

NEW POVERTY IN MODERN EUROPE?

The happiness-income relationship 1973-1986

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ABSTRACT

In the early 1980's the idea of 'new poverty' emerged. According to this idea the gap between rich and poor widens in affluent western nations, and ever more citizens are believed to drop below the poverty line. It is assumed this development creates a bi-partition of society. This is deemed a threat to social peace and harmful for people at the bottom.

This paper checks the implied claim that the quality of life has deteriorated in the lowest income bracket. It does so by considering life satisfaction. It is inspected whether 1) the relatively poor are really less happy- and whether such a difference is due to any objective deprivation - and 2) whether the difference in happiness between rich and poor has actually increased. For that purpose the data of the Eurobarometer surveys over the years 1973-1986 are analyzed. It appears that indeed there is a modest difference in happiness between rich and poor in the EC countries. This difference however, has not increased lately.

1 INTRODUCTION

1.1 The idea of 'new poverty'

The economic recession in the early 1980's has resulted in high unemployment and cuts on government spending. This development is seen as the cause of 'new poverty'. It is stated that the victims of this development are getting 'marginalized' and that a 'split' in society is occurring. Poverty is said to be back in rich welfare states.

This idea is now widely accepted by public opinion. A recent study showed that no less than 32% of the European citizens think they know 'poor' people in their living environment. More than half of the Dutch believe that the rich are getting richer and the poor are getting poorer (Commission of the European Communities, 1990). Consequently the problem has reached the political agenda. Political acceptance of the idea is reflected in a recent report of the European Commission that characterizes 14% of the EC citizens as 'poor': 14% means more than 44 million people!

Although some question such figures, many politicians and scientists consider new poverty a fact and are willing to fight it. Right now, the European Commission spends 29 million ECU on poverty programs.

1.2 Conceptions of (new) poverty

Although it is generally agreed upon that new poverty is bad, it is not clear to everybody what it actually is. In fact, different conceptions of poverty are on the scene.

Absolute poverty

In the so called 'basic needs approach' the focus lies on the biological or physical level of subsistence. Classical authors like Boot and Rowntree already used this conception (Hagenaars et. al., 1987). They saw poverty as a lack of resources to satisfy basic subsistence needs, such as for food and shelter. Recently, the interpretation of 'basic needs' has broadened somewhat; some also include vacation and a fridge for example. Nevertheless, the more rigorous version is still alive: "A family is poor when it cannot afford to eat" (Joseph & Sumption, 1979).

Poverty lines used in this approach are called 'objective-absolute' poverty definitions (Hagenaars et. al., o.c.). The researcher composes a minimum consumption package he thinks is necessary, computes the costs of the package and finally labels everyone with an insufficient income as 'poor'. New poverty in this approach is seen as the development of a growing number of people living under this poverty-line.

Relative poverty

Another conception of poverty can be paraphrased as the ability to 'keep up with the Jones'. In this vein, Miller and Roby connected poverty with inequality in society: "Poverty can be seen in many contexts. Generally neglected has been the context of social stratification. The limited results of poverty programs based on subsistence standards are now forcing a realization that not pauperism, but inequality is the main issue within high-income industrial societies." (Miller & Roby, 1970). To underline the differences with the basic needs approach, scientists in this tradition use the concept of 'relative poverty'.

Two types of poverty-definitions are being used here: the 'objective- relative' and the 'subjective' poverty lines. The idea behind the objective- relative poverty line simply is that one is regarded as poor if one has less than others in society. Townsend's index of relative deprivation (Townsend, 1979) and the relative income lines used in EC-reports belong to this type. Here, new poverty stands for the increase of income differences in society. The subjective poverty definitions finally, state that someone is considered poor when he himself feels poor. New poverty in this sense means that more people define themselves as poor.

1.3 Assumed development of poverty in western Europe

Some prophets of new poverty claim that 'absolute' poverty is increasing. They see a growing malnutrition and homelessness. Most rather stress the increase of 'relative' poverty and attribute this to the economic recession and the following cuts on welfare (objective-relative poverty). A minority sees an increase in 'subjective' poverty. They not only point to the growing inequality, especially in terms of consumption, but also to the higher requirements for leading a 'decent' life.

1.4 Assumed harm involved in new -relative- poverty

When asked what they mean with the word poverty, messengers of new poverty typically define it as 'relative' deprivation. Yet in statements about the harm involved in new poverty, classic notions of absolute poverty sneak in. New poverty is typically depicted as something worse than merely having less than average. It is seen to reorganize the lives of many people and thereby to undermine health and happiness. Various mechanisms are seen to be involved.

In the first place, the new poor are seen to be excluded from normal participation in society, leading to estrangement and alienation. Secondly, the relative poor lack the financial resources to join clubs and societies, to pay their telephone bills or to visit their

family. Thus, it is almost impossible for them to maintain intimate contacts in a normal way. Thirdly, the continuous financial insecurity and dependence the new poor have to cope with causes stress and endangers their health. Finally, it is stated that the low self-esteem, mainly due to the absence of meaningful activities, leads to self-depreciation and thus to serious mental problems.

There is serious doubt however that relative poverty is really harmful in present day western society. Society is more prosperous than it ever was. Real, absolute poverty has almost disappeared.

1.5 Goal of this paper

It is worth knowing whether the relatively poor are really that bad off in present day welfare states.

One reason for this lies in the possibility to reach, a well considered decision in the dilemma of welfare expenditures. If the poor are really harmed and their situation gets even worse, the choice will probably be to spend more. However, this evidently leads to lower budgets for other valued social goals, such as education and environmental protection and it may slow down the economy. If life of the poorest is actually not that bad goals such as these can be given priority.

Likewise, the happiness of the poorest is an issue in discussions about the acceptability of income inequality. The widely adhered moral rule of Rawls holds that inequality is acceptable only if the least advantaged in society profit from it. The core claim involved in the notion of poverty is that the turn to the right after the last economic recession led to an increase in income inequality that involved no advantage for the poor at all, but only a loss. Thus, left-wing social critics fight right-wing governments with their own moral philosophy.

To settle these debates we need more than just rumors alone. We have to check the claims about new poverty more rigorously. For this purpose will use 'happiness' as an indicator for the assumed harm involved. We do so, because our focus is on the 'outputs' of poverty and not on 'inputs' like income (Donnison, 1988). Quality of life can be considered such an 'output', which can be measured by either physical or mental well-being. 'Happiness', being a measure of the latter, is a relatively good and sensible indicator. It can be easily measured and can be considered as a valid indicator for quality of life (Veenhoven, 1984; ch. 2).

In the first place we will inspect whether the relatively poor are really less happy - and if so, whether such a difference is due to any objective deprivation, as is often implied by the claims made by prophets of new poverty. In the second place we will check whether the difference in happiness between rich and poor has widened in the last decade. This latter claim is at the heart of the new poverty thesis.

2 DATA

2.1 Subjects

The so called Eurobarometersurveys are analyzed. These surveys are held on the behalf of the European Commission and serve to follow trends in public opinion in the EC. These surveys are held two times a year among representative samples of the EC countries. The first Eurobarometer survey took place in 1973.

2.2 Period and nations

The data cover the period 1973-1986. The analysis is restricted to nations for which complete and comparable time series are available. These are: Belgium, Denmark, West

Germany, France, Ireland, Italy, Luxemburg, the Netherlands and the United Kingdom.

2.3 Indicator of happiness

Respondents answered the following question: "On the whole, are you very satisfied, not very satisfied or not at all satisfied with the life you lead?". The answers are rated on a 4-point scale. This question remained the same over the years. The rate of non-response is so low, it can safely be ignored.

