# THE NEW FEATURES OF THE RESIDUAL COMPONENT OF THE ABSOLUTE POVERTY BASKET

Ilaria Arigoni

**Abstract.** The Italian National Institute of Statistics calculates ever year the absolute poverty threshold as the monetary value, at current prices, of a fixed basket of goods and services considered essential to reach the minimum acceptable standard of living to avoid serious forms of social exclusion in the context in which one lives. The cost of the basket (and so the threshold) varies according to the household composition and territory of residence. To review and update the 2005 methodology for estimating absolute poverty[1], an Inter-Institutional Scientific Commission[2] was established in 2021, and introduced some changes[3] with regard to the estimation of the three main components of the reference basket (i.e. food, housing, residual) and its annual revaluation, as well as the use of new data sources[4]. This paper outlines the process of reviewing the residual component of the basket, explaining the changes introduced and their reasons. The analysis focuses on the composition of the basket of goods and services making up the residual expenditure, on the specifications of the linear regression model for estimating the coefficients to be applied to the monetary value of the food component to obtain that of the residual component, and finally on the food basket to be used for estimating the monetary value of the residual component.

## 1. Introduction

According to the approach adopted by the Italian National Institute of Statistics, the absolute poverty threshold, calculated ever year, is defined as the monetary value, at current prices, of a fixed basket of goods and services (related to food, housing and residual needs) considered essential to reach the minimum acceptable standard

---

[1] Taking into account the innovations introduced in the Italian Household Budget Survey from 2022 onwards (i.e., the most recent version of the COICOP Classification, that is COICOP 2018) and the new survey reference population based on the new series released by Istat's Permanent Census of Population and Housing (for further details: https://www.istat.it/en/statistical-themes/censuses/permanent-census-of-population-and-housing/results-of-the-permanent-population-census/).

[2] The Inter-Institutional Scientific Commission on Absolute Poverty (IISCAP) was chaired by the President of Istat, with the participation of experts from academia, the Bank of Italy, the Tax Agency, the Council for Agricultural Research and Economics, and other government agencies.

[3] The Commission has however validated the 2005 general methodological framework in terms of the main theoretical assumptions and basket components: see Freguja and Polidoro (2024).

[4] For details on the revision of the food and housing components and the annual revaluation of the basket, see the related papers within this same issue of the journal.

of living in order to avoid serious forms of social exclusion in the context in which one lives. The cost of the basket (and so the threshold) varies according to household composition (number and age of household members) and territory (region of residence and demographic size of the municipality). Households with a monthly consumption expenditure (based on data from the Italian Household Budget Survey) at or below their absolute poverty line are classified as absolutely poor.

The residual component of the absolute poverty reference basket aims to estimate the minimum necessary to furnish and maintain the dwelling, dress, communicate, be informed, move on the territory, get educated, and keep healthy. In 2005, individual goods and services to meet these essential needs were identified, without defining their specific quantities. This, in fact, would have been rather arbitrary, as it was impossible to refer to specific regulations (such as the one used for the adequate size of the dwelling), measures (such as the one used for energy consumption) or scientific reference standards (such as the Recommended Nutrient Intake Levels used for defining daily diets) to define how many residual goods and services one needs to avoid a condition of absolute poverty (Istat 2009, p. 22). And this is because such information was not, and still is not, available.

The 2005 residual basket was thus divided into the following macro categories: housing, clothing, communications, transport, health, education, and a miscellany one called 'other'. Compared to the basket of essential goods and services defined in 1997 by the first Commission of Inquiry into Poverty and Exclusion (Commissione di indagine sulla povertà e sull'emarginazione, 1998), some expenditures on education and health were also considered in the 2005 basket, since the previous assumption about their total gratuity had been only partially confirmed by data from the Household Budget Survey (HBS).

Based on the analysis of consumption expenditures, goods and services actually paid for by households were then included in the residual component. The need that households had to meet from their own resources for education up to upper secondary school was limited to copybooks, stationery and other support materials (such as backpacks and pencil cases). As for health, dentist, gynaecologist, medicines, health and therapeutic equipment and care for the disabled and elderly were found to be effectively paid for by households, even taking into account the supply from the National Health Service (Istat 2009, p. 23).

