

Europe's Other Poverty Measures: Absolute Thresholds Underlying Social Assistance

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The first thing many of us learn about international poverty measurement is that European nations apply a "relative" poverty threshold, typically 50 (OECD) or 60 (EU "at risk" measure) percent of median income, that is higher than ours, and that they also do a better job of reducing poverty. Unlike the European model, the "absolute" U.S. poverty threshold does not increase in real value when the nation's standard of living rises, even though it is obvious that what we think of as living in poverty today, such as having no electricity or indoor plumbing, would not have been a sign of poverty a century ago. A 1995 National Research Council panel report advised the U.S. to emulate Europe and adopt a relative, or at least a "quasi-relative," threshold, indexed each year by changes in spending on food, clothing, and shelter between the 30th and 35th percentiles of couples with two children (Citro & Michael, 1995). Couples in this range have incomes above \$50,000 and most own their own homes. So indexing a poverty threshold to their spending on basics would tend to reflect economic gains among families who are well above what most people regard as poverty.

Is this the lesson about poverty measurement that the U.S. should learn from Europe?

STANDARD BUDGETS IN SUPPORT OF EUROPEAN SOCIAL ASSISTANCE

Another lesson, not typically featured at conferences on international poverty measurement, is that "absolute" measures of need frequently underlie the social assistance schemes that help Western European nations measure up well against "relative" poverty thresholds.²⁰ At the Joint OECD/University of Maryland International Conference on Measuring Poverty, Income Inequality, and Social Exclusion: Lessons from Europe, Tesliuc, del Ninno, and Grosh (2009) summarized material from their comprehensive World Bank handbook of social assistance program design (Grosh et al., 2008). While the paper thoroughly schematized and illustrated the design of transfer and tax policies from both developed and developing nations by delivery mode (cash and noncash transfers, tax expenditures, services), targeting methods, behavioral requirements, and adjustments for budget constraints, there is little attention, in that paper or in other conference papers, devoted to the needs standards underlying the social assistance programs or how they relate conceptually to the measure of poverty.

In fact, in some nations, maximum social assistance levels may be simply a product of political expediency. However, with many OECD members, benefits reflect the influence of standard budgets, defined by Gordon Fisher as ". . . a list of goods and services that a family of a specified size and composition would need to live at a designated level of well-being, together with the costs of those goods and services" (Fisher, 2007). Standard budgets have been classified as *descriptive*, based on information about actual spending of a typical family of a specific type, or *prescriptive*, a normative budget based on expert opinion about the cost of a nutritionally adequate diet, housing of appropriate size and quality, clothing allowance, and so on (Johnson, Rogers, & Tan, 2001). A recent variation in the U.K. and Ireland has supplemented expert judgment with experiential and evaluative advice by ordinary citizens about what constitutes normal consumption (Bradshaw et al., 2008; Vincentian Partnership, 2006).

While the methods and purposes of standard budgets have varied widely, they often have been employed to support improvements in wages and government assistance levels by application of empirical evidence and independent professional judgment. This progressive thread is rarely visible in characterizations of standard budgets as "arbitrary" (Citro & Michael, 1995; Förster, 1994; Förster & d'Ercole, 2009; citations in Fisher, 2007) and even "paternalistic" (Citro & Michael, 1995). Sweden's National Board of Consumer Affairs maintains a budget representing a "reasonable" standard of living, reflecting "neither minimal nor superfluous consumption," that is used by the National Board of Health and Welfare to advise local authorities on setting social assistance (*Socialbidrag*) levels (Eardly et al., 1996; Fisher, 2007; Salonen, 2002; Veit-Wilson, 1998). Eardly et al. explain, "The standard rate is meant to cover the cost of food, clothing and shoes, sport and leisure, consumable goods, furniture, household utensils, newspapers, telephone rental and television license fees, household electricity and home insurance costs, along with smaller medical treatments and dental care" (1996, p. 358). The central German government provides the federated Länder with boundaries for social assistance benefit levels (*Sozialhilfe*) that conform to "human dignity" and were based initially on a budget of basic goods (Eardly

et al., 1996; Fisher, 2007; Förster, 1994; Nelson, 2004). In the Netherlands, social assistance benefits are keyed to statutory minimum wages that are themselves grounded historically in standard budgets (Eardly et al., 1996; Fisher, 2007; Veit-Wilson, 1998). The Swiss Conference of Public Assistance Institutions (CSIAP) establishes budgets used by cantons in setting social assistance levels. Eardly et al. (1996, p. 374) note that amounts are included for “maintenance, ‘free share’ (*Sakgeld* or pocket money), rent, clothes, electricity, radio, television and telephone fees, and transport.” Provinces in Canada establish their own social assistance rates under the Canada Social Transfer program. Typically, assistance reflects either a “pre-added budget” amount for all non-shelter needs supplemented by a separate shelter component, or an itemized budget amount for specific needs categories, or a flat amount varied by household structure (Eardly et al., 1996; FPT Directors, 2006).

