Title: The emergence of poverty in the world of increasing inequalities

Abstract

Poverty is one of the most serious global problems, almost half of the global population lives in poverty. Definition of poverty and its measuring is difficult, because number of factors, that interact and relate to each other, have to be taken into account. Also extent and depth of poverty vary within the world regions. Highlighting the increasing risk of poverty in the context of global economic crisis is also important.

The first part of the paper discusses various definitions of poverty, facts about poverty and also the main causes of its persistence. The paper is focusing on the growing social inequalities within the world and taking closer look at children as a group which is threatened with poverty the most. The next part focuses on the characteristics of the selected poverty indicators used for measuring poverty and their mutual connections. Individual indicators are characterized particularly according last data, showing also development in time. The last part of the work includes overview of the most significant signs of poverty in the European region, for the analysis will be used data from EU SILC, which allow us to see poverty in the European context.Further, we assess the articulations between poverty and post-socialist development.

Keywords: poverty, world, Europe, Slovakia, increasing inequalities, post-socialism

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The emergence of poverty in the world of increasing inequalities

Introduction

"Social justice is an unending struggle. Just when means are found of subordinating the worst horros of the human condition...the changes taking place in that condition oblidge those rules to be urgently updated and even transformed," said Townsend.

Despite different social changes over the centuries, all historical periods have something in common. In each of these a group of people lived in the social or material need. Every period produced poverty depending on the political-economic circumstances and caused not only some of its specifics, but also special access to remedy and alleviate position of poor.

Almost as long as there has occurred poverty in the world, there have been attempts to explain it. There are many researchers, politicians and other professionals dealing with this phenomenon, they all use different definitions to characterize it and different approaches to measure it. They all concur, that it is not possible to state a single, universally accepted definition of poverty. The phenomenon of the poverty is very complicated and therefore many indicators exist for measuring and evaluating poverty from the different points of view. One of the partial aims of this paper is to select some of them, characterize them and point to their mutual differences and connections.

What poverty is?

To talk about poverty, we have to clear what poverty is. As we mentioned before, there is no single, universally accepted definition of poverty. Poverty in the developed and developing countries is different, though we can find in both parts of the world. There are also differences between objective and subjective perception of poverty. For that reason, more definitions of poverty are known:

United Nation’s definition of poverty:

“Poverty is the total absence of opportunities, accompanied by high levels of undernourishment, hunger, illiteracy, lack of education, physical and mental ailments, emotional and social instability, unhappiness, sorrow and hopelessness for the future. Poverty is also characterized by a chronic shortage of economic, social and political participation, relegating individuals to exclusion as social beings, preventing access to the benefits of economic and social development and thereby limiting their cultural development." (BLANCO, 2002)

European Union’s working definition of poverty

“Persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State to which they belong are said to be living in poverty”. (INNOCENTI REPORT CARD 7, 2007)

This is now the most commonly used definition of poverty in the industrialized world. It recognizes that poverty is not just about income but about the effective exclusion of people living in poverty from ordinary living patterns, customs and activities. World Bank and International Labor Organization define poverty in the similar way, with accent on exclusion of people living in poverty.

While defining poverty, we have to keep in mind, there is also difference between absolute and relative poverty. The main difference between them is that absolute poverty is income below a certain level necessary to maintain minimum standards of living and relative poverty is when income is less than average income, by a certain amount. (TOWNSEND, 2002)

Indicator, which allows us to examine the absolute poverty is proportional share of people living under income level 1$ a day in 1985 international purchasing power parity (PPP) prices (equivalent to $1.08 in 1993 PPP prices). World Bank established this line as an international poverty line and every person in the world whose daily income or consumption is less than this value is considered to be poor. World Bank revised the value of international poverty line to 1,25$ in 2005. According to this new poverty line, 1.4 billion people live at this poverty line or below and it is more than the previous estimate of 984 million with the older measure of $1. Number of poor in 1981 was also revised upward, from 1.5 billion to 1.9 billion. (SHAH, 2010).

