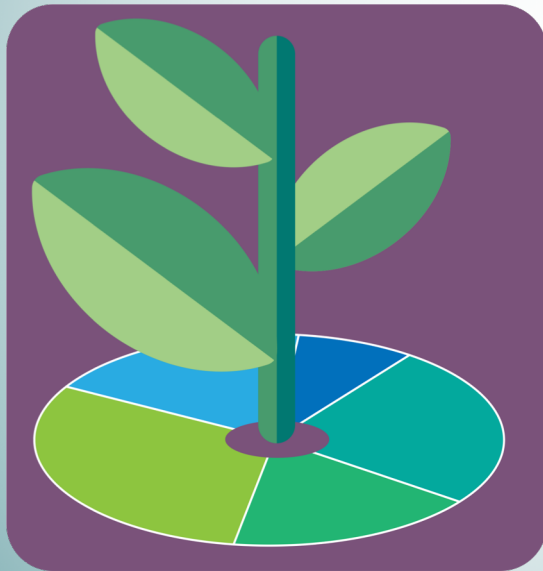


# Economics of Social Expenditure

## CHAPTER III. ECONOMIC ANALYSIS OF THE EXPENDITURE ON MONETARY BENEFITS

### 3.2 Unemployment Benefits and Programs to Fight Against Poverty



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# Index

## **UNEMPLOYMENT**

**1. Introduction**

**2. Efficiency and equity in unemployment protection systems**

**3. Unemployment: Regulations and current situation**

## **PROGRAMS TO FIGHT AGAINST POVERTY**

**4. Introduction**

**5. Measures of Concentration and Inequality**

**6. Definition of Poverty: Poverty Lines and Measures**

# 1. INTRODUCTION: unemployment (I)

- **Risk coverage of income reduction in the event of unemployment.**
  
- **Why mandatory?**
  - **Adverse selection**
  - **Moral hazard.**
  
- **Why is public provision justified?**
  - **Market failures.**
  - **Intragenerational Vertical Equity .**
  - **Transaction costs.**

# 1. INTRODUCTION: unemployment (II)

- In the case of unemployment benefits (such as a contributory benefit), the public sector assumes the role of insurance agent and income redistributor when we talk about unemployment benefits (such as economic or welfare aid), carrying out a double insurance function by assuming the “risk” of remaining unemployed by individuals and redistributing by rearranging income among different individuals.
- This double role means that unemployment benefits have a clear influence on the functioning of the labor market by avoiding "adverse selection" ( **EFFICIENCY** ) and on *unemployment benefits* in the redistribution of income among different individuals ( **EQUITY** ).



## 2. Efficiency and equity in unemployment protection systems (I)

- **Analysis of the influence of benefits on efficiency has traditionally been carried out from two points of view:**
  - **macro vision that tries to explain the influence on the unemployment rate.**
  - **micro vision that tries to explain the influence on the individual decision making of the worker and the attitude of the unemployed in the search for employment.**

## 2. Efficiency and equity in unemployment protection systems (II)

### MACRO VISION

#### NEGATIVE EFFECTS

- Particular characteristics of the labor market in setting the price (voluntary/involuntary unemployment; collective bargaining; efficiency wages,  $W = f(\text{productivity } L)$  etc ).
- Benefits → Increased bargaining power → Increased unemployment rate.
- Benefits → Decreased dismissal risk costs → Increased bargaining power.

#### POSITIVE EFFECTS

- Benefits → facilitates selective search and according to characteristics → increases productivity  $L$ .
- Benefits → “*qualification recycling*” → increases productivity  $L$ .
- Direct relationship between employment period and unemployment one.
- Role of benefits such as AUTOMATIC STABILIZER.

## 2. Efficiency and equity in unemployment protection systems (III)

### MICRO VISION

*The individual's decision to accept a job offer depends on two main variables, the prob. that there is a vacancy and the reservation wage.*

### NEGATIVE EFFECTS

- **Benefit means an increase in the reserve salary, which reduces the prob. of accepting a vacant offer.**
- **A longer duration of the benefit means less search intensity, which reduces the prob. of finding a vacancy.**

### POSITIVE EFFECTS

- **This benefit makes it possible to face search costs, thereby increasing the prob. of finding a vacant offer.**
- **Benefit allows "training recycling" and adaptation to offers, which increases the prob. of finding a vacancy and increases the productivity of work once incorporated.**

## 2. Efficiency and equity in unemployment protection systems (IV)

- Regarding **EQUITY** , the direct influence of unemployment benefits is an increase in this since they reduce the inequality between those affected by an unemployment situation and those who maintain their employment.
  
