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## The case for an EU-wide measure of poverty

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THE CASE FOR AN  
EU-WIDE MEASURE OF POVERTY

**Tony Fahey**

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Working Paper No 169

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# The case for an EU-wide measure of poverty

## *Abstract*

Income poverty in the EU is normally measured by reference to income thresholds defined at the level of each member state, independently of any consideration of inequalities in income between member states. This approach has come under strain as a consequence of the recent enlargement of the EU: income differences between member states are now so wide that what is defined as the poverty threshold in the richer member states would count as an above-average income in the poorer member states. This paper proposes that, in order to cope with this new situation, measures of poverty based on EU-wide thresholds need to be utilised alongside existing measures. Quality of life indicators from the *European Quality of Life Survey 2003* are used to show that the very high poverty rates in poorer member states that an EU-wide poverty measure would produce are a realistic reflection of the low living standards, strong sense of deprivation and impaired quality of life experienced by the majority of the population in those states. The policy implication drawn is that anti-poverty policy in the EU should be set as much in the context of the EU's convergence project as of social policy in the usual sense.

Key words: poverty, European Union, quality of life, EU convergence policy, social policy

*Word count: 8,550*

## **Introduction**

Following the recent eastern enlargement of the EU, the gap in living standards between the richest and poorest member states has widened. As is shown below, median household income in the richest EU states such as Denmark and Germany is three to four times greater than in the poorest member states, such as Latvia. Hitherto, poverty in the EU has been defined and measured by reference to income thresholds defined at the level of each member state, independently of any consideration of inequalities in income between member states (Atkinson *et al.* 2002). This practice had limited consequences when the gaps in income between member states were narrow, though the case for a cross-national approach could be made even in that context (Berthoud 2004). The issue is more pointed now that those gaps are large: what is defined as the poverty threshold in the richest member states would count as an above-average income in the poorest member states, and the ‘poor’ in some states have higher living standards than the well-off in other states. In that situation, questions arise as to whether existing classifications of people as poor or non-poor in EU member states are adequate for policy purposes in the EU.

The view proposed here is that, while national measures of relative poverty continue to be valid and useful in a national context, they are inadequate on their own at an EU level. EU integration requires a more coherent picture of socio-economic disadvantage in the EU than can be obtained simply by aggregating national-level pictures. An expanded approach is needed where the conceptual bases and policy frameworks of poverty measurement may need to be re-thought in the light of the changing nature of the EU. The purpose of this paper is to show what such an expanded approach might entail, to set out supporting empirical data, and briefly to draw some policy implications. The data used are from a new source, the *European Quality of Life Survey 2003*, which provides objective and subjective indicators of a number of dimensions of quality of life in the EU’s 25 member states and three candidate countries (Bulgaria, Romania and Turkey).

## **Elements of an expanded approach**

The expansions of the existing approach to poverty measurement that are recommended here are twofold: first, EU-wide poverty thresholds need to be considered alongside member state thresholds as bases for poverty measurement, and second, the policy context of poverty measurement needs to look beyond social policy to include policy relating to EU convergence, particularly regional policy.

### *An EU-wide view*

The existing approach to poverty measurement in the EU takes the member state as the sole frame of reference. The difficulties resulting from this feature are illustrated in Figure 1, which shows poverty thresholds and median equivalised household incomes in EU states and candidate countries. The data are taken from Eurostat's database on the Laeken indicators, the EU's official measures of poverty and social exclusion (Dennis and Guio 2004a, 2004b). They relate to 2001 and are based on national currencies expressed in Purchasing Power Standards in the different countries (PPS is an artificial common currency developed by Eurostat that uses purchasing power parities to equalise the purchasing power of different national currencies in Europe – Stapel *et al.* 2004). This figure shows the wide discrepancies in the level at which poverty thresholds are set across EU states – for example, 2,635 PPS in Poland compared to 8,634 PPS in the UK. Median incomes for this household type also differ widely, so much so that those at or below the poverty line in the richer EU states are two to three times better off than those even with *mid-level* incomes in the poorer EU states. A single adult household on 7,000 PPS in the UK, for example, would be classified as deep in poverty, while a similar household with the same income in Poland would be 60 per cent above the median. Thus, the information value of poverty measured in this way becomes strained when presented without qualification for the enlarged EU.

Figure 1 here

The case we wish to make here is that the frames of reference within which poverty is defined should be broadened by adding poverty measures based on a single EU-wide threshold to existing measures based on the member state. This is not to suggest that the poverty measurement at the state level should be abandoned, since, as will be confirmed below, within-country relativities in income and living standards continue to be an important aspect of socio-economic disadvantage in EU states. It is to suggest, rather, that within-country relativities do not tell the whole story and need to be added to by a wider view. The cross-national frame of reference represented by the EU is not the only alternative that might be useful in this context. Sub-national regions and social reference groups such as those represented by age cohorts or educational categories also have a claim to be considered (e.g. Jesuit *et al.* 2002; Ferrer-i-Carbonell, 2002). We focus here on the cross-national frame of reference in part because it is of particular policy relevance in the EU context and in part because it has received little attention to date. Much of the analysis presented below is an exploration of the comparative levels of real disadvantage across the EU that support the case for adopting an EU-wide frame of reference.

### *The policy context*

The focus on poverty measured solely at the level of member states arises in the context of EU social policy. This focus reflects the legal definition of social policy in the EU as a member state competence that limits the EU's role in the field largely to a coordination function (Council of the European Union 2004). This limitation is also in keeping with a well-established tradition of academic research on poverty, where the primacy of the national state as a frame of reference is unquestioned (the seminal reference is Townsend 1979; from a large literature, see also O'Higgins and Jenkins, 1990; Callan and Nolan 1991; Atkinson et al. 2002).

However, the limiting character of the EU's social policy remit in this area is not as restrictive as it first appears since there is another EU policy perspective – that of convergence policy – where the divergence in living standards between regions and member states is the main focus of interest. The term 'convergence policy' is used here as a label for a loose range of policy instruments – regional policy, the structural funds, the single market, competition policy, labour and capital mobility – that reflect a regional perspective in that they aim wholly or partly to raise productive capacity and living standards in the poorer regions of the EU towards the EU norm (European Commission, 2004; Bradley *et al.* 2004). The regional perspective measures disadvantage by reference to EU-wide thresholds, based principally on GDP per capita. On that basis, it sees widely differing levels of disadvantage across EU countries and defines the majority of the ten new member states as disadvantaged – all bar Slovenia and Cyprus have a GDP per capita below 75 per cent of the EU25 mean GDP per capita (Figure 2). Greece and Portugal are also disadvantaged in these terms, as are a number of individual regions within the other member states, though not to the degree found in the new member states (European Commission 2004).

Figure 2 here

The regional perspective thus implies that people are disadvantaged if the region or country they live in is economically underdeveloped by contemporary EU standards, while the social policy perspective does so if people are on the margins of the society they live in, irrespective of how rich or poor that society may be. Both perspectives could be considered valid in their own terms and as complementary rather than contradictory. Hitherto, however, they have existed more or less independently in the EU policy system, with minimal interchange between them. In proposing an EU-wide view of poverty here, our concern, in effect, is to bring the two perspectives together, that is, to add the regional perspective to the usual social policy

perspective in order to provide commentary on socio-economic disadvantage in the EU within a common set of measures.

