

A Snapshot of Poverty in the European Union

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Abstract

There are differences in the level of poverty, social exclusion and deprivation across the European Union (EU), both on the territory of Member States and between them. Although each Member State takes independent decisions related to their reduction in line with the relevant national conditions, this paper presents a summary of the picture of poverty. The data about poverty and the rate of social exclusion before and after social transfers is based on the most up-to-date data for all EU Member States for 2016. Risk groups are grouped by type of risk with respect to the following situations: Presence of at least one of the following situations: At risk of poverty after social transfers (income poverty); Severely deprived; Living in very low-intensity households.

Keywords: European Union, Poverty, Social Exclusion, Vulnerable People

JEL Code: F62, I30, O10.

Introduction

Despite the problems that emerged with the onset of the economic and financial crisis, the institutional framework for management of the economic and monetary union in Europe proved to be very successful. There is firm determination on the part of EU member states to strengthen their economic management where necessary and to cooperate on social issues of “common interest”. It is believed that this policy of cooperation is vital for favouring economic growth, employment and improvement of the population’s standard of living. Despite the economic development of Europe, however, poverty, social exclusion and the presence of individuals facing severe material deprivation are still a key problem across member states. This, this study represents a “snapshot” of poverty in the European Union and reflects its specifics as at the period in which it has been conducted.

1. Formulation of the problem

The primary millennium development objective, as well as the objective of the “Europe 2020” strategy for intelligent, sustainable and inclusive growth, is to reduce the number of people at risk of poverty and social exclusion. The economic crisis of 2007 and its persistence had negative effect on the labour market in EU member states. Thus, the primary risk of facing poverty among the working population in households in the Union is predetermined by the economic activity and involvement on the labour market. The historical development, territorial differences and socio-economic inequalities constitute a causal factor generating poverty and conditions for severe material deprivations.

As part of this aspect, the vulnerable groups of individuals that are subject to social support according to the European Commission have been characterised. These are determined at national level. Irrespective of the different approaches applied by different member states, the individuals that need support and inclusion can be generally classified in the following main groups (European Commission 2016: 7): individuals living in poverty, homeless people, children with disabilities, individuals living in the outermost regions, families of immigrants and non-students. “Poverty – and its common consequences such as malnutrition, homelessness, poor housing and destitution – is a major contributor to vulnerability” (World Health Organization 2018).

Based on the Lisbon Strategy of 2000, the main statistical indicators for poverty and social exclusion of the European Union have been determined. They are subject to continuous improvement and constitute a key element of the open coordination method for monitoring the progress achieved by EU member states in mitigating poverty and social exclusion. This process is followed with the support of the EU-SILC system. The system is used to present the indicators of social inclusion.

2. Current state of poverty within the European Union

According to the calculation of the Statistical Office of the European Union – Eurostat – one fourth of Europeans live in poverty (European Commission 2018b). A total of 118 036 000 people, or 23.50% of the population of EU28 (see fig. 1) have been vulnerable in 2016, compared to 23.30% in 2009 and 24.40% in 2014 (Eurostat 2018e). Despite the decline in the numbers as compared to the previous year, the share of vulnerable people is still very high and requires serious political attention.

Figure 1 presents the levels of poverty and social exclusion before and after social transfers (income poverty). In this case, the latter have been demonstrated through the transfer costs, which constitute transfer of funds from the public budget to different budget organisations, the business sector or private entities.

In economics, a transfer payment (or government transfer or simply transfer) is a redistribution of income and wealth made without goods or services being received in return (Bishop 2018). These payments do not seize public resources and are not characterised by a spillover effect to the private sector. Transfers include social and/or financial aid, social insurance, state subsidies¹ and subventions² for certain enterprises. According to some authors, these “are the most important instrument for overcoming poverty and inequality” (Madzhurova 2017: 1). Blaga Madzhurova has also developed her own definition. According to her, social transfers are “funds and services received from the redistribution of primary income in order to guarantee a minimum level of consumption to people who live in poverty or on the poverty line; for full or partial compensation for the loss of income as a result of certain life events; for achievement of a greater level of income equality (Ibdl: 8).

