Why we need a relative income poverty measure

The latest international comparisons of child poverty rates from UNICEF show a smaller proportion of children living in relative income poverty in Hungary, Slovakia and Estonia than in the UK, Italy, Spain or the United States. Amid the current political debate about the value of measuring child poverty in this way, Dragan Nastic **draws together UNICEF's perspective to argue why it is still the best measure of the government's success in countering child poverty.**


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Introduction

In May this year UNICEF published its Report Card 10, setting out the latest internationally comparable data on child poverty in the world's rich countries using two very different measures. The first league table (Table 1) shows the proportion of children in each country who are deprived, defined here as lacking two or more of 14 items considered normal and necessary for a child in an economically advanced country. The second league table (Table 2) shows the percentage of children living in relative income poverty, defined as living in a household whose income, when adjusted for family size and composition, is less than 50 per cent of the median income for the country in which they live.[1]

The two league tables paint a very different picture of child poverty in the world's advanced economies. In Hungary, Slovakia and Estonia, for example, a smaller proportion of children live in relative income poverty than in the UK, Italy, Spain or the United States. However, this is not because a smaller proportion of their children are poor in an absolute sense; it is because the incomes of most poor households in these former centrally planned economies do not fall as far behind the median level of income for the nation as a whole.

Controversy

Report Card 10 was published in the midst of, and contributed to, a heated debate in the UK about the value of the relative income poverty measure. A Centre for Social Justice paper released around the same time highlighted, for example:[2]

> *… our serious concerns with this measure, most notably that the exclusive use of an arbitrary line to measure child poverty tells us almost nothing about the suffocating nature of child deprivation. It also fails to assess the opportunities a child has to break free from their present circumstances.*

Iain Duncan Smith, Secretary of State for Work and Pensions, stated that:

> *The failure of the relative income poverty measure in isolation to properly reflect the real experience of poverty in the UK in such hard economic times drives home the need for us to think differently about poverty.*

His statement was a comment on the latest official figures, which revealed that the number of children living in relative income poverty in the UK fell by 300,000 in 2010/11, even as average household incomes dropped.[3]

'Real' poverty, deprivation and relative income

It is often argued that relative poverty is not 'real' poverty. Real poverty, it is said, means lacking basics – enough food to eat, adequate clothing, a dry home, an indoor toilet, hot water, and a bed to sleep in. Can there really be more children living in poverty in the UK or the United States than in Hungary or Lithuania?

Arguments such as these lead many to reject the relative income measure and look for an absolute, objective standard, for instance by using a 'direct' measure like deprivation. In practice, however, deprivation measures are also relative.

The deprivation index developed by UNICEF is based on the kind of possessions, services and opportunities that most people would consider normal for a child growing up in a wealthy coun-

Table 1: **Percentage of children (aged 1 to 16) who lack two or more of the following 14 items because the households in which they live cannot afford to provide them**

Country	%
Iceland	0.9
Sweden	1.3
Norway	1.9
Finland	2.5
Denmark	2.6
Netherlands	2.7
Luxembourg	4.4
Ireland	4.9
United Kingdom	5.5
Cyprus	7.0
Spain	8.1
Slovenia	8.3
Austria	8.7
Czech Republic	8.8
Germany	8.8
Malta	8.9
Belgium	9.1
France	10.1
Estonia	12.4
Italy	13.3
Greece	17.2
Slovakia	19.2
Lithuania	19.8
Poland	20.9
Portugal	27.4
Latvia	31.8
Hungary	31.9
Bulgaria	56.6
Romania	72.6

try today. In other words, it is relative to both time and place. Twenty years ago, for example, such a list would not have included an internet connection. Go back a little further in time and 'having at least one meal a day with meat, chicken or fish' would not have been regarded as normal. In fact, the longer the historical view, the more obvious it becomes that poverty is an essentially relative concept. Any poverty line intended to represent a minimum acceptable standard of living in the industrialised world today implies higher standards of food, clothing, housing, water supply, sanitation, healthcare, education, transport and recreation than were available to even the wealthiest households of previous eras.

