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Income Poverty and Material Deprivation in the EU: How They Relate to Each Other and to a Pan-European Standard of Poverty

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Two poverty indicators adopted by the EU to assess poverty trends and monitor the progress towards the EU2020 targets of poverty and social exclusion are the severe material deprivation (SMD), a kind of indicator of absolute poverty, and the at-risk-of-poverty (AROP) indicator, an indicator of relative income poverty. In this study, we contribute to the debate on poverty indicators in the EU in several ways: firstly, we show the degree of overlap between these two indicators and find that it is rather low for a variety of reasons that are, to date, still to be assessed carefully.

Thus, we present the case for a pan-EU poverty indicator and illustrate the poverty rates when the poverty line is set at 60% of the EU median.

At a later stage, justified by theoretical motivations, we present the case for a pan-EU income poverty measure and illustrate the poverty rate that such a measure would yield. This is instrumental to discuss the rationale for measuring income poverty in the EU by means of a family of poverty lines obtained by combining the national and the EU poverty line. As a result we check which poverty lines within the family of those set in the range between the national and the EU-wide poverty line would generate an AROP rate closer to a measure of absolute poverty such as severe material deprivation.

The scope of such exercise is to:

i) to explore a hybrid method to set absolute income thresholds that can be used in the future as benchmark in view of more rigorous work of pricing reference budgets of necessary goods and services and

ii) evaluate the evolution of income poverty depending on the poverty measure adopted against the EU2020 target.

Finally, we derive some policy implications that the choice of a particular poverty indicator implies for setting poverty targets.