INCOME ON THE MOVE

Report on income distribution, poverty and redistribution

By:
M.R. Michiel Ras, Evert Pommer and Jean Marie Wildeboer Schut
Social and Cultural Planning Office of the Netherlands

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Introduction

Income on the Move

Every year since 2000, the EC has published a Report on the social situation in the European Union. The report contains a wide range of information, research findings and analyses on the social situation in the Member States. In this year’s report, the analysis of income is only partially covered. This document presents a more complete analysis of income developments in the European Union.

The document is divided into three sections which deal with income distribution in general, poverty and finally income redistribution. The income level is one of the main factors in determining an individual’s standard of living. More income can offer an individual more choice and access to goods and services and, by that, a higher quality of living standards. The distribution of income throughout a society is also important in relation to relative poverty and risks of social exclusion. This contribution deals with the income levels and distributions and their trends in the EU Member States and with poverty and its dynamics. The distribution of net income is influenced by the redistributive role of welfare states, by taxes, social premiums and benefits. The third section of this document examines the role of specific benefits in reducing income inequality.

Special attention is given to the dynamic aspect of income, poverty and redistribution. Most empirical analyses are based on the 1994-1997 waves of the ECHP. The general conclusions are presented at the end of the document.

1 This text is written by Michiel Ras (on Income distribution), Evert Pommer (on Poverty) and Jean Marie Wildeboer Schut (on Redistribution). All are staff members of the Social and Cultural Planning Office of the Netherlands. They are fully responsible for the content of this document.

2 The Report on the social situation in the European Union, 2002 (DG Employment and Social Affairs and Eurostat) pays particular attention to Population Movements and the issue of mobility and to recent Social Protection Reform. Both of these issues have grown in importance over the last decade due to changes in the economic and social environment and are linked with several important policy issues in the EU agenda such as employment, migration, socio-economic sustainability, cohesion and enlargement. As a consequence, income plays a rather minor role in the 2002 Report, only as a standard component of the living conditions. That’s why the information on income is published in this way.
INCOME ON THE MOVE

1. Distribution of income

The income level is one of the main factors in determining an individual's standard of living. More income offers more choices and access to goods and services within society and hence a higher quality of life. To make income levels comparable, the concept of equivalised disposable income is used here.

1.1 Income levels and distribution

The main source of comparable income data is the European Community Household Panel (ECHP) from Eurostat.

- **Mean disposable income per capita**, measured on a purchasing power parity basis, was 12.1 thousand PPS in the EU in 1997. The four southern Member States have the lowest mean incomes (from 8.2 to 10.2 thousand PPS), Finland, Sweden and Ireland range from 11.6 to 12.0 and the others are between 13.3 and 15.0, with the exception of Germany (15.3) and Belgium 16.6.

- **Relatively low income groups**, like the elderly, people living alone and one-parent families are at risk in several Member States. However, this pattern varies significantly by Member State. One-parent families have an income close to 60% of the national value in some Member States, but in Greece and Spain their income is much higher, even almost up to 100%. Couples under 65, without children, are on average well off in all Member States. And if they have children, their income amounts to more than 90% on average in all Member States. These patterns did not change substantially during the 4 waves (1994-1997) of ECHP.

<table>
<thead>
<tr>
<th>Table 1: Income relative to the national average (1997)</th>
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<td>B</td>
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<tr>
<td>100</td>
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<td>114</td>
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<td>128</td>
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<td>102</td>
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<td>103</td>
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<tr>
<td>95</td>
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</tbody>
</table>

- The extent of income inequalities varies across Member States. The ECHP forms the basis for comparable estimates.

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3 In order to take into account differences in household size and composition in the comparison of income levels, the amounts given here are per ‘adult’. The household’s total income is divided by its ‘size’, using the modified OECD equivalence scale. This scale gives a weight of 1.0 to the first adult, 0.5 to the second and each subsequent person aged 14 and over and 0.3 to each child aged under 14 in the household. It should be noted that equivalised income is defined on the household level, so that each person (adult or child) in the same household has the same equivalised income.

4 For further information, see: [http://forum.europa.eu.int/irc/dsis/echpanel/info/data/information.html](http://forum.europa.eu.int/irc/dsis/echpanel/info/data/information.html).

5 Purchasing Power Parities convert every national monetary unit into a common reference unit, the purchasing power standard (PPS), of which every unit can buy the same amount of goods and services across the Member States in a given year. Home production and other in-kind income are not included. In the ECHP, the share of persons living in households that save significantly through consumption of own production varies from 14% to 43% by Member State. Atkinson (1995, covering EU-12) states that this omission generally makes big differences for the incomes in Spain, Portugal and Ireland.
Inequality, measured by the share ratio S80/S20 of the eighth and second deciles or the Gini coefficient, is found to be relatively high in 1997 in the southern Member States, Belgium and the United Kingdom. The lowest values are to be found in the Scandinavian Member States and Austria. The same patterns can be found in 1994.

The candidate countries have considerably lower incomes than the EU-15 countries. First of all it has to be mentioned that income information on the 13 candidate countries (CC-13) is not so readily available as it is for the Member States. Eurostat reports an indication that GDP per capita (in PPS) of the CC-13 is relatively low. The lowest GDP per head in the EU-15 countries amounts to nearly 70% of the EU-15 average. However, in the CC-13, this percentage (relative to the EU-15 average) varies from as low as 24 to 82, with an average of 35. Apparently, GDP per capita is about a third of that in the Union.

GDP growth rates for CC-13 were much higher than EU-15 rates in 1996-1997 (5 against 2% per annum), but similar during the period 1998-2000.

According to data from the Luxembourg Income Study (LIS), Hungary and Poland have relatively high levels of inequality (with an S80/S20 of 2.4 and a Gini of 32). The Slovak Republic has a low level (1.7 and 19), and the Czech Republic takes a moderately low position (2.0 and 26). The OECD concludes roughly the same for Hungary. Moreover, it finds that Turkey has a much higher level of inequality (a Gini of 49).

### 1.2 Trends in income distribution

Information on inequality trends is available from the Luxembourg Income Study. Although some caveats should be kept in mind, an important finding is that the ordering of OECD nations appears to remain more or less the same during the period 1980-1997. Large changes occurred within nations over

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6 The inequality of an income distribution is often summarised in one number, an inequality index. An often-used measure of inequality is the Gini coefficient, ranging from zero for complete equality to one hundred for complete inequality (when only one person has all income).