In other OECD nations, standard budgets are not used to set assistance levels directly, but rather to influence wage setting or the planning of social assistance spending. The Family Budget Unit, an educational charity in the U.K., produces two budget levels, a “Low Cost but Acceptable” budget it characterizes as a poverty line, and a “Modest but Adequate” level. Budgets specific to geographic area and demographic group have been used in wage negotiations and by the U.K.’s poverty advocacy groups to assess the adequacy of social assistance benefits. Recently, the Joseph Rowntree Foundation combined the approaches of expert standard budgets with input from ordinary citizens to produce a new minimum income standard it commends for the same sort of uses (Bradshaw et al., 2008). In Ireland, a nongovernmental agency, Combat Poverty, received a statutory charge to advise government on all aspects of public policy pertaining to poverty (Combat Poverty Agency, 2008). Its annual budget advice to the government uses Minimum Essential Budgets developed by the Vincentian Partnership for Justice (2006), employing a combination of expert judgment and the advice of focus groups of ordinary citizens. Minimum Essential Budgets include amounts for food, clothing, personal care, household goods, household services, social inclusion and participation, educational costs, household fuel, and savings and contingency costs.

Standard budgets were employed in Australia early in the twentieth century in a landmark wage judgment (Saunders, 1998). The Social Policy Research Center has taken the lead in developing contemporary indicative budget standards for a range of Australian household types. The standards are intended to inform debate about adequate income levels, and have been instrumental in a recent round of minimum wage decisions (Saunders, 2004).

At the request of federal and territorial officials, Statistics Canada has produced a Market Basket Measure to be used in assessing social assistance adequacy (Hatfield, 2002).

France’s guaranteed minimum wage (*Salaire Minimum Interprofessionnel de Croissance*) was based on a compromise among subsistence budgets and, over the years, has been updated by a variety of price and wage changes. It is a benchmark in debates over social assistance levels (Veit-Wilson, 1998).

In short, while international comparisons featured at the OECD/UM conference employ relative poverty thresholds, expressed as a point on the income distribution (Förster & d’Ercole, 2009; Immervoll & Förster, 2009; Maquet & Stanton, 2009; Tesliuc, del Ninno, & Grosh, 2009), individual member nations often use standard budgets to support wage and social assistance levels.

U.S. STANDARDS OF NEED

Standard budgets have a long history in the U.S. for similar reasons (Fisher, 2007; Johnson, Rogers, & Tan, 2001). During the Progressive Era, standard budgets were often used in advocating for improvements in the living conditions of industrial workers and their families. The U.S. Bureau of Labor Statistics (BLS) began its involvement with standard budgets during World War I in support of wage determinations for the flood of new government workers into the District of Columbia. Subsequent BLS budgets have had both statistical and administrative uses, including the current Lower Living Standard Income Level.

Currently, the U.S. functional equivalent of European standard budgets used in setting social assistance levels are standards of need for specific budget categories, such as food or housing, underlying federal means-tested noncash assistance programs. The most familiar is the Thrifty Food Plan (TFP), maintained by the Department of Agriculture and the descendant of the economy and low-cost food plans employed by Mollie Orshansky in developing the threshold adopted as the official U.S. measure of poverty in 1969. The TFP is said to represent “the cost of a nutritionally adequate diet,”

reflecting “up-to-date dietary recommendations, food composition data, food habits, and food price information” (Carlson et al., 2007).

Program-based needs standards underlying U.S. noncash assistance are not as “absolute” as the official poverty threshold is said to be. Section 8 rental assistance prescribes that families need a dwelling that meets a range of quality and safety standards and has the appropriate number of bedrooms. The program subsidizes units that meet this standard generally up to the 40th percentile of such rents, termed Fair Market Rent (FMR). As rents increase with the average size and quality of the rental stock, this ceiling on rental subsidies increases in real dollars as well.

Medicaid reimburses states for a share of expenditures in behalf of eligible persons for inpatient hospital services, laboratory and X-ray services, and physician services, among other items. As the professional standard of medically necessary care expands, so does the scope of reimbursable services.

The largest federal child care assistance program, the Child Care and Development Fund, requires states to perform market rate surveys at least every two years and document that their maximum benefits are reasonably sufficient (National Child Care Information Center, 2006). Real increases in the quality of available child-care services tend to be captured in maximum benefit levels that the Department of Health and Human Services suggests states may set at the 75th percentile of surveyed providers.

In theory, even the value of the Thrifty Food Plan would increase in real terms if one of the occasional studies by the Center for Nutrition Policy and Promotion showed that the current TFP amount would no longer purchase a nutritionally adequate diet based on current nutrition standards, food consumption patterns, and prices (Carlson, Lino, & Fungwe, 2007).

LESSONS FOR POLICY

One factor explaining the prevalence of empirically arguable needs standards supporting social assistance is the audience, not a conference of poverty experts but representatives of elected governments and, ultimately, their electorates. These needs standards operate in the context of public choice about social assistance spending. They are successful to the extent that they gain and maintain the consent of the governed and their representatives. By comparison, relative thresholds, such as 50 or 60 percent of median income, are useful for international comparisons precisely *because* they do not reflect what each separate nation’s public and government understand as the level of basic needs (Förster & d’Ercole, 2009; Förster, 1994). For the purposes of researchers, a strong empirical defense of the poverty line is unnecessary. Any marker of economic status, even one that is arbitrary in the sense that it has no convincing intrinsic justification, can serve the purposes of economists well as long as it performs its function of measuring variation accurately near the bottom of the distribution.

