Multiple deprivation in Europe: why does income not measure poverty?

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As part of its agenda to combat poverty and social exclusion, set out in the Lisbon Strategy of 2001, the European Union insists on the importance of reliable and accurate quantitative indicators. One of these is a multidimensional indicator of direct poverty known as multiple deprivation.

It is well known that measures of income poverty and deprivation summarize dissimilar phenomena and identify different subjects as being at risk of low living standards.

This paper, starting from the relationship between income poverty and deprivation in eleven European countries, explores the reasons for this mismatch, looking at the effects of a number of socio-economic determinants. Fixed and random effects models are estimated using all eight waves of the European Community Household Panel (ECHP). A decomposition of the deprivation gaps between countries, into characteristics and returns components, facilitates the cross country comparison. The first results show the relative inability of income to explain direct poverty .First, they show that changes in income and deprivation do not strictly coincide and that income has a stronger delayed effect. Second, they highlight the importance of employment status and of moving into and out of the labour market and the value of education, good health and home ownership. The main differences across countries are in part attributable to mean characteristics and returns of each socio-economic determinant but also to a fixed country effect not captured by the model: this confirms the great heterogeneity of European countries and the particularity of the Southern countries. Nevertheless, in these countries the achievements of a higher education level, good housing conditions and income itself have a stronger effect in reducing the deprivation gap.