## **Empirical questions**

One might argue that differences between an EU-wide versus member state approach to poverty measurement, and between the social and regional perspectives, come down wholly to questions of standpoint and do not entail competing empirical claims. However, two empirical issues can be raised that have a bearing on how these differences might be viewed. The first is how the objective living standards of households at different income levels compare across EU states. We have already noted from Eurostat data that middle-income households in the poorer EU states have lower incomes than those in the lower reaches of the income distribution in the richer EU states. This pattern begs to be explored further. Can it really be true that middle or even higher income households in the poorer EU states have lower standards of living than low income households in the richer EU states? How far up the income ladder does one have to go in the poorer member states before one reaches the living standards found at the poverty threshold in the richer member states? Here we can attempt to answer these questions using indicators of various aspects of living standards and quality of life among households at different income levels across EU states.

The second empirical question is how people *feel* about their material standards of living and whether such feelings are more influenced by their relative position within their own societies than by their cross-national position in Europe. Do those on average or above average incomes in the poorer countries feel well off because they are reasonably prosperous by the standards of their own societies, or do they feel deprived because their situation is poor in a broader EU context? If the former is the case, the argument in favour of measuring poverty within national frames of measurement is strengthened, but if the latter is the case, the argument for taking cross-national relativities into account becomes more convincing.

## **Data**

The *European Quality of Life Survey 2003* (EQLS) is used here as a data source to examine the empirical questions just outlined. This survey was carried out by the European Foundation for the Improvement of Living and Working Conditions, an EU agency that has mounted a research programme to monitor quality of life in the EU (European Foundation, 2004).<sup>1</sup> The

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<sup>1</sup> Intomart, a European private sector data collection agency, carried out the fieldwork for the survey in May-July 2003. Methods of sample selection varied but consisted mainly of 'random walk' methods to select households and random selection of individuals aged 18 and over within households. In all countries, the

quality of life concept on which this survey was based has no agreed definition, but a standard range of domains of daily life tend to reappear in most approaches (Fahey *et al.* 2003, Noll 2002, Hagerty *et al.* 2001). These typically include a number of measures of economic factors, including household income, along with other domains such as housing, neighbourhood quality, education, health, and social engagement.

None of the domains covered in the EQLS was explored in depth (the questionnaire was designed to be completed in 35 minutes). Considering also the modest sample sizes at country level, one would not expect the data to provide detailed, robust measures of each quality of life domain for each country. The character of the data is illustrated by the income variable, an item of particular interest to us here. The income question used in the EQLS was crude. Respondents were first asked which of a list of income sources were received by their household and were then asked to give the net overall monthly household income for the whole household. The scope for error in the responses was considerable, and non-response on this item amounted to 21 per cent of the total sample. Nevertheless, checks against independent data give grounds for confidence in the broad pattern of the income variable: there was a 92 per cent fit at the country level between median household incomes as measured in the EQLS and GDP per capita, and the dispersion of incomes within each country were broadly as one would expect (for further details, see Fahey, Whelan and Maître 2005). The only clear error in the general patterns of the income data arose with the bottom income quartile in Germany, where reported incomes clearly were too low. It should be noted also that in the present context, where the focus is on differences in income levels between and within countries that are very large, measurement errors in the EQLS would need to be very large to have an effect on the substance of the findings presented below.

### *Indicators*

Our concerns here are to examine how objective living standards of respondents vary by income position across the EU, to assess how these variations in income and living standards are linked to feelings of deprivation, and to explore whether patterns of variation found in living standards and feelings of deprivation are replicated across a wider range of indicators of quality of life.

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sampling method was said to provide a fully randomised sample. Interviews were face-to-face and the unit of interview was the sampled individual. Response rates varied widely, ranging from under 40 per cent in Ireland and Poland to a reported 92 per cent in Germany. For 23 of the countries, the achieved sample size was around 1,000 cases. For five smaller states (Cyprus, Malta, Luxembourg, Slovenia and Estonia), the sample size was approximately 600. The total achieved sample consisted of 26,257 cases. Sample data were re-weighted by age, sex and region to conform to national population patterns.

The twenty-one indicators used in the analysis are summarised in Table 1. A criterion used in selecting indicators was that they should apply to the whole population. Sub-population indicators, such as those relating to jobs or working conditions among the working population, are not included. Three of the indicators measure objective living conditions: material deprivation, defects in housing conditions, and financial problems by way of arrears with utility bills or inability to pay for food. Two indicators tap into subjective feelings about living conditions: subjective financial strain, measured in terms of perceived ability to make ends meet, and satisfaction with standard of living. The broader focus on quality of life is represented by fifteen additional indicators classified into six domains – neighbourhood quality, perception of public services, subjective well-being, social capital, health, and human capital. A final indicator, the Quality of Life (QoL) index, is a composite of all the others. It is used here as a convenient way of summarising the patterns found across the other indicators rather than as a theoretically grounded or statistically validated measure. It is arrived at first by dichotomising each of the other indicators: a threshold is defined for each indicator below which people can be considered as suffering a quality of life deficit. The QoL index is simply the sum of the quality of life deficits for each respondent. The selection of deficit thresholds in this context is largely arbitrary, since there is no scientific basis for choosing them. However, if applied in a consistent way within and across populations, this approach provides a meaningful and manageable deriving an overall picture from a large number of indicators.

Table 1 here

### *Clusters of countries*

As has been suggested earlier, sample size limitations and the lack of depth in some of the indicators for different domains mean that the EQLS data may not provide robust measures for every domain for every country. To cope with this feature we focus here on four clusters of countries rather than individual member states. The four clusters are based on a classification used by the EU's Directorate General for Regional Policy (DG Regio), which in turn uses GDP per capita as the criterion of classification (European Commission 2004: 11). The four clusters, as indicated in Figure 1, are as follows:

1. Twelve high-income EU member states in which GDP per capita exceeds the mean GDP per capita of the EU 25 (EU12 High ). These account for 58 per cent of EU28 population.
2. Seven intermediate income EU member states in which GDP per capita lies between 60 per cent and 100 per cent of the EU 25 mean (EU7 Int); 13 per cent of EU28 population.

3. Six low-income EU members states in which GDP per capita lies below 60 per cent of the EU 25 mean (EU6 Low); 11 per cent of EU28 population.
4. Three candidate countries where GDP per capita is below 30 per cent of the EU25 mean (CC3); 18 per cent of EU28 population. In DG REGIO's classification, only two candidate countries are included (Bulgaria and Romania) and they are classified with group 3. Here, because the data include Turkey and because the three candidate countries are particularly poor, a separate candidate country category is used.

