

## Poverty in Europe

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The problems of poverty and social exclusion have always had a prominent place on the policy agenda of the European Union. Each member country agreed at the Lisbon and Nice council meetings in 2000 to produce a National Action Plan against Poverty and Social Exclusion (NAPinc - [http://europa.eu.int/comm/employment\\_social/news/2001/jun/napsincl2001\\_en.html](http://europa.eu.int/comm/employment_social/news/2001/jun/napsincl2001_en.html)) in accordance with the agreed common objectives to take steps to make a decisive impact on the eradication of poverty by 2010. It was also agreed that Member States' policies for combating social exclusion should be based on an open method of co-ordination.

The recent expansion of the European Union from 15 to 25 countries has resulted in the need for the European Union to re-assess its policies and practices with regard to poverty and social exclusion. This paper examines the extent and nature of poverty in the European Union at the beginning of the 21<sup>st</sup> Century and briefly discusses some recent developments.

**Key Words :** Europe, Poverty, Inequality, Deprivation, Low Income and Social Policy

### Introduction

It is often surprisingly difficult to define Europe. Traditionally, it consists of all the countries that lie between the Atlantic and the Ural mountains in Russia. This area is home to approximately 800 million people living in about 56 countries. However, many of these countries are very small, for example, Andorra, the Holy See, San Marino, Liechtenstein, etc. and Europe also includes many self governing territories and entities which are not classified as nation states, for example, the Islands of Guernsey and Jersey.

All these countries and self governing territories have their own traditions and histories of measuring poverty which means that statistical information is usually not easily comparable between countries. Therefore, for the sake of practicality, this short article will confine itself to a discussion of poverty amongst the 25 member countries of the European Union (EU) and the candidate countries currently applying for membership of the EU (Figure 1). Some comparisons will also be made with other European

countries, as well as with Japan, for indicators where harmonised statistical data has been produced by Eurostat (the European Communities Statistical Office) or the OECD.