According to the last available data from 2005 for world regions, share of population living in households with consumption or income per person below this poverty line is 16, 78% for East Asia and Pacific, 3,65% for Europe and Central Asia, 8,22% for Latin America and Caribbean, 3,60% Middle East and North Africa, 40,34% for South Asia and 50,91% for Sub-Saharan Africa, which is twice as much as world average – 25,19%. (WORLD BANK – POVCALNET, 2005)

Although this measure is often used for evaluating of world poverty, its interpretation is partly misleading. The fact that share of people living in poverty declines does not have to mean also decline in absolute numbers. That is why we have to be really careful, while using this measure.

World Bank also adopted a rule-of measure of US $ 370 GDP – Gross Domestic Product (at 1985 prices) per year per capita for all the poorest developing countries. According to this measure, all countries with amount smaller than $ 370 (GDP per capita per year) were considered poor. However, this indicator was not subsequently converted into the measure said to be necessary by the Bank in 1990. (EXPERT GROUP ON POVERTY STATISTICS, 2006). Nowadays, GDP has still its significance as a measure of poverty, because decreasing of poverty in the country hardly happens without growth of GDP, the growth of GDP is the basic prerequisite for decreasing poverty.

But as for GDP we have to be aware of distribution of GDP among the population. If the income is unevenly distributed, growth of GDP may benefit a small group of high income earners and has a very little impact on reducing poverty of the poorest groups. Moreover, it is important to distinguish increase in GDP and increase in living standard. Even economic growth can not automatically ensure improvement of access to the water or children's school attendance. The fact is that according to the UNDP, decrease in poverty rarely happens without increase in GDP. But if GDP per capita is used as data for measuring poverty, its distribution must be taken into account.

Gini Coefficient is used to measure how evenly income is distributed. The closer Gini Coefficient is to 100%, the more uneven is the income distribution. Value 0% represents evenly distributed income - everyone has the same income. (DORFMAN, 1979). But Gini Coefficient as an indicator of poverty is also disputable. While it has many pros (can be used for income comparison among countries but also within country and so it enables us to see the differences between urban and rural areas; it is easy to interpret and represent how income changed for rich and poor, which is impossible with GDP, representing income change for whole population) it has its cons as well (even if countries have similar Gini Coefficient, their income distribution can be very different).

As an extreme example, if half of the households in the country have no income and the income is evenly distributed in the second half, value of Gini Coefficient would be 50%. The same value would have the country, where one household keeps half of the income and the rest is evenly distributed. Of course, this is an extreme example, but we have to take this into account, while interpreting the Gini Coefficient. Country with unevenly distributed income doesn't have to belong among poor countries.

Typical example is USA, with Gini Coefficient 40,8% (HUMAN DEVELOPMENT REPORT 2009), which means quite high inequality in income distribution but belongs among rich countries according to GDP. On the other hand, Burundi, as the poorest country according to GDP – 115 USD per capita per year has the Gini Coefficient 33,3 %, which is less than Australia or Great Britain has. (HUMAN DEVELOPMENT REPORT 2009)

Therefore, Gini Coefficient is not very suitable for poverty evaluation of the poorest countries, because the matter of fact is, when majority of people is poor, they are also equal in essence (Gini Coefficient does not evaluate equality in the poverty or in the wealth, it only evaluates equality of incomes and they might be high or low).

Countries with the lowest Gini Coefficient (24-26 %) are in general Scandinavian countries (Norway, Sweden, Finland, Denmark), former socialistic countries (Slovakia, Czech republic, Hungary) and Japan. (HUMAN DEVELOPMENT REPORT 2009)

According to the World Bank Economic Prospect from 2004, developing countries will grow much faster in the next 25 years. On the basis of this development, share of the developing countries on the world GDP should grow from current 23% to 31% in 2030. According to the World Bank Economic Prospect from 2010, growth in Europe is projected at 4,1 % in 2010, while in the Sub-Saharan region it is projected at 4,5%. The growth is driven by historically high commodity prices and stronger external demand. (SHANKAR, 2010) We can assume that financial crisis has also impact on that, but even if developing countries experience such a positive development, the difference between developed and developing countries will stay significant and difference in absolute income per one inhabitant will rise.

