

Objective and Subjective Aspects of Poverty Measurement in the EU

Martina Mysíková
Institute of Sociology of the Czech Academy of Sciences
martina.mysikova@soc.cas.cz

Tomáš Želinský
Technical University of Kosice

Income poverty in the EU is measured by the relative at-risk-of poverty (AROP) rate. However, first, it has been well recognised that well-being and poverty include both objective and subjective aspects. Subjective poverty is a methodologically appealing way which has been rather neglected in EU official documents so far. Subjective approaches to poverty measurements were developed around the 1980s but have been rather neglected later, with several studies reappearing only recently. Second, by definition, the income poverty indicators lack the dimension of costs and liabilities, although debt payments might become overwhelming especially for low-income households.

This study covers EU countries, with a focus on the presumed differences between Eastern European and Western European countries. EU-SILC data, the source of official EU poverty statistics, are applied. While the core questionnaire involves information on disposable income, housing costs, financial burden, arrears on payments, minimum income needed to make ends meet etc. annually, EU SILC modules 2008 and 2020 are focused on over-indebtedness. Especially, the 2020 module includes information on amounts of household debt repayments, and food and transport expenses. Therefore, it is, for the first time, possible to properly supplement the analyses of income poverty in the EU by aspects of indebtedness and necessary costs.

Subjective poverty lines and rates can be derived under various approaches. The EU-SILC data allows to utilise a money-metric approach based on Minimum Income Question. Model-based estimations enable to derive the subjective poverty lines for various households types and subpopulations, and to compare populations identified as “income-poor” under the objective and subjective approaches. The East-West differences are typically more apparent when the subjective income poverty approach is applied than for the relative AROP rates. As opposed to “objective” income poverty, people are supposed to consider the overall circumstances of their households, especially necessary expenses and liabilities. Further, though at lower national degrees of relative household indebtedness, Eastern Europeans are more frequently in arrears on loan payments than Western Europeans and debt repayments induce heavy financial burden for them more often.

Debts enable households to increase their welfare, especially by allowing for smoothed consumption. However, over-indebtedness can have a reversed welfare impacts and sole income

may not provide a realistic picture. Though the income poverty concept uses household disposable income, in reality, the income after debt payments is what is actually disposable income and can be spent. Considering income after debt repayments are deducted could considerably change the view on poverty and composition of the poor.

We intend to revise the measures of (over-)indebtedness applied in the literature so far, and evaluate their relation to income poverty. Subjective questions on households' assessment of the financial burden of their debt payments and their arrears on payments can be commonly utilised in the EU-SILC data. However, for the first time, it is possible to derive "objective" measures of indebtedness, such as the debt payment to income ratio or disposable income after debt repayments (and regular necessary, e.g., housing, food, transport costs).

We aim to define a "necessary expenses-to-income" ratio, where the necessary costs includes debt repayment amount, housing costs, food and transport expenditures. Eurostat publishes the Housing cost overburden rate, which considers population living in a household where housing costs represent more than 40% of the total disposable household income. A similar indicator of household overburden can be supplemented by debt repayments. An alternative way is to deduct the necessary expenses from total households disposable income, and to apply such an income disposable to other consumption to construct a "modified" AROP rate.

Finally, we suppose that the subjective poverty and the "necessary expenses-to-income" ratio would be correlated and that this correlation would be stronger than a correlation of either of these two indicators with the AROP. We suppose that the higher the ratio, the higher the probability of households being identified as subjectively poor. As opposed to debt repayments, the Minimum Income Question (and thus the subjective poverty) has been available annually in EU-SILC data. If a strong relationship between the "objective" necessary expenses-to-income ratio and subjective poverty is confirmed in 2020 data, it would indicate that the subjective poverty provides relevant information to supplement the poverty statistics on a yearly basis.