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# Poverty in the enlarged European Union. A discussion about definitions and reference groups

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## ABSTRACT

The enlargement of the EU has stirred discussion about the relevance of the traditional EU poverty indicator. This indicator measures poverty in relative and national terms. As a result, the poor in the least wealthy EU member states have very different living conditions from those in more wealthy member states. Consequently, some authors have argued for alternative or additional poverty measures. One line of thought is that the reference groups people use for evaluating their living standard are significantly Europeanised and that a Europeanised poverty measure should incorporate this evolution. With this article, we aim to embed this debate into a proper conceptual framework. Therefore, we first review the literature on poverty definitions, and argue that despite diverging conceptualisations, scholars assume that somehow poverty is a relative concept. Second, we discuss the relevance of reference group theory for conceiving this relativity. We argue that a distinction must be made between privately-oriented reference groups and publicly-oriented reference groups. Only the latter offer a norm to define the minimum acceptable standard of living in society. Hence, poverty researchers should investigate publicly-oriented reference groups. Nevertheless, the discussion has largely focused on privately-oriented reference groups. We conclude that EU-wide research on budget standards in combination with survey-based approaches offer a promising way forward to construct poverty lines driven by publicly-oriented reference groups.

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## 1. Introduction

Unlike research based on the official US poverty measure (Orshansky, 1965; 1969; Blank, 2008), most research on poverty in the European Union (EU) defines the poverty line in relative and national terms, for instance by taking 50 or 60 per cent of median national income as a poverty threshold (e.g. Deleeck et al., 1992; Zaidi and de Vos, 2001; Atkinson et al., 2002; European Commission, 2002; 2007a; Marlier et al., 2007; OECD, 2008; Bäckman, 2009; European Commission, 2009). Over the past few decades, only a handful of authors have emphasised that such a nationally bounded approach is merely one of several possible approaches and that, consequently, it should be open to explicit discussion (e.g. Townsend, 1979: 50; Atkinson and Micklewright, 1992: 187-188; de Vos and Zaidi, 1998). More recently, however, enlargement of the EU to the East has functioned as a catalyst for the discussion about the appropriate approach to the measurement of poverty (e.g. Förster, 2005; Delhey and Kohler, 2006; Fahey, 2007; Kangas and Ritakallio, 2007; Whelan and Maitre, 2009a). This has led to a complex discussion, because scholars use different theoretical frameworks, which additionally, are often little elaborated. In general, we observe a lack of consistency between the definition of poverty and its measurement, which results in, among others, a discussion about the appropriate reference group to be used.

Hence, this article aims to embed this debate into a proper discussion of the definition of poverty as well as to draw some conclusions on a suitable sociological approach to the measurement of poverty in the EU. In order to do so, section one structures the main arguments put forward in the Europeanisation of poverty debate, section two elaborates on the definition of poverty and section three links the debate about the measurement of poverty to a clear poverty concept, focusing on the debate about the Europeanisation of reference groups. In the last section we conclude and make some suggestions for further research.

## 2. Poverty measurement in the European Union. An overview of the recent debate

The European Union has stuck to the same poverty definition for over 35 years. In 1975, the Council of the European Communities (1975: 34) defined poverty as follows:

- Persons beset by poverty: individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the member state in which they live;
- Resources: goods, cash income, plus services from public and private sources

The central indicator to measure this concept of poverty, is the 'at-risk-of-poverty rate'. Since 2001 this poverty measure is part of the so-called 'Laeken indicators' to monitor poverty and social inclusion (e.g. Atkinson et al., 2002; Marlier et al., 2007). The 'at-risk-of-poverty rate' is the

percentage of individuals in a given country with an equivalent net disposable household income below the poverty threshold. The net disposable household income includes all income of all household members after taxes and social contributions, and is equivalised to take household composition into account<sup>1</sup>. The poverty threshold is set at 60 percent of the median equivalent net disposable household income of the country in which one lives. This definition of the poverty threshold establishes the relative character of the poverty indicator as well as its national frame of reference. First, the indicator is relative in character: poverty is assessed with direct reference to the 'general' or 'average' level of prosperity of others in the society in which one lives by linking the poverty threshold to the *median* equivalised net disposable household income. Second, a strictly national frame of reference is applied: the poverty threshold refers to the median equivalent net disposable income of the member state in which one lives.

Although both characteristics are entirely in line with the Council's definition of poverty, they are under discussion in the academic literature. Moreover, very recently the EU adopted a new additional poverty indicator, which uses material deprivation instead of income to assess poverty. Apart from its emphasis on living conditions rather than income, the 'deprivation indicator' differs radically in both respects from the at-risk-of-poverty rate: it uses an EU-wide poverty threshold common to all member states and is not automatically nor directly relative to the average living standard in society (be it national or European) (Guio, 2009; Wolff, 2009)<sup>2</sup>. Although complementing the monetary measurement of poverty with a material deprivation indicator does not necessarily conflict with the EU definition of poverty, the European character and the lack of explicit reference to the average living standard in society potentially do. In general, arguments for such a shift to a European and rather fixed poverty threshold focus on European integration and the enlargement of the EU to less wealthy countries in the East. These arguments can be grouped along four lines of thought.

