

# **TOWARD AN IMPROVED DEFINITION OF POVERTY**

by

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**Abstract.** This essay attempts to show that there is a satisfactory resolution to the long-standing controversy as to the whether poverty is measured strictly in terms of a minimal-living (or absolute) standard or an income-distribution (or relative) standard, a resolution which is based on the duality of human nature. Indeed such a two-dimensional definition of poverty already is in place in Ireland - - the first place (it seems) to actually sort out this controversial matter. In that sense, this author's principal concern is with the *fourth* question raised by this symposium: "What assumptions and definitions underlie your estimates which you believe to be especially important?" This essay is relatively short in length in order to present its central message more forcefully: substantial improvement in the way poverty is officially defined and measured is possible if more careful consideration is given to the reason why poverty is two-dimensional. A technical note on how poverty is defined and measured in Ireland is attached because the arguments presented in the discourse there are relevant to the discourse on poverty in the United States.

Most of the people of the world are poor, so if we knew the economics of being poor we would know much of the economics that really matters [Schultz, p. 639].

The question What does it mean to be poor? evokes a different response from one person to the next because each one's answer is a reflection of a personal value system. When value systems diverge, wider agreement on any normative issue becomes more difficult, including how best to define poverty. This is not to suggest that defining poverty is a thoroughly arbitrary, personal matter. Rather, it is to underscore that the student of poverty should not expect to find or advance a definition which is acceptable to everyone. However, an *improved* definition is possible and with it wider agreement as to the extent of poverty.

Poverty is a problem in unmet human physical need. That is, persons and families in poverty lack the goods and services needed to sustain and support life and the income to purchase the goods or services which would meet those needs. At this point, however, a most fundamental controversy arises. Is the totality of human physical need to be expressed in an absolute sense or a relative sense? That is, does one measure unmet physical need strictly in terms of the things which are needed to maintain some minimal standard of living, or is it better measured in terms of one person's income relative to the income of others?

This controversy is further compounded by the terms "relative" and "absolute" in at least two ways. First, "absolute" suggests "free from all imperfection or deficiency; complete, finished; perfect, consummate," "free from all doubt or uncertainty; positive, perfectly certain, decided."<sup>1</sup> All of these definitions, however, are applied inappropriately to the official U.S. poverty standard because, as Sawhill correctly has pointed out, absolute standards of poverty are "socially defined and will therefore vary across cultures and historical periods" [Sawhill, p. 1076]. More recently, Callan and his Irish colleagues point out why the absolute standard is not authentically absolute.

... standards presented as aiming to measure "absolute" poverty in developed countries do not apply a timeless, fixed poverty line based on an unchanging set of minimum needs. In fact, they are heavily influenced by prevailing conditions and expenditure patterns. Their true distinguishing feature is the way the poverty standard is adjusted over time, being updated simply in line with prices and taking no account of changes in average income or expenditure patterns [Callan and others, p. 6].

Second, an absolute standard measures poverty *relative* to the income required to purchase the goods and services to maintain a minimal standard of living. For that reason, this author personally uses the less ambiguous "minimal-living standard" in place of "absolute standard" and "income-distribution standard" instead of "relative standard." Adopting this language much more widely would be a small but significant step in the direction of an improved definition of poverty.

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<sup>1</sup> See *The Oxford English Dictionary*.

The challenge to develop a better definition of poverty clearly goes well beyond the issue of the misuse of “relative” and “absolute.” In that regard, this essay attempts to show that there is a satisfactory resolution to the more fundamental controversy as to the whether poverty is measured strictly in terms of a minimal-living standard or an income-distribution standard, a resolution which is based on the duality of human nature. Indeed such a two-dimensional definition of poverty already is in place in Ireland -- the first place (it seems) to actually sort out this controversial matter. In that sense, this author’s principal concern is with the *fourth* question raised by this symposium: “What assumptions and definitions underlie your estimates which you believe to be especially important?” This essay is relatively short in length in order to present its central message more forcefully: substantial improvement in the way poverty is officially defined and measured is possible if more careful consideration is given to the reason why poverty is two-dimensional.

Further, this essay suggests several critical values which give expression to this two-dimensional definition and which can be applied to the data available from the central source of information on poverty in the United States -- the Current Population Survey (CPS). To reduce the arbitrariness in these criteria, this author compares how they operate alongside the official U.S. poverty criteria or thresholds utilizing selected CPS micro-data for two years in the 1980s.<sup>2</sup> In this regard, five tests are centrally important: convenience, consistency, directness, comprehensiveness, and acceptance. Any standard which incorporates both the minimal-living and income-distribution dimensions and which grades out better on these five tests is an improvement over the official U.S. poverty standard.

### **The Norm of Poverty and the Official U.S. Criterion of Poverty**

Surely there can be no disputing that poverty is a problem of unmet human material need and that unmet need is both the norm by which poverty is to be defined as well as the reason why poverty is a problem in normative rather than positive economics. However, the question What does it mean to be poor? misleads in the sense that it implies that our work begins with defining poverty. In fact, our work begins with the question What does it mean to be human? Failure to address this question fully has led to the long-standing split among students of poverty as to whether poverty is “absolute” or “relative,” whose energies could have been applied more productively to other poverty issues which are much tougher to resolve.

