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REGARDING THE RISK OF  
POVERTY, SOCIAL EXCLUSION AND  
ECONOMIC INEQUALITY**

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# THEORETICAL CONSIDERATIONS REGARDING THE RISK OF POVERTY, SOCIAL EXCLUSION AND ECONOMIC INEQUALITY

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## ***Paper abstract:***

*Despite its apparent concreteness and exact study location, poverty stays like economics itself and among its (welfare) chapters, namely never an exact science. Theories, interpretations, points of view, measurements, all in diversity context are playing around and this below paper tries to make some order within such a topic.*

## ***Jel classification: I32***

### **1. Poverty basics**

The literature (SN, pp.22-23, Eurostat, p. 154) reveals two *basic criteria* for poverty defining, as follows:

**C1) Criterion:** the *number of exogenous for poverty* so viewed as *uni-* versus *pluri-dimensional*:

**A. *unidimensional*** (SN, p.22): just *one poverty indicator*, e.g. income, consumption..., an alternative that is really the basic and simplest one, but then assuming: (i) choosing this indicator and then (ii) this indicator's threshold settled.

**B. *pluri-dimensional*** (Eurostat, p. 152): several indicators, of course, like the single one above, picked from a lot of items, first related to economic welfare and then related between for shaping appropriate models of calculus. This is logically more complex than the above A case, and so a methodological problem first comes up: one person (subject) here considered for such poverty calculations might be here found by one or several indicators and/or not found by other poverty indicators in the same bunch, which is doubly wrong and potentially vicious enough for the evaluation results. Basically,

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simply cumulating indicators, whether made possible, couldn't fill any acceptable principle of ever reflecting poverty as a whole.

**C2) Criterion** that is for both: *poverty threshold & national, versus European evaluating methods*. *Absolute* and *relative poverties* here result, as follows:

**A. *Absolute poverty***, the same with applying *national methodology* for computing. Actually, this has been worked by experts of a few institutions like World Bank, Anti-Poverty and Social Inclusion Promotion and Romania's National Statistics Institute (NSI), then approved by the Romanian Government, i.e. by its Decision number 488 of year 2005. This method searches for individual households that stay unable to produce their own basic needs as food and non-food, plus basic services. Necessary for this method is the minimum consumption on the so-called '*adult person- equivalent unit*' that is also called '*poverty threshold*'. To be here noticed that such *threshold* is meant to relate to consumption *expenses*, never to income. Settlement of this threshold meets some methodologic difficulties and limitations, as follows:

- (a) difficulties of and implied by permanently adjusting the *dayly consumption basket* for one person and/or household. When this is done, two different periods might become less comparable in terms of food consumption, plus corresponding price index sees itself fully unable to solve any of problems about;
- (b) the above '*adult person- equivalent unit*' gets rather obsolete calculation tool at least face to children's needs or economies of scale;
- (c) the same for scheduling in poverty survey, i.e. revisions are absolutely and promptly needed too.

**B, *Relative poverty*** also sees its own *poverty threshold*, this time computed (actually automatically deducted) by Eurostat as 60% of the *median of disposable income on adult-equivalent unit*. Relative poverty expresses by percentage, i.e. relating the number of persons with under-threshold incomes to total population (, *Wall Street*"<sup>2</sup>). As in detail, previously the number of *adult-equivalent units* starts by number attributed to the first adult person, then the rest of such adults multiplied by 0.5 and the number of children multiplied by 0.3. Then, there comes the *median of incomes* corresponding to a household

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<sup>2</sup> <http://www.wall-street.ro/articol/Economie/202593/analiza-in-timp-ce-economia-roamniei-creste-saracia-atinge-un-record-al-ultimilor-ani.html>

in which half of individuals earn high incomes and the other half earn low incomes (SN, p.22). Then, individual incomes come to be upwards ranked the way this *median* – here, the income expected at the middle of such distribution scale – results and so Eurostat could here deduct its 60% for the *poverty threshold*<sup>3</sup>. At least two critical remarks might here be considered. The one is about what this alternative method is basically missing, i.e. basic human needs reference; the other consists in difficulties of comparing individual poverties of the same moment<sup>4</sup>.