First, with enlargement of the EU in 2004 and 2007, differences in living standards within the EU have grown considerably as relatively poor Eastern European countries joined the EU. Since the poverty threshold is defined as 60 percent of national median incomes, in terms of purchasing power this threshold is much higher in the rich member states than in the less wealthy member states. In fact, it is even the case that many of the poor in the richest member states have more purchasing power than the

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<sup>1</sup> Net disposable household income comprises all incomes of the household over a period of one year net of taxes and contributions. In the case of multi-person households economies of scale are assumed and an equivalence scale is applied. Household members are weighted as follows: 1 for the household head, 0.5 for all additional household members aged 14 and over and 0.3 for all children in the household below the age of 14 (this is the so-called 'modified OECD scale').

<sup>2</sup> The indicator consists of a scale of 9 deprivation items which are equally weighted and do not vary by member state. Material deprivation is defined as the enforced lack of at least three of nine items.

majority of the population in the least wealthy member states (Goedemé, 2009; Lelkes et al., 2009: 23). This evidence reveals that the traditional (national) poverty indicator may be good at distinguishing groups at risk of financial poverty within member states, but that it sketches only a partial picture of the variation in living conditions and poverty across the EU. On this basis some authors have argued that these poverty figures are not fully comparable cross-nationally and lead to an underestimation of poverty in the less wealthy member states (e.g. Guio, 2005a: 2; 2005b: 1; Beblavy and Mizsei, 2006; Juhász, 2006: 100-101). Nonetheless, these authors do not link this conclusion to a conceptual framework in which contradictions between the definition of poverty and its measurement are made explicit.

Another group of authors (Förster et al., 2004; Delhey and Kohler, 2006; Fahey, 2007) argue in favour of additional, European-wide poverty indicators by using a different kind of reasoning. They contend that the group of persons with whom we compare our living standard, i.e. the reference group, is of crucial importance for the measurement of poverty (or social stratification in general). These authors claim that, previously, this reference group was primarily national, whereas now reference groups have to a large extent Europeanised. Dickes et al. (2010) present some further evidence to support this claim by showing that the extent to which EU citizens deem some goods and services as necessary for having an 'acceptable living standard' is largely similar in all EU member states. Nevertheless, the latter do not link this observation to the extent of Europeanisation of reference groups. Although the claim that reference groups are important for the measurement of poverty is not new in the poverty literature (see below), in the recent debate this should be more explicitly linked to the poverty concept. We come back to this issue in section three.

A third argument for a Europeanised poverty measurement comes from Brandolini (2007) and Fahey (2007). These scholars argue that even if reference groups would not be strongly Europeanised, the at-risk-of-poverty rate would miss an important aspect of the heterogeneity and social cohesion in the European Union as well as of the social dimension of European unification. Therefore, poverty should also be calculated using a European-wide poverty line (say, at 60 percent of the European median equivalent net disposable household income). In fact, in the past several authors have calculated poverty using a cross-national ('EU-wide') relative poverty line (e.g. Eurostat, 1990; de Vos and Zaidi, 1998; Berthoud, 2004; Boix, 2004; Kangas and Ritakallio, 2007).

Finally, Whelan and Maître (2009a; 2009b) contradict the fact that reference groups have Europeanised (sufficiently) and present empirical evidence to support their claim. They do not find any evidence that people increasingly perceive themselves as part of a larger European stratification system (the strong version of the Europeanisation thesis), nor that common standards of evaluation emerge as a consequence of knowledge

of conditions in other societies (the weak version of the Europeanisation thesis). So they dismiss the argumentation in favour of using one European poverty threshold for measuring poverty. In addition, Whelan and Maître also argue in favour of an alternative poverty (deprivation) indicator, though for different reasons. Together with among others Dewilde (2008: 236-238) they emphasise the mismatch between income poverty and deprivation poverty, especially in more affluent member states (see also Perry, 2002; Nolan and Whelan, 2007)<sup>3</sup>. Therefore, the multidimensional nature of poverty should be translated into a multidimensional measurement of poverty. Taking deprivation measures more seriously would mean an important step forward to overcome the 'contradictions' and 'difficulties' raised by measuring poverty in an enlarged European Union.