7 See Eurostat, The GDP of the Candidate Countries, Statistics in Focus, Theme 2, 18/2001. Although GDP per capita may look similar to the ‘mean disposable income’ concept used in this contribution, one has to keep in mind that GDP is a macro-economic entity. Furthermore, no correction has been done for household differences (GDP is measured per person, not per adult). In the main text GDP per capita of CC-13 is compared to that of EU-15.


10 For documentation LIS, see [http://www.lisproject.org/](http://www.lisproject.org/)
time, most of them ending up more unequal (including the western part of Germany). But Denmark (and Canada) had no rise, and only a slow rise in inequality occurred in some countries. OECD (2000) confirms these broad findings.

- This means that rising economic inequality may not be inevitable, although it is stimulated by skill-based technological change, international trade and other factors. OECD (2000) states that gross earnings and other market income were the main contributors to widening inequality at the household level, through channels of increased dispersion and employment polarisation. The latter effect is the simultaneous increase in both unemployed and fully employed households. In most countries, the redistributive impact of the tax-transfer system increased, but not enough to offset the effect of market income developments. It is an interesting question whether the redistributive effect increased because of changes in the tax-transfer system, or because of the combination of changes in market incomes and the tax-transfer system that is more redistributive at the tail ends of the income distribution.


- In a study of the World Bank\textsuperscript{11}, also hampered by the lack of reliable data, the Ginis of five CCs are compared in the period from 1987-89 to 1993-95. The Slovak Republic experienced a very small decrease, Hungary and Slovenia a moderate increase but Bulgaria and Lithuania showed enormous increases of more than 10 percentage points. This also means that differences between these countries increased considerably.

1.3 Income dynamics

Income dynamics indicate whether people experience changes in their income situation. It is usual to present income dynamics of persons rather than households, as the latter are not stable over time (due to marriage, divorce, birth of children, children leaving home etc.). This analysis is based on the current version of the ECHP, which encompasses a period of four years. Results may change, as a longer version of this panel becomes available.\textsuperscript{12}

In each separate Member State, persons can be ranked by their equivalised disposable household income in each year. It is usual to think of them in ten groups of increasing income deciles. However, an analysis in terms of absolute income changes will also be presented.

Mobility between deciles is presented here for the EU over the period 1994-1997 (see graph below). Only differences between the 1994 and 1997 decile rankings are taken into account, the development in 1995 and 1996 is not analysed here.


\textsuperscript{12} Like many survey panels, the ECHP suffers from attrition. This may be income specific, i.e. lower incomes may have a relatively higher tendency to leave the panel.
30% of the EU population was in the same income decile in 1994 and in 1997. 17% of all persons went up one decile; 18% went down one and 37% changed two deciles or more. Larger deviations from this pattern are found in Greece and Denmark (42% changed two deciles or more) and Portugal (only 33%).

What determines income mobility? By age, the 16-24 year group is less stable than the rest. Only 25% remains in the same decile, 19% goes up one decile and 27% goes up two or more deciles. The 65+ group is the most stable one (35% remains in the same decile, as high as 41% among 65+ persons living alone).

Somewhat more people in the 65+ group go down rather than up (35 versus 30%), which may partly be explained by women losing their husband. Elderly women losing their husband have a much higher chance to go down (51%) than elderly men losing their wife (19%, while 55% goes up). For the elderly, the group of women losing their spouse is three times as large as its male counterpart, thus explaining the development for the whole group.13

Differences by sex are rather small, never exceeding 1 percentage point.

Typically stable household types are one-person households (especially if they are aged 65 or older), and couples without children. The percentage of unchanged persons in these groups amounts to 41% (for elderly living alone). One-parent families count relatively many income gainers. This must be attributable to changes in household type, because those who remain a one-parent do not deviate from the mean pattern. Only one-parent families that experience the introduction of at least one extra adult, have better income prospects.

By economic status, self-employed are the most dynamic persons. Almost 50% of them change more than one decile in the investigated four-year period, compared with 33% for the employed. Of the unemployed in 1994, 27% experienced a gain of more than one decile in the studied four-year period.

Changes in characteristics of persons provide some, but not much explanation for differences in mobility. A change in household type gives 5 percentage points more chance of going down two deciles or more, and 3 points less of staying in the same decile. A change in economic status raises the chance of climbing two or more deciles by 4 percentage points.

13 Another explanation might be that the elderly stay at the same absolute income level, but are overtaken by younger generations who experience general income improvements. This will be discussed later on.
- An analysis of the combination of changes in both characteristics, household type and economic status, improves the explanatory power a little, but not to a very high level. Persons with no change in any of the two characteristics have a 33% chance to stay in the same decile, compared with 27% for the others. The largest differences are to be found in the comparison with those who have a change in economic status without a change in household type (15% of all persons). These persons have 7 percentage points less chance to stay in the same decile, 4 points more to go down two or more deciles and 6 points more to go up two or more deciles than persons without a change in household type or economic status.

In the analysis of mobility, two aspects can be distinguished: changes of income level (absolute, jumps) and changes of income positions (relative, reranking). Mobility in absolute income changes is presented here by giving the deviations from the former, relative analysis.

- In the ECHP, no large differences are found if we use absolute income changes instead of relative (decile) rankings. Spain, Portugal and the United Kingdom are in the EU-15 top group in terms of absolute income changes, together with Greece and Denmark. These three countries have high levels of income inequality, combined with relatively moderate (or even low: Portugal) shares of persons changing two deciles or more.

- The age pattern of absolute income changes is essentially not very different from the decile changes. The idea of 65+ persons remaining at the same absolute income level is not supported at the EU level. It seems to be partially true for 65+ persons living alone, where 38% has an absolute growth between minus 5 and plus 15%, compared with 32% for couples with at least one 65+ adult, and 25 to 30% for other household types. The measurement period of four years is probably too short to detect processes like ‘staying at the same income level, but being passed by other groups that see their incomes increase’.

- Household type and economic status yield similar results as the decile analysis does.