Once essential needs were identified, the monetary value of food, housing and residual components was defined, using primarily consumer price information and, where not available, consumption expenditure data from the HBS.

As for residual expenditure, based on data from the Italian Household Budget Survey, it is highly dependent on the individual characteristics of household members, both in level and composition, and is less sensitive to the effect of economies of scale than are expenditures on housing, heating, household utilities or

the purchase of durable goods. For these reasons, as in the 1997 basket, it was assumed that the residual component is affected by household composition in a similar way to food expenditure. Therefore, based on the observed association, at the household level, between food expenditure and residual expenditure, as measured by the HBS, multiplier coefficients were estimated to be applied to the monetary value of the food component to obtain that of the residual component (Istat, 2009, p. 24). The linear regression model used for estimating these coefficients related the logarithm of residual expenditure to the logarithm of food expenditure (inclusive of meals and food away from home) by also including the effect due to the age composition of household members. On the basis of the estimated values of these coefficients, the monetary value of the residual component, for a household of size *z* in geographic breakdown *k*, was obtained in relation to the value of the food basket (for more details, see Section 3).

In the process of revision started in 2022, the overall methodological framework for estimating the residual component remained unchanged, but included:
-   the updating of the linear regression model for estimating the above mentioned coefficients, with particular reference to the composition of the basket of goods and services that make up the residual expenditure;
-   the revision of the food basket to be used for estimating the monetary value of the residual component.

## 2. The composition of the residual basket

Before approaching the topic of its composition, the 2005 residual basket was first converted into the new COICOP 2018 classification, adopted by the HBS from 2022 onwards, the base year of the new absolute poverty basket, replacing the previous version of the same consumption expenditure classification.

With regard to the individual goods and services that comprise it, since it was not possible to identify a general revision criterion, the updating process was guided by the expertise of the Commission members and, where necessary, by insights of a different nature (e.g., regulatory, as in the case of education or health).

Below, with reference to some of the macro categories of the residual component (housing, clothing, communications, transport, health, education, other), the main issues that emerged and the choices made are summarized.

*2.1. Expenditure on health*

In 2005, even in the context of a public health care system, the assumption that health care would be totally free appeared to be at least partly outdated by the analysis of household consumption expenditures from the HBS, from which it appeared that, as a result of intervening changes in health care regulations, households were actually paying for medicines, which at that time were purchased by 27 percent of poor households.

From the analyses carried out in 2005, the health needs of households residing in Italy thus seemed to be able to be met by the National Health Service (NHS), with the exception of some expenditures that could weigh even considerably on the household budget: dental care, gynaecological care, special long-term care, and the purchase of medicines. Since they were generally not covered by the SSN, they had to be assumed to be paid for by households (Istat, 2009, p. 60).

Expenditures on dentist and gynaecologist (the latter derived pro quota from total expenditure on specialist visits, based on data from the 2005 Istat Multiscope Survey on Health and Health Services) were included in the residual basket in 2005, since both were excluded from the Essential Levels of Care that should be guaranteed by the National Health Service, and because for both there was high incidence of use of paid specialist visits (based on data from the Istat 2005 Multiscope Survey). By Prime Minister's Decree of January 12, 2017[5], the Essential Levels of Care were updated, substantially overcoming the exclusion of gynaecological specialist visits from the list of services guaranteed by the National Health Service (see Articles 24 and 59 of the 2017 DPCM), while this was only partially done for dental expenditures (see Article 16 paragraph 5 and Annex 4c of the DPCM).

Given that the most recent data from the Istat Multiscope Survey on Health and Health Services, regarding the use of paid specialist visits, is almost 10 years old (2013) and therefore does not contribute to a sufficiently up-to-date overview, the hypothesis that the National Health Service cannot ensure the minimum necessary for medical treatments appears weakened, at least with reference to expenditures on specialist gynaecological visits. Thus, the Commission determined that expenditures on dental care should remain in the macro health category of the residual basket while expenditures on gynaecological specialist visits should be excluded.

