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POPULATION AT RISK OF POVERTY OR SOCIAL
EXCLUSION IN SPAIN, ACCORDING
TO THE EUROPEAN COUNCIL DEFINITION

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ABSTRACT

This article describes the concept of population at risk of poverty or social exclusion that is used to quantify the targets set in this respect for the countries of the European Union. Drawing on this definition, the article analyses how poverty in Spain has evolved. It also examines the factors that have contributed to poverty levels in Spain still being above the official targets for 2020 and the average of the rest of the countries of the European Union. Lastly, some aspects of the definition are identified that suggest that the concept of economic poverty should be addressed from several complementary standpoints.

Keywords: population at risk of poverty.

JEL classification: I32, P36.

POPULATION AT RISK OF POVERTY OR SOCIAL EXCLUSION IN SPAIN, ACCORDING TO THE EUROPEAN COUNCIL DEFINITION

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Introduction

On 17 June 2010 the European Council approved the Europe 2020 Strategy. Among other targets, the Strategy called for a reduction in the number of households exposed to the risk of poverty and social exclusion. In particular it set the target that by 2020 there should be at least 20 million fewer people in the European Union as a whole exposed to that risk compared with the 2009 figure, aiming for a total of 96 million in 2020. For Spain the target was for there to be 1.4 million fewer, aiming for a total of 9.9 million in 2020.

In order to determine which part of the population is at risk of poverty or social exclusion, the European Council used three criteria.¹ In accordance with these criteria, the population at risk of poverty was defined as people living in households that satisfy at least one of the following three conditions:

- Condition 1: having income per capita, on an equivalence scale² and after transfers, of less than 60% of the median national income.
- Condition 2: having all working-age household members under 59 working below 20% of their potential hours.
- Condition 3: meeting at least four of the following conditions of material deprivation: being unable to pay mortgage or rental costs or utility bills; being unable to heat one's home; being unable to meet unexpected expenditure; being unable to eat meat or protein regularly; being unable to afford a holiday; being unable to afford a television; being unable to afford

1 This article, like the European Council's targets, concentrates on the concept of economic poverty, although there are also other forms of poverty, such as social, political or cultural poverty. In turn, economic poverty may be defined as an absolute or a relative concept. In absolute terms, the poverty threshold is defined as the minimum resources needed in order for people to have sufficient food, clothing and shelter, irrespective of their place of residence. The World Bank currently sets this threshold at \$1.90 dollars per day. Especially in developed countries, this absolute concept is not very appropriate and it is more usual for a relative measure to be used. Thus, poverty is defined not only according to the absolute resources at a person's disposal but also taking into account their quality of life according to their place of residence.

2 According to the OECD equivalence scale used, the number of household members is calculated as follows: $1 + 0.5 * (\text{number of household members over 13 years of age} - 1) + 0.3 * (\text{number of household members} - \text{number over 13 years of age})$.

a washing machine; being unable to afford a car; and being unable to afford a telephone.

Since 2009, the Living Conditions Survey (LCS) is the benchmark statistical source used to measure the population at risk of poverty in the different EU countries, as it provides a uniform measure of the number of households that meet each of the three conditions in the different Member States. In particular, the Survey includes questions on household income level (Condition 1), the employment status of household members (Condition 2) and the household's ability to meet a series of expenses (Condition 3). In the specific case of Spain, household income in the LCS is calculated by combining the data provided by the reporting households with that contained in the tax authorities' files.

Development and characteristics of the population at risk of poverty and social exclusion

According to the European Council's definition and the LCS data, in 2018 (the last year available) 4.5 million households were at risk of poverty or social exclusion in Spain, almost 25% of the total. Bearing in mind the average number of household members, this amounts to some 12 million people, slightly more than 25% of the Spanish population. Table 1 shows the classification of households in 2018 and compares it with the classification in 2009.