The relative income measure has two principal weaknesses. First, even those of us who support the principle of measuring child poverty in a relative way would concede that household income may not always be a reliable proxy for the real resources available to the child. It is, at best, an indirect measure, leaving open the possibility that children may be deprived in households that are not income poor, and not deprived in households that are income poor.

Second, and important for UNICEF as an intergovernmental organisation working all over the world, when comparing relative child poverty rates in different countries, a poverty line drawn at a percentage of median income only works well if the countries being compared have broadly similar levels of income and living costs. Otherwise 'relative poverty' comes to mean very different living standards in different countries. For example, a household with 50 per cent of median income in Bulgaria has an actual income of €1,400 a year; a household with 50 per cent of median income in Norway has an income of €17,000 a year.

And yet, for all its weaknesses, the relative income poverty measure has its strengths and is an indispensable tool.

The idea of defining poverty in a relative, rather than an absolute, sense is not new. In the eighteenth century, Adam Smith famously argued that poverty is the inability to afford, 'not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without.'[4]

By the early 1960s, sociologists and economists like Victor Fuchs in the United States and Peter Townsend in the UK were arguing that governments should recognise the essentially relative nature of poverty by setting national poverty lines at a fixed percentage of national median income. A political consensus was also emerging. In the United States, the Republican Party endorsed the relative idea: 'No objective definition of poverty exists,' said a Republican congressional response in 1964. 'The definition varies from place to place and time to time. In America as our standard of living rises, so does our idea of what is substandard.'[5]

For UNICEF, the obvious alternative to a futile search for an absolute standard is to update national poverty lines in such a way as to track the norms and living standards of the society. The real question is how often, and by what method? Should the poverty line be updated irregularly in an ad hoc way, subject to political pressures and the competing influences of different interest groups? Or should it be updated in a regular and systematic way in order to preserve its relationship with contemporary living standards? Setting the poverty line at a percentage of each nation's median income and updating it every year is, we believe, the

stronger option. This is why the Innocenti Report Card series, in common with both the European Union and the OECD, continues to use a child poverty line based on a percentage of median household income.

What is child poverty?

The starting point in deciding how to measure and tackle child poverty is understanding its true nature and multi-dimensional character.

In its Resolution on Children's Rights, the United Nations General Assembly adopted a definition of child poverty which recognises the special nature of poverty for children, stating clearly that child poverty is about more than just a lack of money, and can only be understood as the denial of a range of rights laid out in the United Nations Convention on the Rights of the Child.

According to this definition, measuring child poverty can no longer be lumped together with general poverty assessments, which often focus solely on income levels, but must take into consideration access to basic social services, especially nutrition, water, sanitation, shelter, education and information.[6]

UNICEF bases its work and approach on this decision. It has long been UNICEF's position that analysing poverty solely on the basis of income is not enough to capture the experience of poverty's youngest victims. Income poverty does not take into account other dimensions of poverty, such as social exclusion, discrimination and lack of protection – all of which, together with limited access to goods and services, have a devastating impact on the mental, physical and emotional development of children. Investing in children is the best way to break the cycle of poverty. Children are essential actors both in their development and in the development of their society.

Children's wellbeing relies in large part on the availability and quality of basic services and an environment for play and leisure. Access to these does not depend solely on family income, but on the priorities and investments of the state. Income poverty assumes that all family members have an equal share of the family's income, which is often not the case.

If poverty is understood as more than just income poverty, then responses need to address the broader picture of children's experience of poverty. This can be achieved through policies that result in positive changes for children – creating better laws, increased budget allocations and better services for children.

