

## **The Measurement and Alleviation of Poverty: A Review of Some Issues\***

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*Abstract:* Some aspects of the recent literature on poverty are reviewed. Although the issues of definition and measurement have been studied in depth the summary measures most widely used in policy discussion remain flawed. They should be superseded by better summary measures which exist or by more detailed information. The evaluation of anti-poverty policies requires that much more than their direct impact be considered. Evidence on their incentive effects and broader macroeconomic effects from the US and UK confirm that they exist but does not confirm that they are quantitatively large.

### I INTRODUCTION

The extent of poverty and its alleviation have become prominent policy issues in Ireland. In consequence, the substantial international literature on poverty related topics, ranging from the definition and measurement of poverty to the broad economic effects of anti-poverty policies, has assumed greater significance. The purpose of this paper is to provide a selective review of some of the main areas of the literature, paying particular attention to empirical evidence from the US and UK. This task is facilitated by the recent publication of appraisals of anti-poverty policies in those countries and a number of surveys.<sup>1</sup>

The outline of the paper is as follows. The problems of defining and measuring poverty are first considered. The choices of definition and method of measurement can have important policy implications; once made they tend to become enshrined and any ambiguities and inadequacies to be relegated to

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1. See Danziger and Weinberg (1986), Kanbur (1987), Atkinson (1987b), Sawhill (1988).

the background. Policies may then be ill-designed both in scope and direction. The other topic to be considered is anti-poverty policy. It is dealt with from two perspectives. One is its direct effect on poverty. This involves issues like targeting and the use of benefits in kind versus benefits in cash. The second is the economic effect of anti-poverty policy. Particular policies may have direct incentive effects which impinge on the level of economic activity; in turn, this can affect poverty levels. Expenditure on poverty alleviation has to be financed, with consequences for budgetary policy and hence for the level of economic activity and poverty levels. The total effect on poverty of anti-poverty policies is thus difficult to assess. The final section of the paper presents some conclusions.

## II DEFINING AND MEASURING POVERTY

There are many definitions of poverty and, given the definition, many ways of measuring how much poverty there is in a society. Thus both poverty and its extent are often matters of dispute. Most of the policy literature and public discussion uses some notion of a poverty line to define poverty and a head-count or income gap to measure its extent. The decisions involved in choosing a poverty line have been summarised by Sawhill (1988) as follows:

- (1) how to define needs (whether in absolute or relative terms and with what variation for family size or circumstances),
- (2) what to include in the measure of resources considered available to meet those needs (e.g. the treatment of in-kind transfers and of wealth),
- (3) the appropriate income-sharing unit (e.g., the individual, the household, the extended family), and
- (4) the appropriate accounting period for measuring income or consumption (e.g., a month, a year, a lifetime). (p. 1075)

The question of whether the family is the appropriate unit for measuring poverty has been the subject of vigorous discussion in the US, where family breakdown and hence the number of fragmented households have dramatically increased in the post-war period. This discussion, however, concentrates on the remaining three decisions.

### (a) *Poverty Lines and Measures of Poverty*

The official poverty line in the United States is based on absolute measure of poverty. It involves the calculation of the cost of a nutritionally adequate diet, allowing for family size and composition, scaled up by a factor of three to allow for expenditure on other goods and services. It is indexed to the CPI;

in real terms it has remained unchanged since 1965, although there has been some debate on this question.<sup>2</sup>

A household with an income below the official poverty line is classed as poor. Given the shape of the distribution of income, an absolute measure of poverty will imply that as the economy grows, the percentage of people below the poverty line will fall. It is interesting to note that the official poverty line in the US in 1965 was 46 per cent of median income for a family of four but by 1986 it had fallen to 32 per cent of the median and that measured poverty fell by from 20 to 30 per cent, depending on how income was measured.<sup>3</sup>

Relative definitions of poverty usually classify as poor all those with an income less than some percentage of the median (or mean) income in the society. The arguments for defining poverty in this way have gained widespread acceptance; they are based on the ideas that what constitutes deprivation is influenced by general social conditions and that the cost of achieving some *absolute* standards may increase with the level of wealth in society. Sen (1981) has argued convincingly that absolute and relative concepts of poverty should be regarded as complementary; his view is worth quoting:

It is worth noting that the approach of relative deprivation . . . cannot really be the *only* basis for the concept of poverty . . . Indeed, there is an irreducible core of *absolute* deprivation in our idea of poverty which translates reports of starvation, malnutrition and visible hardship into a diagnosis of poverty without having to ascertain first the relative picture. Thus the approach of relative deprivation supplements rather than supplants the analysis of poverty in terms of absolute dispossession. (p. 17)

The implications of a relative concept of poverty can be seen in an acute form in the context of a choice between a poverty line defined for the European Community as a whole and national poverty lines for individual member states. The differences in GDP per head among the member states of the Community are large. For example, in 1987 GDP per head in Germany was well over twice that in Greece and Portugal and over 80 per cent higher than in Ireland. Assuming GDP per head is a good indicator of personal incomes, the adoption of a Community-wide poverty line defined relative to average Community income in place of national poverty lines comparably defined

2. There has been debate about how accurately the CPI measures inflation for the poor in the US. Some have claimed that the poverty line has increased in real terms since 1965. Blank and Blinder (1986) conclude, however, that "if there is any systematic difference between inflation in prices paid by poor people and overall inflation, it is miniscule" (p. 197).

3. See Sawhill (1988), p. 1076, 1082-1984. The official poverty rate in 1965 was 17.3 per cent and in 1986 it was 13.6 per cent. Including the value of in-kind transfers, the poverty rate fell from 16.8 per cent in 1965 to 11.8 per cent in 1985. The question of the appropriate measure of income is discussed below.

would immediately lower measured poverty in Germany, Luxembourg, France, Netherlands, Denmark and the UK and raise it substantially in Ireland, Spain, Portugal and Greece; there would be small changes in Belgium and Italy. It is hard to believe that the concept of relative deprivation would retain much meaning if it were extended to the whole Community in its present state of integration.

Although poverty and inequality are conceptually distinct, the choice of relative definitions of poverty tends to blur the distinction. Relative measures are concerned with the shape of the income distribution and not its location; absolute measures are concerned with both. Relative measures do not imply that, by definition, poverty cannot be eliminated, but the elimination of poverty so defined is likely to involve a reduction of the variance of the distribution of income.

In conjunction with poverty lines, the most widely used measure of the extent of poverty is the head-count, the proportion of individuals whose incomes fall below the poverty line. Popular discussion of poverty is dominated by this measure, although it has been severely criticised by Sen (1981), among others.<sup>4</sup> His remark that the support which the head-count measure has received is "quite astonishing" has been frequently quoted but does not seem to have dented its popularity. Among the main objections to it are that it lumps together as poor all those below the poverty line and ignores how far below the poverty line individuals are. The aggregation issue is further considered in the context of the discussion of anti-poverty policies below; some examples are now presented which serve to clarify the weakness of the measure.

A policy directed at the very poor which brought their incomes to just below the poverty line would have no effect on the head-count measure of poverty; likewise, if the incomes of those below the poverty line fell, *ceteris paribus*, the head-count measure would not increase. Not only does the measure not respond to changes in the incomes of those who remain below the poverty line, but it will fall if transfers among those in poverty lead to anyone crossing the poverty line. Similarly, a transfer from someone above the poverty line to someone below it will increase measured poverty if the donor is brought below the poverty line as a result.

When the poverty line is defined in relative terms, the anomalies increase. If 50 per cent of the median income is chosen as the poverty line, a 10 per cent rise or fall in everyone's income, *ceteris paribus*, has no effect on measured poverty; neither has an across the board increase in income. If the poverty line is defined as 50 per cent of mean income, these conclusions obviously hold. Now, however, an increase in the incomes of, say, those in the top 5 per

4. The discussion in Sen (1981) is based on a number of his earlier papers, which are cited there.

cent of income distribution, *ceteris paribus*, would actually *increase* measured poverty because mean income would increase. In other words, if the rich got richer, *by definition* there would be more people counted as poor. Correspondingly, if the incomes of the top 5 per cent fell, mean income would fall, the poverty line would fall and fewer people would be counted as poor. In fact, an increase in the incomes of the poorest could increase poverty measured in this way, by raising mean income and the poverty line.