Is there a relation between income mobility and income inequality? In the ECHP, at the national level no correlation can be found between income mobility (measured as changing decile during 1994-1997) and income inequality in 1994 or 1997.
2. Poverty

Several definitions of poverty are possible, like a relative or absolute poverty line or the social assistance level in a country. Eurostat defines poverty as less than 60% of the median equivalised income per person in each Member State.

- **The risk of poverty still exists in the European Union, despite the efforts of the Member States.** Obviously it’s difficult to expel poverty with relative poverty lines, but apart from this, the phenomenon may seem strange as combating poverty is one of the major tasks in modern welfare states. Behrendt (LIS, 2000)\(^\text{14}\) examined possible causes, by answering the question whether higher levels of public spending lead to a lower level of poverty, or the effectiveness of poverty alleviation rather depends on how the money is spent.

- **A comparison of pre- and post-redistribution poverty rates (Beckermann ratios) is a common way to measure the success of anti-poverty policy.** However, one has to keep in mind that countries may use different means (transfers or taxes, different forms of social insurance) to alleviate poverty. Furthermore, behavioural and macro-economic consequences are not considered here.

- Behrendt (2000) claims that **minimum income schemes play a decisive role in the alleviation of poverty in the United Kingdom, Germany and Sweden.** Furthermore, there are large differences in eligibility and level of benefits. The United Kingdom has low benefit levels in its social assistance scheme, but it is easily accessible. Sweden on the contrary has a very generous benefit level, but it designed only for the ‘truly needy’ in a very strict way. Germany is somewhere between these extremes.

- In the Dutch Poverty Monitor (SCP, 2000), **regional poverty figures** are given for the Netherlands. There are large differences, with some (postal code) areas showing 40-50% poverty figures (versus a national mean of 14%). Strikingly, the segregation of low-income households has increased from 1994 to 1998, while the total percentage of poor households decreased in that period. Selective migration is the main explanation.

2.1 Poverty rates

Table 3 gives the poverty rates of households and the poverty rates of persons in the Member States in 1994 and 1997. Because changes in poverty rates depend on changes in median incomes of the Member States to a certain extent, the table also includes information about the 1997 poverty rates with constant medians at the 1994 level. The medians are adjusted to purchasing power parities (PPP).

<table>
<thead>
<tr>
<th>Table 3: Poverty rates of households and persons (%)</th>
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<tbody>
<tr>
<td><strong>B</strong></td>
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<tr>
<td>-------</td>
</tr>
<tr>
<td><strong>Households</strong></td>
</tr>
<tr>
<td>1994</td>
</tr>
<tr>
<td>1997</td>
</tr>
<tr>
<td>1997,constant (^k)</td>
</tr>
<tr>
<td><strong>Persons</strong></td>
</tr>
<tr>
<td>1994</td>
</tr>
<tr>
<td>1997</td>
</tr>
<tr>
<td>1997,constant (^k)</td>
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</tbody>
</table>

Source: ECHP (Processed by SCP)  = 1994 poverty threshold, only adjusted for changes in PPP

- **Poverty rates of households differ considerably between Member States** (based on 60% of national median income). In 1997 the difference between the most and the least poor Member States amounts to 14 percentage points; the lowest levels are found in Finland and Denmark, the highest in Portugal and Greece.

- **And most poverty rates have decreased between 1994 and 1997.** Nine out of the eleven Member States with data in both years have lowered their poverty rates. Only Ireland and the Netherlands were confronted with higher poverty rates.

- **Poverty on the individual level is slightly lower than on the household level.** In general, when individuals are counted below median household incomes, poverty rates are lower in nine of the fourteen countries in 1997. The (unweighted) poverty rate of all Member States together falls from 17,1 to 16,1.

- **The adoption of constant poverty lines reduces poverty rates.** When the poverty rates in 1997 are based on constant median incomes of 1994 (only adjusted for changes in purchasing power: PPP), poverty rates fall across the board. Ireland, Greece and Portugal show large differences between actual median incomes in 1997 and constant median incomes (at the 1994 level). In the case of Ireland, the reduction of poor by substitution of actual with constant median incomes can be attributed to the remarkably higher level of income. In the case of Greece and Portugal, the cause is more obscure but may be attributed to a combination of lower income inequality and higher income levels.

### Figure 2: Relation between mean income and poverty rate, 1997

![Figure 2: Relation between mean income and poverty rate, 1997](image)

In some studies, a trade-off is observed between income equality and mean income, resulting in a weak negative correlation between these variables. However, this correlation depends upon the empirical power of opposing theoretical factors. Moreover, the outcome is influenced by the selection of countries. When non-European countries like the USA and Canada are added and south European countries are omitted, a weak negative correlation results. Figure 2 for the Member States in 1997 gives a weak positive correlation between income equality and mean income. Because of the definition of poverty in relative terms, there is a close relationship between income inequality and poverty (0,91 in 1997), and therefore a weak negative relation between poverty and mean income (see figure). This weak negative correlation is mainly generated by the southern European countries.

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15 Theoretical and empirical arguments can be found in On worlds of welfare (SCP 2001). The Hague 2001: 97-114.
The next tables give poverty rates for different groups in the Member States.

**Table 4: Poverty rates of persons by socio-economic group in %, 1997**

<table>
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<th>IRL</th>
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<th>FIN</th>
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<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>15</td>
<td>3</td>
<td>6</td>
<td>11</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>7</td>
<td>-</td>
<td>5</td>
<td>11</td>
<td>2</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Self-employed</td>
<td>15</td>
<td>13</td>
<td>6</td>
<td>23</td>
<td>27</td>
<td>17</td>
<td>12</td>
<td>24</td>
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<td>25</td>
<td>32</td>
<td>13</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Unemployed</td>
<td>29</td>
<td>4</td>
<td>35</td>
<td>39</td>
<td>36</td>
<td>37</td>
<td>41</td>
<td>48</td>
<td>-</td>
<td>31</td>
<td>34</td>
<td>19</td>
<td>-</td>
<td>48</td>
</tr>
<tr>
<td>Retired</td>
<td>18</td>
<td>18</td>
<td>15</td>
<td>35</td>
<td>13</td>
<td>15</td>
<td>19</td>
<td>13</td>
<td>-</td>
<td>16</td>
<td>32</td>
<td>8</td>
<td>-</td>
<td>29</td>
</tr>
<tr>
<td>Other inactive</td>
<td>24</td>
<td>21</td>
<td>22</td>
<td>24</td>
<td>21</td>
<td>30</td>
<td>26</td>
<td>24</td>
<td>-</td>
<td>21</td>
<td>27</td>
<td>18</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>0-15 years old</td>
<td>15</td>
<td>3</td>
<td>24</td>
<td>21</td>
<td>25</td>
<td>24</td>
<td>27</td>
<td>24</td>
<td>-</td>
<td>16</td>
<td>30</td>
<td>7</td>
<td>-</td>
<td>39</td>
</tr>
</tbody>
</table>

