Report

Note

This work is the translation of « La France dans l'Union européenne » published in the *INSEE Références* collection in April 2014.

Unless otherwise stated, the data used are taken from the website of Eurostat, the European Union's statistical office. These data are continually updated. The date of acquisition of the figures is therefore generally indicated below the tables and charts. The data mainly concern the countries of the European Union of 28 (EU of 28), as currently defined. However, for some countries (particularly those that have recently joined the EU), certain figures are not yet available. In such cases the perimeter of the EU is indicated.

On 15 May 2014, the INSEE published the national accounts in the 2010 base: these data are compiled in accordance with the new European System of Accounts (ESA 2010). France is one of the first countries to integrate this change, as most other States are not publishing national accounts data in line with ESA 2010 until September 2014. Prior to that date, only data from the 2005 base can be used to make reliable comparisons. It is this base that is therefore used here. It is likely that the change of base will have little effect on the majority of national accounting aggregates (particularly those presented here) and that it will not alter the hierarchies observed between countries.

Symbols used

…	Result unavailable
///	No results due to the nature of things
e	Estimate
p	Provisional result
n.s.	Non-significant result
€	Euro
M	Million
Bn	Billion
Ref.	Reference

Inequality, poverty and social protection in Europe: current state of affairs and impact of the crisis

*Magali Beffy, Marie-Émilie Clerc and Céline Thévenot**

In 2011, the median equivalised income in France was among the highest in Europe. In terms of inequality in equivalised incomes, France is in keeping with the average for the 28-member European Union (EU of 28). However, the indicators used to measure poverty and social exclusion at European level – income poverty, severe material deprivation and exclusion from the labour market – reveal France to be reasonably well-positioned with regard to its European neighbours. This strong position can be attributed to the high level of economic development in France; it is also a result of the country's relatively high level of social transfers.

Nonetheless, social inequalities in France have seen a slight increase since the onset of the crisis, while they have remained relatively stable across Europe as a whole. Similarly, while income poverty in France remains below the European average it has increased to a certain extent since 2007. Social transfers certainly helped to cushion the impact of the crisis in 2008 and 2009, but this beneficial effect has since subsided somewhat.

The increase in the overall risk of poverty and social exclusion has been smaller in France than the European average. A number of European countries have been hit much more severely by the crisis (southern Europe, Ireland, the Baltic nations).

In 2011, according to the European SILC instrument (*see Box 1*), the median **equivalised income** in France stood at 20,600 Euros per annum, or 1,720 Euros per month. This median equivalised incomes varies considerably from one country to the next, from €2,120 p.a. in Romania to €32,780 in Luxembourg, a ratio of 1:15. In order to take into account the differences in prices between different countries, equivalised income can be converted using the **purchasing power standard** (PPS): the ratio in this format is closer to 1:7 (*Figure 1*). In PPS, the median equivalised income in France is among the highest in Europe, alongside Germany, the United Kingdom, Italy and Sweden. This equivalised income is far superior to that recorded in those EU member States with the lowest standards of living: four times higher than that of Romania and Bulgaria, three times higher than that of the Baltic nations, twice that of Poland. If we consider income distribution across Europe as a whole, the vast majority of those with the lowest incomes live in a handful of member States (Romania, Bulgaria, Hungary, Latvia, Lithuania, Estonia, Poland; see *Box 2*).

Income inequalities in France are in line with EU averages

While standards of living vary considerably between different EU nations, the same can also be said of the extent of income inequality.

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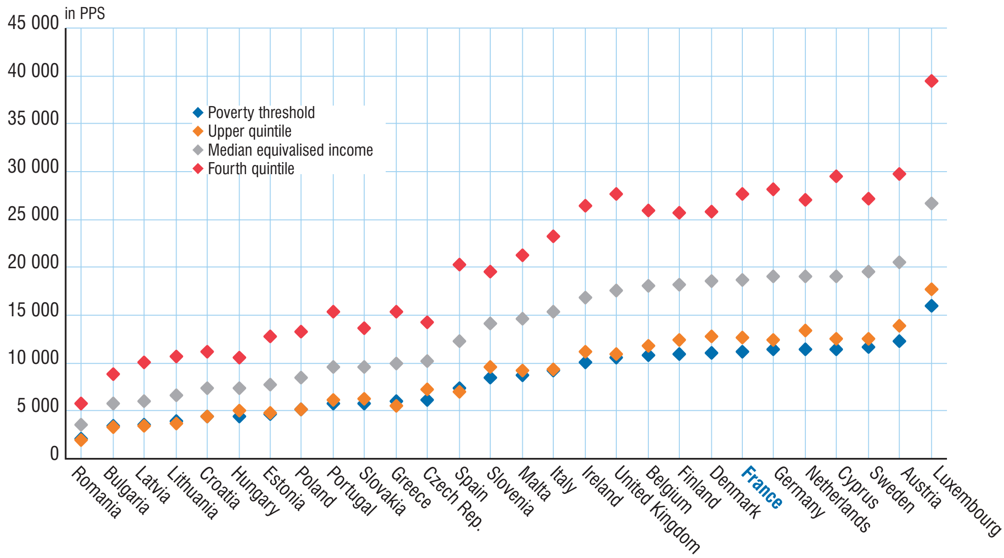
1. Equivalised income quantiles and annual poverty thresholds by member State, 2011



How to read the graph: in 2011, the median equivalised income of Germans was 19,000 using the purchasing power standard (PPS). The poverty threshold was thus 11,400 in PPS, giving a monthly poverty threshold of 950 PPS. The wealthiest 20% of Germans had an average annual equivalised income of 28,150 PPS while the poorest 20% had on average 12,480 PPS.

Sources: Eurostat, EU-SILC 2012, SILC 2011 for Ireland.

Box 1

Sources

The SILC instrument

SILC (Statistics on Income and Living Conditions) is the European reference source for comparative statistics on income distribution and social inclusion across the EU. The SILC instrument is based on the principle of a common "framework" rather than a common "survey". This common framework incorporates harmonised lists of primary (annual) and secondary (every four years at most) target variables. The results are submitted to Eurostat, along with guidelines and common procedures, concepts (household, income etc.) and classifications ensuring that the resulting data offers the greatest possible level of comparability.

The SILC instrument has been recording information on income for the year y-1 since 2004. Variables regarding material deprivation and labour market activity are measured for the current year y.

The Fiscal and Social Revenue Survey (ERFS) is the French reference source for income and income poverty. The ERFS matches the results of the INSEE's Labour Force Survey with administrative data sources on fiscal income and income support and other social benefits paid out by the national family benefit agency, the national old age pension agency and the agricultural social fund. The ERFS is not suitable for comparisons at EU level because it does not measure the variables required to compile indicators of material deprivation.

Although based on different samples and methodologies, these two sources both measure income using the same definitions and are harmonised.

