THE MEASUREMENT OF ABSOLUTE POVERTY IN ITALY: AN OVERVIEW AND A REVISION BASED ON THE DATABASE OF REAL ESTATE LEASES OF THE TAX AGENCY

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1. Introduction

In November 2021, the Italian National Institute of Statistics (Istat) established an Inter-institutional Committee with the aim of revising the absolute poverty methodology. The absolute approach of Istat involves identifying basic needs related to food, housing and non-food basic needs, and calculating the cost of the basket of goods and services required to meet these needs. This cost (i.e., the poverty line) varies according to household composition (by number and age of members) and living area (the geographical area of residence and the demographic size of the municipality). Poverty status is assessed through the Household Budget Survey (Hbs). If a household's consumption expenditure is below the poverty line, the household is classified as absolute poor. The methodology needs to be revised periodically to take in account changes in basic needs, as well as the availability of new data sources for defining needs and costs.

In this paper we show the results obtained through the use of the Database of real estate leases of the Tax Agency (Banca dati delle locazioni immobiliari dell'Agenzia delle Entrate), which is a census database with all leases existing at a given time in Italy. This is a new data source available for Istat for reviewing the monetary value of the housing component of the poverty line in a more accurate way than what has been done to date. Through the use of this administrative source, it is indeed possible to avoid the use of the current methodology, which is based on the use of a statistical model on the Hbs data. In addition, it is possible to obtain a more disaggregated territorial classification for poverty estimates, at Nuts II level.

Section 2 describes the Italian approach to measuring absolute poverty; Section 3 shows the use of the Database of real estate leases of the Tax Agency on the rent component of the absolute poverty line; Section 4 concludes.

2. The Istat absolute approach for poverty measurement

Research on poverty measurement differs in many methodological aspects (Lemmi et al., 2019): the time period to be considered to identify poverty, i.e., static or dynamic (Chen and Ravallion, 2013; Jenkins and Van Kerm, 2014); the dimensions to be considered to capture a state of poverty, i.e., unidimensional or multidimensional (Sen, 1991); the measure of households' economic well-being, i.e., objective or subjective (Goedhart et al., 1997). In the case of objective measures, the definition of poverty, whether absolute or relative (Townsend, 1979; Sen, 1983); and the proxy of living standards chosen when following a unidimensional approach, e.g., income, consumption or wealth (Garner and Short, 2010; Brandolini et al, 2010; Kuypers and Marx, 2018).

The Italian National Institute of Statistics developed in 2009 a methodology for calculating the household's "minimum acceptable expenditure" for measuring absolute poverty (Istat, 2009). The proxy for economic status used to measure living standards is consumption expenditures.

Poverty in developed countries has often been estimated through a relative approach, in which the poverty line is usually defined with respect to the standard of living of the reference population (usually by setting the line at some proportion of the mean or median of the income or consumption distribution). However, in recent years, the importance of relying on an absolute approach is growing in developed countries as well (Ravallion, 2016). In fact, relative poverty reflects inequality more than households' lack of resources (Darvas, 2017). In other words, relative poverty is basically a measure of inequality. For developed countries, the absolute poverty line should be viewed as a kind of "minimum acceptable" standard of living in the social context in which households and individuals live rather than the lack of resources such that people's lives are at risk. Under the absolute approach, the value of the poverty line is established independently of the income/consumption distribution, that is, the poverty line is exogenous to the income/consumption distribution. In other words, the poverty line is independent of whether or not other individuals in a society lack the same minimum requirement (Sen, 1983). To identify absolute poverty lines in developed countries, researchers should therefore focus on the basic needs for living in dignity in the social context in which households live. Once these needs have been identified, they should be "translated" into a basket of goods and services to be valued in monetary terms. The growing relevance of the absolute approach even for developed countries is evidenced by the recent European Union project "Measuring and monitoring absolute poverty - ABSPO," aimed at facilitating data collection for measuring and monitoring absolute poverty at the European, national and regional levels (JRC, 2021).