The extent to which the validity of the EU at-risk-of-poverty indicator is affected by these claims is determined by the degree to which they show a serious contradiction between the indicator and the concept it is supposed to measure. However, in general we observe a gap between the concept of poverty and the arguments put forward. It is not clearly argued why diverging material living conditions of the poor in various member states is problematic, given the definition of poverty. Similarly, the importance of reference groups for the measurement of poverty is not sufficiently linked to the poverty concept. In contrast, we argue that the measurement of poverty should be embedded in a consistent theoretical framework. Starting from the definition of poverty, the theoretical framework should clearly establish the role of reference groups for the identification of the poor and the way diverging living standards can affect the measurement of poverty. In the remainder of this paper, we focus only on the former issue: linking reference groups with the concept of poverty. Nevertheless, we believe that the role of reference groups is also key to understanding the latter issue, namely to what degree diverging material living conditions of the poor undermine the validity of the principal EU poverty indicator. Our analysis is structured as follows. First, we address the literature on the conceptualisation of poverty and assess whether there is some degree of consensus on key characteristics of poverty. Second, the role of reference groups for the measurement of poverty is connected to the definition of poverty by reviewing the literature on reference groups. Third, we emphasise that a distinction should be made between privately-oriented reference groups and publicly-oriented reference groups. Although currently scholars mainly focus on the former type of reference groups, the measurement of poverty should be primarily concerned with the latter type. In the last part we discuss how this could be done.

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<sup>3</sup> For a broader distinction between indirect (income) versus direct (deprivation) measures of poverty, see especially Ringen (1988).

### 3. The definition of poverty

Discussing the appropriate way of measuring poverty is useless without a proper conceptual framework. Therefore we now review the literature that does scrutinise the poverty concept. A crucial step will be to show that there exists agreement on some core characteristics of the poverty concept. Furthermore, it is necessary to put the role of reference groups in proper perspective by linking these issues explicitly to the concept of poverty.

Over the past century several definitions of poverty have been formulated, which some authors classify into two or three categories (e.g. George, 1980: 1-3; Hagenaars and de Vos, 1988: 212; Ruggles, 1990: 15-23; Giddens, 2001: 311): absolute, relative and (although less common) subjective poverty<sup>4</sup>. Absolute poverty definitions define poverty as having less than an absolute minimum. Relative poverty definitions define poverty as having less than others in society. Where the former two definitions are based on external criteria, subjective poverty definitions rely on individual impressions since poverty is defined as feeling that you do not have enough to get along. The differences between these three categories in relation to the role of reference groups and absolute differences in living standards between societies are obviously quite large. In the case of absolute definitions, absolute differences in wealth between societies are very important and lead, all other things being equal, to higher poverty figures in poorer societies and lower poverty figures in richer societies. This is not necessarily the case for relative definitions, as only differences of living standards within societies are accounted for. It is clear that in the case of subjective poverty, absolute differences in living standards between societies do not affect comparability of poverty statistics. The role of reference groups is not directly clear for absolute and relative definitions of poverty, whereas this is rather obvious in the case of subjective poverty (cf. Abel-Smith, 1984: 70-71).

However, on a closer look, the common distinction between absolute, relative and subjective poverty definitions is more confusing than helpful<sup>5</sup>.

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<sup>4</sup> In this paragraph we make use of the description by Hagenaars and de Vos (1988) of absolute, relative and subjective poverty definitions.

<sup>5</sup> A more helpful distinction could be made between, at the one hand, definitions for which the living standard is the crucial dimension to identify poverty and, at the other hand, definitions for which rather some form of social status is crucial (e.g. definitions based on dependence on social assistance (Simmel), the subculture of poverty (Lewis) and the underclass (Murray, Wilson) (for references, see Van den Bosch, 2001: 4; as well as Levecque, 2003)). As the latter group of definitions has been largely absent during the past 20 years in European poverty research, they are left out of consideration for the discussion in this paper. Additionally, a distinction could be made between a 'British' and a 'French' tradition (Room, 1995: 105-107). The French tradition focuses on relational issues and uses the concept of social exclusion rather than poverty. However, we do not compare both 'traditions' in this paper, and disregard the latter. A final distinction on which we do not touch concerns the distinction between direct and indirect definitions of poverty (cf. Ringen, 1988). Direct definitions define poverty in terms of some form of deprivation (e.g. Rowntree,

First of all, one has to make a clear distinction between the poverty concept (definition) and the approaches and indicators to measure the concept: one poverty definition may be measured by several different indicators. As is the case in the article of Hagenaaers and de Vos (1988), the distinction between concept and indicator is not always clear: many examples of so-called absolute, relative and subjective definitions are indicators of poverty rather than definitions of the poverty concept.

Second, with regard to subjective poverty – i.e. the idea that people are poor when they feel they do not have enough to get along – a diversity of authors has stressed that for a (sociological) study of poverty the ‘objective’ social situation should be the starting point and not whether persons have the feeling of being poor. “It is neither necessary nor sufficient that [the poor] feel themselves to be deprived. This is not, of course, to deny that the feelings of deprivation, exclusion or frustration associated with low levels of resources may be a powerful reason for our concern in the first place” (Atkinson, 1989: 10) (cf. Townsend, 1979: 38; Sen, 1981: 16; Van den Bosch, 2001: 4). Hence, subjective poverty definitions are extremely rare in the literature, and we will give them no further consideration<sup>6</sup>.