The ESSPROS system

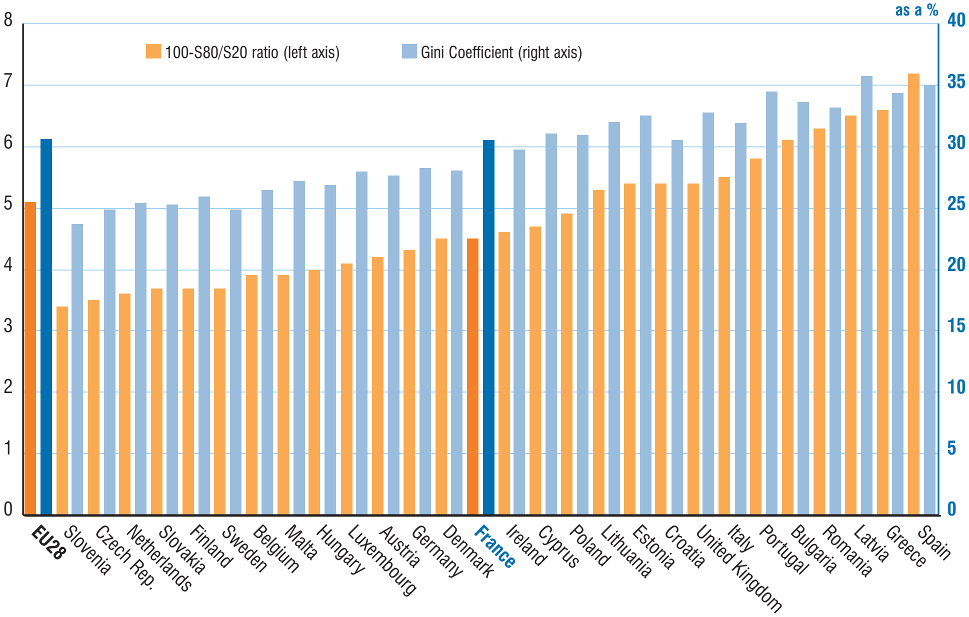
The European System of Integrated Social Protection Statistics (ESSPROS) [Eurostat, ESSPROS Manual 2012] is a stable source of annua data on the receipts and expenditure of social protection systems in the European Union. It aims to provide a full and coherent overview of the state of social protection in each member State, covering social services (i.e. benefits received by households in cash or in kind) and their funding. ESSPROS is harmonised with other statistical sources, most notably national accounts, allowing for international comparisons.

Two indicators are commonly used to measure the extent of this inequality: the **100-S80/S20 ratio** and the **Gini coefficient**. The former compares the equivalised income of the wealthiest 20% of the population (the top quintile) with that of the poorest 20% (the bottom quintile). The higher the ratio, the greater the inequality. By definition, this ratio only considers the circumstances in the two most extreme quintiles on the equivalised income spectrum. To better understand inequalities across the whole range of living standards, we use the Gini coefficient. This tool represents the average difference in living standard between two individuals randomly selected from the population, expressed as a percentage of the average equivalised income. If all individuals had exactly the same equivalised income, the Gini coefficient would be 0%. Conversely, if one individual was in possession of all of the economy's disposable income then the Gini coefficient would be 100%.

In 2011, the mass of equivalised disposable income held by the wealthiest 20% of French citizens was 4.5 times greater than that held by the poorest 20% (the 100-S80/20 ratio, *see Figure 2*). For the European Union as a whole this ratio was slightly higher (5.1).[1] Across the EU the ratio ranges from around 3.5 in Slovenia, the Czech Republic and the Netherlands to 7.2 in Spain. The ratio in France is comparable to that seen in Germany (4.3), but lower than that recorded in the UK (5.4) and Italy (5.5).

This ranking is broadly backed up by a comparison of the corresponding Gini coefficients. In France the Gini coefficient is 30.5%, very close to the European average (30.6%) and midway between Germany (28.3%) and the United Kingdom (32.8%). The most egalitarian countries (Gini coefficient of below 27.0%) are Northern European nations (Sweden, Finland, the Netherlands) and a handful of Central European countries, where incomes are lower but more evenly-distributed (Slovakia, Slovenia, the Czech Republic).

2. Inequality indicators for the member States in 2011



Sources: Eurostat, EU-SILC 2012, SILC 2011 for Ireland.

1. Unless specified otherwise the Europe-wide indicators cited in this chapter are calculated as an average of the various national indicators weighted by the population of their respective countries.

The most unequal countries (Gini coefficient greater than 33.0%) are Romania, Bulgaria and Latvia, along with three Southern European nations (Greece, Spain, Portugal). All in all, whichever indicator is used, France is close to the European median in terms of the scale of inequalities in standards of living.

17% of Europeans and 14% of French people are at risk of poverty

A person is considered to be at risk of poverty if he/she is living with an equivalised income falling below a given level, known as the poverty line or threshold. Since 2001, EU member States have agreed to set this threshold at 60% of their equivalised median income. This threshold thus varies from country to country and from year to year (*see Box 3*).

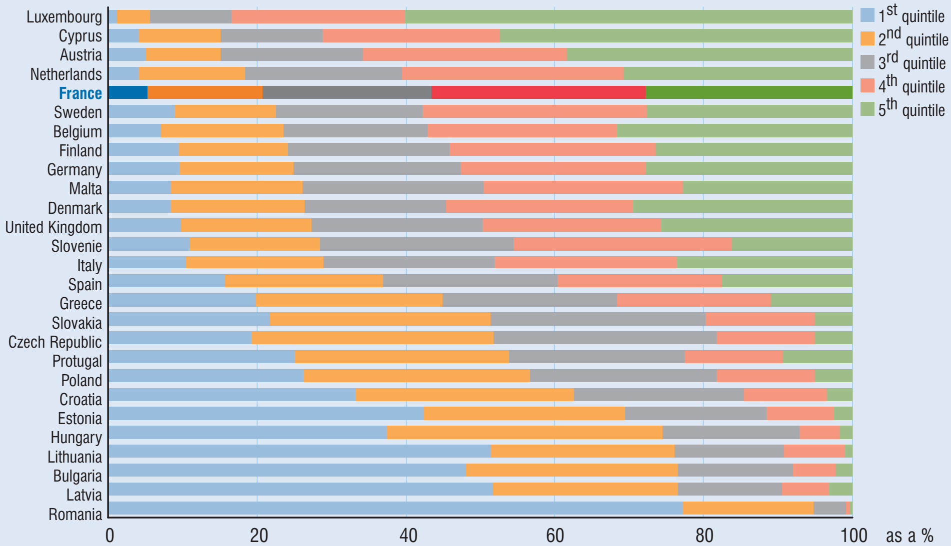
In France, according to the EU-SILC instrument, the poverty rate stood at 14.1% in 2011, 3 points below the European average, with Germany (16.1%) and the United Kingdom (16.2%) closer to this EU average. The poverty rate is at its lowest in the Czech Republic (9.6%). It is also low across Northern Europe in general (10.1% in the Netherlands, 13-14% in Finland, Sweden

Box 2

26% of French people are among the wealthiest 20% of EU citizens

Ranking all EU citizens in terms of their equivalised incomes expressed in purchasing power parity (PPP), 74% of French people belong to the top half of the ranking distribution, with 26% featuring among the wealthiest 20% (*Figure 2*). By way of comparison, 75% of Swedes, 65% of Germans and British citizens and 60% of Italians also live with an income greater than the European median, while 32% of Swedes, 22% of Germans and 17% of Italians belong to the wealthiest 20%. At the other end of the scale, 2% of French people are among the poorest 20% of Europeans. This is also the case for 2% of Swedes, 5% of Germans and 6% of Italians.