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<sup>2</sup> The Census Bureau reports poverty data in two forms: micro and summary. Micro-data refer to data collected from individual persons, families, and households and available for analytical purposes at that microscopic level. Summary or macro-data refer to data collected from the same sources but compiled in a specific summary format which displays the information for certain groups such as all married couple families or all unrelated individuals. With summary data there is no way to re-compile the data to provide information about groups which have not been formatted already by the Census Bureau. With micro-data the researcher is free to compile the data in anyway which is useful or instructive.

There is an unmistakable duality to human nature. Humans are at once individual beings and social beings. Setting aside the present-day technological capability to clone human beings, humans are unique, one-of-a-kind beings whose individuality is evidenced in a physical sense, for example, by their fingerprints and voiceprints. In the workplace, human individuality manifests in the need for a job with opportunities to apply one's creative skills and talents. The individual dimension of human nature accounts for the human disposition to perform certain tasks through individual action, motivated by individual economic incentives. This disposition which in mainstream economics is referred to as "competition" is a potentially powerful activating force helping to organize economic affairs. However, to effectively utilize the organizing principle of competition it is necessary for society to embrace the social value of individual freedom.

In like manner, human sociality is evidenced by speech and language and is reflected in the need to belong to a group of other working human beings who understand that group unity or solidarity is essential to completing certain workplace tasks successfully. In other words, the social dimension of human nature accounts for the human disposition to undertake certain tasks through collective action because those tasks cannot be completed as efficiently or at all by individuals acting alone. This disposition which in social economics is known as "cooperation" is a second activating force helping to organize economic affairs. In the United States, however, cooperation is less widely utilized because its underlying social value of teamwork or community is less highly valued than the social value of individual freedom which is foundational to the organizing principle of competition.<sup>3</sup>

Reflecting this basic human duality and keeping in mind how each dimension relates to a specific principle to organize economic affairs and in turn to a specific underlying social value, unmet human physical need is two-dimensional and poverty is neither "absolute" alone nor "relative" alone, but *both*. It follows that the norm of unmet human physical need has both a minimal-living dimension representing human individuality and an income-distribution dimension representing human sociality. Critics of the "absolute standard" of poverty who would replace it with the "relative standard" ignore in effect the individuality and competitive nature of human beings and subordinate the social value of individual freedom to the social value of teamwork or community. At the same time, critics of the "relative standard" who insist that only the "absolute standard" will do effectively dismiss the sociality and cooperative nature of human beings, valuing freedom much more highly than community. The resolution of this controversial issue is as straightforward as the resolution of the question What determines price, supply or demand? which Marshall demonstrated was equivalent to asking Which edge of the scissors does the cutting?

A criterion of poverty is a critical value which expresses the norm of unmet human physical need, understood two dimensionally, in measurable form. Focusing entirely on human individuality,

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<sup>3</sup> For more on how the two activating principles of competition and cooperation organize economic affairs and depend on the social values of individual freedom and teamwork see O'Boyle 1998a [pp. 73-81].

Orshansky used the cost of the Economy Food Plan as her central criterion of poverty in what became the official U.S. poverty standard in the 1960s which remains today central to that minimal-living standard. Other students of poverty whose attention has centered on human sociality have recommended an income-distribution standard with a critical value such as income below one-half the median income for all persons/households as being indicative of poverty.

Orshansky was correct in starting with the cost of food since indisputably food is one aspect of human physical need, and the acceptance which her standard has attained no doubt is a reflection of the public's judgment to the effect that indeed subsistence means in part having enough to eat. Further, it was a great convenience at the beginning to simply multiply the cost of food by the critical value of three to arrive at the cost of all aspects of that need and the income threshold of poverty. Thus, the Orshansky poverty standard earns high marks on two of the five tests of a proper criterion of poverty which are enumerated above: *convenience*, consistency, directness, comprehensiveness, and *acceptance*.<sup>4</sup> By *convenient* we mean that it is simple to apply to the data and to produce estimates of unmet human physical need. By *acceptance* we mean that the standard is accepted by the public indicating that it conforms to the value systems of large numbers of Americans.

However, the convenience of the Orshansky standard comes at a price. The official U.S. poverty standard in use today is not and never has been *direct* or *comprehensive*. To elaborate, the official standard measures directly the cost of only one aspect of human physical need. The cost of the other aspects of that need such as shelter, clothing, health care, transportation, and education are estimated indirectly by means of the multiplier of three.<sup>5</sup> This defect raises serious doubts as to whether the official standard passes the test of being comprehensive, that is whether it encompasses every aspect of unmet human physical need. We have more to say about *consistency* later.

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<sup>4</sup> Five years after this author published these standards [see O'Boyle 1990, pp. 11-12], the Panel on Poverty and Family Assistance recommended that a satisfactory standard of poverty is definable and measurable in terms of its acceptance and understandability, its statistical defensibility and consistency, and the feasibility of its implementation with data which are readily available and obtainable [see Citro and Michael, p. 3].