Regarding the proxy of economic well-being to be used for comparison with the poverty line, the literature on inequality and poverty has extensively discussed the pros and cons of different variables to be used. In most cases, when following a unidimensional monetary approach, the economic condition is analysed through income, consumption or wealth. As for wealth, correctly measuring its value is extremely complex and it is not often considered in studies of inequality and poverty[1].

The main drawback of income as an indicator of household well-being is that it can be affected by temporary fluctuations that do not seriously change economic well-being, especially when households can use savings. It has therefore been argued that consumption expenditure may be a better proxy for well-being than income, since consumption reflects, to some extent, the long-run resources of households rather than simply the current income (Friedman, 1957; Modigliani, 1966). It is therefore more stable over time, regardless of short-term income fluctuations. For these reasons, Istat chose to adopt a consumption-based measure[2]. Thus, the underlying conceptual model predicts that economic well-being is derived from consumption expenditures, which in turn depend on income. Absolute poverty in Italy is calculated using the Italian Household Budget Survey, where a household is considered poor when expenditures are below the absolute poverty line attributable to that household.

Absolute poverty lines are defined in Italy by identifying basic needs related to food, housing and non-food basic needs, and calculating the cost of the basket of goods and services required to meet these needs. This cost (i.e., the poverty line) changes according to household composition (according to the number and age of household members) and area of residence (the geographical area of residence and the demographic size of the municipality).

The first step is to identify individual and family essential needs. The second step is the identification, for each essential requirement, of specific goods and services to be included in the basket in order to synthesize basic needs. The third step is the monetary valuation of the goods and services in the basket, in order to obtain a poverty line to be compared with the household's consumption expenditures.

Basic needs are considered homogeneous throughout the country, while the costs of goods and services included in the basket differ from one geographical area to another, reflecting the differentiated cost of living in different areas.

The basket consists of three components: i) food and beverages, which refer to the concept of adequate food; ii) housing, which refers to the availability of a dwelling of adequate size according to the size of the household and equipped with

[1] For example, some types of wealth are easily concealed (e.g., cash, paintings), and the attribution of value to wealth is arbitrary when some types of wealth are not sold or bought in the market (e.g., houses).
[2] The main drawback of consumption is that it could be influenced by individual preferences.

lighting, heating, hot water and some durable goods; and iii) a residual component, which includes the minimum necessary to dress, communicate, be informed, move, be educated and be healthy.

The housing component is in turn divided in four sub-lines: the rent component, the electricity component, the heating component and the durable goods component.

According to 2019 data, the food and drink component accounts on average for 35.7% of the poverty thresholds, the rent component accounts for 32.3%, the other dwelling components account for 8.7% and the residual component for 23.2%.

Some of the components of the poverty line are estimated through coefficients obtained from models run on the Hbs data, so they are somewhat endogenous to the survey data. However, in the absolute approach it would be much better to obtain poverty lines completely exogenous to the survey data.

Poverty thresholds were calculated with 2005 as the base year. To adjust the thresholds for price changes over time, specific price indexes are applied annually for each good and service considered in the basket. Assuming that price trends may also differ in different areas of the country, inflation rates are considered by area.

2.1. The components of the poverty line[3]

Food and beverage component: The food and beverage basket was identified through a nutritional model defined by Istat and the National Institute of Nutrition. The food and beverage needs of individuals (by sex and age groups) were defined by translating the recommended intake levels of foods into combinations of average daily amounts of foods at the individual level, expressed in grams for each type of food. These requirements are assumed to be independent of individual preferences. To determine the monetary value of individual food combinations, data from the consumer price survey conducted by Istat were used, and the combination of foods needed by an individual in a certain age group multiplied by the unit prices of the specific foods in the geographical area of residence provides the monetary value of individual nutritional needs.

Adding up the individual monetary food needs yields the monetary value of the household basket. The monetary value of the basket is then modified through specific "savings coefficients," which are applied to consider the effect of possible savings actions: larger households may save money by buying larger quantities of food or, conversely, smaller households may pay more by being forced to buy the minimum package.

[3] For a more in-depth description see Istat (2009) and Cutillo et al. (2022).

