REDUCING POVERTY AS A DRIVER OF DEVELOPMENT

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It is ten years after Lisbon and in the year dedicated to poverty alleviation that this paper is written in order to investigate the implications of the decisions regarding poverty reduction taken by the EU. We present a simple comparison of the "risks of poverty" in European countries in 2000 and 2008, before and after transfers, and our finding is a positive effect of the policies towards poverty alleviation, even if the risk of poverty is increasing. By studying the correlation between percentage of people that fall below the poverty line and GDP per capita, we do not observe a whole diverse situation in Europe, with only few minor differences between rich and poor countries. We also discuss the importance of alternative approaches in estimating poverty, by means of a multidimensional method which considers a multitude of aspects in the quality of life.

Keywords: poverty, risk of poverty, GDP, European Integration, Globalization.

JEL code: I3, P3

1. Introduction

"Solidarity is one of the guiding principles of the European Union, meaning that all citizens should be able to share in the benefits of prosperous times, while also sharing the burden of times of difficulty."[121]

The European Council, held in Lisbon in March 2000, identified the fight against poverty and social inclusion as one of the key commitments of the European Union and its Member States.

To this end, the European Council has designated 2010 as "the European Year122 for Combating Poverty and Social Exclusion123", in order to give voice to the concerns of people who have to live with poverty and social exclusion, and promote discussion on these issues. The international economic and financial crisis that revealed major impact from 2008 is having and will have long-run consequences for growth and employment in the EU. The most vulnerable part of our society will suffer most from these effects. In this work we want to integrate the issues of average

[121] Eurobarometer survey on poverty and social exclusion, 2009.

[122] Since 1983, every year was defined, by the European Council, as a "European Year" with the aim to inform the citizens of Europe and to pay attention to social themes, in order to change mentalities and behavior of citizens.

[123] Decision n° 1098/2008/EC of the European Parliament and of the Council of 22 October 2008 on the European Year for Combating Poverty and Social Exclusion (2010).

income and public purposes, in order to analyze them more thoroughly. Indeed, both of them relate to and explain a problem that afflicts significant shares of population of European countries, as well as the rest of the world: the problem of poverty.

2. Measuring poverty

In order to assess the effectiveness of a policy, it is necessary to observe changes in the level of poverty over time: this means that poverty must be, in some way, measured. According to Sen (1976), the measurement of poverty consists in solving two distinct problems: the identification and the aggregation. In the economic literature the first problem has been solved by using income as a proxy. In fact, in 1905, Lorentz introduced the Lorentz curve to describe as income might be compared in terms of inequality. By using income, in 1880 Charles Booth introduced the notion of poverty line in order to distinguish people living in London from those in poverty and in comfort. This threshold was defined in 1891 by Rowntree in terms of a minimum level of income that was necessary to access to the basic needs. During the last century, studies on measures of poverty have followed essentially two different approaches: the construction of an indicator and the ordering of distribution. Nevertheless in both path, income or consumption expenditures were considered as the only variable representing the welfare level of an individual. The first approach has produced several indices (Clark, Hemming and Ulph, 1981), which are essentially based on dividing the population into two subgroups depending on whether the income is below or above a threshold value. However, the second one has dealt mainly with ordering and distribution of income and, in order to eliminate a degree of subjectivity, several postulates were introduced (Sen, 1976; Tsui 2002; Bourguignon and Chakravarty, 2003). There are two main ways of setting poverty lines absolute[124] or relative[125], subjective[126] or public standards[127]. In 1995, at the World Summit on Social Development in Copenhagen[128] scientists have defined extreme poverty as: "[…] *a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information"*. In 2004, the European Council[129] presented a relative definition of poverty "[…] *Because of their poverty they may experience multiple disadvantages through unemployment, low income, poor housing, inadequate health care and barriers to lifelong learning, culture, sport and recreation. They are often excluded and marginalized from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted"*. We observe that, while extreme poverty affects only certain groups within the EU, the most widespread form of poverty within the EU tends to be relative poverty, both in monetary and non-monetary terms. The characteristics of relative poverty can vary between genders, age groups, household types, etc. In this light, a genuine poverty measure should depend on an income indicator as well as on non-income indicators.

3. The risk of poverty: evidence from data

One particularly interesting aspect of the quantitative distribution of income is the one concerning the living conditions of the poorest people. The analysis of poverty pays attention to the size and characteristics of the left tail of the distribution, while ignoring other aspects.

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[124] The absolute standard (basic needs approach) is usually used to define poverty in developing economies by Word Bank and Onu.

[125] According to this criterion, poverty state is defined in relation to the community standard life average, so, to be poor means having less than other.

[126] In the subjective standard, individuals or families are poor if they declare themselves to be poor.

[127] The public standard requires that the maximum level of income is set by exogenous measures of public welfare assistance

[128] A/CONF.166/9 - Final Report of the World Summit for Social Development- Copenhagen, 1995.

[129] European Commission, Joint report on social inclusion, 2004.