In order to represent income inequalities within and across these four clusters, we use the household income distributions from the EQLS data set out in Figure 3. These show the median household income in each income quartile in each of the four clusters of countries. All data for these country clusters are weighted by country population size. This means, for example, that Turkey dominates the patterns for the CC3 and Poland does so, though to a lesser extent, in the EU6 Low.

Figure 3 here.

## Results

We first examine the indicators using the classification by country cluster and income quartile set out in Figure 3. For each indicator, the level of quality of life deficits (as defined earlier) is shown for each income quartile in each of the four clusters. These data are shown for all 20 indicators and the QoL index in an appendix table and selected data from this table are presented below in graphic format.

### *Living standards*

Figure 4 graphs the data for the indicator 1 (material deprivation – the proportion of households in each income quartile in each cluster that can be classed as deprived in regard to a set of basic consumption items). It is worth paying special attention to this indicator not only because of its relevance to our central concern with living standards but also because it establishes a pattern that is consistently replicated for the majority of the other indicators.

Figure 4 here

Figure 4 shows firstly that *the level of deprivation is closely and consistently linked to income inequality within each cluster*: the lower the level of income within each cluster, the worse the level of deprivation. Although this result is not unexpected, it is important in confirming the significance of within-country income inequalities as a dimension of

disadvantage. It gives support to the focus on the member state as the frame of reference for measuring disadvantage that is central to the social policy perspective.

More striking, however, are the contrasts across the country clusters. These show that the gaps in deprivation levels between the rich EU12 and the two poorest country clusters – the EU6 Low and the CC3 – are so wide that there is little overlap between them. It is not just that the EU6 Low is more deprived on average than the EU12 High but that *the top income quartile in the EU6 Low is more deprived than the bottom income quartile in the EU12 High* (45 per cent deprived in the former versus 37 per cent in the latter). Thus the ‘rich’ in the six poorest EU states are more deprived than the ‘poor’ in the twelve richest EU states (if we accept for the moment that it is reasonable to call the top quartile in an income distribution rich and the bottom quartile poor). To illustrate what these contrasts mean in day-to-day terms, indicator 1a in the appendix table separates out one of the items included in indicator 1 – whether households are able to afford to keep their homes heated in winter. It shows that, the ‘rich’ in the EU6 Low are less able to afford heating in winter than the ‘poor’ in the EU12 High (17 per cent of the former cannot afford to keep their homes heated compared to 11 per cent of the latter).

The contrast between the rich EU12 and the seven intermediate EU states (EU7 Int) is less stark, in that there is considerable overlap in deprivation levels between these two clusters. Nevertheless, it is notable that the bottom income quartile in the EU12 High is less deprived than the second-from-bottom quartile in the intermediate EU7 cluster. In other words, the bottom half of the income distribution in the intermediate EU countries is worse off than the lowest income quartile in the richer countries.

There is a slight departure from the consistency of the overall pattern in Figure 4 in that the top income quartile in the CC3 is slightly better off than expected: it is marginally less deprived than the top income quartile in the EU6 Low, even though its income position as shown in Figure 3 is worse. This deviation occurs also in a number of other indicators below. It may suggest something about the situation of the income elite in Turkey (the dominant country in the CC3 in population weighting terms) that we do not have the scope to pursue further here.

The two other objective indicators of living standards (indicator 2 on housing defects and indicator 3 on financial problems) show broadly similar patterns to those for indicator 1 (see appendix table). For example, the top income quartile in the EU Low is more likely to have housing defects (18 per cent) than is the bottom income quartile in the EU12 High (14 per cent). The pattern is not quite as extreme in regard to financial problems – the top income quartile in the EU6 Low is not quite as badly off on this indicator (20 per cent have financial problems) as the bottom quartile in the EU12 High (26 per cent have problems). Nevertheless,

the broad shape of the distributions relating to financial problems is in keeping with that of the other indicators.

To refer to the question set out earlier, the import of these patterns is to suggest that living standards among the middle and upper reaches of the income distribution in the poorer EU states really are as bad as their low absolute income levels would imply and that one has to go to the upper rungs of the income ladder in those countries before reaching the living standards found at the poverty threshold in the richer EU states. This leads on to the second issue posed earlier – how people *feel* about their situation and how those feelings are linked to their objective living standards. Indicators 4 and 5 (subjective economic strain and satisfaction with standard of living) provide an answer to this question. Figure 5 graphs the results for subjective economic strain, and the data on satisfaction with standard of living are in the appendix table.

Figure 5 here

The key result here is that patterns of both subjective economic strain and satisfaction with standard of living parallel those just outlined in connection with material living standards: the more deprived the income categories in objective terms, the more those categories feel deprived. This is true in the first instance within each cluster: the lower income quartiles in each cluster feel more deprived than the higher income quartiles. But it is also true across clusters: quartiles compared across clusters feel deprived in a way that is broadly consistent with differences in their objective living standards. Echoing the pattern found in Figure 4, for example, the proportion of those in the top income quartile in the EU6 Low who feel economically strained (25 per cent) is larger than the corresponding proportion in the bottom income quartile in the EU12 High (21 per cent). The same is true in regard to satisfaction with standard of living: mean satisfaction with standard of living in the top income quartile in the EU6 Low (6.2 on a 10-point scale) is lower than in the bottom quartile in the EU12 High (6.5). In sum, while those in the upper levels of the income distribution in the poorer countries feel less deprived than those lower down the scale in their own countries, they feel *more* deprived than those at the lower end of the scale in the richer countries, and do so more or less to the degree that they are objectively worse off.

#### *Other indicators*

For space reasons, it is not possible here to consider the remaining 15 indicators in the appendix table in detail. However, it is possible to look broadly across all the indicators in order to identify general patterns. The key general feature is that the majority of these indicators repeat the patterns established by the living standards indicators: scores on the

indicators are in keeping with income position both within and across clusters. To take the indicative comparison we have focused on up to now, the top income quartile in the EU6 Low is worse off than the bottom income quartile in the EU12 High on ten of the fifteen indicators (fear of crime, perceived quality of public services, global life satisfaction, happiness, domain satisfaction, trust in people, voluntary activity, self-rated health, chronic illness and internet use). There are exceptions to the general pattern, though not in a consistent direction. Indicator 6 on physical environment shows little relationship with income level, either within or across clusters. Indicator 8, perceived quality of public services, varies strongly across clusters in the way one would expect (poorer countries are more likely to perceive their public services as low quality than are richer countries) but shows no relationship with income within clusters: all income quartiles within each cluster are likely to rate public services in more or less the same way. The striking pattern with the two health indicators (self rating of health and presence of a longstanding illness) is the exceptionally poor position of the EU6 Low. Education is one area where, on the surface at least, the new member states are not at any general disadvantage compared to the rest of the EU.

Despite these exceptions, a general pattern can be seen. The QoL index provides a simple means to identify that pattern, as shown in Figure 6. This confirms that the number of quality of life deficits varies both within country clusters and across country clusters according to income level. Within clusters, lower income quartiles have more quality of life deficits than higher income quartiles. Looking across clusters, the top income quartile in the EU6 Low has more quality of life deficits than the bottom income quartile in the EU12 Hi.