Distribution of national populations with regard to the European quintiles



How to read the graph: 77% of Romanians are among the poorest 20% of the European population, while 5% of them are in the top three quintiles. Conversely, 60% of Luxembourgers are among the richest 20% of Europeans.
Note: negative incomes declared by independent sources are excluded. Countries are ranked by increasing order of the proportion of their population featuring in the bottom two quintiles.
Sources: Eurostat, EU SILC 2011, DG EMPL European Commission.

and Denmark). At the opposite end of the scale, it is the southern European nations which have the highest rates of poverty: 19.4% in Italy, 22.2% in Spain and 23.1% in Greece. The differences between countries are partly a result of disparities in the distribution of market incomes, incomes from wealth and pensions, but they can also be attributed to the considerable disparities which exist in terms of the level and distribution of social transfers, family structures and the rate of participation of women in the labour market.

Three indicators to capture the multidimensional nature of poverty and social exclusion

Poverty is a complex phenomenon that has often been recognized as multidimensional. In Europe, income poverty is a relative concept. It is defined as the experience of living with an income below that of the majority of the population (in concrete terms, an income below 60% of the median equivalised income among the population). This monetary measurement alone, considered at a specific point in time, does not provide a full picture of the conditions in which people are living.

The European statistical institutes have identified two complementary indicators to adopt a more comprehensive approach to poverty in all its forms. The first measures the material deprivations experienced by households, while the second measures the strength of a household's connection to the labour market. These indicators are founded on the principle that restricted access to certain fundamental material, cultural and social resources – and, for those of working age, insufficient access to the labour market – is conducive to social exclusion, regardless of the monetary resources to which an individual may have access.

The indicator of severe material deprivation is an absolute measurement of poverty. It is calculated with reference to a scale which is fixed in time and applicable across the whole European Union. The value of this indicator for a given country is above all an indication of that country's level of economic development; in that respect, it casts light on inequalities within the Union. Meanwhile, the indicator of household work intensity depends on the characteristics of the national labour markets and the capacity of these markets to resist economic shocks.

Box 3

Income poverty

An individual is considered to be at risk of poverty if he/she lives in a household whose income falls below the poverty threshold. The INSEE, along with Eurostat and the European Statistical System, thus measures income poverty in a relative manner. This definition of poverty was adopted by all member States in 2001, conforming to the definition of poverty issued by the European Council in 1975 which describes as "poor" "those individuals or households whose resources are so low as to exclude them from the minimum acceptable way of life in the country where they live". The poverty threshold is fixed with reference to the income distribution among the population of a given country. Eurostat and the EU member States have set this threshold at 60% of the median income.

The development of the income poverty rate can be tricky to interpret in times of crisis, as the poverty rate may remain stable, or even fall slightly, in countries feeling the full brunt of the crisis. Simply put, if the median income in a country deteriorates as a result of economic crisis, the poverty threshold will also fall accordingly. This reduction in the poverty threshold may thus automatically lift out of poverty a certain number of people whose income previously situated them just below the poverty threshold. Situations such as this see the rate of income poverty fall, an apparent improvement which is not corroborated by other poverty indicators, particularly that measuring the prevalence of material deprivation. This phenomenon was particularly evident in the Baltic nations during the crisis, where median incomes fell sharply as a result of the economic turmoil.

In 2010, as part of their combined efforts to combat poverty, the 27 EU member States committed to using a common, composite indicator covering all three of the key dimensions of poverty and social exclusion: income poverty, severe material deprivation and joblessness [Bontout & Delautre, 2012]. According to this composite indicator, a person is considered to be at **risk of poverty or social exclusion** if he or she belongs to a household facing at least one of the following situations: an income which falls below the poverty threshold, severe material deprivation and low work intensity *(see Box 4)*. These three dimensions overlap, but only partially.

In 2012, almost one in five people living in France was at risk of poverty or social exclusion

In 2012,[2] 124 million people were at risk of poverty or social exclusion in Europe, i.e. a quarter of the population of the Union's 28 member States. Among them, 11.8 million were French, equivalent to one in five people in the French population.

The prevalence of poverty and social exclusion varies substantially from one country to the next. But there is also significant variation in terms of the respective prevalence of the different forms of poverty and social exclusion risk within member States.

Box 4

Severe material deprivation and (quasi-)joblessness

The **severe material deprivation** indicator is a useful complement to the income poverty indicator, introducing a non-monetary dimension and establishing a common threshold for all EU nations, unlike the income poverty threshold which is relative. The severe material deprivation indicator thus allows us to analyse the disparities in standards of living between different member States.

This indicator is a useful counterpoint to the income poverty rate, based exclusively on household income, as a shortage of financial resources need not always result in difficult living conditions and, conversely, some households which are not classed among the poorest in terms of income may nonetheless encounter serious difficulty in surviving when faced with specific pressures (healthcare, for example). In February 2009, the following definition of severe material deprivation was adopted by the Indicators sub-group of the Social Protection Committee: a person is considered to be in a situation of severe material deprivation when unable to afford four of the following nine essential requirements: 1) paying rent, mortgage payments or standard utility bills on time, 2) adequately heating their home, 3) meeting unexpected expenses, 4) eating meat, fish or another source of protein once every two days, 5) affording one week of holidays away from home, 6) owning their own car, 7) owning a washing machine, 8) owning a colour television and 9) owning a telephone (including mobile phones).

The household work intensity is measured as the number of full months worked in a given year by those members of the household of working age (excluding students and retirees), as a proportion of the total number of months that it is theoretically possible for these people to work in a year (i.e. 12 for a single person, 24 for two people etc.). A household is considered to be (quasi-)jobless if its work intensity falls below 20% of the potential total (i.e. less than two months worked in the year per person). In practice, this indicator largely serves to identify households which have not worked at all in a given year, highlighting the problem of poor access to employment, a form of social exclusion.

2. Figures on income poverty rates are for 2011, while severe material deprivation and (quasi-)joblessness statistics are for 2012. By agreement, the composite "risk of poverty or social exclusion" indicator which combines all three dimensions is taken to reflect the situation in 2012.

For all three dimensions of this composite indicator, France is below the European average (*Figure 3*). This is also the case of Germany, Sweden, Finland, the Netherlands, Austria, Luxembourg, Slovenia, Slovakia and the Czech Republic. The United Kingdom is close to the European average in terms of income poverty and material deprivation, but its labour market exclusion figures are higher. The opposite is true in Italy, where the income poverty and severe material deprivation rates are above the European average but exclusion from the labour market is within the average range. A number of countries in southern and Eastern Europe, along with Ireland, have poverty and social exclusion rates which are above the European average.