Third, and perhaps most important, if carefully thought through, so-called absolute poverty definitions are, to some degree, *always* relative (Ringen, 1988: 353). Besides, this claim also holds for poverty indicators (cf. Callan and Nolan, 1991: 245, 247-248). How is this the case? The crucial distinction between so-called absolute and relative definitions is that in the case of absolute definitions the poverty threshold does not directly refer to the living standard of others in the society in which one lives. Nevertheless, as many authors have stressed, ultimately the societal context must be taken into account as far as the measurement of these definitions is concerned. For instance, Ruggles (1990: 17) writes that “it is very difficult to establish an ‘objective’ minimum that really is applicable over a long period (or even across very divergent population groups). Over time, for example, the goods people consume are likely to change dramatically, and the definition of the minimum needed for subsistence is likely to change as well.” (For an illustration see also Lamale, 1958). In the same vein, cross-national differences in social, climatological, biological and economic context are important factors that should be accounted for when operationalising ‘absolute’ definitions of poverty. As Adam Smith (1908 [1776]: 691) observed over two centuries ago: “[c]ustom [...] has rendered leather shoes a necessary of life in England. The poorest creditable person of either sex would be ashamed to appear in public without them. In Scotland, custom has rendered them a

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Sen; see below), whereas indirect definitions require explicitly that the deprivation is caused by a lack of resources (e.g., Townsend, the EU definition of poverty; see below).

<sup>6</sup> This is not to say that various subjective indicators are not in use for measuring poverty, see especially Goedhart et al. (1977); Kapteyn et al. (1988); Deleeck et al. (1992) and for a more recent critical study Van den Bosch (2001).

necessary of life to the lowest order of men; but not to the same order of women, who may, without any discredit, walk about barefooted. In France, they are necessities neither to men nor to women; the lowest rank of both sexes appearing there publicly, without any discredit, sometimes in wooden shoes and sometimes barefooted." (See also Rein, 1970)

A further illustration of this point can be derived from the international (European) conceptual debate on poverty. Four definitions of poverty have been dominating the literature over the past century. According to Rowntree (2000 [1901]: 86-87), the poor consist of two groups: "(1) Families whose total earnings are insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency. Poverty falling under this head may be described as 'primary' poverty. (2) Families whose total earnings would be sufficient for the maintenance of merely physical efficiency were it not that some portion of it is absorbed by other expenditure, either useful or wasteful. Poverty falling under this head may be described as 'secondary' poverty." For both primary and secondary poverty, the ultimate poverty criterion is thus 'merely physical efficiency'. Sen, on the other hand, does not provide a very precise definition of poverty but nevertheless has had much influence on the conceptual discussion of poverty with the introduction of the capability approach. Broadly, Sen (1985: 669-670) describes poverty as follows: "[p]overty is not just a matter of being relatively poorer than others in the society, but of not having some basic opportunities of material well-being – the failure to have certain minimum 'capabilities'." Probably the most dominant poverty definition in European poverty research of the last 30 years is the one of Townsend (1979: 31). "Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged, or approved, in the societies to which they belong. They are, in effect, excluded from ordinary living patterns, customs and activities." Finally, a fourth definition of poverty comes from the European Commission. Though we cited it before, we here use a more recent version: "[p]eople are said to be living in poverty if their income and resources are so inadequate as to preclude them from having a standard of living considered acceptable in the society in which they live" (European Commission, 2004: 8).

Within the common absolute versus relative poverty divide, the former two definitions are typically classified as 'absolute' and the latter two as 'relative' definitions of poverty. Nonetheless, all four authors agree that one should take account of, that is, make the measurement of poverty relative to, the characteristics of the society in which one studies poverty. Both the EU definition and Townsend's definition of poverty directly refer to what society considers minimum acceptable, respectively the ordinary living patterns, customs and activities. This is not the case for the definitions of Rowntree and Sen.

In Rowntree's definition, the crucial criterion, or 'threshold', to identify the poor is whether 'merely physical efficiency' is obtained. This was measured by Rowntree and his investigators by observing whether families were living in 'obvious want and squalor', which in turn implied that "Rowntree and his investigators were working with a relative definition of poverty which compared the living conditions of the people they surveyed with the living conditions which were *conventionally* recognized and approved" (Veit-Wilson, 1986: 78; own italics). In his later work, Rowntree acknowledged that "ideas of what constitutes 'obvious want and squalor' have changed profoundly" (1941, quoted in Veit-Wilson, 1986: 88). It has thus been rightly argued that the simple fact that a definition refers to physical efficiency or subsistence as a poverty threshold, does not imply that this threshold is an absolute and unique measure in money-terms or a list of items (be it calories or anything else) which can be universally applied. Perhaps one could try to measure these thresholds in an 'absolute' 'universal' way without taking account of social differences, but research has sufficiently shown that this is un-scientific. As Orshansky (1965: 5) noted: "there is no generally accepted standard of adequacy for essentials of living except food. Even for food, social conscience and custom dictate that there be not only sufficient quantity but sufficient variety to meet recommended nutritional goals and conform to customary eating patterns. Calories alone will not be enough." Even if the variety argument is left aside one should take account of biological, social and other factors such as metabolic rates, body size, climatic conditions, sex, pregnancy, lactation, and work intensity, since all these factors co-determine the amount of food that is needed to live without hunger or malnutrition (e.g. Sen, 1984: 78). Having shown the relative characteristic of Rowntree's definition of poverty, we will do the same for Sen's capabilities oriented definition of poverty.