- Most unemployment benefit systems are of a *mixed nature*:
  - on the one hand they follow the principle of income substitution through contributory benefits (individuals redistribute their income throughout the life cycle between periods of employment and unemployment)
  - on the other hand, another is the principle of sufficiency through non-contributory benefits (all individuals are guaranteed a minimum level of income). *Unemployment benefits (as a contributory benefit) vs. unemployment benefits (welfare) .*
  
- Logically, the 2nd principle directly and positively affects equity within a society to a greater extent.

## **2. Efficiency and equity in unemployment protection systems (V)**

### **FUNDAMENTAL PREVIOUS CONCEPTS**

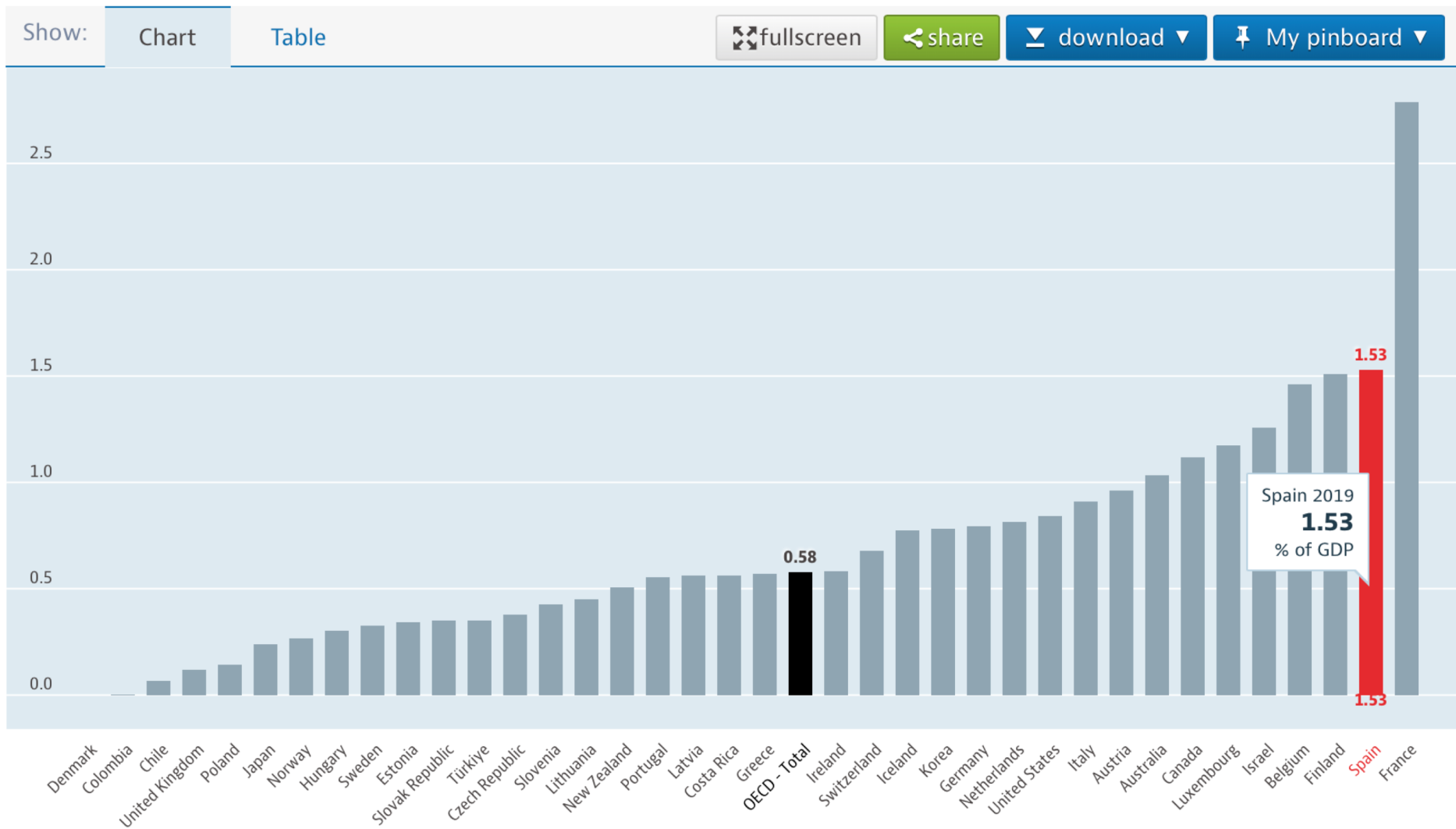
- **Replacement rate: amount of the benefit in relation to the previous salary.**
- **Coverage rate: % of unemployed receiving benefits.**
- **Duration of the benefit.**
- **Amount of the benefit.**