The exact location of the poverty line can also make a substantial difference to the amount of measured poverty. Stern (1987) observed that the poverty line "is frequently a line where the income distribution is rather dense, so that small movements in it can create big differences in numbers, leading to excessive emphasis and controversy concerning differences in measurements and definitions which may be rather minor" (p. 139). The calculations for Ireland by Nolan and Callan (1989) bear this out.

The problems with the most popular measures of poverty have been discussed in the literature, especially by Sen and Atkinson.<sup>5</sup> Measures which attempt to remedy them have been proposed; some of them involve the notion of a poverty gap, the difference between actual and poverty line income. The average of this gap among the poor, expressed as a percentage of poverty line income, is called the "income-gap ratio". This measure, and others which combine it with the head-count measure, are calculated by Nolan and Callan (1989) and analysed by Sen (1981). When the poverty line is defined in terms of *mean* income, however, they remain subject to the difficulties referred to above.

The scope for disagreement about the location of poverty lines and the measurement of poverty has led Atkinson (1987a) to examine the conditions under which different measures of poverty will give the same ordering of outcomes, i.e., will agree whether poverty has increased, decreased or remained unchanged. He presents conditions for partial orderings of outcomes. Developments on these lines will help to reduce disputes about how the level of poverty is changing, but they have not yet had much impact on the policy literature.

#### (b) *Definition of Income*

Poverty, as Sen remarked, is a matter of deprivation. The question that is now considered is in what terms deprivation should be measured. Putting aside subjective assessments of poverty, what is the appropriate measure of income<sup>6</sup> for estimating poverty? The official poverty line in the US uses

5. Atkinson's work is referred to below; his earlier papers are cited in Atkinson (1987a).

6. Alternatives to income would be total expenditure or consumption of specific goods. See Atkinson (1987b), p. 786.

money income *before tax*. Income includes cash transfers. In their study of poverty in Ireland, Callan and Nolan use income after tax and employee PRSI, which is preferable. A problem with money income is that it may be under-reported in household surveys; participation in the black economy is just one aspect of the problem. It should also be noted that household surveys exclude the homeless and those in institutions. Another problem is that a significant part of government expenditure in many countries is devoted to health, education and other social services. For example, free or heavily subsidised health care, education, training and housing, in some cases universally, in some selectively are commonly provided; food stamps, fuel vouchers, free travel are other examples of benefits in kind. To the extent the governments choose to combat poverty through non-cash transfers, the effectiveness of their efforts could be seriously underestimated if no account is taken of the value of such transfers.

In the case of health, this is particularly difficult to do. As Sawhill notes, to include the actual market value of health benefits received would imply that, *ceteris paribus*, the sick were better off than the healthy. If entitlement to free health care is valued as the cost of an insurance policy with equivalent cover, the standard problem of whether a cash transfer equal to the market value of the insurance premium would be preferred by the recipients remains; if the cash is preferred, the market value of the insurance premium overstates its value to the recipient. The latter issue arises with respect to education and the other benefits-in-kind, too. In the US, attempts have been made to value benefits-in-kind relating to health, housing and food both at market cost and at an estimate of their value to recipients; the result is that there are *ten* poverty lines to choose from. In 1986, valuing these benefits at market cost reduced the official poverty measure by one-third; valued at the alternative they reduced the poverty measure by one-sixth (Sawhill, 1988, p. 1078).<sup>7</sup>

Other problems which have attracted attention are how to deal with ownership of assets and how to value "leisure-time". Households with the same incomes may have different wealth through the ownership of houses and consumer durables; if some income is imputed to these assets households which own them will have higher incomes. Evidence from the US, cited by Sawhill (1988), suggests that the average net wealth of the poor is 28 per cent of that of the non-poor, while average income of the poor is only 17 per cent of that of the non-poor. Thus if income were adjusted for the ownership of assets, both absolute and relative measures of poverty in the US would fall. Not surprisingly, the effects of allowing for assets are greatest among the elderly.<sup>8</sup>

7. An important part of this is due to the value of Medicare benefits to the elderly.

8. See Sawhill (1988), pp. 1079-1080, for details and references. She quotes evidence that in 1983, 31 per cent of the poor owned their own homes and 48 per cent owned a motor vehicle.