Then as for medicines, they were included in the residual basket in 2005, since they were only partially included in the aforementioned Essential Levels of Care. In fact, although since 2000, all forms of patient participation in pharmaceutical care have been abolished nationwide, without providing any co-payment and distinguishing only totally free medicines from totally paid-for medicines (class C),

---

[5] https://www.gazzettaufficiale.it/eli/id/2017/03/18/17A02015/sg

most regions, in order to cope with their deficits, have introduced specific forms of participation in pharmaceutical expenditure (co-payment) on band A (mutable) medicines, which generally consist of a fixed fee per prescription or per package, also identifying the categories and individuals who are exempted from it[6].

The most recent data on household consumption expenditures show that nearly half of households in the first fifth of total equivalent consumption expenditure distribution incur expenditure on medicines, although the HBS data also include all cases where expenditures refer only to co-payment. Thus, the Commission confirmed the inclusion of expenditure on medicines in the health macro category of the residual basket.

Moving on to expenditures for private care provided to the elderly and/or disabled at home (by cohabiting and non-cohabiting staff) and for care provided in facilities (such as nursing homes or residential centres), it should first be noted that in 2005, expenditures on special and long term disability care were included in the residual basket because they were excluded from the Essential Levels of Care.

As of today, the situation is not too different: even taking into account the aforementioned update of the Essential Levels of Care, for assisted living residences with a public character there is in fact citizen cost-sharing[7] (see Article 30 of the 2017 DPCM). In addition to this, private home and non-home care is substantially paid for by households. Therefore, the Commission has decided to keep the related expenditures in the health macro category of the residual basket.


## 2.2. *Expenditure on transport*

In 2005, transport expenditure was estimated based on the assumption that households travel using only public services (bus, coach, train) and therefore they do not possess private means of transport (Istat, 2009, p. 59).

---

[6] Ministry of Health website:

*https://www.salute.gov.it/portale/esenzioni/dettaglioContenutiEsenzioni.jsp?id=4674&area=esenzion i&menu=vuoto*

[7] The November 2001 D.P.C.M. dedicated a passage (Annex 1C) to social and health integration, that is, to services in which the health and social components were not operationally distinguishable and for which a percentage of cost was agreed upon that was not attributable to the financial resources allocated to the National Health Service. This percentage of cost not attributable to the National Health Service was covered by the municipalities - as they were responsible for the costs of social services - or by the user. In addition, Annex 3, letter d) of the November 2001 D.P.C.M. stipulated that within the framework of social-health integration, the specification of services paid for by the National Health Service had to take into account the different levels of dependence or non-self-sufficiency, and that the basic reference on the regulatory level was the act of guidance and coordination on social-health integration set out in the D.P.C.M. of February 14, 2001.

It has been debated whether that assumption should be revised taking into account the use of the car as an essential means of transport to avoid serious forms of social exclusion in light of the unequal characteristics across the country of the supply of public transport services.

It should be pointed out that introducing it into the residual basket would have meant, operationally, providing for the inclusion of:
- expenditure on car insurance;
- expenditure on car fuel (gasoline and diesel);
- expenditure on car maintenance and repair;
- depreciation rate related to the expenditure on the purchase of a used car.

An increase of this magnitude would have had a significant impact on the level of residual expenditure and, consequently, on the overall value of the absolute poverty basket.

It was also noted how the need for private transport could be declined from different perspectives, potentially having to do with the demographic characteristics of the individuals (e.g., age), where one lives (impervious areas, as well as suburban areas of urban areas), and individual health conditions (presence of disabilities), to name the main factors. If these possible articulations were to be taken into account, the private transport expenditure to be considered could not be limited to the items already listed, but should extend to scooter, bicycle, electric scooter, cab, car-sharing, and so on. That is, one should necessarily move in the direction of reference budgets, i.e., absolute poverty baskets specific to population subgroups with certain characteristics.

The potential introduction of the use of private transport would thus have opened the way for a substantial rethinking of the methodology adopted by Istat for estimating absolute poverty, in contrast to the approach taken by the Commission of considering it substantially valid. In addition, it should be said that, compared to 2005, the current situation of public transport in our country, despite persistent territorial inequalities, has not undermined the assumption that exclusive use of public transport can be considered sufficient to avoid serious forms of social exclusion. Therefore, the transport macro category has remained unchanged.

