Introduction

Poverty is an issue that has attracted the attention of leading academic scholars, and its associated miseries have inspired some of the greatest works of fiction. Whether it be Victor Hugo’s *Les Miserables* in nineteenth-century France, Dickens’ characters living in the squalid slums of Victorian London, or those excluded from today’s advanced democratic societies or struggling to survive famine in sub-Saharan Africa, throughout history poverty has motivated leading thinkers to search for understanding and has been a rallying call for action. It has attracted the attention of the world’s leading social scientists, inspiring the conflicting theories of Adam Smith and Karl Marx, the policies developed by welfare state pioneers Bismark and Beveridge and the conceptual and measurement skills of generations of researchers, from Booth and Rowntree to Townsend, Sen and Atkinson.

Poverty has featured prominently on the post-war policy agenda, whether it be the 1960s’ US ‘war on poverty’, the British government’s attack on child poverty in the 1990s or, more recently, the UN’s Sustainable Development Goals, which include eradicating extreme poverty by 2030. A central idea which links these diverse developments is the notion that poverty is bad – bad in terms of its immediate effects on those who experience it, bad also because of its immediate flow-on effects and bad because of its longer term consequences for others, particularly for children. The existence of poverty reflects badly on societies whose inaction implicitly condones it, particularly those with the resources to tackle it.

Yet there is a lack of clarity about what poverty is, how it can be identified and what needs to be done to address it – not only in developing countries which lack the resources for an all-out attack but also in affluent countries where higher living standards have not eradicated the problem (see OECD, 2016: table 1). The eradication or alleviation of poverty has been at the forefront of the social policy agenda since the medieval poor laws were first enacted in fourteenth-century England. These laws, expanded under legislation enacted in the 1530s, were generally piecemeal, operated at the local parish level, and distinguished between the ‘deserving’ and ‘undeserving’ poor – the latter being denied support because their plight was seen as the result of their own idleness or immoral behaviour. It was not until the development of the welfare state that a coherent policy framework for tackling poverty at the national level was assembled,
with legislated entitlements replacing the discretionary judgements implicit in the distinction between the deserving and undeserving poor. Even so, the moral overtones that characterised these earlier periods still exert an influence on some theories of poverty and have an even more powerful impact upon the design of some of today’s anti-poverty policies.

In order to understand why this is the case, it is necessary to examine how poverty is defined and measured – the two are distinct, but often confused or conflated – and this is one of the main goals of this chapter. The following section examines how the concept of poverty has evolved over the past three centuries, while the third section reviews measurement issues, distinguishing between poverty line studies and those approaches that locate poverty within a broader living standards framework. The next section examines the problems associated with measuring the impact of the welfare state upon poverty and presents some summary findings, while the final section summarises the main conclusions and canvases some of the issues at the forefront of contemporary poverty research.

The concept of poverty

Poverty exists when people do not have the resources to obtain the items necessary to meet their basic needs. In order to make this idea operational so that it may be used to identify who is poor, the terms ‘resources’, ‘necessary’ and ‘basic needs’ must be specified more precisely. Much of the attention of poverty researchers has been on identifying the meaning of ‘necessary’ in relation to basic needs, with many still adopting the approach proposed by Adam Smith (1776) in *The Wealth of Nations*, where he noted:

By necessities, I understand not only the commodities which are indispensably necessary for the support of life but whatever the custom renders it indecent for creditable people, even of the lowest order, to be without.

*(Smith, [1776] 1976: 869–870, emphasis added)*

Smith gave the example of a linen shirt being a necessity that even a day-labourer ‘would be ashamed to appear in public without’ because it would break prevailing social norms. The idea that necessities cannot be identified independently of existing material conditions and social norms was captured two centuries after Smith in what is widely regarded as the classic modern definition of poverty advanced by British sociologist Peter Townsend:

Individuals’ families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong.

*(Townsend, 1979: 31; emphasis added)*

This definition is more explicit about which kinds of needs and items are ‘indispensably necessary’ in a modern society, including the avoidance of social exclusion among these, which raises questions about how poverty and exclusion are related (Nolan and Marx, 2009; Saunders, 2011). However, it is the emphasis given to a lack of resources as being the underlying cause that makes this a definition of poverty. It shares this feature with the definition adopted by Seebohm Rowntree (1901) who, in the first attempt to quantify the extent of poverty, defined a family as poor if ‘their total earnings are insufficient to obtain the minimum necessities of merely physical efficiency’. Rowntree’s approach may be seen as a subsistence definition of
poverty, in contrast with Townsend’s more comprehensive participatory approach that is relevant (and thus relative) to contemporary living conditions and social circumstances.

