

**THE MEASUREMENT OF EXTREME POVERTY
IN THE EUROPEAN UNION**

European Commission

Directorate-General for Employment, Social Affairs and Inclusion

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Countries' abbreviations

| EU-27 countries | |
|-------------------------|---|
| BE | Belgium |
| BG | Bulgaria |
| CZ | Czech Republic |
| DK | Denmark |
| DE | Germany |
| EE | Estonia |
| IE | Ireland |
| GR | Greece |
| ES | Spain |
| FR | France |
| IT | Italy |
| CY | Cyprus |
| LV | Latvia |
| LT | Lithuania |
| LU | Luxembourg |
| HU | Hungary |
| MT | Malta |
| NL | The Netherlands |
| AT | Austria |
| PL | Poland |
| PT | Portugal |
| RO | Romania |
| SI | Slovenia |
| SK | Slovakia |
| FI | Finland |
| SE | Sweden |
| UK | United Kingdom |
| Non-EU countries | |
| HR | Croatia |
| IS | Iceland |
| MK | Former Yugoslav Republic of Macedonia (FYROM) |
| NO | Norway |
| RS | Serbia |
| TR | Turkey |

List of acronyms

| | |
|---------------|---|
| EU | European Union |
| EU-15 | The 15 “old” EU Member States, before the May 2004 Enlargement (AT, BE, DE, DK, ES, FI, FR, EL, IE, IT, LU, NL, PT, SE, UK) |
| EU-10 | The 10 “new” EU Member States, which joined the EU in May 2004 (CY, CZ, EE, HU, LT, LV, MT, PL, SI, SK) |
| EU-25 | The 25 EU Member States before the January 2007 enlargement |
| EU-27 | All 27 EU Member States (EU-25 plus BG and RO, which joined the EU in January 2007) |
| EU-SILC | Community Statistics on Income and Living Conditions |
| EPSCO | Employment, Social Policy, Health and Consumer Affairs Council |
| GMI | Guaranteed Minimum Income |
| HBS | Household Budget Survey |
| ISC | Indicators sub-group |
| LFS | Labour Force Survey |
| MIS | Minimum Income Scheme |
| NAP/inclusion | National Action Plan for Social Inclusion |
| NGO | Non Governmental Organisation |
| NIBUD | Netherlands National Institute for Family Finance |
| NSRSPSI | National Strategy Report on Social Protection and Social Inclusion |
| OECD | Organisation for Economic Cooperation and Development |
| OMC | Open Method of Coordination (for social protection and social inclusion) |
| PPPs | Purchasing Power Parity standards |
| SPC | EU Social Protection Committee |
| SPSI | Social Protection and Social Inclusion |
| UNDP | United Nations Development Programme |

SUMMARY

Background

Since the Lisbon European Council in 2000, the European Union has been committed to fight against poverty and social exclusion using the Open Method of Coordination (OMC). A key element of the OMC was a set of indicators agreed upon jointly by the European Commission and all EU Member States, in order to measure progress towards the agreed EU social inclusion objectives. At the 2001 Laeken European Council, 18 indicators were adopted. Since then, the Social Protection Committee (SPC) and its Indicators Sub-Group (ISG) have been developing these.

The main measure of monetary poverty included in the EU list of indicators is a relative one (net income less than 60% national median), known as the “at-risk-of-poverty” rate. Since the EU Council of Ministers in 1975, poverty in the EU has been conceived of as relative to a particular country at a particular time. There was and is strong justification for this approach rooted in social science understandings. Poverty in the post war period has been understood as a relative concept that went beyond the notions of poverty as a lack of basic physical needs but aspired to social participation standards or human functioning.

In practice, thanks to the excellent work of the ISG, the EU has gone beyond a purely relative income poverty measure and the commonly agreed indicators now also include:

- At-risk-of-poverty rates at different thresholds (40%, 50%, 60% and 70% of the national median equivalised household income),
- An at-risk-of-poverty gap (for the 60% threshold),
- An at-risk-of-poverty rate “anchored” at a point in time (for the 60% threshold),
- A persistent at-risk-of-poverty rate,
- A material deprivation indicator – lacking at least three out of nine deprivation items.

However, the relative income poverty measure remains the headline indicator. Although the EU publishes estimates of the monetary value of the poverty threshold in Purchasing Power Parity standards (PPPs) there are problems with the measure:

- it is hard for people to understand;
- income is only an indirect indicator of living standards;
- income is probably not as good an indicator of command over resources as expenditure, not least because it does not take account of capacity to borrow, dissavings, gifts and the value of home production;
- 60 per cent of the median (and any other) income threshold is arbitrary;
- the equivalence scale adopted – the modified OECD scale - has no basis in science;
- like is not being compared with like - the relative poverty threshold for a couple with two children in Estonia in 2008 was €770 PPPs per year and in the UK €24380 per year. The at-risk-of-poverty rate in both countries was 19 per cent;
- in poor countries 60 per cent of the median is a very low income - €1.71 per person per day in Romania;
- In the richer countries a substantial proportion who are defined as ‘poor’ on the at-risk-of-poverty threshold are lacking no deprivation items and say they don’t have difficulty making ends meet.

It is for these kinds of reasons that the Indicators Sub Group of the Social Protection Committee has been working on deprivation indicators and “budget illustrations” of the

poverty thresholds in each country. There is also a growing body of academic papers on the subject.

However the existing portfolio of measures (including the lacking 3+ deprivation measure) still does not adequately capture the most severe forms of poverty. Most of the current and potential Candidate countries have very low income; some have large disparities and many substantial minorities who are particularly deprived, especially Roma. So the Commission decided to explore ways to reflect better the most extreme forms of poverty as they persist across the EU. This resulted in a research contract with the following objective:

“The purpose of the study is to investigate and to discuss the feasibility of meaningful and agreeable concepts, definitions and operationalisations measuring extreme poverty at EU level.”

Since then, and while this project was in progress, there have been very important developments. The spring 2010 European Council agreed on the five EU headline targets of the Europe 2020 strategy. One of them related to the promotion of social inclusion, in particular through the reduction in poverty. The EU leaders called for further work to be undertaken on appropriate indicators of this target. A number of variants of the target were suggested by the ISG and the EPSCO Council on 7 June accepted an SPC suggestion for a target based on a combination of three indicators. These were

- The at-risk-poverty threshold or
- Material deprivation (lacking 4+ deprivation items) or
- People living in jobless households.

Ministers agreed an EU target that at least 20 million people should be lifted out of poverty by 2020, with a review of the target at 2015. This proposal was accepted by the European Council on 17 June 2010.

This development has altered the policy context of this project. The material deprivation measure adopted (lacking 4+ items) is quite similar to one of extreme measures we were proposing. Therefore in this Report, as well as reviewing what we have done and concluded, we also reflect on the implications of our results for future work leading up to the 2015 review of the EU target.

Objectives

The original purpose of this project was to suggest a short-list of measures that could be used to compare extreme poverty in the European Union and which might be added to the ISG portfolio. We have

- Reviewed the methods employed to measure poverty and extreme poverty in EU countries;
- Reviewed approaches to the measurement of extreme poverty internationally; and
- Assessed a number of approaches by applying them to EU SILC for 2008.

Concept of extreme poverty

In the English discourse the contrast with relative poverty is absolute poverty, not extreme poverty. Absolute poverty is usually associated with physical necessities. There are a number of rights statements in international treaties that include reference to necessities and absolute poverty. However, while they are important for developing countries they do not help us

much in Europe. We have adopted two principles in this study. First we take the view that there is no such thing as absolute poverty – all measures are more or less relative. Second we understand extreme poverty in the EU context to be a common standard, one that does not vary across countries as the at-risk-of-poverty threshold does.

Results of the review – measures rejected

We have explored a number of possible methods for measuring extreme poverty and assessed their results using SILC 2008.

Among those considered we have rejected the following:

- **Macro social indicators:** these are useful for comparing countries or regions and are used by the EU for indicators of health, but the EU has very good micro level data on social inclusion and does not need to use macro indicators.
- **World Bank and US approaches to absolute poverty:** the \$ per capita concept is used by the World Bank for the Millennium Development Goals, and the US poverty standard was originally based on a food expenditure ratio and has been updated only in real terms since the 1960s. They are both more or less arbitrary income/consumption thresholds. The EU can develop better ones.
- **Lower relative poverty thresholds:** a number of EU countries use these but they do not solve the problems of the relative income measure described above.
- **Social assistance based thresholds:** a number of countries use these as their poverty thresholds. However the fundamental problem with them is that when a country seeks to increase its social assistance to reduce poverty, poverty actually increases.

The conclusion of this review of international approaches to the measurement of extreme poverty concludes that the EU has little to learn. The measures that we propose are in line with the approach that the ISG has developed over the years.

Measures suggested

Deprivation

Deprivation is the most obvious candidate for an extreme poverty measure. The EU indicator of lacking 3+ is not perhaps extreme, but it is an EU wide threshold. We did quite a lot of exploratory work on deprivation indicators. The EU deprivation index was based on work by Guio¹ using 2006 SILC data. On the basis of this work she concluded that a nine indicator scale was the best and it was the one adopted by the ISG.

Cannot afford to

- To face unexpected expenses
- One week annual holiday away from home
- To pay for arrears (mortgage or rent, utility bills or hire purchase instalments)
- A meal with meat, chicken or fish every second day
- To keep home adequately warm

¹ Guio, A.-C. (2009) “What can be learned from deprivation indicators in Europe? Paper presented at the Indicators Sub-Group of the Social Protection Committee”, Eurostat Methodological Working Papers http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-09-007/EN/KS-RA-09-007-EN.PDF

- To have a washing machine
- To have a colour TV
- To have a telephone
- To have a personal car

We used more recent data (2008 SILC) with more countries and concluded that there is now a case for adding three additional housing related indicators to her index:

- Leaking roof/damp walls/floors/foundations or rot in the window frames
- No bath or shower
- No indoor flushing toilet for sole use of the household

This gives a scale of 12 items. Where the extreme poverty threshold should be fixed is a matter of judgment but we show that the poverty rates using the lacking 4+ items threshold in the analysis. This gives a much more attenuated picture of poverty than the at-risk-of-poverty rate. Most countries have much lower extreme but PL, LT, LV, HU and especially BG and RO have much higher poverty rates.

However the EU has now fixed on the 4 out of 9 deprivation measure for one of the three elements of the 2020 target. That is a more extreme threshold than our proposed 4 out of 12 threshold, and it produces lower poverty rates.

In the 2009 SILC survey there was a special module on deprivation which includes 14 new household questions, 19 new children's questions and 7 new individual questions. This is a once off module and the data will not be available for analysis until 2011. In working towards the revision of the 2020 targets for 2015 the ISG will no doubt review these new measures and see whether some of them could be usefully added to SILC permanently to form a better deprivation index. At the same time they might revisit the housing indicators and reconsider whether there is a case to include them.

We also explored prevalence weighting (weighting the item by the proportion of the population that has it) and concluded (as the ISG has) that prevalence weighting did not make enough difference to justify the loss of transparency of a threshold based on a simple number.

A budget standard derived low income threshold

One way to establish an income poverty threshold that has more basis in science and is less arbitrary than the at-risk-of-poverty measure is to use budget standards. We found that a number of countries have income or expenditure thresholds derived from research based on budget standards. One advantage of budget standards is that they are not arbitrary – they are designed to derive a basket of goods that represents a given living standard. In the absence of an existing EU budget standard we examined a number of national budget standards derived using consensual methods, and settled on the Dutch NIBUD standard as an example.

This produced a very different picture to the at-risk-of-poverty measure with a much more attenuated distribution.

Until an EU budget standard is developed an alternative EU low income threshold would be to take a proportion of the EU average weighted by population. By chance this threshold is almost identical to the NIBUD budget standard and gives very similar poverty rates.

However it would be better if we had an EU consensual budget standard, not one taken arbitrarily from one of the few countries that has one. We think it would be quite feasible to produce such a budget standard. It would be better to translate a budget standard into a national income threshold, not using purchasing power parities, but instead the relative price of the commodities that go into the basket of goods. So for example if we are to use a standard in which food, clothing and fuel are larger components, then it is the price of those commodities, not the average purchasing power parities that should be used for the adjustment. Then in applying the budget standards threshold to net income, it would be better to use an equivalence scale that reflects the economies of scale and equivalent needs for the budget standard.

We recommend that more work is done on this.

Meanwhile we are not recommending that the EU introduces a measure of extreme poverty based on a budget standard income threshold alone. We propose that it should be used **in combination** with a deprivation measure.

Overlap of low income and deprivation

A number of countries have followed the Irish example and are using an overlaps measure of low income and deprivation in their official poverty measurement. The Irish call this the consistent poverty measure.

There are a number of reasons for employing income and deprivation measures at the same time. Some are to do with the weaknesses of income measures.

- Income data collected in surveys (though not the Nordic registers) is more or less unreliable, understated, hidden, forgotten.
- There are particular problems for the self-employed, casual, informal-economy and such workers.
- In SILC income is for the previous year and the deprivation data is for the current year.
- A household may have had a low income last year, but now be richer as a result of taking up employment or
- May have had a high income last year, but are now poorer – as a result of retirement, unemployment or even death of a family member.
- The SILC income poverty threshold is before housing costs, but what a household can purchase is likely to be determined by income after housing costs.
- A household may have a low income but large wealth, and therefore, purchasing power.

With all these disadvantages of income measures why not just rely on deprivation? Why reintroduce income? Here are some reasons

- Data collected on deprivation may of course also be unreliable.
 - Deprivation may not be enforced – it may be a life-style choice by someone who is perfectly capable of purchasing the item. In some surveys (though not SILC) this is dealt with by only counting items which are lacked because they cannot afford them. Some households may say they lack assets because they cannot afford them, but in reality it is because they do not want them – they are not a high priority in their budget.
 - Deprivation items may be possessed but broken or unusable.

- Also it might be argued that we need to have income data for policy purposes. Policy cannot generally intervene at the level of deprivation, but it can and does intervene by providing income.

When we use a threshold that defines a household as income poor **and** deprived we are much more certain that we are getting a reliable indication. Also, although it will depend on the thresholds used, there are reasons to suppose that we are getting at core poverty, a more certain degree of poverty than those based on a single dimension.

Of course the new 2020 threshold uses the at-risk-of-poverty threshold and a deprivation threshold but with an ‘or’ in between them. For an extreme poverty threshold we think that the ‘or’ should be replaced by ‘and’.

A decision needs to be made about which overlaps threshold to use – which income threshold and which deprivation threshold? Fusco et al² have recently explored the overlaps between relative income poverty and deprivation and Whelan and Maitre³ have argued that this is to be preferred to the at-risk-of-poverty rate or an overlaps measure based on an EU income threshold and deprivation. However we do not think that it makes sense to mix relative income thresholds with absolute deprivation thresholds, or at least not when the focus is on extreme poverty. This is mainly because the at-risk-of poverty thresholds are too low for some of the poorer countries and it would exclude very poor households in those countries.

So after some exploration we decided on a threshold based on the overlaps between an EU wide low income threshold derived from budget standards and lacking four or more items on our composite index.

Persistent poverty

It might be argued that extreme poverty would only have any real social meaning if it was persistent. Some researchers have indeed defined extreme poverty as severe and persistent poverty. We explore some persistent and extreme poverty thresholds in the report. But there is not yet an adequate run of SILC to work on, and more work is needed on persistence.

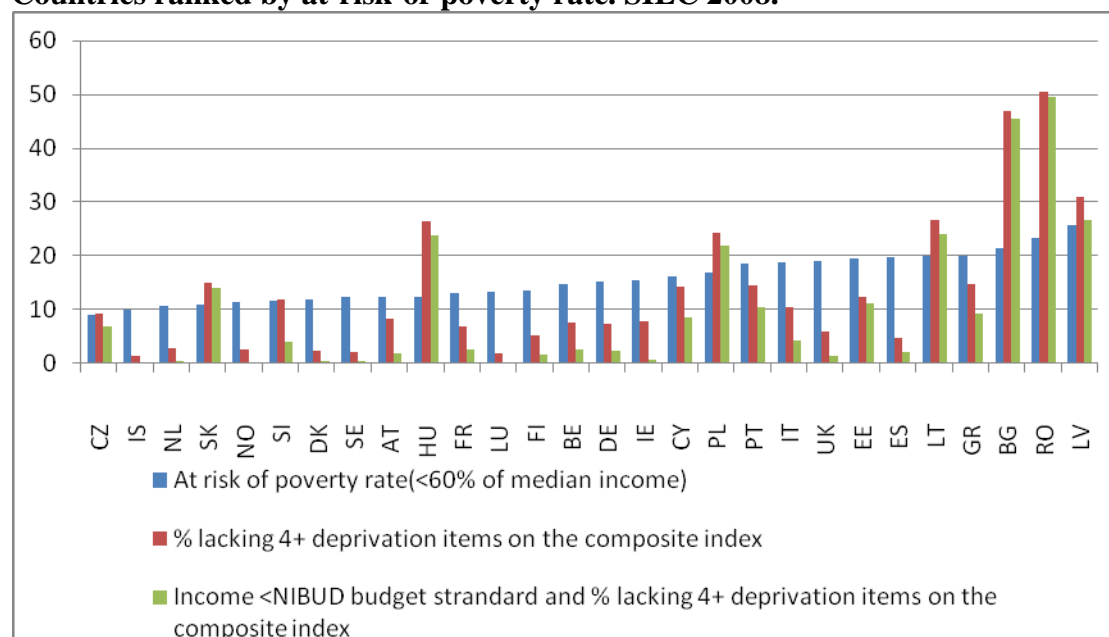
In the end we recommend that the EU considers two measures of extreme poverty. One based on deprivation indicators alone, and the other based on the overlap between deprivation indicators and living on an income below a budget standard threshold. We think that the exact thresholds that are used should be a decision for the ISG and the Social Protection Committee and may form part of the work leading up to the 2015 review of the 2020 targets.

As one would expect in Figure S1 the extreme poverty rates obtained using these thresholds are higher than the at-risk-of-poverty rates in BG, HU, LV, PL, LT, SK and RO but not interestingly in CY, CZ, EE, GR, PT and SL. The extreme poverty rates are lower than the at-risk-of-poverty rates in all the EU15 countries. However there are households who are extremely poor in all EU countries.

² Fusco, A., Guio, A-C and Marlier, E. (2010) Income Poverty and Material Deprivation in European Countries, 2010 EU-SILC International conference (Warsaw, 25 and 26 March).

³ Whelan, C. and Maitre, B. (2009) Comparing poverty indicators in an enlarged European Union, *European Sociological Review* (Advanced Access)

Figure S.1: Comparison of at-risk-of-poverty rate and two extreme poverty thresholds. Countries ranked by at-risk-of-poverty rate. SILC 2008.

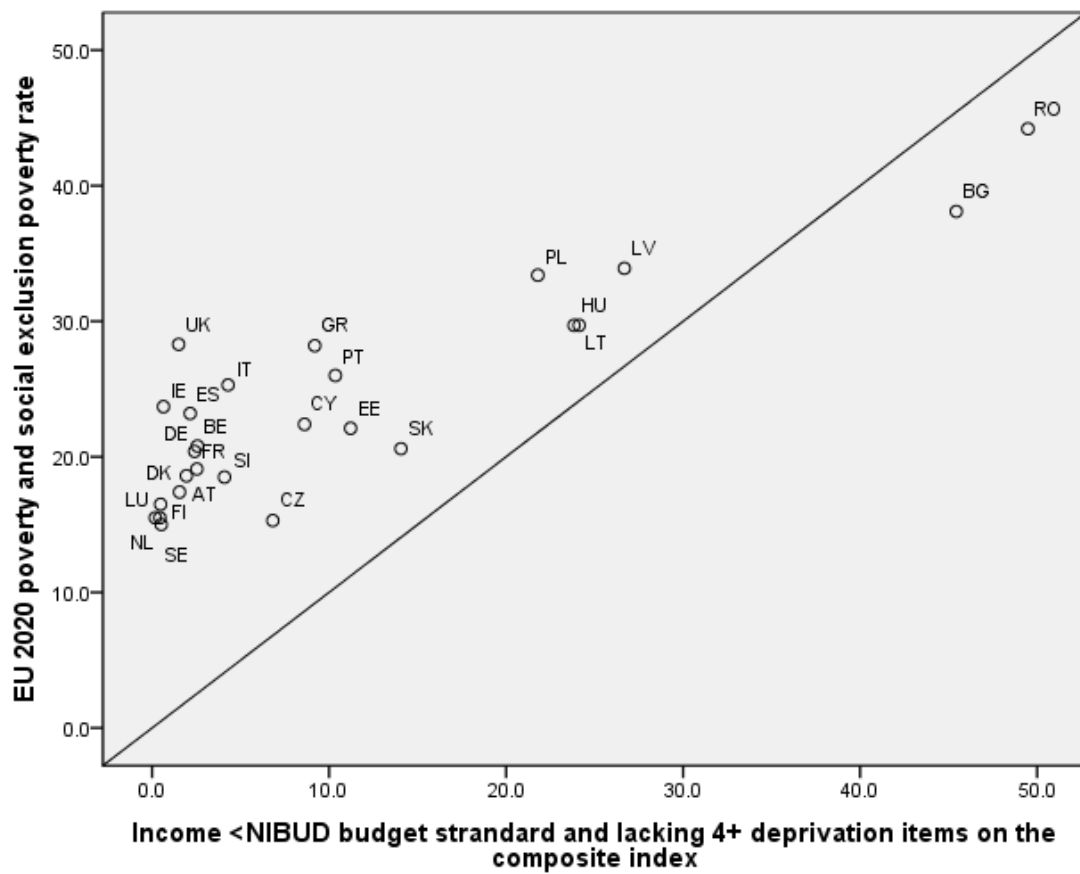


The extreme poverty rates have a closer relationship with GDP per capita and the proportion have difficulty making ends meet than the at-risk-of-poverty rates.

The majority of the extremely poor have a child in their household, have low education, are tenants, and have low levels of work intensity. In most of the EU 15 they live in urban settings and in most of the EU 10+2 they live in rural settings. Changing the definition of poverty changes the composition of the poor. However we found that an extreme poverty measure does not change the composition of the poor consistently across all EU countries. Households in extreme poverty are generally more likely than the at-risk-of-poverty group to be single parents, tenants, low educated, with bad health and to have low work intensity and to live in urban areas. But this was not the case for all countries.

The overlaps extreme poverty measure we propose is compared with the new EU 2020 target in Figure S.2. It gives lower poverty rates in all countries with the exceptions of RO and BG. This is because the EU 2020 target is still heavily influenced by the relative at-risk-of-poverty threshold.

Figure S.2: Overlaps extreme poverty compared with the EU 2020 target



SUMMARY OF PROPOSALS

The European Union is committed to reviewing the 2020 targets in 2015. In the programme of work leading up to that review the ISG might like to consider the following proposals:

- Review the results of the 2009 SILC special modules to investigate whether any of the new deprivation questions could be usefully incorporated routinely into future SILCs in order to contribute to a better index of deprivation.
- Meanwhile, and until that is established, revisit the nine item index of deprivation to investigate whether or not there is now a case for extending it to incorporate the housing items included in the ‘composite index’ developed in this report.
- Establish a deprivation based indicator as one indicator of extreme poverty – the items and threshold to be decided by ISG.
- Develop a second new ‘consensual’ indicator which combines that deprivation measure with a low income threshold fixed for the whole EU. This would be a poverty threshold based on the overlaps of deprivation and low income.
- Consider adding these two indicators of extreme poverty to the social inclusion portfolio.
- We believe the indicators will be more easily understood by the general public and non-specialists than the at-risk-of-poverty threshold is. The technique of combining income and deprivation measures has already been adopted by a number of countries in the EU and is similar to the approach adopted in the 2020 target – in the 2020 target it is *or* in this proposal it is *and*.
- The results will reveal that there is some extreme poverty in all countries but that there is much more extreme poverty in some of the EU10 plus two (and (probably) the candidate countries). The indicator will therefore focus more attention than the relative at-risk-of-poverty threshold or the 2020 targets on inequalities between the richer and poorer countries of the EU, and on the EU as a community of nations committed to the eradication of social exclusion.

Meanwhile there is a case for commissioning further work:

- To establish a budget standard for the EU as well as on equivalence scales and purchasing power parities suitable for low income households.
- Sample surveys, including SILC, still miss proportions of the population who are in extreme poverty. We have not tackled this problem adequately in this report (but see Section 11). The answer lies in making SILC better in its coverage or, where that is not possible, using other sources of data. These may be special modules in SILC (on for example experience of homelessness), special targeted surveys (on for example Roma), and/or comparable administrative data provided from national sources.

BACKGROUND

Since the Lisbon European Council in 2000, the European Union has been committed to fight against poverty and social exclusion using the Open Method of Coordination (OMC). A key element of the OMC is a set of indicators agreed upon jointly by the European Commission and all EU Member States, in order to measure progress towards the agreed EU social inclusion objectives. At the 2001 Laeken European Council, 18 indicators were adopted. Since then, the Social Protection Committee (SPC) and its Indicators Sub-Group (ISG) have been further developing these.⁴

The main measure of monetary poverty included in the EU list of indicators is a relative one, known as the “at-risk-of-poverty” rate. Since the EU Council of Ministers in 1975, poverty in the EU has been conceived of as relative to a particular country at a particular time. There was and is strong justification for this approach rooted in social science understandings. Poverty in the post war period has been understood as a relative concept that went beyond the notions of poverty as a lack of basic physical needs but aspired to social participation standards or human functioning.

In practice, the EU has gone beyond a purely relative income poverty measure and the commonly agreed indicators now also include:

- At-risk-of-poverty rates at different thresholds (40%, 50%, 60% and 70% of the national median equivalised household income),
- An at-risk-of-poverty gap,
- An at-risk-of-poverty rate “anchored” at a point in time (for the 60% threshold),
- A persistent at-risk-of-poverty rate,
- A material deprivation indicator.

However, the relative income poverty measure remains the headline indicator. Although the EU publishes estimates of the monetary value of the poverty threshold in Purchasing Power Parity standards (PPPs)⁵, it is hard for people to understand what is meant by “x per cent of the population live in households with equivalised income less than 60 per cent of the national median equivalised household income”. Since the accession of the ten plus two Member States, this problem has got worse. Because they have much lower median incomes and many also have comparatively narrow income distributions, the new Member States’ poverty thresholds tend to be much lower than those in the EU-15 countries. So, for example, the relative poverty threshold for a couple with two children in Estonia in 2008 was €770 PPPs per year and in the UK €24380 per year. The at-risk-of-poverty rate in both countries was 19 per cent. Yet, the poor in Estonia, even taking into account differences in purchasing

⁴ The updated *Portfolio of indicators for the monitoring of social protection and social inclusion* was adopted by the SPC in September 2009. It can be downloaded from the European Commission’s website at: <http://ec.europa.eu/social/main.jsp?catId=756&langId=en>.

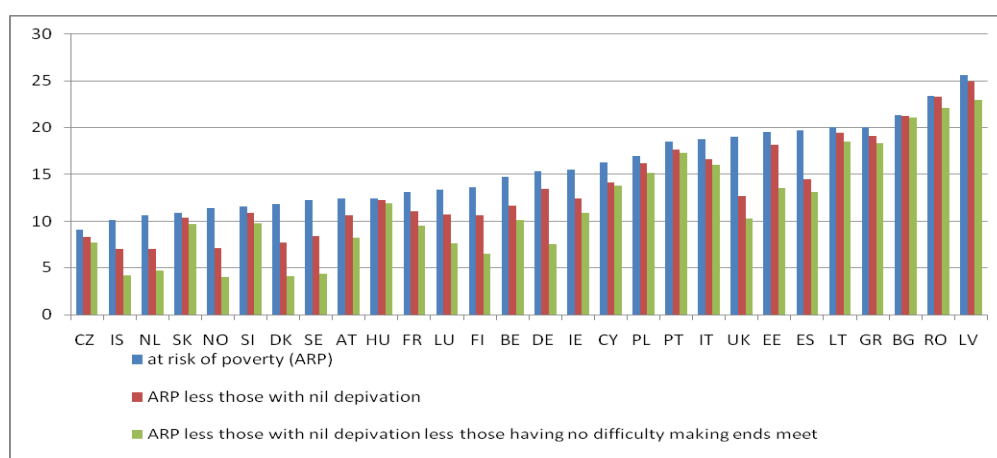
⁵ The Purchasing Power Parities (PPPs) adjustment converts amounts expressed in national currency to an artificial common currency that equalises the purchasing power of different national currencies (including those countries that share a common currency). For countries in the euro zone, the adjustment allows for differences in price levels; for those countries outside the euro zone the PPP adjustment is both a price deflator and a currency converter. The result of the conversion provides amounts in Purchasing Power Parity Standards (PPPs).

power, were living at much lower levels.⁶ The at-risk-of-poverty threshold is also very low in some of the poorer countries for example in Romania the threshold is €1.71 per day per person.

There are a number of other problems with the relative income poverty measure:

- Income is only an indirect indicator of living standards.
- It is probably not as good an indicator of command over resources as expenditure, not least because it does not take account of capacity to borrow, dissavings, gifts and the value of home production.
- 60 per cent of the median (and any other relative) threshold is arbitrary.
- The equivalence scale adopted – the modified OECD scale - has no basis in science.
- In the richer countries we find that substantial proportions who are defined as poor on the at-risk-of-poverty threshold are lacking none of the socially perceived necessities and say they do not have any difficulty making ends meet. This is shown in Figure 0.1. Take the UK for example. In 2008 the UK at-risk-of-poverty rate was 19 per cent. If you exclude those people in households lacking no deprivation items and then deduct those who have no difficulty making ends meet the poverty rate would fall to 10 per cent. There are similar reductions in all the richer countries. In contrast almost all the households at-risk-of-poverty in the poorer countries lack necessities and feel poor.

Figure 0.1: At-risk-of-poverty rates less those with no deprivation less those with no problems making ends meet



It is for these kinds of reasons that the Indicators Sub Group of the Social Protection Committee has been working on deprivation indicators and “budget illustrations” of the poverty thresholds in each country. There is also a growing body of academic papers on the subject.⁷

⁶ For a detailed discussion of poverty measurement issues see for example: Atkinson, T., Cantillon, B., Marlier, E. and Nolan, B. (2002) “Social Indicators: The EU and Social Inclusion”, Oxford: Oxford University Press.

⁷ See for example

Kangas, O. and Ritakallio, V. (2007) Relative to what? Cross national pictures of European poverty measured by regional, national and European standards, *European Societies*, 9, 2, 119-145

Whelan, C. and Maitre, B. (2008) Comparing Poverty indicators in an enlarged EU, *ESRI working paper* 263

Whelan, C., Nolan, B. and Maitre, B. (2008) Measuring material deprivation in the enlarged EU, *ESRI Working Paper* 249.

However the existing portfolio of measures still does not adequately capture the most severe forms of poverty. Most of the current and potential Candidate countries have very low income; some have large disparities and many substantial minorities, especially the Roma, who are particularly deprived. So the Commission decided to explore ways to reflect better the most extreme forms of poverty as they persist across the EU. This resulted in a research contract with the following objective:

“The purpose of the study is to investigate and to discuss the feasibility of meaningful and agreeable concepts, definitions and operationalisations measuring extreme poverty at EU level.”

Since then, and while this project was in progress, there have been very important developments. The spring 2010 European Council agreed on the five EU headline targets of the Europe 2020 strategy. One of them related to the promotion of social inclusion, in particular through the reduction in poverty. The EU leaders called for further work to be undertaken on appropriate indicators of this target. On 3 May 2010, the Social Protection Committee asked the Indicators Sub Group to work on the formulation of an EU target for social inclusion/poverty reduction based on several indicators covering the following dimensions: relative poverty, material deprivation, and a more "dynamic" aspect among the following: labour market exclusion, poverty anchored at a point in time, in-work poverty. The ISG made a proposal to formulate the EU target as reducing by xx millions the number of people at-risk-of-poverty or exclusion by 2020. A number of variants had been suggested but the EPSCO Council on 7 June accepted an SPC suggestion on a combination of three indicators (at-risk-poverty, material deprivation, people living in jobless households) and Ministers agreed an EU target that at least 20 million people should be lifted out of poverty by 2020, with a review of the target at 2015. This proposal was accepted by the European Council on 17 June 2010.

OBJECTIVES

The Tender Specification called for:

- A review of the thresholds in use in existing legislation/regulations in member states
- An overview of relevant statistical data on extreme poverty
- A review of the international literature on measuring extreme poverty
- A limited number of concepts, definitions and operationalisations should be suggested for the EU

OUTLINE OF THIS REPORT

We have identified eight main approaches to the measurement of extreme poverty which we explore in the following sections of the report. These are:

Section 3: Macro (country level) social indicators.

Section 4: World Bank and US absolute poverty thresholds.

Section 5: Social assistance/minimum income standards.

Guio, A-C (2009) What can be learned from deprivation indicators in Europe? Paper presented at the Indicators subgroup of the Social Protection committee, Eurostat Methodological Working Papers.
http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-09-007/EN/KS-RA-09-007-EN.PDF

Section 6: Lower relative income thresholds.

Section 7: Micro (household level) deprivation indicators.

Section 8: Budget standards thresholds.

Section 9: Overlaps methods.

Section 10: Persistent poverty.

In Section 11 we conclude with a discussion of a set of recommendations that the European Commission might like to consider.

In the next Section 1 we describe the methods adopted in this study. Then in Section 2 we discuss the concept of extreme poverty.

SECTION 1: METHODS

The study was primarily a review of existing approaches to the measurement of extreme poverty. However there were three empirical exercises also undertaken.

Secondary analysis of the Statistics on Income and Living Conditions (SILC)⁸

In this project we used the SILC data for 2008⁹ (income data for 2007) to explore the results of some of the extreme poverty measures we have produced. The standard analysis has been to compare extreme poverty measures with the headline 60 per cent of median threshold on

- poverty rates,
- poverty gaps (where relevant) and
- poverty composition

Collection of information on extreme poverty thresholds in use in EU countries

A questionnaire was sent to national informants in order to collect this information. The national informants were the EU Network of Experts on the National Action Plans (NAP) on Social Inclusion. They undertook the task as their first semester report for 2010. A synthesis of their replies was produced¹⁰ as part of their regular reporting round and we have drawn on some of that material in this report. The synthesis report is reproduced in the Annex to this report.

Social assistance/Minimum income

For section 5 we needed to establish the minimum income payable in each country. There are a variety of sources of this data:

- MISSOC collects information on minimum incomes but it does not publish information on the whole package including family benefits and housing benefits.
- The OECD every year collects the data for its member countries as part of its *Benefits and Wages* series but not all EU countries belong to OECD.
- Dr Kenneth Nelson has a series on minimum income on his personal website at <http://www2.sofi.su.se/~kne/>. His most recent data related to 2007.
- The University of British Columbia launched a model family comparison of family benefits using national informants and collected data on social assistance for various family types as at December 2008 and May 2009. But not all EU countries were included.

⁸ “EU-SILC is the main source for the compilation of comparable indicators on social cohesion used for policy monitoring at EU level in the framework of the Open Method of Coordination. It is collecting on an annual basis timely and comparable multidimensional micro-data on income, poverty, social exclusion and living conditions. Every year, both cross-sectional data (pertaining to a given time or a certain time period) and longitudinal data (pertaining to individual-level changes over time, observed periodically over, typically, a four year period) are collected. .”

http://epp.eurostat.ec.europa.eu/portal/page/portal/living_conditions_and_social_protection/introduction/income_social_inclusion_living_conditions

See also Atkinson, A., Marlier, E. and Reinstadler, A. (2010) Income poverty and Income Inequality: EU-SILC in National and International Context, 2010 EU-SILC International Conference Warsaw, 25 and 26 March.

⁹ Except for France which unfortunately was not yet available for 2008. We used the 2007 data for France.

¹⁰ Bradshaw, J. and Mayhew, E. with Marlier, E. (2010) *Poverty thresholds used in European Union countries: Synthesis Report. Overview based on the national reports prepared by the EU Network of independent experts on social inclusion,*

- We replicated that exercise on a smaller scale for all the CEE/CIS countries including Bulgaria and Romania and the candidate countries (except Croatia) for a project for UNICEF¹¹.
- The University of Antwerp (Professor Bea Cantillon and Dr Natascha Van Mechelen) launched a model family enquiry in January 2010 for all the EU countries which included a social assistance case. We were the national informants for the UK and they agreed to share their data with us. Unfortunately this data did not become available in time for this report, so meanwhile we have used the OECD source.

Table 1.1 presents data that will form a base case for the thresholds that are going to be tried. We show at-risk-of-poverty rates, poverty gaps, and composition of the poor by various characteristics.

¹¹ Bradshaw, J. and Mayhew, E. (2010) *Minimum social protection for families with children in the CEE/CIS countries in 2009*. A report for UNICEF Regional office, Geneva.

