

## POVERTY RATES AND POVERTY GAPS

Avoiding economic hardship is a primary objective of social policy. As perceptions of “a decent standard of living” vary across countries and over time, no commonly agreed measure of “absolute” poverty across OECD countries exists. A starting point for measuring poverty is therefore to look at “relative” poverty, whose measure is based on the income that is most typical in each country in each year.

### Definition

Relative income poverty is measured here by the poverty rate and the poverty gap. The poverty rate is the ratio of the number of people who fall below the poverty line and the total population; the poverty line is here taken as half the median household income. However, two countries with the same poverty rates may differ in terms of the income-level of the poor. To measure this dimension of poverty, the poverty gap, i.e. the percentage by which the mean income of the poor falls below the poverty line, is also presented.

Income is defined as household disposable income in a particular year. It consists of earnings, self-employment and capital income and public cash transfers; income taxes and social security contributions paid by households are deducted. The income of the household is attributed to each of its members, with an adjustment to reflect differences in needs for households of different sizes (i.e. the needs of a household composed of four people are assumed to be twice as large as those of a person living alone).

### Overview

Across OECD countries, the average poverty rate was about 11% in the mid-2000s. There is considerable diversity across countries: poverty rates are 17% or more in the Mexico, Turkey and the United States, but below 6% in the Czech Republic, Denmark and Sweden. On average, in OECD countries, the mean income of poor people is 29% lower than median income (poverty gap), with larger gaps in Mexico, Switzerland and the United States and lower ones in Belgium, Luxembourg, Finland and the Netherlands. In general, countries with higher poverty rates also have higher poverty gaps but this is not universal (for example, Iceland and Switzerland combine low poverty rates and high poverty gaps, while the opposite pattern occurs in Australia, Canada, Greece, Ireland and Italy).

Over the past 20 years, poverty rates fell for 8 countries and rose for 16 countries, resulting in an overall increase of little over 1 percentage point for the OECD as a whole. Larger falls were registered in Belgium and Mexico, and the largest rises, between 4 and 5 percentage points, were experienced by Germany, Ireland, the Netherlands and New Zealand.

### Comparability

Data used here were provided by national experts applying common methodologies and standardised definitions. In many cases, experts have made several adjustments to their source data to conform to standardised definitions. While this approach improves comparability, full standardisation cannot be achieved. Also, small differences between periods and across countries are usually not significant.

Measurement problems are especially severe at the bottom end of the income scale. Further, as large proportions of the population are clustered around the poverty line used here, small changes in their income can lead to large swings in poverty measures. Small differences between periods and across countries are usually not significant. Exact years for each country are provided under the section on “Measures of income inequality”.

### Source

- OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD, Paris.