Townsend’s definition, which forms the basis of the deprivation approach described in more detail below, has much in common with that taken by Sen (1985), although Sen defines poverty not in terms of a lack of the commodities that require resources, but in terms of a failure to achieve the freedom provided by a given level of capabilities. These capabilities reflect a person’s ability to achieve the various living conditions (or functionings) that he or she has reason to value. In drawing the distinction between commodities and capabilities, Sen notes that from a living standards perspective:

commodities are no more than means to other ends. Ultimately, the focus has to be on what life we lead and what we can and cannot do, can or cannot be.

(Sen, 1987: 16)

He then defines poverty as ‘the failure of basic capabilities to reach minimally acceptable levels’ and argues that:

The functionings relevant to this […] can vary from such elementary physical ones as being well-nourished, being adequately clothed and sheltered, avoiding preventable morbidity, etc., to more complex social achievements such as taking part in the life of the community, being able to appear in public without shame, and so on.

(Sen, 1992: 39)

This definition shares many similarities with that proposed by Townsend, including the idea that poverty is a multifaceted problem and thus requires a multidimensional approach to identification and measurement. The main difference is the focus given by Townsend to a lack of resources as the underlying cause, whereas Sen concentrates on the functionings themselves, not all of which are constrained by available resources because other factors (e.g. discrimination, or powerlessness) may also be important – possibly more so.

An important feature embodied in all of the above definitions is the idea that poverty is unacceptable. As Ringen (2007: 222) has argued: ‘The conditions we justly call poverty are not simply unfair or unfortunate, they are unacceptable’ (emphasis in original). Although this unacceptability must be related to the living conditions (or functionings) actually experienced, it leaves open the question of who is to decide what constitutes an unacceptable situation. One approach involves letting experts decide by making the judgements that ultimately determine whether or not someone is identified as poor. This approach has been shown to lack credibility when it generates disagreement among ‘the experts’, and critics of poverty studies have exploited this to challenge the relevance of the research. An alternative approach, now gaining more support, is to leave it to members of the community to express a view about whether or not a particular situation is unacceptable, and to base the identification and measurement of poverty on those views. Where these views coincide (as they often do) the approach may be aptly described as the ‘consensual approach’ to poverty measurement (Mack and Lansley, 1985; Gordon, 2006).

Irrespective of the precise approach taken, this brief review highlights the two key characteristics of any definition of poverty: first, that it reflects a situation that is unacceptable; second, that the cause is a lack of income or access to economic resources more generally. These two features are captured in the definitions of poverty used by bodies that have a direct interest in addressing poverty, like the European Commission (2004) and the Irish Combat Poverty Agency (2004). The former has defined poverty to include:
persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live.

Poverty in this sense is relative because the income needed to achieve an acceptable standard and avoid exclusion depends upon what others in that society are able to have and do. The European Anti-Poverty Network (EAPN, 2014: 13) defines relative poverty as follows:

Relative poverty is where some people’s way of life and income is so much worse than the general standard of living in the country or region in which they live that they struggle to live a normal life and to participate in ordinary economic, social and cultural activities.

In recognition of the fact that a low income may not always restrict people’s standard of living or prevent their inclusion, the term ‘risk of poverty’ has been used by bodies like the EAP (and the EC in its Europe 2020 poverty targets) to describe income-based relative poverty measures.

The Irish definition captures the same basic features, specifying that:

People are living in poverty if their incomes are so inadequate as to preclude them from having an acceptable standard of living.

The two key words in this latter definition are ‘inadequate’ and ‘unacceptable’ and this has led to the development of two strands in the poverty literature: poverty line studies that seek to identify whether or not incomes are adequate by comparing them with a poverty line; and living standards studies that examine the living standards actually achieved in order to establish whether or not they are acceptable. Exactly how the two approaches go about these tasks is described in detail in the following section.