### 3. Regulations and current situation of unemployment (I)

- As in most OECD countries, the Spanish unemployment benefit system is organized into two types of benefits:
  - **Contributory benefits** : Workers who are unemployed for a certain period of time are entitled to a benefit whose amount and duration is related to the amount contributed and the time contributed.
  - **Non-contributory benefits** : They address the situations of need of unemployed people who do not have access to contributory benefits or have already finished their contributory benefit.
  
- Historical reference (1832 union United Kingdom and Ghent in 1901) and evolution ( National Fund against forced unemployment in 1932, Law 62/1961 or 1st national law on Unemployment Insurance, Basic Employment Law 51/1980 reformulated unemployment benefit and it introduced unemployment benefits and "recently" during the crisis, a subsidy of around €400 was implemented for the unemployed without benefits and unemployment coverage for self-employed workers ) + MINIMUM VITAL INCOME.

# Public unemployment spending Total, % of GDP, 2021 or latest available

Source: Social Expenditure: Aggregated data



Source: OECD. <https://data.oecd.org/socialexp/public-unemployment-spending.htm>



### **3. Regulations and current situation of unemployment (II)**

#### **The main features currently are:**

- **Unemployment benefit (contributory).**
- **Unemployment subsidy (non-contributory).**
- **Subsidy over 52 years.**
- **Others such as specific benefits of the agricultural sector, etc.**

## **3. Regulations and current situation of unemployment (III)**

### **Unemployment benefit (contributory)**

#### **BENEFICIARIES:**

- **Those individuals who have lost their job due to any of the following causes or are in any of the following cases:**
  - **Dismissal.**
  - **Termination of the employment relationship due to death, retirement or incapacity of the employer.**
  - **Termination of the temporary contract due to expiration of the agreed time or completion of the work or service object of the contract.**
  - **Cessation for not passing the trial period.**
  - **End of the period of productive activity.**
  - **Termination of the temporary administrative relationship of employment officials and administrative contractors.**
  - **Cessation as a working member of a cooperative in a trial period, unfair expulsion or temporary or definitive cessation of the cooperative's activity for economic, technological, organizational, production or force majeure reasons, termination of the corporate relationship of a fixed duration.**
  - **Termination or suspension of the employment relationship for being a victim of gender violence.**
  - **Decision of the worker to terminate the employment relationship for any of the following reasons:**
    - **Modification of working conditions (schedule, working day...).**
    - **Lack of payment or continued delay in payment of salary.**
    - **Transfer of the workplace.**

## 3. Regulations and current situation of

### **BENEFICIARIES (continued) unemployment (IV)**

- **In addition, there are other circumstances classified as legal situations of unemployment that do not derive from the termination or suspension of an employment contract, they are the following:**
  - **The return from abroad of a Spanish emigrant worker.**
  - **The release of a penitentiary or internment center.**
  - **The declaration of fully capable or disabled in the degree of partial permanent disability, as a consequence of a review file for improvement of a situation of disability in the degrees of total, absolute or great disability.**

**In addition, they must meet the following requirements:**

- **Being affiliated or affiliated and in a situation of registration or assimilated to registration in the Social Security in a regime that contemplates the unemployment contingency.**
- **Be legally unemployed, available to actively seek employment, and to accept a suitable placement. The request includes the commitment of activity if this is not fulfilled it may affect your benefit.**
- **Be registered or registered and maintain registration as a job seeker throughout the period in which the benefit is received.**
- **Have worked and contributed to unemployment for at least 360 days within the 6 years prior to the legal situation of unemployment. If you are a temporary agricultural worker who, immediately before, was registered with Social Security within the group of self-employed or self-employed workers, the minimum contribution period necessary to access the unemployment benefit will be 720 days.**
- **Not having reached the ordinary retirement age.**
- **Not carry out a full-time self-employed activity or work for others, unless compatibility is possible if established by an employment promotion program.**
- **Not collect a Social Security pension incompatible with work.**

