

Beyond the breadline

Beyond the breadline

A poverty threshold based on a generalised budget
approach

Arjan Soede
Cok Vrooman



The Netherlands Institute for Social Research | SCP
The Hague, February 2008

The Netherlands Institute for Social Research | SCP was established by Royal Decree of March 30, 1973 with the following terms of reference:

- a. to carry out research designed to produce a coherent picture of the state of social and cultural welfare in the Netherlands and likely developments in this area;
- b. to contribute to the appropriate selection of policy objectives and to provide an assessment of the advantages and disadvantages of the various means of achieving those ends;
- c. to seek information on the way in which interdepartmental policy on social and cultural welfare is implemented with a view to assessing its implementation.

The work of the Netherlands Institute for Social Research focuses especially on problems coming under the responsibility of more than one Ministry. As Coordinating Minister for social and cultural welfare, the Minister for Health, Welfare and Sport is responsible for the policies pursued by the Netherlands Institute for Social Research. With regard to the main lines of such policies the Minister consults the Ministers of General Affairs; Justice; Interior and Kingdom Relations; Education, Culture and Science; Finance; Housing, Spatial Planning and the Environment; Economic Affairs; Agriculture, Nature and Food Quality; and Social Affairs and Employment.

© The Netherlands Institute for Social Research | SCP, The Hague 2008

SCP-special 16

DTP: Textcetera, The Hague

Figures: Mantext, Moerkapelle

Cover template: Bureau Stijl zorg, Utrecht

ISBN 978 90 377 0371 9

NUR 740

The Netherlands Institute for Social Research | SCP

Parnassusplein 5

2511 VX Den Haag

The Netherlands

Tel. +31 70 340 70 00

Fax +31 70 340 70 44

Website: www.scp.nl

E-mail: info@scp.nl

Contents

1	<i>Introduction</i>	7
2	<i>Traditional approaches to measuring poverty</i>	8
	Relative poverty lines	8
	Subjective poverty thresholds and the expert budget method	10
	Dutch national poverty lines	10
	Conclusion	11
3	<i>Subjective notions on poverty</i>	12
	Poverty refers mainly to absolute shortages of basic necessities	12
	Uncommon definitions	14
	Resources, income and expenditure, official criteria	15
4	<i>A new poverty line</i>	16
	Indexation of the poverty threshold	17
	Threshold amounts and trends	18
5	<i>Poverty rates according to different thresholds</i>	21
6	<i>Conclusions and discussion</i>	23
	References	25
	Notes	26

1 Introduction

Since 1997 the Netherlands Institute for Social Research/SCP, in collaboration with Statistics Netherlands (CBS), has published the Dutch *Poverty Monitor* (*Armoedemonitor*) (SCP/CBS, 2007; and Vrooman & Hoff, 2004, for an English-language summary). The aim of this project is to gather up-to-date information on the extent, causes and consequences of poverty in the Netherlands and to improve the information provision on this subject. In doing so, it offers an empirical basis for the social debate on poverty and for the formulation of policy in this area.

A valid, reliable and credible definition of poverty is of course an essential element in this exercise. The poverty indicators used since the launch of the *Poverty Monitor* are not adequate in every respect, and this prompted SCP to carry out a methodological study to identify a viable alternative. This research note outlines its main findings. It is based on the integral publication in Dutch (Soede, 2006), but also contains a number of refinements and additions drawn from other sources (in particular Vrooman 2006, 2007; Soede, 2007; Soede & Vrooman, 2007).

The limitations of some of the traditional methods used to map out poverty are first explored (section 2). A summary is then given in section 3 of the scant research into public views on poverty; this provides some insight into the social recognisability of diverse measures of poverty. Section 4 describes the principles and detailing of the new threshold, which is then applied empirically for the Netherlands (1985-2005) in section 5. The trend in poverty rates according to the new indicator is set against trends obtained using the old poverty thresholds as used in the *Poverty Monitor*, and against the '60% of median income' threshold that is used in much international comparative research (including at EU level). The research note ends with a number of conclusions and a brief discussion.

2 Traditional approaches to measuring poverty

Theoretically, poverty can be said to exist where people consistently lack the means to obtain the minimum necessities in the society in which they live. In order to measure this, a number of operational thresholds can be employed. The European Union prefers a relative threshold, but subjective thresholds or the ‘expert budget method’ can also be used. Individual member states of the EU (such as the Netherlands) often operate their own country-specific poverty thresholds, which are sometimes linked to local policy norms (such as the level of social assistance benefit). This section provides a brief overview of the measures used and outlines some of their limitations.

