



# Social benefits and their redistributive effect in the EU

*Eric Marlier*

*(with Marc Cohen-Solal and Isabelle Terraz, DREES)*

Statistics  
in focus

POPULATION AND SOCIAL CONDITIONS

THEME 3 – 13/1999

POPULATION AND LIVING CONDITIONS

## Contents

1. Pensions, other social transfers and standard of living.....2
2. Original income and social transfers other than pensions .....3
3. Redistributive effect of social transfers other than pensions .....5

This study was carried out jointly by Eurostat and the "DREES" Directorate of the French Ministry of Employment and Solidarity. Based on the 1995 wave of the European Community Household Panel (ECHP), it analyses social benefits in the European Union (EU). The results cover the 13 countries which participated in this wave, namely all the Member States of the EU except Finland and Sweden.

Whilst more than 70% of Europeans benefit from social transfers, this figure varies widely from country to country: from 50% in Italy to 90% in Belgium. In most Member States, these transfers constitute, on average, about 25% of the total income of each "equivalent adult".

The standard of living of those drawing pensions is, on average, close to the figure for the population as a whole. It is even higher than the mean national standard of living in France, Italy, the Netherlands and, above all, Ireland.

Throughout the EU, but to differing degrees, social welfare payments other than pensions are heavily concentrated on those people with a low standard of living. How these transfers change the proportion of the population on a low income varies noticeably from country to country.

This proportion drops by at least a quarter after social transfers other than pensions in all Member States, with the exception of Greece, Italy and Portugal.

In these three countries, the relatively small reduction in inequality is explained by the negligible share represented by social transfers in total income and, in Greece and Italy, the low percentage of beneficiaries. In Italy, the percentage of those on a low income after social transfers is close to the Community mean, which is because this country has the lowest "poverty rate" in the EU before transfers. After transfers, Portugal is the Member State with the highest proportion of the population still affected by poverty.

As in Greece and Portugal, inequalities in Ireland and the United Kingdom are still considerable even after social transfers. However, the UK and Ireland - which, before social transfers, have the highest rates of poverty in the EU - differ from the three others because of the much greater impact of social transfers.

With a drop of about 60%, Denmark and the Netherlands are the countries where the proportion of the population on a low income falls most. They also have the lowest poverty rates after social transfers.

Belgium, Germany, France, Luxembourg and Austria are somewhere in the middle. Before transfers, about a quarter of the population has a low income. Insurance benefits combined with social benefits targeted at those on the lowest incomes significantly reduce this group. In Spain, the drop in poverty is on the same scale and disparities in income are close to the EU average.



## 1. Pensions, other social transfers and standard of living

More than 70% of all EU citizens live in households receiving some form of social transfer<sup>1</sup>. This percentage is significantly less in Greece, Spain and Italy (between 50% and 60%). Portugal, on the other hand, together with Belgium, Denmark, Ireland, Luxembourg and the United Kingdom, is one of the countries where the proportion of beneficiaries is highest (85% and more). This disparity is mainly due to the proportion of individuals drawing social benefits other than pensions. In fact, whilst half of all EU citizens draw social benefits other than pensions, this proportion ranges from under 20% in Greece and Italy to 81% in Ireland, whereas the proportion drawing pensions is everywhere between 20% and 40% (Table 1).

Table 1  
Percentage of social benefit recipients in the EU

|       | pensions | other social transfers | all social transfers together |
|-------|----------|------------------------|-------------------------------|
| B     | 29       | 70                     | 90                            |
| DK    | 19       | 75                     | 85                            |
| D     | 29       | 55                     | 77                            |
| EL    | 42       | 18                     | 53                            |
| E     | 34       | 37                     | 60                            |
| F     | 26       | 63                     | 79                            |
| IRL   | 22       | 81                     | 88                            |
| I     | 39       | 17                     | 50                            |
| L     | 28       | 66                     | 85                            |
| NL    | 19       | 68                     | 80                            |
| A     | 37       | 64                     | 83                            |
| P     | 37       | 63                     | 85                            |
| UK    | 26       | 73                     | 86                            |
| EU-13 | 30       | 52                     | 73                            |

*Example:* 42% of Greeks live in households where at least one member draws a pension. For other social transfers, this figure is 18%. For all social transfers together, the figure is 53% (not 60%, i.e. 42%+18%, given that some households benefit from more than one type of social transfer).

On average, social transfers represent a quarter of the income of each "equivalent adult"<sup>2</sup> in the 13 Member States covered by the survey (Table 2). In most of these countries, the share of total income represented by social transfers is also around a quarter, except in Belgium, where it is significantly higher (a third) and in Greece and Portugal, where it is only a fifth (even though a large proportion of Portuguese benefit from social transfers).

Again on average, pensions account for two-thirds of income from social transfers. But this proportion varies considerably from country to country, according to demographic factors and social protection systems. It is very high in Greece (92%), Italy (88%) and Portugal (75%), mainly because the scale of other social benefits is so small. On the other hand, income from social transfers other than pensions is similar to income from pensions in the Netherlands, the UK and Ireland, and in Denmark even exceeds income from pensions, at 60%.

<sup>1</sup> The beneficiaries of social transfers are all persons living in households benefiting from social transfers. In this study, social transfers were divided into two groups: firstly, pensions (including retirement pensions and survivor's pensions) and, secondly, all other social transfers (unemployment, sickness/invalidity, family, housing benefits, etc.). Indirect social transfers (such as reimbursement of medical expenses) and income in kind are not included.

<sup>2</sup> As stated in "Methods and concepts" (page 7), all amounts stated in this study are per "equivalent adult". This concept is based on total household income, not on that of each member of the household taken separately.

<sup>3</sup> The Purchasing Power Standard (PPS) measures the purchasing power of one ECU in the country concerned.

