What Have We Learned About Poverty?

Even before the onset of the current global financial and economic crisis, the world had not been on track to meet MDG 1 by 2015. Now, the crisis is making attainment of that goal even more elusive. With only five years remaining to halve extreme poverty, it is important to reflect on how the world is measuring progress on reducing poverty.

Popular measures of poverty can be misleading

- The poverty line is supposed to be principally defined in terms of the money income needed to avoid going hungry. Yet, official trends in global poverty and hunger have been going in the opposite direction since the early 1990s – with the number of poor declining and the number of hungry people on the rise. How can it be that fewer people are poor, while more people are going hungry, especially when poverty is supposedly measured by the income level required to avoid hunger?

- Measured globally, the number of people living in extreme poverty (now defined by the World Bank as less than $1.25 per day for 2005) declined from 1.9 billion in 1981 to 1.4 billion in 2005. But if China is removed, the number of people living in extreme poverty actually increased over this period, from 1.1 billion to 1.2 billion.

- While the experience of poverty is multi-faceted, multi-dimensional, and volatile, money income measurement can be misleading. Should those living on less than a dollar a day, but with access to publicly provided education, health care, transportation and housing, be considered poor? Or should those getting more than the poverty line income, but who must pay fees for education and health services, etc., be considered non-poor?

- Investing in education is considered a key pathway out of poverty but it may also contribute to poverty. Consider the fate of two families: in one, the parents sacrifice to send their children to school; in another, parents send their children out to work instead. The first family may be considered poor, while the second may be considered non-poor.

- Ill health can contribute to poverty or confuse poverty measurement. For example, a household that goes into debt to pay for the medical expenses of a family member could move above the poverty line if household expenditure is used to measure poverty.

Such misleading measures suggest that the distinction between the poor and the non-poor is not as simple as a poverty line would suggest. Also, many people can slip in and out of poverty as their circumstances change, perhaps only temporarily. Of course, some are more vulnerable than others. Many may hover just above the poverty line, and a small economic shock or mishap – such as adverse weather, illness in the family, or the sudden death of a family breadwinner – can push them into poverty.

What does this mean for policymakers?

- As both economic development and reducing inequality contribute to poverty reduction, **public policies should be oriented towards ensuring equitable and sustainable development**.

- The most direct pathway out of poverty is by generating enough decent work opportunities. Yet, the creation of productive jobs has failed to receive the prominence it deserves. Making the **promotion of full and productive employment and decent work for all a central objective of macroeconomic policy** would ensure more equitable distribution of the benefits of economic growth, and reduce both inequality and poverty.

- Many vulnerable low-income families are at risk of experiencing poverty at some point in their lives. **Universal social policies can ensure the basic well-being of all**, including those in poverty and at risk, and can contribute to counter-cyclical macroeconomic policies, thus contributing to economic recovery.

- Sustainable development and poverty reduction requires investments in human development to enhance human capabilities. **Public social expenditures should be protected**, even increased, in the face of crises, with priority given to primary health care, universal basic education and social provisioning.

- **A 'social protection' floor can serve as an effective safeguard against poverty**, even during an economic crisis. A basic social security package – comprising unemployment insurance, pensions, disability, and child benefits – is fiscally affordable for most developing economies, requiring investment of no more than five per cent of national income.

- Macroeconomic policies should be oriented to supporting sustainable development, decent work opportunities and counter-cyclicality. For example, **stabilization funds can help create the necessary fiscal space to smoothen business cycles with active labour market policies**.

It is time to rethink the way we understand poverty, how it is measured, and the policies used to address it. A more comprehensive strategy to reduce poverty, that puts decent jobs at the centre of development strategies, is needed to improve the lives of current and future generations.

Department of Economic and Social Affairs

Key Points

Rethinking Poverty

Report on the World Social Situation 2010

United Nations
New York, January 2010