Relative poverty lines

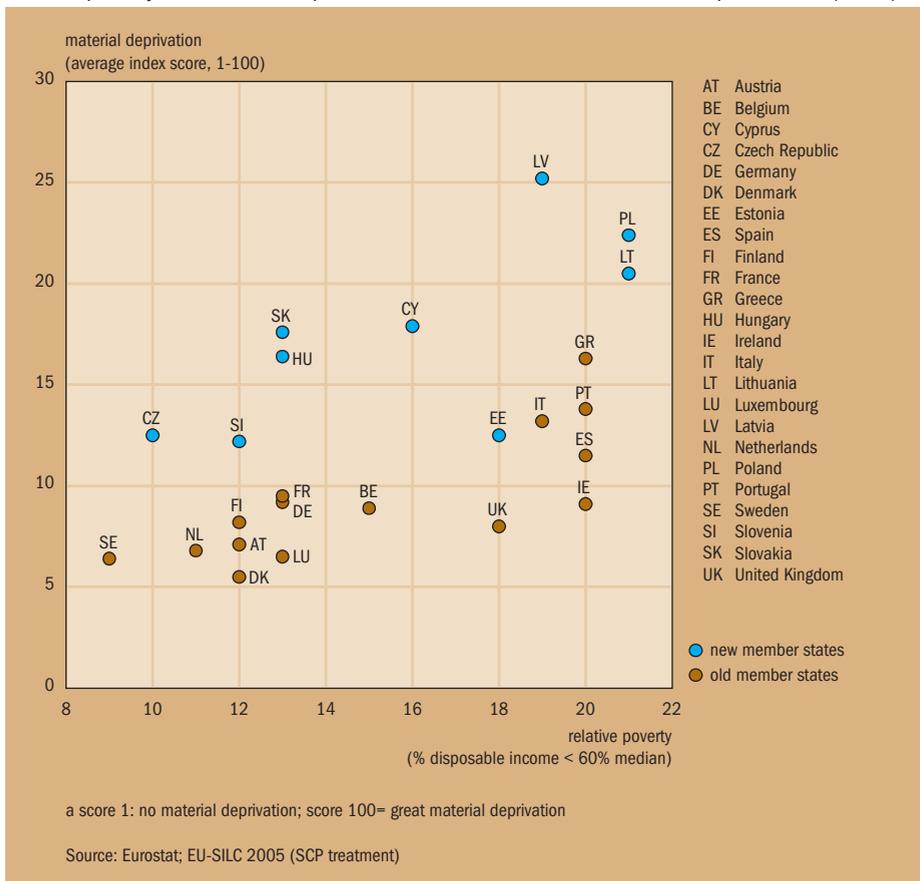
The relative approach to defining poverty has become the dominant operational norm in international comparative research in recent years. An example is the poverty line used by the European Union (60% of median income), which is intended to reveal the ‘risk of poverty’ in the member states. In the 15 ‘old’ EU member states this was initially an attractive measure, because it led to a ranking which was felt to be intuitively credible. The generous welfare states of Scandinavia and the Netherlands consistently generated the lowest relative poverty figures; the corporatist social security systems of Western Europe generally occupied a middle position, while relative poverty was usually greatest in the Mediterranean countries and the United Kingdom, where the social security system has the lowest coverage.

The enlargement of the EU with the accession of 12 new, mostly Eastern European member states, made this ranking intuitively less appealing, however. Some new member states, for example, combine a traditionally flat income distribution with a low median income (cf. figure 2.6). As a result, the relative poverty rate in the Czech Republic is comparable with that in Sweden and the Netherlands, while Slovakia and Hungary rank close to Germany and France. However, the lower general level of prosperity means that people in the new member states experience greater material shortages.

Figure 1 illustrates this latter point. Here, the relative poverty figures on the basis of the EU threshold are plotted against the average country scores on an index for material deprivation. The index is used by SCP for measuring social exclusion (Jehoel-Gijsbers & Vrooman 2007). It is based on questions about payment arrears, heavy financial burdens due to debts and housing costs, the inability to afford basic needs and normal consumer goods, and the difficulty that people have in making ends meet and dealing with unexpected expenditure. Respondents were scored on a

scale from 1 to 100; no figures were available for Malta, Romania or Bulgaria, so that the comparison comprises 24 member states.

Figure 1
Relative poverty and material deprivation^a in 24 member states of the European Union (2005)



There is wide variation in the relative poverty figures in the old member states, but the material deprivation scores lie fairly close together; 11 of these 15 countries achieve an average score of between 5 and 10 on the material deprivation index. The scores for Portugal, Spain and Italy are slightly higher (between 10 and 15), while material deprivation in this 'old' group is highest in Greece (16). Among the new member states, the Czech Republic and Slovenia have little relative poverty (comparable to that in the Scandinavian countries and the Netherlands), but in terms of material deprivation they occupy a middle position along with Estonia, at around the level of Portugal, Spain and Italy. Slovakia and Hungary also have little relative poverty, scoring below the general average for the EU-25. On the material deprivation index, by contrast, these two countries come as high as the old member state with

the highest score, Greece. Cyprus also falls into this group. Finally, Poland, Lithuania and Latvia are in the leading group in terms of relative poverty and also have far and away the greatest material deprivation.

In addition to the lack of practical credibility of the relative poverty threshold demonstrated above, there are also a number of objections in principle. For example, Van Praag & Ferrer-i-Carbonell (2004: 295)¹ note that what is being measured here is in reality ‘inequality in disguise’; and inequality is a different theoretical concept from poverty.

Subjective poverty thresholds and the expert budget method

One drawback of the relative poverty line is that there is no explicit link to the minimum basic necessities. There are two types of poverty threshold where such a link does exist, but these also have limitations. The subjective approach starts from the income or consumption pattern which participants in a population survey consider to be the minimum needed in their society (see Van den Bosch, 2001). The outcome generally correlates with the variant chosen and the precise wording of the question. The threshold amounts often prove to be unstable over time, leading to wide fluctuations in the poverty rates measured using this indicator. Moreover, poverty rates can rise to high levels: in countries such as France, Greece and the United States the proportion of people in poverty sometimes exceeds 40% using this measure. In his evaluation study, Van den Bosch suggests that it is rather doubtful whether a subjective approach enables an adequate measure of poverty to be obtained.