Before then, it is useful to address some of the conceptual issues common to all poverty definitions. The first of these relates to whether poverty is absolute or relative. This distinction has been the source of great controversy, although as Ringen (1988) has pointed out, the distinction is artificial because all approaches contain a degree of relativism. Even Rowntree’s subsistence budgets included some items that were not necessary to achieve ‘merely physical efficiency’ but were widely consumed and thus represented an accepted standard or social norm. To exclude these items would have meant that the budgets did not reflect what people actually do, thus severing the link between measurement and experience.

However, it is one thing to accept that poverty is relative, but quite another to determine what this implies for how it may be identified and measured. Although poverty should be expressed (and hence measured) relative to prevailing customs, norms and consumption practices, this still leaves a multitude of potential ways of operationalising this idea. The fact that in practice the relative nature of poverty has been captured by using a poverty line expressed relative to a measure of average income (see below) does not mean that this is the only way in which the relative nature of the concept of poverty can be expressed.

One criticism levelled at the use of relative income benchmarks to measure poverty is that this confuses poverty with the broader question of income inequality. Proponents of this view have noted that measuring poverty in this way means that improvements in average living standards that benefit everyone equally will have no impact on the poverty rate, since the benchmark used to identify poverty will shift upward to reflect the rise in incomes. Although this is arithmetically correct, it is also true that if the poor do not share equally in the rise in average
income, they will indeed become poorer relative to others (even if they experience an increase in real income) and the measured poverty rate should reflect this. Although some will see it as paradoxical that the poverty rate has increased even though the poor are better-off, this is a natural consequence of measuring poverty using a relative income standard. There is no axiomatic relationship between poverty, measured by the proportion of the population with incomes below a relative income threshold, and inequality, which captures individual income differences at all points in the income distribution. Even so, it may be useful to complement relative poverty rates by measures derived from a poverty line adjusted to reflect only movements in consumer prices (Jenkins, 2016; Saunders et al., 2016), since this approach captures aspects of both the ‘absolute’ and ‘relative’ dimensions of poverty.

**Measurement issues**

**Poverty line studies**

Until recently, the vast majority of poverty studies involved comparing incomes with a poverty line. This has proved to be a challenging task, for several reasons. First, there are the problems associated with measuring income. The incomes reported in surveys by the self-employed, for example, are often unreliable owing to the difficulty of distinguishing between the ‘own’ and the ‘business’ incomes of those who operate their own business. Income (particularly when it is received infrequently or irregularly) also tends to be understated in surveys, and this can lead to an overestimate of the numbers in poverty. These problems are less acute when poverty is estimated from official registers or administrative data, although different problems may then arise because other required data (e.g. on household size and composition) may not be available in the degree of detail required. In addition, both survey and register data may provide the incomes of individuals, which must then be aggregated to derive the combined income of the family unit or household, which is assumed to be pooled so as to equalise the standard of living of each member. The equal pooling assumption has been criticised by feminists and others on theoretical grounds, and because the evidence suggests that intra-household inequalities (in income and time use) are common (Burton et al., 2007).

Further complications arise because how well a given level of household income can support a specific standard of living of individuals depends on household size and composition. This problem is normally overcome by adjusting household income using an equivalence scale, which expresses how relative needs vary with household size and composition. For example, if the equivalence scale value for a couple with two children is equal to 2.1 (which it is under one of the most commonly used scales, namely the modified OECD scale), this implies that the two-child couple needs 2.1 times the income of a single adult in order to achieve the same standard of living. The scale rises less than in proportion with household size owing to economies of scale in common living arrangements (so that the four-person family does not need four cars, four refrigerators or four dining-tables), and because larger households tend to contain more children, whose needs are lower than adult needs. Income adjusted by the equivalence scale (or equivalent income) reflects the ability of household income to meet the needs of its members.

The approach described above takes account of differences in household composition only and thus ignores other factors that may affect the ability of a household to meet its needs from a given level of income. One such factor is disability, which adds to the needs of the individuals and households affected independently of household size and composition. In these circumstances, the conventional equivalence adjustment will not allow for the additional costs of disability, and poverty rates for those with a disability will be underestimated. Despite these
Poverty

limitations, most studies compare equivalent income with a poverty line in order to determine whether or not the household is poor, and the poverty rate is derived by expressing the number of individuals in households below the poverty line as a percentage of all individuals. Both the setting of the poverty line and the use of the ‘headcount’ poverty rate raise further measurement issues (see Atkinson, 1989; Ravallion, 2016).