2.4 Indicator of relative poverty

Respondents were asked to indicate the total gross household income: "Here is a scale of incomes and we would like to know in what group your family is, counting all wages, salaries, pensions and other income that comes in. Just give me the number of the group your household falls into before tax and other deductions.". The research agency in charge of the data gathering divided the respondents on the basis of their answer in income quartiles. We have no access to the raw data. The lowest income quartile serves as an indicator of living in relative poverty.

3 RESULTS

3.1 Are the relatively poor less happy in present day Europe?

Table 1 shows a systematic difference in happiness between the four income categories. In all countries the lowest income bracket turns out to be the least satisfied with life. The association between income and happiness varies around + .25 and is statistically significant.

How great is this difference in happiness between rich and poor? Compared to other nations the difference is rather small. Studies in less developed nations have yielded stronger correlations. For example, Cantril has found levels of association between income and happiness of +.88, +.55 and +.52 for the Dominican Republic, Israel and Nigeria respectively. The associations in **table 1** are more like the ones observed by Cantril for the US and Yugoslavia, around +.20, and are typical for western nations (Veenhoven, 1984). The difference between income categories in Europe compared to the difference in other nations is thus not very big.

The modest association we have found for Europe does not necessarily mean that a low income leads to low life satisfaction. Causation can also work in the opposite direction; unhappiness can also lead to a low income. For example, people who become mentally or physically disabled and therefore cannot continue the job they have (lower life satisfaction), will get dependent on social welfare (lower income).

Now, suppose that the relative unhappiness of the poor is caused by their poverty. There are two main ways in which poverty can reduce the enjoyment of life: by the relative deprivation and possibly also to some extent by objective deprivation. Clearly, the latter effect is the most undesirable. Relative deprivation is inevitable and relatively harmless, absolute deprivation unacceptable. If there is indeed any 'objective' deprivation involved here, it should appear in a greater difference in happiness between rich and poor in the poorest nations. The poorer the nation, the greater the chance that the poorest in that country live below an objective-absolute minimum line.

This prediction is checked in Exhibit 1 and 2. **Exhibit 1** tells us there exists no strong correlation between the GDP-level of a nation and the difference in life satisfaction between top and bottom income categories ($r = -.08$). Moreover, **Exhibit 2** shows that the association between income and life satisfaction in the poorer nations does not significantly exceed those established for the richer ones. Although in our data the correlation between average life satisfaction and GDP per capita is relatively strong ($r = +.48$), it is not possible to interpret the difference in quality of life that exists between

rich and poor in Western Europe as "the reflection of objective welfare" (Veenhoven, 1984; Inglehart, 1977). In sum then, the difference mainly has to be accorded to factors of a relative or subjective nature.

3.2 Did the difference increase during the last decade?

Prophets of new poverty claim that life in the lowest income brackets grew worse in the 1980 's, both in an absolute and a relative sense. If this is indeed the case this should reflect in a growing cleavage in happiness. This hypothesis is presented schematically in [exhibit 3](#). [Exhibit 4](#) shows the pattern implied by the nulhypothesis.

To test the nulhypothesis, we plotted for each nation the gamma's between life satisfaction and income ([Appendix I](#)). Next, we computed the correlation between the survey numbers and the value of the association (Glenn & Weaver, 1988). The growing cleavage would have to show in positive trend correlations ([Table 2](#)).

Growing association between income and happiness

As [table 2](#) shows, only in the Netherlands, the United Kingdom and in Ireland and France the association rose significantly between 1973 and 1986. This is in line with the new poverty prediction.

No greater disparity in happiness between rich and poor

However, closer inspection of the data revealed that in none of the analyzed countries the difference between top and bottom income categories widened during and after the economic recession of the 1980 's. This is shown in the plots of the level of life satisfaction per income category ([Appendix II](#)). Only for England and Ireland there is some evidence of 'Verelendung' in the lower income bracket, but in Germany, Belgium and Denmark the middle income groups have become somewhat unhappier during the last decade.

Greater consistency boasts gamma

At first sight, these results seem contradictory. On the one hand we are confronted with an increase in association between income and life satisfaction for four nations. On the other hand we see no widening gap in the average scores of the four income categories. This contradiction disappears however, when we consider our statistical measure 'gamma' more closely. That the association rose in four countries, means nothing more than that the level of consistency of the happiness differences along the income ladder in these nations increased. So, most notably in France, Ireland, the Netherlands and the United Kingdom the relation between income and life satisfaction has become more strongly linear than before. This is shown in [Table 3](#).

In sum,

The growing split between rich and poor did not occur, at least not where life satisfaction is concerned. Yet the consistency of the differences in life satisfaction across income categories has grown somewhat. Schematically the observed pattern looks like [Exhibit 5](#) shows (compare with [exhibit 3](#) and [4](#)).

4 DISCUSSION

4.1 Are these findings conclusive?

So far the findings do not support the idea of new poverty. Yet at least two objections can be raised.

Does new poverty necessarily reflect in lower happiness?

As we have seen, happiness is only modestly related to income in present day western welfare states. Champions of equality are typically reluctant to acknowledge that fact and have suggested several reasons why the deprived fail to feel what they fall short of. So they argue that deprivation does not necessarily have to materialize in lower life satisfaction because of 'false consciousness', 'repression' and 'response-biases' among the respondents. Although it is likely that these tendencies, leading to 'incorrect' answers have occurred, it seems not very plausible that they have changed during the analyzed period. If the respondents gave the wrong answers in the 1970's, they should also answer incorrectly in the 1980's or vice versa. So, this argument is invalid as an objection to our findings on the second question, which is one of the central themes in the new poverty debate.

'Real' poor not represented in the surveys?

It can be argued that the 'real poor' are not sufficiently represented in public opinion polls. One reason could be their limited number, another the smaller chance that they are contacted by an interviewer and that they cooperate. This is certainly true for drop-outs and homeless people. However, Europe at this moment counts 44 million poor, as EC-reports point out. It would be unlikely if none of these (relatively) poor were represented in the samples. Moreover, the so called 'real poor' were from the outset not the main focus of our analysis. We set out to test the hypothesis whether the assumed harm involved in being relatively poor could be discovered in data on life satisfaction. Thus, this objection in fact misses target.

4.2 Why no greater gap in happiness between rich and poor?

Still, the question remains why the harm so often associated with the development of new relative poverty does not show up in a greater gap in happiness between rich and poor.

Income differences did not increase

Maybe we did not detect a greater happiness-gap because the assumed 'increase' of income differences has not taken place. From OESO-research it is known that the lessening of the income differences in the EC did not stop during the economic recession, because the top incomes suffered relatively more than the bottom income categories. But it is also known that after the 1980/82 economic recession, income differences did increase somewhat in most EC countries. Currently the higher incomes profit more from the growing economic activity. This is especially true for the United Kingdom. This trend almost necessarily should have to appear in terms of the life satisfaction of the various income categories. That it did not, either means that the increase of the income differences is very small or that its effect on happiness can be neglected.

Prevention of extreme poverty by welfare state

It is possible that the lower income group has not become less and less satisfied with life because the welfare state still functions in a way as to prevent absolute poverty. Although lately governments have diminished their budgets for social security and the like, it can be argued that still nobody really has to fear absolute poverty. Welfare states have not withered away. They on the contrary seem to be rather immortal institutions. The provisions still available prevent that lower income groups develop an extreme low level

of life satisfaction.