Thresholds based on the ‘expert budget method’ (Bradshaw et al., 1993) in principle offer a clear operationalization of the theoretical concept of poverty. With this method, the researcher presents different types of households with a detailed list of necessary goods and services. By adding together the prices of all items, the researcher constructs a total budget which may serve as a poverty threshold. In practical terms, however, this is a very labour-intensive approach, because a detailed budget has to be drawn up for all possible household types. Moreover, the many different budgets have to be regularly updated to take account of changes in prices and consumption patterns. These problems are magnified in country comparative research, and there the method becomes virtually unusable.

Dutch national poverty lines

The Dutch Poverty Monitor (*Armoedemonitor*) has traditionally employed two criteria to measure poverty: the social policy minimum and the low-income threshold (Vrooman & Hoff, 2004; SCP/CBS 2005, 2007). It is fairly unclear with both thresholds which consumer pattern people ought to be able to afford from the norm amounts (Vrooman & Snel, 1999). The social policy minimum is derived from the social security norm amounts, but leaves unanswered the question of what level of consumption a social assistance benefit claimant should be able to attain. The

low-income threshold is based on the social assistance norm amount for a single person in 1979. This amount is adjusted annually for inflation. The norms for other household types are determined using empirical equivalence scales published by CBS (2004). This approach ensures that the norm amounts are calculated in a consistent and empirical manner, but it still remains unclear to which standard of living they refer.

Conclusion

Each of the above poverty thresholds has its limitations based on the theoretical definition cited above. The relative thresholds sometimes lead to implausible outcomes and tend to refer to a different theoretical construct, namely income inequality. Subjective approaches often suffer from measurement problems, while the expert budget method is difficult to apply in practice, especially in international comparative research. National poverty lines, such as those used in the Netherlands, often have an unclear theoretical status. Against this background, SCP recently investigated the characteristics of a new budget-based poverty threshold, which takes as its starting point expenditure on what are presently regarded in the Netherlands as the minimum basic needs (Soede, 2006; Soede & Vrooman, 2007; SCP/CBS, 2007), and can be applied simply and consistently in practical research situations.

3 Subjective notions on poverty

When seeking to develop a new poverty threshold, it is important first to explore which definition is regarded as socially credible. However, little is known from the scientific literature about what ‘ordinary’ people understand by the term ‘poverty’, especially on the basis of large-scale empirical research. Many empirical studies of ‘the perception of poverty’ focus on what people see as the *causes* of poverty. These ‘lay attributions of poverty’ include things such as individual laziness or misfortune, social injustice, government policy, the economic climate, modernisation of society, and so on (see e.g. Lepianka 2007). Three surveys were however carried out in Australia in the period 1995-1999 which contained a few closed questions about everyday definitions of poverty. It emerged from this that most respondents interpret the concept fairly restrictively; they associated poverty more with basic necessities than with ‘higher needs’ or resources, and placed more emphasis on absolute shortages than relative disadvantage. Saunders (2004: 7-8) concludes that, in the eyes of Australians, poverty is a matter of “not having enough to buy basic items, rather than being unable to buy the items that the majority can afford: it reflects need, rather than envy.”

Poverty refers mainly to absolute shortages of basic necessities

The same picture emerges from a Dutch survey. In a study commissioned by the Dutch publisher PCM Uitgevers – which supplied data for secondary analysis – a telephone survey was held among more than 700 people in January 2006, who were asked the open question “What do you understand by poverty?”. The responses were divided into 14 categories (see table). A majority of the respondents (52%) had an ‘absolute’ interpretation in terms of needs. For these respondents, people are in poverty if they are unable to satisfy their basic needs to a certain level. The biggest subgroup within this group of respondents took a fairly strict view, though not to the extent that they felt that poverty should mean that people are in a life-threatening circumstances. 40% of respondents defined poverty in terms of such basic needs. In the first place these include people who see poverty as continually having to struggle to obtain essential goods (e.g. via the food bank and charitable collections); this falls into the category ‘low basic needs’.

Subjective poverty notions in the Netherlands (2006)

Type of poverty definition ^a	%	(n)	Characteristic answers
Absolute:			
needs			
unsustainable subsistence	10	(75)	Tramps Homeless Dying from hunger
low basic needs	19	(136)	Having to fight for your food every day People who have to live from the food bank Dependent on charitable collections
basic needs	22	(161)	Not being able to buy basic necessities Having no money for extras Only able to afford what is absolutely indispensable
higher needs	1	(7)	Not being able to buy everything People who have no money at all for the nice things Not being able to go on holiday
capabilities	1	(8)	No freedom of choice Not being able to do the things you want Not being able to do things you would do otherwise, due to lack of money
resources	9	(63)	People who have little money and few possessions Having little to spend each month Earning too little
Relative			
	2	(13)	Having an income that is well below modal income Lagging behind the rest of the population Having to live below the normal standard of living
Social exclusion	3	(21)	Not being able to take part in things with the people around you Not having people around you; loneliness Not being able to have a cup of coffee with a neighbour; losing out in social life
Income and expenditure out of balance:			
difficulty making ends meet	13	(92)	Finding it difficult to make ends meet with your money Being short of money at the end of the month Having to be extremely careful with money
financial problems	2	(15)	Inability to pay fixed costs No longer able to repay debts; robbing Peter to pay Paul People who are unable to pay bills and are evicted from their home

