REVIEW
A New Understanding of Poverty
Kristian Niemietz, 2011, Institute of Economic Affairs

Reviewed by Stewart Lansley and Joanna Mack

Underlying *A New Understanding of Poverty* is an explicit aim to decouple measures of poverty from concepts of inequality so that the poor would no longer be seen to be, in principle, entitled to share proportionately in economic growth. Under Niemietz's proposal for a new measure, the poverty line would thereby fall slowly behind the rise in wider levels of prosperity, with profound implications for the measurement of the extent and character of poverty in the UK.

In arguing this position, Niemietz starts with a detailed critique of income-based poverty measures, though he brings little 'new' insight to this analysis as the limitations of such measures have long been widely acknowledged. However, Niemietz does concede some ground to the relativist approach to poverty measurement. He proposes what he calls a 'Consensual Budget Standards Approach' (CBSA), but in doing so largely fails to recognise the extensive work already done on such a measure, in particular by the Minimum Incomes Standard project.

Recognition of the merits of a relative rather than an absolute measure of poverty is a significant development for a book published by the Institute of Economic Affairs. Traditionally, the liberal market thinking espoused by the Institute and other New Right think tanks has tended to dismiss relative measures. In 1979, for example, Sir Keith Joseph, Mrs Thatcher's first Education Secretary and one of her main philosophical advisers, argued that the needs of the poor should be defined in terms of subsistence needs only:

> An absolute standard means one defined by reference to the actual needs of the poor and not by reference to the expenditure of those who are not poor. A family is poor if it does not have enough to eat … By any absolute standard there is very little poverty in Britain today.
>
> (Joseph and Sumption, 1979)

A decade later, the then Social Security Secretary, John Moore, declared that the UK had reached 'the end of the line for poverty'. Moore believed that absolute poverty had been eliminated and that relative poverty was 'simply inequality' and therefore could be ignored.

Niemietz takes a very different approach. He argues that it is right to have moved over time from an absolute concept – based on 'impeded physical functioning' – to a relative one – based on 'impeded social participation' (p. 27). 'Had there been no change in the measurement of poverty', he writes, 'the mainstream interpretation would have been that poverty as a social phenomenon disappeared for good during the 1960s or thereabouts' (p. 27). (For definitions of absolute and relative poverty see What is poverty?)

Needs are 'socially' determined

Niemietz accepts that because 'needs' are socially determined, defining poverty as relative is valid. He accepts the principles of Peter Townsend's original criticisms of absolute poverty measures on the grounds that they fail to allow for changes in social norms. With rising prosperity, poverty standards need to be adjusted upwards over time to remain socially relevant: '… there is virtual unanimity that, in the context of modern Britain, amenities such as an indoor bathroom, electricity, hot running water or a fridge are key necessities' (p. 32). Niemietz agrees with those arguing that poverty is relative: nothing intrinsic makes particular items necessities; they have become so because nearly everybody has them and it would be considered socially unacceptable for people to have to live without them.

Niemietz, like many others before him (see Deprivation and poverty), defines the poverty line as the means needed to achieve a 'decent minimum standard'. It is related not to income but to material deprivation, defined to allow for both 'healthy physical sustenance … and to comply with social norms, participate in context-specific social activities and attain what is widely considered "a decent minimum standard"' (p. 149).

Consensual method

Niemietz goes further to advocate the 'consensual method', which developed this deprivation approach by using public opinion to establish which aspects of our living standards should be seen as 'necessities'. Having pioneered this approach in the first Breadline Britain survey in 1983, we are delighted to see that it has become more widely endorsed.

In that 1983 survey, in the subsequent Breadline Britain 1990 survey and in the Poverty and Social Exclusion (PSE) 1999 survey, respondents were asked which items they perceived to be necessities by choosing from a wide range of aspects that make up our standard of living. Those seen by the majority of people as such were classed as 'necessities'.