There is no agreed method for setting a poverty line and the different approaches that have been used tend to produce different results (Callan and Nolan, 1991). The original method used by Rowntree involved identifying the specific items required to meet basic needs (housing, nutrition, clothing, health and personal care, an allowance for social participation, and so on) at a specific level and costing these items to derive the household budget that would allow them to be purchased. A variant of the budget approach is based on the idea, originally captured in Engel’s Law, that the proportion of the budget spent on food provides an accurate (inverse) indicator of the standard of living. A poverty line can then be derived by costing a nutritionally adequate food budget and multiplying it by the inverse of the proportion of the budget spent on food. This approach forms the basis of the official US poverty line first developed in the 1960s (Ruggles, 1990). Since then, the US poverty line has been updated in line with movements in consumer prices, an approach that takes no account of improvements in US living standards, which would have lowered the food budget proportion (under Engel’s Law) and thus increased the multiplier used to derive the poverty line.

Other studies have used a poverty line derived from responses to survey questions that ask people to estimate how much money they need to make ends meet (Hagenaars, 1986) or that correspond to the prevailing level of social benefits. Both approaches have their limitations – the former because the end result is sensitive to the methods employed, the latter because it produces the paradoxical result that poverty can be reduced by cutting the level of social benefits. Reflecting these limitations, many poverty line studies now use one of the two international poverty lines that have been developed by international agencies with an interest in poverty. In developing countries, different variants of the ‘dollar-a-day’ poverty line originally proposed (but subsequently revised upward, currently to $1.90 a day) by the World Bank (based on the food budget multiplier method described above) have been used to estimate poverty and to monitor progress in its reduction (Ravallion et al., 1991; Chen and Ravallion, 2013; Ferreira et al., 2016). In rich industrial countries, relative poverty lines set as a percentage of (equivalised) median income – 50 per cent in the case of studies based on data from the Luxembourg Income Study (e.g. Smeeding, 2006) and the OECD (OECD, 2008), but 60 per cent in the case of Eurostat, the statistical office of the European Commission (Eurostat, 2013). The latter approach has the advantage that the results are independent of national currencies, thus avoiding the need to apply a currency conversion (a problem that has bedevilled the World Bank ‘dollar-a-day’ approach) and facilitating cross-country comparisons of poverty rates.

Although both are widely used, the two international poverty lines suffer from all the weaknesses of other income-based poverty lines. In both cases, some of those with incomes below the line may have other resources upon which to draw without experiencing poverty (e.g. older people with substantial private savings), while some with incomes above the line (e.g. people affected by an ongoing illness or disability) may face special needs that force them into poverty. For these reasons, caution must be applied when drawing conclusions from the findings produced by poverty line studies, particularly those that rely on a single poverty line. If poverty reflects an unacceptable standard of living, then it has to be acknowledged that there are many factors other than income that determine one’s standard of living (see Perry, 2002). One way of allowing for this is to use a range of different poverty lines and to assess the sensitivity of the results to variations in the line – as many poverty line studies now do.
This point made by Perry and others implies that poverty is multidimensional and that its measurement should reflect this. Such an approach allows a role to be given to issues such as the persistence of poverty that is an important factor in determining its overall severity and shaping its negative consequences. The development and use of a multidimensional poverty index (MPI; see Alkire et al., 2015) is a significant trend in recent poverty research. It reflects the point, noted by Nolan and Marx (2009: 319), that ‘low income may fail in practice to distinguish those experiencing distinctively high levels of deprivation or exclusion’. Nolan and Whelan (2007: 162) have argued that although some confusion exists in relation to the rationale for and application of a multidimensional approach (see also Ravallion, 2011), its adoption has two key advantages: first, it does a better job than income alone in identifying who is poor; and second, it focuses attention on the multifaceted nature of poverty and highlights the need for solutions that extend beyond income provision (important though these are).

The use of the headcount poverty rate to measure the extent of poverty may also be questioned. An appealing feature of this approach is its simplicity, which makes it easier for poverty studies to ‘get their message across’ and influence public attitudes and policy. Against this, the poverty rate depends solely on one’s (income) position relative to the poverty line and takes no account of the severity of poverty – how far below the poverty line one falls. Measures that raise the incomes of the poor and close the gap with the poverty line thus have no impact upon the poverty rate if no one is raised above the line, only closer to it. For these reasons, studies often include a second measure that is sensitive to these issues, such as the poverty gap that measures the aggregate shortfall below the poverty line of all those who are below it (see Atkinson, 1987). These more sophisticated poverty measures provide a better basis for estimating the impact of policy changes upon poverty and should form part of any comprehensive assessment of the issue.