### 2.3. Expenditure on education

In 2005, even in the context of a public[8] education system, the assumption of completely free education had been exceeded by actually considering the

---

[8] Education until the age of 16 (until, therefore, the third year of upper-secondary school) is compulsory and, therefore, must be free. Until enrolment in the third year, in fact, households are not required to pay tuition fees if the student attends a public school.

expenditure on copybooks, stationery and other materials such as backpacks and pencil cases to be paid by households.

In addition, expenditure on day care services, which can be assimilated to education expenditure, was included in the residual component. This choice resulted from two factors: first, this kind of services is regulated at the municipal level; second, it is not always possible to guarantee all disadvantaged households the possibility of using it free of charge due to the different supply in the area in terms of both places and fees (Istat, 2009, p. 60).

The most recent data on household consumption expenditures now show further cracks in the assumption that basic education expenditures are fully paid for by the state and, at the same time, show the need for minor revisions compared to the choices made in 2005. More specifically, in more recent years, when looking at education expenditures actually paid by households, those for:
- textbooks for upper-secondary education,
- fees and tuition for public upper-secondary education,
- textbooks for lower-secondary education,

result to have a significant weight, in addition, of course, to the expenditures already in the basket. Moreover, these are expenditures for which the spending frequencies among households in the first fifth of the total equivalent consumption expenditure distribution are higher than those observed among total households.

On a closer examination of the legislation:
- on the subject of the right to education, the Ministry of Education guarantees the provision of funds to the Regions for the supply of textbooks in favour of less well-off pupils in compulsory and upper secondary education. However, the definition of the Indicator of the Equivalent Economic Situation reference values to access these grants is left to each Region, which, in some cases, can divide the eligible households into groups, to be given credit according to the available funds;
- on the subject of education fees[9], these are due for attendance of the fourth and fifth year of upper-secondary education schools for enrolment, attendance, examinations (suitability, supplementary, licence, baccalaureate and qualification) and the issuing of the related diplomas. There is total exemption for students belonging to households whose Indicator of the Equivalent Economic Situation is equal to or less than 20 thousand euros, provided that the students have a behaviour score no lower than 8, have not incurred disciplinary sanctions of more than 5 days, and are not repeating students (except in cases of proven infirmity);

---

[9] Ministry of Education website: https://www.miur.gov.it/tasse-scolastiche/contributo

- on the subject of school contributions[10], on the grounds of the principles of compulsoriness and gratuitousness, compulsory contributions of any kind or nature may not be required from households for the purpose of carrying out curricular activities and activities related to the fulfilment of compulsory education (photocopies, teaching materials or other). Exceptions to this, however, are reimbursements for expenditures incurred on behalf of the households themselves (such as, e.g., student individual civil responsibility and accident insurance, absence booklet, school trips, etc.). They can also be requested voluntary contributions with which households, in a spirit of cooperation and with the utmost transparency, participate in the improvement and expansion of educational offerings to pupils, in order to achieve higher levels of quality. These contributions are deliberated by the School Boards, based on school needs: the regulations state that it is illegitimate to make the enrolment of pupils conditional on the prior payment of the contribution and that a student who has not paid it cannot be discriminated against in any way. In practice, however, there is widespread lack of transparency in this regard on the part of schools.

In light of these findings, the Commission has agreed to include in the education macro category of the residual basket expenditures on: textbooks for upper-secondary education; fees and tuition for public upper-secondary education; textbooks for lower-secondary education. In addition, of course, to keep in the basket the expenditure related to day care service.

Finally, there was much debate about whether or not to include canteen fees (nursery, early childhood and primary education, lower-secondary and upper-secondary education) in the minimum necessary to get educated (the domain to which they can be referred). According to the legislation, in fact, school canteen service is managed by municipalities, which formulate their own management regulations and possible conditions of exemption (or reduction) from the payment of this service. In general, however, indigent households are provided with the service free of charge. Therefore, the Commission has found it reasonable to confirm the removal of this service from the list of those potentially to be included in the education macro category of the residual basket.