Just a preliminary conclusion might come out of this primary paragraph. Poverty indicators do search for both concrete details of this harmful phenomenn and its measuring at the social scale, plus the two – absolute and relative – poverty references do make these objective differently from one-another. But in such circumstances *poverty* itself – similarly to plenty of other economic issues – stays far from being ‚exact science’. So its concepts are still evolving, so are their specific calculus-evaluations, and not only, i.e. even concomitantly different institutions specialized and working on and States, here including EU member States, prefer their own standards, be they as specific as different from the other ones. Nevertheless, the imaginable ‚common place’ of all these about poverty and of the latest’s policies about is filled by commitments and even some success in poverty’s eradication. The following paragraphs are aimed to conceptual deepening for next approaching below poverty pictures for both Romania and EU region.

## 2. Individuals, versus households

*Individuals*, the same as *persons*, naturally are the poverty evaluation’s target<sup>5</sup>, whilst *households* stay closer to *economic entities*<sup>6</sup>, namely they have, each, their own micro-economy. Individuals, again, are more proper for forming populations, both in facts and for statistics basing specific methodological applications in their turn.

Back to households, as economic entities, they are both non-subordinated to other entities and influenced behaviour by their whole economic environment, i.e. by the other

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<sup>3</sup> Also see ‚Open Politics: Ce este inegalitatea și în ce măsură influențează sărăcia” / <https://www.openpolitics.ro>, p. 2/16

<sup>4</sup> Here see rather converse weaknesses for the two above described methods, i.e. absolute poverty does not miss either basic needs reference, or individual comparisons for the same periods and its weaknesses get close to the relative poverty’s strengths.

<sup>55</sup> The individual is declared as the recipient of welfare and all related policies in the EU.

<sup>6</sup> Such as firms, banks, insurance organisations and so on up to the State itself.

economic entities. The household's micro economy made consists, at least, in consumption -- of its individual members, but so indirectly of all consumers -- and providing labour for the other economic entities and so for the labour market. All these for properly considering the households' contribution to all individuals' welfare all over.

### 3. Real-factual poverty, versus poverty risk

The above paragraphs were for defining and identifying poverty; this below one will see the poverty determinants (its exogenous, in another specialty language), that are three according to the literature (SN, p.23; Eurostat, pp. 151-154):

\* *Monetary poverty* (SN, p.23; Eurostat, p.151; 154-157), viewed as insufficient income, is identified as the dominant poverty's dimension. It is this way that this determinant is the most often chosen for the above defined uni-dimensional indicator and, even more interestingly, it practically equals the equally above *relative poverty* of Eurostat.

\* *Low (very low) work intensity* – a dimension that belongs to households as directly – is properly searched for 18-59 years old individuals in a household and a specific threshold of 20% of their specific and natural capacity during the reference period, but naturally for extended time references as well (SN, p. 23; 27; Eurostat, p. 44, 51).

\* *Severe material deprivation(SMD)* belongs to individuals (also members of household) that cannot afford:

- to pay their own current obligations, e.g. rent, lending rates, utility bills
- home heated
- to deal with unexpected costs
- to eat meat or protein at least once every two days
- holidays, at least one week far away from home
- to buy goods like: colour tv, washing machine, telephone, car (SN, p.23; 27; Eurostat, p. 151, 157-159), plus details like:
- not being able to afford acquisition of drinking water, of hot water and internet access<sup>7</sup>

In such a way, ,Committee for Social Protection'<sup>8</sup> has already drafted its own SMD rate.

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<sup>7</sup> „Open Politics”: Ce înseamnă sărăcia în România și de ce fel de intervenții avem nevoie să o combatem? / translated: ,What does poverty means and which kind of intervention does it need to be fought ?' / <https://www.openpolitics.ro>, p. 3/9.

And here the poverty concept comes to associate with the one of *risk of poverty*. Such a relation first reflects in detail the wider static-dynamic one of the whole economy, i.e. this specific risk is seen in the perspective of a precedent historical reference moment. The resonance of such a view gets really significant for politics here applied, i.e. *social transfers* applied in the sequence of poverty risk revaluation afterwards.

