Income Indicators for the
EU's Social Inclusion Strategy

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Introduction

This paper concentrates on the income indicators used in the EU's Social Inclusion Strategy, considers the strength of the way in which we measure poverty and make use of the portfolio of agreed indicators, and looks at other supplementary ways of understanding the differences in the number of people living on low incomes.

1.   THE OPEN METHOD OF COORDINATION

The fight against poverty is a long term commitment of the Member States of the European Union and an essential element of the Union's ten years strategic goal of sustained economic growth, more and better jobs and greater social cohesion. When the Lisbon strategy was launched in 2000, European governments had very different views on how to conduct the structural reforms needed to reach this goal. Heads of States therefore opted for a voluntary, flexible and decentralised form of cooperation – the so-called Open Method of Coordination (OMC). The cooperation in the fight against poverty rests on regular reporting, peer pressure and mutual learning. (See Box 1). It involves:

- Agreeing common objectives;
- Agreeing a set of common indicators;
- Preparing national strategic reports;
- Evaluating these strategies jointly with the European Commission and the Member States;
- Learning from each others through a series of tools supported by the Commission such as peer reviews, study programs, networks, etc.

In the absence of any binding mechanism, a large part of the effectiveness of the method lies on the capacity to analyse thoroughly the situation of Member States in an international context. It is also crucial to be able to assess whether the policy priorities and corresponding policy tools they have identified at national level are appropriate to meet the commonly agreed objectives.

This analytical capacity rests on the commonly agreed indicators which Member States have identified through a collective and consensual process to reflect their situation vis-à-vis the common objectives. In order to ensure the transparency and legitimacy of the assessment, EU's analytical capacity also needs a common and agreed framework on how to use and interpret the common EU indicators.

The development of indicators and of the analytical framework is carried out by the Indicators Sub-Group (ISG) of the Social Protection Committee. It was set-up in 2001 and gathers representatives of the 27 national governments that are

experts in monitoring policies in the field of social inclusion[1]. The work of the group is supported by the European Commission's policy analysts (DG Employment, Social Affairs and equal opportunities) and statisticians (Eurostat). Finally, it draws on academic expertise, notably on the 2001 and 2006 reports on indicators for the EU social inclusion strategy, by Marlier et al[2]. The ISG is also a key stakeholder in the development of EU level statistical capacity and especially in the development of EU-SILC (see below).

Indicators are developed on the basis of expertise and following strict quality criteria[3], but they are also subject to empirical validation (on the basis of available data) and consensual adoption by all 27 Member States. The political endorsement of the indicators by the Social Protection Committee or by the Council of ministers (Laeken 2001) constitutes the specific strength of the EU portfolio of social indicators.

Box1: The Open Method of Coordination in the field of social protection and social inclusion

In the context of the OMC, social policy remains under the full competency of Member States. In order to coordinate their action, Member States agree on common goals (e.g. making a decisive impact on the eradication of poverty)[4] and on common indicators used to monitor progress and compare best practices. Member States translate the common goals into their own strategic objectives, and regularly report on the policies they put in place to reach these objectives. The National Strategy Reports are analysed and assessed at EU level, and common policy conclusions drawn from this analysis are jointly adopted by the European Commission and Member States in the yearly Joint Report on Social Protection and Social Inclusion. The EU runs an action program to support mutual learning through a variety of instruments: financing of EU stakeholder networks, peer reviews on specific policy issues, independent experts network, round table, EU meeting of people experiencing poverty, transnational and awareness raising projects, studies, data collection…

Action at European level has increased political awareness of poverty and exclusion and placed the fight against poverty higher on national political agendas. It encouraged Member States to critically examine their policies. It highlighted how countries perform well in certain areas, spurring on other Member States to perform better. It also created a better basis for policy making by involving a range of actors such as NGOs, social partners, local and regional authorities and those working with people in poverty. The method also allowed creating a clear consensus about a number of common key priorities in the fight against poverty and social exclusion: child poverty, active inclusion, decent housing for all, etc…

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[1] When the OMC was extended to the field of pensions and health care reforms, indicators experts in these two areas also joined the sub-group.

[2] "Social Indicators: the EU and Social Inclusion" by A.B. Atkinson, B. Cantillon, E. Marlier, B. Nolan; Oxford University Press, 2001 and "The EU and social inclusion: facing the challenges" by E. Marlier, A.B. Atkinson, B. Cantillon and B. Nolan; The policy press, 2007

[3] See quality criteria and list of indicators at http://ec.europa.eu/employment_social/spsi/common_indicators_en.htm

[4] A full description of the agreed common objectives is available at: http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2006/objectives_en.pdf

This paper is not intended to cover all the indicators used but concentrate on the income indicators only[5]. Before discussing the income indicators and how they have worked in the open method of coordination we need to say something about one of the great statistical achievements, the EU Survey of Income and Living Conditions EU-SILC.

2.   EU-SILC

EU-SILC (Community Statistics on Income and Living Conditions) is a household based survey organised under a Framework Regulation of the European Parliament and the Council (N°1177/2003). It is the reference source at EU level for statistics on income and living conditions and for common indicators for social inclusion in particular.

EU-SILC was launched in 2003 on the basis of a 'gentleman's agreement' in six Member States (Belgium, Denmark, Greece, Ireland, Luxembourg, and Austria) as well as in Norway. Since 2005, EU-SILC covers the then 25 EU Member States plus Norway and Iceland. Bulgaria, Romania, Switzerland and Turkey have launched EU-SILC in 2007.

A key objective of EU-SILC is to deliver robust and comparable data on total disposable household income. Income components were defined to follow as closely as possible the international recommendations of the UN 'Canberra Manual'. The EU-SILC definition of total household disposable income used excludes imputed rent as well as non monetary income components, and thus in particular value of goods produced for own consumption and non-cash employee income except company car.

The income reference period is a fixed 12-month period (such as the previous calendar or tax year) for all countries except UK for which the income reference period is the current year and IE for which the survey is continuous and income is collected for the last twelve months.

In the so called register countries (Denmark, Norway, Iceland, Netherlands, Sweden, Finland and Slovenia), most income components and some demographic information are obtained through administrative registers while other personal information is collected through interviews. In all other countries, the full information is obtained through surveys.

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[5] The latest analysis of the complete list of OMC indicators is available in the 2008 OMC monitoring report:
http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2008/omc_monitoring_en.pdf

EU-SILC provides two types of annual data, cross-sectional (pertaining to a given time or a certain time period) and longitudinal (pertaining to individual-level changes over time usually over a four-year period).

The 2007 survey has just been released and for most countries this refers to income received in 2006. This year, 2009, is the first year when there will be 4 years of panel data for the 15 countries that implemented SILC in 2004 and 3 years of panels for the others.

The achieved sample size equals 200.000 households (around 440.000 adults) for the EU as a whole (including Norway and Iceland). In all countries, standard errors have been calculated and the quality measured by the 95% confidence interval for the key indicator – the at-risk-poverty rate - is impressive, at around 1 percentage point.

A full report on the progress made with EU-SILC can be found in a report to the European Parliament[6]. There will of course be areas that need some attention: two countries have two income surveys: EU-SILC and a separate one that is used for policy analysis and policy monitoring and evaluation .

An important determinant of future improvements will be the extent to which the data gets used in the Open Method of Coordination but also in the research and academic world. In this context, it is worth noting the value of forums or research networks involving both data producers and data users (e.g., the Eurostat-funded Network for the analysis of EU-SILC (NET-SILC)). The work programme covers eight broad areas and the areas that are most relevant to income indicators are "Methodological issues", "Income distribution" and "Poverty and Deprivation".

The quality of the data will continue to improve. Nevertheless it is important to remember what the survey cannot do even if all efforts at improving the data exceed expectations.

First, and perhaps most important for monitoring social exclusion, the data by definition does not cover people not living in households: those in institutions and those who are homeless and outside the sampling frame for a household survey. These people are the most socially excluded but no household based survey can monitor the welfare of this group.

Second, there is a need to further improve the timeliness of the data as explained before.