The housing component: the housing component takes into account both the availability of a dwelling (i.e., the cost of rent) and the services that the house must contain (i.e., electricity, heating, and some durable goods). The minimum housing requirement is defined through a ministerial decree, which defines the parameters for granting habitability (Ministerial Decree 5/7/1975).

The rent subcomponent accounts for most of the housing component. The estimation model is based on a suitable dwelling size that varies with household size and on price per square meter. To account for the differentiated cost of the housing market in the different areas, the price varies by type of municipality and geographic area of residence.

The monetary value of the rent component for a household of size *z*, residing in the geographical area *k* and in a municipality of type *c* is defined as:

$$ac_z^{kc} = spl_z * \widehat{cm}^{kc} \quad (1)$$

where spl_z is the suitable surface for a household of size *z* (as defined by the Ministerial Decree 5/7/1975) and $\widehat{cm}^{kc}$ is the estimated monthly expenditure per square meter for rent of households residing in the type *c* municipality of geographical area *k*.

The parameter $\widehat{cm}^{kc}$ is estimated through the following model based on Hbs 2003-2005 data:

$$cm^{kc} = b_0^c * exp\left(-sp^{b_1^c + b_2^c ds}\right) \quad (2)$$

where *sp* is the surface of the dwelling and *ds* is a dummy variable which takes value 1 if the household is resident in the South or Islands and 0 otherwise.

The other housing sub-components consider the services that the dwelling should contain (electricity, heating and some durable goods). The minimum threshold for energy consumption has been defined by the Electricity and Gas Authority, differentiated by household size. This threshold is expressed in kilowatt hours, and the monetary value is based on the application of the tariffs in force. Electricity expenditure was assumed to refer to the use of television, washing machine and refrigerator in addition to lighting. The heating component, including water heating, was estimated through a model based on 2003-2005 Hbs data, by geographic area, household size and household type. Expenditures that a household incurs for the purchase of some basic durable goods (refrigerator, cooking machine, washing machine, TV) were based on the calculation of depreciation quotas, which were obtained on the basis of consumer prices and their average duration.

The residual component: Food and housing alone do not provide a complete picture of the needs of individuals and households. A residual component was calculated, and includes the minimum goods and services needed to dress, communicate, be informed, move, be educated, and be healthy, estimated as a

function of food and beverage expenditures. The residual component is thus a function of the monetary value of the food basket and also takes into account age and number of household members. The estimate is based on a statistical model on Hbs 2003-2005 data.

The monetary value of the total basket, given as the sum of the individual components, was obtained for 2005. Each component is revalued annually, differentiating consumer price trends with respect to specific indexes of goods and services and with respect to the area of residence.

3. The use of the Database of real estate leases of the Tax Agency on the rent component

Along with all the other possibilities regarding the other components, the aim of this paper is to show the potential of changes on the calculation of the rent component. In particular, Istat has the possibility of using the Database of real estate leases of the Tax Agency (Banca dati delle locazioni immobiliari dell'Agenzia delle Entrate - henceforth, also called Omi database), which is a census database on all active rents in Italy at a given time. This database has great potentials, particularly in three respects. First, it is a source completely exogenous to the Hbs data; second, since it is a census database, it is possible to avoid the estimation of an econometric model, thus avoiding the uncertainty arising from the choice of the model and form the model itself in terms of standard error. Finally, a more disaggregated territorial classification can be considered.

Regarding the first topic, it can be noted that the current methodology is based on an econometric model on Hbs data. In this respect, the coefficients estimated on survey data makes the methodology somewhat endogenous with respect to the distribution of consumption as measured by the survey, whereas for the absolute approach it would be better to obtain poverty lines that are completely exogenous to the survey data.

Regarding the second argument, every statistical model is affected by uncertainty. Therefore, the Interinstitutional Commission has preferred to avoid using a statistical model, and the cost of rent per square meter is calculated through cells determined by the intersection of dwelling size, territorial domain (geographical area at NUTS I level) and type of municipality. This means that rents are stratified by geographic area, municipality type and class of surface.