Source: ECHP (Processed by SCP)

- **Poverty rates differ considerably between socio-economic groups.** In most Member States, the unemployed are at the highest risk of poverty. A clear exception is Denmark, where unemployed are in the same favourable position as the employed. Moreover, in Austria and Spain self-employed are nearly in the same ‘poor’ position as unemployed and in Portugal the main difference in poverty risk is between employed and the rest of the population.

- **In general, the poverty risk of other socio-economic groups is a multiple of the risk of employed.** The poverty risk of self-employed, retired and children is well over 3 times higher, the poverty risk of other economically in-actives about 4 times higher and the poverty risk of unemployed well over 5 times higher then the poverty risk of employed.

- **Children are not at high risk in most Member States.** Nevertheless, it’s important to know how many children are in poverty and to what extent their poverty risk is changing.

**Table 5: Poverty rates of persons by household type in %, 1997**

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<th>FIN</th>
<th>S</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-64, living alone</td>
<td>16</td>
<td>23</td>
<td>23</td>
<td>21</td>
<td>17</td>
<td>17</td>
<td>29</td>
<td>17</td>
<td>23</td>
<td>22</td>
<td>28</td>
<td>21</td>
<td>-</td>
<td>22</td>
</tr>
<tr>
<td>65+, living alone with children</td>
<td>23</td>
<td>26</td>
<td>25</td>
<td>36</td>
<td>8</td>
<td>25</td>
<td>53</td>
<td>23</td>
<td>21</td>
<td>33</td>
<td>51</td>
<td>17</td>
<td>-</td>
<td>46</td>
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<tr>
<td>0-15 years old</td>
<td>30</td>
<td>9</td>
<td>48</td>
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<td>40</td>
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<td>28</td>
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Source: ECHP (Processed by SCP)

- **In general, the poverty risk of one-parent families is high and of two-adult families with no or one child is low.** But the differences between Member States are considerable. One-parent families experience less poverty in Denmark and Finland but more so in France. The poverty risk of two-adult families without children is less favourable in Portugal.

### 2.2 Poverty intensity

The poverty rate is quite informative, but does not reveal how ‘poor’ the poor actually are, in terms of their average income and in their distribution. An overall index of poverty has to include three different types of information: the share of poor, their mean income gap and the inequality of income gaps. Moreover, overall indices of poverty have to meet some theoretical requirement:
(1) they must be independent of the income of non-poor
(2) they must increase when non-poor people become poor
(3) they must increase by shrinking incomes of poor
(4) they must increase by a transfer of a poor to a less poor person…
… (5) even when the less poor person passes the poverty line by this transfer.

The requirements 1-3 are met by the intensity index, the requirements 1-4 by the Sen index and the requirements 1-5 by the Shorrocks index.\textsuperscript{16} The indices range from 0 (no poverty) to 100 percent (total poverty). Note that requirement 1 calls for a constant poverty threshold of median income, because changes in the income of non-poor can change median income levels (the poverty level is 60% of median income, so median income is in the income range of the non-poor). Poverty intensity is the product of the poverty rate and the relative income gap.

<table>
<thead>
<tr>
<th>Source: ECHP (Processed by SCP)</th>
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<tbody>
<tr>
<td><strong>Table 6:</strong> Some poverty indices, 1994 and 1997 (x 100)</td>
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<table>
<thead>
<tr>
<th></th>
<th>B</th>
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<tbody>
<tr>
<td><strong>1994</strong></td>
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<tr>
<td>Intensity</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>9</td>
<td>7</td>
<td>-</td>
<td>8</td>
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<td>-</td>
<td>9</td>
<td>-</td>
<td></td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Sen index</td>
<td>7</td>
<td>3</td>
<td>10</td>
<td>13</td>
<td>9</td>
<td>-</td>
<td>6</td>
<td>11</td>
<td>5</td>
<td>-</td>
<td>12</td>
<td>-</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Shorrocks</td>
<td>9</td>
<td>4</td>
<td>13</td>
<td>17</td>
<td>12</td>
<td>-</td>
<td>7</td>
<td>15</td>
<td>6</td>
<td>-</td>
<td>17</td>
<td>-</td>
<td>-</td>
<td>13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>8</th>
<th>6</th>
<th></th>
<th>5</th>
<th>7</th>
<th>2</th>
<th>3</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intensity</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>8</td>
<td>7</td>
<td>4</td>
<td>4</td>
<td>8</td>
<td>5</td>
<td>3</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Sen index</td>
<td>7</td>
<td>2</td>
<td>6</td>
<td>11</td>
<td>10</td>
<td>6</td>
<td>5</td>
<td>11</td>
<td>7</td>
<td>5</td>
<td>11</td>
<td>3</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Shorrocks</td>
<td>9</td>
<td>3</td>
<td>8</td>
<td>15</td>
<td>13</td>
<td>8</td>
<td>7</td>
<td>14</td>
<td>9</td>
<td>7</td>
<td>14</td>
<td>4</td>
<td>7</td>
<td>17</td>
</tr>
</tbody>
</table>

- **Poverty rates and poverty intensity are strongly related at the level of Member States.** The ranking of Member States on poverty rates and poverty indices is about the same (correlation: 0.8); Portugal and Greece are at the top in both rankings and Denmark and Finland at the bottom. This means that the relative income gap only marginally changes poverty rankings.

- **More advanced poverty indices do not change poverty rankings.** The ranking of Member States in accordance with the intensity index, the Sen index and the Shorrocks index gives almost the same sequence. This means that income inequality among the poor population is practically irrelevant to the size of poverty.

- **Significant variation in poverty change.** Some Member States show a strong decrease in poverty according to poverty indices (Germany, Denmark), other Member States show a strong increase (Netherlands, United Kingdom) between 1994 and 1997.

