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Choosing Concepts and Measurements of Poverty: A Comparison of Three Major Poverty Approaches

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A comparative analysis of different poverty measures, particularly across studies that use different conceptualizations and measurements of poverty, is very valuable. In highlighting this fact, this article compares three poverty measurements: monetary poverty, social exclusion, and capability poverty measurements. The results indicate that all three poverty measurements classify varied proportions of the U.S. population as poor. These variations occur as a function of the conceptualization and measurement of poverty. In general, all three poverty measurements are inadequate indicators of well-being. It is reasonable to suggest that researchers report results using more than one poverty measurement.

KEYWORDS social exclusion poverty, monetary poverty, capability poverty, measurement of poverty, conceptualization of poverty

INTRODUCTION

Poverty and social policy research utilizes different poverty definitions and measurements. However, different poverty definitions and measurements have been associated with varied and/or contradictory evaluation outcomes (Bell, 1995; Laderchi, Saith, & Stewart, 2003). Consequently, the choice of a particular poverty definition and measurement has important consequences for the poor. According to Laderchi et al. (2003), the various conceptualizations and measurements of poverty may not indicate that the same people are poor. Hagenaars and Vos (1988) also emphasized that the choice of a specific

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definition and measurement of poverty may result in different estimates of a population as poor or as not poor. Interestingly, researchers and policy-makers often prefer to adopt a particular definition of *poverty* based on their specific study objective, political interest, the availability of data, and other forms of justification (Behn, 1995, 2003).

In the United States, poverty policy and program evaluations are linked to different estimates of the numbers of poor or not poor. The difference in poverty estimates could be attributed to differences in the conceptualization and measurement of poverty rather than to the facts on the ground. In that context, many poverty studies use indicators of monetary poverty, whereas others employ indicators of either capability or social exclusion poverty to support their findings and conclusions (Blank, 2007; Hagenaars & Vos, 1988; Laderchi et al., 2003; Rank, 2004). Although the choice of a specific poverty measure may have major consequences for poverty reduction, some measures may identify specific poverty situations better than others (Hagenaars & Vos, 1988; Laderchi et al., 2003). What is lacking in previous studies is no comparative analysis of different poverty indicators such as monetary poverty, capability poverty, and social exclusion poverty. This lack of comparative analysis makes it difficult to conclude which poverty measurement is more appropriate in a given poverty situation. Which poverty indicator(s) should be used to define and measure poverty? This article aims to compare and examine how the different poverty measurements (monetary, capability, and social exclusion poverty measurements) estimate poverty outcomes.

CONCEPTS AND MEASUREMENTS OF POVERTY

Poverty is a worldwide concern. Although there is global concern about poverty reduction, there is no single definition and measurement of *poverty* (Kotler, Robert, & Leisner, 2006; Laderchi et al., 2003). Because poverty affects heterogeneous groups, the concept of poverty is relative depending on different interest groups and the individuals experiencing poverty (Kotler et al., 2006; Rank, 2004). Laderchi et al. (2003) underscored four main approaches to poverty definition and measurement: monetary poverty, capability poverty, social exclusion poverty, and participatory poverty approaches. This article focuses on the first three approaches. Unlike the other three poverty measurement approaches, the participatory approach emphasizes the need to get the poor themselves involved in defining what it means to be poor. The participatory approach employs qualitative methods and tools including participatory rural appraisal. Because it is difficult for the researcher to purposively sample participants from different parts of the nation to define what it means to be poor, this approach was not included in this study (Laderchi et al., 2003).

