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Poverty in developing and industrialised countries – one term, two meanings

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Official statistics paint a confusing picture of the poverty situation in various parts of the world. In Germany 16 % of the population is considered poor. However, this is also the rate reported for Bolivia, for example. The confusion dissipates when we take a closer look at what is measured in each case. In developing countries the object is absolute poverty while in industrialised countries it is relative poverty.

Developing countries (DCs): the concept of absolute poverty

Many people in DCs live under inhumane conditions at or below the subsistence level. Most DC governments have established income thresholds below which people are considered poor. To enable comparison across countries, the World Bank has determined an international poverty line of USD 1.25 per capita per day on the basis of these national thresholds. This threshold also forms the basis for the Millennium Development Goals (MDG), of which the goal of cutting poverty in half between 1990 and 2015 has particular significance. This goal has already been achieved for the group of developing countries as a whole. The poverty rate in DCs dropped from an average 43 % of the population in 1990 to 21 % in 2010.

Validity of the concept / critique

Inevitably, such a highly aggregated statistical result disregards many aspects of the equation. Much of the decline in the global poverty rate is due to China, where more than 500 million people have risen above the poverty line since 1990 as a result of the economic boom, lowering China's poverty rate from 60 % to 12 %. In contrast, the poorest countries, particularly in Sub-Saharan Africa, will have fallen far short of the MDG poverty target. Along with country-specific aspects, a more precise data analysis is necessary (and possible) to capture "poverty depth" as well. It examines whether the average income of the poor population is just under or much lower than USD 1.25.

More fundamental is the criticism that it is not enough to analyse income only. This is why the United Nations (UNDP), for example, has developed a *Multi-dimensional Poverty Index* that captures indicators relating to standard of living, health and education. Another method would be to use the overall MDG catalogue as an aggregate measure of poverty. Such multidimensional indexes, however, have limits because the statistical systems of many DCs do not supply any reliable data, such measuring concepts are subjective (selection, weighting) and interpretation also becomes difficult when particular sub-indicators are met and others are not.

Industrialised countries: the concept of relative poverty

In industrialised countries, a person is regarded as poor when his income is below a particular percentage of the average income. In the OECD statistics this threshold is 50 % and in the EU 60 %. Besides, the EU does not refer to the "poverty rate" but measures the "at risk-of-poverty rate". According to the OECD threshold, in Germany 9 % of the population is regarded as poor (reference year 2008), and according to the EU threshold, 15.8 % (2010) is considered at risk of poverty.

Validity of the concept / critique

The concept of relative poverty implies that in the EU – unlike the USD 1.25 threshold for DCs – an extreme bandwidth of thresholds exists that stretches from EUR 1,270 annual income in Romania to EUR 19,523 in Luxembourg. However, this does not challenge the concept. What is actually measured is not absolute but relative poverty and, hence, inequality as well. Thus, in a society of billionaires a millionaire would live below the poverty line, and in a society in which everyone has the same very low income no person would fall below it.

In order to capture changes in poverty it is more important considering that not average income but the median income level is used as a mean value. As a consequence, the poverty rate may remain unchanged even if the richest people's income increases and everything else remains the same because 50 % will still have more and 50 % will still have less than the median income.

Against this background, income and poverty statistics require careful and responsible interpretation. Applied correctly, they are a good data set on the basis of which equal opportunities, social mobility, effective social policy and other issues can be debated.

Conclusion: poor does not mean poor

There is no right or wrong – it depends on what is being examined. Where the question is whether people's basic needs are met, a measure of absolute poverty is the appropriate approach. In order to characterise people's income situation within their social environment, a measure of relative poverty is a good basis. ■