Changes in poverty measured by a composite index can be attributed to its components, the poverty rates, the relative income gap and the inequality of income gaps.\textsuperscript{17}

\textsuperscript{16} Sen index: \( P = H (I + (1-I)G) \);
Shorrocks index: \( P = H (I(2-H) + H(1-I)G) \);
intensity: \( P = H*I \);
with \( P = \) Poverty index,
\( H = \) poverty rate (Headcount ratio),
\( I = \) relative Income gap,
\( G = \) Gini index of income of the poor.

\textsuperscript{17} \( \Delta \) Shorrocks = \( \Delta H (2I-2I+G-IG)) + \Delta I (H(2-H-HG)) + \Delta G (H(H-H)) \) with Headcount ratio, relative Income gap and Gini of the poor in the first year.
• In general, both changes in poverty rates and changes in income gaps are contributing to a change in poverty indices. Because income inequality within the poor population has generally a low weight in poverty indices, changes in income inequality contribute little to total changes of poverty indices. So changes in income inequality must be large to affect the total change of poverty indices.

Poverty indices differ considerably between socio-economic groups. Here, some information is given for the Shorrocks index. The category of other economic inactive persons is a rather mixed group of disabled persons, students and unpaid household managers.

<table>
<thead>
<tr>
<th>Table 7: Shorrocks poverty index by socio-economic group, 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>B</td>
</tr>
<tr>
<td>Employed</td>
</tr>
<tr>
<td>Self-employed</td>
</tr>
<tr>
<td>Unemployed</td>
</tr>
<tr>
<td>Retired</td>
</tr>
<tr>
<td>Other inactive</td>
</tr>
<tr>
<td>0-15 years old</td>
</tr>
</tbody>
</table>

Source: ECHP (Processed by SCP)

• The size of poverty, measured by the Shorrocks index, is low for employed and high for unemployed persons. The size of poverty is rather low for retired persons and rather high for self-employed and economic inactive persons. However, the differences between Member States are substantial. Unemployed persons come off relative badly in Italy, self-employed persons in south European countries, retired persons in Greece and other economic inactive persons in the United Kingdom. But these are countries where poverty in general is relatively intense and inequality within the poor population does not matter much (compare to table 4).

The contribution of socio-economic groups to total poverty may be calculated according to Foster (1984). The contribution of groups is the ratio of group-specific and total poverty intensity, weighted by the population shares of groups. The contribution of socio-economic groups can be decomposed into a (headcount) ratio effect, a (income) gap effect and a (group) size effect. The differences in poverty ranking between the results in the previous table and the next figure is mainly caused by the different shares of socio-economic groups in the population.

• Although poverty risk is high for unemployed persons, their contribution to total poverty is on average only 10% in the Member States because of their relatively low population share. Employed persons too contribute about 10% to total poverty, but here the inverse effect holds: a low poverty risk is combined with a high population share. About the same applies to children, with a high contribution (about 23% on average) because of a medium risk and a high population share. However, the highest contribution to total poverty (about 30% on average) is provided by other economic inactive people, because of their rather high poverty risk and relatively high population share.

• The contribution of socio-economic groups to total poverty differs significantly in relation to young and old people. The contribution of children to total poverty differs from 8% in Denmark to 45% in the United Kingdom. The contribution of old aged pensioners (‘retired’) to total poverty varies from 3% in Spain to 28% in Greece and 29% in Denmark. The contribution of employed to total poverty does not diverge much between the Member States. The same goes for unemployed and self-employed.
2.3 Poverty dynamics

The main aspects of poverty dynamics are duration and flows in and out of poverty. These flows are influenced by micro events (related to the labour market and household composition) and the macro context (including public policy). It is rather difficult to relate certain micro events (becoming unemployed, a child leaving home) to income and poverty dynamics because of measurement problems. Nevertheless, we can analyse some interesting aspects of poverty dynamics.

The duration of poverty can be indicated by different time concepts. In the ECHP, detailed income information is only available for complete calendar years. The most extreme poverty durations are one-year poor and all consecutive years poor. Another possibility is to use a different time period for income, by which ‘on average poor’ can be calculated (for instance on average poor in four consecutive years). This ‘on average’ concept is consistent with the permanent income theory, which states that consumption is based on expected income, disregarding transitory components. Therefore, the ‘on average’ concept of income may give a better description of the welfare position of individuals.

The next figures give poverty rates according to different time concepts, 1994-1997.
• About 70% of the population in the Member States faces no risk of poverty over a period of four years. About 10% of the population is in poverty for at least 3 years during the 4 year period. The mean poverty rates for all Member States are 69% for no poverty, 21% for 1 or 2 years in poverty and 10% for 3 or 4 years in poverty.

• Poverty duration differs considerably between Member States. Portugal has a relatively high share of long-term poor, followed by Greece, Ireland and the United Kingdom. A more favourable situation is found in Denmark, the Netherlands and Germany.

It is also interesting to look beyond financial measures of poverty and see how people deal with long-term poverty. The next table gives the percentage of households, not making ends meet, by different time concepts, 1994-1997.

• About one quarter of the EU population states that they do not make ends meet every year. Given that about 10% of the EU population is permanently (3 or 4 years) in poverty, this 25% is unexpectedly high. However there are considerable differences between the Member States. In Portugal and Greece, the corresponding figure is more than 50% and in Denmark and the Netherlands it is no more than 10%.

• The relationship between financial poverty and subjective poverty (not making ends meet) at the level of countries is rather strong. Only the position of the United Kingdom differs substantially in both rankings of poverty: financial high, subjective low.

The figures on long-term poverty differ by socio-economic group. Table 8 gives ‘on average poor’ in 1994-1997 by socio-economic group. The definition of ‘on average poor’ is identical with that of yearly poor, but applied to the four years period: all incomes received between 1994 and 1997 are added up and after that, the 60% median is determined and poor and non-poor are classified.
On average poverty, based on 4-year income, is lower than one-year poverty. On average poverty is substantially lower in the United Kingdom and Portugal.

On average poverty rates are lower for self-employed, unemployed and other economic inactive persons. For employed and retired persons as well as children the ‘on average’ poverty rates do not differ much from the 1997 poverty rates. This means that poverty dynamics is relatively large for self-employed, unemployed and other economic inactive persons.
3. Redistribution

The central question of this section is: to what extent do the institutions of the welfare state reduce income differences?

