Measuring poverty in the European Union countries

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Abstract

The article discusses poverty in EU countries in theoretical and practical terms. The basic causes of poverty are identified that include the global financial crisis, globalization, migration and inefficient government policy to improve living standards. The definition of poverty by the European Council (1975) is presented. There are arguments and views on poverty by different scholars. The theoretical approaches to the interpretation of poverty are analyzed. Poverty profile in certain countries is described analytically. The reasons for the gap in incomes in various EU countries are explained. Much attention is paid to the study of poverty, including APOPE index, used as a tool to measure poverty. It proved that the indicator is seriously deficient in the realities of the second decade of the 21st century. Instead, the European Commissions dealing with poverty index proposed the improved indicator. The advantages of such index that assesses the poverty level more accurately in European countries are presented.

INTRODUCTION

Problems of poverty in the EU is considered the biggest one in the social life. This problem is not purely economic. It has demographic, psychological, and mental dimensions. Usually it is associated with another social phenomenon - unemployment.

Despite the ongoing measures EU governments and central EU institutions have taken this problem still remains unsolved. The 2007-2009 global financial crisis was a significant factor that increased poverty in the EU. Budget expenditures for social services were significantly reduced, thousands of government and corporate employees were laid off.

In June 2010 the European Council adopted the strategy "Europe 2020", which is aimed at economic and social development, including overcoming poverty by reducing the population at risk of poverty by 20 million.

To understand how poverty is measured by the EU Commission, national government agencies and research institutions developed a variety of indicators that allow to assess poverty profile. It is important to assessing the level of poverty by correlating and analyzing these processes over certain period of time and in separate countries. It is clear that the mechanical comparison in monetary measures such as income levels, particularly in individual countries will not give reliable results, taking into account the purchasing power of the respective currencies. Also it should be noted that not all manifestations of poverty can be verified and calculated using national strategic data obtained from interviews. In some cases, the poverty rate can be estimated by experts or only qualitatively described.

This study presents some scholarly views and criteria used by the EU to measure poverty.

Fighting poverty needs not only practical measures but a los requires appropriate methodological grounds.

Thus, the international organization Oxfam has developed a forecast, predicting that by 2025 one in three Europeans will have found themselves below the poverty line (2013). Oxfam experts called methods dealing with the crisis in late 2008 ineffective, noting that this policy led only to an increase in the number of poor people and inequality between rich and poor Europeans. "If you leave
everything unchanged, the policy of expenditure restraint can lead to the fact that by 2025 about 15 to 25 million. Europeans will have found themselves below poverty line." According to its estimates, the number of people who will find themselves below the poverty line, could increase in Europe up to 146 million. Experts reminded that it was spent 4.5 trillion Euros to acquire "bad" bank assets to improve their balance sheets. They noted that it did not result in achieving the desired objectives, including accelerating the growth of the European economy.

On July 19, Brussels, the annual meeting of the EU leaders was held. 2010 was declared the Year of Europe for fighting poverty and social inequality. The same theme was the focus of the meeting headed by European Commission President Jose Manuel Barroso together with the President of the European Council Herman van Rompuy and President of the European Parliament Jerzy Buzek.

F. Giovanelli undersecretary of the Pontifical Council for Justice and Peace expressed a concern at the trend that shows how "rich and poor live next to one another, persons who have nothing, who are even lacking the essential, and persons who waste without moderation what others need desperately".

Her statistics leaves no room for different interpretations: 85 million in the European Union - 17 percent of the population - live under the threshold of poverty in the context of economic crisis "which is being revealed as a structural crisis of values, of trust." In addition to the above, she pointed out the worrying decrease of the population along with the increase in unemployment: "The lack of work is the first cause of social exclusion, and has already reached intolerable proportions. Intolerable not only because of the number of unemployed, [but also] because of the increase of poor workers."- They account for 15 million - 18 percent of those who all work in the EU. Despite the availability of work, they cannot provide "a fitting life for themselves and their families" [F. Giovanelli, 2010].