Table 2

Total income per "equivalent adult" in the EU – mean per capita (PPS), proportion of income from social transfers other than pensions in total income (%) and relative standard of living for beneficiaries of pensions

|       | All households |      |       |       |          |
|-------|----------------|------|-------|-------|----------|
|       | IBT            | P    | STOTP | TI    | STOTP/TI |
| B     | 9245           | 2600 | 1896  | 13741 | 14%      |
| DK    | 10123          | 1515 | 2267  | 13905 | 16%      |
| D     | 10187          | 2616 | 992   | 13795 | 7%       |
| EL    | 6723           | 1540 | 131   | 8394  | 2%       |
| E     | 6673           | 1575 | 742   | 8990  | 8%       |
| F     | 9606           | 2470 | 1326  | 13402 | 10%      |
| IRL   | 8176           | 1659 | 1337  | 11172 | 12%      |
| I     | 7294           | 2322 | 312   | 9928  | 3%       |
| L     | 16582          | 3710 | 1878  | 22170 | 8%       |
| NL    | 9042           | 1867 | 1613  | 12522 | 13%      |
| A     | 9658           | 2657 | 1338  | 13653 | 10%      |
| P     | 6103           | 1178 | 397   | 7678  | 5%       |
| UK    | 10130          | 1554 | 1629  | 13313 | 12%      |
| EU-13 | 8939           | 2129 | 1061  | 12129 | 9%       |

|       | Households benefiting from pensions |       |       |       |          | Standard of living |
|-------|-------------------------------------|-------|-------|-------|----------|--------------------|
|       | IBT                                 | P     | STOTP | TI    | STOTP/TI |                    |
| B     | 3733                                | 9005  | 786   | 13524 | 6%       | 98                 |
| DK    | 3615                                | 7921  | 1133  | 12669 | 9%       | 91                 |
| D     | 3537                                | 9177  | 537   | 13251 | 4%       | 96                 |
| EL    | 3763                                | 3700  | 123   | 7586  | 2%       | 90                 |
| E     | 3420                                | 4700  | 565   | 8685  | 7%       | 97                 |
| F     | 3467                                | 9593  | 721   | 13781 | 2%       | 103                |
| IRL   | 3874                                | 7581  | 901   | 12356 | 7%       | 111                |
| I     | 4068                                | 5909  | 348   | 10325 | 3%       | 104                |
| L     | 7063                                | 13189 | 849   | 21101 | 4%       | 95                 |
| NL    | 2642                                | 9604  | 833   | 13079 | 6%       | 104                |
| A     | 5348                                | 7109  | 897   | 13354 | 7%       | 98                 |
| P     | 3382                                | 3211  | 306   | 6899  | 4%       | 90                 |
| UK    | 5115                                | 6005  | 1209  | 12329 | 10%      | 93                 |
| EU-13 | 3899                                | 7072  | 634   | 11605 | 5%       | 96                 |

Key: IBT=Income before transfers; P=Pensions; STOTP=Social transfers other than pensions; TI=Total income; STOTP/TI=Proportion of income from social transfers other than pensions in total income.

*Example 1:* In Denmark, a STOTP/TI of 16% indicates that 16% of total income comes from social benefits other than pensions.

*Example 2:* The mean standard of living of all households in a given country is 100. A relative standard of living of 90 for beneficiaries of pensions in Greece or Portugal means that these persons have a standard of living 10% lower than the national mean.

### Beneficiaries of pensions in the EU have a standard of living close to that of the population as a whole

Almost one third of all EU citizens are living in households benefiting from pensions; the mean equivalised amount received from pensions is about 7 000 PPS<sup>3</sup> per annum. In Greece, Portugal and the United Kingdom, where pensions, again per equivalent, are amongst the lowest (between 3 000 and 6 000 PPS), they represent less than half of the total income of households where at least one member receives a pension (Table 2).

In most of the other countries, the mean annual pension is between 7 000 and 13 000 PPS, that is 60% to 70% of each beneficiary's total income. In Spain and Italy, this amount is well below the EU mean, but still represents 54% and 57% of their income respectively. In Austria, by contrast, the mean pension is comparable to the EU mean, but represents only 53% of total income.

In the EU as a whole, the standard of living of beneficiaries of pensions is, on average, 4% below that of the population as a whole. It is about 10% lower than the mean national standard of living in Greece, Portugal and the United Kingdom, where pensions are amongst the lowest. There is the same difference in standard of living in Denmark, even though pensions there are much higher.

In France, Ireland, Italy and the Netherlands, however, the standard of living of beneficiaries of pensions is higher than that of the population as a whole. In the Netherlands, this can be explained by the large basic provisions for any person aged 65 and over, and by the developed nature of the supplementary pension sector. In Belgium, Germany, France and Austria, pensions are high, and the basic pension scheme ensures that pensions are in proportion to income from previous employment. In these countries, therefore, the share of pensions in the total income of those drawing them only falls slightly as standard of living rises. In France, compulsory supplementary pension schemes also contribute to giving beneficiaries of pensions a standard of living higher than the population as a whole.

## 2. Original income and social transfers other than pensions

**Income from social transfers other than pensions makes up 9% of the total equivalised income of EU citizens...**

Income from social transfers other than pensions makes up 9% of the equivalised income of EU citizens, i.e. half that represented by pensions (Table 2). The share of these transfers is higher in Belgium, Denmark, Ireland, the Netherlands and the UK (between 12 and 16%) and substantially lower in southern Member States. The latter countries are characterised by a small proportion of beneficiaries (Greece, Spain and Italy; see Table 1) and/or by the fact that only a small proportion of the total income is made up of social benefits other than pensions (Greece, Italy and Portugal; see Table 2). However, in Spain and Italy, these benefits - mainly linked to sickness/invalidity and unemployment - make up a significant share of beneficiaries' income.

