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Poverty and the EU: the New Decade

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Abstract

The EU is currently drawing up its agenda EU2020 for the next decade. In doing so, account must be taken of the successes and limitations of the Lisbon Agenda 2000-2009, notably the failure to achieve a decisive impact on the eradication of poverty and social exclusion. From the experience of the Lisbon Agenda, we learn that social policy and economic policy have to be designed together, in such a way that their actions are complementary rather than in conflict. If real progress is to be made in reducing poverty in Europe in the next decade, then it is essential that in the EU2020 Agenda social inclusion should receive the same prominence as the other EU objectives. It is therefore welcome that the Commission has proposed the setting of a poverty target, but this raises many issues. The paper focuses on two: the choice of target variable (risk of poverty or material deprivation) and the extent of ambition. Moreover, alongside the introduction of a social inclusion target(s) there has to be an agreed procedure for monitoring progress. Finally, in order to make real progress, the EU needs to take concrete policy initiatives. The proposal made here is that the EU begins with a Guaranteed Income for Children. Each Member State would be required to guarantee unconditionally to every child a basic income. This measure would significantly reduce child poverty, and would contribute positively to the achievement of other EU2020 objectives in the fields of education and employment.

JEL classification: D63, H53, H55, I38, .

Keywords: Poverty, Social Exclusion, EU2020 Agenda, Social Policy.

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1 Introduction

The European Union (EU) is developing its objectives for the new decade. The European Commission has put forward an ambitious programme under the heading of “EU 2020”, and proposed a set of five headline targets, which constitute shared objectives guiding the action of the Member States and of the Union. One of these targets is the reduction of poverty. In this paper, I examine the issues involved in the setting of such a target and in monitoring performance over time.

Before looking forward, it is wise to look back. In the first half of the paper, I investigate the successes and failures of the Lisbon Agenda, which was the flagship policy established in 2000 for the first decade of this century. A full evaluation is not yet possible. It is not easy to assess how far the Lisbon Strategy has been blown off course by the economic crisis. Much of the necessary data are not available as I write (in April 2010). But it is possible to draw some lessons from the experience up to 2008, and these lessons should inform the plans for the next decade.

The EU 2020 programme is due to be agreed at the June 2010 European Council meeting. In considering the possible poverty targets, and the way in which they are monitored, this paper can only work on the basis of the Communiqué from the March 2010 European Council. The second half of the paper discusses the present state of EU 2020 as “work in progress”. As such it may be overtaken by events, but it may also contribute to those events. A number of the issues discussed in the paper, such as the choice between an at-risk-of-poverty measure and a measure of material deprivation, are central to the specification of the target. In implementing the target, a crucial question is the way in which progress will be monitored. If the EU adopts a poverty reduction target, how can it be achieved? What positive proposals can be made?

The principal conclusions are summarised at the end of the paper.

2 Looking back: the successes and failures of the Lisbon Agenda

In the year 2000, the EU Heads of State and Government agreed on the Lisbon Agenda of making the EU “the most competitive and dynamic knowledge-based economy... with more and better jobs and greater social cohesion”.

2.1 The Lisbon objectives and the implicit assumptions

For those concerned with the social dimension of Europe, the Lisbon Agenda represented a very welcome departure, in that “social cohesion” appeared alongside growth and employment. As later developed, there were four pillars: growth, employment, social inclusion and sustainability. At the same time, there were aspects of this Agenda that should at the outset have been given closer attention (here I am entering a *mea culpa*). Implicit in the formulation of the Agenda, and explicit in the subsequent mid-term re-formulation, was the assumption that the four goals are complementary. Achievement of one goal was assumed not to conflict with the other goals. Economic growth could be achieved without threatening sustainability. Higher employment would improve the degree of social inclusion. This assumption was crucial to the way in which the Agenda was implemented. If the goals are complementary, policy could be pursued in one domain without regard to the spillover to other domains, since these by assumption would be positive.

We have however to ask whether this assumption is warranted. It is of course possible that, for example, labour market reform and social policy work in the same direction. The European Commission has stressed for many years the role of social protection as a productive factor: that social policy can work with, not against, the grain of economic policy. But this is not necessarily the case. Complementarity can only be assured with the proper design of policy. A positive impact of higher employment on social inclusion depends on the means by which it is achieved. There is no necessary reason why economic growth should “trickle down” to the least advantaged; the benefit to the excluded depends on the form of growth and the distribution of its fruits.

Where the choice of policies potentially affects all objectives, this means that policy-making has to be made in a unified way. The Economic Policy Committee leads on economic growth, but it has to take account of the differential impact of different policies on the social inclusion objective. The Employment Committee leads on labour market reform but has to recognise that these reforms have distributional implications that impinge on the social inclusion objective. Equally both Committees must take account of their impact on the environmental performance. Conversely, policies designed by the Social Protection Committee and under the Sustainable Development Strategy have to be chosen with regard to their economic and employment

consequences. In short, a “joined-up” approach to policymaking is required.