Rise of postmaterialism among the poor

It is also possible that real changes to the worse have been neutralized by a change in value-orientation in the lowest income bracket. This change towards postmaterialism can be due to the need of the new poor to defend their way of living to themselves. They are prone to attach more to postmaterialistic values the deeper their misery becomes. In adopting postmaterialistic values, the source of their unhappiness moves away from financial items as the level of income.

Inglehart in his recent work 'Culture Shift', has stated this link between postmaterialism and the subjective source of happiness very clearly: " Postmaterialist were markedly more likely to mention interesting and socially useful activities, being esteemed by others, getting along with friends, and leisure activities. Materialist were likelier to emphasize the importance of marriage, family life, children, good health and having money." (Inglehart, 1990). The change towards postmaterialism can also be due to changing composition of the bottom income category: younger people are slightly overrepresented in it. And, as Inglehart also points out, this younger generation, born in the 1960's and 1970's, has the tendency to be inherently more postmaterialistic than the earlier ones.

Size of the difference irrelevant

As we have seen, the poor-rich difference involved here is a relative matter, rather than an absolute one. Relative deprivation is largely insensitive to the size of the difference: what counts is that one is worse or better off than others, not how much. Consequently, the greater income inequality in the EC does not reflect in a sharper difference in happiness. The poor do not get less happy, the rich do not become more so. Things would have been different if the poor really had been pushed below an objective-absolute minimum. In that case happiness would have dropped among the poor but would have remained the same among the rich, resulting in a lower average happiness for the nation as a whole. As we have seen that is not the case.

4.3 Why does the belief in new poverty persist?

In the light of our findings it seems rather odd that so many people believe that new poverty is 'bad', even as bad as the old classical forms of poverty were. Several reasons can be given for the persistence of this belief.

Political use of the idea

Poverty, old or new, absolute or relative, is of course a classical political issue with great appeal. Left political parties are likely to play this theme repeatedly, especially when in opposition.

It is also unlikely that the theme will wither away because the concept of new poverty is a weapon in the ongoing struggle about welfare expenditures. Mobilizing resistance against the cuts on welfare budgets seems to be rather difficult on the basis of technocratic arguments alone. Emotional appeals are necessary and sought for. One of them is found by linking the development of new relative poverty with the harm of the old and absolute forms of being poor. Since nobody really wants less and worse public provisions, this way of mobilizing a mild form of opposition is successful. Everybody consents to the arguments made about new poverty and the underlying assumptions simply are not being questioned.

Next, there are the interest groups and social policy advocates, trying to convince

politicians and scientists of the seriousness of new poverty. They do so because they try to further the interest of their members and clients, i.e. the poor. The media are used and manipulated for this purpose. Grants for scientific poverty research are given, on the basis of the speculation that this research will show that the (relative) poverty is rising every day. Politicians have difficulties to withstand the continuous flow of information on this subject. The interest groups and social policy advocates will do everything that is possible to prevent that the attention for the subject weakens or that some of the assumptions are examined in a more critical vein.

Conceptual confusion

Finally, there is a lot of confusion around the term 'poverty'. Several phenomena are captured under this umbrella. It is true that the number of people living alone increases, that society becomes more and more individualized and that this leads to problems of loneliness and isolation. This should be seen as independent developments however, and should not be identified with the development of new poverty as such. The same can be said of the disproportionate number of disabled that were excluded from the labor market when the economy went down. Although associated with and being part of the new poverty, these people should not be labeled as new poor just for the reason that they were excluded from their former positions and functioning. When these developments are not examined in their own right, we run the risk that in the end nearly everybody can be seen as one of the new poor, and that finally 'new poverty' both as a phenomenon and as a concept becomes meaningless.

4.4 Why a greater consistency in happiness across income levels?

There is still one finding that begs for an explanation. That is the unexpected greater consistency of happiness along the income ladder.

It is likely that the consistency has increased because of the conduct of the middle income groups. Overall, they are less satisfied in the 1980's. It is possible that the economic decline of 1980-1982 has led to this lower level of happiness of the middle income categories. It can have heightened the consciousness of the middle income group about their position in society, in particular in comparison with the relatively poor. In line with this argument lies the finding of Inglehart that the middle income groups became more materialistic in their value pattern after the economic decline, contrary to the general trend of a rising postmaterialism.

5 CONCLUSION

In line with the theory that poverty hurts, we found somewhat less satisfaction with life in the lower income brackets. However, this does not prove that low income really reduces life satisfaction in rich Western Europe.

Contrary to the theory that 'new poverty' reemerges in modern welfare states, we found no growing split in happiness between rich and poor, not even in the countries that were most affected by the economic recession in the early 1980's. However, we did observe some increase in consistency in happiness along income lines. This is possibly the result of cohort related changes in value orientation in income brackets.

Acknowledgements for data

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Table 1: Life satisfaction by incomecategory in the EC countries, 1986

income	--	-	+	++	gamma
Belgium	2.65	2.72	3.00	3.27	.40
Denmark	3.49	3.51	3.65	3.73	.21
Germany	2.90	3.09	3.12	3.26	.25
France	2.56	2.73	2.91	3.08	.36
Ireland	2.80	3.02	3.24	3.38	.33
Italy	2.59	2.71	2.73	2.93	.23
Luxemburg	3.25	3.37	3.38	3.42	.14
Netherlands	3.16	3.32	3.36	3.55	.30
Un. Kingdom	2.84	3.16	3.19	3.29	.27

Table 2: Happiness-income relation in nine EC countries, 1973-1986

Country	Trend	P
Belgium	+.07	.38
Denmark	+.26	.14
Germany	+.37	.05
France	+.50	.01
Ireland	+.37	.05
Italy	-.27	.12
Luxemburg	-.14	.28
Netherlands	+.53	.01
United Kingdom	+.64	.00

Table 3: Consistency of happiness differences between income brackets in nine EC countries, 1973-1986

Country	1973-1979	1980-1986
Belgium	0.88	0.74
Denmark	0.91	0.93
Germany	0.88	0.88
France	0.82	0.92
Ireland	0.64	0.91
Italy	0.95	0.96
Luxemburg	0.30	0.67
Netherlands	0.64	0.95
United Kingdom	0.79	0.96

Exhibit 1: Rich-poor difference in happiness by income per head in nine EC countries 1986

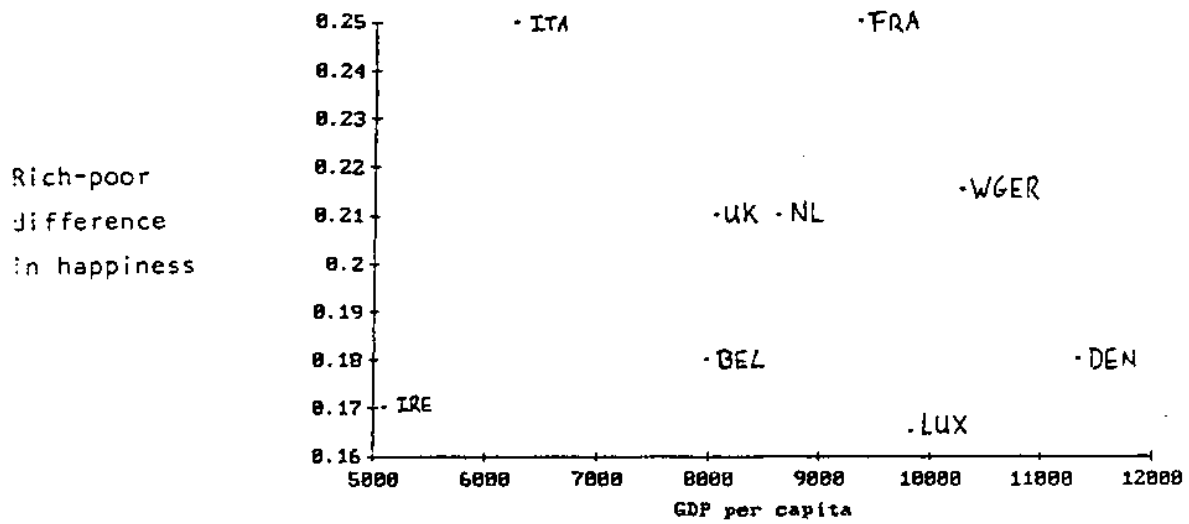


Exhibit 2: Happiness-income correlation by income per head in nine EC countries, 1986