Table 1.1: Population* poverty rates, gaps and composition at 60% median national equivalent household income

| Countries | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poverty rates | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Risk of poverty rate s | 12.4 | 14.7 | 21.4 | 16.3 | 9.1 | 15.3 | 11.8 | 19.5 | 19.7 | 13.6 | 13.1 | 20.1 | 12.4 | 15.5 | 10.1 | 18.7 | 20.0 | 13.4 | 25.6 | 10.6 | 11.4 | 16.9 | 18.5 | 23.4 | 12.3 | 11.6 | 10.9 | 19.0 |
| Risk of poverty gap | 15.3 | 17.2 | 27.0 | 16.5 | 18.5 | 22.5 | 18.0 | 20.3 | 23.5 | 15.9 | 16.8 | 24.7 | 17.2 | 18.7 | 14.9 | 23.0 | 25.7 | 16.6 | 28.6 | 15.5 | 21.8 | 20.6 | 23.2 | 32.5 | 18.3 | 18.3 | 18.1 | 21.1 |
| Poverty composition | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Characteristics of the main income earner** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Woman | 24.5 | 19.9 | 25.3 | 24.1 | 28.4 | 28.6 | 21.0 | 28.5 | 25.6 | 18.0 | 27.6 | 29.2 | 20.7 | 18.0 | 43.4 | 16.9 | 34.9 | 45.9 | 31.0 | 29.6 | 22.5 | 36.8 | 30.3 | 31.4 | 27.8 | 23.7 | 37.0 | 23.3 |
| P-t worker | 14.4 | 18.6 | 12.9 | 8.9 | 3.4 | 17.4 | 10.1 | 5.4 | 10.5 | 13.5 | 19.4 | 12.7 | 9.3 | 19.1 | 13.9 | 10.8 | 7.3 | 27.9 | 7.2 | 29.3 | 7.5 | 11.8 | 11.1 | 13.4 | 18.4 | 4.1 | 5.8 | 16.7 |
| Self-empl | 12.5 | 13.3 | 6.4 | 12.6 | 12.8 | 6.3 | 13.3 | 9.1 | 23.5 | 15.7 | 7.7 | 33.4 | 8.5 | 19.8 | 23.9 | 22.9 | 8.4 | 5.6 | 8.0 | 17.1 | 8.4 | 23.1 | 19.6 | 29.3 | 8.7 | 14.5 | 10.7 | 10.3 |
| Characteristics of the household | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Child in household | 48.4 | 47.8 | 51.6 | 37.0 | 55.0 | 33.3 | 31.1 | 35.0 | 49.5 | 33.1 | 53.0 | 46.0 | 65.5 | 60.0 | 54.4 | 52.5 | 49.4 | 65.4 | 41.6 | 47.0 | 33.8 | 63.5 | 53.3 | 62.8 | 43.2 | 39.2 | 61.5 | 49.6 |
| Elderly in household | 24.4 | 27.5 | 40.7 | 43.9 | 14.3 | 22.5 | 24.5 | 41.8 | 30.9 | 30.1 | 22.3 | 32.8 | 7.4 | 19.1 | 18.7 | 30.8 | 30.8 | 7.3 | 43.5 | 15.1 | 20.8 | 21.4 | 29.6 | 29.8 | 23.4 | 34.6 | 20.0 | 28.3 |
| Single adult | 25.9 | 23.9 | 18.2 | 15.1 | 21.3 | 37.3 | 49.1 | 42.2 | 12.1 | 46.1 | 21.1 | 11.7 | 11.9 | 19.2 | 30.5 | 18.9 | 24.9 | 13.1 | 25.8 | 26.2 | 51.8 | 11.7 | 11.6 | 11.4 | 37.3 | 27.7 | 17.9 | 22.4 |
| Single parent | 9.6 | 16.3 | 3.1 | 6.6 | 19.7 | 12.9 | 9.4 | 13.4 | 3.3 | 8.7 | 11.8 | 2.0 | 12.2 | 22.5 | 18.7 | 6.2 | 13.1 | 12.7 | 8.4 | 12.1 | 13.7 | 4.6 | 6.0 | 3.1 | 14.1 | 7.8 | 4.8 | 16.2 |
| Two adults 1 or 2 children | 23.0 | 13.5 | 14.4 | 26.3 | 24.5 | 15.9 | 10.8 | 17.1 | 38.4 | 14.3 | 22.9 | 43.8 | 32.4 | 19.1 | 14.7 | 34.4 | 22.1 | 40.3 | 17.0 | 18.1 | 10.9 | 27.9 | 35.1 | 24.9 | 16.1 | 27.3 | 25.4 | 18.2 |
| Two adults 3+ children | 14.2 | 16.4 | 7.0 | 9.6 | 10.6 | 6.8 | 10.1 | 7.0 | 6.7 | 10.3 | 15.9 | 4.4 | 17.4 | 12.1 | 19.3 | 10.6 | 12.4 | 14.4 | 7.8 | 21.1 | 9.9 | 14.6 | 7.2 | 15.9 | 10.7 | 7.1 | 21.8 | 14.3 |
| Other household | 27.2 | 30.0 | 57.4 | 42.3 | 24.0 | 27.1 | 20.6 | 20.2 | 39.6 | 20.6 | 28.3 | 38.2 | 26.0 | 27.1 | 16.8 | 29.8 | 27.6 | 19.4 | 41.1 | 22.5 | 13.7 | 41.3 | 40.1 | 44.7 | 21.8 | 30.2 | 30.1 | 29.0 |
| Bad health | 20.8 | 23.7 | 40.6 | 30.8 | 25.1 | 17.1 | 7.5 | 34.5 | 20.5 | 11.5 | 21.4 | 22.8 | 32.8 | 5.9 | 5.6 | 21.7 | 31.4 | 19.1 | 47.5 | 11.4 | 11.5 | 33.1 | 41.5 | 17.4 | 8.0 | 26.5 | 33.5 | 11.4 |
| Low education | 59.2 | 63.7 | 82.3 | 74.6 | 54.8 | 36.9 | 43.4 | 51.7 | 79.7 | 51.1 | 63.7 | 78.2 | 66.1 | 73.0 | 56.8 | 84.8 | 57.7 | 77.3 | 61.2 | 47.7 | 48.0 | 59.2 | 87.3 | 84.4 | 41.4 | 65.3 | 54.7 | 48.2 |
| Owner | 34.5 | 48.6 | 79.3 | 49.8 | 54.2 | 27.3 | 44.2 | 82.5 | 73.7 | 46.5 | 40.3 | 72.2 | 79.4 | 61.0 | 64.9 | 57.4 | 87.1 | 46.5 | 79.0 | 38.2 | 50.4 | 69.0 | 64.8 | 96.5 | 41.9 | 71.0 | 80.5 | 53.6 |
| Tenant | 44.4 | 31.1 | 0.9 | 19.5 | 11.7 | 57.5 | 55.8 | 2.9 | 12.5 | 19.5 | 34.3 | 22.0 | 4.6 | 11.6 | 17.1 | 20.9 | 1.9 | 43.8 | 7.2 | 60.9 | 39.2 | 2.8 | 15.6 | 0.3 | 55.3 | 10.5 | 14.8 | 11.1 |
| High work intensity*** | 11.9 | 8.7 | 5.0 | 15.0 | 9.5 | 9.9 | 26.6 | 17.0 | 12.5 | 12.5 | 10.1 | 16.3 | 5.3 | 6.0 | 40.5 | 7.4 | 15.0 | 15.9 | 18.9 | 13.8 | 18.5 | 16.9 | 17.0 | 26.9 | 19.6 | 11.3 | 16.9 | 15.2 |
| Med work intensity | 34.9 | 17.4 | 19.5 | 33.8 | 25.5 | 20.4 | 15.2 | 29.4 | 42.2 | 24.6 | 26.7 | 40.4 | 24.2 | 20.3 | 34.4 | 35.7 | 32.1 | 41.6 | 31.4 | 32.3 | 28.8 | 35.5 | 36.8 | 29.6 | 27.4 | 28.4 | 32.9 | 25.0 |
| Low work intensity | 53.1 | 74.0 | 75.5 | 51.3 | 65.1 | 69.7 | 58.1 | 53.6 | 45.3 | 62.9 | 63.3 | 43.3 | 70.5 | 73.6 | 25.1 | 56.9 | 52.9 | 42.5 | 49.7 | 53.9 | 52.7 | 47.6 | 46.2 | 43.5 | 53.0 | 60.4 | 50.2 | 59.8 |
| Densely populated**** | 45.7 | 59.8 | 24.8 | 52.0 | 35.7 | 53.2 | 41.7 | 40.7 | 41.3 | 22.8 | 48.3 | 28.6 | 18.6 | 26.6 | 58.3 | 41.2 | 21.9 | 64.8 | 36.6 | | 50.3 | 23.9 | 32.3 | 10.0 | 21.5 | | 17.1 | 79.5 |
| Intermediate area | 20.6 | 35.5 | 5.9 | 12.4 | 26.9 | 29.1 | 32.5 | | 23.1 | 14.6 | 32.5 | 8.3 | 19.0 | 25.0 | | 38.5 | | 16.4 | | | 16.9 | 14.9 | 37.3 | 0.4 | 12.1 | | 33.8 | 16.1 |
| Thinly populated (rural) | 33.7 | 4.8 | 69.3 | 35.5 | 37.4 | 17.7 | 25.8 | 59.3 | 35.6 | 62.7 | 19.2 | 63.1 | 62.5 | 48.4 | 41.7 | 20.4 | 78.1 | 18.9 | 63.4 | | 32.8 | 61.2 | 30.4 | 89.5 | 66.4 | | 49.1 | 4.5 |

Source: SILC 2008. France: SILC 2007 data. *Population weight= household weight x household size. **Main income earner defined as the person who works the most hours per week in the household.

Work intensity calculation based on TARKI methodology: nr of months spent in employment divided by nr of months spent in employment/studying/ retired/unemployed/inactive. Low work intensity defined as: 0-0.49, medium as: 0.50-0.80 and high work intensity defined as: 0.81-1.00. * **Densely populated area:** This is a contiguous set of local areas, each of which has a density superior to 500 inhabitants per square kilometre, where the total population for the set is at least 50,000 inhabitants. **Intermediate area:** This is a contiguous set of local areas, not belonging to a densely-populated area, each of which has a density superior to 100 inhabitants per square kilometre, and either with a total population for the set of at least 50,000 inhabitants or adjacent to a densely-populated area. **Thinly-populated area:** This is a contiguous set of local areas belonging neither to a densely-populated nor to an intermediate area.

(Labour force survey – Methods and definitions – 1998 edition)

SECTION 2: THE CONCEPT OF EXTREME POVERTY

The discourse on poverty is very confusing. We tend to confuse concepts and measures and we tend to use different words to describe the same thing and the same words to describe different things. In the EU this is complicated by translating words which may have a meaning in one language into words with completely different meanings in other languages. Thus for example the notion of *extreme poverty*, which has not been used in English academic discourse, has been used by the Commission as the title of this research project because the notion of absolute poverty does not translate very well into other EU languages. But absolute poverty is the concept most commonly contrasted with relative poverty. Absolute poverty has a resonance with extreme poverty.

Notions of absolute poverty are related to physical necessities and perhaps most commonly associated with the work of Seebohm Rowntree, who, in his first survey of poverty in York in 1899¹², used a measure of primary poverty based on the “minimum necessities of life for mere physical efficiency”. Rowntree drew on the developing science of nutrition to establish a diet that represented the minimum number of calories required for moderate physical labour, priced the diet at the lowest prices available in York, added small amounts for clothing and fuel and counted the number of households with wages below that limit as being in primary poverty. It was certainly an extremely low poverty threshold even at the time – the dietary for example was less generous than the Poor Law menus. Nevertheless 9.9 per cent of the population were living on incomes below this level and a further 17.9 per cent were below it because some proportion of earnings was absorbed by other expenditure “either useful or wasteful”.

In the post-war period this “quasi scientific” quality of Rowntree’s poverty line was criticised, most effectively by Peter Townsend¹³, who did more than anyone to reconceptualise poverty as relative. In fact it was always rather difficult to justify the notion of absolute poverty as scientifically defined physical necessities. Rowntree himself had to make “social” decisions: about the amount of physical labour those consuming his diet would undertake; the choices of food-stuffs in the food basket (which included the iconically social and non nutritious beverage - tea); the prices to be applied; and the additions of clothing and fuel were based on rather casual enquiries of what working class families actually spent. In his subsequent surveys of poverty in York in 1936 and 1950 he replaced his primary poverty line with a poverty line at a higher standard, sometimes called the Human Needs of Labour standard, which included some items which were not physical necessities (including social insurance contributions, trade union subscriptions, travel to work, stamps, writing paper, a daily newspaper, a wireless, and amount for other - beer, tobacco, presents, holiday books and travel etc).

There may be somewhere in the world where it is possible to propose a basic physiological definition of poverty but it is not likely to be in Europe. In fact we take the view that there is no such thing as an absolute poverty measure. All measures are more or less social and cultural, more or less relative, high or low, more or less extreme.

It is perhaps best to start with some internationally approved understandings.

¹² Rowntree, B.S., (2000) *Poverty: A Study of Town Life*, Centennial ed., The Policy Press: Bristol

¹³ Townsend, P. (1954) Measuring Poverty, *British Journal of Sociology*, 5, 2, 130-137.

Townsend, P (1962) The meaning of poverty, *British Journal of Sociology*, 13, 3, 210-227.

In 1995 the World Summit for Social Development (the Copenhagen Summit) proposed a description of poverty:

Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods; human hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterised by a lack of participation in decision making and in civil, social and cultural life (United Nations, 1995, para 19).

It went on to characterise absolute poverty as:

Absolute poverty is a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but access to services (United Nations 1995, para 19).

The Committee on Economic Social and Cultural Rights 2001 said:

In the light of the International Bill of Rights, poverty may be defined as a human condition characterised by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights (para 8)

and

is of the view that a minimum core obligation to ensure the satisfaction of, at least, minimum essential levels of each of the rights is incumbent upon every member state party. Thus, for example, a state party in which any significant number of individuals is deprived of essential foodstuffs, of essential primary health care, of basic shelter and housing, or of the most basic form of education is, prima facie, failing to discharge its obligations under the convention

The former independent expert on the question of human rights and extreme poverty, Arjun Sebgupta, in his Report to the Human Rights Council defined extreme poverty as:

A composite of income poverty, human development poverty and social exclusion, to encompass the notions of lack of basic security and capabilities deprivation (E/CN.4/2005/49, page 2).

UN General Assembly Definition of Child Poverty, 10th January 2007 is:

Children living in poverty are deprived of nutrition, water and sanitation facilities, access to basic health-care services, shelter, education, participation and protection, and that while a severe lack of goods and services hurts every human being, it is most threatening and harmful to children, leaving them unable to enjoy their rights, to reach their full potential and to participate as full members of the society.

Although these definitions of poverty/extreme poverty/absolute poverty give the social scientist some guidance and authority, they have two drawbacks. First they seem to have rather limited relevance to European countries. Second they do not help when it comes to operationalisation and measurement. Or rather it is practically impossible to operationalise any of the definitions using the data available at EU level.

This project was designed to produce measures of extreme poverty. We have taken this to mean a severe degree of poverty, and poverty that is not relative to the living standards of a given country at a given time, but is fixed across the EU as a whole.

SECTION 3: (Macro) SOCIAL INDICATORS

Perhaps the oldest approach to measuring the living standards of the population of a country is to employ macro social indicators. These are generally derived from national level administrative data. A typical example is the UNICEF flagship annual report on the *State of the World's Children*¹⁴ which presents a set of Basic Indicators on:

- Under five mortality rate
- Infant mortality rate
- Neonatal mortality rate
- GNI per capita US\$
- Life expectancy at birth
- Total adult literacy rate
- Primary school attendance %

It also publishes additional indicators covering health, nutrition, education, HIV/AIDS, the economy, demography, women and child protection. There is no attempt to combine these indicators into an index but the under five mortality rate is highlighted with a league table. UNICEF has developed this for rich countries in its series of Innocenti report Cards.¹⁵ Save the Children have used similar variables in their Child Development Index¹⁶. It is “an index combining performance measures specific to children - primary education, child health and child nutrition”. Or, to be more specific:

- net non-enrolment ratio in primary education (%),
- under-five mortality rate (per 1,000 births) and
- underweight children under 5 years (%).

The best known general index is the Human Development Index¹⁷ which ranks countries according to their performance on three indicators:

- Health (Life expectancy at birth)
- Education (The adult literacy and gross enrolments rate)

¹⁴ <http://www.unicef.org/rightsite/sowc/>

¹⁵ http://www.unicef-irc.org/cgi-bin/unicef/series_down.sql?SeriesId=16

¹⁶ Save the Children UK, (2008) *The Child Development Index* [online]. Available: http://www.savethechildren.org.uk/en/docs/child-development-index_data2008.xls [accessed March 25, 2009]

¹⁷ <http://hdr.undp.org/en/> UNDP also publishes:

- Human Poverty Index 1 for developing countries which includes:
 - Probability at birth of not surviving to age 40
 - Adult literacy rate
 - A decent standard of living (percentage of the population not using an improved water source and percentage of children underweight for age)

and

- Human Poverty Index 2 for selected OECD countries which includes:
 - Probability at birth of not surviving to age 16
 - Percentage of adults lacking functional literacy skills
 - Percentage of people living below the poverty line (less than 50 per cent of the median income)
 - Social exclusion (long term unemployment)

They also produce a

- Gender related development index (GDI) and a Gender empowerment measure (GEM).
-

- Standard of Living (GDP per capita \$US)

The European Commission also publishes these kinds of indicators. The 2009 update of the *Portfolio of Indicators for the Monitoring of the European Strategy for Social Protection and Social Inclusion*¹⁸ includes in the Overarching Indicators:

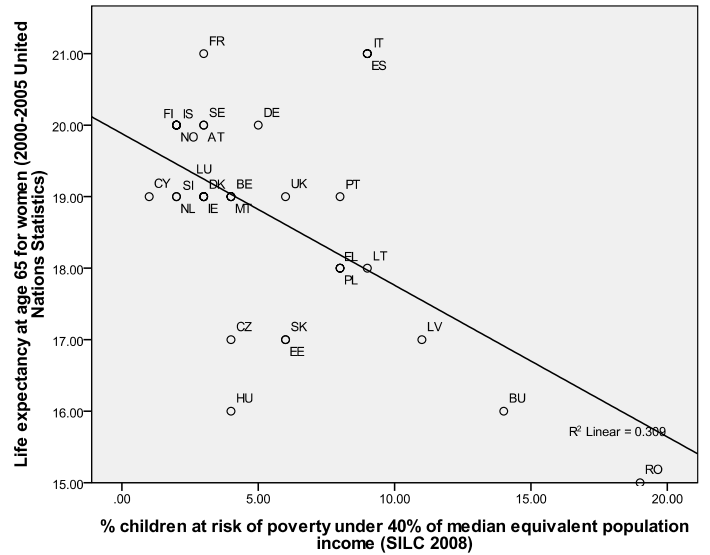
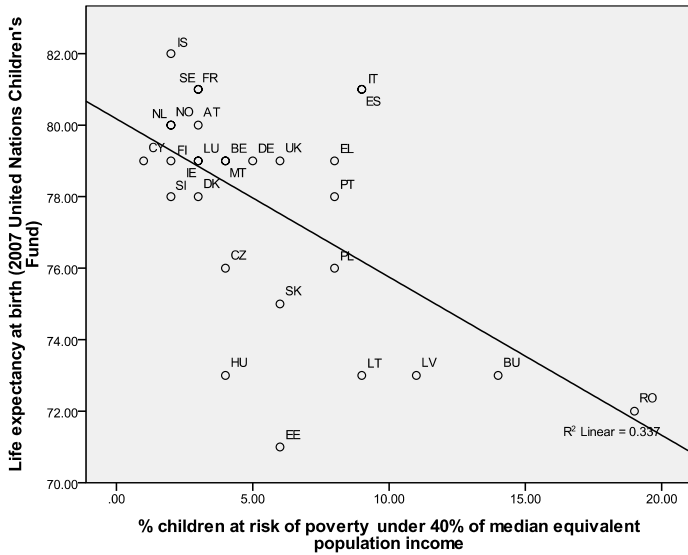
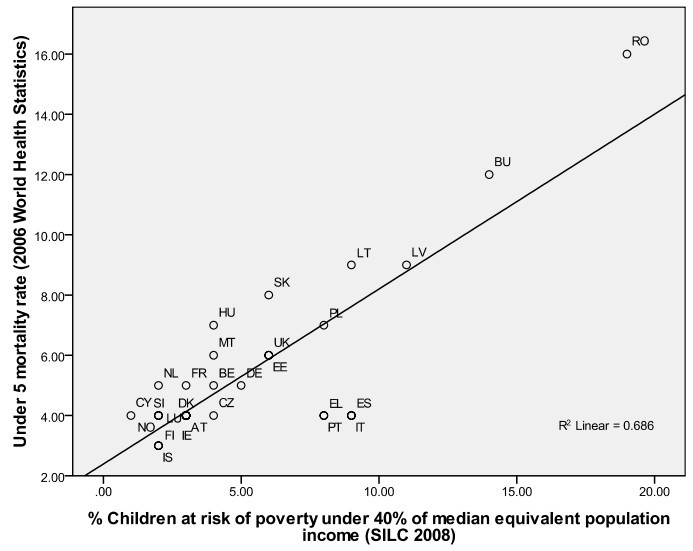
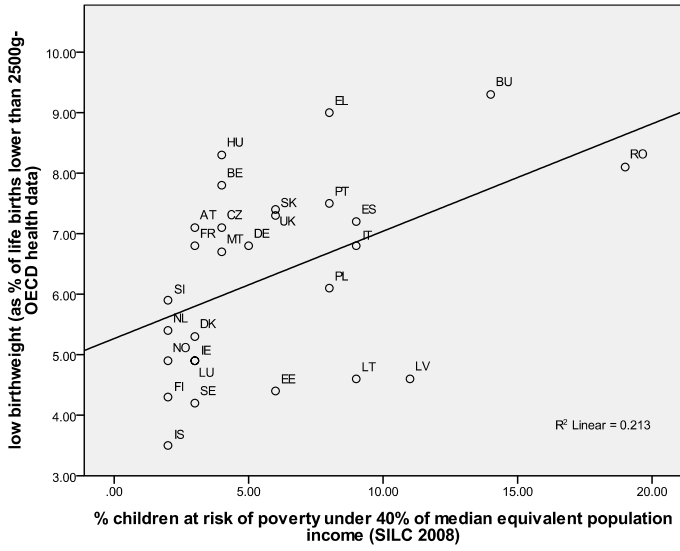
- Healthy life expectancy at 45 and 65 (Overarching indicator 3)
- Health expenditure per capita (Overarching indicator 14)

And there are also other health indicators in the list of indicators for monitoring health care and long-term care objectives. However the European Commission does not employ macro social indicators to monitor poverty (or extreme poverty) as much as they are used by UNICEF, UNDP and other international bodies. One reason for this is that the EU has access to good micro level indicators from comparable sources such as the EU SILC or the EU Labour Force Survey (LFS). Another reason is that these macro indicators are only a very indirect indicator of poverty and extreme poverty.

Certainly there is a relationship between poverty and a number of health outcomes. We have illustrated some of these in the figures in Box 3.1 comparing four health outcomes with the children at-risk-of-poverty rate using the 40 per cent of the median threshold. The closest relationship between these health indicators and child poverty is the under 5 mortality rate ($r^2=0.69$) but this is really due to the position of Bulgaria and Romania. In fact the southern EU countries do much better on child mortality than their poverty rates would suggest. The relationship is certainly not close enough for this macro indicator to be used as a proxy for poverty (or extreme poverty). It may be that one day such a proxy macro indicator will be discovered, but even then it will only enable us to rank or rate countries. In order to go further than that, and to observe the distribution and characteristics of extreme poverty, we need to use micro household level measures.

¹⁸ European Commission (2009) *Portfolio of indicators for the monitoring of the European strategy for social protection and social Inclusion – 2009 update*. DG Employment September 2009.

Box 3.1 Children at-risk-of-poverty living under 40% of median equivalent population income and associated health risks



SECTION 4: ABSOLUTE POVERTY

As we have argued in Section 2 we do not believe that there is such a thing as absolute poverty. However the World Bank is the only international body still giving official credence to an absolute poverty threshold in its \$1 per day concept and the US poverty standard has been fixed at the same level for so long that some might argue that it is an absolute measure. So we review these two measures in this section.

The World Bank and \$1 per day

Their \$1 a day poverty line was established for the 1990 World Development Report based on background research by Ravallion and colleagues. It became the basis of the first Millennium Development Goal - to abolish \$1 per day poverty by 2015.

“The explicit aim was to set a global poverty line such that poverty in the developing world as a whole was assessed by the standards of what “poverty” means in the world’s poorest countries, recognising that richer countries naturally have higher standards. This (intentionally frugal basis for measuring global poverty) gives the “\$1-a-day” line a salience in focussing international attention on the world’s poorest – a salience that a higher line would not have”.¹⁹

Thus, far from being an absolute poverty threshold in a scientific sense, it was a marketing tool, a heuristic device, to provide an acceptable focus for world efforts to tackle poverty. In practice it became more than that – the World Bank used it in household consumption surveys undertaken for their Poverty Assessments as a “food poverty line” and then advocated that (conditional) social assistance schemes were needed only to meet that target, or something very little above it.

The \$1 per day concept actually came from an exercise of collecting together the standards used by 15 of the world’s poorest countries. It has been much criticised²⁰ on the following main grounds

- A calorific based poverty line is not enough – there are other basic material needs which need to be taken into account such as housing, clothing and heating. In particular UNICEF²¹ have argued that a calorific poverty line cannot cover the right of a child to a standard of living adequate for the child’s mental, spiritual, moral and social development (CRC, Art. 27 (1 and 3)).

¹⁹ Ravallion, M. Chen, S. and Sangruala, P. (2008) A Dollar a Day revisited, World Bank.

²⁰ Pogge, T. (2008). *A consistent measure of real poverty: A reply to Ravallion*. One pager No 54. Brasilia: International Poverty Centre.

Pogge, T. and Reddy, S. (2005). *How not to count the poor*. Available at SSRN:

<http://ssrn.com/abstract=893159>

Reddy, S. (2008). *Are estimates of poverty in Latin America reliable?* One pager No 52. Brasilia: International Poverty Centre.

Reddy, S. and Minoiu, C. (2007) *Has world poverty really fallen?* Available at SSRN:

<http://ssrn.com/abstract=921153>

²¹ Hoelscher, P. (2008) The new World Bank \$1.25 a day – a global poverty line for children? UNICEF RO CEE/CIS.

- The \$1 per day is arbitrary. In the revision in 2008 published by Ravallion et al²² it should have been \$1.45 per day but because that would have included too many people it was fixed at \$1.24 per day. Again it was an assumption about the acceptability of the threshold that determined it.
- The use of purchasing power parities (PPPs) to translate a \$ into a national currency amount is unsatisfactory. PPPs are based on average consumption patterns and not on the consumption patterns of the poor.
- The choice of the base year for the calculations makes a big difference to the results for countries which have experienced sharp changes in their living standards.

The World Bank schedule allows for a relative poverty line for richer countries and allows a gradient of \$1 in \$3 when mean consumption is above \$2 a day. For the CEE/CIS countries the World Bank has suggested²³ an absolute poverty line of \$2.15 and a vulnerable to poverty line of \$4.30 per day. All this is arbitrary.

In Table 4.1 we have taken these three thresholds \$1.25, \$2.15 and \$4.30 per person per day and, using purchasing power parities translated them into thresholds for the EU countries, and then estimated the resulting poverty rates. For all the EU countries except Romania all the World Bank thresholds give very low poverty rates. Only Romania reaches double digit poverty rates at \$4.30 per day. However 15 of the other countries have poverty rates of 1 per cent or less on \$4.30 per day. One of the problems with the World Bank thresholds is the equivalence scale – countries with large households will have a much lower equivalent income using a per capita equivalence scale. While per capita may be appropriate for a food poverty line at \$1 per day or even \$2.15 per day, it is probably not appropriate at \$4.30.

Figure 4.1 plots the relationship between poverty rates based on the at-risk-of-poverty threshold and \$4.30 per day.

Given the absence of a coherent rationale for these World Bank thresholds, and the very low poverty rates obtained, even in quite poor countries like Bulgaria, Latvia and Lithuania, we do not think that this is an approach that is worth taking further.

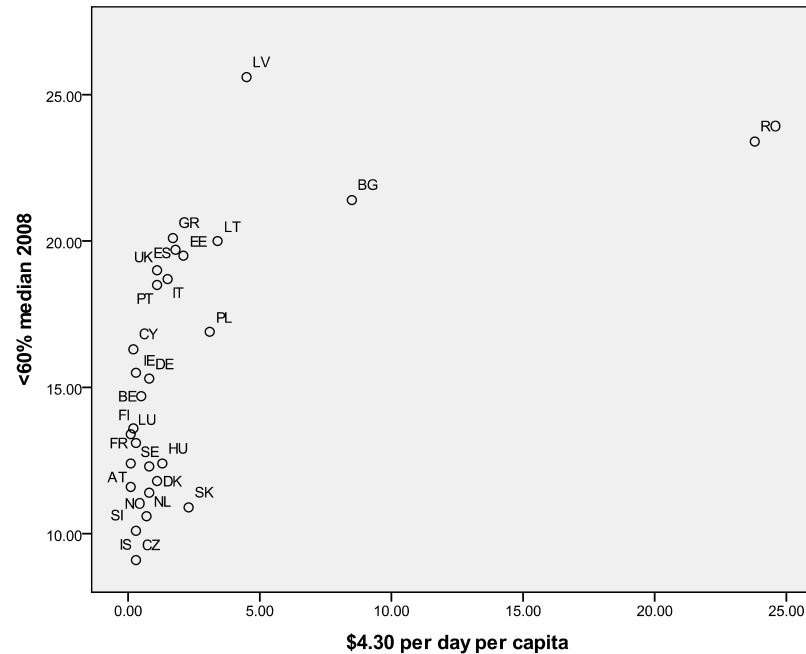
²² Ravallion, M. Chen, S. and Sangruala, P. (2008) A Dollar a Day revisited, World Bank.

²³ Alam, A., Murthi, M., Yemtsov, R., Murrugarra, E., Dudwick, N., Hamilton, E. and Tiongson, E (2005). *Growth, poverty and inequality. Eastern Europe and the Former Soviet Union*. Washington: World Bank.

Table 4.1: Poverty rates with World Bank type poverty thresholds applied to EU SILC 2008

| Countries | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|-------------------------|------|------|------|------|-----|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| \$1 /person per day | 0.1 | 0.3 | 0.7 | 0.1 | 0.1 | 0.5 | 0.6 | 0.4 | 1.0 | 0.1 | 0.2 | 0.9 | 0.1 | 0.1 | 0.1 | 0.8 | 0.7 | 0.1 | 0.5 | 0.6 | 0.6 | 0.4 | 0.1 | 2.0 | 0.5 | 0.0 | 0.3 | 0.5 |
| \$2.15 / person per day | 0.1 | 0.4 | 2.2 | 0.1 | 0.1 | 0.6 | 0.7 | 0.6 | 1.2 | 0.1 | 0.2 | 1.1 | 0.3 | 0.1 | 0.2 | 1.0 | 1.6 | 0.1 | 1.2 | 0.6 | 0.6 | 0.7 | 0.4 | 7.9 | 0.6 | 0.0 | 0.8 | 0.6 |
| \$4.30 / person per day | 0.1 | 0.5 | 8.5 | 0.2 | 0.3 | 0.8 | 1.1 | 2.1 | 1.8 | 0.2 | 0.3 | 1.7 | 1.3 | 0.3 | 0.3 | 1.5 | 3.4 | 0.1 | 4.5 | 0.7 | 0.8 | 3.1 | 1.1 | 23.8 | 0.8 | 0.1 | 2.3 | 1.0 |
| <60% median | 12.4 | 14.7 | 21.4 | 16.3 | 9.1 | 15.3 | 11.8 | 19.5 | 19.7 | 13.6 | 13.1 | 20.1 | 12.4 | 15.5 | 10.1 | 18.7 | 20.0 | 13.4 | 25.6 | 10.6 | 11.4 | 16.9 | 18.5 | 23.4 | 12.3 | 11.6 | 10.9 | 19.0 |

Figure 4.1: Poverty rates at <60% median and \$4.30 per capita



The US poverty standard

Another interpretation of *absolute poverty* is a poverty threshold that does not change as living standards change. The EU already publishes an at-risk-of-poverty rate anchored at a point in time but it is not anchored for a very long time and has been changed to a new point of time every five years or so. The US poverty standard is like this but has been anchored for a very long time.

It may seem curious to be trying the official US poverty threshold in an analysis of extreme poverty in EU countries. However Bradbury and Jantti²⁴ applied the US poverty standard to (circa 1995) Luxembourg Income Study data using purchasing power parities and so did Bradshaw, Nolan and Maitre²⁵ in their study of absolute poverty in the EU. There are really two justifications for it.

First, the thresholds are ‘official’ – they are the US federal government’s official statistical definition of poverty, and the US government²⁶ uses them extensively in a number of ways, including to tabulate figures on the poverty population and its composition that are issued annually by the US Census Bureau²⁷.

Second, the US poverty threshold has its origins in a food budget. It was developed by what Fisher calls a ‘component-and-multiplier’ approach. Mollie Orshansky²⁸ took the costs of a minimal food budget for different family sizes and derived poverty thresholds by multiplying these costs by three – that being the inverse of the share of money income spent on food by the average family. Orshansky based her poverty thresholds on the economy food plan – the

²⁴ Bradbury, B. and Jantti, M.. (1999) *Child poverty across industrialised countries*, Innocenti Occasional paper, Economic and Social Policy Series, No 71

²⁵ Bradshaw, J., Nolan, B. and Maitre, B. (2000) Minimum Income Standards as poverty thresholds, in Bradshaw, J. The measurement of absolute poverty (E2/SEP/14/2000) Final Report for Eurostat, Social Policy Research Unit, University of York

²⁶ In this discussion I have drawn on the contents of an extensive correspondence with Gordon Fisher, US Department of Health and Human Services. He cannot be blamed for what I have said here. But only he will recognise the extent to which I have plagiarised him.

Fisher, G (1999) An overview of developments since 1995 relating to a possible new U.S. poverty measure, (<http://www.census.gov/hhes/www/povmeas/papers/fisher.html>)

Fisher, G. (1992a) The Development and History of the Poverty Thresholds, *Social Security Bulletin* 55, 4, 3-14. <http://www.ssa.gov/policy/docs/ssb/v55n4/v55n4p3.pdf>

Fisher, G. (1992b) Poverty Guidelines for 1992, *Social Security Bulletin* 55, 1, 43-46. <http://www.ssa.gov/policy/docs/ssb/v55n1/v55n1p43.pdf>

Fisher, G. (1997) The Development and History of the US Poverty thresholds- A Brief Overview, GSS/SSS Newsletter (Newsletter of the Government Statistics Section and the Social Statistics Section of the American Statistical Association, winter. (<http://aspe.hhs.gov/poverty/papers/hptgssiv.htm>).

²⁷ Poverty population statistics (based on the thresholds) from the Decennial Census are used by certain federal programmes to allocate programme funds among states. A simplified version of the poverty thresholds (called poverty guidelines) is also produced each year (Fisher 1992b). These guidelines are used for administrative purposes – for instance, in determining eligibility for certain federal programmes such as the Low-Income Home Energy Assistance Programme, Head Start, the National School Lunch Programme, The Food Stamp Programme and certain portions of Medicaid (the medical assistance programme for the needy). Note that the guidelines are generally not used to determine eligibility for cash assistance programmes or for the Earned Income Tax Credit; they are also not used to determine benefit levels for any (cash) assistance programme.

²⁸ Orshansky, M. (1965) Counting the Poor: another look at the poverty profile, *Social Security Bulletin*, June 3-29.

<http://www.ssa.gov/policy/docs/ssb/v28n1/v28n1p3.pdf>

Orshansky, M. (1969) How poverty is measured, *Monthly Labor Review* 92, 2, February, 37-41

cheapest of four food plans developed by the Department of Agriculture.²⁹

The poverty threshold is up-rated every year by indexation to the Consumer Price Index but has otherwise not been changed in any major way. Although the poverty line is adjusted for price changes, it is not adjusted for changes in the general standard of living. As the real standard of living has increased, the proportion of income that the average American family spends on food has decreased, indicating that the use of three as the multiplier of the food budget is inadequate.³⁰

In this project we have used the US Poverty standard for 2007. This was derived by taking the poverty thresholds published by the US Bureau of the Census³¹. These thresholds are published by the size of the family unit and the number of family members who are children under 18. So these thresholds were applied to the appropriate households in SILC. The US poverty thresholds are applied to gross income not including (non cash) housing assistance. The US gross income definition does not include noncash benefits (food stamps, school lunch subsidies, health benefits, and housing assistance) and home production. We were able to match the US definition of gross income except we do not include alimony and child support. We then converted the thresholds from \$US to Euros Purchasing Power Parities using a conversion factor of 1.203³². We have also applied these thresholds to the standard net disposable income on the grounds that income tax and social security contributions are likely to be higher in EU countries than in the USA.

