



European Foundation for the Improvement of Living and Working Conditions

Income poverty in the European Union

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This report is available in electronic format only.

Although the EU is an economically well-off region in comparison with the rest of the world, the EU Member States are still faced with the problem of income poverty. Recent Eurostat statistics show that 16% of the EU25 population was at risk of poverty in 2003. The data indicate that employment is the main factor in offsetting the risk of income poverty. However, the phenomenon of in-work poverty is also prevalent in the EU.

The problem of poverty in the EU

Without any doubt, Europe is one of the most wealthy regions in the world. Nevertheless, recent Eurostat data on income poverty highlight the fact that wealth continues to be unevenly distributed among the EU Member States and – within those countries – among its citizens. On the one hand, richer and poorer countries exist within the EU and, on the other hand, a problem of relative poverty emerges within any of these countries.

The fight against poverty has a long history in the EU, starting as early as the 1970s. This is because the presence of poverty in EU Member States was always regarded as conflicting with the basic policy targets of the EU: good economic performance in conjunction with a high level of social protection, education and social dialogue. The relevance of this topic was once again emphasised in a [Joint Report on Social Inclusion \(1.2Mb PDF\)](#) (2004) by the [European Commission](#) and the Council.

In recent decades, the issue of the ‘working poor’ slowly entered the public debate in the EU (see, for example, the report [Working poor in the European Union](#) published by the [European Foundation for the Improvement of Living and Working Conditions](#)). Whereas it was assumed in the past that having a job would successfully protect someone from the risk of poverty, it became increasingly obvious that this was not always the case. Because of changes in the labour market, such as the development of a low-paid services sector, as well as in private life and family structures, for example, the growing number of single parents, work and poverty were no longer self-exclusive. This survey data report mainly concentrates on this issue of in-work poverty.

With an increase in the political awareness of poverty within EU institutions, reliable statistics on poverty, income and [social exclusion](#) became essential. The Council emphasised this point at its 2001 meeting in Laeken where it adopted a set of statistical indicators which would allow the EU to follow the progress being made in achieving the social inclusion targets set at the 2000 meeting of the Council in Nice. These indicators cover four important dimensions of social inclusion – financial poverty, employment, health and education – and form the core of the new [European Union Statistics on Income and Living Conditions \(EU-SILC\)](#).

Data source for statistics on private households

EU-SILC represents a new Eurostat statistical platform concerned with people in private households and is designed to provide data for structural indicators on social inclusion. Officially launched in 2004, it is still expanding to include all of the EU Member States, in addition to some other European countries. Conducted every year, EU-SILC collects the data necessary to gain information about the living conditions in private households in the EU. Thus, EU-SILC is an instrument for collecting timely and comparable cross-sectional and longitudinal multidimensional micro-data on income, poverty, social exclusion and living conditions. It is part of the European Statistical System (ESS).

Because of delays in the implementation process of EU-SILC at national level, data covering all of the EU Member States are not yet available. The survey was already running in 2003 in six Member States (Austria, Belgium, Denmark, Greece, Ireland and Luxembourg), as well as Norway. In 2004, a further six Member States (France, Finland, Italy, Portugal, Spain and

Sweden) joined the programme, alongside Iceland and Estonia, the latter still an acceding country at the time. Since 2005, the 25 EU Member States (EU25) are covered and it is planned to extend the scope of EU-SILC to the new Member States of Bulgaria and Romania – as well as to Turkey and Switzerland – in the near future.

EU-SILC is regarded as the successor of the [European Community Household Panel \(ECHP\)](#). ECHP was a panel survey in which a sample of households and persons were interviewed each year. Similar to the new EU-SILC, these interviews also covered a wide range of topics concerning living conditions; they included income information, the financial situation in a wider sense, working life, the housing situation, social relations, health and biographical information of the respondents. The ECHP ran from 1994 to 2001.