**Living standard studies**

The rationale for adopting a living standards approach reflects the idea that it is better grounded in the actual experience of poverty. It is important, as Ringen (1987: 162) has argued, to demonstrate that those identified as poor ‘live as if they were poor [and] do so because they do not have the means to avoid it’. Living standard studies of poverty have applied a modified version of the approach developed by Townsend, in which people were asked if they had a list of items that had been identified as basic necessities, and a deprivation index was then derived by summing the number of items that each person said they did not have. This approach was criticised at the time (e.g. by Piachaud, 1981) for failing to recognise the diversity in (and distinction between) people’s needs and preferences and for relying on expert judgements about which items to include.

Several refinements have been introduced to address these limitations (see Mack and Lansley, 1985; Pantazis et al., 2006). First, the list of items has been modified to reflect community views on which items are necessary or essential, rather than being imposed by those conducting the research. Second, only those items that are seen as necessary by a majority (i.e. those that are ‘widely encouraged or approved’) are included, and only those people who do not have these items because they say they cannot afford them are identified as deprived. Different methods have also been used to produce a summary measure by varying the weights that apply to each item (see Willitts, 2006). These refinements have improved the robustness of the approach and produced estimates that are more grounded in community views and thus have greater credibility.

However, a decision still has to be made about how many items people should be deprived of before they are identified as poor. It may be argued that the absence of any single item is
indicative of poverty, since the failure to be able to afford items that are widely regarded as necessary corresponds to what is generally understood by poverty. Against this, some of those who report not being able to afford items on the list of necessities also possess some of the items that are not identified as necessary, raising doubts over the interpretation of the findings (McKay, 2004). These developments suggest that it is prudent to identify poverty in the sense of deprivation as existing when people are deprived of more than one necessity, although exactly how many more may be subject to dispute—just as there is over where to set a poverty line.

The above discussion treats the poverty line and living standard (deprivation) approaches as alternatives, although both have something important to contribute. It thus makes sense to combine the two, as is done when estimating consistent poverty, which is defined to exist when income is below the poverty line and where at least a minimum level of deprivation is experienced (Nolan and Whelan, 1996). Both the level of the poverty line and the number of deprivation items can then be varied in order to assess the sensitivity of the results (Saunders and Naidoo, 2009). The consistent poverty measure is now widely used in poverty research (and by government agencies with an interest in addressing poverty) and has many advantages. These include that it:

resonates well with the perception that poverty should encompass some idea of the practical effects of low income […] [and is] […] concerned with outcomes […] [that] […] reflect the public perceptions of poverty and the feelings of distress felt by those in poverty […] a measure that chimes better with the public understanding of poverty would be able to gain public and political credibility.

(Department for Work and Pensions, 2003: 20–21)

This approach recognises not only the limitations of income-based measures but also acknowledges the multidimensional nature of poverty, since deprivation has many dimensions. The living standard approach has revitalised the measurement of poverty in ways that connect better with the experience of poverty and this in turn has given greater credibility to the estimates, making them more robust and hence more relevant to policy and attractive to policy makers.

**Poverty and the welfare state**

Rowntree showed for the first time that poverty was the result of factors such as low wages or unemployment, challenging the prevailing view that the poor were largely responsible for their own plight. He also showed that individuals were more susceptible to poverty in old age and early childhood, and these findings lead to the view that exposure to the risk of poverty fluctuates systematically over the life cycle. Despite over a century of major economic and social change, this finding remains relevant in today’s world characterised by more fluid and diverse family structures, greatly improved (but cyclical) economic performance and increased material affluence. The expanded role for social policies that has accompanied the growth of the welfare state has done much to moderate the variations identified by Rowntree (and subsequently by many others), but the idea that the risk of poverty varies over the life cycle has presented policy makers with an enduring set of challenges.

Poverty was one of the ‘giant evils’ that were the focus of William Beveridge’s proposals which led to the development of the British welfare state. The German pension system introduced earlier by Bismarck was also motivated by a desire to protect the living standards of German workers after retirement. The post-war period saw the introduction and expansion of social benefits for the unemployed and sole parents, and a network of other family policies that
sought to protect children from poverty, so that addressing life cycle fluctuations in poverty has shaped the development of the welfare state since its inception.