The resulting poverty rates are summarised in Table 4.2. Here we have some results that look much more like the distribution of extreme poverty you might expect in the EU. The EU 15 and Slovenia have much lower poverty rates than the risk-of-poverty rate. The EU 10 plus 2 have much higher rates. The distribution gives lower poverty rates for the Baltic countries than for Hungary and Slovakia, but this may well have changed following the economic crisis.

²⁹ Orshansky knew from the Department of Agriculture's 1955 Household Food Consumption Survey (the latest available at the time) that families of three or more persons spent about one third of their after tax money income on food in 1955. Accordingly she calculated poverty thresholds for families of three or more persons by taking the dollar costs of the economy food plan for families of those sizes and multiplying the costs by a factor of three – the multiplier. In effect she took a hypothetical average family spending one third of its income on food, and assumed that it had to cut back on its expenditure sharply. She assumed that expenditure for food and non food would be cut back at the same rate. When the food expenditure of the hypothetical family reached the costs of the economy food plan, she assumed that the amount the family would then be spending on non-food items would also be minimal but adequate. Her procedure did not assume specific dollar amounts for any budget category besides food. She followed somewhat different procedures for deriving thresholds for one and two person units (see Fisher (1997)).

³⁰ Citro, C. and Michael, R. (eds) (1995) *Measuring poverty: a new approach*, National Academy Press, Washington DC. Nolan, B. and Whelan, C. (1996) *Resources, deprivation and poverty*, Oxford: Clarendon Press.

³¹ C. DeNavas-Walt, B.D. Proctor, J. Smith, *Income, Poverty, and Health Insurance Coverage in the United States: 2007*, US Census Bureau, <http://www.census.gov/prod/2008pubs/p60-233.pdf> (Poverty thresholds on: p.43)

³² http://epp.eurostat.ec.europa.eu/portal/page/portal/purchasing_power_parities/data/database

Although this threshold seems to have some face validity we doubt that it would be easy to persuade the EU to adopt the US poverty standard. The US poverty standard may have had a rationale based on need when it was first developed in the 1960s but it really has lost it as time has passed.³³ It is now really only an arbitrary income threshold that we are applying to the income distributions of the EU countries. We can find an income threshold that has a better basis in science and we propose one in Section 8.³⁴

³³ “The US poverty line was fully half of median income in 1963, but has fallen to 27 per cent of median by 2006” p746 Smeeding, T. (2009) New comparative measures of income, material deprivation and well-being, *Journal of Policy Analysis and Management*, 28,4. 745-752

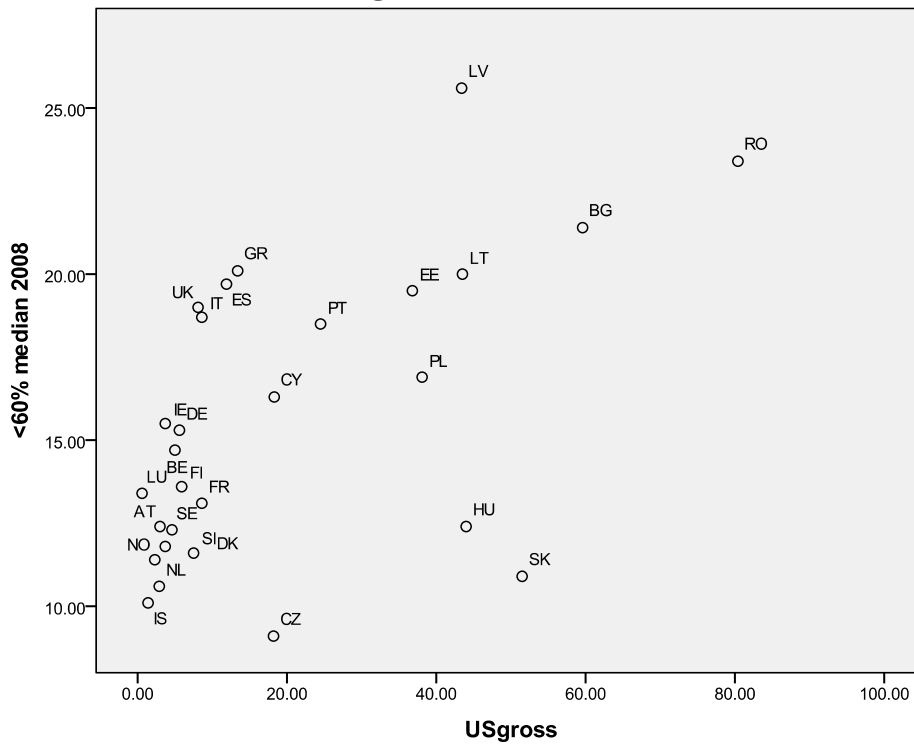
³⁴ However we need to keep in touch with the work going on in the US to produce a Supplemental Poverty Measure (SPM). This new measure will be published in autumn 2011. It is following the general methods espoused by the National Academies of Science (NAS) in their 1995 report. Among the interesting observations from the Interagency Technical Working Group on Developing a Supplemental Poverty Measure (March 2010) is the idea that there should be separate poverty thresholds for renters, homeowners with a mortgage, and homeowners without a mortgage. This is interesting because quite a number of homeowners without a mortgage are found in the extreme poverty group.
http://www.census.gov/hhes/www/poverty/SPM_TWGObservations.pdf>.

Table 4.2: Poverty rates with US poverty thresholds for 2007

| Countries | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO |
|--------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| SILC GROSS income* | 3.0 | 5.0 | 59.6 | 18.3 | 18.2 | 5.6 | 3.7 | 36.8 | 11.9 | 5.9 | 8.6 | 13.4 | 44.0 | 3.7 | 1.4 | 8.6 | 43.5 | 0.6 | 43.4 | 2.9 | 2.3 |
| SILC NET income* | 4.2 | 6.7 | 69.3 | 21.8 | 24.6 | 7.5 | 6.3 | 45.0 | 14.8 | 8.2 | 12.2 | 20.7 | 60.8 | 3.9 | 2.8 | 11.7 | 52.3 | 0.9 | 52.4 | 4.3 | 3.3 |
| <60% median | 12.4 | 14.7 | 21.4 | 16.3 | 9.1 | 15.3 | 11.8 | 19.5 | 19.7 | 13.6 | 13.1 | 20.1 | 12.4 | 15.5 | 10.1 | 18.7 | 20.0 | 13.4 | 25.6 | 10.6 | 11.1 |

*Applying the US poverty line to SILC Gross and Net income without housing allowances

Figure 4.2: Risk-of-poverty using <60% median compared with US poverty line on gross income



SECTION 5: SOCIAL ASSISTANCE

In the survey of poverty thresholds used in the EU we found seven countries (CY, EE, HU, LT, NL, PL and PT) with their main national poverty thresholds linked in some way to their minimum income/social assistance scheme or to other benefits/reimbursements. There were also five countries that use social assistance or minimum income schemes as the basis for a lower poverty threshold (AT, BE, DE, SK and SE). Could social assistance be the basis of an extreme poverty measure in the EU?

As we pointed out in Section 1 we reviewed the sources of data on social assistance payable in different countries. At the time of writing the results of the University of Antwerp model family comparison of minimum income schemes was not yet available. The Canada project had only covered twelve EU countries. So it was decided to use the 2007 OECD *Benefits and Wages* data on social assistance. We obtained this data for two standard family types – a single person and a couple with two children for 2007 from the *Benefits and Wages* database. We ignored housing benefits (the OECD assumes rent at 20 per cent of average earnings), applied the EU 2007 purchasing power parities to the national scales of benefit payable, adjusted it using the modified OECD equivalence scale and then applied it to the 2008 SILC (2007 income) data.

There are two main ways that social assistance might be used as a poverty threshold at an EU level.

First, *national* social assistance scales (or some proportion of them) could be used as poverty thresholds in the same way as 60 per cent of median is used as a threshold for the at-risk-of-poverty rate. The rationale for this is that social assistance represents a level of income that each state has decided should be the minimum in their country. Therefore it makes sense to measure (extreme) poverty on the basis of it. It can be seen in Table 5.1 that the equivalent social assistance rates vary considerable between countries – for a single person from €10,968 in Luxembourg to zero in Greece and Italy and for a couple with two children €1,427 in Luxembourg to zero in Italy³⁵.

³⁵ OECD has not collected social assistance data for Bulgaria and Romania. There is also no data for Denmark.

Table 5.1 Equivalent social assistance rates* for two family types, 2007 Euro PPPs

| Country | Social assistance rate for single person | % of the average | Equivalent social assistance rate for couple+ 2 children | % of the average |
|---------|--|------------------|--|------------------|
| AT | 5443 | 138 | 6881 | 150 |
| BE | 7210 | 183 | 6386 | 139 |
| BG | - | | - | |
| CY | 3356 | 85 | 3387 | 74 |
| CZ | 2185 | 55 | 3009 | 66 |
| DE | 4043 | 103 | 6419 | 140 |
| DK | - | | - | |
| EE | 1016 | 26 | 1646 | 36 |
| ES | 4548 | 116 | 3991 | 87 |
| FI | 6086 | 155 | 6187 | 135 |
| FR | 4202 | 107 | 4099 | 89 |
| GR | 0 | 0 | 324 | 7 |
| HU | 1809 | 46 | 2857 | 62 |
| IE | 8188 | 208 | 9363 | 204 |
| IS | 8056 | 205 | 7761 | 169 |
| IT | 0 | 0 | 0 | 0 |
| LT | 1119 | 28 | 2161 | 47 |
| LU | 10968 | 279 | 11427 | 249 |
| LV | 692 | 18 | 1648 | 36 |
| NL | 9787 | 249 | 7510 | 164 |
| NO | 5103 | 130 | 7226 | 157 |
| PL | 332 | 8 | 1478 | 32 |
| PT | 2601 | 66 | 4191 | 91 |
| RO | - | | - | |
| SE | 3803 | 97 | 4236 | 92 |
| SI | 3179 | 81 | 4942 | 108 |
| SK | 809 | 21 | 1167 | 25 |
| UK | 3899 | 99 | 6416 | 140 |
| Average | 3937 | 100 | 4588 | 100 |

Source: OECD Benefits and Wages Statistics 2007

*Without housing allowances

Table 5.2 applies these thresholds to the SILC income data and produces poverty rates. The poverty rates obtained depend on which family type is taken as the base case. They are in most countries slightly higher poverty rates using the couple plus two, because most countries are more generous to families with children in their social assistance rates than the modified OECD equivalence scale allows. However the poverty rates obtained using this method are very low especially for the EU10 countries.

The alternative is to take a “representative” social assistance threshold and apply it to all countries. There might be a justification for selecting one country’s social assistance scales and applying them to all countries – perhaps on the grounds that that country had scales more clearly related to evidence of the real needs of different household types. However we do not know which country that would be. So in Table 5.3 we have taken the (unweighted) average of the social assistance scales of all countries and applied it to each country’s SILC income data. The average was €937 for a single person and €4588 for a couple plus two children. The poverty rates are now much higher than the 60 per cent of median at-risk-of-poverty rates for the EU 10 countries and generally lower for the EU15 countries (see figure 5.1).

This threshold is of course arbitrary, but it might be justified on the grounds that it is the average of the judgments made by EU governments about the minimum needs of their populations and that it is really no less arbitrary than any other thresholds. A number of countries use their social assistance or minimum income standards as the basis for a poverty threshold. And it is perhaps significant that Ministry of Finance in Latvia have recently told the European Commission that the number of recipients of their Guaranteed Minimum Income is a better reflection of their poverty than that provided by the at risk-of-poverty rate. The GMI is worth €1.90 per adult per day and €2.10 per child per day.

More work needs to be done on social assistance and minimum income schemes to find out who is eligible for them and who actually receives them. But we sense that using social assistance rates to measure poverty is losing credibility – on the one hand, there is no reason why minimum income thresholds should be fixed at the level of poverty – they could be higher or lower. Also if these thresholds are increased (or reduced) in real terms then it has an immediate impact on the numbers counted as poor, meaning that these indicators can easily be manipulated, which violates a key criterion to be met by robust social indicators. For these reasons we find a different basis for establishing an income poverty threshold in section 8.

Table 5.2: Percentage population having net (before housing allowances) equivalent income under single/couple+2 social assistance rates

| | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|---------------------------------------|------|------|------|------|-----|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| % under single SA income | 1.2 | 4.7 | 0.0 | 0.8 | 0.4 | 1.6 | 0.0 | 0.8 | 4.2 | 3.1 | 2.4 | 0.5 | 0.9 | 3.9 | 2.6 | 0.3 | 1.7 | 2.9 | 0.7 | 8.0 | 1.5 | 0.4 | 1.5 | 0.0 | 1.5 | 0.4 | 0.5 | 2.0 |
| % under couple + 2 children SA income | 2.4 | 3.2 | 0.0 | 0.9 | 1.2 | 3.9 | 0.0 | 1.5 | 3.4 | 3.2 | 2.2 | 0.9 | 3.5 | 8.7 | 2.1 | 0.3 | 3.3 | 3.9 | 2.5 | 3.6 | 2.5 | 1.3 | 6.7 | 0.0 | 1.8 | 1.9 | 0.7 | 5.6 |
| <60% median | 12.4 | 14.7 | 21.4 | 16.3 | 9.1 | 15.3 | 11.8 | 19.5 | 19.7 | 13.6 | 13.1 | 20.1 | 12.4 | 15.5 | 10.1 | 18.7 | 20.0 | 13.4 | 25.6 | 10.6 | 11.4 | 16.9 | 18.5 | 23.4 | 12.3 | 11.6 | 10.9 | 19.0 |

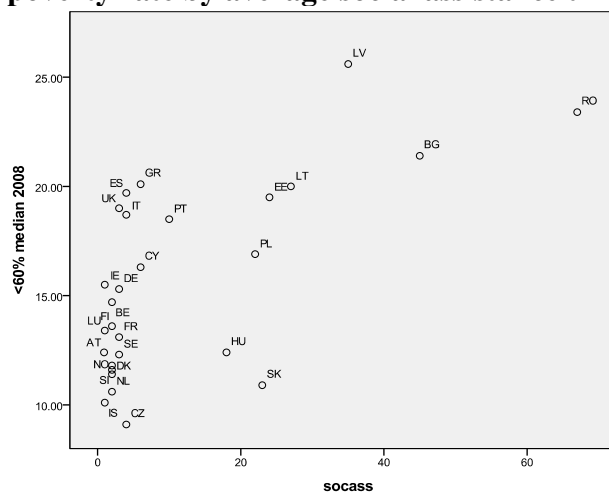
Sources: OECD Benefits and Wages 2007 and SILC 2008

Table 5.3 Percentage population having net (before housing allowances) equivalent income under the EU average net equivalent income (before housing) of different family types on social assistance

| | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|-------------------------------------|------|------|------|------|-----|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| % under EU average single SA income | 0.6 | 1.0 | 31.3 | 1.9 | 2.7 | 1.5 | 1.5 | 10.1 | 3.4 | 0.8 | 1.8 | 3.8 | 11.0 | 0.7 | 0.6 | 2.8 | 16.3 | 0.2 | 21.8 | 1.5 | 1.2 | 15.2 | 5.5 | 57.0 | 1.6 | 0.9 | 11.8 | 2.0 |
| % under EU average couple SA income | 0.9 | 1.3 | 40.0 | 3.5 | 4.2 | 2.0 | 1.6 | 16.9 | 4.3 | 1.2 | 3.0 | 5.8 | 18.7 | 0.9 | 0.7 | 3.6 | 22.0 | 0.3 | 27.8 | 1.7 | 1.4 | 22.3 | 9.2 | 67.0 | 2.0 | 1.4 | 19.4 | 2.6 |
| <60% median | 12.4 | 14.7 | 21.4 | 16.3 | 9.1 | 15.3 | 11.8 | 19.5 | 19.7 | 13.6 | 13.1 | 20.1 | 12.4 | 15.5 | 10.1 | 18.7 | 20.0 | 13.4 | 25.6 | 10.6 | 11.4 | 16.9 | 18.5 | 23.4 | 12.3 | 11.6 | 10.9 | 19.0 |

Sources: OECD Benefits and Wages, SILC 2008

Figure 5.1: <60 per cent median poverty rate by average social assistance threshold couple plus 2 children



SECTION 6: LOWER RELATIVE INCOME THRESHOLDS

One obvious alternative to the 60 per cent of median threshold is to take a lower cut off point than 60 per cent. In the survey of poverty thresholds that were being used by EU governments the most commonly mentioned lower poverty threshold was a lower relative income poverty threshold – 40 or 50 per cent of the median equivalent income. The countries that were employing these lower thresholds as their lower national thresholds include DE, ES, FR, HR, LV, LT, LU, MT, RO, UK.

Table 6.1 gives the poverty rates that would be obtained at different percentages of median income.

Table 6.1 Percentage population under 10/20/30/40/50/60/70/80/90/100% median equivalent household income

| Country | 10% | 20% | 30% | 40% | 50% | 60% | 70% | 80% | 90% | 100% |
|---------|-----|-----|-----|------|------|------|------|------|------|------|
| AT | 0.1 | 0.4 | 1.1 | 2.4 | 5.8 | 12.4 | 20.1 | 30.5 | 40.7 | 50.0 |
| BE | 0.2 | 0.5 | 1.2 | 3.0 | 7.3 | 14.7 | 23.6 | 32.0 | 40.9 | 50.0 |
| BG | 0.7 | 1.7 | 4.4 | 8.4 | 14.4 | 21.4 | 28.9 | 36.4 | 43.5 | 50.0 |
| CY | 0.1 | 0.2 | 0.7 | 3.0 | 8.1 | 16.3 | 23.0 | 31.9 | 41.2 | 50.0 |
| CZ | 0.1 | 0.3 | 0.9 | 2.3 | 4.7 | 9.1 | 16.5 | 27.1 | 39.0 | 50.0 |
| DE | 0.4 | 0.9 | 2.2 | 4.6 | 9.0 | 15.3 | 22.7 | 31.6 | 41.1 | 50.0 |
| DK | 0.5 | 0.8 | 1.6 | 3.0 | 5.6 | 11.8 | 19.5 | 29.3 | 39.7 | 50.0 |
| EE | 0.4 | 1.1 | 2.8 | 5.4 | 11.3 | 19.5 | 27.7 | 35.2 | 42.8 | 50.0 |
| ES | 0.7 | 1.7 | 3.2 | 6.2 | 12.2 | 19.7 | 26.6 | 34.4 | 42.5 | 50.0 |
| FI | 0.1 | 0.3 | 0.9 | 2.5 | 6.4 | 13.6 | 22.4 | 31.2 | 40.4 | 50.0 |
| FR | 0.1 | 0.4 | 1.1 | 2.8 | 6.5 | 13.1 | 20.9 | 30.8 | 41.1 | 50.0 |
| GR | 0.4 | 1.2 | 2.7 | 6.2 | 12.3 | 20.1 | 26.9 | 34.4 | 41.7 | 50.0 |
| HU | 0.0 | 0.3 | 1.0 | 2.7 | 6.3 | 12.4 | 20.5 | 29.6 | 40.5 | 50.0 |
| IE | 0.1 | 0.6 | 1.3 | 2.9 | 8.3 | 15.5 | 25.6 | 34.2 | 42.4 | 50.0 |
| IS | 0.3 | 0.5 | 1.1 | 2.3 | 4.4 | 10.1 | 17.2 | 27.4 | 39.1 | 50.0 |
| IT | 0.7 | 1.6 | 3.0 | 6.2 | 11.2 | 18.7 | 25.9 | 34.4 | 42.3 | 50.0 |
| LT | 0.4 | 1.6 | 2.9 | 6.5 | 13.4 | 20.0 | 27.7 | 35.1 | 42.6 | 50.0 |
| LU | 0.0 | 0.2 | 0.9 | 2.4 | 6.5 | 13.4 | 21.1 | 29.7 | 40.7 | 50.0 |
| LV | 0.5 | 1.7 | 4.3 | 10.5 | 18.4 | 25.6 | 31.5 | 38.3 | 44.3 | 50.0 |
| NL | 0.1 | 0.8 | 1.3 | 2.3 | 4.6 | 10.6 | 18.2 | 29.0 | 40.1 | 50.0 |
| NO | 0.4 | 0.9 | 1.9 | 3.5 | 6.5 | 11.4 | 17.4 | 26.6 | 37.6 | 50.0 |
| PL | 0.3 | 1.0 | 2.4 | 5.1 | 10.1 | 16.9 | 24.8 | 33.2 | 41.8 | 50.0 |
| PT | 0.4 | 1.0 | 2.3 | 5.6 | 11.8 | 18.5 | 27.2 | 34.6 | 41.9 | 50.0 |
| RO | 0.9 | 3.1 | 6.6 | 11.2 | 16.6 | 23.4 | 30.1 | 36.2 | 43.1 | 50.0 |
| SE | 0.4 | 1.0 | 1.7 | 3.2 | 6.2 | 12.3 | 20.3 | 29.8 | 40.2 | 50.0 |
| SI | 0.1 | 0.3 | 1.2 | 2.8 | 6.3 | 11.6 | 18.0 | 28.1 | 38.7 | 50.0 |
| SK | 0.3 | 0.7 | 1.7 | 3.0 | 5.7 | 10.9 | 18.0 | 28.0 | 40.1 | 50.0 |
| UK | 0.6 | 1.1 | 2.6 | 5.7 | 11.3 | 19.0 | 26.9 | 34.7 | 42.6 | 50.0 |

Source: SILC 2008

There are really three objections to lower relative thresholds as thresholds of extreme poverty in the EU.

First, there is evidence that income is less reliable as you move down the distribution. For example it can be seen in Table 6.2 that the proportion of farmers and the self employed is higher the lower the threshold. It may be that many of these households have very low incomes, but it is well known how difficult it is to collect accurate income data from the self-employed.

Table 6.2: % farmers and self employed by income threshold

| | <30% median | <40% median | <50% median | <60% median | All households |
|-----------------|----------------|----------------|----------------|----------------|-------------------|
| % farmers | 24.5 | 21.8 | 20.3 | 19.1 | 9.5 |
| % self-employed | 29.8 | 28.3 | 27.9 | 27.6 | 20.8 |

Second, it should be recognised that in many of the EU-10 and current/potential candidate countries the 60 per cent threshold is already very low. Among the countries that use the 60 per cent of median threshold at national level, the threshold for a couple with two children in 2008 in purchasing power parity terms per person per day was €1.71 in Romania, €4.09 in Latvia and €9.68 in Greece. Among the other poorer countries which do not use the at-risk-of-poverty thresholds at national level, the relative threshold was €2.22 in Bulgaria, €5.67 in Estonia, €3.76 in Hungary, €4.09 in Lithuania, €3.70 in Poland and €4.33 in Slovakia per person per day.

Third, a lower relative poverty threshold does not get over the objections made about the 60 per cent of median at-risk-of-poverty threshold. It remains relative and not necessarily extreme.

SECTION 7: DEPRIVATION MEASURES

Deprivation indicators were first introduced into poverty measurement by Peter Townsend³⁶ - in order to operationalise his relative concept of poverty, and to broaden the range of resources taken into account. He drew up a list of items and activities that he believed no one should go without and then asked respondent in his survey whether they lacked them. He counted as poor those lacking three or more items. His work was criticised: his choice of deprivation items was said to be arbitrary; he did not distinguish between those who did not have his items because they could not afford them or did not want them; and there was no very good reason why the threshold should be drawn at three items. His method was developed in the Breadline Britain studies. Initially Mack and Lansley³⁷ developed the concept of socially perceived necessities. Only items would be included as deprivation indicators if more than half the population thought that they were necessities that people should not have to do without in modern Britain. They also only counted items as absent if respondents said they lacked them, wanted them but could not afford them. The methods were used again by Gordon and Pantazis³⁸ and techniques were developed³⁹ for weighting the items by the proportion of the population who already possessed them – now known as prevalence weighting. The last study in Britain using this method was the *Poverty and Social Exclusion Survey (PSE)*⁴⁰. The UK government introduced a suite of deprivation items into the main income survey the Family Resources Survey, drawing on the results of the PSE study, and that study was also influential when the EU Social Protection Committee developed indicators for EU SILC.

Guio⁴¹ explored the deprivation indicators in EU SILC 2005. She distinguished between a set of five indicators of economic strain:

The household could not afford:

- To face unexpected expenses
- One week annual holiday away from home
- To pay for arrears (mortgage or rent, utility bills or hire purchase instalments)
- A meal with meat, chicken or fish every second day
- To keep home adequately warm

A set of four indicators of durables

³⁶ Townsend, P. (1979) *Poverty in the United Kingdom*, London: Allen Lane and Penguin Books.

³⁷ Mack, J. and Lansley, S. (1985) *Poor Britain*, London: Allen and Unwin

³⁸ Gordon, D. and Pantazis, C. (1997) *Breadline Britain in the 1990s*, Ashgate: Aldershot.

³⁹ Bradshaw, J.R., Holmes, H. and Hallerod, B. (1995) 'Adapting the consensual definition of poverty', pp 168-190 in Gordon, D. and Pantazis, C. (eds), *Breadline Britain in the 1990s*, Department of Social Policy and Planning, University of Bristol: Bristol

⁴⁰ Pantazis, C., Gordon, D. and Levitas, R. (Eds) (2006) *Poverty and Social Exclusion in Britain*. Bristol, The Policy Press.

Gordon, D., Adelman, A., Ashworth, K., Bradshaw, J., Levitas, R., Middleton, S., Pantazis, C., Patsios, D., Payne, S., Townsend, P. and Williams, J. (2000), *Poverty and social exclusion in Britain*. York, Joseph Rowntree Foundation.

⁴¹ Guio, A.-C. (2009) "What can be learned from deprivation indicators in Europe? Paper presented at the Indicators Sub-Group of the Social Protection Committee", Eurostat Methodological Working Papers

http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-09-007/EN/KS-RA-09-007-EN.PDF

The household could not afford (if wanted to):

- To have a washing machine
- To have a colour TV
- To have a telephone
- To have a personal car

A set of five housing indicators (she did not include the sixth housing indicator which was not adopted until 2008).

The dwelling suffers from:

- Leaking roof/damp walls/floors/foundations or rot in the window frames
- Accommodation too dark
- No bath or shower
- No indoor flushing toilet for sole use of the household
- Lack of space (defined as an insufficient number of rooms compared to the number of persons)
- Spending more than 40 per cent of income net of housing costs on housing

Table 7.1 gives the proportion of households lacking each of these items in 2008. It is apparent that there are very small proportions of households in any country lacking washing machines (except RO and BG), phones and coloured TV, but higher proportions facing unexpected expenses, lacking a holiday away from home and having lack of space and with burdensome housing costs.

Table 7.1: Deprivation items lacking in each country

| | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK | Tot |
|------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| expenses | 29.5 | 24.0 | 57.5 | 38.7 | 37.9 | 34.8 | 24.4 | 19.7 | 27.3 | 29.5 | 33.4 | 26.6 | 67.6 | 40.9 | 24.6 | 31.6 | 38.7 | 19.6 | 56.8 | 19.4 | 12.6 | 50.7 | 26.2 | 41.9 | 19.1 | 44.5 | 38.5 | 28.7 | 33.7 |
| holiday | 28.3 | 26.1 | 59.1 | 46.5 | 39.0 | 25.2 | 9.9 | 44.2 | 34.1 | 18.1 | 30.0 | 49.8 | 66.5 | 30.3 | 3.2 | 39.8 | 59.6 | 12.3 | 55.2 | 14.1 | 6.5 | 63.6 | 64.3 | 75.7 | 10.5 | 30.4 | 57.2 | 24.2 | 36.2 |
| meat | 13.4 | 5.0 | 29.7 | 5.3 | 12.2 | 10.9 | 1.7 | 5.3 | 1.9 | 3.2 | 6.2 | 7.2 | 26.1 | 3.0 | 2.6 | 7.6 | 19.1 | 1.5 | 23.3 | 1.8 | 2.1 | 20.8 | 4.1 | 19.5 | 2.3 | 12.1 | 29.2 | 4.3 | 9.2 |
| warm | 4.0 | 6.4 | 33.8 | 28.5 | 6.1 | 5.9 | - | 1.1 | 4.9 | 1.9 | 4.7 | 15.4 | 9.7 | 3.7 | 1.0 | 11.3 | 22.1 | 0.9 | 16.6 | 1.8 | 0.9 | 20.2 | 34.9 | 24.8 | 1.5 | 5.6 | 6.0 | 6.0 | 9.4 |
| arrears | 7.3 | 7.0 | 35.5 | 13.2 | 4.4 | 5.8 | 4.0 | 8.6 | 7.1 | 10.5 | 9.3 | 24.5 | 16.5 | 10.8 | 10.1 | 15.8 | 8.1 | 2.4 | 14.1 | 4.1 | 8.2 | 11.5 | 6.5 | 25.3 | 6.2 | 16.1 | 5.3 | 5.2 | 10.0 |
| TV | 0.5 | 0.4 | 3.1 | 0.1 | 0.2 | 0.6 | 0.3 | 0.4 | 0.1 | 1.0 | 0.2 | 0.3 | 0.7 | 0.1 | 0.4 | 0.3 | 1.0 | 0.0 | 0.7 | 0.1 | 0.4 | 0.6 | 0.5 | 2.6 | 0.7 | 0.6 | 0.4 | 0.1 | 0.5 |
| washing machine | 0.7 | 1.6 | 15.3 | 0.5 | 0.3 | 0.5 | 1.1 | 2.5 | 0.2 | 1.2 | 0.9 | 2.2 | 2.1 | 0.4 | 0.2 | 0.4 | 4.8 | 0.1 | 5.1 | 0.2 | 0.3 | 0.9 | 2.5 | 20.2 | 0.1 | 0.2 | 0.8 | 0.4 | 1.8 |
| car | 7.1 | 6.3 | 28.0 | 1.4 | 11.0 | 5.1 | 7.6 | 16.9 | 4.6 | 8.1 | 3.3 | 8.9 | 20.4 | 8.6 | 1.5 | 2.9 | 12.6 | 1.7 | 24.4 | 5.0 | 4.9 | 16.8 | 9.4 | 48.9 | 3.3 | 3.4 | 20.5 | 5.1 | 8.8 |
| telephone | 0.5 | 0.2 | 4.5 | 0.3 | 0.6 | 0.3 | 0.0 | 0.7 | 0.2 | 0.1 | 0.7 | 0.5 | 2.1 | 0.2 | 0.0 | 1.1 | 2.1 | 0.0 | 1.7 | 0.0 | 0.1 | 1.4 | 4.5 | 12.5 | 0.0 | 0.3 | 1.4 | 0.1 | 1.2 |
| leaky | 13.6 | 18.2 | 30.5 | 26.5 | 13.8 | 14.0 | 8.7 | 17.1 | 15.7 | 4.4 | 14.2 | 18.6 | 30.8 | 11.9 | 19.9 | 20.4 | 24.7 | 16.2 | 25.5 | 15.6 | 8.1 | 22.9 | 18.9 | 24.3 | 8.0 | 30.2 | 9.2 | 15.0 | 17.0 |
| dark | 6.9 | 7.9 | 8.0 | 4.6 | 4.1 | 4.4 | 4.4 | 5.4 | 5.8 | 5.1 | 8.4 | 6.8 | 10.1 | 5.4 | 1.6 | 8.0 | 10.2 | 5.6 | 11.6 | 4.0 | 4.0 | 8.5 | 11.6 | 8.2 | 6.6 | 11.8 | 4.4 | 10.3 | 7.3 |
| No bath | 0.7 | 0.8 | 28.0 | 0.8 | 1.4 | 0.4 | 0.7 | 15.1 | 0.1 | 5.1 | 0.8 | 1.6 | 4.1 | 1.4 | 0.1 | 0.2 | 19.6 | 0.4 | 20.1 | 1.0 | 0.1 | 7.5 | 3.2 | 42.4 | 0.4 | 1.6 | 2.6 | 0.5 | 3.8 |
| No WC | 1.6 | 0.8 | 38.3 | 0.8 | 1.8 | 1.3 | 0.0 | 14.1 | 0.1 | 4.8 | 0.9 | 2.5 | 6.7 | 0.9 | 0.2 | 0.2 | 20.6 | 0.7 | 18.2 | 1.1 | 0.1 | 6.9 | 2.6 | 42.6 | 0.0 | 1.5 | 3.7 | 0.6 | 4.1 |
| No space | 30.6 | 8.9 | 67.1 | 4.5 | 51.3 | 18.8 | 13.4 | 59.1 | 9.0 | 11.6 | 20.0 | 53.6 | 67.6 | 8.7 | 17.6 | 43.3 | 67.4 | 16.7 | 74.1 | 5.2 | 11.5 | 63.2 | 33.7 | 76.5 | 19.2 | 61.6 | 60.1 | 16.1 | 30.6 |
| Household burden | 27.4 | 41.3 | 49.0 | 14.4 | 46.0 | 64.0 | 31.9 | 14.8 | 23.1 | 24.7 | 27.1 | 57.2 | 43.9 | 21.4 | 36.8 | 24.9 | 17.6 | 19.7 | 28.1 | 62.1 | 36.5 | 48.0 | 28.1 | 60.0 | 28.9 | 18.6 | 35.1 | 52.8 | 41.9 |

Source: EU SILC 2008

- Missing data for Denmark. This means that the Denmark results from hereon are not strictly comparable.

Arrears: made up of three elements: arrears on mortgage, on utility bills and on hire purchase. 'Yes, once' and 'Yes, twice or more' coded as 1, 'no' coded as 0.

Bath, Toilet: 'yes but not for sole use', 'no' coded as 1, 'sole use' coded as 0

Having undertaken exploratory analysis, Guio concluded that the economic strain and durable indicators could be treated as a single deprivation index, but the housing indicators should be excluded because they co-varied less with the other domain variables. Her index has since become the standard used in comparative analysis of SILC and the Social Inclusion indicators include the proportion lacking three or more items and the new 2020 target includes those lacking four or more items.

However, we decided to revisit some of Guio’s analysis on 2008 SILC data with the extra countries and using the additional housing indicator. We explored the co-variance of the indicators and also assessed the scalability of the index using Cronbach’s Alpha. We found that including six housing indicators produced a higher Cronbach’s Alpha than the Guio nine item index – it increased from 0.69 to 0.71. However we also found that ‘accommodation too dark’⁴², ‘spending more than 40 per cent of income on housing’ and ‘overcrowded’⁴³ did not contribute to the overall scale and when they were dropped the Cronbach’s Alpha improved further to 0.73. Table 7.2 summarises the results.

Table 7.2: Scalability analysis of deprivation items*

| Item | Item test correlation | alpha | Item test correlation | alpha |
|--------------------------------|-----------------------|--------|-----------------------|--------|
| Unexpected expenses | 0.6689 | 0.6669 | 0.6917 | 0.6909 |
| 1 week holiday | 0.6954 | 0.6608 | 0.7232 | 0.6823 |
| Meat every 2 nd day | 0.5624 | 0.6824 | 0.5976 | 0.6981 |
| Home warm | 0.4741 | 0.6934 | 0.5099 | 0.7109 |
| Pay for arrears | 0.4233 | 0.699 | 0.4283 | 0.7219 |
| Colour TV | 0.2237 | 0.7118 | 0.246 | 0.7312 |
| Washing machine | 0.3822 | 0.7029 | 0.4192 | 0.7201 |
| Car | 0.4859 | 0.6921 | 0.5029 | 0.7126 |
| Telephone | 0.3244 | 0.7069 | 0.3582 | 0.725 |
| Leaky house | 0.4438 | 0.7018 | 0.4634 | 0.7277 |
| Dark house | 0.2911 | 0.7107 | | |
| No bath for sole use | 0.472 | 0.6939 | 0.518 | 0.709 |
| No WC for sole use | 0.4693 | 0.6941 | 0.5154 | 0.7092 |
| Overcrowded | 0.4238 | 0.7131 | | |
| Housing cost burden | 0.3765 | 0.7245 | | |
| Total | | 0.7122 | | 0.7303 |

*Household cannot afford or does not have deprivation item.

We also assessed the scalability of this 12 item index for each country and found that it was highest in Bulgaria (0.76) and Romania (0.77); and it exceeded 0.60 in all countries except five⁴⁴. The composite index Cronbach’s Alphas are higher than the Guio index in all the EU 10 plus 2 countries and PT and GR and the same or very similar in most of the other

⁴² Even after adjusting for a reverse coding error for Iceland in the data set this variable reduced the scalability.

⁴³ We also found that at the country level overcrowding was negatively associated with the other items in the scale in RO, SK, LV, LT and BG we suspect that this may be due to rural poverty – the rural poor living in larger houses.

⁴⁴ DK (0.52) partly explained by missing home warm, ES (0.57), IS (0.40), NE (0.56), SW (0.54)

countries⁴⁵. We decided that there are reasons for including the extra three housing indicators in a study designed to explore measures of extreme poverty. We will call this the composite index.

Table 7.3 summarises the number of items in the Guio index lacking for each country. It can be seen that 50.7 per cent in the EU as a whole lack none of the items and less than 0.1 per cent in the EU lack all nine items.