As Chart 1 shows, the percentage of people at risk of poverty remained quite steady in the period 2005-08. It then increased during the worst years of the global financial crisis (especially between 2009 and 2013) and has since decreased, in line with the recovery in economic activity and employment. However, despite this improvement, this measure of risk of exclusion in Spain has still not returned to its pre-crisis levels.³

In the later years of the economic upturn that preceded the crisis, in the period 2005-07, the percentage of persons at risk of poverty in Spain was in line with the euro area median. However, during the downturn that followed the onset of the crisis, this percentage rose more sharply in Spain than in the euro area. This is consistent with the greater relative incidence that the downturn had on economic activity and employment levels in Spain. In recent years, the gap with the euro area has gradually narrowed, although on data up to 2018 it has not yet fully closed.

A more detailed analysis shows a high degree of heterogeneity as regards the relative incidence of each of the conditions that define the population at risk of poverty and

³ The LCS was created in 2004, so there are no comparable data for earlier periods. The EU Household Panel has data for the years 1996-2001: over that period, the percentage of persons below the poverty threshold (which was then considered to be 50% of median income) fluctuated between 18.2% and 20.3%.

Table 1

CHARACTERISTICS OF HOUSEHOLDS AT RISK OF POVERTY

A high degree of heterogeneity is observed in households' characteristics as regards the relative incidence of each of the three conditions that define the population at risk of poverty.

	LCS-2018					LCS-2009			
	All households		Households with income below the poverty threshold	Households with low work intensity	Households with severe material deprivation	Households at risk of poverty or social exclusion (a)		Households at risk of poverty or social exclusion (a)	
	Number of households	%				Number of households	%	Number of households	%
Total households	18,545,946	100.0%	20.5%	6.4%	5.4%	4,517,163	24.4%	4,237,162	24.5%
Total persons	46,182,803	100.0%	21.5%	8.0%	5.4%	12,047,376	26.1%	11,335,722	24.7%
Average household income (in €)	28,417		9,945	12,751	12,993	11,963		12,061	
Average income per consumption unit (in €)	16,958		5,683	7,977	7,846	7,058		7,174	
Age reference person									
Under 35	1,833,272	9.9%	12.2%	9.3%	10.4%	518,124	11.5%	625,809	14.8%
35-44	3,718,873	20.1%	19.5%	22.9%	18.5%	860,193	19.0%	933,185	22.0%
45-54	3,893,887	21.0%	26.6%	34.1%	23.4%	1,171,652	25.9%	719,833	17.0%
55-64	3,431,608	18.5%	17.5%	29.2%	25.6%	894,312	19.8%	659,561	15.6%
65-74	2,804,118	15.1%	10.6%	1.5%	11.4%	473,547	10.5%	535,493	12.6%
Over 74	2,863,913	15.4%	13.5%	3.0%	10.8%	599,336	13.3%	745,810	17.6%
Education reference person									
Primary or lower	4,874,566	26.3%	36.9%	30.0%	42.2%	1,635,860	36.2%	1,625,054	38.4%
Secondary	7,931,973	42.8%	48.4%	55.3%	46.9%	2,200,477	48.7%	1,614,274	38.1%
University	5,705,675	30.8%	14.5%	14.5%	10.5%	674,267	14.9%	483,783	11.4%
Employment status reference person									
Employed	9,464,820	51.0%	38.3%	11.1%	32.8%	1,637,809	36.3%	1,298,542	30.6%
Unemployed	1,700,722	9.2%	25.0%	50.3%	31.5%	1,109,042	24.6%	831,645	19.6%
Inactive	7,378,739	39.8%	36.6%	38.6%	35.6%	1,768,922	39.2%	2,085,019	49.2%
Housing tenure status									
Owned with no mortgage	9,409,444	50.7%	42.2%	45.3%	31.6%	1,959,771	43.4%	1,987,534	46.9%
Free	1,180,769	6.4%	10.9%	12.4%	12.9%	453,229	10.0%	400,659	9.5%
Renting/sub-renting at below market price	509,328	2.7%	5.9%	7.9%	9.2%	252,625	5.6%	200,388	4.7%
Renting/sub-renting at market price	2,738,381	14.8%	24.6%	17.7%	29.0%	1,068,540	23.7%	754,920	17.8%
Owned with mortgage	4,708,024	25.4%	16.4%	16.7%	17.4%	782,998	17.3%	893,661	21.1%
Household type									
1 adult	4,732,582	25.5%	26.3%	31.4%	33.4%	1,228,311	27.2%	1,311,433	31.0%
2 adults	5,266,603	28.4%	23.3%	22.5%	18.6%	1,064,178	23.6%	1,006,518	23.8%
1 adult with 1 child	379,093	2.0%	3.8%	6.7%	3.9%	176,578	3.9%	77,666	1.8%
2 adults with 2 children	2,159,946	11.6%	13.6%	5.9%	7.9%	544,855	12.1%	481,901	11.4%
Other	6,007,722	32.4%	33.0%	33.6%	36.2%	1,503,241	33.3%	1,359,644	32.1%
Households with severe material deprivation	993,168	5.4%	16.2%	23.8%	100.0%	993,168	22.0%	686,713	16.2%
Households with members unemployed or with low work intensity	1,190,526	6.4%	21.0%	100.0%	28.6%	1,190,526	26.4%	818,860	19.3%
Households below the poverty threshold	3,795,747	20.5%	100.0%	67.1%	62.1%	3,795,747	84.0%	3,627,106	85.6%
Households at risk of poverty or social exclusion	4,517,163	24.4%	100.0%	100.0%	100.0%	4,517,163	100.0%	4,237,162	100.0%