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[6] Report from the Commission to the Council and to the European Parliament on the implementation of Regulation (EC) No 1177/2003 of the European Parliament and of the Council of 16 June 2003

Finally in most of the Member States the income data refers to year t-1 and the household information to year t. If households remain unchanged there is no problem but where households are newly formed the income collected is relevant to the household in the previous year not the household in the survey year.

3. INCOME INDICATORS IN THE OPEN METHOD OF CO-ORDINATION

In 1975, the European Council defined the "poor" as "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." This definition is rooted in academic work that aimed at defining poverty in developed countries. In these countries, the aim of governments goes beyond ensuring minimum subsistence levels for their citizens; it is also to ensure that all benefit from the general level of prosperity of the society.
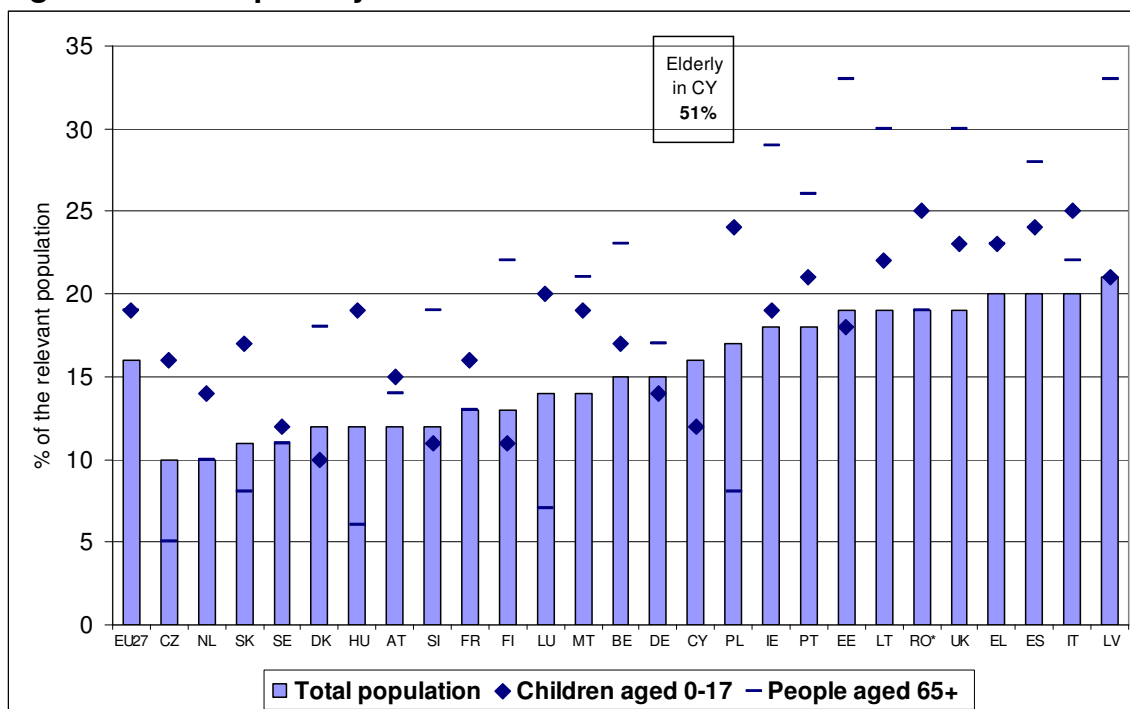
This concept differs from those referring to "deprivation of basic human needs" (UN, 1995) that are more appropriate to measure poverty in developing countries, or to an "accumulation of disadvantages that is beyond reach of macro-economic policies" (Dahrendorf, 1990), or to "permanent dependence on the State" (Engbersen, 1991).

According to the EU concept, poverty is relative, graduated and multi-dimensional with an important temporal dimension. This definition of poverty is also responsive to a range of macro-economic policies such as redistribution and employment policies.

The current portfolio of agreed indicators to monitor the EU social inclusion strategy allows covering these key characteristics to a large extent. With reference to this politically agreed definition of poverty, the "at-risk-of poverty rate" was adopted as the headline poverty indicator. It measures relative poverty at a point in time in a country. It is the share of persons aged 0+ with an equivalised disposable income[7] below 60% of the national equivalised median income. The key breakdowns are the indicator for households with children and the indicator for households 65+. The latest data are summarised in Figure 1.

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[7] Equivalised median income is defined as the household's total disposable income divided by its "equivalent size", to take account of the size and composition of the household, and is attributed to each household member. Equivalization is made on the basis of the OECD modified scale.

**Figure 1: At risk poverty rate EU 27**

Figure 1: At risk poverty rate EU 27. Chart showing "% of the relevant population" (y-axis from 0 to 35) across EU countries (EU27, CZ, NL, SK, SE, DK, HU, AT, SI, FR, FI, LU, MT, BE, DE, CY, PL, IE, PT, EE, LT, RO*, UK, EL, ES, IT, LV). Legend: Total population (bars), Children aged 0-17 (diamonds), People aged 65+ (dashes). Annotation: "Elderly in CY 51%".

Source: SILC 2007, Income data 2006; except for UK, income year 2007 and for IE moving income reference period (2006-2007); [1] RO National HBS 2007, income data 2007

This "overarching" indicator should be presented and used together with the other income indicators related to social inclusion that help capturing the multiple facets of income poverty.

The at-risk of poverty rate is related to the overall level of income inequalities

An important element of context to analyse the at-risk of poverty rate is the overall level of inequality of the income distribution in the country. Two indicators relate to this: the gini coefficient and the ratio of the shares of income enjoyed by the top and bottom quintile S80/S20. On average in the EU, the total income received by the 20% richest is 4.8 times higher than the total income received by the 20% poorest. However the ratio varies greatly across EU Member States, from less than 4 to more than 6. While most of the wealthy Member States are among those with the lowest levels of inequalities, countries with lower GDP per capita can be found among both the most equal and unequal income distributions.

**Figure 2: Income inequalities: gini coefficients and income quintile share ratio, EU 27**
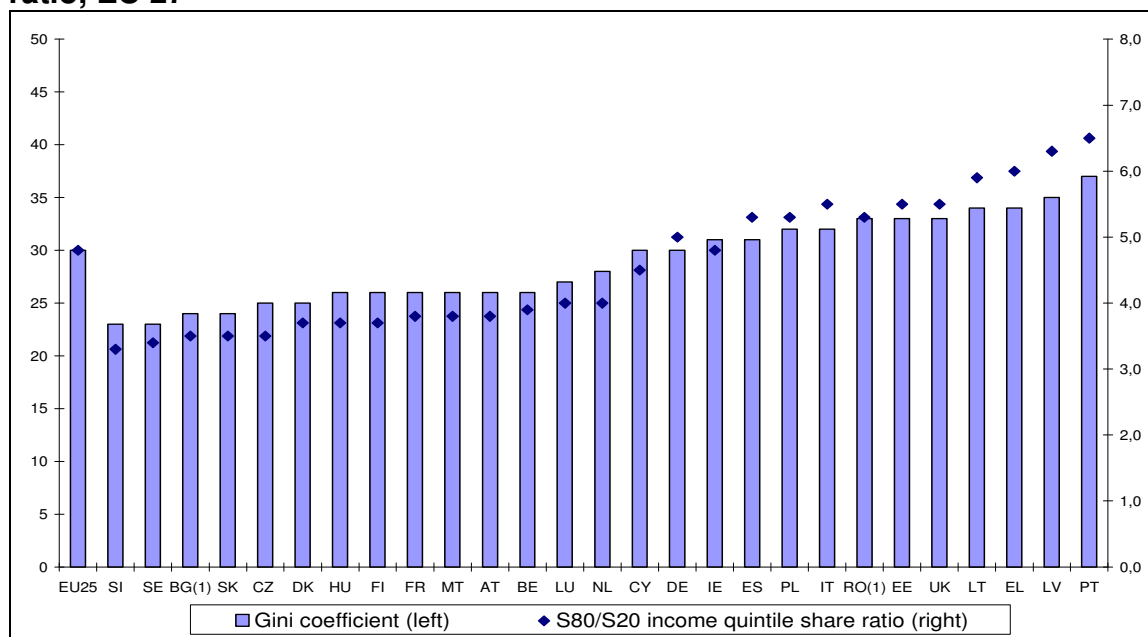
Source: SILC 2007, Income data 2006; except for UK, income year 2007 and for IE moving income reference period (2006-2007); [1] RO National HBS 2007, income data 2007

Poverty is graduated

The at-risk-of poverty rate needs to be interpreted together with an indicator that help us understand the shape of the income distribution around the 60% threshold and this is why in the "strand" indicators there are the at risk of poverty rates using 40% 50% and 70% of the median income.