In 1983, Sen explained at length the way in which his conception of poverty is 'absolute': the poverty threshold does not change (by definition) by the fact that others in society lack the same minimum capabilities or not. By way of example, in a society confronted with a general famine, someone's poverty (obvious lack of food) is not alleviated by the fact that all other persons in that society suffer the same poverty. Nonetheless, Sen emphasised that the income necessary to achieve some basic capabilities does depend on, among other things, the society in which one lives and the general standard of living in that society. More generally, "[...] your absolute achievement – not merely your relative success – may depend on your relative position in some other space" (Sen, 1983: 156). As Sen (2006: 37) writes in a recent contribution: "[t]his is not only because the capabilities that are taken to be minimally basic tend to change as a country becomes richer, but also because even for the same level of capability, the needed minimal income may itself rise, along with the incomes of others in the community." So, although "people's deprivations are judged absolutely, and not simply *in comparison* with the deprivations of others in that society", Sen (1985:

670) fully agrees that a proper understanding of the societal context is of crucial importance for the measurement of poverty.

By now we have given three arguments why the distinction between absolute, relative and subjective definitions of poverty is more confusing than helpful. First, the distinction often relies on a mix-up of definitions and indicators. Second, subjective definitions have been widely rejected. Third, so-called 'absolute' poverty definitions always imply some relative aspects. A final point that should be made, is that relative definitions of poverty are not necessarily relativistic.

Sen (1981: 17) argues that there is an "irreducible core of *absolute* deprivation in our idea of poverty". Proponents of this 'irreducible core of absolute deprivation' contend that relative definitions of poverty are not capable of capturing situations of society-wide poverty. For instance, if one uses the EU poverty threshold of 60% of the median income, by definition at least half of the population will not be counted as poor. However, a poverty figure generated by the EU poverty threshold is an indicator, not a definition of poverty. It is therefore indispensable to examine whether the definitions of poverty commonly categorised as relative definitions are indeed inadequate to grasp society-wide poverty. It is true that Townsend's definition primarily makes poverty relative to the current living patterns in society, hence suggesting that the poor can only be a fraction of the population. Nevertheless, the addition that the poverty threshold may also be influenced by living patterns which are widely encouraged or approved may not be neglected. Thus, according to Townsend's definition of poverty, a general famine can be conceived as follows: all starving people can be considered as poor, since starvation runs against the living conditions which are widely approved for human beings. An analogous reasoning applies to the EU definition of poverty. Starvation is unlikely to become an acceptable standard of living, even in the case that it affects all citizens. In other words, definitions of poverty which are labelled 'relative' definitions hold on to Sen's 'irreducible core of absolute deprivation', but reword it into relative terms: poverty does not always point at situations in which the poor eat less than others, but sometimes also to situations in which the poor eat less than what is generally accepted as what they should eat.

After this discussion of the literature on concepts of poverty, we can safely conclude that, despite several academic discussions, dominant conceptualisations of poverty do agree on some core characteristics of poverty: one should take account of the societal context for measuring poverty, but this should not be guided by a 'blind' procedure (i.e. an acceptable standard of living need not exclusively refer to current living patterns (as the EU poverty threshold does), but may also refer to ideal patterns of living). Hence, we claim that a useful distinction between absolute and relative definitions of poverty cannot be made. Nevertheless, nothing has been said about which societal factors one should take into

account to properly assess poverty. The next section reflects further on this issue.

#### **4. Reference groups and the minimum acceptable way of life**

The discussion above shows that poverty is relative to society in which people live or expect to live. The crucial question then is: what is the 'minimum acceptable way of life' (as it is worded in the EU poverty definition). The answer to this question is found in the reference group which people use to assess what is minimally acceptable. In order to fully grasp what this means, we briefly elucidate on reference group theory, even though we argue that classic reference group theory is insufficient in the case of poverty measurement.

Reference groups (a term introduced by Hyman, 1968 [1942]) are "employed as a standard for self-evaluation" (Pettigrew, 1967: 251). According to social comparison theory (cf. Festinger, 1954), people need to compare themselves with others to come to an understanding of themselves. Subsequently, reference group theory (first formalised by Merton and Rossi, 1968 [1949]) is a subsection of social comparison theory, since it discusses with whom and how these comparisons are made.