Subjective poverty notions in the Netherlands (2006) (continued)

Official criteria:		
policy norms, target groups	9	(68) Everything that is below the minimum wage People who have to live on social security A single mother on benefits with two children
research thresholds	1	(7) Living below the poverty line 800 euros per month People living below the minimum of 800/900 euros per month
Poverty does not exist in the Netherlands	2	(13) Poverty is in Africa That doesn't happen in the Netherlands There's no real poverty in the Netherlands
Other	2	(12) If you're not contented If you have a great deal but can't share it with others Poverty is when money goes from the Netherlands to other countries and is thrown away
No answer, don't know	6	(42)
Total	100	(734)
a Coded responses to the open question "What do you understand by poverty?"		
Source: Perceptie van armoede 2006 (PCM Uitgevers, SCP treatment)		

The second subgroup raise the bar slightly higher, believing that poverty can be said to exist when people are “only able to afford what is absolutely indispensable”. Among basic needs they often cite food, clothing, housing, water and gas/electricity.

A smaller, but by no means negligible group, apply an even stricter definition. According to this group, poverty exists only where there is a threat for a shorter or longer period to physical existence. This category (‘unsustainable subsistence’, 10% of the respondents) includes people who define poverty as “dying from hunger” or who associate poverty with homelessness. A small group (1%) are by contrast more generous, believing that poverty also exists when people are not able to afford higher needs (e.g. “not being able to go on holiday”).

Uncommon definitions

Few people define poverty in terms of ‘capabilities’, a concept advocated by Sen (1999). Only one in a hundred respondents see poverty as having “no freedom of choice”, “not being able to do things you would do otherwise, due to lack of money”, and so on. This capability approach consequently appears fairly academic, and receives virtually no support among the population at large. Definitions based on the related notion of ‘social exclusion’ are equally sporadic: 3% associate poverty with “not being able to take part in things with the people around you”, “loneliness”, etc.

Relative definitions of poverty also receive little support: only 2% of respondents see poverty in terms of “lagging behind the rest of the population”. This corresponds with the findings of the earlier Australian studies: for most people, poverty is something different from inequality.

Resources, income and expenditure, official criteria

An absolute approach to poverty, defined in terms of resources, achieves a rather higher score (9%). These are people who see poverty mainly as a question of having too little money, while expressing no opinion on how this money should be spent (e.g. “having insufficient money and possessions”).

There is also a substantial minority for whom poverty means that income and expenditure are out of balance. The ‘difficulty making ends meet’ category (13%) feel that poverty can be said to exist when people are “short of money at the end of the month”. Strictly speaking, this definition of course includes households with a high income who spend too much. As a corollary to this, there is a small group (2%) who link poverty to tangible financial difficulties, such as high fixed costs, problematic debt and payment arrears.

A fair number of respondents (11%) do not give their own definition of poverty, but refer to official criteria, for example describing people on the minimum wage or single mothers living on social assistance as poor. A small category (1%) use the research definitions from the *Poverty Monitor*.

Finally, few respondents deny poverty: 2% believe that ‘real’ poverty does not exist in the Netherlands, but is something that is found only in distant countries (Africa is often cited as an example). It is also notable that only a small group (6%) were unable or refused to answer the question; virtually everyone, it seems, has a certain view of poverty.

4 A new poverty line

The initial level of the new poverty threshold was determined by SCP on the basis of the budgets drawn up by the Dutch National Institute for Budgetary Information (Nibud). This body formulates a number of highly detailed budgets each year for different household types, with minimum norm amounts being calculated for all manner of expenditure items. These norm amounts are arrived at on the basis of the opinions of experts (e.g. on the required quantity and quality of food), the availability of goods and actual consumption patterns at the bottom end of the income distribution. The method used by Nibud is based on years of experience and detailed knowledge of the expenses which confront households in practice. The Nibud budgets are also used by municipal social services, banks, debt relief agencies, etc. (see also www.nibud.nl).

In a first variant of the new poverty line, the *basic needs* threshold, SCP took as a starting point the expenditure which can be regarded as the minimum necessary in the Netherlands. This includes virtually unavoidable costs for food, clothing, housing (including rent, insurance, gas/electricity, water, telephone, contents, home maintenance and property taxes) and a number of other expenditure items (such as transport, additional medical expenses, personal care and washing agents). The threshold amount obtained on the basis of the Nibud norms covers a sparse but complete package of expenditure. It is sufficient to run an independent household, so that people are not dependent on charity or food banks, and in this sense it is 'beyond the breadline'. Based on the minimum amounts from the Nibud budget, a single person in 2000 needed a total of EUR 667 per month. Anyone with an income below this amount is very likely to have too little money to make ends meet in the Dutch context, and can therefore be described as poor. The norm amounts for other types of household are determined using empirical equivalence factors published by CBS (2004). These may be approximated by taking the square root of $(A+0.8C)$, where A is the number of adults and C the number of children in the household. It is therefore rather less steep than the two equivalence scales most commonly used in international comparative research, namely the square root scale and the modified OECD scale.²

The 'basic needs' threshold starts from the necessary expenditure items, but offers no scope for extras, such as the costs of social participation. A second variant does make some provision for this, by including modest amounts for recreation, membership of a library, a sports or hobby club, a subscription to a newspaper and magazine, and a household pet. The selected items correspond almost exactly with one of Nibud's 'residual packages' (2006: 50). This variant is generally described in the literature as *modest but adequate*: it includes expenditure which goes beyond that which

is strictly unavoidable, but there is no question of any luxury, such as a car or foreign holiday. For a single person the threshold amount is EUR 758 per month (2000).

