

Progress for the Poor

LANE KENWORTHY

OXFORD
UNIVERSITY PRESS

Contents

1. Raise the Floor	1
2. Growth Is Good for the Poor, If Social Policy Passes It On	5
3. How Trickle Down Can Fail: The U.S. Case <i>Lane Kenworthy and Keith Bentele</i>	19
4. Generous Social Policy Reduces Material Deprivation <i>Lane Kenworthy, Jessica Epstein, and Daniel Duerr</i>	33
5. Low Wages Need Not Mean Low Incomes	39
6. Targeting May Not Be So Bad	53
7. Public Services Are an Important Antipoverty Tool	63
8. The Tax Mix Matters Less Than We Thought	71
9. The Aim Is Not Spending Per Se	89
10. Tradeoffs?	95
11. The Politics of Helping the Poor	103
<i>Acknowledgments</i>	111
<i>Appendix: Data Definitions and Sources</i>	113
<i>Notes</i>	119
<i>References</i>	131
<i>Index</i>	155

Raise the Floor

One of the principal goals of antipoverty efforts should be to improve the absolute living standards of the least well-off. My aim in this book is to enhance our understanding of how to do that.

ABSOLUTE IMPROVEMENT

Improvement in absolute living standards has several components, each of which is contentious. Begin with absolute improvement. The inspiration comes in part from John Rawls. In *A Theory of Justice*, Rawls asks what distribution of income and wealth is fairest.¹ Because luck plays a large role in determining our abilities, preferences, motivations, and circumstances, Rawls concludes that an equal distribution is fairest. He argues, however, that a rise in inequality is acceptable if it is to the absolute benefit of the least well-off. In this way, Rawls attaches substantial ethical weight to absolute improvement for the poor. In my view he is right to do so.²

Why is *improvement* important? Experimental research has found that many people believe justice entails a floor for living standards, below which no one should fall, but not necessarily a rising floor.³ I don't think policy makers should share this view. In a rich and growing economy, it is difficult to justify stagnant living standards for those at the bottom. As an economy grows, our view about the appropriate floor will tend to be revised upward. This suggests that we favor not simply a satisfactory level of living standards for the poor, but improvement over time.

An additional reason for favoring rising living standards comes from Benjamin Friedman's argument about psychological impact of

progress. In *The Moral Consequences of Economic Growth*, Friedman concludes that when people view themselves as better off compared to previous generations, they tend to be more tolerant, more generous, more committed to democracy and good government, and more participatory.⁴

If progress makes sense, why should our goal be *absolute* progress? Most research on poverty in affluent nations uses a “relative” poverty measure. Analysts typically set the poverty line at 50 or 60 percent of the median income within each country. This also is the type of measure used by the European Union in calculating poverty rates.

There are two principal rationales for use of a relative measure of poverty.⁵ First, poverty refers to a level of resources insufficient to achieve a minimally acceptable standard of living. Once societies move past subsistence level, it becomes difficult to identify a “minimally acceptable” standard of living in a non-arbitrary way. Hence, as a practical matter it seems sensible to define poverty as relative to what is typical in a given country at a given point in time. Second, proponents of a relative measure suggest that people tend to experience poverty as relative; they gauge their living standards by comparison with what is typical in their own society.

A relative poverty measure has an important drawback, however. It is essentially a measure of inequality in the bottom half of the income distribution. As such, when we assess change over time it can yield a problematic conclusion: the poverty rate may increase even if the absolute incomes of those at the bottom grow.⁶ This happens because the median income increases, which causes the relative poverty line to rise, which results in a larger number of people falling under the line. A striking illustration is Ireland, where relative poverty increased between the mid-1980s and the mid-2000s despite significant improvement in the incomes and material well-being of low-end households.⁷

If the absolute incomes or living standards of the poor grow less rapidly than those of households in the middle, that is worth highlighting. It tells us that inequality has increased, and possibly social exclusion as well. But in my view it is not helpful to refer to this as a rise in poverty.

LIVING STANDARDS, INCOMES, MATERIAL WELL-BEING

Is income a useful indicator of living standards? Poverty researchers and government agencies have long relied on income in gauging the living standards of the poor. Income is a resource that allows households to acquire the sorts of things—food, housing, medical care, transportation, and so on—that are needed for a minimally decent standard of living. Income also is comparatively easy to measure.

Yet as an indicator of resources, income has some important drawbacks.⁸ It usually is measured over a single year. In any given year the incomes of some surveyed households will be atypical, due to illness, temporary unemployment, an unusually generous bonus, overtime work, or other reasons. For these households, single-year income will overstate or understate true income. Income measures seldom include the value of government services and in-kind benefits. Some low-income households have assets (savings, an owned home) and/or access to credit that enhances their ability to consume, in which case even accurately reported income will understate financial resources. Some low-income households have debt, the financing of which reduces consumption ability. Finally, survey respondents in low-income households tend to underreport income.

Given income's deficiencies as an indicator of material well-being, we might do better to instead examine direct indicators, such as whether people have decent food, housing conditions, medical care, clothing, and transportation. In most rich countries one or more nationally representative surveys now includes questions about these and other indicators of living standards. Unfortunately, these questions are relatively new, so we do not yet have a good sense of how the material well-being of low-end households has or has not changed over time. For the moment, income remains the most useful measure for assessing progress.

PROGRESS FOR THE POOR

There are a number of alternative, though by no means antithetical, visions of what antipoverty policy should aim to achieve: capabilities,⁹

opportunity, reciprocity, social inclusion, community, subjective well-being, and others. My intention is not to convince you that improvement in the living standards of the poor is more important than these. Nor am I suggesting that political parties and politicians should put this issue front and center in their election campaigns. A commitment to progress for the poor might or might not be a vote-getter.

Instead, my goal here is simply to lay out the principle that guides the chapters to come. I believe a key concern of policy makers should be to enhance the living standards of the least well-off. This book is about how to do that.

I draw from the experiences of twenty affluent nations over the three decades since the 1970s. These experiences offer valuable lessons, some of which contradict current thinking. As I write, the world's rich countries are emerging from their deepest economic downturn since the 1930s. This follows a period of several decades in which incomes at the bottom of the distribution increased at a very slow pace in some of them. These developments highlight both the importance of boosting the living standards of the poor and the magnitude of the challenge facing policy makers and other economic actors. By improving our understanding of how and why things played out as they did in the 1980s, 1990s, and 2000s, this book aims to help them meet that challenge.