Table 7.3: Percentage of people in households by the number of deprivation items lacking Guio index. EU SILC 2008

| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total |
|-------|------|------|------|------|------|-----|-----|-----|-----|-----|-------|
| AT | 57.0 | 17.7 | 11.6 | 7.4 | 4.1 | 1.7 | 0.4 | 0.2 | 0.0 | 0.0 | 100 |
| BE | 64.5 | 14.0 | 9.9 | 6.0 | 3.5 | 1.5 | 0.5 | 0.1 | 0.0 | 0.0 | 100 |
| BG | 9.6 | 24.5 | 15.0 | 19.4 | 15.6 | 8.7 | 4.2 | 1.9 | 1.1 | 0.1 | 100 |
| CY | 40.8 | 17.6 | 18.3 | 15.1 | 6.6 | 1.3 | 0.3 | 0.0 | 0.0 | 0.0 | 100 |
| CZ | 48.0 | 18.6 | 17.3 | 9.4 | 4.5 | 1.5 | 0.6 | 0.1 | 0.1 | 0.0 | 100 |
| DE | 57.3 | 16.9 | 12.8 | 7.5 | 3.9 | 1.2 | 0.3 | 0.0 | 0.0 | 0.0 | 100 |
| DK | 69.9 | 18.2 | 6.9 | 3.5 | 1.2 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| EE | 47.2 | 26.0 | 14.4 | 7.6 | 3.4 | 0.9 | 0.3 | 0.1 | 0.1 | 0.0 | 100 |
| ES | 56.3 | 19.1 | 15.8 | 6.2 | 1.9 | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 | 100 |
| FI | 61.4 | 17.7 | 11.8 | 5.7 | 2.5 | 0.8 | 0.1 | 0.1 | 0.0 | 0.0 | 100 |
| FR | 56.1 | 17.8 | 14.3 | 7.1 | 3.3 | 1.0 | 0.3 | 0.0 | 0.0 | 0.0 | 100 |
| GR | 40.0 | 23.0 | 15.2 | 10.6 | 7.0 | 3.4 | 0.6 | 0.2 | 0.1 | 0.0 | 100 |
| HU | 17.0 | 20.3 | 25.7 | 19.2 | 10.1 | 5.4 | 1.8 | 0.5 | 0.0 | 0.0 | 100 |
| IE | 52.1 | 19.4 | 15.0 | 8.1 | 3.7 | 1.4 | 0.4 | 0.0 | 0.0 | 0.0 | 100 |
| IS | 69.5 | 21.1 | 6.8 | 1.7 | 0.7 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| IT | 48.1 | 20.9 | 14.9 | 8.6 | 4.6 | 2.0 | 0.7 | 0.2 | 0.0 | 0.0 | 100 |
| LT | 29.8 | 24.3 | 18.9 | 12.0 | 8.2 | 4.4 | 1.8 | 0.5 | 0.1 | 0.0 | 100 |
| LU | 76.6 | 12.8 | 7.1 | 2.8 | 0.5 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| LV | 26.0 | 18.9 | 19.8 | 16.2 | 9.6 | 5.8 | 2.4 | 0.9 | 0.3 | 0.1 | 100 |
| NL | 74.0 | 12.7 | 8.1 | 3.7 | 1.2 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| NO | 81.2 | 9.4 | 4.9 | 2.6 | 1.3 | 0.4 | 0.2 | 0.0 | 0.0 | 0.0 | 100 |
| PL | 27.3 | 18.6 | 21.8 | 14.6 | 10.5 | 5.3 | 1.6 | 0.3 | 0.1 | 0.0 | 100 |
| PT | 30.3 | 24.3 | 22.4 | 13.3 | 6.2 | 2.3 | 0.8 | 0.3 | 0.0 | 0.0 | 100 |
| RO | 15.8 | 15.5 | 18.1 | 17.4 | 14.1 | 9.5 | 5.2 | 3.2 | 1.0 | 0.3 | 100 |
| SE | 74.2 | 14.4 | 6.9 | 3.1 | 1.1 | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 | 100 |
| SI | 46.1 | 20.9 | 16.1 | 10.3 | 4.8 | 1.5 | 0.3 | 0.0 | 0.0 | 0.0 | 100 |
| SK | 32.0 | 21.2 | 19.0 | 16.0 | 8.4 | 2.2 | 0.9 | 0.2 | 0.1 | 0.0 | 100 |
| UK | 64.4 | 13.2 | 11.9 | 6.4 | 3.1 | 0.9 | 0.2 | 0.0 | 0.0 | 0.0 | 100 |
| Total | 50.7 | 17.7 | 14.6 | 8.8 | 4.9 | 2.1 | 0.8 | 0.3 | 0.1 | 0.0 | 100 |

⁴⁵ The exceptions are BE (.05), DK (.03), IS (.04), LU (.04), NL (.03), NO (.04), SE (.03)

Table 7.4 summarises the numbers of items in our composite index lacking for each country. It can be seen that 45.4 per cent lack no items and less than 0.1 per cent lack 12 or more items.

Table 7.4: Percentage of people living in households the number of deprivation items lacking. Composite index. EU SILC 2008

| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Total |
|-------|------|------|------|------|------|------|-----|-----|-----|-----|-----|-----|-----|-------|
| AT | 51.2 | 20.4 | 12.0 | 8.0 | 4.6 | 2.4 | 0.9 | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| BE | 55.8 | 19.5 | 10.4 | 6.6 | 3.7 | 2.6 | 0.8 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| BG | 6.1 | 17.8 | 14.4 | 14.7 | 14.1 | 10.5 | 8.8 | 6.0 | 3.3 | 2.3 | 1.2 | 0.9 | 0.1 | 100 |
| CY | 34.4 | 18.6 | 17.5 | 15.1 | 9.8 | 3.6 | 0.9 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| CZ | 43.6 | 19.9 | 17.0 | 10.1 | 5.3 | 2.6 | 0.9 | 0.5 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 100 |
| DE | 51.6 | 19.5 | 13.0 | 8.5 | 4.5 | 2.0 | 0.6 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| DK | 65.2 | 20.8 | 7.8 | 3.6 | 1.6 | 0.8 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| EE | 38.6 | 23.5 | 15.6 | 10.0 | 6.3 | 3.1 | 1.6 | 0.6 | 0.4 | 0.2 | 0.0 | 0.0 | 0.0 | 100 |
| ES | 50.7 | 21.2 | 15.9 | 7.5 | 3.5 | 0.8 | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| FI | 56.8 | 18.3 | 13.5 | 6.2 | 3.3 | 1.4 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| FR | 50.9 | 20.0 | 14.0 | 8.3 | 4.2 | 1.8 | 0.6 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| GR | 35.8 | 22.4 | 15.7 | 11.3 | 7.5 | 4.6 | 1.9 | 0.5 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| HU | 14.1 | 18.5 | 22.3 | 18.8 | 11.6 | 6.9 | 4.5 | 1.9 | 0.9 | 0.3 | 0.2 | 0.0 | 0.0 | 100 |
| IE | 48.5 | 20.0 | 15.0 | 8.7 | 4.3 | 2.4 | 0.9 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| IS | 56.7 | 29.7 | 9.0 | 3.2 | 1.0 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| IT | 41.8 | 23.2 | 14.8 | 9.6 | 5.6 | 3.0 | 1.2 | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| LT | 23.8 | 20.3 | 16.4 | 12.8 | 10.2 | 6.7 | 5.0 | 2.5 | 1.1 | 1.0 | 0.1 | 0.1 | 0.0 | 100 |
| LU | 66.2 | 19.8 | 8.5 | 3.7 | 1.4 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| LV | 21.1 | 16.3 | 17.2 | 14.6 | 11.3 | 8.5 | 4.5 | 2.5 | 2.2 | 1.2 | 0.5 | 0.1 | 0.1 | 100 |
| NL | 64.4 | 19.1 | 8.5 | 5.1 | 2.0 | 0.8 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| NO | 76.1 | 13.2 | 5.3 | 2.9 | 1.7 | 0.6 | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| PL | 24.8 | 17.2 | 18.9 | 14.9 | 10.3 | 6.7 | 3.6 | 1.9 | 1.1 | 0.4 | 0.1 | 0.0 | 0.0 | 100 |
| PT | 27.9 | 22.7 | 20.7 | 14.0 | 7.6 | 3.9 | 1.9 | 0.6 | 0.3 | 0.2 | 0.2 | 0.0 | 0.0 | 100 |
| RO | 13.8 | 10.5 | 12.4 | 12.9 | 12.2 | 11.1 | 8.9 | 7.5 | 4.0 | 3.5 | 2.2 | 0.7 | 0.3 | 100 |
| SE | 69.3 | 17.7 | 7.5 | 3.5 | 1.4 | 0.6 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| SI | 37.5 | 23.0 | 15.8 | 11.9 | 6.6 | 3.3 | 1.3 | 0.4 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 100 |
| SK | 30.1 | 20.6 | 19.0 | 15.4 | 9.1 | 3.3 | 1.4 | 0.6 | 0.4 | 0.1 | 0.1 | 0.0 | 0.0 | 100 |
| UK | 57.5 | 17.4 | 11.7 | 7.3 | 3.8 | 1.7 | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| Total | 45.4 | 19.4 | 14.1 | 9.3 | 5.5 | 3.1 | 1.5 | 0.8 | 0.4 | 0.3 | 0.1 | 0.1 | 0.0 | 100 |

There are a variety of different ways of producing a deprivation threshold from these data.

First we can count the number of items lacking and apply a poverty threshold to the count. In Figure 7.1a we show the proportion of households in each country lacking 2, 3, 4, 5 or more items from the Guio index and in 7.1b we show the proportion of households lacking 3, 4, 5 and 6 or more items from the composite index. It can be seen that there are some rerankings of countries depending on which threshold is used.

Figure 7.1a: Percentage of households lacking 2+, 3+, 4+ and 5+ Guio deprivation items. EU SILC 2008

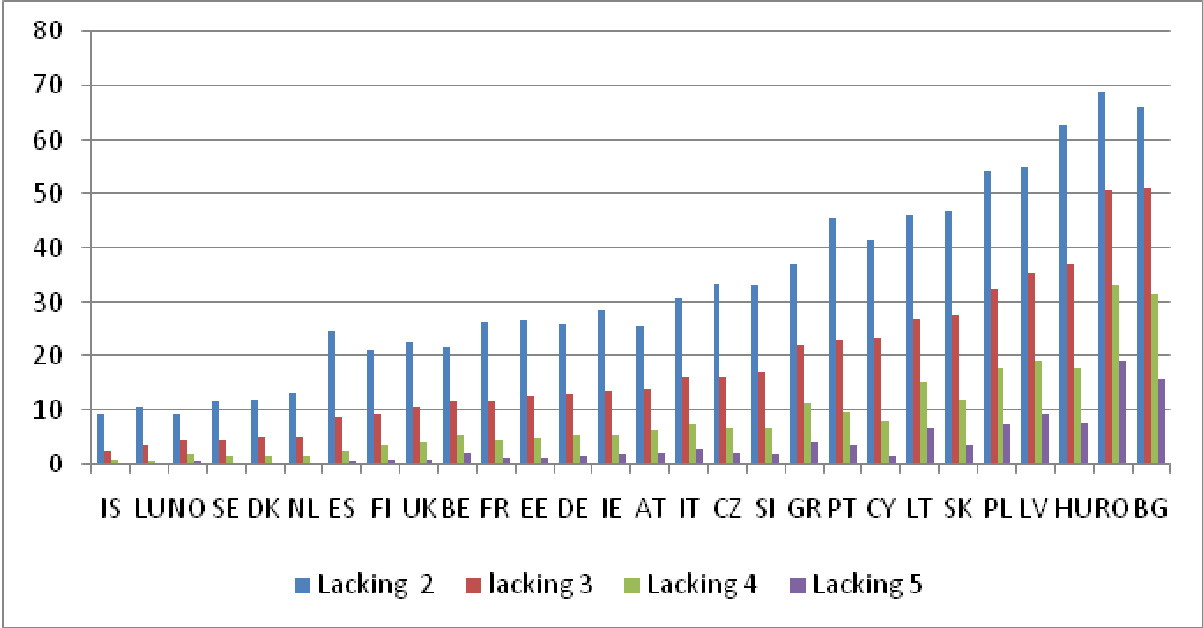
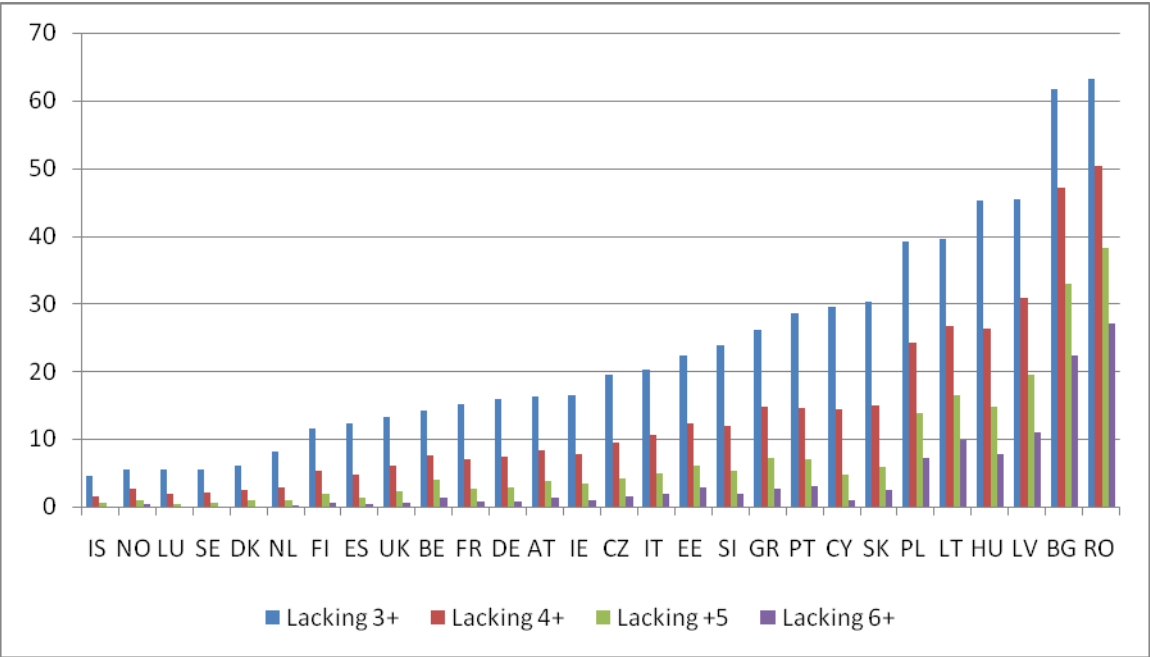


Figure 7.1b: Percentage of households lacking 3+, 4+, 5+ and 6+ composite deprivation items. EU SILC 2008



Assessing deprivation by the numbers of items lacking gives equal weight to each deprivation indicator. One development from this is to weight each item by the proportion of the households in the EU which have the item. The effect of this is to give more weight to the lack by a small minority of households of an item such as a washing machine which the vast majority of households in the EU possess. The underlying justification of this is that because

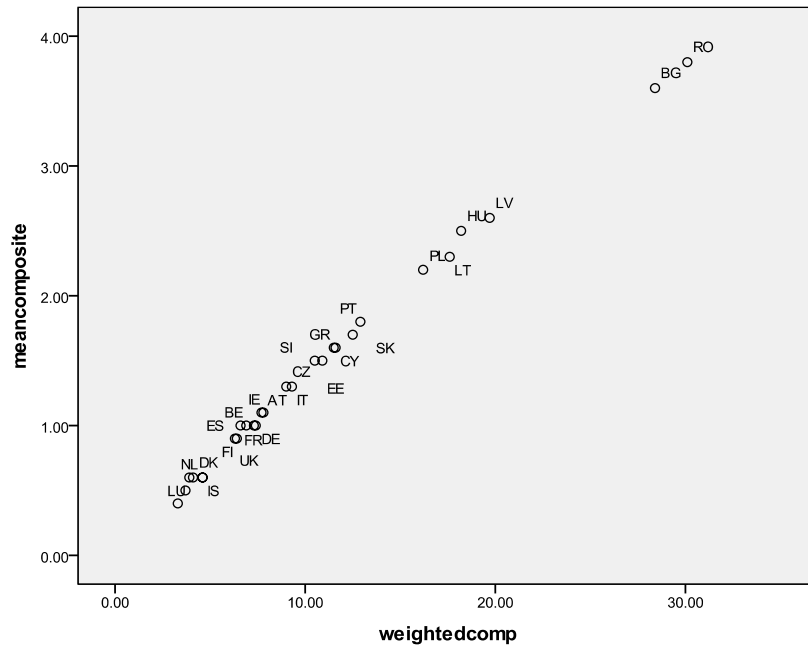
most people have it, lacking it means a greater deprivation. It can be seen in Table 7.5 that the mean prevalence weighted deprivation score for the composite index varies from 3.3 in Norway to 30.1 per cent in Bulgaria and for the Guio index from 3.4 per cent in Luxembourg to 27.7 per cent in Romania.

Table 7.5: Mean prevalence weighted deprivation and mean deprivation compared Composite and Guio indices.

| Composite Index | | | Guio Index | | |
|-----------------|--------------------------------------|------------------|------------|--------------------------------------|------------------|
| Country | Prevalence weighted mean deprivation | Mean deprivation | Country | Prevalence weighted mean deprivation | Mean deprivation |
| NO | 3.3 | 0.4 | LU | 3.4 | 0.4 |
| SE | 3.7 | 0.5 | NO | 3.5 | 0.4 |
| LU | 3.9 | 0.6 | SE | 4.1 | 0.4 |
| DK | 4.1 | 0.6 | IS | 4.1 | 0.4 |
| NL | 4.6 | 0.6 | NL | 4.3 | 0.5 |
| IS | 4.6 | 0.6 | DK | 4.5 | 0.5 |
| UK | 6.3 | 0.9 | UK | 6.8 | 0.7 |
| FI | 6.4 | 0.9 | FI | 6.9 | 0.7 |
| ES | 6.6 | 1.0 | ES | 7.2 | 0.8 |
| BE | 6.9 | 1.0 | BE | 7.2 | 0.8 |
| FR | 7.3 | 1.0 | FR | 8.1 | 0.9 |
| DE | 7.4 | 1.0 | DE | 8.3 | 0.9 |
| AT | 7.7 | 1.1 | AT | 8.7 | 0.9 |
| IE | 7.8 | 1.1 | IE | 9.0 | 1.0 |
| CZ | 9.0 | 1.3 | EE | 9.3 | 1.0 |
| IT | 9.3 | 1.3 | CZ | 10.3 | 1.1 |
| SI | 10.5 | 1.5 | IT | 10.4 | 1.1 |
| EE | 10.9 | 1.5 | SI | 10.6 | 1.1 |
| GR | 11.5 | 1.6 | CY | 12.7 | 1.3 |
| CY | 11.6 | 1.6 | GR | 13.1 | 1.4 |
| SK | 12.5 | 1.7 | PT | 14.7 | 1.5 |
| PT | 12.9 | 1.8 | SK | 15.2 | 1.6 |
| PL | 16.2 | 2.2 | LT | 16.2 | 1.7 |
| LT | 17.6 | 2.3 | PL | 17.7 | 1.9 |
| HU | 18.2 | 2.5 | LV | 19.2 | 2.0 |
| LV | 19.7 | 2.6 | HU | 20.0 | 2.1 |
| BG | 28.4 | 3.6 | BG | 27.0 | 2.7 |
| RO | 30.1 | 3.8 | RO | 27.7 | 2.7 |

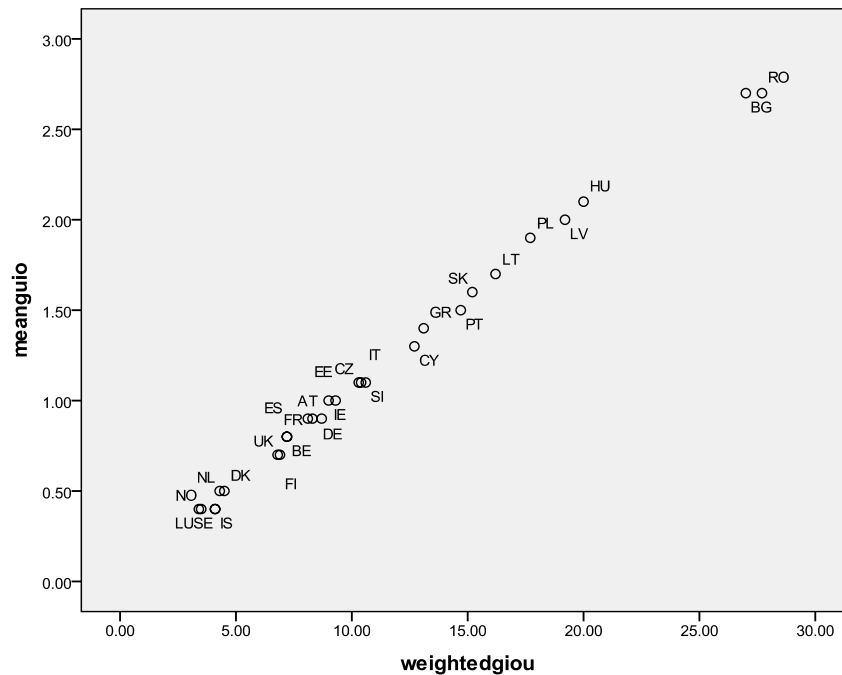
Figures 7.2a and 7.2b show the relationship between the mean number of items missing and the mean prevalence weighted deprivation score for the composite and Guio index. There is a very close relationship and while there are some rerankings for some countries they are very small differences.

Figure 7.2a Mean weighted items lacking by mean items lacking per country (Composite Index)



Source: SILC 2008

Figure 7.2b Mean weighted items lacking by mean items lacking per country (Guio Index)



Source: SILC 2008

Table 7.6 presents a summary of the poverty rates that would be obtained for EU countries using a variety of different deprivation thresholds. It is a matter of judgement as to which threshold to choose to represent extreme poverty. The Social Inclusion indicators currently use lacking three or more items on the Guio index. The new EU 2020 target includes lacking four or more items on the Guio index. We would favour using the composite index for the

reasons outlined above. For theoretical and technical⁴⁶ reasons a prevalence weighted threshold might be preferred. However it makes very little difference in practice and a number lacking threshold would be more transparent and easier to understand. It is better for the ISG to advise the SPC on which threshold should be used to represent extreme poverty. For the purpose of pursuing the analysis we have taken as the extreme deprivation threshold people living in households lacking four or more items on the composite index.

Figure 7.3 compares the at-risk-of-poverty rate with this deprivation poverty rate. Deprivation gives a completely different distribution of poverty in the EU – the range of poverty rates is much attenuated with HU, PL, LT, LV in the middle of the distribution and BG and RO outliers with much the highest rates of extreme poverty. Among the EU10 EE, CZ, SK and SL are much more similar to the EU 15.

Using a deprivation poverty measure changes the composition of the poor. Table 7.7 give the composition of households who are poor using the 4+ threshold. Because the number of people who are poor in rich countries using this measure are very small the breakdowns of their characteristics are likely to be unreliable. It is actually difficult to make general statements about how the composition of the poor changes across countries because it is actually different in different countries. In about half the countries and mainly the EU15 the proportion of households containing children goes up, especially lone parent families. In three quarters of households the proportion containing the elderly goes down. In the majority of countries the proportion of households with high work intensity goes up (but that indicator is probably not very reliable for households living in rural areas who are the majority in the poorer countries). The proportion who are tenants goes up and the proportion of owners goes down.

The EU 2020 target has adopted as one of the indicators the proportion living below 4 or more out of 9 items which is more severe than the threshold of 4 out of 12 used here. In the 2009 SILC survey there was a special module on deprivation which includes 14 household questions, 19 children's questions and 7 individual questions. This is a once off module and the data will not be available for analysis until next year but they could well contribute to a new deprivation index that could be included in SILC in subsequent years – probably from 2013 onwards.

⁴⁶ The scale is more disaggregated.

Table 7.6: Poverty rates derived using a variety of deprivation thresholds

| | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Lacking 3 Guio index | 13.7 | 11.6 | 50.9 | 23.3 | 16.2 | 13.0 | 5.0 | 12.4 | 8.7 | 9.1 | 11.8 | 21.8 | 37.1 | 13.6 | 2.5 | 16.1 | 27.0 | 3.5 | 35.2 | 5.3 | 4.6 | 32.3 | 23.0 | 50.5 | 4.6 | 16.9 | 27.8 | 10.6 |
| Lacking 4 Guio index | 6.4 | 5.6 | 31.5 | 8.2 | 6.8 | 5.5 | 1.5 | 4.9 | 2.6 | 3.5 | 4.7 | 11.2 | 17.9 | 5.5 | 0.8 | 7.5 | 15.0 | 0.7 | 19.0 | 1.6 | 2.0 | 17.8 | 9.7 | 33.2 | 1.4 | 6.7 | 11.8 | 4.1 |
| Lacking 5 Guio index | 2.2 | 2.1 | 16.0 | 1.6 | 2.3 | 1.6 | 0.4 | 1.5 | 0.7 | 0.9 | 1.4 | 4.2 | 7.8 | 1.8 | 0.2 | 2.9 | 6.8 | 0.2 | 9.4 | 0.3 | 0.6 | 7.2 | 3.5 | 19.1 | 0.3 | 1.9 | 3.3 | 1.1 |
| Lacking 3 composite | 28.3 | 26.3 | 73.6 | 41.5 | 31.5 | 27.9 | 18.1 | 34.3 | 24.2 | 23.5 | 27.2 | 38.1 | 57.1 | 28.5 | 16.6 | 32.2 | 51.5 | 17.5 | 57.4 | 20.1 | 17.5 | 51.1 | 40.7 | 75.0 | 17.5 | 35.7 | 42.3 | 25.3 |
| Lacking 4 composite | 8.3 | 7.6 | 47.0 | 14.4 | 9.4 | 7.4 | 2.5 | 12.4 | 4.7 | 5.3 | 6.9 | 14.7 | 26.4 | 7.8 | 1.5 | 10.5 | 26.7 | 1.8 | 30.9 | 2.9 | 2.6 | 24.2 | 14.6 | 50.4 | 2.1 | 11.9 | 14.9 | 6.0 |
| Lacking 5 composite | 3.8 | 3.9 | 33.0 | 4.6 | 4.1 | 2.9 | 0.9 | 6.1 | 1.3 | 2.0 | 2.7 | 7.2 | 14.7 | 3.5 | 0.5 | 4.9 | 16.5 | 0.5 | 19.5 | 0.9 | 0.9 | 13.9 | 7.0 | 38.2 | 0.7 | 5.3 | 5.8 | 2.3 |
| Lacking 6 composite | 1.3 | 1.4 | 22.4 | 1.1 | 1.6 | 0.9 | 0.1 | 3.0 | 0.4 | 0.6 | 0.9 | 2.7 | 7.8 | 1.1 | 0.1 | 1.9 | 9.8 | 0.1 | 11.1 | 0.2 | 0.4 | 7.2 | 3.1 | 27.1 | 0.1 | 2.0 | 2.5 | 0.6 |

Figure 7.3: Under 60% median income poverty rate 2007 by % people in households lacking four or more necessities composite index

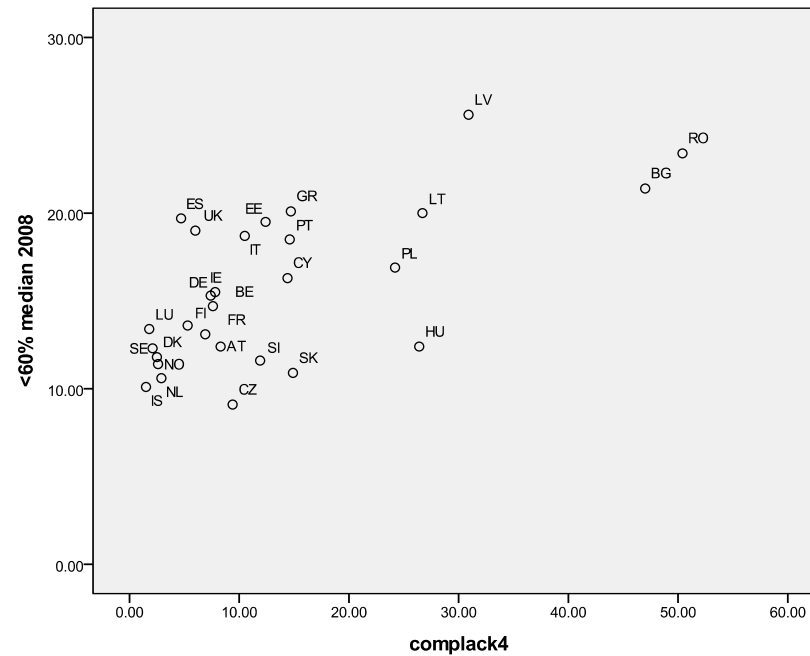


Table 7.7: Poverty rates, gaps and composition: households lacking 4+ necessities

| Countries | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poverty rates | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Poverty rate | 8.3 | 7.6 | 47.1 | 14.4 | 9.4 | 7.4 | 2.5 | 12.4 | 4.7 | 5.3 | 6.9 | 14.7 | 26.4 | 7.8 | 1.5 | 10.5 | 26.7 | 1.8 | 30.8 | 2.9 | 2.6 | 24.2 | 14.6 | 50.4 | 2.1 | 11.9 | 14.9 | 6.0 |
| Poverty composition | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Characteristics of the main income earner** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Woman | 26.2 | 29.5 | 32.6 | 42.9 | 30.6 | 37.6 | 13.0 | 34.8 | 33.5 | 28.2 | 35.0 | 28.3 | 31.1 | 25.9 | 40.8 | 26.1 | 37.1 | 51.9 | 42.5 | 26.0 | 17.5 | 35.8 | 36.2 | 38.1 | 36.5 | 32.8 | 37.3 | 29.5 |
| P-t worker | 15.4 | 21.8 | 10.4 | 14.9 | 4.3 | 21.2 | 7.2 | 6.0 | 12.8 | 11.8 | 24.0 | 12.5 | 7.2 | 21.8 | 24.1 | 15.0 | 6.9 | 34.8 | 6.9 | 27.5 | 8.6 | 10.9 | 11.8 | 9.0 | 15.2 | 5.8 | 6.1 | 17.8 |
| Self-empl | 6.2 | 7.7 | 8.3 | 15.7 | 6.4 | 4.6 | 1.5 | 3.5 | 5.9 | 8.6 | 3.5 | 20.0 | 3.2 | 2.7 | 7.4 | 12.6 | 6.8 | 0.4 | 6.1 | 3.4 | 3.3 | 12.5 | 7.7 | 23.7 | 0.6 | 5.4 | 3.8 | 4.6 |
| Characteristics of the household | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Child in household | 47.8 | 54.9 | 46.5 | 44.8 | 47.1 | 41.0 | 49.0 | 40.1 | 49.8 | 38.6 | 53.7 | 37.1 | 49.3 | 60.8 | 52.2 | 49.2 | 45.8 | 65.5 | 46.1 | 45.9 | 45.6 | 48.9 | 47.9 | 53.6 | 53.7 | 35.0 | 48.6 | 61.7 |
| Elderly in household | 19.7 | 14.2 | 39.2 | 25.7 | 20.1 | 10.7 | 6.6 | 34.4 | 20.7 | 14.4 | 18.6 | 39.6 | 22.6 | 7.1 | 4.2 | 29.8 | 31.7 | 3.8 | 37.6 | 6.6 | 5.9 | 29.5 | 35.3 | 34.2 | 9.4 | 31.9 | 29.6 | 6.5 |
| Single adult | 24.3 | 28.1 | 12.7 | 12.0 | 19.2 | 35.4 | 44.9 | 28.0 | 11.1 | 44.3 | 25.6 | 16.7 | 13.8 | 12.8 | 36.3 | 17.3 | 18.7 | 18.2 | 35.8 | 45.1 | 16.5 | 13.1 | 10.7 | 30.7 | 17.0 | 17.6 | 16.3 | |
| Single parent | 11.1 | 21.0 | 2.4 | 8.9 | 12.9 | 18.5 | 25.7 | 11.6 | 5.1 | 16.3 | 15.2 | 3.6 | 8.4 | 33.1 | 23.9 | 5.5 | 8.4 | 30.5 | 8.1 | 24.9 | 27.4 | 4.8 | 6.7 | 2.5 | 24.2 | 7.7 | 5.0 | 28.9 |
| Two adults 1 or 2 children | 23.1 | 17.3 | 20.6 | 33.0 | 25.3 | 17.2 | 9.7 | 18.8 | 31.7 | 17.7 | 21.3 | 33.0 | 26.0 | 11.3 | 7.6 | 30.8 | 24.8 | 25.0 | 18.7 | 7.2 | 10.7 | 20.7 | 25.8 | 24.0 | 18.2 | 22.7 | 18.2 | 18.6 |
| Two adults 3+ children | 10.8 | 13.9 | 3.6 | 9.9 | 8.4 | 9.7 | 12.9 | 8.6 | 10.0 | 5.8 | 13.0 | 2.9 | 10.4 | 13.3 | 17.6 | 9.7 | 9.6 | 9.1 | 7.7 | 15.7 | 6.2 | 10.1 | 7.9 | 9.7 | 12.3 | 8.5 | 11.1 | 14.4 |
| Other household | 30.8 | 19.8 | 60.6 | 36.3 | 34.1 | 19.2 | 6.7 | 33.1 | 42.1 | 15.8 | 24.8 | 43.7 | 41.4 | 29.6 | 14.6 | 36.6 | 38.5 | 17.2 | 47.3 | 16.4 | 10.6 | 48.0 | 46.4 | 53.0 | 14.5 | 44.2 | 48.2 | 21.8 |
| Bad health | 37.4 | 32.5 | 37.4 | 30.7 | 36.4 | 22.1 | 26.5 | 39.0 | 29.3 | 18.8 | 30.4 | 32.1 | 42.9 | 14.1 | 10.3 | 32.2 | 34.5 | 36.2 | 46.2 | 27.5 | 30.9 | 41.9 | 45.8 | 22.8 | 26.0 | 30.9 | 46.4 | 15.9 |
| Low education | 59.6 | 63.3 | 68.6 | 70.6 | 55.2 | 38.7 | 53.6 | 65.6 | 79.8 | 51.0 | 64.1 | 79.6 | 65.8 | 77.0 | 56.7 | 87.2 | 57.5 | 81.6 | 63.2 | 64.7 | 56.3 | 62.6 | 85.9 | 77.9 | 44.6 | 70.0 | 49.5 | 45.4 |
| Owner | 28.4 | 34.3 | 82.6 | 56.5 | 51.3 | 20.1 | 11.0 | 76.2 | 53.5 | 26.4 | 23.3 | 63.7 | 82.6 | 30.7 | 40.5 | 45.7 | 82.5 | 23.2 | 76.1 | 8.2 | 35.5 | 60.5 | 48.2 | 95.8 | 27.1 | 72.3 | 81.3 | 19.8 |
| Tenant | 57.0 | 44.3 | 1.3 | 17.7 | 12.3 | 63.6 | 89.0 | 5.1 | 26.6 | 23.9 | 44.2 | 29.0 | 5.1 | 16.4 | 28.2 | 30.9 | 3.3 | 71.0 | 9.1 | 91.6 | 54.3 | 3.5 | 23.4 | 1.0 | 70.4 | 14.1 | 15.7 | 19.7 |
| Reduced rent/ free | 14.7 | 21.3 | 16.1 | 25.8 | 36.4 | 16.3 | - | 18.7 | 19.9 | 49.8 | 32.4 | 7.3 | 12.4 | 52.9 | 31.3 | 23.4 | 14.2 | 5.8 | 14.8 | 0.2 | 10.2 | 35.9 | 28.5 | 3.2 | 2.4 | 13.6 | 3.0 | 60.5 |
| High work intensity*** | 15.9 | 11.4 | 22.3 | 28.0 | 21.8 | 18.2 | 15.2 | 24.1 | 25.5 | 19.2 | 17.7 | 22.0 | 18.4 | 5.8 | 33.0 | 15.1 | 24.8 | 14.8 | 32.3 | 13.5 | 17.3 | 19.5 | 27.5 | 31.5 | 21.1 | 22.4 | 23.3 | 18.0 |
| Med work intensity | 30.9 | 20.6 | 30.3 | 43.2 | 33.3 | 21.2 | 19.1 | 33.0 | 35.8 | 23.9 | 24.8 | 34.4 | 32.0 | 18.7 | 30.6 | 36.3 | 34.9 | 38.1 | 35.0 | 21.4 | 24.0 | 35.4 | 35.3 | 34.5 | 21.9 | 35.6 | 36.5 | 20.7 |
| Low work intensity | 53.2 | 68.0 | 47.4 | 28.7 | 45.0 | 60.6 | 65.7 | 43.0 | 38.7 | 56.9 | 57.5 | 43.6 | 49.6 | 75.5 | 36.4 | 48.5 | 40.3 | 47.2 | 32.8 | 65.1 | 58.7 | 45.1 | 37.2 | 34.0 | 57.0 | 42.0 | 40.2 | 61.3 |
| Densely populated | 54.4 | 68.3 | 30.0 | 56.5 | 33.2 | 53.9 | 44.3 | 26.9 | 53.9 | 28.9 | 58.8 | 34.7 | 28.4 | 46.3 | 71.5 | 45.1 | 31.1 | 60.8 | 38.6 | | 62.5 | 31.8 | 49.2 | 22.2 | 27.0 | | 22.5 | 87.6 |
| Intermediate | 18.2 | 25.5 | 6.4 | 11.7 | 27.9 | 29.7 | 48.5 | | 20.4 | 17.0 | 27.6 | 8.8 | 21.4 | 36.6 | | 38.7 | | 14.2 | | 19.8 | 14.1 | 30.5 | 1.0 | 9.2 | | 28.7 | 9.0 | |
| Thinly populated | 27.5 | 6.2 | 63.6 | 31.7 | 38.9 | 16.4 | 7.2 | 73.1 | 25.7 | 54.1 | 13.7 | 56.6 | 50.3 | 17.2 | 28.5 | 16.2 | 69.0 | 25.1 | 61.4 | | 17.7 | 54.2 | 20.3 | 76.8 | 63.8 | | 48.8 | 3.4 |

Source: SILC 2008, France: SILC 2007 data.