One of the main findings of reference group theory is that people often use several reference groups, be it simultaneously or through time (Hyman and Singer, 1968). Second, both similar and dissimilar others are used as reference groups: Goethals and Darley (1977) found that when people have little information about a domain, they will explore that domain broadly, which often brings them to a comparison with dissimilar others (e.g. to get an idea of the time needed to run a marathon, one will typically look at the fastest and slowest times set in a recent race). In contrast, if people already have some awareness of a domain, they will start to compare with similar others (in the marathon example, exploring how fast people of the same age, sex, training record,... run). Third, both upward and downward reference groups are used (Brickman and Bulman, 1977; Collins, 1996; Wood, 1996). Upward reference groups are others with a better outcome than that of the person who makes the comparison (e.g. faster times, more wealth,...). Downward reference groups are people with a 'worse' outcome. In sum, it seems that potentially everyone can serve as a reference group in any situation. Furthermore, it is also found that any reference group can evoke either negative, or positive (or neutral) feelings (Collins, 1996). This brings Pettigrew (1967: 260) to the following conclusion: "[t]he [reference group] theory's breadth is a considerable asset in untangling the complex web of normative and comparative influences of groups upon individuals. ... Yet the breadth of the theory is not only its principal strength but its principal weakness as well."

Nevertheless, reference group theory can predict patterns of reference groups, namely if one confines the theory to specific domains. The literature that focuses on reference groups concerning material well-being comes to the conclusion that, when assessing their material well-being, people mainly use a broad (and upward) reference group.

Early reference group theorists considered people's direct in-groups (family and friends) as most prominent reference groups (White and Dahl, 2007: 525). However, the empirical literature suggests that when assessing economic well-being, people's reference groups mostly exceed the direct in-group. Evidence for this is found in studies which investigate which reference groups people use to assess their pay (e.g. Bygren, 2004) or their income in general. The latter assessment is called the 'relative income hypothesis' on which a substantive literature exists. The relative income hypothesis holds that people assess their income relative to the income of some reference group. In order to test its validity, scholars have tested several types of reference groups (for a review of theoretical studies, read Clark and Oswald, 1996; for a review of empirical studies, read Clark et al., 2008)<sup>7</sup>. "The basic finding in the literature is that own income contributes positively to own happiness, while the opposite is true for the income of the reference group. In other words, the higher the reference income, the less satisfaction is derived from own income." (Van Praag and Ferrer-i-Carbonell, 2009: 373) Hence, applying broader reference groups in models that test the relative income hypothesis yields significant results. By way of example, Luttmer (2005) finds that the average income level in a person's neighbourhood does affect people's assessment of their own income. In other words, this applied reference group obviously surpasses the direct in-group of family and friends. Also when scholars use other than geographical criteria to determine reference groups, such as educational classes (Easterlin, 2001), or a combination of them (Ferrer-i-Carbonell, 2005), they find that people's assessment of their income depends on the income level of their reference group.

However, the observation that people use (broad) reference groups to assess their own material well-being does not explain how these reference groups determine the standard of living considered acceptable in society. The cited research on reference groups refers to the evaluation of one's own living standard in relation to one's own reference group. Similarly, indicators such as life satisfaction and subjective economic stress are the main dependent variables employed in recent research on the Europeanisation of reference groups. Nonetheless, poverty is judged by what is considered the minimum acceptable way of life by society at large. Furthermore, this standard is applied to all members of society. In other words, reference group theory does not elaborate on how society comes to a minimum acceptable living standard that could be used for the evaluation of the poverty status of *all* members of society. Hence, it is

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<sup>7</sup> In most cases, scholars impose self assumed reference groups to their dataset. Rarely (e.g. Clark and Senik, forthcoming) scholars ask their respondents whom they use as reference group.

unclear what poverty researchers can hope to achieve by referring to reference group theory.

Nevertheless, we do believe that the conceptualisation of reference group theory might be helpful to the conceptualisation of poverty. However, this requires a distinction which hitherto has not been made explicitly. In classic reference group theory, one could speak of privately-oriented reference groups, whereas reference groups in the assessment of poverty can be seen as publicly-oriented (cf. privately and publicly-oriented evaluations as defined by Barry, 1990: 12-13)<sup>8</sup>. The former offer a norm to assess a personal characteristic or outcome, whereas the latter offer a norm to assess a generalised characteristic or outcome, e.g. a minimum acceptable standard of living in society (cf. Van den Bosch, 1998: 136-137). Since there is no particular reason to believe that both types of reference groups are largely the same, classic reference group theory is not very informative in exploring publicly-oriented reference groups. Hence, empirical studies on publicly-oriented reference groups are rather scarce<sup>9</sup>.

An important assumption of the definition of poverty is that it supposes some consensus in society about the minimum acceptable living standard. Such a consensus is more likely if some common point of reference exists, i.e. if publicly-oriented reference groups sufficiently converge. However, the term consensus should – at least in our view – not be taken too literally: it may well be understood as Townsend's (1979: 31) "living conditions and amenities which are [...] at least widely encouraged, or approved" in society. The question then is: which role for publicly-oriented reference groups in the determination of the minimum acceptable living standard in society?