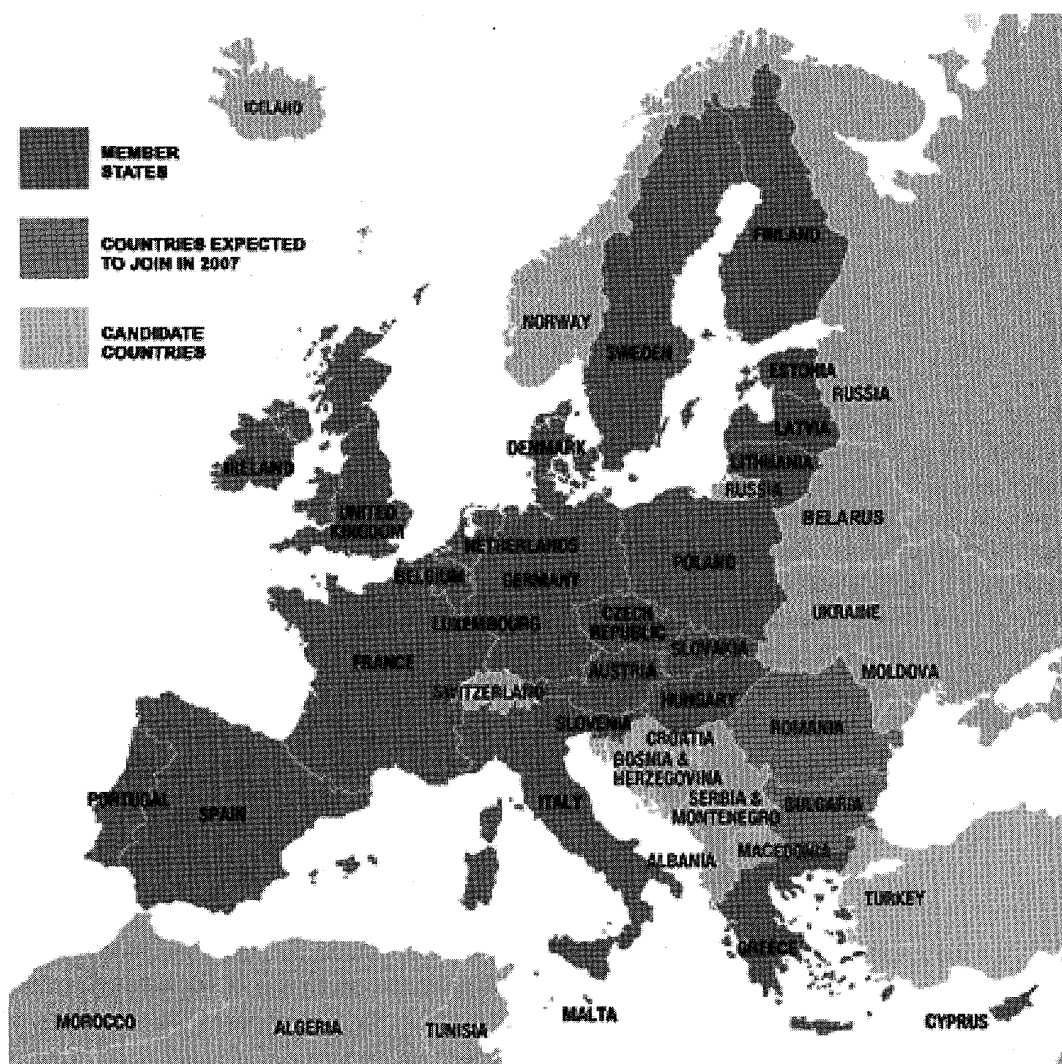
### The Definition of Poverty in Europe

In 1975, the European Council adopted a relative definition of poverty as: "*individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the Member State in which they live.*" (Council Decision, 1975). The concept of 'resources' was defined as: "*good, cash income, plus services from public and private resources*" (EEC, 1981).

On the 19 December 1984, the European Commission extended the definition as:

*"the poor shall be taken to mean persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live"* (EEC, 1985).

Figure 1: European Union Member States and Candidate Countries, 2006



This is currently the 'official' definition of poverty that is used in the European Union by all 25 member states. The definition is derived from the pioneering research of the British academic Professor Peter Townsend who argued that poverty could be defined;

*"objectively and applied consistently only in terms of the concept of relative deprivation..... The term is understood objectively rather than subjectively. Individuals, families and groups in the population can be said to be in poverty 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 at least widely encouraged or approved, in the society to which they belong."* (1979, p 31)

These relative definitions of poverty differ quite

substantially from the more 'absolute' definitions of poverty that were being used when European welfare states were first established. For example, the 'subsistence' idea, used by Beveridge (1942) in the UK, was based on the minimum standards to maintain physical efficiency. It developed from the budget standards and social survey work of researchers such as Rowntree (1901) in his famous study of poverty in York at the turn of the century (Bradshaw, 1993). A minimum basket of goods was costed, for emergency use over a short period of time. These subsistence rates were designed to be an emergency level of income and never meant to keep a person out of poverty for any length of time. Unfortunately, these rates often became enshrined into the social security legislation.

The 'modern' definitions of poverty are very different to those used when European welfare states

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were first being established, particularly in that they deliver much higher poverty lines. They are also concerned with participation and membership within a society and not just inadequate income. The meaning of the concept of poverty has thus changed and evolved over time in Europe.

### The Measurement of Poverty in Europe

At the Nice Summit<sup>1</sup> in December 2000, EU countries agreed to produce and implement a two year (July 2001 - June 2003) National Action Plan on Social Inclusion (NAPincl) designed to promote social inclusion and combat poverty and social exclusion<sup>2</sup>. These detailed plans are a key component of the member states' commitment to make a decisive impact on the eradication of poverty and social exclusion in Europe by 2010. The EU's aim is to be the most dynamic knowledge-based economy in the world, with full employment and increased levels of social cohesion by 2010. The accurate measurement of poverty and social exclusion is an integral component of this strategy and the Laeken<sup>3</sup> European Council concluded that:

*"the establishment of a set of common indicators constitute important elements in the policy defined at Lisbon for eradicating poverty and promoting social inclusion, taking in health and housing. The European Council stresses the need to reinforce the statistical machinery and calls on the Commission gradually to involve the candidate countries in this process."*

During 2001, considerable scientific efforts were made to improve the measurement of poverty and social exclusion (Atkinson *et al.*, 2002)<sup>4</sup> and the proposed new set of statistics and indicators are a major improvement on previous EU analyses (Table 1). Previous EU studies on poverty had simplistically defined the 'poor' as those people living in households with equivalised incomes or expenditures below half the average in the country

in which they lived. (Eurostat, 1990; 1998; 2000; Hagenaars *et al.*, 1994; Mejer and Linden, 2000; Mejer and Siermann, 2000).