3. The composite "risk of poverty and social exclusion" indicator and its components

	Risk of poverty or social exclusion (as a %)	Change since 2008 (in points of %)	Risk of poverty (income poverty) (as a %)	Development 2007-2011 (in points of %)	Severe material deprivation in 2012 (as a %)	Development 2008-2012 (in points of %)	People living in a (quasi-) jobless household in 2011 (as a %)	Development 2007-2011 (in points of %)
EU (28 members)	**24.8**	…	**17.0**	…	**9.9**	…	**10.4**	…
EU (27 members)	**24.7**	**1.0**	**16.9**	**0.4**	**9.9**	**1.4**	**10.3**	**1.2**
Austria	18.5	–0.1	14.4	2.0	4.0	–2.4	7.6	–0.2
Belgium	21.6	0.8	14.8	0.1	6.5	0.9	14.0	2.3
Bulgaria	49.3	4.5	21.2	–0.2	44.1	2.9	12.4	4.3
Croatia	32.3	…	20.5	…	15.4	…	16.1	…
Cyprus	27.1	3.8	14.7	–1.2	15.0	5.9	6.4	1.9
Czech Republic	15.4	0.1	9.6	0.6	6.6	–0.2	6.8	–0.4
Denmark	19.0	2.7	13.1	1.3	2.8	0.8	10.9	2.6
Estonia	23.4	1.6	17.5	–2.0	9.4	4.5	9.0	3.7
Finland	17.2	–0.2	13.2	–0.4	2.9	–0.6	9.1	1.8
France	**19.1**	**0.6**	**14.1**	**1.6**	**5.3**	**–0.1**	**8.4**	**–0.4**
Germany	19.6	–0.5	16.1	0.9	4.9	–0.6	9.8	–1.8
Greece	34.6	6.5	23.1	3.0	19.5	8.3	14.1	6.7
Hungary	32.4	4.2	14.0	1.6	25.7	7.8	12.7	0.7
Ireland	29.4	5.7	15.2	–0.3	7.8	2.3	24.1	10.5
Italy	29.9	4.6	19.4	0.7	14.5	7.0	10.3	0.5
Latvia	36.2	2.0	19.2	–6.7	25.6	6.3	11.7	6.3
Lithuania	32.5	4.9	18.6	–1.4	19.8	7.5	11.3	6.2
Luxembourg	18.4	2.9	15.1	1.7	1.3	0.6	6.1	1.4
Malta	22.2	3.0	15.0	0.0	8.0	4.0	7.9	–0.3
Netherlands	15.0	0.1	10.1	–0.4	2.3	0.8	8.7	0.6
Poland	26.7	–3.8	17.1	0.2	13.5	–4.2	6.8	–1.1
Portugal	25.3	–0.7	17.9	–0.6	8.6	–1.1	10.1	3.8
Romania	41.7	–2.5	22.6	–0.8	29.9	–3.0	7.4	–0.8
Slovenia	19.6	1.1	13.5	1.2	6.6	–0.1	7.5	0.8
Slovakia	20.5	–0.1	13.2	2.3	10.5	–1.3	7.2	2.0
Spain	28.2	3.7	22.2	1.4	5.8	2.2	14.2	7.6
Sweden	18.2	0.7	14.2	2.0	1.3	–0.1	10.0	4.6
United Kingdom	24.1	0.9	16.2	–2.5	7.8	3.3	13.0	2.6

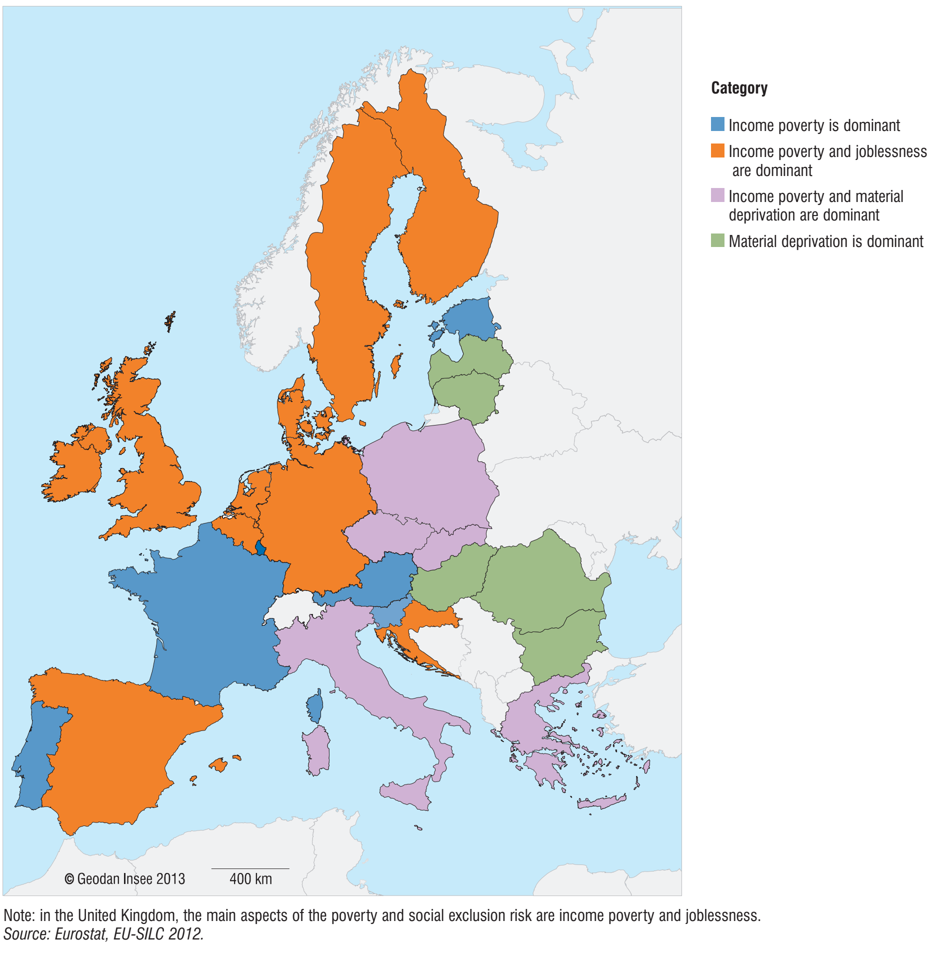
Note: the 'risk of poverty or social exclusion indicator' is less than the sum of its three dimensions (risk of poverty, severe material deprivation, people living in a (quasi-)jobless household): a given individual may be affected by two or more of these dimensions. The risk of poverty refers to 2011 while the indicators for severe material deprivation and (quasi-)jobless are for 2012.
Sources: Eurostat, EU-SILC 2012, SILC 2011 for Ireland.

For each country the most prevalent forms of poverty and social exclusion can be identified. This approach allows us to break down the member States into four groups (*Figure 4*):

The first group consists of countries in which severe material deprivation represents a particularly high proportion of the population at risk of poverty and exclusion (between 60 and 90%), a proportion well above the EU average (40%). This group is largely comprised of the poorest countries in the Union (Bulgaria, Romania, Hungary, Latvia).

The second group is composed of countries with a higher standard of living, and where income poverty, a relative indicator, is thus greater among the population at risk of poverty and social exclusion, but where material deprivation remains relatively high. This is particularly true of Italy, where the proportion of income poverty among the population at risk of poverty and social exclusion is notably high (65%), but where deprivation (48%) is also much higher than the European average.