In light of this, it is no surprise that researchers have focused considerable attention on examining the impact of the welfare state upon poverty in general, and on children and older people in particular. This has generally involved comparing observed poverty rates (estimated using a poverty line approach) with an estimate of what they would have been in the absence of welfare state policies. Many of these studies have adopted a comparative approach, in which the impact and effectiveness of the policies adopted in different countries are examined and compared. This approach requires information that may be compared cross-nationally and great effort has gone into producing such data, either through cross-national research projects like the Luxembourg Income Study (Atkinson, 2004; Gornick and Jäntti, 2013) or as a result of work undertaken by international agencies like the OECD (2008, 2011). The results are of interest, not only because of their policy implications, but also because they provide a fascinating insight into how poverty rates vary in different economic, demographic and policy settings.

However, while cross-country differences in the poverty rates facing different groups are of great interest, a number of problems make it difficult to draw implications about the impact of different policy regimes or approaches. The most important of these is the ‘counterfactual problem’, which arises because estimating the impact of policy involves comparing the situation that exists and may be observed when the policy is in place with a hypothetical (non-observable) situation that is assumed to exist if the policy was different or did not exist. Specifying the counterfactual presents a major challenge, particularly when the policy under review (e.g. the pension or family benefits system) has become so deeply ingrained in the existing structure. Most studies compare poverty based on post-tax, post-transfer (disposable) incomes in the prevailing situation with an estimate of what poverty would be, given existing pre-tax, pre-transfer market incomes (see e.g. OECD, 2008: ch. 5).

Considerable caution must be applied when deciding what the results of such an exercise imply about the impact of the welfare state upon poverty. This is because if the ‘thought experiment’ implied by the calculation were to be implemented (i.e. if all existing transfers and taxes were removed), households would adjust their behaviour to reflect this in ways that would affect their market incomes and thus the likelihood that they would be in poverty. How much flexibility they have to make such adjustments does, of course, depend on how much income they have and the extent to which they are able to foresee the need to make provision now for future contingencies. If pension systems did not exist, for example, some people at least would have to make their own retirement provisions by saving while they were working and these savings would generate a market income (in terms of interest earnings and/or capital gains) upon which they could draw after they retired. The reduction in poverty among older people caused by OECD pension systems thus arises in part because they remove the need for some people to save while working in order to generate a private income in retirement. Estimating the ‘true’ impact of public pensions (and the taxes that pay for them) upon poverty would require these kinds of behavioural changes to be allowed for in some way, but the comparisons described above assume that no such changes take place, making them of dubious relevance.

Figure 6.1 uses data from the most recent wave (around 2010) of the Luxembourg Income Study (LIS) to compare overall poverty rates in a range of countries before and after taking account of cash transfers paid to, and income taxes paid by, households in each country. The pre-transfer, pre-tax poverty rates are based on market incomes, while the post-transfer, post-tax poverty rates are based on disposable incomes. Countries have been ranked by the pre-transfer, pre-tax poverty rate and the estimates are based on a poverty line set at 50 per cent of each country’s median (post-transfer, post-tax) income.
Figure 6.1 International comparison of poverty rates before and after transfers and taxes in 2010 (based on poverty lines set at 50 per cent of median income in each country).

Source: Gornick and Jäntti (2017: Table 1).

<table>
<thead>
<tr>
<th>Country</th>
<th>Market income poverty rate (%)</th>
<th>Disposable income poverty rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>69.9</td>
<td>7.0</td>
</tr>
<tr>
<td>South Africa</td>
<td>47.1</td>
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<td>Serbia</td>
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<td>14.1</td>
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<td>43.6</td>
<td>9.3</td>
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<tr>
<td>France</td>
<td>41.2</td>
<td>8.6</td>
</tr>
<tr>
<td>Germany</td>
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<td>Spain</td>
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<td>14.7</td>
</tr>
<tr>
<td>Georgia</td>
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<td>Taiwan</td>
<td>12.3</td>
<td>11.7</td>
</tr>
</tbody>
</table>

Figure 6.1a Addendum: data for Figure 6.1.