In the EU as a whole, 5% of the total population (or 1/3 of the poor population) live on an income below 40% of the median income in their country, 10% below 50%, and 24% below 70%. This shows that nearly 2/3 of the population at risk of poverty would need a significant increase of at least +20% in their equivalised income to lift them out of poverty, and for 1/3 an increase of at least +50% would be necessary. Countries with similar at-risk-of-poverty rates calculated in relation to the 60% thresholds show significant variations in the number of people who are poor when more severe criteria (lower thresholds) are used. Among the countries with poverty rates below 15%, the Czech Republic, the Netherlands, Denmark and Austria have the lowest shares of very poor people. Ireland has the lowest share of very poor people among the countries with higher poverty rates.

Figure 3: At risk poverty rate EU 27 at different thresholds
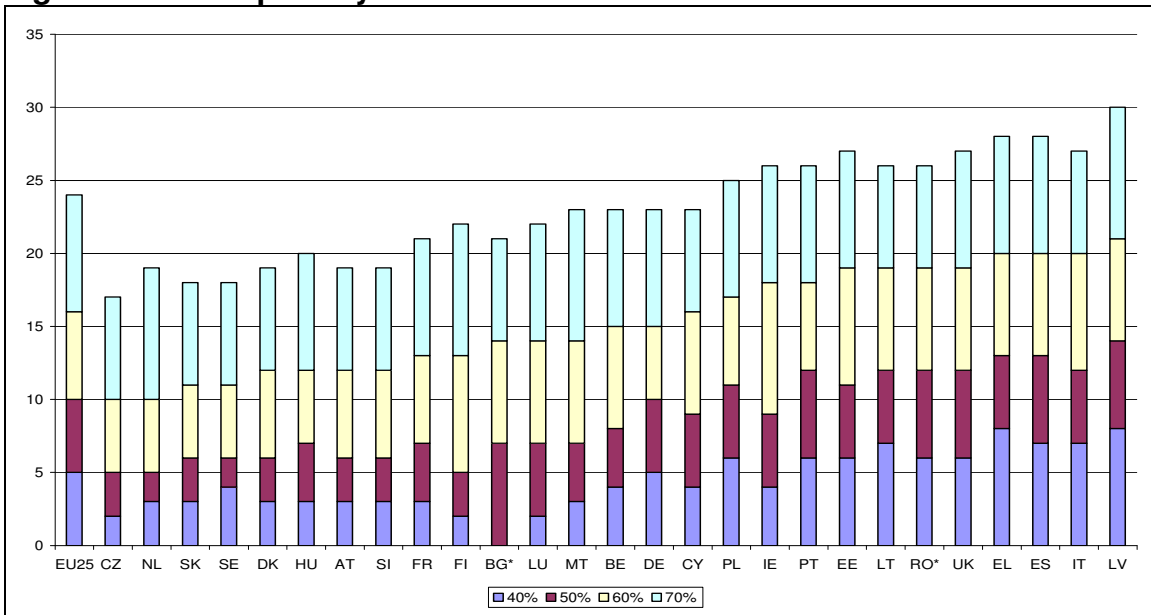
The depth of poverty is measured by the gap between the 60% threshold and the median income of the poor. In 2007 in the EU, the median income of people at risk of poverty was 22% lower than the poverty threshold. As illustrated in Figure 4, poverty tends to be more severe in countries where the shares of people at risk of poverty are highest (countries in the top right-hand corner of the graph).

**Figure 4: At-risk-of-poverty gap against at-risk of poverty rate**
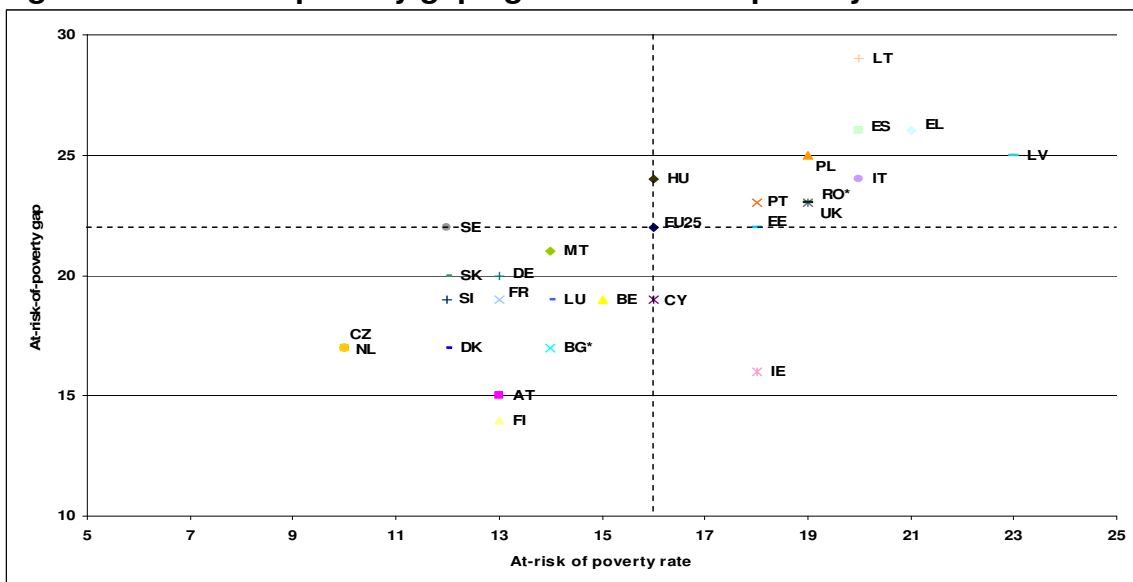
Poverty has an important temporal dimension

Finally these income indicators need to be augmented to reflect a key aspect of poverty – duration. EU-SILC does have the capacity to follow a panel over four years and this, when it is available, will ensure we have a measure of duration – the proportion of people living below the poverty threshold in any 3 out of 4 years. The persistent risk of poverty measures the percentage of total population who are "poor" (with an income under the poverty threshold) and were also poor at least 2 out of the previous 3 years. The value of this will depend on an evaluation of the data quality. The panel sample in some countries will be small and the attrition rate is usually high and likely to be biased against low income households especially those living in precarious accommodation. This indicator will only become available in 2010 on the basis of EU-SILC. According to the ECHP, the rate was 9% for the EU15 in 2001 while the at-risk of poverty rate was 15%, meaning that nearly 2/3 of the people considered at risk of poverty were durably living on low income.

Another indicator that reflects duration is the at risk poverty rate anchored at a point in time. This asks how many people in time t are below the at risk poverty rate calculated for t-n. If the at risk of poverty rate does not improve against contemporary poverty threshold it is still important to ask if poor households are enjoying increases in real income that raises their command over resources compared with the real incomes received in previous years. The "anchored poverty rate" is defined as the risk of poverty associated with a 60% threshold fixed at a point in time, and adjusted for inflation.

In figure 5, the indicator is put in relation to the average GDP growth prevailing in each country over between 2004 and 2006. This illustrates that in all countries (except Luxembourg) with high GDP growth (>5% per year) over the 3 period, the anchored poverty rate was dramatically reduced. This shows that in these countries the benefits of growth also reached those that were at the bottom of the income distribution in the base year by raising their living standards. However, the picture is less clear for the second group of countries with average GDP growth rates between 3 and 5%. In Greece, Finland and Sweden for instance, the anchored poverty rate remain virtually unchanged despite a fair level of GDP growth.