Every welfare state uses a system of social security and taxation to apply a correction to the income distribution created by the market. In addition to or instead of income from earnings or property, households may receive social security benefits, but by the same token they have to pay tax and social insurance contributions from their gross income. The result of this system is that income is transferred from households which pay more tax and contributions than they receive in social benefits, to households where the reverse is the case.

The measurement of income redistribution is based on the relative difference between the inequality of the market incomes and the inequality of the disposable incomes. Market incomes consist of gross wages (including employers’ contributions), profits, interest and rental income. Disposable incomes arise out of these market incomes when the social security benefits, social insurance contributions and direct taxes are incorporated. The lower the inequality of the distribution of disposable incomes compared with the inequality of the market incomes, the greater the levelling effect of social security and taxation.

The degree of redistribution is determined by characteristics of the social security and taxation system. First of all, the progressivity or regressivity of the redistributive system plays an important role. A system of income transfers is progressive if the share taken in it by higher income groups in relation to their income is higher than that of lower groups; if the converse is the case, the system is regressive.

Second, the change in inequality between two income distributions is affected by the total magnitude of the income redistributed. Progressive taxation will have only a marginal effect if the average tax burden is low. Likewise, if social security benefits are strongly regressive (i.e. mainly benefit the poorest households), but at the same time total spending on social security as a percentage of national income is low, the benefits will have only a limited contribution reducing income inequality.

This section compares the redistributive function of the social security and taxation systems of the different countries in the study. Attention is limited to income replacement and income supplementing social security benefits and to direct taxes and social insurance contributions. Because of data limitations indirect taxes (such as VAT and excise duty) and subsidies which are paid as reimbursement for specific costs (e.g. medical expenses) are left out of consideration.

In the following analysis countries are divided into two groups: for Belgium (1992), Denmark (1992), Finland (1995), Germany (1994), The Netherlands (1994), Sweden (1995) and the United Kingdom (1995), use was made of data from the Luxembourg Income Study. For these countries it was possible to analyse both the redistributive effects of the social security and taxation systems. For Greece, Spain, France, Ireland, Italy, Austria and Portugal the 1997-wave of the European Community Household Panel was used. The ECHP data unfortunately contain only earnings and social benefits net of taxes, which leads to the following consequences:
- the redistributive effect of the tax systems of these countries could not be analysed.
- only the distributions of market incomes net of taxes and the distribution of disposable incomes could be calculated.

3.1 Redistribution in general

The starting point for both groups of countries is the distribution of market incomes. In the first stage, the effect of the social security benefits on this distribution is examined. For Belgium, Denmark, Finland, Germany, The Netherlands, Sweden and the United Kingdom this produces the distribution of gross

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18 In accordance with the user agreement for the LIS databases, the following applies for data from the United Kingdom: ‘Material from FES is Crown Copyright; has been made available by the Office for National Statistics through the ESRC Data Archive; and has been used by permission. Neither the Office for National Statistics nor the ESRC Data Archive bear any responsibility for the analysis or interpretation of the data reported here.’
incomes. For the other countries, for which the ECHP-data were used and for which the starting point was the distribution of market incomes net of levies (taxes and social contributions) and the result is the distribution of disposable incomes. The second stage (for the first group of countries) gives the effect of taxation and social security contributions on gross incomes. This gives for these countries the end-distribution of disposable incomes.

It is possible to present these redistribution processes in one figure by taking the so-called Gini-measures of inequality into account. Each stage of redistribution can then be measured by the change in Gini-inequality. The following figure summarizes these results.

**Figure 6 shows that the redistributive effect of social benefits is much bigger than that of levies** (income taxes and social security contributions). This is especially true in Sweden and somewhat less in Finland. Among the countries for which no information about the levies paid was available the quite substantial redistributive effect of benefits in France is striking.

**Furthermore, there seems to be no clear relationship between the degree of inequality of market incomes and that of disposable incomes.** While it is true that within the first group the United Kingdom has the highest degree of inequality of both market and disposable incomes, and Belgium scores lowest with respect to both distributions, Denmark ranks relatively low as to the degree of inequality of market incomes and relatively high as to the inequality of disposable incomes, while the reverse is the case for Finland. Within the second group a similar pattern can be seen. Although Spain tops the list as to the degree of inequality regarding both kinds of distributions and Austria can be found twice at the bottom, by the nature of their redistribution processes France and Greece disturb a clear relationship in this group of countries between the degrees of inequality in both distributions. In France the degree of Gini-inequality of market incomes is quite high, while that of disposable incomes belongs to the lowest in this group, due to the substantial equalizing effect of benefits in this country. Greece has rather equal market incomes but the distribution of disposable incomes is relatively unequal.

The changes in Gini-inequality can be further decomposed into two main effects and a correction factor:
- the degree of progressivity/regressivity of the transfers considered.
- the magnitude factor (weight), which measures the average tax burden, respectively the total amount of social security transfers relative to national income.
- a correction factor to adjust for changes in the ranking of households.

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19 One has to take into account however that in some countries some benefits are paid in net amounts (as pensions are in the United Kingdom). Although this does not affect the total redistribution in such a country, these properties have their own effects in the two successive stages of the process of redistribution.
Table 9a gives the decomposition of the redistribution of market to gross income by social benefits for Denmark, Finland, Germany, the Netherlands, Sweden, Belgium and the United Kingdom. The table shows the different contributions of the regressivity of the benefits and the magnitude of social security to the redistribution process.

Social Benefits reduce the Gini-inequality by approximately 30 to 40 percent. In the United Kingdom, Germany and Denmark this reduction is 29, 29 and 32 percent respectively. In Belgium, the Netherlands, Finland and Sweden the Gini-inequality reduces respectively with 35, 36, 37 and 40 percent.

The regressivity of the benefits is relatively large in Germany, the Netherlands, Belgium and the United Kingdom, meaning that households with low incomes receive a relatively higher proportion of social benefits than in Finland, Denmark and Sweden. However, in the case of Germany and the United Kingdom the inequality reduction between the distributions of market and gross income is rather moderate. This is because the magnitude of social security in relation to national income in these countries is quite modest compared with e.g. Belgium and the Netherlands.