The indicators in Figure 1 demonstrate the influence of social transfers in reducing poverty in 2016. The percentage levels of the indicators with respect to the total share of the population are compared. The observations are that some states have reported significant reduction after the government intervention. The discussed states are presented in descending order with respect to the “relative share of the population at risk of poverty and social exclusion before social transfers” indicator³. According to Eurostat’s definition, “The at-risk-of-poverty rate before social transfers is

¹ State subsidies (from Latin *subsidium* — support, assistance) are financial resources that are granted for free and that are irrecoverable. They are provided primarily to support municipal budgets for the purpose of supporting the public sectors of education, healthcare and culture. They are also used for funding the “Agriculture” sector, the courts and the national media, as well as for funding different individuals and legal entities. “A budget subsidy constitutes an amount granted by the public budget for a general or a targeted purpose. And, according to point 6 of §1 of the Supplementary Provisions of the State Budget Structure Act: A “budget subsidy” is the amount granted by the state budget for a general or a targeted purpose”. The supplementary provisions of the Public Finances Act, §1, point 3 state: A “budget subsidy” is a transfer with a general or targeted purpose granted by the central budget to a public budget organisation for the relevant fiscal year” (Trifonov 2017). The state may pursue different objectives by applying subsidies: 1. to reduce income inequality per capita across different municipalities, i.e. redistribution objective; 2. to increase the general level of public services at local level – healthcare, education, social support, culture; ...3. To create equal conditions for the provision of all public services by the state and local authorities – through a common countervailable subsidy” (Vladimirova, Naydenov 2011: 210).

² State subvention (from the Latin *subventio* — assistance) means providing financial assistance by using funds from the state or municipal budget (Trifonov, 2017). A budget subvention (BG Law, 2010) is a sum granted by the state budget, which, however is granted under certain conditions. According to point 7 of §1 of the Supplementary Provisions to the State Budget Structure Act: “A budget subvention” is the amount granted by the state budget under a certain condition” (Ministry of Finance 2018).

³ “The terminology around social transfers is confusing and can itself be an obstacle to building wider understanding of the issue. In some cases, the terminology is interchangeable (for example, social transfers and social assistance), in other cases however, terminology is incorrectly applied (for example social protection instead of social transfers) and, to add to this confusion, different countries often use different terminologies (for example social grants rather than social transfers) (AGORA 2010: 7). This confusion is enhanced by the fact that different states often use different terminology (e.g. “social aid” instead of “social transfers”). Social transfers cover a set of aid targeted at specific vulnerable groups, such as people suffering from severe poverty, individuals in distress, aged people and minors.

calculated as the share of people having an equivalised disposable income before social transfers that is below the at-risk-of-poverty threshold calculated after social transfers. Pensions, such as old-age and survivors' (widows' and widowers') benefits, are counted as income (before social transfers) and not as social transfers. This indicator examines the hypothetical non-existence of social transfers" (Eurostat 2018b). "The at-risk-of-poverty rate is the share of people whose total household income that is available (after social transfers, tax and other deductions) for spending or saving is below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income after social transfers. Individuals exposed to a risk of poverty are the ones living in a household with an equivalised disposable income below the at-risk-of-poverty threshold" (Eurostat 2016 5-6).