**... but 51% of it goes to persons on a low original income**

In all Member States, social transfers other than pensions decrease as *original income* rises (Table 3). Original income includes income from work, private income and pensions, but not other social benefits (unemployment benefits, sickness/invalidity benefits, family benefits, etc.). It therefore represents total income before social transfers (other than pensions).

The distribution of social transfers reflects two phenomena. Firstly, the proportion of beneficiaries drops with increasing original income (Table 4). The EU mean ranges from 74% for the bottom quintile of equivalised original income (made up of the 20% of the population on the lowest original income per equivalent adult) to 34% for the top.

Table 3  
Quintile distribution of mean equivalised income in terms of original income - EU figures (PPS)

|       | Quintile 1 |       |      | Quintile 2 |       |       | Quintile 3 |       |       | Quintile 4 |       |       | Quintile 5 |       |       | Total |       |       |
|-------|------------|-------|------|------------|-------|-------|------------|-------|-------|------------|-------|-------|------------|-------|-------|-------|-------|-------|
|       | OI         | STOTP | TI   | OI         | STOTP | TI    | OI         | STOTP | TI    | OI         | STOTP | TI    | OI         | STOTP | TI    | OI    | STOTP | TI    |
| B     | 2276       | 4017  | 6293 | 7554       | 1878  | 9432  | 10876      | 1551  | 12427 | 14601      | 1193  | 15794 | 23910      | 846   | 24756 | 11845 | 1896  | 13741 |
| DK    | 2966       | 5873  | 8839 | 7961       | 2299  | 10260 | 11062      | 1488  | 12550 | 14016      | 996   | 15012 | 22179      | 683   | 22862 | 11638 | 2267  | 13905 |
| D     | 3417       | 2499  | 5916 | 8501       | 1052  | 9553  | 11634      | 581   | 12215 | 15266      | 471   | 15737 | 25204      | 359   | 25563 | 12803 | 992   | 13795 |
| EL    | 2517       | 314   | 2831 | 5048       | 117   | 5165  | 7019       | 86    | 7105  | 9628       | 72    | 9700  | 17099      | 67    | 17166 | 8263  | 131   | 8394  |
| E     | 1907       | 1998  | 3905 | 4910       | 577   | 5487  | 6967       | 561   | 7528  | 9804       | 365   | 10169 | 17649      | 209   | 17858 | 8248  | 742   | 8990  |
| F     | 3216       | 3072  | 6288 | 7398       | 1505  | 8903  | 10559      | 966   | 11525 | 14463      | 668   | 15131 | 24750      | 422   | 25172 | 12076 | 1326  | 13402 |
| IRL   | 864        | 3721  | 4585 | 4787       | 1302  | 6089  | 8170       | 780   | 8950  | 12311      | 608   | 12919 | 23029      | 281   | 23310 | 9835  | 1337  | 11172 |
| I     | 3206       | 650   | 3856 | 6160       | 340   | 6500  | 8412       | 259   | 8671  | 11469      | 168   | 11637 | 18843      | 142   | 18985 | 9616  | 312   | 9928  |
| L     | 5874       | 3892  | 9766 | 12412      | 2173  | 14585 | 17380      | 1133  | 18513 | 23480      | 1201  | 24681 | 42282      | 1002  | 43284 | 20292 | 1878  | 22170 |
| NL    | 2350       | 4551  | 6901 | 7357       | 1261  | 8618  | 9734       | 1037  | 10771 | 13147      | 703   | 13850 | 21946      | 517   | 22463 | 10909 | 1613  | 12522 |
| A     | 3587       | 2485  | 6072 | 7889       | 1461  | 9350  | 10981      | 1138  | 12119 | 14559      | 1014  | 15573 | 24543      | 586   | 25129 | 12315 | 1338  | 13653 |
| P     | 1838       | 682   | 2520 | 3958       | 424   | 4382  | 5919       | 342   | 6261  | 8239       | 290   | 8529  | 16443      | 246   | 16689 | 7281  | 397   | 7678  |
| UK    | 1226       | 4733  | 5959 | 6021       | 1467  | 7488  | 10075      | 865   | 10940 | 14659      | 612   | 15271 | 26451      | 468   | 26919 | 11684 | 1629  | 13313 |
| EU-13 | 2645       | 2704  | 5349 | 6795       | 1051  | 7846  | 9747       | 692   | 10439 | 13333      | 503   | 13836 | 22824      | 357   | 23181 | 11068 | 1061  | 12129 |

Key: OI=Original income; STOTP=Social transfers other than pensions; TI=Total income

N.B.: For each country, the population is divided into 5 groups of the same size according to their *equivalised original income*: the 20% with the lowest income (quintile 1), the next 20% (quintile 2), ..., the 20% with the highest income (quintile 5).

*Table 4*  
Percentage of beneficiaries of social transfers (other than pensions) and share of these transfers in total income -  
Distribution by each quintile of the population in terms of original income, EU figures

