Limitations and challenges of working with data relating to poverty in Europe

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Motivation

- Over the last 3 decades there has been a significant improvement in available information and data related to social, economic, and living conditions of the households in EU countries. EC’s and Eurostat’s contribution on this matter was vital and should be greatly acknowledged.
- Access to estimates and data (micro and meta data) has largely improved.
- This has allowed researchers to investigate various aspects of economic inequality, poverty and deprivation, and has been particularly helpful to policy makers.
- An increased volume of research has taken place and a plethora of estimates and figures on these matters have been produced.
- However, due to data limitations, certain aspects of inequality, poverty and deprivation cannot be efficiently uncovered and investigated.
- This became more evident during the recent economic crisis, where information on inequality and poverty was particularly crucial in shaping and evaluating policies at national and EU level.
Motivation

- Utilising Eurostat’s data, we will summarise some evidence concerning poverty and deprivation in the EU, and will briefly discuss certain data limitations and the potential and challenges of working with data relating to poverty.

- Discussing data limitations and potential challenges in investigating poverty, emphasis will be placed in the following:
  - Income and poverty definition
  - Time where the data refer
  - Comparability between countries/regions
  - Comparability between time (evaluating trends)

- We will mainly focus our analysis on Eurostat’s ECHP (1995-2001) and EU-SILC (since 2003) surveys.
One significant limitation is related to the year income data refer to. In most countries, the data concerning income (and consequently income poverty) refer to the year previous to that of the survey. It is commonly assumed that published estimates of incomes and poverty refer to the year the survey was conducted as opposed to the year the data actually refer to.

This may confuse researches and policy makers who are not familiar with this issue. It creates difficulties in evaluating responses to policy measures, particularly during periods when the relevant figures changed rapidly, such us during the current economic crisis (i.e. in Greece).

It is hard to explain how the income and income poverty estimates are related to other social indicators (i.e. employment status or education) that usually refer to the year the survey was conducted.

This is also quite problematic when more complicated indexes are calculated. Such is the “poverty and social exclusion” that it based on information on income poverty that refers to the year previous to the one the survey was conducted, and the material deprivation and unemployment that actually refer to the year the survey was conducted.
Delays in accessing the data

- Relevant to this is the delay between the date on which surveys were conducted and the date when they become available to researchers and policy makers.

- Estimates based on 2017 surveys that refer to 2016 incomes became available very recently (and not for all countries). However, 2017 micro data are not yet available.

- This creates significant barriers to designing and assessing policies and interventions aiming to alleviate poverty and inequality. This is even more evident in countries that were greatly affected by the economic crisis, and where poverty has increased rapidly.
Definition of income and poverty

- Income is mainly defined as disposable income, that is the household income after direct taxes and social security contributions.

How comprehensive is this index in capturing persons’ well-being?

- Estimates on “pre tax” or “gross” income is also crucial in order to investigate the distributional impact of income taxes and social security contribution, as well as to estimate various aspects of the shadow economy.

- Also, with gross income one could have more accurate estimates on the contribution of each individual source to total household income.

- Another problem is related to the narrow concept of (money) income used in these statistics. There is no information, for instance, on changes in the value of the capital and stocks, information on production for own consumption, fridge benefits, imputed rent and so on.
Definition of income and poverty

- No information on wealth is provided.
- Wealth is important in one’s power over economic resources. The influence of wealth on a person’s well-being and social and economic status is crucial. Wealth provides feeling of security and the possibility of being less dependent on short-term opportunities for work.
- There is no reliable information on various income sources. This raises the question of whether income from various sources can be weighted equal in analyzing economic inequality. The same applies to the number of hours that each person or household spend on earning a particular amount of income from a certain source.
Definition of income and poverty

- Poverty line is set as percentage (usually the 60%) of each country’s median equalized disposable income.

*How comprehensive is this index in capturing a person's well-being?*

*What are the limitations imposed by this index on evaluating and comparing well-being and poverty?*
The use of this poverty index does not imply any superiority against the plethora of alternative ones that have been proposed in the literature (i.e. based on a basket of goods or on a subjective poverty line).

On the contrary, it could be argued that it is a rather arbitrary index that lacks any strong theoretical foundation. Its advantage is that it could be easily calculated with the available statistics, and could be easily understood by non experts.

One of the main drawbacks is that it is quite problematic in uncovering and comparing the standard of livings and poverty between countries or regions and different time periods.
Comparing between countries and regions

Issues in comparing income poverty between regions and prefectures within a country.

- Huge variations on incomes between countries and regions.
- Due to anonymity reasons and sampling issues no information is provided for individual regions or prefectures within countries (i.e. relevant information for Greece is provided only for 4 large regions that each of them incorporates other regions and prefectures with huge differences in incomes and other socioeconomic indicators).
- This places barriers to investigating poverty and inequalities between regions and prefectures and providing the necessary data and information for effective policy interventions.
Issues in comparing income poverty between countries.

- Household income and wealth varies considerably between countries.
- The definition of income poverty, as percentage of each country's median disposable income, places serious limitations in comparing poverty and well-being between countries.
- A common to all EU countries poverty line (i.e. based on a basket of goods) could help uncover and analyze the true dimensions of the differences in the population’s standard of living and in the well-being between countries.
- Differences in social provisions in kind may have a significant impact on peoples’ well-being and thus significantly affect the comparison on poverty between countries.
Poverty (%) in the EU-14, Danish poverty line (in PPS), 2010 (2009 incomes)

Source: EU-SILC UDB

*Great Britain: 2010 incomes
Some Potential Challenges

- Investigate the contribution of various income components to inequality and poverty.
- Analyse the distribution on household’s wealth and investigate its contribution to poverty dynamics (reproduction of poverty).
- Reduce the time between the collection of data and its becoming available, a crucial issue for effective policy interventions.
- Examine the distributional impact of social security system (and its various components) as well as of other institutional and macroeconomic factors on poverty and inequality.