Otherwise, practice of all studies here considered both poverty and risk of poverty in similar percentages, as below in the last descriptive paragraphs. Calculous' complexity rises from this point of view, as related to previous paragraph presentations, when here meeting the EU's '*at risk of poverty*' (AROP) indicator example (SN, p. 23; 27-28) – let us reiterate this indicator's level at 60% of an *adult-equivalent unit's disposable income's median*. Once more, *disposable income* here is the sum of all earnings, i.e. here including social insurance factual benefits, social protection, social assistance and unemployment benefits, but the social contributions paid are here deducted accordingly.

#### **4. Poverty associates with social exclusion**

*Social inclusion* and/or *cohesion* are part of EU vocabulary and of the Union's policies. It is *inclusion* that belongs to individuals and these last belong each to a social group and to a society, as a whole, all parts here accepting this situation as such. Features and social existing dimensions, here including cultural ones, regard such groups and the society and this is not necessarily European thinking only. In which context, the economic dimension is (no one could contradict it) a main one for social inclusion. In other words, individuals might confirm their inclusion in and belonging to a group that enjoys a considerable and generalized life standard – on the contrary, at the opposed pole poverty generalized couldn't make any cohesion as in the European view, e.g. there rather might be resurrection of individuals, associations of fight and wars declared.

Besides, the Union sees inclusion and cohesion close to each other, be it indirectly through another political target that is *convergence*. And through convergence, the inclusion-exclusion issues approach the economic basis. Convergence, that here is even more economic than inclusion-exclusion helps the EU's understanding for relationships

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<sup>8</sup> An EU consultative body in support of labor ministers of member States and working with the Employment and Social Affairs Council

between and among individuals, between individuals and groups and so on extending up to national economies' and the whole EU's areas. Or, this aspect becomes as complex as understanding transitory phases of the Union – up to the 'ideal' one – as contradictory, e.g. inclusion, cohesion and convergence strengthened within a group or a region as working against the ones at the national or at the whole region's level.

However, it could not be about any hypothetical poverty generalized in Europe or the EU and so the available opposite of inclusion will be just *exclusion* of some individuals, be they a minority. The European Commission<sup>9</sup> defines *social exclusion* as 'a process' through which some individuals are pushed to social marginalization, i.e. their are stopped from participating to the society's developments and life by certain situations of which poverty is at least decisive. The exclusion determinants list might continue with no access to education and so to reaching basic social competences on the long term, but this very determinant might equally be itself influenced and brought in by the same poverty. At the other end the exclusion cycle ends by some individuals staying off social decisions, here including decisions in their own interest.

Given all these above fundamentals, the exclusion's association with poverty was methodologically followed by *risk of poverty* associating to a corresponding risk of *exclusion*, actually a new born 'at risk of poverty or exclusion' (*AROPE*) indicator associates with the above 'at risk of poverty' (*AROP*) (SN, p. 23, 27; Eurostat, p. 140). Here to be noticed the EU's ideology through which poverty and exclusion are assumed to be cured by similar policy tools.

## **5. Poverty associates with economic inequality**

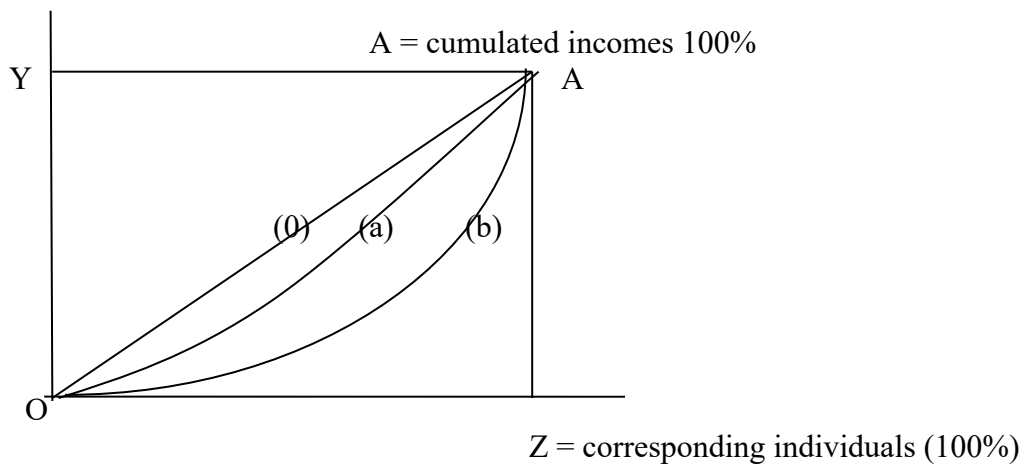
This association will be similar to the above one, with exclusion. Basically, the above poverty calculus doesn't produce such a direct poverty-inequality relationship the way inequality could come out from the series of results from the income median and risk of poverty or exclusion (*AROPE*).

