



Research note 6/2010  
**The potential effects of the recession  
on the risk of poverty**  
Nowcasting



Social Situation Observatory – Income distribution and living conditions

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November 2010

*This Research note was financed by and prepared for the use of the European Commission, Directorate- General for Employment, Social Affairs and Equal Opportunities.*

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## Introduction

The financial crisis which struck the EU States in 2008 and the economic recession which followed it led to a decline in GDP, job losses and a reduction in the disposable income of households in virtually all Member States in 2009. The fall in employment and income, though widespread across the economies concerned, affected some sectors of activity and the workers employed in them much more than others. Accordingly, it had differential effects on social groups and, almost certainly, on the distribution of income. Just what these effects were, however, and which social groups, and households, were most affected remains unclear.

Though there is piecemeal evidence that the most vulnerable in society have been hit most, despite the origins of the crisis being in the financial sector, where income levels tend to be relatively high, there is as yet no overall view of the repercussions on the distribution of income or of how the relative number of people at risk of poverty might have changed in different parts of the EU. This will only become clear once information from the EU-SILC, the main source of data on income, becomes available for 2009. However, this will not happen for another year or more, since the data on income collected by the EU-SILC survey relate, in practice, to the year preceding the survey.

While the 2009 survey may, therefore, pick up some of the initial effects of the crisis on the income of households, if only perhaps in those countries, such as Ireland or Spain, in particular, where the financial crisis struck earlier than elsewhere, it will only be possible to review what happened in 2009 once data from the survey for 2010 are released. Since this will not be before the end of 2011, a full picture of developments in 2009 and of how the crisis affected people at different points on the income scale is only likely to emerge in 2012. Although this delay is understandable given the detailed nature of the information which needs to be collected, it is not altogether satisfactory. It means that the nature and scale of the impact of the recession on the situation of different social groups, and the extent to which the social protection system in place is adequate to provide the support they are likely to need, will only be become known sometime after the event.

The concern here is to examine the evidence which exists at EU level on developments in the different Member States which are likely to have affected household income in order to gain an initial insight into the possible consequences for the risk of poverty across the Union. The evidence in question comes from the European Labour Force Survey which collects information from households on employment and a range of related aspects, though not income, and which is much more up-to-date than the EU-SILC. More specifically, the aim is to examine the LFS data for 2009 in relation to those for 2008 in order to identify the changes between the two years in variables which have implications for household income. These are, in particular, increases in unemployment and inactivity among those of working age, which signify that the people in question are no longer receiving earnings from employment which contribute to the income of the households in which they live. This information is supplemented by data on the household circumstances of the people concerned in order to identify those who are living in households where no-one else of working age is in employment. These, accordingly, are especially vulnerable to income falling below the poverty threshold if they lose their job and the household's only source of income from employment comes to an end.

The approach adopted is to attempt to relate the LFS data to those compiled by the EU-SILC, to examine the probability according to the latter of those who are unemployed or



economically inactive having income below the poverty threshold (defined throughout as 60% of the median in the country in question) and the additional risk they face if they live in a workless household. The focus throughout is on people of working age, or more precisely, on households in which people of working age live and which accordingly are relatively dependent (as compared with other households) on the earnings from employment which those of working age bring in. The effect on children living in the households concerned as well as on people of 65 and over, who for the most part are retired, is, therefore, also taken into account. In consequence, the only group which is left out of the analysis are those aged 65 and over who do not share a household with someone of working age and who, in practice, make up a relatively small proportion of the overall population in nearly all countries, though a somewhat larger proportion of those at risk of poverty in many of them,

It should be emphasised that no account is taken in the analysis of the decline in household income stemming from a reduction in wages or from a cut-back in hours of work of those remaining in employment, which is known to have occurred in many countries as employers – and governments – attempted to maintain jobs and avoid excessive redundancies. Employees in a number of Member States in many industries accepted a reduction in pay or in working time rather than lose their jobs. In some cases, they were partly compensated through short-time working or partial unemployment schemes, such as in Germany in particular, though this did not prevent their earnings from declining. Since, however, the LFS does not include data on earnings, it is difficult to assess the scale of the reductions concerned or their effect on the distribution of income, not least because the latter depends not only on the cutback in pay but equally on the level of household income of the workers affected and what happens to the earnings of others in the household. Moreover, there is also a need to take account of the effect of the fall in earnings on median income, which itself is likely to decline and which will affect the extent to which such pay cuts push the income of the workers in question below the poverty threshold.

Equally, as indicated above, no account is taken of possible changes in the relative income of those aged 65 and over, both those sharing a household with someone aged 65 and over and those living alone, which might result from retirement pensions not being uprated as a consequence of the financial crisis and the restraint on public expenditure. They might also result from pensions remaining unchanged as earnings are reduced, so leading to an increase in the income of recipients in relation to wage-earners and a possible reduction in their risk of poverty.

## Outline of analysis

The focus of the analysis is on the extent to which the increase in unemployment and inactivity resulting from the economic recession is likely to have raised the relative number of people in each Member State who are at risk of poverty, in the sense of having income below 60% of the median. The approach adopted is, first, to examine the relationship between unemployment and inactivity, on the one hand, and the risk of poverty on the other, as indicated by the data compiled by the EU-SILC, taking explicit account of the extent to which the people concerned live in workless households, which tends to increase the risk.

Account is also taken of any differences in the relationship for men and women and for people in different broad age groups, as well as for those with different levels of



education. Both the latter two aspects are likely to affect the level of earnings of the people concerned when they were in work and, accordingly, in the case of the unemployed in many countries, the level of social benefits received.

Secondly, the LFS data for 2008 and 2009 are examined to identify the extent to which unemployment and inactivity increased between the two years in different Member States and how far this had a differential effect on men and women, those in different age groups and those with different levels of education. Equally importantly, explicit account is taken of the household circumstances of those becoming unemployed or inactive and the extent to which they live in workless households, where no-one else brings in income from employment and, accordingly, together with the other members of the household, face a potentially substantial decline in income as they lose their earnings from employment.

Thirdly, the two parts of the analysis are combined to estimate the effect on the risk of poverty, or on the relative number of people with income below the poverty threshold given the increase in unemployment and inactivity among those of working age as a result of the recession.

The analysis begins, however, by considering the relative number of people, including children, who share a household with someone of working age, and the share of those with income below the poverty threshold which they represent. The intention is to give an indication of the scope of the analysis and of the proportion of the population which is potentially vulnerable to a significant decline in earnings from employment.

## **The age composition of households and the risk of poverty**

Working-age population, defined here as those aged 15-64, make up around two-thirds of the population or slightly more in all Member States. A larger proportion of the population than this, however, share a household with at least one person of working age and in most cases are dependent in some degree on the income they bring into the household. These are predominantly children but they also include people of 65 and over, mostly retired (Table 1).

Children under 15 living in households with someone of working-age, who are almost all children, accounted for between 13% (Bulgaria and Slovakia) and 21% (Ireland) of population in 2008, reflecting relatively wide differences in fertility rates. People of 65 and over sharing a household with someone aged 15-64 made up between 2% of total population (Denmark, the Netherlands and Sweden) and 8% (Bulgaria and Greece), reflecting to a large extent differences in the prevalence of the extended family, from one perspective, or in the degree of independence of older people from another. Altogether, therefore, between 83% (Germany) and 92% (Ireland and Poland) of the population across the EU live in a household with at least one person of working age and, accordingly, are, at least potentially, dependent in part on the income they bring into the household and, more relevantly, vulnerable to a reduction in that income.