Monetary Poverty

The monetary approach is a commodity- or utility-based approach that defines poverty in the context of the distribution and utilization of goods as well as the fact of individuals possessing such goods. The monetary approach uses methodologies that emphasize monetary income based on the assumption that all relevant heterogeneity between individuals can be controlled for and that income or expenditure indicators are appropriate proxies for consumption. Because the monetary poverty approach focuses on data from market-purchased essential goods and this reflects the utility levels of such goods, it often analyzes income or consumption data (Laderchi et al., 2003; Ravallion, 1998). The approach employs an absolute income threshold computed by putting a monetary value on the minimum amount of goods a family or individual needs to survive. When a family's or an individual's total income falls below the poverty threshold, the family or individual is considered to be poor. Thus, *monetary poverty* is defined as a shortfall in family or personal income (expenditure) below some minimum level of resources, a poverty line (Laderchi et al., 2003). In other words, monetary poverty is having less than an objectively defined (absolute minimum) amount of resources in society. Although monetary poverty is useful for interpersonal comparison in poverty analysis, it fails to take into account variations in personal characteristics as well as disparities in social environment (Laderchi et al., 2003; Sen, 1985).

There are two slightly different versions of the U.S. poverty measurements, the federal poverty thresholds and poverty guidelines (U.S. Department of Health and Human Services, 2007, 2009). The poverty threshold is a set of money income thresholds that vary by family size and composition (based on the ages and number of family members). The poverty guidelines are a simplified version (percentage multiples such as 150% or 1.5) of the federal poverty thresholds that are used for administrative purposes by many government aid programs to determine an individual's eligibility for certain federal programs (U.S. Department of Health and Human Services, 2007, 2009). According to the U.S. Census definition, an individual or family is considered to be poor if the annual before-tax money income is less than the poverty threshold (U.S. Bureau of Census, 2004).

Social Exclusion Poverty

Social exclusion poverty is the relative deprivation of a person or the person's lack of access to certain commodities or services common to others in society (Laderchi et al., 2003). The concept of social exclusion was advanced in industrialized countries to demonstrate the process of marginalization and deprivation. The origin of social exclusion can be traced back to a breakdown in social cohesion that followed civil unrest in France in 1960 resulting

from increasing unemployment and socioeconomic inequalities. The use of the concept of social exclusion spread from France to other European nations and then to the rest of the world. According to Mathieson et al. (2008) and Laderchi et al. (2003), the concept of social exclusion has been subjected to different meanings over the years, such that it has no single acceptable definition. The term has also been used to emphasize an individual's lack of participation in society as well as lack of access to citizenship rights. *Social exclusion* is also used to describe groups that are at risk of exclusion and the states associated with exclusion.

Mathieson et al. (2008), Laderchi et al. (2003), and Silver and Miller (2003) outlined attributes or key elements of social exclusion as being multidimensional, dynamic, and relational. The multidimensionality of social exclusion relates to the fact that the experience of exclusion exists in many spheres such as economic, social, and political. The dynamic process of social exclusion posits that one form of exclusion can lead to more exclusion and permanent multiple forms. The relationship aspect of social exclusion relates to the fact that social exclusion occurs as a result of unequal social relationships or differential power. As a process, social exclusion maintains unequal power relationships, which create inequality.

Mathieson et al. (2008) noted that the lack of a single definition of social exclusion has left the concept with no single validated exclusion poverty measurement. Although the UNDP's (1997) Human Development Index has been used to describe some aspects of social exclusion, there are no specific indicators of social exclusion at the global level. However, two sets of indicators (primary and secondary indicators) have been adopted (Department for Work and Pensions, 2003). The primary indicators include persistent at-risk poverty rate, relative median poverty gap, long-term unemployment rate, and population living in jobless households. The primary indicators are at-risk poverty rate, poverty risk by household type, and poverty risk by work intensity of household. The primary indicators cover the most important aspects of social exclusion, whereas the secondary indicators give further clarification to the primary indicators.

In contrast to using absolute income poverty, the European Union (EU), researchers, and governments have adopted relative income poverty as the dominant standard measure of social exclusion poverty to capture the incidence of poverty. Specifically, the EU measures the risk of poverty at 60% of median income. Fifty percent of the median income is also considered as an indicator of relative income poverty. The median income threshold used by the EU is assumed to express important information about the nature of deprivation in a specific society (Hilamo, Saillila, & Sund, 2004). Unlike the absolute poverty threshold, the relative income measure takes into account the variations in personal characteristics as well as disparities in the social environment.

