

THE INDIVIDUAL AND SOCIAL NATURE OF POVERTY

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The article introduces different poverty measurement methods and examines the trends and nature of poverty in Estonia in the socio-economic context.

Introduction

Several authors have pointed out that poverty as an individual problem lowers people's personal level of welfare and coping, and may cause frustration, depression and anxiety which are often accompanied by alcoholism, drug use and other addictive behaviour (e.g. Kutsar 2010). Poverty is the source of many problems, such as financial difficulties (for example, the poorer poor people are unable to pay their rent and utility bills, the richer poor people, or the new poor, struggle to fulfil their obligations to banks), limited access to education (e.g. inability to pursue fee-paying higher education), exclusion from a satisfactory lifestyle (e.g. limited consumption of culture), poorer health (for example, the poorer poor people may have a poor unbalanced diet, the richer poor people may have limited access to fee-charging medical services).

A person can get out of poverty only through education and/or retraining, by building their skill-set, improving their performance and getting a well-paid job. In the worst-case scenario, the person remains passive or assumes coping strategies which are inefficient from the society's perspective (for example, the person tries to live on subsidies or uses the natural economy for the necessary resources, resorts to illegal employment and business or, worst of all, starts stealing). Individual efforts alone might not be enough, if there is no help from the society as a whole. The state must provide support (both directly and indirectly), ensure access to resources, and make it possible for people to utilise their individual competences (e.g. by creating new jobs). Individual problems develop into larger social problems. There may be an initial micro-level factor that paralyses the system on the macro level. At the same time, a micro-problem and a macro-problem should not be seen as independent, isolated issues, because the society is a whole where everything is interconnected.

Poverty as a social problem affects the society as a whole. The share of poor people in the society is one of the most important indicators of social cohesion and the level of social exclusion or inclusion. Poverty inhibits the unifying and constructive force of the society, because it limits sustainability and causes many social risks (e.g. use of addictive substances by young people) as well as lower social cohesion and inclusion, sometimes even the discouragement and isolation of the members of the society (for example, people may adapt to being unemployed in the long run).

How is poverty measured?

In order to measure poverty, the depth, scope and structure of poverty are usually determined. Measurement is based on the fixed at-risk-of-poverty threshold, which has been defined very differently in studies and thus yields different results. Since there are many definitions of poverty, there are also plenty of approaches to its measurement. Poverty can be measured by income, consumption, prosperity, amount and frequency of various welfare problems, or through subjective evaluation. The indicators used may include both single indicators and aggregated indices, consisting of many indicators (Trumm 2010: 12).

Traditionally, the measurement of poverty is based on income (equalised disposable income). Equalised disposable income is the total household income which is divided by the sum of equivalence scales of all household members. It is the sum of the income from wage labour, the income and losses from self-employment, property income, social transfers, regular inter-household cash transfers received and tax refunds, from which regular inter-household cash transfers paid, taxes on wealth and repayments for tax adjustment have been subtracted.

In the context of poverty measurement, it is important to pay attention to the term 'equivalence scales'. Equivalence scales are used in order to allow a comparison of the incomes of different types of households. In order to even out the impact of household size, total consumption expenditure is usually divided by the number of household members, which results in household expenditure per household member. However, consumption expenditure divided by the number of household members does not reflect the actual consumption behaviour of the household. Household consumption expenditure is divided into individual consumption (e.g. food) and shared consumption (e.g. housing costs). Individual costs are usually different for each household member (for example, children eat less than adults, the elderly spend less on clothes than young people, etc.). Individual consumption expenditure increases in proportion to the increase in the number of household members, while shared consumption expenditure remains mostly the same (Trumm 2010: 12). The calculation of equivalence scales serves the purpose of finding an answer to the question how big should the difference be between the income of a household with a certain size and composition (e.g. a family of four people, incl. two small children) and the income of another household with a different size and composition (e.g. a single parent with one small child) in order to ensure an equal level of welfare (standard of living) for both households (Szulc 2009).