**Figure 5: At-risk of poverty rate anchored at a point in time (2005) by average GDP growth; 2005-2007**
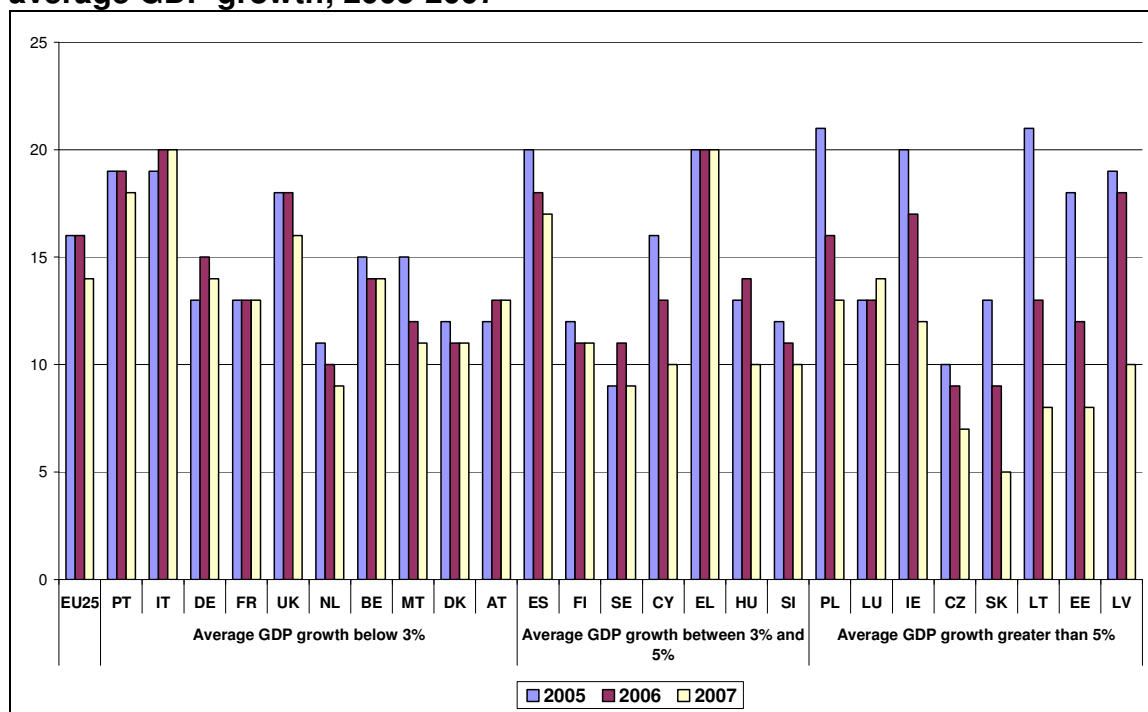
Source: Eurostat — AMECO database (GDP) and EU-SILC (2007, 2006 and 2005); income year 2006-05-04; except for UK (income year 2007-06-05) and for IE (moving income reference period 2006-07, 05-06, 04-05); BG and RO missing

The main determinants of the risk of poverty

Even on its own, the stark comparison of the data raises questions worth answering. Why can the Nordic countries with high household incomes achieve low at risk poverty rates? Why does the UK have one of the highest at risk poverty rate for households with children when its household income is also high? What drives the comparatively favourable position of the elderly in Poland, Slovakia and Hungary?

Because this indicator has raised important questions, it is clear that other indicators related to the overall picture are needed. The importance of employment led to the addition of **two employment related indicators**: proportion of people living in jobless households and the at risk poverty rate for households with at least one person who worked. Households where no one works are at much higher risk of poverty but it is also usually true that the number at risk of poverty in work is greater. The indicator on jobless households is not strictly an income indicator but it is a complement to the working poor indicator.

Figure 6 In work poverty: at risk of poverty rate of people in employment-EU-SILC 2007
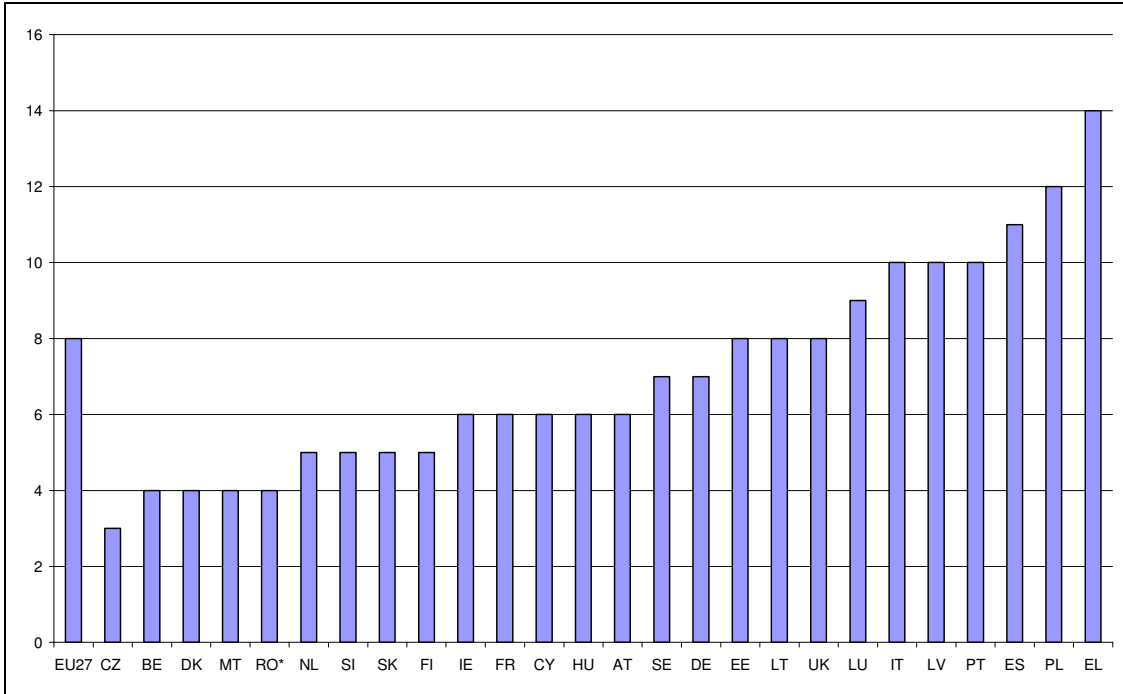
Source: Eurostat — EU-SILC (2007); income year 2006; except for UK (income year 2007) and for IE (moving income reference period 2006-07); BG missing, RO Household Budget Survey 2007

Figure 7 People living in jobless households 2007
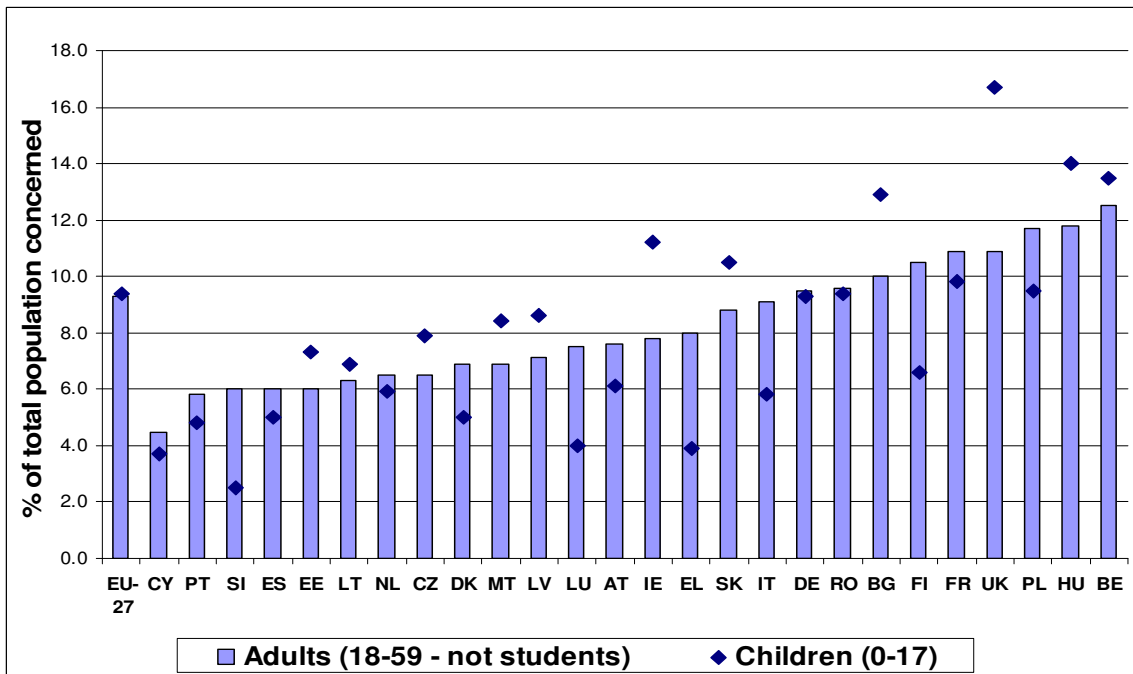
Source: Eurostat Labour Force Survey, spring results

