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**Article**

## Risk of Poverty and Social Exclusion in the European Union

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## RISK OF POVERTY AND SOCIAL EXCLUSION IN THE EUROPEAN UNION

The European Union established a strategy, Europe 2020, in order to foster sustainable economic development in the EU member countries. A major goal of this strategy is to improve living conditions and to reduce poverty.

To monitor the progress towards Europe 2020 Eurostat, the statistical office at the EU, provides a set of economic and social indicators. One of those is the “at risk of poverty or social exclusion rate” (AROPE). AROPE aggregates three sub-indicators for the EU countries to measure the share of the population living under poor economic and social conditions. Representative household survey data is used to assess those living conditions. According to Eurostat (2013), for persons at risk of poverty or social exclusion one or more of the following three conditions apply:

1. Disposable income of a person is below the at-risk-of-poverty threshold in the income distribution within a country. This threshold is set at 60 percent of the equalised national median net income (after social transfers). Income is aggregated on the household level and divided by the number of household members weighted according to their age using the so-called modified OECD equivalence scale.<sup>1</sup> Moreover, it is expressed in purchasing power parities to account for differences in the costs of living across the EU member states. Median income, of course, depends on a country’s income distribution. This is why the threshold can differ substantially across countries and also over time. Thus, the share of the population under the at-risk-of-poverty threshold is characterised by a relatively low income position below the median for a certain country and year.
2. A person suffers severe material deprivation. This measure accounts for a severe lack of resources. It includes persons who cannot afford at least four out of nine items that are considered to be crucial for maintaining a basic standard of living. Among them are payments on loans and mortgages, a car, a TV, a washing machine and heating to keep home adequately warm.

<sup>1</sup> For detailed information see <http://www.oecd.org/eco/growth/OECD-Note-EquivalenceScales.pdf>.

3. A person lives in a household with very low work intensity. In households with low work intensity the working-age, non-student members work less than 20 percent of their total work potential over a year.

Table 1 shows that in 2012 25 percent or 124.4 million people of the EU population were living at risk of poverty or social exclusion according to the above criteria. However, this share varies a lot between the member countries. It is lowest in the Netherlands (15.0 percent), the Czech Republic (15.4 percent) and Sweden (18.2 percent) and at slightly higher levels in France (19.1 percent), Germany (19.6 percent) and the UK (22.7 percent (2011)), for example. The share of people at risk of poverty and social exclusion is highest for some eastern and southern European Union member states. It is at 49.3 percent in Bulgaria and 41.7 percent in Romania. The AROPE for Spain is 28.2 percent, for Italy 30.4 percent and for Greece 34.6 percent in 2012. These numbers indicate a large variation in the living conditions of the poorer population in different EU member countries.

When the Europe 2020 initiative was launched in 2010 the aim was to lift 20 million people out of the risk of poverty or social exclusion until 2020. However, the average AROPE for the EU-27 countries even increased by 0.8 percentage points in 2012 compared to the previous year. Table 1 shows further that not only the levels of the AROPE vary between the member countries, but also the development over the last years. In many EU countries, in particular in the north-west of Europe, the rates from 2008 to 2012 are stable or have even decreased slightly. Strikingly, the situation has deteriorated often in the countries with already high shares of the population living at risk of poverty or social exclusion. In Greece the AROPE increased from 28.1 percent in 2008 to 34.6 percent in 2012 and in Hungary from 28.2 percent to 32.4 percent over the same time period. However, for some Eastern European countries the AROPE has decreased: in Poland, for example, from 30.5 percent (2008) to 26.7 percent (2012).

One explanation for the increasing risk of poverty is the economic downturn in some European countries in recent years, and particularly in Southern Europe (OECD 2013a). It has to be considered that the AROPE already adjusts with falling GDP to some extent: the monetary at-risk-of-poverty rate (as described under 1.) measures relative poverty to the median of the total population. A rise in the AROPE, thus, indicates that particularly people at the lower end of the income distribution suffer from the recent economic crisis. Their employment

Table 1

## At risk of poverty and social exclusion rate for selected European countries

	2008	2009	2010	2011	2012
Austria	18.6	17	16.6	16.9	
Bulgaria	44.8	46.2	49.2	49.1	49.3
Cyprus	23.3	23.5	24.6	24.6	27.1
Finland	17.4	16.9	16.9	17.9	17.2
France	18.6	18.5	19.2	19.3	19.1
Germany	20.1	20.0	19.7	19.9	19.6
Greece	28.1	27.6	27.7	31.0	34.6
Hungary	28.2	29.6	29.9	31.0	32.4
Iceland	11.8	11.6	13.7	13.7	12.7
Ireland	23.7	25.7	27.3	29.4	
Italy	25.3	24.7	24.5	28.2	30.4
Latvia	33.8	37.4	38.1	40.4	36.6
Netherlands	14.9	15.1	15.1	15.7	15.0
Norway	15.0	15.2	14.9	14.5	13.8
Poland	30.5	27.8	27.8	27.2	26.7
Romania	44.2	43.1	41.4	40.3	41.7
Sweden	14.9	15.9	15	16.1	18.2
Switzerland	18.6	17.2	17.2	17.2	
Spain	24.5	24.5	26.7	27.7	28.2
United Kingdom	23.2	22.0	23.2	22.7	
European Union (27 countries)	23.6	23.1	23.5	24.2	

Empty cells: data not available.

Source: Eurostat, Statistics Database, [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc\\_peps01&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_peps01&lang=en), accessed 06 November 2013.

depends more heavily on business cycle fluctuations, as Berthoud and Sosa (2011) show. In addition, many governments face tightened budget constraints due to the European debt crisis. This is why recent austerity plans in some countries like Greece also led to a cut in social benefits (OECD 2013b).

Thus, achieving the goal formulated in Europe 2020 will be a major challenge, particularly, if some EU member states suffer from ongoing weak economic performance, high levels of unemployment and governments that are not able to take actions against poverty in their societies.

Till Nikolka

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