POLICY VIEWPOINT

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Rising European poverty and inequality

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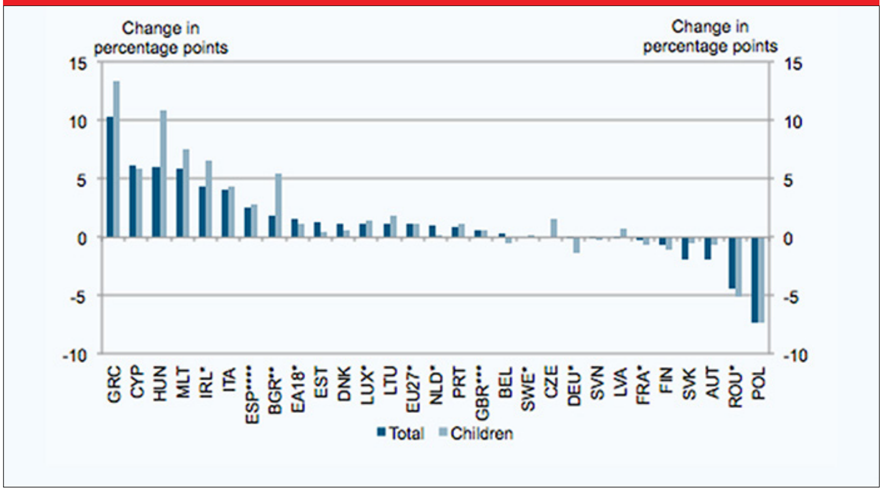
Many Europeans have experienced decreases in living standards during the crisis, resulting in increases in inequality and poverty. These changes can be measured in many ways, such as changes in severe material deprivation and decile shares.

The severe material deprivation rate is an indicator of poverty. Instead of looking at income, the severe material deprivation rate shows how individuals experience inadequate access to basic amenities. The rate is defined as the declared inability to pay for a certain number of necessary items such as rent and utility bills.

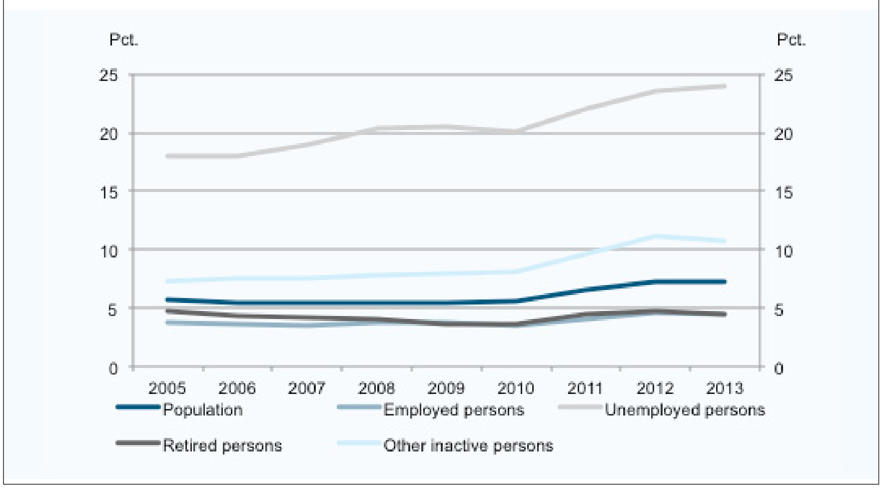
Figure 1 shows the change in the severe material deprivation rate from 2008-2014 for the total population and for children. In both cases, Greece, Cyprus, Hungary and Malta have experienced the highest increases in severe material deprivation during the period with increases of around 6 to 10 percent for the total and up to over 13 percent for children. On the other hand, especially, Poland and Romania have experienced decreases. For children, the ranking among the countries mirrors the ranking for the overall severe material deprivation rate to a large extent. For the countries that experience the biggest increase in severe material deprivation, the rate among children is even higher. This indicates that children are hit harder by material deprivation than other age groups. Growing deprivation among children is a major concern since lack of opportunities during childhood has long-term consequences for the concerned individuals as well as for society as a whole.