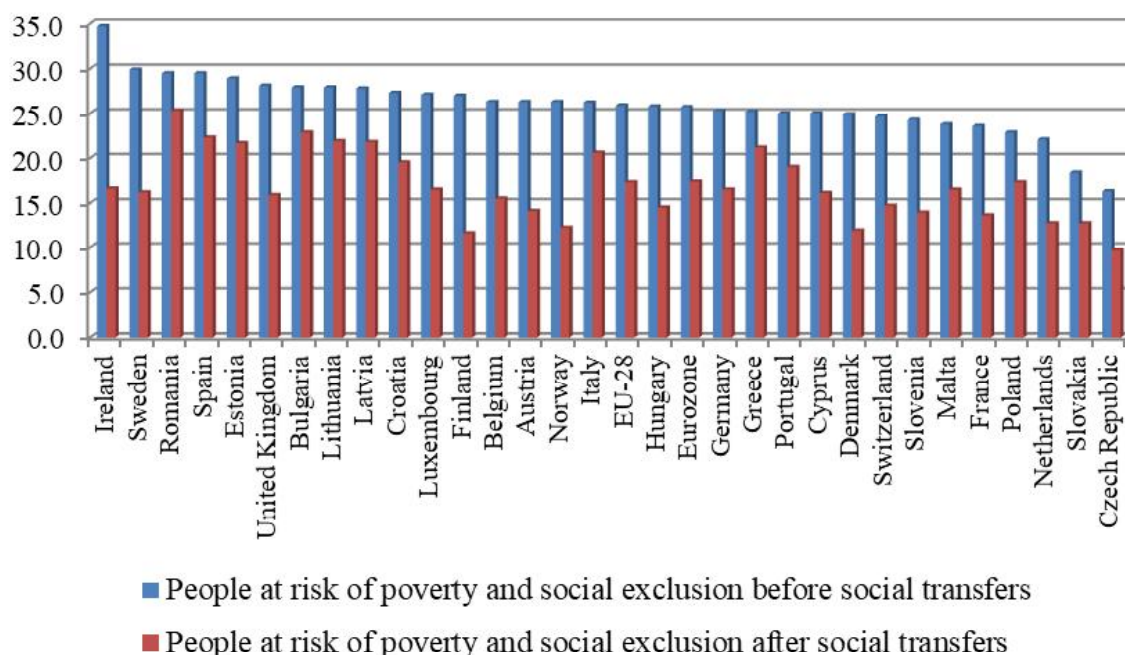
Apparently, the data from Figure 1 are in line with the statement that the effective redistribution of social resources in combination with government measures and programmes is a key approach to reducing the poverty rate and social exclusion (Blagoycheva, 2012). In 2016, Ireland (34.7%) was with the highest relative share of individuals affected by the risk of poverty and social exclusion after social transfers, whereas the lowest value of this indicator was observed in the Czech Republic (16.3%). Bulgaria ranks seventh based on this indicator (27.9%). Also in 2016, after the intervention of transfer payments, the share of vulnerable individuals from the total population of the country remained the highest in Romania (25.3%), followed by Bulgaria (22.9%) and Spain (22.3%). "The at-risk-of-poverty rate (after social transfers) in the EU remained unchanged in 2016, at 17.3 %. In 2016, social transfers lifted 8.6 % of the EU's population above the poverty threshold. The 20 % of the population with the highest disposable income in the EU in 2016 received 5.2 times as much income as the bottom 20 %" (Eurostat 2018c).

The studies on poverty in each EU member state are based on data from two main surveys⁴: surveys on household budgets - "Household Budget Survey" (HBS) and on the living conditions - "Statistics of Income and Living Conditions" (SILC). By 2006, statistical data about Bulgaria were obtained through sample household budget surveys (HBS)⁵. Since 2006, many European states, including Bulgaria, started to apply the SILC survey. The proper comparability of the data from this survey in an international aspect is ensured by a number of documents that determine the volume of the samples for each country, its design and the entire methodological work, which includes the instruments, definition of variables, output indicators, tables, presence of programmes and the guidelines for analysis" (Bogdanov, Dimitrova 2012: 100).