The weights are assigned separately to adult household members and to children, using the formula $1 : a : b$. The formula is based on the assumption that the first adult member of the household (considered the unit of consumption in calculations) bears all the shared costs of the household. The figure 'a' shows the proportion of this adult household member's own consumption without shared costs – this is also assumed to be the amount of consumption of all other adults in the household. The figure 'b' shows the proportion of a child's consumption to the total consumption of the first household member (Tiit 2006: 3).

The Member States of the European Union use the OECD modified equivalence scales as the official standard. According to these scales, the equalised weight is 1 for the first adult in the household, 0.5 for each subsequent household member aged 14 and over, and 0.3 for children aged under 14. These equivalence scales are also used by Statistics Estonia in the calculation of relative poverty. For the calculation of absolute poverty, Statistics Estonia uses the standard OECD equivalence scales ($1 : 0.7 : 0.5$), which are better suited to Estonian circumstances.

In case of poverty, the biggest conceptual debate is concerned with the question whether poverty is absolute or relative. The concept of absolute poverty is historically older. In the simplest terms, it means a situation where the income per person is below a given minimum level. The minimum level has been determined on the basis of basic human needs (mainly physiological needs). The first statistical studies based on the concept of absolute poverty were carried out in the United Kingdom already more than a century ago (Booth 1892). The aim of those studies was to determine the number of people whose financial resources were insufficient to maintain physical efficiency. Today, statistical surveys carried out in developed countries treat absolute poverty as a phenomenon closely connected to the physiological or social subsistence minimum. Subsistence minimum refers to the indispensable or normative level of financial resources in a given country. Thus, if the rate of absolute poverty in the society is high, it could be lowered by, for example, raising the minimum wage and/or unemployment benefits. Absolute poverty characterises changes in the economic situation in a country. There are also weaknesses in the definition of absolute poverty. The greatest weakness is that the definition of minimum needs is subjective. Is it really possible to decide what is essential for a person and what is not? Also, different countries and cultures have a very different understanding of minimum needs, meaning that it is not possible to compare the rate of absolute poverty internationally.

To put it simply, relative poverty shows that there are people in the society who have less money (resources) than others. According to the relative poverty concept, individuals, families and social groups are poor "when they lack the resources to obtain the types of diet, participate in the activities, and have the living conditions and amenities which are customary, or are at least widely encouraged and approved, in the societies in which they belong" (Townsend 1979: 31). This underlines the relativity of poverty, since poverty is seen as dependent on the overall welfare

level of the society. If the rate of relative poverty in the society is high, it can be lowered by the redistribution of the money. Thus, relative poverty characterises the distribution of incomes and the effectiveness of social policy. The rate of relative poverty is low if there are few households with a small income, meaning that the country's social policy is effective.

The factors affecting the level of absolute and relative poverty in society are somewhat different. Absolute poverty depends primarily on the general development level of the society and on the prosperity of the members of society. The more resources there are in the society, the higher the level of fulfilment of the basic needs of the members of society. In case of relative poverty, the prosperity of the society is irrelevant – there are poor people in every society. Instead, importance is attributed to the distribution of resources within society. The more even the distribution of resources, the smaller the possibility that the level of resources is significantly lower in some social groups. Thus, relative poverty is first and foremost associated with different forms of inequality (unequal distribution of income, unequal access to public resources, unequal treatment, discrimination, etc.) (Trumm 2010: 9).

Measurement of poverty is based on the poverty threshold, which is defined as the level of resources below which individuals or households are deemed to be living in poverty. Depending on the chosen concept of poverty, the poverty threshold is either absolute or relative. Absolute poverty threshold expresses the monetary value required to satisfy minimum needs, i.e. the minimum physiological or social means of subsistence (minimum wage, subsistence level, estimated subsistence minimum etc.) The absolute poverty threshold is calculated on the basis of minimum expenditure incurred by households at real prices. In 2005, the concept of estimated subsistence minimum was equated with the absolute poverty threshold in Estonia.