Human Development Index

So far, we have discussed only measures, which were evaluating poverty only from one side, according to the material wealth. In the world, there is a tendency to assess human welfare according to the material wealth. Although the importance of GDP growth is undisputable and as was mentioned above it is often an inevitable condition of human development, the basic measure of development should be the quality of human life and the opportunity to have a real possibility of choice. This possibility is satisfied not only with sufficient income, but also with education, good health and life in the country which is not ruled by dictatorship. Apart from the last aspect (life in the country which is not ruled by dictatorship), which is hardly measured in numbers, all other aspects are part of another poverty indicator – Human Development Index (HDI). Unlike GDP or other indicators mentioned above Human Development Index widely defines welfare and development in certain country. The HDI is the signature trademark of the Human Development Report (HDR), an independent report commissioned by the UNDP (United Nations Development Program).

Human Development Index is a summary indicator of human development, which measures average standard of living in the country. We can define it as a combined measure of the three dimensions of human development.

Those three dimensions are:

- A long and healthy life, as measured by life expectancy at birth.
- Knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary gross enrollment ratio (with one-third weight).
- A decent standard of living, as measured by GDP per capita in purchasing power parity (PPP) terms in US dollars.

(HUMAN DEVELOPMENT REPORT 2006)

Before the HDI is calculated itself, an index is created for each of these dimensions, derived from the indicators for each dimension. Index value of each dimension is between 0 and 1. This value is calculated according the general formula:

$$Dimension\ index = \frac{current\ indicator\ value - minimal\ indicator\ value}{maximal\ indicator\ value - minimal\ indicator\ value}$$

As we can see from the formula, for calculating index, we have to also known boundary values of indicators, theirs maximal and minimal values:

Indicator	**Minimal value**	**Maximal value**
Life expectancy at birth (years)	25	85
Adult literacy rate (%)	0	100
Combined primary, secondary and tertiary gross enrollment ratio (%)	0	100
GDP per capita in PPP (USD)	100	40 000

The final value of Human Development Index is therefore calculated as arithmetic mean of all three dimension's index values:

HDI = 1/3 (life expectancy index) + 1/3 (education index) + 1/3 (GDP index)

Human Development Index can gain values from 0 to 1. According to the value, we can classify countries into three groups:

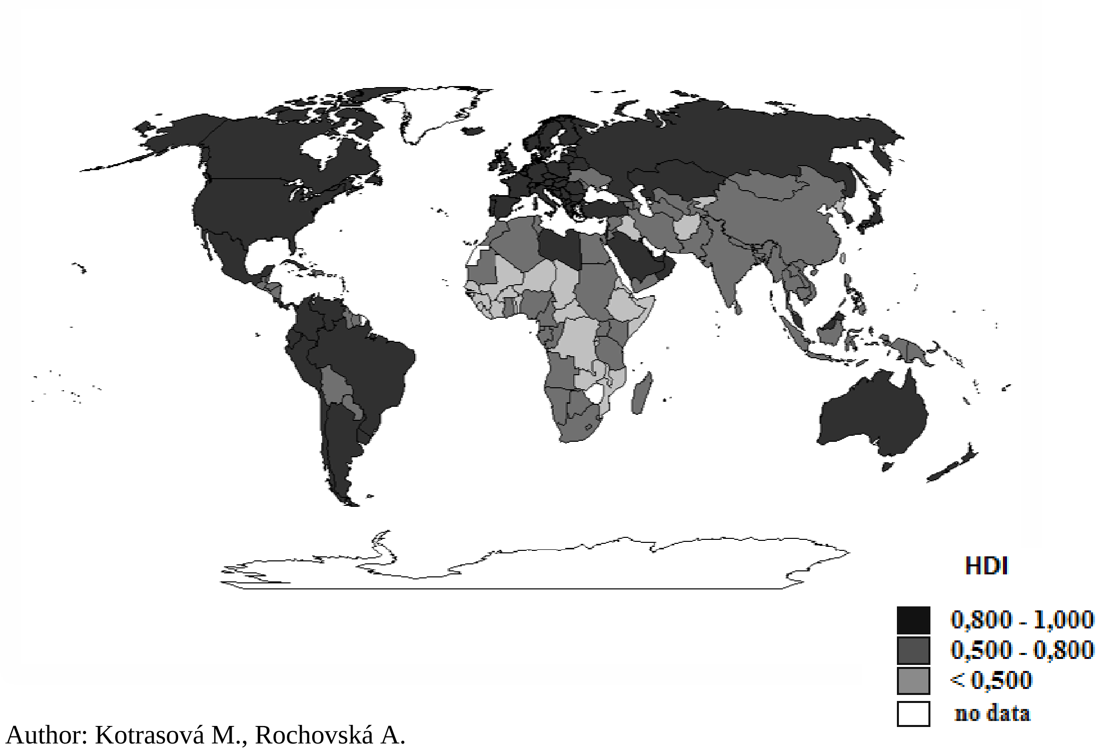
Countries with high human development	**0,800 – 1,000**
Countries with medium human development	**0,500 – 0,799**
Countries with low human development	**less than 0,500**