Table 2

Minimum budget for a single person (2000)

Budget itema	Euros (2000 level)
Food	142
Clothing and shoes	32
Rent	216
Gas/fuel	30
Electricity	22
Water	7
(Local) taxes	24
Telephone	21
Insurances	23
Furniture etc.	69
Transport	9
Uncovered medical expenses	11
Other	61
Total= reference budget 'basic needs'	667
Recreation	37
Public library	2
Newspaper and magazine	23
Sport/hobby club	9
Pet	20
Total= reference budget 'modest but adequate'	758

a) Total of detailed Nibud amounts per budget item type (SCP adaptation)

These two variants appear to match the subjective poverty definitions in section 3 quite well. The absolute level of the low variant of the new threshold can be seen as a useful elaboration of the subjective 'basic needs' definition, the most frequent response category in the survey. In terms of the subjective definitions, the 'modest but adequate' variant incorporates a limited number of 'higher' needs, which many people would regard as desirable but without any luxuries. All in all, the level of the new threshold appears to reflect the dominant views on poverty among the population fairly well.

Indexation of the poverty threshold

In principle, the updated norm amounts could be taken as a basis each year. One complication here is that social norms regarding what constitutes necessary expenditure can change over time. For example, if Nibud starts including a PC among the

basic needs, this gives rise to trend breaks in measuring the poverty rate. It is better to determine the trend in the threshold amounts using a theoretically grounded indexation of the initial level and to reconsider the content of the budget each time it is reviewed (e.g. once every five or ten years). A recommendation by the American National Academy of Sciences (NAS) to the US government (Citro & Michael, 1995; see also: Short, 2005) is taken as a guide for the indexation. The NAS recommendation suggests that the level of the poverty line be linked to changes in the median expenditure on the basic items food, clothing and housing. This ensures that the threshold amounts are likely to rise faster than inflation but more slowly than a completely relative threshold; it is 'quasi-relative'. This is because, as their income rises, people generally spend a diminishing proportion of that income on food, clothing and housing. The new threshold thus reflects the growing prosperity, but not completely.

The NAS also recommended that the indexation be based on the three-yearly moving average (the reference year and the two preceding years). It considered this desirable because the social perception of the minimum probably responds with a certain time lag to socioeconomic changes. Once the initial new threshold had been determined, therefore, the norm amounts for the period 1985-2005 were calculated using the three-year averages of the median expenditure on the basic items.

Threshold amounts and trends

This combination of:

- meaningful initial levels for the reference household in an initial year;
- the derivation of the amounts for other household types using equivalence factors;
- and a quasi-relative, delayed indexation based on expenditure trends on the basic items

can be characterised as a 'generalised budget approach'. This retains the conceptual advantages of the budget approach by Bradshaw et al., but is much less complex and easier to apply in research practice. It is moreover recognisable for policymakers and citizens alike.

Table 3 shows that in the 'basic needs' variant of the new threshold, the amount is lower than the EU norm, the low-income threshold and the social policy minimum. The 'modest but adequate' variant, after adjustment for housing benefit, is roughly at the level of the social policy minimum, but is below the two other thresholds.

Table 3

Level of poverty thresholds for different household types in the Netherlands, 2000 and 2005 (in euros per month)

Net monthly amounts according to:					
	New threshold, <i>basic needs</i>	New threshold, <i>modest but adequate</i> ^a	EU norm (60% of median)	Low-income threshold ^b	Social policy minimum (NL) ^b
2000					
Single person	670	760	820	770	680
Couple without children	910	1,040	1,120	1,060	950
Couple with two children	1,250	1,420	1,530	1,450	1,100
2005					
Single person	770	870	960	870	770
Couple without children	1,050	1,190	1,310	1,190	1,080
Couple with two children	1,440	1,640	1,800	1,640	1,300

a In 2005 the norm amount for a single person happened to be the same according to the 'modest but adequate' criterion as for the low-income threshold. Since the same equivalence factors were used, this also applies for the other household types.