Our analysis starts considering the "risk of poverty" in UE in two different years: before (2000) and after (2008) the implementations of Lisbon strategies, in order to collect some evidence about the effectiveness of these strategies. In particular we calculate the percentage variation of this indicator. Then we analyze the correlation between income level and percentage of population which falls below the poverty line (computed relative to the country).

The EU is a relatively rich and prosperous part of the world, with an average GDP per capita of $32.600 and a rate of unemployment of 9,2%, compared to U.S. $ 46.400 and $ 32.600 for Japan, with respectively 9,3% and 5,6% of unemployment rates (2009, CIA, The World Factbook). Nevertheless, it is estimated that around 80 million Europeans (19 million of whom are children, the gender gap is approximately two percentage points) live at risk of poverty[130], which is about 17% of the population[131]. Nevertheless in the economic analysis we are interested in knowing how income is distributed among people. In Europe the average Gini coefficient is lower (31, 2006) than the other two examples above (45 for U.S., 2007, and 38,1 for Japan, 2002, CIA), but it takes different values in different countries.

In some Eastern European countries the Eurostat index "Inequality of Income Distribution[132]" is almost double compared to Western countries. In this first group of States, characterized by low income, high inequality means a higher risk to fall in poverty. Several studies on the relationship between globalization and changes in the indices of poverty (Sala-i-Martin, 2002) showed an increase in poverty levels, because of growing inequality in different countries. There are in fact vulnerable groups, which already constitute the poorest part of population, that cannot benefit from the improvements in levels of economy, such as taking advantage from larger international exchange relationships or exploiting human capital to achieve better social and economic position. By and large, the process of globalization has reduced absolute poverty levels in the world, in a complex relationship, that led in some cases to greater concentration of income and wealth. This relationship is however complex and intricate, since these two phenomena have been evolving in recent years. This paper underlines the role played by poverty on future possibilities for community development, joint and harmonious. Using Eurostat data we highlight the increase in the level of risk of poverty that is evident in many member countries, especially in calculating the pre-transfer. This refers in particular to Eastern European nations like Hungary, Bulgaria, Romania, and northern countries like Sweden and Finland, which have increased their chance of falling in poverty from a rate of 40% to over 70%. On the other hand, the number of countries with a decreasing level of this index during the same period were few and with low values. Concerning the importance of EU and national policies for integration and growth, it is necessary to examine the data after transfer, to assess the effectiveness of at least national relevance, which is also the remit of national decision-makers. Countries with high levels of increase in the first indicator, Sweden and Finland, but also Denmark, Ireland, Hungary and Austria, reach more than 50% decrease in risk of poverty before and after the transfers, bringing the indicator "At-risk-of- Poverty rate after social transfers" well below the European average, which for the year 2008 was around 17%.

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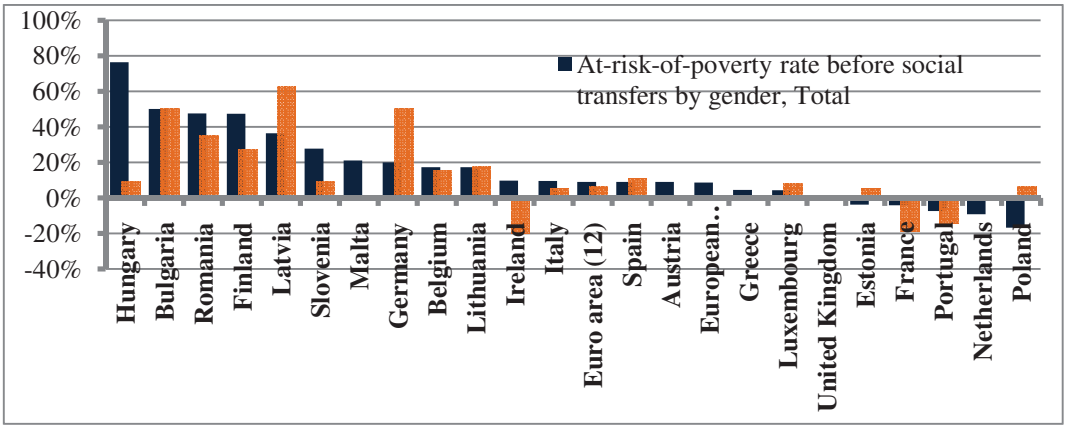
[130]The 'at risk of poverty' indicator identifies households or people who fall below a certain income threshold, the EU sets this cut-off at 60% of the median income.

[131] European Commission, Joint Report on Social Protection and Social Inclusion 2008.

[132] Eurostat defines the "Inequality of income distribution" as the ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (lowest quintile).