See notes to Table 1.1

SECTION 8: BUDGET STANDARDS

One way to establish an income poverty threshold that has more basis in science and is less arbitrary than the at-risk-of-poverty measure is to use budget standards. This is of course the method that Seebohm Rowntree pioneered in his studies of poverty in York.

We have found that a number of countries have income or expenditure thresholds derived from research based on budget standards including AT, BE, DK, HR, IE, PT, RO, SK and UK.⁴⁷ A number of these countries have adopted the “consensual” budget standards methodology developed by researchers in the UK⁴⁸, though more usually the budgets standards are based on either normative or behavioural (expenditure based) estimates of needs. Only a few of these countries use budget standards to determine their main official poverty threshold (only BG, IT, LT, RS and SK) and for some of these, the budget standards were used to fix the minimum income scheme, which is the actual basis of the threshold. A number of countries use budget standards for their lower poverty thresholds (including CZ, IT, NL, RO, SE, TR). In a number of other countries researchers have developed budget standards, but they are used more to provide a standard against which to assess minimum income schemes and poverty thresholds, than to determine them. In many cases, budget standards are found to be at or above relative poverty thresholds.

One advantage of budget standards is that they are not arbitrary⁴⁹ – they are designed to derive a basket of goods that represents a given living standard. In the original work that pioneered the use of budget standards in the UK, the Family Budget Unit⁵⁰ developed a budget to represent a modest-but-adequate living standard, but their subsequent work focused on a low-cost or a minimum acceptable budget. The original work was also largely normative, relying on the judgement of experts about what was necessary or acceptable. Their later work⁵¹ developed a Minimum Income Standard based on consensual methods – the judgement about what was included in the budget was made by the general public in focus groups rather than by experts. This method has been replicated: in Ireland by the Vincentian Partnership⁵² who developed minimum essential budgets for six household types; in the

⁴⁷ In May 2009, the European Consumer Debt Network (ECDN) issued a publication presenting an EU funded project on “Reference Budgets for Social Inclusion”: ECDN, “Reference Budgets for Social Inclusion”, Money Matters 6/2009. Apart from providing results from the EU project on developing reference budgets in Austria, Belgium, Bulgaria and Spain, the publication also reports on the use of reference budgets in Ireland, the Netherlands, Sweden and the UK. The publication can be downloaded from:

http://www.asb-gmbh.at/ecdn/index.php?option=com_content&task=view&id=28&Itemid=74.

See also: http://www.asb-gmbh.at/budgets/index.php?option=com_content&task=view&id=24&Itemid=1.

⁴⁸ Bradshaw, J., Middleton, S., Davis, A., Oldfield, N., Smith, N., Cusworth, L., and Williams, J. (2008) *A minimum income standard for Britain: What people think*, York: Joseph Rowntree Foundation <http://www.minimumincomestandard.org/>

⁴⁹ Bravo to Richard Bavier who said “However, it is also true that the poverty literature’s dismissal of standard budgets as “subjective” and “arbitrary” is loose and unhelpful usage... p735 Bavier, R. (2009) Europe’s other poverty measures: Absolute thresholds underlying social assistance, *Journal of Policy Analysis and Management*, 28, 4, 732-738.

⁵⁰ Bradshaw, J. (ed) (1993) *Budget Standards for the United Kingdom*, Studies in Cash & Care, Avebury: Aldershot

⁵¹ Bradshaw, J., Middleton, S., Davis, A., Oldfield, N., Smith, N., Cusworth, L., and Williams, J. (2008) *A minimum income standard for Britain: What people think*, York: Joseph Rowntree Foundation.

⁵² Vincentian Partnerships (2006) *Minimum essential budgets for six households*, Dublin: Vincentian Partnerships:

Netherlands by the National Institute for Family Finance (NIBUD)⁵³; and by Centre of Social Research, University of Antwerp (CSB) for Flanders⁵⁴. The Irish budget was for 2006 and the others for 2008.⁵⁵

Table 8.1 presents a summary of budgets derived from these studies - for a single man of working age. They have all derived budgets for other household types but this is the only case common across all four studies. We have taken from the original budget⁵⁶ the elements allowed for food, clothing, fuel and rent⁵⁷ and a total which we describe as *necessities*, as well as the total budget. We have then expressed them in annual amounts, adjusted them for Euro purchasing power parities and deflated them to 2007 to match the SILC income data.

It would have been helpful for this project if the existing budget standards coincided in value but they don't. It can be seen that the total budgets vary between €8599 per year in the Netherlands and €15039 in Ireland. This is partly no doubt because the assumptions that go into the budgets are not identical. However there is rather less variation in the totals for necessities – they vary from €6566 in the Netherlands to €7573 in Flanders.

Table 8.1: Budget standard for a single person of working age

| | UK Minimum Income Standard 2008 €ppp per year 2007 prices | Netherlands NIBUD budget 2008 €ppp per year 2007 prices | Ireland Vincentian 2006 €ppp per year 2007 prices | Flanders CSB 2008 €ppp per year 2007 prices |
|-------------------|--|--|--|--|
| Food | 2499 | 1761 | 2949 | 1604 |
| Clothing | 473 | 522 | 723 | 414 |
| Fuel | 558 | 881 | 327 | 1107 |
| Rent | 3240 | 3403 | 2921 | 4169 |
| Total necessities | 6770 | 6566 | 6921 | 7294 |
| Total budget | 13018 | 8599 | 15039 | 10129 |

In order to assess the proportion of the population in each country living in households below these budget standards we need consumption data. As we don't have consumption data we take SILC net income data. What we are showing in Table 8.2 is the proportion of households in each country whose income is insufficient to meet the expenditure required (given local prices). We have selected four budgets, the lowest and highest necessities and total budgets. We have applied the modified OECD equivalence scale, despite the fact that it does not exactly match the needs revealed by each of these budget standards, and despite the fact that the necessities budgets should not have such large economies of scale as are assumed in the modified OECD scale. Basically what we are showing is what kind of poverty rates you

⁵³ Hoff, S. et al (2010) *The minimum agreed upon: Consensual budget standards for the Netherlands*, The Netherlands Institute for Social Research

⁵⁴ Storms, B. and Van den Bosch, K. (2009) *What income do families need for social participation at the minimum? A budget standard for Flanders*, University of Antwerp: Centrum Voor Beleid. (*Alaso Wat heeft een gezin minimaal nodig? Een budgetstandaard voor Vlaanderen*, Leuven: Acco, 2009.)

⁵⁵ For a review see Fisher, G. (2007) *An Overview of Recent Work on Standard Budgets in the United States and Other Anglophone Countries* <http://aspe.hhs.gov/poverty/papers/std-budgets/>

⁵⁶ In the case of the NIBUD budget this was the original budget rather than the (generally higher) alternatives developed using consensus methods.

⁵⁷ The rent allowed in the Irish budget was comparatively very high (for a private bed-sit) so we substituted the rent for a lone parent (in a publicly rented flat).

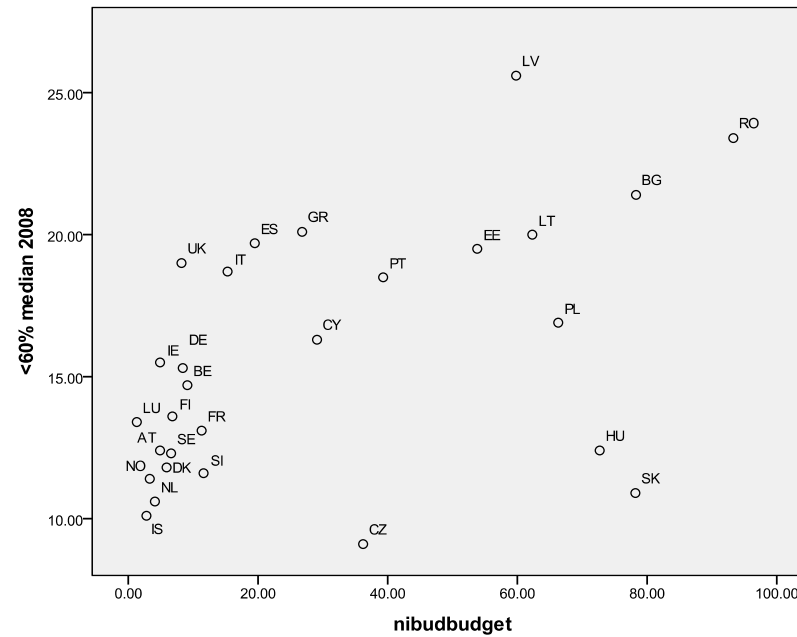
would get for each country if you applied the consensual budget standards recently produced by some of the richer countries in the EU.

It can be seen that the poverty rates vary with whichever threshold is used, but in all cases they are more attenuated (the range is much greater) than for the at-risk-of-poverty threshold. Figure 8.1 plots a comparison between the at-risk-of-poverty threshold and the lowest of the budget standard (the NIBUD). This gives much lower poverty rates for the EU 15, lower than the US poverty threshold, and much higher poverty rates for the EU 10 plus 2. Using this threshold Romania has a poverty rate of 93 per cent and Bulgaria 78 per cent, which is probably too high for their governments to accept .

Table 8.2: Poverty rates produced by four budget standards thresholds using SILC 2008 income data and the modified OECD equivalence scales

| | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK | Total |
|------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------|
| NIBUD budget standard | 4.9 | 9.1 | 78.3 | 29.1 | 36.2 | 8.4 | 5.9 | 53.8 | 19.5 | 6.8 | 11.3 | 26.8 | 72.7 | 4.9 | 2.8 | 15.3 | 62.3 | 1.3 | 59.8 | 4.1 | 3.3 | 66.3 | 39.3 | 93.3 | 6.6 | 11.6 | 78.2 | 8.2 | 23.8 |
| UK MIS budget standard | 22.8 | 31.5 | 92.2 | 62.9 | 76.5 | 25.3 | 24.1 | 81.0 | 42.7 | 28.3 | 38.3 | 52.8 | 93.7 | 21.8 | 13.1 | 37.9 | 85.3 | 5.7 | 83.2 | 18.8 | 9.0 | 88.1 | 68.7 | 98.1 | 26.1 | 39.9 | 95.9 | 26.0 | 44.4 |
| Flanders necessities | 2.6 | 4.8 | 68.3 | 19.7 | 20.9 | 5.3 | 3.9 | 42.5 | 13.2 | 3.2 | 6.1 | 19.4 | 57.4 | 2.5 | 1.6 | 9.9 | 50.4 | 0.6 | 50.6 | 2.8 | 2.5 | 54.1 | 29.8 | 89.2 | 4.1 | 6.7 | 63.4 | 5.3 | 18.2 |
| NIBUD necessities | 1.8 | 3.2 | 61.9 | 15.6 | 13.9 | 4.0 | 3.2 | 35.6 | 9.7 | 2.2 | 4.1 | 14.6 | 46.5 | 1.8 | 1.3 | 7.6 | 43.0 | 0.5 | 44.8 | 2.4 | 2.2 | 46.1 | 23.6 | 85.8 | 3.2 | 4.5 | 52.4 | 4.0 | 15.2 |
| <60% median | 12.4 | 14.7 | 21.4 | 16.3 | 9.1 | 15.3 | 11.8 | 19.5 | 19.7 | 13.6 | 13.1 | 20.1 | 12.4 | 15.5 | 10.1 | 18.7 | 20.0 | 13.4 | 25.6 | 10.6 | 11.4 | 16.9 | 18.5 | 23.4 | 12.3 | 11.6 | 10.9 | 19.0 | - |

Figure 8.1: <60 per cent median poverty rate by NIBUD budget standard poverty rate



A possible alternative to using one of the existing budget standards as an income threshold would be to take an EU average income threshold, for example 60 per cent of the EU average (€7821 per year) or 60 per cent of the EU average weighted by population (€556 per year). By chance the latter threshold is almost identical to the NIBUD budget standard (€599 per year) and so gives very similar poverty rates (see Figure 8.2).

Figure 8.2: Poverty rates by budget standards and EU wide income thresholds

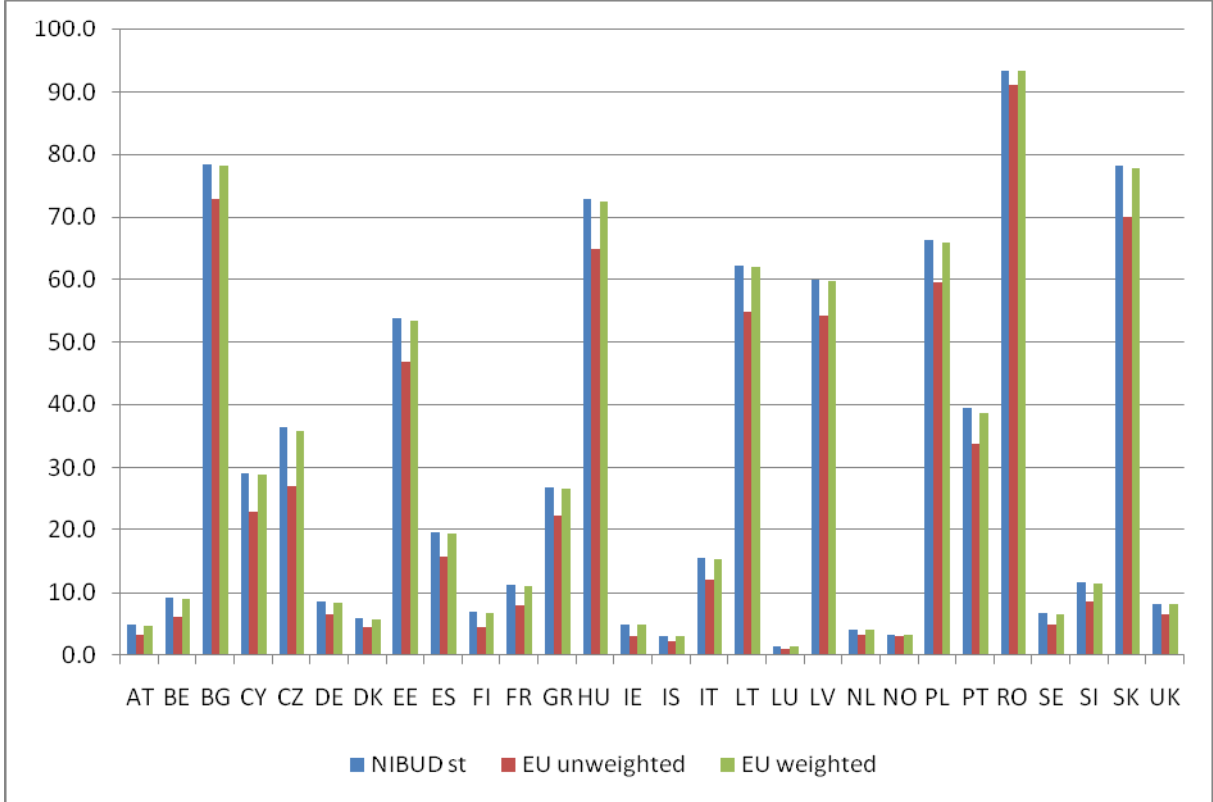


Table A.1 in the Appendix shows how the composition of poverty would change using the budget standard threshold. In summary:

- In most of the poorer countries it leads to an increase in the size of the poverty gap.
- There are no clear patterns of change in the proportion of households containing children. In two-thirds of the countries the proportion of poor households contain children goes down.
- There are no clear patterns in the change in the proportion of households containing pensioners. In two-thirds of the countries the proportion of poor households contains an elderly person goes down.
- In most but not all countries the proportion of households with low work intensity goes up and the proportion with high work intensity goes down.
- There are more changes in the composition of the poor in the 10+2 EU countries than in the EU15.

There are a number of problems with this that should be acknowledged:

- It would be better if we had an EU consensual budget standard, not one taken arbitrarily from one of the few countries that has one. We think it would be quite feasible to produce such a budget standard;

- It would be better to translate a budget standard into a national income threshold, not using purchasing power parities, but instead the relative price of the commodities that go into the basket of goods. So for example if we are to use a standard in which food, clothing and fuel are larger components, then it is the price of those commodities, not the average purchasing power parities that should be used for the adjustment.
- Then in applying the budget standards threshold to net income, it would be better to use an equivalence scale that reflects the economies of scale and equivalent needs for the budget standard.

SECTION 9: OVERLAPS OF INCOME AND DEPRIVATION

Income (or expenditure) based approaches to measuring poverty have been dominant in most countries and internationally, and for practical reasons much of the empirical research on poverty has used one measure at a time. This is partly because early surveys using deprivation indicators tended not to include income questions – this was certainly the case for the first two Breadline Britain surveys that developed deprivation indicator methodology. Similarly income and expenditure surveys tended not to include questions on deprivation. However the European Community Household Panel (ECHP) survey began to collect data on a selection of deprivation indicators, as well as income. In Ireland this data was used to explore the overlap between deprivation and income, and the Irish Government adopted an overlaps measure as one of the official poverty measures. It was called “consistent poverty”, though not (in our opinion) very accurately, as it was entirely cross-sectional. The third Poverty and Social Exclusion survey in Britain was used to explore overlaps between income, deprivation, subjective poverty and benefit receipt⁵⁸. Others began to use the ECHP income and deprivation measures together⁵⁹. We have used similar techniques in child poverty assessments in South Africa, Bulgaria, Georgia, Bosnia, Serbia, Kosovo, Kyrgyzstan and Armenia⁶⁰. Curiously, since SILC developed, there have been rather few examples of overlaps analysis⁶¹. Both the EU projects on child poverty and child well-being based on SILC used income thresholds and deprivation measures separately⁶². However a number of countries have followed the Irish example and are using an overlaps measure in their official poverty measurement⁶³.

There are a number of reasons for employing income and deprivation measures at the same time⁶⁴. Some are to do with the weaknesses of income measures:

- As we have already argued, the 60 per of median equivalent income threshold does not resonate with persuasive power, credibility and comprehension, at least among non specialists.

⁵⁸ Bradshaw, J. and Finch, N. (2003) Overlaps in Dimensions of Poverty, *Jnl. Soc. Pol.*, 32, 4, 513-525.

⁵⁹ Heikkilä, M., Moisio, P., Ritakallio, V.-M., Bradshaw, J., Kuivalainen, S., Hellsten, K. and Kajoja, J. (2006) *Poverty policies, structures and outcomes in the EU 25, Report to the Fifth European Round Table on Poverty and Social Exclusion*, Helsinki: Stakes

<http://www.stm.fi/Resource.phx/eng/subject/inter/eu2006/round/round1.htx.i1153.pdf>

⁶⁰ <http://www.york.ac.uk/inst/spru/research/summs/extreme.html>

⁶¹ But see: Whelan, C. and Maitre, B. (2009) Comparing poverty indicators in an enlarged European Union, *European Sociological Review* (Advanced Access)

Whelan, C. and Maitre, B. (2009) Poverty in Ireland in Comparative European Perspective, *Social Indicators Research*, online first.

Fusco, A., Guio, A-C and Marlier, E. (2010) Income Poverty and Material Deprivation in European Countries, 2010 EU-SILC International conference (Warsaw, 25 and 26 March.

⁶² http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2008/child_poverty_en.pdf

TARKI (2010): Child poverty and child well-being in the European Union. Report prepared for the DG Employment, Social Affairs and Equal Opportunities (Unit E.2) of the European Commission, Budapest.

<http://www.tarki.hu/en/research/childpoverty/index.html>

⁶³ In Ireland the official poverty threshold is still based on a ‘consistent’ poverty threshold which combines low income and enforced lack of deprivation items. AT, FI and the UK are now also using an overlaps measure in their portfolio of official poverty thresholds, and IS and ES have independent research on the topic.

⁶⁴ It has also been supported by moral philosophers see Wolff, J. and De-Shalit, A. (2007) *Disadvantage*, Oxford: Oxford University Press.

- Income data collected in surveys (though not the Nordic registers) is more or less unreliable, understated, hidden, forgotten. There are particular problems for the self-employed, casual, informal economy and such like workers.
- In SILC income is the previous year and the deprivation data is more up-to-date.
- It is an indirect measure of poverty.
 - The SILC income poverty threshold is before housing costs, but what a household can purchase is likely to be determined by income after housing costs.
 - A household may have a low income but large wealth, and therefore, purchasing power.
 - A household may have had a low income last year, but now be richer as a result of taking up employment or
 - May have had a high income last year, but are now poorer – as a result of retirement, unemployment or even death of a family member.

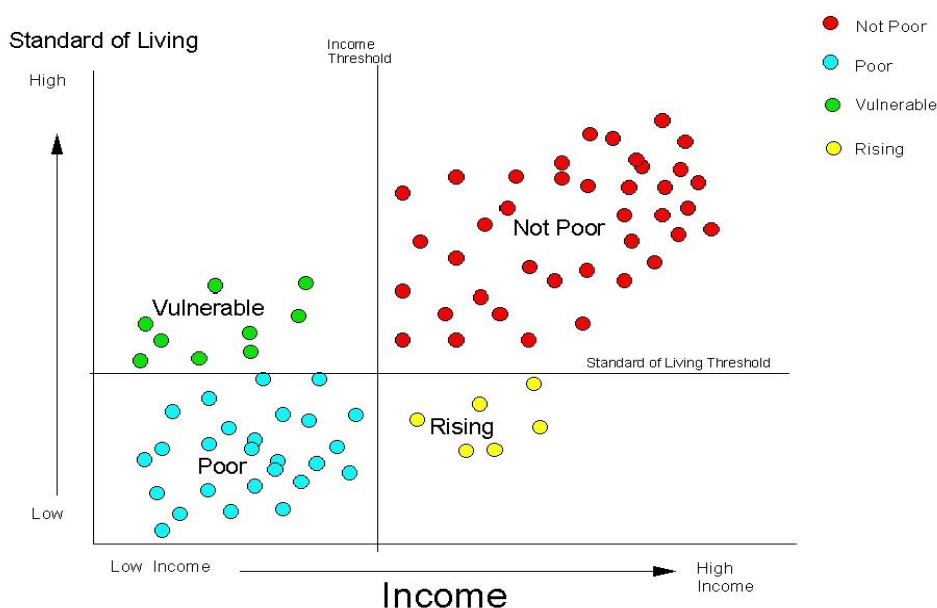
With all these disadvantages of income measures why not just rely on deprivation? Why reintroduce income? Here are some reasons

- Data collected on deprivation may of course also be unreliable.
 - Deprivation may not be enforced – it may be a life-style choice by someone who is perfectly capable of purchasing the item. In some surveys (though not SILC) this is dealt with by only counting items which are lacked because they cannot afford them. Some households may say they lack assets because they cannot afford them, but in reality it is because they do not want them – they are not a high priority in their budget.
 - Deprivation items may be possessed but broken.
- Also it might be argued that we need to have income data for policy purposes. Policy cannot generally intervene at the level of deprivation, but it can and does intervene by providing income.

Gordon⁶⁵ has argued that it is important to collect data in income and deprivation because they may capture change. Figure 9.1 reproduces his matrix in which the groups with high living standards but low income are “vulnerable” and those with low living standards but high incomes may be rising out of poverty.

⁶⁵ Gordon, D., Adelman, L., Ashworth, K., Bradshaw, J., Levitas, R., Middleton, S., Pantazis, C., Patsios, D., Payne, S., Townsend, P. and Williams, J. (2000) *Poverty and Social Exclusion in Britain*, Joseph Rowntree Foundation: York

Figure 9.1: Gordon matrix of income and deprivation



When we use a threshold that defines a household as income poor **and** deprived we are much more certain that we are getting a reliable indication. Also, although it will depend on the thresholds used, there are reasons to suppose that we are getting at core poverty, a more secure degree of poverty than those based on a single dimension.

A decision needs to be made about which overlaps threshold to use – which income threshold and which deprivation threshold? There is a statistical method for drawing links between deprivation scores and income thresholds developed by Gordon but we found that the deprivation threshold that it produced was much too low and the income much too high and not appropriate for an extreme poverty measure⁶⁶. So we had to use judgment. We start by

⁶⁶Gordon, D. (2006) The concept and measurement of poverty. In Pantazis, C., Gordon, D. and Levitas, R. (Eds) *Poverty and Social Exclusion in Britain: The Millennium Survey*. Bristol, Policy Press. pp 29-70.

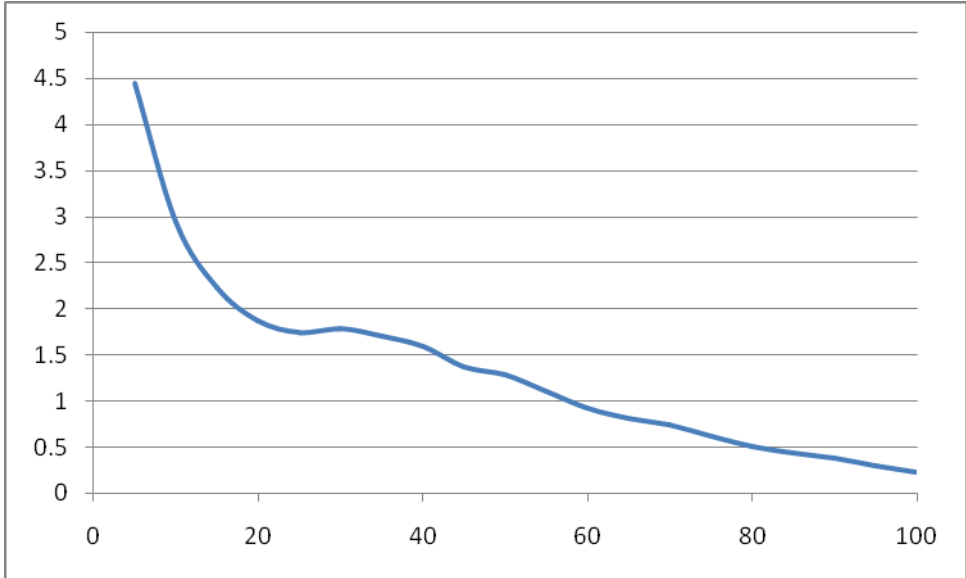
Gordon, D. (2006) Combining poverty line and deprivation indices. In United Nations Expert Group on Poverty Statistics (Rio Group) *Compendium of Best Practice in Poverty Measurement*. Rio de Janeiro & Santiago, Brazilian Institute for Geography and Statistics (IBGE), with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). pp 121-138.

The method starts by excluding outliers (the top 5% of the income distribution). Then the relationship between deprivation and income level is explored by looking at those missing 0 as opposed to those missing 1+ items and test if their incomes come from different distributions, then go on to comparing those missing 0-1 items with those missing 2+ items, etc... The aim is to cut the population into half so that the variability of income is smallest within groups and largest between groups (i.e.: variance from the within group mean income is smallest and variance from the between groups mean income is largest). The larger the F value the more likely it is that the two deprivation groups come from different income distributions. When you find the two deprivation groups that give you the largest F, that is the cut off point.

The problem in our case is that we have got 28 rather heterogeneous countries and income poverty does not always predict deprivation, especially in rich countries, even when we use Euro PPPs to boost the income levels of the poorer countries. When we did that the ANOVA for each country the F values were a lot higher in the former Eastern Bloc. Nevertheless across all countries (except for Bulgaria) we found that the largest difference in income distribution by deprivation was between those who missed 0 or 1 items and those who missed 2+ items (in Bulgaria the cut-off point is 3+ items). The mean income of those missing 2+ items in Euro PPPs is 9974.27, and the confidence intervals at 95% are €933 and €10016. This excludes the top 5% of the income

exploring the relationship between income percentiles and deprivation. Figure 9.2 shows how the composite deprivation scores varies with income for the whole EU and shows that the point on the income distribution where deprivation increases sharply is at 40 per cent of the median (20 percentile) (€214 per annum) rather than 60 per cent.

Figure 9.2: EU Average composite deprivation score by percentile equivalent net income



Fusco et al⁶⁷ have explored the overlaps between relative income poverty and deprivation. However we do not think that it makes sense to mix relative income thresholds with absolute deprivation thresholds, as they have done (and the EU 2020 target does) – at least when the focus is on extreme poverty. As we have seen the at-risk-of poverty thresholds are also too low for some of the poorer countries. So Table 9.1 presents the poverty rates derived from an overlaps analysis using a fixed EU income threshold. After some exploration we have chosen the NIBUD budget standard. We have presented poverty rates combining this with a variety of deprivation thresholds. On balance we favour the lacking four or more items on our composite index.

distribution. In Euros, the mean is €507, and the confidence intervals: €459 and €555. This was based on our composite index which gave higher F values than using the Guio index.

⁶⁷ Fusco, A., Guio, A-C and Marlier, E. (2010) Income Poverty and Material Deprivation in European Countries, 2010 EU-SILC International conference (Warsaw, 25 and 26 March).

Table 9.2: Poverty rates using overlaps analysis: having net equivalent income under NIBUD budget standard and lacking necessities

| | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|--|-----|-----|------|------|------|-----|-----|------|-----|-----|-----|------|------|-----|-----|-----|------|-----|------|-----|-----|------|------|------|-----|-----|------|-----|
| Under NIBUD total and lacking 3+ items composite index | 2.8 | 4.1 | 57.7 | 15.9 | 12.7 | 4.3 | 1.3 | 19.3 | 4.7 | 2.7 | 4.5 | 13.8 | 39.4 | 1.2 | 0.5 | 7.0 | 33.4 | 0.3 | 36.2 | 1.3 | 0.6 | 34.0 | 18.8 | 61.9 | 1.2 | 6.4 | 28.2 | 2.6 |
| Under NIBUD total and lacking 4+ items composite index | 1.9 | 2.6 | 45.4 | 8.6 | 6.8 | 2.4 | 0.5 | 11.2 | 2.2 | 1.6 | 2.5 | 9.2 | 23.8 | 0.6 | 0.3 | 4.3 | 24.1 | 0.2 | 26.7 | 0.5 | 0.3 | 21.8 | 10.4 | 49.5 | 0.4 | 4.1 | 14.1 | 1.5 |
| Under NIBUD total and lacking 5+ items composite index | 1.0 | 1.8 | 32.5 | 3.2 | 3.3 | 1.1 | 0.2 | 5.7 | 0.9 | 0.6 | 1.2 | 5.2 | 13.8 | 0.2 | 0.0 | 2.5 | 15.4 | 0.0 | 17.7 | 0.2 | 0.1 | 12.9 | 5.6 | 37.5 | 0.1 | 2.2 | 5.6 | 0.6 |
| Under NIBUD total and lacking 3+ items on Guio index | 2.5 | 3.7 | 49.7 | 13.3 | 10.9 | 3.7 | 1.0 | 11.0 | 3.5 | 2.3 | 3.9 | 11.8 | 32.8 | 1.1 | 0.3 | 6.1 | 23.2 | 0.2 | 29.1 | 0.7 | 0.5 | 28.5 | 15.8 | 49.4 | 1.0 | 5.1 | 26.0 | 2.2 |
| Under NIBUD total and lacking 4+ items on Guio index | 1.6 | 2.1 | 31.1 | 5.2 | 5.2 | 1.9 | 0.3 | 4.5 | 1.4 | 1.0 | 2.0 | 7.5 | 16.7 | 0.5 | 0.2 | 3.4 | 13.5 | 0.2 | 16.9 | 0.3 | 0.2 | 16.2 | 7.4 | 32.5 | 0.3 | 2.6 | 11.1 | 1.0 |
| Under NIBUD total and lacking 5+ items on Guio index | 0.7 | 1.0 | 15.9 | 1.3 | 1.9 | 0.6 | 0.2 | 1.5 | 0.5 | 0.3 | 0.6 | 3.5 | 7.4 | 0.1 | 0.0 | 1.5 | 6.3 | 0.0 | 8.8 | 0.1 | 0.1 | 6.8 | 2.9 | 18.7 | 0.1 | 0.9 | 3.2 | 0.3 |

Figure 9.3 compares the distribution of the countries on our overlaps measure and the at-risk-of-poverty measure.

Figure 9.3: Poverty rate by overlaps of NIBUD threshold and lacking four or more deprivation items

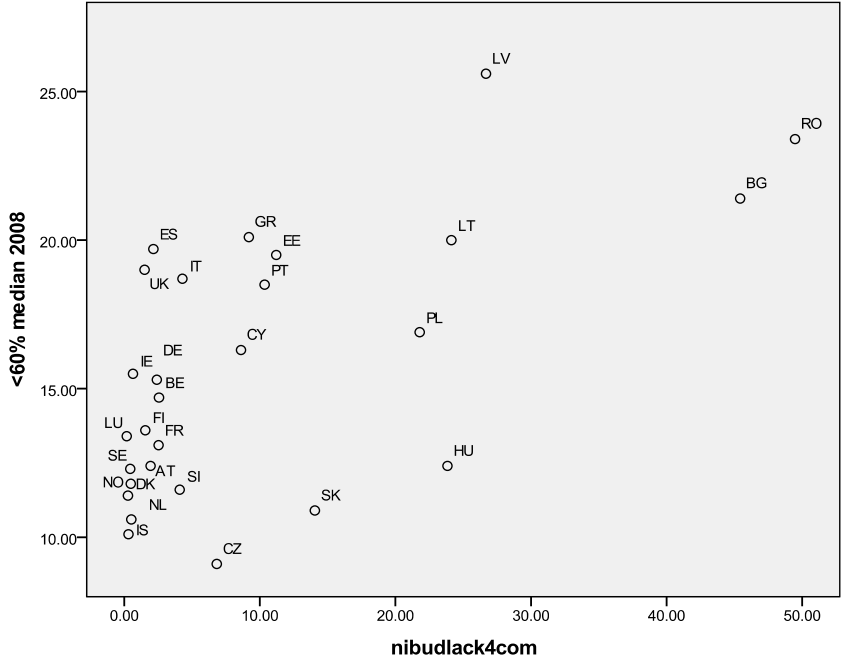


Table 9.3 summarises how the NIBUD poverty overlaps with the lacking four or more deprivation items using our composite index.