In order to further clarify the significance of these findings, Figure 7 disaggregates the breakdowns of the QoL deficits index to country level. This shows that the country patterns within each group are broadly consistent with the pattern for each group and confirms that the country group patterns can be taken as a reasonable approximation of the patterns of the constituent countries. Spain is something of an exception in that according to its QoL score it properly belongs with the EU12 rather than the EU7. The pattern for Germany is also anomalous, in that it is the only country where the QoL index does not wholly relate to income in the expected way: the second bottom income quartile has a lower QoL Index score than the bottom quartile. This is likely to reflect measurement errors in the German income data referred to earlier.

Figure 7 here

Figure 7 also shows that within the EU12, the overall *level* of the QoL index does not vary a great deal across countries but the degree of variance on the index does. In those countries,

quality of life can justly be said to vary mainly according to relative income position within countries rather than to income differences between countries (the latter being relatively modest in any event). Thus, as long as the focus is confined to the these twelve ‘old’ EU member states, the emphasis on within-country inequalities as a source of socio-economic disadvantage, which is characteristic of the social policy approach, seems justified – though less so in the case of Greece and Portugal than of the other 13 states in the EU15. It is only as we move beyond those states to consider the ten new members states and the three candidate countries that the inability of the country-level measures to give an adequate account of socio-economic disadvantage is revealed. It is not that these measures become irrelevant, since in the poorer as well as the richer countries we continue to find that within-country inequalities have a large effect on quality of life. Rather, they become insufficient, since in the new member states and candidate countries the level of disadvantage among the middle and upper income quartiles rises to high levels. It is the classification of the latter groups as non-poor that causes difficulties, since they are worse off in quality of life terms than the poor in rich countries.

### **EU-wide poverty indicator**

The patterns just examined suggest that inequalities measured at the level of member states are important aspects of socio-economic disadvantage, both objectively and subjectively. Thus, risk-of-poverty rates for each member state, which form the basis of the Laeken indicators, capture important realities in the new and old EU. The problem is that they do not capture enough, especially in that by classifying the majority of the population in poor states as non-poor they give a misleadingly positive picture of overall levels of disadvantage in the EU. A refinement of the Laeken indicators which would help overcome this problem is that, parallel to the indicators based on risk-of-poverty measured relative to national medians, *a similar set of indicators should be introduced based on risk-of-poverty measured relative to the EU median*. Figure 8 compares the risk-of-poverty rates calculated on both bases from the EQLS data, that is, relative to member state medians and to the EU median (here the EU median is calculated on the basis of 28 countries, though in strict EU terms, the three candidate countries would be omitted). Given the crude nature of the EQLS income data referred to earlier, these rates are not presented as precise measures of poverty for each member state but simply as a means of illustrating the extent of the difference between the two measures. The measure based on member state medians shows broadly similar poverty rates for the richer and poorer states, as Eurostat data referred to earlier would lead one to expect. As one might also expect, the measure based on the EU median reduces the poverty rate in the richer countries to low levels and raises it to very high levels in the poorer states – for example, above 70 per cent in the

three candidate countries (the anomalous pattern for Germany, where the two measures differ little from each other, reflects the errors in the German income data already noted).

Figure 8 here

The differences between the two measures, however, are more than arbitrary matters of definition. Examining them further, we find that the country-level measure is completely unrelated to average national level of quality of life: the correlation coefficient between the national poverty rate and the average score on the QoL index across the 28 countries is 0.214 and is non-significant (Table 2). The risk of poverty measured at the EU level, by contrast, is highly correlated with the QoL index, with a correlation coefficient between the two of 0.91. This indicates that very high poverty rates in the poor EU states and the very low rates in the rich EU states produced by the EU-level poverty measure are not a definitional artefact but are a realistic reflection of the wide differences in living standards, sense of deprivation and overall quality of life found between the richer and poorer states of the EU.

Table 2 here

It is not the only aggregate indicator with that property: GDP per capita also correlates closely (correlation coefficient -0.87) with the QoL index (if the GDP outlier in the EU – Luxembourg – is omitted, the correlation across states between GDP per capita and the QoL index rises to -0.95) (Table 2). Thus, GDP per capita and the EU-level poverty rate across countries behave similarly as measures of regional disadvantage. Given that, a question may be raised about the added value provided by an EU-wide poverty indicator. The answer lies less in the additional information it provides than in the conceptual and measurement relationships it establishes between the social and regional perspectives on socio-economic disadvantage. It suggests that socio-economic marginalisation within each member state, the concern of social policy, can be and ought to be viewed in the context of social and economic underdevelopment in the poorer countries and regions of the EU, the concern of the regional perspective. An EU-wide poverty measure helps reveal what such underdevelopment means and enriches our understanding of indicators normally used for that purpose, such as those based on GDP per capita. For example, to say that around two-thirds of the population of Poland is poor by EU28 standards (as the EQLS data would suggest) gives a new perspective on the statistic that its GDP per capita is at 45 per cent of the EU25 median, not to speak of the perspective it offers on the Laeken indicator which says that Poland's national at-risk-of-poverty rate is 15 per cent. It is unnecessary to argue that any one of these indicators should be privileged over the other.

Rather, our grasp of patterns of socio-economic disadvantage in the EU is improved by keeping each of them in view and by reading each in the light of the others.

The shift towards EU-wide poverty indicators thus entails a broadening of the context in which poverty is conceptualised in the EU so that it extends beyond social policy, where the focus is on the economically vulnerable in each member state, to regional and convergence policy, where the focus is on raising the productive capacity and living standards in poorer member states and regions of the EU. Since it is in the latter area that the EU has its main competence, one could say that poverty indicators constructed solely at the member state level, though necessary for social policy in the member states, direct attention to a version of poverty which the EU can do little to address and fails to refer to the poverty challenge to which the EU is primarily charged to respond. To advocate the adoption of EU-wide poverty indicators, therefore, is not to imply that the existing policy architecture of the EU needs to be altered – towards, for example, the creation of a unified EU welfare state. Rather, it is to suggest that poverty in the EU is not simply a concern of social policy but is equally a concern of convergence policy and thus lies at the heart of the EU project.

## **Conclusions**

The starting point of the present paper was the anomaly produced by the existing approach to poverty measurement adopted as standard by EU social policy: those counted as poor in the richer EU states have higher incomes than those with above average incomes in the poorer EU states. Data were presented to show that the low incomes (by EU standards) of upper-income households in the poorer EU states translate into correspondingly low scores on a wide range of quality of life indicators. The starkness of the disparities are highlighted by the fact that the upper income quartile in the poor EU states have standards of living and quality of life that, on many dimensions, are matched or exceeded by the bottom income quartile in the rich EU states. Furthermore, those in the upper income quartile in the poor EU states feel deprived to a degree that is strikingly in keeping with both their elevated position by the standards of their own country and their lowly position by EU-wide standards: they feel better off than the poor in their own states but worse off than low or middle income groups in the rich states. Taking a wide range of indicators into account, one could conclude that in the EU as a whole those who *are* disadvantaged on uniform EU-wide measures tend also to *feel* disadvantaged in proportion.