**Table 1 Age composition of 'working-age' households, total and at risk of poverty, 2008**

	% population in each group							
	Total population			Population at risk of poverty				
	Under 15	15-64	65+	Total	Under 15	15-64	65+	Total
Belgium	16.7	66.8	3.1	86.6	18.6	57.8	2.8	79.1
Bulgaria	12.9	69.3	8.1	90.3	15.2	57.0	6.0	78.1
Czech Republic	14.1	71.2	4.2	89.5	19.0	69.2	1.8	90.0
Denmark	18.6	65.5	1.8	85.8	14.4	61.7	0.6	76.7
Germany	13.7	66.3	2.9	82.9	12.7	67.4	2.3	82.5
Estonia	14.5	68.2	5.3	87.9	12.2	53.1	4.7	70.0
Ireland	20.5	68.6	3.1	92.2	23.0	62.0	2.9	87.8
Greece	13.9	67.4	7.9	89.3	15.3	64.0	7.1	86.5
Spain	14.2	69.0	7.0	90.3	17.3	59.2	5.3	81.7
France	17.5	65.5	3.0	86.0	19.5	63.2	2.9	85.6
Italy	13.9	65.3	6.7	85.9	17.9	59.0	5.0	81.9
Cyprus	17.3	70.2	4.1	91.7	13.0	50.2	6.9	70.0
Latvia	14.3	69.4	7.7	91.4	12.9	55.1	7.1	75.1
Lithuania	15.2	68.4	5.7	89.4	16.6	59.7	4.8	81.1
Luxembourg	18.2	67.9	2.8	88.9	26.5	67.8	1.3	95.6
Hungary	15.8	69.3	5.4	90.5	24.6	70.2	1.3	96.1
Netherlands	18.0	67.4	2.0	87.3	22.4	64.7	1.5	88.5
Austria	14.8	68.0	4.8	87.6	18.4	61.2	2.8	82.4
Poland	15.1	71.1	5.7	91.9	19.6	70.9	4.6	95.0
Portugal	14.6	67.4	6.3	88.3	17.1	61.4	5.7	84.3
Romania	15.0	69.9	5.9	90.8	20.6	62.7	5.2	88.6
Slovenia	14.7	69.8	6.2	90.7	13.5	60.0	6.2	79.7
Slovakia	12.9	72.9	5.1	90.8	19.4	67.7	3.0	90.1
Finland	16.7	66.8	2.5	86.1	14.0	58.4	1.8	74.2
Sweden	17.6	65.1	2.0	84.8	16.6	61.5	0.9	78.9
UK	17.7	66.7	2.9	87.2	21.9	53.0	2.7	77.6

*Note: The table shows the proportion of total population in each country living in households with at least one person of working age (15-64)*

*Source EU-SILC, 2008*

The relative number of people of working age, or sharing a household with someone of this age, who have income below the poverty threshold (here defined as 60% of median income) is smaller in most countries than for the overall population (or those with higher levels of income). This reflects the relatively high risk of poverty among those aged 65 and over who do not have the income support of someone of working age, especially those that live alone. This difference is particularly large in many of the EU-12 countries which have entered the EU since 2004, and most especially (well over 10% percentage points) in Bulgaria, Estonia, Cyprus, Latvia and Slovenia, as well as in Finland. On the other hand, it is also the case that in a number of EU-12 countries, the proportion of the population with income below the poverty threshold and living in 'working-age' households is larger than for the overall population. This is the case in Hungary, Poland and the Czech Republic, though also in Luxembourg and the Netherlands, reflecting the relatively low risk of poverty among older people not sharing a household with someone of working age.

## Workless households and the risk of poverty

The next stage is to examine the relationship between employment and the risk of poverty, or more precisely the link between the lack of earnings from employment coming into the household and the household having income below the poverty threshold. The starting-



point is to consider households where no-one of working age is in work before looking at the effect on income of someone being unemployed or inactive but living in a household where other people are in employment. The focus throughout is on those of working age, i.e. leaving aside others living in the household, in order to simplify the analysis, though the picture does not change if it is extended to include dependents and those aged 65 and over who might be living in the household as well.

People living in workless households – here defined as households containing at least one person of working age where no-one was in work – made up a significant proportion of those with income below the poverty threshold in all Member States, most especially in Belgium, Germany, Ireland and the UK, where the proportion was around half or more (Table 2). The proportion was below 20% only in Greece (15%) and Luxembourg (19%) and over 40% in the Czech Republic, Denmark, Hungary and Finland as well as in the four listed above.

Most of these households were also ones in which no-one had worked over the preceding year (i.e. their 'work intensity', which measures the extent to which those of working age in a household were employed over the income year, was zero). In 17 of the 26 countries for which there are data, over 80% of the households in question fell into this category and only in 5 countries (Bulgaria, Spain, Luxembourg, Portugal and Sweden) was the proportion under 75% and in only two of these – Bulgaria (68%) and Sweden (66%) – less than 70%.

Accordingly, living in a workless household adds significantly to the chances of someone being at risk of poverty. In all countries apart from the Netherlands (where the figure was around 22%), over a quarter of those living in workless households had income below the poverty threshold, in the three Baltic States and Bulgaria, over a half, in Germany and Cyprus, almost a half and in Ireland, Spain, Portugal and the UK, over 40%. In most countries, the probability of being at risk of poverty was 4-6 times higher if a person lived in a workless household at the time of the survey than if they did not. In Greece, however, the probability was less than twice as high and in Poland and Romania, as well Italy and Luxembourg, less than three times as high. In these countries, therefore, being in work had less of a differential effect on the chances of avoiding having an income below the poverty threshold than elsewhere.



**Table 2 Population of working age with income below the poverty threshold living in workless households and risk of poverty of the latter, 2008**

	Population aged 16-64 with income below 60% median:		Population aged 16-64 in workless households:	Population aged 16-64 in working households:
	% living in workless households	% of these living in 0-work intensity households	% with income below 60% of median	% with income below 60% of median
Belgium	52.2	89.8	38.1	7.2
Bulgaria	29.8	67.9	56.6	13.6
Czech Republic	44.3	83.7	33.3	5.5
Denmark	44.9	90.6	27.2	6.1
Germany	50.0	90.6	48.1	8.0
Estonia	38.1	84.1	62.3	10.0
Ireland	49.2	82.9	43.4	8.2
Greece	15.1	85.8	29.0	17.6
Spain	24.3	66.8	42.1	14.0
France	34.9	80.6	26.5	9.1
Italy	29.0	85.2	36.9	13.5
Cyprus	27.7	86.1	49.0	8.8
Latvia	30.6	77.2	69.2	14.8
Lithuania	29.9	75.1	52.4	13.2
Luxembourg	19.3	73.5	28.4	11.6
Hungary	43.1	88.4	29.4	8.4
Malta	:	:	:	:
Netherlands	29.5	80.5	22.3	6.8
Austria	36.6	83.9	31.0	8.0
Poland	24.9	75.9	30.0	14.5
Portugal	21.5	73.7	40.6	14.1
Romania	20.1	83.7	37.3	18.5
Slovenia	39.7	85.6	37.0	7.1
Slovakia	25.6	87.3	29.8	8.1
Finland	47.1	77.0	37.3	6.5
Sweden	31.8	65.8	33.9	7.6
UK	48.0	80.1	41.9	9.2

*Note: Workless households are those with no-one of working-age in employment at time of survey; 0-work intensity households are those with no-one in employment throughout income year.*

*Source: EU-SILC 2008*

## Unemployment and the risk of poverty

Even if the people unemployed do not live in workless households but can share the earnings from employment of another household member(s), it is still the case that they are much more likely in most countries to be at risk of poverty than those in work. In only 5 countries in the EU – Belgium, France, Cyprus, Finland and Sweden – did less than 20% of both men and women unemployed have income below the poverty threshold. In Denmark and Spain, this was true of women but not men, while in Lithuania, it was true of men but not women (Table 3).





