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Escaping the poverty trap: will Europe 2020 deliver more equal societies?

Claire Dhéret

BACKGROUND

The intensifying debate over poverty and social exclusion in recent years has led to important political initiatives to address this pressing issue. Reducing poverty has been defined as one of the 'headline' targets of the new Europe 2020 Strategy and the European Union has declared 2010 the 'Year for Combating Poverty and Social Exclusion'.

Against this backdrop, debate is mounting in some circles about the level of income inequalities.

Many people in Europe are worried about the growing gap between rich and poor. These concerns have been intensified by the recent crisis, which has highlighted dysfunctions in our economic system. Indeed, despite the positive impacts of globalisation and a rapid increase in Europeans' living standards over time, the cake has not been shared in a fair way.

There are some clear winners, but others feel left behind and unable to cope with all the consequences of a globalised and fast-changing world economy.

In this context, it is no surprise that eradicating poverty has been given more prominence in the new Europe 2020 Strategy than in its predecessor, the Lisbon Agenda. Although this is a significant step forward, policy-makers must be clear about what social objectives they are aiming to achieve.

Should the focus be exclusively on combating extreme poverty or is the goal wider than that? What priority, if any, will be given to reducing inequality in the new strategy?

The answers to these questions, unfortunately, remain unclear and the focus is extremely blurred.

Poverty and income inequality: two sides of the same coin?

Poverty and income inequality are two different concepts but ones which may be, in reality, inextricably interconnected, depending on whether poverty is defined in relative or absolute terms.

While absolute poverty relates to whether people lack the basic necessities for survival, relative poverty measures people's income in comparison to the rest of a society.

Relative poverty therefore differs from country to country, depending on the living standards enjoyed by the majority, and there is a clear relationship between poverty and income inequality: the more unequally income is distributed across a society, the more widespread poverty tends to be.

In the EU, prior to the launch of the Europe 2020 Strategy, the focus was generally on relative poverty, with those on below 60% of median income considered to be at risk of poverty.

Current trends

Today, nearly 80 million Europeans (i.e. approximately 16% of the total population) are at risk of poverty. This is a relatively high level for a region widely perceived to be wealthy and affluent. However, the situation varies from one EU Member State to another, and there are also

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significant differences in the severity of poverty among countries.

While some well-performing Member States (such as the Czech Republic, Netherlands, Slovakia, Denmark, and Sweden) have low relative poverty rates, between 9% and 12,2% in 2008, in others (such as Lithuania, Greece, Bulgaria, Romania and Latvia) 20% of the population, or even more, was at risk in the same year. Furthermore, generally speaking, the larger the share of the population affected by poverty, the more severe it is.

Income inequalities within European countries have also been rising over the past decade. Usually measured as the ratio of the top 20% of the population to the bottom 20% on the income scale, the gap between rich and poor has been growing since 2000: up from a ratio of 4.5 in 2000 to 4.8 in 2008 across the EU as a whole. As with the poverty level, there are significant differences in the degree of income inequality within countries.

Generally, while relative poverty (i.e. the level of income inequality) is the main concern in older Member States, in the new Member States a larger share of the population struggles with material deprivation and absolute poverty (regardless of inequality levels). For example, only 1.5% of people suffered from severe material deprivation in the Netherlands in 2008, compared with 33% in Romania.

What have the policy-makers promised?

It is against this backdrop that European policy-makers have committed themselves to making growth more inclusive by delivering social and territorial cohesion in Europe, as one of the three key priorities of the new Europe 2020 Strategy.

At their summit in June, EU Heads of State and Governments agreed to set a target of lifting 20 million Europeans out of poverty by 2020. This is a good sign, echoing the promises made by European leaders to measure countries' performance not only on the basis of economic indicators but also in terms of their capacity to tackle social challenges.

There is, however, still a great deal of uncertainty about how this EU 'headline' target will be translated into national targets, how the burden will be shared among countries, and what kind of policy actions will be undertaken at EU and national levels to achieve this target.

There is also uncertainty about the nature of the target itself: is it the right tool to translate the goal of inclusive growth into reality? The priority is not only about combating extreme poverty and taking care of the most vulnerable groups in society. The strategy goes beyond that – it also underlines the need to share the benefits of growth, which implies narrowing inequalities.

Hence, it is worth asking: is the poverty target going to make our societies more equal by 2020?

STATE OF PLAY

The poverty target: how does it work?

EU Member States have agreed on an aggregate of three indicators to measure either absolute or relative poverty.

The first measures monetary poverty – i.e. the number of households living on less than 60% of national median income. The second calculates severe material deprivation – i.e. how many households experience at least four out of nine defined 'deprivation situations'. The third relates to employment intensity – i.e. the number of households with zero or very low work intensity over a whole year. Using a combination of these three yardsticks, 25% of European citizens (i.e. 120 million people) are considered to be poor.

This shows that poverty is a multi-faceted phenomenon with multiple effects on individuals' lives and that the number of poor people varies according to how poverty is measured.

The approach chosen by the EU was designed to bundle together different aspects of poverty, but its objective was, first and foremost, to reach a consensus among Member States. Some countries, in particular Romania and Bulgaria, rejected the European Commission's initial proposal to set a target of reducing the number of European citizens living below the poverty line by 25%.

This goal was considered unachievable by some Member States and the Commission eventually backed down and lowered its ambition.

Opting to satisfy everyone amounted to a considerable failure. While it is clear that one size does not fit all, allowing countries to choose from one of three indicators – depending on what they feel best suits their national circumstances – clearly gives them a free hand. This prevents

the EU from making cross-European comparisons and therefore undermines the credibility of the strategy.

It is also very likely that under these circumstances, countries with high levels of material deprivation will opt to focus only on improving the living standards of the most vulnerable, without addressing the issue of income distribution.

