Minister Brennan Says UN Development Report Findings On Poverty Distort Real Situation & Are An Unhelpful Distraction In The Tackling Of Real Poverty

Seamus Brennan - *"Report Is Not An Accurate Reflection Of An Ireland In Which More Than 250,000 People Have Been Lifted Out Of Poverty In Less Than A Decade"*

The Minister for Social Affairs, Séamus Brennan TD, and the Minister of State for Irish Aid, Conor Lenihan TD, today jointly launched the United Nations Development Programme Human Development Report for 2006, *Beyond scarcity: Power, poverty and the global water crisis.*

Minister Brennan welcomed Ireland's overall ranking on the UN Human Development Index for 2006 which has risen four places from last year's index to fourth in the world, compared with as recently as 2000 when Ireland was in 17th place.

However, he said there were very serious question marks over the Human Poverty Index in the report which ranked Ireland 17th out of the 18 selected high income OECD countries that were surveyed.

Specifically addressing the poverty index results, Minister Brennan said: "Some of the figures used in reaching the conclusions on Ireland are more than 10 years out of date, while others distort the reality because of Ireland's exceptional economic performance over several years and the significant progress that has been made in confronting and tackling poverty.

"In less than a decade more than 250,000 people, including 100,000 children, have been lifted out of deprivation and hardship. The report fails to reflect the positive impact of increases of over 55% in social welfare payments in the past five years alone and the many other increases and improvements targeted at alleviating poverty. Different reports can cause confusion, distort real progress and be a distraction by sending the wrong signal to the public and policy makers who are determined to further focus and strengthen the measures now needed to eradicate poverty from 21st century Ireland. We have travelled some distance towards achieving that goal but there are still unacceptable levels of hardship and deprivation in Ireland and my emphasis now is on targeting those areas with increased payments, supports and services so that we can make poverty history."

The Human Poverty Index reached its conclusions based on a combination of four elements:

- Life expectancy [probability of not surviving to age 60];
- Adult literacy;
- Long-term unemployment; and
- 'Risk of Poverty' [population below 50% median income].

The two main dimensions accounting for Ireland's low ranking are Adult Literacy and Risk of Poverty.

Minister Brennan said that there are serious problems with both of these dimensions, which badly distort the ranking for Ireland.

"In relation to the adult literacy measure, the figure shown for Ireland, at 22.6%, is more than ten years old. In addition, this figure does not take account of the fact that, since 1997, Government expenditure on adult literacy has increased from €1 million to €23 million. In the same period school completion rates have also seen significant increases. The reality has to be that in the prosperous Ireland of 2006 that figure of 22.6% must have dropped considerably".

Minister Brennan said that he had stressed many times the problems in using the "at risk of poverty" or "relative poverty" measure alone in making comparisons between countries. These figures distort the real picture because they are not comparing like with like. Also, the "at risk of poverty rate" in the UN report is based on data prior to 2002.

Minister Brennan said: "Last year's edition of the UN report itself contained a clear statement of these problems, when it stated that, in countries where economic conditions change rapidly, as has been the case in Ireland, the risk of poverty measure fails to provide a complete picture of the way in which economic growth leads to real improvements in people's lives. Levels of relative income poverty are related to increases in incomes generally and this is why Ireland, which has experienced rapid and dramatic increases in incomes over the past number of years, continues to have a high 'at risk of poverty' rate. The reality is that these increases in income outstripped even substantial real increases in the incomes of households with relatively low earnings or on social welfare".

The Minister said that partly as a result of the limitations of the 'at risk of poverty' indicator, Ireland had chosen the 'consistent poverty' measure as the national indicator used to identify those experiencing basic deprivation and who are most in need. This measure is calculated by identifying from among people at risk of poverty those who are also deprived of basic goods and services regarded as essential for living in Ireland today. The latest available survey data show that consistent poverty fell from 8.8 per cent in 2003 to 6.8 per cent in 2004.

Minister Brennan said that in the light of Poverty Index findings in this report it was important to draw attention to an article in June 2006 in the prominent journal "Development and Transition", published by the UN Development Programme - which commissioned today's report - and the London School of Economics and Political Science. This article insisted that relative poverty indicators cannot be used for international comparisons unless countries are similar in their level of economic development.