|              | Quintile 1    |          | Quintile 2    |          | Quintile 3    |          | Quintile 4    |          | Quintile 5    |          | Total         |          |
|--------------|---------------|----------|---------------|----------|---------------|----------|---------------|----------|---------------|----------|---------------|----------|
|              | Beneficiaries | STOTP/TI | Beneficiaries | STOTP/TI | Beneficiaries | STOTP/TI | Beneficiaries | STOTP/TI | Beneficiaries | STOTP/TI | Beneficiaries | STOTP/TI |
| <b>B</b>     | 86            | 64       | 70            | 20       | 69            | 12       | 69            | 8        | 55            | 3        | 70            | 14       |
| <b>DK</b>    | 93            | 66       | 80            | 22       | 76            | 12       | 72            | 7        | 53            | 3        | 75            | 16       |
| <b>D</b>     | 77            | 42       | 63            | 11       | 54            | 5        | 46            | 3        | 37            | 1        | 55            | 7        |
| <b>EL</b>    | 29            | 11       | 18            | 2        | 18            | 1        | 14            | 1        | 10            | 0        | 18            | 2        |
| <b>E</b>     | 77            | 51       | 37            | 11       | 32            | 7        | 24            | 4        | 14            | 1        | 37            | 8        |
| <b>F</b>     | 88            | 49       | 74            | 17       | 61            | 8        | 53            | 4        | 38            | 2        | 63            | 10       |
| <b>IRL</b>   | 98            | 81       | 90            | 21       | 84            | 9        | 79            | 5        | 53            | 1        | 81            | 12       |
| <b>I</b>     | 30            | 17       | 20            | 5        | 16            | 3        | 11            | 1        | 8             | 1        | 17            | 3        |
| <b>L</b>     | 92            | 40       | 74            | 15       | 61            | 6        | 57            | 5        | 49            | 2        | 66            | 8        |
| <b>NL</b>    | 92            | 66       | 85            | 15       | 76            | 10       | 54            | 5        | 31            | 2        | 68            | 13       |
| <b>A</b>     | 83            | 41       | 68            | 16       | 67            | 9        | 58            | 7        | 43            | 2        | 64            | 10       |
| <b>P</b>     | 63            | 27       | 62            | 10       | 65            | 5        | 61            | 3        | 64            | 1        | 63            | 5        |
| <b>UK</b>    | 95            | 79       | 74            | 20       | 75            | 8        | 68            | 4        | 53            | 2        | 73            | 12       |
| <b>EU-13</b> | 74            | 51       | 58            | 13       | 52            | 7        | 45            | 4        | 34            | 2        | 52            | 9        |

*Key:* STOTP=Social transfers other than pensions; TI=Total income

*N.B.:* For each country, the population is divided into 5 groups of the same size according to their equivalised original income: the 20% with the lowest income (quintile 1), the next 20% (quintile 2), ..., the 20% with the highest income (quintile 5).

*Example:* In Ireland, 98% of people on the lowest level of income receive social benefits, representing 81% of their income.

Secondly, the share of these transfers in the total income of beneficiaries also drops sharply as original income rises: from 51% for the bottom quintile in terms of original income to 13% for the second and 2% for the top quintile. The differences between countries are particularly striking for those on a low original income. In Belgium, Denmark, Ireland, the Netherlands and the United Kingdom, social benefits other than pensions account for between 64% and 81% of total income for these people. In Greece, Italy and Portugal, this proportion varies between 11% and 27%. In Spain and the other Member States, it is between 40% and 51%.

Social benefits are intensively targeted: for the EU as a whole, half of them go to the first quintile in terms of original income. This share decreases rapidly with rising original income, failing to 20% for the second quintile and 7% for the top quintile. In Ireland, the Netherlands and the United Kingdom, social benefits are targeted at those on the lowest original incomes (the bottom quintile receive between 56% and 58% of all social transfers), whilst, at the other extreme, Portugal and Austria only pay out 34% and 37% respectively to this group (Table 5).

*Table 5*  
Distribution of social transfers other than pensions by quintiles of the population in terms of original income - EU percentages

|              | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 | Total |
|--------------|------------|------------|------------|------------|------------|-------|
| <b>B</b>     | 42         | 20         | 16         | 13         | 9          | 100   |
| <b>DK</b>    | 52         | 20         | 13         | 9          | 6          | 100   |
| <b>D</b>     | 50         | 21         | 12         | 9          | 7          | 100   |
| <b>EL</b>    | 48         | 18         | 13         | 11         | 10         | 100   |
| <b>E</b>     | 54         | 16         | 15         | 10         | 6          | 100   |
| <b>F</b>     | 46         | 23         | 15         | 10         | 6          | 100   |
| <b>IRL</b>   | 56         | 19         | 12         | 9          | 4          | 100   |
| <b>I</b>     | 42         | 22         | 17         | 11         | 9          | 100   |
| <b>L</b>     | 41         | 23         | 12         | 13         | 11         | 100   |
| <b>NL</b>    | 56         | 16         | 13         | 9          | 6          | 100   |
| <b>A</b>     | 37         | 22         | 17         | 15         | 9          | 100   |
| <b>P</b>     | 34         | 21         | 17         | 15         | 12         | 100   |
| <b>UK</b>    | 58         | 18         | 11         | 8          | 6          | 100   |
| <b>EU-13</b> | 51         | 20         | 13         | 9          | 7          | 100   |

*N.B.:* For each country, the population is divided into 5 groups of the same size according to their equivalised original income: the 20% with the lowest income (quintile 1), the next 20% (quintile 2), ..., the 20% with the highest income (quintile 5).

### 3. Redistributive effect of social transfers other than pensions

#### Between 21% and 34% of the population is on a low income before social transfers...

Comparing the number of people on low incomes before and after social transfers other than pensions is a good way of evaluating one of their main purposes: their redistributive effect and, in particular, their ability to reduce the proportion of people on low incomes. A person on a low income is defined here as someone whose equivalised income (original or total, depending on the context) is less than 60% of the national

median of the total equivalised income distribution. These people are sometimes referred to as "poor", poverty being defined here in relative and strictly monetary terms<sup>4</sup>.

The low-income thresholds thus defined are between 5 200 and 7 800 PPS in nine of the 13 countries covered. In Greece, Spain and, in particular, Portugal, these thresholds are much lower. In Luxembourg, the threshold is 1.8 times higher than the threshold for the EU as a whole (Table 6).