Table 9b shows the redistribution of net market income to disposable income for France, Ireland, Italy, Spain, Greece, Austria and Portugal.
The percentage reduction in inequality appears to be more heterogeneous for this group of countries. France tops the list with an equalizing effect of its social benefits of 38 percent. It is followed by Italy, Ireland and Austria with a reduction of approximately 30 percent. Spain, Greece and Portugal are at the bottom of the list, with an inequality reduction of respectively 25, 23 and 21 percent. One sees again the different role of the regressivity of the benefits and the total amount of social security transfers relative to national income. For instance, benefits in Greece are more regressive than in Italy, yet because of their share in national income is less, their equalizing effects are rather modest. Austria shows that the magnitude factor of social security can compensate for a not very regressive system of benefits, leading to a percentage reduction in inequality of 29.

The decomposition of the equalizing effects of the levies is given in table 10.

### Table 10: Redistribution of gross to disposable income

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross income</th>
<th>Disposable income</th>
<th>Progressivity of levies</th>
<th>Weight of levies</th>
<th>Correction factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>DK</td>
<td>0.378</td>
<td>0.337</td>
<td>0.041</td>
<td>0.145</td>
<td>0.497</td>
</tr>
<tr>
<td>FIN</td>
<td>0.361</td>
<td>0.316</td>
<td>0.045</td>
<td>0.176</td>
<td>0.394</td>
</tr>
<tr>
<td>D</td>
<td>0.391</td>
<td>0.322</td>
<td>0.069</td>
<td>0.251</td>
<td>0.501</td>
</tr>
<tr>
<td>NL</td>
<td>0.345</td>
<td>0.306</td>
<td>0.039</td>
<td>0.136</td>
<td>0.449</td>
</tr>
<tr>
<td>S</td>
<td>0.352</td>
<td>0.32</td>
<td>0.032</td>
<td>0.128</td>
<td>0.396</td>
</tr>
<tr>
<td>B</td>
<td>0.349</td>
<td>0.292</td>
<td>0.057</td>
<td>0.241</td>
<td>0.359</td>
</tr>
<tr>
<td>UK</td>
<td>0.428</td>
<td>0.381</td>
<td>0.047</td>
<td>0.220</td>
<td>0.318</td>
</tr>
</tbody>
</table>

The product of the progressivity of the levies and the weight of the levies, augmented by the correction factor, produces the difference between the Gini coefficient of the gross income and the disposable income. Example: for Denmark $0.145 \times 0.497 - 0.007 = 0.378 - 0.337 = 0.041$

Source: Luxembourg Income Study (Processed by SCP)

The percentage inequality reduction is highest in Germany. Levies cause income differences to reduce with 18 percent. Belgium takes second place (16 percent reduction), followed by the other countries (9 – 12 percent). In Germany levies are both relatively progressive and the average tax burden is relatively high. The latter is also the case in Denmark and the Netherlands, but the less progressive systems of levies produce in both countries an inequality reduction of 11 percent.

### 3.2 Benefits in more detail

The micro size of social protection expenditure may very well differ from those at the national level. ESSPROS includes taxes and social charges whereas the ECHP does not. In fact, the ECHP is closer to the disposable income concept in this respect. On the other hand, the ECHP is a survey and as such less accurate. Certainly for benefits for selected groups in a population this is somewhat of a handicap, as sample properties may affect the outcomes. Furthermore the ECHP is a panel, and it is not unlikely that panel attrition, which is reported to be substantial, might be selective.

Moreover, classification differences between ESSPROS and the ECHP hamper a straightforward comparison. Apart from differences in definitions, there is also the risk of misclassification by interviewed persons in the ECHP.

Finally, most recent ESSPROS figures presented here are from 1998, while those from the ECHP are from ECHP 1997, i.e. 1996. The time horizon within the ECHP is limited to four years.

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First of all, the total amount of social protection expenditure (ESSPROS, excluding expenditure on health, administration and ‘other’) is compared with the net level of benefits in the ECHP.

• As expected, net benefits are less than 100% of total expenditure in all countries, varying from 49% (Netherlands) to 90% (Finland). In the ECHP, the following levels can be distinguished:
  - a low group (Greece, Spain, Portugal and Ireland) with 1,200 to 1,700 PPS,
  - a large middle group with levels from 2,200 to 3,100 PPS
  - a top group (Finland, Belgium) with 3,700 to 3,800 PPS.
• Compared to ESSPROS data, the low group is reproduced very well, but the top group (Denmark, the Netherlands and Sweden) is not. Apparently, taxes and social charges make gross expenditure very large in these countries, although the resulting net size of benefits is not so noticeable.

In the ECHP, several types of benefits are distinguished. Table 12 gives the percentage of persons in households receiving any of these benefits and the mean amount for those who actually receive them. They are given in (unequivalised) amounts per person.

• Benefits are widespread. In most Member States, about 80 to 95% of all persons live in households receiving at least one type of benefit. The exceptions in EU-15 are Greece, Italy and Spain, where this percentage is about 50 to 60%. These countries also have the lowest total number of benefits. This is explained in the first place by their low share of the most widespread benefit, family-related allowances (3 to 11% against 41 to 65% for other countries). Old-age / survivors benefits clearly are the second most widespread benefits, followed by unemployment and sickness / disability. The other benefits don’t exceed 8% in EU-15, although in some Member States the levels are as high as 25%.
• The mean amounts of benefits are largest for old-age / survivors benefits in all Member States. Sickness and unemployment follow, the others have more variation. It is important to note that the most wide-spread benefit, family-related allowances, has a quite modest mean amount of 300 to 1000 PPS.

An analysis of the redistributive effect of several types of benefits is more difficult than the effect of benefits altogether. When comparing net market income and the total amount of benefits, it is usual to think of a two-step process in which net market income comes first, and benefits second. The ordering is much less clear in the case of different types of benefits. Means tested benefits could be seen as ‘the last benefit’ because it depends on the levels of the other benefits, but means tested benefits cannot be clearly distinguished within the ECHP.

The role of benefits in combating poverty can be studied by using so-called Beckermann ratios (a comparison of pre- and postredistribution poverty rates). One has to keep in mind however, that countries may use different means (transfers or taxes, different forms of social insurance) to alleviate poverty. In addition, behavioural and macro-economic consequences, like less fierce job seeking or reduction in employment, are not included.21

Do higher levels of spending lead to a lower level of poverty, or does the effectiveness of poverty alleviation rather depend on how the money is spent?