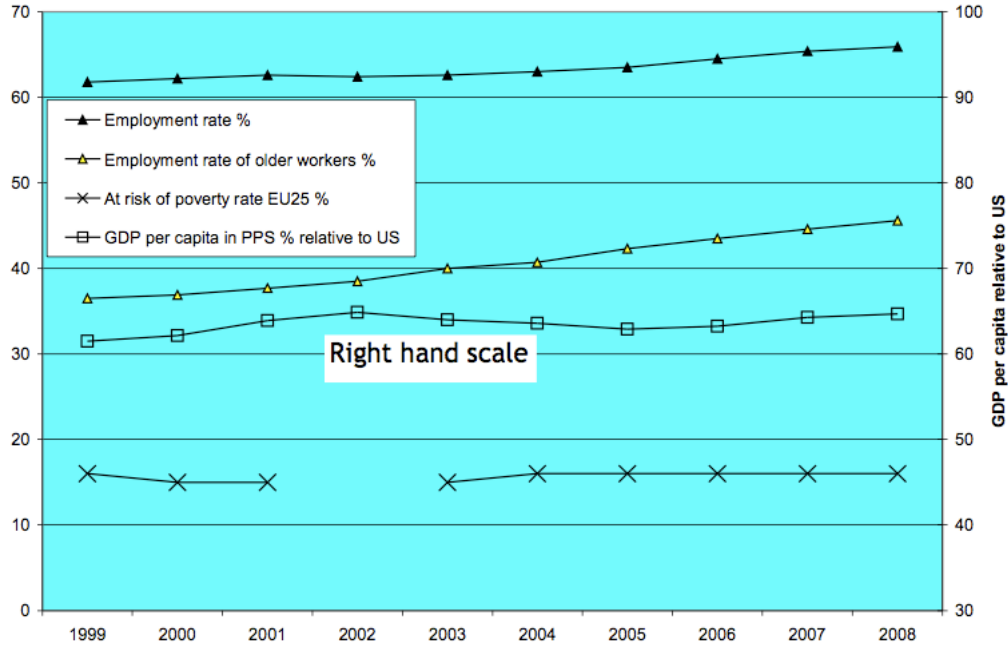
The second concern about the Lisbon formulation regards the ambition of making the EU the “most dynamic economy”. The subtext appeared to be that the goal is that of competing with the United States (and this is implied by the fact that the structural indicators published by Eurostat include the United States and Japan but no other country). As such, given the history of the 1990s, the goal seems an understandable one. However, on a wider perspective, the objective seems insufficiently reflective of the global position of Europe. Given that EU Member States benefited from the “great divergence” of the past two centuries, it must be the expectation that Europe will grow more slowly than the developing world. Convergence is surely an ambition that is not limited by the boundaries of the EU. The EU has indeed demonstrated its concern with development funding, for example, in pledging increased Official Development Assistance. It would be good if this could be taken a step further in an explicit recognition of the global responsibilities of the EU. Poverty is a global problem. Social exclusion has a major international dimension, which I do not discuss further but which should underlie EU policy as a whole.

2.2 The Lisbon scorecard and statistical indicators

The bald facts of the Lisbon scorecard are readily available from the Eurostat website, and are summarized for the period up to 2008 in Figure 1.

The graph shows the “headline” score for three of the four objectives: growth, employment, and social inclusion. In the case of the growth objective, there was a modest rise in EU27 GDP per capita relative to that in the US between 1999 and 2002, but then a decline, so that the subsequent improvement over the rest of the period left the position little different from that in 2002. It is in the case of employment that most progress has been made, even if the 70 per cent target has not met: there has been a rise in the employment rate for workers aged 15 to 64 from 62 per cent in 1999 to 66 per cent in 2008. The increase in the employment rate has been particularly marked for older workers (those aged 55-64) whose employment rate has risen from 36.5 to 45.6 per cent. This rise of a quarter must be heralded as a success for the Lisbon Strategy, even if it may reflect changed attitudes and capacities of the age cohort. In contrast, the social inclusion indicator shows no improvement over the period. The proportion of EU25 citizens living in

Figure 1: **Key structural indicators EU27 1999-2008**



households at-risk-of-poverty was estimated to be 16 per cent in 1999 and to be 16 per cent in 2008 (17 per cent in EU27).¹

Before examining the reasons for the failure to reduce the risk of poverty, we should note the degree to which the EU policy process is dependant on the availability of high-quality statistics. There can be little doubt that here we have seen a remarkable improvement in recent decades. Nowhere is this clearer than in the case of the poverty estimates. Twenty years ago, Michael O'Higgins and Stephen Jenkins (1990) were asked by the Commission to make estimates of poverty in the EC countries.² They pieced together national statistics on poverty in an impressive way, but the sources were fragmentary, as may be seen from the summary in Table 1. There was no common European data source. It is only on account of the creation first of the European Community Household Panel, and then of the EU Survey of

¹For all Member States except Ireland the UK, the poverty estimates relate to the income year preceding the survey year. The data are shown by survey year.

²Earlier estimates had been made for 1973/77 as part of the First European Poverty Programme.

Table 1: Sources of data used by O’Higgins and Jenkins (1990)

Member state	Source	Years
Belgium	Antwerp Centre for Social Policy Household Survey	1976 (Flanders only) and 1985
Denmark	Central taxpayer register (based on tables)	1977
France	Enquête Revenu	1975 and 1979
Germany	Income and expenditure survey (EVS) (based on detailed tables)	1973 and 1978
Greece	Household Budget Survey	1974 and 1981/2
Ireland	Household Budget Survey (HBS) and ESRI Household Poverty and Income Survey	1973 and 1980 (HBS) and 1985 (ESRI)
Italy	Istat Survey of Consumer Spending	1975 and 1980
Luxembourg	Socio-Economic Panel Study of Households	1985
Netherlands	Income Distribution of Households (ID) and Housing Demand Survey (HDS)	1977 (ID) and 1981 and 1985 (HDS)
Portugal	Household Expenditure Survey (HES) and Household Income and Expenditure Survey (HIES)	1973/4 (HES) and 1980/1 (HIES)
Spain	Encuesta de Presupuestos Familiares	1973 and 1981
United Kingdom	Family Expenditure Survey	1975, 1980 and 1985

Source: O’Higgins and Jenkins (1990, Table 1).

Income and Living Conditions (EU-SILC), that it has been possible to make estimates using a data source that is comparable across Member States.

It is also important to remember that what we are looking at are *indicators*. Not only is the quantity measured with error (for example, sampling error in household surveys) but also the variable measured is only an indicator of the underlying concept. This applies as much to GDP as to the measure of risk of poverty. GDP is an indicator of the extent of economic activity. It is defined according to a set of conventions (the UN System of National Accounts (SNA)) and is measured using a variety of statistical procedures. These procedures, for example, are designed to allow GDP per capita to be compared across Member States. In such a comparison, account has to be taken of the fact that, even where there is a common currency, prices may differ. It is for this reason that GDP is compared in terms of purchasing power. Where the currency differs, then we cannot simply convert at the exchange rate; a purchasing power parity is used (referred to as GDP at PPP). These PPP calculations are intended to allow comparisons at a point in time. Can they be applied to changes over time, as when measuring growth rates? The Eurostat “Quality profile” appears ambivalent. On the one hand, it states in