While the initial objective of the strategy was to reduce relative poverty – i.e. the level of inequality – its focus has become increasingly blurred.

Why does income inequality matter?

Levels of income inequality matter a great deal, and not just because the Europe 2020 Strategy contains a commitment to share the benefits of growth more equitably.

Studies have already shown that inequality is socially corrosive. There is no doubt that it fosters violence, crime, anti-social behaviour and stress. All this not only endangers a society's inclusiveness and cohesion, but also has a negative impact on people's daily lives and, therefore, on citizens' well-being.

A growing number of studies have generated hard evidence on the negative impact that unequal societies have on the determinants of people's well-being in rich countries, be it with regard to health status or the quality of social relations.

The evidence suggests that in equal societies, everyone (not just the poorest but also the well-off) do much better in relation to issues which have a social gradient; i.e. problems which become more widespread further down the social ladder.

Given this, it is no coincidence that Europeans strongly support a reduction in inequalities. In all EU countries (except Denmark, where the level of inequality is already impressively low), a majority of the population believes that inequalities are too great and that the government should act to reduce differences in income levels. Support for more redistribution measures is strongest in the Eastern European countries (between 75% and 85%), France (79%) and the Mediterranean countries of Greece, Italy, Spain and Portugal (81-94%).

Given the EU's ambition to promote the well-being of its citizens, as stipulated in the Lisbon Treaty, the EU should also examine the impact that inequality may have on citizens' life satisfaction.

An analysis of the relationship between levels of income inequality and life satisfaction in the EU Member States shows that the association between the two is as expected, with greater life satisfaction generally associated with less income inequality. However, this association does not hold true for all countries – the correlation between the two is weak in the new Member States, where household incomes and material living conditions are still significantly lower than in older Member States, but it is much clearer in the EU-15.

This finding – that income inequality has a more negative impact on people's life satisfaction in richer countries – is consistent with the 'hierarchy of needs' principle; i.e that people care more about income inequality when their basic needs are already being met. Therefore, one can safely assume that Eastern Europeans' life satisfaction is currently more affected by absolute poverty than by relative wealth.

This does not, however, mean that their life satisfaction will not be increasingly affected by levels of income inequality in the future. As Eastern European countries become wealthier and more Westernised, it is likely that their concerns will increasingly mirror those of their Western European neighbours.

This shows, once again, that only focusing on absolute poverty is not a solution for delivering a better quality of life to EU citizens in the long run.

PROSPECTS

The return to a national approach to measuring poverty has exposed the lack of unity which characterises Member States' approaches to inequality. It also contrasts with the Europe 2020 objective to share the benefits of growth more widely. Put simply, it shows that combating inequality has still not become a priority for all.

So, given the EU's limited competencies in relation to social policies, with responsibility for any redistributive measures still resting with the Member States, what can the Union do to address this issue?

The need for a frank debate

The benefits of growth will clearly not be shared more widely unless there is a frank debate about the impact of income inequality at both EU and national levels. Many politicians still believe,

mistakenly, that inequality is a stimulus to growth and innovation and an inevitable consequence of progress. A change of mindset is therefore needed.

The European Commission has created a European Platform against Poverty as a flagship initiative to deliver on the poverty target. It is now time for the Commission to be more specific about the structure of this platform and to define the themes it will need to address.

The platform could provide the right framework to foster genuine debate on this issue and raise awareness of the benefits of narrowing inequalities. There is indeed scope for Member States to learn from each other. Some countries with very low levels of inequality, such as Denmark and Sweden, have already proved that it is possible to have decent levels of growth, generate high levels of employment and low levels of income inequality at the same time.

Reducing inequality is more a political choice which mostly depends on politicians' preferences.

EU country clusters: an innovative mechanism

Time is now running out. While decisions on how the EU 'headline' target will be translated into national objectives are still a matter for negotiation, the Commission should use this time to establish an innovative mechanism.

So far, this opportunity seems to have been missed and sadly, the Commission has not taken heed of the past experience with the Lisbon Agenda.

The shortcomings of the Open Method of Coordination (OMC), a non-binding mechanism based on peer review by Member States and exchange of best practices, have already been demonstrated. Setting the same target for all Member States was also a failure.

A new mechanism, taking the different starting points of different Member States into consideration, is now urgently needed.

This mechanism should both reflect the diversity of the Member States and allow for cross-European comparisons. This will require the creation of EU country 'clusters' based on similarities between groups of Member States in relation to the fight against poverty.

An appropriate and realistic target should then be set for each country cluster, thus allowing fair comparisons between similar Member States.

Tackling income inequality should be a key priority of each cluster's strategic plan and progressive targets should be set reflecting the level of relative poverty within the cluster, to ensure balanced progress towards the overall goal. In this context, the exchange of best practices among countries facing the same realities will be perceived as more useful and encouraging, and this is essential to maintain the necessary political will to tackle this issue in the long run.

Although the EU's ambitions in relation to combating poverty have been reduced considerably with the introduction of the three different indicators, the Commission still has room for manouevre to make reducing inequality a key component of the target. It must urgently seize this initiative if the EU is to realise its ambition to deliver more equal and inclusive societies, and to maximise Europeans' well-being by 2020 and beyond.

Ignoring growing income inequalities in any one EU country is not only risky at the national level, but may also prompt waves of intra-EU migration, with citizens taking advantage of the European right to freedom of movement.

This is therefore likely to have spill-over effects in other Member States and thus undermine Europe's efforts to achieve greater social and territorial cohesion – a key objective not only of the Europe 2020 Strategy but also of the Lisbon Treaty.



Claire Dhéret is a Junior Policy Analyst at the European Policy Centre.

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