4. Typology of countries by relative prevalence of each dimension (income poverty, material deprivation, (quasi-)joblessness) among those affected by poverty



Note: in the United Kingdom, the main aspects of the poverty and social exclusion risk are income poverty and joblessness.
Source: Eurostat, EU-SILC 2012.

Finally, in the richest nations cases of severe material deprivation are less common, and hence income poverty is the dominant form of hardship among the population at risk of poverty and social exclusion. We can nonetheless split these countries into two different groups:

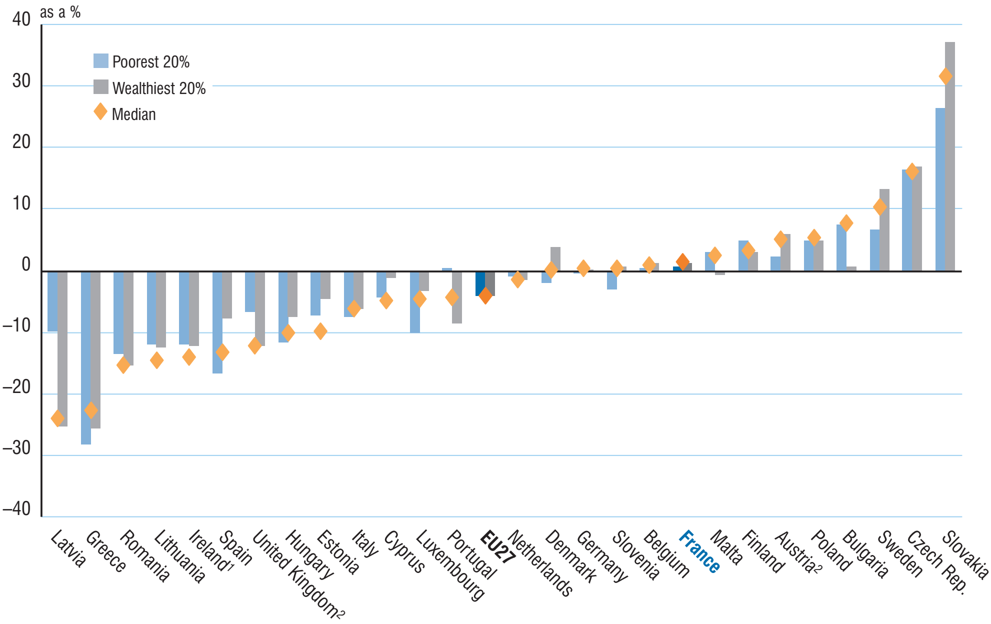
– member States where the risk of poverty and social exclusion is essentially a matter of income poverty. This is the case of France and Austria;

– member States where, along with a sizeable risk of income poverty, the proportion of the population at risk of poverty and social exclusion living in a (quasi-)jobless household is significant. This is particularly true of Germany (50%), the United Kingdom (54%) and Sweden (55%).

Living standards have developed very differently in member States since the onset of the crisis

In France, according to the EU-SILC instrument, the median income increased between 2007 and 2011 (+1.4%).[3] This rate of growth is below that recorded equivalised for the preceding four-year period (2004-2007), but the situation in France is clearly better than in the majority of other EU nations. The median income across Europe declined by 4.1% between 2007 and 2011. This overall deterioration masks even greater disparities between individual member States (*Figure 5*). Since the start of the crisis the median income has fallen in half of all EU members, while increasing in the other half.

5. Changes in equivalised incomes, 2007-2011



1. Data for 2011.
2. Change in calculation methods in 2012.
How to read the graph: in Denmark, the equivalised income for the wealthiest 20% of households grew by 3.9 % while the equivalised income of the poorest 20% fell by –2.0 % between 2007 and 2011. The median equivalised income increased by 0.1 %.
Sources: Eurostat, EU-SILC 2008 and 2012, data deflated by the consumer price index, authors' calculation.

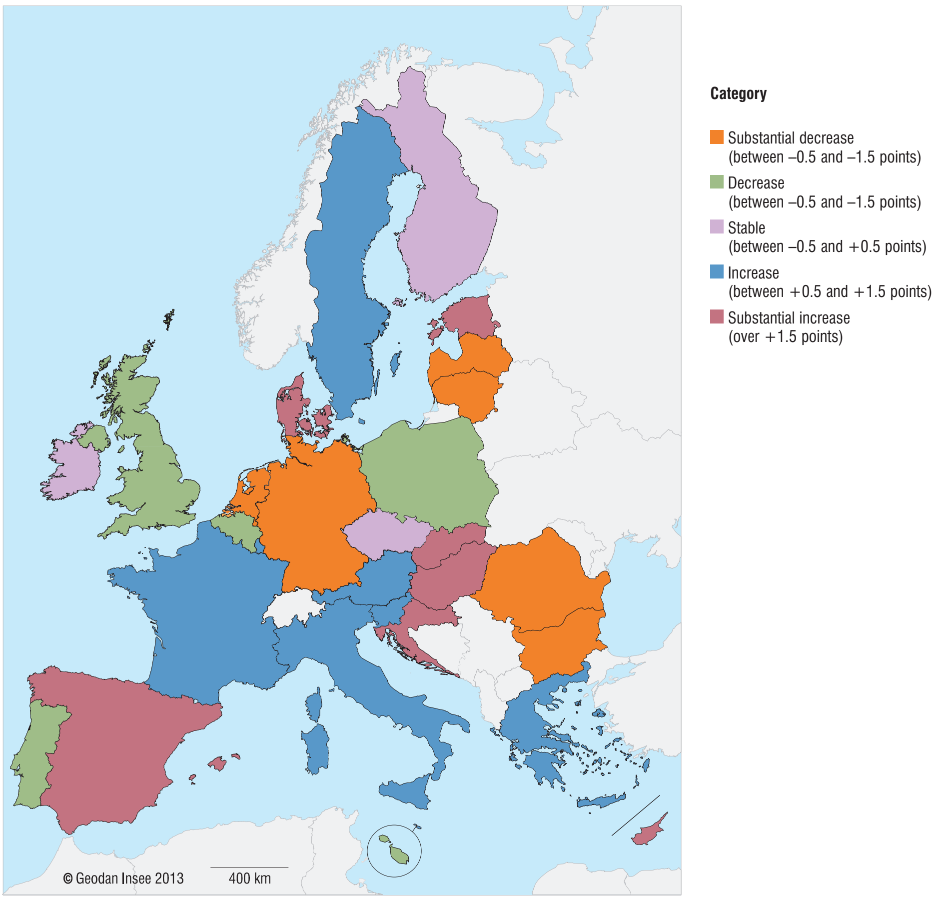
3. The reference source in France, the Fiscal and Social Income Survey, gives a similar estimation of the growth of the median equivalised income for the period, at +1.5%.

The crisis has not affected all income brackets equally. Certainly, on the face of things the income of the poorest 20% of households would appear to have suffered a decline identical to that seen by the income of the wealthiest 20% of households (–4.0% between 2007 and 2011). But these figures once again mask the great disparities between countries. In France, income increased slightly at both ends of the distribution spectrum, but this increase was nonetheless greater for the wealthiest quintile.