(HUMAN DEVELOPMENT REPORT 2006)

HDI values point at deepening differences between countries. Paradox is that differences are deepening in the era of globalization and mutual connections between countries. What is positive is the fact HDI value for majority of countries is slowly rising up (HUMAN DEVELOPMENT REPORT 2009). However, growing process is slow, because increase in indicator's values (life expectancy at birth, adult literacy rate…) takes longer time.

In the last few years, United Nations Development Program adjusted categories of Human Development Index into four instead of three. The new category is for countries with very high human development. The reason was that many countries reach value of HDI equal or higher than 0,900 and they differ from countries whose HDI value was 0,800 or slightly higher in the sense of GDP level, literacy rate or life expectancy at birth. (HUMAN DEVELOPMENT REPORT 2009)

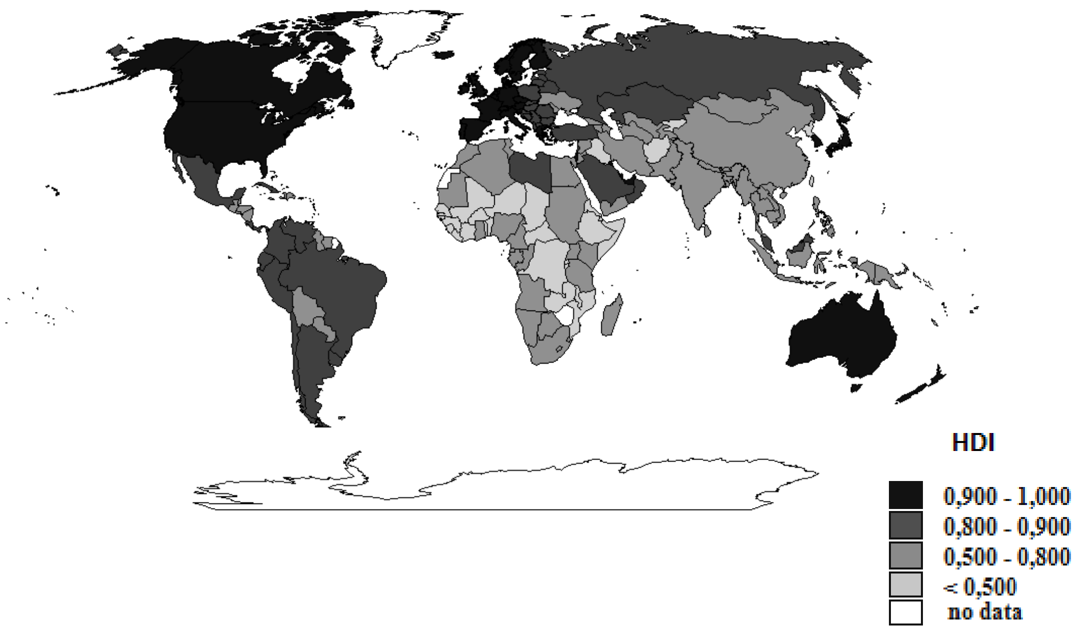
Map 1: **Human Development Index in 2009 (3 intervals)**



Author: Kotrasová M., Rochovská A.

Source: Human Development Report 2009

Map 2: **Human Development Index in 2009 (4 intervals)**



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Source: Human Development Report 2009

It is clear from the maps; there is a big change while applying three and four intervals. Among the countries with very high human development are Canada, USA, Australia, New Zealand, Republic of Korea, Japan, Israel, Qatar, Kuwait, Brunei, Singapore, Barbados, Hong Kong, United Arab Emirates, Norway, Switzerland, Liechtenstein and all members of EU 15. From the new members (countries new to EU in 2004 and 2007), only Czech Republic, Slovenia, Malta and Cyprus are among countries with very high human development. Other European countries (Slovakia included) are among countries with high human development. In the European space, the major reason why some country reaches very high and some country “only” high human development is mostly because of the different value of GDP. Life expectancy at birth or adult literacy is mostly at the same level.