**Table 3 Proportion of the unemployed not living in workless households with income below the poverty threshold, 2007 income year**

	% unemployed not in workless households				
	Total	Men		Women	
	16-24	25-64	16-64	25-64	16-64
Belgium	9.0	13.5	11.0	16.3	15.1
Bulgaria	39.0	43.6	40.3	39.6	42.2
Czech Republic	17.4	32.2	24.6	19.7	19.9
Denmark	<b>54.5</b>	2.9	20.9	:	12.8
Germany	19.2	22.4	21.8	20.8	20.5
Estonia	22.4	21.6	20.8	16.1	20.9
Ireland	12.0	5.7	10.2	20.1	11.8
Greece	33.6	20.6	24.9	24.3	26.0
Spain	21.6	19.9	21.0	18.6	18.2
France	33.2	9.7	17.7	13.9	18.4
Italy	34.2	26.2	29.6	22.7	25.8
Cyprus	12.2	10.3	12.4	15.0	13.0
Latvia	26.0	25.4	24.7	23.1	25.3
Lithuania	6.8	17.3	15.7	23.8	22.8
Luxembourg	51.9	31.9	35.7	14.8	30.5
Hungary	16.8	13.8	14.4	22.4	21.5
Netherlands	<b>30.5</b>	11.1	8.9	:	<b>26.2</b>
Austria	<b>39.2</b>	28.8	21.6	11.4	24.3
Poland	32.1	32.7	32.4	33.5	33.3
Portugal	32.2	20.8	21.3	20.4	24.9
Romania	45.7	20.8	30.9	14.0	28.9
Slovenia	14.6	27.6	24.2	20.8	20.4
Slovakia	23.8	30.4	30.3	25.1	23.3
Finland	8.9	10.9	11.7	10.5	9.4
Sweden	15.4	12.9	12.5	9.8	13.9
UK	29.0	49.1	39.7	<b>21.8</b>	24.4

*Note: Data for France are from 2007 Survey. Figures in bold, data unreliable because of small number of observations. Figures in italics, data relatively uncertain.*

*Source: EU-SILC, 2008*

In Luxembourg and Poland, over 30% of both men and women unemployed sharing a household with someone in work had income below the poverty line and in Bulgaria, over 40%. In Italy, Romania and Slovakia, around 30% of men unemployed and in such a household had income below this level and in the UK, around 40%. In these countries, therefore, the probability of someone unemployed being at risk of poverty is relatively high irrespective of whether they share a household with someone in employment or not. This reflects two points – first, that in some countries, the amount of benefit received by someone unemployed, if they receive benefit at all, tends to be relatively low; secondly,



that in a number of countries, one person in employment and earning in a household is often not sufficient to ensure that income exceeds the poverty threshold.

In many countries, young people aged under 25 are particularly vulnerable to having income below the poverty threshold if they are unemployed, even if someone else in the household is working. This is the case in particular in Luxembourg, Romania and Bulgaria (as well as almost certainly for Denmark, though the number of observations is too small for the data to be reliable) e. Men aged 25-64 who are unemployed are at especially high risk of poverty in the UK, whether someone else in the household is working or not, as well as in Bulgaria, the Czech Republic, Poland and Slovakia.

As might be expected, the education attainment level of the unemployed tends to affect whether or not their income is below the poverty threshold, those with only basic schooling being more likely to be at risk of poverty than those with higher levels of education. This in part reflects the probability that those with higher education have higher earnings when in work and are, therefore, in receipt of a higher rate of social benefit in countries where unemployment compensation is related to such earnings. In addition, it reflects the tendency for those concerned to be living with a partner who also has a higher level of education and, accordingly, a relatively high level of earnings. However, it is far from being universally the case in all Member States (Table 4).

**Table 4 Share of unemployed aged 25-64 not living in workless households at risk of poverty by education attainment level, 2007 income year**

	<i>% at risk of poverty</i>		
	Basic	Total Upper secondary	Tertiary
Belgium	19.8	18.4	6.8
Bulgaria	60.5	22.9	
Czech Republic	45.8	15.9	
Germany		18.9	29.2
Estonia		21.9	18.2
Ireland	10.1	4.0	12.5
Greece	34.1	23.3	10.5
Spain	24.3	10.6	12.6
France	21.7	9.1	5.9
Italy	27.3	21.5	23.1
Cyprus	22.4	6.3	9.7
Latvia	26.3	25.0	
Hungary	38.5	13.8	
Poland	47.5	32.2	13.7
Portugal	23.4	7.1	22.7
Slovenia	28.5	23.0	20.3
Slovakia	46.1	26.1	8.5
Finland	10.1	12.7	2.4
Sweden	10.1	8.0	17.2

*Note: Excluding countries for which observations are too small to be reliable.*

*Figures in italics: data relatively uncertain*

*Source: EU-SILC, 2008*



In Germany, Ireland, Spain, Italy, Cyprus, Portugal and Sweden, therefore, those aged 25-64 with tertiary education do not have the lowest risk of poverty, which in these cases is among those with upper secondary qualifications.

## Inactivity and the risk of poverty

It is equally the case that those who are of working age economically inactive have a greater probability of being at risk of poverty even if they do not live in a workless household, though this applies only to those of 25 and over. For those aged 16-24, most of whom are in full-time education, there is not much difference in their risk, since most of them in most countries live with their parents and many are in receipt of education grants (Table 5). Nevertheless, for a few countries, in particular, the three Baltic States, Ireland and the UK, the proportion of young people in this age group with income below the poverty threshold was markedly larger (by around 9-10 percentage points) if they were inactive than if they were employed.

**Table 5 Risk of poverty of those aged 15-24 inactive and not living in a workless household, 2007 income year**

	% at risk of poverty		
	Total	Employed	Inactive
Belgium	12.9	12.1	13.4
Bulgaria	16.4	15.2	15.6
Czech Republic	9.2	6.5	10.0
Denmark	13.5	20.6	5.8
Germany	10.0	10.5	9.3
Estonia	11.9	6.3	15.0
Ireland	9.5	4.5	13.4
Greece	22.1	20.6	21.7
Spain	19.9	17.8	21.2
France*	14.1	13.2	13.2
Italy	18.7	14.1	18.9
Cyprus	10.2	12.7	9.2
Latvia	16.3	10.5	20.1
Lithuania	17.3	10.1	21.2
Luxembourg	14.3	11.5	13.4
Hungary	11.9	7.9	13.6
Malta	:	:	:
Netherlands	7.9	9.5	6.3
Austria	8.4	6.4	9.7
Poland	18.5	15.3	19.6
Portugal	18.1	13.0	20.1
Romania	22.8	27.2	19.6
Slovenia	7.7	7.3	7.6
Slovakia	11.5	6.9	12.8
Finland	13.1	16.0	10.9
Sweden	14.4	21.5	8.3
UK	11.5	6.7	16.8

Note: Figures for France are from the 2007 Survey

Source: EU-SILC

For those aged 25-64, who are inactive, the risk of poverty is much greater among women than among men. In most countries, the proportion of men aged 25-64 who are inactive



with income below the poverty threshold is not much, if any greater, than for those in work if they live in a household where someone is in work, partly reflecting the fact that many are in (early) retirement and in receipt of a pension, as well as sharing the earnings coming into the household from the person(s) in work (Table 6).