These findings suggest that in order to answer the question, ‘Who is poor in the EU?’, it is not enough to look at those who are on the margins of normal living standards in each member state. It is also necessary to look at middle income groups in the poorer EU states, since by EU standards those groups *are* poor and *feel* poor. It was proposed here that a measure of income

poverty based on a single EU-wide threshold, such as 60 per cent of median household income in the EU as a whole, would provide a useful means of reflecting poverty patterns in the EU conceptualised in these terms and should be included among official EU poverty indicators (such as the Laeken indicators). It was also argued that the high poverty rates in the poor EU states that would be produced by such a measure would not be an artificial definitional construct but would reflect real inadequacies in standards of living and quality of life in those states, including pronounced feelings of deprivation. The implication was drawn that use of both member state-level and EU-level poverty indicators, in place of the current focus on the member state level alone, would better reflect the current division of competences in the EU, where the poverty of the marginalised within each member state is primarily the responsibility of the member states themselves, while the poverty of large segments of the population in poorer member states and regions is a central and distinctive concern of the EU as a whole.

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**Table 1. Quality of life indicators**

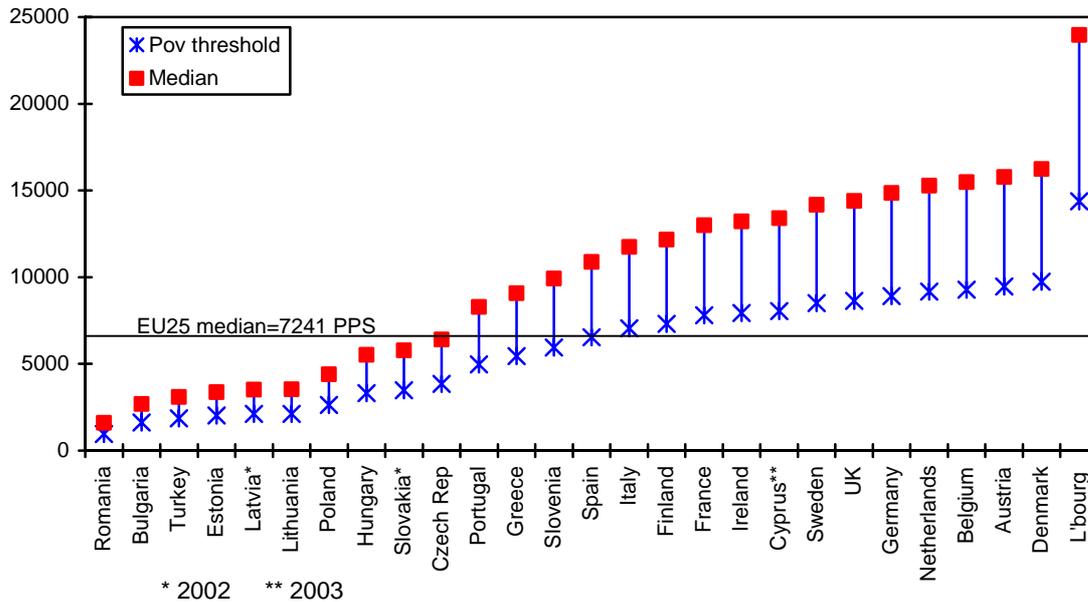
<b>Indicator</b>	<b>Items</b>	<b>Deficit threshold</b>
<b>I. Living standards</b>		
1. Material deprivation	6 items: cannot afford to keep home warm, have holidays once a year, replace old furniture, have new clothes, eat meat or fish every other day, have friends/family to dinner once a week. Item scale: yes=1, no=0. Summed scale: 0-6.	Lack two or more items
2. Housing defects	4 items: shortage of space, rot in windows/doors, damp/leaks, no indoor toilet. Item scale: yes=1, no=0. Summed scale: 0-4.	Have two or more defects
3. Financial problems	2 items: in arrears with utility bills over past month, unable to pay for food at any time over previous 12 months. Scale: 0-2.	Have one or more problem
4. Subjective financial strain	1 item: ability to make ends meet. Scale: 1=very easily, 6=with great difficulty	With difficulty or great difficulty
5. Satisfaction with standard of living	1 item: Scale: 1=very dissatisfied, 10=very satisfied. (Asked as domain satisfaction item in EQLS questionnaire – see indicator 12 below).	Score 6 or lower
<b>II. Neighbourhood quality</b>		
6. Physical environment	4 items: reasons to complain about noise, air pollution, lack of green areas, water quality. Item scale: 0=no reasons, 3=very many reasons. Summed scale: 0-12.	Score 6 or higher
7. Fear of crime	1 item: safe to walk in area at night. Scale: 1=very safe, 4=very unsafe.	Unsafe or very unsafe
<b>III. Public services</b>		
8. Quality of public services	5 items: perceived quality of health services, education system, public transport, social services, state pension system. Item scale: 1=very poor quality, 10=very high quality: Composite scale: summed scores divided by 5, scale 1-10.	Score 6 or lower
9. Trust in state pension/social benefit system	2 items: trust in ability of state pension system and social benefit system to deliver when respondent needs it. Item scale: 0=no trust, 3=great deal of trust. Summed scale: 0-6	Score 0 (no trust)
<b>IV. Subjective well-being</b>		
10. Global life satisfaction	1 item: satisfaction with life. Scale: 1=very dissatisfied, 10=very satisfied	Score 5 or lower
11. Happiness	1 item, scale: 1=very unhappy, 10=very happy.	Score 6 or lower
12. Domain satisfaction	5 items: satisfaction with own education, accommodation, family life, health, social life. Scale: 1=very dissatisfied, 10=very satisfied, averaged over 5 items.	Score 6 or lower
<b>V. Social capital</b>		
13. Trust in people	1 item: can most people be trusted? Scale: 1=you can't be too careful, 10=most people can be trusted	Score 3 or lower
14. Voluntary activity	2 items: over past month attended meeting of charity or voluntary organisation, or served on committee or did work for same. Each item: yes=1, no=0. Summed scale: 0-2.	Did not attend or serve on committee
15. Civic activity	2 items: over past year attended a political or trade union meeting, contacted a politician or official over civic matter. Each item: yes=1, no=0. Summed scale: 0-2.	Did not attend or contact politician/official
16. Feel isolated	1 item: agree/disagree with statement 'I feel left out of society'. Scale: 1=agree completely, 4=disagree completely	Agree or completely agree
<b>VI. Health</b>		
17. Self-rated health	1 item: Self rating of health. Scale: 1=excellent, 5=poor.	Poor or very poor
18. Illness	1 item: Have long-standing illness. Yes/no.	Have illness
<b>VII. Human capital</b>		
19. Education	1 item: Highest education level attained. 1=primary, 2=secondary, 3=third level.	Primary education only
20. Internet use	1 item: internet use over past month. 1=daily, 4=not at all	Did not use at all
<b>21. QoL INDEX</b>	<b>Sum of deficits over 20 indicators. Scale 0-20.</b>	