### 3. Regulations and current situation of unemployment (V)

#### PERIOD

It is calculated based on the contributions made in the last 6 years, provided they have not been taken into account for a previous benefit, according to the following scale:

<b>Contribution days</b>	<b>Unemployment Benefit days</b>
from 360 to 539	120
from 540 to 719	180
from 720 to 899	240
from 900 to 1079	300
from 1080 to 1259	360
from 1260 to 1439	420
from 1440 to 1619	480
from 1620 to 1799	540
from 1800 to 1979	600
from 1980 to 2159	660
More than 2160	720

## 3. Regulations and current situation of unemployment (VI)

### AMOUNT

Amounts corresponding to the year 2024 relative to the monthly and annual values:

- Of the minimum interprofessional salary (MIS – Minimum Wage), in accordance with the provisions of:
  - Royal Decree 145/2024, of February 6th, which sets the minimum interprofessional salary for 2024 .
- From the public indicator of multiple effects income (IPREM) set at:
  - Law 31/2022, of December 23rd, on General State Budgets for the year 2023.

MIS: €1134.00

IPREM: €600

### Minimum monthly benefit amount

- If you do not have children (80% of the IPREM): €560
- If you have at least one child (107% of the IPREM): €749

### Maximum monthly benefit amount

- If you do not have children (175% of the IPREM): €1,225
- If you have a child (200% of the IPREM): €1,400
- If you have two or more children (225% of the IPREM): €1,575

## **3. Regulations and current situation of unemployment (VII)**

### **Unemployment subsidy (non contributory)**

#### **BENEFICIARIES:**

- **Those individuals who have worked less than a year can access an unemployment subsidy, but it must be taken into account that the duration depends on the number of months contributed and whether or not they have family responsibilities.**

#### **Requirements:**

- **Being unemployed or unemployed and in a legal situation of unemployment.**
- **Be registered or registered as a job seeker and maintain said registration throughout the period of perception and sign the activity commitment.**
- **Have contributed unemployment for at least 3 months, if you have family responsibilities, or at least 6 months if you do not, and not reach 360 days. In the case of having contributed 360 days, you would be entitled to the contributory benefit.**
- **Not receive income of any kind greater than 75% of the minimum interprofessional salary, without counting the proportional part of two extraordinary payments. Full or gross income will be taken into account. The income that comes from business, professional, agricultural, livestock or artistic activities, is the result of the difference between the income and expenses that have been necessary to obtain this income. Capital gains are the result of the difference between capital gains and losses.**

### **3. Regulations and current situation of unemployment (VIII)**

#### **PERIOD AND AMOUNT**

- **The duration of the subsidy varies depending on how long you have contributed and whether or not you have family responsibilities.**
  - **In the event that you have family responsibilities:**
    - **The subsidy will last 3, 4 or 5 months, if you have contributed 3, 4 or 5 months, respectively.**
    - **The subsidy will last 21 months, if you have contributed for 6 or more months (in this case, the right will be recognized for six months, and it can be extended for periods of 6 months until its final duration).**
  - **If you do not have family responsibilities: the subsidy will last 6 months, if you have contributed 6 or more months.**
- **The monthly amount of the unemployment subsidy is equal to 80% of the Indicator -> €480**
- **Multiple Effects Income Public (IPREM). €600 in 2023.**



## **3. Regulations and current situation of unemployment (IX)**

### **Unemployment benefit over 52 years**

- **Duration:** until you reach the ordinary age required to be entitled to a contributory retirement pension in the Social Security system.
- **amount**
  - The monthly amount of the unemployment subsidy is equal to 80% of the public multiple-effect income indicator (IPREM). €600 in 2023.
  - The managing entity (State Public Employment Service or Marine Social Institute) will be in charge of the Social Security contributions corresponding to retirement. The contribution base for retirement will be 125% of the minimum contribution ceiling in force at any given time.
  - The payment of the subsidy will be made in monthly installments of 30 days, between the 10th and 15th of the month immediately following the corresponding accrual. It will be made, except for exceptions, by crediting the account of the financial institution indicated, provided that it is the owner of the account.



Spanish

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Procedures and services

information

Electronic registration

Bids



Official date and time  
27/4/2023 09:52:03

## Self-calculation of unemployment benefits program

User's guide

Choose the option that interests you:



You have terminated your contract and you want to know what benefit or subsidy you are entitled to



You have exhausted the contributory unemployment benefit and want to know if you are entitled to a subsidy.