Table 6  
Low income thresholds (PPS) and distribution of the population (%) in the EU

|       | Threshold | Distribution by OI |        |         |          | Distribution by TI |        |         |          |
|-------|-----------|--------------------|--------|---------|----------|--------------------|--------|---------|----------|
|       |           | < 60%              | 60-100 | 100-140 | 140 et + | < 60%              | 60-100 | 100-140 | 140 et + |
| B     | 7563      | 30                 | 30     | 22      | 18       | 32                 | 28     | 23      |          |
| DK    | 7759      | 29                 | 35     | 24      | 13       | 11                 | 39     | 16      |          |
| D     | 7433      | 24                 | 31     | 24      | 21       | 18                 | 32     | 24      |          |
| EL    | 4268      | 22                 | 29     | 21      | 28       | 21                 | 29     | 22      |          |
| E     | 4544      | 27                 | 29     | 19      | 26       | 19                 | 31     | 22      |          |
| F     | 7025      | 28                 | 29     | 21      | 22       | 16                 | 34     | 25      |          |
| IRL   | 5447      | 34                 | 21     | 18      | 28       | 21                 | 29     | 20      |          |
| I     | 5232      | 21                 | 31     | 21      | 26       | 19                 | 31     | 23      |          |
| L     | 11220     | 26                 | 29     | 22      | 24       | 14                 | 36     | 24      |          |
| NL    | 6588      | 23                 | 36     | 21      | 20       | 10                 | 40     | 27      |          |
| A     | 7398      | 27                 | 32     | 22      | 19       | 17                 | 33     | 28      |          |
| P     | 3789      | 28                 | 26     | 21      | 26       | 24                 | 26     | 22      |          |
| UK    | 6720      | 34                 | 22     | 19      | 26       | 20                 | 30     | 22      |          |
| EU-13 | 6352      | 26                 | 29     | 21      | 24       | 18                 | 32     | 24      |          |

Key : OI=Original income; TI=Total income

N.B. : The low income or monetary poverty threshold is set at 60% of the national median OI. In each Member State, the population is divided into four groups, firstly according to equivalised OI and then according to equivalised TI: less than 60% of the national median TI (poverty threshold); 60 - <100% of this median; 100 - <140% of this median; 140% and more of this median. For both distributions (OI and TI), the median used is that relating to the distribution of TI.

Example : In Portugal, the low-income threshold is 3 790 PPS. 28% of the population has an OI less than this threshold; the figure is 24% when the TI is considered.

Before social transfers are taken into account, the United Kingdom and Ireland show a large proportion of people on low incomes (34%). For the other Member States, this proportion varies between 21% and 30%.

#### ... but the impact of the transfers is significant, particularly in Denmark and the Netherlands

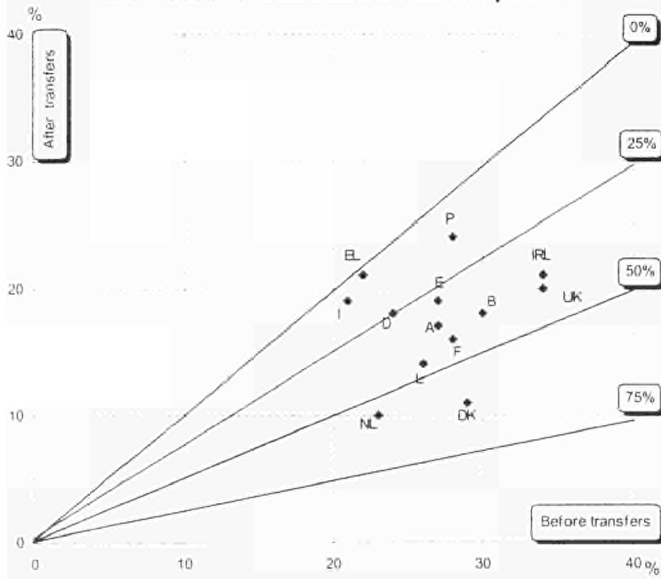
Social benefits reduce the percentage of "poor" people in all the Member States, but to very differing degrees. The reduction is smallest in Greece, Italy and Portugal: between 7% and 15%. In no other Member State is it less than 25%, and in Denmark and the Netherlands, it is around 60% - these two countries have the lowest "poverty rate" after payment of benefits.

Ireland and the United Kingdom have a high proportion of people on low equivalised incomes both before and after payment of benefits. However, after payment of benefits, the share of those still in poverty is highest in Portugal. It is because Italy has the lowest poverty rate before benefits that the percentage of "poor" people in this country is close to the EU mean, despite the low impact of transfers.

Gini coefficients provide an overall indicator of disparities in income distribution (Table 7). These recapitulative benchmarks do not depend on the choice of low-income threshold and can vary, in theory, between 0% (zero inequality) and 100% (total inequality). The ability of social transfers to reduce (monetary) inequality is slightly different from the reduction in poverty rates.

<sup>4</sup> The low income threshold is defined by reference to equivalised total income and is kept unchanged before and after benefits have been paid. It would also have been possible to define the population on a low income before transfers by reference to initial income and the population on a low income after transfers by reference to total income. This option was not used because, in this case, the two effects combine: the proportion of the population below the initial threshold drops but the low income threshold rises because of the inclusion of transfers; a "non-poor" person on the basis of his original income could become "poor" according to his total income. By keeping the threshold constant, the chosen option concentrates on the same population and focuses better on the impact of transfers.

Figure 1: Percentage of the population on a low income before and after social transfers other than pensions



Example: Before income from social benefits (other than pensions) is taken into account, the proportion of poor people in Denmark is 29%. Afterwards, this figure drops to 11%.