<sup>5</sup> Arriving at the cost of the other aspects of human physical need is by no means a simple matter in the United States given the substantial individual differences in such a large population. Even so, in this matter there is no getting around having to arrive at a figure which is an average and which therefore effectively levels those differences.

## Criteria of Poverty Grounded in Human Individuality and Human Sociality

### *Criteria Already in Use in Ireland.*

A proper criterion of poverty is one which is based on both dimensions of human nature. The official U.S. standard would do nicely as a minimal-living standard were it not for its lack of directness and doubts as to its comprehensiveness. In this regard, there is much to recommend the criterion which Callan and his associates are recommending in Ireland which is based on the related concept of “deprivation.” Nineteen specific aspects of human physical need -- the things which everyone should be able to have and which no one should have to do without -- such as having a telephone, a refrigerator, an indoor toilet, central heating, were identified through survey research and are referred to as “deprivation indicators.” Based on those nineteen identified dimensions of human physical need, Callan and his fellow researchers then constructed a set of eight basic indicators which relate to debt, food, and clothing and set the critical value indicating impoverishment at missing one or two of these basic “necessities.” Their data indicate that 33 percent of all Irish households in 1987 are poor in the sense that they are lacking in at least one of the eight basic “necessities” and that 25 percent are poor in that they are lacking two or more of the basics.

Their preference for this type of minimal-living standard derives from very strong negative opinions of the income thresholds in the U.S. poverty standard as expressed in the following comments which point to the so-called “depth of income poverty” problem:

... a transfer to someone just below the poverty line, bringing them just above the line, would reduce the head-count measure whereas the same transfer to a much needier person well below the line would have no impact ... [similarly] a transfer from someone just below the line to someone much worse off well below the line will have no impact on the head-count [Callan and others, p. 28].

Formally based on deprivation, their criterion effectively approximates a minimal-living standard which simply estimates the income required to purchase the basics without which a person or family is regarded as having experienced deprivation. For that reason, it expresses in measurable form the dimension of poverty which derives from human individuality. In Ireland, Callan and his associates now use deprivation indicators in combination with three criteria which approximate an income-distribution standard and which derive from human sociality. The three criteria express poverty in terms of income which is 40, 50, or 60 percent below the national average. To be classified as poor, a household must fall below both standards, that is it must be poor as measured by the minimal-living standard or human individuality *and* by the income-distribution standard or human sociality.<sup>6</sup>

### *Three Criteria Recommended for Use in the United States.*

In 1990 this author first recommended a two-dimensional poverty standard as an improvement over the official U.S. standard because in principle it resolves the controversy swirling around “relative” and “absolute” (see O’Boyle 1990, pp.2-17). The minimal-living dimension was

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<sup>6</sup> For more on how poverty is defined and measured in Ireland, see this author’s technical note attached.

based on the official U.S. standard because of its wide *acceptance*. The income-distribution dimension was built on the critical values which measured impoverishment in strict fashion, that is in terms of the lowest or second lowest decile in the income distribution for the United States.

Three criteria are presented. The first criterion, which is the strictest of all, measured poverty in terms of income which is (a) below the official U.S. poverty threshold *and* (b) in the lowest decile. The second criterion measured poverty in terms of income which is (a) below the official poverty threshold *and* (b) in lowest or second decile. The third criterion measured poverty in terms of income which is (a) below the official threshold *or* (b) in the lowest decile.

This scheme was developed further to address the “depth of income poverty” problem by defining the marginally poor in terms similar to the poor. The first criterion counted as marginally poor those with income (a) below the official U.S. poverty threshold and above the lowest decile or (b) above the official threshold but in the lowest decile. The second criterion counted as marginally poor those with income (a) below the official poverty threshold and above the second decile or (b) above poverty and in the lowest or second decile. The third criterion counted as marginally poor those with income (a) above the official threshold and (b) in the second decile.

### **Assessing the Impact of the Three Suggested Criteria**

As already indicated, a criterion of poverty first is judged logically in the sense that it expresses the norm of unmet human physical need in measurable and well-reasoned form. In other words, it is better grounded in what we mean by unmet human physical need than is the official poverty standard? Then a poverty criterion is judged empirically in that once we see how it actually works and compare those estimates of poverty with the official figures we are in a stronger position to judge how to measure poverty better.<sup>7</sup>

Jorgenson recently published his own changes to the official poverty standard which measures poverty in terms of consumption expenditures rather than income and which he supported with empirical evidence. Jorgenson argues that the transitory component of consumption is relatively small whereas the transitory component of income for households with high measured income is relatively. Thus, he asserts, measured consumption is a *better* proxy for household resources than is measured income.

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<sup>7</sup> A point similar to this is made by Becker [pp. 79-111] in his discussion of benefit adequacy under unemployment insurance which, as with poverty, is a normative issue rooted in the value systems of the various persons who use the concept.