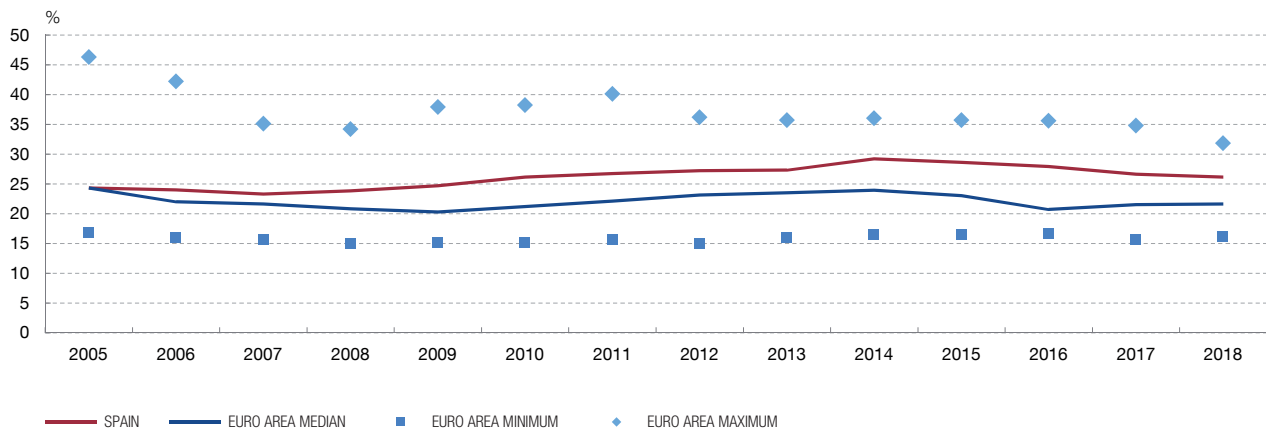
SOURCE: INE (LCS-2009 and LCS-2018).

a Households at risk of poverty or social exclusion must be in at least one of the three situations: household income per capita below the poverty threshold; household with severe material deprivation; or household with members unemployed or with low work intensity.

Chart 1

PERCENTAGE OF POPULATION AT RISK OF POVERTY OR SOCIAL EXCLUSION. SPAIN AND EURO AREA MEDIAN (a)

The percentage of persons at risk of poverty in Spain increased during the worst years of the global financial crisis more sharply than in the euro area. In recent years, this percentage has fallen, in line with the recovery in economic activity and employment, but the gap with the euro area is narrowing more slowly.



SOURCE: Eurostat (EU-SILC).

a Euro area countries: Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland. Euro area figures for 2018 do not include Slovakia or Ireland.



their characteristics. As Table 1 shows, most households at risk of poverty in Spain in 2018 were in that situation because their income was below the threshold defined by Condition 1. In particular, in 2018, the annual income of 3.8 million households in Spain (20.5% of the total) was below the threshold defined according to the European Council methodology.⁴ Yet this was not necessarily on account of household members' precarious employment status. Indeed, only 6% of households reported low work intensity in terms of hours (Condition 2). This is partly explained by the fact that the condition that defines poverty in terms of hours worked does not take into account households consisting of students and retirees, as they are economically inactive, whereas they are included in the income condition (Condition 1).

