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Emerging issues: Subjective poverty

Measuring Subjective Poverty: An OECD Perspective

Prepared by Organisation for Economic Co-operation and Development (OECD)

Abstract

The paper presents evidence on people's own perceptions of poverty, based on the OECD *Compare your Income web-tool*, showing how this evidence compares with traditional income poverty measures.

I. Introduction

1. This paper focuses on one of the areas identified by the *UNECE Guide on Poverty Measurement* as requiring further methodological work, i.e. the relationship between objective and subjective measures of poverty. As argued in the UNECE Guide, poverty can be defined and measured using different welfare metrics (e.g. income, expenditure) and approaches (e.g. absolute vs. relative cut-offs). These include approaches based on a **subjective definition of poverty,** reflecting the idea that people's views concerning their own situations should inform the debate on poverty. Subjective measures of poverty may help address a number of measurement issues affecting objective welfare metrics (e.g. under-reporting at both the upper and lower tails of the distribution, and the valuation of non-market production), and capture the multi-dimensional nature of economic well-being (e.g. access to non-market goods). While, as for any subjective measure, they may be affected by cultural biases (e.g. people may adapt their perceptions of what it means to be poor as their material circumstances improve), we have also learned how to manage and minimise these effects.

II. Description of OECD current work on subjective poverty

2. This section describes insights on subjective measures of poverty from the OECD *Compare your income* web-tool (www.compareyourincome.org).

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3. People's perceptions of income distribution differ from objective measures (Niehues, 2014). This misperception may have an important impact on how people assess their own conditions, and how they react when governments propose policies aiming to redistribute economic resources, such as for example minimum wage or an estate tax (Alesina et al., 2001; Osberg and Smeeding, 2006).

4. International information on people's perceptions of poverty is very limited. In May 2015, the OECD launched "Compare your income" (www.compareyourincome.org), an online interactive tool aimed at raising awareness among people on how income is distributed. This tool also allows the OECD to get some insights on how people's own perceptions of income inequality and poverty differ from statisticians' best estimates of reality.[1] While similar tools exist at the national level, "Compare your income" allows comparing people's perceptions of income distribution across the 35 OECD countries, with all the caution required by the use of non-representative data.[2]

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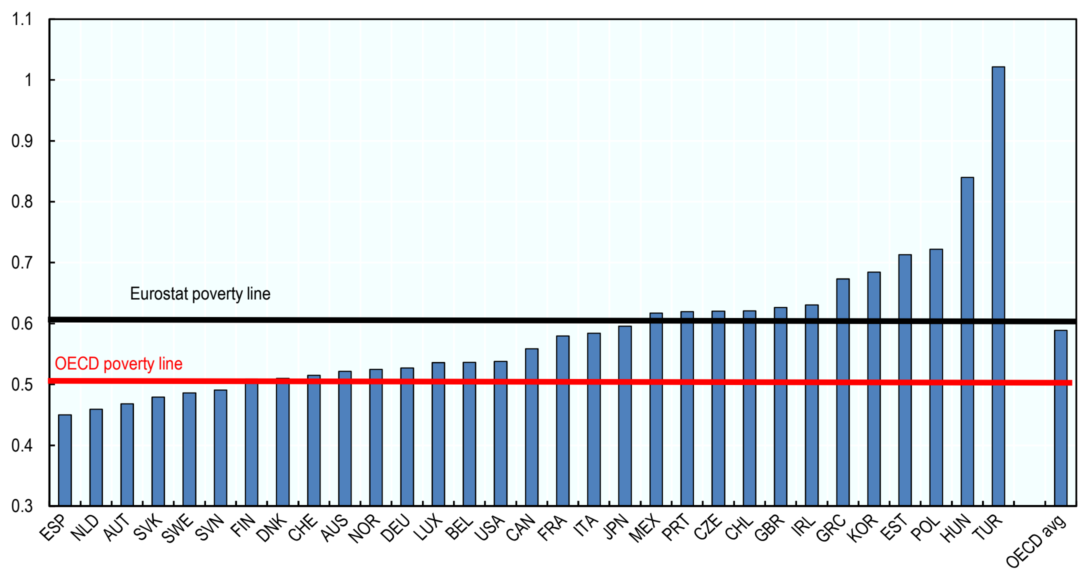
1 "Compare you income" is built using OECD statistics on income distribution and poverty. Users are asked to provide information on their gender, country of residence, age and household size, as well as on their household disposable income. They then move on to a series of questions including: where they believe they fit in the income distribution; what is the minimum income that their own family would need to avoid poverty; how they think their country's income is distributed; and how they would divide it if it was up to them to decide. In 10 clicks, users can see how close or far from reality their perceptions and ideals stand. To date close to 2.5 million people have visited the "Compare your income" website, and close to 2 million users from around the world have completed the survey. The average user is a man in his 30s, living in a household of 2 to 3 people; while not representative of the population at large, users' responses can be re-weighted, so as to more closely approximate the underlying population.