Besides, economic inequality is rather old issue of the economic literature, i.e. two concepts meet one-another in both theory and practice, the *Lorenz Curve* (Figure 1.5)

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<sup>9</sup> Through its Directorate General for Economy, Social Affairs and Inclusion, that issued the paper named 'Employment and Social Developments in Europe 2011'

and corresponding *Gini Coefficients* (Prest & Stark 1967)<sup>10</sup>. In the below Figure 1.5 the abscise sees itself covered by individuals who do benefit from the total income in the increasing order, i.e. the first individual that stays near the origin does benefit from the lowest income and the richest people are to be searched at the other (right) end of the abscise. Point A, the last on the Lorenz curve, in its turn, corresponds to total income that ranges on the other axis and the same point remains neutral, i.e. it keeps corresponding to total income irrespective of the economic inequality degree found. Then, actually income identifies on the graph in the OAZ triangle area to here result through integral calculus. Primarily, when full OAZ triangle, i.e. OA straight line, then the first individual and the whole rest of others (n, as total individuals) on OZ axis receive the same income and inequality is null as perfect income equality – the income increase is perfectly proportional with number of individuals here considered.



**Figure 1.5 Lorenz Curve for deducting Gini Coefficients**

On the contrary, when *income inequality* the *OA diagonal deviates* (from its initially linear shape) into the (a), (b) curves and so on. Since the *OA straight line* was corresponding to zero inequality, its (a), (b) and all the other possible curvilinear alternative diagonals will be reflecting increasing inequality. For the alternatives (a) and (b) the second and third triangles individuals won't make total corresponding income rise proportionally, as it had been the null inequality case. That is why O(a)AZ and O(b)AZ triangles have decreasing areas, as compared to the basic *OAZ triangle*. But inequality

<sup>10</sup> See also Andrei (2011, pp. 204-205).



itself will be seen on the correspondingly increasing O(a)A and O(b)A distinct areas, after that such area was zero for the OA straight line.

On the other hand, all the OA and its alternative diagonals find their common intersection points in O and A. O means zero income for zero individuals and A means that the whole income goes to all the n individuals irrespective of inequality degree of each case, as also above noticed.

Back to O(a)AZ and O(b)AZ increasing areas, they will be evaluated by integral calculus, then keeping all related to the basic OAZ perfect triangle, *Gini Coefficients* result as follows:

$$C_g = \int (Oa,b,\dots A) / \int (\Delta OAZ)$$

which means positive and subunit numbers for them since *zero such Coefficient corresponds to perfect economic equality*. In the end, Lorenz-Giny methodology succeeds to apply for both narrow and wide communities up to the entire society.

## 6. Populations exposed to poverty risk

Studies under *National Strategy for social inclusion and poverty* (SN, Romanian Government pp. 24-26; 28-29) find at least the followings for exposing to poverty risk:

- *persistent poverty* – persons, groups and so on that live under relative poverty threshold (see Eurostat), as accounted in both reference period (year) and at least two of the previous periods
- *regional disparities* – that might start with the general and old urban-rural areas welfare disparity
- *children and young people* – here restricted to dependent individuals
- *elderly people* – here restricted to individuals living lonely and also being dependent
- *low educated people, people working on their own and not included in the labour market*
- *Roma people* -- this ethnicity is widespread across Europe, albeit unequally. This situation's origin is found in the Middle Ages, then followed a so long vicious spiral of increasing discriminations by the other populations all over the region

- *some employed people* – that rise diverse problems related to work conditions, here including to employment contracts
- *people with disabilities*
- *members of marginalized communities* – which might in principle include the above Roma situation, but of course this extends to other ethnicities and groups
- *people from out of the EU* (Eurostat, pp. 48-49).

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