NOTE: THE RESULT OBTAINED THROUGH THIS SIMULATOR IS NOT BINDING ON THE STATE PUBLIC EMPLOYMENT SERVICE, NOR DOES IT GENERATE ANY RIGHT IN ITS FAVOR.

Log Out

## 4. Introduction: anti-poverty programs (I)

- **The interest of any country or society in the study of inequality is evident.** *Works such as those by Kolm (1968 and 1976), Atkinson (1970), Sen (1973 and 1992), Jakobsson (1976) and Kakwani (1977) have served as reference in numerous empirical studies.*
  
- **However, conceptual problems continue to arise in the measurement of inequality.**
  - **First, the use of value judgments on social preferences .** Sometimes, measures are used from which the corresponding welfare function is obtained, and other times, the welfare function is established a priori.
  - **Secondly, there is the problem of the non-comparability of two income distributions.** This inconvenience is resolved, on many occasions, with the introduction of numerous inequality measures that make it possible to establish complete orders, as opposed to the partial orders provided by the Lorenz curves.
  
- **This fact causes different rankings according to the values of each indicator which, although in general lines may be consistent with basic principles of inequality, may also lead us to contradictory situations. Thus, knowledge of the personal distribution of income and its evolution over time is a central objective of modern societies.**

# 4. Introduction: anti-poverty programs (I)

## Minimum Vital Income (MVI) I

- **Objective:**
  - Preventing the risk of poverty and social exclusion of people who live alone or are integrated into a cohabitation unit and lack basic economic resources to cover their basic needs
  - Ensuring a real improvement in the opportunities for social and labor inclusion of the beneficiaries
- **It is a subjective right to an economic Benefit (part of the protective action of Social Security) to guarantee a minimum level of income to those who are in a situation of economic vulnerability.**
- **It contains incentives for employment and inclusion, articulated through different formulas of cooperation between administrations.**

# 4. Introduction: anti-poverty programs

## Minimum Vital Income (MVI) II

### Beneficiaries:

#### ■ Individual beneficiaries

- People of at least 23 years old
  - Not married.
  - Don't be attached to another person as a domestic partner.
  - Not part of another cohabitation unit.
  - 23 and 29 years old: legal and effective residence in Spain and have lived independently for at least two years prior to the application,
  - + 30 years: they must prove that, during the year immediately prior to that date, their residence in Spain has been different from that of their parents, guardians or foster parents,
  - Women of legal age who are victims of gender violence or victims of human trafficking and sexual exploitation.
- People between 18 and 22 years old who come from residential centers for the protection of minors of the different Autonomous Communities, having been under the tutelage of Public Entities for the protection of minors within the three years prior to the age of majority, or are absolute orphans, as long as they live alone without integrating into a cohabitation unit.
- Homeless people.
- Users of a residential, social, health or socio-sanitary service service, on a permanent basis, are not entitled to the benefit, except in the case of women victims of gender violence or victims of human trafficking and sexual exploitation.

# 4. Introduction: anti-poverty programs

## Minimum Vital Income (MVI) III

### Beneficiaries:

#### ■ Holders of the cohabitation unit

- must have legal capacity and a minimum age of 23 years.
- They may also be holders, provided they have legal age or emancipated minors, when they have children or minors in custody for the purpose of adoption or permanent foster care or absolute orphans when they are the only members of the cohabitation unit and none of them reaches the age of 23.

### Cohabitation unit

- all people who live in the same home, united by marriage bond, as a domestic partnership, or by bond up to the second degree by consanguinity or affinity, adoption, and other people with whom they live by virtue of custody for the purpose of adoption or permanent family foster care

### Requirements

- **Have residence in Spain:**
- The receipt of the benefit of the minimum living income will be incompatible with the receipt of the economic allowance for a dependent child or minor, without disability or with a disability of less than 33 percent, when there is an identity of the cause or beneficiaries of it.