**Table 6 Risk of poverty of men aged 25-64 inactive and not living in a workless household, 2007 income year**

	<i>% of each group at risk of poverty</i>		
	Total	Employed	Inactive
Belgium	5.2	5.1	5.0
Bulgaria	11.8	9.9	15.5
Czech Republic	3.8	3.4	3.6
Denmark	5.8	5.9	4.3
Germany	6.9	6.3	10.4
Estonia	8.4	7.3	22.1
Ireland	7.2	7.1	9.0
Greece	16.5	16.3	17.7
Spain	12.4	12.2	9.9
France*	7.2	7.3	5.2
Italy	11.6	11.7	7.5
Cyprus	6.9	6.6	10.3
Latvia	13.2	11.6	28.8
Lithuania	10.9	9.5	29.3
Luxembourg	9.6	9.0	10.7
Hungary	7.2	6.7	8.7
Malta	:	:	:
Netherlands	6.3	6.4	5.0
Austria	7.4	6.9	11.0
Poland	13.6	13.4	11.8
Portugal	13.0	12.5	14.7
Romania	17.3	18.0	12.4
Slovenia	6.8	6.5	4.9
Slovakia	6.7	6.2	5.8
Finland	5.2	5.2	4.3
Sweden	6.2	6.0	7.7
UK	7.9	6.9	19.7

*Note: Data for France are from the 2007 survey*

*Source: EU-SILC*

Only in the three Baltic States and the UK, therefore, were substantially more men in this age group at risk of poverty if they were inactive and living in a household where someone was in work than if they were employed, the proportion rising to close to 30% in both Latvia and Lithuania.

For women aged 25-64 who are inactive, on the other hand, most of whom are taking care of children rather than being in retirement, the probability of being at risk of poverty is significantly greater than women who are employed in most Member States even if they share a household with someone in work. In 16 of the 26 Member States for which data are available, therefore, the proportion of women who are in this position and inactive is over



5 percentage points more than for those in employment and in another 5 countries, it is 4-5 percentage points more (Table 7).

In the case of women, unlike men, the risk of poverty among those who are economically inactive is particularly high in the Southern Member States, Greece, Spain, Portugal and Italy (over 20% in the last and around 25% in the other three) and Romania (26%) as well as in Latvia (22%) and Lithuania (25%), as in the case of men. This in some degree reflects the difficulty in these countries of households avoiding being at risk of poverty if only one person is employed.

**Table 7 Risk of poverty of women aged 25-64 inactive and not living in a workless household, 2007 income year**

	<i>% of each group at risk of poverty</i>		
	Total	Employed	Inactive
Belgium	6.9	5.4	13.0
Bulgaria	11.4	8.6	18.5
Czech Republic	5.2	4.6	4.6
Denmark	3.8	3.6	6.4
Germany	8.1	7.7	8.1
Estonia	10.1	9.6	13.0
Ireland	8.3	6.1	13.7
Greece	16.9	12.8	24.2
Spain	13.5	9.2	24.2
France*	8.5	6.7	17.6
Italy	13.0	7.9	21.6
Cyprus	9.9	7.7	16.4
Latvia	14.9	13.3	21.7
Lithuania	12.7	10.7	24.7
Luxembourg	12.3	11.8	13.6
Hungary	7.5	5.8	10.8
Malta	:	:	:
Netherlands	6.8	5.9	10.9
Austria	8.0	6.7	11.6
Poland	12.8	10.7	16.4
Portugal	13.7	10.8	24.5
Romania	17.2	13.1	25.8
Slovenia	6.2	5.0	9.1
Slovakia	7.1	6.0	8.8
Finland	5.1	4.4	9.1
Sweden	6.3	5.6	13.6
UK	9.3	8.0	17.5

*Note: Data for France are from the 2007 survey*

*Source: EU-SILC*

## The change in employment and unemployment in the recession

The global recession which followed the financial crisis caused a sharp decline in GDP across the EU in 2009, with only Poland experiencing continued growth, though at a markedly reduced rate. The extent of the decline, however, varied greatly across countries, as did the scale of the job losses which it led to, partly reflecting the measures



taken to maintain employment in the different countries. The biggest reductions in GDP occurred in the Baltic States, Ireland and Finland, which all suffered large-scale job losses, while, leaving aside Poland, the smallest reductions, which were still over 2%, occurred in Greece (in 2009 at least and despite the subsequent financial problems), France and Portugal. Although employment declined in all three countries in 2009, it was on a smaller scale in the first two than in most other countries, but in Portugal, it was larger, reflecting the fact that economic growth had been depressed throughout the decade.

Overall in the EU, the job losses led to a decline in the employment rate of working-age population (defined here as 15-64) by over 1 percentage point (from 65.9% to 64.6%) in 2009, wiping out the increase in employment which had occurred over the two preceding years (Table 8).

**Table 8 Employment rates of those aged 15-64 and 15-24, 2007-2009**

	Employed as % population 15-64			% point change 2008-09	Employed as % population 15-64			% point change 2008-09
	2007	2008	2009		2007	2008	2009	
BE	62.0	62.4	61.6	-0.8	27.5	27.4	25.3	-2.1
BG	61.7	64.0	62.6	-1.4	24.5	26.3	24.8	-1.5
CZ	66.1	66.6	65.4	-1.2	28.5	28.1	26.5	-1.5
DK	77.1	78.1	75.7	-2.4	65.3	67.0	63.6	-3.4
DE	69.4	70.7	70.9	0.2	45.3	46.9	46.2	-0.7
EE	69.4	69.8	63.5	-6.3	34.5	36.4	28.9	-7.5
IE	69.2	67.6	61.8	-5.7	50.4	45.9	35.4	-10.5
EL	61.4	61.9	61.2	-0.6	24.0	23.6	22.9	-0.6
ES	65.6	64.3	59.8	-4.6	39.1	36.0	28.0	-7.9
FR	64.3	64.9	64.2	-0.7	31.5	32.0	31.4	-0.6
IT	58.7	58.7	57.5	-1.2	24.7	24.4	21.7	-2.7
CY	71.0	70.9	69.9	-0.9	37.5	38.0	35.5	-2.5
LV	68.3	68.7	61.0	-7.7	38.3	37.2	27.7	-9.6
LT	64.9	64.3	60.1	-4.2	25.2	26.7	21.5	-5.2
LU	64.2	63.4	65.2	1.8	22.5	23.9	26.7	2.8
HU	57.3	56.7	55.4	-1.2	21.0	20.0	18.1	-1.9
MT	54.6	55.3	55.0	-0.3	45.7	45.8	44.2	-1.6
NL	76.0	77.2	77.0	-0.2	68.4	69.3	68.0	-1.3
AT	71.4	72.1	71.6	-0.5	55.5	55.9	54.5	-1.4
PL	57.0	59.2	59.3	0.1	25.8	27.4	26.8	-0.6
PT	67.8	68.2	66.3	-1.9	34.9	34.7	31.3	-3.4
RO	58.8	59.0	58.6	-0.5	24.4	24.8	24.5	-0.2
SI	67.8	68.6	67.5	-1.0	37.6	38.4	35.3	-3.1
SK	60.7	62.3	60.2	-2.1	27.6	26.2	22.8	-3.4
FI	70.3	71.1	68.7	-2.4	44.6	44.7	39.6	-5.1
SE	74.2	74.3	72.2	-2.1	42.2	42.2	38.3	-3.9
UK	71.5	71.5	69.9	-1.6	52.9	52.4	48.4	-4.1
EU27	65.4	65.9	64.6	-1.3	37.4	37.6	35.2	-2.4

Source: Eurostat, European Labour Force Survey

The fall in the employment rate was widespread across the EU, with only Germany and Luxembourg, together with Poland, escaping. In Germany, where the decline in GDP was larger than the EU average, this was a result of extensive job maintenance measures,



including especially the short-time working scheme, which at its peak, supported over 1.5 million workers, mainly in manufacturing, who otherwise are likely to have lost their jobs.

