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Poverty and Inequalities: Frequently asked Questions

How many people are living at risk of poverty or social exclusion in the EU?

In 2012[1], 124.5 million people were at risk of poverty or social exclusion in the EU (24.8 % of the population). This is 6.4 million people more than in 2010, as the crisis has translated into an overall increase. Between 2010 and 2012, the risk-of-poverty rate rose by 0.4 percentage points (pp) on average at EU level, with diverging national developments. As a consequence of long-lasting hardship, severe material deprivation also increased across Europe (by +1.5 pp since 2010). Following the increase of unemployment, the share of individuals living in jobless households increased in the aftermath of the crisis (2009-2010) and fed the upward trend in poverty and social exclusion, though it then remained relatively stable between 2010 and 2012.

Table 1: Risk of poverty and social exclusion, 2010-2012

	2010	**2011**	**2012**
At risk of poverty or social exclusion (% of population)	23,7	24,5	24,8
At risk of poverty or social exclusion (Million people)	118.1	121.5	124.5
At risk of poverty (% of population)	16,5	17,0	16,9
Severe material deprivation (% of population)	8,4	9,0	9,9
Jobless households (% of the 0-60)	7,8	8,0	8,0

Source: Eurostat, EU-SILC

[1] Latest data available.

How is poverty measured in the EU and in the world?

The current EU approach to measure poverty and social exclusion takes into account the diversity of situations among Member States.

The risk of poverty or social exclusion is the combination of the following three main[2] indicators:

- The **at-risk-of poverty rate** is defined in relation to a threshold set at 60% of national median income, thus reflecting that poverty is relative in time and place. It is responsive to the effectiveness of national policies to fight poverty, in particular employment and welfare policies.
- **Material deprivation** measures the lack of ordinary necessities which would normally indicate decent living standards in a given society. Someone is considered to suffer from material deprivation if he or she lacks at least four items from a list of nine, which include, among others, being able to pay one's rent and utility bills, facing unexpected expenses, affording adequate heating, and having a car or a telephone.
- The **low work intensity** rate reflects the share of population aged 0-59 living in households where the working age members worked less than 20% of their total work potential during the past year. Including labour market exclusion in the monitoring framework highlights that labour market participation is an important way of pursuing social inclusion.

The EU definition of poverty goes thus beyond the "satisfaction of basic human needs", which is used to measure poverty in developing countries. For example, the United Nations Millennium Declaration of 2000 gives priority to the eradication of extreme poverty and hunger (Millennium Development Goal N°1). To estimate poverty worldwide, the World Bank uses a common poverty line set at $1.25 and $2 per day, kept constant in real terms over time. In 2010, 1.2 billion people lived under the $1.25 a day poverty line in the developing world, and the Food and Agriculture Organization of the United Nations estimates that there were about 925 million people suffering from chronic hunger.

The United States, as well as Canada, Australia and, in Europe, Italy, also use measures of absolute poverty. In the United States, the absolute poverty threshold is based on the estimates of the minimal cost of food needs, multiplied by a factor of three to cover housing expenditure and clothes. It varies with the type of household. This threshold was calculated in the 70s (reflecting the consumption pattern of the time) and has been uprated with inflation since then. There is an on-going debate on the need to revise this threshold to better reflect current living conditions.

Why did the EU include poverty reduction in the Europe 2020 strategy? What kind of target was set and by whom?

In 2009, the European Commission highlighted that, over the past decade, the increasing employment rate had not sufficiently reached those furthest away from the labour market, and that getting a job was not necessarily sufficient to escape poverty. This is why, on the basis of a proposal from the Commission, EU Heads of States and Government committed themselves in June 2010 to the ambitious target of reducing poverty and social exclusion in the EU by 20 million people by 2020, as part of the Europe 2020 strategy.

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[2] Other indicators can also be used to measure the depth of poverty, its persistence (persistent poverty rate), or a "semi-absolute" measure of poverty (at-risk-of poverty anchored at a point in time).