Most of the new Laeken indicators of poverty and social exclusion relate either to income or to labour market position, with data to be derived from the European Community Household Panel (ECHP)<sup>5</sup> survey, the harmonised Labour Force Survey (LFS) or the more recent Statistics of Income and Living Conditions (EU-SILC) survey<sup>6</sup>. The terminology used to describe what was being measured changed from 'low income' to 'at risk of poverty', and strong emphasis is placed on the need to disaggregate statistics by age and gender. As well as the primary and secondary indicators, member states are expected to use tertiary indicators that would not need to be comparable at supra-national level but would reflect the special circumstances and priorities of different countries.

Table 1 shows the 18 indicators of poverty and social exclusion which were formally adopted by the Employment and Social Policy Council of the European Union in December 2001. They cover four areas: financial poverty, employment, health and education, and will be used by member states in their National Action Plan against Poverty and Social Exclusion (Naps/incl).

### European Union Anti-Poverty Policy Initiatives

In the discussions on the Maastricht Treaty in the early 1990s, many EU Member States wanted the European Community to have a greater role in social policy. However, at the time the UK government objected to any increase in Community powers in this field and so the social provisions agreed at Maastricht did not become part of the main body of the Treaty but were incorporated as a protocol and an annexed agreement which applied to all Member States except the UK. In 1997, the Labour Party won the UK General Election and Tony Blair's new

1 See [http://europa.eu.int/comm/employment\\_social/news/2001/oct/i01\\_1395\\_en.html](http://europa.eu.int/comm/employment_social/news/2001/oct/i01_1395_en.html)

2 See [http://europa.eu.int/comm/employment\\_social/news/2001/jun/napsincl2001\\_en.html](http://europa.eu.int/comm/employment_social/news/2001/jun/napsincl2001_en.html) for the national plans.

3 See [http://www.europarl.eu.int/summits/pdf/lae\\_en.pdf](http://www.europarl.eu.int/summits/pdf/lae_en.pdf)

4 See <http://vandenbroucke.fgov.be/Europe%20summary.htm> for a summary of the Laeken EU poverty and social exclusion indicators and <http://www.vandenbroucke.fgov.be/T-011017.htm> for discussion.

5 The European Community Household Panel (ECHP) was a longitudinal survey with a harmonised questionnaire which was carried out in 15 EU member states between 1994 and 2001.

6 The Statistics on Income and living Standards (EU-SILC) survey is a harmonised cross sectional survey designed to replace the ECHP. It started in 2003 in six countries (Belgium, Denmark, Greece, Ireland, Luxembourg and Austria) and will begin in the other EU member countries by 2005. Norway, Iceland, Switzerland and the Acceding and Candidate countries (Bulgaria, Croatia, Romania and Turkey) may also implement the EU-SILC survey.

**Table 1: Laeken Indicators of Poverty and Social Exclusion adopted by the EU****Primary Indicators**

1. Low income rate after transfers with low-income threshold set at 60% median income, with breakdowns by gender, age, most frequent activity status, household type and housing tenure.
2. Distribution of income, using income quintile ratio.
3. Persistence of low income.
4. Median low income gap.
5. Regional cohesion (measured by variation of employment rates)
6. Long-term unemployment rate
7. People living in jobless households
8. Early school leavers not in education or training
9. Life expectancy at birth
10. Self-perceived health status by income level

**Secondary Indicators**

1. Dispersion around the 60% median low income threshold using 40%, 50% and 70% median national income
2. Low income rate anchored at a fixed time-point
3. Low income rate before transfers
4. Gini coefficient – income inequality
5. Persistent low income (below 50% median income).
6. Long term (over 12 months) unemployment share
7. Very long term (over 24 months) unemployment share
8. Persons with low educational attainment

government decided to end the British opt-out from the Agreement on Social Policy. It thus became possible to incorporate the Agreement into the main text of the Amsterdam Treaty.