## 4. Introduction: anti-poverty programs

### Amount

### Minimum Vital Income (MVI) V

the difference between the guaranteed income and the set of income and income of such people, provided that the resulting amount is equal to or greater than 10 euros per month

- For an individual beneficiary: 100 percent of the annual amount of non-contributory pensions divided by twelve. In 2024 it's 604.21 euros. This amount is increased by 22 per cent if the recipient has a degree of disability equal to or greater than 65 per cent
- For the cohabitation unit, the previous amount increased by 30 per 100 per additional member from the second, with a maximum of 220 per 100. For 2024 the amounts are:
  - 785.48 euros for a cohabitation unit consisting of an adult and a minor or two adults.
  - 966.74 euros for a cohabitation unit consisting of one adult and two minors, two adults and one minor or three adults.
  - 1,148.01 euros for a cohabitation unit consisting of one adult and three minors, two adults and two minors or three adults and one minor or four adults.
  - 1,329.27 euros for a cohabitation unit consisting of one adult and four or more minors, two adults and three or more minors or three adults and two or more minors, or four adults and one minor
- The amount indicated in the previous point is increased with a supplement of 22 per 100, when it is a single-parent cohabitation unit (a single adult who lives with one or more descendants up to the second degree minors over whom he has custody and exclusive custody, or who lives with one or more minors in permanent foster care or custody for adoption purposes when it is the only foster or guardian, or equal to or greater than one year). For 2023 the monthly amounts are:
  - 918.4 euros for a single-parent cohabitation unit consisting of an adult and a minor.
  - 1,099.67 euros for a single-parent cohabitation unit consisting of an adult and two minors.
  - 1,280.93 euros for a single-parent cohabitation unit consisting of an adult and three minors.
  - 1,462.20 euros for a single-parent cohabitation unit consisting of an adult and four or more minors.

## 4. Introduction: anti-poverty programs

**Amount**

**Minimum Vital Income (MVI) VI**

Guaranteed income amounts in 2024. Non-single-parent unit		
Cohabitation unit	Euros / year	Euros / month
An adult	7,250.52	604.21
An adult and a minor	9,425.76	785.48
One adult and two minors	11,600.88	966.74
One adult and three minors	13,776.12	1,148.01
One adult and more than three minors	15,951.24	1,329.27
Of adults	9,425.76	785.48
Two adults and one minor	11,600.88	966.74
Two adults and two minors	13,776.12	1,148.01
Two adults and more than two minors	15,951.24	1,329.27
three adults	11,600.88	966.74
Three adults and one minor	13,776.12	1,148.01
Three adults and more than two minors	15,951.24	1,329.27
Four adults	13,776.12	1,148.01
Four adults and one minor	15,951.24	1,329.27
Others	15,951.24	1,329.27

## 4. Introduction: anti-poverty programs

**Amount**

**Minimum Vital Income (MVI) VII**

Guaranteed income amounts in 2024. Single-parent unit		
Cohabitation unit	Euros / year	Euros / month
An adult and a minor	11,020.80	918.40
One adult and two minors	13,196.04	1,099.67
One adult and three minors	15,371.16	1,280.93
One adult and four or more minors	17,546.40	1,462.20

Guaranteed income amounts in 2024. Single-parent unit. Parents/grandparents/guardians or foster parents, one of them has recognized degree 3 dependency, absolute permanent disability or severe disability.		
Cohabitation unit	Euros / year	Euros / month
Two adults and one minor	12,615.96	1,051.33
Two adults and two minors	14,791.20	1,232.60
Two adults and three or more minors	19,141.56	1,595.13

## 4. Introduction: anti-poverty programs

### Minimum Vital Income (MVI) VIII

#### Incompatibilities

- Receipt of the economic allowance for a dependent child or minor, without disability or with a disability of less than 33 percent, when there is an identity of the cause or beneficiaries of this.
- The child support supplement will be incompatible with the financial allowance for a dependent child or minor without a disability or with a disability of less than 33 percent.
- In the event that the interested person meets the necessary requirements to cause the right to the benefit in favor of family members and that of the minimum living income, one of them must be chosen.
- From January 1, 2023, the status of beneficiary of the economic benefit of the IMV will be incompatible with the assistance pensions that are still received and will be extinguished when its beneficiaries are recognized, as of January 1, 2023, the IMV benefit.
- The termination of the assistance pension will take effect on the same date that the economic benefit of the minimum living income has economic effects.