Setting a poverty target has been a great step forward because it reflects the fact that economic growth should be inclusive. It made visible the worrisome trend in European poverty: instead of moving towards the target, we have actually witnessed a rise of poverty since the target was set (see above). To measure progress at national level, most Member States use one of the three indicators mentioned above.

How do we measure inequalities? Why and how should they be limited?

Inequalities can manifest themselves through disparities in income, wealth, health status and life expectancy, access to jobs, housing, education, healthcare or leisure. Since income inequalities are regarded as a reliable measure of other inequalities, they are frequently used as indicators. In Europe, the most widely used indicators of income inequalities are:

- **The Gini coefficient**, which measures the deviation of the distribution of disposable income among individuals from a perfectly equal distribution, ranging from zero (income is equally shared between all individuals in society) to 1 (all income is concentrated in the hands of one person). Its main limitation is that it captures poorly the situation at the very top and bottom. Currently, the Gini coefficient stands at 0.31 in the EU28 and ranges between 0.24 in Slovenia and 0.36 in Latvia (reflecting the income situation of 2011).
- **The S80/S20 ratio** (or the income quintile share ratio) represents the ratio between the income of the richest 20% of the population and the income of the poorest 20%. This measure is easily understandable and represents an effective way to measure the distance between the extremes of the income distribution. Its main limitation is that it ignores the 60% of the population in the middle. The ratio stands at 5.1 in the EU28 and ranges from 3.4 in Slovenia to 7.2 in Spain (reflecting the latest available income data of 2011).

Inequalities should be limited because they may be socially disruptive and are often linked with a number of negative social outcomes. Furthermore, economic growth itself may well not be sustainable if it is accompanied by rising inequalities. A mix of policies to reduce inequalities includes a fair taxation system; lower taxation of labour in order to favour employment growth; adjustments in tax and benefit systems (including inheritance taxes and closing tax loopholes and fighting tax evasion); and equipping workers with the right skills to boost employment.

What is the importance of inequalities for economic policies? Does too much or too little inequality harm growth?

Economic policies should reflect the interest of society as a whole and serve social justice. Growth cannot enjoy sustained democratic support if it only benefits a privileged few. In this respect, successive revisions of the EU Treaties have made EU objectives more explicitly focused on integrating economic development with the pursuit of social and environmental quality and sustainability. The crisis has provided a new impetus to pursuing this wider vision of growth, with the adoption of the Europe 2020 strategy aiming at delivering smart, sustainable and inclusive growth.

Too much inequality may harm growth and economic performance through a number of mechanisms, such as some under-utilisation of human capital, lack of adequate incentives, or favouring asset bubbles (for instance when lower income groups go into debt to emulate the consumption patterns of the affluent). Inequalities can also have negative effects on aggregate demand. In other words, a shrinking middle class is likely to affect the sustainability of growth, due to weak domestic consumption and low savings and investments.

Where is poverty increasing in the EU, and why?

Long-term unemployment, labour market segmentation and wage polarisation partly explain the rise in poverty and social exclusion. The poverty reduction impact of social transfers also weakened in some Member States as a result of the crisis and of measures taken to restore the financial sustainability of welfare systems. As a result, the deterioration of labour market conditions has significantly increased the number of people on low income or living in jobless households, with the overall reduction in household incomes also resulting in increased material deprivation.

Between 2010 and 2012 (see annex 1), poverty and social exclusion increased in the countries most affected by the economic crisis: Greece, Ireland, Spain, Italy and Cyprus. It remains at a high level (30% or more) in Eastern European countries, such as Bulgaria and Hungary, where high levels of deprivation prevail. Poverty and social exclusion also increased in countries with low risks and solid welfare systems (like Denmark and Luxembourg) but remained stable in the Czech Republic, Germany, France, The Netherlands and Portugal. It has decreased only in Poland, Lithuania and Latvia. In the last two Member States, the decrease mechanically follows large increases which occurred between 2008 and 2010.