In addition, over the same period, 5.4% of all households report that they face severe material deprivation (Condition 3). This marked difference between the proportion of households at risk of poverty according to Conditions 1 and 3 suggests that if the income criteria (Condition 1) and the expenditure criteria (Condition 3) are considered separately, different groups of households are identified. In this respect it is interesting to note that if Conditions 1 and 3 are combined, only 16% of all households below the income threshold (Condition 1) have severe material deprivation

4 As indicated above, the income threshold is calculated taking into account household composition. Thus, in 2018, for a household of one adult, the threshold was €8,871 per annum. By contrast, for a single-parent household with one child the threshold was €11,532 per annum, and €15,968 for a household of two adults and one child. In the case of a household consisting of two adults and two children, the poverty threshold was €18,629 per annum.

(Condition 3), whereas 38% of all households with severe material deprivation are below the poverty threshold in terms of income.⁵

Several factors may help to explain these differences, in accordance with the different conditions considered. First, Condition 1 established by the European Council is defined on the basis of a national poverty threshold. Although this approach may make sense for reasons of geographical equity, it may also give rise to significant distortion in cases, as in Spain, where there are major differences both at regional and, in some cases, municipal level in households' income levels and prices they have to pay. In other words, real purchasing power of the same monetary amount may differ significantly between different populations. Second, the conditions that define the risk of social exclusion are ultimately based on income and expenditure metrics, but they do not directly include information on household wealth. In particular, no account is taken, for example, of housing tenure status. Households that own their homes and have no mortgage would potentially be in a very different situation from households living in rented accommodation.

In terms of household characteristics, among those at risk of poverty there is a higher proportion of households whose head is under 64 years of age, is not university educated and is unemployed. In terms of household head age, there are some differences between the groups that meet each of the three conditions defining poverty. Thus, among households that have income below the poverty threshold there is a higher proportion of heads of household under 35 years of age; among households that have low work intensity there is a higher proportion of heads of household between 35 and 64 years of age; and among households with severe material deprivation there is a higher incidence of heads of household between 45 and 64 years of age. Regarding employment status, in all the groups identified under the three above-mentioned conditions, more than 30% of heads of household are economically inactive, and most markedly among the households with severe material deprivation. In the group with income below the poverty threshold, the percentage of heads of household who are employed (38%) stands out. This group is at risk of poverty despite being employed, mainly because the household members who work do so for only a few hours or days. In terms of housing tenure status, the households at risk of poverty are less likely to own their main residence. Thus, between 26% and 38% of these households live in rented accommodation, and between 11% and 13% live in free housing, compared with 17% and 6%, respectively, for the total population. Lastly, as regards household size, there is a higher incidence of risk of poverty among households consisting of one adult and among single-parent households. In both cases these households suffer from a lack of economies of scale, as one household member has to meet all household costs.

⁵ In the European Union, these percentages are around 20% and 52%, respectively.

Conclusions

To sum up, the description of the population at risk of poverty or social exclusion presented here follows the methodology proposed by the European Council, which groups together different reasons for their being in this situation. Accordingly, it takes into account relative income, work intensity (hours worked) and severe material deprivation. This measure shows that the economic upturn in Spain since 2013 has given rise to a drop in the percentage of households at risk of poverty, although this figure is still above the pre-crisis levels and above the target set in 2010 for Spain in the Europe 2020 Strategy. The article also shows that the different at-risk-of poverty conditions considered by the European Council do not identify the same groups of households. In this respect, the percentage of households with limited work intensity in terms of hours and days worked, and of unemployed households, stands out. Many of these households must use part of their limited income to maintain young or old dependants who live in the same household and are economically inactive. There are also other situations of poverty, such as some groups of pensioners, low-paid workers or workers with high expenses per household member. These different situations suggest that inequality and poverty should be addressed from a multitude of standpoints, in order to ensure the optimal design of economic policies aimed at mitigating these situations.

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