Whether it is a better proxy for household resources than measured income *for purposes of measuring the extent of poverty* depends very much on which persons and families one intends to include in the count of the poor: (a) those whose poverty is transitional or (b) only those whose poverty is more persistent. This issue is similar to the question as to whom to include in the count of the unemployed: (a) those whose unemployment is short-term or (b) only those whose unemployment is long-term. Using a consumption-based standard means the transitional poor in general are left out of the figures on poverty. In contrast, an income-based standard includes them and when combined with an income-distribution standard as indicated above provides a separate estimate of transitional poverty which later may be included in the count of the more persistently poor or deleted *according to the values of the persons using the estimates*.<sup>8</sup>

Because Jorgenson's modified standard remains a one-dimensional "absolute standard" [Jorgenson, p. 80], it does not measure up as logically superior to a two-dimensional standard. For that reason alone, in addition to the widespread *acceptance* of the official standard which from the beginning has been operationalized in terms of income, this author is not persuaded that Jorgenson's suggested consumption-based standard is clearly better.<sup>9</sup>

To determine whether the three criteria suggested above by this author would lead to an improvement in the way in which poverty is measured it is necessary to compare estimates of the number of persons in poverty based on these three criteria to the official estimates of poverty. We applied both the official "absolute standard" of poverty with our own three suggested criteria of poverty to data from the same source: the CPS micro-data files on personal, family, and household income in 1988 and in 1985.<sup>10</sup>

There were no differences between the official standard and this author's three suggested criteria in the specific sense that none of the persons counted as poor under the official standard were classified as not poor under the three suggested criteria. Further, virtually everyone classified as poor under the first and second suggested criteria of poverty was classified the same way under

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<sup>8</sup> The most recently available data on transitions into and out of poverty indicate that an estimated 6.9 million persons entered poverty between 1993-1994 and another 7.6 million exited poverty at the same time [Naifeh, p. 1]. See O'Boyle 1998b [pp. 1411-1424] for more on transitions into and out of poverty.

<sup>9</sup> Appearing in the same issue of the *Journal of Economic Perspectives* as Jorgenson's article is a second article by Triest [pp. 97-114] which indirectly touches on the issue of the "relative standard" but clearly re-affirms the long-standing practice in the United States of an official poverty standard which is "absolute."

<sup>10</sup> The poverty data and the income-distribution data used here were extracted directly from the CPS by this author without modification. All three suggested criteria were applied to the weighted estimates from the CPS in a way which left the income-distribution data unadjusted for family and household size. Thus, all three are one part family/household-size adjusted and one part unadjusted. The minimal-living portion is adjusted because that adjustment is directly built into the official poverty standard. There is no other way to properly construct an "absolute standard" from the CPS data. At the same time, the income-distribution data are unadjusted because we sense that human beings whether they live in large families/households or small, compare their own economic resources with the resources of others across a wide spectrum of families and households of different sizes and not narrowly against families and households of the same size.

the official standard. Using the third suggested criterion, however, there were as many as 1.7 million persons counted as poor who were classified as not poor under the official standard.

There were much more substantial differences as to the marginally poor. As many as 15.6 million of the 16.4 million persons who were classified as marginally poor by the three suggested criteria were counted by the official standard as not poor. Even with the first criterion, which is the strictest, there were 1.7 million of the 7.9 million marginally needy who were counted as not poor by the official standard.

The empirical results for families were similar. All of the families classified as poor under the official poverty standard in 1988 were counted as poor or marginally poor by the three suggested criteria. For the first two criteria all of the families counted as poor were classified as poor under the official standard. Again, the major differences lie with the marginally poor. Using the second criterion, for example, there were nearly as many families counted as marginally poor (6.4 million) which were left out of the official poverty count as were included in that count (6.8 million).

The CPS micro-data also indicate that 0.9 million of the 31.7 million persons in households officially classified as poor had incomes *above* the national median household income (in the sixth - tenth deciles in the distribution). Additionally, another 1.5 million of the poor were in the fourth - fifth deciles [O'Boyle 1998a, pp. 123-142]. These data suggest that the official poverty standard is deficient in terms of the *consistency* test which requires that everyone in the same circumstances is classified similarly.

The findings with regard to persons, families, and the marginally poor, based on the CPS micro-data for 1985, are strikingly similar [see O'Boyle 1990, pp. 2-17]. Table 1 summarizes these findings for both years for persons in poverty. As indicated above, the findings for families in poverty are quite comparable.

### **Conclusions and Final Comments**

The controversy between advocates of the “relative standard” and proponents of the “absolute standard” has persisted for more than 30 years because of a mutual failure to recognize the manner in which certain premises have shaped and formed the ways in which they have conceptualized poverty. Students of poverty simply do not begin their work with an explicit recognition of the premises which they hold regarding human nature, how economic affairs are organized differently by competition and cooperation, how each of these two activating principles relate to different human dispositions and depend on affirming different social values, and how all of these differences determine the way in which they define and measure poverty. The proponents of the “absolute standard” do not understand that they begin with the premises that humans are individual beings by nature, that human individuality gives rise to organizing economic affairs on the principle of competition which rests on the social value of individual freedom, and that holding that premise and affirming that social value lead them instinctively to embrace that standard and reject the “relative standard.”