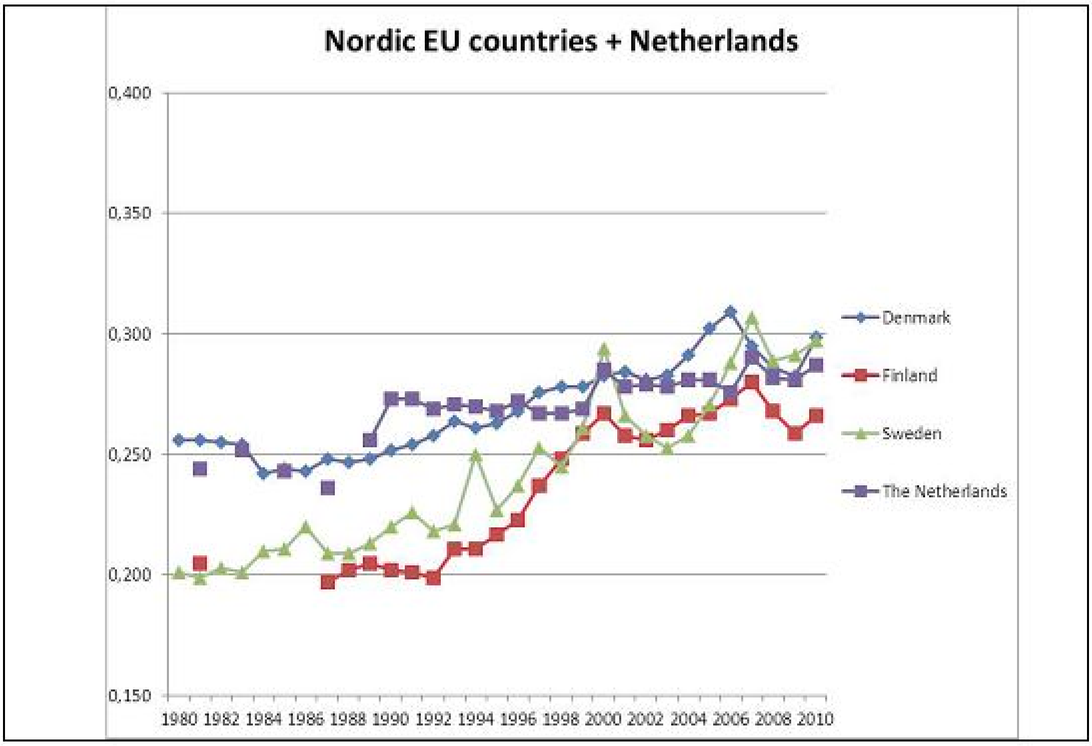
Where are inequalities increasing in the EU, and why?

Inequalities increased over the past 30 years in most EU and OECD countries[3]. The largest increases were registered in the Baltic countries, followed by other Central and Eastern Europe, the Nordic countries and The Netherlands. In continental Europe increases were much lower. In Austria, Belgium, France, Italy, Ireland and Slovenia the level of inequality remained largely unchanged.

This trend of increasing inequalities is attributed to a number of factors such as skill-biased technological change, deregulation of the financial sector, globalisation of financial operations (and fiscal loopholes), offshoring of businesses, the way in which the digital economy may give a very small share of the people a disproportionately large share of income (so-called "superstar-effects") and the rise of house prices.

[3] See for instance OECD, Growing unequal (2008) and Divided we Stand (2011).

Figure 1: Growth of the Gini coefficient over 30 years in selected Member States



Source: The GINI FP7 project

How can the EU help Member States to strengthen the poverty reduction capacity of their social protection systems?

Minimum income schemes are an important tool for fighting poverty. Combined with targeted activation measures and enabling services, they can also help people get back into the labour market.