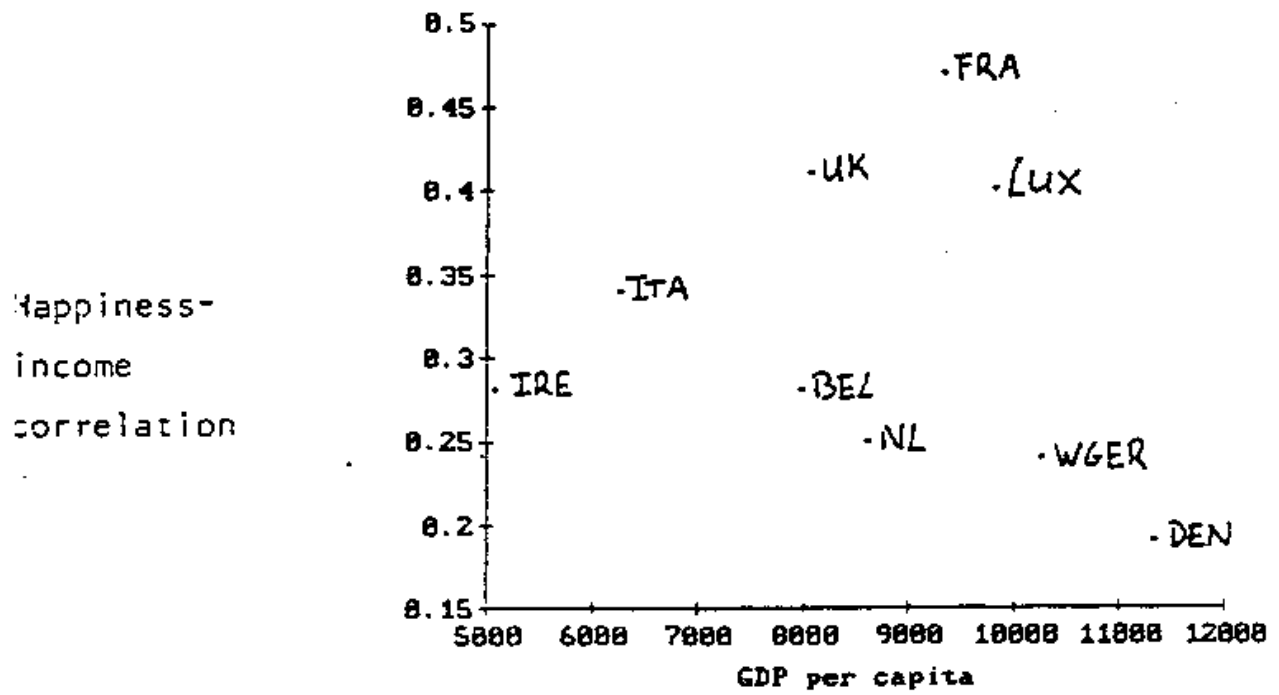


Exhibit 3: New poverty prediction

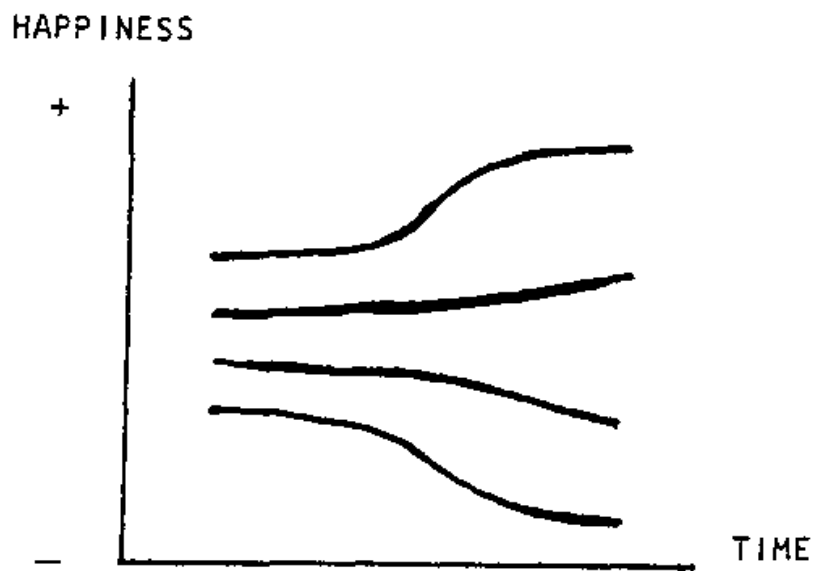


Exhibit 4: Nulhypothesis

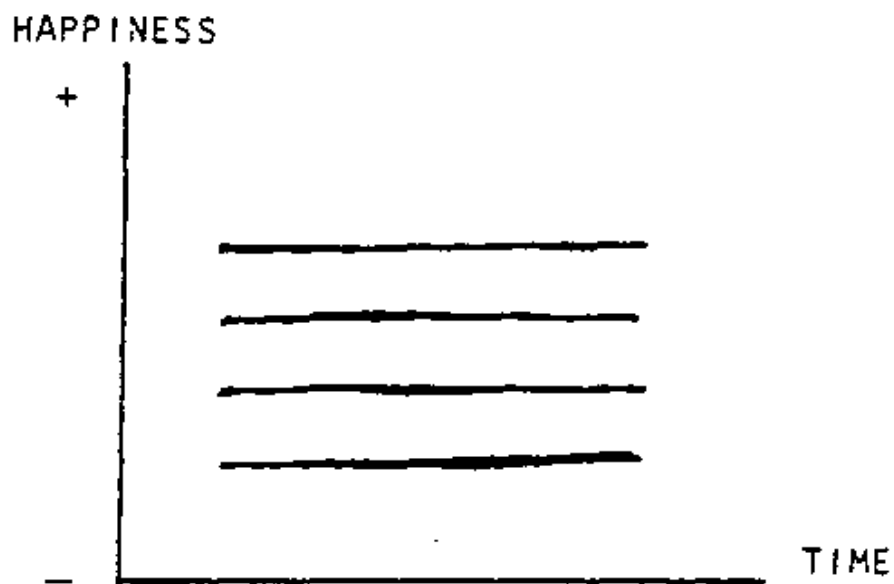