Similarly, households with the same incomes may work very different numbers of hours to get those incomes; individuals who make little effort to earn a given income are treated as no better off than individuals who have to work long hours to earn it.

(c) *The Accounting Period*

The choice of the accounting period over which to measure income can have a large effect on measured poverty levels and has a major bearing on the nature of the problem of poverty. The duration of unemployment has long been a focus of attention. The significance of whether a given annual unemployment rate is due to one group of people being unemployed for a whole year or many groups being out of work for part of the year is fully recognised; the latter is generally regarded as a less serious problem than the former and there is growing recognition of the need to target policies at the long-term unemployed. A parallel argument can be made about poverty; a more serious problem is presented by the extent of long-term poverty than by short, temporary spells of poverty. Unfortunately, measures of the extent of poverty based on a fixed accounting period reveal nothing about this central issue. US evidence indicates that estimates of poverty are very sensitive to the length of the accounting period. Both longitudinal data extending over a decade and survey data collected on a monthly rather than annual basis showed that the experience of short spells of poverty was much more widespread than protracted ones; the number of "lifetime poor" is a very small proportion of the population.<sup>9</sup> It is impossible to draw the same conclusion for other countries without investigation. It is evident, however, that ignorance of the dynamics of poverty – why people move in and out of poverty and how long they stay in poverty – is a serious obstacle to the design of effective policies.

It is clear from this discussion that the summary measures of poverty most widely used are flawed. It is equally clear that they will remain in use for some time, despite this fact and despite the proposal of less vulnerable measures. The sources of some of the flaws, however, are readily identifiable. This suggests that the use of a set of measures, together with a diagnosis of the extent to which changes in those measures might be anomalous, would provide more reliable evidence on the level and trend of poverty.

### III ANTI-POVERTY POLICIES

The appraisal of anti-poverty policies prompts a more disaggregated approach to poverty, since some of the policies are targeted not merely at people

9. See Sawhill (1988), p. 1081.

with particular incomes but at people in particular categories. An obvious example is the elderly; others are single parents and the disabled. The issues raised by choices between income or means-tested versus non-means-tested transfers, categorical versus non-categorical transfers and benefits in cash versus benefits in kind are complex. The theoretical background is analysed by Atkinson (1987b), who is concerned with the social insurance dimension of income support policies as well as their effects on poverty levels. In this connection Kanbur (1987) cites with approval the view of Burtless (1986) that the major social insurance schemes in the US — Social Security, Medicare and unemployment insurance — have been much more important in alleviating poverty than means-tested transfers, even if this is not their sole objective.

The gain from the use of categorical transfers is the ability to relate their exact form to the category in question and to the possible responses of the recipients. For example, transfers to the elderly or the disabled do not have to take account of work disincentives whereas transfers to the young unemployed do. The costs include administration costs, the incentive to make false claims and the costs of erroneous classification. As far as benefits in cash versus benefits in kind is concerned, many economists favour benefits in cash, which are optimal under the well-known assumptions of a competitive economy with a unique equilibrium, without external effects or non-convexities and with full information. When equilibrium is not unique or when distortions are introduced, however, benefits in kind may be superior.<sup>10</sup> An example of an argument in favour of benefits in kind, advanced by Ellwood and Summers (1986), is that people who are not in need are less likely to pretend that they are in order to acquire them. They also support the use of categorical transfers, in a favourable assessment of anti-poverty policy in the US within the budgetary constraints imposed upon it.