Overall, from the 182 countries with data available, 38 is among countries with very high human development, 45 with high human development, 75 with medium human development and 24 with low human development. Almost all countries with low human development are from Sub-Saharan region (except Afghanistan and Timor-Leste). Life expectancy at birth in those countries is 52,4 years in comparison with 77,3 years in countries with very high human development. (HUMAN DEVELOPMENT REPORT 2009)

Governments often use Human Development Index as measure for comparison with other countries, because its value represents more aspects. However, neglect of many important issues, including those which are crucial for better HDI rank among countries, persists. In some countries, especially in Sub-Saharan ones, low HDI rank is caused by specific problems – HIV/AIDS epidemic, shortage of water, civil wars etc. In many other countries is this low HDI rank caused by failure of local politic in providing adequate opportunities necessary for gaining good health and education.

There are also attempts to use Human Development Index as an indicator for comparing inequalities between inhabitants of one country, but problems with gaining data for certain groups (poor, rich, ethnic groups..) arise. After eliminating those problems, Human Development Index has a big potential to become a strong indicator for understanding and analysis of differences within countries.

Relative poverty in Europe

According to the measures for absolute poverty mentioned above, we can state, that poverty should not occur in Europe, at least in theory. But using the relative concept of poverty well represented by Townsend's (1979) definition "the absence or inadequacy of those diets, amenities, standards, services and activities which are common or customary in society" we can prove that there is a poverty in all European countries. Relative poverty, which is based on a comparison of poor people with others within the society.

According Mareš (1999) poverty is measured mainly towards quality of life charactersitics in specific country. Resources and assets of poor, families or individuals, are significantly under the standard within the society and causes the exclusion of those without Access to assets from habits and activities, which are common in society. The poor have no opportunity to live in generally accepted conditions. Lack of assets can cause different extent od deprivation and vulnerability and living for the long time in bad conditions can be ground not only for poverty but also social exclusion. (Mareš, 1999).

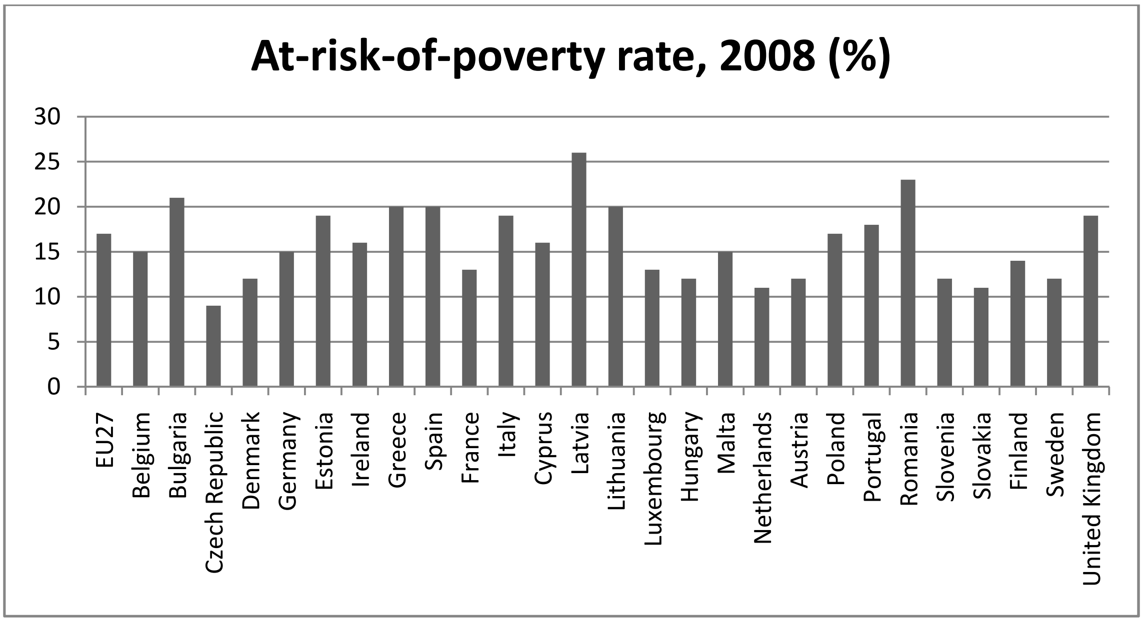
Slovak National Action plan of social inclusion defines poverty as follows: *„people live in poverty, when their income and other resources are so insufficient, that they are not allowed to reach living standard acceptable in society in which they live"*.