Before social transfers, Portugal together with Ireland and the United Kingdom are the countries with the greatest disparities in income. After transfers, these three countries remain above the EU mean, like Greece and Spain, but Portugal clearly breaks away from the other two, with a coefficient of 5 points above the EU mean. At the other extreme, Denmark and the Netherlands have the smallest disparities in income both before and after social transfers. Even if the level of inequality in these two countries is very similar before transfers, it differs perceptibly after transfers, the figure for Denmark being 4 points below the Netherlands' figure.

Another measure of inequality in income distribution is the S80/S20 ratio. For any given country, this is the ratio between the share of entire national income received by the top 20% of the population and that of the bottom 20% (Table 7). Applied to original income (i.e. income before social transfers other than pensions), the ratios in Ireland and the UK are more than twice the ratio for the Community as a whole, pointing to considerable disparities between high and low incomes. After

transfers, Greece, Ireland and Portugal (as for the Gini coefficients) have ratios higher than the EU mean.

Table 7  
Measures of inequality in income distribution in the EU

|       | Gini coefficient (%) |    | Quintile ratio S80/S20 |    |
|-------|----------------------|----|------------------------|----|
|       | OI                   | TI | OI                     | TI |
| B     | 33                   | 29 | 11                     | 5  |
| DK    | 30                   | 23 | 7                      | 3  |
| D     | 32                   | 29 | 7                      | 5  |
| EL    | 35                   | 34 | 7                      | 6  |
| E     | 36                   | 33 | 9                      | 5  |
| F     | 35                   | 29 | 8                      | 4  |
| IRL   | 40                   | 35 | 27                     | 6  |
| I     | 32                   | 31 | 6                      | 5  |
| L     | 34                   | 31 | 7                      | 5  |
| NL    | 31                   | 27 | 9                      | 4  |
| A     | 33                   | 29 | 7                      | 5  |
| P     | 39                   | 37 | 9                      | 7  |
| UK    | 39                   | 33 | 22                     | 5  |
| EU-13 | 36                   | 32 | 9                      | 5  |

Key: OI=Original income; TI=Total income

N.B.1: Gini coefficients vary, in theory, between 0% (zero inequality) and 100% (total inequality).

N.B.2: The quintile ratio represents the OI (TI) of the top quintile divided by the OI (TI) of the bottom quintile

Example: On average, for EU-13, the entire income received by the 20% of the population with the highest original income is 9 times greater than that received by the 20% of the population with the lowest original income. For total income, this ratio falls to 5.

The specific feature of Italy has already been emphasised above - the percentage of "poor" people in this country after transfers is close to the EU mean, whilst the impact of transfers on reducing poverty is low. Analysing the Gini coefficients and the income share ratios yields very similar results. Before transfers, Italy has the lowest ratio between the top and bottom quintiles and the third-lowest Gini coefficient (jointly with Germany). After transfers, Italy shows by far the lowest impact of social transfers, and, as a consequence, a ratio and a Gini coefficient close to the Community mean.

## ➤ METHODS AND CONCEPTS

- The **European Community Household Panel (ECHP)** is a survey based on a standardised questionnaire that involves annual interviewing of a representative panel of households and individuals in each country, covering a wide range of topics: income (including the various social transfers) health, education, housing, demographics and employment characteristics, etc. The longitudinal structure of the ECHP makes it possible to follow up and interview the same households and individuals over several consecutive years. The first wave of the ECHP was conducted in 1994 in the twelve Member States of the EU at that time. The survey was based on a sample of some 60 500 households (about 170 000 individuals). Since then, Austria (in 1995) and Finland (in 1996) have joined the project. Sweden does not take part.

Those interested in other findings yielded by the ECHP should refer to the first ECHP large-scale publication: *"European Community Household Panel (ECHP): Selected indicators from the 1995 wave"*, Theme 3, sub-theme "Population and social conditions", Eurostat, OPOCE, Luxembourg, 1999; ISBN 92-828-7150-9 (260 pages). The subjects covered by this publication are income, housing and employment.

The results presented in this edition of *"Statistics in Focus"* were calculated from the ECHP "users' database" (for more details on direct access to ECHP micro-data, see: *"EC Household Panel Newsletter"*, *Statistics in Focus 2/1999*, Theme 3, Eurostat, OPOCE, Luxembourg, 1999; catalogue no CA-NK-99-002-EN-C). This base includes only 90% of the German sample, so the figures for Germany may differ slightly from those in the large-scale publication.

The results presented in this study are estimates, whose precision - all other things being equal - depends on the size of the sample and the percentage.

- **Total household income** is taken to be all the net monetary income received by the household and its members at the time of the interview (1995) during the survey reference year (1994). This includes income from work (employment and self-employment), private income (from investments and property and private transfers to the household), pensions and other social transfers directly received. No account has been taken of indirect social transfers (such as the reimbursement of medical expenses), receipts in kind and imputed rent for owner-occupied accommodation.

**Figures for France:** The incomes declared in France are before tax and have been converted to net figures by applying the household's mean tax rate.

**Equivalised income:** In order to take into account differences in household size and composition in the comparison of income levels, **all** the amounts given here are per "equivalent adult". The household's total income is divided by its 'equivalent size', computed using the modified OECD equivalence scale. This scale gives a weight of 1.0 to the first adult, 0.5 to the second and each subsequent person aged 14 and over, and 0.3 to each child aged under 14 in the household. The household composition is as defined at the time of the interview. The same household equivalised income is assigned to each household member (adults and children). This concept is therefore based on the household income, not the income of each of its members taken separately. So, for example, a person with no personal income whatever might not have a "low equivalised income" if the other members of his or her household compensate for this absence of income with individual incomes which are average or high. Conversely, a person with a high personal income could be considered to have a low equivalised income if the members of his or her household have little or no income of their own. In this study, people on a "low income" are those with a "low equivalised income". The same goes for people with a "high income", "poor", "wealthy" people, etc. The mean and median equivalised income figures are defined in terms of the number of persons (i.e. "per capita"), not households.