**Table 2. Country-level correlations between Quality of Life index, two measures of poverty rate and GDP per capita**

	Poverty rate 1: <60% of country median income (EQLS)	Poverty rate 2: <60% of EU28 median (EQLS)	GDP per capita
Mean score on QoL index (EQLS)	0.214	0.91*	-0.87* (excl. Luxembourg: -0.95*)

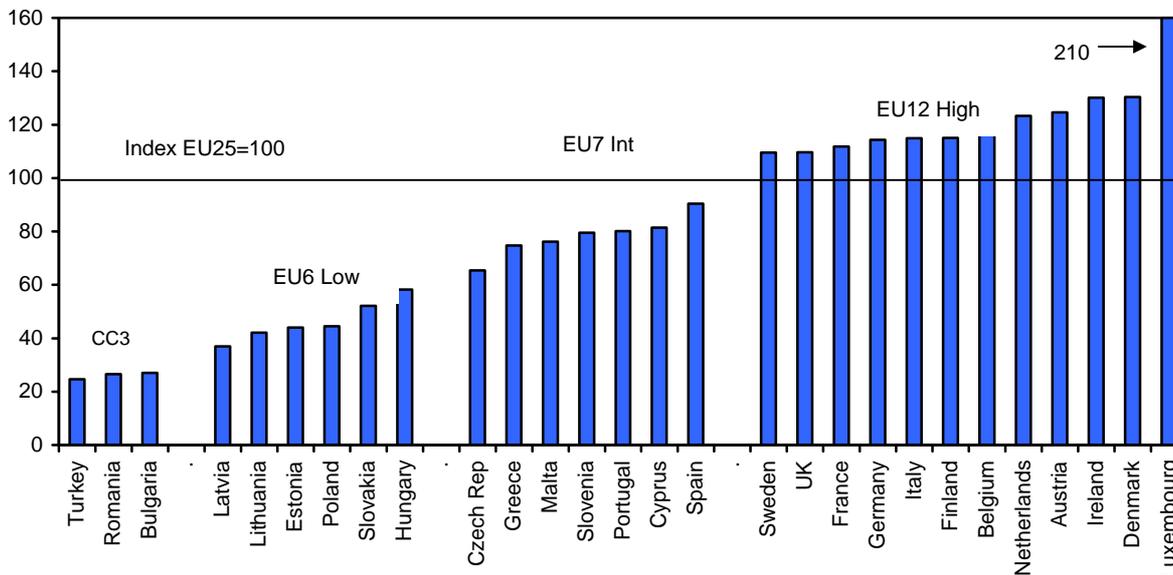
Source: EQLS, Eurostat. \*Significant at 0.01 level.

**Figure 1. Median equivalised household incomes and poverty thresholds in PPS in EU states in 2001**



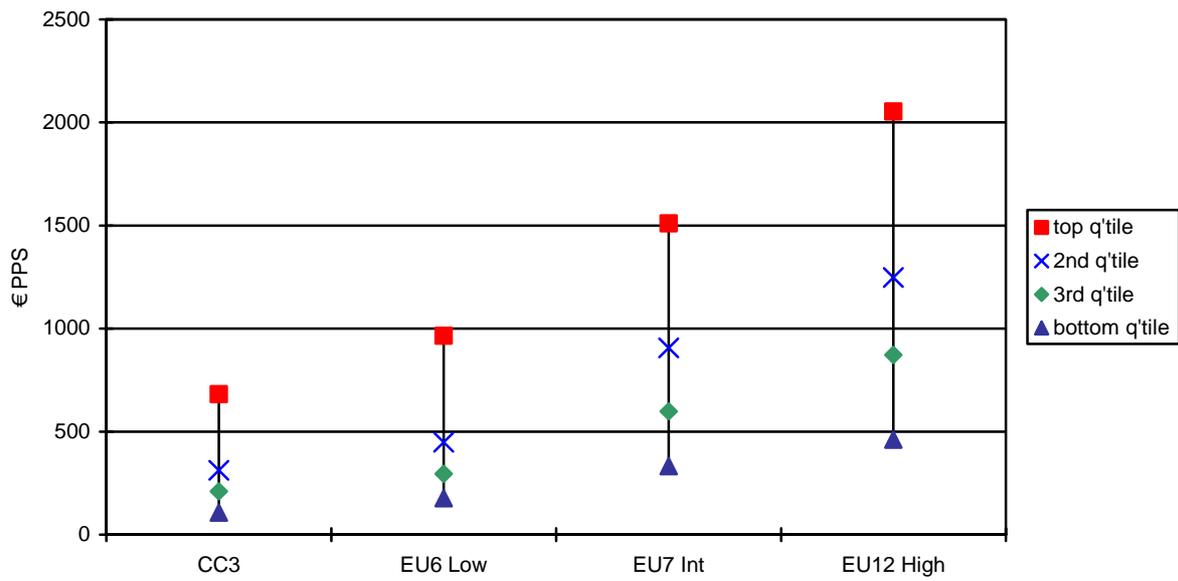
Source: Eurostat New Cronos Laeken indicator database. Median incomes are derived from the 'poverty threshold' indicator, which is defined as 60% of median income.

**Figure 2. Disadvantage: regional policy perspective: GDP per capita (PPS) at country level, 2001**



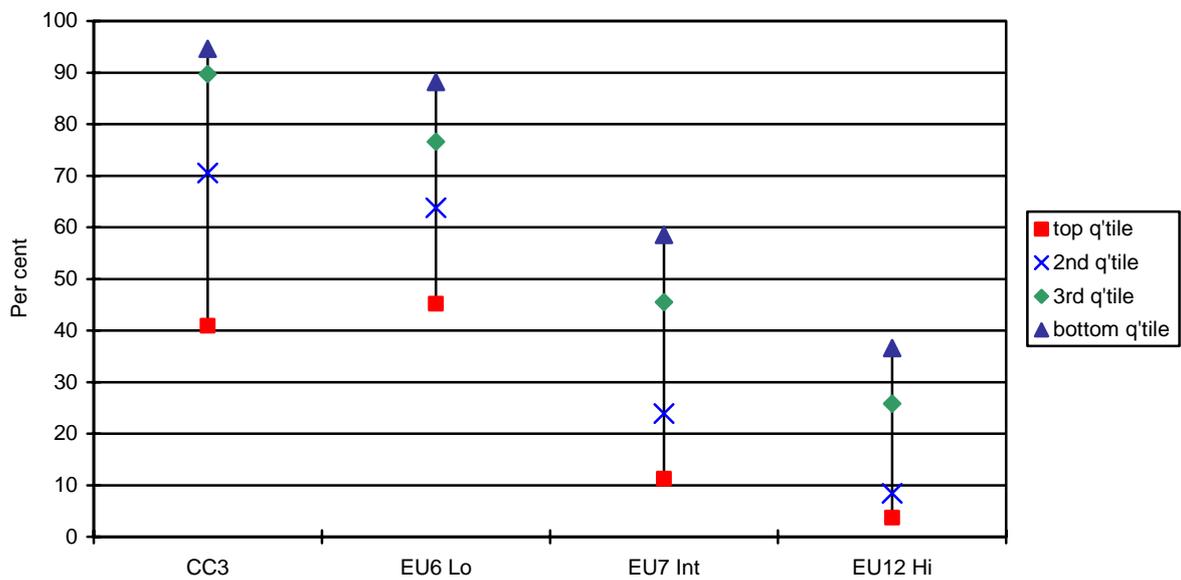
Source: European Commission 2004: 188-202