Table 9.3: Cross table showing the overlaps between the NIBUD budget standard income poverty thresholds and the prevalence weighted deprivation threshold

| AUSTRIA | | | BELGIUM | | |
|-----------------------|-------------|--------------|--------------------|-------------|--------------|
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 88.7 | 6.4 | Not under NIBUD | 85.8 | 5.1 |
| Under NIBUD | 3.0 | 1.9 | Under NIBUD | 6.5 | 2.6 |
| BULGARIA | | | CYPRUS | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 20.1 | 1.5 | Not under NIBUD | 65.1 | 5.8 |
| Under NIBUD | 32.9 | 45.5 | Under NIBUD | 20.5 | 8.6 |
| CZECH REPUBLIC | | | GERMANY | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 61.2 | 2.6 | Not under NIBUD | 86.6 | 5.0 |
| Under NIBUD | 29.4 | 6.8 | Under NIBUD | 6.0 | 2.4 |
| DENMARK | | | ESTONIA | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 92.2 | 2.0 | Not under NIBUD | 45.0 | 1.1 |
| Under NIBUD | 5.4 | 0.5 | Under NIBUD | 42.6 | 11.2 |
| SPAIN | | | FINLAND | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 78.0 | 2.6 | Not under NIBUD | 89.5 | 3.7 |
| Under NIBUD | 17.3 | 2.2 | Under NIBUD | 5.3 | 1.6 |
| FRANCE | | | GREECE | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 84.4 | 4.4 | Not under NIBUD | 67.7 | 5.6 |
| Under NIBUD | 8.7 | 2.5 | Under NIBUD | 17.6 | 9.2 |
| HUNGARY | | | IRELAND | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 24.8 | 2.5 | Not under NIBUD | 87.9 | 7.2 |
| Under NIBUD | 48.9 | 23.8 | Under NIBUD | 4.3 | 0.6 |
| ICELAND | | | ITALY | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 96.0 | 1.2 | Not under NIBUD | 78.4 | 6.2 |
| Under NIBUD | 2.5 | 0.3 | Under NIBUD | 11.0 | 4.3 |
| LITHUANIA | | | LUXEMBOURG | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 35.2 | 2.5 | Not under NIBUD | 97.1 | 1.6 |
| Under NIBUD | 38.2 | 24.1 | Under NIBUD | 1.1 | 0.2 |
| LATVIA | | | NETHERLANDS | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 36.0 | 4.2 | Not under NIBUD | 93.5 | 2.4 |
| Under NIBUD | 33.2 | 26.7 | Under NIBUD | 3.6 | 0.5 |
| NORWAY | | | POLAND | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 94.4 | 2.3 | Not under NIBUD | 31.3 | 2.4 |
| Under NIBUD | 3.0 | 0.3 | Under NIBUD | 44.5 | 21.8 |
| PORTUGAL | | | ROMANIA | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 56.4 | 4.3 | Not under NIBUD | 6.2 | 0.5 |
| Under NIBUD | 29.0 | 10.4 | Under NIBUD | 43.7 | 49.7 |
| SWEDEN | | | SLOVENIA | | |
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 91.8 | 1.6 | Not under NIBUD | 80.6 | 7.8 |
| Under NIBUD | 6.2 | 0.4 | Under NIBUD | 7.5 | 4.1 |

| | SLOVAKIA | | | UK | |
|-----------------|-------------|--------------|-----------------|-------------|--------------|
| | Missing < 4 | Missing > 4+ | | Missing < 4 | Missing > 4+ |
| Not under NIBUD | 21.0 | 0.8 | Not under NIBUD | 87.2 | 4.6 |
| Under NIBUD | 64.1 | 14.1 | Under NIBUD | 6.7 | 1.5 |

Using this threshold changes the composition of the poor (see Table 9.4). This table needs to be interpreted with care because there are small numbers in extreme poverty in the richer countries and so a few households can influence the composition. It is once again difficult to make generalisations of the change in composition. Compared with the at-risk-of-poverty in about half the countries it increases the proportion of the poor who are households with children. The proportion who are single parents goes up in two-thirds of the countries. It increases the proportion that are elderly in a third of countries. Using this threshold, the proportion of the poor who have low work intensity increases in about two-thirds of the countries. However there is a tendency for the poorer countries to have an increase in the proportion with high work intensity. The proportion of tenants goes up and the proportion of owners goes down in almost all countries. The proportion reporting bad health also goes up.

Table 9.4: Poverty rates and composition: households lacking 4+ on composite deprivation and below the NIBUD total threshold

| Countries | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|--|------|------|------|------|------|------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poverty rates | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Poverty rate | 1.9 | 2.6 | 45.4 | 8.6 | 6.8 | 2.4 | 0.5 | 11.2 | 2.2 | 1.6 | 2.5 | 9.2 | 23.8 | 0.6 | 0.3 | 4.3 | 24.1 | 0.2 | 26.7 | 0.5 | 0.3 | 21.8 | 10.4 | 49.5 | 0.4 | 4.1 | 14.1 | 1.5 |
| Poverty composition | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Characteristics of the main income earner** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Woman | 15.9 | 12.5 | 31.9 | 31.9 | 26.8 | 23.2 | 5.6 | 32.9 | 25.9 | 19.1 | 23.4 | 23.8 | 28.8 | 10.5 | 34.0 | 17.3 | 35.8 | 63.0 | 40.4 | 18.1 | 17.7 | 34.2 | 31.6 | 38.2 | 20.0 | 15.8 | 36.4 | 15.2 |
| P-t worker | 10.1 | 12.8 | 10.5 | 12.6 | 4.0 | 11.6 | 0.0 | 5.2 | 10.6 | 8.2 | 21.4 | 12.2 | 7.0 | 16.1 | 24.9 | 12.3 | 7.0 | 62.6 | 6.5 | 24.7 | 0.0 | 10.8 | 11.8 | 9.1 | 12.5 | 4.3 | 6.0 | 10.0 |
| Self-empl | 6.7 | 4.8 | 7.9 | 14.0 | 4.7 | 4.8 | 0.0 | 3.4 | 5.7 | 12.5 | 3.5 | 22.9 | 3.0 | 3.3 | 8.5 | 14.0 | 7.0 | 0.0 | 6.2 | 6.3 | 4.6 | 12.5 | 8.1 | 23.6 | 0.0 | 6.0 | 3.5 | 6.3 |
| Characteristics of the household | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Child in household | 58.3 | 57.1 | 47.0 | 45.3 | 48.7 | 32.7 | 7.5 | 39.8 | 56.9 | 29.4 | 61.4 | 42.4 | 51.4 | 52.4 | 65.5 | 55.9 | 48.0 | 89.6 | 46.0 | 53.6 | 45.9 | 50.6 | 51.7 | 54.0 | 53.2 | 31.9 | 49.7 | 58.4 |
| Elderly in household | 7.9 | 8.8 | 40.4 | 35.2 | 21.1 | 9.0 | 5.2 | 35.4 | 21.7 | 13.4 | 15.3 | 42.0 | 22.1 | 4.0 | 0.0 | 29.1 | 31.6 | 0.0 | 39.0 | 12.4 | 5.8 | 29.7 | 37.9 | 34.4 | 2.3 | 37.8 | 30.5 | 4.9 |
| Single adult | 26.1 | 25.1 | 12.5 | 17.2 | 22.3 | 49.7 | 87.0 | 29.4 | 12.5 | 56.6 | 23.4 | 16.1 | 14.1 | 29.9 | 23.8 | 19.0 | 19.2 | 10.4 | 19.7 | 33.4 | 48.3 | 17.0 | 14.2 | 10.7 | 34.5 | 32.2 | 17.8 | 18.4 |
| Single parent | 14.2 | 26.1 | 2.5 | 10.9 | 15.6 | 14.6 | 0.0 | 12.6 | 6.2 | 15.8 | 14.8 | 3.6 | 8.4 | 37.6 | 14.1 | 7.9 | 8.8 | 40.4 | 9.0 | 19.0 | 0.0 | 5.0 | 8.1 | 2.5 | 19.4 | 8.9 | 5.2 | 31.5 |
| Two adults 1 or 2 children | 25.9 | 17.3 | 20.8 | 26.7 | 23.3 | 12.5 | 0.0 | 17.9 | 27.4 | 10.7 | 18.0 | 36.1 | 26.1 | 8.7 | 8.5 | 27.8 | 24.2 | 49.2 | 17.5 | 5.4 | 37.3 | 20.4 | 25.3 | 24.2 | 13.2 | 17.4 | 17.7 | 22.3 |
| Two adults 3+ children | 12.2 | 15.5 | 3.8 | 12.6 | 9.4 | 7.5 | 7.5 | 8.9 | 17.1 | 2.5 | 19.8 | 2.9 | 11.0 | 12.6 | 42.8 | 10.9 | 10.3 | 0.0 | 8.3 | 29.1 | 8.5 | 10.7 | 8.9 | 9.8 | 19.4 | 8.1 | 11.2 | 11.1 |
| Other household | 21.7 | 16.0 | 60.5 | 32.7 | 29.4 | 15.7 | 5.6 | 31.3 | 36.8 | 14.5 | 24.0 | 41.4 | 40.2 | 11.2 | 10.8 | 34.4 | 37.5 | 0.0 | 45.5 | 13.1 | 5.8 | 46.9 | 43.6 | 52.9 | 13.5 | 33.3 | 48.1 | 16.7 |
| Bad health | 32.4 | 36.7 | 38.5 | 39.3 | 38.1 | 27.8 | 15.7 | 40.5 | 28.6 | 19.8 | 29.3 | 35.2 | 44.1 | 7.4 | 0.0 | 29.1 | 34.4 | 35.6 | 48.3 | 31.1 | 5.2 | 43.0 | 47.0 | 22.7 | 22.8 | 40.1 | 47.4 | 16.6 |
| Low education | 54.7 | 66.6 | 69.4 | 74.1 | 60.5 | 40.7 | 37.0 | 67.8 | 78.2 | 51.6 | 72.1 | 82.3 | 68.0 | 71.4 | 31.5 | 88.5 | 59.9 | 83.9 | 65.9 | 63.6 | 36.7 | 64.8 | 83.3 | 78.1 | 53.9 | 76.3 | 50.9 | 51.4 |
| Owner | 20.2 | 14.8 | 82.8 | 45.6 | 46.2 | 12.3 | 15.4 | 76.2 | 46.3 | 21.1 | 18.9 | 64.6 | 82.2 | 27.7 | 45.6 | 36.3 | 81.3 | 0.0 | 75.5 | 0.4 | 21.4 | 61.7 | 46.1 | 95.8 | 25.6 | 67.9 | 81.3 | 25.3 |
| Tenant | 68.5 | 57.6 | 0.8 | 21.9 | 14.2 | 68.4 | 84.6 | 4.7 | 27.3 | 22.2 | 44.4 | 28.9 | 4.9 | 11.7 | 19.9 | 34.1 | 3.6 | 87.1 | 8.5 | 99.7 | 73.6 | 3.4 | 24.4 | 1.0 | 72.2 | 17.9 | 15.6 | 15.1 |
| Reduced /free rent | 11.3 | 27.6 | 16.4 | 32.5 | 39.6 | 19.3 | - | 19.1 | 26.4 | 56.7 | 36.7 | 6.5 | 12.9 | 60.6 | 34.5 | 29.6 | 15.1 | 13.0 | 16.1 | 0.0 | 5.1 | 34.9 | 29.5 | 3.2 | 2.2 | 14.3 | 3.1 | 59.6 |
| High work intensity*** | 8.1 | 4.5 | 21.1 | 20.5 | 14.9 | 6.2 | 0.0 | 20.1 | 13.1 | 11.1 | 6.8 | 15.5 | 15.5 | 3.6 | 19.9 | 5.5 | 21.4 | 34.2 | 27.3 | 5.3 | 6.3 | 17.7 | 15.3 | 31.2 | 7.1 | 4.9 | 21.2 | 5.3 |
| Med work intensity | 14.6 | 6.7 | 30.0 | 37.4 | 26.6 | 7.6 | 0.0 | 32.9 | 25.4 | 10.4 | 13.0 | 33.0 | 31.2 | 3.7 | 55.8 | 22.9 | 34.6 | 17.8 | 35.3 | 4.6 | 14.9 | 34.7 | 33.0 | 34.5 | 11.0 | 22.4 | 36.1 | 16.0 |
| Low work intensity | 77.3 | 88.8 | 49.0 | 42.1 | 58.5 | 86.3 | 100.0 | 47.0 | 61.5 | 78.5 | 80.2 | 51.5 | 53.4 | 92.8 | 24.4 | 71.6 | 44.0 | 48.0 | 37.4 | 90.2 | 78.7 | 47.7 | 51.8 | 34.3 | 81.9 | 72.8 | 42.8 | 78.7 |
| Densely populated | 65.2 | 70.2 | 29.0 | 57.5 | 35.0 | 60.3 | 69.7 | 26.9 | 58.0 | 30.5 | 56.7 | 31.2 | 26.1 | 36.9 | 81.3 | 46.2 | 29.8 | 36.5 | 35.2 | | 80.0 | 29.3 | 45.1 | 22.0 | 19.4 | | 20.1 | 88.5 |
| Intermediate | 13.8 | 24.4 | 6.4 | 9.9 | 28.8 | 21.4 | 30.3 | | 14.8 | 16.5 | 27.2 | 7.7 | 21.4 | 32.0 | | 37.0 | | 53.0 | | | 9.1 | 14.4 | 31.6 | 1.0 | 8.7 | | 30.0 | 10.4 |
| Thinly populated | 21.0 | 5.5 | 64.5 | 32.7 | 36.2 | 18.3 | 0.0 | 73.1 | 27.2 | 53.1 | 16.1 | 61.1 | 52.5 | 31.2 | 18.7 | 16.8 | 70.2 | 10.5 | 64.8 | | 10.9 | 56.4 | 23.4 | 77.0 | 71.9 | | 50.0 | 1.0 |

Source: SILC 2008. France: SILC 2007 data.

See notes to Table 1.1

SECTION 10: EXTREME AND PERSISTENT POVERTY

It might be argued that extreme poverty would only have any real social meaning if it was persistent. Some researchers have indeed defined extreme poverty as severe and persistent poverty⁶⁸. The UK uses a persistent poverty measure in its official portfolio. The OECD has also compared persistent poverty for a selection of countries⁶⁹. EU-SILC is able to generate a persistent poverty measure at least over a four year period. However by 2008 we only had three years of data for most EU countries. In Table 10.1⁷⁰ we present the persistent poverty rates defined as poor in at least two of the last three years using the lacking four or more items on the composite index and the overlaps lacking four or more and income less than 60 per cent of the median for the year (in place of the NIBUD standard). Figure 10.1 presents the same data in a bar graph. In the case of the latter measure there are very small proportions of households who are extremely and persistently poor in the richer EU countries but in HU, LT, LV, PL over a fifth of households are extremely and persistently poor. There is only one year's data for RO and BG.

⁶⁸ Adelman, L., Middleton, S. and Ashworth, K. (2003) *Britain's Poorest Children: severe and persistent poverty and social exclusion*, London: Save the Children.

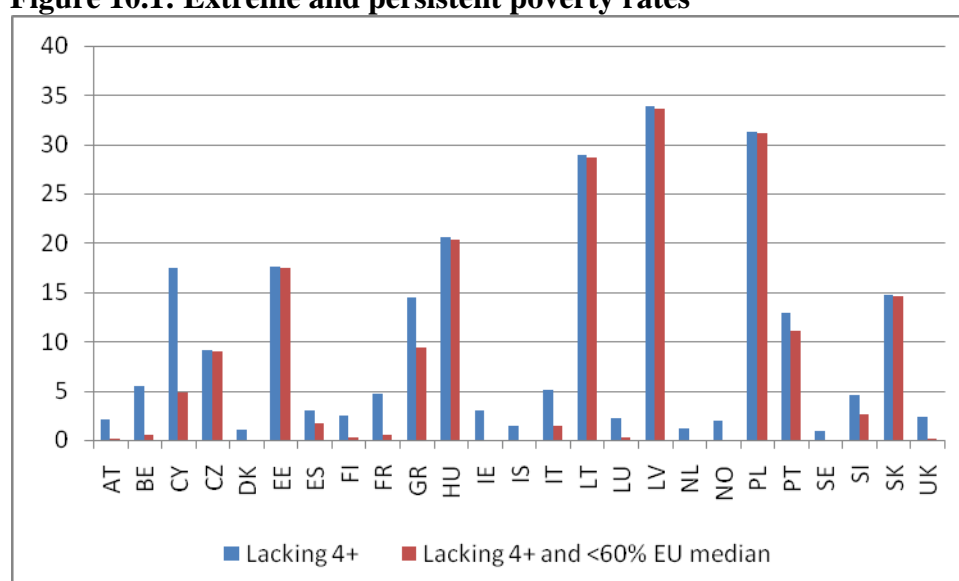
⁶⁹ OECD (2008) *Growing unequal? Income distribution and poverty in OECD countries?* Paris: OECD. Chapter 6.

⁷⁰ This is based on unweighted data as there are no weights in the SILC longitudinal data set.

Table 10.1: Extreme and persistent poverty rates

| | Lacking 4+ for at least 2 out of last 3 years | Lacking 4+ and below 60% EU median for at least 2 out of last 3 years |
|----|---|---|
| AT | 2.1 | 0.2 |
| BE | 5.4 | 0.5 |
| CY | 17.4 | 4.8 |
| CZ | 9.1 | 9.0 |
| DK | 1.0 | 0.1 |
| EE | 17.6 | 17.5 |
| ES | 3.0 | 1.8 |
| FI | 2.5 | 0.3 |
| FR | 4.7 | 0.5 |
| GR | 14.5 | 9.4 |
| HU | 20.6 | 20.4 |
| IE | 3.1 | 0.0 |
| IS | 1.4 | 0.0 |
| IT | 5.1 | 1.5 |
| LT | 28.9 | 28.7 |
| LU | 2.2 | 0.2 |
| LV | 33.8 | 33.7 |
| NL | 1.2 | 0.0 |
| NO | 2.0 | 0.1 |
| PL | 31.3 | 31.1 |
| PT | 12.9 | 11.1 |
| SE | 0.9 | 0.0 |
| SI | 4.5 | 2.7 |
| SK | 14.7 | 14.6 |
| UK | 2.3 | 0.1 |

Figure 10.1: Extreme and persistent poverty rates



SECTION 11: DISCUSSION AND CONCLUSION

The objective of this project was to suggest some measures of extreme poverty for the European Union countries. It has explored a variety of approaches to setting extreme poverty thresholds. It has to be recognised that in the end any method is a matter of judgement.

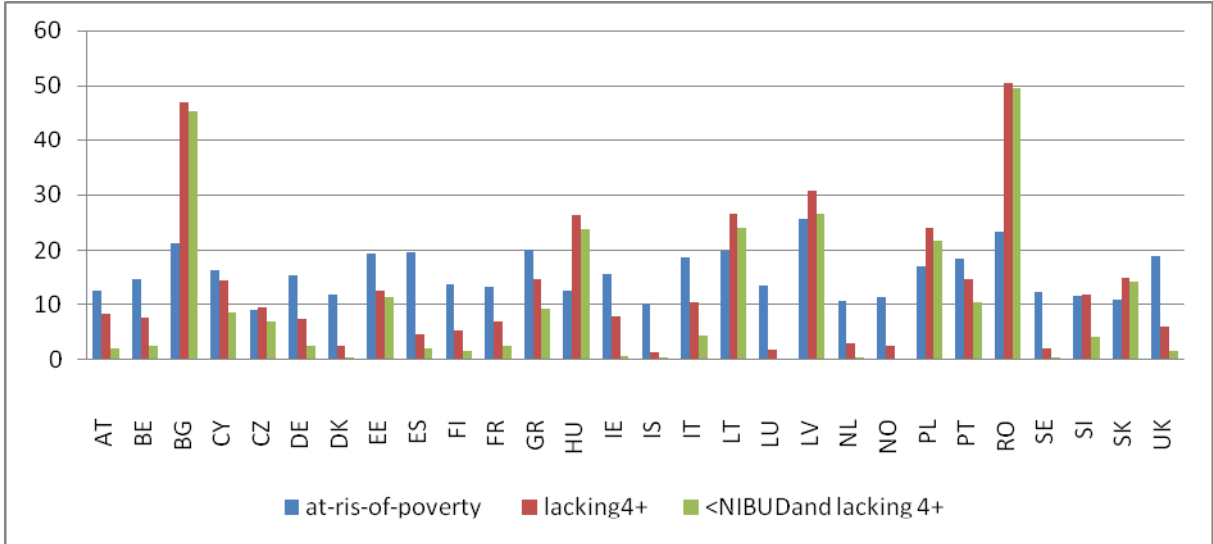
We have sought to find a threshold that is not relative to a country but represents the reality of the differences in living standards in the EU countries and can be used to identify extremely poor households in all countries.

We have reviewed and rejected a number of possible methods including: macro social indicators; World Bank and US approaches to absolute poverty; lower relative thresholds; and social assistance or minimum income scheme based thresholds.

In the end we recommend that the EU considers two measures. One based on deprivation indicators alone, and the other based on the overlap between deprivation indicators and living on an income below a budget standard threshold. We think that the exact thresholds that are used should be a decision for the Social Protection Committee.

As one would expect in Figure 11.1 the extreme poverty rates obtained using these thresholds are higher than the at-risk-of-poverty rates in BG, HU, LV, PL, LT, SK and RO but not interestingly in CY, EE, SL and CZ among the EU 10+2. The extreme poverty rates are lower than the at-risk-of-poverty rates in all the EU15 countries. However there are households who are extremely poor in all EU countries.

Figure 11.1: Comparison of at-risk-of-poverty rate and two extreme poverty thresholds. Countries ranked by at-risk-of-poverty rate. SILC 2008.



It can be seen in Figures 9.2 and 9.3 that our overlaps measure of extreme poverty has a much closer relationship with the level of wealth of the country as measured by GDP per capita than the at-risk-of-poverty rate. (These charts exclude Norway and Luxembourg which are outliers on GDP per capita).

Figure 11.2: At-risk-of-poverty rate and GDP per capita

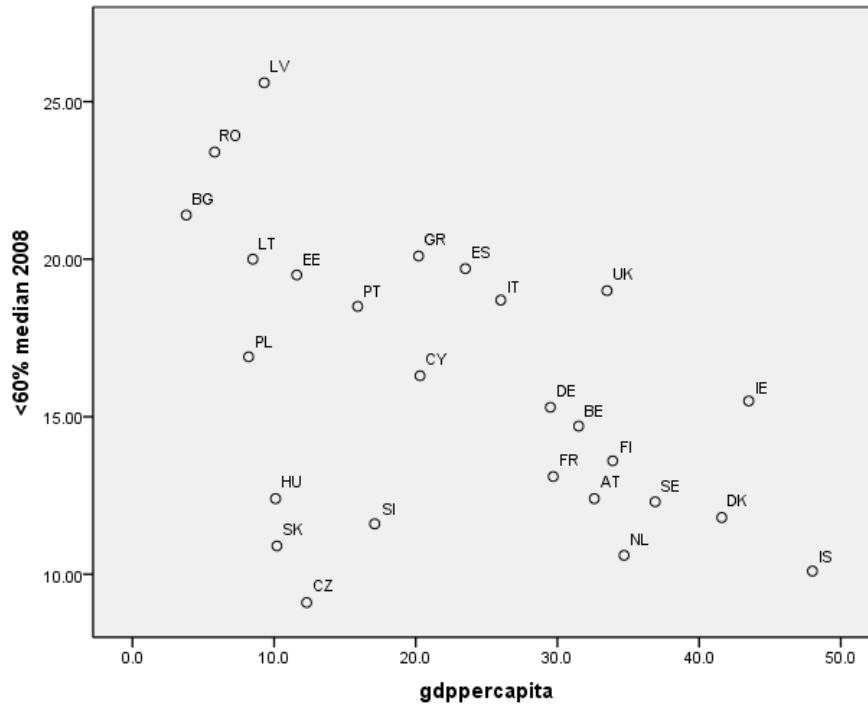
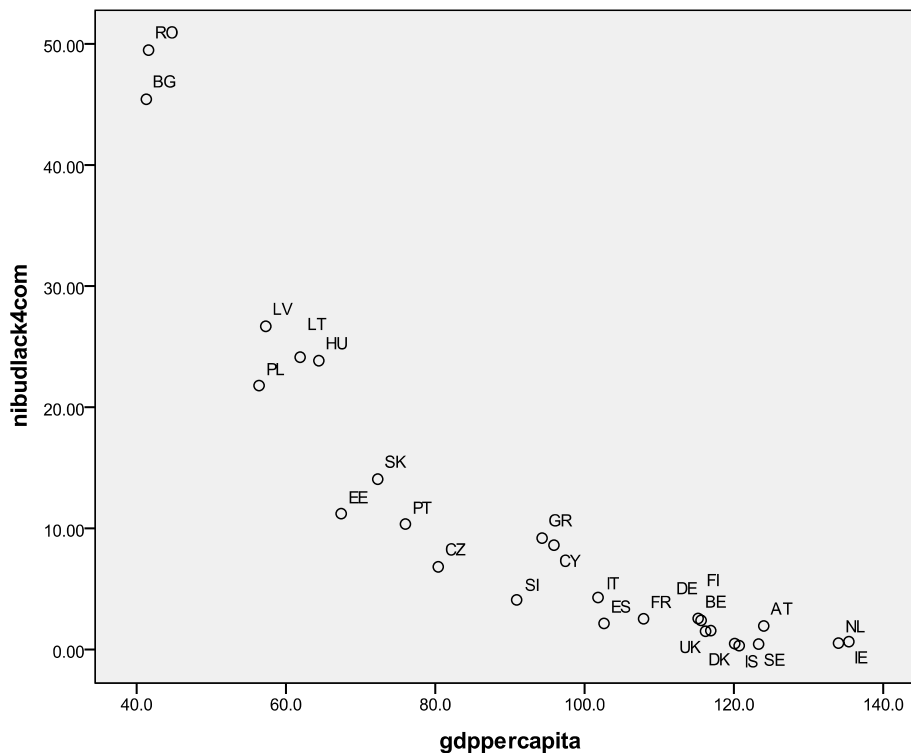


Figure 11.3: Below NIBUD threshold and lacking 4+ deprivation by GDP per capita



Using the European Quality of Life Survey Fahey⁷¹ found that the better-off (top quartile) households in the poorest EU states have higher levels of hardship than those who are worse off (bottom quartile) in the richer EU states.

⁷¹ Fahey, T. (2007) The Case for an EU-wide Measure of Poverty, *European Sociological Review* 23, 1, 35-47.

“Furthermore, it was shown that those in the upper income quartile in the poorest EU states feel deprived to a degree that is strikingly in keeping with their objective position: they feel better off than the poor in their own states but worse off than low- or middle-income groups in the rich states” (45).

There is a subjective poverty indicator in EU SILC – households are asked how difficult they are finding it to make ends meet. In figures 11.4 and 11.5 we compare the at-risk-of-poverty and the extreme poverty rates with the proportion making ends meet with difficulty or great difficulty. It can be seen that there is a much closer relationship with the extreme poverty indicator.

Figure 11.4: At-risk-of-poverty rate by % making ends meet with difficulty or great difficulty

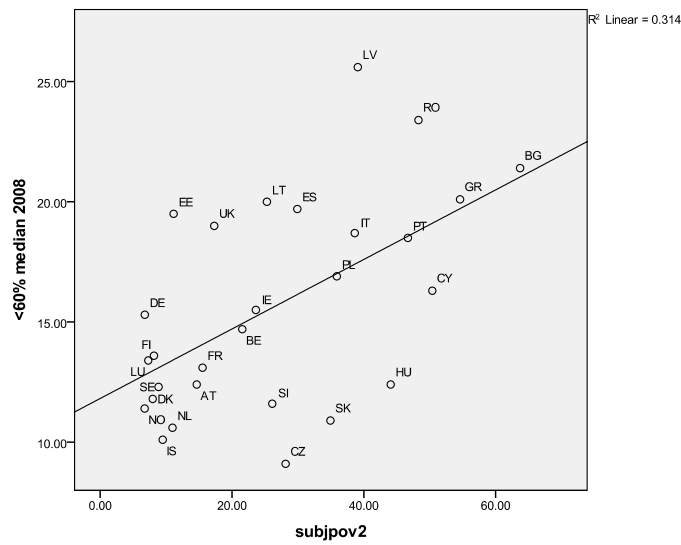
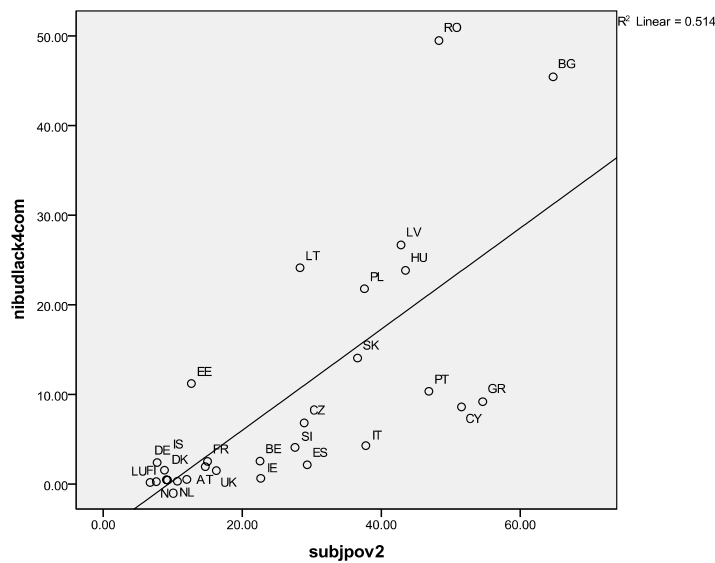


Figure 11.5: Extreme poverty by % making ends meet with difficulty or great difficulty

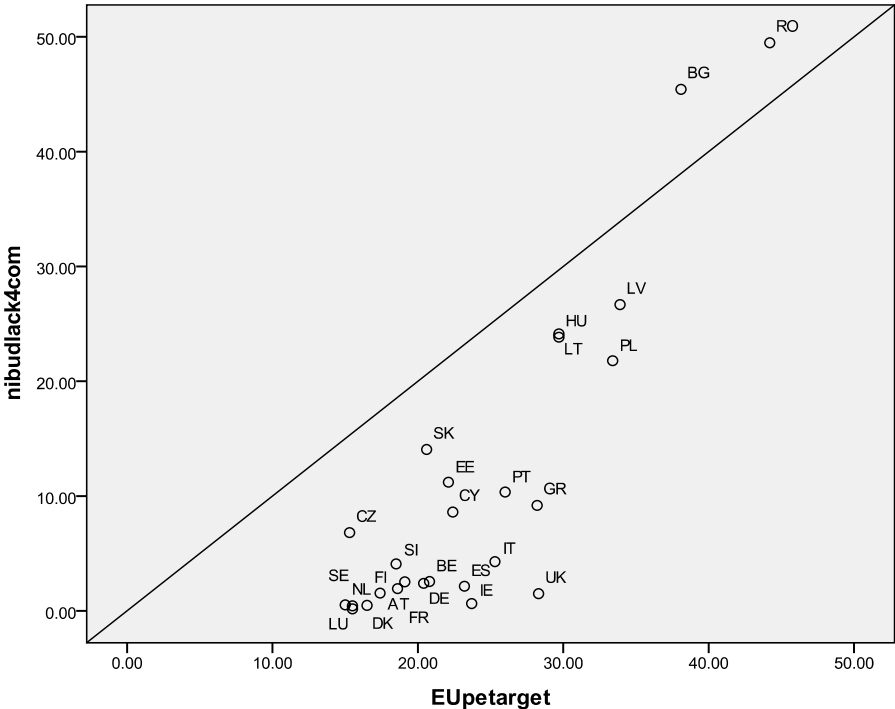


In the preceding analysis we have tended to focus on the impact of the poverty threshold on poverty rates. But changing the poverty threshold has inevitable consequences for the

composition of the poor. However we found it very difficult to make generalisations about how our extreme poverty measures would change the composition of the poor. It varied from country to country. Households in extreme poverty are generally more likely than the at-risk-of-poverty group to be single parents, tenants, low educated, with bad health, and to have low work intensity. But this was not the case for all countries.

While this project was in its final throes, the EU developed the 2020 target – people at-risk-of-poverty and/or materially deprived and/or living in jobless households. Figure 11.6 shows how the poverty rates derived from that threshold compare with our proposed overlaps extreme poverty threshold. The EU at-risk-of-poverty or exclusion rate is lower than the extreme poverty rate only in RO and BG. This is because the new EU target is still heavily influenced by the relative at-risk-of-poverty threshold.

Figure 11.6: EU 2020 target compared with the overlaps extreme poverty rate.



An extreme poverty threshold of the kind we propose for the EU inevitably has political consequences. It will focus attention more than at present on disparities within the EU. If the intention of the EU is to eradicate social exclusion by 2020, or some date thereafter, there are challenges for all countries, but perhaps the greatest challenge is to raise the living standards of the poor in the poorer countries. The EU already approaches its responsibilities for regional economic and social cohesion with regard to an EU wide indicator (GDP per capita for the EU27). In its deprivation measure the EU has already adopted an EU wide indicator of poverty and the lacking 4 or more items out of 9 in the EU 2020 target is an extreme measure. Leading up to the review of those indicators in 2015 the ISG might consider expanding the portfolio of deprivation items and introducing an extra indicator that combines deprivation and a fixed low income threshold.

GROUPS IN EXTREME POVERTY NOT COUNTED

This project was about producing measures of extreme poverty. For that reason the analysis has focused on deriving comparable measures that can be used across the EU countries. In this we have been very reliant on SILC. However it needs to be recognised that people in the most extreme poverty may not be living in households - the sampling base for EU SILC – they may be homeless and living rough, they may be living in institutions, prisons, hospitals, hostels, they may be refugees living in camps or Roma and other groups who are mobile or unregistered and left out of surveys. They may be extremely deprived, possibly ethnic minority groups within a country which though included in sample surveys like SILC, are so rare as to be neglected.

There are partial solutions to this problem. First Eurostat needs to ensure that the sampling frame for EU SILC is as comprehensive as it can possibly be. There is no reason why the institutional population should not be included, and it is quite possible to over sample extremely poor minorities.

Beyond that there needs to be alternative approaches to gathering data on extreme poverty. Homelessness is an example where the EU has made a special effort quite recently to improve data collection at national level. Unfortunately there is still no data on homelessness which is comparable across EU member states, even on the narrowest definitions. The comparative possibilities offered by the 2011 census seem likely to be very limited with respect to homelessness. One potential way forward at a relatively low cost would be to incorporate a short suite of questions on homelessness into EU-SILC to gain comparative data on past experience of homelessness. There are already two questions in SILC 2009 on moving in the next six months and reasons for moving but they are not entirely satisfactory.

There may be other surveys that could be used. For example Household Finance and Consumption Survey (coordinated by the ECB) is currently conducted in the sixteen countries of the euro area.

There may also be a need for special targeted surveys (on for example Roma). For example UNDP (2006) produced an excellent report on Roma in SE Europe combining a variety of quantitative and qualitative methods

Stephens, M., Fitzpatrick, S., Elsinga, M., van Steen, G. and Chzhen, Y. (2010) Study on Housing Exclusion: Welfare Policies, Housing Provision and Labour Markets. Brussels: European Commission.

Edgar, W. (2009) European Review of Statistics on Homelessness. Brussels: FEANTSA.