Comparing to absolute poverty, which refers to a lack of the needs for physical subsistence relative poverty extends the concept of poverty to consider individuals as social beings, who have psychological needs to participate in a society and share in its customs and norms.

The most common approach of relative poverty among EU countries involves using a median income. This approach has been used by European Union and OECD. Since 2003 there is an annual statistical survey EU SILC (European Union Statistics on Income and Living Conditions), which collects timely and comparable cross-sectional and longitudinal multidimensional microdata on income, poverty, social exclusion and living conditions. In order to improve the cross-country comparability of the EU commonly agreed indicators, the Laeken European Council agreed upon common data sources for their calculation as well as common definitions. Main emphasis on characterization and comparison of poverty between Member States at EU level is placed on indicators of relative income poverty, measured through the poverty risk rate. Use of the threshold of risk of poverty used (60% of the national median equivalent income) is a relative indicator, as it depends on the average income of the country. Relative poverty indicators are used mainly in Europe, while the absolute indicators are used in global comparisons.

In 2008, approximately 85 million people in EU-27 (17%) of the population in the EU-27 were at risk of poverty. This means that their income after social transfers was below the poverty threshold and it lowered their capacity to fully participate in society. Since 2005, the at-risk-of-poverty rate in the EU-27 has been nearly stable, varying between 16% and 17% (Eurostat).

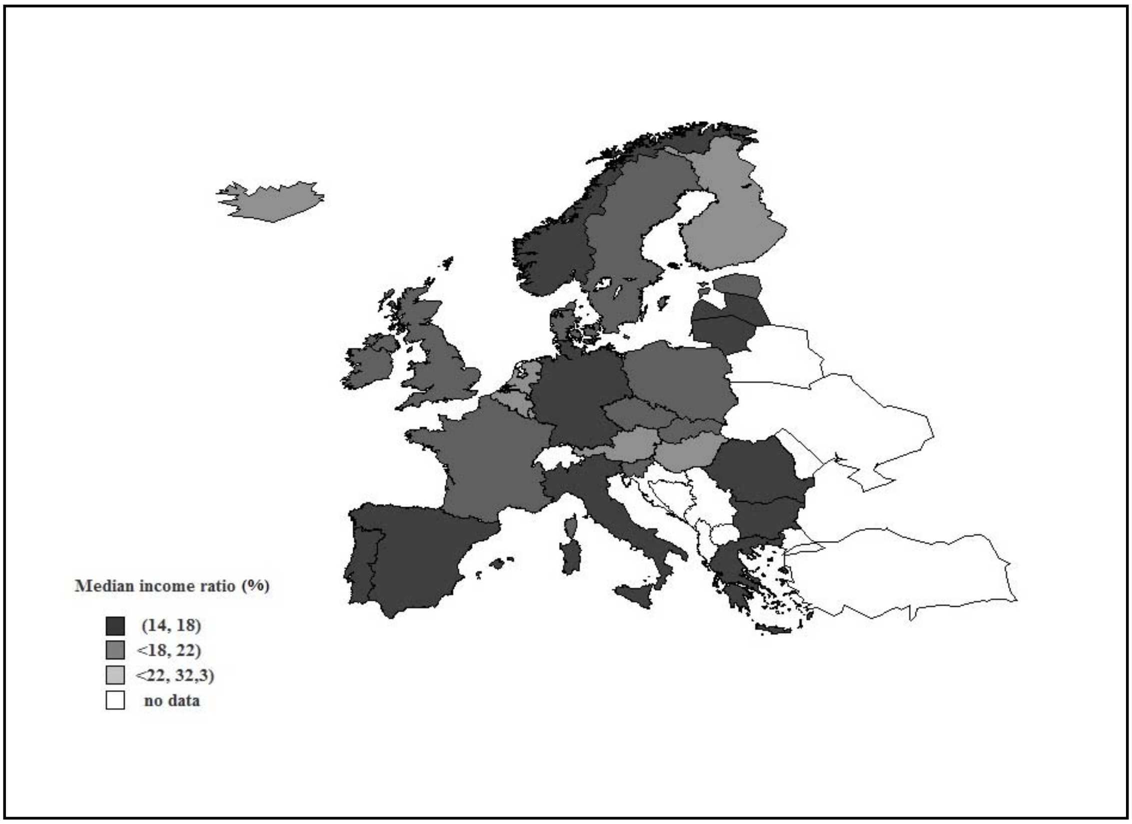
The rate of median income ratio varies in 2008 between 9% and 26% in the countries of the European Union. According EU SILC data (Eurostat) were the highest at-risk-of-poverty rates in 2008 found in Latvia (26%), Romania (23%), Bulgaria (21%), Greece, Spain and Lithuania (all 20%), and the lowest in the Czech Republic (9%), the Netherlands and Slovakia (both 11%), Denmark, Hungary, Austria, Slovenia and Sweden (all 12%).