**TABLE 1. COMPARISON OF OFFICIAL POVERTY STANDARD AND  
O'BOYLE'S THREE SUGGESTED CRITERIA OF POVERTY**

	1988	1985
Is every person who is classified as poor under the official standard ...		
classified as poor/marginally poor under the first suggested criterion?	Yes	Yes
classified as poor/marginally poor under the second suggested criterion?	Yes	Yes
classified as poor/marginally poor under the third suggested criterion?	Yes	Yes
Is every person who is classified as poor under the first suggested criterion classified as poor under the official standard?	Yes	Yes
Is every person who is classified as poor under the second suggested criterion classified as poor under the official standard?	Yes	Yes
Is every person who is classified as poor under the third suggested criterion classified as poor under the official standard?	No	No
number (in millions) classified differently .....	1.7	1.3
Is every person who is classified as marginally poor under the first suggested criterion classified as poor under the official standard?	No	No
number (in millions) classified differently .....	1.7	1.3
Is every person who is classified as marginally poor under the second suggested criterion classified as poor under the official standard?	No	No
number (in millions) classified differently .....	15.6	13.6
Is every person who is classified as marginally poor under the third suggested criterion classified as poor under the official standard?	No	No
number (in millions) classified differently .....	13.8	12.3
Is every person who is classified as poor under the official standard in a household where income is less than the national median?	No	No
number (in millions) greater than median .....	0.9	0.9

Similarly, the advocates of the “relative standard” do not recognize that their work is based on the premise that humans are social beings by nature, that human sociality gives rise to organizing economic affairs on the principle of cooperation which rests on the social value of teamwork or solidarity, and that holding that premise and affirming that social value lead them instinctively to embrace that standard and reject the “absolute standard.”

Not having recognized the role of their own premises and values in guiding their work, both parties are even less likely to see the premises and values of the other party, which takes their work in another direction. As John Henry Newman stated years ago:

... how little syllogisms have to do with the formation of opinion; how little depends upon the inferential proofs; and how much upon those pre-existing beliefs and views, in which men either already agree with each other or hopelessly differ, before they begin to dispute, and which are hidden deep in our nature [Newman, p. 210].

Three final comments remain. First, in combining income-distribution and minimal living into a single standard, a decision has to be made as to precisely how they are to be combined and applied to the data. This author herein has advocated a three-part classification scheme: the poor, the marginally poor, and the nonpoor. To simplify and recapitulate, the poor are identified as those who qualify under both the income-distribution standard and the minimal-living standard. The marginally poor are those who qualify under one standard but not the other. The nonpoor are those who do not qualify under either standard. By dividing the poor into two groups (poor and marginally poor) reflecting unmet need which is more or less severe, this type of classification scheme helps address the “depth of income poverty” problem.

Second, *acceptance* indicates that the definition has been widely accepted by the public because it conforms to the public’s values regarding the nature of poverty. This is so because most fundamentally poverty or unmet physical need is a concept which by definition reflects the values and premises of the persons who use it. In this regard, defining poverty is like issuing paper currency. What matters most in both instances is public acceptance because without that acceptance the currency simply does not circulate and the public will not take to heart a policy based on a conceptualization of poverty which does not square with their own values and premises.

Third and last, this author suggested five tests as helpful in deciding whether to keep the present official poverty standard intact or modify it. In this regard, it grades out as satisfactory on two -- *acceptance* and *convenience* -- but is unsatisfactory on the other three -- *directness*, *comprehensiveness*, and *consistency*. Substantial improvement could be achieved by incorporating income distribution into the present standard and creating a separate classification for the marginally poor.

## Postscript

Robert Rector objects to the two-dimensional standard of poverty because for him there is no room in a satisfactory definition of poverty for deprivation which is defined in relative terms or what I prefer to call the income-distribution dimension. To Rector, poverty strictly speaking is a matter of absolute deprivation or what I call the minimal-living dimension. I focus on this issue entirely and not on his remarks regarding how poverty is measured because how poverty is *defined* logically precedes and determines how it is *measured*. Without agreement on the proper definition of poverty, we are not likely to reach agreement on how best to measure poverty.<sup>11</sup>

Rector opens with his objection to constructing a definition of poverty in which persons and families in the bottom two deciles of the income distribution are defined as poor on grounds that it “makes poverty ineradicable even under the most dramatic schemes of income distribution.” This is true. But it is not disabling because defining poverty strictly along a minimal-living dimension with absolutely no regard for its income-distribution dimension leads to the same outcome unless we are able to prevent the major causes for entry into poverty: illness, injury, divorce, death of the primary wage-earner, increase in family size, exploitation, downsizing. As long as humans are beset with those problems, there will be some persons and families who fall below whatever minimal living standard is used.

Rector follows with three comments on “relative poverty” which are generic in nature and not intended to be specifically critical of my recommendations. I respond to each one because they afford an opportunity to help clear away some of the differences which separate us.