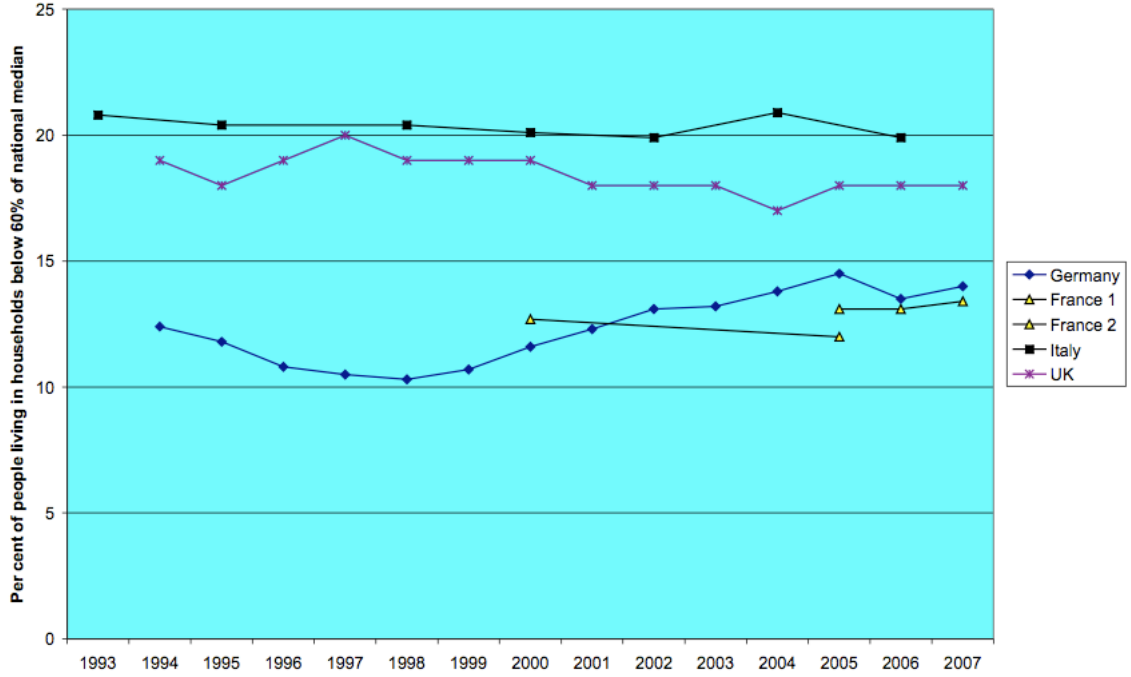
paragraph 2 that the “indicator plays a role in evaluating actual economic convergence”; on the other hand, it warns in paragraph 6 that the indicator “is not suited for comparisons over time” (Eurostat, 2010). Underlying this ambivalence is an inherent index number problem: how can an aggregate economic outlay be adjusted when there are changing (and different) relative prices?

The conventions used to construct the indicators are not just of footnote importance. A good example is provided by the measurement of the output of the government sector, which is now a significant fraction of GDP. Following the recommendations of the UN 1993 SNA, Eurostat in the European System of Accounts (ESA 1995) introduced direct measures of the output of the government sector. The contribution to GDP growth of the health sector, of education, of social services, etc. is measured by indicators of outputs, not, as in the past, by measures of the inputs. This advance has not however been followed by the United States, which continues to assume that outputs grow at the same rate as inputs. This means that they are measuring growth on a different basis. In the case of the UK, we found (Atkinson 2005) that this led to a higher measured growth in the US, accounting for $\frac{1}{4}$ per cent difference in the annual growth rates. If the two economies had been compared on the same basis, then the gap would have been smaller. Even therefore such widely-used statistics as those for GDP need to be interpreted with care.

With the indicators for poverty and social exclusion, the underlying framework has been much debated, and the concept has much in common with the description of “Ballungen (congestions)” developed by Otto Neurath. As described by Cartwright and Bradburn, with such concepts “there is a lot packed into it; there is often no central core . . . different features from the congestion (Ballung) can matter for different uses; whether a feature counts as in or outside the concept, and how far, is context and use dependent” (2010, page 4). Put starkly, the EU social inclusion indicators have sought to combine different strands – an Anglo-Saxon concern with financial poverty, a Continental concern with exclusion, widespread pressure for multi-dimensionality. The resulting indicators are multi-layered and, if financial poverty remains the headline indicator, it has acquired the new title of “*at-risk-of-poverty*”.

There remain therefore major conceptual issues, and I return to one aspect in Section 2: the choice between the at-risk-of-poverty measure and a measure of material deprivation. On top of these basic issues, we have – as indicated in Figure 1 – the additional problem of the break in statistical sources

Figure 2: National poverty estimates



as a result of the move from the European Community Household panel to the EU-SILC. As a result, the Structural Indicator has a discontinuity after 2001. For example, the figure for Italy for 2004 of 19% is not comparable with that for 2001 or earlier. Eurostat has sought to bridge this gap and its best estimate for EU25 is that there was no change in the at-risk-of-poverty rate from 1999 to 2004.

The uncertainty surrounding the EU25 indicator over this period suggests that we need to cross-check with national sources. Figure 2 shows the evolution of the poverty rate in four large EU countries: France, Germany, Italy and the UK. These national sources too have their limitations. The series for France has a break when the source changed. Up to 2005 the poverty estimates were based on the Enquête Revenus Fiscaux; from 2006 the source became the Enquête Revenus Fiscaux et Sociaux. The new source contains data on social benefits that had previously been imputed and more complete information on capital incomes. The estimate on the new basis

extrapolated backwards for 2005 shows a rise in the estimated poverty rate from 12.0 to 13.1 per cent. The German series is based on the long-running German Socio-Economic Panel (SOEP), but this has evolved over the years. Recently, for example, there has been a major revision of the treatment of non-response. Non-response can take the form of the whole household failing to respond, in which case the results are typically re-weighted to allow for the differential rates of non-response by known household characteristics. The household may respond but fail to provide all the necessary information, in which case imputation methods are often applied, for example substituting the investment income information from a matched household that responded in full. Partial non-response may however also take the form of complete non-response by some, but not all, household members. The work of Frick, Grabka and Groh-Samberg (2010) has shown the sensitivity of the estimates to the choice between different methods of adjustment for the last of these types of non-response. In the case of the SOEP, the revisions in 2009 led to the estimated poverty rate from the 2005 survey being reduced by nearly 4 percentage points (Frick and Krell, 2010, footnote 27 and Table 2). The extent of the adjustment serves as a reminder that the statistics are surrounded by a degree of uncertainty.