⁴ HBS - a regular household and SILC - a regular household plus all individuals (household members) aged 16 or more. "There are no differences in the definition applied for a regular household and for household members. A regular household is considered to be: an individual living on their own, having meals separately, with their own budget, or two or more persons living in the same house or part of house, who have their meals together and have a common budget, irrespective of the presence of any relationship between them.

Household members are: individuals who live in the household or who have family or marital relationship with the other members; persons who live in the household and who are not family or spouses; lessees living together with the household members (for six months or more); guests (for six months or more); maids or nannies living together with the household members (for six months or more); persons who usually live together with the household members, but who are temporarily absent from the house because of their work in another city, because of their studies or other reason (however, for no more than six months); children from the household that study away from their home; persons who are absent for long period of times, who, however, are related to the household; temporarily absent persons, who, however, are related to the household (e.g. persons in hospitals or other institutions, such as prisons, etc.) - their absence should not exceed six months and they shall have clear financial relations with the household" (Bogdanov, Dimitrova 2012: 91).

⁵ "The observation of household budgets is one of the oldest surveys of Bulgarian statistics. The first sample surveys on the budget of Bulgarian households date back to 1925, however, regular (monthly and annual) surveys started in 1953. The main objective of these surveys throughout the years has been to obtain reliable and scientifically justified data about the income, expenditure, consumption and other elements of the population's living standard (e.g. the presence of durable objects in households, the type of housing, housing conditions, etc.). Indicators for evaluation of poverty in Bulgaria have been calculated since 1995" (Ibdl: 90).



Source: Eurostat, illustrated by the author.

Figure 1. Poverty and Social Exclusion Rate in 2016
(as a percentage of the total population for each country)

Table 2 (see annex) shows the ranking of each EU member state with respect to the share of vulnerable individuals who receive social transfers. As seen, Bulgaria has had a relatively high poverty rate and social exclusion during the entire studied period. With respect to this indicator, higher poverty rates during the individual years have been observed in Latvia, Greece, Spain, Lithuania, Italy, Great Britain, Poland, Portugal and Romania. Despite the distinctive characteristics for the individual state, this indicator maintains relatively constant levels in each of these states.

The picture of poverty is demonstrated for profiling of the risk groups. Figure 2 illustrates the number of persons exposed to a risk of poverty or social exclusion by types of risks in 2016.

In 2016, EU28 was inhabited by 118 million people living in households exposed to risk of poverty or social exclusion. This constitutes 23.5% of the entire population of all member states of the Union. People exposed to a risk of poverty or social exclusion are in at least one of the following situations:

At-poverty-risk after social transfers (income poverty);

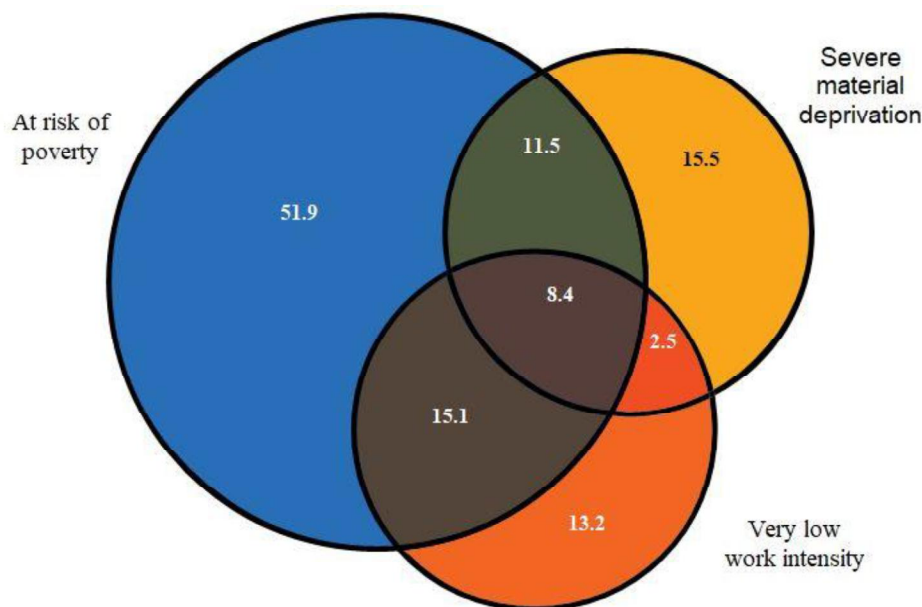
Severe material deprivation;

Living in households with very low work intensity.

