

## The different faces of poverty

Most of us have an inherent notion of what poverty is. However, finding an accurate definition is much more complex: is poverty a relative or absolute condition? Must poverty take into account needs other than monetary? Does being poor in one country mean the same thing in another? Social researchers, concerned about these questions for decades, have proposed a range of definitions and measures. Each of these offers a view of the nature and scope of a problem that has many different dimensions.

Traditionally, poverty has been defined as the level of income required to meet an individual's essential needs. This is an absolute measure insofar as the poverty threshold is set based on the cost of acquiring a basket of basic goods and services. The World Bank, an institution whose main mission is to eradicate poverty, places the extreme poverty threshold at 1.25 dollars per person per day in purchasing power parity terms.<sup>(1)</sup> In other words, to make it easier to compare, the threshold is adjusted according to the basic basket for each country (see the box «Extreme poverty: are its days numbered?»). At present, although the poverty line has been set at such a low income level, at least from a western citizen's perspective, around 20% of the world's population is still living in extreme poverty, close to 1.3 billion people, all of them in emerging countries.

It is also customary to use absolute poverty thresholds in developed countries. In the United States, for example, this threshold was officially defined in the 1950s as the value of the basic basket of foods multiplied by three, since it was determined that food spending accounted for a third of a household's total expenditure. According to this measure, the official poverty ratio was 15% in 2011 (latest figures available), representing 46.2 million US citizens. In Spain, a good reference is the Public Income Indicator with Multiple Effects (IPREM), published every year in the Budget Act and applied when giving public scholarships, aid, grants and subsidies. In 2011, the IPREM was set at 6,390 euros per year. Using data from the living conditions survey carried out by the Spanish Statistics Institute, in 2011 14.9% of Spain's population was below this threshold.

In spite of the availability of absolute indicators, the difficulty in establishing criteria that are comparable between countries has created the need to define a relative concept of poverty. In this case, a person is considered to be at risk of poverty if their resources are so limited they cannot achieve the minimum acceptable standard of living in relation to the country where they live. It is important to note that this concept refers to the *risk* of poverty and not to actually *being* poor.

Within the European Union, for example, the relative poverty threshold is defined as 60% of the median equivalent disposable income. Equivalent disposable income or income per unit of consumption is calculated by dividing the household's total net income (after tax and social transfers) by the number of units<sup>(2)</sup> of consumption or «equivalent adults». Units of consumption are calculated taking into account the economies of scale of households and therefore give a weight to all members: 1 for the first adult in the household, a weight of 0.5 for the rest of the adults and a weight of 0.3 for every child aged under 14. For example, a household with two adults and two children would be made up of 2.1 units of consumption, this being the equivalent household size. The net income of this

(1) In Spain, this corresponds to 1.62 euros/day, i.e. around 600 euros a year per person.

(2) A household's total disposable income is made up of income from paid employment, profits/losses from self-employment, social benefits, income from private pension schemes not related to employment, interest on capital and from property, inter-household transfers, income received by minors and the result from income tax and wealth tax returns. Non-monetary components are not included, apart from a company car.

household is divided by this figure to calculate the equivalent disposable income for each member of the household. So, if this same household had a net annual income of 21,000 euros, the equivalent disposable income per person would be 10,000 euros.