That article concluded: "The "risk of poverty" label sends the wrong signal to the public and policy-makers. According to the European Commission, Ireland has the highest poverty rate in the European Union and the figure is rising. Yet Ireland has had stellar record of growth in jobs and income over the last 15 years. The standard of living for nearly everyone has increased since the early 1990's at a rate unprecedented in recent European history. What's the catch? Income growth has been slightly larger in the upper 80% of the population than it has in the lower 20%. Therefore, according to the Commission's indicators, although hundreds of thousands of people have been lifted out of actual poverty, Ireland is not a success story, but a basket case".

(Source: "Make Spurious Poverty Statistics History" by Kalman Mizsei, Assistant Administrator and Director, United Nations Development Programme, Regional Bureau for Europe and the CIS and Miroslav Beblavy, State Secretary, Ministry of Labour, Social Affairs and Family, Slovakia.)

(**Note:** Copy of article attached. Article can also be accessed on www.lse.ac.uk)

Overall, the article concluded that reliance on the "risk of poverty" indicator causes four conspicuous problems:

- The results too often belie common sense.
- The "at risk of poverty" label sends the wrong signal to the public and policy makers.
- The "risk of poverty" logic doesn't lead to effective national policy.
- The message of this methodology is that within the EU there should be no cross-country social solidarity.

Minister Brennan said that Ireland had performed very well under the two other elements on the Human Poverty Index: Long-term unemployment and life expectancy. The current long-term unemployment rate is 1.4%, lower than the figure used in the report, and overall Ireland continues to have one of the lowest unemployment rates in the EU at 4.3%. The life expectancy rate, at 8.7%, reflects the rapid progress being made and puts Ireland on a par with, or well ahead of, the majority of countries surveyed.

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JUNE 2006

Make spurious poverty statistics history

Miroslav Beblavy
Kalman Mizsei

Imagine a world where the Britons are, on average, poorer than the Bulgarians and as poor as the Romanians. Imagine a world where even if everyone's real income doubles, a country is no less poor. Imagine a world where each person has less than before, but poverty rates fall.

This is not fiction, but the world according to the European Union's so-called 'risk-of-poverty' flagship poverty statistic. To eliminate poverty by this standard, poorer countries must think twice before they try to spark economic growth or create jobs.

The core poverty statistics produced by the European Commission are based on the concept of relative poverty. The 'risk-of-poverty' indicator looks at how many people in any given country have disposable income smaller than 60 per cent of that country's median. (The median is an imaginary person exactly in the middle of an income distribution, with half of the population earning more money than s/he, and half earning less.) For example, if 21 out of every 100 people in Ireland have income smaller than 60 per cent of their country's median, the European Commission says that the risk-of-poverty rate in Ireland is 21 per cent - regardless of the number of the Irish who are hungry, homeless or cash-strapped.

The Commission labels as a poverty indicator something that is clearly a measurement of income inequality. People certainly compare their own economic status to their neighbour's, but such a comparison skirts the issue of whether they or their neighbour have enough food to eat, or access to basic medical care. Relative poverty (having less than your neighbour) can be an indicator of absolute poverty (not having enough to eat) but it does not tell the whole story. Especially when considering the ethnic dimensions of poverty - as done in *Avoiding the Dependency Trap*, UNDP's report on the Roma of Central and Eastern Europe - measurements of relative poverty fail to address the root causes of deprivation and social exclusion.

The Commission's reliance on the 'risk-of-poverty' indicator causes four conspicuous problems: first, the results of the measurement exercise belie common sense, crippling its explanatory capability. 'Risk-of-poverty' and other relative poverty indicators can't be used for international comparisons unless countries are similar in their level of economic development. Most people are not experts on social statistics, but they know that something must be wrong with a measurement that says the British are poorer than the Bulgarians.

Second, the 'risk-of-poverty' label sends the wrong signal to the public and policy-makers. According to the Commission, Ireland has the highest poverty rate in the European Union and the figure is increasing. Yet Ireland has had a stellar record of growth in jobs and income over the last 15 years. The standard of living for nearly everyone has increased since the early 1990s at a rate unprecedented in recent European history. What's the catch? Income growth has been slightly larger in the upper 80 per cent of the population than it has in the lower 20 per cent. Therefore, according to the Commission's indicator, although hundreds of thousands of people have been lifted out of actual poverty, Ireland is not a success story but a basket case.