## 2.4. Expenditure on games of chance

Expenditure on lotto and other games with cash winnings was included in 2005, in the macro category Other, with the meaning of "tax on hope" (intended as an

---

[10] Ministry of Education website: https://www.miur.gov.it/tasse-scolastiche/contributo

attempt to find a way to change one's condition). In reality, this expenditure should not be part of residual basket since it does not contribute to define the minimum necessary in any of the areas covered (furnishing and maintaining the dwelling, dressing, communicating, being informed, moving on the territory, getting educated and keeping healthy). Therefore, given that the assumption of its inclusion in the residual component basket appears objectively fragile and it would enlarge the basket to other expenditures (as discussed in Section 2.2), and furthermore taking into account the well-known phenomenon of under-reporting referred to this item in the HBS, the Commission has approved its removal from the residual basket.

## 2.5. Outdated expenditures

Regarding the overall composition of the residual basket, in addition to those described, some choices were also made regarding expenditures included in 2005 but now considered outdated, as summarized below:
- macro category Housing

Expenditures on (a) kitchen disposable items, (b) repair and/or rental of large electric or motor tools, (c) paintings, mirrors, ornaments and other furnishings, and (d) repair of furniture, furnishings and carpets, were eliminated. Expenditure on repair of home appliances and household equipment was also included in this macro category.
- macro category Communication

Expenditures on (a) fixed telephone equipment, (b) calls from public telephones and phone cards, (c) internet point and other internet connection charges, (d) telegrams, faxes and other telecommunications services, (e) letter forwarding service, (f) repair of televisions, DVD players, hi-fi systems, personal computers, cameras, camcorders, optical instruments, musical instruments, (g) radios, mp3 players/recorders, and other non-portable/portable devices for audio reception, recording, and reproduction, and (h) repair of home appliances and household equipment, were eliminated;
- macro category Other

Expenditures on (a) board games, video games, collectors' and model-making items, (b) newspapers, (c) weekly and monthly magazines and other periodicals, and (d) moving and storage services, were eliminated.

## 3. The model specifications

In the process of revision of the residual component started in 2022, the updating of the linear regression model for estimating the coefficients to be applied to the monetary value of the food component to obtain that of the residual component[11] played a key role, because it is precisely on the basis of the estimated values for the parameters of this model that, according to the 2005 methodology, the estimated residual expenditure, for a household of size $z$ (with $z_1, \ldots, z_6$ members in the $1^{st}, \ldots,$ $6^{th}$ age class, respectively) in geographic breakdown $k$, is obtained in relation to the value of the food basket (where the 6 age classes are: 0-3, 4-10, 11-17, 18-59, 60-74, 75 and more) (Istat, 2009, p. 60).

The regression model adopted so far is without an intercept, which complicates its reading, both because, in this case, the coefficient of determination $R^2$ does not return the share of variance explained, and because the reference for interpreting the parameters that the model itself produces is missing. Therefore, the Commission approved the switch to the use of the model with intercept. In addition, compared to the 2005 specifications, the Commission has determined to also include in the model the $\beta_1$ parameter referring to the number of household members aged 0 to 3 years, since its previous exclusion from the estimation procedure was not clearly justified. Finally, in analogy to the choices made for the food component, the age groups considered increase from 6 to 7 compared to the 2005 specifications, due to the splitting of the 18-59 age group into the two subclasses 18-29 years and 30-59 years.

The model specification is thus as follows:

$$\ln(re) = \gamma + \alpha \cdot \ln(sap) + \sum_{j=1}^{7} \beta_j \cdot z_j \tag{1}$$

where *re* is residual expenditure, *sap* is food expenditure inclusive of meals and food away from home, and $z_j$ is the number of household members in the *j*-th age group (0-3, 4-10, 11-17, 18-29, 30-59, 60-74, 75 and more).

The Commission debated extensively on the introduction of a spatial breakdown of the model by geographical breakdowns (North, Centre and South), without which it was doubtful that the estimated parameters were actually able to capture the substantial inhomogeneity in the supply, across the country, of some of the services included in the residual expenditure, such as, for example, those for care, health and education.