First, to Rector “relative poverty” brings income inequality to the fore but inequality and poverty have meanings which for him are quite different. Rector then re-states his central position: poverty is strictly a matter of “physical necessity, minimal needs, and suffering.” This is not a proof, however. It is an re-affirmation of the premises and values which he brings to the debate on the proper definition of poverty. That is, I suggest, an implicit re-affirmation of human individuality, competition as the driving force organizing economic affairs, and individual freedom which makes it possible for humans to enter the competitive fray. Premises and values with which men and women of good will may respectfully disagree.

In this regard, and at a deeper level, I suspect that Rector’s views are that greater income equality frustrates the human disposition to tackle certain tasks individually thereby damaging the engine of competition for activating economic affairs. I certainly share that view but add to it the following: greater inequality undermines the human disposition to undertake certain tasks

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<sup>11</sup> As my reply to the paper presented by Bishop, Formby, and Zheng indicates, I applaud any and all efforts to improve the income data which are used to determine whether a person, family, or household is to be classified as poor or nonpoor.

collectively thereby crippling the engine of cooperation for energizing economic affairs. In this sense, defining poverty includes balancing whatever consequences it might have for individual freedom and the human disposition to work alone on the one hand and for teamwork and the human disposition to work with others.

At this level, the “relative versus absolute” controversy reduces to the One-Many dichotomy which Becker explains so brilliantly in setting forth his own philosophical presuppositions before he addresses the problem of maintaining popular control of employment security programs.

The problem of organizing society is ultimately, like most problems, an aspect of the One-Many dichotomy. To achieve the ends of society men must choose to act as individuals, and therefore as Many, or to act as a group, and therefore as One [p. 3].

Rector continues this objection with a comment to the effect that the reasons for introducing an income-distribution standard are “often purely political” citing Robert Lampman’s warning to President Johnson that his *anti-poverty program* must not appear to promote economic egalitarianism for fear that it would not be politically viable. This too is true. Political considerations drive decisions regarding government programs of aid for the poor because those programs require public support in order to achieve viability. To the extent that those programs have “triggers” tied to official poverty figures, it is inevitable and not necessarily improper that the official definition of poverty used to generate those figures reflects and responds to public opinion expressed through the political process. This is how public acceptance is achieved.

Even so, as this author has stated previously, definitions will change as public values evolve. Students of poverty have a role to play in the public discourse by clarifying the values and premises which form the foundation of any new definition offered in the public discourse, by recommending ways to improve the construction of any new standard through comparisons of the estimates derived from such a standard with the official estimates, and by identifying any new data which must be collected to properly operationalize any new standard. In my estimation, this is how best to define and measure poverty because, as mentioned previously, poverty is a normative concept which reflects the values of those who use it. In this regard, I have recommended a definition which expresses my own values and premises just as Rector has. Neither of us, I hope, are motivated purely or even significantly by personal advantage. Rather, I trust we are driven by a true and abiding concern for the unmet physical need of human beings which almost twenty years ago Schultz said is central to an economics which really matters [Schultz, p. 639].

Second, Rector asserts that incorporating an income-distribution dimension in the official definition of poverty would “drain the word *poverty* of all meaning.” Rector is correct that politicians employ a definition of poverty which incorporates only a minimal-living dimension but they do so, I submit, because it is the *official* government definition in use from the very beginning. In other words it is widely accepted and for that reason I have not discarded the official definition but added an income-distribution dimension to it. The “tension” which Rector refers to between “the stark images of poverty presented by politicians, journalists, and activists and the higher, actual living conditions of those who are ‘poor’” is natural and inevitable given the different premises and

values which underpin each one's use of "poverty." This tension will not disappear and we will not bring the popular image and measured concept into alignment by clinging to the present absolute standard or some further modification of it as if it were entirely value-free. Poverty is unavoidably a value-laden concept about which there is and should be considerable tension as each generation struggles with defining and measuring it anew to bring it into closer conformity to its own values and premises.

Third, Rector dismisses the income-dimension of poverty on grounds that it leads to the paradoxical outcome of an actual decline in poverty during the Great Depression because the actual incomes of the more affluent fell further than the incomes of the less affluent. This is true. But in those remarks Rector neglects to take into account that the definition which I propose is two-dimensional: one part based on minimal living, one part based on income-distribution. For example, one of my three recommendations defines poverty in terms of income which is below the official minimal-living threshold *or* in the lowest decile of the income distribution. This suggested definition produces no such paradoxical results as Rector asserts. Indeed, it would no doubt supply an estimate of poverty consistent with the grim reality of the Great Depression.

Finally, as I have stated previously in these pages and elsewhere, the "relative versus absolute" controversy is reminiscent of the "supply versus demand" squabble in economic theory until Marshall's scissors diagram resolved the issue. Poverty is both relative and absolute because human are both individual and social beings who are disposed at times to organize economic affairs on the principle of competition and at times on the principle of cooperation, reflecting the values which they attach to individual freedom (the Many) on the one hand and teamwork or community (the One) on the other.