The decline in the employment rate was particularly large in the countries where GDP fell the most – in Latvia (where the decline was almost 8 percentage points), Estonia (over 6 percentage points), Ireland (just under 6 percentage points – implying a fall of 7 percentage points from 2007), and Lithuania (over 4 percentage points). The decline in the rate was much less in Finland (only around 2 percentage points), despite the big fall in GDP, while in Spain, where GDP fell by slightly less than the EU average, the decline in employment was also relatively large (just under 5 percentage points and 6 percentage points from 2007).

The reduction in the employment rate affected men much more than women (the fall averaging over 2 percentage points across the EU as against 0.5 of a percentage point), reflecting the relatively concentration of job losses in sectors where men predominate – in manufacturing and construction. It also affected young people under 25 more than those older than this (the employment rate for those aged 15-24 falling by around 2.5 percentage points across the EU).

The fall in employment was mirrored by an increase in unemployment, the extent of which for those aged 25 and over, was slightly more than the former because of an increase in the activity rate at the same time (i.e. in the proportion of population either in work or actively work). This contrasts markedly with early economic downturns which were invariably accompanied by a fall in the activity rate as many of those losing their jobs left the work force, in some cases to take up early retirement. In the recession of 2009, however, job losses were not at all concentrated on those in older age groups, as they had been on previous occasions, and the employment rate of those aged 55-64 actually increased in 2009 instead of falling, even if by much less than the average rise over the preceding 8 years (of 1 percentage point a year).

Unemployment, therefore, increased from 4.6% of the population aged 25-64 in 2008 to 5.9% in 2009 in the EU as a whole (Table 9). In the three Baltic States, however, it rose by 6-7 percentage points relative to population, in Spain, by 5 percentage points and in Ireland, by 4 percentage points – i.e. by much less than the fall in the employment rate as some of those losing their jobs withdrew from the labour force. These are the only countries, however, where the proportion of the population who became unemployed increased by more than 2 percentage points, apart from Denmark, where the rise was only marginally more than this. In 10 of the 27 EU Member States, the rise was less than 1 percentage point, and in 5 of these, 0.5 of a percentage point or less. In these countries, therefore, there is likely to have comparatively little increase in the risk of poverty from the rise in unemployment alone.

Moreover, the proportion of working-age population who were inactive also fell in 2009, implying that the rise in unemployment, unlike during previous economic downturns, was a reasonable indicator of the increase in joblessness. The rate of inactivity, therefore, increased in a minority of Member States, most notably in Ireland (by almost 2 percentage points), signifying that here a sizable number of people leaving their job withdrew from the labour force, and to a lesser extent in Finland (by 1 percentage point).



**Table 9 Unemployment and inactivity rates of those aged 15-64, 2007-2009**

	Unemployed as % population			% point ch	Inactive as % population			% point ch
	2007	2008	2009	2008-09	2007	2008	2009	2008-09
BE	5.0	4.7	5.3	0.6	32.9	32.9	33.1	0.2
BG	4.6	3.8	4.6	0.8	33.7	32.2	32.8	0.6
CZ	3.8	3.1	4.7	1.6	30.1	30.3	29.9	-0.4
DK	3.1	2.7	4.9	2.2	19.8	19.2	19.3	0.2
DE	6.6	5.8	6.0	0.2	24.0	23.5	23.1	-0.4
EE	3.5	4.2	10.4	6.2	27.1	26.0	26.1	0.1
IE	3.4	4.4	8.4	4.0	27.5	28.0	29.8	1.8
EL	5.6	5.2	6.5	1.3	33.0	32.9	32.2	-0.7
ES	5.9	8.3	13.2	4.9	28.4	27.4	27.0	-0.4
FR	5.6	5.2	6.4	1.2	30.0	29.9	29.3	-0.5
IT	3.9	4.3	4.9	0.6	37.5	37.0	37.6	0.6
CY	3.0	2.8	4.0	1.2	26.0	26.4	26.0	-0.3
LV	4.5	5.8	13.0	7.2	27.2	25.6	26.1	0.5
LT	3.0	4.0	9.7	5.7	32.1	31.6	30.2	-1.4
LU	2.7	3.4	3.5	0.1	33.1	33.2	31.3	-1.9
HU	4.6	4.8	6.2	1.4	38.1	38.5	38.4	-0.1
MT	3.8	3.6	4.1	0.6	41.6	41.2	40.9	-0.3
NL	2.5	2.2	2.7	0.6	21.5	20.7	20.3	-0.3
AT	3.3	2.9	3.7	0.7	25.3	25.0	24.7	-0.3
PL	6.1	4.6	5.4	0.8	36.8	36.2	35.3	-0.9
PT	6.3	6.0	7.4	1.4	25.9	25.8	26.3	0.5
RO	4.3	3.8	4.5	0.7	37.0	37.1	36.9	-0.2
SI	3.5	3.2	4.3	1.1	28.7	28.2	28.2	-0.1
SK	7.6	6.6	8.3	1.7	31.7	31.2	31.6	0.4
FI	5.2	4.9	6.3	1.4	24.4	24.0	25.0	1.0
SE	4.9	5.0	6.7	1.7	20.9	20.7	21.1	0.4
UK	4.0	4.3	5.8	1.5	24.5	24.2	24.3	0.1
EU27	5.1	5.0	6.4	1.4	29.5	29.1	28.9	-0.1

Source: Eurostat, European Labour Force Survey

The rise in unemployment in 2009 among young people those aged under 25 was larger in most countries. In the EU as a whole, it averaged almost 2 percentage points of those aged 15-24 (Table 10). In Latvia, the rise was over 8 percentage points, in Estonia, 6 percentage points, in Spain, just over 5 percentage pints and in Ireland and Lithuania, just under 5 percentage points. Elsewhere, it exceeded 2 percentage points in 7 countries and was under 1 percentage point only in 5 countries.

At the same time, inactivity also increased among young people, in part because many chose to remain in the education system rather than to become unemployed. In the EU as a whole, it increased by 0.6 of a percentage point in 2009. In Ireland, however, it rose by 6 percentage points (and by almost 9 percentage points between 2007 and 2009), more than the increase in unemployment, in Finland by 3 percentage points – again by more than the rise in unemployment – and in Spain, Portugal and Slovenia by 2-3 percentage points, while in Italy, Sweden and the UK, the increase was just under 2 percentage points. In Italy, as in Portugal, the rise was much larger than the increase in unemployment (over twice as large) and in Sweden and the UK, it was only slightly smaller.