Another determinant of the cross country differences in poverty risk is the extent to which welfare systems help reducing the risk of poverty faced by households before the receipt of social transfers. A context indicator helps measuring this impact: the at-risk of poverty rate before social transfers (excluding pensions)[8] In the absence of all social transfers, the average poverty risk for EU Member States would be 26%[9] (against 16% after receipt of government support). Figure 8 shows the percentage drop in the at-risk-of-poverty rate as a result of social transfers. It illustrates the great variation of the **impact of social transfers** across EU countries and the generally greater impact on families with children.

Figure 8: Impact of social transfers (excl. pensions): Reduction in at-risk-of-poverty rate in % of poverty rate before transfers, 2007
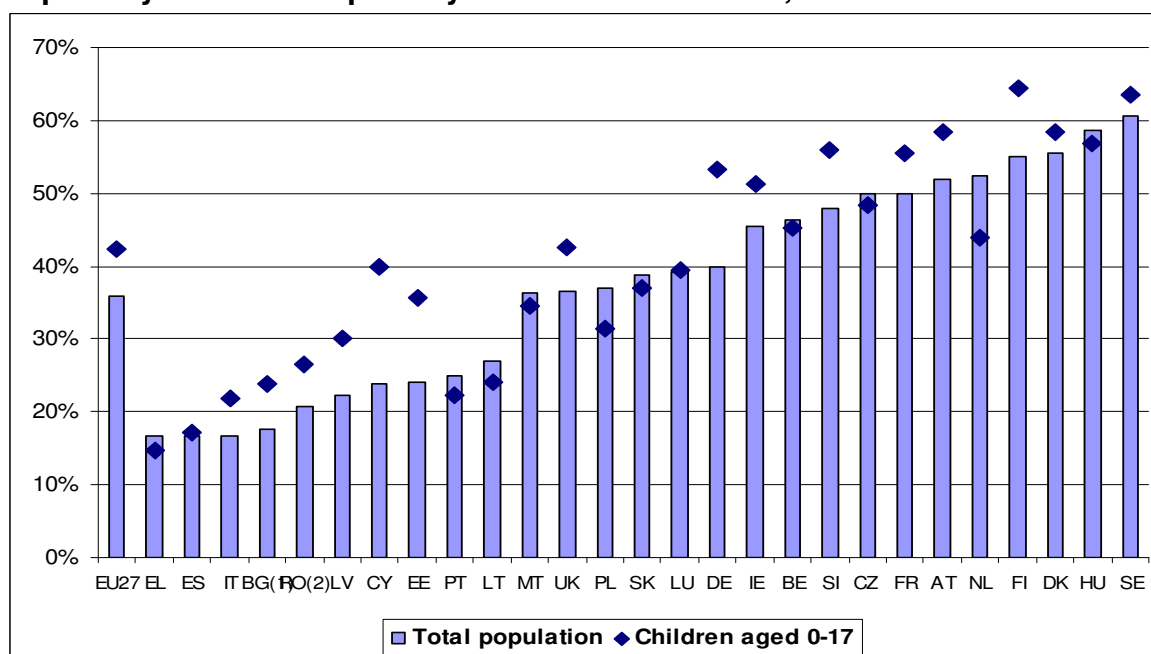
Source: Eurostat — EU-SILC (2007); income year 2006; except for UK (income year 2007) and for IE (moving income reference period 2006-07); BG Household Budget Survey 2006 and RO Household Budget Survey 2007

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[8] For the purpose of this analysis, pensions are considered primary income since their role is not only to redistribute resources across income groups but also, and primarily, over the life-cycle of individuals and/or across generations.

[9] The indicator for the poverty risk before social transfers must be interpreted with caution for a number of reasons. First, no account is taken of other measures that, like social cash transfers, can have the effect of raising the disposable incomes of households and individuals, namely transfers in kind, tax credits and tax allowances. Second, the pre-transfer poverty risk is compared to the post-transfer risk with all other things being equal — namely, assuming unchanged household and labour market structures, thus disregarding any possible behavioural changes that the absence of social transfers might entail.

When the indicators were first developed it was agreed that the poverty threshold used in each member state should be national. Social exclusion is about how you compare yourself with others in the society in which you live. Pragmatically this also resonated with the acceptance that social policy is a Member State responsibility rather than a policy area determined at EU level. Nevertheless it was felt that the different at risk of poverty rates needed to be put in context by the use of another indicator, the poverty threshold in each country. The threshold for each Member State is shown in figure 9 for an illustrative one person household. Even if the values are expressed in purchasing power standards (PPS) to take account of the differences in the cost of living across countries, and if we consider Luxembourg as an outlier, the value of the poverty threshold in the richest countries is nearly five times higher than in the poorest.

Figure 9 Poverty threshold - 2006 yearly disposable income for a single person household, - in euros and in PPS
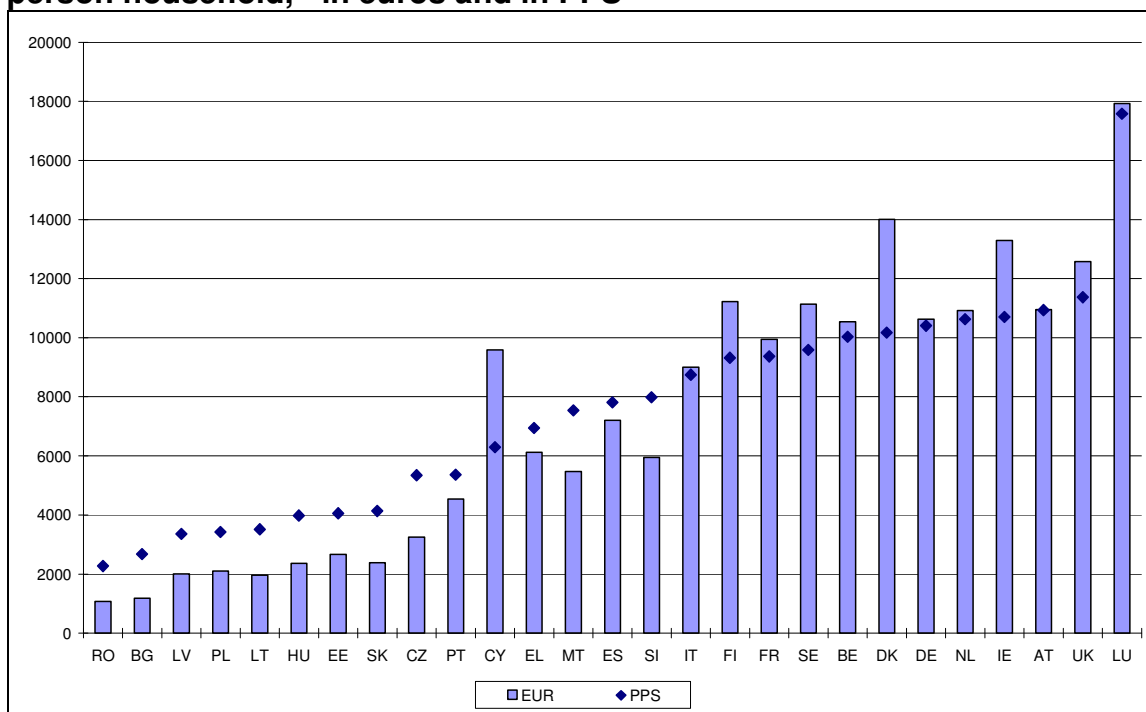
Source: SILC 2007, Income data 2006; except for UK, income year 2007 and for IE moving income reference period (2006-2007); BG and RO Household Budget Survey 2007

This information goes a long way to meeting the concerns of many people that the at risk of poverty indicator was in danger of being discredited. An at risk poverty rate for Luxembourg that is higher than that in the Czech and Slovak Republics needs information about the level of median household income in each country and therefore of the poverty threshold.