As Niemietz acknowledges, these surveys have avoided the 'arbitrary' charge by finding a robust consensus on what constitutes necessities, thus enabling the construction of a material deprivation index where the basket of necessities is chosen, not by researchers, but by majoritarian decision by the survey respondents (Mack and Lansley, 1985; Gordon et al., 2000; Pantazis et al., 2006).

Income-based measures

Niemietz is supportive of the principle of a relative measure that allows for changing definitions of 'social participation' as societies become better off. However, he is highly critical of income-based measures and, in particular, of using a fixed proportion of the median income (the middle point of the income distribution with half falling above and half below). In the UK, a threshold of 60 per cent of median income was first introduced at the end of the 1980s during Mrs Thatcher's third term in office and has become perhaps the nearest the UK has to an official definition of poverty (Department for Work and Pensions, n.d., 2011).

The use of the median-related threshold has a number of significant merits, not accepted by Niemietz. It is a strong indicator of what is considered normal in contemporary society. Linking the poverty standard to a fixed proportion of the median means that the standard moves up and down as the median rises or falls. It thus provides a simple measure of how well society is tackling relative poverty; in other words, how the poorest members of society are doing in relation to the middle while enabling comparisons over time and between countries.

One of the key benefits of the median-related poverty target is that it sends a signal that the poorest should be allowed to share in the proceeds of growth. Relaxing it would mean condemning the poorest to the slow lane of economic progress. This is a key reason for linking the poverty standard to a measure of average incomes – it ensures that society sets a minimum living standard that is linked to overall improvements in prosperity. It sets up a measurement process that reveals the impact of wider economic, social and policy trends and is one of the most effective ways of holding governments to account on progress towards reducing poverty. It is for these reasons that the 60 per cent figure has become increasingly widely used as a primary threshold of income poverty, not just in the UK but across most countries in the European Union and elsewhere.

Despite these strengths, it has long been accepted that the 60 per cent figure has a number of limitations. Indeed, the Poverty and Social Exclusion research methodology, and that of the consensual method, is based on developing measures linked to deprivation and need rather than to the indirect and proxy measures that are based on income alone. Niemietz repeats some of these widely acknowledged criticisms.

First, Niemietz points out that the use of the 60 per cent threshold is essentially arbitrary. Why not 50 per cent or 75 per cent? It is certainly the case that the 60 per cent threshold has not been determined on the basis of objective studies of where to draw the line. However, Niemietz seems unaware that the Minimum Income Standards project, based on an approach very similar to that which Niemietz advocates, has consistently found that their minimum incomes come out at around or, in most cases, above the 60 per cent threshold (of which more later).

Second, Niemietz argues that the use of the median can yield perverse results. While there are indeed some perversities, these have been exaggerated (see Redefining poverty).

Third, Niemietz argues that income-based measures are known to be a poor indicator of actual living standards. Indeed, there is a good deal of evidence of a considerable spread in living standards for any given level of income, with even the same income/budget surveys finding very different groups in poverty depending on whether an income or expenditure measure is applied to the data (Bradshaw and Finch, 2003).

Niemietz's fourth criticism is perhaps more original and certainly less widely accepted. The effect of using a fixed percentage of the median as a threshold is that, by definition, the poverty line rises in line with increased prosperity among middle income households. While Niemietz accepts the poverty line needs to be adjusted upwards over time because social norms rise with economic progress, he does not believe that it needs to rise as fast.

Decoupling poverty measures from economic growth

This is where Niemietz parts company with the mainstream relativist school. He argues that relative measures that move in line with growth 'presuppose that the cost of social inclusion and attainment of a decent minimum standard grows linearly with average income. Adherents of relative standards have never explained why this should be the case' (p. 92). Why, he asks, should the purchasing patterns of the median be 'assumed to define the consumption habits that become "the norm" in the society in which they live'?