**Table 10 Unemployment and inactivity rates of those aged 15-24, 2007-2009**

	Unemployed as % population			% point ch	Inactive as % population			% point ch
	2007	2008	2009	2008-09	2007	2008	2009	2008-09
BE	6.4	6.0	7.1	1.1	66.1	66.6	67.6	1.0
BG	4.4	3.8	4.8	0.9	71.1	69.9	70.5	0.6
CZ	3.4	3.1	5.3	2.2	68.1	68.9	68.2	-0.7
DK	5.6	5.5	8.0	2.5	29.1	27.5	28.3	0.9
DE	6.1	5.5	5.8	0.3	48.6	47.5	48.0	0.4
EE	3.8	5.0	11.0	6.0	61.7	58.6	60.1	1.5
IE	5.0	6.7	11.3	4.6	44.6	47.5	53.3	5.9
EL	7.1	6.7	8.0	1.3	68.9	69.8	69.1	-0.7
ES	8.7	11.7	17.1	5.3	52.2	52.3	54.9	2.6
FR	7.3	7.2	9.2	2.0	61.1	60.8	59.4	-1.4
IT	6.3	6.6	7.4	0.8	69.1	69.1	70.9	1.8
CY	4.3	3.7	5.6	1.9	58.3	58.2	58.9	0.7
LV	4.6	5.6	14.0	8.4	57.1	57.1	58.3	1.2
LT	2.3	4.1	8.9	4.7	72.6	69.2	69.6	0.4
LU	4.1	5.2	5.5	0.3	73.4	70.9	67.8	-3.1
HU	4.6	5.0	6.5	1.6	74.4	75.0	75.4	0.4
MT	7.4	6.4	7.4	1.0	46.9	47.8	48.5	0.6
NL	4.3	3.9	4.8	1.0	27.3	26.8	27.2	0.4
AT	5.3	4.9	6.0	1.1	39.2	39.2	39.5	0.3
PL	7.1	5.7	7.0	1.3	67.0	66.9	66.2	-0.7
PT	6.9	6.8	7.8	1.0	58.1	58.4	60.8	2.4
RO	6.1	5.7	6.4	0.8	69.5	69.6	69.1	-0.5
SI	4.2	4.5	5.6	1.1	58.2	57.1	59.1	2.0
SK	7.0	6.2	8.6	2.4	65.4	67.6	68.6	1.0
FI	8.8	8.8	10.9	2.1	46.6	46.5	49.6	3.0
SE	10.1	10.7	12.8	2.1	47.8	47.2	49.0	1.8
UK	8.8	9.2	11.4	2.1	38.3	38.3	40.3	1.9
EU27	6.8	6.9	8.7	1.8	55.8	55.5	56.2	0.6

Source: Eurostat, European Labour Force Survey

### Change in the proportion of unemployed and inactive living in workless households

The effect on the income of those who became unemployed or inactive as a result of the economic recession depends very much on their household circumstances. If they live in a household with someone in work, then they can, potentially at least, share their earnings from employment. If not, then they are likely to be highly dependent on any social benefits they receive, which in many countries are low in relation to earnings when in work. As indicated above, therefore, the distribution of the unemployed and inactives between households is a major determinant of whether or not the people concerned have income below the poverty threshold as conventionally measured.

In practice, in a number of countries, job losses from the economic downturn were so widespread that in some cases they affected more than one person in a household, quite apart from the fact that the many people living alone automatically live in a workless household once they lose their job. In general, however, the larger the rise in joblessness, the larger the increase in the proportion of the unemployed and inactive of working age



living in workless households, though this was less the case for young people under 25 than those aged 25-64 and less the case for men than for women.

In the case of the unemployed aged 15-24, the increase in the proportion living in workless households in 2009 was particularly large in Spain, where unemployment rose markedly, as well as in Estonia and Finland, where there were also large rises in unemployment, and in Slovenia and France, where the rise was less (Table 11). The increase, however, was less pronounced in Ireland, Lithuania (except in 2008 in both cases) and Latvia, where unemployment also rose markedly.

**Table 11 Proportion of men and women unemployed by broad age group living in workless households, 2007-2009**

	Men+women aged 15-24			Men aged 25-64			Women aged 25-64		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
BE	33.2	34.7	35.1	67.6	67.1	66.6	56.7	58.4	58.6
BG	28.9	30.8	30.3	52.0	47.3	47.8	39.3	38.0	40.3
CZ	22.2	24.8	22.5	54.1	58.5	54.7	38.6	37.9	36.6
DK	:	:	:	:	:	:	:	:	:
DE	41.5	42.3	38.0	68.0	70.2	65.7	55.2	57.6	55.2
EE	18.3	21.8	28.8	52.2	40.5	45.1	40.6	34.0	49.6
IE	23.8	28.0	28.4	48.3	47.2	44.8	40.5	38.3	43.8
EL	19.4	16.1	17.0	49.1	48.4	48.6	27.8	26.0	30.8
ES	11.5	18.2	25.6	45.7	42.0	47.8	24.0	27.0	37.9
FR	26.6	27.6	31.3	58.3	57.9	59.2	44.1	45.7	49.2
IT	19.1	16.5	17.3	54.3	54.7	52.3	28.8	30.8	34.7
CY	23.2	15.7	14.4	35.3	32.7	33.5	22.4	23.5	19.5
LV	18.1	19.8	19.0	45.0	38.6	41.1	40.2	40.5	48.1
LT	22.2	34.5	33.0	38.4	42.4	43.9	34.9	40.2	47.0
LU	20.0	20.1	20.3	42.6	66.9	43.5	34.4	30.7	28.7
HU	26.1	29.7	29.6	51.9	57.1	51.5	37.4	39.1	39.0
MT	16.3	16.5	20.5	54.0	54.2	56.5	25.1	31.8	40.1
NL	22.3	24.5	25.1	60.0	58.5	55.4	38.0	38.7	36.3
AT	25.2	18.3	21.4	53.3	57.8	53.4	40.3	43.1	41.1
PL	23.5	21.0	20.9	43.7	42.8	44.8	34.1	33.3	34.3
PT	11.7	12.0	15.6	32.9	34.8	37.3	21.9	21.1	26.9
RO	26.0	27.6	26.1	50.1	55.0	49.4	30.0	34.8	30.2
SI	12.6	8.5	16.2	33.7	42.7	42.8	33.1	36.5	34.8
SK	31.9	27.0	21.0	57.2	53.9	47.2	36.8	35.4	32.8
FI	30.4	28.0	33.4	65.5	56.1	61.1	44.5	47.9	51.7
SE	:	:	:	:	:	:	:	:	:
UK	32.9	31.9	34.3	64.5	60.5	53.0	49.5	49.5	51.1

*Note: No household-level data for Denmark and Sweden*

*Source: Eurostat, European labour Force survey*

In addition to the difference in the changes in the proportion of the unemployed in this age group living in workless households, there are also differences in the levels, reflecting counterpart differences in the structure of households and in the age at which young people typically leave the family home. In southern EU Member States, in particular, where young people tend to remain living with their parents longer – not least because of the difficulty of earning enough income to live independently, given among other things the limited access to social benefits – the proportion living in workless households tends to be



correspondingly smaller. This is especially the case in Greece, Italy, Portugal and Cyprus and, to a lesser extent in some of the EU12 countries. It also used to be the case in Spain, but here the large rise in unemployment has more than offset the effect of this, as it has in Estonia and Lithuania. In a number of more northerly Member States, such as Belgium, Germany, Finland and the UK, the relatively large number of young people who live independently of their parents tends to push up the proportion living in workless households.

For men unemployed aged 25-64, the only countries in which the proportion living in workless households increased markedly in 2009 (by over 5 percentage points) were Spain and Finland. There were also increases in Estonia, Latvia and Portugal, but in other countries, the proportion either remained the same or declined, as in Ireland, Romania, Slovakia and the UK, as well as Germany, where the rise in unemployment was relatively small.

In the case of women unemployed aged 25-64, there was a more widespread increase in the proportion living in workless households, which in a number of cases was substantial. This was especially so in Estonia, where the proportion increased by over 15 percentage points, Spain, where it rose by 11 percentage points, Latvia and Lithuania, where the increase was around 7-8 percentage points and Ireland and Portugal, where it was 5-6 percentage points.

The proportion of the inactive aged 15-24 living in workless households shows a slightly different pattern to that shown by the unemployed in this age group. In Ireland, in particular, there was a much bigger rise in this proportion in 2009 than for the unemployed, while in Estonia, Spain, Latvia and Finland, the increase was more modest (Table 12).

The same was true for those aged 25-64, though only for women. Indeed, in virtually all Member States, the proportion of women who were not economically active and who lived in workless households increased, while for men who were inactive, there was an increase only in around half the countries. This reflects the job losses among other members of the household, especially among men, who in many cases are likely to have been the sole earner before losing their job.

Nevertheless, it remains the case that most men who are inactive tend to live in workless households, especially in the non-southern EU15 countries, reflecting the fact that many live alone.