Bearing this qualification in mind, we may see from Figure 2 that there appear to have been modest reductions since 2000 in the poverty rates in France and the UK, offset by a rise in Germany. The four countries shown account for a large part of the total EU population, and hence for the overall stability, but a similar pattern is found in other Member States: the gains in some countries (Ireland, Poland, Portugal and Slovakia all had reductions in excess of 2 percentage points between survey years 2004 and 2007) are counter-balanced by movements in the opposite direction in other countries.

2.3 Why did the EU poverty rate not fall?

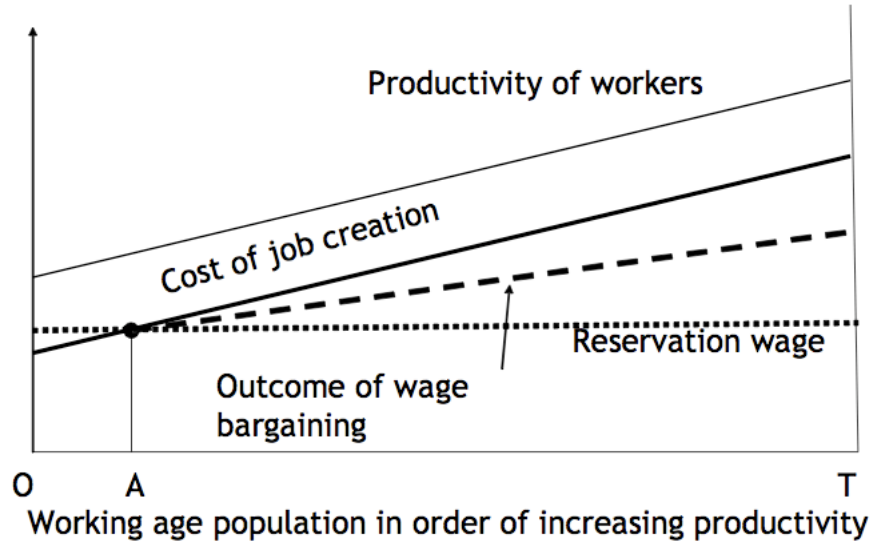
There are several possible reasons why there has been no substantial progress. The first is that the social inclusion objective has received less priority. This does indeed appear to have been the case. The absence of concrete EU targets means that, from the outset, social objectives appeared less urgent. Moreover, the status of the declared social objective was been put into question in the mid-term review of the Lisbon Agenda. In November 2004 a High-Level Group chaired by Wim Kok reported on the lack of progress towards

the Lisbon objectives and recommended that overriding priority be given to economic and employment growth policies. The *Kok Report* argued that fulfilment of the social objectives would result from progress in these two areas: primacy should therefore be given to job creation. The change in direction advocated by the Kok Group was reflected in the 2005 Mid-term Review of the Lisbon Agenda. The March 2005 European Council concluded that “it is essential to relaunch the Lisbon Strategy without delay and re-focus priorities on growth and employment.” Even if the European Council conclusions a year later sought to ensure that “parallel progress is made on employment creation, competitiveness, and social cohesion in compliance with European values” (March 2006 European Council), there seemed to be a down-grading of the social agenda.

The second reason lies in the inter-relation between policies that I have already evoked. The Kok Report assumed that increased employment and growth would lead to achievement of the social objectives. This assumption needs to be re-examined. It is reasonable neither to simply assume that the objectives are complementary nor to draw conclusions simply from the fact that poverty has not been reduced. It is after all possible that employment policy worked in the direction of reducing poverty and that, in the absence of the policy, poverty would have increased. One of the forces underlying the adoption of the Lisbon Agenda was a concern that Europe needs to adapt to a changing environment with increased global competition and technological change.

To this end, let us consider the operation of the labour market. Here it is essential to take account of the heterogeneity of the labour force. While it may be possible to discuss macro-economic aggregates on the basis of the assumption that all workers are identical, such a simplifying assumption would rule out the very issues of inclusion with which we are concerned. A key distinction - recognised in the EU education objectives and in the reference to a “knowledge-based economy” - is that according to level of skill. In Figure 3 the labour force is shown in terms of productivity, from O to T (for total), where the less skilled are to the left and the most skilled to the right. Since productivity is typically an increasing and then decreasing function of age, we will also find younger and older workers to the left and prime age workers to the right. Each worker is assumed to have a reservation wage; for simplicity, these reservation wages are assumed equal for all.

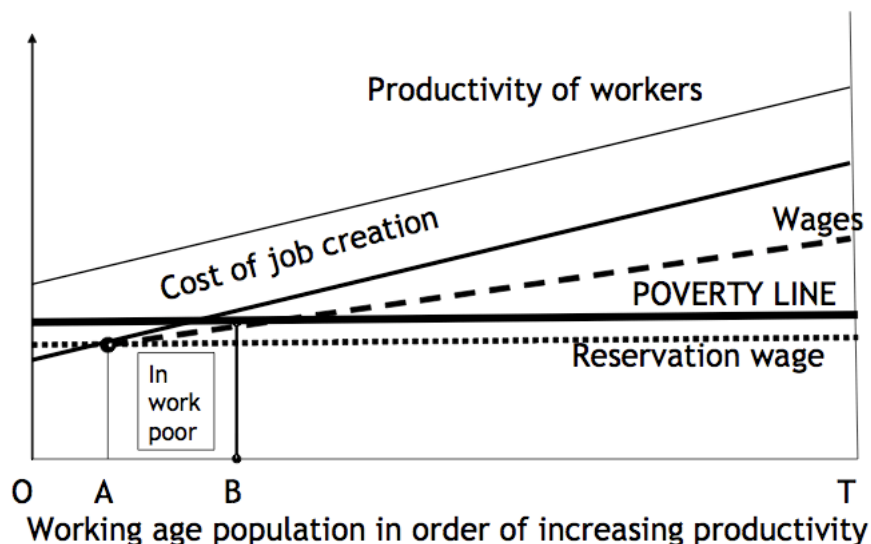
Figure 3: Worker productivities and the employment rate



The demand side of the labour market is often down-played, but the level of employment depends on the willingness of employers to create jobs. For the employer there are costs. These costs are in part transactional (recruitment and training) and in part recurrent (cost of the workplace, employer taxes, etc.). When the costs of job creation are subtracted from the worker productivity, this determines whether there is a potential “surplus” over the worker reservation wage. In Figure 3, such a surplus exists and jobs are created to the right of the point A, so that the employment rate is AT. There are, as shown, some workers whose productivity, net of the job costs, is not sufficient to generate a surplus, and the employment rate is less than 100 per cent, the workers to the left of A either being unemployed or leaving the labour force (for example through early retirement). It should be noted that such non-employment depends on both sides of the labour market: the willingness of employers to create jobs as well as the reservation wage of the workers. Finally, for those in employment, the level of wages is assumed to be determined by bargaining, either individually or collectively. In Figure 3 there is assumed to be a sharing of the surplus as indicated by the heavy dashed line.