“In 2016, there were 51.9 million people in the EU-28 living in households that faced income poverty (but neither severe material deprivation, nor very low work intensity), 15.5 million persons experiencing severe material deprivation (but neither of the other two risks) and 13.2 million people living in households with very low work intensity (but facing neither of the other two risks). An additional 29.0 million people lived in households facing two out of three of these risks, while a further 8.4 million people lived in households where all three of these risks were present. As such, although people are considered to be at risk of poverty or social exclusion as soon as they face one of the above risks, there were 37.4 million people — almost one third (31.7 %) of the total number of people who were at risk of poverty or social exclusion within the EU-28 in 2016 — who faced a combination of two or even all three of these risks” (Eurostat 2018d). (see Figure 2)

“In comparison with 2015, the number of people at risk of poverty or social exclusion in 2016 was down by 1.0 million, equivalent to a 0.3 percentage point decrease in the share of total

population. As a result, the share of the EU-28 population that was at risk of poverty or social exclusion fell to a level that had not been recorded since 2010” (Ibdl.). Among the EU Member States, the largest reduction effect in 2016 compared to 2015 is recorded for Latvia (2.4%), Malta (2.3%), Hungary (1.9%) and Ireland (1.8%). In contrast, rising values are reported in seven EU Member States: Estonia (0.2%), the Netherlands (0.3%), France (0.5%), Lithuania (0.8%), Luxembourg (1.4%).