The gain from income-tested benefit systems is that resources are targeted at their intended recipients, there is less leakage to the non-poor. Among the costs are the fact that income-testing implies high marginal tax rates on the poor, an aspect discussed below. Low take-up rates, which are often observed, may imply that the costs of claiming such benefits, including any perceived stigma attached to them, exceed the benefits. If so, the net benefits to those who claim will be less than the gross benefits. Furthermore, non-take-up means that the effectiveness of income-tested benefits as safety nets is reduced. The quantitative significance of non-take-up can be large. In the UK the take-up rate for supplementary benefit, the main targeted anti-poverty measure,

10. See Atkinson (1987b), pp. 813-815. The implications of non-uniqueness of equilibrium were pointed out by Foldes in a series of papers cited by Atkinson. He also warns that "once we enter the territory of the second best, intuition may be highly misleading" (p. 815).

is 70 per cent. Kanbur (1987) argues that, to a large extent, the persistence of poverty in the UK is due to non-take-up of benefit.

Anti-poverty policies have been assessed by Beckerman (1979) in terms of their "effectiveness", which measures the percentage of the pre-transfer poverty that is eliminated, and their "efficiency", which measures the percentage of expenditure which goes towards reducing poverty. The latter obviously measures how well targeted anti-poverty expenditure is, the former how much impact it has on measured poverty. These concepts, though, are in many cases as much a description of the incidence of expenditure as an assessment of policy, since as already noted some of the major income support schemes are designed with more than poverty alleviation in mind. However, where a policy is declared to be primarily aimed at poverty alleviation, they provide a measure of performance. They have been applied to the Irish social welfare system by Callan and Nolan (1989); the efficiency of the individual social expenditures in the UK and US is described in Kanbur (1987).<sup>11</sup> The range of efficiency measures is large. In the UK supplementary benefit is 100 per cent efficient while child benefit is only 21 per cent efficient; the average for all transfers is 54 per cent. In the US food stamps and housing benefit are about 75 per cent efficient; the average for all transfers is 38 per cent. For a poverty line of 50 per cent of mean equivalent income, the average efficiency of the Irish social welfare system is 67 per cent. It should be emphasised that the average efficiency of a system reflects the fact that poverty alleviation is not the only objective of social welfare expenditure.

The effectiveness of anti-poverty policy is often calculated by comparing income including transfers with pre-transfer income. By this standard, both the UK and US welfare systems have a large impact on measured poverty, reducing it to approximately a third and a half, respectively, of its pre-transfer level. The biggest impact has been on poverty among the elderly, especially in the US. However, in neither country do they succeed in eliminating measured poverty.

Judging policies in this way leaves unanswered the question of why these outcomes are observed. Apart from the amount of resources devoted to poverty alleviation, is one system more effective than another because it is more targeted? Or do the economic effects of the policies offset some of their impact on poverty?

#### IV ECONOMIC EFFECTS

A controversial answer to the latter question was provided by Charles Murray (1984), in his analysis of US social policy during the period 1950 to

11. See Kanbur (1987), Table 5; sources are fully described there.

1980. He concluded that social policy actually increased poverty among some sections of the population, by creating dependency and distorting incentives. Social policies might also influence poverty indirectly, through labour supply effects and their effect on economic activity. Financing the policies has budgetary implications which may affect the level of economic activity and hence poverty. This suggests that the economic effects of anti-poverty policies can be examined under three headings. The first their incentive effects, both directly on the level of poverty and on labour supply decisions; the second is the relationship between their budgetary effects and economic activity; the third is the relationship between the level of economic activity and poverty.

(a) *Incentive Effects*

As observed above, the argument that the social welfare system increased poverty among some sections of the US population is forcefully expressed by Murray (1984). His central thesis is about incentives; social programmes distort incentives in such a way as to reduce efforts to escape from poverty and to increase welfare dependency. He contrasts the twenty-fold real increase in expenditure on US social programmes between 1950 and 1980 with the lack of progress since the mid-1960s in eliminating poverty as measured by such indicators as the unemployment rate, the crime rate and the number of female-headed households. His policy recommendations are radical: a voucher system for providing education to the poor and the abolition of the whole social welfare system for those of working age, with the exception of unemployment insurance. (His study does not deal with the elderly so he does not propose changes to Social Security and Medicare). Not surprisingly, he has generated a lot of controversy.

