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Title:

**A pan-European perspective on low-income dynamics in the EU**

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## **Abstract**

Both a national and a pan-European perspective are required for understanding poverty and inequality and the complex challenge of solidarity in the European Union. Nonetheless, most analyses of poverty and inequality stick to a national point of view, concealing pan-European dynamics in living standards. Indicators of relative inequality such as the Gini coefficient are predominantly used to study inequality within EU countries, while the at-risk-of-poverty indicator compares incomes with 60 per cent of the national median income. As a result, important pan-European dynamics in household incomes remain largely concealed. In contrast, several authors have also shed light on poverty and inequality from a pan-European perspective by directly comparing the living standards of EU citizens. However, few studies have looked into changes over time, and if they have done so, they have mainly focused on the EU as a whole, or on trends characterizing clusters of countries (e.g. Goedemé and Collado 2016). However, it is important to also gain insight into how citizens of individual countries have fared from a pan-European perspective, and how trends in individual countries affect overall patterns in the EU. Therefore, in this paper we disaggregate trends in pan-European dynamics in living standards and track country-specific patterns and contributions to poverty and inequality in the EU since the onset of the financial and economic crisis. A key indicator is the share of European citizens whose household income is below 60% of the pan-European median; we call this the 'low-income proportion'.

We focus on four questions: (1) How has the EU-wide low-income proportion evolved in individual EU Member States? (2) How has the composition of the bottom of the pan-European distribution of incomes changed since the onset of the crisis? (3) Which countries have contributed most to (changes in) the EU-wide low-income proportion? (4) How do these changes compare with trends in the at-risk-of-poverty rate? We use EU-SILC 2008, 2010, 2012 and 2014 and compare household

incomes on the basis of purchasing power parities. We consider all EU Member States (except for Croatia as it has acceded to the EU during the period under consideration)<sup>1</sup>. We look both at the EU-wide low-income proportion and the composition of the EU-wide low-income gap ratio.

What emerges from trends observed between EU-SILC 2008 and 2014 is a highly dynamic picture. Even though the period of observation is rather short, important changes have taken place. Since EU-SILC 2010 these changes have been rather limited at the aggregate level, mainly because continuing changes in individual Member States tended to cancel each other out. More in particular, a pan-European perspective underscores the relative improvements in living standards in the new EU Member States, most notably Poland, Slovakia, and Bulgaria, as well as the deterioration of living standards in Greece, and to a lesser extent Spain and Italy. Also, it shows that the non-negligible improvements in Romania are only visible if one focuses really on the very bottom of the pan-European distribution of incomes, given Romania's overall very low living standards. These trends mark an important change in the composition of the bottom of the pan-European income distribution, with an increasing weight of the 'old' EU Member States at the bottom end, most notably of the crisis-hit Southern European countries.

Trends in at-risk-of-poverty rates have been disappointing in many countries, but they do not reveal the improvements in living standards that have taken place from a pan-European perspective, and tend to underestimate the strong deterioration of living standards in Greece. Hence, a pan-European indicator of low-income dynamics is not only relevant from a theoretical point of view, but has also clear analytical and policy relevance.

## Reference

Goedemé, Tim, and Diego Collado. 2016. "The EU convergence machine at work. To the benefit of the EU's poorest citizens?" *Journal of Common Market Studies* 54(5):1142–58.

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<sup>1</sup> At the time of writing the Brexit referendum took place. Given that our period of analysis covers the pre-Brexit period, we include the United Kingdom in the analysis.