who are poor manage to increase their wealth and are able to live better lives than before.

6. CONCLUSION

Given the situation in Georgia country should try to increase standard of living by overcoming the poverty that requires understanding of the factors behind poverty and make active steps towards their eradication. Existence of correct definition of poverty that is adapted to social conditions of each country is essential as for these countries as well as for international comparability.

Providing its population's incomes and allocation of expenses Georgia can be considered as country with developing economy that is characterized by high differentiation in people's assets. Expenses on foods hold great share in total expenses of households indicating lower than average level of standard of living in Georgia. Country's economic development and wealth is on considerably lower level than that in developed countries. Per capita GDP in Georgia is 17 times less than that in Qatar, 13 times less than that in Luxemburg, 10 times less than that in Norway, 8 times less than that in the USA, 7 times less than that in Germany, 4 times less than that in Estonia, 3 times less than that in Turkey. With this figure Georgia is also behind Guinea, Namibia, Tonga, Kosovo, Samoa...

Every human should has equal opportunities for development. None of the members of society should be in humiliating conditions because he or she is poor. Society will better accomplish its social, economic and political goals when functioning on a basis of solidarity principles.

Reasonable economic policy is needed from the side of the government in order to ensure effective use of Georgia's rich natural resources that will contribute to country's economic development, increase of employment, decrease of poverty and improving standard of living.

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