Not all social groups of population were at the same risk of poverty. Traditionally there is high rate of child poverty. 20% of children were at-risk-of poverty in the EU in 2008 with the highest figures in Romania, Bulgaria, Italy, and Latvia. The at-risk-of-poverty rate exceeded 30% for the elderly population (aged 65 and more) in Latvia, Cyprus, Estonia and Bulgaria. On average, social protection reduced poverty by 32% in the EU with large discrepancies between countries. Holding a job is not always sufficient to escape from poverty and 8% of the EU population were at-risk-of-poverty in 2008 despite having a job (Wolf, 2009).

An important indicator which can elucidate relative poverty data is „relative risk of poverty gap“. This provides information „how much those who are poor are poor“. On the map 3 is Europe polarisation according this indicator. This figures make considerable variation between Member States. At one extreme, the highest rates are in Romania (32,3%), Latvia (28,6%), Bulgaria (27) and Lithuania (25,7). At the other side are Netherlands, Iceland (both 14,9), Austria (15,3) and Finland (15,7).

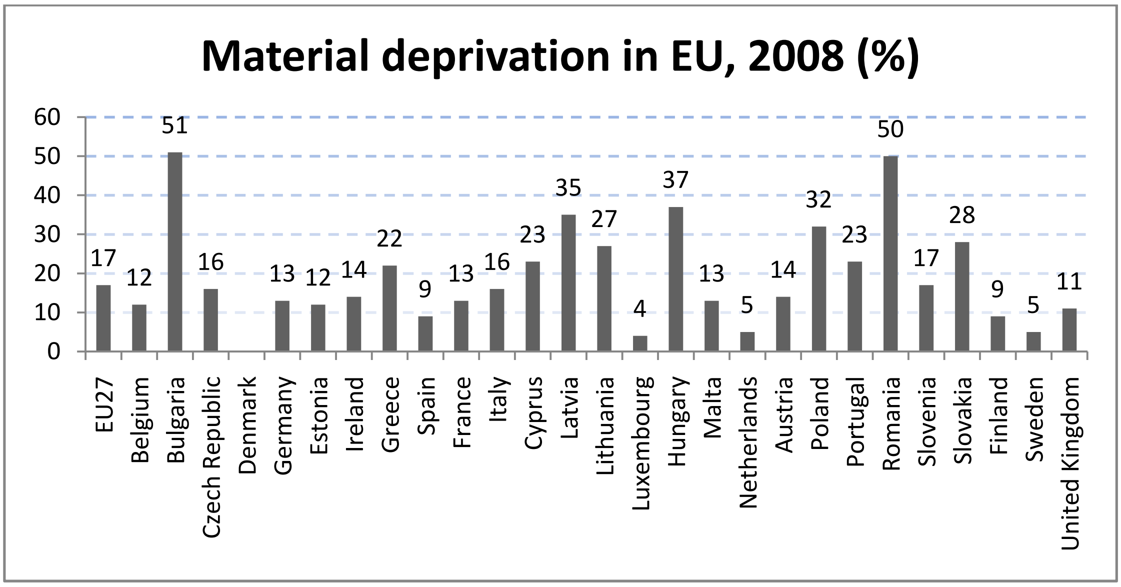
Map 3: „Relative median at-risk-of-poverty gap“.