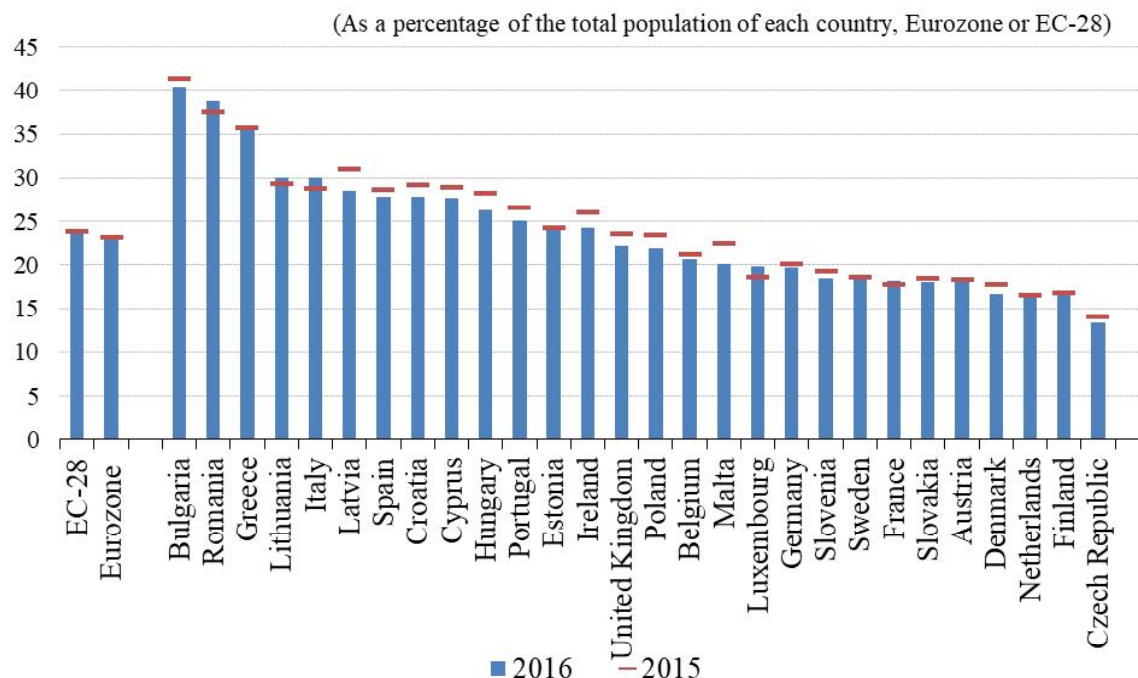


Source: Eurostat (online data code: ilc_pees01).

Note: the sum of the data for the seven groups at-risk-of-poverty or social exclusion differs slightly from the total (published elsewhere) due to rounding.

	(Million people)
Population at risk of poverty but not severely materially deprived and not living in a household with low work intensity	51.9
Population at risk of poverty, not severely materially deprived but living in a household with low work intensity	15.1
Population at risk of poverty, severely materially deprived but not living in a household with low work intensity	11.5
Population at risk of poverty, severely materially deprived and living in a household with low work intensity	8.4
Population not at risk of poverty, not severely materially deprived but living in a household with low work intensity	13.2
Population not at risk of poverty but severely materially deprived and not living in a household with low work intensity	15.5
Population not at risk of poverty but severely materially deprived and living in a household with low work intensity	2.5
Population neither at risk of poverty, nor severely materially deprived nor living in a household with low work intensity	384.5