FIGURE 1. CHANGE IN SEVERE MATERIAL DEPRIVATION RATE 2008-2014



Note: (*) latest data from 2013. (**) Data from 2013 due to break in time series. (***) Data from 2011 due to break in time series. (****) From 2009 due to break in time series. Children aged 0-18. The severe material deprivation rate is an EU-SILC indicator defined as the inability to do at least four of the following: to pay rent, mortgage or utility bills, to keep their home adequately warm, to face unexpected expenses, to eat meat or proteins on a regular basis, to go on holiday, to have a television set, a washing machine, a car and a telephone. The indicator distinguishes between individuals who cannot afford a certain good or service, and those who do not have this good or service for another reason, e.g. because they do not want or do not need it. **Source: Eurostat.**

FIGURE 2: DEVELOPMENT IN SEVERE MATERIAL DEPRIVATION BY ACTIVITY STATUS IN THE EURO AREA



Source: Eurostat

Figure 2 depicts the development in severe material deprivation by activity status for the euro area. It shows that the increase in the severe material deprivation rate is mainly driven by an increase for the unemployed and other inactive persons (i.e. not retired). In other words, the rate has increased much more for people outside the labour market than for employed and retired individuals,

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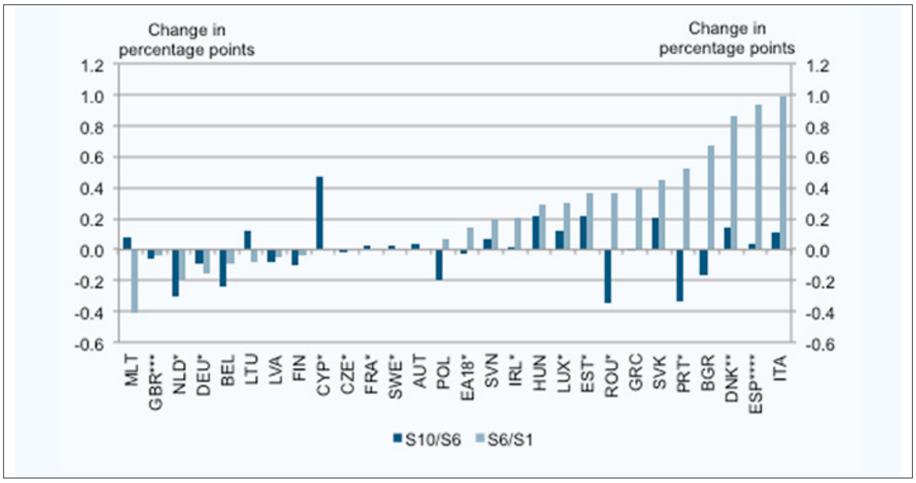
resulting in almost one out of four unemployed experiencing material deprivation.

Figure 2 shows how most countries experience higher inequality today compared to before the crisis broke out in 2008. Figure 1 and 2 show that children and people who are unemployed or inactive have experienced the biggest increase in severe material deprivation.

Decile income shares allow us to decompose changes in inequality into what is driven by the bottom and what is driven by the top of the income ladder. Figure 3 shows the evolution of inequality in the top of the income scale (S10/S6) as well as the evolution in the bottom (S6/S1). S10/S6 is the ratio of the share of income earned by the richest 10 percent (S10) to the share earned to the 6th decile of equivalised income (S6). An increase in S6/S1 indicates an increase in inequality in the bottom part of the income ladder since the income earned by the poorest has decreased relatively to the income received by the 6th decile. Figure 3 shows that the rise in inequality for example in Italy, Spain and Denmark is mainly driven by a rise in the inequality in the bottom part of the distribution. While most countries have experienced increases in inequality both at the top and at the bottom of the distribution, a few countries such as the UK and the Netherlands, have experienced decreases in both ends of the distribution. In Portugal and Romania, the rise in inequality in the bottom part of the distribution is offset by a decrease in inequality in the top part of the distribution.

FIGURE 3: EVOLUTION BETWEEN 2008 AND 2014 OF SHARE OF NATIONAL EQUIVALISED INCOME



Note: (*) last data from 2013. (**) Data from 2013 due to break in time series. (***) Data from 2011 due to break in time series. (****) Data from 2009 due to break in time series.
Source: Eurostat

Overall, the crisis has increased poverty and inequality in Europe. Children and the unemployed or inactive population have experienced the highest increase in severe material deprivation. Also most countries are experiencing higher inequality today compared to before the onset of the crisis in 2008.