Third, the 'risk-of-poverty' logic doesn't lead to effective national policy. The best way to reduce poverty, according to this reasoning, is not to grow and produce, but to redistribute. Unfortunately, in poor countries, no amount of redistribution will make a difference in the lives of poor citizens unless the economy grows quickly for a sustained period of time.

Fourth, the message of this methodology is that within the European Union there should be no cross-country social solidarity. While views on the desirability of harmonizing social policies may differ, everyone should agree that EU data should show the true face of poverty in the Union. The solidarity principle may work well in the EU's various structural and cohesion instruments, but when it comes to assessing poverty, our Union level approach is nothing short of hypocritical.

This is not an academic debate. Use of the wrong poverty indicators can distort policy priorities in the EU's poorest countries, harming poor people instead of helping them. Whereas risk-of-poverty indicators may have useful national informational power, it is high time to apply truly Union-wide indicators of poverty - measured in absolute as well as relative terms.

Miroslav Beblavy is State Secretary, Ministry of Labour, Social Affairs and Family, Slovakia.

Kalman Mizsei is Assistant Administrator and Director, United Nations Development Programme, Regional Bureau for Europe and the CIS.

Box 3 **Two tales of Irish poverty**

To ensure comparability across high-income countries, most comparative databases, such as the Luxembourg Income Study (www.lisproject.org), measure poverty on a relative basis. Instead of an absolute poverty line (for example, the $1 a day international poverty line for developing countries), relative poverty measures define the poverty rate as the proportion of people with disposal income less than 50% or 60% of adjusted average national disposable income. For point in time comparisons across countries, this is the most informative approach. But when countries experience rapid economic growth—as in the case of Ireland in the late 1990s—relative poverty measures on their own can sometimes be misleading.

Based on the 50% and 60% of median income measures, the table presents two different time series of poverty estimates for Ireland—relative and anchored—for 1994–2000. A relative poverty line shifts yearly according to the annual median income of a country. An anchored poverty line maintains the initial year poverty line, adjusting it to each subsequent year only according to changes in consumer prices.

According to the relative poverty line of 60% of annual median income, the preferred measure of the European Union, poverty rose 11.3% between 1994 and 2000 in Ireland (see table). But if we set the poverty line at 60% of the 1994 median income and adjust the poverty line only by the change in consumer prices for subsequent years—the anchored poverty line approach—Irish poverty falls by 55.9% during the same period. Similar patterns are evident for the 50% of median income line—a measure favoured by most international analysts of poverty and used in the human poverty index in this Report. According to the table, a poverty rate of 11.9% in 1994 increases to 16.5% in 2000 on a relative basis, while falling by more than over three-quarters to only 3.5% using the anchored approach. The two different sets of poverty lines—relative and anchored—tell two different stories of Irish poverty trends.

It is clear that when economic conditions change rapidly, relative poverty trends do not always present a complete picture of the ways that economic change affects people's lives. The relative poverty trends suggest that not all incomes in Ireland grew at the same rate and that low incomes grew at a slower rate than higher incomes (or relative poverty would also have fallen). But even so, lower incomes grew enough to reduce the anchored poverty by almost half. In particular, social transfers rose substantially in real terms, so pensioners, for example, saw their living standards improve markedly though they still lagged behind rapidly rising incomes resulting from employment and profits. Whether this represents "pro-poor economic growth" remains debatable. But both sides of the poverty story must be recognized.

Differences between relative and anchored poverty lines for Ireland

Year	50% of median income		60% of median income	
	Relative poverty line	Anchored poverty line	Relative poverty line	Anchored poverty line
1994	11.9	11.9	20.4	20.4
1995	12.9	11.1	20.8	19.2
1998	12.3	8.5	21.9	16.6
2000	16.5	3.5	22.7	9.0
Percentage change, 1994–2000	38.7	–70.6	11.3	–55.9

Source: Nolan, Munzi and Smeeding 2005.