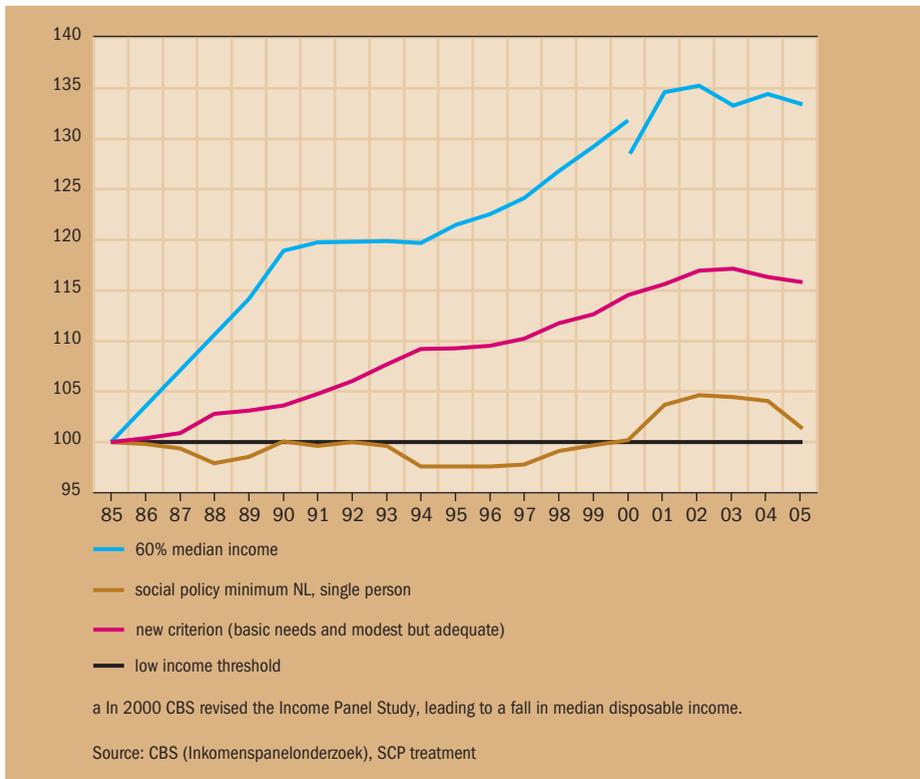
b The low-income threshold and the Dutch social policy minimum are based on household income excluding housing benefit. By contrast, the new threshold and the EU norm include housing benefit. In order to obtain comparable amounts, the low-income threshold and the social policy minimum needs to be increased by approximately €80 (single person), €110 (couple) and €150 (family with two children).

Source: SCP

Figure 2 portrays the trend in the threshold amounts in constant prices. The low-income threshold is indexed for inflation, and therefore appears as a horizontal line. Median income, and therefore the relative threshold, rose between 1985 and 2005 by approximately one third in real terms. Both variants of the new threshold also increase in line with prosperity, but less sharply than median income. The norm amounts of the new threshold thus undergo the expected quasi-relative development over time. Over the period as a whole, the amount ends up roughly a sixth higher in real terms (+17%). The purchasing power of the social policy minimum rose slightly over the period.

Figure 2

Trend in the level of various poverty thresholds in the Netherlands (1985-2005), in constant prices.^a Index (1985=100).



5 Poverty rates according to different thresholds

The poverty rates portrayed in figure 3 were calculated by plotting the norm amounts against net disposable household income according to the Income Panel Study (see SCP/CBS, 2007). The trend is downwards for the low-income threshold; in 1985, 19.9% of all people were poor according to this criterion; by 2005 the figure had fallen to 8.9%. This is mainly because the indexation of this threshold is linked only to price inflation, whereas the level of prosperity rose more strongly in the period studied. In 2004 the poverty rate fell more sharply because of the Dutch tax reforms in that year and the favourable economic climate.

Measured against the EU norm, the poverty rate rises strongly up to the start of the 1990s, after which it fluctuates at around the 10% mark. This stable percentage reflects the sensitivity of relative poverty lines to income inequality, which underwent virtually no changes in the Netherlands during that period (Pommer et al., 2003). The developments in 2001 also illustrate this point. Average income in the Netherlands rose in that year by around 5%; however, because all groups saw their incomes improve by roughly the same amount, the income inequality also remained stable, and consequently so did the poverty rate according to the EU norm. The substantial improvement in the position of the poor in 2001 is therefore not observed using this indicator.

If a norm amount slightly above the social policy minimum (101%) is taken as a basis, limited increase in poverty is observed up to and including 1994. This is followed by a downward trend which continues until 2001. The percentage of poor people according to this indicator then begins rising again in 2002, mainly due to growing benefit dependency.

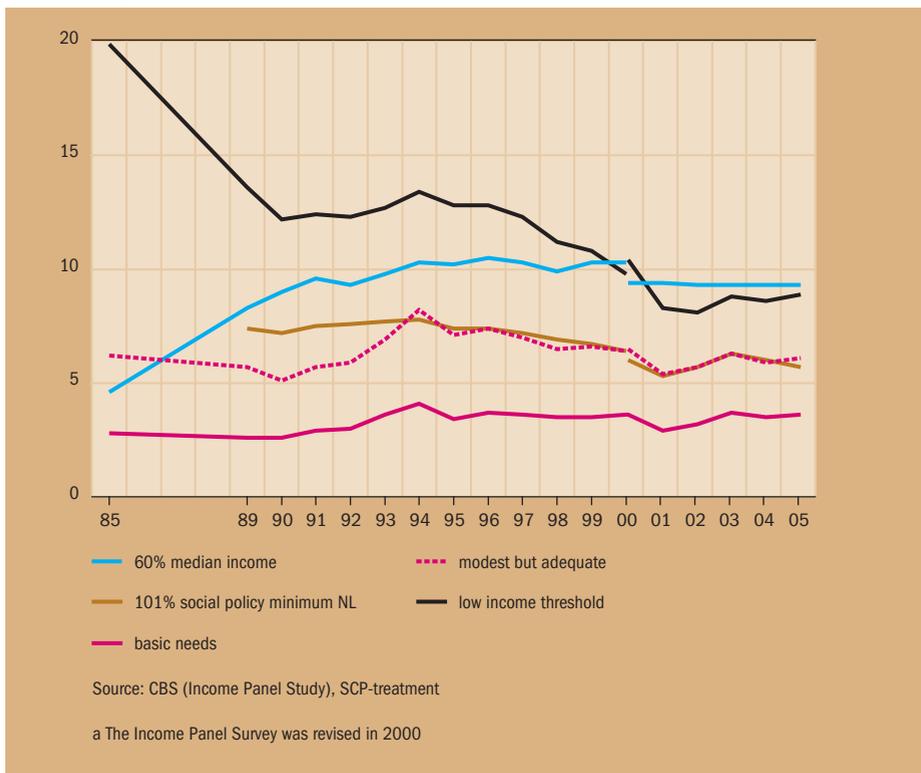
The quasi-relative character of the new poverty line can be seen clearly in the period 1985-1990. While poverty based on the low-income threshold declined in this period, and rose according to the EU norm, it remained roughly unchanged according to the new criteria. According to the 'basic needs' variant, roughly 3% of the population were poor at this time, while according to the 'modest but adequate' variant the figure was around 6%. Purchasing power at the bottom end of the income distribution improved in this period in real terms. However, the increase in income kept pace with the growing expenditure on items which are difficult to avoid.