Articles 136 and 137 of the Amsterdam Treaty,<sup>7</sup> effective since May 1999, have extended the European Union's powers to combat poverty and social exclusion and this contributed to the launch of a European social inclusion strategy at the Lisbon summit of the European Council in March 2000. The development of anti-poverty and social inclusion strategies was formalised at the December 2000 Nice summit of the European Council as part of the European Social Agenda. The key objectives are set out in four main groups of aims, which include;

**1) Facilitating participation in employment and access by all to resources, rights, goods and services**

Promoting access to stable employment for all those able to work.

Preventing exclusion from work by improving employability.

Guarantee everyone has the resources to live with

human dignity.

Implement policies which aim to provide access for all to decent housing with adequate basic services.

Provide access for all to appropriate healthcare.

To develop, for the benefit of those at risk of exclusion, services facilitating access to education, justice and services (eg. culture, sport, leisure).

**2) Preventing the risk of social exclusion**

Exploit fully the potential of ICT and ensure that no-one is excluded.

Develop policies which seek to prevent life crises which can lead to social exclusion (eg. debt, homelessness, school exclusion).

**3) Helping the most vulnerable**

Promote integration of those experiencing particular integration problems (eg. people with disabilities).

Develop comprehensive actions in favour of areas of social exclusion.

**4) Mobilising all relevant bodies**

Promote the participation of people experiencing exclusion.

Mainstream the fight against exclusion into overall

<sup>7</sup> <http://www.hrea.org/erc/Library/hrdocs/eu/Amsterdam-treaty.pdf>

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policy.

Promote dialogue and partnership between all relevant public and private bodies.

Given the varied legal frameworks and bureaucratic traditions of European Union countries, it was agreed at the Lisbon European Council (March 2000) that implementation of the strategy to combat poverty and social exclusion should operate via an “open method of coordination” (Ferrera, Matsaganis and Sacchi, 2002). This involves:

- setting objectives,
- implementing these objectives through national action plans,
- developing common quantitative and qualitative indicators,
- monitoring, evaluation and a peer review.

In January 2005 the European Union *Joint Report on Social Protection and Social Inclusion*<sup>8</sup> outlined seven key policy priorities;

- increase labour market participation by expanding active policies and ensuring a better linkage between social protection, education and lifelong learning;
- modernise social protection systems to ensure they are sustainable, adequate and accessible to all;
- tackle disadvantages in education and training by investing more in human capital at all ages and focusing particularly on the most disadvantaged groups;
- eliminate child poverty by guaranteeing their education, increasing the assistance given to their families and ensuring that their rights are protected;
- ensure decent accommodation for vulnerable groups and develop integrated approaches to tackling homelessness;
- improve access to quality services in the fields of health, social services, transport and the new information and communication technologies;
- eliminate sex discrimination and increase the social integration of people with disabilities, ethnic minorities and immigrants.

### **The extent and nature of Poverty in Europe**

The European Union is the world's largest

economic grouping and the 25 member countries are amongst the richest in the world in terms of the average amount of Gross Domestic Product (GDP) per person (Figure 2).

The USA and Japan are the countries which, respectively, have the largest and second largest economies in the world, however, neither is the richest country in the world as measured by the average amount of GDP per person. Figure 2 shows that, in 2004, Luxembourg and Norway both had a larger average GDP per person than the USA and 13 European countries had a larger GDP per person than Japan. Japan's average GDP per person was only slightly greater than the average for the 25 member countries of the European Union.

All European Union member countries have relatively comprehensive welfare states which redistribute income from men to women, from the ‘rich’ to the ‘poor’ and across an individual's life span (taking income from middle age and redistributing it in childhood and old age via pensions and child/family benefits). Despite the relative wealth of European Union countries and the redistributive effects of their welfare states, a lack of political will to do more to help the poor and/or sufficient public support often results in the persistence of high levels of relative poverty in many European countries.

Figure 3 illustrates the extent of low income/poverty in European countries by calculating the proportion of households with equivalised incomes of less than 60% of the national median household income after social transfers. In the European Union as a whole (25 countries) 15% of the population live in households with a relatively low income – they are ‘at risk of poverty’. The countries with the highest rates of relative income poverty risk were Turkey (26%), Greece, Ireland and Slovakia (all 21%) followed by Spain, Italy and Portugal (all 19%). By contrast, the countries with the lowest at risk of income poverty rates were the Czech Republic (8%), Iceland, Slovenia and Luxembourg (all 10%) followed by the Nordic countries of Finland, Sweden and Norway (all 11%).