Capability Poverty

Capability poverty is the deprivation of a person or the failure of a person to develop capabilities to achieve a certain level of functioning. *Capability* refers to the individual's abilities (a list of commodities he or she possesses in a given external environment) to adequately fulfill certain crucial roles at a minimum, whereas *functioning* refers to what a person has succeeded in achieving or doing with his or her abilities (Laderchi et al., 2003; Saith, 2001; Sen, 1985). The capability poverty approach argues that monetary resources are a necessary condition and that other resources are required to develop a person's capabilities to prevent the occurrence of poverty (Laderchi et al., 2003). Nussbaum's (2000) basic human functional capabilities provide a universal list that allows for further negotiation. Items on Nussbaum's capability list include, but are not limited to, physical health, a person's control over his or her environment, his or her institutional or other affiliations, and his or her emotions. Limited capability (i.e., basic requirements for a decent life) has been described as including health, nutrition, education, sanitation, water supply, and housing (Laderchi et al., 2003).

Given the multidimensionality of capability poverty, a comparison of the overall capability set is more difficult to examine (Laderchi et al., 2003). According to Laderchi et al. (2003), selecting the capability set or setting a capability poverty threshold is somewhat arbitrary, as this is based on the general standard of a given region or country. The UNDP (1997) defined *human poverty* as deprivation in three essential elements including life expectancy, knowledge, and a decent standard of living. Human poverty in developing nations has been defined in terms of the following indicators in each nation: having a life expectancy of fewer than 40 years at birth, the prevalence of under-5 year mortality, adult illiteracy, and a general lack of access to improved water sources. The UNDP (2001) adopted a different poverty index for the various developed nations with life expectancy set at below 60 years and with literacy defined as lack of functional literacy among adults (Laderchi et al., 2003).

Laderchi et al. (2003) pointed out that the assessment and comparison of an interpersonal capability set may involve the assessment of just one element considered as representative of the set. In this way, the value of the capability set is equated with that of a single element of the set, such as being educated (Laderchi et al., 2003). For instance, if the chosen indicator is the years of education, the comparison between individuals would relate to their levels of achieved education, for example, education until Grade 6. Many empirical studies on capability poverty employ one or more indicators of education, health, nutrition, sanitation, water supply, and housing (Darling, 2002; Laderchi et al., 2003).

METHOD

Data

This research utilized data from the 2004 National Longitudinal Study of Youth, 1979 (NLSY79) from the U.S. Department of Labor (2006). The NLSY1979 is a national representative sample of 12,686 young women and men between 14 and 22 years of age when they were first interviewed in 1979. The 2004 survey was the 21st wave of the NLSY79 panel data. The age distribution of the survey respondents ranged from 39 to 48 years. Data from 2004 were selected because the data set contains observations on multiple phenomena that provide data for the analytical basis of this article. In 2004, the retention rate for the NLSY79 respondents was 76.9% ($N = 7,661$). The 2004 interview was conducted between January 2004 and February 2005. The socioeconomic characteristics of the survey sample and the national population based on the 2004 American Community Survey (ACS) were compared with the extent to which the sample matched well with the national population of the United States. The comparison shows that the sample survey was generally representative of the national population in terms of socioeconomic characteristics including sex, educational achievement, family size, and family income (USBC, 2007).

Methodological Approach and Poverty Estimation

As stated earlier, this article focuses on monetary poverty, capability poverty, and social exclusion poverty approaches. To estimate the size of the survey population in poverty with respect to each approach, the researchers followed two main steps. Step 1 involves the selection of variables by which the resources of persons/households are to be measured. In Step 2, the poverty lines below which people are considered to be poor are determined. To identify the size of the population considered to be poor, the distribution of the various variables was transformed, with those who are not poor being coded 0 and those who are poor being coded 1.

Cross tabulation is then used to calculate the sensitivity and specificity of the poverty measurements. The sensitivity of a model is the percentage of the group that has the characteristics of interest (i.e., individuals in poverty) which has been identified accurately (Pallant, 2007). The model specificity is the percentage of the group without the characteristics of interest (that is individuals not in poverty) that has been identified correctly (Pallant, 2007). Kappa measure of agreement statistics are used to assess inter-rater agreement or the consistency of two different events.