**Figure 3. Household monthly income by income quartile**



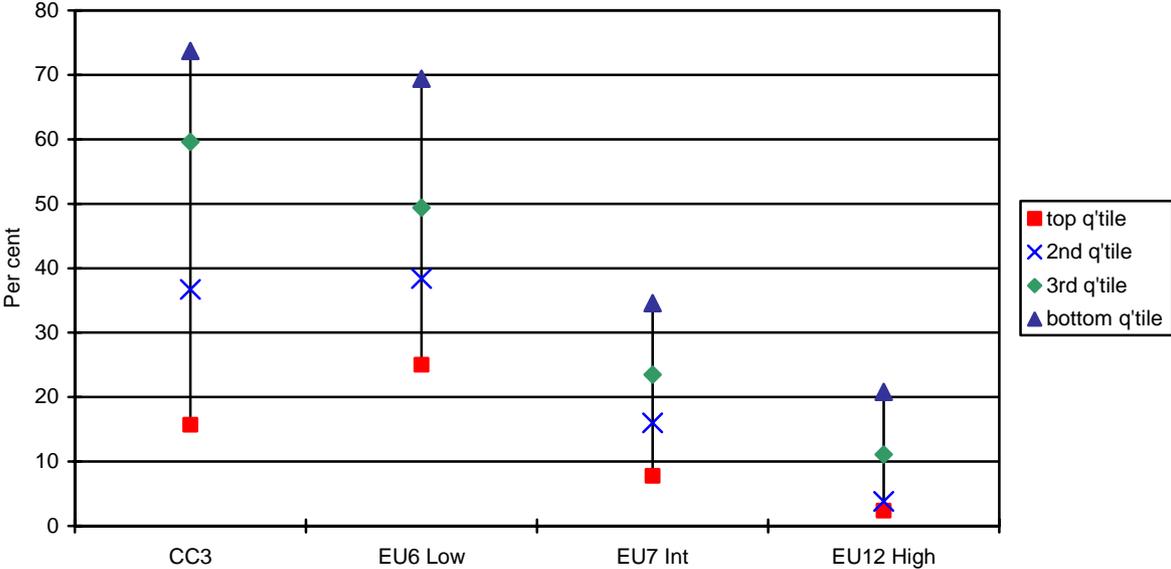
Source: EQLS 2003

**Figure 4. Material deprivation by income quartile (% score 2 or more on 6-point deprivation scale)**



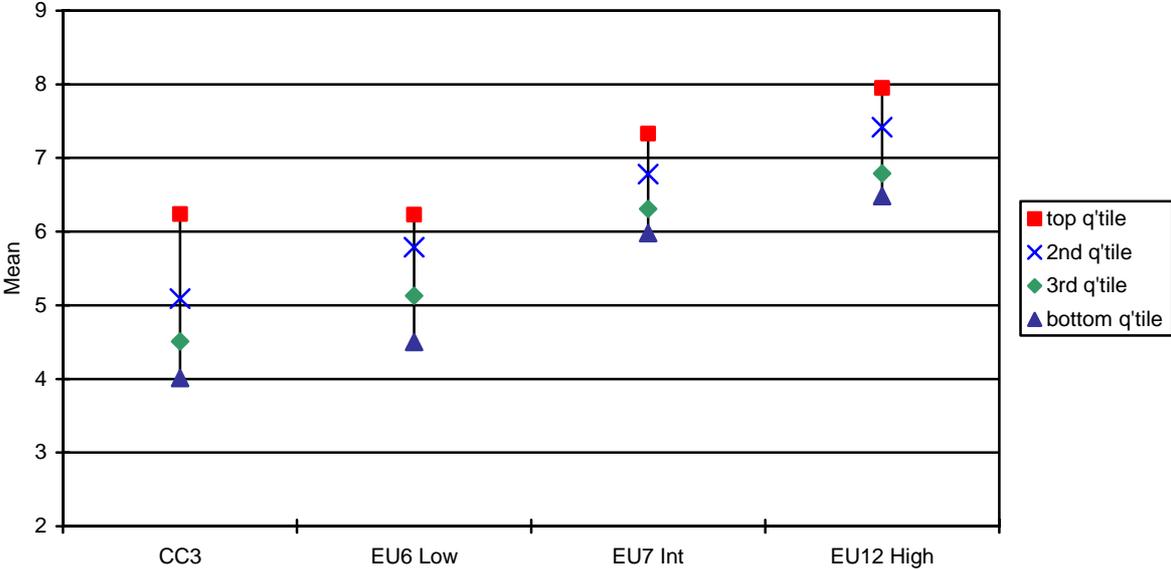
Source: EQLS 2003

**Figure 5. Subjective economic strain by income quartile: % with difficulty or great difficulty in making ends meet.**



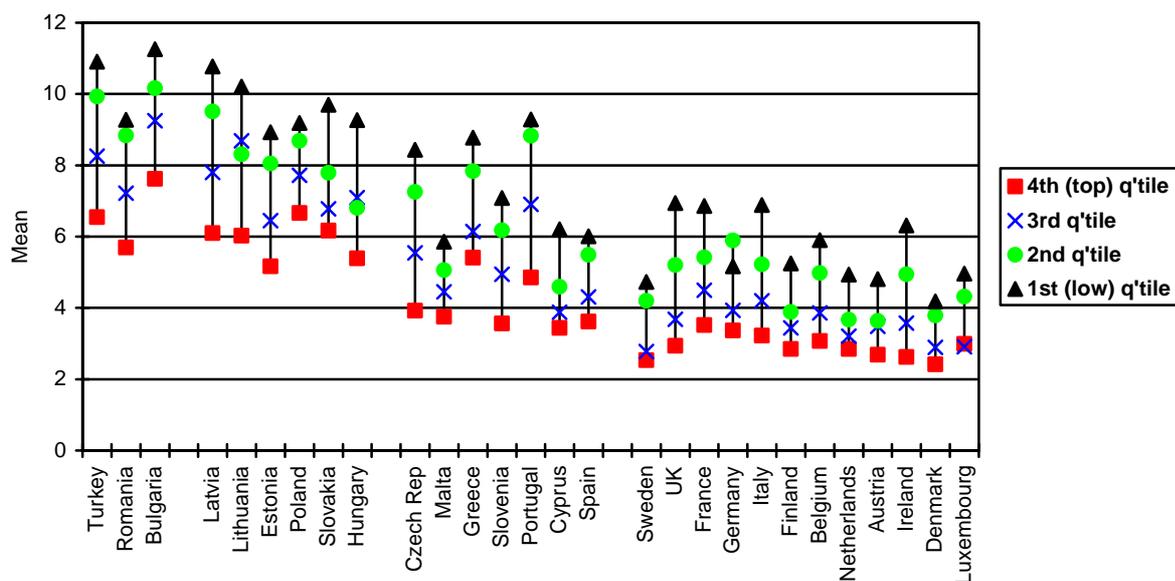
Source: EQLS 2003

**Figure 6. Quality of life index by income quartiles**



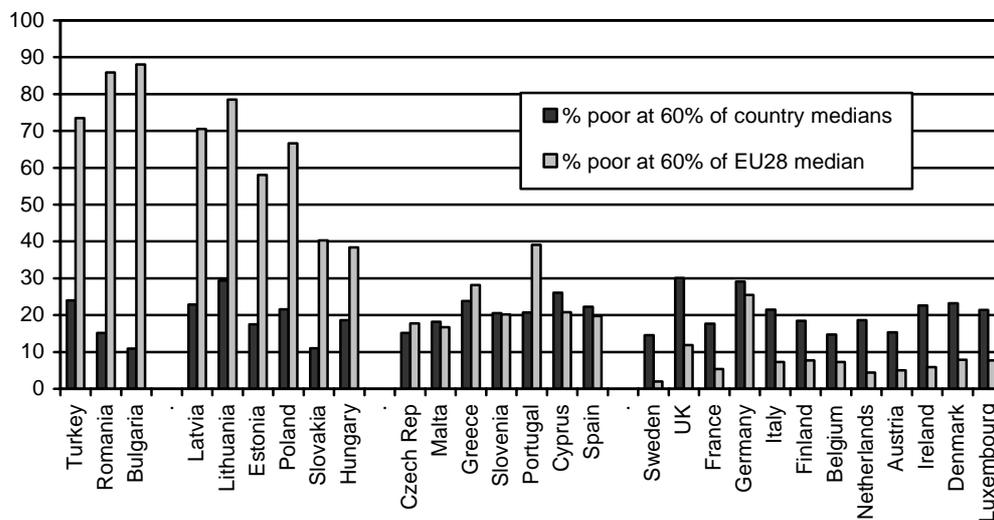
Source: EQLS 2003

**Figure 7. Quality of life index by income quartile by country**



Source: EQLS. Note: anomalous pattern for Germany reflects errors in German income data

**Figure 8. Poverty rates with reference to country thresholds and EU28 threshold**



Source: EQLS 2003: Note: anomalous pattern for Germany reflects errors in German income data

**Appendix table: Scores on quality of life indicators by income quartile in four country clusters**

	Income quartile					Income quartile			
	Top	2nd	3rd	4th		Top	2nd	3rd	4th
1. Material deprivation: % score 2 or more on 6-point deprivation scale					11. Happiness: % score 6 or less on 10-point scale				
CC3	41	71	90	95	CC3	28	38	47	55
EU6 Low	45	64	77	88	EU6 Low	34	39	44	53
EU7 Int	11	24	46	58	EU7 Int	16	22	27	35
EU12 High	4	8	26	37	EU12 High	12	16	25	30
1a. Deprivation item: % cannot afford to keep home warm in winter					12. Domain satisfaction: % score average of 6 or less on five domains (10 point scale)				
CC3	26	41	56	65	CC3	21	32	40	47
EU6 Low	17	24	33	39	EU6 Low	28	31	42	47
EU7 Int	6	13	25	27	EU7 Int	10	17	23	32
EU12 High	2	2	7	11	EU12 High	6	12	20	25
2. Housing defects: % with two or more defects					13. Trust in people: % with no trust				
CC3	16	22	37	51	CC3	31	35	35	41
EU6 Low	18	18	29	37	EU6 Low	27	27	28	33
EU7 Int	6	10	12	19	EU7 Int	12	17	21	20
EU12 High	3	6	10	14	EU12 High	10	12	14	18
3. Financial problems: % have problem with utility/food bills					14. Voluntary activity: % did not participate				
CC3	28	41	61	72	CC3	92	97	96	98