Thus, the monetary value of the rent component for a household of size *z*, residing in the geographical area *k* and in a municipality of type *c* is redefined as:

$$ac_z^{kc} = spl_z * \widehat{cm}_z^{kc} \qquad (3)$$

where spl_z is still the suitable surface for a household of size *z* and $\widehat{cm}_z^{kc}$ is the cost per square meter for a dwelling that has surface suitable for a household of size *z* residing in the type *c* municipality of geographical area *k*.

As well as the methodology currently in use, the suitable surface defined by Ministerial Decree 5/7/1975 is modified to take into account the lack of small dwellings in Italy (Table 1). Therefore, the Decree's parameters are replaced by classes of surface, and the central value of the classes are used for obtaining spl_z. For example, the Decree's parameter 28 for a one-person household is replaced by the surface class 28-37 square meters, and 32.5 square meters is the suitable surface used for estimates. The "modified suitable surface" is then multiplied by the estimated cost per square meter ($\widehat{cm}_z^{kc}$) in order to obtain the rent threshold. $\widehat{cm}_z^{kc}$ is identified through the median value of the cost per square meter in each cell as defined by the interaction between *z*, *k* and *c*.

Table 1 – *Minimum size of the dwelling by household size (squared meters).*

	Household size					
	1	2	3	4	5	For every additional component
DM 1975	28	38	42	56	66	+10
Class of surface	28-37	38-41	42-50	56-60	66-70	+10
Central value of the class	32.5	39.5	46	58	68	+10

Source: Ministerial Decree 5/7/1975 and Istat (2009)

A strict selection of lease contracts is applied before stratification. First, only long-term contracts (4+4 years and 3+2 years) are considered. These contracts are the ones usually signed for renting houses to private households. Thus, all short contracts, such as for study or vacation purposes, were excluded. Second, we excluded from the database luxury dwellings, which are not relevant for households in the lower tail of the economic distribution. Luxury dwellings are identified through the land register, and are villas, fine dwellings, and dwellings of historical or artistic significance.

Table 2 presents the results obtained with stratification versus those obtained with the current methodology. The results are disaggregated by geographic area and type of municipality. It can be seen that the overall results are consistent, as the average rent threshold on 2019 Hbs data is about the same (334 vs. 333 euros per month). However, there are significant differences when looking at the classification by geographic area (e.g., the average value for the Centre is 408 vs. 392 euros) and, even more, by type of municipality. With the current methodology, the average rent threshold for large municipalities is 402 euros, while using the Omi database it is 482 euros (+19.9%). In particular, the average values for large cities in the Centre (Rome and Florence) are revalued by +29.5%.

Table 2 – *Rent component of the poverty threshold by Nuts I level, type of municipality and different methodologies - 2019 (Euros and percentage differences).*

	Type of municipality			
	Centre of metropolitan area	Municipalities of metropolitan area suburbs and municipalities with more than 50.000 inhabitants	Other municipalities	**Total**
	Current methodology			
Nord	420	382	331	**363**
Centro	440	401	345	**392**
Mezzogiorno	290	268	222	**244**
Italia	**402**	**355**	**297**	**331**
	Nuts I stratification on Omi database			
Nord	508	380	320	**365**
Centro	570	381	315	**408**
Mezzogiorno	302	264	226	**245**
Italia	**482**	**346**	**287**	**336**
	Percentage difference			
Nord	20.9	-0.6	-3.4	**0.6**
Centro	29.5	-4.9	-8.7	**4.1**
Mezzogiorno	4.3	-1.4	1.7	**0.4**
Italia	**19.9**	**-2.6**	**-3.4**	**1.5**

Source: Elaborations on the Istat HBS and on the Omi database.

Bearing in mind that the current methodology is based on a model using data from 2003-2005 and involves annual revaluation of the threshold through specific price indexes, it probably means that major changes in the housing market in recent years have not been captured. For example, there has been a sharp increase in the value of small-scale housing and housing in large cities compared to large-scale housing and housing in small towns in recent years.

