

PERSPECTIVES ON POVERTY

A review of *The Perception of Poverty* by A. J. M. Hagenaars, *Drawing the Line* by P. Ruggles and *Statistics Canada's Low Income Cut-offs: Methodological Concerns and Possibilities* by M. C. Wolfson and J. M. Evans.

What is poverty? How do we decide who is poor and who is not poor? These basic questions are addressed by *The Perception of Poverty* by A. J. M. Hagenaars, *Drawing the Line* by P. Ruggles, and *Statistics Canada's Low Income Cut-offs: Methodological Concerns and Possibilities* by M. C. Wolfson and J. M. Evans. The answers are not obvious. Poverty measurement is a conceptually difficult subject about which there is, to date, little consensus. Researchers disagree about such fundamentals as whether people are poor when they perceive themselves deprived or whether they are poor when they have incomes less than some socially determined standard. Yet, the measurement of poverty is of more than abstract interest and it matters to people other than just researchers in the field of poverty measurement. Who we define as poor is of vital importance for the design, evaluation and implementation of social policy. If, for example, people are told that the national rate of poverty is higher than the foreign rate, or that the rate of child poverty is increasing, policies to alleviate poverty are much more likely to be placed on the political agenda and child poverty is likely to receive priority.

The authors of *The Perception of Poverty*, *Drawing the Line*, and *Statistics Canada's Low Income Cut-offs: Methodological Concerns and Possibilities* focus on Europe, the United States and Canada, respectively, and their perspectives on poverty measurement reflect the social contexts from which they write. The studies also span the spectrum from abstract questions of academic theory to the "nitty gritty" of budgetary feasibility. Hagenaars' work is the most academic work and the only one with the immediate goal of measuring the incidence and extent of poverty; Wolfson and Evans' study is the most immediately practical and institutionally specific; Ruggles' book surveys much of the academic literature for an audience of policy-makers. While Hagenaars adopts a particular methodological perspective (the subjective approach to poverty measurement), Ruggles and Wolfson and Evans survey and synthesize a wide variety of options for poverty measurement. Although the studies differ somewhat in emphasis, each of the authors is highly knowledgeable, and each of these studies can be recommended as a thoughtful examination of the important problem of poverty measurement.

This review first presents brief descriptions of each book, with some attention to minor points of difference, before proceeding to a more general discussion of broad themes common to the three. It concludes with some suggestions about how these studies add to the debate on poverty measurement and where we should go from here.

Wolfson and Evans are specifically concerned with the design of the Statistics Canada Low-Income Cut-Offs (LICO's)—the most frequently-used measure of

poverty in Canada—although, of course the issues they address are of general interest. For practical purposes, they choose to focus on the concept of “low income” rather than a more general measure of deprivation. They look for consensus in how best to measure low income by examining international alternatives, approaches adopted by other institutions within Canada and by exploring new possibilities for the derivation of the LICO’s themselves (e.g. by using equivalence scales to distinguish children from adults, elderly from non-elderly, residents of different regions). In the end, Wolfson and Evans conclude that poverty measurement is essentially arbitrary and argue (p. 64): “In these circumstances, the best option may be for Statistics Canada to shift the basic methodology to one that makes the inherent arbitrariness of such statistics simpler and more transparent to users.”

Ruggles is writing for an audience of U.S. policy-makers and analysts. Thus, her focus is on options for the official measurement of poverty in the United States and, like Wolfson and Evans, she chooses a fairly narrow definition of poverty as (p. 2) “a lack of access to minimally adequate economic resources.” In plain terms, do people have enough money to buy food and pay their rent? By this standard, Ruggles concludes that the official U.S. poverty lines are too low—people with poverty incomes do not have minimally adequate economic resources. Like Wolfson and Evans, Ruggles then asks what should be done to re-design the official (in this case) U.S. poverty lines, exploring the implications of a large number of possible changes.

Ruggles, like Wolfson and Evans, emphasizes that there is no “right” poverty line. However, her conclusion is that there might be “better” poverty lines to choose for particular purposes (e.g. comparing poverty rates across time versus establishing entitlement to a programme today).

Hagenaars’ study, *The Perception of Poverty* develops a social welfare framework which leads her to particular poverty measurement choices. She argues in favour of one particular methodological framework—the Leyden school of subjective poverty measurement. This is markedly different from Ruggles and Wolfson and Evans who both survey a variety of approaches (including the subjective) without committing to any particular one.

