Beyond Income Poverty: Subjective Poverty, Indebtedness, and Household Expenses

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This research examines some aspects of the financial situation of households and individuals that are not captured by the at-risk-of-poverty (AROP) rate, an indicator based solely on household income. Although income is a crucial factor for a household's financial situation and economic well-being, the dimensions of costs, expenses and liabilities are no less important, especially with the current global challenges of rising energy prices and overall inflation. Using the EU-SILC 2020 data (module on "over-indebtedness"), this study presents additional elements of the monetary dimension of measuring poverty that can usefully complement official statistics on income poverty. Namely, it analyses subjective poverty, household (over-) indebtedness and overburden by regular household expenses. First, it estimates subjective poverty based on households' self-evaluated minimum income needed. Second, it analyses households' indebtedness and assesses possibly over-indebted households. Third, it examines the burden of households' regular necessary expenses relative to their income and suggests a measure of expense-overburden. Finally, it contrasts income poverty, subjective poverty and expense-overburden rates.

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. As opposed to *objective* income poverty, people are supposed to consider the overall circumstances of their households, especially necessary expenses and liabilities. Ignoring the subjective dimension of poverty can lead to results that do not reflect reality. Subjective poverty lines and rates can be derived under various approaches. The EU-SILC data allows to utilise a simple discrete approach based on categorical question on "making ends meet" as well as a money-metric approach based on "Minimum Income Question". In the latter case, the 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. We hypothesise that subjective poverty rates would indicate the East-West division of Europe more clearly than the AROP rate.

By definition, the income poverty indicators lack the dimension of costs and liabilities, although ***loan payments*** might become overwhelming especially for low-income households. Loans enable households to increase their welfare, especially by allowing for smoothed consumption. Most loans can be repaid without harming households. Therefore, distinctions should be made between indebtedness and over-indebtedness. The latter refers to situations where households are unable to manage their debts, causing financial stress and threatening their subsistence. *Subjectively* over-indebted households are defined as households that reported experiencing financial difficulties. The indicators used to identify households in financial difficulties are based on several EU-SILC questions on arrears on payments and in/ability to make ends meet. *Objective* over-indebtedness is based on the ratio of monthly loan payments and total household disposable income. We hypothesise that these two perspectives identify different indebted sub-populations, as relatively high loan repayments do not directly indicate problems with coping with the debt.

The study then turns to overall populations and examines regular ***household expenses***. Relative to their incomes, it looks at how households cope with housing costs and, more importantly, how additional regular expenses such as loan payments and necessary expenditure on food and transport affect the household’s “disposable” income that remains for consumption of “unnecessary” goods and services, which signals the degree to which a household is able to participate in the society. The relative burden of regular expenses is supposed to be substantially higher for low-income households than high-income households. Though based on rather arbitrarily set threshold, we propose a measure of expense-overburden and suppose that the expense-overburden rate correlates more strongly with the subjective poverty rate than the objective income poverty (AROP) rate.

The analysis indicates several key empirical findings:

The subjective poverty based on households’ self-evaluated minimum income needed indicates a clearer division and a greater differentiation between poorer (i.e. Eastern and Southern Member States) and richer (i.e. Western Member States) regions than that given by the relative indicator of AROP rate.

Households in Central and Eastern European countries typically borrow less often, possibly due to liquidity constraints and capital requirements; but indebted households in these countries are subjectively over-indebted more frequently (e.g. Romania, Bulgaria, Hungary). Countries with higher shares of indebted households tend to have less subjective over-indebtedness (e.g. Finland, Luxembourg, Sweden).

Housing costs comprises the lowest relative burden for households in Malta, Cyprus and most Central and Eastern European countries, while the highest relative burden is evident in Greece, Benelux and Scandinavian countries. Additional regular expenditures (loan payment and food and transport expenditure) burden the budgets of households in Central and Eastern Europe relatively more than in Western Europe.

Member States where subjective poverty rates are very high (e.g. Bulgaria, Greece, Romania) have also relatively high rates of expense-overburdened households. Generally, the expense-overburden rate correlates more strongly with the subjective poverty rate than with the AROP rate.