The prevalence of concrete needs standards in governmental proceedings and of relative thresholds at conferences devoted to international statistics no doubt is due partly to the relative comfort levels of legislators and voters, on the one hand, and poverty experts, on the other, when it comes to abstract thinking. However, it is also true that the poverty literature’s dismissal of standard budgets as “subjective” and “arbitrary” is loose and unhelpful usage (Citro & Michael, 1995; Förster, 1994; Ruggles, 1990). Drawing the poverty line is not self-referential. It is subjective neither in the sense of a private experience, like pain, nor like a taste for spinach. Psychologically, we may each have a different tolerance for observing deprivation before we are discomforted, but when someone argues that the poverty line is too high or too low he does not support his opinion by referring to his own internal states. Neither is the poverty line arbitrary, if by that we mean that generally accepted standards of reason and evidence are irrelevant. If that’s the way the threshold were understood, we would not find experts offering objective evidence and argument that their threshold proposals are reasonable but the current threshold is not. Poverty thresholds may be arbitrary within the narrow concept of rationality found in neoclassical economic theory, where reasoning is strictly instrumental and evaluations, such as about what people *need*, reflect tastes or preferences that are arbitrary in the sense that we do not reason or argue about them—*de gustibus non est disputandum*. But the question of what people need *est disputandum* when we develop and modify assistance programs. In these contexts, valuations are not just the givens that tell instrumental reason what to maximize, but rather are what reasoning and persuasion are intended to inform and influence.

We reason about the adequacy of the Thrifty Food Plan by comparing it to prices and, every decade or so, to nutrition standards and food consumption patterns. We reason about the Fair Market Rent ceilings by testing the “success rates” of voucher holders—the rate at which they can actually find

standard quality units available under the FMR. We reason about whether a couple with a teenaged son and a teenaged daughter need an apartment with two bedrooms or three. We argue about whether state Medicaid programs must cover Viagra for its medically accepted indications. Evidence and argument are presented, and minds can change. Intellectual assent can be earned. Still, it is true that the outcome of this reasoning and argument cannot compel assent in the manner of a scientific experiment or a mathematical deduction. However, to the extent that the process is characterized by openness and transparency, participatory rather than strategic communication, appropriate opportunities for informed participation by all affected parties or their representatives, and reviewable in the electoral process, the outcomes represent how a democracy rationally aggregates and resolves issues about inherently evaluative matters. The outcomes are due consent, at least until the next election.

The poverty literature warns that government's determination of how much people need may be dominated by a desire not to pay very much—not that official needs standards are arbitrary but that they are determined by unspoken and invalid criteria (Fisher, 2007; Veit-Wilson, 1998; Citro & Michael, 1995; Ruggles, 1990). In other words, government is apt to confuse two distinct kinds of questions about social assistance: (1) What do we as a nation regard as the minimum that it is indecent for people to be without? (Or, more progressively, what do we as a nation regard as necessary for full participation in society?) (2) How much will we pay? Standard budgets bring empirical evidence and independent expert judgment to bear on the first question, which can help insulate it from preferences about the second. Nutritional science and price surveys, for example, cannot draw a food poverty line, but they can make one more rational by reducing the risk that invalid assumptions will go unexamined and invalid criteria unchallenged.

Someone willing to grant the point that empirically argued standards of need may be more suited than a random point on the income distribution for convincing voters and their representatives to spend tax revenues may yet remain skeptical about the effectiveness of these needs standards. Although we have seen that European social assistance levels often are grounded in standard budgets, international comparisons of government efforts to reduce relative poverty typically rate the U.S. towards the bottom (Förster & d'Ercole, 2009; OECD, 2008). However, to infer from benefit levels that needs standards are inadequate is to confuse government's answer to the first kind of question with its answer to the second kind. When researchers develop alternate U.S. poverty thresholds starting with standards of need underlying federal noncash assistance programs, they consistently come out well above the current official poverty threshold (Bavier, 2009; Bernstein, Brocht, & Spade-Aguilar, 2000; Renwick & Bergmann, 1993; Ruggles, 1990; Schwarz & Volgy, 1992; Weinberg & Lamas, 1993). The federal government's *programmatic* standards for food, shelter, health care, and other basic needs imply a higher poverty threshold than the federal government's current *statistical* measure of what people need. As we think about adopting a "quasi-relative" poverty threshold, we should bear in mind these lessons from Europe and the U.S. suggesting that an empirically arguable threshold would be more useful in the context of public choice about assistance spending.

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²⁰ When comparing nations with very large differences in median incomes, relative thresholds set at 50 or 60 percent of median income can produce nonsensical results. This is one of the reasons that the United Nations supports "absolute" poverty thresholds for statistical purposes, although comparing its daily \$1.25 per person threshold to the official U.S. "absolute" threshold reinforces the view that poverty is, in some fundamental sense, relative (Commission on Sustainable Development, 2001).

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