The Commission reviews the minimum income schemes of Member States in the Country Specific Recommendations it issues in the context of the European Semester, the EU's yearly cycle of economic policy coordination. Minimum income should be high enough to provide a decent standard of living, and motivate people to work, but not be a trap. At the same time, they should act as a springboard to lift people out of poverty. However, it is important to ensure that people do not end up in situations where they need to rely on safety nets. For this, investing in adequate, enabling and activating services and benefits is needed. Member States therefore need to modernise their social systems towards social investment. To help Member States do so, the Commission offered policy guidance in the February 2013 Social Investment Package.

Is the fight against poverty and rising inequalities just a matter for social policies?

Social policy alone cannot solve social problems. Tackling poverty is often as much a matter of taxation, health, education and overall economic policy, as it is of social policy. The integrated nature of the Europe 2020 Strategy underlines the principle that smart sustainable and inclusive growth are mutually dependent, and highlights the fact that macroeconomic/fiscal, tax and employment policies affect social outcomes and, conversely, recognises the role that social policies play for other policy areas.

Which EU funds can support the fight against poverty and how?

EU funds are mobilised to contribute to economic recovery, to provide increased support to the unemployed, young people and disadvantaged groups, and to alleviate the social consequences of the crisis.

The European Social Fund (ESF), worth €80 billion for the period 2014-2020, supports job creation through targeted measures. The European Regional Development Fund creates employment by supporting small and medium sized businesses, research and innovation, and measures supporting green growth. The 2014-2020 financial framework allocates a greater share of cohesion policy funding to the ESF, and that at least 20% of the ESF in each Member State will have to be used to support the thematic priority of 'promoting social inclusion and combatting poverty'.

The Fund for European Aid to the Most Deprived, worth over €3.8 billion (in real terms) for 2014-2020, is a financial tool aimed at, among others, homeless people and materially-deprived children, providing food, clothing and other essential goods.

The Employment and Social Innovation (EaSI) programme is a financing instrument at EU level promoting a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions. Actions financed by EaSI will pay particular attention to vulnerable groups, such as young people, promote equality between women and men and combat discriminations. EaSI will also invest in social innovation and social entrepreneurship.

How does the EU work with social NGOs?

Working with civil society gives the Commission the chance to draw on the knowledge of a wide range of interested parties and take different viewpoints and experience into account. Over the last few years, the European Platform Against Poverty and Social Exclusion has been the main instrument for involving civil society at EU-level. The Platform's next annual convention will take place in Brussels on 20 and 21 November 2014.

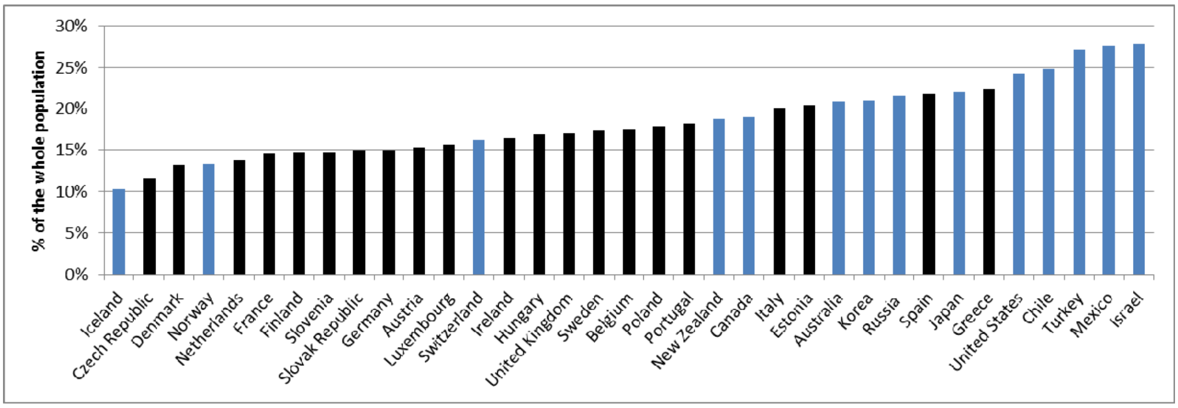
The Commission currently has 16 partnership agreements with EU-level social NGOs active in the area of social inclusion and poverty reduction, and it gives them support through operating grants to pursue relevant projects. Since 2012, the Commission also supports the annual conference of the People Experiencing Poverty which is held each year in Brussels.

