Income sufficiency v. poverty
Results from the United States and The Netherlands*

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Abstract. The purpose of this paper is to further the understanding of subjective measures used to assess poverty and to add to the literature on poverty measurement methodology. In particular, the paper focuses on the minimum income question (MIQ) first proposed by Goedhart and colleagues (1977). Data from the U.S. Consumer Expenditure Survey and from a Dutch newspaper survey are used. The primary contribution of the paper is the inclusion of household expenditures as additional explanatory variables of minimally necessary income. Significant differences between the coefficients of several categories of expenditures, particularly for leisure, appear to reveal differences in the interpretation of the minimum income question by respondents. Thus, we question the underlying assumption of the MIQ that everyone adheres the same welfare meaning to the phrase "minimally necessary income," and conclude that the resulting thresholds should not be used as to measure poverty before further research has been carried out to explore what respondents are thinking when they answer questions such as the MIQ.

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1. Introduction

In recent years there has been a renewed interest among social science researchers and policymakers concerning the definition, measurement, and incidence of poverty (see, e.g., Ruggles 1990; Callan and Nolan 1991, for recent surveys). With government agencies producing statistics for quite some time concerning the incidence of poverty and the characteristics of poor individuals and households, there have also been parallel activities to improve the identification and measurement of poverty. This has been particularly true within the United States, countries in Europe, Canada and Australia.

For producing poverty statistics, absolute and relative definitions of poverty have been used most often. In the United States, the official measure of poverty is an absolute one, reflecting a standard below which, it is believed, basic needs cannot be met. Recent research on this measure has included studies on the impact on poverty statistics of using different definitions of income and different market baskets than the ones used for the official measure (Census 1985, 1988; Ruggles 1990). In Europe, poverty statistics based on relative definitions have gained more prominence. These definitions consider the relative position of households or individuals within a distribution (e.g., of income or expenditures) as crucial for the determination of their poverty status (Eurostat 1990; Hagenaars et al. 1993). In addition to absolute and relative poverty measures, research has focused on subjective definitions of poverty. This work has primarily been forwarded by researchers in Europe, particularly from the Leyden school (see, e.g., Hagenaars 1986). Subjective measures are based upon the notion that the opinions of people about their own situation (e.g., with respect to the income level minimally necessary to make ends meet) should ultimately be the decisive factor in defining poverty. Thresholds derived from this information are referred to as subjective poverty lines. The objective of this paper is to continue the discussion on poverty measurement, focusing particular attention on subjective measurement and the relationship between what respondents say is their minimum income to meet basic needs and their expenditures, and, consequently, on the issue of whether the questions asked to obtain this information are interpreted in the same way by different households in different countries.

In De Vos and Garner (1991) we produced subjective poverty thresholds for the Netherlands and the United States from survey data using the intersection method proposed by Goedhart et al. (1977). This method is based on use of the so-called minimum income question (MIQ) which asks for the monetary amounts that people consider to be minimally necessary to make ends meet for their households. Thresholds were calculated as the income level at which perceived minimum income equaled reported actual income, given the result of estimating a logarithmic linear relationship between these two variables. The relationship was differentiated by a series of sociodemographic variables such as household composition, number of earners, urbanization, and the age, education, marital status, and sex of the reference person. A comparison of the mean official and subjective thresholds for each country revealed that the official poverty thresholds were significantly lower than the income sufficiency thresholds. We also found that a much larger percentage of households in the United States, compared to the Netherlands, had incomes below the subjective thresholds. In a separate analysis of this earlier study, we considered the relationship between aggregate fixed expenditures and responses to the minimum income question. We found