The extent of the relative risk of income poverty in European countries shows a low correlation with the average GDP per head (Figure 2). For example, Ireland, Italy and the United Kingdom all have

<sup>8</sup> <http://europa.eu/scadplus/leg/en/cha/c10622.htm>

Figure 2: GDP per person in 2004 (EU average has been set to equal 100)

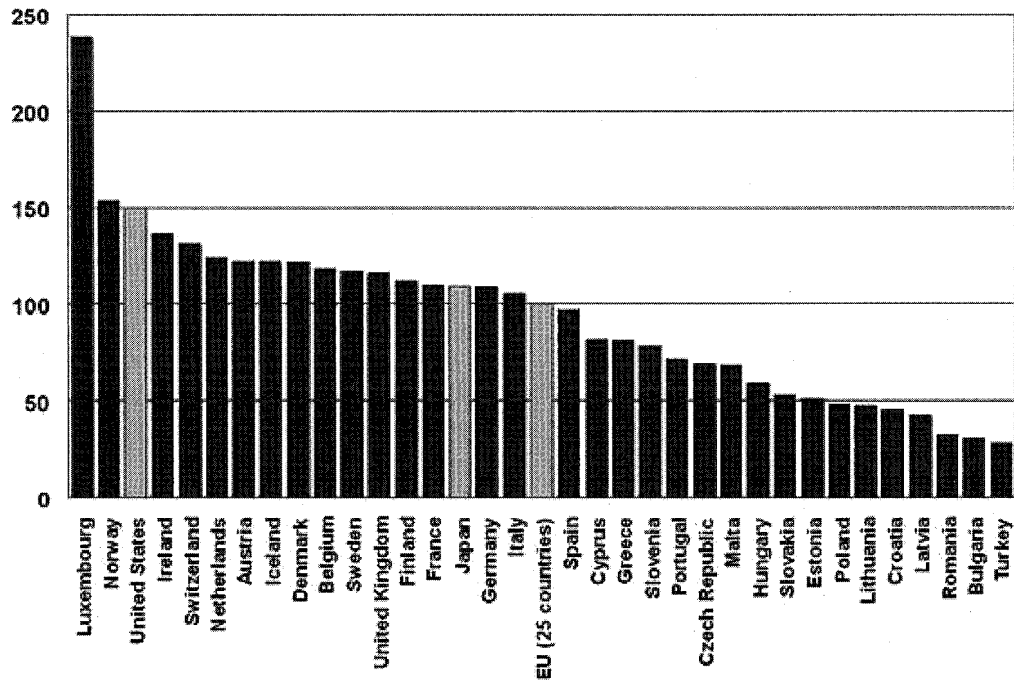
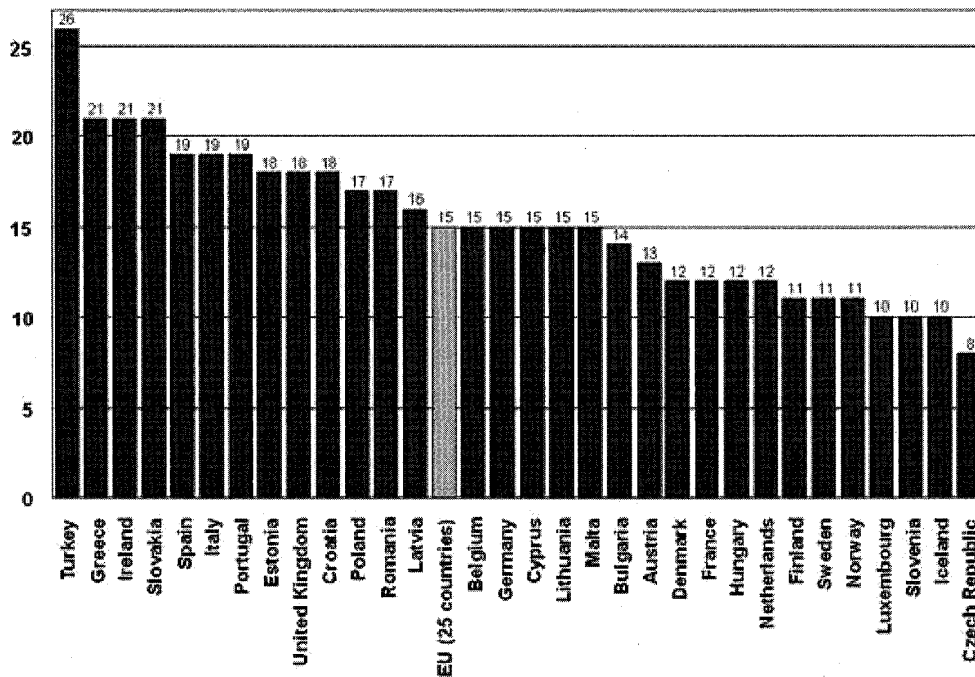