Figure 2. Number of persons at risk of poverty or social exclusion analysed by type of risks, EU-28, 2016



Source: Eurostat (online data code: ilc_peps01).

Figure 3. At-risk-of poverty or social exclusion rate, 2015 and 2016

The individual differences between different member states with respect to the poverty picture are demonstrated in figure 4. According to the last reporting data provided by the national statistical institutes of all member states of EU28 in 2016, more than one third of their population is exposed to a risk of poverty or social exclusion. Three EU member states have reported the highest relative share of at-risk persons. These are Bulgaria (40.4%), Romania (38.8%) and Greece (35.6%). At the other end of the scale, the lowest share of people exposed to a risk of poverty or social exclusion is in Denmark, the Netherlands (16.7%), Finland (16.6%) and the Czech Republic (13.3%).

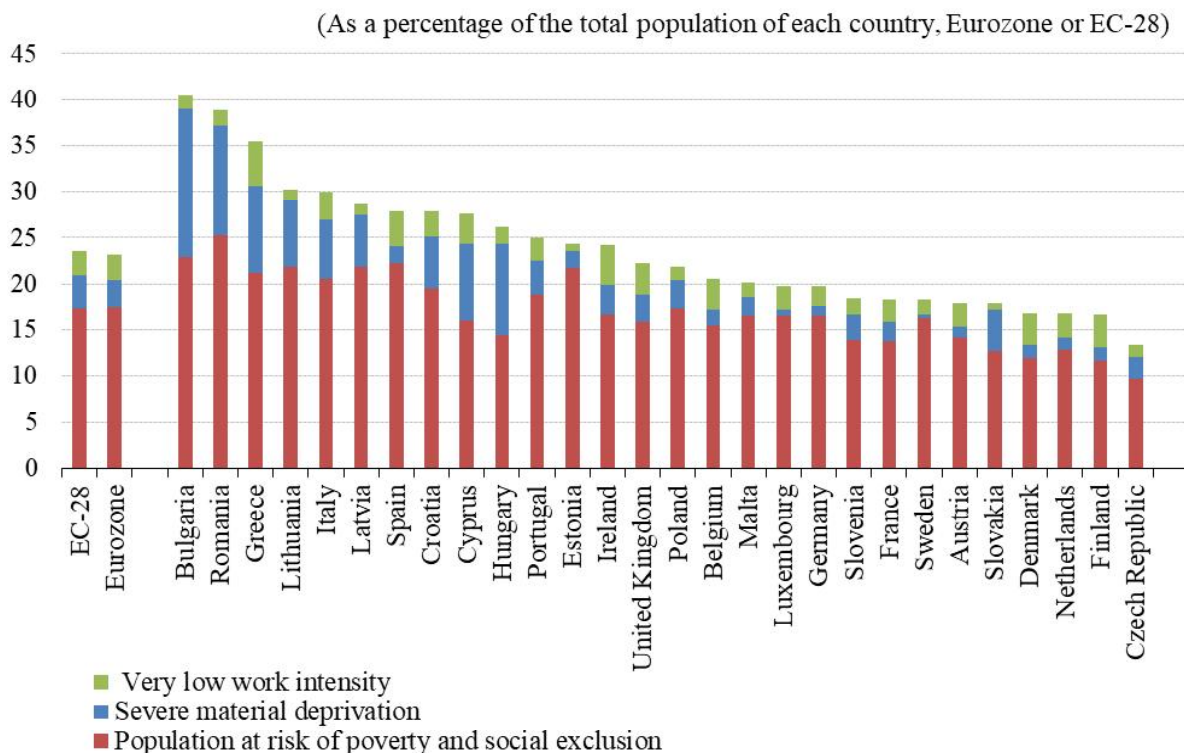
Figure 4 presents the situation for each EU member state with respect to the share of the population facing the three risks associated with poverty or social exclusion, which are indicated in Figure 2.