**Table 12 Proportion of men and women inactive by broad age group living in workless households, 2007-2009**

*% Inactives living in jobless households*

	Men+women aged 15-24			Men aged 25-64			Women aged 25-64		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
BE	13.0	12.4	13.4	68.4	68.1	69.3	52.4	53.9	55.9
BG	12.9	11.4	14.1	54.8	54.3	53.6	49.7	47.7	49.1
CZ	6.9	6.3	6.6	56.6	57.2	59.6	41.6	41.6	42.9
DK									
DE	10.0	12.1	9.6	62.9	63.0	61.0	45.5	46.0	46.7
EE	6.5	6.2	9.6	54.9	58.3	56.2	39.2	40.3	42.1
IE	12.9	13.7	20.4	55.4	59.0	58.5	32.0	33.6	41.3
EL	10.1	9.3	10.8	51.8	51.8	51.9	32.3	32.6	35.2
ES	7.5	8.0	11.3	46.9	47.8	50.5	24.6	27.2	32.0
FR	10.6	11.1	11.6	64.3	64.0	65.7	53.3	56.1	58.2
IT	9.5	10.5	11.2	50.3	51.9	53.7	32.1	33.4	34.8
CY	5.9	8.2	9.0	47.3	49.4	54.8	28.0	27.9	31.0
LV	7.7	7.9	10.3	48.1	47.0	50.5	37.5	38.4	42.9
LT	9.5	12.0	12.3	48.4	56.0	57.1	40.2	46.8	51.2
LU	7.6	7.7	8.3	61.3	54.7	56.0	34.8	37.0	36.6
HU	13.1	13.1	14.0	54.3	54.6	55.2	45.8	46.1	46.8
MT	8.5	8.0	8.6	52.2	55.6	54.0	24.0	26.0	26.6
NL	12.8	13.2	12.9	67.8	68.4	67.3	48.2	48.0	48.1
AT	7.7	8.1	8.5	57.1	56.4	55.9	44.4	44.9	46.5
PL	11.8	11.1	10.1	51.7	50.8	52.3	41.6	40.4	42.8
PT	6.5	5.9	7.8	42.4	42.3	41.8	30.9	30.1	32.5
RO	12.3	12.8	13.8	45.0	45.4	47.9	37.9	37.4	38.4
SI	5.0	4.9	6.3	46.1	44.6	47.8	41.2	43.8	47.9
SK	7.7	6.7	6.0	51.0	50.5	53.2	37.0	35.4	37.8
FI	7.9	7.7	9.9	60.4	59.7	59.7	53.3	51.3	53.7
SE									
UK	23.1	22.3	21.3	67.7	69.9	69.6	52.1	50.8	52.3

Source: Eurostat, European Labour Force Survey

## Change in those of working-age living in workless households

The implication of the above is that the proportion of those aged 15-64 living in workless households increased in 2009 in most countries. Even where there was little change, or even in a decline, in the proportion of the unemployed – or inactive in the case of those under 25 – living in workless households, this was offset in most cases by the rise in unemployment, or inactivity. In all EU Member States apart from Germany and Luxembourg, therefore, where unemployment increased only marginally in 2009 and the rate of inactivity declined, the proportion of people of working age living in workless households increased (Table 13).



**Table 13 Proportion of men and women aged 15-64 living in workless households**

	% living in workless households			% point change
	2007	2008	2009	2008-2009
BE	16.5	16.4	17.3	0.9
BG	14.0	12.4	13.7	1.2
CZ	10.6	10.3	11.2	0.8
DK	:	:	:	:
DE	12.6	12.4	11.9	-0.5
EE	8.2	8.2	11.9	3.7
IE	9.5	10.3	14.6	4.3
EL	11.0	10.8	11.9	1.1
ES	8.5	9.5	13.2	3.6
FR	14.5	14.6	15.8	1.2
IT	12.4	12.9	13.9	1.0
CY	6.5	6.9	7.8	0.9
LV	8.5	8.3	12.4	4.1
LT	9.3	11.4	13.8	2.4
LU	10.8	11.4	10.6	-0.8
HU	15.6	16.2	17.0	0.7
MT	11.7	12.4	12.8	0.5
NL	11.2	10.5	10.5	0.0
AT	10.8	10.6	10.9	0.4
PL	14.0	13.0	13.5	0.5
PT	7.7	7.5	8.7	1.3
RO	12.4	12.5	13.1	0.6
SI	9.5	9.5	10.8	1.3
SK	11.6	10.3	11.2	0.9
FI	12.1	11.3	13.1	1.8
SE	:	:	:	:
UK	13.4	13.1	13.9	0.7

Source: Eurostat, European Labour Force Survey

The increase was particularly pronounced in Ireland and Latvia (over 4 percentage points, in the former bringing the overall rise from 2007 to over 5 percentage points) and was only slightly less so in Estonia and Spain (just under 4 percentage points, though in the latter, just under 5 percentage points from 2007). In Lithuania, though the increase was smaller in 2009 (just over 2 percentage points), it was larger than that in either of the two other Baltic States in relation to 2007 (just under 5 percentage points). Elsewhere, the increase was just under 2 percentage points in Finland and over 1 percentage point in Bulgaria, Greece, France, Portugal and Slovenia.

## Implications for the risk of poverty of changes in employment status

It remains to bring the results of the above analysis together and to consider the implications for the risk of poverty among those losing their jobs in the recession, or in the case of young people especially, though also for those who were previously out work – particularly women interrupting their working careers to take care of children – not being able to find a job. As emphasised, the implications depend to an important extent on the household characteristics of the people concerned and, in particular, whether they are



living alone or more generally in a household where they are the main, or even, sole earner, or whether they are sharing the house with someone who is in employment and bringing in income as a result. They also depend, of course, on what happens to the other earners in the household and whether they too lose their jobs or are able to remain in work. Nevertheless, as also indicated, sharing a household with someone in work is no guarantee at all against income falling below the poverty threshold.

The net result of changes in the relative number of people living in workless households, together with the changes in the employment status of those sharing a household with someone in work, is that the proportion of people with income below the poverty threshold is likely to have increased in nearly all EU Member States in 2009. On the assumption that the risk of poverty for the various groups distinguished in the analysis remains the same as in 2009 as in 2007, but that the relative weight of these different groups changes as indicated above, there are only three Member States, Germany, Luxembourg and the Netherlands, where this was not the case (see Box for a details of the method used to generate the estimates).. In Latvia, the increase in the proportion of those of working age, 16-64, at risk of poverty is estimated to be around 3 percentage point, in Estonia, around 2.5 percentage points and in Ireland, just under 2 percentage points, while in Spain and Lithuania, the other two countries to experience the largest job losses, it is around 1 percentage point (Table 14).

#### **The method of estimating the effect of employment developments on the risk of poverty**

The estimates are based on assuming that the risk of poverty for the different groups distinguished here among those aged 16-64 remain the same in 2009 as in 2007 (as reported by the EU-SILC for 2008). The groups in question are those in this age group living in workless households, those aged 16-24 not living in workless households according to their employment status (whether employed, unemployed or inactive) and men and women aged 25-64 not living in workless households, also according to their employment status. The change in the share of these various groups in the population aged 16-64 between 2008 and 2009, as derived from the above analysis of the LFS data, is applied to the share in 2008 given by the EU-SILC data to obtain an estimate of the share in 2009 on an EU-SILC basis (in practice, the shares from the two sources are similar in most cases but not the same)<sup>1</sup>.

This implicitly assumes that the relationship between the employment status of individuals in 2008 and their household income in 2007 gives a reasonable estimate of the relationship between employment status in 2009 and household income in 2009, which may well not be the case, if only because the recession already began to show itself in the employment figures for some countries in 2008, so that the household income of those concerned might be very different in 2008 than in 2007. It is difficult to allow for this problem, though one possibility would be to take account of the change in employment circumstances between 2007 and 2009 rather than simply between 2008 and 2009 when making the estimates. The effect of this would be to increase the proportion at risk of poverty in Ireland, Spain and Lithuania, in particular.