In Estonia, poverty strata are also defined with reference to the absolute poverty threshold. The direct poverty threshold is 80% of the absolute poverty threshold, and the at-risk-of-poverty threshold is 125% of the absolute poverty threshold. Households with an income above that are considered to have no risk of poverty. More specifically, four poverty strata have been defined:

- direct poverty, which includes households with an income below the direct poverty threshold (i.e. up to 80% of the absolute poverty threshold);
 - poverty endangering subsistence, which includes households with an income between the direct poverty threshold and the absolute poverty threshold (i.e. 80–100% of the absolute poverty threshold);
 - at-risk-of-poverty area, which includes households with an income higher than the absolute poverty threshold, but lower than the at-risk-of-poverty threshold (i.e. up to 125% of the absolute poverty threshold);
 - poverty-risk-free area, which includes households with an income higher than the at-risk-of-poverty threshold (i.e. more than 125% of the absolute poverty threshold).
- (Tiit 2006: 2–3).

Relative poverty threshold expresses a level of resources lower than the average level of resources in the society. The average level of resources is determined on the basis of median equalised disposable income. In the European Union, the official relative poverty threshold (at-risk-of-poverty threshold) is 60% of the median equalised disposable income. The median represents the level of income which divides income recipients into two equal groups: half with an income lower than the median income and half with an income higher than the median income. Additional indicators describing the severity or depth of poverty are also applied in case of relative poverty. The depth of poverty is characterised by the poverty rate upon different poverty thresholds, whereas the poverty threshold is 40%, 50% or 70% of the median, respectively. The lowest threshold (40% of the median) distinguishes the households with the lowest level of resources (Trumm 2010: 13).

Poverty can also be measured by consumption. According to Ringen (1988), the measurement of poverty based on consumption is a direct method, which allows the measurement of the actual

level of satisfaction of households' needs. Consumption-based poverty threshold is also used as an alternative to income poverty. In case of this approach, the main criticism is that income data are inaccurate (cases of concealment or distortion of income) and do not adequately represent the actual situation (Kutsar and Trumm 1993, Bradshaw 2006). Similarly to income poverty, consumption poverty may also be defined as an absolute or relative category (based on minimum level of expenditure in the first case, or on general statistical distribution of consumption expenditure in the second case). It is also possible to analyse poverty strata and the at-risk-of-poverty gap (Trumm 2010: 14).

Poverty is sometimes discussed and studied as well as measured as an objective/subjective category. Objective poverty means the actual insufficiency of existing resources; it can be measured by income or expenditure. However, it is usually measured based on income. At the same time, the concept of objective poverty has been criticised, because it is very difficult to objectively define the level of satisfaction of individuals' needs. In case of subjective poverty, people estimate themselves whether they consider their resources to be sufficient for normal coping and living; or they estimate what their perceived level of resources is in comparison with others. Subjective poverty has also been measured with different indicators. The most common method is asking respondents to give a subjective evaluation of their economic coping and economic status (on a pre-defined scale). Indirect indicators are also used sometimes, for example, by asking respondents to assess their satisfaction with their economic situation or income. Many surveys have shown that the overlap between objective poverty and subjective poverty is very small (e.g. Kangas and Ritakallio 1998, Fahey 2007 etc.). Thus, individual evaluation standards differ from society-oriented objective standards established by researchers. This may lead to a situation where a person who manages to cope well with limited resources thanks to their initiative and skills is labelled as poor, while a person who is only just above the established minimum standard of resources is deemed as living out of poverty (Trumm 2010: 9–10).