Despite the fact that the majority of EU-SILC variables are defined in the same way as the corresponding ECHP variables, some differences arise between the ECHP and the EU-SILC coverage of employment-related issues. For more general and detailed information in this regard, see the paper on [The continuity of indicators during the transition between ECHP and EU-SILC](#). Besides the fact that EU-SILC is generally a ‘leaner’ panel with much less variables than the ECHP, changes have mainly been made in the income components to adjust them as closely as possible to [United Nations \(UN\)](#) recommendations. The major differences are the following:

- in EU-SILC, the income on component level is recorded on a gross basis, whereas in ECHP the income components were recorded net of taxes;
- EU-SILC has included several new components of disposable income, which will offer a more realistic assessment of the overall household income situation. These new variables include, for example, transfers paid to other households, tax adjustments and interest paid on mortgage loans;
- as economic activity status is not an EU-SILC target primary variable, the new survey will reduce the complexity of this variable. For example, the distinction between employees and self-employed persons – which proved to be of considerable relevance in the past – will not be made in the future; therefore, the working poverty indicator will only be available for ‘all people at work’ when EU-SILC is fully implemented.

Eurostat data on EU income poverty

A number of Eurostat publications on poverty issues have been issued since 2000. Apart from [In-Work Poverty \(362Kb PDF\)](#) (2005), these relate mainly to poverty issues in general and devote only minor attention to the working poor problem. Nevertheless, most of these publications provide relevant background and contextual information on income poverty and will be used in this report where appropriate.

Definitions of poverty

Income poverty is only one part of the overall concept of poverty – or deprivation as it is also called. Poverty can be defined as a condition in which a person is deprived of the essentials for a minimum standard of well-being and life. Therefore, poverty does not only refer to material resources, such as money, food or housing, but also to social resources, such as access to education and healthcare or meaningful relations with other people. Poverty may be defined either in absolute or in relative terms; relative poverty refers to a deprivation in relation to the conditions prevailing in a country.

The indicators most frequently used by Eurostat in the field of poverty are based on a relative and monetary approach to poverty. This means that the indicators mainly focus on income, whereby

poverty is defined in relation to the distribution of income within each country. The idea behind concentrating on relative income poverty is because minimal acceptable standards usually differ between societies according to their general level of prosperity: someone regarded as poor in a rich developed country might be regarded as rich in a poor developing country.

Definitions of poverty thresholds are always conventional. Eurostat's definition of poverty risk refers to individuals living in households where the equivalised income is below the threshold of 60% of the national equivalised median income. The key advantage of using the median is that it is not influenced by extreme values – either extremely low or high incomes.

Methodology

The results presented below derive from different Eurostat publications. As highlighted earlier, between 2001 (end of ECHP) and 2005 (EU-SILC running in EU25), Eurostat had to rely on the following data sources:

- the last wave of the ECHP;
- EU-SILC data from those six countries which had already started the new programme in 2003;
- and/or national sources for the 19 other countries of the EU25 that did not launch EU-SILC in 2003.

From a methodological point of view, the national sources represent the most problematic data source among the three sources used. This is because they represent different data sources which had to be harmonised in order to ensure a maximum comparability between definitions and concepts used in the different countries. The following table outlines the national sources used.

National data sources during data transition phase

Country	Source
CY	Household Budget Survey (Family Expenditure Survey)
CZ	Microcensus
DE	GSOEP (Socio-Economic Panel)
EE	Household Budget Survey (<i>Leibkonna Eelarve Uuring</i>)
ES	Household Budget Survey (<i>Encuesta Continua de Presupuestos Familiares, ECPF</i>)
FI	Income Distribution Survey (<i>Tulonjakotilasto</i>)
FR	Tax Survey (<i>Enquête Revenus Fiscaux</i>)
HU	Household Budget Survey (<i>Háztartási Költségvetési Felvétel</i>)
IT	ECHP
LT	Household Budget Survey (<i>Namų ūkių biudžetų tyrimas</i>)
LV	Household Budget Survey (<i>Majsaimniecību Budžetu Petijums</i>)
MT	Household Budget Survey
NL	Income Panel Survey (<i>Inkomenspanelonderzoek</i>)

PL	Household Budget Survey (<i>Badania Budżetów Gospodarstw Domowych</i>)
PT	Reduced ECHP sample. Only limited indicators are available (at-risk-of-poverty rates before and after transfers at level of total population, share ratio S80/S20)
SE	Survey of Living Conditions (<i>Undersökning av levnadsförhållanden</i> , ULF)
SI	Household Budget Survey (<i>Anketa o porabi v gospodinjstvih</i>)
SK	Microcensus
UK	Household Budget Survey (Family Resources Survey)

As mentioned above, Eurostat's definition of poverty risk refers to individuals living in households where the equivalised income is below the threshold of 60% of the national equivalised median income. Equivalised income is defined as the household's total income divided by its equivalent size, to take account of the size and composition of the household, and is attributed to each household member. The total household income is divided by its equivalent size using the so-called modified OECD equivalence scale, a revised version of a scale advocated by the [Organisation for Economic Cooperation and Development \(OECD\)](#). This scale gives a weight of 1.0 to the first adult, 0.5 to any other household member aged 14 years and over, and 0.3 to each child.