Van den Bosch (2001: 391-399) reports evidence that people indeed use a different reference groups for evaluating one's own living standard than when evaluating a general living standard. For instance, responses to questions about what people consider the minimum income necessary to get along in society for a certain household type correlate hardly or not with personal characteristics (such as household income). This contrasts sharply with answers to questions about the sufficiency of income (to make ends meet) which refer to the specific conditions or circumstances of the respondent. In fact, answers to these questions correlate strongly with household income. The distinction between both answers not only suggests that people are able to take a publicly-oriented point of view, but

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<sup>8</sup> We owe this reference to Van den Bosch (2001: 13-14).

<sup>9</sup> In a recent paper Fahey (2010) further characterises the differences between the original approach towards relative deprivation (subjective economic well-being) and poverty measurement. However, in contrast to Fahey, we do not consider the exclusive focus on publicly-oriented reference groups and the disregard of personal evaluations as a shortcoming in the measurement of poverty – also on the European level. Rather, as we will argue below, an important part of the problem is that the measurement has focused too much on current living conditions at the expense of what people consider the minimum acceptable way of life.

also that they differentiate this clearly with a privately-oriented point of view. In other words, a distinction between publicly and privately-oriented reference groups does make sense.

Another bit of evidence regarding the fact that people sometimes use publicly-oriented reference groups, and that consensus might exist, comes from budget standard research. Using consensus analysis, which relies on key informants of different classes, Dressler (1996; Dressler et al., 1998) finds a shared 'cultural ideal of consumption'. Also when searching for minimum budget standards (in contrast with Dressler's ideal norms), scholars fairly easily arrive at culturally shared standards, whether mainly relying on expert groups and low income focus groups (e.g. Storms and Van den Bosch, 2009b; 2009c) or mainly on 'general public' focus groups (e.g. Bradshaw et al., 2008).

In sum, if reference groups are relevant for the measurement of poverty, they primarily should be publicly-oriented reference groups. Hence, although we are aware of limitations to existing data, the shortcut that researchers make when measuring the Europeanisation of poverty, namely by focusing on privately-oriented reference groups, is not justified. This is not to say that subjective well-being and personal evaluations of one's own situation is irrelevant. Rather, we argue that these evaluations are little helpful *for measuring poverty* as it is usually defined.

## 5. Which way forward?

We have argued that if there is a link between reference group theory and the poverty concept, it must be based on publicly-oriented reference groups which enable the determination of what is the minimum acceptable way of life in society. If publicly-oriented reference groups sufficiently converge, a consensus about what is minimally acceptable can exist in society. For the measurement of poverty, the crucial point then is to identify what this minimum acceptable living standard is about.

Over the past decade, the dominant approach to assess the minimum acceptable living standard has been twofold. First, in the case of the 'at-risk-of-poverty rate' it is assumed, with very limited empirical underpinnings, that 60% of the median income is the minimum acceptable living standard. Second, the approach to the measurement of deprivation has focused on the consumption items which are customary, assuming that a lack of it (due to financial reasons) implies a situation of poverty. Yet, in both cases this means an exclusive focus on the first part of Townsend's (1979: 31) definition of poverty, i.e. the lack of resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are *customary* in society. In other words, this approach neglects the second part of Townsend's poverty definition: the living standard which is at least widely encouraged, or approved by society. As long as both perspectives converge, the focus on actual living

standards need not be problematic. However, as Sen (1981; 1983) has extensively argued, there may be a big difference between the living conditions which are customary in society and the living standard which is widely encouraged or approved. Probably, this is the main reason why the exclusive use of the EU at-risk-of-poverty indicator seems to lead to contra-intuitive results and has become to some degree controversial. We believe that this indicator remains of clear relevance for the study of the distribution of wealth in society, whereas for the identification of the poor, the exclusive focus on actual living standards in society is problematic.

As a result, it is necessary to include a focus on the living conditions which are widely encouraged or approved, and thus to address publicly-oriented reference groups. In order to do so, we see at least two broad ways of revealing what is minimum acceptable in society, while appealing to publicly-oriented reference groups: a survey based approach and an approach based on focus-groups. Of course, many different forms are possible and both approaches can be combined. We would go even further and argue that both approaches should be combined in order to validate their results and cover up for the deficiencies of each approach. However, we do not propose entirely new research methods.