How does Europe compare to the rest of the world in terms of poverty and inequalities?

Poverty rates in most EU countries are below the OECD average, and in particular lower than in the United States, Australia and Russia[4]. The EU is also much more equal (in terms of the Gini coefficient) than most large developed economies. In OECD countries today, the average income of the richest 10% of the population is about nine times that of the poorest 10% (ratio 9 to 1). However, the ratio varies widely from one country to another. In the Nordic and many continental European countries, it is much lower than the OECD average, but reaches 10 to 1 in Italy, Japan, Korea, and the United Kingdom; around 14 to 1 in Israel, Turkey, and the United States; and 27 to 1 in Mexico and Chile.

[4] Russia is not an OECD Member

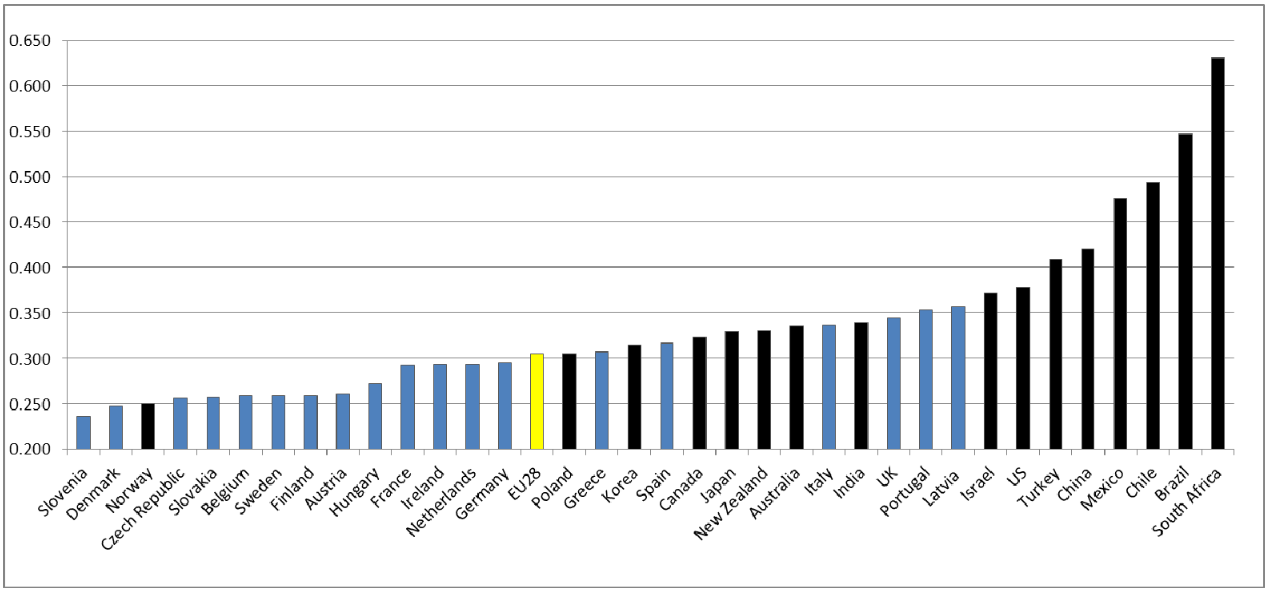
Figure 2: Poverty rate in selected Member States, 2011



Source: OECD, Income Distribution and Poverty Database
Note: Data for the Netherlands, Hungary, Australia and Mexico refers to 2012. Data for Belgium and Russia refers to 2010. Data for Japan refer to 2009.