In 1965 Orshansky gave us a definition of poverty which she herself characterized as "still relatively crude"[Orshansky, p. 3]. Twenty-three years later Sawhill concluded that "it is hard to say whether it is absolute or relative poverty that is the more relevant concept" [Sawhill, p. 1077]. This author has argued that both dimensions are relevant, the one no less than the other.

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## DEFINING AND MEASURING POVERTY IN IRELAND: A TECHNICAL NOTE<sup>1</sup>

Poverty in Ireland was defined and measured utilizing information obtained from household survey interviews for the first time in 1989 [see Callan and Nolan, pp. 309-328]. This landmark publication produced poverty estimates for persons and households based on data collected in 1987, and supplied additional information on poverty for 1980. In it, Callan and Nolan defined poverty in terms of a relative income standard, and measured it along three-dimensions. In brief, a household is classified as poor if its income is: (1) 40 percent below the actual average income for all Irish households; (2) 50 percent below average household income; (3) 60 percent below the average. These three relative income standards or lines were adjusted for differences in the size and composition of the household. Thus, smaller households were classified as poor based on an income line lower than the one applied to larger households.

Based on the 50-percent income line Callan and Nolan estimated that in Ireland in 1987 approximately 17-19 percent of all households and 20-23 percent of all persons were poor. Comparable figures for the Irish poverty population in 1980 were 17 percent of all households and 16-19 percent of all persons.

In a more recent publication, Callan and Nolan along with others re-affirmed the relative income standard for defining and measuring poverty [see Callan and others, 149pp].<sup>2</sup> In their monograph, and employing the same basic methodology as in their earlier publication, the authors estimated that at the 50-percent income line 17-20 percent of all households in 1994 and 21-23 percent of all persons were poor. They included in this publication revisions to the 1987 poverty estimates, to the 1980 estimates, and to 1973 estimates previously published.

Importantly, in this monograph, Callan and his associates acknowledged the different definitions and measurements of poverty used in the United Kingdom, the United States, and the European Union. Most fundamentally, the difference lies in whether poverty is to be conceptualized in relative terms or absolute terms. An absolute standard is based on the goods and services required to meet human physical need in some minimal or subsistence level. In contrast, a relative standard is based on the economic resources a person or household has in relation to the resources of others. Among those countries, only the United States uses absolute poverty standard today, having embraced that conceptualization from the very beginning of published government studies of poverty in the mid-1960s.

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<sup>1</sup> Completed as visiting professor of economics at the National University of Ireland in Galway, fall 1997.

<sup>2</sup> Hereafter this monograph is cited by page number only when it is quoted from directly.

Properly so, Callan and his co-authors in their 1996 monograph point out that absolute standard is not authentically absolute.

... standards presented as aiming to measure “absolute” poverty in developed countries do not apply a timeless, fixed poverty line based on an unchanging set of minimum needs. In fact, they are heavily influenced by prevailing conditions and expenditure patterns. Their true distinguishing feature is the way the poverty standard is adjusted over time, being updated simply in line with prices and taking no account of changes in average income or expenditure patterns [Callan and others, p. 6].

In an effort to avoid the confusion which follows from this ambiguity, we have suggested elsewhere that such a standard be referred to instead as a minimal-living standard [see O’Boyle, p. 60].

In addition, and properly so, Callan and associates acknowledge the shortcomings of measuring poverty in terms of a given poverty line, calling it the “depth of income poverty” problem.

... a transfer to someone just below the poverty line, bringing them just above the line, would reduce the head-count measure whereas the same transfer to a much needier person well below the line would have no impact...[similarly] a transfer from someone just below the line to someone much worse off well below the line will have no impact on the head-count [Callan and others, p. 28].

This criticism plainly applies as well to the absolute standard. Advocates of this standard in the United States attempt to deal with the criticism by publishing three different thresholds: 100-percent of poverty, 125-percent of poverty, and 150-percent of poverty. But the *very same criticism* applies to the relative standard, and its supporters from the very start have employed the same technique to deal with this problem: 40 percent below the average income line; 50 percent below average income; and 60 percent below that line. Thus, a purely relative standard is like an absolute standard in that there is no difference in principle between the income line of the relative standard and the threshold of the absolute standard, *once a given line or threshold is applied to the income data*.<sup>3</sup>

With both standards, a very small difference in income may be sufficient to remove a person/household from the poverty head-count or include it in that count. To avoid the confusion which follows from this ambiguity, we have suggested elsewhere that a relative standard be called instead an income-distribution standard [see O’Boyle, p. 60].<sup>4</sup> Even so, Callan and his co-authors are adamantly opposed to the absolute standard.

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<sup>3</sup> In the United States the thresholds are expressed in terms of annual income, and are applied to annual income data (from the March Current Population Survey). In Ireland, the poverty lines are expressed in weekly income, and are applied to weekly income data (from the 1994 Living in Ireland Survey)

<sup>4</sup> Additional confusion may arise because at the same time the relative standard defines unmet human physical need relative to the economic resources that people have at their disposal compared to what others have the absolute standard defines unmet physical need relative to the costs of the goods and services required to maintain some minimal-living standard [O’Boyle, p. 60].