Sometimes, non-monetary criteria are used to measure poverty. These approaches focus on the living conditions, quality of life, participation opportunities, etc. The term 'deprivation' is also often used in this context. Brown and Madge (1982) have defined deprivation as the lack of something desirable and necessary (income, property, health, education, etc.) which significantly reduces the welfare of people. There are many ways to measure deprivation. One of the first internationally acknowledged attempts to measure deprivation is attributed to Townsend (1979), who compiled an index that measures relinquishment of various physiological, economic and social needs due to the insufficiency of the financial means of households. Deprivation can be measured using both objective indicators (e.g. living conditions) and subjective indicators (e.g. perceived deprivation of various opportunities). The most common definition of deprivation is based on undesirable living conditions and/or lack of durable goods or abandonment of normal activities. Deprivation is usually measured with aggregated indices.

Statistics Estonia has so far primarily measured relative poverty, but is now finalising preparations for the measurement of absolute poverty. In addition to the preliminary absolute poverty indicators published in this article, more detailed data about absolute poverty will be published in the Statistical Database of Statistics Estonia in the course of this year.

The nature of poverty in Estonia

This article discusses objective monetary poverty (i.e. financial poverty), focusing on both relative and absolute poverty. In order to assess poverty, equalised disposable income is studied.

At-risk-of-poverty rate (relative poverty rate) is high if there are many households with an income lower than the average level of resources in the society. In general, this means that the country's social policy has not supported the distribution of resources in a way that reduces inequality between people. Thus, relative poverty measures the income-based stratification of the population.

An individual's personal welfare is more affected by absolute poverty, because it means that the individual literally lacks resources for food and clothes. The absolute poverty threshold (estimated subsistence minimum) has been determined on the basis of expert opinion and is calculated as the minimum sum of money required to fulfil a person's physiological needs (food or the minimum estimated food basket, dwelling, clothes and other non-food expenditure). The living standard of households who live below the absolute poverty threshold remains below the level which is necessary for normal life. The absolute poverty threshold is considerably lower than the relative poverty threshold, meaning that a person living in absolute poverty is also in relative poverty, but a person living in relative poverty is not necessarily also in absolute poverty. In 2011, the relative poverty threshold in Estonia was 299.36 euros per month, and the absolute poverty threshold was 186.26 euros per month (for comparison: in 2011, the state subsistence level was 76.70 euros per month and the minimum wage was 278.02 euros per month).

Until 2007 the standard of living of Estonian residents improved faster than ever before. Although about 20% of the population was at the risk of relative poverty, the average standard of living of relatively poor people improved as well, because the poverty line increased constantly. The situation changed in 2008, when the rapid growth of wages stopped and was soon replaced with a decline (Tiit 2010).

Relative poverty rate has remained relatively unchanged in Estonia (about 18–19%), falling slightly lower only in 2009 (Figure 1, p. 61). The steady rate is due to the fact that income inequality did not decrease even in the interim period of economic boom. The opportunities for people in less favourable social positions improved, but life improved to the same extent for the successful members of society. The decrease in the number of people in relative poverty in 2009 was not related to an increase in their incomes. Instead, the poverty line declined, because the incomes of successful people decreased as well and the level of incomes evened out for a short while. Also, in 2009, pensions increased and therefore some of the retired persons were no longer living in poverty.

Absolute poverty rate declined until 2008 due to economic growth and increased incomes, but with the advent of the economic crisis the share of persons living in absolute poverty started to grow rapidly. The social groups with the lowest standard of living have been hit hard. They do not have enough resources for coping even on the most elementary level, their consumption opportunities are limited and material deprivation has increased. The fewer resources there are in the society, the lower the degree of satisfaction of the basic needs of the members of society, and the more there are individuals who have a poor standard of living and difficulties with coping. In 2010, about 9% of the Estonian population was in absolute poverty and the share of poor people had grown almost twice compared to the economic boom period (2008). In 2011 the rate of absolute poverty was 8%, meaning that there had been no significant decrease in spite of an increase in incomes and reduced unemployment. Poverty is likely to be even more serious in Estonia, because the surveys do not cover homeless people, prisoners, street children and old people living in welfare institutions.