Main findings on income poverty

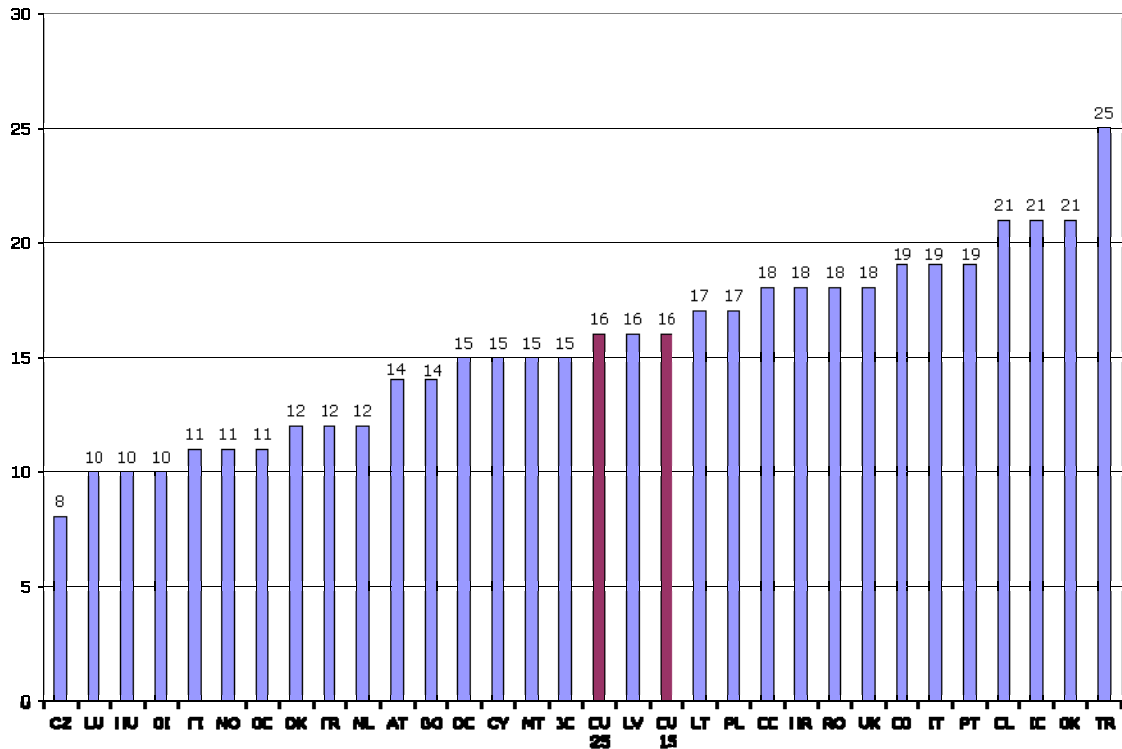
The main results of recent Eurostat publications on income poverty are detailed under the following six headings:

- Scale of poverty risk in the EU25
- Social policy as a risk-reducing factor
- Employment as a risk-reducing factor
- Problem of in-work poverty
- Differences between employees and self-employed workers
- Differences in household work intensity

Scale of poverty risk in the EU25

Some 16% of the EU25 population was at risk of poverty in 2003; in absolute numbers, this means that around 72 million citizens face monetary deprivation. However, considerable variation emerges between the different Member States (Figure 1). The poverty risk ranges between 21% in Greece, Ireland and Slovakia and 8% in the Czech Republic. This shows that relative poverty does not negatively covariate with the absolute level of prosperity in a country: the relatively rich EU countries such as Luxembourg, the Netherlands, the UK, Denmark, Germany, Belgium or Austria show poverty risks between 10% (Luxembourg) and 18% (UK).

Figure 1: At-risk-of-poverty rate, total population, 2003 (%)



At-risk-of-poverty rate, total population, 2003 (%)

Notes: EU15 group refers to the 15 EU Member States before 1 May 2004.

HR = Croatia. The other country codes are listed in the annex.