Some of Murray's claims have been subjected to detailed scrutiny. For example, he attributes the rise in the number of households headed by women to the programme of aid to families with dependent children (AFDC); such households have a relatively high incidence of poverty. Work by Ellwood and Summers (1986), among others, casts doubts on this connection. They point out that the real value of AFDC benefits fell sharply during the 1970s while the number of female-headed families increased. Further, AFDC benefit rates vary substantially across states; a cross-section analysis of the relationship between the level of AFDC benefit and the incidence of female-headed households in 1980 showed little or no connection between them. Other work cited by Ellwood and Summers suggests only weak association between AFDC benefit and family structure. On the issue of dependence, Bane and Ellwood (1983) report that at least half of the recipients of AFDC benefit stay on the programme for no more than two years and 85 per cent have left after eight years; chronic dependence seems to be limited to the remaining 15 per cent. Thus, the evidence for the strong link between social programmes and poverty

which Murray proposes can be seriously questioned. It remains true, however, that Murray's thesis has led to renewed appraisal of the effectiveness of anti-poverty policies in the US.

The impact of income support expenditures on labour supply incentives has been extensively researched by economists. Labour supply decisions may be influenced both by the transfers themselves and by any taxes raised to fund them. Much of the huge volume of research on labour supply distinguishes between the decisions of men and women.<sup>12</sup> The main findings are that the labour supply responses of men are quite unresponsive to wage rates. However, changes in non-wage income, which includes income support payments, elicit a somewhat bigger response: a 1 per cent rise in non-wage income is associated with a decline in hours worked of about 0.25 per cent in the US and about 0.3 per cent in the UK. Female labour supply is rather more responsive to wage rates, but its elasticity with respect to non-wage income is about -0.2, slightly lower than for men. Thus there appears to be a small disincentive effect on labour supply, although it is important to note that these estimates are not very precisely determined.

The incentive effects of targeted income supports require separate analysis. Where the targeting is by income-testing, the consequence is that recipients are subject to extremely high marginal tax rates; a loss of £1 benefit for each £1 earned obviously implies a marginal tax rate of 100 per cent. It is an irony of the tax and welfare codes in many countries that the highest marginal tax rates now payable are paid by those on the lowest incomes; they can exceed 100 per cent. This issue is discussed at length by Kanbur (1987); he notes that demands for sharper targeting of expenditures by means-testing may involve higher marginal tax rates on the poor, with a resulting loss in economic efficiency.

The effect of unemployment compensation on unemployment is a related topic. It has been investigated in many countries, with mixed results. A positive relationship between the level of benefit and the rate of unemployment is often reported, but the size of the response varies both across countries and in different studies of the same country. As an explanation of the persistence of high unemployment in Europe in the 1980s it carries limited weight at present.<sup>13</sup>

All this evidence suggests that there are disincentive effects on labour supply associated with income support policies, but that in magnitude they are not very large, with the possible exception of the effects of very high marginal tax rates on some poor people. The impact of the provision of social security or state pensions on savings behaviour has also been studied, especially in the

12. A Summary of recent work on labour supply appears in Geary (1988), together with references.

13. See Burtless (1987), Geary (1988).

US, with conflicting findings. The effect on the savings behaviour of the poor, however, is unlikely to be of much importance to aggregate economic activity. Danziger, Haveman and Plotnick (1986) summarise the US evidence on incentive effects as follows:

. . . incentives matter. The poor, just like the nonpoor, respond to incentives — they work less in the face of high income guarantees and benefit reduction rates.

Burtless (1986) is somewhat more circumspect:

An economist might reasonably suggest reforms to reduce poverty at lower expense or with less distortionary economic effects than present policies, but current knowledge does not permit an economist unequivocally to predict the total efficiency gains or losses that would arise from a particular policy. While the direction of effect may be known with tolerable accuracy, the magnitude of change is often uncertain.