Source: Gornick and Jäntti (2017: Table 1).
The estimates indicate that before taking account of transfers and taxes, the poverty rate for market incomes varies, from 12 per cent in Taiwan and around 35 per cent in several other countries (Colombia, Iceland, Mexico, Panama, the Czech Republic and Iceland), to over 40 per cent in Germany, France, Ireland, Serbia and South Africa, and 70 per cent in Hungary. After taking account of transfers and taxes, national poverty rates decline, but by varying amounts, reflecting the different impacts of national transfer and (income) tax systems. On the basis of disposable incomes, poverty rates now vary between from around 6 per cent (in Luxembourg, the Netherlands, the Czech Republic, Denmark, Iceland and Norway) to around 20 per cent or more in Colombia, Mexico, Panama, Peru, Israel and South Africa.

The reduction in poverty produced by the tax and transfer systems varies greatly across countries, as may be seen by comparing pairs of countries that start off with similar poverty rates but end up with very different ones: examples include Israel and Finland, the Netherlands and the USA, and the Czech Republic and Panama. The general tendency for poverty rates to decline – often very sharply – after account is taken of taxes and transfers is an important finding because it illustrates the general point that policies matter, and where poverty reduction is given priority by policy makers the experience and evidence shows that this goal can be achieved. As Brady (2009: 91) has argued, the welfare state (however it is measured) exerts a ‘powerful impact on poverty’ and this is an important finding.

It is, however, important to note that Figure 6.1 takes no account of the volume of spending in each country and this information is of vital importance in establishing how efficient and effective tax and transfer programmes are in reducing poverty. Information on spending levels would need to be combined with the policy impacts implied by Figure 6.1 before any conclusions could be drawn about the relative merits of the policy approaches adopted in each country. Despite this, it is clear that welfare states (particularly in Europe) have been successful in reducing poverty overall and (although not shown) among older people in particular.

Welfare states have also been successful in reducing poverty among families of workforce age (and hence among children, who live in working-age households), with evidence presented by Brady (2009: fig. 4.1), Bradbury and Jäntti (1999: fig. 5.1) and the OECD (2008: fig. 5.13), all showing a clear cross-national relationship between levels of social spending and poverty rates for those of workforce age. There is also evidence that pre-transfer, pre-tax (market income) poverty has increased over recent decades and that this has been only partly offset by an increase in the poverty-reducing impact of social transfers and taxes (OECD, 2008: fig. 5.11). Overall, the evidence indicates that welfare states have been able to reduce the peaks and troughs in the life cycle poverty profile identified by Rowntree, but that this will require ongoing vigilance to ensure that past gains are not eroded.

Conclusions

This chapter has provided an overview of approaches to the conceptualisation and measurement of poverty, and has examined some of the evidence on the impact of the welfare state upon poverty. Our understanding of the nature and causes of poverty has increased greatly since modern poverty studies began in the 1960s, but the nature of the topic makes it inevitable that many issues remain unresolved. There has been a movement away from a narrow focus on income and the development of new conceptual advances that have emphasised the multidimensional nature of poverty in terms of both its outcomes (material deprivation or social exclusion) and its relation to choice and freedom as articulated in the capabilities approach. These advances have been accompanied by a rapid expansion in national and international (comparative) empirical studies of poverty that have been made possible by major improvements
in data quality and accessibility, and in the sophistication of the analytical techniques used to derive poverty measures. The result has been a greater awareness of the need for empirical studies of poverty to have a sound conceptual basis backed by measurement approaches that are grounded in the actual experience of poverty and its consequences.

One important aspect of poverty that has not been discussed relates to its dynamic aspects. This is another rapidly expanding field that has been facilitated by the growth in longitudinal (panel) datasets that allow the dynamics of poverty to be studied. It has been driven by the interest of policy makers in better understanding the factors behind transitions into and out of spells of poverty. Many countries now produce estimates of the persistence of poverty, which Eurostat, for example, defines as the proportion of households who spend more than three consecutive years below the poverty line. These studies have produced a new perspective on the nature of poverty and have identified new challenges for policy formulation and the design of anti-poverty policies (Jenkins and Micklewright, 2007). Comparative research conducted by the OECD (e.g. 2008: ch. 6) using panel data has produced a number of important new insights about the length of poverty spells, the (economic) destinations of those who escape, the groups most susceptible to chronic (longer term) poverty and the extent of national differences in poverty turnover rates. Together, these developments and those discussed earlier will ensure that poverty will continue to attract the minds of our greatest thinkers, the efforts of our best researchers and the support of leading statistical agencies.

References

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