The aim of EU employment policy has been to shift the point A to the left. Raising employment, or at least reducing unemployment, is clearly desirable,

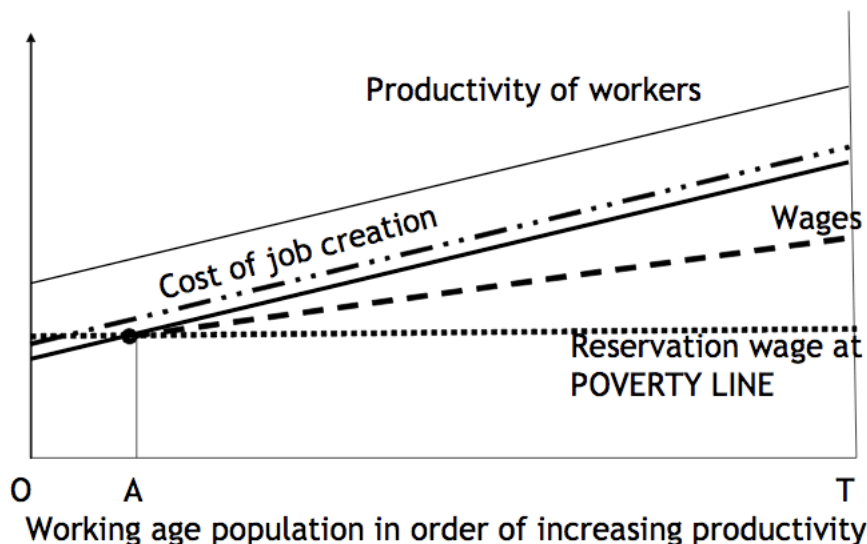
Figure 4: Policies to reduce reservation wage



but it does not necessarily contribute to the social inclusion objective. In Figure 4 is shown the effect of policies that seek to raise employment by reducing reservation wages. Much of the thrust of labour market reform has been in this direction, by reducing the level and coverage of social protection and tightening the conditions under which benefits are paid.

As shown in Figure 4, reductions in the reservation wage may indeed raise the employment rate: the point A is shifted to the left. But this may be obtained at the cost of an increase in the number of low paid workers, as has been reported for instance in Germany, where the proportion of workers earning less than two-thirds of the median gross hourly earnings rose from 15.7 per cent in 1998 to 20.7 per cent in 2006 (Becker and Hauser, 2009, Table 30). In the analysis of Figure 4, not only are the newly employed paid less than their previous reservation wage, but also wages are reduced for those previously in employment. If the poverty line is as shown in Figure 4, then all those in the range A to B are members of the “working poor”. Such a negative impact on the poverty rate could however be avoided by alternative policies, such as those to reduce the costs of job creation. As is shown in Figure 5, such reductions would increase the employment rate but increase wages. Complementarity can therefore be achieved, but it cannot

Figure 5: Policies to reduce cost of job creation



be assumed.

The third reason for the failure to achieve a decisive reduction in poverty appears to have been the over-reliance of the Open Method of Co-ordination on national policy initiatives. As we have seen, some countries achieved reductions in their poverty rates, reflecting the priority given by their national governments. Other Member States saw increasing poverty rates. In my judgment, a significant reduction in European poverty requires concerted European action.

3 Europe 2020 and policies for the new decade

In the Lisbon Strategy there were no concrete EU targets. There was a general aspiration to make “a decisive impact on the eradication of poverty and social exclusion by 2010”, but nothing corresponding to the explicit target in the case of the employment rate. Target-setting for social inclusion was left to Member States: “the European Council stresses the importance of the fight against poverty and social exclusion. Member States are invited to set targets, in their National Action Plans, for significantly reducing the number of people at risk of poverty and social exclusion by 2010” (Presidency

conclusions of the March 2002 Barcelona European Council). To the – limited – extent to which Member States have taken up this invitation (see Marlier et al, 2007), the resulting targets were specific to each country. They were not necessarily coherent, in that different poverty thresholds were used, and different dimensions of social exclusion were highlighted in different Member States.

If real progress is to be made in reducing poverty in Europe in the next decade, then it is essential that social inclusion should receive the same prominence as the other EU objectives. It is therefore welcome that the Commission has proposed the setting of a poverty target (European Commission, 2010). In its communiqué, *Europe 2020: A new European strategy for jobs and growth*, the March 2010 European Council “agreed on the following headline targets, which constitute shared objectives guiding the action of the Member States and of the Union:

- raising to 75% the employment rate for men and women aged 20-64 *{in 2008 was 70.5%}*;
- improving the conditions for research and development [target = spending of 3% GDP] *{currently 1.9%}*;
- reducing greenhouse gas emissions by 20% compared to 1990 levels, increasing the share of renewables in final energy consumption to 20%, and moving towards 20% increase in energy efficiency;
- improving education levels;
- promoting social inclusion, in particular through the reduction of poverty.

The precise formulation of the poverty objective remains to be decided at the June European Council. In this section, I consider a number of issues raised by such a target-setting exercise, the need for target-monitoring, and make one concrete policy proposal.