As a consequence, the results on the absolute poverty rate (Table 3) also change (we changed only the rent component of the threshold, leaving the other components unchanged). While the overall value of the incidence remains essentially unchanged (6.5 percent vs. 6.4 percent), the value for large cities increases by 1.5 percentage points, from 5.8% to 7.3 % (and more than doubles in large cities in the Centre).

In summary, the use of the Database of real estate leases of the Tax Agency is a huge step forward in defining the rent threshold. First, it avoids the use of a statistical model. Second, it makes it possible to make the rent threshold completely exogenous to the Hbs data. And third, it allows to take in account the large changes that have occurred in the housing market in recent years. It also allows for a further step forward, namely the use of a more disaggregated territorial classification. So far, we have shown the results obtained from the stratification obtained through the interaction of dwelling size, geographic area, and type of municipality. However, the Omi database is a census database. Therefore, a more disaggregated classification, i.e., at regional level, is possible. This procedure would certainly imply a multiplication of the number of thresholds but, in our opinion, this is an additional

advantage. Indeed, when comparing the expenditures of a single record, one is comparing the expenditures of a household that actually lives in that particular region, and thus has a level of spending that as a matter of fact depends on the region of residence.

Table 3 – *Absolute poverty rate by Nuts I level, type of municipality and different type of calculation - 2019 (percentages and differences in percentage points).*

	Type of municipality			
	Centre of metropolitan area	Municipalities of metropolitan area suburbs and municipalities with more than 50.000 inhabitants	Other municipalities	**Total**
	Current methodology			
Nord	7.1	4.8	6.1	**5.8**
Centro	2.0	4.5	6.3	**4.5**
Mezzogiorno	9.8	8.9	8.2	**8.6**
Italia	**7.1**	**4.8**	**6.1**	**5.8**
	Nuts I stratification on Omi database			
Nord	8.3	4.8	5.8	**5.9**
Centro	4.2	4.3	5.5	**4.8**
Mezzogiorno	10.4	8.7	8.3	**8.7**
Italia	**7.3**	**5.8**	**6.6**	**6.5**
	Percentage difference			
Nord	1.2	0.0	-0.3	**0.1**
Centro	2.2	-0.2	-0.8	**0.3**
Mezzogiorno	0.6	-0.2	0.1	**0.1**
Italia	**1.5**	**-0.2**	**-0.3**	**0.1**

Source: Elaborations on the Istat HBS and on the Omi database.

Table 4 presents the results when stratification is obtained through the interaction of region (Nuts II level), household size and type of municipality. It can be seen that the aggregate results are more or less the same: the average rent threshold is 336 euros through NUTS I stratification and 334 across NUTS II stratification. The macro areas also present similar results. In the North the corresponding values are 365 versus 359; in the Centre the same value is obtained, 408 euros; in the South and Islands (Mezzogiorno) the average values are 245 and 249 euros. However, there are large differences when looking at the results by region. In relative terms, the largest increase on the rent threshold is observed for Sardegna (from 235 to 324 euros) and Abruzzo (from 231 to 284 euros), while the largest decrease is observed for Piemonte (from 386 to 295 euros) and Umbria (from 339 to 272 euros). In other words, when considering the differences that exist within a macro area, the results are very different. The significance of these results is that the housing market in Sardegna and Abruzzo has a higher price than the average market in the South and Islands macro area, and the latter cannot be considered as representative of the housing market in these two regions. The opposite is the case for Piemonte and Umbria, which have housing markets with prices lower than the average values of the corresponding macro area. Through regional stratification, Piemonte has a value

equal to 82.2% of the average value in the North, while this value would be 105.5% in the case of stratification by macro area. Since the values come from a census database, there is no margin of error in this regard, and stratification by region is therefore preferable.