Source: [Income poverty and social exclusion in the EU25 \(423Kb PDF\)](#),

Eurostat, 2005

Social policy as a risk-reducing factor

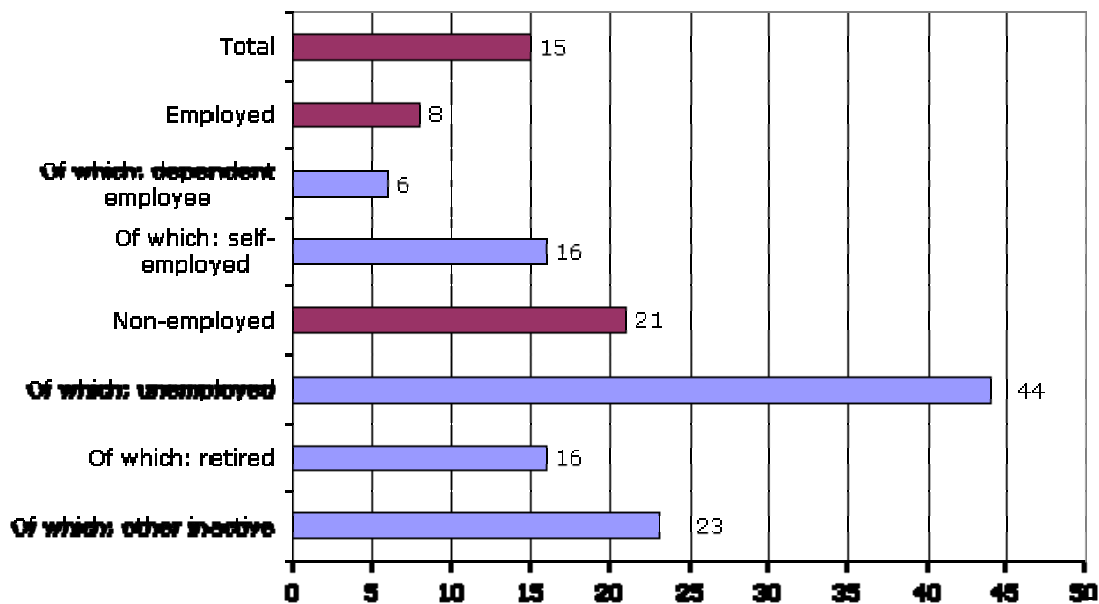
If the at-risk-of-poverty rate is compared before and after social cash transfers, it becomes obvious that social policy plays a moderating effect on the poverty risk in each of the EU25 countries. In the absence of all social transfers, the poverty risk in the EU would increase from 16% to 40%, or 25% excluding pension payments. There are striking differences between the different EU25 Member States. The poverty risk in the Czech Republic, for example, would increase from 8% to 39% (or 21% not counting pensions), in France, the risk would increase from 12% to 44% (26% without pensions) and, in Poland, the poverty risk would increase from 17% to 49% (or 31% without pensions). Conversely, in Cyprus, the risk would only increase from 15% to 26% (or 18% without pensions). Overall, this shows that social policy may reduce the incidence of poverty.

Employment as a risk-reducing factor

It is a proven fact that employment not only reduces the poverty risk but also the general risk of social exclusion, as work is a major means for social integration. In this sense, the [Lisbon Strategy](#) with its main aim to create competitive jobs in Europe also has a poverty dimension.

The Eurostat statistics confirm this strong interrelation between poverty risk and a person's economic activity status. In 2001, 15% of the population in the EU15 was at risk of poverty, that is, in the 15 EU Member States prior to the EU enlargement of 2004. This number increases to 44% in the case of unemployed people and to 23% in the case of 'other inactive' individuals, but decreases to 8% for the employed population and 6% for wage and salary employees (Figure 2, numbers available for EU15 only).

Figure 2: Incidence of poverty risk, by most frequent activity status, EU15, 2001 (%)



Incidence of poverty risk, by most frequent activity status, EU15, 2001 (%)

Source: In-Work Poverty, Eurostat, 2005

Looking at the poverty effects of unemployment at a household level, the results are equally significant. People living in jobless households are clearly at a much higher risk of poverty than are people in households with a regular income. In the EU15 in 2001, the poverty risk rate for people in jobless households with dependent children was 63% and the risk rate was 30% in such households without dependent children.