A closer examination of the population aged 16 and over living in absolute and relative poverty by age group reveals that the age patterns for the two types of poverty are quite different (Figures 2 and 3, p. 62). In the period 2005–2011, young people aged 16–24 suffered the most from absolute poverty, and extreme poverty in this age group has even increased in recent years. At the same time, until 2008, the biggest share among the relatively poor was held by the elderly, especially women. Fortunately, their poverty was not deep, remaining quite close to the poverty line. The median income of the elderly in 2007 was 15% of the at-risk-of-poverty threshold. Therefore, the increase in incomes and the rapid economic growth did not have the same effect on everyone, as older people were mostly excluded, unfortunately. But the pension increase in 2009 brought people aged 65 and over out of relative poverty, meaning that young people (many of whom are probably still studying) held the biggest share among the relatively poor as well. In general, relative poverty rate was the lowest among people in the prime working age (25–49). In 2010, even working-age people had a higher risk of poverty than the elderly (aged 65 and over), but in 2011 the poverty rate of the elderly rose again, as incomes increased and caused a rise in the relative poverty line.

The persons in absolute poverty (i.e. direct poverty) and in poverty endangering subsistence are primarily young people, whose share among the poor has increased significantly lately. In 2011, the absolute poverty rate of the population aged 16–24 was already 14%, which is more than twice as high as in the economic boom years. At the same time, the absolute poverty rate of the oldest age group was only 2%. It is much more difficult for young people to cope in the society compared to others. Their options are limited by poverty, they are still dependent on their parents and are often still students, and if they work, they have little work experience and small wages. A high level of unemployment was also an important reason for the difficult situation of young people. The rise in youth unemployment was one of the most serious consequences of the recession, although there has been a decrease in youth unemployment since 2011. The absolute poverty rate of people aged 25–49 and 50–64 was quite similar in 2011 at 8–9%, which is significantly higher than in 2007 and 2008.

There are many causes of poverty. Often, it is very difficult to distinguish if poverty is the cause or a consequence. Here is a very good example: does a person live in the countryside because he/she is poor, or is a person poor because he/she lives in the countryside? Both can be true. The second example concerns the level of education. It is clear that a person with a lower level of education is at a greater risk of poverty than a person with a higher level of education, because the higher level of education correlates with higher wages and a higher position in the social hierarchy. At the same time, poverty may be the reason for not getting a good education, because the person's options are limited to free education, with almost no access to fee-paying education.

In case of relative poverty, educational stratification is very high (Figure 4, p. 63), which indicates that the level of education has a significant impact on the risk of relative poverty. It is primarily the unemployed and low-paid workers who are at the risk of poverty, and education is often the decisive factor here. The impact of the level of education on relative poverty was particularly clear in 2007 and 2008, when the share of relatively poor people among people with the lowest level of education was four times bigger than the same share among people with the highest level of education. More specifically, in 2008, 8% of the people with tertiary education were in relative poverty compared to almost a third of the population with below upper secondary education. In the subsequent years of recession there has been no significant change in the relative poverty rate of people with higher education. But the inequality between people with different levels of education has decreased, because the relative poverty rate of people with lower education has decreased – primarily due to the pension rise, which has enabled the elderly to get out of poverty.

The indicators of absolute poverty also show that people with higher education are at a lower risk of absolute poverty than people with lower education (Figure 5, p. 64), but the gaps between people with different levels of education are not as big as in case of relative poverty – although increasing poverty has increased the gaps as well. In 2011 the gap between people with the lowest and the highest level of education had already risen to eight percentage points – the reason for this is that the absolute poverty rate of people with the lowest level of education rose more than three times more than the absolute poverty rate of people with the highest level of education. In 2011, 11% of the people with basic or lower education were in absolute poverty, compared to only 3% of the people with higher education.