Hagenaars chooses a *subjective* definition of poverty i.e. she estimates poverty thresholds from surveys in which individuals are directly asked the income levels they evaluate as “good,” “bad,” “insufficient,” et cetera. The basic idea of the subjective approach is that people are poor if they *feel* poor and that the best way to discover at what income this occurs is to ask. As noted by Hagenaars, this procedure is critically dependent on the assumption that individuals attach the same meaning to the words chosen for the survey (e.g. “good,” “bad”) and that they can assign monetary values to these words. These assumptions are particularly difficult for a cross-national survey, where “good” and “bad” must be translated from language to language.

Hagenaars applies the methodology developed through her book to eight European countries, concluding that poverty lines differ substantially across these countries, that there are nonetheless certain regularities in the socio-economic characteristics which make people poverty prone (e.g. the non-employed are at greatest risk), and that, in terms of the overall extent of poverty, European

countries can be divided into three groups—Ireland and the U.K. with severe poverty, Italy, France and Denmark with medium poverty and the Netherlands, Belgium and Germany with low poverty. (These conclusions about poverty are, of course, dependent on the measurement choices made.)

A major theme common to the three studies is that measuring poverty involves making subjective valuations. Beyond a “calories necessary for survival” definition of poverty (which most people agree makes little sense in relatively affluent societies), we must decide what we mean by poverty before we can attempt to measure it. This point is stressed by each of the authors. Ruggles, for example, begins her preface (p. vx) with the statement “Poverty is ultimately a normative concept, not a statistical one.” She cites Adam Smith’s definition of poverty as the lack of those necessities that “the custom of the country renders it indecent for creditable people, even of the lowest order, to be without.” Hagenaars, in her preface (p. ix), points out that one definition of poverty is “a situation in which means are not sufficient to live a life that is considered normal in society.” Wolfson and Evans write (p. 2) that “Poverty is an imprecise term. It is typically used to refer to a situation where individuals do not have sufficient resources to cover their needs. These “needs” may be of a variety of types, not only economic but also social and psychological—even spiritual.”

Beyond the practical judgement that, given current data and resources, poverty in Canada is best measured according to a low-income definition, Wolfson and Evans are somewhat nihilistic. They argue that statistical organizations should make users aware of the sensitivity of poverty estimates to the measurement choices underlying them and provide a range of options about how much poverty might exist. While this may reflect the current lack of consensus among poverty researchers, (and is certainly informative when performed by an individual researcher), it may hinder rather than inform the social policy debate if a national statistical agency publishes a range of “official” poverty rates, given the importance of these numbers for social policy.¹ If you can choose any number you prefer as the level of poverty in a country and you are a government facing large deficits, why not choose zero and do away with expensive social programmes which assist lower-income families? If you are the opposition party, why not choose an enormous number for the current level of poverty and launch an attack? If everyone chooses a different measure of poverty, how can we engage in any meaningful debate about the problem?

Hagenaars acknowledges that defining poverty involves making value judgements but takes a very different approach. She proceeds in a careful and thorough manner to explicitly outline the value judgements she prefers and then follows through with a poverty evaluation consistent with those judgements. This is an extremely interesting and informative piece of research.

However, it is not clear to me that the adoption of subjective poverty thresholds for official national statistics is appropriate (and I am not sure that this is Hagenaar’s intent). The choice of a national poverty line should presumably reflect

¹The Statistics Canada LICO’s are not official Canadian poverty lines, but are usually treated as such. It might be noted that the suggestion of publishing multiple poverty lines was rejected by most people who responded to Wolfson and Evans’ discussion paper.

social values about the minimum standard of living considered reasonable for any citizen, regardless of whether he or she believes it possible to “manage” with less. Switching to subjective standards would involve a major conceptual change in what I believe much of the “general public” understand as poverty. [It might be noted that adoption of subjective poverty thresholds in the U.S. would substantially increase the measured incidence of poverty from the current official estimates—from 14.0 percent to 42.2 percent (see De Vos and Garner, 1991).] Finally, I am not sure that subjective standards are appropriate as guides for programme eligibility—a qualification noted by Hageaars (p. 273). Social programmes are presumably put in place for *anyone* with income less than the socially-determined minimum. It seems inequitable that anyone should be ineligible because he or she does not “feel” poor while someone else with the same income who does feel poor is eligible. Moreover, given differences in socialized expectations, there exists the possibility that particular groups (e.g. the elderly, women) have been taught to expect less, are less likely to “feel” deprived and would therefore be ineligible if subjective poverty were used to establish programme eligibility.