Problem of in-work poverty

Despite the fact that employment seems to be the best way out of the poverty risk, it also has to be recognised that being employed does not necessarily offer protection against poverty. This so-called 'in-work poverty' is a complex situation as it does not refer to the absolute level of income that a single person obtains. Rather, it refers to the overall income of a household – in which at least one person works – in relation to the number of people dependent on that household income. Therefore, in-work poverty may result from completely different reasons. The most relevant factors are highlighted below.

Family size and structure

Overall, there are two typical risk situations: living in a household with a lone parent, who often works only part time, or living with many people who are dependent on only one income.

Whereas a member of a household with more than one adult, more than one income and no children faces only a 3% risk of falling into the poverty category, this number rises in the EU15 to 19% for lone parents and to 20% in the case of a single-earner household with children. As income systems usually do not include family components, compensation for this family-centred risk of in-work poverty can only be provided by social policy means.

Part-time work resulting in low earnings

In the EU15, 10% of those working less than 30 hours a week are at risk of in-work poverty, whereas the number declines to 5% for those working longer than 30 hours a week. It is well-known that part-time work is predominantly a characteristic feature of female employment: 36.2% of women in the EU15 worked part time in 2005, compared with 7.7% of men. Nonetheless, in-work poverty is not a typically female experience as 7% of men and 8% of women report the problem; women's part-time income is often combined with a second income within the household. However, when the part-time income is the sole income, as is often the case with lone parents or with families in which the main earner has become unemployed, part-time work is likely to result in in-work poverty.

Unqualified jobs resulting in low earnings

The in-work poverty risk has a clear qualification bias. Only 3% of highly qualified people face the risk of in-work poverty, whereas this is the case for 12% of low qualified people. It is possible that the on-going growth of the low-income services sector in most developed countries will exacerbate the effects of this poverty factor.

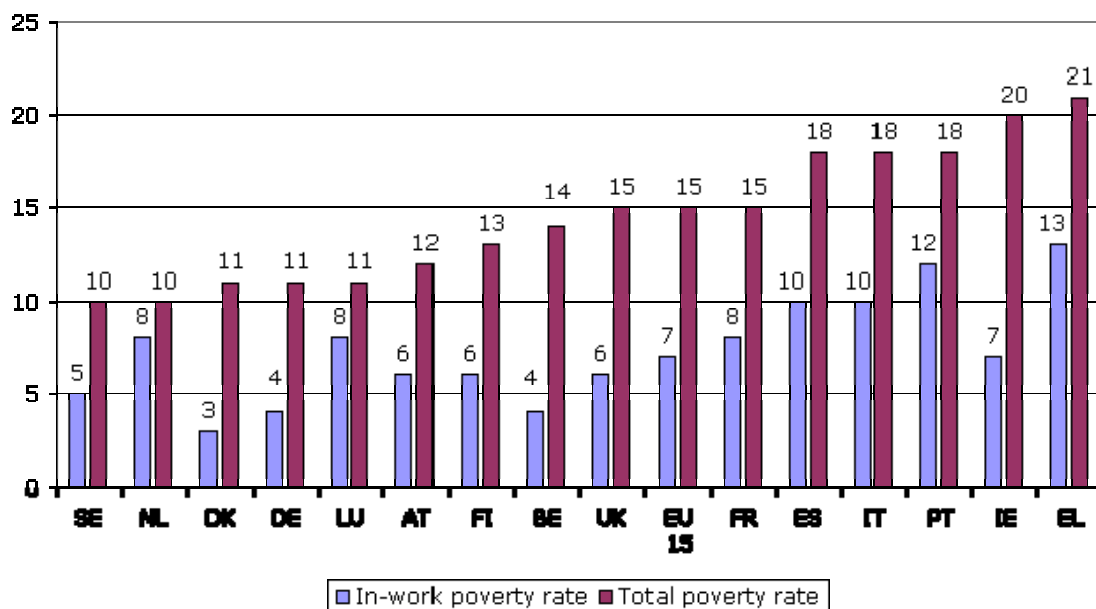
Unstable jobs

Changes in the labour market have increased the number of non-permanent jobs in recent decades. This can translate into low income, which increases the risk of in-work poverty. Eurostat statistics show that the poverty risk for people on permanent employment contracts is 4%, compared with 10% for people on temporary employment contracts. This effect of job stability is also evident in the poverty risk of people who worked for less than a full year, corresponding to a 12% risk, compared with that of people who worked for a full year, who have a 5% poverty risk.