Variable Categorization

In this article, monetary poverty is measured at two levels. The first poverty line is the U.S. federal poverty threshold. The second poverty measurement

is the U.S. poverty guideline, which is 1.5 times the federal poverty threshold (U.S. Department of Health and Human Services, 2007, 2009). In this regard, individuals or households with a total income less than either the threshold or the guideline are considered to be poor. Individuals or households in poverty were coded 1, and those not in poverty were coded 0.

In this study, social exclusion poverty is operationalized in terms of household median income. Social exclusion poverty is measured on two levels. Using a narrow poverty level, households with a total income below 50% of the household median income of the population age between 39 and 48 are considered to be poor. In addition, using a broader poverty level, households with a total income below 60% of the median income are considered to be poor. The corresponding weighted 2004 household median national income for the population age between 39 and 48 years was \$60,023.00 (U.S. Bureau of Census, 2005).

Unlike the monetary and social exclusion approaches, capability poverty measurement utilizes a non-income-based approach. In that context, *poverty* is defined with respect to educational achievement or how well an individual is educated (Saith, 2001). Education is chosen as an indicator of capability poverty because, in industrialized countries, there is a higher likelihood that the average person will have a right to 10 or more years of education. Education is considered as one of the most critical and commonly agreed capabilities (Hulme & McKay, 2005). Consequently, the capability poverty threshold is defined as the end of specific years of schooling. First, the educational threshold is identified by matching total income to educational level. The threshold is set at a point at which income falls below the federal poverty line. A high poverty rate matches an educational level less than a high school diploma (USBC, 2008). Because high-income poverty tends to concentrate at the lowest educational level, the authors restricted the education poverty thresholds to high school diploma or less. The authors used two levels of measurement with respect to capability poverty. First, individuals whose educational attainment is 11 years of schooling or less (Grade 11) are considered to be poor. Second, individuals whose education attainment is 12 years of schooling or less (Grade 12) are considered to be poor. Capability poverty was measured by asking about the highest grade completed by the respondents. The responses ranged from no schooling, first grade to eighth year of college, or more. The distribution of the respondents' highest grade completed was transformed into a dummy variable at two different levels. First, capability poverty is a dummy variable scored 1 if the respondent indicated education level to be Grade 11 or less; all others are 0. Second, capability poverty is a dummy variable scored 1 if the respondent indicated the highest grade completed to be Grade 12 or less; all others are 0.

TABLE 1 Percent Distribution of Sample in Poverty

Type of poverty	Measured	% in sample
Monetary poverty	Poverty status at federal poverty threshold cutoff point	14.5
	Poverty status at 1.5th cutoff point	21.4
Social exclusion poverty	Household income at 50% cutoff point of the median income of the population age between 39 and 48 years.	30.6
	Household income at 60% cutoff point of the median income of the population age between 38 and 49 years.	36.7
Capability poverty	Equal to or less than Grade 11 cutoff point	10.6
	Equal to or Grade 12 cutoff point	54.2

RESULTS

Distribution of Sample in Poverty

Table 1 shows the percentage distribution of the sample in poverty. It is obvious that the distribution of the sample below the thresholds of the three poverty measurements increases with increasing cutoff points. When the official federal poverty threshold was applied, 14.5% of the sample fell below the monetary poverty threshold. When the federal poverty threshold was set at 1.5 times the official federal poverty threshold, 21.4% of the sample fell below the monetary poverty threshold. In contrast, social exclusion captured more people in poverty than monetary poverty. With the social exclusion poverty threshold set at 50% of median national income of the population aged between 39 and 48, 30.6% of the sample fell below the poverty threshold. At the 60% median income cutoff point, 36.7% of the sample fell below the social exclusion poverty threshold. With the capability poverty cutoff point equal to or less than the Grade 11 cutoff point, 10.6% of the sample was below the capability poverty threshold. This figure is less than the percentage in monetary or social exclusion poverty at their respective first cutoff levels. At the cutoff point equal to or less than the Grade 12 cutoff point, however, 54.2% of the sample was in capability poverty.