New member states and poverty

The European Union distinguishes itself from other countries with a clear endorsement of the relative concept of poverty. The measures of income poverty within the Laeken indicators are based on member specific poverty lines, that is, for each member state the income threshold depends on the income distribution of the specific country and does not take into account inequality between member states. This practice has become more problematic with the enlargement of the Union and the wide diferences existing between the income distributions of old and new member states. Someone poor in one of the old member states will be richer than average in a new member state. This is clearly a paradoxical situation. Hence, other indicators of the quality of life of an individual are necessary to evaluate the well-being of a EU resident. To distinguish these multidimensional indicators from pure income poverty measures, the term material deprivation measure is used (Bossert et al, 2009).

In order to get even wider picture of poverty among EU countries, the at-risk-of-poverty rate, which is a relative measure, can be complemented by the material deprivation rate, which describes poverty in more absolute terms. The material deprivation rate is defined as the enforced lack of at least three of nine items. In 2008, 17% of the EU27 population was materially deprived according to this definition. The highest levels were registered in Bulgaria (51%), Romania (50%), Hungary (37%) and Latvia (35%), and the lowest in Luxembourg (4%), the Netherlands and Sweden (both 5%) (Eurostat).



Looking at some of the individual items defining material deprivation, it appears that in 2008, 37% of the EU27 population could not afford a one week annual holiday away from home, 10% could not afford to keep their home adequately warm, 9% could not afford a meal with meat, chicken or fish every second day and 9% could not afford a personal car (Eurostat).

Within indicators of material deprivation there are huge differencies among countries. Especially new member states are those, who often don't reach EU average. We will highlight some features of material deprivation. *To pay for a one week annual holiday away from home* was the biggest problem mainly in new EU members states, e.g. it cannot afford population in Romania (76%), Hungary (67%), Poland (64%), Portugal (63), Lithuania (60%), Bulgaria (59%) and also Slovakia (57%). EU average is 37% population. On other side of the row are countries of Scandinavia with 10% of Denmark and 11% in Sweden population. *To keep the home adequately warm* is a problem for 35% of Portugal and 34% of Bulgarian population. Bulgaria appeared also as a country with the highest unavailability of a *meal with meat, chicken, fish or vegetarian equivalent every second day* with 30% followed by Slovakia (29%), what is high above average of EU (9%). For example only 2% of population in Scandinavia (Denmark, Sweden) cannot afford it. *A personal car* cannot afford almost half of Romanian population (49%), but the rate is also highly above EU average (9%) in Bulgaria (28%), Latwia (24%), Hungary and Slovakia (both 20%).

Characteristics of material deprivation in EU countries proved, that the divergence of absolute poverty is much greater across countries than that of relative poverty. Lelkes –Zólyomi (2008) applied concept of absolute poverty and calculated two different thresholds with values of 5 Euros/day and 10 Euros/day, adjusted with the purchasing power parities. They found that the Baltic States suffer from the highest rates of absolute poverty within the European Union, together with Poland, Hungary and Slovakia. There are two main risks related to the household structure: (greater) number of children, and perhaps less intuitively, living in a one-adult household, including both those with dependent child(ren) and those without. Poverty among one person households reaches over 40% in Cyprus, Estonia, Ireland, Latvia and Slovenia. The poverty rate of single parents reaches or surpasses 30% in the majority of the 26 countries examined (Lelkes –Zólyomi, 2008).

Conclusion

Poverty is generally seen as a widespread problem all around the world, both in developed and developing countries. In order to better understand the problem of poverty we contribute to the discussion about absolute and relative poverty. I tis clear, that disparities between the rate of poverty across countries in absolute terms are much larger then those of relative poverty. Regional differences in terms of poverty are rather wide across countries. We can distinguish specific position of the transition countries of Central and Eastern Europe, where the problem of poverty is visible only after political and economic changes in 1989 due to increased income and wealth differentiation of the population and changes in social stratification of society, but people living in the new Member States are affected much more by poverty than former EU15 countries.

Poverty is very complex problem, has many forms, and therefore requires an integrated approach, which uses a wide range of policies in areas such as social security, social assistance, employment, education, healthcare, housing and so on.

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