UNDP (2006) *At Risk: Roma and the displaced in South East Europe*,
http://europeandcis.undp.org/uploads/public/File/rbec_web/vgr/vuln_rep_all.pdf

Table A.1: Poverty rates, gaps and composition under the NIBUD standard threshold

| Countries | AT | BE | BG | CY | CZ | DE | DK | EE | ES | FI | FR | GR | HU | IE | IS | IT | LT | LU | LV | NL | NO | PL | PT | RO | SE | SI | SK | UK |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Poverty rates | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Poverty rate | 4.9 | 9.1 | 78.3 | 29.1 | 36.2 | 8.4 | 5.9 | 53.8 | 19.5 | 6.8 | 11.3 | 26.8 | 72.7 | 4.9 | 2.8 | 15.3 | 62.3 | 1.3 | 59.8 | 4.1 | 3.3 | 66.3 | 39.3 | 93.3 | 6.6 | 11.6 | 78.2 | 8.2 |
| Poverty gap | 16.9 | 16.6 | 47.4 | 24.9 | 18.2 | 21.6 | 27.7 | 34.3 | 23.6 | 14.3 | 16.9 | 26.4 | 31.3 | 16.6 | 21.7 | 23.2 | 36.9 | 11.0 | 43.3 | 33.0 | 34.5 | 35.9 | 29.3 | 61.3 | 22.5 | 18.4 | 33.6 | 22.8 |
| Poverty composition | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Characteristics of the main income earner** | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Woman | 29.6 | 17.5 | 40.9 | 31.9 | 31.9 | 26.0 | 25.3 | 40.8 | 25.7 | 20.1 | 26.5 | 29.6 | 37.7 | 13.8 | 38.6 | 17.6 | 46.0 | 40.4 | 45.8 | 33.2 | 15.4 | 41.6 | 36.4 | 43.6 | 26.2 | 23.7 | 49.3 | 18.8 |
| P-t worker | 17.4 | 17.6 | 9.2 | 13.4 | 3.9 | 15.5 | 12.3 | 7.7 | 10.5 | 14.0 | 18.0 | 12.7 | 6.1 | 17.2 | 8.3 | 11.3 | 6.3 | 21.1 | 6.7 | 31.9 | 3.7 | 9.8 | 11.1 | 6.0 | 18.6 | 4.1 | 4.9 | 14.1 |
| Self-empl | 15.7 | 13.0 | 8.9 | 16.1 | 9.6 | 7.0 | 23.3 | 6.9 | 23.6 | 20.4 | 7.8 | 32.2 | 9.5 | 25.6 | 29.2 | 23.4 | 8.5 | 13.2 | 8.8 | 25.9 | 8.1 | 17.0 | 16.2 | 18.3 | 10.6 | 14.5 | 7.8 | 13.0 |
| Characteristics of the household | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Child in household | 51.1 | 48.5 | 49.5 | 45.4 | 46.1 | 29.9 | 33.1 | 42.3 | 49.4 | 32.8 | 53.2 | 45.8 | 52.1 | 56.5 | 43.2 | 52.0 | 51.1 | 38.7 | 49.1 | 40.5 | 21.3 | 54.6 | 51.5 | 50.5 | 42.8 | 39.2 | 49.4 | 44.2 |
| Elderly in household | 12.3 | 24.5 | 38.7 | 33.6 | 30.4 | 18.3 | 8.0 | 35.8 | 31.0 | 22.0 | 21.6 | 33.7 | 24.5 | 19.9 | 11.5 | 31.0 | 30.5 | 9.8 | 37.2 | 13.5 | 5.7 | 27.9 | 32.8 | 28.7 | 15.0 | 34.6 | 27.6 | 27.8 |
| Single adult | 26.1 | 22.8 | 8.9 | 11.5 | 19.6 | 42.6 | 55.2 | 22.4 | 12.1 | 49.0 | 21.8 | 10.8 | 11.6 | 15.7 | 40.2 | 20.2 | 14.6 | 37.2 | 15.3 | 27.0 | 58.1 | 11.8 | 11.1 | 8.8 | 36.4 | 27.7 | 11.4 | 26.9 |
| Single parent | 11.9 | 17.3 | 2.1 | 7.0 | 9.2 | 10.6 | 3.7 | 9.6 | 3.3 | 11.2 | 11.8 | 2.2 | 5.6 | 18.1 | 16.5 | 6.7 | 7.3 | 18.6 | 7.6 | 10.7 | 6.9 | 3.2 | 4.9 | 2.0 | 12.5 | 7.8 | 3.2 | 14.2 |
| Two adults 1 or 2 children | 23.3 | 14.3 | 24.7 | 32.5 | 29.5 | 14.1 | 15.2 | 25.0 | 38.4 | 13.6 | 22.5 | 43.2 | 33.3 | 20.1 | 8.6 | 32.1 | 32.5 | 26.2 | 23.9 | 24.1 | 10.8 | 28.1 | 34.9 | 31.6 | 17.0 | 27.3 | 30.8 | 19.2 |
| Two adults 3+ children | 13.8 | 17.9 | 2.5 | 11.0 | 8.3 | 6.3 | 13.9 | 8.4 | 6.7 | 7.4 | 15.8 | 4.3 | 9.4 | 15.6 | 18.3 | 10.9 | 8.0 | 1.4 | 7.3 | 12.8 | 3.9 | 9.4 | 5.8 | 7.4 | 9.9 | 7.1 | 9.0 | 10.6 |
| Other household | 25.0 | 27.8 | 61.8 | 38.0 | 33.4 | 26.4 | 12.0 | 34.6 | 39.5 | 18.8 | 28.2 | 39.6 | 40.2 | 30.5 | 16.4 | 30.1 | 37.6 | 16.6 | 45.9 | 25.3 | 20.3 | 47.6 | 43.3 | 50.2 | 24.3 | 30.2 | 45.5 | 29.1 |
| Bad health | 18.9 | 25.3 | 32.5 | 24.9 | 26.1 | 18.8 | 4.8 | 27.9 | 20.6 | 9.8 | 22.2 | 22.6 | 34.6 | 3.0 | 3.7 | 21.6 | 29.0 | 33.8 | 38.0 | 11.8 | 3.8 | 33.2 | 41.1 | 17.7 | 5.6 | 26.5 | 32.6 | 9.0 |
| Low education | 53.9 | 61.9 | 60.1 | 70.8 | 43.8 | 35.8 | 31.5 | 49.7 | 79.7 | 48.8 | 64.0 | 78.0 | 54.6 | 68.1 | 46.0 | 84.6 | 49.9 | 65.8 | 59.6 | 45.9 | 31.9 | 51.1 | 87.5 | 63.2 | 39.4 | 65.3 | 41.7 | 46.3 |
| Owner | 31.8 | 44.4 | 86.4 | 56.0 | 68.2 | 24.9 | 42.7 | 86.7 | 73.7 | 42.2 | 40.3 | 72.8 | 88.3 | 68.2 | 51.9 | 56.4 | 89.3 | 47.9 | 82.8 | 40.9 | 37.2 | 67.0 | 66.2 | 96.5 | 38.7 | 71.0 | 88.7 | 59.9 |
| Tenant | 53.6 | 35.8 | 0.9 | 17.5 | 6.5 | 58.7 | 57.3 | 3.1 | 12.5 | 20.0 | 33.5 | 21.4 | 2.8 | 9.9 | 24.0 | 20.9 | 1.7 | 44.2 | 7.3 | 58.1 | 49.0 | 2.3 | 15.6 | 0.9 | 58.0 | 10.5 | 9.4 | 10.9 |
| Reduced/free rent | 14.7 | 19.8 | 12.7 | 26.4 | 25.3 | 16.4 | - | 10.2 | 13.9 | 37.7 | 26.3 | 5.8 | 8.9 | 21.9 | 24.1 | 22.7 | 9.0 | 8.0 | 9.9 | 1.1 | 13.8 | 30.8 | 18.2 | 2.7 | 3.3 | 18.6 | 1.9 | 29.2 |
| High work intensity*** | 12.9 | 8.8 | 28.9 | 18.9 | 20.7 | 8.4 | 31.2 | 31.4 | 12.6 | 13.7 | 10.7 | 17.4 | 22.9 | 4.9 | 35.1 | 7.4 | 31.5 | 14.5 | 33.1 | 19.6 | 13.8 | 25.7 | 25.0 | 32.3 | 21.2 | 11.3 | 33.9 | 12.5 |
| Med work intensity | 27.9 | 12.9 | 37.4 | 40.6 | 37.6 | 15.9 | 14.4 | 40.6 | 42.1 | 22.7 | 23.9 | 41.7 | 36.8 | 16.9 | 34.9 | 31.9 | 38.8 | 22.6 | 40.0 | 28.6 | 20.0 | 40.4 | 39.6 | 39.9 | 24.8 | 28.4 | 42.4 | 19.3 |
| Low work intensity | 59.2 | 78.3 | 33.7 | 40.5 | 41.7 | 75.8 | 54.4 | 28.0 | 45.3 | 63.6 | 65.5 | 40.9 | 40.3 | 78.2 | 30.0 | 60.7 | 29.7 | 62.9 | 26.9 | 51.8 | 66.2 | 33.9 | 35.5 | 27.8 | 54.0 | 60.4 | 23.7 | 68.2 |
| Densely populated | 52.4 | 61.5 | 34.4 | 51.9 | 31.2 | 56.7 | 46.9 | 43.2 | 41.3 | 24.4 | 48.0 | 29.8 | 25.8 | 26.0 | 64.3 | 40.6 | 32.4 | 47.5 | 42.2 | | 55.5 | 32.0 | 34.8 | 35.1 | 23.7 | | 21.4 | 79.4 |
| Intermediate | 18.9 | 33.1 | 6.7 | 14.2 | 25.8 | 26.1 | 28.7 | | 22.9 | 14.8 | 32.3 | 9.0 | 20.2 | 17.3 | | 38.8 | | 31.5 | | | 13.9 | 15.2 | 36.6 | 1.1 | 13.4 | | 34.9 | 15.8 |
| Thinly populated | 28.7 | 5.4 | 59.0 | 34.0 | 43.0 | 17.2 | 24.5 | 56.8 | 35.8 | 60.8 | 19.7 | 61.2 | 54.0 | 56.7 | 35.7 | 20.7 | 67.7 | 21.0 | 57.8 | | 30.6 | 52.8 | 28.6 | 63.8 | 62.9 | | 43.7 | 4.9 |

Source: SILC 2008. France: SILC 2007 data.

See Table 1.1 for notes

ANNEX

Poverty thresholds used in European Union countries

Synthesis Report

Overview based on the national reports prepared by the EU Network of independent experts on social inclusion

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Disclaimer: This report reflects the views of its authors and these are not necessarily those of either the European Commission or the Member States. The original language of the report is English.

9 May 2010



European Commission

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Annex: Questionnaire submitted to the members of the EU Network of independent experts on social inclusion

Countries' abbreviations

| EU-27 countries | |
|--|---|
| BE | Belgium |
| BG | Bulgaria |
| CZ | Czech Republic |
| DK | Denmark |
| DE | Germany |
| EE | Estonia |
| IE | Ireland |
| EL | Greece |
| ES | Spain |
| FR | France |
| IT | Italy |
| CY | Cyprus |
| LV | Latvia |
| LT | Lithuania |
| LU | Luxembourg |
| HU | Hungary |
| MT | Malta |
| NL | The Netherlands |
| AT | Austria |
| PL | Poland |
| PT | Portugal |
| RO | Romania |
| SI | Slovenia |
| SK | Slovakia |
| FI | Finland |
| SE | Sweden |
| UK | United Kingdom |
| Non-EU countries covered by the Network | |
| HR | Croatia |
| IS | Iceland |
| MK | Former Yugoslav Republic of Macedonia (FYROM) |
| RS | Serbia |
| TR | Turkey |

List of acronyms

| | |
|---------------|---|
| EU | European Union |
| EU-15 | The 15 “old” EU Member States, before the May 2004 Enlargement (AT, BE, DE, DK, ES, FI, FR, EL, IE, IT, LU, NL, PT, SE, UK) |
| EU-10 | The 10 “new” EU Member States, which joined the EU in May 2004 (CY, CZ, EE, HU, LT, LV, MT, PL, SI, SK) |
| EU-25 | The 25 EU Member States before the January 2007 enlargement |
| EU-27 | All 27 EU Member States (EU-25 plus BG and RO, which joined the EU in January 2007) |
| EU-SILC | Community Statistics on Income and Living Conditions |
| GMI | Guaranteed Minimum Income |
| HBS | Household Budget Survey |
| MIS | Minimum income scheme |
| NAP/inclusion | National Action Plan for social inclusion |
| NCT | Network Core Team |
| NGO | Non Governmental Organisation |
| NSRSPSI | National Strategy Report on Social Protection and Social Inclusion |
| OECD | Organisation for Economic Cooperation and Development |
| OMC | Open Method of Coordination (for social protection and social inclusion) |
| SPC | EU Social Protection Committee |
| SPSI | Social Protection and Social Inclusion |
| UNDP | United Nations Development Programme |

Preface

This report was produced in the context of the European Union (EU) Social Open Method of Coordination (OMC). The Social OMC covers three main strands (social inclusion, pensions and healthcare and long-term care), and also addresses “making work pay” issues.⁷² Two important instruments which are used to support the social inclusion strand of the Social OMC are the peer reviews of good practices and the regular reports drafted by the EU Network of independent experts on social inclusion. The latter reports are intended to support the Directorate-General for Employment, Social Affairs and Equal Opportunities of the European Commission in its task of assessing independently the implementation of the Social Inclusion Process.⁷³ The Network consists of independent experts from each of the 27 Member States as well as from Croatia, Former Yugoslav Republic of Macedonia, Iceland, Serbia and Turkey.

The report was prepared for the European Commission by the EU Network of independent experts on social inclusion under the coordination of and with contributions from the Network Core Team (NCT). It was drafted by Jonathan Bradshaw and Emese Mayhew (University of York, UK), with Eric Marlier (CEPS/INSTEAD). It is based on the national reports prepared by the members of the EU Network. In these national reports, the experts examined poverty thresholds used in their country. The experts’ reports were specifically written as a contribution to a research study on extreme poverty being undertaken for the European Commission by Jonathan Bradshaw. The purpose of the study is to investigate and to discuss the feasibility of meaningful and agreeable concepts, definitions and operationalisations measuring extreme poverty at EU level. This includes a review of the thresholds in use in existing legislation/regulations in Member States, an overview of relevant statistical data on extreme poverty, a review of the international literature on measuring extreme poverty and proposals for a limited number of concepts, definitions and operationalisations that could be considered for the EU.⁷⁴

In producing their reports, experts cite various different sources and reports in support of their analysis. These are not included in the present report

⁷² For detailed information on the EU Social OMC and in particular on the social inclusion strand, see the European Commission’s website:

<http://ec.europa.eu/social/main.jsp?catId=751&langId=en>.

⁷³ For more information on the Commission’s programme on “Peer Review in Social Protection and Social Inclusion and Assessment in Social Inclusion”, including the list of independent experts, see:

<http://www.peer-review-social-inclusion.net/>.

The EU Network of independent experts on social inclusion is managed by CEPS/INSTEAD, a Luxembourg-based Research Institute. The Network Core Team (NCT) consists of the Network Manager (Eric Marlier; CEPS/INSTEAD) and the Network Coordinator (Hugh Frazer; National University of Ireland, Maynooth, Ireland).

⁷⁴ For more information on this study, see the University of York’s web-site dedicated to the project “How to measure extreme poverty in the European Union”: <http://www.york.ac.uk/inst/spru/research/summs/extreme.html>.

A. About the study

A.1 Background

Since the Lisbon European Council in 2000, the European Union has been committed to fight against poverty and social exclusion using the Open Method of Coordination (OMC). A key element of the OMC is a set of indicators agreed upon jointly by the European Commission and all EU Member States, in order to measure progress towards the agreed EU social inclusion objectives. At the 2001 Laeken European Council, 18 indicators were adopted. Since then, the Social Protection Committee (SPC) and its Indicators Sub-Group have been further developing these. In 2009, the SPC adopted a set of indicators and context information on housing and material deprivation.⁷⁵

The main measure of monetary poverty included in the EU list of indicators is a relative one, known as the “at-risk-of-poverty” rate. Since the EU Council of Ministers in 1975, poverty in the EU has been conceived of as relative to a particular country at a particular time. There was strong justification for this approach rooted in social science understandings. Poverty in the post war period has been understood as a relative concept that went beyond the notions of poverty as a lack of basic physical needs but aspired to social participation standards or human functioning, in a given country at a given time.

In practice, the EU has gone beyond a purely relative income poverty measure and the commonly agreed indicators now also include:

- At-risk-of-poverty rates at different thresholds (40%, 50%, 60% and 70% of the national median equivalised household income)
- An at-risk-of-poverty gap
- An at-risk-of-poverty rate “anchored” at a point in time
- A persistent at-risk-of-poverty rate
- A material deprivation indicator

However, the relative income poverty measure remains the headline indicator. Although the EU publishes estimates of the monetary value of the poverty threshold in Purchasing Power Standards (though not as systematically as it should do)⁷⁶, it is hard for people to understand what is meant by “x per cent of the population live in households with equivalised income less than 60 per cent of the national median equivalised household income”.

Since the accession of the ten plus two Member States, this problem has got worse. Because they have much lower median incomes and many have comparatively narrow income distributions, the new Member States’ poverty thresholds tend to be much lower than those in the EU-15 countries. So, for example, the relative poverty threshold for a couple with two children in Estonia in 2008 was 9770 PPS a year and in the UK 24380 (per year). The at-risk-of-poverty rate

⁷⁵ The updated *Portfolio of indicators for the monitoring of social protection and social inclusion* was adopted by the SPC in September 2009. It can be downloaded from the European Commission’s website at: <http://ec.europa.eu/social/main.jsp?catId=756&langId=en>.

⁷⁶ The Purchasing Power Parities (PPP) adjustment converts amounts expressed in national currency to an artificial common currency that equalises the purchasing power of different national currencies (including those countries that share a common currency). For countries in the euro zone, the adjustment allows for differences in price levels; for those countries outside the euro zone the PPP adjustment is both a price deflator and a currency converter. The result of the conversion provides amounts in Purchasing Power Standards (PPS).

in both countries was 19 per cent. Yet, the poor in Estonia, even taking into account differences in purchasing power, were living at much lower levels.⁷⁷

This is why it is so important to ensure that national poverty risk rates are always published together with the related national poverty risk thresholds. And this is also why the recent adoption by the SPC of EU measures of material deprivation represents an important step forward. Taken together, the poverty risk rate, the poverty risk threshold (in PPS) and the material deprivation rate allow for much more sensible international comparisons of living standards across the EU; this was clearly highlighted in the 2010 EU Joint Report on Social Protection and Social Inclusion.

There is a growing body of academic papers on material deprivation⁷⁸. However, existing measures still do not adequately capture the most severe forms of poverty - including that affecting groups who are generally not picked up in household surveys such as people living in institutions, homeless people, etc. Neither are they covered in the present report.

So, the Commission is now exploring ways to reflect better the most extreme forms of poverty as they persist across the EU. Most of the current and potential candidate countries covered by the EU Network (with Iceland being one of the obvious exceptions) have very low incomes, large disparities of income levels and substantial minorities who are particularly deprived.

It is in this context that the Commission gave a research contract to Jonathan Bradshaw at the University of York “to investigate and to discuss the feasibility of meaningful and agreeable concepts, definitions and operationalisations measuring extreme⁷⁹ poverty at EU level” (see above, Preface).

The Commission agreed that it was appropriate to ask the EU Network of independent experts on social inclusion to provide information on the thresholds in use in existing legislation/regulations in Member States. This report is a synthesis of their responses.

A.2 Methodology

A draft questionnaire prepared by the research team at York was discussed with the members of the EU Network of independent experts on social inclusion and the European Commission. Revised in the light of that discussion (see final version in Annex), it was sent to Network

⁷⁷ For a detailed discussion of poverty measurement issues (income vs. expenditure, equivalence scale...), see for example: Atkinson, T., Cantillon, B., Marlier, E. and Nolan, B. (2002). “Social Indicators: The EU and Social Inclusion”, Oxford: Oxford University Press.

⁷⁸ See, for example:

Fusco, A., Guio, A.-C. and Marlier, E. (2010). “Income poverty and material deprivation in European countries”, Paper presented at the 2010 International Conference on *Comparative EU statistics on income and living conditions* (Warsaw, 25–26 March 2010) organised by Eurostat and the Network for the analysis of EU-SILC (Net-SILC);

Guio, A.-C. (2009). “What can be learned from deprivation indicators in Europe? Paper presented at the Indicators Sub-Group of the Social Protection Committee”, Eurostat Methodological Working Papers

http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-09-007/EN/KS-RA-09-007-EN.PDF

Kangas, O. and Ritakallio, V.-M. (2007). “Relative to what? Cross national pictures of European poverty measured by regional, national and European standards”, *European Societies*, 9, 2, 119-145;

Whelan, C. and Maitre, B. (2008). “Comparing Poverty indicators in an enlarged EU”, *ESRI Working Paper* 263;

Whelan, C., Nolan, B. and Maitre, B. (2008). “Measuring material deprivation in the enlarged EU”, *ESRI Working Paper* 249.

⁷⁹ The original wording of the project was ‘absolute poverty’ but it was replaced by ‘extreme poverty’ on the grounds that extreme translates better than absolute into EU languages. It was also hoped that this would lead to a broader approach to the issues at stake.

members in early January 2010. The completed questionnaires were returned in February 2010 for each of the 32 countries covered by the Network. Clarification and validation were subsequently obtained from Network members and the Commission.

The present report is divided into three parts.

Part A briefly introduces the background and methodology of the study.

Part B analyses the experts' responses to the questionnaire:

- Section B.1 gives an overview of the poverty threshold most commonly used by the Government in each country and explores some of its characteristics, including: the equivalence scale used, whether it is governed by official regulation or legislation, how it is updated, whether it is linked to minimum income schemes/social assistance scales, and whether it varies by region.
- Section B.2 summarises the same information for other government or official thresholds which are below the one above.
- Section B.3 summarises what other poverty thresholds have been used in recent academic/independent/NGO/Trade Union research which might be described as extreme.
- Section B.4 compares the poverty rates that were reported using these thresholds.

Finally, Part C presents the Conclusions.

B. Results

B.1. Main official poverty threshold

B.1.1 Three types of threshold

We have classified the types of threshold used in Table 3.1 below.

Several members of the EU Network of independent experts on social inclusion stated that there were no official government poverty thresholds in their country (AT, CY, DK, ES, HU, IS, PT, SE). In some countries, this was because the word poverty was not used in official circles (in Denmark it was 'low income group' and in Sweden 'low equalised disposable income'), or because the thresholds used in official statistical reports were not 'instituted' by the government – the lack of an official poverty threshold in Denmark has been a cause of much debate among NGOs and the political left. However, all experts could designate a threshold most commonly used or a threshold used in official statistics. Some experts reported more than one main official poverty threshold (BG, DE, DK, FR, HR, IE, SE) and where we were unable to decide which was the main one we have reported more than one in this report (for BG, DE, DK, FR, HR).

The poverty threshold most commonly used in the EU countries is the household equivalent income less than 60 per cent of median before housing costs. Of course one reason for this is that this is the headline statistic in the Social Inclusion Indicators. However, it can be seen in Table 3.1 that 22 countries said that this was also their "headline" national poverty threshold. It can also be seen in the Table that this was despite the fact that nine of these countries use the 60 per cent of median threshold but derive their national poverty estimates from income other than the Community Statistics on Income and Living Conditions (EU-SILC) survey. Turkey has just introduced EU-SILC but the only the relative poverty rates for 2005 and 2006 has been announced so far. In the meantime Turkish Statistics Institute continues to publish expenditure based poverty figures as well and these constitute the most recent figures.. Four countries use other relative income thresholds derived from other surveys:

- As well as using 60 per cent of the median, Croatia includes an income in kind definition.
- Denmark uses 50 and 60 per cent of the median using register data.
- France has six thresholds based on a 2009 Decree for monitoring changes in poverty. These include: 60 per cent of the median income; 60, 50 and 40 per cent of the median; median poverty gap ratio; long-term poverty; and fixed expenses as a proportion of income in the lowest quintile. With the exception of the latter, these are familiar EU social inclusion statistics, but the sources are the Taxable Income Survey and the Employment Survey.
- The Former Yugoslav Republic of Macedonia uses 70 per cent of the median expenditure using a household budget survey.
- Italy is the only other country using expenditure data for its headline poverty threshold – so, a two person household is considered as a poor household if its consumption is lower than the average monthly expenditure per capita defined at national level, without regional variations. For larger or smaller household, this amount is adapted on the basis of the Carbonaro scale (see below). Expenditure data are provided by an annual survey on household consumption through a sample of households (representative of the national population). The threshold takes into account variations in consumption propensity (household) and prices (market).

Then, there is a group of countries that use other thresholds:

- Ireland was a pioneer of the so-called “consistent poverty” threshold. As well as the 60 per cent of median income threshold, they use a measure combining a low income criterion (60 per cent) and a material deprivation criterion (lack of two or more items in a list of eleven basic deprivation items). They use EU-SILC to estimate these.
- Bulgaria is another country with a composite threshold which combines a percentage of median income, a minimum of 2700 kcalories per equivalised person and the average share of expenditure on food in the bottom quintile of the distribution. However, the composite threshold and poverty rates derived from it seem to have never been published. Instead the government has always used as an official poverty line the 60% of the equalized median income calculated from the Household Budget Survey.
- Estonia uses a subsistence threshold set by government.
- As well as the 60 per cent of median threshold, Germany uses a Socio-cultural Subsistence level derived from expenditure data. On 9 February 2010, the Federal Constitutional Court has declared the non-transparent methods for deriving this as unconstitutional, especially the fact that the needs of children are calculated as a percentage of those of adults. As the Socio-cultural subsistence is a lower level its characteristics will be described in Section B.2.
- Hungary as well as using 60 per cent of the median in government reports uses the Minimum Pension Guarantee as the poverty threshold.
- In Austria, 60 per cent of the median is the *most commonly* used threshold in respective statistics. However, it is worth noting that so-called “manifest poverty” (combining the at-risk-of-poverty 60 per cent of median threshold and a financial deprivation index) gained some importance more recently. Furthermore, the level of minimum benefits in old-age insurance (the so-called “Equalisation Supplement Reference Rate”) serves as a kind of political poverty threshold. The latter gained in importance more recently, as it will be used as a reference within the scheme of so called “Guaranteed Means Tested Minimum Income” (GMI), which is planned to replace Social Assistance as from September 2010 (see chapter B2 below).
- Lithuania has state supported income (SSI). The amount of SSI is approved by the Government and it is used as the main eligibility criterion for social assistance and calculation of its amount. Currently, the monthly SSI is LTL 350 per person. The SSI for the family is calculated by multiplying the SSI per family member from the number of family members.
- The Netherlands uses a low income threshold based on the social assistance scales and a budget standard at two levels – “modest but adequate” and “basic needs standard”.
- Poland also uses a budget standard based on normative judgements about basic needs to establish a subsistence minimum.
- Serbia also uses a minimum food basket (2288 kcal) plus an amount for expenditure on non food items.

Table 3.1: Main/official threshold

| | EU-SILC | Other survey |
|--|--|-------------------------------------|
| 60% median income | AT, BE, CY, CZ, DE, EL, ES, IS, LV, LU, MT, PT, SI, SK | BG, DK, FI, FR, HR, RO, SE, UK |
| Other relative income threshold | TR | DK, FR, HR |
| Expenditure/consumption threshold | | IT, MK |
| Other | AT, IE | AT, BG, DE, EE, HU, LT, NL, PL, RS, |

B.1.2 Use of equivalence scales

When using income (or expenditure) to fix poverty thresholds, it is normally necessary to employ an equivalence scale to adjust resources to household needs. The EU uses the modified OECD scale (the first adult receives a “weight” of 1.0, every other adult 0.5 and each child below 14 years of age 0.3) and it can be seen in Table 3.2 that the majority of countries have now followed suit, even though some have national income poverty thresholds that are not based on EU-SILC:

- Two countries (PL and RS) still use the original OECD scale (which was more generous to children: 1.0, 0.7 and 0.5); both use it to adjust their budget standards.
- Italy uses the Carbonaro scale (based on Engel methods 1=0.6, 2=1.0, 3=1.33, 4=1.63 and so on) to adjust its expenditure thresholds for households of different sizes.
- Estonia’s subsistence level uses a simple scale of 1.0 for the first person and 0.8 for each subsequent person.
- Hungary’s Minimum Pension counts a single person as 1.00 or 1.2 if with children, additional adult 0.9, 1-2 children 0.8 and 3 plus children 0.7.
- In Ireland, the ‘national equivalence scale’ is used (first adult=1.0, each subsequent adult 0.66 and each child 0.33).
- In Lithuania, the State Supported Income level uses a per capita scale - it is multiplied by the number of family members.
- The Netherlands uses single=1.0, couple =1.37, couple plus 1=1.67, couple plus 2=1.88, single parent plus 1=1.33, single parent plus 2=1.51.

Table 3.2: Equivalence scale

| | Modified OECD | Old OECD | Other |
|--------------------------------|--|-----------------|---------------------|
| EU-SILC income | AT, BE, CY, CZ, DE, EL, ES, LV, LU, MT, PT, SI, SK, TR | | |
| Other income | DK, FI, FR, HR, RO, SE, UK | | |
| Expenditure/consumption | MK | | IT |
| Other | BG, IS | PL, RS | EE, HU, IE, LT, NL, |

B.1.3 Legislative and regulatory status of poverty thresholds

About a third of the countries give some kind of legislative or official regulatory status to their poverty thresholds (see Table 3.3). Of the countries that use the EU-SILC 60 per cent of median threshold only Greece has set it in law, in the law governing the National Social Cohesion Fund.

Three other countries using the relative threshold also have legislative support for their measures:

- In 2007, the President of France announced the target of reducing poverty by a third in five years. A permanent monitoring system was established and a Decree (2009-554 20 May 2009) presented a table of indicators for monitoring changes in poverty. The High Commissioner for Active Inclusion Against Poverty reports on these indicators each year.
- In the UK, the Child Poverty Act 2010 enshrines the relative poverty measure and three other child poverty targets/measures into legislation. They will be :
 - *The relative low income target:* The target is that less than 10 per cent of children live in qualifying households with an income below 60 per cent of median equivalised disposable household income before housing costs.
 - *The combined low income and material deprivation target:* The target is that less than 5 per cent of children live in households with an income below 70 per cent of median equivalised disposable household income before housing costs and experience material deprivation.
 - *The absolute low income target:* The target is that less than 5 per cent of children live in households with an income for the financial year below 60 per cent of median equivalised disposable household income in the financial year beginning 1 April 2010, uprated annually in line with inflation.
 - *The persistent poverty target:* This target relates to the percentage of children living in households whose income has been less than 60 per cent of median equivalised disposable household income for at least 3 out of the past 4 years. A target will be developed for this measure by 2014.
- In Romania, there was a Government Decision on a national set of social inclusion indicators to be calculated by the National Statistics Institute and the Antipoverty and Promotion of Social Inclusion Commission from 2005.

Regulation/legislation is a more common feature in those countries using poverty thresholds based on budget standards or minimum income schemes:

- Bulgaria's threshold is revised and updated each year by an Ordinance of the Council of Ministers.
- The subsistence level in Estonia is the subject of the State Budget Act.
- The State Supported Income level in Lithuania is the subject of the Law on Cash Social Assistance for Low Income Families (Single Residents).
- The Subsistence Minimums in Poland is the subject of legislation. In Serbia it is expected to be subject to legislation.

Table 3.3: Regulation/Legislation governing poverty threshold

| | Regulation/Legislation | |
|--------------------------------|------------------------|--|
| | Yes | No |
| SILC income | EL | AT, BE, CY, CZ, DE, ES, IE, LU, LV, MT, PT, SI, SK |
| Other income | FR, RO, UK | DK, FI, HR, MK, SE, TR |
| Expenditure/consumption | | IT |
| Other | BG, EE, HU, LT, PL | IS, NL, RS ⁸⁰ |

⁸⁰ It is expected to be incorporated in legislation soon.

B.1.4 Uprating mechanisms

Uprating a poverty threshold over time is not a problem for countries using thresholds related to contemporary median income – they move as the median income moves in the survey or register from which the data is derived. However, the countries that do not use relative measures have to find other ways to uprate thresholds:

- In Bulgaria, in each October the Government approves the poverty line for the next year based on Proposals from the Ministry of Labour and Social Policy. This is based on income data from the previous year from the Household Budget Survey (HBS).
- Estonia's Subsistence Level is uprated at the discretion of the government irregularly depending on changes in policy, budgetary constraints and impact on work incentives.
- In Hungary, the Minimum Pension may be linked to movements in the pension. In practice, it is uprated by less than the rate of inflation.
- In Ireland, the deprivation items in the Consistent Poverty measure were last changed in 2007 – the number of items increased from eight to eleven and it is intended that they will now remain the same until 2016.
- In Lithuania, the State Supported Income Level is uprated at the discretion of the government.
- In the Netherlands, the Low Income threshold is indexed to prices. The budget related standards are adjusted on the basis of the three year progressive average of median expenditure on food, clothing and housing.
- In Poland, the Subsistence Minimum is uprated annually by the Institute for Labour and Social Affairs on the basis of price movements and additional sources of information.
- The Serbian budget standard is uprated by movements in daily household expenditure from the Family Budget Expenditure survey.

B.1.5 Links to minimum income or social assistance schemes

There are seven countries (CY, EE, HU, LT, NL, PL and PT) with poverty thresholds linked in some way to their minimum income/social assistance scheme or to other benefits/reimbursements:

- In Estonia, anyone below the subsistence level is entitled to receive subsistence.
- In Hungary, the Minimum Pension is the poverty threshold.
- In Lithuania, the State Supported Income Level is the basis for calculating social assistance, compensation for heating and free school meals.
- In the Netherlands, the low income threshold is derived from the social assistance level in 1979 adjusted for inflation.
- In Poland, if the social assistance threshold is below the subsistence minimum then the Tripartite Commission for Socio-economic issues can make a request to the Council of Ministers.
- In Portugal, there is a link between the 60 per cent of median threshold and the Solidarity Complement for the Elderly.
- In addition in Cyprus, there is an ambition to increase the minimum income to the 60 per cent of median threshold. This threshold was recently used in the context of the pension reform implemented in December 2009 in order to define persons eligible for a pension increase.

Table 3.4: Threshold linked with the minimum income/social assistance scales, minimum wage/ pension levels or other benefits or reimbursements

| | Linked to minimum income schemes | Linked to other benefits or reimbursements |
|------------|--|--|
| Yes | CY, EE, HU, LT, NL, PL | CY, EE, HU, LT, PT |
| No | AT, BE, BG, CZ, DE, DK, EL, ES, FI, FR, HR, IE, IS, IT, LU, LV, MK, MT, PT, RO, RS, SE, SK, SI, TR, UK | AT, BE, BG, CZ, DE, DK, EL, ES, FI, FR, HR, IE, IS, IT, LU, LV, MK, MT, NL, PL, RO, RS, SE, SK, SI, TR, UK |

B.1.6 Regionally based poverty thresholds

There are only two countries which have regionally based poverty thresholds:

- In Denmark, Copenhagen and Odense have developed independent poverty thresholds. They are the only municipalities in Denmark to have done this.
- In Germany, the Social Report 2007 of North Rhine-Westphalia still uses the 50 per cent of the mean threshold and the original OECD equivalence scale

B.2 Lower official poverty thresholds

The national experts were asked to provide information on other lower poverty thresholds used officially in their country. Where there was more than one, they were asked to identify the lowest threshold in use. The objective was to identify examples of more absolute or extreme poverty thresholds in use in the EU.

It should be recognised that in many of the EU-10 and current/potential candidate countries covered by the Network the thresholds described in the previous section are very low. Even in those countries using the EU relative at-risk-of-poverty threshold of 60 per cent of median income, the cash value of the threshold is very low. Among the countries that use the 60 per cent of median threshold at national level, the threshold for a couple with two children in 2008 in purchasing power parity terms per person per day was €1.71 in Romania, €4.09 in Latvia and €9.68 in Greece. Among the other poorer countries which do not use the at-risk-of-poverty thresholds at national level, the relative threshold was €2.22 in Bulgaria, €5.67 in Estonia, €3.76 in Hungary, €4.09 in Lithuania, €3.70 in Poland and €4.33 in Slovakia per person per day.

Sixteen countries (BG, CY, DK, EE, ES, EL, HU, IS, IE, MK, NL, PL, PT, RS, SI and SK) had no official lower thresholds than the ones described in Section B.1.

Among the rest of the countries, the most commonly mentioned lower poverty threshold was a lower relative income poverty threshold – 40 or 50 per cent of the median equivalent threshold. These countries include DE, ES, FR, HR, LV, LT, LU, MT, RO, UK. We checked to confirm that they were all using these thresholds as lower national thresholds rather than merely reporting them as EU social inclusion indicators.

This leaves countries with lower poverty thresholds that can be divided into two types, with Austria belonging to both groups. There are a number of countries (AT, BE, DE, SK and SE) that use their social assistance or minimum income standards as the basis for a lower poverty threshold:

- Austria has the Equalisation Supplement Reference Rate (ESRR) which is the level of the flat rate means-tested minimum income in old age insurance. It is the political poverty thresholds and its rate is fixed according to arbitrary political decisions. In principal, it is adjusted to the Old age Pensioner's Price Index but recently it has been uprated more generously than this. The ESRR will in future also be used as a reference to set the level of benefits within the scheme of so-called "Guaranteed Means-Tested Minimum Income" (GMI), which is planned to replace Social Assistance as from September 2010. However, when calculated at yearly average, the respective level in GMI will only amount to approx. 85.7% of the one in old-age insurance, as the latter is granted 14 times a year, whereas GMI is planned to be granted 12 times a year only. This arrangement is based on a compromise both between political players at the national level and at the level of the federal states (Länder), and the level of GMI may for this reason be interpreted as a rather broad agreement on a political poverty line.
- Belgium has the Living Wage, their minimum income scheme, well below the at-risk-of-poverty threshold. The amounts vary with family size and are subjected to more or less annual indexation.
- In Germany, the Official Socio-Cultural Subsistence Level already mentioned in Section B.1 is around the 50 per cent threshold. Social welfare legislation in Germany specifies the Socio-cultural Subsistence level and it is also the subject of judgements of the Constitutional Court. It is uprated annually and linked to an adjustment in the statutory

pension. The statutory pensions is adjusted by a complex pension formula which among other things takes account of demographic developments – in recent years the policy has been interfered with and pensions have been adjusted more or less manually. Germany's Socio-cultural subsistence scale appears to be quite generous to children: (Head=1.00, additional adult and 14-18 year olds=0.8, 6-13=0.7, 0-5=0.6). Despite this, the way the rates for children are calculated was recently challenged by the Constitutional Court.

- Slovakia has the subsistence minimum: households below the subsistence minimum can claim for a benefit in material need and health care allowance. Only those households with income lower than the maximum benefit are eligible for benefit. Maximum benefit serving as the eligibility threshold is lower than the subsistence minimum for the majority of household types. A basic benefit in material need and health care allowance represent the lowest poverty threshold. The Act on assistance in material need sets the amounts of benefit for six family types. Uprating is at the discretion of the government.
- The National Norm for Social Assistance in Sweden is a fixed absolute poverty line to which housing costs are added on the basis of actual market rents. The implied equivalence scale first adult=1.0, second adult=0.51 first child=0.51, subsequent children=0.42, additional adult 0.6. The National Norm is the basis for social assistance. Since 1998, the national norm is decided and updated annually by government.