## 4. Introduction: anti-poverty programs

### Minimum Vital Income (MVI) VIX

#### Example of the incentive in a single-parent family

<https://www.inclusion.gob.es/w/el-gobierno-aprueba-el-incentivo-al-empleo-para-beneficiarios-del-ingreso-minimo-vital-que-mejoren-su-situacion-laboral>

- Single-parent family with a minor who has had no income in the previous year.
- Their Guaranteed Income is 10,737 euros per year, which in this case coincides with the IMV as they have no other income.
- The following year, the family receives income from work worth 1,000 euros.
- When carrying out the IMV review, if there was no employment incentive, your IMV would be 9,737 euros (Guaranteed Income of 10,737 – 1,000 euros of earned income).
- But the employment incentive provides 1,000 euros in this case, so the IMV+ incentive will allow the family to receive 10,737 euros.

**Thus, their disposable income would be 11,737 euros, the result of:  
(IMV+incentive = 10,737 euros) + (Salary = 1,000 euros)**

## 5. Measures of concentration and inequality (I)

- Concentration measures allow analyzing the greater or lesser degree of equality in the distribution of the corresponding values that the variable takes. *Traditionally, in inequality studies, both the Lorenz curve and the Gini index are analyzed.*
  - Mathematically, the situation to be analyzed is the following. Let  $(x_i, n_i)$  be a frequency distribution where  $x_i$  is the variable of interest (for example, income received by individual  $i$ ,  $n_i$  is the corresponding frequency (number of times each piece of information is repeated) and  $n$  is the total number of data items.
  - Assuming the distribution is ordered from lowest to highest, the polygonal formed by the points  $(p_i, q_i)$  where  $i=1, 2, \dots, n$  is called the Lorenz curve; being:

$$p_i = \frac{n_1 + n_2 + \dots + n_i}{n} \times 100 = \frac{N_i}{n} \times 100$$

$$q_i = \frac{n_1 + n_2 + \dots + n_i}{n} \times 100 = \frac{N_i}{n} \times 100$$

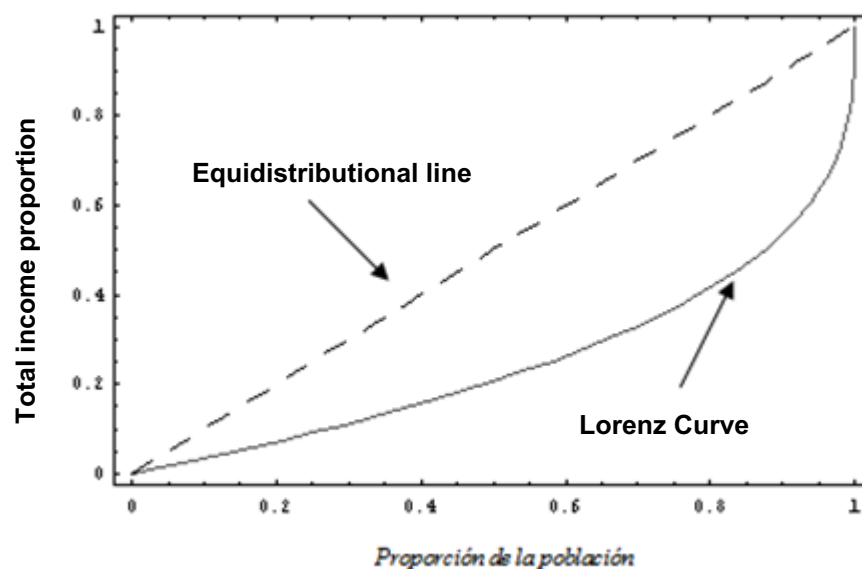
- The Gini index is given by:

$$IG = \frac{\sum_{i=1}^{n-1} (p_i - q_i)}{\sum_{i=1}^{n-1} p_i}$$

## 5. Measures of concentration and inequality (II)

- The Gini index can take values between 0 and 1 considering the following cases:
  - If  $IG=0$ , it is said that there is a minimum concentration and the distribution is equitable.
  - If  $IG=1$ , it is said that there is a maximum concentration and the distribution is totally inequitable.

TYPICAL GRAPHICAL REPRESENTATION OF THE LORENZ CURVE



- The Lorenz curves, together with the associated inequality measures, make it possible to establish rankings of income distributions. → *an income distribution whose Lorenz curve is unequivocally closer to the line of equidistribution presents a lower level of inequality.*



## 5. Measures of concentration and inequality (III)

- Obviously, the concept of **inequality** includes numerous value judgments. Ultimately, the importance of the results on the subject must be assessed taking into account its interrelation with the economic and social concerns of our time.
  