Table 2: **Percentage of children (aged 0 to 17) who are living in relative poverty***

%	Country
4.7	Iceland
5.3	Finland
6.1	Cyprus
6.1	Netherlands
6.1	Norway
6.3	Slovenia
6.5	Denmark
7.3	Sweden
7.3	Austria
7.4	Czech Republic
8.1	Switzerland
8.4	Ireland
8.5	Germany
8.8	France
8.9	Malta
10.2	Belgium
10.3	Hungray
10.9	Australia
11.2	Slovakia
11.7	New Zealand
11.9	Estonia
12.1	United Kingdom
12.3	Luxembourg
13.3	Canada
14.5	Poland
14.7	Portugal
14.9	Japan
15.4	Lithuania
15.9	Italy
16.0	Greece
17.1	Spain
17.8	Bulgaria
18.8	Latvia
23.1	USA
25.5	Romania

*Defined as living in a household in which disposable income, when adjusted for family size and composition, is less than 50 per cent of the national median income

The need to measure income

And yet, while recognising that child poverty is about more than income, it is vital to stress the latter's centrality to any discussion about or efforts to tackle poverty.

UNICEF's research shows that socio-economic status is the indispensable framework for policy analysis of bottom-end inequality for children. Report Card 9 highlighted that, as inequalities in health reflect not only the effect of health services but also 'the conditions in which people are born, grow, live, work, and age', so inequalities in educational outcomes at age 15, for example, reveal not only what happens in schools, but also the educational resources, stimulation and encouragement that surrounds a child from the earliest weeks and months of her/his life.[7]

Investing in children is the best way to break the cycle of poverty

Policies designed to address specific inequalities in health or education are, therefore, likely to have limited impact if they confine themselves to the health and education sectors alone. On the whole, children who fall significantly behind their peers are the children of families at the bottom end of the socio-economic scale. Therefore, action to prevent children from falling behind in different dimensions of wellbeing must eventually confront the question of the socio-economic gradient.

In practice, household income remains a principal determinant of whether or not the needs of children are adequately met. But it is not the only determinant. Public spending can also help parents to meet children's needs. And for this reason it is not axiomatic that falling household income must always mean rising levels of child deprivation. The governments that are most successful in protecting children from poverty are likely to be those that strive to reduce the number of low-income households *and* help to provide essential goods, services and opportunities for children growing up in such households. This strategy makes it possible to offer a significant degree of protection to children, even in times of economic crisis. And it also illustrates the usefulness of deploying both a relative income measure and a direct measurement of deprivation in the struggle to monitor and mitigate the impact of economic forces on the lives of children.

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When used for international comparison the two measures are therefore separate in concept and should remain so in practice. Both the child deprivation rate and the relative child poverty rate are useful to policymakers, social scientists, the media, and advocates for child wellbeing.

Within individual countries, on the other hand, it is useful to combine the two measures by focusing on the overlap between them – asking what percentage of a nation's children are both deprived *and* living in relative income poverty. This approach, currently used, for example, in Austria, Ireland and the UK, helps to ease some of the worries surrounding the measurement of poverty by means of household incomes. As Professors Brian Nolan and Christopher Whelan, contributors to the development of Ireland's official poverty measure, have written:[8]

> *Given two relevant pieces of information about the household – income and deprivation – each with limitations from both conceptual and measurement perspectives, incorporating both into the measurement process is one way to seek to improve reliability in identifying the poor.*

How should it be done?

How, then, is child poverty best measured, monitored, and compared? In its Report Card series, UNICEF has proposed some basic principles for the monitoring of child poverty. In summary:

1. **Continue to monitor relative child poverty based on national median incomes.** Median income is a strong indicator of what is considered normal in contemporary society. It should therefore continue to be used as a basis for identifying those at risk of social exclusion.[9] Tracking the incomes of those at the bottom end of the distribution in relation to the incomes of those at the median shows how the benefits of economic progress or the pain of recession are distributed. It is not a measure of overall inequality in the society; it is a measure of how the poorest are faring in relation to those in the middle.

2. **Measure deprivation directly.** Child poverty also needs to be monitored by direct measurement of deprivation. The proportion of children who lack an adequate diet, or a quiet place to do homework, or suitable books and an internet connection, is the kind of measure that allows actual living standards to be compared across nations. It makes immediate sense to a wide public and contributes towards a more rounded understanding of child poverty. And in so doing, it also helps to define and defend the simultaneous use of the relative child poverty rate. The special module on child deprivation, included as a one-off experiment in the 2009 round of The European Union Statistics on Income and Living Conditions (EU-SILC), should therefore be developed into a regular and permanent feature of future surveys.