3.1 Setting a poverty target: choice of indicator

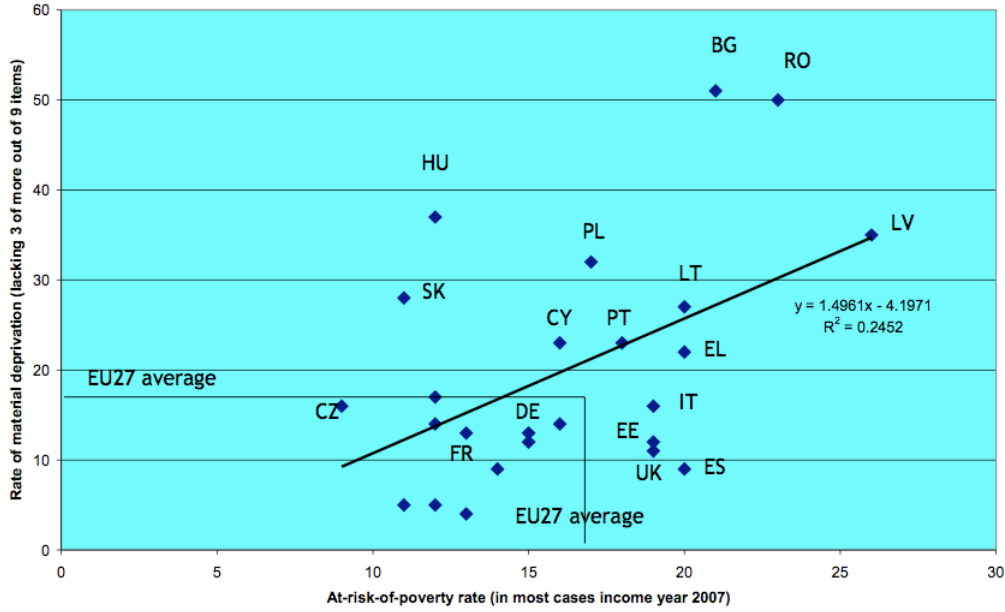
The setting of targets raises many issues. Here I focus on two: the choice of target variable and the extent of ambition. The first issue has been much rehearsed in the design of the common social indicators, particularly by the Indicators Sub-Group of the Social Protection Committee, whose work over the past decade has laid the groundwork for EU2020. The second issue has

been much less discussed. Marlier et al, refer to the need for “ambitious and achievable targets” (2007, page 213), but this needs to be made concrete.

The choice of target variable for social inclusion takes us back to the need to “unpack” this congested concept. As already stressed, agreement on the EU common social indicators was in part achieved by weaving together threads from different traditions and preoccupations. The multi-dimensional nature of the social inclusion scoreboard reflected the underlying diversity. It follows that choice of a single, or possibly two, headline indicators is going to privilege particular perspectives. This is well illustrated by the choice between the at-risk-of-poverty rate and the rate of material deprivation. Material deprivation, as defined in the common social indicators, measures the proportion of the population living in households that have an enforced lack of at least 3 out of the following 9 items: ability to face unexpected expenses, ability to pay for one week annual holiday away from home, existence of rent, utility, loan or other arrears, capacity to have a meal with meat, chicken, fish or vegetarian equivalent every second day, capacity to keep home adequately warm, possession of a washing machine, possession of a colour TV, possession of a telephone, and possession of a personal car. As is illustrated in Figure 6, the Member States score rather differently on these two variables. The correlation is low. If we consider those countries below and above the EU27 (population-weighted) average, then we find that it is primarily the new Member States which lie above in the dimension of material deprivation, whereas for the at-risk-of-poverty indicator there are both old and new Member States (including Italy and the UK) with above-average scores.

The essential differences between the two indicators are twofold. First, the at-risk-of-poverty indicator is a national one (defined as having income below 60 per cent of the country median). Moving to the material deprivation indicator described above would mean adopting a common list of items, applicable as much in Bulgaria as in Luxembourg. This shift in the reference population would be a major shift. Secondly, the material deprivation indicator is independent of changes in overall standards of living, unlike the at-risk-of-poverty indicator which depends on current income. These two elements can of course be separated. Calculations have already been made of the at-risk-of-poverty measure defined in relation to the EU-wide median (see Atkinson, 1998); the EU common indicators include at-risk-of-poverty calculations based on national median cut-offs anchored in real terms. But

Figure 6: Plot of Material deprivation 2008 against At-risk-of-poverty 2008



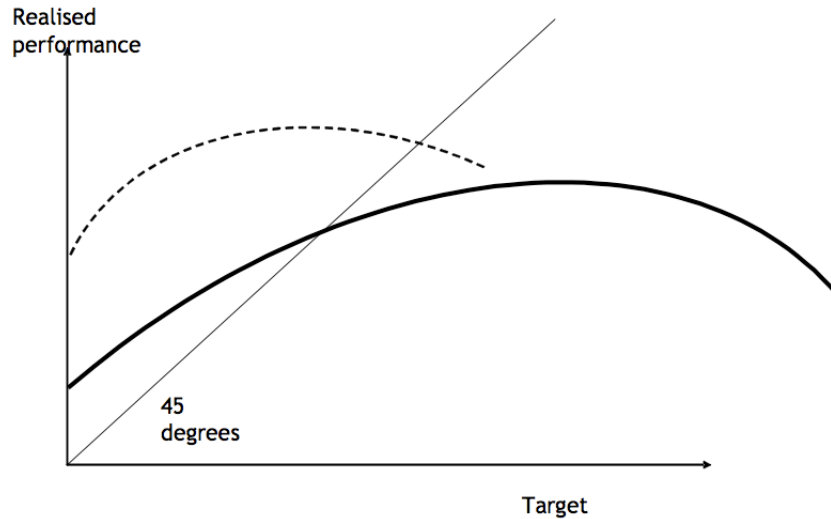
it is clear that both would have significant implications.

One response to the differences identified above is to incorporate indicators of *both* at-risk-of-poverty and material deprivation. This however converts the issue of definition into an issue of aggregation. Here many questions arise. If both dimensions enter the headline target, then how are they to be combined? Should we attach more weight to the dimension on which a country is performing less well? Member States may wish to determine their own priorities, but if weights differ across countries then there is little meaning to an EU-wide objective. Performance according to UK weights may be quite different from those according to French weights. And if we do not aggregate then there is no headline social inclusion target to match the others listed at the start of this section.

3.2 An ambitious but realistic target?

The setting of an EU target for social inclusion is, in my view, essential to ensure that this dimension of Europe receives proper weight in the EU2020 Agenda. What however is the appropriate level of ambition? The Commis-

Figure 7: **Relation between announced target and realised performance**



sion has considered a target of a reduction of a quarter, but why a quarter, rather than a third or a fifth? What is the “optimal tautness” of the programme? This is the phrase used many years ago in the development planning literature. It is contained, for example, in the title of Holland (1961), who made a case study of Soviet planning. (It is little remarked, but there are parallels between the targeting and monitoring proposed in different domains of EU policy and earlier - now often derided - attempts at economic planning.) Holland argued that the achieved performance was a non-linear function of the target, first increasing but reaching a maximum and then declining as further increases in the target were felt to be unrealistic - see Figure 7.