Niemietz illustrates these concerns by reviewing the impact of relative measures in periods of strong growth. At these times the poorest rise to enjoy incomes that are close to or equal to those of the median level less than a generation earlier. Something comparable happened in Ireland in the 1980s and 1990s. Although average incomes nearly doubled, incomes at the bottom grew slightly more slowly. While the poorest became better off so that absolute poverty fell, relative poverty rose slightly, a phenomenon described by one expert as 'the Irish paradox' (Hills, 2004).

Niemietz uses this situation to argue that it is 'simply implausible that consumption-related social norms could have adjusted upwards so quickly that the poor would have perceived themselves as having gained nothing from this. When growth rates are high, relative indicators become increasingly less realistic approximations of social realities' (p. 107).

It is certainly the case that under a pure relativist position, growth – at whatever speed – does not reduce poverty unless it also reduces inequality at the bottom end. Under the median-linked indicator, poverty only falls when the poor gain ground on middle income groups, so that inequality in the bottom half of the distribution falls. This holds whether growth is low or high.

Niemietz finds it unacceptable that growth that raises living standards among low income groups does not reduce relative poverty unless inequality also falls. He is arguing in effect that the poverty measure should be decoupled from economic growth – that lower income groups should not automatically be entitled to a proportionate share of growth. Another implication is that it is more acceptable for inequality to be higher in rich countries than in poor countries.

Breaking the link between poverty and inequality

Niemietz acknowledges, albeit obliquely, that one of his principal concerns is that poverty thresholds based on median income essentially track changes in the spread of incomes across the bottom half of the distribution. For relative poverty to fall, income inequality at the bottom has to fall.

Niemietz wants to break this linking of poverty to inequality. As he puts it, by allowing the poverty line to rise more slowly than the growth rate, ‘countries can eventually grow out of poverty without changes in the income distribution’. In essence, such an approach would endorse contemporary levels of inequality.

Indeed, Niemietz admits that part of the argument for adopting a less generous definition of poverty is because of concern about adopting policies that tackle inequality. ‘One serious problem with relative poverty measures is that a commitment to minimising inequality cannot be an element of a free society’ (p. 118). This is, of course, entirely a value judgement that does not bear rigorous analysis.

To overcome what Niemietz sees as the ‘problem’ of what might be called the ‘growth effect’, he advocates a cross between an absolute and a relative standard, with the poverty line moving up more quickly than if uprated for inflation alone, while being allowed to slip behind the growth of the median income. Under this *hybrid* proposal, growth would eventually eliminate poverty (as it would with an absolute standard) even if inequality remained the same or even rose slightly. Under such a measure, it would become acceptable for the incomes of the poorest to steadily fall behind middle incomes and there would be no official check to avoid this happening.

Niemietz justifies this approach by claiming that there is no reason why ‘average living standards and the cost of social participation should rise in the same proportion’ (p. 108). Instead, he argues that what he calls the ‘income elasticity of the poverty line with regard to the median income’ should be set at less than one.

Although Niemietz produces no real evidence in support of this thesis, his argument is that a societal determined set of necessities will lag behind wider improvements in living standards. And that the public will add items previously excluded from socially determined minimal living standards at a slower rate than they become the norm.

Implications of breaking the link

The potential implications of this model can be illustrated by what happened in the 1980s and 1990s. This was a period of relatively modest growth (by the earlier post-war standard) and rising inequality. Inequality rose because the gains from growth were unequally shared, with most going to those higher up the income distribution. As a result, relative poverty (as measured by the 60 per cent of median measure) rose sharply, even though absolute poverty fell because the poorest did enjoy some increase in real incomes, albeit at a slower rate than the average.

Under Niemietz’s hybrid measure, poverty would have been much less of an issue for government as it would have risen more slowly and might even have fallen. There is certainly a big political gain from adopting a more stringent definition of relative poverty.

He shows that if the poverty line had been allowed to rise by half the rate of the median over the longer period from 1961, the level of poverty in 2006 would have been 8 per cent rather than 18 per cent (p. 110).