Thus, poverty as a social phenomenon wasn’t overcome in the 21st century notwithstanding the available relevant theoretical findings by the Ukrainian and foreign scholars.

### I. Literature Review

Issues of poverty are studied by many scientists, including Nobel Prize winner in Economics A. Sen. The analyst from the European Policy Centre Deres Claire specializes in regional issues. She argues that the ability of national and local authorities to use European Stock funds should be added to the well known factors. The economic development of a region depends on its ability to work in the region complying with the criteria of the European Commission and use funds, investing in promising projects," said the expert. Some regions, for example, Bulgaria and Romania had the sad experience of misuse of European funds. The EU Commission in these cases faced considerable problems and even stopped funding these regions "[D. Claire, 2013].

Johannes Hahn, who heads the Department for regional policy, concludes that the crisis makes the poor poorer and the rich richer. The reason for this is economic hardship the European Union has been in over the last few years. While the Baltic States, Spain, Portugal, Greece and others that used the funds, try to keep the former scheme of monetary support, a group of six wealthy countries, led by Germany and Britain, insist on reducing their contributions to the so-called "basket of European solidarity."

Pierre Verluyize, professor of geopolitics at University of Paris and director of a think tank, said that currently rich Europe isn’t very much concerned about poorer community fellows. Instead, from the beginning of the 2000s, the European regional policy, with its principle of solidarity and apportionment of funds each year resulted in steady 1% GDP growth in each of the 65 regions of the European Union [Verluyiz P., 2012].

Problems that exist in poverty research as a phenomenon are discussed by Wojciech Knyets, a
sociologist at the University of Nicholas Copernicus in Torun (Uniwersytet Mikolaja Kopernika w Toruniu). He notes that Poland lacks systemic solutions. Poverty is fought by non-governmental organizations that receive more and more tasks from the without additional funding. The areas where schools are closed, transport is limited stops being attractive to investors, which could create jobs there. Poverty increases. “We are poor and we have are getting even poorer because we are poor” says the expert. Low-income children, especially in provincial regions do not have access to theaters, cinemas, museums. The Internet could connect to the world, but not everyone can afford broadband [B. Buzek, 2013].

Although the issue of poverty is studied constantly, there are still many aspects that require further research.

II. DATA AND OBSERVATION

The study used data from the European statistical agency (Eurostat) and the UNECE.

Poverty, as already mentioned is a multidimensional concept, but the first definition of the term was given in 1975 by the European Council. To monitor progress towards this goal EU Council of Ministers for employment, social policy, health and consumer affairs (EPSCO) developed an index that determines the risk of poverty and social exclusion, "AROPE" on Fig. 1. This indicator measures the share / population at-risk-of-poverty or has serious financial problems or lives in households with very low work intensity. The index is based on statistical surveys of EU income and living conditions, EU-SILC. Within the EU-SILC survey of the households and household members data are collected on income, education, employment, health, housing, material deprivation and some other information including annual specialized modules that differ with each year.

High political status of AROPE, a significant impact that the financial and economic crisis had on poverty in the EU made this indicator crucial demanding it to be of high standards in terms of quality and comparability [Eurostatistical Economic Commission, 2013]

AROPE index consists of three components derived on the basis of EU-SILC:

- relative component includes risk of poverty / monetary poverty (AROPE);
- "almost" absolute component: material deprivation;
- component of exclusion from the labor market: extremely low labor intensity [Economic Commission for Europe, 2013].

The number of people living at risk of poverty are

![Fig. 1: People, who live at-risk-of-poverty or social exclusion in EU-27, 2011. (million people)](image-url)
In 2011, approximately 84 million people living in the EU-27 (16.9%) were below the national poverty line of their country. This figure that is calculated as an overstated average value of national results, does not reflect significant differences among EU member states.

National indicators of poverty risk ranged from 10% in the Czech Republic to more than 22% in Bulgaria, Romania and Spain in 2011 (Fig. 2).