From 1990 to 1995, there was an increase in the poverty rate according to both the old and the new indicators, with the biggest rise being that measured by the 'modest but adequate' variant, which shows an increase to 7.1%. During this period the purchasing power of those on the lowest incomes fell in real terms due to the

(partial) decoupling of benefits and wages. At the same time, average spending on necessary items showed a strong increase. After 1995 a slight fall in the poverty rates can be observed, reaching 3.6% in 2000 according to the 'basic needs' variant and 6.5% based on the 'modest but adequate' indicator. The purchasing power of the lowest income groups rose in 2001, leading to a further reduction in poverty, to 2.9% and 5.4%, respectively. The economic recession at the start of the 21st century then prompted another reversal: the poverty rate rose to 3.6% and 6.1%, respectively, in 2005, above its level in 2001.

Figure 3

Percentage of persons with equivalised household income below the various poverty lines (1985-2005)^a



Over the period as a whole, the two variants of the new threshold show the same trend. In the period 1995-2000, however, the poverty rate based on the 'basic needs' criterion remained fairly stable, whereas according to the 'modest but adequate' variant it declined. This indicates that the group with the lowest incomes benefited less from the recovering economy than those with a slightly higher income.

6 Conclusions and discussion

The new threshold has a number of attractive properties for mapping out the extent of poverty. Linking the two variants to the norm amounts proposed by Nibud provides a clear interpretation of them. They are related to the price and volume of goods and services which are considered necessary in Dutch society (basic needs), or which are regarded as highly desirable in order to participate in society at a minimal level (modest but adequate). The indexation method, unlike that used for the traditional expert budget method, is simple and not very labour-intensive. The quasi-relative character of the trend in the norm amounts is theoretically desirable and is also found to be mirrored in practice. Finally, the two variants discussed here also match the dominant perception of poverty among the Dutch population rather well.

It is therefore worth considering employing the new threshold in empirical research, though there are still a few points which require further study (such as the best equivalence factors to use when determining the threshold amounts over time). The new threshold provides a good insight into the size and composition of the group whose income is almost certainly inadequate according to current Dutch standards. This can help make the policy on poverty more transparent in terms of objectives, potential policy interventions and evaluation of policy measures. It is not the case that this method ‘defines the poverty problem out of existence’: according to the lowest variant, the ‘basic needs’ criterion, 560,000 people were qualified as poor in 2005; that is one in 25 Dutch people, more than 30 times as high as the client base of the Dutch food banks, for example (approx. 8,000 households in February 2006). And based on the ‘modest but adequate’ variant, still one in 16 inhabitants of the Netherlands qualified as poor.

The two criteria together provide a plausible bandwidth for the poverty rate. It is theoretically possible to take a threshold amount which also includes expenditure for higher needs (e.g. more social participation, recreation or luxury compared with the ‘modest but adequate’ criterion); Soede (2006) gives an example of this. However, there is reason for caution here. A politically charged concept such as poverty should not be used lightly, and in the population survey cited earlier a large majority of respondents also revealed a fairly strict view of poverty. The budget items in the two variants of the new poverty threshold presented here refer to expenditure which is virtually unavoidable or highly desirable in present-day Dutch society. The necessity of expenditure on things such as smoking, going out regularly or new electronic gadgets is much less self-evident. This does not however mean that people with an income slightly above the new poverty threshold cannot be confronted with financial or other problems. This group can however – as is usual in the *Poverty Monitor*

– be identified separately, for example by placing them under the banner of social exclusion (Jehoel-Gijsbers, 2004; Jehoel-Gijsbers & Vrooman, 2007).

An important consideration from a policy perspective is that the new threshold is not intended to be prescriptive. It is not necessary to equate the social assistance norms in the short or long term to the threshold amounts used in scientific research on poverty. This has also never been done in the past, and it is probably not desirable because social legislation has to achieve more goals than simply combating inadequate income (e.g. labour market activation, promotion of social integration). If the norm benefit amounts were to be reappraised in the future, this would be a political choice which in no way follows directly from the method presented here. This approach does however make it possible to focus attention in poverty policy on the most vulnerable group, who can be readily identified using the new poverty line.

Finally, the method can in principle also be used in other countries and in international comparative research. The ‘royal road’ would be to determine the initial threshold amounts for the reference household in line with the Nibud method in other countries, too, and to apply suitable empirical equivalence scales and a comparable indexation method to them. A rough but simple approximation could consist in translating the Dutch norm amounts to other countries using purchasing power parities, common equivalence scales (square root or modified OECD scale), and basing the indexation on consumer spending data drawn from the National Accounts. An alternative would be to apply the idea of quasi-relativity to other countries, too. Although this would mean that a country with a higher level of prosperity would also have a higher poverty threshold, this higher prosperity would be reflected only partially in the level of the poverty threshold. SCP will explore the merits of such methods further in the near future.