3. **Measure depth and duration.** As already noted, it is also important to measure *how far* below the poverty line the poor are being allowed to fall. For this purpose, the median income of those below the poverty line, as a percentage of the poverty line itself, is a useful measure. Ideally, the monitoring of child poverty would include its timing and duration as well as its breadth and depth. The earlier the privation and the longer its duration, the greater the potential impact on the child.

4. **Maintain a close monitoring system.** Most governments of economically advanced countries are committed in principle to the monitoring of child poverty and social exclusion. But it must be said that collecting and making available the necessary data every

few years is not monitoring as it cannot adequately inform policy making. Key data on basic aspects of child poverty and child wellbeing should be made available, at least every year and preferably quarterly.

5. **Set time-bound targets and build support.** UNICEF Report Card 6 recommended that all OECD countries should aim to reduce relative child poverty rates to below 10 per cent.[10] Countries that had already achieved this were challenged to emulate the Nordic countries by reducing the rate still further – to 5 per cent or less.[11]

   Announcing such targets is, of course, not enough. It is now more than 20 years, for example, since the government of Canada announced that it would 'seek to eliminate child poverty by the year 2000'. Yet Canada's child poverty rate is higher today than when that target was first announced. In part, this is because the commitment was not backed by a compelling political and public consensus or by any firm agreement on how child poverty should be defined and monitored. Targets can only be a first step. The Canadian example has important lessons for the UK and hopefully they will be discussed during a public consultation on additional measures of child poverty that Iain Duncan Smith recently announced.[12]

7. **Measure wellbeing broadly.** Child poverty is about more than income or the lack of items on a given list. Children can be poor in love and attention, in parental time and skills, in relationships and community, in public services and environmental quality. It is therefore also necessary to continue to develop ways of monitoring child wellbeing in the round. It was for this reason that UNICEF's Report Card 7 in 2007 developed an initial measure of overall child wellbeing for OECD countries. Bringing together a total of 40 indicators for which internationally comparable data were available, the report compared child wellbeing across 21 OECD countries under the headings of material wellbeing, health and safety, education, peer and family relationships, risk behaviours, and young people's own subjective sense of wellbeing. This experiment will be refined and repeated with new data in the next issue in this series (Report Card 11), expected to be published in 2013.

8. **Focus on disparity.** In addition to monitoring average levels of child wellbeing, it is also important to focus specifically on the children left behind.

Conclusion: don't shoot the messenger

Of the available measures, the most important single guide to, and predictor of, a family's socio-economic status remains its level of household income. Therefore, the relative income poverty measure occupies a primary position among the indicators of 'falling behind'.

The extent and depth of child deprivation and relative child poverty in different countries is the result of a complex interaction between cultural and historical factors, demographic trends, labour market conditions, and global economic forces. Government policies and expenditures are also critical. 'Child poverty is not an inevitable result of global economic pressures or demographic transitions,' says Jonathan Bradshaw. 'Governments can and do take steps that are remarkably successful in counteracting child poverty.'[13] The relative child poverty measure is the measure of how successful these steps might be.

In a civilised society, children should be the first to be protected rather than the last to be considered. This principle holds good for governments and nations, as well as for the families who bear the primary responsibility for protection. And, because children have only one opportunity to grow and to develop, the commitment to eradicating child poverty must be upheld in good times and in bad. It must be an absolute, and not contingent on political whim. ■

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5 Minority [Republican] views in US Congress, *Report of the Joint Economic Committee on the January 1964 Economic Report of the President with Minority and Additional Views*, US Government Printing Office, 1964, p46
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9 See note 1, Boxes 4 and 6
10 UNICEF, *Child Poverty in Rich Countries*, Report Card 6, 2005, www.unicef-irc.org/publications/pdf/repcard6e.pdf
11 The relative low income target set in the UK's Child Poverty Act 2010 is that less than 10% of children who live in qualifying households live in households that fall within the relevant income group.
12 Department for Work and Pensions and Department for Education, *Child Poverty in the UK: the report on the 2010 target*, June 2012
13 See note 1, p19