Others have also argued for the use of material deprivation indicators to illustrate the same point. In February 2009, the Social Protection Committee (SPC) has adopted an EU indicator of material deprivation. This adoption is the result of long process. In 2001, the SPC already recommended the development of indicators of material deprivation in its Laeken report on social inclusion indicators. It acknowledged the need to supplement the income based indicators by non-monetary measures of poverty. Such measures allow to partly take account of the availability of accumulated resources (savings, durable goods, housing, etc.) that are not captured by current income. If it is based on a common basket of basic deprivation items it also highlights the disparities in living standards across countries.

This recommendation became even more relevant after the accession of 12 new Member States in 2004 and 2007. The new indicator measures the proportion of people whose living conditions are severely affected by a lack of resources. For instance, these people cannot afford to pay their rent, mortgage or utility bills, keep their home adequately warm, face unexpected expenses, eat meat or proteins regularly, go on holiday, or cannot afford to buy a television, a fridge, a car or a telephone[10].

Figure 10: Material deprivation, at-risk of poverty and poverty thresholds, 2007
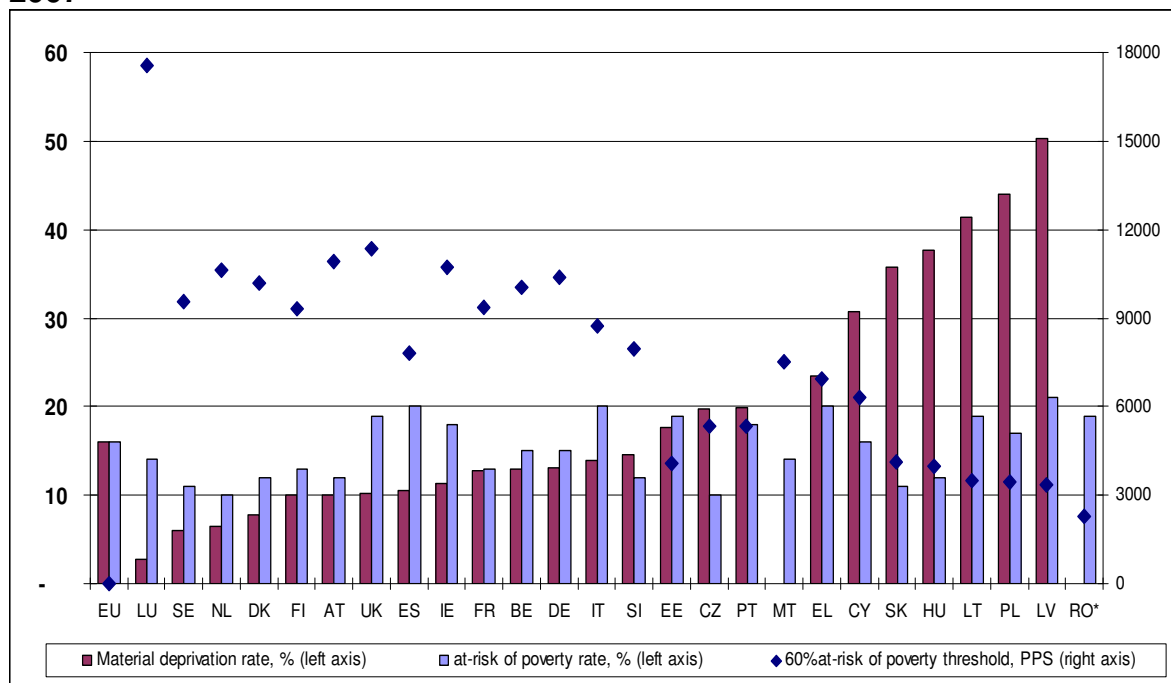
Source: Eurostat — EU-SILC (2006); income year 2005; except for UK (income year 2006) and for IE (moving income reference period 2006-07); MT, BG and RO missing.

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[10] The indicator measures the percentage of the population that cannot afford at least 3 of the 9 items quoted above.

Figure 10 illustrates how the material deprivation indicator complements the at-risk of poverty rate and its threshold. While the EU average is the same (16%), the ranking of countries is very different and the variability of the material deprivation rate is much higher but similar to the variability of the poverty threshold.

The material deprivation indicator reflects better the "geography" of poverty across the EU. This is because it depends as much on the level of development of the country than on the social policies that are supposed to redistribute the benefits of growth. However, the **at-risk of poverty rate relating to the national median income remains the most pertinent indicator to monitor the impact of social policies that are conducted at national level**, such as redistribution and employment policies.

The combined use of the two indicators should allow us to better explain the EU integrated approach to the fight against poverty that relies on a positive interaction between the growth and jobs strategy and the social inclusion strategy. The material deprivation rate highlights better the disparities in living conditions across Europe and thereby the need for a greater social and economic convergence between EU countries.

4.   ASSESSING THE INCOME INDICATORS IN THE OMC

Main achievements

The first and most important point is to acknowledge what an achievement it is to have a set of income based poverty indicators for all 27 EU Member States that can be used in the Open Method of Coordination. The indicators are based on a data set that allows comparison across Member States and data is also available for Iceland, Switzerland, Norway and Turkey. The range of indicators gives a rounded assessment of the situation of people on low incomes in each Member States. The regular reporting cycle of the Open Method of Coordination has given all member States an opportunity for mutual understanding and learning from the experience of others.

Set in the context of a full analysis of the determinants of differences in poverty rates, a powerfully strong evidence based policy tool is available to Member States in monitoring and evaluating their special concerns with the fight against poverty. An excellent example of how this can work is the report on Child Poverty[11] that shows how the indicators can be used fully in an analytical examination of child poverty across the EU. A brief summary of this report and a reflection on its impact on policy making at EU and national level is presented in Annex.

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[11] http://ec.europa.eu/employment_social/publications/2008/ke3008251_en.pdf

Some lessons can be drawn from this exercise on child poverty. At EU level, the use of an agreed analytical framework relying on common indicators increased the transparency and legitimacy of the diagnosis on the determinants of child poverty. This framework allowed to highlight not just the relative outcomes of each country, but also to identify the main causes of child poverty in each country. It helped identifying in which areas action was most needed and defining the policy priorities.

In the 2008 Joint Report on Social Protection and Social Inclusion, the analysis was complemented by an assessment of the policies in place in Member States and resulted in the issuing of key policy messages by all EU ministers. The diagnosis was also part of the tools that were available to the Member States in the preparation of the 2008-2010 National Action Plans for social inclusion and it was used as a reference by the European Commission in the assessment[12] of the plans. A number of countries have taken new measures to fight child poverty that were consistent with the diagnosis.

At national level, a common analytical framework can help policy makers because it allows benchmarking the performance of each country against that of countries sharing the same challenges. It also allows a better appreciation of the true magnitude of those challenges and in some instances to pinpoint emerging trends. Mutual learning – one of the key features of the open method of coordination - becomes easier when countries are able to compare their respective strengths and weaknesses on the basis of a common framework.

Issues for consideration

Some issues need consideration. The first is transparency. The original plan involved a commitment to use the 60% median income poverty rate only in the context of all the other related indicators. This commitment to perfection has not in practice been adhered to. The result too often is the at risk poverty rate is used on its own and this can leave the press and the general public confused and misled.

The timeliness of the data has already been mentioned. In the Autumn of 2009 one year after the financial crisis the latest data will refer to incomes from 2006. There is probably little scope for improvement in timeliness given the data has to come from 27 EU Member States.