Yet there is neither an a priori case nor solid empirical evidence for adopting an elasticity of less than one. As Niemietz admits, doing so would be just as arbitrary as adopting an elasticity of one and, as he acknowledges, people's perception of what constitutes necessities becomes more embracing over time. The pace at which luxuries once enjoyed by the few become necessities enjoyed by the majority will vary according to the speed of growth and the nature of the product.

It is possible that as societies become richer, average opinion may become more generous. People would accept, in effect, that the poorest are entitled to expect a bigger, not a smaller share of the pie, and that former luxuries should be allowed as necessities more quickly than in the past. In that scenario, the elasticity would need to be set at more than one.

The two Breadline Britain surveys in 1983 and 1990, together with the 1999 PSE survey, do throw light on this question. They show that what the public views as an acceptable minimum does move upwards over time as wider living standards rise. The 1999 PSE survey included a number of additional items – such as a telephone, an outfit for special occasions, and inviting friends and children's friends for a snack or a meal at regular intervals – that were not considered necessities in 1983 (Pantazis et al., 2006, table 4.3).

Consensual Budget Standard Approach

In place of income-based measures, Niemietz advocates the 'Consensual Material Deprivation/Budget Standard Approach (CBSA)' (p. 157). His proposal is based on elements of the consensual approach (as developed by the Breadline Britain and PSE surveys) but with modifications aimed at overcoming what he sees as two weaknesses with that approach.

First, in the consensual poverty methodology, when respondents lack an item considered to be a necessity, they are asked whether they lack this item because they don't want it or because they can't afford it. Niemietz claims that because it was found that families lacking items they can't afford had bought other items not on the list, 'material deprivation levels will be inflated' (p. 152).

There are perfectly good reasons for such patterns, which do not suggest measures of deprivation are inflated. Those now on low incomes may well have bought items not classed as necessities in the past. In addition, as has been widely noted, it is extremely difficult to be perfectly efficient spenders on very low incomes. Families do not tend to buy all their essential items in some mechanical way before moving into the 'non-essential' list. Even so, the PSE studies find strong correlations between households lack of necessities and the number of non-necessities they possess: the more necessities they lack, the fewer non-necessities they have. Niemietz's claim that people lack necessities because they are inefficient spenders or have other priorities is simply not backed up by the evidence.

Further, the PSE methodology goes to great lengths to exclude from their count of people in poverty those on higher incomes who nevertheless lack necessities (see Consensual method). In brief, a 'poverty threshold' is calculated using a range of sequential statistical procedures to relate the number of necessities lacking in households because they can't afford it to the incomes of those households. These calculations are then adjusted to take into account household composition and size (household equivalised income). Only those who have both a low income and a low standard of living are included.

Niemietz's second criticism of the PSE approach is that he finds it too 'rough-and-ready', with many of the items on the necessities list specified with too much 'generality' (p. 152). Again, this is a misunderstanding of how a deprivation index works. The items identified as necessities are tested using standard statistical methods to ensure that they are reliable, robust and additative. Those items which are not, are excluded (see Appendix 2.1 in The Concept and Measurement of Poverty).

However, Niemietz accepts that the consensual approach is 'useful in identifying a majoritarian basket of necessities which is genuinely rooted in its social context, but not for checking whether a given individual is poor or not' (p. 156).

While we disagree with Niemietz that the consensual approach as outlined above does not help identify those in poverty, we do agree that 'identifying a majoritarian basket of necessities' is a useful alternative way of furthering the concept of necessities. This helps to focus the debate on income levels as opposed to the wider causes of deprivation that are uncovered and explored in the PSE approach.

In the Consensual Budget Standard Approach, necessities are defined (as in the consensual method) by majority opinion. This is then converted into a consumption basket and budget using actual products (as revealed by actual purchasing decisions) and their market prices. It is this budget that becomes the poverty line. Households with expenditure below this line are defined as poor. Those above are not, even if the households forego some items of the basket because they choose to buy other things.