### Further information

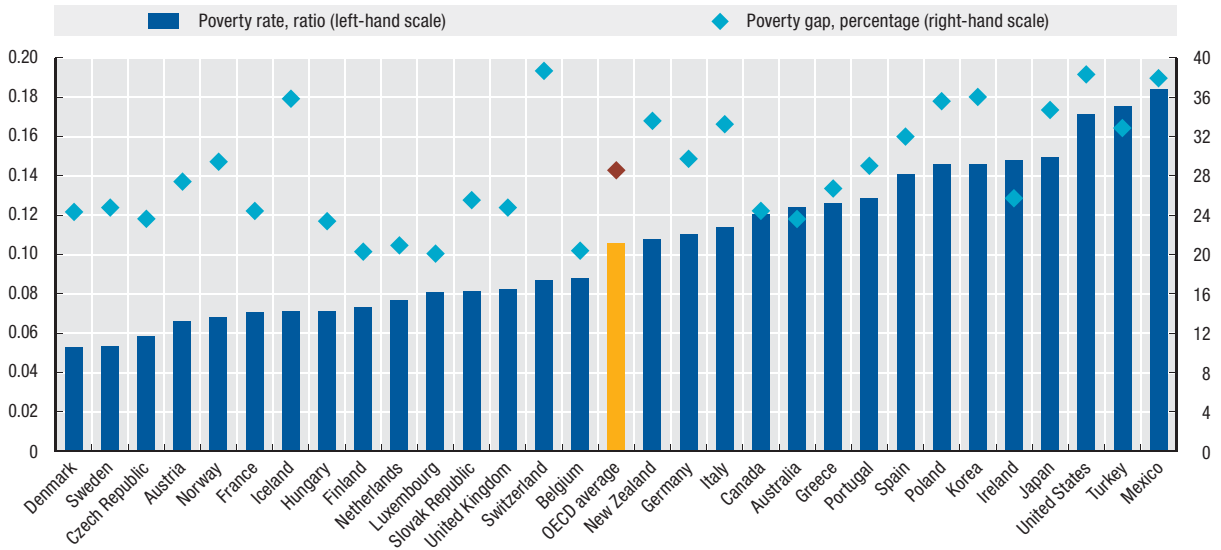
#### Analytical publications

- OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD, Paris.
- OECD (2009), *Society at a Glance 2008: OECD Social Indicators*, OECD, Paris.
- OECD (2005), *Extending Opportunities: How Active Social Policy Can Benefit Us All*, OECD, Paris.
- Atkinson, A. B., and A. Brandolini (2004), “Global World Income Inequality: Absolute, Relative or Intermediate?”, Paper presented at the 28th General Conference of the International Association for Research in Income and Wealth, Cork, 22-28 August 2004.
- Förster, M. (1994), *Measurement of Low Incomes and Poverty in a Perspective of International Comparisons*, OECD Labour Market and Social Policy Occasional Papers, No. 14, OECD, Paris.



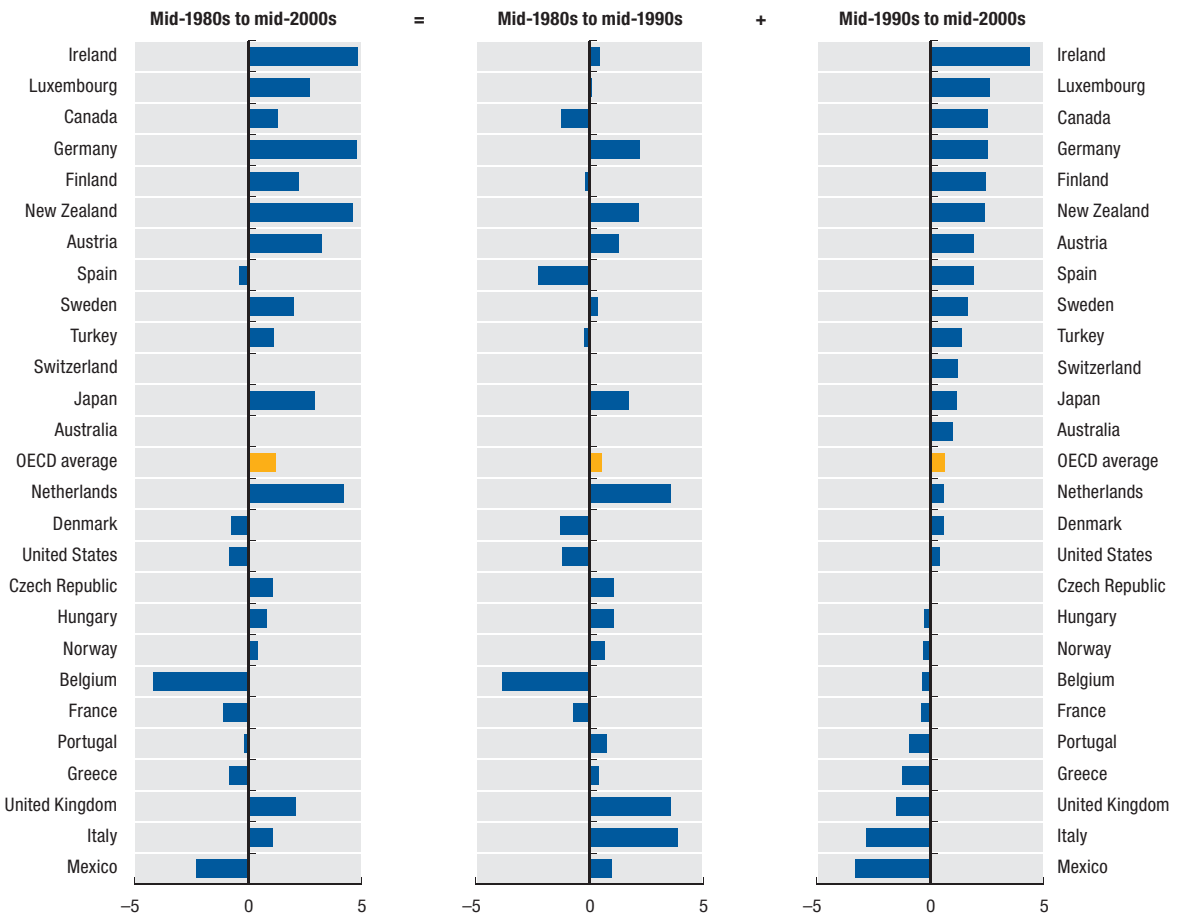
Poverty rates and poverty gaps

Mid-2000s



Trends in poverty rates

Percentage point changes in income poverty rate at 50% median level



StatLink <http://dx.doi.org/10.1787/540102033433>