The type of household also has a clear impact on the risk of absolute or relative poverty (Table 1, p. 65; Table 2, p. 66). The family's consumption as well as income depends on the number of earners (e.g. working adults) and dependents (e.g. children, unemployed persons) in the family. The household patterns of persons in absolute or in relative poverty are different, since different consumption scales are used for either type of poverty (see above). In case of absolute poverty calculations, the consumption weight of children is bigger than in case of relative poverty calculations. This means that families with many children have a greater probability of being in absolute poverty than in relative poverty.

The share of the absolutely poor has usually been the greatest in single-parent households (with the exception of 2010 when this share was the biggest among families with many children). The other risk groups are people who live alone and families with many children. In 2011, almost one fifth of single-parent households, 17% of people living alone (aged under 65) and 14% of couples with three or more children lived in absolute poverty. The risk of absolute poverty was the lowest

among single elderly people and among couples who have no dependent children and where at least one partner is aged over 64.

Until 2009, the share of the relatively poor was the biggest among single elderly people. Since then, single-parent households have had the biggest share among all households living in relative poverty. One third of households with one adult and at least one child live in relative poverty. Similarly to absolute poverty, the risk of relative poverty is the lowest among elderly couples without dependent children.

Thus, households where the number of dependent children exceeds the number of working-age members are in a more complicated situation and have more difficulties with coping than other types of households. Dependent children include all household members aged under 17 and also the household members aged 18–24 who live with at least one parent and who are economically inactive.

The risk of falling into poverty is primarily reduced by employment. In 2011, the relative and absolute poverty rates for non-employed people were 29% and 13%, respectively – both more than three times higher than the same rates for employed people (Table 3, p. 67; Table 4, p. 68). Among the not-at-work people (unemployed, retired, other inactive persons), the unemployed were at the biggest risk of relative and absolute poverty, as 56% of them lived below the relative poverty line and 38% below the absolute poverty line. In 2011, the rates of absolute and relative poverty increased slightly for almost all labour statuses, but compared to 2010 the increase slowed down considerably. The absolute and relative poverty rates for employed people did not change much compared to the previous year. At the same time, the relative poverty rate of unemployed people increased by three percentage points and their absolute poverty rate rose by a couple of percentage points.

Based on labour status, there is quite a big difference in the poverty risk for men and women (Tables 3 and 4, p. 67–68). In general, unemployed and inactive males have a higher risk of absolute and relative poverty than not-at-work females (excl. retired women), whereas the situation is the opposite in case of employed persons: women are at a greater risk of poverty than men. Unemployed women are financially supported by their spouses or, if they have children, are saved from poverty by parental benefits, child benefits and alimony – this is the kind of support that men usually do not receive. In case of employed persons, the share of poor persons is greater among women because of women's lower wages. Poverty among retired women is also greater than among retired men, because men have a shorter life and retired women often have to live alone. Due to shared consumption, households of more than one member cope better.

Conclusion

The share of poor people has increased in recent years, reflecting the profound impact that the economic crisis has had on the Estonian society. Although the aggravation of poverty has been slowing down since 2011, life in Estonia is still not liveable for many people. We have to again start thinking about how to help those who need help, on the individual level as well as in the society as a whole. Poverty is a particularly big problem for the unemployed, families with many children, single-parent families, women, but also for unemployed men, people with a low level of education, and young people.

Are changes in the economic situation of Estonian residents reflected better by changes in the relative or absolute poverty rate? It seems that in Estonia absolute poverty is a better reflection of the share of people who are in a really difficult situation, and of the related changes over time. Relative poverty characterises the (in)equality of income distribution, and therefore relative poverty may even increase when incomes increase, for example if the income of high earners increases more than the income of low earners. The general level of relative poverty in society is usually quite stable and changes little over time (unless the differences in incomes change significantly). The level of absolute poverty is more sensitive to changes and moves hand in hand with the level of economic prosperity in a given country. Absolute poverty could also be called extreme poverty and it is a better reflection of the real situation and real incomes. The level of absolute poverty falls only when the general increase in incomes is bigger than the increase in the consumer price index.