Then, there are six countries (AT, FI, IT, RO, TR, UK) who have lower official poverty thresholds that are not related to their social assistance scales:

- In Austria, Manifest Poverty is the at-risk-of-poverty 60 per cent of median threshold using the modified OECD equivalence scale and a financial deprivation index (not being able to afford two out of seven items that more than 50 per cent of the Austrian population define as absolutely necessary). This threshold is derived from questions in EU-SILC; it was first covered in respective statistics in 2007 and one element was altered in 2008.
- Finland uses three lower thresholds: 50 per cent of the median before housing costs; 60 per cent of the median held constant in real terms over several years; and material deprivation for children (introduced in 2008). All these are derived from EU-SILC and are EU Social Inclusion Indicators but they are now part of the national portfolio of Finnish statistics.
- Italy has an Absolute Poverty threshold which like its Relative Poverty threshold is based on a budget standard. A basket of essential goods and services at national level is translated into 342 monetary values to take into account the specific needs of households at sub-national level. It uses the Carbonaro equivalence scale (see above) and it is based on the annual survey of consumption.
- Romania has a set of tertiary indicators: a severe poverty rate and an absolute poverty rate derived from consumption data on basic needs. These have an equivalence scale of each adult=1 and each child=0.5 and an economy of scale parameter =0.9. It also still uses the World Bank consumption threshold of \$2 per person per day. These are all part of the national set of social inclusion indicators approved by government and are not related to social assistance.
- Turkey has a Complete Poverty Threshold based on 2100kcal per day plus an allowance for non food consumption. This uses the World Bank equivalence scale and is based on the household budget survey. Turkey also uses the World Bank \$1, \$2.15 and \$4.30 per capita per day thresholds using consumption data.
- The annual official statistics on poverty in the UK (Household Below Average Incomes) include the following lower thresholds: less than 50 per cent of median equivalent

income; poverty rate at 50 and 60 per cent of median equivalent income held constant in real terms (the constant real terms threshold is changed to a new base year every five years); income less than 70 per cent of the median and prevalence weighted material deprivation score >20 (the deprivation score was introduced in 2004/5 and the items have not been changed since then); and persistent low income (poor in the last three out of four years). The income thresholds all use the modified OECD equivalence scale. Although some of these measures are similar to the EU social inclusion indicators they were developed earlier and use a different source – the Family Resources Survey.

B.3 Other poverty thresholds

The experts were asked whether other poverty thresholds had been used in recent academic, independent or non-governmental organisation or trade union research.. Almost all the experts mentioned that there was such research in their countries. The exceptions were CZ, LV, LU and MT.

A number of countries drew attention to income or expenditure thresholds derived from research based on **budget standards** including AT, BE, DK, HR, IE, PT, RO and UK:⁸¹

- Austria: the ASB (the umbrella organisation of the debt advice organisations) was part of the EU-financed project on 'Reference Budgets for Social Inclusion'. An important result of their research is that the standard budget produced exceeded the 60 per cent of median threshold. The 60% threshold would then tend to under-estimate the percentage of people living in households whose total income is less than what is required for living a decent life.⁸²
- Belgium: the Centre for Social Policy (University of Antwerp) has recently developed a budget standard, based on participative research with households experiencing poverty.⁸³ As in the afore-mentioned Austrian research, the standard relates to 'a minimum for a dignifying life' rather than extreme poverty. Focus groups established norms for different baskets (food, clothing, health, housing and security, security-in-childhood, rest and recreation, social participation, and mobility). For single persons and lone-parent families, the standard lies slightly above the at-risk-of-poverty rate (based on EU-SILC), and for couples (with or without children) slightly below that rate. The difference between the budget standard and the EU-SILC threshold is less than 10%. However, the 'living wage' (guaranteed minimum income) lies far below the budget standard, with a gap ranging between 26% for a single mother with one child to 67% for a couple with two older children – except when the household has access to social housing. The authors conclude that the guaranteed minimum income system in Belgium is inadequate for living in dignity. Moreover, the standard assumes rational consumption behaviour, room for choice, and good health.
- Denmark: The Centre for Alternative Social Analysis⁸⁴ has developed a budget for a 'lowest acceptable standard of living' that reflects a necessary and modest consumption

⁸¹ In May 2009, the European Consumer Debt Network (ECDN) issued a publication presenting an EU funded project on "Reference Budgets for Social Inclusion": ECDN, "Reference Budgets for Social Inclusion", Money Matters 6/2009. Apart from providing results from the EU project on developing reference budgets in Austria, Belgium, Bulgaria and Spain, the publication also reports on the use of reference budgets in Ireland, the Netherlands, Sweden and the UK. The publication can be downloaded from:

http://www.asb-gmbh.at/ecdn/index.php?option=com_content&task=view&id=28&Itemid=74.

See also: http://www.asb-gmbh.at/budgets/index.php?option=com_content&task=view&id=24&Itemid=1.

⁸² "It is worth noting that, contrary to some other countries in the EU, standard budgets are a rather new and up to now not very broadly discussed topic in Austria. However, ASB and other organisations (like *Armutskonferenz* (<http://www.armutskonferenz.at>), the most important umbrella organisation of social NGOs in Austria) intend to pursue with this issue during the next months, among others in the context of a project financed from funds for the 2010 European Year for Combating Poverty and Social Exclusion."

(see: <http://www.2010gegenarmut.at/cms/2010GA/RE/projekte.html?channel=CH0863>.)

See also: <http://www.asb-gmbh.at/asb/equal/newssystem/schuldnerberatung-infos-zeitung-62.php>

⁸³ Storms, B. and Van den Bosch, K. (2009). What income do families need for social participation at the minimum? A budget standard for Flanders, *CSB-Berichten*, October 2009, Antwerp: Centrum voor Sociaal Beleid.

⁸⁴ Hansen, F.K. and Hansen, H. (2004). *At eksistere eller at leve: Fattigdom og lave indkomster i Danmark – hvordan måler man fattigdom?* CASA - Centre for Alternative Social Analysis.

in relation to an active participation in society, much in line with the poverty threshold concept of Copenhagen City mentioned above.

- Croatia: Two trade union federations, the Federation of Independent Trade Unions of Croatia and the Independent Croatian Trade Unions, publish the 'trade union basket' value as a kind of poverty line (the minimum expenditure for different family types).
- Ireland: Mention should be made of work done by the Vincentian Partnership for Justice (a religious-order derived lobbying/service provision NGO) to set budget standards⁸⁵. This was a small scale qualitative piece of research based on focus groups. In all, some 161 people participated in 18 separate focus groups. Methodologically, it combined the Consensual Budget Standards procedure of Loughborough University with the Low Cost but Acceptable Budget Standards of the University of York. It focused on six household types. It was updated in 2007 and 2008.
- Portugal: Traditionally, most studies use absolute poverty thresholds using the definition of a minimum basket of goods that allow a food diet that enables survival.
- Romania: The "decent minimum" and the "subsistence minimum" are determined by a basket of goods and services for the two minimum levels.
- UK: Consensual budget standards methodology has been used to establish a Minimum Income Standards threshold of low income⁸⁶. However the thresholds obtained are well above the 60 per cent of median threshold for all family types except pensioners.

In BG, HR, MK, TR and also in IT, experts mentioned that analysts were still using thresholds based on World Bank type **food poverty lines** - based on the cost of achieving a certain level of calories per capita:

- Bulgaria: The World Bank measures of poverty based on consumption were in wide use before the introduction of the official poverty line. Consumption-based poverty measures were published in World Bank surveys in 1995, 1997 and 2001, 2003 and 2007. The 2007 World Bank measures of poverty give lower estimates than the Eurostat measures.
- Croatia: The World Bank published two influential poverty studies for Croatia, in 2000 and 2006. In both studies, modified consumption is used as the welfare aggregate. Modifications include imputation of housing rents (over 85% of dwellings in Croatia are owner-occupied) and correction of expenditures on durables so as to better reflect possession of durable goods. In both studies, the food poverty line (cost of the minimum food basket) was a starting point to estimate the total poverty line. This threshold was assessed based on healthy food requirements in terms of calorific content, depending on sex and age. The absolute poverty line is planned to be updated by using the consumer price index.
- Former Yugoslav Republic of Macedonia: The World Bank absolute poverty measurement method or 'living on less than a dollar a day' has been used as an official indicator for measuring progress in achieving the first Millennium Development Goal.
- Turkey: Government experts use the Household Budget Survey (HBS) data to calculate poverty thresholds based on daily calorie intake.
- Italy: A recent survey calculated a food poverty threshold combining data and methods provided by ISTAT on poverty thresholds, living conditions and household consumption.

⁸⁵ www.budgeting.ie.

⁸⁶ <http://www.minimumincomestandard.org/>.

Another set of countries mentioned thresholds derived from **overlaps analysis, sometimes called “consistent poverty” thresholds**. Most usually, this was an overlap between poverty defined as below a poverty threshold based on a relative income or expenditure threshold and a set of deprivation measures. We have already mentioned the Manifest Poverty threshold in Austria and the Deprivation measure of child poverty in the UK. Other countries include ES, FI, IS, and UK:

- Spain uses a multiple deprivation approach: monetary income thresholds complemented with two indices of deprivation including housing. The joint analysis of poverty and exclusion approach: 60/30% of equivalent income combined with 35 indicators of social exclusion.
- Finland uses multiple approaches combined and compared: comparative analysis on the extent of poverty by various measures.
- In Iceland, Harpa Njáls (2009) has used the data from EU-SILC to assess child income poverty as well as data on material deprivation and subjective assessments of shortage or financial difficulties, such as experienced difficulties in making ends meet.⁸⁷
- In the UK, Save the Children commissioned a series of studies on severe and persistent child poverty which combined a low income poverty threshold, parental deprivation and how many years it was experienced. The Poverty and Social Exclusion survey was able to use a threshold based on the overlaps of income poverty, deprivation, subjective poverty and receipt of means-tested benefits.

Finally mentioned were various **miscellaneous** studies:

- Austria: Some attempts have been made to define poverty and poverty experiences in broader terms (not relying on material dimensions only), by taking into account the views and perceptions of clients of social service providers. Franz Eiffe (2008) tried to operationalise Amartya Sen’s capability approach to measure poverty in rich countries.⁸⁸
- Cyprus: The Economics Research Centre of the University of Cyprus published a paper (Nearchou and Pashardes, 2003) where the 50% income threshold was used.⁸⁹
- Denmark: The Trade Union LO suggests a poverty threshold in place of the commonly used thresholds of either 50 or 60 per cent of median contemporary equivalent income, based on a functional minimum income for exemption for paying debts owed to the state. The LO suggest that these minimum incomes, regulated every year, should function as the national official poverty threshold.
- Estonia: A Direct Poverty Threshold (based on 80 per cent of the absolute poverty threshold) – a level of living which endangers the satisfaction of basic needs was developed in 1999 by UNDP funded research and has been updated using the Household Income and Expenditure Survey. It is used now by both Statistics Estonia and the Ministry of Social Affairs in reports.
- France: The National Institute of Statistics has adopted a low salary indicator, which covers salaries below two-thirds of the median salary of the whole of the population. The

⁸⁷ Njáls, H. (2009). “Lífsskilyrði barnafjölskyldna á Íslandi” (Living standard of families with children), in: Gunnar Þór Jóhannaesson and Helga Björnsdóttir (eds), *Rannsóknir í félagsvísindum X*. Reykjavík: Social Sciences Research Institute.

⁸⁸ Eiffe, F. (2008). “A Capability Approach for the European Union”, Working Papers, Institut für Sozialpolitik, Nr. 03/2008, Aug. 2008, Vienna. See: http://epub.wu.ac.at/dyn/virlib/wp/showentry?ID=epub-wu-01_e44.

⁸⁹ Nearchou, P. and Pashardes, P. (2003). “Tax reform: inequality and poverty”, Economic Policy Paper No. 02-03, Economics Research Centre, University of Cyprus.

National Family Allowance Organisation calculates a low income threshold which is applied to all those receiving family allowance. The threshold is close to the 60% poverty line but based on those receiving family allowance benefits.

- Germany: In their analysis of the low-income panel (NIEP), the authors are using different poverty thresholds for Eastern and Western Germany to consider the different living conditions. According to this definition, a person is considered as poor if he or she earns less than 60%, 50% or 40% of the equivalised median income.
- Greece: In a recent study, the poverty rate was calculated in four different ways in order to show the sensitivity of the indicator in measuring poverty. The poverty risk rate was calculated for four thresholds (40%, 50%, 60% and 70%) using four different ways. The first way is the definition of poverty risk rate used in EU-SILC, while the other three poverty rates are based on Household Budget Survey (HBS) data using three alternative resources, that is: a) income; b) income including in kind income; and c) consumption expenditure including "imputed consumption".
- Hungary: The Social Science Research Centre (TÁRKI) uses deprivation indices in the monitoring reports, and there are multi-dimensional poverty studies as well, identifying four types of poverty/deprivation: the "making ends meet" poor (limited ability to satisfy the most basic needs), the "housing equipment" poor (lack of durables, basic household appliances), the "housing" poor (bad housing conditions) and those "feeling" poor (objective and subjective).
- Italy: The Bank of Italy analyses income distribution providing information on wealth concentration and inequality in economic disposable resources between individuals, households and geographical areas, every two years through a survey of a sample of households (representative of the national population). The poor are individuals who belong to a low-income household. A low-income household has an equivalent income below 50% of the median income. The modified OECD scale of equivalence is used to apply this poverty threshold.
- Lithuania: For the purpose of assessment of the absolute poverty rate during the economic crisis, the absolute poverty threshold, which is the same as the State Supported Income, was applied by independent experts in the research accomplished under the umbrella of the local office of the United Nations Development Programme. World Bank experts in their report No. 48604-LT "Lithuania: Social Sectors Public Expenditure Review" were using the consumption expenditure as the poverty threshold in the amount of Supported Income Level per member of the household.
- Netherlands: Before 2008, the social policy minimum threshold was used in the Dutch Poverty Monitor and it is still used in publications of the Statistics Netherlands (CBS). This threshold is equal to 101% of the minimum guaranteed income. This is the legal subsistence level as laid down in political decision-making processes
- Poland: The poverty line used in the Social Diagnosis Surveys. These surveys are conducted every two years since 2000 by an interdisciplinary group of researchers on a representative sample of the Polish population. The poverty line is based on the amount of the subsistence minimum, indexed by the Consumer Price Index. The equivalence scale is calculated for different types of families using a procedure which applies information about household expenditure from the HBS.
- Portugal: There has been research examining the persistence and severity of poverty. A recent study examined the (depth of) poverty by comparing household income with expenditure. There has also been research on extreme food deprivation: using the number of people who get support from the Portuguese Food Bank.

- Romania: Two relative poverty thresholds anchored in time and set at 45% and 50% of the average hourly wage for the year 1989. 40% and 50% of the household average income. Subjective Poverty Index and Subjective Living Standard.
- Serbia: Living Standards Measurement Survey (2002/03/07): households registered daily food consumption over a month period. Used OECD equivalence scale.
- Slovakia: There was a one-shot attempt to calculate absolute poverty thresholds on the basis of a household budget survey. It was part of the project carried out on behalf of the MLSAF and funded through World Bank funding. The results of the calculations have never been used officially. The next project financed from the same source was National Indicators of poverty and social exclusion (2008): 32 indicators including 'extreme poverty of children' and '% of people living with equivalent disposable income below 30% of median equivalent population income' (these indicators are not yet in use).
- Slovenia. Shares of persons with an equivalised disposable income below the minimum income (as defined by the Social Assistance and Services Act). Minimum costs of living were calculated for the purpose of the intended revision of the minimum income.
- Spain: Relative income approach to extreme poverty: 30% or 15% of equivalent median income. 'No-income household' approach: analysing survey data from households with no income from employment, unemployment benefits or social security subsidies.
- Turkey: Academic research uses Household Budget Survey data to apply different relative income thresholds (40%, 50%, 60% of median) using OECD and OECD-modified equivalence scales. Trade unions calculate poverty thresholds based on the cost of the daily nutritional intake for different household members and other basic non-food consumption items (including rent). The poverty threshold is drawn by expressing the share of expenditure on food as a percentage of total household expenditure using the HBS (e.g. 28.7% in 2007).

B.4 Comparison of recent data

Network members were asked to provide the latest official published data on poverty using the thresholds in Sections B.1 and B.2. Some were able to provide these data for the total population and for subgroups – children, people of working age and pensioners. Some countries were also able to provide time series data. However, not enough of the countries were able to provide the required information to make comparisons of disaggregated comparisons worthwhile. So, in Table 6.1 we have restricted our comparisons to the total population poverty rates for two thresholds: the main official threshold from Section B.1 and the lower/lowest threshold from Section B.2. In looking at this Table, it is important to note:

- The data are the latest available and not the same year for all countries.
- Where the poverty risk thresholds are used for the population poverty rates reported, they may not be the same as those reported at EU level using EU-SILC, because as we have seen a number of countries apply that threshold to their own national poverty statistics using different sources.
- Where the poverty risk thresholds are used using EU SILC we have updated the data using EU-SILC 2008 (2007 income) population poverty rates.
- Where countries reported more than one official main poverty threshold, we have selected the lower one to represent the lowest threshold if there are no others. Thus in Ireland we have used the consistent poverty rate as the lower measure. For Germany, the lower measure is taken to be the Socio-cultural Subsistence threshold.

Table 6.1: Main and lower official threshold population poverty rates

| Main threshold population poverty rate | | | Lower/lowest threshold population poverty rate | |
|--|--|-----------------|---|---------|
| Austria | 60% of median (2008) | 12 | Manifest poverty (2007/08) | 6 |
| Belgium | 60% of median (2008) | 14.7 | | |
| Bulgaria | 60% of median (2008) | 21 | | |
| Croatia | 60% of median (2008) | 18.9 | 40% median, including in-kind benefits (2008) | 6.4 |
| Cyprus | 60% of median (2008) | 16 | 40% median (2005) | 4 |
| Czech Republic | 60% of median (2008) | 9 | 40% median (2007) | 2.3 |
| Denmark | 60% of median (2007) | 12.2 | 50% median (2007) | 5 |
| Estonia | Subsistence level (2004) | 1.3 | 40% median (2004) | 7.1 |
| Finland | 60% of median (2005) | 13.2 | 50% median (2005) | 6.7 |
| France | 60% of median (2007) | 13.4 | 40% median (2008) | 3 |
| Germany | 60% median (2008) | 15 | Socio-cultural subsistence level (2008) | 9.9 |
| Greece | 60% of median (2008) | 20 | 40% median (2008) | 7 |
| Hungary | Minimum Pension (2005) | 5.4 | 60% median (2007) | 12.0 |
| Iceland | 60% of median (2008) | 10 | 40% median (2006) | 2.2 |
| Ireland | 60% of median (2008) | 14.4 | Consistent poverty (2008) | 4.2 |
| Italy | Relative Poverty (2008) | 13.6 | Absolute poverty (2008) | 4.9 |
| Latvia | 60% of median (2008) | 26 | | |
| Lithuania | Supported Income Level (2008) | 5 ⁹⁰ | | |
| Luxembourg | 60% of median (2008) | 13 | 40% median (2008) | 3 |
| FYROM | 70% of median (2008) | 28.7 | | |
| Malta | 60% of median (2007) | 14.2 | 40% of median (2007) | 3.4 |
| Netherlands | Low Income (2008) | 7.6 | Basic needs poverty line (2008) | 3.3 |
| Poland | Subsistence Minimum (2008) | 5.6 | | |
| Portugal | 60% of median (2008) | 18 | | |
| Romania | 60% of median (2007) | 18.5 | Absolute poverty rate (2007) | 9.8 |
| Serbia | The cost of a minimum food basket (2008) | 7.9 | Poverty rates based on LSMS (2008) | 6.6 |
| Slovak Republic | 60% of median (2008) | 11 | % population covered by Minimum Income Schemes (2008) | 5.8 |
| Slovenia | 60% of median (2008) | 12 | below the social minimum 2003-2005, persons aged 16-54 years) | 1.1 |
| Spain | 60% of median (2008) | 20 | 15/40% median (2008) | 1.8/6.8 |
| Sweden | 60% of median (2007) | 12.2 | The national norm (households) (2007) | 4.9 |
| Turkey | Complete poverty (2008) | 17.1 | <\$4.30 per person per day(2008) | 6.8 |
| UK | 60% of median (2007/08) | 18 | Under 50% median before housing | 11 |

⁹⁰ In 2008, some 160 thousand persons in Lithuania, which accounted for almost 5% of the total population, lived in poverty according to this absolute poverty line. Average incomes of persons living in poverty were 120 LTL below the poverty line (SSI=350 LTL).

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| | | | | |
|--|--|--|-----------------|--|
| | | | costs (2007/08) | |
|--|--|--|-----------------|--|

Some of the results in Table 6.1 are “curious”. In Estonia, the official subsistence poverty threshold gives a poverty rate of 1.3 per cent, whereas the lowest relative threshold gives a higher rate. In Hungary, there appears to be only an old estimate of the poverty rate using the main minimum pension threshold, but the lower rate, those living below the 60 per cent of median threshold is higher..

In the following tables we have selected countries that provided data for more than one poverty threshold and more than one period of time

Table 6.2 (France): Trends in poverty and social exclusion based on the 12 main indicators used by the “National Observatory for Poverty and Social exclusion” (ONPES)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|------|------|------|------|------------------------|------------------|-----------|------------|-------------------|------------------|------|
| Poverty | | | | | | | | | | | |
| Percentage below 60% ¹ of median income | 13.6 | 13.1 | 13.5 | 13.2 | 13.0 | 13.0 | 12.7 | 13.1 | 13.1 | 13.4 | |
| Percentage below 50% ² of median income | 7.5 | 7.2 | 7.3 | 6.9 | 6.7 | 7.2 | 7.1 | 7.2 | 7.0 | 7.2 | |
| Median poverty gap ratio | 17.2 | 17.2 | 17.1 | 16.5 | 16.2 /16.3 | 17.7 | 18 | 18.2 /18.6 | 18.2 | 18.2 | |
| Poverty rate among those in work | 7.0 | 7.0 | 7.0 | 8.0 | | 5.3 ¹ | 6.1 | 6.4 | 6.4 | 6.7 ⁴ | |
| Basic deprivation index (D1) | 12.0 | 11.9 | 12.1 | 11.6 | 11.9 | 11.4 | 10.6/14.7 | 13.3 | 12.7 | 12.2 | |
| Means-tested benefits | | | | | | | | | | | |
| Trends in number of people of working age receiving means-tested benefits | +2.6 | +1.8 | -3.4 | -1.6 | +0.7 | +3.2 | +4.9 | +4.6 | +0.5 | -5.3 | -08 |
| Number of people continuing to receive RMI for more than 3 years | 39.8 | 42.6 | 46.9 | 48.9 | 48.5 | 46.1 | 43.5 | 42.8 | 44.5 | 47.9 | 46.7 |
| Failure to claim basic rights | | | | | | | | | | | |
| Percentage of people not having recourse to healthcare for financial reasons | 14.0 | | 15.7 | | 11.2 | | 13.0 | | 14.0 | | |
| Percentage of pupils leaving the education system early | 14.9 | 14.7 | 13.3 | 13.5 | 13.4 | 12.7 | 13.4 | 12.6 | 13.1 | | 12.0 |
| Percentage of job seekers not receiving unemployment benefit | 46.2 | 46.2 | 44.3 | 39.9 | 36.5 | 36.1 | 37.7 | 40.5 | 39.5 | 38.6 | 38.5 |
| Percentage of requests for social housing outstanding after one year | | | | | 33.6 | | | | 45.8 ¹ | | |
| Income inequalities | | | | | | | | | | | |
| Inter-decile ratio of incomes | 3.26 | 3.23 | 3.27 | 3.23 | 3.19/3.21 ¹ | 3.17 | 3.14 | 3.16/3.37 | 3.41 | 3.39 | |

^{1 & 2} Series reconstituted by ONPES based on the figures for 2007 and simple linking for the breaks in 2002 and 2005

³ Sources: Eurostat.

⁴ Break in series in 2007

Table 6.3 (UK): Trends in poverty using different thresholds and measures (%)

| | Whole population | Children | Working age adults | Pensioners |
|---|------------------|----------|--------------------|------------|
| Less than 60% median BHC | | | | |
| 2003/4 | 18 | 22 | 15 | 23 |
| 2004/5 | 17 | 21 | 14 | 21 |
| 2005/6 | 18 | 22 | 15 | 21 |
| 2006/7 | 18 | 22 | 15 | 23 |
| 2007/8 | 18 | 23 | 15 | 23 |
| Less than 50% median BHC | | | | |
| 2003/4 | 10 | 11 | 9 | 12 |
| 2004/5 | 10 | 11 | 9 | 11 |
| 2005/6 | 10 | 11 | 9 | 11 |
| 2006/7 | 11 | 12 | 9 | 13 |
| 2007/8 | 11 | 12 | 10 | 13 |
| Less than 50% 1998/99 real terms median BHC | | | | |
| 2003/4 | 7 | 7 | 6 | 7 |
| 2004/5 | 6 | 7 | 6 | 6 |
| 2005/6 | 7 | 7 | 7 | 6 |
| 2006/7 | 7 | 8 | 6 | 7 |
| 2007/8 | 7 | 7 | 7 | 7 |
| Low income and material deprivation (children only) | | | | |
| 2004/5 | | 17 | | |
| 2005/6 | | 16 | | |
| 2006/7 | | 16 | | |
| 2007/8 | | 17 | | |
| Persistent poverty (below 60% median in 3 out of 4 years BHC) | | | | |
| 1999-2002 | 11 | 16 | 7 | 19 |
| 2000-2003 | 10 | 14 | 6 | 18 |
| 2001-2004 | 10 | 12 | 6 | 17 |
| 2002-2005 | 9 | 11 | 6 | 16 |
| 2003-2006 | 9 | 10 | 6 | 16 |

Source: HBAI (DWP 2009); BHC: Before Housing Costs

Table 6.4 (Finland): Trends in poverty by different measures

| | 1995 | 2000 | 2005 |
|---|------|------|------|
| Less than 60% median equivalent income (before housing costs) | 11,5 | 12,8 | 13,4 |
| Consensual material deprivation | 12 | 7,5 | 7 |
| Subjective perception of being poor | 8,8 | 6 | 5,2 |
| Subjective perception of being over-indebted | 10,9 | 6,2 | 5,2 |
| Received social assistance | 9 | 6,6 | 6,1 |

Source: "Konse", consensual poverty study by department of social policy, university of Turku, cited in Kangas & Ritakallio, 2008.⁹¹

Table 6.5 (Sweden): Trends in poverty according to three poverty lines

| | <60% of median | <1985 norm | Recipients of social Assistance |
|------|----------------|------------|---------------------------------|
| 1995 | 6.4 | 9.8 | 8.7 |
| 1996 | 7.3 | 11.1 | 9.0 |
| 1997 | 7.0 | 10.8 | 8.8 |
| 1998 | 7.3 | 9.9 | 8.3 |
| 1999 | 6.9 | 7.9 | 7.1 |
| 2000 | 6.7 | 7.7 | 6.4 |
| 2001 | 7.3 | 6.6 | 5.8 |
| 2002 | 8.0 | 7.2 | 5.5 |
| 2003 | 7.7 | 5.8 | 5.1 |
| 2004 | 8.3 | 6.1 | 5.3 |
| 2005 | 8.7 | 6.0 | 5.1 |
| 2006 | 8.2 | 4.7 | 4.4 |
| 2007 | 9.4 | 4.9 | 4.5 |

Source: Income Distribution Survey – Statistics Sweden Social Rapport 2010 – National Board of Health and Welfare

⁹¹ Kangas, O. and Ritakallio, V.-M. (2008). "Köyhyyden mittaustavat, sosiaaliturvan riittävyys ja köyhyyden yleisyys Suomessa" (On measuring poverty, adequacy of social welfare and generality of poverty in Finland), Sosiaali- ja terveysturvan selosteita 61/2008.

Table 6.6 (Netherlands): Households with income below the poverty threshold, 1996-2006*

| | Low-income threshold | Budget-related threshold | |
|--------|----------------------|--------------------------|-------------|
| | | Modest, but adequate | Basic needs |
| | % | | |
| 1996 | 15.6 | 8.0 | 3.7 |
| 1997 | 15.1 | 7.6 | 3.7 |
| 1998 | 13.4 | 6.8 | 3.5 |
| 1999 | 12.9 | 6.9 | 3.5 |
| 2000 | 11.9 | 6.8 | 3.6 |
| 2000 | 11.8 | 6.8 | 3.5 |
| 2001 | 9.7 | 5.8 | 3.0 |
| 2002 | 9.1 | 5.9 | 3.2 |
| 2003 | 9.8 | 6.5 | 3.7 |
| 2004 | 9.4 | 6.0 | 3.5 |
| 2005 | 9.9 | 6.2 | 3.5 |
| 2006 | 9.3 | 5.7 | 3.5 |
| 2007** | 7.9 | 5.3 | 3.3 |
| 2008** | 7.6 | 5.5 | 3.3 |

* The income statistic (Inkomensstatistiek) has been modified. This means that the figures of 1996 – 2000 are not completely comparable to those of 2000-2006.

** Provisional

Source: Statistics Netherlands (CBS). (2008). Table 2. In Netherlands Institute for Social Research (SCP), *Armoedebericht 2008*, Den Haag: SCP/CBS. Complimented with provisional data (for 2007 and 2008) published at the website of CBS.

<http://statline.cbs.nl/StatWeb/publication/?VW=T&DM=SLNL&PA=70738ned&D1=a&D2=0-1,6,11-12,22&D3=a&D4=0-1,8,28,31,56-57,60,63,67-68,71-72,77,86-87,90,94-95,107&D5=a&HD=100217-1120&HDR=T,G2&STB=G1>

C. Conclusions

This study, undertaken by the EU Network of experts on social inclusion, explored poverty thresholds being used in the 32 countries covered by the Network (the 27 Member States and 5 non-EU countries). It was designed to be a contribution to a study being undertaken on behalf of the European Commission by the University of York on the measurement of extreme poverty.

Most of the 32 countries considered here are now using as their main national indicator the at-risk-of-poverty indicator adopted by EU leaders at their December 2001 Laeken European Council. 22 of the countries (20 of the 27 EU Member States as well as Croatia and Iceland) have adopted less than 60 per cent of median equivalent income as their main official poverty threshold. In these countries, 1 use EU-SILC for calculating their poverty estimates whereas eight (including Croatia) use national sources.

The 60 per cent of median threshold is less commonly used in the newer Member States and in the current/potential candidate countries covered by the Network countries. Some of the latter are still in the process of moving from absolute measures based on consumption data and the measures favoured by the World Bank. Even though income-based measures may be less reliable than consumption-based measures in highly rural economies, many have already shifted to relative income thresholds.

In many EU-10 countries, the 60% median threshold is extremely low, even if one takes into account the differences in purchasing power. It is a relative measure but it is also *de facto* an extreme poverty threshold. People living below it have very low living standards. It is arguable whether the relative poverty threshold that provides only €1.71 per person per day in Romania is acceptable in the European Union. Even in EU-15 countries, the national 60% median thresholds are sometimes just at the level of what is needed for living a decent life, as was highlighted by budget standards research.

Network members had been asked to provide information about thresholds used in their country that were lower than the main official threshold and these inevitably produce poverty rates lower than the relative poverty rates. But on reflection given how low the relative poverty threshold is in some of the countries reviewed, maybe we should also have been asking for higher thresholds. This will be explored further in the report of the larger project on extreme poverty.

We have discovered three main types of poverty threshold being used in the EU that are distinct from the relative poverty threshold.

Thresholds based on social assistance/ minimum income standards or to other benefits/ reimbursements. A number of countries (CY, EE, HU, LT, NL, PL and PT) have official poverty thresholds based on a social assistance/minimum income schemes or other benefits/reimbursements levels. The argument that justifies this kind of threshold is that if a state provides a minimum income then people with incomes below it are below the income the state specifies as the minimum and therefore in (extreme) poverty. There are a number of countries (AT, BE, DE and SE) that use their social assistance or minimum income standards as the basis for a lower poverty threshold. Out of these 11 countries, 6 are EU-15 countries and 5 EU-10 countries. We sense that this approach is losing its authority. On the one hand, there is no reason why minimum income thresholds should be fixed at the level of poverty – they could be higher or lower. Also if these thresholds are increased (or reduced) in real terms this has an immediate impact on the numbers counted as poor, meaning that these indicators can easily be manipulated - which violates a key criterion to be met by robust social indicators.

Thresholds based on budget standards. A number of countries have budget standards and a recent EU project has been supporting the development of budget standards. A number of these countries have adopted the “consensual” budget standards methodology developed by researchers in the UK, though more usually the budgets standards are based on either normative or behavioural (expenditure-based) estimates of needs. We find in practice that only in a few countries do budgets standards play a part in determining the main official poverty threshold (only BG, IT, LT, RS and SK) and for some of these the budget standards were used to fix the minimum income scheme which is the actual basis of the threshold. A number of countries use budget standards for their lower poverty thresholds (including IT, NL, RO, SE, TR). In a number of other countries researchers have developed budget standards, but they are used more to provide a standard against which to assess minimum income schemes and poverty thresholds than to determine them. In many cases, budget standards are found to be at or above relative poverty thresholds. We believe that the potential of budget standards should be used to the full. They can provide very useful information on what the thresholds used in poverty comparisons across the EU imply in terms of actual standard of living in each Member State; they can also be used as a benchmark in conjunction with existing poverty measures. The main report on extreme poverty measurement will therefore explore the poverty rates derived using some of the recently developed consensual budget standards.

Thresholds based on overlaps analysis. This technique was developed first in Ireland. The official poverty threshold is still based on a ‘consistent’ poverty threshold which combines low income and enforced lack of deprivation items. AT, FI and the UK are now also using an overlaps measure in their portfolio of official poverty thresholds, and IS and ES have independent research on the topic. EU-SILC based overlaps analysis will be carried out in the report on the larger research project using the agreed EU indicators of poverty risk and material deprivation as well as alternative measures.

Annex: Questionnaire submitted to the members of the EU Network of independent experts on social inclusion

National experts are asked to contribute to this project by answering two questions.

1. What poverty thresholds are in use in your country?
2. What poverty rates do these thresholds produce?

Please provide references (books, papers, articles) and/or links to websites when answering these questions.

1. Poverty thresholds in use

- 1.1 What is the government poverty threshold most commonly used in your country? If there are regional variations, please tell us.
- 1.2 Please give details of the equivalence scale used if appropriate.
- 1.3 Is this the subject of legislation or official regulation? If yes, please give details.
- 1.4 How is this threshold updated over time?
- 1.5-a Is this threshold associated/linked in any way with the minimum income/social assistance scales? If yes, please briefly explain the context in which this threshold is used.
- 1.5-b Is this threshold associated/linked in any way with the levels of any other social transfer payments (apart from the minimum income/social assistance scales) or minimum wage/pension levels – e.g., is it used as a threshold below which people are eligible for any benefits or reimbursements and if so which ones? If yes, please briefly explain.
- 1.5-c (Only if you have answered in question 1.1 that the government poverty threshold most commonly used in your country is the standard EU 60% median indicator.) Is this threshold (EU 60% median indicator) also the main official threshold used at national level. If it is not, please indicate what is.

Please note that this question applies to those of you who have said that their main official poverty threshold is the 60 per cent of median equivalent income using EU-SILC as the source, and also to those of you who have said that the main official threshold is the 60 per cent of median equivalent income using another survey as the source. (We are aware that all EU countries use this threshold for reporting poverty risk to the EU and this is thus not the focus of this question.)
- 1.6 Are there any government poverty thresholds **below** the one described in 1.1? If yes, please give details. If there is more than one please give the lowest/most severe threshold. Please also explain the background and rationale for these, whether any consultation took place and the context in which these are used. If there are regional variations tell us.
- 1.7 Please give details of the equivalence scale used if appropriate.
- 1.8 Is this the subject of legislation or official regulation? If yes, please give details.

- 1.9 How is this threshold updated over time?
- 1.10-a Is this threshold (i.e. any government poverty thresholds below the one described in question 1.1) associated/linked in any way with the minimum income/social assistance scales? If yes, please briefly explain the context in which this threshold is used.
- 1.10-b Is this threshold associated/linked in any way with the levels of any other social transfer payments (apart from the minimum income/social assistance scales) or minimum wage/pension level – e.g., is it used as a threshold below which people are eligible for any benefits or reimbursements and if so which ones (please briefly explain)?
- 1.10-c (Only those of you who have said that your main lower poverty thresholds is 40 or 50 per cent of the median equivalent income.) Please confirm that this threshold is also the main lower threshold used at national level. If it is not, then please indicate what is. (Again we know that all EU countries use these thresholds for reporting poverty to the EU and this is not the focus of this question.)
- 1.11 What other poverty thresholds have been used in recent academic/ independent/ NGO/ Trade Union research. We are of course interested in thresholds that might be described as extreme. Where appropriate give details of the equivalence scale. Please include references to any research (such as budget standards) that could possibly be used to identify or establish “extreme” poverty thresholds.

2. Review of statistical data on poverty

- 2.1 Please provide the latest official published data on poverty using the government threshold mentioned in 1.1. If time series data are available, please report up to the last five years. Please comment on definitions, methods, including data sources, periodicity and coverage.
- 2.2 Please provide the latest official published data on poverty using the lowest threshold in 1.6. If time series data are available please report up to the last five years. Please comment on definitions, methods, data sources, periodicity and coverage.
- 2.3 Please provide the latest unofficial independent research data using the thresholds described in 1.11. Please comment on definitions, methods, data sources, periodicity and coverage.