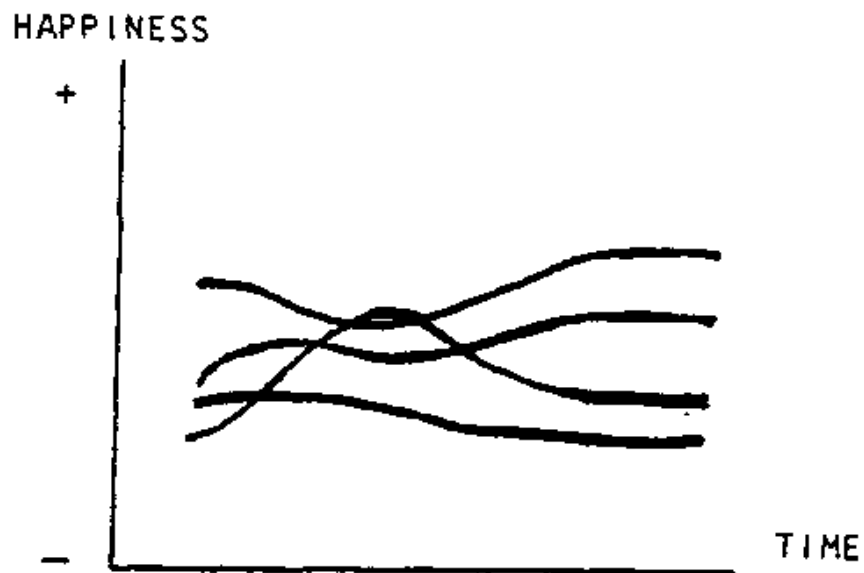
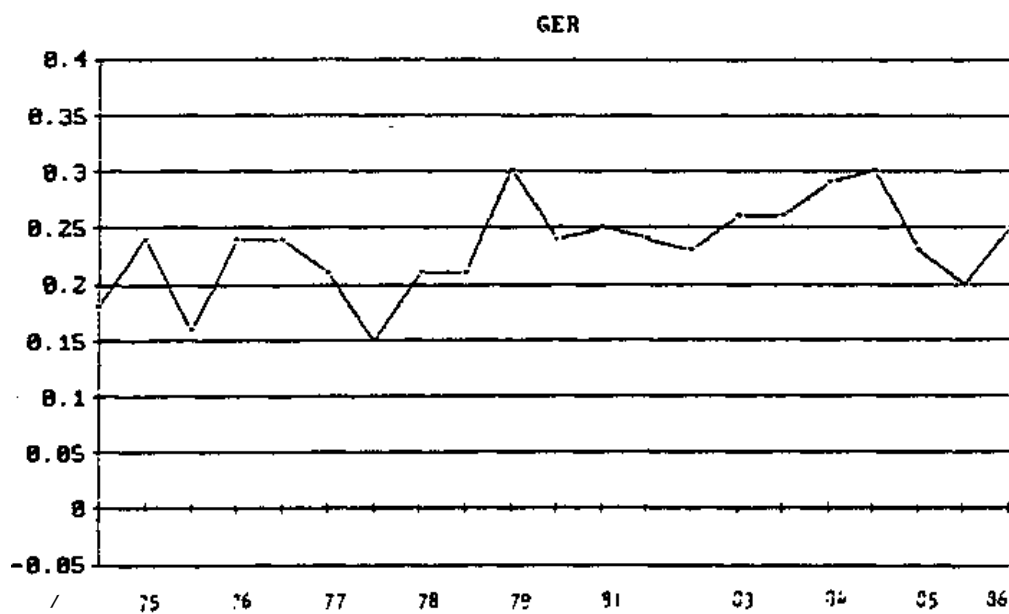
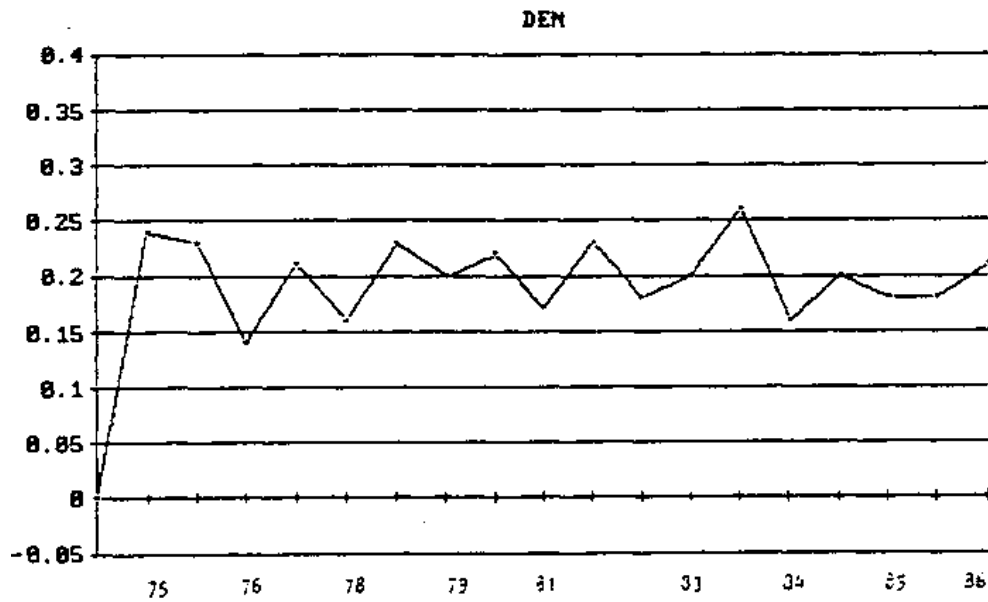
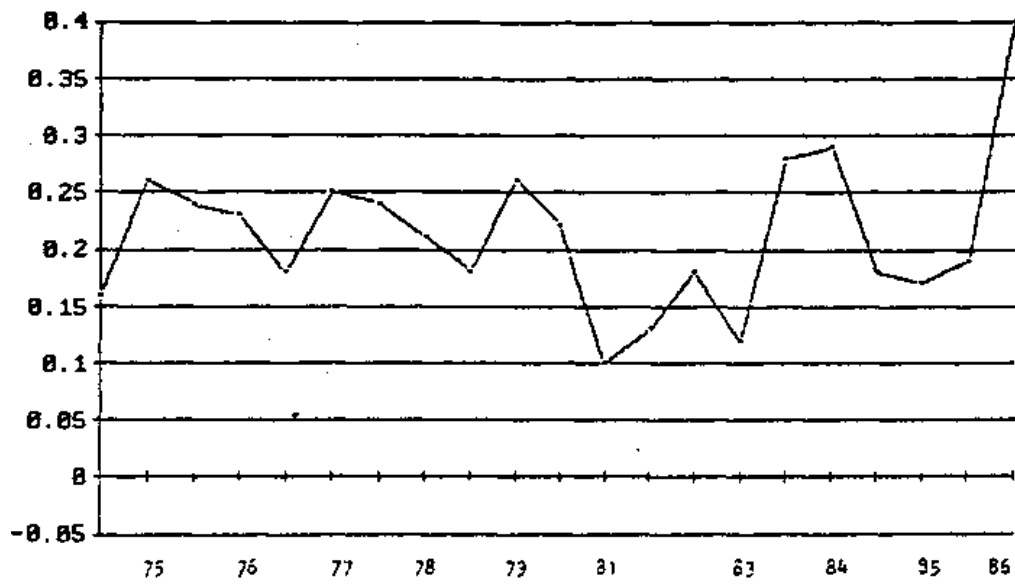