This is pretty much where Niemietz chooses to leave his analysis and conclusions. He does not develop or apply his own concept to see what impact it might have on the level of poverty or how it might compare with the other measures he rejects.

Similar methodologies

Despite presenting his concept as original, very similar methods have already been developed and applied by various UK academics, in particular a team from the Universities of York and Loughborough who first devised the methodology for the Minimum Income Standard (MIS), published in 2008 (Bradshaw et al., 2008). Niemietz makes a brief reference (p. 157) to the most recent of these studies – the Joseph Rowntree

Foundation's Minimum Income Standard published in 2010 – but then ignores its findings (Davis et al., 2010).

The MIS's method was as follows. First, a consensual budget standard (CBS) was drawn up by a number of different focus groups (of six to eight participants), representing different household groupings – from pensioner couples to single parents – and in a range of locations. The groups, advised by experts where necessary on issues like nutrition, were charged with defining a minimum contemporary standard necessary to meet basic *needs* rather than *wants*. They had to exclude items that could be regarded as 'aspirational'.

Second, the actual budgets for each recommended item were then drawn up by experts in each area on the basis of actual market prices and the spending preferences shown in expenditure surveys. This determined the minimum socially acceptable standard of living for different household types in the UK.

This approach thus blended earlier work on minimum family budgets, based separately on expert judgement, with public opinion on what should be included in these minimum standards. In each case, the acceptable minimum budgets drawn up for each household type went well beyond 'survival' requirements for food, shelter and clothing and included access to healthcare and education as well as various forms of social participation.

The MIS studies fit the criteria laid out by Niemietz for his CBSA. The list of items is independently determined by consensus over time, not on what median income families can afford. The budgets reflect changes in relative prices, whether up or down. If used as a poverty line, it would move over time – not in some fixed proportion to income growth but according to independent opinion.

Significant findings

There are two significant findings from the MIS studies for Niemietz's critique of existing poverty measures. The first is how each MIS compares with median incomes for that household group. As mentioned earlier, the MIS has consistently found that their minimum incomes come out at around or in most cases above the 60 per cent threshold. In 2008, these stood at between 63 per cent (for pensioner couples) and 76 per cent (for couples with two children) of median incomes – all in excess of the 60 per cent threshold.

Although the studies did not set out to construct poverty lines, their findings are highly relevant to the debate as to where to set the poverty line. On this measure, households living at the 'official' poverty line of 60 per cent of median income have living standards that are well below the consensually determined MIS and official poverty estimates *understated* the number living below the MIS in 2008.

The second finding is that consensually determined poverty lines *do* rise over time, even over relatively short periods. Each MIS was updated in 2010 (roughly two-and-a-half years after the first focus groups) using the same technique. The focus groups did not merely confirm the 2008 budgets; they also argued that the budget should be extended to include at least one additional item.

In 2008, a computer had been considered essential only for families with school age children. By 2010 it was argued that all household groups, apart from pensioner couples, should have computers and internet access (Davis et al., 2010). Although this is too short a time period to establish a trend, it does reveal that the lag in adjusting to changes in consumption habits may be relatively short. These findings suggest that Niemietz has underplayed the extent to which a societal determined set of necessities will track wider improvements in living standards.

Although Niemietz has conceded some ground to the relativist school, his central proposal of a hybrid poverty measure – one which would allow the poverty line to fall slowly behind the rise in wider levels of prosperity – would have profound implications for the extent and character of poverty in the UK.

Niemietz cites no hard empirical evidence in support of his theory that the income elasticity of the poverty line is less than one. Indeed, he largely ignores the evidence of the way the public perception of necessities becomes notably more generous with economic progress. If implemented, the policy implication would be that the lowest income households should not be expected to enjoy proportionate shares in economic growth, effectively returning the UK to the experience of the 1980s and 1990s.

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