The rise of poverty and inequality in certain EU countries

Since the onset of the crisis, the increase in inequality in France has been slightly above the EU average. Between 2007 and 2011, the Gini coefficient increased by 0.7 points in France, while falling by 0.3 points across the European Union as a whole. The respective national Gini coefficients have followed very different trajectories (*Figure 6*). Inequality has thus seen a sharp increase since 2007 in Spain, Denmark and particularly in Italy. On the other hand, inequality has been reduced substantially in Latvia, Lithuania, Bulgaria and Romania, but also in Germany.

6. Growth in inequalities 2007-2011 (Gini coefficient)



Source: Eurostat, EU-SILC 2008 and 2012.

The risk of poverty and social exclusion has also increased in France, rising by 0.6 points between 2008 and 2012 (*Figure 3*) from 18.5% to 19.1%.

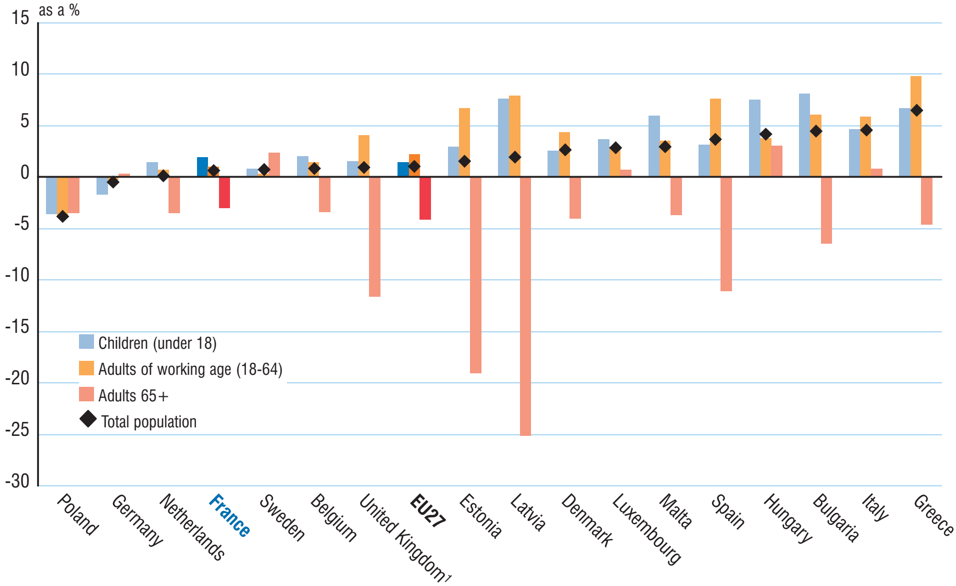
This rise in inequality is nonetheless below the EU average (+1.0 point between 2008 and 2012), in contrast to the above-average increase in the Gini coefficient. As with inequality, the risk of poverty and social exclusion has varied greatly from country to country. The risk of poverty and social exclusion has fallen slightly in seven countries, including Germany (-0.5 points), and risen in others, most notably Greece (+6.5 points), Ireland (+5.7 points) and Italy (+4.6 points).

The three components which make up the composite poverty and social exclusion risk indicator have also developed differently in different countries (*Figure 3*). France is one of the countries where income poverty has gained ground since the onset of the crisis (+1.6 points in 4 years), but material deprivation and the share of individuals living in (quasi-)jobless households have fallen. Severe material deprivation has increased significantly as a result of the crisis in Greece and Italy, but also in the Baltic nations and Hungary. Finally, the proportion of people living in (quasi-)jobless households has increased substantially in Ireland (+10.5 points), Spain (+7.6 points), Greece (+6.7 points) and the Baltic nations. This proportion increased in 20 of the 27 member States between 2007 and 2011, reflecting the sharp rise in unemployment.

Adults of working age have been hit hardest by the crisis

Across Europe as a whole, and in many member countries, working-age adults have been particularly hard hit by the crisis (*Figure 7*): their risk of poverty and social exclusion has increased sharply, as they have been directly affected by the rise in unemployment. As many of these adults belong to households with children, the deterioration of their situation has had knock-on effects for these children (0-17). On the other hand, those aged 65 and above have been left relatively unscathed by the impact of the crisis since the value of old age pensions has largely been left untouched, in a context where the overall income has slowed its growth or even declined.

7. Development of poverty and social exclusion by age group, 2008 - 2012



1. Change in calculation methods in 2012.
Source: Eurostat, EU-SILC 2008 and 2012.

Between 2008 and 2012, the risk of poverty and social exclusion for adults of working age (18-64) grew more slowly in France than in Europe as a whole (+1.0 point, compared to the EU average of +2.3 points). This risk increased in all countries, particularly those most affected by the crisis (+9.8 points in Greece, +7 points in the Baltic nations, +7.6 points in Spain,+5.9 points in Italy), but also in Denmark and the United Kingdom (+4.4 and +4.1 points respectively). Only in Germany did this rate subside over the same period (–0.3 points).

The risk of poverty and social exclusion for children has followed the trend established by the corresponding risk for their parents: with the exception of Germany (where this risk has fallen by 1.7 points), all EU nations have seen an increase in the poverty risk faced by children, particularly Spain (+3.2 points), Italy (+4.7 points) and the UK (+1.6 points). In France the risk has increased by 2.0 points: children thus represent the section of the population most affected by the crisis.

Finally, the impact of the crisis has been much less acute for the oldest age groups. By definition immune to the risk posed by exclusion from the labour market, the equivalised income of pensioners has barely been affected by the crisis. We have even seen a pronounced decrease in the risk of poverty and social exclusion faced by this section of the population in countries where the decline in market income has prompted a dramatic decline in the median equivalised income for the population as a whole, thus bringing down the income poverty threshold: as old age pensions are protected from such economic shocks, the mechanical effects have lifted a number of pensioners above this threshold. As an EU average, the risk of poverty and social exclusion for those aged 65 and over fell by 4.1 points between 2008 and 2012. In France this risk decreased by 3 points.

Social protection spending softens the blow of the fall in household income

In times of economic turmoil, social protection spending (here considered in its broad definition, including pensions and healthcare expenditure) plays a crucial role in stabilising household incomes. Such spending helps soften the blow of the decline in earned income, helping to offset certain losses of income via unemployment benefits, as well as by other mechanisms such as means-tested benefits and services.

Since the onset of the crisis, social protection spending has played a key stabilising role, helping to ensure that the fall in household income remains limited in comparison with the sudden dip in GDP, i.e. national economic output. As such, social protection spending rose in all EU member States in the years 2007-2011, with the exception of Greece and Hungary. In several countries, most notably France and Germany, social protection spending grew more rapidly than it had done in the preceding period (2004-2007). This stabilising impact has been less pronounced in Southern European nations such as Italy and Spain, where social protection spending has increased more slowly since the beginning of the crisis (*Figures 8 and 9*).