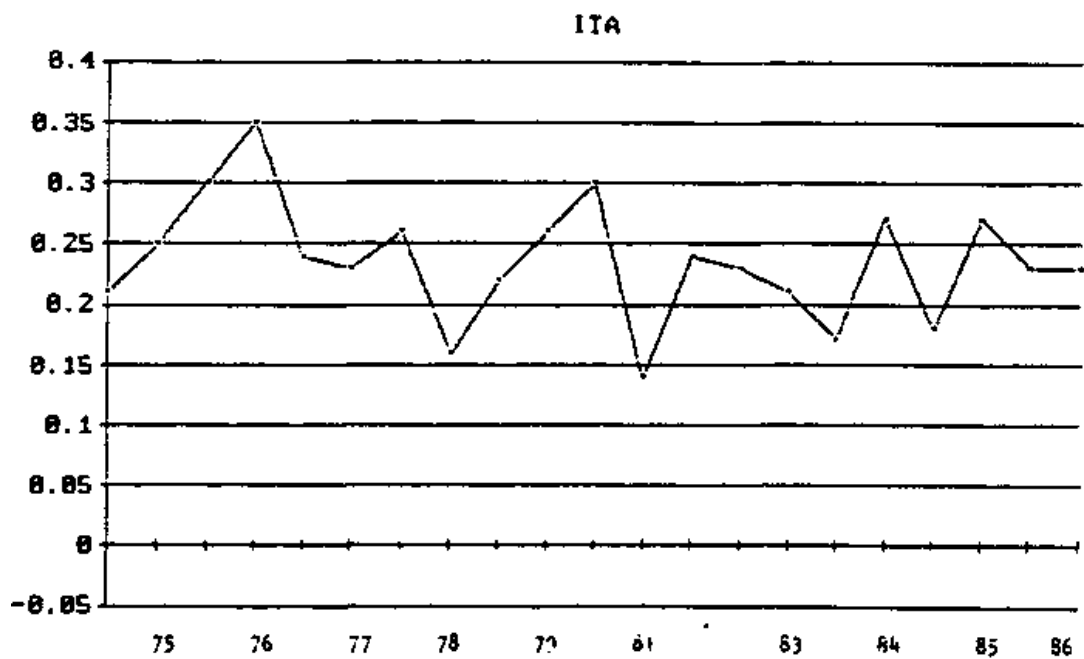
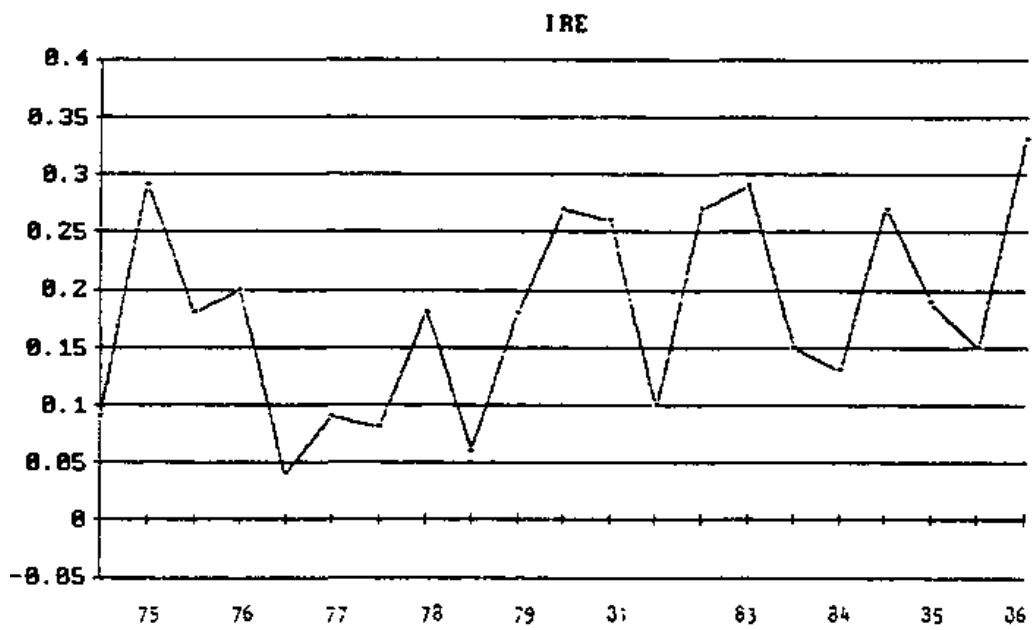
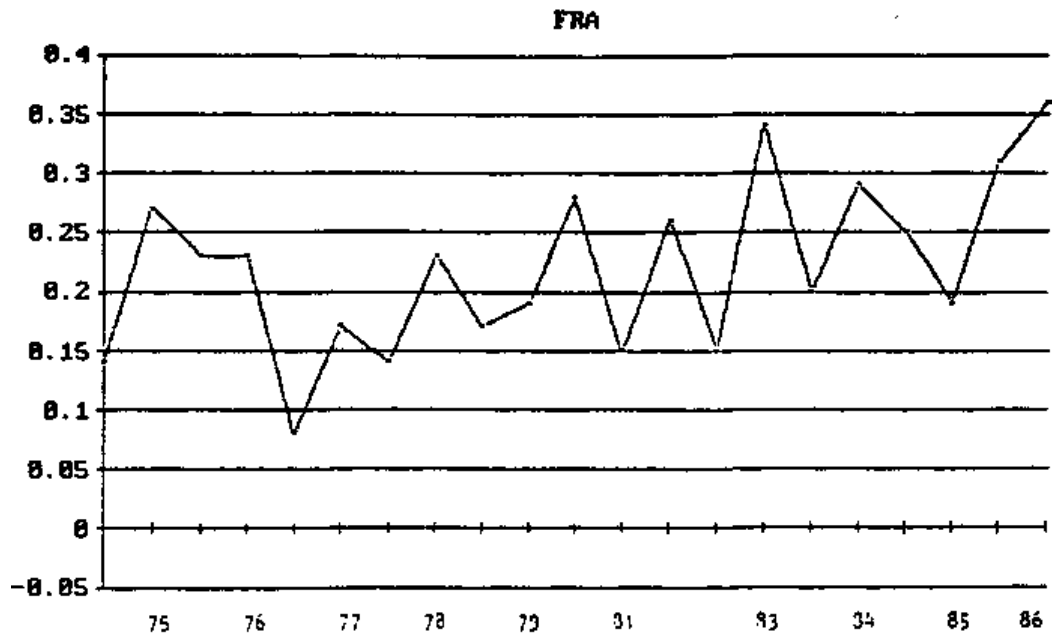
Exhibit 5: Observed pattern