Figure 3: At-Risk-of-Poverty Rate in the European Union, 2004



Source: Eurostat 2006.

above EU average GDP per person but also above EU average relative risk of income poverty rates. By contrast, relatively poorer (in terms of GDP per

head) but more egalitarian countries like the Czech Republic, Slovenia, Bulgaria and Finland have low at risk of income poverty rates. The countries with

the lowest poverty rates are largely those which have either Social Democratic welfare regimes (Esping Andersen, 1990) or those which had communist governments prior to 1990, but which did not subsequently have sustained periods of governments which pursued neo-liberal economic policies.

Those countries with high at risk of income poverty rates are mainly those which have Mediterranean (Matsaganis *et al.*, 2003) or liberal welfare state regimes.

### Conclusions

Poverty in European Union countries is not a result of a lack of sufficient income or resources at national level required to end poverty. It is a lack of sufficient political will to redistribute the necessary resources from the non-poor to the poor. There is no question that European Union countries can afford to eradicate relative income poverty if they choose to.

A recent in-depth study of poverty and social exclusion in Britain (Pantazis, Gordon and Levitas, 2006) based upon the results of the most comprehensive poverty survey ever undertaken in the UK (Gordon *et al.*, 2000) highlighted a number of policy conclusions which are generalisable to the situation in other countries with Liberal type welfare regimes and to the European Union as a whole.

#### *Work isn't working*

European Union countries need to focus their anti-poverty efforts not only on child poverty and pensioner poverty but also on the poverty of working age adults which needs to be at the centre of policy concerns. At the moment, the policy focus on this group is almost entirely on raising labour force participation rates in the expectation that paid work will overcome poverty. However, many of those in paid work do not earn enough to lift them out of poverty. In-work benefits may supplement income but do not address the social exclusion that results from pressure on time, especially for those with caring responsibilities. Encouraging people to work longer hours is clearly not the answer to the problems of poverty and social exclusion. Longer hours are not associated with a significant reduction in poverty and often result in social exclusion, particularly from social relations. For many, part-time work may be the optimum solution to reducing both poverty and social exclusion and maintaining control over their lives, but only if the financial rewards of part-time work are improved.

#### *More eligibility*

The policy of 'making work pay' is in fact a policy of less eligibility - i.e. deliberately ensuring that those who are outside the labour market are worse off than those in paid work. This is the primary cause of poverty and social exclusion in Britain, particularly amongst lone parents, pensioners, the sick and disabled and jobless households. The only solution is an increase in cash benefits and improved availability and higher quality of universal public services, free at the point of use.

#### *Environment matters*

It is not just lack of a resource which results in deprivation and stress for poor people. It is also the quality of the environment in which they are forced to live. Inadequate and sub-standard housing conditions, unavailable or unsatisfactory services, run-down and dirty neighbourhoods, and crime-ridden estates result in stress and reduce ability to participate in social life. However, the current European emphasis on area inequalities fails to address the widespread need for more investment and better social housing and ignores the needs of the substantial proportions of the poor who do not live in poor areas (see also Pantazis and Gordon, 2000; Levitas, 2005).

#### *The problem of riches*

In the 1980s and 1990s many European governments pursued neo-liberal economic policies which resulted in retrenchment (or stalled growth) of their welfare states. These policies often resulted in a redistribution of resources from the poor to the rich, increasing inequalities in both income and health outcomes. In order to reduce poverty and social exclusion European Governments must reverse this re-distribution to the rich. The only way to end child poverty, in particular, and poverty in general, within a generation would be to embark on a serious policy of redistribution.

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