If by “realistic” is meant a target that can be expected to be achieved, then the choice has to be at the intersection with the 45 degree line. With the solid curve, this means that the actual performance is less than could be achieved if the target set were more ambitious but unrealistic. As Holland notes, there is a major difference between the solid curve and the dashed curve. In the latter case, the “realistic” target is dominated by a less ambitious one that will be over-achieved.

What is indeed a realistic target for EU2020? Let us take the at-risk-of-

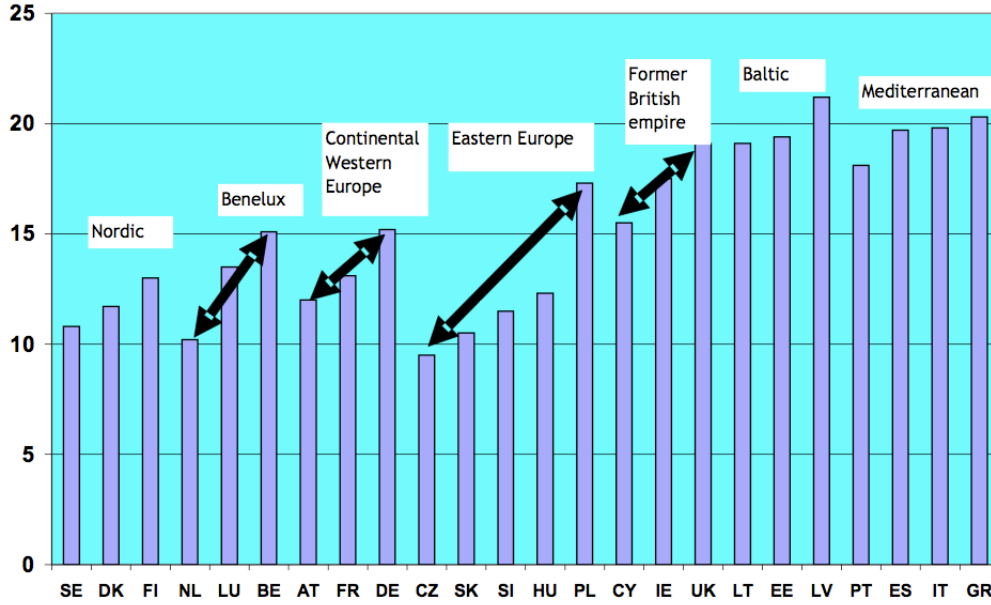
poverty indicator. One way of attaching a quantitative value is to be found in the cost of eliminating the risk of poverty.³ In quantitative terms, the size of the total poverty gap for the EU as a whole is the headcount (17 per cent) times the mean gap. Suppose that the mean poverty gap is approximately a quarter of the poverty threshold or 15 per cent of median income. If the mean income is 8/7 times the median⁴ this means that the average size of the “total poverty gap” per person in the overall population is $0.17 \times 0.15 \times 7/8 = 2.2$ per cent of mean income. Elimination of poverty is however going to cost considerably more than 2.2 per cent of total income since targeting is never perfect (there are sizeable spill-overs from any transfer programme) and since anti-poverty policies may lead to behavioural responses that increase the cost. If every Å1 reduction in the total poverty gap costs say Å3, then eliminating poverty (17 per cent) would cost 6.6 per cent of GDP. Put differently, 1 per cent of GDP “buys” a 2.5 percentage point reduction in the poverty rate. Or, a 2.5 percentage point difference in the poverty rate “saves” a country 1 per cent of GDP. Seen in terms of deficit reduction targets, this is a material difference. The above calculation depends of course on an arbitrary assumption about the cost (the factor of 3) and it is only intended to be illustrative of the kind of more elaborate exercise that is necessary.

A second approach is to consider the best-performing Member States, where again I consider the at-risk-of-poverty indicator. It does not seem realistic, given the diversity of EU27, to suppose that countries could emulate the very best-performing. Rather it seems better to compare countries that share certain identifiable common features: for example, Belgium might hope to emulate the lower poverty rate of the Netherlands. In Figure 8 are plotted the values for different Member States for income year 2006 grouped in this way (the labels in some cases stretch the imagination or geography). It may be realistic to suppose that countries could reduce their at-risk-of-poverty rates to the lowest achieved in their group, so that France and Germany would reduce their rate to that in Austria. If this were achieved, then the overall EU27 rate would fall by 3.2 percentage points and the total by some 16 million. The main contributors to this fall (more than a million in each

³I am drawing here on Atkinson, Marlier and Reinstadler (2010).

⁴Calculations based on the 2007 EU-SILC data (2006 income reference year) show that the ratios of national mean income to national median income vary from 1.04 in Sweden to 1.28 in Portugal. The simple (unweighted) average of the ratios calculated for the 24 available EU countries is 1.14 that is 8/7.

Figure 8: **Percentage of people living in households at-risk-of-poverty (income year 2006) by regional groupings**



case) would be Bulgaria, Germany, Italy, Poland, Romania and the UK.

Both of these considerations – cost of poverty elimination and peer comparison - suggest that a target of a reduction of a quarter may indeed be both “ambitious and realistic”, but the main purpose has been to raise the question.

3.3 The need for an agreed monitoring procedure

Alongside the introduction of a social inclusion target there has to be an agreed procedure for monitoring progress. This procedure needs to be set in place at the outset, and it therefore seems helpful to set out some of the likely considerations (I am again drawing on Atkinson, Marlier and Reinstadler, 2010). To make this concrete, I will suppose that the headline target is that of reducing the at-risk-of-poverty rate by a quarter, with agreed targets (reduction of 10 X_i percentage points for country i over the decade) for each Member State that are consistent with the overall objective. In terms of levels, this involves an agreement on the base year figure. If the target is agreed in June 2010, then the base year could be the 2009 EU-SILC survey,

with income reference year 2008 (except for Ireland and the UK). The target path for Member State i would then be the 2008 value less X_i for each year since 2008. (On the other hand, there may be a case for taking a base figure averaged over 2 or 3 years.)