(b) *Effects on Budgetary Policy*

If policies to alleviate poverty are funded through higher taxes, they will affect the behaviour of the non-poor as well as the poor. Taxes will have effects on labour supply; the evidence on their magnitude has been referred to. However, they may also affect the employment decisions of firms. Recent research on employment and unemployment has focused on the role of the tax wedge, the sum of direct, indirect and employment taxes, in explaining the rise in unemployment. Cross-country evidence accords it a significant role, though by no means an exclusive one.<sup>14</sup>

The connection between the scale of social expenditure and economic growth is checked by Burtless (1986) by comparing shares of social expenditure in GDP with growth rates over a twenty-one year period for six developed countries. There was little association between the two, prompting the conclusion that a low (high) level of redistribution expenditures did not imply (preclude) high growth rates. Evidence of that kind is of very limited value, however; a single correlation cannot reveal much about so complex a problem as why growth rates differ.

The question of the extent to which high levels of social expenditure contributed to high budget deficits which, financed by borrowing, led to an explosion of the debt-GNP ratio with its severe consequences, is an important one for Ireland. An appraisal of the effects of social expenditure which took no account of this dimension would be seriously incomplete; in that context comparisons between Ireland and countries with debt-GNP ratios which are drastically lower may not be very informative.

14. See Geary (1988) for a summary of evidence.

(c) *Poverty and Economic Growth*

The relationship between poverty and economic activity is framed by the often-posed question: do rising tides lift all boats? This is the title of a recent paper by Danziger and Gottschalk (1986) about the experience of the US in the post-war period; there is a related study by Blank and Blinder (1986). The latter investigate how the distribution of income is affected by cyclical fluctuations in unemployment (and inflation). They find that people in the lowest part of the income distribution experience an increase in their income share in periods of low unemployment and a decrease in periods of high unemployment. Thus adverse economic conditions have relatively more damaging effects on the poor; good economic conditions have relatively more favourable effects. Danziger and Gottschalk, using the official poverty line, confirm the conclusion that lower unemployment reduces inequality and lowers poverty while higher unemployment does the reverse. They find that the long-run effect of economic growth has been to reduce poverty – they describe economic growth as the primary source of poverty reduction in the past. However, they are less convinced that this will continue in the future, for three reasons. One is that in the US only a third of poor households have heads who are expected to work and thus only they will benefit from improved labour market conditions. The second is that there is growing inequality of incomes in the US which may offset the growth of mean income. The third is that as poverty rates fall, growth has a reduced impact since there are fewer people near the poverty line. It should be borne in mind that these conclusions are based on an absolute measure of poverty. To summarise, the rising tide raises all boats and, as Blank and Blinder put it, “the smallest boats get raised the most (relatively). Conversely, however, they also fall the most when the tide ebbs” (p. 207). The effect of economic growth on poverty in the future, however, may not be as favourable.

The experience of other countries, such as the UK, also indicates that recessions increase measured poverty.<sup>15</sup> If it is generally the case that economic growth is the most effective remedy for poverty, the focus of attention returns to the difficult questions of what determines economic growth and whether there is a relationship between redistributive expenditures and economic performance. The economic analysis of poverty thus raises issues far beyond the impact effects on the poor of particular policies.

## V CONCLUSIONS

This short review has concentrated on two aspects of the modern literature on poverty, definition and measurement of poverty and overall effects of

15. For evidence on the distributional impact of unemployment in the UK, see Nolan (1987).

policies to alleviate poverty. It was concluded that the most widely used summary measures of poverty are flawed and that they ought to be superseded by better measures or by a range of measures supplemented by additional information. The importance of measurement is not academic; disputes about it can displace analysis of the underlying problem.

On the effects of policies to alleviate poverty, it was concluded that to analyse them fully, much more than their impact must be considered. This led to a consideration of both their incentive effects and their broader macroeconomic effects. It was concluded that these effects exist but there is not strong evidence that they are quantitatively large. The impact of some anti-poverty policies may overstate their full effect but it is difficult to draw stronger conclusions than that.

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