The picture of social exclusion obtained on the basis of the income inequality may be expanded by the indicators of material deprivation (MR), which allow us to estimate the proportion of people living in conditions of insufficient resources. These figures reflect differences in living standards in different countries and therefore are very popular in the international context.

The EU indicators are based on conventional MR basket of goods and services that are relatively independent. These products and services are durable items and reflect: 1) lack of common patterns for many or most of the population in the EU and 2) an adequate level of dynamic comparison between countries.

The main index "the rate of severe material deprivation" refers to some people who cannot afford at least four of the nine selected goods or services. Thus, 23 million people (8.8%) in the EU-27 were identified as such that experienced severe material deprivation in 2011. Thus, the MR rate is defined as the number of people who cannot afford at least three of nine selected goods or services. Indicators of severe MR ranged from 1% in Sweden to 44% in Bulgaria in 2011 (Fig. 3).
Comparability as a EU indicator and the need to address some of the shortcomings in order to obtain an effective tool in times of economic and financial crisis highlighted further improvement and the introduction of additional indicators. Currently, Eurostat and the European Statistical System (ESS) work and get first results in this direction.

As mentioned above, the AROPE indicator should be used with some caution, as the poverty threshold set at 60% of the national equivalent income (in local currency), is the subject to change from year to year due to the development of overall income and its distribution in the country.

Regarding the impact of the financial and economic crisis, such changes may be caused by the fact that not all sources of income are affected by the crisis at the same time. Income suffers first due to the deterioration in the labor market, resulting in reduced wages, while other sources of income such as pensions and social benefits, do not subject to change. The situation when labor income is reduced, while the others remain unchanged, could lead to a distortion in the overall distribution of income and median income and, consequently, to the lower threshold of poverty.

Developing the strategic goals of the “Europe 2020” on social inclusion and poverty reduction the European Council also decided that the mid-term revision of the EU main objectives in 2015 will include a review of performance as one of the final project goals. In particular, the Social Protection Committee and EPSCO noted that the mid-term revision of the main objectives in the EU will, among other issues, improve indicators of material deprivation. In fact, some items, such as the presence of a washing machine, color TV and phone are no longer things that people cannot afford in EU member states, however for some individual regions or situations, this problem is still relevant (e.g., homeless). Then there was a need to introduce new indicators that would better reflect current standards of living and the lack of which would clearly mean social exclusion in the EU today.

Speaking about how timely poverty and social exclusion indicators were Eurostat and the Directorate-General in employment and social policy of the European Commission developed a plan of action in response to extreme political relevance of these indicators in the context of the economic crisis. One of the key measures is to submit all cross-
Data to EU-SILC 6 months earlier, i.e. June N + 1 is the date for the reporting year N instead of an official term November N + 1. Member States shall work for the gradual implementation of the decision within the next two-three years. Some countries will implement this approach in 2014 and submit the 2013 data. Others are planning to provide data in the first quarter of year N + 1.

The plan also envisages an early distribution of parameters based on the material deprivation indicators and other similar indicators based on such economic burdens as "make ends meet", or specialized modules, and other data obtained through interviews. It was agreed that the beginning of the test data collection will be held in 2013, the Member States involved, would have provided selected early micro indicators of 2012 by April 15, 2013 on a voluntary basis (while final terms for early data collection was in December N or January N + 1) to test the feasibility of obtaining early indicators.

Nine countries including Belgium, Czech Republic, France, Italy, Malta, Austria, Poland, Slovenia, and Finland expressed their consent to participate in the experiment. Estimated figures weren’t distributed as indicative results until final results within this first test were received (it is planned in the future though). However, performance parameters and ML were analyzed in detail and compared based on early collected official data provided.

**Conclusion**

This study proves the extensive and ongoing study of experience and specific indicators measuring poverty. Currently used indicators of AROPE type cannot objectively reflect the poverty rate in view of the complex processes of globalization that affect the EU. It is therefore necessary to improve both methodological approaches and econometric tools used in assessing this phenomenon. This study outlines ways to improvement.

**References**