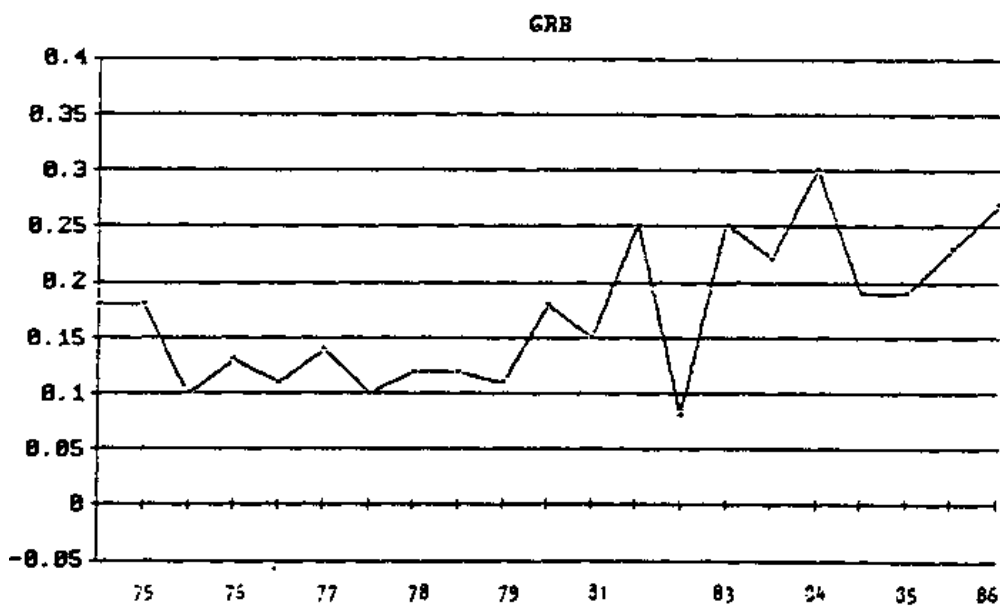
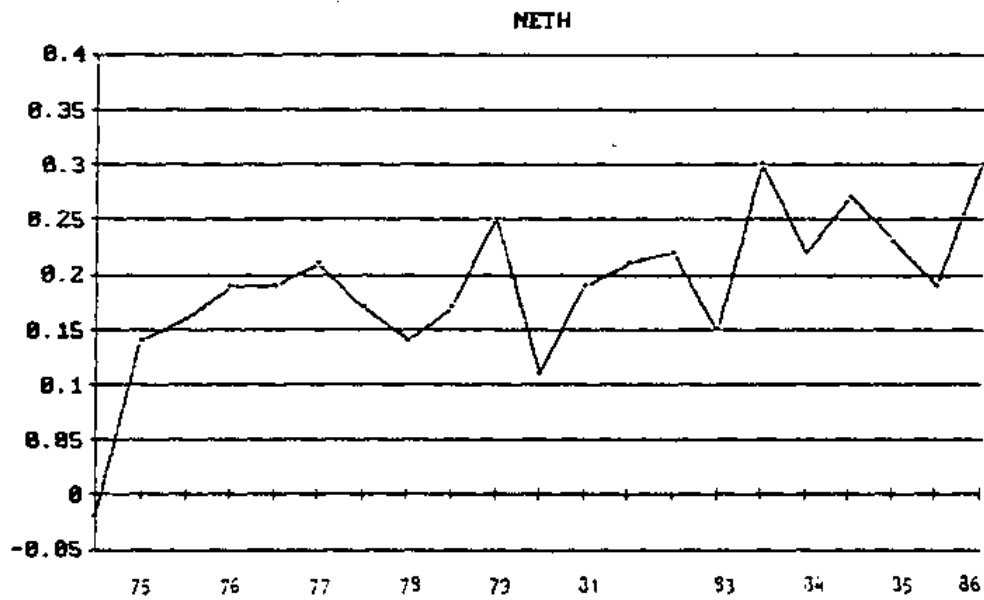
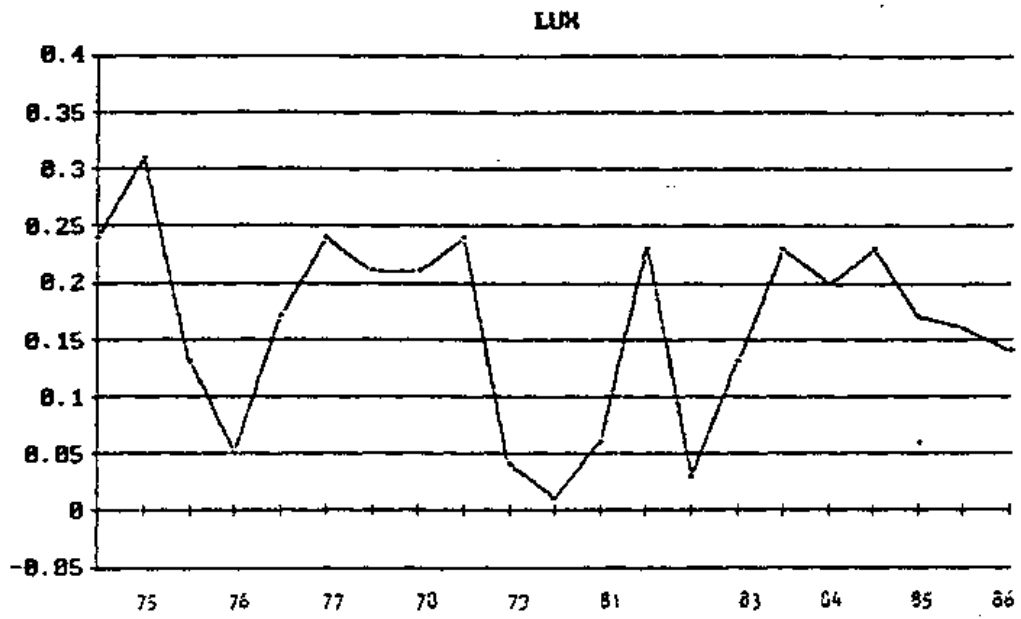


Appendix I

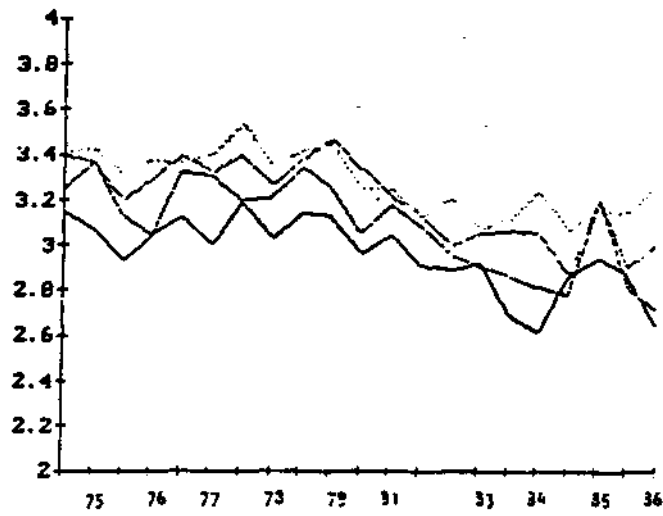
Happiness-Income relationship through time



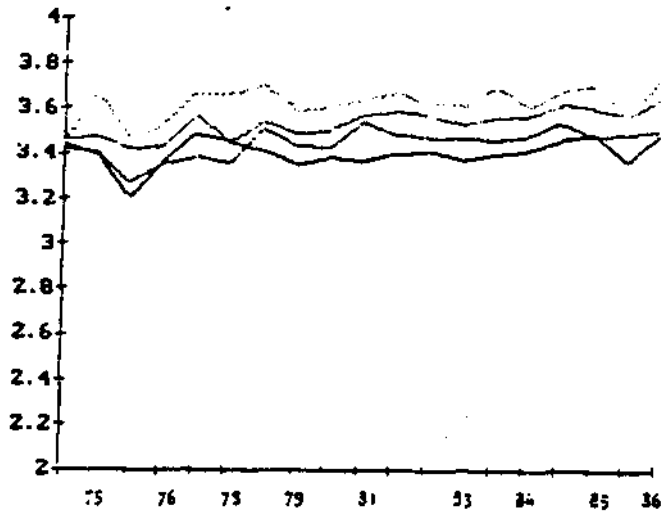




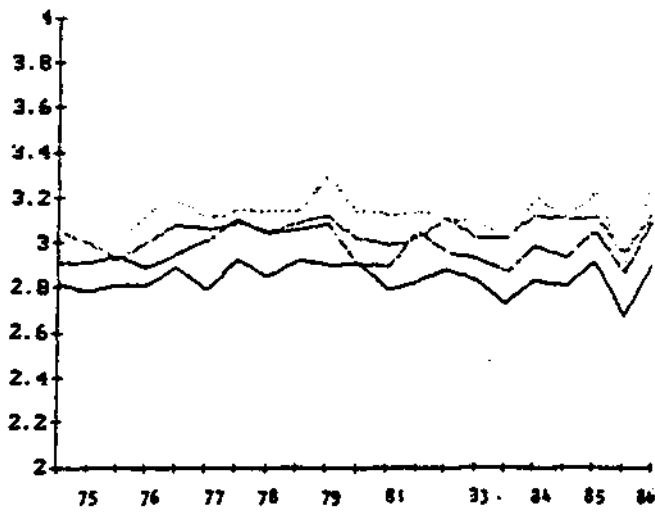
Appendix II Happiness per Income category 1973-1986