The latest trends in income inequality in the 2000s showed a widening gap between rich and poor not only in some of the already high inequality countries (like Israel and the United States), but also – for the first time – in traditionally low-inequality countries, such as Germany, Denmark, and Sweden (and other Nordic countries). At the same time, in some countries with very high initial levels of inequalities (such as Chile, Mexico, Greece, Turkey and Hungary), income inequality decreased considerably, suggesting a possible convergence of inequality levels towards a common and higher average level across OECD countries. In terms of the Gini coefficient, Europe appears much more equal in international comparisons. The US remains the most unequal high-income country while South Africa, Brazil, Chile and Mexico top the world list of inequality.

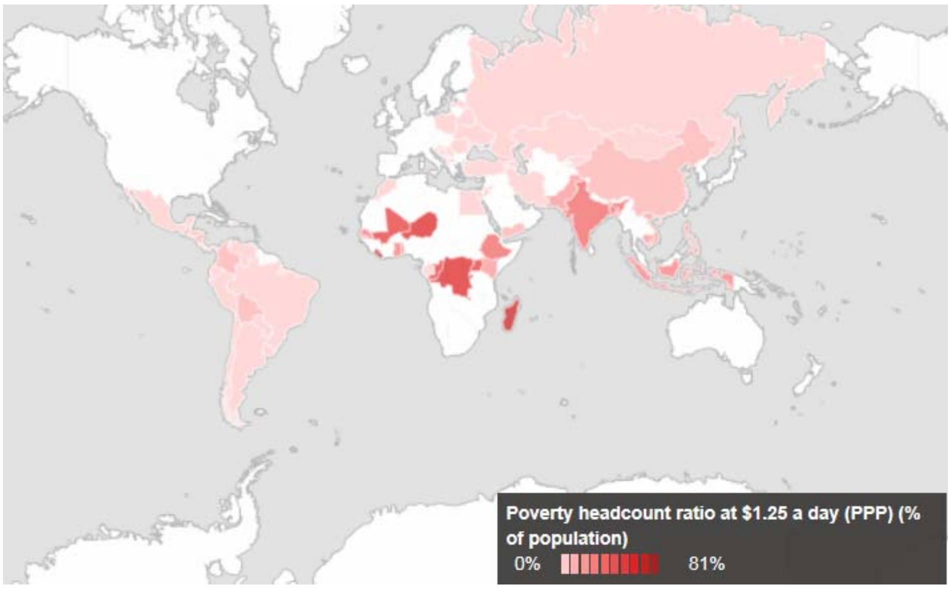
Figure 3: Gini coefficient in selected EU and non-EU countries, 2009



Source: Eurostat, OECD, World Bank

More generally, the only measures allowing worldwide comparisons of poverty are based on absolute poverty lines and EU Member States rank among the best performing countries in the world.

Figure 4: Poverty rate at 1.25 dollar a day 2009-2013



Source: World Bank, World Development Indicators

Annex 1: Evolution of the three components of the poverty and social exclusion target since 2010.