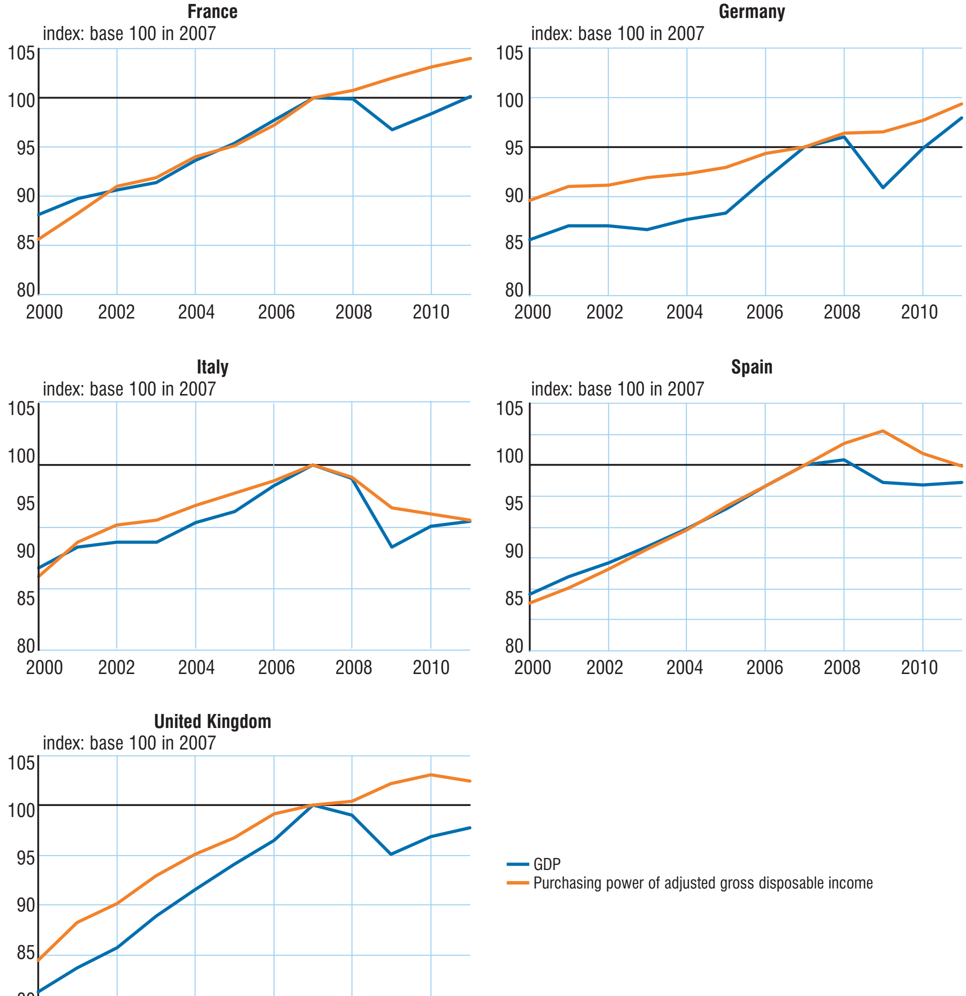
8. Annual growth rate for GDP, social protection spending and adjusted disposable income figures for selected countries

as a %

	Gross domestic product		Social protection spending		Adjusted gross disposable income	
	2004-2007	2008-2011	2004-2007	2008-2011	2004-2007	2008-2011
EU27	**2.9**	**–0.3**	**…**	**2.1**	**1.8**	**–0.8**
Germany	2.5	0.6	–0.7	2.1	0.9	0.9
Greece	3.8	–5.1	6.2	–1.7	6.6	–6.3
Spain	3.7	–1.3	5.0	3.0	3.8	–1.2
France	**2.2**	**0.2**	**1.9**	**2.7**	**2.1**	**1.0**
Italy	1.6	–1.1	2.1	1.0	1.1	–1.2
United Kingdom	3.1	–0.8	1.7	0.4	1.7	0.6

Note: GDP and social protection figures are in volume; the adjusted disposable income figures have been deflated by final consumption expenditure.
Sources: ESSPROS, national accounts, Eurostat.

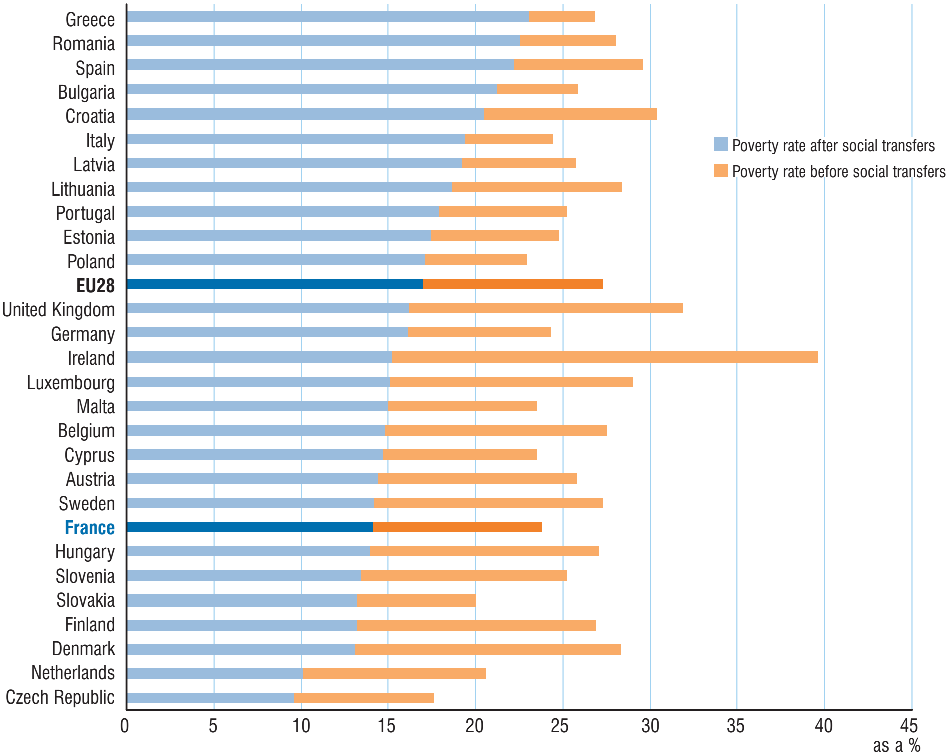
9. Effects of the crisis on household income: cumulative growth of GDP and gross disposable income of households in selected countries



Note: GDP is in volume, adjusted gross disposable income is in real terms.
Sources: Eurostat, national accounts.

In 2012, against the backdrop of a second economic slump, this stabilising force began to run out of steam at EU level [Bontout et *al*. 2013; European Commission, 2014]. We can invoke a number of factors to help explain this phenomenon: the increase in the proportion of long-term unemployed (with reduced benefits or no more unemployment compensation), the methods used to index social security benefits against inflation (which can have a positive impact in the context of a slowdown in inflation), reforms to the social protection system made with the intention of reining in government spending, or in some cases an upturn in economic activity. This overall trend masks a great deal of underlying diversity. In France, the stabilising effect of social protection has thus declined somewhat. In Germany, where economic growth has been more robust, social security benefits have actually had the effect of tempering the dynamic of income growth. In Italy and Spain, where primary incomes have fallen substantially, this stabilising effect has proven to be very limited.