- There are many measures of inequality that have been proposed in the economic literature and, in general, they can be included in two large categories: **objective measures and normative measures ( Sen , 1973).**
  - In the objective or positive measures, formulations of mathematical or statistical origin are used and are generally apt to be applied to income and wealth distributions.
    - Among the measures considered as positive are the range of variation, the relative mean deviation, the variance, the coefficient of variation, the standard deviation of the logarithms, the Gini index and the Theil index .
  - On the other hand, normative measures are those in which some previously established function of social welfare or preferences is taken as a reference. That is, “what is” versus “what should be”.
    - Atkinson and Dalton indices are normative measures .

*However, this distinction is not so obvious and it is not easy to study inequality from a totally objective point of view without including certain ethical concepts. That is why inequality measures have to combine objective characteristics with normative ones.*

## 6. Definition of poverty (I)

### DEFINITION OF POVERTY: SOME BASIC CONCEPTS

**Poverty is a complex concept and can be approached from different points of view:**

- a) **According to the type of information used in the analysis: Objective / subjective poverty.**
- b) **According to the established threshold: Absolute / relative poverty.**
- c) **According to the analyzed time horizon: Static / dynamic poverty.**
- d) **According to the access to certain basic aspects. Multidimensional deprivation.**

## 6. Definition of poverty (II)

### ■ SUBJECTIVE POVERTY

Poverty situation based on the perception or opinion that households or individuals have of their own situation.

### ■ ABSOLUTE POVERTY

Situation in which the basic needs of the individual are not covered. It is related to the lack of basic goods and services (fundamentally related to food, housing and clothing).

### ■ RELATIVE POVERTY

A person is poor if its situation from the economic and social point of view is at a disadvantage compared to the rest of the individuals in his environment.

### ■ TRANSVERSAL POVERTY

Poverty situation in a fixed year.

### ■ PERSISTENT OR LONG TERM POVERTY

According to the European Statistical Office (EUROSTAT), an individual is in a situation of persistent poverty if he/she has been classified as poor in the last year and at least two of the previous three.

### ■ MULTIDIMENSIONAL DEPRIVATION OR LACK POVERTY

Lack of access of individuals to certain goods and services, which may or may not be essential.

## 6. Definition of poverty (III)

### POVERTY LINES

#### a) Absolute poverty lines

- **Objective:** To measure the cost of acquiring a basket of essential products (goods and services) that makes it possible to achieve minimum levels of satisfaction in relation to basic needs.

#### b) Relative poverty lines:

- **Objective:** Establish a threshold that allows classifying the people under study into two groups (the so-called poor and the rest ).

## 6. Definition of poverty (IV)

### a) Absolute poverty lines

#### - Proposals in the literature:

- 1) The World Bank raises groups of poor based on income of 1, 2 and 3 dollars per capita per day. Anyone with less than that amount is considered poor.
- 2) Monetary value of a basket of products (goods and services considered essential) to cover minimum needs plus an amount destined to cover other expenses (housing, rent, etc.). This poverty line was proposed by Rowntree in 1901.
- 3) Value of basic food products multiplied by the inverse of the proportion that spending on food represents over total spending ( Mollie Orshansky , 1963).
- 4) Maximum admissible value for the percentage of spending on food over total household income.

### b) Relative poverty lines:

#### - Proposals in the literature:

- Establish a certain percentage of a measure of the distribution of income (or expenditure) of the analyzed society. EUROSTAT proposes to use 25, 40 or 60% of the median income.

## 6. Definition of poverty (V)

### POVERTY MEASURES

- 1) **Proportion of poor or Headcount** . Let  $q$  be the number of individuals below the poverty line and  $n$  be the total number of individuals in the population. The percentage of poor people,  $H$ , that exists in the society is given by:

$$H = \frac{q}{n}$$

- 2) **Poverty gap or Poverty Gap**. Let  $z$  be the poverty line,  $n$  the number of individuals in society, and  $x_i$  the income of the  $i$ th individual . The poverty gap is given by:

$$PG = \frac{1}{n} \sum_{i=1}^q \left( \frac{z - x_i}{z} \right)$$

*In other words, the poverty gap is the mean of the differences between the income of the poor and the poverty line divided by said line. Therefore, the incidence of poverty (number of poor in proportion to the total population) and the intensity of poverty (how poor the poor are) are taken into account.*

- 3) **Other poverty measures: Sen Index , Thon Index , Foster, Greer and Thorbecke Family of Poverty Indices, Hagenaars Index , Poverty Tip Curves , etc.**