A second major theme of the three works—which is particularly evident in the work of Ruggles and Wolfson and Evans—is the sensitivity of poverty measurement to seemingly “minor” measurement choices such as whether individuals or families are taken as the unit of analysis, how adjustments for differences in household needs are made (i.e. which equivalence scales are used—see also, Buhmann *et al.*, 1988 or Phipps, 1993), whether an annual or sub-annual time period is chosen (see also, Ruggles and Williams, 1989).² While it is possible to interpret this second sensitivity issue as merely an extension of the first—that we must state what we mean by poverty before we can measure it—I would argue that some of these issues can be regarded as primarily technical problems to which solutions may, potentially, be found with further research (including, in some cases, better data); others can be resolved with reference to the problem at hand.

For example, we may all agree that it is necessary to account for economies of scale in living together but presently be uncertain how best to do this. However, this should be an answerable question. Current lack of consensus on this issue is primarily a technical problem.

Similarly, we may all agree that assets as well as income should be taken into account when measuring poverty, but be limited by currently available data in our ability to measure assets. Again, this is a technical problem which is potentially resolvable given better data.

As well, we may all agree, say, that poverty should be measured as 50 percent of median income but be uncertain about whether to measure income by month or by year. (Ruggles and Williams, 1989 demonstrate that substantially more people are poor at some time during the year than would be counted as poor on the basis of annual income and that in most cases they do not have sufficient assets to cover the short-term income shortfall.) As stressed by Ruggles, the question of the appropriate time horizon for poverty measurement may have a different best answer depending upon the policy question being asked. Social

²The list of issues presented by Ruggles and Wolfson and Evans is far more comprehensive. These are chosen merely for illustration.

assistance eligibility should presumably respond to sub-annual poverty; comparisons of the extent of poverty across time might be better-suited to an annual definition.

Although not addressed by Wolfson and Evans or by Ruggles, Hagenaars devotes a considerable portion of her book to the issue of measuring the extent of poverty. This is an important issue neglected in many policy studies which simply count the number of poor individuals (or households or families). However, incidence is only one dimension of the poverty problem. We are presumably also interested in the depth and distribution of poverty (see, for example, Foster, Greer and Thorbecke, 1984) when assessing whether poverty is a greater problem among one socioeconomic group than another or in one time period than another. It would be easy to produce official statistics to indicate at least the depth of poverty (i.e. average poverty gaps).

No two researchers working independently are likely to arrive at exactly the same conclusions about poverty measurement. And, as Wolfson and Evans conclude, it is important that users of official poverty statistics be alerted to this sensitivity. However, I think it is more appropriately the role of individual researchers (academic or within government) to pursue sensitivity studies and to explore alternative approaches to poverty measurement (such as the subjective approach used by Hagenaars). Much can be learned from such exercises. However, given the important link between official poverty statistics and social policy it may confuse rather than clarify the debate if government statistical offices publish a wide variety of alternative estimates of poverty. Measuring GDP is also a conceptually difficult task involving many judgements (e.g. should work within the home count positively, should environment degradation count negatively?) Yet, no-one argues that users should be offered a menu of GDP estimates from which to choose. Rather, much effort has gone into arriving at an international consensus—a consensus which evolves over time as new ideas and new research about better ways of proceeding become available.

As stressed by Ruggles, there are better and worse poverty measurement choices. It seems extremely important that we attempt to reach a consensus about what are currently the better choices. While not easy, I do not believe this is an impossible task. It is important that in discussing differences of opinion, we remember that there are some poverty measurement issues about which there is much agreement. Many people, for example, believe that for an affluent nation, it is reasonable to define a poverty line as 50 percent of median after-tax income (though before-tax income is currently the most common choice)—a relative definition of poverty. (Evidence from subjective studies such as that of Hagenaars confirms that poverty is a relative concept.) Moreover, many people agree that while household resources need to be taken into account, poverty is experienced by individuals and should be measured for individuals.³ These are major areas of consensus. Of course, there are many complex issues which remain to be sorted out before it is possible to obtain

³Many would also argue that we should attempt to study the distribution of resources within the household since some poor individuals may not live in poor households. See Jenkins, 1991 and Findlay and Wright, 1992.

a complete consensus on poverty measurement. The three books surveyed here certainly help to push forward the debate.

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