References

- Bosch, K. van den (2001). *Identifying the poor, using subjective and consensual measures*. Aldershot: Ashgate.
- Bradshaw, J. (ed.) (1993). *Budget standards for the United Kingdom*. Aldershot: Avebury.
- CBS (2004) *Equivalentiefactoren 1995-2000*. Voorburg/Heerlen: Statistics Netherlands (CBS).
- CBS/SCP (2006) *Armoedebericht 2006*. Voorburg: Statistics Netherlands (CBS).
- Citro, C.F. & R.T. Michael (ed.) (1995). *Measuring Poverty: A New Approach*. Washington, DC: National Academy Press.
- Jäntti, M. & S. Danziger (2000). Income poverty in advanced countries. In: A.B. Atkinson & F. Bourguignon (eds.), *Handbook of income distribution (vol. 1)*. Amsterdam: Elsevier.
- Jehoel-Gijsbers, G. (2004). *Sociale uitsluiting in Nederland*. The Hague: The Netherlands Institute for Social Research/SCP.
- Jehoel-Gijsbers, G. & C. Vrooman (2007). *Explaining social exclusion; a theoretical model tested in the Netherlands*. The Hague: The Netherlands Institute for Social Research/SCP.
- Lepianka, D.A. (2007). *Are the poor to be blamed or pitied? A comparative study of popular poverty attributions in Europe*. Tilburg: Tilburg University.
- Nibud (2006). *Minima effectrapportage gemeente X*. Utrecht: Nibud. Available through www.nibud.nl
- Pommer, E., J. van Leeuwen & M. Ras (2003). *Inkomen verdeeld – trends in ongelijkheid, herverdeling en dynamiek*. The Hague: SCP.
- Praag, B.M.S. van, & A. Ferrer-i-Carbonell (2004). *Happiness quantified; a satisfaction calculus approach*. Oxford: Oxford University Press.
- Saunders, P. (2004). *Towards a credible poverty framework: from income poverty to deprivation*. Sydney: The Social Policy Research Centre.
- SCP/CBS (2005). *Armoedemonitor 2005*. The Hague: The Netherlands Institute for Social Research/SCP.
- SCP/CBS (2007). *Armoedemonitor 2007*. The Hague: The Netherlands Institute for Social Research/SCP.
- Sen, A. (1999). *Development as Freedom*. Oxford: Oxford University Press.
- Short, K.S. (2005). Material and financial hardship and income-based poverty measures in the USA. *Journal of Social Policy* 34 (1), 21-38.
- Soede, A. (2006). *Naar een nieuwe armoedegrens?* The Hague: The Netherlands Institute for Social Research/SCP.
- Soede, A. (2007). *A new poverty line based on actual needs*. Paper presented at the 34th CEIES Seminar, 11-12 September 2007 in Helsinki.
- Soede, A. & C. Vrooman (2007). *Noodzakelijke bestedingen als armoedegrens*. In: *Economisch Statistische Berichten*, vol. 92 no. 4510, p. 296 – 299, 2007.
- Vrooman, C. (2006). *Subjectieve definities van armoede*. In: *Armoedebericht 2006*. Voorburg: Statistics Netherlands (CBS).
- Vrooman, C. (2007). *'Slotbeschouwing'*. In: SCP/CBS (2007) *Armoedemonitor 2007*. The Hague: The Netherlands Institute for Social Research/SCP.
- Vrooman, C. & E. Snel (1999). *Op zoek naar de 'echte armen'*. In: G. Engbersen, J.C. Vrooman & E. Snel (ed.), *Armoede en verzorgingsstaat – vierde jaarrapport armoede en sociale uitsluiting*. Amsterdam: Amsterdam University Press.
- Vrooman, C. & S. Hoff (eds.) (2004). *The poor side of the Netherlands – results from the Dutch 'Poverty Monitor', 1997-2003*. The Hague: The Netherlands Institute for Social Research/SCP.

Notes

- 1 Van Praag & Ferrer-i-Carbonell (2004: 295) illustrate this point by assuming that disposable income is distributed in a log-normal way, i.e. the logarithms of the incomes are normally distributed. The original incomes then no longer display the characteristic 'bell shape' of a normal distribution, but are skewed to the right, with a relatively large group of individuals or households with lower incomes, and a long tail of reducing shares as income increases. Given this – not uncommon – assumption, they show that the poverty rate depends solely on the standard deviation, which can be interpreted as a measure of income inequality. In practice, incomes are not precisely log-normal in their distribution; for example, there may be more peaks at the lower end due to the divergent social assistance norms in different types of household. The log-normal distribution does however provide a good approximation of the actual income distribution; for the Netherlands, see e.g. Pommer et al. (2003: 51).
- 2 The first commonly used equivalence scale takes the square root of the total number of household members. The modified OECD scale assigns a score of 1 to the head of the household, 0.5 to all additional adult household members and 0.3 to each child. The equivalence factors for these scales are consequently generally higher than the CBS scale. For example, for a family with two children the CBS scale gives a score of 1.89; the score on the square root scale is 2.00, while on the modified OECD scale it is 2.10.