	At risk of poverty or social exclusion (AROPE)			At risk of poverty				Severe material deprivation			Jobless households		
	2010	2012/3	Change since 2010 (pts)	2010	2012/3	Change since 2010 (pts)	Change in poverty threhsold (pp)	2010	2012/3	Change since 2010 (pts)	2010	2012/3	Change since 2010 (pts)
EU28	**23.7**	**24.8**	**1.1**	**16.5**	**16.9**	**0.4**		**8.4**	**9.9**	**1.5**	**10.2**	**10.5**	**0.3**
Decrease in AROPE													
LT	34.0	30.8	-3.2	20.5	20.6	0.1	7.3	19.9	16.0	-3.9	9.5	11.0	1.5
LV	38.2	35.1	-3.1	20.9	19.4	-1.5	-1.3	27.6	24.0	-3.6	12.6	10.0	-2.6
PL	27.8	25.8	-2.0	17.6	17.3	-0.3	8.0	14.2	11.9	-2.3	7.3	7.2	-0.1
BG	49.2	48.0	-1.2	20.7	21.0	0.3	-8.8	45.7	43.0	-2.7	8.0	13.0	5.0
FI	16.9	16.0	-0.9	13.1	11.8	-1.3	0.1	2.8	2.5	-0.3	9.3	9.0	-0.3
SK	20.6	19.8	-0.8	12.0	12.8	0.8	0.5	11.4	10.2	-1.2	7.9	7.6	-0.3
Stable AROPE													
NL	15.1	15.0	-0.1	10.3	10.1	-0.2	-3.8	2.2	2.3	0.1	8.4	8.9	0.5
DE	19.7	19.6	-0.1	15.6	16.1	0.5	-0.4	4.5	4.9	0.4	11.2	9.9	-1.3
FR	19.2	19.1	-0.1	13.3	14.1	0.8	-1.3	5.8	5.0	-0.8	9.9	8.4	-1.5
PT	25.3	25.3	0.0	17.9	17.9	0.0	-9.9	9.0	10.9	1.9	8.6	10.1	1.5
CZ	14.4	14.6	0.2	9.0	8.6	-0.4	1.7	6.2	6.6	0.4	6.4	6.9	0.5
RO	41.4	41.7	0.3	21.1	22.6	1.5	-5.0	31.0	28.7	-2.3	6.9	7.4	0.5
Increase in AROPE													
DK	18.3	18.9	0.6	13.3	12.3	-1.0	-0.8	2.7	3.8	1.1	10.6	12.9	2.3
SE	15.0	15.6	0.6	12.9	14.1	1.2	22.6	1.3	1.3	0.0	6.0	5.7	-0.3
ES	26.7	27.3	0.6	21.4	20.4	-1.0	-0.4	4.9	6.2	1.3	10.8	15.7	4.9
BE	20.8	21.6	0.8	14.6	15.0	0.4	-2.8	5.9	6.5	0.6	12.7	14.1	1.4
UK*	23.2	24.1	0.9	17.1	16.2	-0.9	3.4	4.8	7.8	3.0	13.2	13.0	-0.2
LU	17.1	18.4	1.3	14.5	15.1	0.6	-5.0	0.5	1.3	0.8	5.5	6.1	0.6
HR	30.7	32.3	1.6	20.5	20.5	0.0	-11.3	14.3	15.4	1.1	13.7	16.2	2.5
EE	21.7	23.5	1.8	15.8	18.6	2.8	1.6	9.0	7.6	-1.4	9.0	8.4	-0.6
Strong increase in AROPE													
SI	18.3	20.4	2.1	12.7	14.5	1.8	-5.6	5.9	6.7	0.8	7.0	8.0	1.0
AT*	16.6	18.8	2.2	12.1	14.4	2.3	-1.3	4.3	4.2	-0.1	7.8	7.8	0.0
IE	27.3	30.0	2.7	15.2	15.7	0.5	-9.8	5.7	9.8	4.1	22.9	23.4	0.5
MT	21.2	24.0	2.8	15.5	15.7	0.2	8.5	6.5	9.5	3.0	9.2	9.0	-0.2
CY	24.6	27.8	3.2	15.6	15.3	-0.3	-8.4	11.2	16.1	4.9	4.9	7.9	3.0
HU	29.9	33.5	3.6	12.3	14.3	2.0	-4.4	21.6	26.8	5.2	11.9	12.6	0.7
IT	24.5	28.4	3.9	18.2	19.1	0.9	-8.2	6.9	12.4	5.5	10.2	11.0	0.8
EL	27.7	34.6	6.9	20.1	23.1	3.0	-23.7	11.6	19.5	7.9	7.6	14.2	6.6

Source: Eurostat, EU-SILC. Break in series in 2012 in UK, AT.