Rate of Poverty Distribution

To obtain a bigger picture of how poverty distribution rates are influenced when the three poverty measurement threshold levels are increased, cumulative frequency curves were drawn for the three poverty measurements, as shown in Figures 1 through 3. The monetary poverty curve is almost similar to that of the social exclusion poverty curve. There is a gradual change (increase) in the distribution of the sample in poverty as the cutoff points of the monetary and social exclusion poverty thresholds increase. With the capability poverty measurement, there is not much change in the

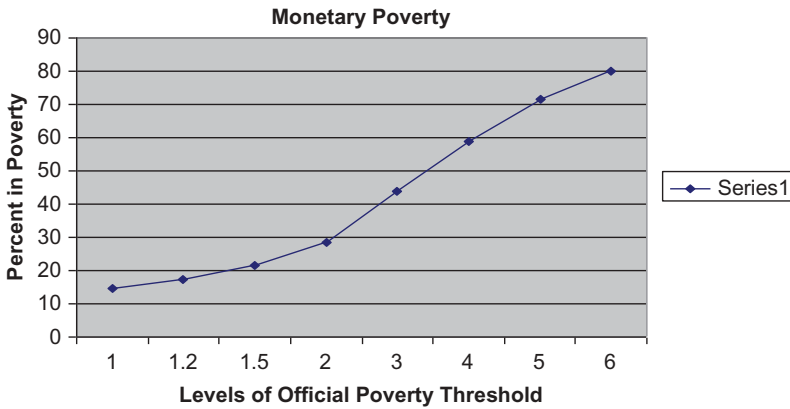


FIGURE 1 Distribution of people in monetary poverty.

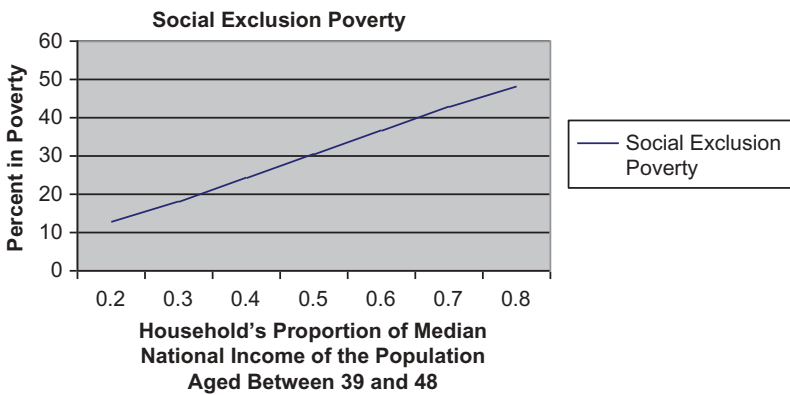


FIGURE 2 Distribution of people in social exclusion poverty.

distribution of the sample in poverty until the highest educational grade completed reaches Grade 12.

Overlap Between Poverty Measures

The authors tested the degree of agreement between the different measurements of poverty. The goal is to see whether individuals identified as falling below the poverty line were also classified as falling below the poverty line by the other measures. A kappa value of 0.5 represents moderate agreement, above 0.7 represents good agreement, and above 0.8 represents very good agreement (Peat, 2001, p. 228).

A cross tabulation of the monetary poverty measurement (at the federal poverty threshold cutoff point) and the social exclusion poverty measurement at 50% of the median national income threshold cutoff point indicates

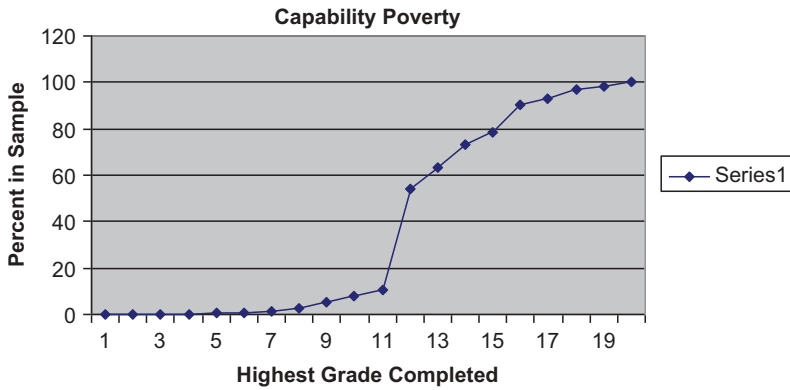


FIGURE 3 Distribution of people in capability poverty.