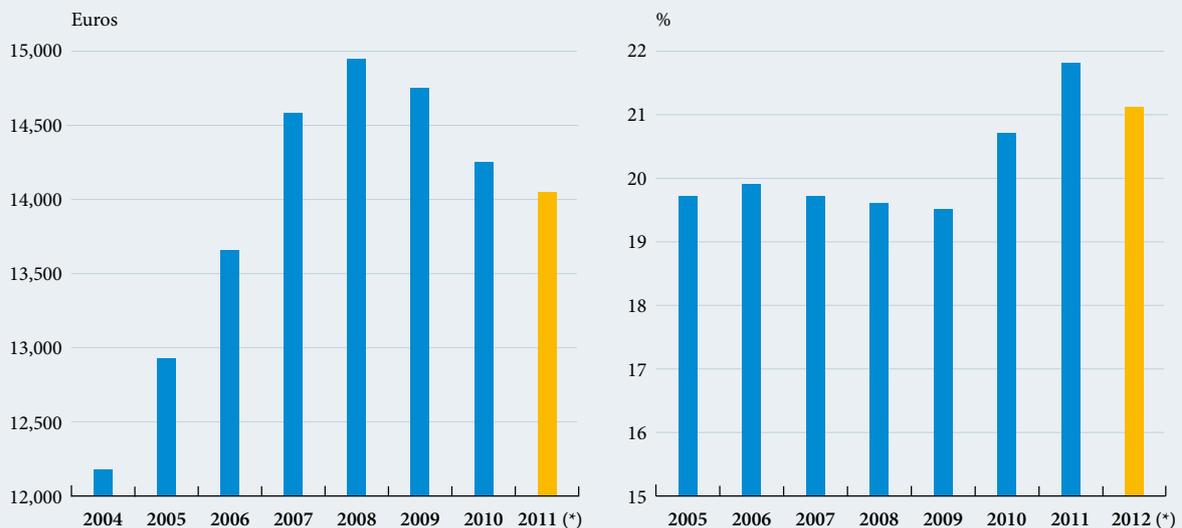
Once we know the equivalent disposable income for the population, the median is calculated: if we put all individuals, from the poorest to the wealthiest, in a line, the *median* is the value that would leave the same number of citizens to the front and to the back. According to the definition of relative poverty, anyone whose equivalent disposable income is below 60% of the median income would be considered at risk of poverty. In this respect, relative measures reflect, to a certain extent, the inequality of income distribution in the population.

By way of example, according to the living conditions survey, in 2012 the at-risk-of-poverty threshold in Spain was 7,355 euros per unit of consumption and 21.1% of Spain’s population had an income below this threshold and was therefore at risk of poverty. This represents a slight increase since the crisis started given that between 2004 and 2007 the average rate was 19.8%. In spite of the severity of the crisis, at-risk-of-poverty rate has therefore remained quite stable. This is due to the fact that this measure is relative to the income of the rest of the population. The average equivalent disposable income per person has fallen considerably over the last three years (see the graph below) and, as a result, the at-risk-of-poverty threshold is also lower.

This observation highlights one of the main limitations to using a relative concept when attempting to compare poverty trends over time: if all citizens have reduced their income in absolute terms, a relative measure cannot

**THE FALL IN AVERAGE INCOME PREVENTS A GREATER RISE IN THE AT-RISK-OF-POVERTY RATE DURING THE CRISIS**

Average equivalized disposable income per person and at-risk-of-poverty rate



NOTE: (\*) Provisional data. The poverty rate of one year refers to the income received the previous year.  
SOURCE: National Institute of Statistics.

reflect this deterioration. Moreover, it is an arbitrary definition insofar as there is no compelling reason to choose 60% of the median as opposed to 50%, for example. In fact, 30% of the median tends to be used to measure extreme relative poverty. In Spain, 6.2% of the population were below this threshold of 3,827 euros per unit of consumption in 2011.

However, the greatest limitation to the measures presented so far is probably the fact that they are strictly monetary and therefore ignore other deprivations that might be suffered by people with fewer resources, such as a lack of education, healthcare or the inability to meet certain material needs. In-depth knowledge of the phenomenon of poverty requires an analysis that includes alternative indicators to monetary measures such as the severe material deprivation index by Eurostat. This indicator expresses the inability to afford at least four of the following items: paying rent or mortgage; a week's annual holiday away from home; eating meat, chicken or fish every two days; facing unexpected expenses; telephone; colour television; washing machine; car; heating. According to this index, Spain's poverty situation is less worrying. In 2011, 3.9% of individuals experienced severe material deprivation whereas the ratio was substantially higher, namely 8.8%, for the EU-27 as a whole. This shows that, in spite of the unfavourable employment situation in Spain, the material needs of the population are relatively well covered.

A broader view of poverty is provided by the human development index (HDI) of the United Nations Organization, which does not look at what people have or do not have but what they can or cannot do. In other words, the HDI includes dimensions such as infant mortality, life expectancy, literacy, malnutrition or suffering preventable diseases. Among developed countries, in 2011 Spain came 23rd in the global ranking (187 countries), just behind Finland.

In short, as we have seen, there are many different definitions and ways to measure poverty, something that is logical as it is a complex and multi-dimensional phenomenon. The power provided by these figures should be the starting point for developing a strategy to eradicate this scourge on society once and for all.

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