<sup>1</sup> It is assumed that the LFS data which, for the younger age group, relate to the change in employment status for those aged 15-24 applies equally to the change for those aged 16-24.



**Table 14 Proportion of population at risk of poverty, 2007 and 2009 (estimated)**

	% at risk of poverty			
	Age group 16-64		Total population	
	2008	Est 2009	2008	Est 2009
Belgium	12.7	13.0	14.7	14.9
Bulgaria	17.6	18.3	21.4	22.0
Czech Republic	8.8	9.2	9.1	9.4
Denmark				
Germany	15.5	15.4	15.3	15.2
Estonia	15.2	17.6	19.5	21.6
Ireland	14.0	15.7	15.5	17.1
Greece	19.1	19.2	20.1	20.2
Spain	16.8	17.9	19.6	20.6
France	12.7	13.0	13.1	13.4
Italy	16.9	17.2	18.7	18.9
Cyprus	11.7	12.0	16.3	16.6
Latvia	20.3	23.2	25.6	28.2
Lithuania	17.4	18.5	20.0	20.9
Luxembourg	13.4	13.3	13.4	13.3
Hungary	12.5	12.7	12.3	12.6
Malta				
Netherlands	10.2	10.2	10.6	10.6
Austria	11.1	11.3	12.4	12.5
Poland	16.8	17.0	16.9	17.0
Portugal	16.8	17.2	18.5	18.8
Romania	21.0	21.2	23.4	23.5
Slovenia	10.6	11.1	12.3	12.8
Slovakia	10.1	10.6	10.9	11.3
Finland	11.9	12.4	13.6	14.0
Sweden				
UK	15.1	15.6	19.0	19.4

*Note: No data from the EU-SILC for Malta and no household data from the LFS for Denmark and Sweden.*

*Source: Authors' estimates based on EU-SILC and LFS data. See Box for details*

These figures, it should be emphasised are simply estimates of the effect of employment developments on the risk of poverty and take no account of other factors either linked to the recession or not. They are almost certainly underestimates of the labour market effects of the recession, since they take no account of reductions in rates of pay and/or in working time as a result of the recession and attempts to maintain people in employment, even if on lower earnings. This is particularly the case in Germany, where employment was largely maintained during the recession despite a significant fall in GDP. It is, however, difficult to make any allowance for this because, as noted at the outset, no data exist on the incidence of job maintenance measures between income groups or of voluntary agreement to accept pay reductions on the part of workers. It is in any case difficult to incorporate in the estimates made here because there is a need to take account of two



offsetting factors – the tendency if any for reductions in earnings to be concentrated on those at the lower end of the income distribution and the reduction in median income resulting from the generalised decline in average income levels. The former, of course, would tend to increase the proportion at risk of poverty, the latter to reduce it, to the extent that those with incomes which are not affected by the recession (such as those receiving retirement pensions) would experience an increase in relative income levels.

The estimates also assume that the risk of poverty among the unemployed and inactive was the same in 2009 as in 2007, which to some extent assumes that those receiving social benefits did so, on average, at the same rates in the later year as in the earlier one. For the unemployed, especially, this may well not have been the case since those becoming unemployed may be entitled to a different level of benefit than those who have been unemployed for sometime (who are likely to make up, on average, a larger proportion of the unemployed in 2007 than in 2009). On the one hand, the benefits received might be higher in some countries (many in the EU15), since they are linked to previous earnings for a time. On the other hand, those becoming unemployed might have to wait a time before they receive benefit and in many countries, entitlement to benefit is restricted anyway<sup>2</sup>.

Equally problematically, the estimates implicitly assume – as in large measure does the EU-SILC and the indicators derived from it – that the household income of the various social groups in 2007 is a reasonable estimate of income in 2008, which is the year to which the composition of households and the employment status of household members applies. In normal circumstance, this assumption may be reasonable, but for some countries in particular in 2008, it is not so because the effects of the recession were already beginning to show up in the data collected on employment status by the survey. This is the case most especially for Ireland, Spain and the three Baltic States where recession hit earlier than in most other countries, as well as in Hungary, where the economic situation was already deteriorating before the global recession began.

If allowance is made for this (by simply taking account of the change in the employment status of people of working age between 2007 and 2009 instead of simply between 2008 and 2009), then the estimated risk of poverty among those aged 16-64 would be around 1 percentage point higher in Lithuania (than show in Table 14) and around 0.5 of a percentage point higher in Ireland and Spain and slightly less in Hungary.

Of course, as emphasised above, these estimates take no account at all of other developments between 2007 and 2009 which might affect the proportion at risk of poverty, such as in government policy, which may, for example, have been directed towards trying to protect those hit worst by the crisis.

As indicated at the outset, the income of those aged 16-64 does not only support those in this age group but also children and some elderly who live in the same households and share the income as well. If account is taken of this, then an estimate can also be derived of the overall risk of poverty in the different countries, on the assumption that the risk of poverty remains the same among those who do not live in a household with someone aged 16-64. The proportion of the latter that are at risk of poverty tends to be much higher than those sharing households with those aged 16-64 in most countries. Overall, therefore, the estimated proportion of population with income below the poverty threshold is pushed up to over 28% in Latvia and to around 22% in Lithuania, if account is taken of the

<sup>2</sup> See 'Effects of the current recession on social exclusion', *Research Note No. 4*, Income Distribution and Living Conditions Network, Social Situation Observatory, 2009





probable rise in those at risk of poverty between 2007 and 2008 (Table 14). The proportion is also increased to around this level in both Estonia and Bulgaria (where it was only just below in 2007), while in Spain, it is increased to around 21% if again allowance is made for the probable rise in the risk of poverty from 2007 to 2009.

## Conclusions

As emphasised, the estimates made here of the effect of the recession on the proportion of the population at risk of poverty are inevitably partial given the data that are available. They take no account of the effect of the changes in the income of many of those who managed to keep their jobs during the recession which undoubtedly occurred. They also take no account of changes in government policy and in the income support provided to those not in employment. Equally, they assume that the risk of poverty for the social groups which can be distinguished – those becoming employed or withdrawing from the work force and those living in workless households – remains the same in 2009 as in 2007, which, in practice, is unlikely to be the case since their characteristics are very likely to change.

Nevertheless, despite these limitations, the analysis indicates that the recession is likely to have a significant effect on the relative number of people at risk of poverty in a number of countries, especially of course, those where it has had the largest effect on employment – in the three Baltic States, Ireland and Spain, especially. It also shows that the proportion of the population living in workless households – households in which there is at least one person of working age but in which no-one of working-age is in employment – increased markedly in these countries in 2009 according to the LFS data. This increase was almost certainly accompanied by an increase in the number of people living in low work intensity households, which are difficult to distinguish in the LFS data, but where the risk of poverty is not much less than in workless households.

Overall, the simple estimates presented here are likely to underestimate the effects of the recession on the number of people with income below the poverty threshold not only because of the factors they leave out of account but also because the full effects on employment of the recession had not all come through in 2009. Accordingly, this reinforces the policy implications of the analysis, not least that the restrictive measures which are being taken or planned by governments across the EU to reduce budget deficits, need to take explicit account of the starting position in terms of the distribution of income rather than that which is reflected in the latest income data available. They need, therefore, to make due allowance for the significant numbers whose income has fallen below the poverty threshold since the latest data were collected – and the income data compiled by the EU-SILC for 2009 will reflect the effects of the recession only to a very limited extent – when determining the measures to introduce.