The equivalising of household income has to be done and the EU has adopted the OECD equivalence scales. Where the pattern of households remains constant or changes slowly over time, the scale does not affect the monitoring of

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[12] See pages 27 to 30 of the supporting document to the joint report 2009 :
http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2009/supporting_document_en.pdf

changes in household income based indicators over time. But the choice of scale will affect cross section comparisons whether they are across countries or across different sections of the population within a country. A particular problem can arise with social security transfers that are household based. These benefits have an implied equivalence scale that is not necessarily the same as the one we use to equivalise income data in the EU-SILC. For example in the UK the income related benefit, Pension Credit given to pensioners who do not have a second pension or only a very small one lifts single households above the poverty threshold but leaves couple households just below. Some sensitivity testing may be sensible

A key test is whether the income indicators are well aligned with the overarching objectives. These are

- The first main objective to which Member States are committed under the social inclusion and social protection strategy is the promotion of social inclusion and social protection is the promotion of social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion systems
- The second overarching objective is to promote effective, mutual interaction between the Lisbon objectives of greater economic growth, more and better jobs and greater social cohesion and the EU's sustainable Development Strategy

The first objective is the most relevant to the role of the income indicators in the open method of coordination. Any EU government's first and main weapon against poverty is the tax and benefit system. Although all governments make transfers in kind the main engine of redistribution is through the tax and benefit system. There is little direct reference to the social protection system in the battery of income indicators. Total social expenditure net and gross as a percentage of GDP is used as a measure of the resources transferred by governments. We have also started using a measure that compares social assistance benefits as a percent of the relevant poverty threshold. The table below shows the results for those countries where it has been possible to calculate the ratio (countries where non categorical social assistance schemes are in place).

**Figure 11 Net income of social assistance recipients — 2006
As a % of the at-risk-of-poverty threshold for 3 jobless family types, incl.
housing benefits.**
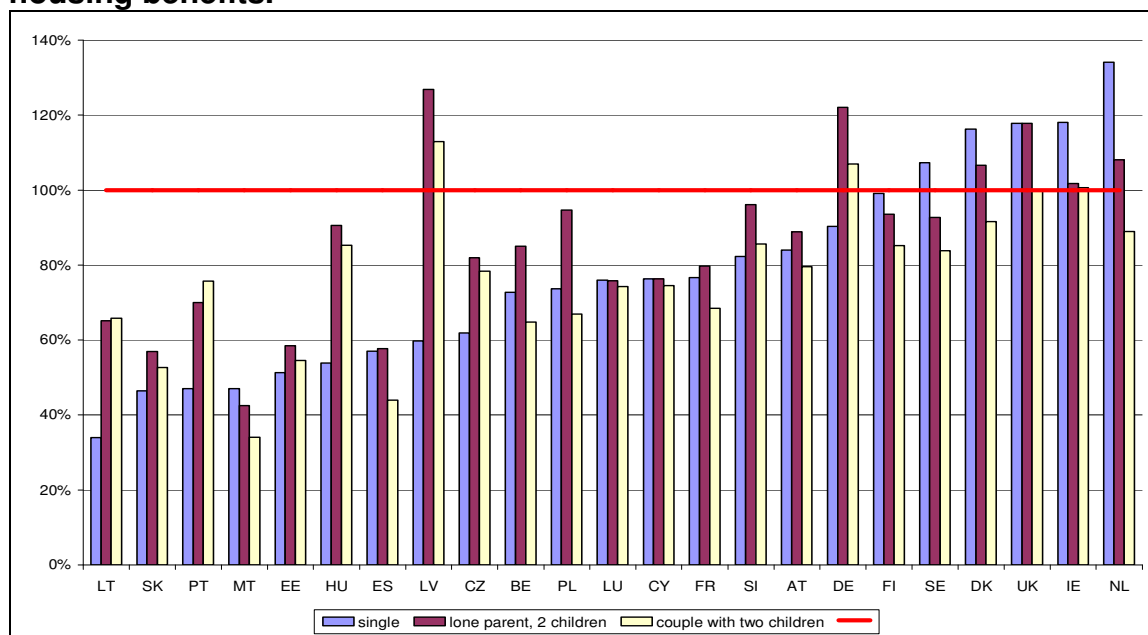
Only countries where non-categorical social assistance benefits are in place are considered.
Source: Joint EC-OECD project using OECD tax-benefit models, and Eurostat.

Further work is needed on these results. What is striking is the number of countries where the social assistance level is close to or exceeds the poverty threshold and yet the at risk poverty rates are at or above the EU average. For example the UK's social assistance rates equal or exceed the poverty threshold yet the UK has an at-risk of poverty rate above the EU average and many people at risk of poverty have incomes much lower than the threshold. This is partly explained by the fact that these ratios combine two types of information: empirical poverty rates based on EU-SILC and theoretical income levels calculated on the basis of the OECD/EC tax-benefit model. The income levels of social assistance recipients are theoretical and based on typical cases, which are not always representative of the reality of households situations and do not take account of sometimes low take-up rates[13].

The other area where benefit expenditure is used is the calculation of the at risk of poverty rate before and after social transfers (see Figure 8). This indicator on its own can only measure the effectiveness of social transfers in combating poverty if household structure is exogenous to the structure and administration of social transfers. It is unlikely that this assumption holds in practice.

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[13] While the quality and accuracy of these estimates are subject to review and might be improved in the future, the high relevance of this complex exercise makes is worth the joint investment made by the OECD and the European Commission.

Extensive benefit data exist in many EU countries. Social assistance levels are in some sense the democratically determined poverty level; they are meant to be a safety net below which no one falls. The data can be timely and duration is easily and accurately calculated: so can repeat spells of dependency on social protection benefits. In addition, with modern computing power 100% counts are possible and this brings the possibility of having social protection data down to very small areas. Household survey data always exclude those not in households: but people not in households can receive social security benefits. Measuring the number of people dependent on benefits and whether that is growing is easily understood by the general public who often struggle with at risk poverty rates.

There have always been objections. First the introduction of a new benefit or a change in eligibility can result in a surge in numbers dependent on the new benefit. Second, decisions to raise the generosity of social assistance can lead to an automatic growth in the number falling below this social assistance determined poverty rate. But this should not be a problem. If society decides the national poverty level or safety net should be higher then initially the numbers falling below it may be higher where the take up of the benefit is not close to 100%.

The financial crisis may accelerate the use of benefit data across the EU. The ISG is currently contributing to the Social Protection Committee's monitoring of the social impact of the crisis. We have realized that data on social security benefits are going to be more timely even if there may not be comparable availability across all Member States and we are going to use what data exists to give a more up to date picture of the social consequences of the recession across the EU.

5. CONCLUSIONS

The adoption and use of income indicators together with the successful launch of a comparable data base across the EU 27 and beyond to Turkey Iceland Switzerland and Norway is a major achievement.

While a newly adopted indicator of material deprivation reflects better the geography of poverty across Europe, the at-risk of poverty rate relating to the national median income remains the most pertinent indicator to monitor the overall impact of social policies that are conducted at national level, such as redistribution and employment policies.

Investing further in the development of sound analytical frameworks such as the one used in the child poverty benchmarking exercise is crucial to ensure that the EU indicators are used in policy making, both at EU and national levels.

However, there is a need for information to monitor the main policy instrument in combating poverty – the social protection system operating in each Member Sate. Benefit data will be easily understood by the public; it will be more timely; it allows accurate measures of duration on minimum incomes. The need to monitor the impact of the financial crisis will probably accelerate the adoption of this source of information.

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The child poverty benchmarking exercise: an example of in-depth analysis of poverty on the basis of the EU indicators

In the March 2006 Presidency conclusions, EU Heads of States committed "to take necessary measures to rapidly and significantly reduce child poverty, giving all children equal opportunities, regardless of their social background". As a follow-up, Member States chose tackling poverty and social exclusion of children as a key focus theme for the year 2007. The Social Protection Committee adopted the final report on "Child Poverty and Well Being in the EU – current status and way forward" in January 2008 .

In this report, Member States signed off a diagnosis of the main causes of child poverty in each Member State drawn from a thorough EU benchmarking exercise based on the EU agreed indicators and related statistics. Most EU Member States recognise the need to significantly reduce child poverty and social exclusion. Most of them are launching or have policies in place to address child poverty and social exclusion. However, these policies are still at very different stages of implementation and considerable differences in outcomes remain. The aim of the report was to understand better what can explain such differences.