- **Purchasing Power Parities (PPP)** convert every national monetary unit into a common reference unit, the "purchasing power standard" (PPS), of which every unit can buy the same amount of goods and services across the countries in a specific year. Converting these amounts, which are received in national currency, into amounts expressed in PPS allows income comparisons between EU countries. For 1994, the conversion rates between PPS and the national currencies are: B (41.65); DK (9.790); D (2.160); EL (223.8); E (133.1); F (7.230); IRL (0.7100); I (1.640); L (39.79); NL (2.280); A (14.90); P (136.8); UK (0.7000).

# Further information:

## ➤ Reference publications

Title European Community Household Panel (ECHP): Selected indicators from the 1995 wave  
 Catalogue No CA-22-99-765-EN-C Price EUR 45

To obtain information or to order publications, data bases and special sets of data, please contact the **Data Shop** network:

| BELGIQUE/BELGIË   | DANMARK  | DEUTSCHLAND   | ESPAÑA   | FRANCE   | ITALIA - Roma  |
|---|--|---|--|--|--|
| <b>Eurostat Data Shop</b><br>Bruxelles/Brussel<br>Chaussée d'Etterbeek 13<br>Etterbeeksesteenweg 13<br>B-1049 BRUXELLES / BRUSSEL<br>Tel. (32-2) 299 66 66<br>Fax (32-2) 295 01 25<br>E-Mail: datashop.brussels@eurostat.cec.be   | <b>DANMARKS STATISTIK</b><br>Bibliotek og Information<br>Eurostat Data Shop<br>Sejrogade 11<br>DK-2100 KØBENHAVN Ø<br>Tel. (45-39) 17 30 30<br>Fax (45-39) 17 30 03<br>E-Mail: bib@dst.dk                  | <b>STATISTISCHES BUNDESAMT</b><br>Eurostat Data Shop Berlin<br>Otto-Braun-Straße 70-72<br>D-10178 BERLIN<br>Tel. (49-30) 23 24 64 27/28<br>Tel. (49-30) 23 24 64 30<br>E-Mail: stba-berlin.datashop@t-online.de   | <b>INE Eurostat Data Shop</b><br>Paseo de la Castellana, 183<br>Oficina 009<br>Entrada por Estébanez Calderón<br>E-28046 MADRID<br>Tel. (34-91) 583 91 67<br>Fax (34-91) 579 71 20<br>E-Mail: datashop.eurostat@ine.es   | <b>INSEE Info Service</b><br>Eurostat Data Shop<br>195, rue de Bercy<br>Tour Gamma A<br>F-75582 PARIS CEDEX 12<br>Tel. (33-1) 53 17 88 44<br>Fax (33-1) 53 17 88 22<br>E-Mail: datashop@insee.fr | <b>ISTAT</b><br>Centro di Informazione Statistica<br>Sede di Roma, Eurostat Data Shop<br>Via Cesare Balbo, 11a<br>I-00184 ROMA<br>Tel. (39-06) 46 73 31 02/06<br>Fax (39-06) 46 73 31 01/07<br>E-Mail: dipdiff@istat.it            |
| ITALIA - Milano   | LUXEMBOURG   | NEDERLAND   | NORGE  | PORTUGAL   | SCHWEIZ/SUISSE/SVIZZERA  |
| <b>ISTAT</b><br>Centro di Informazione Statistica -<br>Sede di Milano, Eurostat Data Shop<br>Piazza della Repubblica, 22<br>I-20124 MILANO<br>Tel. (39-02) 65 95 133/134<br>Fax (39-02) 65 30 75<br>E-mail: mileuro@tin.it  | <b>Eurostat Data Shop Luxembourg</b><br>BP 453<br>L-2014 LUXEMBOURG<br>4, rue A. Weicker<br>L-2721 LUXEMBOURG<br>Tel. (352) 43 35 22 51<br>Fax (352) 43 35 22 21<br>E-Mail: dslux@eurostat.datashop.lu     | <b>STATISTICS NETHERLANDS</b><br>Eurostat Data Shop-Voorburg<br>po box 4000<br>2270 JM VOORBURG<br>Nederland<br>Tel. (31-70) 337 49 00<br>Fax (31-70) 337 59 84<br>E-Mail: datashop@cbs.nl  | <b>Statistics Norway</b><br>Library and Information Centre<br>Eurostat Data Shop<br>Kongens gate 6<br>P. b. 8131, dep.<br>N-0033 OSLO<br>Tel. (47-22) 86 46 43<br>E-Mail: info@statistikket@ssb.no   | <b>Eurostat Data Shop Lisboa</b><br>INE/Serviço de Difusão<br>Av. António José de Almeida, 2<br>P-1000-043 LISBOA<br>Tel. (351-1) 842 61 00<br>Fax (351-1) 842 63 64<br>E-Mail: data.shop@ine.pt | <b>Statistisches Amt des Kantons</b><br>Zürich, Eurostat Data Shop<br>Bleicherweg 5<br>CH-8090 Zürich<br>Tel. (41-1) 225 12 12<br>Fax (41-1) 225 12 99<br>E-Mail: datashop@zh.ch<br>Internetadresse:<br>http://www.zh.ch/statistik |
| SUOMI/FINLAND   | SVERIGE  | UNITED KINGDOM  | UNITED KINGDOM   | UNITED STATES OF AMERICA   |  |
| <b>Eurostat Data Shop, Tilastokirjasto</b><br>Postiosoite: PL 2B<br>FIN-00022 Tilastokeskus<br>Käyntiosoite: Työpajakatu 13 B, 2 krs<br>Helsinki<br>Tel. (358-9) 17 34 22 21<br>Fax (358-9) 17 34 22 79<br>E-mail: datashop.tilastokeskus@tilastokeskus.fi<br>Internetadresse:<br>http://www.tilastokeskus.fi/tk/ku/datashop.html | <b>STATISTICS SWEDEN</b><br>Information service<br>Eurostat Data Shop<br>Karlavägen 100<br>Box 24 300<br>S-104 51 STOCKHOLM<br>Tel. (46-8) 783 48 01<br>Fax (46-8) 783 48 99<br>E-Mail: infoservice@scb.se | <b>Eurostat Data Shop</b><br>Enquiries & advice and<br>publications<br>Office for National Statistics<br>Customers & Electronic Services Unit<br>1 Drummond Gate - B1/05<br>UK-LONDON SW1V 2QQ<br>Tel. (44-171) 533 56 76<br>Fax (44-171) 533 56 88<br>E-Mail: gloria.ryan@ons.gov.uk | <b>Eurostat Data Shop</b><br>Electronic Data Extractions,<br>Enquiries & advice - R.CADE<br>Unit 1L Mountjoy Research Centre<br>University of Durham<br>UK - DURHAM DH1 3SW<br>Tel: (44-191) 374 7350<br>Fax: (44-191) 384 4971<br>E-Mail: r-cade@dur.ac.uk<br>URL: http://www-rcade.dur.ac.uk | <b>HAVER ANALYTICS</b><br>Eurostat Data Shop<br>60 East 42nd Street<br>Suite 3310<br>USA-NEW YORK, NY 10165<br>Tel. (1-212) 986 93 00<br>Fax (1-212) 986 58 57<br>E-Mail: eurodata@haver.com     |  |