Using surveys, there are various ways of finding out which living standard is widely encouraged or approved. Important in this respect, is that not every survey question evokes a publicly-oriented reference group. As we noted earlier, there are different kinds of subjective questions (cf. Van den Bosch, 2001; Atkinson et al., 2002: 34-35) and only those questions should be used which call on publicly-oriented reference groups. More in particular, these are the type of questions that do not (directly) refer to the actual circumstances of the respondent, but that refer to a general household type in society. For instance, in 2007 the European Commission (2007b) published results of a large-scale survey in which EU citizens were asked what they consider acceptable in order to have a decent standard of living in their country with regard to financial means, housing conditions, durable goods, basic necessities and social integration. Although such questions clearly refer to publicly-oriented reference groups, the survey-approach has some important limitations. First, it is not clear whether everyone interprets the questions in the same way: one can find that people should at least be able to afford a TV as well as a mobile phone, a home computer and many other things, but it is not clear whether each of these items should be affordable jointly or whether a subset would suffice. Second, for measuring poverty one could construct an index of items with regard to the enforced lack of those items which are deemed necessary (e.g. Nolan and Whelan, 2007; Guio, 2009). However, such indices have their own shortcomings, including the neglect of previous financial commitments (e.g. mortgage for a big house), and differing consumption patterns as a result of different preferences or needs (resulting from disability, household composition etc.) as well as the necessity to make more or less arbitrary choices with regard to the composition of the index, the relative weight of the various items and the

determination of the poverty threshold (e.g. Deleeck et al., 1992: 5). Third, they do not offer an overall money-threshold. In itself the latter is not necessarily a problem for the measurement of poverty, but it is a serious shortcoming in terms of (short-term) policy guidance and evaluation.

Therefore we suggest that the results of these surveys should feed into, and be used to validate and/or update the outcome of the budget standard approach. In budget standard research baskets of goods and services for various types of households are constructed. The baskets are conceived to consist of the goods and services which would correspond to the minimum acceptable way of life in society. In a second step, a price is attached to all goods and services and the total cost of the basket results in a poverty threshold. There are several methods to construct budget standards and we would recommend in particular the one in which budgets are discussed in focus groups. There can be a legitimate discussion about the composition and number of focus groups. We suggest that they should be representative of society, and should definitely involve low income households to ensure that the budgets are realistic. Furthermore, discussions in these groups should be underpinned by expert knowledge (e.g. in relation to dietary needs, the depreciation of clothing and durables, etc.) As is the case for the survey approach, budgets should be constructed for certain household types invoking publicly-oriented reference groups. Furthermore, in an EU context a uniform method and theoretical framework should be used across the entire EU in order to assure cross-national comparability (e.g. Atkinson et al., 2002: 90; Storms and Van den Bosch, 2009a).

Whereas we discussed the Europeanisation of reference groups in the first part of this paper, our own analysis does not directly address that issue. Rather, we found that the current discussion on the Europeanisation of reference groups was mainly based on privately-oriented reference groups, which is invalid, as we argued. From that point, we elucidated the link between the conceptualization of poverty and the importance of publicly-oriented reference groups. At the end, we made clear how poverty thresholds can be constructed driven by publicly-oriented reference groups. Nevertheless, the proposed approaches do not make explicit what publicly-oriented reference group people in fact use. Nonetheless, these approaches provide a better starting point than privately-oriented reference groups, which people use for entirely different purposes. We therefore argue that the best way forward, if we want to know whether publicly-oriented reference groups have Europeanised, is to take seriously the here proposed approaches, and compare their results through time and across places in order to study the dynamics of publicly-oriented reference groups.

## 6. Conclusion

The enlargement of the EU has stirred discussion about the relevance of the traditional EU poverty line. The review of this literature shows that it lacks explicit references to the concept of poverty. We argue, however, that a sound conceptual embedding would enrich the argumentation and empirical analysis. To make this claim, we first gave an overview of the literature on poverty definitions, and found that despite diverging conceptualisations, scholars must assume that poverty is a relative concept. The poverty status of people is relative to a certain norm, which is derived from a certain, sometimes hypothetical (though not less real in its consequences), reference group. The question then is, which reference group? Based on a review of reference group theory, we come to the conclusion that the reference groups used in standard psychological reference group literature differ significantly from the reference groups to which the concept of poverty refers. We propose to differentiate between privately-oriented reference groups and publicly-oriented reference groups. The former are scrutinised in standard reference group literature and are used to assess a personal characteristic or outcome. The latter offer a norm to assess a generalised characteristic or outcome, e.g. the minimum acceptable standard of living in society. Hence it is publicly-oriented reference groups that we should look for when measuring poverty. However, present analyses of the Europeanisation of the poverty line all focus on privately-oriented reference groups. Therefore, their contribution to the measurement of poverty is limited.

We present empirical evidence that the distinction between these two forms of reference groups is warranted, but that analyses explicitly addressing publicly-oriented reference groups are scarce. Consequently, definite conclusions about the appropriate level of poverty measurement are impossible to draw, given the current state of research. Undoubtedly, the distinction between both types of reference groups, the distinctive characteristics of publicly-oriented reference groups (such as the processes behind their selection and formation), as well as their exact role in the determination of what society considers as the minimum acceptable living standard offer promising grounds for further research. More in particular, we propose to take EU-wide budget standard research more seriously and to complement its outcome with survey-based research about what the population at large deems necessary for a minimum acceptable way of life in society.

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