

# **Risk of poverty and material deprivation in the EU: how higher and differentiated are the subjective monetary needs of households in these conditions?**

**Very preliminary abstract. Please do not quote or distribute**

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Relative poverty in the EU is measured through the at-risk-of-poverty-rate, that is based on income thresholds (i.e. the canonical 60% of national median disposable income). In turn, material deprivation measures are ‘a kind of’ absolute poverty measures based on enforced lack of necessary items. However, recent analyses have priced the necessary items in the different EU Member States and estimated the household-specific monetary equivalents not to be deprived. A recent project of the EU Commission (ABSPO project, EU Commission forthcoming) is also deriving monetary thresholds of absolute poverty taking into account the financial needs of different households across EU countries, building on previous attempts to derive monetary values meant to capture absolute poverty in a handful of European capital cities (Goedemé et al. 2015).

However, little is known about the extent to which these poverty thresholds, relative or absolute, reflect financial needs of different kinds of households. To contextualise the monetary needs of those living in relative poverty or material deprivation, this study explores a relatively underexploited source of information in EU-SILC, the ‘lowest household income to make ends meet’ variable. This variable, once appropriately corrected, may approximate the concept of a subjective poverty threshold.

Thus, this study first compares different poverty thresholds such as the relative poverty lines (the AROP line, the pan-EU poverty line) and the ‘implicit’ monetary absolute lines associated to material deprivation measures with the subjective income poverty thresholds. Secondly, it explores the factors that affect households’ subjective poverty lines.

The aim of the study is thus twofold: on the one hand the comparison of the self-declared, subjective poverty lines for those in condition of both monetary deprivation and relative poverty contextualises current EU poverty indicators. On the other hand, the analysis of the factors affecting households’ subjective poverty lines may help distinguish different household conditions and better inform about the state of relative poverty or material deprivation so as to inform future poverty monitoring frameworks.

First inspection of the financial needs declared by individuals who are respectively in severe material deprivation and at risk of poverty shows that, for a very large majority of EU countries, households in severe material deprivation declare on average higher subjective monetary needs than those at risk of poverty.

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<sup>1</sup> The views expressed in the text are the private views of the author and may not, under any circumstances, be interpreted as stating an official position of the European Commission.

This result is somehow unexpected due to the generally higher state of hardship meant to be captured by material deprivation. Moreover, the comparison of the subjective poverty lines reported in EU-SILC with the AROP lines is far from perfect. However, a pattern seems to emerge across countries: the AROP thresholds in relatively high-income EU countries are visibly higher than the average and median subjective poverty lines declared to be needed by those at risk of poverty. Conversely, in relatively poorer EU countries, the AROP thresholds are generally lower than the average and median subjective poverty lines declared by the AROP households. This confirms the result in the study on reference budgets (Goedemé et al. 2018) that the purchasing power of households at the level of the poverty line in relatively poorer Southern-Eastern EU countries is substantially lower than that available to households close to the poverty line in richer EU countries.

To explore why the median and the average subjective poverty lines of those in material deprivation are higher than the subjective line reported by those at risk of poverty, the second part of the study explores if the households factors known to lead with greater likelihood to material deprivation than to income poverty<sup>2</sup> have a significant impact on the subjective poverty lines.

In detail, the study explores whether households conditions that presuppose higher fixed expenses impact on the subjective poverty lines. These conditions, known to be conducive with higher likelihood to material deprivation than to the risk of poverty, are the existence of a financial burden due to housing costs or purchases and the presence of someone with physical disabilities in the household. Preliminary pooled OLS regression indicate that especially severe financial burden, to a larger extent for hire loans and purchases than for housing costs, impacts on the likelihood to declare higher subjective poverty lines. This impact on the subjective poverty lines is larger for the materially deprived population than for the at-risk-of-poverty population. Thus, this initial evidence seems to call for the need to take into account the financial conditions of the households when deriving poverty thresholds to assess the state of relative poverty or material deprivation.

## Reference list

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<sup>2</sup> For an analysis of the factors more likely to trigger material deprivation than risk of poverty, such as fixed, pre-committed expenses, see Karagiannaki (2020, forthcoming).

Karagiannaki, E. (2020, forthcoming). *Persistent Risk of Poverty and Severe Material Deprivation*. Social Situation Monitor research notes.