The first part of the report focuses on relative income poverty since it remains a key aspect of children's living conditions. Experiencing income poverty is one of those life circumstances most likely to have a direct or indirect negative impact on the well-being of children (educational outcome, health, housing conditions, quality of environment, etc.) and on children's future life opportunities. The focus on relative income poverty is also politically relevant to support Member States in their use of the main policy instruments they have at their disposal to support families: labour market policies that support parental employment and tax-benefit systems that support children and families both financially and through the provision of key services (e.g. childcare).

Using the EU agreed indicators and detailed related statistics, the report reviews extensively the main determinants of child poverty: household characteristics, labour market situation of parents and the effectiveness of government intervention through income support and provision of key services (e.g. childcare). In conclusion of this review it combines a selected number of indicators to draw a raw diagnosis of the main determinants of child poverty in each country.

The EU benchmarking exercise

Table 1 summarises this benchmarking exercise. In the first column, countries are assessed according to their relative performance in child poverty outcomes, into 6 levels from +++ (countries with the lowest poverty rates and poverty gaps) to --- (countries with the highest poverty rates and poverty gaps). The level of

performance here is defined relatively to the poverty rates of all other EU countries.

In the next three columns, countries are assessed according to their relative performance (also using a 6 levels scale) with regard to the three main factors influencing child poverty risk, namely: children living in jobless households, children living in households at risk of "in-work poverty" and the low impact of social transfers on the risk of child poverty. Countries are then grouped according to the main challenge they face (where they have most "–" scores).

Table 1: Relative outcomes of countries related to child poverty risk and main determinants of child poverty risk

		Child poverty risk outcomes	Joblessness: children living in jobless households	In-work poverty: children living in households confronted with in-work poverty	Impact of social transfers (cash benefits excl. pensions) on child poverty
GROUP A	AT	+	+	++	++
	CY	+++	+	+++	+
	DK	+++	+	+++	++
	FI	+++	++	+++	+++
	NL	+	+	+	+
	SE	+	(++)	++	++
	SI	++	+++	+++	++
GROUP B	BE	+	--	+++	+
	CZ	-	--	+	+
	DE	++	--	+++	+++
	EE	--	--	+	-
	FR	++	-	++	++
	IE	-	---	+	+
	SK	-	---	+	+
GROU P C	HU	---	---	-	+
	MT	-	--	--	-
	UK	--	---	--	+
GROUP D	EL	--	+++	--	---
	ES	---	+	---	---
	IT	---	++	---	--
	LT	---	+	--	--
	LU*	--	+++	--	+
	LV	---	-	--	--
	PL	---	-	--	--
	PT	--	+	--	--

Source: SPC report on Child Poverty and Well-Being – data updated to 2006 – LU excluded from analysis

The detailed analysis of Table 1 confirms that child poverty outcomes result from complex interactions between joblessness, in-work poverty and the impact of transfers. The countries achieving the best outcomes are also those performing well on all fronts, notably by combining income support with measures to facilitate access to employment and to enabling services (e.g. childcare).

Once reliable trend data become available from EU-SILC, a dynamic dimension will have to be added to the proposed diagnosis. This will allow taking account of the increase in child poverty observed in a number of countries, and notably in SE and FI that are identified here as best performers in relation to other EU countries.

- Group A gathers the three Nordic countries (DK, FI, SE) as well as AT, CY, NL, and SI. These countries reach relatively good child poverty outcomes by performing well on all 3 fronts. They combine relatively good labour market performance of parents (low levels of joblessness and of in-work poverty among households with children) with relatively high and effective social transfers. Nordic countries achieve these goals despite high shares of children living in lone parent households. They seem to succeed in so doing notably by supporting adequate labour market participation of parents in these families through childcare provision and a wide range of measures of reconciliation of work and family life. While the impact of social transfers on child poverty is relatively low in CY, children in this country have so far been protected against the risk of poverty by strong family structures dominated by 2-adults families and complex households in which most working age adults are at work. In the NL, while children in part benefit from the low levels of inequality in the country and from a relatively good integration of parents on the labour market, child poverty outcomes may be further improved by addressing the intensity of poverty and improving the impact of social transfers (which is lower than for other countries in this group).

- Group B gathers BE, CZ, DE, EE, FR, IE, and SK which achieve relatively good to below average poverty outcomes. The main matter of concern in these countries is the high numbers of children living in jobless households. While 8% of children or more live in jobless families, families at work experience lower levels of poverty than in other EU countries. In most of these countries, around half of the children in jobless households live with a lone parent. In FR the high numbers of children living with jobless couples is also a matter of concern. Among these countries, DE and FR seem to be more successful at limiting the risks of poverty for children than the others through relatively high and effective social transfers. The interaction between the design of these benefits, the availability and affordability of child care and the labour market participation of parents would deserve further analysis. Policies aimed at enhancing access to quality jobs for the parents furthest away from the labour market may contribute to reducing child poverty in these countries.

- Group C gathers HU, MT, and the UK who record average or just below average child poverty outcomes, despite a combination of high levels of joblessness and in-work poverty among parents. In the UK, joblessness mainly concerns lone parents, while in HU and MT it concerns mainly couples with children. The main factors of in work-poverty are low work intensity in MT (very few 2-earners families) and the UK (incidence of part-time work) and low pay or low in-work income in HU where the poverty rates of 2 earners families are among the highest in the EU. In this group of countries, the UK and HU partly alleviate very high risks of pre-transfers poverty among children through relatively effective social benefits. In MT, despite the relatively poor integration of their parents on the labour market, children benefit from low pre-transfers risk of poverty, probably as a result of family structures that so-far remain protective. In these 4 countries, different policy mixes may be needed to give access to quality jobs to parents living in jobless households, to enhance the labour market participation of second earners and to adequately support the incomes of parents at work.

- Group D gathers EL, ES, IT, LT, LV, PL, and PT. These countries record relatively high levels of child poverty. While they have low shares of children living in jobless households, they experience very high levels of in-work poverty among families. The main factors of in-work poverty in these countries are the low work intensity (the number of 2-earners families are among the lowest in ES, EL, IT, LU, PL) combined (or not) with low in-work incomes (the poverty rates of 2 bread winners households are among the highest in ES, EL, LT, PT and PL). In these countries (apart from LU), the level and efficiency of social spending are among the lowest in the EU. The analysis indicates that in these countries family structures and intergenerational solidarity continue to play a role in alleviating the risk of poverty for the most vulnerable children. Living in multi-generational households and/or relying on inter-households transfers whether in cash or in kind may partly compensate the lack of governmental support for the parents in the most vulnerable situations. These countries may need to adopt comprehensive strategies aimed at better supporting families' income, both in and out of work, and at facilitating access to quality jobs, especially for second earners.

Can this benchmarking exercise be used in policy making ?

At EU level, an agreed analytical framework relying on common indicators increases the transparency and legitimacy of a diagnosis at EU level. This framework allows to highlight not just the relative outcomes of each country, but also to identify the main causes of child poverty in each country. Knowledge of the main determinants of child poverty allows to deduct in which areas action is needed and to define the policy priorities. An example of the application of the framework can be found in the 2008 Joint Report on Social Protection and Social Inclusion. The analysis was complemented by a jointly agreed assessment of the

policies in place in Member States and resulted in the issuing of key policy messages by all EU ministers. The diagnosis was part of the tools that were available to the Member States in the preparation of the 2008-2010 National Action Plans for social inclusion and it was used as a reference by the European Commission in their assessment[14]. A number of countries had taken new measures to fight child poverty that were consistent with the diagnosis.

At national level, a common analytical framework can help policy makers at national level because it allows benchmarking the performance of each country against that of countries sharing the same challenges. It also allows a better appreciation of the true magnitude of those challenges and in some instances to pinpoint emerging trends. Mutual learning – one of the key features of the open method of coordination - becomes easier when countries are able to compare their respective strengths and weaknesses on the basis of a common framework.

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[14] See pages 27 to 30 of the supporting document to the joint report 2009 :
http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/2009/supporting_document_en.pdf