Table 4 – *Rent component of the absolute poverty threshold and absolute poverty rate by Nuts II level and different type of calculation - 2019 (Euros and percentage).*

Region	Rent component of the poverty threshold			Absolute poverty rate		
	Current methodology	Nuts I stratification on Omi database	Nuts II stratification on Omi database	Current methodology	Nuts I stratification on Omi database	Nuts II stratification on Omi database
Piemonte	373	386	295	6.0	6.0	4.6
Val d'Aosta	327	317	310	3.6	3.3	3.3
Lombardia	360	361	388	5.1	5.2	5.6
Trentino Alto Adige	348	338	344	3.9	3.7	3.7
Veneto	355	348	357	9.5	9.4	9.7
Friuli Venezia Giulia	345	338	326	3.9	3.4	3.7
Liguria	384	412	355	8.8	9.7	8.7
Emilia Romagna	366	368	374	3.4	3.6	3.4
Nord	**363**	**365**	**359**	**5.8**	**5.9**	**5.8**
Toscana	379	370	409	3.2	3.3	3.4
Umbria	367	339	272	4.5	4.3	2.9
Marche	356	326	319	6.5	5.7	5.7
Lazio	412	462	450	4.9	5.5	5.3
Centro	**392**	**408**	**408**	**4.5**	**4.8**	**4.6**
Abruzzo	233	231	284	4.9	5.1	6.8
Molise	222	220	229	4.0	4.4	4.9
Campania	253	257	255	9.8	9.9	9.9
Puglia	245	246	248	8.0	8.0	8.0
Basilicata	232	231	193	6.0	5.7	3.5
Calabria	233	232	201	10.0	9.9	9.4
Sicilia	246	249	235	10.5	10.7	10.3
Sardegna	236	235	324	3.6	3.9	4.6
Mezzogiorno	**244**	**245**	**249**	**8.6**	**8.7**	**8.6**
Italia	**331**	**336**	**334**	**6.4**	**6.5**	**6.4**

Source: Elaborations on the Istat HBS and on the Omi database.

4. Conclusions

In this paper, we have shown the great potential of using the Database of real estate leases of the Tax Agency to revise the rent component of the absolute poverty line. First, the use of a statistical model can be avoided, as the database is complete with all existing tenancies. Second, it is possible to obtain rent thresholds that are completely exogenous to the Hbs data. Third, it is possible to obtain a more

disaggregated territorial classification, at regional level. Obtaining regional thresholds is a major advance that can be achieved in the ongoing activities to revise the absolute poverty methodology. Currently, the estimation domain of absolute poverty is only at the NUTS I level, for a couple of reasons: the sample size was small and absolute poverty was a rare phenomenon, with obvious consequences on sampling errors. However, already in 2020, the sample size was enlarged from 19,550 to 32,500 households. Moreover, absolute poverty can no longer be considered a rare phenomenon (it has increased from 3.5 percent in 2005 to 7.5 percent in 2021). Therefore, the time has come to implement a sample design that allows absolute poverty to be known at the Nuts II level. In this case, having more reliable thresholds at the regional level would be the first and perhaps most important step. Moreover, just as the threshold for rent, also the food and drink component can now be calculated at the regional level and no longer just at the macro-area level. If we also consider that the residual component is a function of the food and beverage threshold, it follows that also the residual component can be considered as regionally dependent. That is, on average, about 92 percent of poverty lines would be made up of regional components, and only 8 percent would be made up of macro-area components (basically, the heating, energy and durable goods components).

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SUMMARY

The absolute approach to poverty involves identifying basic needs (food, housing and non-food) and calculating the cost of the basket of goods and services required to meet these needs. The cost of the basket, differentiated by household type and territorial area, represents the poverty threshold, which should be exogenous to the distribution of the proxy variable used to assess economic well-being (consumption expenditures the Household Budget Survey). The methodology needs to be revised periodically to account for changes in basic needs and the availability of new data sources. In particular, Istat has now at its disposal the Database of real estate leases of the Tax Agency. This paper shows the results obtained through the use of this administrative source to review the monetary value of the rent component of the absolute poverty line. In fact, it is a census database with all leases existing at a given time, making it possible to avoid using the current methodology, which is based on a statistical model on Hbs data. In this way, two key advances can be achieved. First, it is possible to obtain rent thresholds that are completely exogenous to the Hbs data, in a way that is entirely consistent with the absolute approach. Second, it is possible to obtain a more disaggregated territorial classification for poverty estimates, at the regional.

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