that, out of 2026 individual respondents classified as being in social exclusion poverty, 958 are also identified under the official federal poverty threshold. A sensitivity value of 47.3% (958/2026) represents the proportion of those individuals classified under the monetary and the social exclusion measures who are correctly identified.

A cross tabulation of the capability poverty measurement (when an individual's educational achievement is equal to or less than Grade 11) and the monetary poverty measurement (at the federal poverty threshold cut-off point) shows a sensitivity value of 38.7 (258/667). A sensitivity value of 38.7 (258/667) implies that 38.7% of those individuals classified under the monetary and the capability poverty measurements are correctly identified. A kappa measure of agreement value ($\text{kappa} = .23, p < .001$) indicates a weak consistency between the two poverty measures. A cross tabulation of the capability poverty measurement (when an individual's educational achievement is equal to or less than Grade 11) and social exclusion poverty (at 50% of the median national income of the population age between 39 and 48 years) indicated a sensitivity value of 64.5 (430/667). The sensitivity value of 64.5 (430/667) indicates that 64.5% of those individuals classified under the social exclusion and the capability poverty measurements are correctly identified. A kappa measure of agreement value ($\text{kappa} = .2, p < .001$) indicates a weak consistency between the two poverty measurements.

DISCUSSION

The majority of poverty studies in the United States employ the federal poverty threshold (a monetary poverty measurement), whereas a few use indicators of capability and social exclusion poverty measures. The U.S. federal poverty measure has been criticized as a less effective poverty

measurement (Blank, 2007; Dalaker, 2005; National Poverty Center, 2006; Rank, 2004). In particular, the use of different poverty measurements in the U.S. poverty program evaluations has been associated with different and/or contradictory outcomes. In general, this study did not directly address these controversies; instead, it informs the literature on poverty measurement in a number of directions. Laderchi et al. (2003) noted that the use of different poverty measurements would likely result in different numbers of people being classified as in poverty. The variability in the levels of the percentage distribution of an individual crossing the poverty line for the three poverty measurements can be attributed to differences in the theoretical assumptions of these poverty measurements (Laderchi et al., 2003; World Bank, 2002). The diversity of the assumptions as well as the methodology adopted for each poverty measurement influence the extent to which each poverty measurement is able to capture a particular individual as being poor. The assumption of the monetary poverty measure is based on absolute poverty and focuses on the income that classifies a family or individual as poor when income or consumption falls below an objectively derived poverty line.

The percentage distribution of individuals in poverty for the three poverty measurements indicates that poverty incidence is sensitive to change when any of the poverty thresholds is increased. Monetary and social exclusion poverty measurements exhibit a consistent pattern of gradual increase in the percentage distribution of the sample in poverty when the threshold levels are raised. This observation could be attributed to the fact that the monetary and the social exclusion poverty approaches utilize income-based indications. Social exclusion poverty has the highest percentage distribution of the sample in poverty. After social exclusion poverty, monetary poverty comes next with a consistent count of the sample percentage in poverty when the official federal poverty threshold level is raised. This disparity may be explained by the fact that the absolute income measure of monetary poverty does not consider differences in personal characteristics or social environment. However, the social exclusion poverty measurement, which employs the relative income measure, takes into account the variations in personal characteristics as well as disparities in the social environment. In particular, when the poverty threshold of educational achievement (capability poverty measure) was raised from equal to or less than Grade 11 to equal to or less than Grade 12, the percentage in poverty was dramatically increased (from 10.6% to 54.2%). This sharp increase in the distribution of people in capability poverty can partly be attributed to the institutional arrangement of education in the United States, where elementary and high school education is provided and enforced by the public sector, with control and funding coming from federal, state, and local governments. Schooling is compulsory for all children in the United States, but the age range for which school attendance is required varies from state to state. Some states allow students to leave school between age 14 and 17 years with parental approval

(Gatto, 2003). It seems that compulsory and free education at elementary and high school levels has promoted higher attendances.