...the search for an “absolute” poverty line which would have relevance in a developed country such as Ireland is a fruitless one. In monitoring changes over a period such as 1987-94, the most satisfactory procedure to deriving income lines held constant in real terms appears to be to take relative income lines for the base year and simply index these to prices over time. In that way, the comparison between 1987 and 1994 using relative income lines for each year can be complemented by a comparison using a range of lines which represent the same purchasing power in each year [Callan and others, p. 67].

Further evidence of the similarity between the poverty thresholds of the absolute standard and the poverty lines of the relative standard *after the lines have been selected but before they have been applied to the relevant income data* is that the very same price-indexing is done to the poverty thresholds of the absolute standard used in the United States for the very same reason -- to facilitate year to year comparisons in real-income terms.

To address the “depth of income poverty” problem, Callan and the others appropriately generate estimates of the income shortfall of the poor, that is the gap between the relative poverty line and the average income of everyone classified as poor. Their estimates in this regard indicate that the gap has narrowed between 1987 and 1994. Additionally, they adjust these estimates to give greater weight to those poor for whom the income gap is greater.

Citing the growing support for conceptualizing poverty in terms of deprivation, Callan and his co-authors proceed to identify nineteen “necessities,” such as having a telephone, a refrigerator, indoor toilet, which they refer to as deprivation indicators. Then based on these nineteen “necessities, Callan and his colleagues construct a set of eight basic indicators which relate to debt, food, and clothing, they provide new estimates of poverty based on *two* central criteria *which must be met simultaneously*: (1) below the relative income line and (2) lacking one or two of those basic necessities. Household poverty in 1994, for instance, is nine percent when at least one of the basic necessities is missing, and six percent when two or more of the basic necessities are missing. Without taking into account the second criteria built on deprivation, and applying only the 50-percent poverty line to household income data, the poverty rate was estimated at 17-20 percent. Leaving out the poverty income line entirely and applying only the eight basic items such that a household is classified as poor if any one of the eight items is missing result in a household poverty rate of 25 percent in 1994 and 33 percent in 1987. Clearly, defining and measuring poverty taking into account specific necessities has a powerful impact on poverty estimates whether the specified necessities are applied *apart from* the relative income line or *in combination with* that line.

As we have mentioned already, Callan and his colleagues explicitly reject the absolute income standard as inappropriate for Ireland. Thus, they construct the second criteria in “non-

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monetary” [Callan and others, p. 100] terms -- whether the item is present or missing in the household -- and not on the income required to purchase the specified “necessities.”

... respondents were asked which items they believed were “necessities -- that is things which every household (or person) should be able to have and that nobody should have to do without,” which items they did not themselves have/avail of, and which they would like to have but had to do without *because of lack of money* [Callan and others, p. 100; emphasis added]

Conceptually, however, there is *no real difference* between defining and measuring in terms of deprivation and the poverty threshold of the absolute standard any more than there is a difference between income in cash and an equivalent income in kind. It follows that Callan and his associates in fact are advocating a definition of poverty which incorporates into their original relative standard the absolute standard or what we prefer to call the minimal-living standard. To use our terms fully in this matter, Callan and his co-authors are actually employing a combined minimal-living standard and an income-distribution standard.

Callan and the other authors of the 1996 monograph justify adding deprivation indicators to the relative poverty or income-distribution standard first on the basis of Townsend’s research for Britain [see Townsend]. They also cite other work on non-monetary deprivation indicators by several other researchers [see Mack and Lansley, Townsend and Gordon, Mayer and Jencks, and Muffels and Vrien]. In essence, their justification is support from other published students of poverty to the effect that it simply makes sense to include such indicators in the definition and measurement of poverty.

Callan and the others are leading poverty research in the right direction by combining what we prefer to call the income-distribution standard and the minimal-living standard, but there is a much better justification for this development than the one they offer. In brief, humans by nature are at once individual beings and social beings. It follows that human physical need or more properly unmet human physical need, which is the central to any definition of poverty, is two-dimensional in nature.

... the individual dimension of human nature means that specific goods and services are selected by individual consumers acting autonomously and looking inward at times to determine and serve their own self-interest ... [T]he social dimension of human nature means that specific goods and services are chosen by individual consumers who are constrained more or less by the social environment, looking outward at times to determine and serve their own self-interest and at other times to determine and meet the needs and satisfy the wants of others, especially family members, neighbors, and peers [O’Boyle, p. 51].

*Human individuality is incorporated in a single definition of poverty by means of deprivation indicators or a minimal-living standard at the same time human sociality is included by means of a relative poverty or income-distribution standard.*

By incorporating deprivation in a poverty standard which already includes relative income, Callan and his associates have substantially improved the way in which poverty is defined and measured, especially as regard to comprehensiveness. They can best help bring about wider acceptance by bringing these matters to the attention of the public through continuing research, publications, meetings with their professional peers, press releases, and formal and informal contacts with public officials.

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