2 . In 2011, the French National Institute of Statistics and Economic Studies (INSEE) launched a survey asking respondents to position themselves on the income scale: results showed that, while for 45% of respondents there was little discrepancy between perceptions and realities, most poor people (three out of five) overestimated their position, and most rich people (four out of five) underestimated it. Similarly, a survey conducted by TNS Gallup in Finland showed that, while most people's idea of "low income"

5. Different approaches can be used to measure subjective poverty. The OECD Compare your income tool relies on the Minimum Income Question (IQW), asking users what they considered to be the minimum household disposable income that would enable a household like their own to escape poverty.[3] Users' answers can then be used to assess how far these subjective poverty lines fall from the ones conventionally used (by the OECD and Eurostat) for comparative analysis. Figure 4 reports the average minimum income that users consider necessary to escape poverty as share of the median national income. As it can be seen, in most countries, the average of these subjective poverty lines lies between the OECD poverty line (50% of the median income) and the Eurostat one (60% of the median income). In the average OECD country, the subjective poverty line is implicitly set by users of Compare your Income at 60% of the median income. It is below 50% of median income in Spain, the Netherlands, Austria, Slovak Republic and Sweden, but above 60% in Greece, Korea, Estonia and Poland; and above 70% in Hungary and Turkey.

Figure 4. Subjective poverty lines

Average minimum income that users consider necessary to escape poverty as a share of median income, by country



Note: Users' answers are weighted so as to be representative of the country's population. Data for Iceland and Latvia are not available. Subjective poverty lines are computed on answers from users aged 18 and more.

Source: OECD estimates based on users' replies from the "Compare your income" tool.

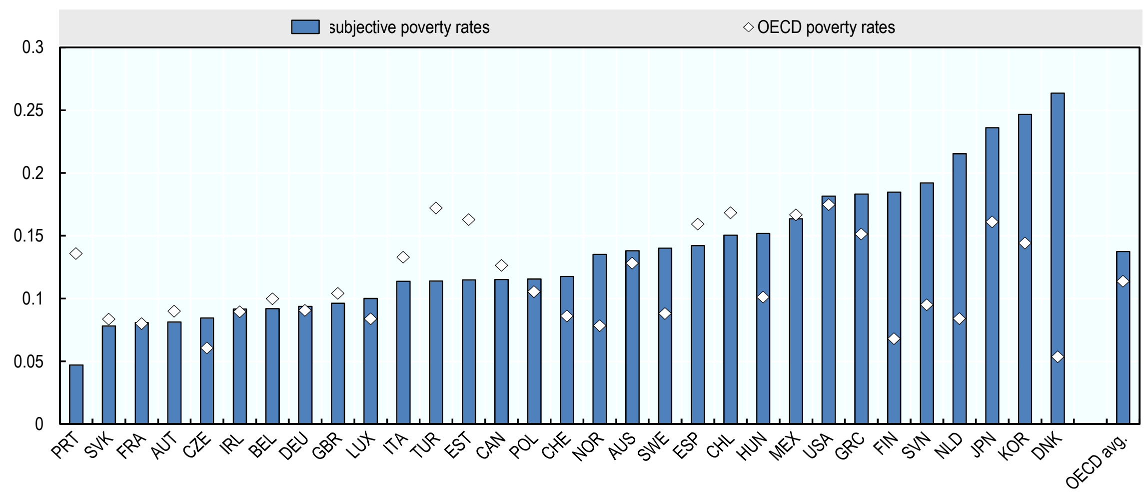
6. It is also possible to compare poverty rates based on the thresholds conventionally used in comparative analysis with those based on subjective assessment. The poverty headcounts shown in Figure 5, based on both subjective and objective thresholds, are only broadly comparable, as the former refer to answers from users aged 18 and more, while the latter refer to the whole population, as reported in the *OECD Income Distribution Database* (oe.cd/idd). While in a small majority of countries the difference between the two poverty rates is below 2 percentage points, the poverty rates computed on the basis of subjective poverty lines are considerably higher than the OECD IDD estimates in Japan, Slovak Republic,

corresponds quite closely to that used by Statistics Finland, respondents' own income influenced their perception: the higher their income, the higher their view of what "low" and "high" income is.

3. Alternatively, the subjective evaluation (IEQ) of available income to make ends meet (also known as the Leyden Poverty Line (LPL) could be used.

Korea and the Nordic countries, while they are lower than those based of thresholds set at half of median income in Portugal, Turkey and Estonia (countries that are, however, characterised by relatively small number of users of Compare Your Income). In countries such as Belgium, Chile, France, Mexico and Spain, where sample sizes are much larger, the gap between ‘subjective’ and objective poverty rates is almost negligible.

Figure 5. Income poverty rates based on 'objective' and 'subjective' thresholds



Note: Subjective poverty rates are defined as the percentage of people living in a household for which the user reported less disposable income than the level they identified as being enough to keep a household like theirs out of poverty. Users’ answers are weighted so as to be representative of the country’s population. Data for Iceland and Latvia are not available. Subjective poverty rates are computed on answers from users aged 18 and more. OECD poverty rates are defined as the percentage of population with equivalised household disposable income below 50% of median income.

Source: OECD Income Distribution Dataset (www.oe.cd/idd) and OECD estimates based on users’ replies from the “Compare your income” tool.

III. Conclusions and recommendations

7. This paper focused on one of the areas identified by the *UNECE Guide on Poverty Measurement* as requiring further methodological work, i.e. the relationship between objective and subjective measures of poverty, and provided examples of the work done by the OECD to advance the statistical agenda in this area. Subjectively assessed poverty measures do provide important information on the resources that people consider necessary to escape poverty, as well as on a range of other issues (e.g. people's assessments of the “causes” of poverty, of the extent of intergenerational mobility, or of attitudes to redistribution). Further research is however needed to strengthen the evidence available.

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