However, estimates from the model with spatial breakdown on the most recent data from the HBS show how the introduction of such a breakdown produces the

---

[11] As explained in the paragraph 1, the linear regression model for estimating the coefficients relates the logarithm of residual expenditure to the logarithm of food expenditure (inclusive of meals and food away from home).

paradoxical result of leading to relatively higher poverty incidence estimates where (North) there are more public services (e.g., day care centres, canteens), because expenditure to use them is higher, while the opposite happens in areas where those same services are lacking or completely absent (South). In other words, in the model with spatial breakdown, the parameters estimated for households in the South (who spend little or not at all because services are lacking or unavailable) are smaller than those estimated for households in the North. Consequently, the threshold of the residual component is lower in the South and, other things being equal, the hardship is underestimated. The latter is precisely the risk highlighted in the most recent literature, which finds that the lack of universal provision of basic services may lead current approaches to poverty measurement to underestimates, raising comparability and identification issues (Lanau *et al.*, 2020).

Not least, from the point of view of model parsimony, the introduction of spatial explanatory variables appears weak, since it does not significantly increase the share of variance explained.

Not using the spatial breakdown of the model thus avoids introducing a bias in the estimates due to inequality in the supply of services across the territory. This choice, which corresponds to the one made by the Commission, is suboptimal compared to a strategy that explicitly takes into account differences in the availability of services, given that ignoring the contribution of services misrepresents the resources available to households and can lead to a misidentification of the poor (Lanau *et al.*, 2020). But this, however, prefigures a radical revision in the design of the methodology for estimating absolute poverty.

Finally, it must be said that adopting a model without an explicit reference to the spatial component means assuming that the difference in the prices of residual goods and services in the North and South of the country is the same as that which exists in the same breakdowns for food goods. This last difference is taken into account through the presence of food expenditure among the explanatory variables in the model.

## 4. The estimation of the monetary value of the residual component

The last issue addressed by the Commission in the residual component revision process was the choice of the food basket to be used in estimating its monetary value. The 2005 methodology used a food basket to which coefficients summarizing the effect of forms of savings/non-savings at the time of purchase were applied according to household size.

With respect to this approach, it has been reflected that only some of the goods in the residual basket (which includes durable, non-durable and semi-durable goods,

as well as, of course, services), due to their characteristics, are suitable for forms of savings due to discounts or promotional offers (linked to the quantity purchased) or savings packages or maxi formats (e.g., household cleaning products, personal care products), while for many other goods and services this is not the case (e.g., cell phone recharges, dentist, household linen). In order to adequately take into account the different characteristics of residual goods, the Commission therefore considered estimating the residual component as a function of the value of a food basket to which the multiplier coefficients summarizing the effect of the forms of savings/non-savings at the time of purchase were only partially applied, namely obtained as the sum of:

-   monetary value of the "scaled" food basket (i.e., to which the savings/non-savings scales were applied) weighted by the weight of the non-durable goods in the residual basket on the residual expenditure (equal to 18.6 percent), being these goods of the same nature as those included in the food basket (e.g., household cleaning products and items, health care items, stationery...);
-   monetary value of the "additive" food basket (i.e., to which savings/non-savings scales were not applied) weighted by the weight of all other goods and services in the residual basket on residual expenditure (81.4%).

The use of a food basket "adjusted" in the manner described, in estimating the monetary value of the residual component, mitigates the effects of the forms of savings/non-savings at the time of purchase according to household composition, which are present in the monetary value of the "scaled" food basket, therefore better approximating the nature of residual goods, which have different degrees of sensitivity to savings/non-savings coefficients.

In defining the set of residual non-durable goods for the weighting of the "scaled" food basket, some were not considered because, although non-durable, they appeared, quite clearly, much less "sensitive" than the other non-durables to the savings/non-savings coefficients, namely medicines, medical self-diagnostic devices, and water supply.