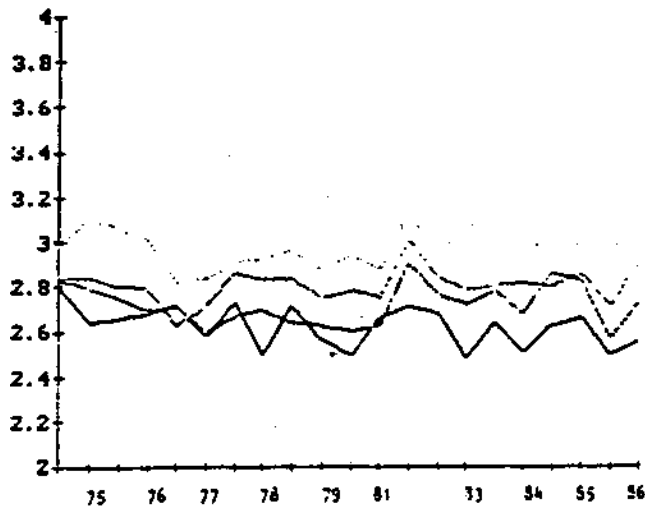
Belgium



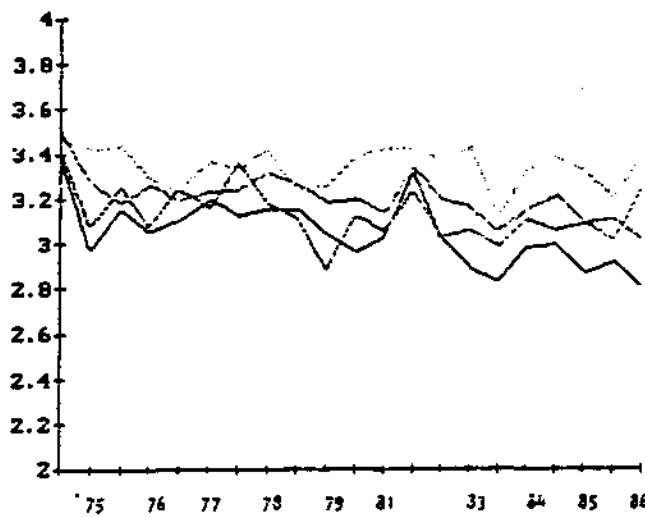
Denmark



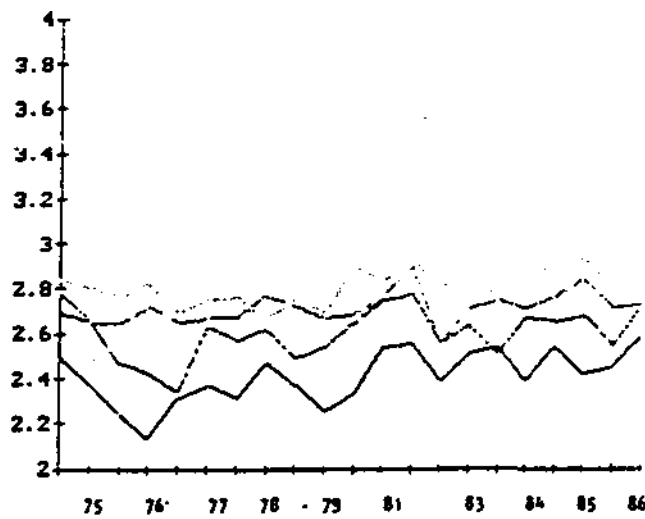
Germany



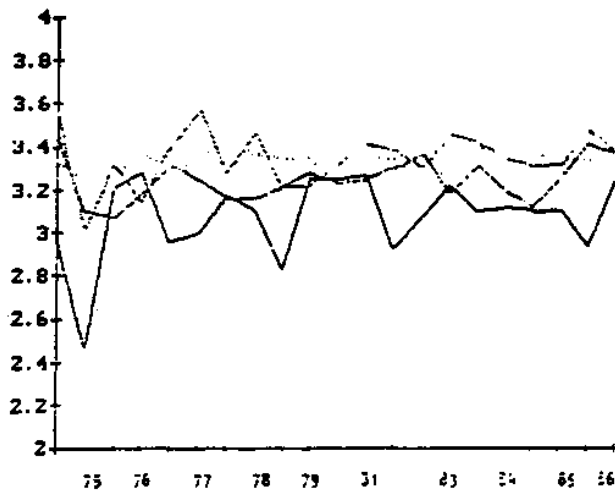
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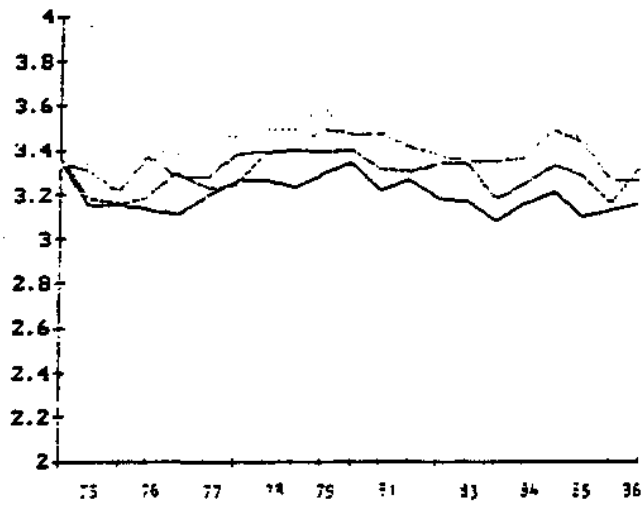
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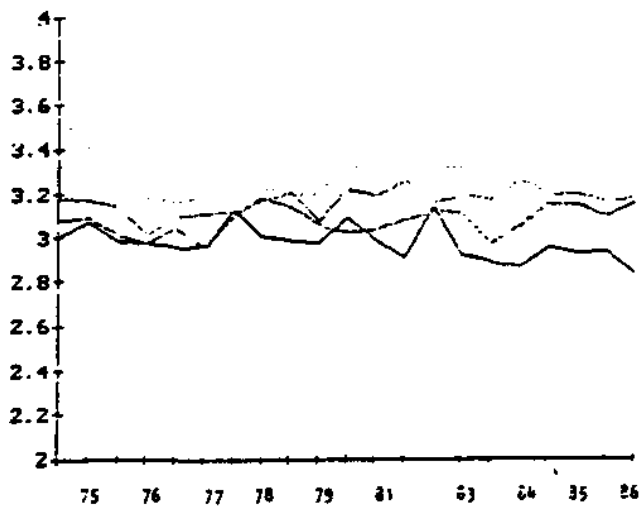
Italy



Luxemburg



Netherlands



Great-Britain