• Behrendt (2000) claims that minimum income schemes play a decisive role for the alleviation of poverty in the United Kingdom, Germany and Sweden. Furthermore, as mentioned earlier, there are large differences in eligibility and level of benefits.

Poverty reductions by benefits are presented in the next graph.

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21 See Behrendt (LIS, 2000).
• The poverty reduction by all benefits together is 25 percentage points. **The main part of poverty reduction is claimed by old age and survivors benefits.** Unemployment, family related and sickness / invalidity benefits result into equal effects of about 3 points reduction. Family related benefits have another structure than the other two types (low amounts, large coverage) but apparently have the same impact on poverty. It should be noted however, that keeping a household out of poverty with a smaller amount is only possible if the household has an income relatively close to the poverty line. One might dispute the importance of family related allowances in this respect. On the other hand, the use of a poverty line does imply a yes/no classification.\(^{22}\)

• **In 1994, poverty was 1.5 percentage points higher** (at least partly due to the absence of some low poverty Member States in ECHP 1994). The reduction by benefits was lower however (22 percentage points). The distribution of the effect among benefits is similar.

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\(^{22}\) See also the different poverty indices in section 2.2.
4. Conclusions

Income is one of the main factors in determining the standard of living. More income offers an individual more choice and access to goods and services. The distribution of income is also important in relation to relative poverty and risks of social exclusion. Finally, the distribution of income and the poverty rate are both influenced by the redistributive role of welfare states.

Southern Member States: lowest incomes, highest inequalities of the actual Member States

The southern Member States have in general the lowest mean incomes but also the highest level of income inequality according to the 1997 wave of the ECHP. The Scandinavian Member States show the opposite: highest mean incomes coupled with lowest income inequality. The remaining Member States take a middle position. Large changes in inequality occurred within many countries between 1980 and 1997, most of them ending up more unequal. Gross earnings and other market factors were the main contributors to this trend. The candidate countries have considerably lower incomes than the EU-15 Member States and have moderate to high levels of inequality. Low-income groups, like the elderly, single people and one-parent families are at risk of poverty in several Member States. However, the pattern of risk varies significantly by Member State. These patterns did not change substantially during the four waves of ECHP (1994-1997).

Household type and age are important characteristics in relation to income mobility

During the four wave period of ECHP, 30% of the EU-population started and ended in the same income decile. More income mobility is found in Greece and Denmark and less in Portugal. Single people, especially older, show lower levels of mobility whereas one-parent families and self-employed show high levels of income mobility. Elderly women losing their husband have a much higher chance to go down in income (51%) than elderly men losing their wife (19%).

Poverty still exists and varies considerably by Member State and by population group

Poverty rates of households differ considerably between Member States (based on 60% of national median income). In 1997 the difference between the most and the least poor Member States amounts to 14 percentage points. Most poverty levels decreased between 1994 and 1997. Nine out of the eleven Member States with data in both years have lowered their poverty rates. The poverty risk of self-employed, retired and children is well over 3 times higher then the poverty risk of employed; the poverty risk of other economically inactives is about 4 times higher and the poverty risk of unemployed is well over 5 times higher then the poverty risk of employed. Children are not at high risk in most Member States.

Poverty rankings are fairly robust to the use of more advanced poverty measures

Poverty rates and poverty intensity (which also take income gaps into account) are strongly related at the level of Member States. This means that the relative income gap only marginally changes poverty rankings of countries. More advanced poverty indices (also including inequality) do not change poverty rankings. This means that income inequality within the poor population is hardly contributing to the size of poverty. Some Member States show a strong decrease in poverty according to poverty indices, other Member States show a strong increase.

High poverty groups do not necessarily determine the total poverty rate of a country.

Although the risk of poverty is high for unemployed persons, their contribution to total poverty is on average only 10% in the Member States because of their relatively low population share. Employed persons too contribute about 10% to total poverty, but here holds the inverse effect: a low poverty risk is combined with a high population share. About the same applies to children, with a high contribution of 23%, because of a medium risk and a high population share. However, the highest contribution to total poverty, about 30%, is provided by other economic inactive people, because of their rather high poverty risk and relatively high population share.

Poverty rankings remain almost unchanged with the use of longer period or subjective definitions.

About 70% of the population in the Member States faces no poverty (during one or more years) in a period of four years. About 10% of the population is almost all the time in poverty, but poverty duration differs considerably between Member States. Although 10% of the EU-15 population is permanently (3 or 4 years) in relative poverty, 25% of this population states that ends are not met in these years. Subjective poverty
seems to exceed relative poverty substantially, but the relation between both kinds of poverty at the Member State level is rather strong.

*Social benefits play a prominent role in reducing income inequality; their effect depends on their structure and size.*

The redistributive effect of social benefits exceeds the redistributive effect of levies substantially. Social benefits reduce the Gini-inequality by about 30 to 40 percent. The regressivity of the benefits is relatively large in Germany, the Netherlands, Belgium and the United Kingdom, meaning that households with low incomes receive a relatively higher proportion of social benefits than in Finland, Denmark and Sweden. However, in the case of Germany and the United Kingdom the inequality reduction between the distributions of market and gross income is rather moderate. This is because the share of social security in national income in these countries is quite modest. It’s important to notice the different role of the regressivity of the benefits and the share of social security transfers in national income. For instance, benefits in Greece are more regressive than in Italy, yet because of their lower share in national income, their equalizing effects are rather modest. Austria shows the opposite: a rather low level of regressivity of benefits is compensated by a rather high share of benefits, resulting in a rather high reduction of income inequality.

*Social benefits also reduce poverty to a large extent.*

Benefits exist in many categories and differ in the number of recipients and in the mean amounts. The poverty reduction of all benefits together, measured simply by comparing ‘before’ and ‘after benefit’ income, is 25 percentage points. The main part of poverty reduction is claimed by old age and survivors benefits (15 points). Unemployment, family related and sickness / invalidity benefits result into equal effects of about 3 points reduction of poverty. In 1994, poverty was 1.5% higher then in 1997. However, the reduction of poverty by benefits was lower then.