EU6 Low	20	25	40	53	EU6 Low	89	92	94	93
EU7 Int	6	8	15	24	EU7 Int	85	88	92	92
EU12 High	7	10	16	26	EU12 High	76	79	83	84
4. Subjective financial strain: % with difficulty in making ends meet					15. Civic activity: % did not participate				
CC3	16	37	60	74	CC3	85	89	91	96
EU6 Low	25	38	49	69	EU6 Low	83	88	89	92
EU7 Int	8	16	24	35	EU7 Int	79	87	90	92
EU12 High	2	4	11	21	EU12 High	76	81	83	86
5. Satisfaction with standard of living: % score 6 or lower on 10 point scale					16. Feel isolated: % feel left out of society				
CC3	49	70	75	79	CC3	15	20	28	35
EU6 Low	53	62	73	81	EU6 Low	16	16	23	26
EU7 Int	25	41	53	55	EU7 Int	8	11	15	18
EU12 High	13	24	40	46	EU12 High	7	9	15	21
6. Physical environment: % score 6 or higher on 12-point neighbourhood problems scale					17. Self-rated health: % with 'fair' or 'poor' health				
CC3	34	33	33	28	CC3	28	34	40	45
EU6 Low	19	20	16	17	EU6 Low	35	51	52	51
EU7 Int	17	21	21	19	EU7 Int	20	25	40	43
EU12 High	12	12	16	17	EU12 High	18	23	31	36
7. Fear of crime: % feel 'rather' or 'very' unsafe to walk in local area at night					18. Illness: % with chronic illness				
CC3	33	39	45	36	CC3	17	22	26	27
EU6 Low	34	38	34	31	EU6 Low	26	40	39	37
EU7 Int	21	26	30	29	EU7 Int	14	16	25	28
EU12 High	13	17	24	27	EU12 High	15	18	25	25
8. Quality of public services: % score 6 or					19. Education: % with primary education only				

lower on 10-point scale

CC3	34	28	33	29
EU6 Low	18	17	18	19
EU7 Int	11	10	10	8
EU12 High	5	5	6	8

9. Trust in state pension/benefit system:  
% with no trust

CC3	22	21	20	17
EU6 Low	15	15	15	21
EU7 Int	11	8	10	11
EU12 High	8	8	11	17

10. Global life satisfaction: % score 6 or less  
on 10-point scale

CC3	34	44	53	62
EU6 Low	34	44	51	59
EU7 Int	14	19	30	34
EU12 High	8	12	19	28

CC3	18	39	52	57
EU6 Low	14	24	29	31
EU7 Int	19	32	50	52
EU12 High	7	13	21	25

20. Internet use: % did not use over past month

CC3	52	70	78	80
EU6 Low	61	78	83	87
EU7 Int	41	60	74	72
EU12 High	32	50	63	69

21. QoL index: mean score on 20-point scale

CC3	5.4	7.2	8.7	9.4
EU6 Low	5.5	6.7	7.6	8.7
EU7 Int	3.1	4.1	5.5	6.1
EU12 High	2.3	3.0	4.3	5.2

Source: EQLS 2003