Furthermore, the results of the cross tabulations indicated that the poverty measurements overlap to capture a percentage of the sample as being poor. In general, there are overlaps between the poverty measurements to identify individuals who experience more than one type of poverty. These overlaps range from about 39% to 65%. The kappa measure of agreement value of 0.6 indicates a moderate consistency between the monetary and social exclusion poverty measurements. Social exclusion poverty and monetary poverty measurements have shown a consistent pattern of identifying poverty in the sample. The kappa measure of agreement value between capability poverty and monetary or social exclusion poverty indicates weak agreement between the classifications of cases as falling below the poverty lines. In that sense, the findings that the capability poverty measurement exhibits inconsistent patterns of poverty distribution as well as a weak kappa measure of agreement value with the poverty measures implies that the capability poverty measurement is not a good poverty measurement (compared with the other measures), particularly in a developed nation such as the United States. One could also argue that part of the inconsistent measurement by capability poverty may be a consequence of its nonincome indicator (education) relative to the income indicators used for the other poverty measurements.

The different poverty measurements result in different estimates of population sizes for those considered to be poor. Although the three poverty measurements are different, they do overlap to capture a proportion of the population as being poor. What distinguishes one poverty measurement from another is the unique poverty definition and defined threshold levels of each measure. They also result in information and conclusion discrepancies, which in turn may have serious policy implications. Because monetary poverty emphasizes the distribution and utility of goods as well as an individual's possession of such goods, poverty reduction policies often tend to focus on economic growth and money income generation. For example, to reduce poverty, monetary poverty policy emphasizes the requirement for an increase in productivity and income as a means to reduce poverty among the poor (Laderchi et al., 2003; Sen, 1985). It therefore focuses on policies that promote economic growth, redistribution, and socioeconomic structure changes that are fundamentally important to poverty reduction. Social exclusion poverty policies tend to promote policies that minimize racial, gender, and class discrimination and inequality to increase access to more resources (Laderchi et al., 2003).

Alkire (2007) and Darling (2002) emphasize human capital or the capability to provide people with the necessary skills or abilities to function well in society. According to them, the lack of human capability places an individual in a more economically vulnerable position when they face detrimental

events such as loss of job, illness, or family changes. Individuals with a high quality of human capital will do well in the labor market. Schiller (2008) also pointed out that personal investment in human capital such as education can operate as a strong mechanism that can influence the distribution of poverty. Policies of capability poverty alleviation emphasize increasing the accessibility of goods and services such as good health, nutrition, and education to individuals or groups.

Indeed, it can be argued that all three poverty approaches discussed in this article are inadequate indicators of well-being. As Rank (2004, p. 21) aptly noted, poverty and its measurement involve a degree of subjectivity. In his view, despite the importance of well-grounded thinking, poverty is in the eye of the beholder. In this sense, choosing a particular poverty approach and its corresponding poverty line(s) may give an appearance that a certain number of people are in poverty and policies are generated based on that. This hardly gives policymakers an accurate picture of poverty and whether policies to eradicate it are really working. This means that policymakers should not focus their efforts on people living just below the poverty line to give a rosy picture of the evolution of poverty and its eradication.

CONCLUSION

Current research reveals the complexity of poverty in terms of the linkage between the theory, definition, and measurement of poverty. The different poverty measurements result in different estimates of the studied sample sizes considered to be poor. Although the three poverty measurements are different, they do overlap to capture a segment of the population that is poor. This variation occurs as a function of the definition and measurement of poverty. Therefore, differences in conclusions among studies and discrepancies among evidence for policymakers may, among other things, stem from the variation in poverty definitions and means of measurement. It is reasonable to suggest, therefore, that researchers seriously consider reporting results using more than one measurement on account of the multidimensional nature of poverty.

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