Following the Open Method of Co-ordination, the Social Protection Committee may be charged with responsibility for the monitoring process, based on peer review.⁵ It is assumed that, as data become available to the Commission from the reference source (EU-SILC), the Committee would consider the outcome country by country, in relation to the agreed country-target. However, there are several problems. The first, immediate, one is that the first outcome year would relate to incomes in 2009, which are likely to be heavily influenced by the economic crisis. For material deprivation, the impact can be expected to be negative. For the at-risk-of-poverty indicator, the median income is also negatively affected and the poverty rate may move in either direction.

The second, more fundamental problem concerns the criteria for monitoring changes over time. If a Member State deviates from the target path, how large does an upward deviation have to be in order for this to be policy-relevant? Answers to such a question tend to be given in statistical terms, referring to the sampling error. Confidence intervals can be calculated for the estimated percentages (see, for example Ward *et al*, 2009, Figure 1.6). The sampling errors reported for the 2005 EU-SILC for the proportion at-risk-of-poverty imply a one-sided 95 per cent confidence interval of less than 1 percentage point for 11 of the 23 countries and in all cases it is less than 2 percentage points (Eurostat, 2008). However, account has also to be taken of non-sampling error. This may arise from incomplete population coverage (e.g. omission of non-household population), from shortcomings in question design (e.g. omission of income components, such as home-produced goods), from differential non-response (e.g. lower response by high income households), and from recording or processing mistakes. These are hard to quantify but could be at least as important in quantitative terms.

These considerations refer to the “supply side”: the accuracy of the estimates supplied by EU-SILC (or other sources). It is indeed a pre-requisite

⁵The SPC consists of officials from mainly Employment and Social Affairs Ministries in each Member State as well as representatives of the European Commission; it reports to the EU “Employment, Social Policy, Health and Consumer Affairs” (EPSCO) Council of Ministers.

that the observed departures from the target path are statistically significant. But we have also to ask about the “demand” side. What differences are of relevant for policy monitoring? Here it may be helpful to go back to the discussion of the cost of poverty elimination. Earlier in this section, I concluded that a difference of 2.5 percentage points would be a material one from a policy perspective. It may therefore be reasonable to say that *Cases of policy concern* should be identified by an upward departure from the target path of 2 or more percentage points in the at-risk-of-poverty rate when comparing the most recent year with the target path.

The statistical reporting is an important part of the monitoring process, and it is essential that adequate resources be made available to allow the reference source (EU-SILC) to be developed and improved (especially to ensure coherence with national data sources). It is not however sufficient on its own. When, in Atkinson (1996), I proposed a poverty target for the UK, I drew a parallel with inflation targeting, where the Bank of England not only follows a target but also publishes a regular *Inflation Report*, in which it provides an economic analysis of the underlying inflation trends. I therefore proposed that the setting of a UK poverty target should be accompanied by a *Poverty Report*. Equally, in the EU context, the simple publication of statistics would not suffice, and Member States should be expected to provide accompanying analyses of the underlying trends.

3.4 An EU minimum income for children

I turn finally to the substantive reduction of poverty in Europe. Individual Member States have made major progress, but performance across the EU has been uneven. In my judgment, a significant advance in reducing poverty EU-wide requires concerted action. Under subsidiarity, such actions would be implemented by Member States but the EU as a whole can set the guidelines for the actions. The concrete proposal made here is that the EU begin with a Basic Income for Children. Each Member State would be required to guarantee unconditionally to every child a basic income, defined as a percentage of the Member State median equivalised income (and possibly age-related). The implications of such a proposal have been modelled by Levy, Lietz and Sutherland (2007) using the EU tax benefit model, EUROMOD. They show that a Child Basic Income set at 25% of national median income would halve child poverty in all EU15 Member States except Italy and the

UK. Implementation would be left to Member States, who could employ different instruments. The minimum could be provided via child benefit, via tax allowances, via tax credits, via benefits in kind, or via employer-mandated benefits. The only restriction is that the set of instruments selected must be capable of reaching the entire population. In view of the problem of incomplete take-up, this requirement in my view rules out use of income-tested schemes that rely on families claiming.

The first reason for proposing an EU basic income for children is concern about child poverty. One of the features of successive National Action Plans (NAPs/inclusion) and EU Joint Reports on Social Inclusion is the increasing attention paid to the issue of poverty among families with children. When the first NAPs/inclusion were drawn up in 2001, only a few Member States highlighted the issue of children living in households at risk of poverty. The United Kingdom at that time stood out for having adopted in 1999 a high-profile commitment to eradicating child poverty in 20 years and halving it in 10 years. But there was increasing recognition of the problem in other Member States in the next few years. The problem was extensively discussed in the influential report of the Social Protection Committee (2008) on *Child Poverty and Well-Being in the EU* (and see Frazer and Marlier, 2007).

A second reason for proposing an EU basic income for children is that it would contribute positively to other EU headline objectives. The risks of poverty and social exclusion among children are important in their own right, but they also have implications for the future. As noted by the *Conseil de l'Emploi, des Revenus et de la Cohésion sociale* (CERC) in their June 2004 Report, poverty affects not only children's well-being at the moment when resources are insufficient, but also the capacity of children to develop, to build the required capabilities, including knowledge capital, cultural capital, social capital, health capital. It would be a social investment, contributing to the education and employment objectives.

4 Conclusions

- The EU agenda for the next decade must be drawn up taking account of the successes and limitations of the Lisbon Agenda, notably the failure to achieve a decisive impact on the eradication of poverty and social exclusion;
- Social and economic policy have to be designed together, in such a way

that their actions are complementary rather than in conflict; the EU 2020 Agenda has to be seen as a whole, with Member States subscribing to all elements;

- Progress in reducing poverty requires concerted action by the EU, action which is consistent with subsidiarity but which goes beyond the measures taken in the past decade;
- The setting of concrete poverty target(s) is much to be welcomed, but the design of these targets needs careful consideration;
- Targets need to be ambitious but realistic; I have suggested two approaches to implementation: cost of poverty elimination and peer comparison;
- Whatever targets are agreed, there needs also to be an agreed procedure for monitoring performance in relation to these targets;
- The central aim is to make substantive progress in reducing poverty; I have made one concrete policy proposal to that end: the introduction of an EU basic income for children;
- An EU basic income for children could contribute positively to other headline targets, notably education and employment;
- Social science research (both recent and vintage) has aided the development of underlying concepts and to the analysis of the causes of poverty;
- Investment in statistical instruments has been essential to the EU policy-making progress, and this investment needs to be maintained.

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