Around four fifths, or the larger part of the population of Estonia, Sweden, Malta and Spain, was at risk of poverty or social exclusion in 2016, whereas in Greece, Cyprus, Bulgaria and Hungary this share is less than 3/5 of the total number of permanent residents in the respective country.

“In 2016, 10.5 % of the population aged 0-59 years in the EU-28 lived in households with very low work intensity. Work intensity refers to the ratio between the number of months that household members of working age (18-59 years, not being a student aged 18-24) worked during the income reference year, and the total number of months that could theoretically have been worked by the same household members. For persons who declared that they worked part-time, the number of months in terms of full time equivalents is estimated on the basis of the number of hours usually worked at the time of the interview. People living in households with very low work intensity are defined as people aged 0-59 years living in households where the adults worked 20 % or less of their total potential during the previous 12 months” (Eurostat 2018d).

According to the latest data (fig. 5), in “2017, 112.9 million people, or 22.5% of the population, the EU were at risk of poverty or social exclusion. In 2017, more than a third of the population was at risk of poverty or social exclusion in three Member States: Bulgaria (38.9%), Romania (35.7%) and Greece (34.8%). At the opposite end of the scale, the lowest shares of

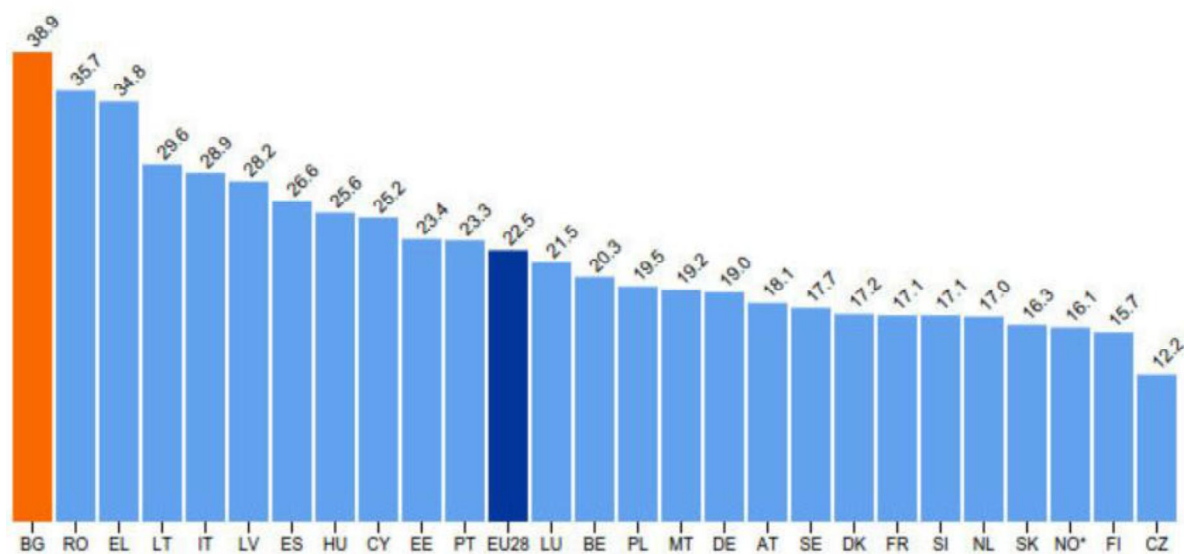
persons being at risk of poverty or social exclusion were recorded in the Czech Republic (12.2%), Finland (15.7%), Slovakia (16.3%), the Netherlands (17.0%), Slovenia and France (both 17.1%) and Denmark (17.2%)” (Eurostat 2018a).



Note: the sum of the data for the three groups at risk of poverty or social exclusion may differ slightly from the total (published elsewhere) due to rounding.

Source: Eurostat (online data code: ilc_pees01).

Figure 4. Proportion of the population at risk of poverty or social exclusion, 2016



Source: (Eurostat 2018a), EU-Statistics on Income and Living Conditions (EU-SILC).

Legend: European Free Trade Association countries (marked with *) do not contribute to EU average.

Figure 5 The share of people at risk of poverty and social exclusion by country, 2017

“Among Member States for which 2017 data are available, the at risk of poverty or social exclusion rate has grown since 2008 in ten Member States, with the highest increases being recorded in Greece (from 28.1% in 2008 to 34.8% in 2017, or +6.7 percentage points), Italy (+3.4 pp), Spain (+2.8 pp), the Netherlands (+2.1 pp), Cyprus (+1.9 pp) and Estonia (+1.6 pp). In contrast, the largest decrease was observed in Poland (from 30.5% to 19.5%, or -11.0 pp), followed by Romania (-8.5 pp), Latvia (-6.0 pp) and Bulgaria (-5.9 pp)” (Ibdl). Bulgaria shows progress compared to its 2008 data. At that time, around 44.8% of the Bulgarian population faced the risk of poverty or social exclusion. However, this progress is much lower than Romania, with which Bulgaria is usually compared. In 2008 Latvia was the third country with the largest share of at risk of poverty by 34.2% of its total population, but last year there was a decline to 28.2%.

Bulgaria is the country with the highest risk of poverty or social exclusion in the European Union, according to Eurostat data for 2017. Around 38.9% of Bulgarian population is at risk of poverty or social exclusion compared to 22.5% of the EU average. The countries with at least at risk of poverty are the Czech Republic with 12.2%, followed by Finland with 15.7%.

The alleviation of poverty is one of the European Union's main objectives. Similarly, the main concern for the United Nations is the launching of the Third United Nations Decade for the Eradication of Poverty (2018-2027) under the heading "Accelerating Global Actions for a World Without Poverty".

Conclusion

Poverty and social exclusion in the EU are closely interrelated. People living in poverty are much more prone to work for lower income, reside in unfavourable living conditions and receive inadequate healthcare services, as well as to remain in the unemployment trap for a longer time or experience hindrances with respect to their opportunity for education and lifelong learning. Persons born in households with low income often have limited opportunities for a good life start. These circumstances can be complicated by other conditions affecting their socio-economic status and their future perspectives. For instance, these include their gender, age and the place where they live. The existing “gap” between the rich and the poor needs to be urgently resolved or at least mitigated.

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