10. Reduction of the poverty rate by social transfers in 2011



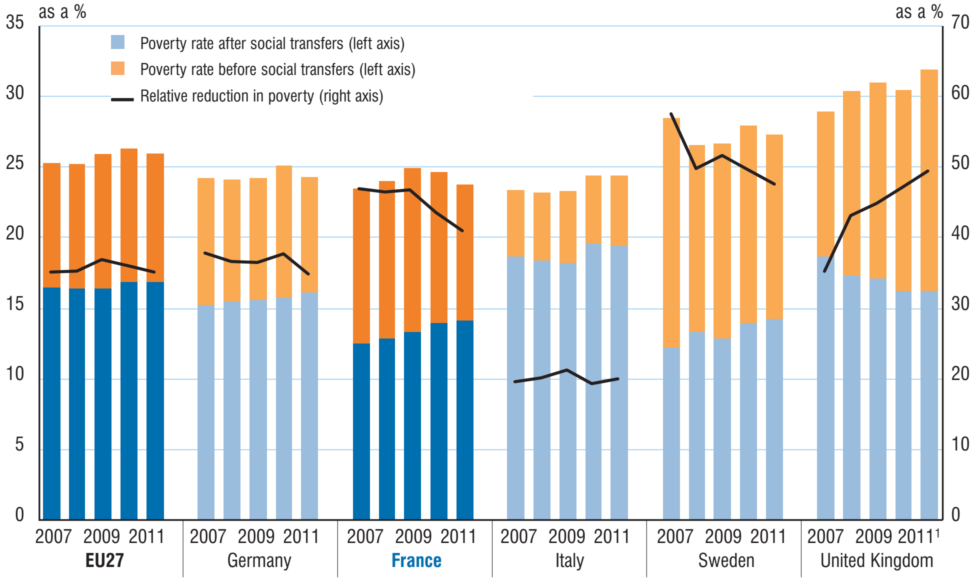
Source: Eurostat, EU-SILC 2012, SILC 2011 for Ireland.

Social transfers help keep poverty down

Among the various forms of social protection spending, certain cash benefits are more straightforwardly redistributive (family allowances, housing allowances, minimum income schemes, unemployment benefits), and are collectively referred to as social transfers. These social transfers significantly reduce the rate of poverty in a population. This phenomenon can be illustrated (*Figure 10*) by comparing the number of people whose come would fall below the poverty threshold if they did not receive social transfers with the number of people who are still beneath this threshold after their social transfers have been taken into account.

In France, the **rate of income poverty before social transfers** is around 24%, while it is just 14% when social transfers are taken into account. Put simply, social transfers reduced poverty in France by 41% in 2011. This is well above the EU average, which sees social transfers reducing income poverty by around 35%. The role of social transfers in limiting poverty is particularly prominent in Northern Europe (49% in Sweden, 51% in the Netherlands, 54% in Denmark) and certain Eastern European nations (Czech Republic, Hungary, Slovenia), along with Ireland and the United Kingdom (62% and 49% respectively), where the proportion of social benefits which are means-tested is particularly high. In the Southern European nations and certain recent member States, the poverty reduction due to social transfers is more limited (14% in Greece, 21% in Italy, 25% in Spain, 18% in Bulgaria and 19% in Romania). In Germany, the impact of social transfers is close to the EU average.

11. Relative reduction of income poverty rate by social transfers in the period 2007-2011, selected EU nations



1. Change in calculation methods in 2011 (SILC 2012) for the United Kingdom.
How to read the graph: in 2011, the poverty rate before social transfers was 24.3% in Germany. After transfers were taken into account, the rate was 16.1%.
Source: Eurostat, EU-SILC 2008-2012.

In France, social transfers impeded the development of income poverty between 2007 and 2009, but their positive impact waned in 2010 and 2011 (*Figure 11*). The income decline for unemployed people in 2010 and 2011 goes some way to explaining this development. This is largely a result of the increasing duration of periods of unemployment, combined with a slight increase in the number of unemployed people no longer entitled to unemployment benefits [Houdré, Ponceau, Zergat [Bonnin, 2013]. In Germany, the impact of social transfers in terms of reducing poverty remained stable until 2010, before dropping off in 2011. In Sweden, a country where the influence of social transfers is traditionally very strong, this impact declined over the period, especially as the robust upswing in economic activity contributed to a reduction in the poverty rate before transfers. In the United Kingdom, on the other hand, the impact of social transfers on income poverty has increased in recent years. This phenomenon can be partly attributed to the high proportion of benefits which are means-tested in the UK, combined with the strong increase in income poverty before transfers. ■

Definitions

Gini index: an index measuring the degree of inequality of income distribution, taking all income distribution into account. It varies from 0% to 100%, with 0% corresponding to perfect equality (everyone has the same income) and 100% to extreme inequality (one person has all the income, everyone else has nothing).

Equivalised income (standard of living): The ratio between a household's disposable income and its number of consumption units (CU). Disposable income includes all earned income, pensions, unemployment benefits and some wealth income, along with financial revenue and social services received. The equivalised income is thus the same for all individuals in a given household. The number of consumption units is generally calculated using the modified OECD scale, which classes the first adult in a household as 1CU, then counts 0.5CU for all other members of the household aged 14 and over and 0.3CU for children under the age of 14.

100–S80/S20 ratio: a ratio comparing the total equivalent income of the top-earning 20% of the population with the income of the lowest-earning 20%. By definition, this ratio is only sensitive to changes affecting the top and bottom quintiles.

Risk of poverty or social exclusion: a person is deemed to be at risk of poverty or social exclusion when they live in a household faced with at least one of the following three scenarios: an equivalised income below the income poverty threshold, inability to afford at least four or more items from a list of nine essential requirements, household living in a (quasi-)jobless household.

Poverty threshold: determined at national level with reference to the distribution of equivalised incomes across the population. Eurostat and EU members generally set the bar at 60% of the national median equivalised income.

Purchasing Power Standard (PPS): an artificial currency unit which eliminates the differences in price levels between countries. A PPS serves to buy the same volume of goods and services in all countries. This unit allows significant comparisons in volume of economic indicators between countries. Aggregates expressed in PPS are calculated by dividing the aggregates expressed in current prices and in the national currency by the respective Purchasing Power Parities (PPP). Due to the uncertainty level that characterises prices and basic national accounts data as well as the methods used to calculate the PPP, the differences between countries with a similar PPS index per inhabitant should not be over-interpreted.

Poverty rate: percentage of the population whose equivalised income falls below the poverty threshold.

Poverty rate before social transfers: percentage of the population whose income before social transfers (income support, family benefits, housing benefits, unemployment benefits) falls below the poverty threshold. This should not be interpreted as an indicator of the performance of the relevant social protection system, but rather as a measurement of the way in which those with the lowest incomes receive financial support in the form of social benefits. By definition, this indicator does not take into account social transfers in kind provided to households (healthcare, child care), which may help to relieve pressure on the household budget. Moreover, this indicator is static in that it does not take into account changes in behaviour which would exist in the absence of such transfers (involvement of both partners in the labour market, the decision for young people to leave the family home etc.). Finally, poverty may also be controlled by adjusting the distribution of market income (for example, by encouraging women to participate in the labour market), something which is not covered by this indicator.

Further Reading

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