Eurostat's reports do not provide in-depth analyses of cumulative in-work poverty risks. Nevertheless, those effects certainly exist, for example, among young unqualified single parents working part time in unstable jobs.

Overall, 7% of the employed population of the EU25 – or about 14 million people – live in households which face the risk of in-work poverty according to Eurostat definitions. The level differs among the EU15, between 3% in Denmark and 13% in Greece (Figure 3).

Figure 3: In-work poverty and total poverty risk rates, EU15, 2001 (%)



In-work poverty and total poverty risk rates, EU15, 2001 (%)

Source: In-Work Poverty, Eurostat, 2005

As a large part of the population is in employment, this means that the working poor also represent a considerable proportion of those at risk of poverty in the EU. In the EU15, around 25% of those over the age of 16 years who face the risk of poverty are in employment. Taking into account all household members living together with those classified as working poor, the number rises to 36% of the at-risk population. This means that in-work related poverty accounts for more than a third of the overall risk of poverty in the EU.

Interestingly, the existence of minimum income regulations does not show a significant positive effect on national in-work poverty rates. In 2005, nine of the EU15 Member States had such regulations, while Austria, Denmark, Finland, Germany, Italy and Sweden did not. Whereas the average in-work poverty risk rate in countries with minimum income regulations was 8.8%, it was only 5.4% for the six countries without such regulations – which seems a paradoxical result. This, again, underlines that in-work poverty is a multi-factor phenomenon.

Differences between employees and self-employed workers

The risk of in-work poverty is more than 2.5 times greater for self-employed workers than for dependent employees. Some 16% of self-employed people within the EU15 face the risk of in-work poverty, whereas the number for dependent employees is only 6%. Thus, self-employment seems to be another risk factor of in-work poverty; the main reason for this seems to be the fact that self-employed persons are more often faced with an unstable flow of income.

Among the EU15, the in-work poverty risk for dependent employees ranges from 1% in Denmark to 8% in Luxembourg, and for self-employed workers from 2% in Luxembourg to 28% in Portugal. In 14 of the EU15 countries, excluding Luxembourg, the in-work poverty risk is considerably higher for self-employed workers.

The level of self-employment has somewhat stabilised in the EU15, at a rate of 16% in 1994 compared to 14.7% in 2005. However, the social structure of self-employment has changed and the internal dynamic in this sector has increased. Considerable national differences are apparent: in 2005, the self-employment rate within the EU15 ranged from 40.8% in Greece to only 4.8% in Sweden. Moreover, a clear tendency towards heterogeneity of self-employment may be discerned for which the growing precariousness of many new forms of self-employed jobs is mainly responsible. Becoming self-employed has increasingly become an individual reaction to imminent or actual unemployment, often with only temporary success.

Differences in household work intensity

Eurostat defines the work intensity of a household as the overall degree of work activity of working age members in the household. As might be expected, the poverty risk of household members generally decreases when the work intensity increases. In households with no dependent children, for example, 30% of the members of jobless households face poverty but this proportion declines to 10% in households where at least one adult household member is at work or more than one adult but not for a full year.

One of the more interesting results is that, even if all working age members of a household are at work, they may still face a poverty risk: of people living in such work-intense households, 5% are below the Eurostat poverty-risk threshold, regardless of the presence of children. In fact, these persons constitute 16% of all members of poor households in the EU15, with values ranging from 6% in Spain and Italy to 31% in Portugal.

The reasons why such work-intense households can experience poverty may be manifold; however, Eurostat has not investigated further in their analyses so far. According to the authors of the 2005 report on *In-Work Poverty*:

The full understanding of in-work poverty obviously requires a more in-depth analysis of household structures and households' labour force patterns, as well as of the balance of different income sources within households. In particular, it would be important to explore the situation of non-employed household members. (p. 8)

Commentary

Income poverty continues to be a problem in the EU. In order to reduce the income poverty risk in Europe, the following three policy conclusions may be drawn:

- given that the risk of poverty is shown to decline considerably with low levels of unemployment, the creation of new jobs should be a priority;
- income poverty – even in work-intense households – implies the necessity to introduce certain minimum standards to ensure that people can live on their income;
- social policy is important in order to reduce the poverty risk of those citizens who cannot earn enough money to keep the household members above the poverty line.

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Annex

Country codes

Country code	Country name
AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HR	Croatia
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
TR	Turkey
UK	United Kingdom

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