### Media Support Eurostat (for professional journalists only):

Bech Building Office A3/48 • L-2920 Luxembourg • Tel. (352) 4301 33408 • Fax (352) 4301 32649 • e-mail: media.support@eurostat.cec.be

This study was carried out jointly by Eric Marlier (Eurostat), Marc Cohen-Solal and Isabelle Terraz (DREES: "Direction de la Recherche, de l'Evaluation et des Statistiques", a directorate of the French Ministry of Employment and Solidarity).  
 For more details: Eric Marlier, Eurostat/E2, L-2920 Luxembourg, Tel: (352) 4301 34521, E-mail: eric.marlier@eurostat.cec.be  
 ORIGINAL: French

Please visit our web site at <http://europa.eu.int/eurostat.html> for further information!

A list of worldwide sales outlets is available at the **Office for Official Publications of the European Communities**.

2 rue Mercier - L-2985 Luxembourg  
 Tel. (352) 2929 42118 Fax (352) 2929 42709  
 Internet Address <http://eur-op.eu.int/ffr/general/s-ad.htm>  
 e-mail: info.info@opoce.cec.be

BELGIQUE/BELGIË - DANMARK - DEUTSCHLAND - GREECE/ELLADA - ESPAÑA - FRANCE - IRELAND - ITALIA - LUXEMBOURG - NEDERLAND - ÖSTERREICH  
 PORTUGAL - SUOMI/FINLAND - SVERIGE - UNITED KINGDOM - ISLAND - NORGE - SCHWEIZ/SUISSE/SVIZZERA - BALGARIJA - CESHÁ REPUBLIKA - CYPRUS  
 EESTI - HRVATSKA - MAGYARORSZÁG - MALTA - POLSKA - ROMÂNIA - RUSSIA - SLOVAKIA - SLOVENIA - TÜRKIYE - AUSTRALIA - CANADA - EGYPT - INDIA  
 ISRAËL - JAPAN - MALAYSIA - PHILIPPINES - SOUTH KOREA - THAILAND - UNITED STATES OF AMERICA

## Order form

I would like to subscribe to Statistics in focus (from 1.1.1999 to 31.12.1999):  
 (for the Data Shop and sales office addresses see above)

**Formula 1:** All 9 themes (approximately 90 issues)

Paper: 360 EUR

PDF: 264 EUR

Paper + PDF: 432 EUR

Language required:  DE  EN  FR

**Formula 2:** One or more of the following seven themes:

Theme 1 'General statistics'

Paper: 42 EUR  PDF: 30 EUR  Combined: 54 EUR

Theme 2 'Economy and finance'

Theme 3 'Population and social conditions'

Theme 4 'Industry, trade and services'

Theme 5 'Agriculture and fisheries'

Theme 6 'External trade'

Theme 8 'Environment and energy'

Paper: 84 EUR  PDF: 60 EUR  Combined: 114 EUR

Language required:  DE  EN  FR

Please send me a free copy of 'Eurostat Mini-Guide' (catalogue containing a selection of Eurostat products and services)  
 Language required:  DE  EN  FR

I would like a free subscription to 'Statistical References', the information letter on Eurostat products and services  
 Language required:  DE  EN  FR

Mr  Mrs  Ms

(Please use block capitals)

Name: \_\_\_\_\_ First name: \_\_\_\_\_

Company: \_\_\_\_\_ Department: \_\_\_\_\_

Function: \_\_\_\_\_

Address: \_\_\_\_\_

Post code: \_\_\_\_\_ Town: \_\_\_\_\_

Country: \_\_\_\_\_

Tel.: \_\_\_\_\_ Fax: \_\_\_\_\_

E-mail: \_\_\_\_\_

### Payment on receipt of invoice, preferably by:

Bank transfer

Visa  Eurocard

Card No: \_\_\_\_\_ Expires on: \_\_\_\_/\_\_\_\_/\_\_\_\_

### Please confirm your intra-Community VAT number:

If no number is entered, VAT will be automatically applied. Subsequent reimbursement will not be possible.