Fig. 1 - Change (%) of indicators at risk of poverty before and after the transfers in 2000 and 2008



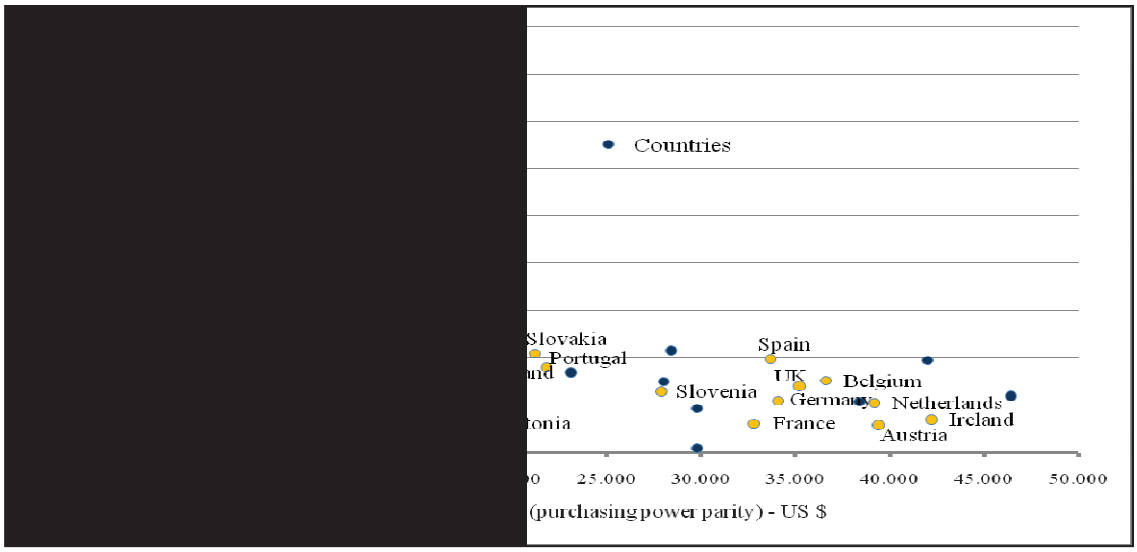
The level of risk increases for women, on average 1 to 3 percentage points, and decreases with improvements in education, especially in Eastern countries such as Romania and Bulgaria, where people with primary education had about 40% of risk of falling below the national poverty line; however, this is reduced to less than 5% for those countries showing a higher level of human capital. Differences persist among social groups within States, which, as already discussed in Lisbon, are a disturbing factor to the growth process, as they form areas of marked differences between single countries, both in terms of wealth and labor productivity, which affects the mutual relations of exchange and cooperation. As it is clear from the data, the role of education in Europe is essential, also due to the approach taken in the strategies that should improve the socio-economic background in the EU, directed to invest into the knowledge economy and human capital formation and establishing a solid foundation for long-run development.

Finally, it is important to consider the "poverty risk" for particular social groups, the children and the elder, which in most member States support a higher than average risk of poverty, markedly in Eastern countries (Eurostat 2010).

In the following chart, we observe the location of many worldwide countries arranged according to the variable "Population below poverty line"[133], compared with the level of GDP per capita (in purchasing power parity, US $). The EU member states are located mostly in the richest segment, in many cases marking minimum levels of population in poverty (less than 15%). Moreover, several Eastern European countries are characterized by median income levels between $ 11.500 (Romania) and $ 21.200 (Slovakia), but they share similar levels in poverty rates with other richer countries (with minimum levels for Lithuania and Estonia to around 5%, less than some richer countries, and maximum for Romania, 25%) (CIA, The World Factbook).

[133] National estimates of percentage of the population falling below the poverty line are based on surveys of sub-groups, with the results weighted by the number of people in each group, definitions of poverty vary considerably among nations. (CIA)

Fig. 2 - Graph of Population below poverty line vs. GDP per capita PPP (US $) of the corresponding country (recent years available)



4. Conclusive remarks

The measurement of poverty, and more generally of social problems, is one of the liveliest topics in economic statistics, as evidenced by the commitment made by Eurostat and the European Commission. However, as mentioned earlier, the estimation of poverty involves complex methodological choices, sometimes fragile, and too conventional. These observations must be considered when interpreting the data and building on them intervention policies.

Data show that, generally, at high levels of GDP per capita correspond a low poverty risk, but this is not true for each country. Some consideration must be given to the positive variation of the poverty risk in 2000 and 2008: firstly, we observed a positive effect of social policies brought by the EU, in agreement with the member States. Secondly, also because of global economic slowdown, there is still a high percentage of people at risk of being in poverty, or to remain marginalized from different aspects of social life.

Many economists (Sen, 1976; Tsui 2002; Bourguignon and Chakravarty, 2003) do not consider the average income level, as well as its distribution, an appropriate method to estimate the poverty. They study poverty as a multidimensional phenomenon which takes into account not only the monetary factor but also non monetary factors (as health, educational, life expectancy…). In this way, the unidimensional threshold is substituted by a multidimensional one that allows to define as poor people that have an adequate income but do not have access to some of the so-called "basic needs". Appropriate social policies should therefore consider a variety of aspects of social and economic life, especially in the EU, where in addition to integration between countries, it is necessary to achieve cohesion and equal conditions of life among all EU citizens.

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