Evaluating the pro-poorness of transfers: how much does the assessment depend on the choice of indicator?

- A comparison between Germany, France, Netherlands, United Kingdom, Ireland and Sweden -

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Introduction only, please do not further disseminate

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1. Introduction

Assisting the less well-off is often an explicit or implicit aim of public interventions and especially in policy domains such as taxation, social protection, social work, health, education and housing. Irrespective of whether an intervention is specifically targeted at the least well off or at a broader segment of the population, policy analysts need to choose an indicator to evaluate the intervention's success.

When evaluating the pro-poorness or progressiveness of interventions, income is by far the most popular indicator to assess whether an intervention i) reaches the poor / is progressive, ii) has an impact and iii) is cost-effective. The advantages of income as an indicator of 'success' are that the information is widely available in administrative and survey data; it typically reflects families' most important source of financing their living standard; and, particularly in large samples, its near-continuous distribution allows assessing income differences between groups as well as changes over time with considerable precision.

Income, however, is not without shortcomings and it is also not the only available indicator of success. Asset holdings, for instance, can also finance a family's living standard (Brandolini, Magri, & Smeeding, 2010). In the case of assets, ignoring such information underestimates a family's financial resources while for debts the reverse holds. Moreover, the value of in-kind transfers and indirect taxes is typically not accounted for in assessing a family's income which may also misestimate a family's resources (Garfinkel, Rainwater, & Smeeding, 2006; Paulus, Sutherland, & Tsakloglou, 2010). In all of the above cases the missing information can explain why discrepancies between a family's income and its actual living standard may arise. A further shortcoming of income is that the indicator implicitly assumes that the goods and services can be purchased from well-functioning markets ignoring market imperfections and market failures such as rationing and public goods (Bourguignon & Chakravarty, 2003). Sen (1999) further argued that, albeit important, income is merely a means to an end; and, that in addition to the above mentioned shortcomings, there are contextual differences between individuals (be they personal, environmental, social, cultural or intra-household) that can explain why individuals with the same income and desires may end up with different outcomes.

In addition to using better or complementary indicators of financial resources, an alternative group of indicators focuses on a family's material outcomes to assess the success of policy interventions: the advantage of such indicators is that they measure a family's or person's living standard in direct way.[1] In Europe, Australia, Canada and developing countries such indicators are typically labeled as 'material deprivation' (Nelson, 2012; Saunders & Wong, 2011) while in the United States the term 'material hardship' has more currency (Cancian & Meyer, 2004; Huston & Bentley, 2010; Lim, Livermore, & Davis, 2010; Wu & Eamon, 2010; Zilanawala & Pilkauskas, 2012). In either case, the indicators are measuring whether the family or person is involuntarily missing an item or aspect considered to be normal or typical for the society in which they live (Guio, 2009; Townsend, 1979). Examples of such indicators are whether the family was cut off from basic utilities such as water and electricity, or whether the family can afford to have fresh fruit every day.

[1] The advantages and shortcomings of such indicators are further discussed in section 3.

As the use of non-monetary indicators increased, scholars have investigated the degree to which monetary and non-monetary poverty proxies overlap at the level of families and individuals (see for instance in Europe: (Nolan & Whelan, 2010); Fusco, Guio and Marlier, 2010; and in the United States: Cancian and Meyer, 2004; Sullivan, Turner and Danzinger, 2008; Meyers, Garfinkel and Weissman, 2000). Using different definitions of indicators and covering different countries, the common finding among such studies is that while there is a positive correlation between monetary and non-monetary proxies, they only partially overlap resulting in significantly sized groups being poor according to one but not the other and a 'core' group being poor according to several indicators. Rather than selecting the 'best' one, the proxies are generally seen as complementary and in poverty analyses it is now common practice to monitor poverty using various proxies. For instance, the European Union annually reports on poverty and social exclusion by using a portfolio of indicators (Atkinson, Marlier, Cantillon and Nolan, 2007).

In policy analyses, however, the effect of programs and policies on poverty is typically evaluated using either a monetary or a non-monetary poverty proxy. This is problematic because as these indicators only partially identify the same group of individuals as poor or less well off, different indicators may assess a program's performance differently. This is exactly what Cancian and Meyer (2004) find when using an income poverty proxy and material hardship indicators to assess the living standard of TANF participants in Wisconsin.

This paper explores this issue further by focusing on the question: how influential is the choice of welfare indicator when assessing the pro-poorness or progressiveness of policy interventions? The research takes a cross-national perspective comparing six EU member states and focuses on key income transfers to households with working age adults: unemployment-, disability- and sickness benefits, family allowances, housing allowances and social assistance. Included are Germany, France, United Kingdom, Ireland, Netherlands and Sweden: these countries have a similar average living standard but have different social protection systems. We use two welfare indicators that are used by the EU to construct poverty measures: income and material deprivation. Both indicators are measured at the household level; the EU material deprivation indicator is the number of deprivation items (nine in total) that a household is lacking. Rather than using the official EU poverty and material deprivation indicators, which yield different estimates of poor population groups, we analyze pro-poorness by looking at the poorest 50 and 20 percent of the population based on the *pre-transfer* income and material deprivation distributions. A transfer is considered pro-poor when it reaches the least well off and/or when the sum of transfers is distributed progressively.[2] The natural variation existing between these countries and the design of their income transfers are expected to provide ample scope for investigating whether using different poverty proxies affects the pro-poorness assessment and over what range such assessments can differ. The latter is particularly important not only because it informs those involved in impact studies and policy evaluations but also because it provides an indication of whether the differences are likely to be large enough to reassess the interventions.

The remainder of the paper is structured as follows: to do.

[2] The analysis in this paper does not attempt to isolate the effect of the intervention (i.e. income transfers) from other factors influencing families' well-being such as their capabilities, behaviour or other help received.