Hence, the final set of residual non-durable goods considered for the weighting of the "scaled" food basket resulted in a total of 13 items, all of which fall under grocery, i.e., the set of non-food goods sold at large-scale retail outlets that can be reasonably assumed to benefit, to a similar extent as food, from discounts or promotional offers (linked to the quantity purchased) or from savings packs or maxi formats.

According to the decisions adopted by the Commission, the specification of the equation estimating the residual expenditure, for a household of size $z$ (with $z_1$, …, $z_7$ members in the $1^{st}$, …, $7^{th}$ age class, respectively) in region $k$ (the monetary value of the food component being, according to the new methodology, defined on a

regional basis), with respect to the value of the food basket adjusted as described in this section, is therefore as follows:

$$re^k_{z_1,\dots,z_7} = \left(pa\_corr^k_{z_1,\dots,z_7}\right)^{\hat{\alpha}} \cdot \exp\left[\hat{\gamma} + \sum_{j=1}^{7} \hat{\beta}_j \cdot z_j\right] \qquad (2)$$

where *re* is residual expenditure, *pa_corr* is the "adjusted" food basket and $z_j$ is the number of household members in the *j*-th age group (0-3, 4-10, 11-17, 18-29, 30-59, 60-74, 75 and more).

## 5. Concluding remarks

This paper has described the main changes introduced, with regard to the residual component of the absolute poverty basket, by the Commission in charge of reviewing and updating the absolute poverty methodology. In summary, these changes concerned the composition of the residual basket, the specifications of the linear regression model for estimating the coefficients to be applied to the monetary value of the food component to obtain that of the residual component, and the food basket used to estimate the monetary value of the residual component.

However, the debate that has developed within the Commission with reference to the residual component, in addition to the aforementioned methodological issues, has also raised complex conceptual problems, especially the one relating to the measurement of welfare.

The conceptual approach underlying the current model for absolute poverty estimation is ideally based on what one has to spend to survive in a fairly simplified context (food, housing and barely more), in which the welfare state is not developed. Using such an approach in advanced countries means trying to incorporate within it the elements of differentiation due precisely to the welfare state, which, with its presence, complicates the scenario, since it introduces elements of protection of certain segments of the population or groups of households, to which must be added the substantial inhomogeneity of services offered throughout the country (as happens, for example, for assistance and health care). Still, it should not be forgotten that the lack of public service provision creates inequality: as Saraceno points out, the shortage of early childhood services, full-time schools, an inefficient or inaccessible public health service, poor public transportation, air pollution, and so on can substantively reduce the quality of life of the poorest, differentiating them in their ability to meet needs not only from the better-off, who can turn to the market, but also from individuals and families in the same economic condition who live in

areas of the country better endowed with public goods and in less polluted neighbourhoods (Saraceno, 2023).

These considerations take on particular significance when it comes to the residual component, for which it may make sense to experiment with overcoming a vision based exclusively on monetary expenditure data, with a look also at other components of well-being.

## Acknowledgements

## References

COMMISSIONE DI INDAGINE SULLA POVERTÀ E SULL'EMARGINAZIONE 1998. *La povertà in Italia 1997*. Roma: Presidenza del Consiglio dei Ministri.

FREGUJA C., POLIDORO F. 2024. The concept and measurement of poverty, *Rivista Italiana di Economia Demografia e Statistica*, Special Issue on "New approaches for measuring poverty: studies and perspectives", Vol. LXXVIII, No. 4, pp. 21-48.

ISTAT 2009. La misura della povertà assoluta. *Metodi e Norme n. 39*. https://www.istat.it/wp-content/uploads/2021/01/misura_della_poverta_assoluta.pdf

LANAU A., MACK J., NANDY S. 2020. Including services in multidimensional poverty measurement for SDGs: modifications to the consensual approach, *Journal of Poverty and Social Justice*, Vol. 28, No. 2, pp. 149-168.

SARACENO C. 2023. Di che cosa parliamo quando parliamo di povertà assoluta. In *La povertà assoluta: Revisione della metodologia e prospettive di misura del*

*fenomeno,* Roma: Istat. https://www.istat.it/it/files//2023/10/intervento-saraceno-poverta-assoluta.pdf

_____

Ilaria ARIGONI, Istat, arigoni@istat.it