Poverty in Europe and the USA: Exchanging official measurement methods

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Abstract

Official poverty methodologies differ from other poverty measurement methods in the sense that the official ones are more often used as a benchmark to develop new policies as well as to evaluate the performance of existing programs. Europe has the tradition and the practice to use relative poverty as "official" poverty estimates (Common Laeken indicators); the USA use an objective method to estimate official poverty (Orshansky indicator). Although related, each approach portrays different dimensions of poverty. In this study we compare the official poverty methodologies of the USA and EU by applying them on datasets of both countries. Using the harmonized European Community Household Panel (ECHP) for the EU and the Panel Study on Income Dynamics (PSID) for the USA, we compare poverty trends in the USA and EU in relative and absolute terms on a national level as well as for various subgroups of the populations. Additionally, we use the panel dimension of the data to analyze individual poverty dynamics. We find considerable differences between the estimates based on Laeken indicators and the estimates based on an Orshansky type of technology. It was expected that in general Orshansky generates lower poverty estimates than the Laeken indicators. However, it is puzzling to find that a.) these differences are less systematic than expected and b.) these differences are not constant over time and in some cases even have the reverse sign. These findings point to the desirability of involving both poverty concepts into (official) poverty assessments.

Keywords: poverty, absolute, relative, social policy, United States, European Union

JEL: H53, H55, I3

1.   Introduction [1] [2]

Official poverty rates differ from other poverty rates in the sense that the official ones are more often used as a benchmark to develop new policies as well as to evaluate the performance of existing programs. Europe has the tradition and the practice to use relative poverty (Laeken indicators); the USA use an objective method to estimate official poverty. Although related, each approach portrays different dimensions of poverty. We use the official poverty measurement methods of the EU and the United States and apply both methods to USA and EU data. We use the harmonized European Community Household Panel (ECHP) for the EU-15 and the USA section of the Cross National Equivalent Files (CNEF-PSID) for the USA (1994-2001). In this paper we explain how we obtained these poverty figures and discuss the results of the resulting poverty profiles. In Notten and de Neubourg (2007ba) we show how some poverty differences are inherent to choosing either an absolute or a relative approach to poverty while other differences are related to more general aspects of poverty measurement. In Notten and de Neubourg (2007ab) we discuss the relation between policy and the use of absolute and relative poverty indicators as tools to evaluate, monitor and design (social) policies.

This paper is structured as follows: We firstly explain the origin and main characteristics of each poverty measurement methods and what information is required for a cross-country comparison of both methods. Then, we explain which data are used, how they were prepared for the cross-national comparative analysis and we discuss a number of

comparability issues.[3] Subsequently, we provide a first discussion of the results in which we focus on differences and similarities between both indicators. We compare annual poverty levels and trends between countries and for specific population groups in each country. Moreover, we also compare the USA and EU using absolute and relative indicators of long-term poverty.

2. Official poverty measurement methods in the USA and EU

The EU methodology, the so-called Laeken At-Risk-of-Poverty indicator, is based on a relative concept of poverty. In this method, the poverty line is set at 60% of median income, thus relative to the income level in the population. The USA methodology is based on an absolute concept of poverty. The USA poverty line is based on an assessment of the basic cost of living. We named the USA poverty indicator the 'Orshansky' indicator (after the economist who developed the method).

2.1 Poverty measurement in the EU: the Laeken indicators

During the Nice summit in 2001, the EU Member States decided to combat poverty and social exclusion by means of the open method of coordination. This method "involves fixing guidelines for the Union, establishing quantitative and qualitative indicators to be applied in each member state, and periodic monitoring" (Atkinson, Cantillon, Marlier, & Nolan, 2002). The design and implementation of policies to fight poverty and social exclusion, however, remained predominantly the responsibility of the Member States. To monitor progress in these areas, a set of common statistical indicators was developed. Named after the Laeken European Council who endorsed the indicators in 2001, these 'Laeken indicators' cover four dimensions of social inclusion; financial poverty, employment, health and education. In this research, we use the subset of the Laeken indicators that is concerned with financial poverty.

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[3] If you have further questions on how we shaped the data, which checks we performed and how we dealt with inconsistencies in the data, please contact Geranda Notten (Geranda.Notten@governance.unimaas.nl).

Most of the so-called Laeken "At-risk-of-poverty" indicators are based on a relative poverty line that is set at 60% of national median adult equivalent income (Eurostat, 2003b). The welfare indicator is based on annual net household income and includes the earnings and transfers received by the household. To control for the demographic composition of the household and economies of scale, household income is adjusted using the modified OECD equivalence scales.[4] When adult equivalent household income falls below 60% of national median adult equivalent income, all of the household members are poor. The statistics bureau of the European Union, Eurostat, publishes the Laeken indicators. During the nineties, Eurostat used the European Community Household Panel (ECHP) for the financial poverty estimates.

2.2   Poverty measurement in the USA: the Orshansky poverty lines

The USA poverty lines were developed in the 1960s by Molly Orshansky, an economist working for the Social Security Administration.[5] In that time there was no generally accepted standard of basic needs that could be used to determine a minimum consumption basket. The Agriculture Department, however, had defined food plans which measured the costs of food for various budgets ranging from 'liberal', 'moderate', 'low-cost' to 'economy'. Orshansky used the lowest food plans 'low-cost' and 'economy', where the costs of 'economy' were about 75-80% of the 'low-cost' plan, to develop two sets of food poverty lines. The current official poverty estimates are based on the thresholds of the 'economy' food plan which was designed for families under economic stress.

To obtain a poverty line that also included the costs of non-food consumption, Orshansky used the 1955 Household Food Consumption Survey to estimate the average share of

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[4] The modified OECD equivalence scale gives a weight of 1 to the first adult in the household, a weight of 0.5 to other members aged over 14 years and a weight of 0.3 for children under age 14.

[5] This description of the Orshansky methodology is largely based on the information provided on the website of the Bureau of Census (http://www.census.gov/hhes/www/poverty/poverty.html). Especially helpful was the online paper of G. Fisher on the Development of the Orshansky poverty thresholds (Fischer, 1992).

food expenditures in total income for families of three or more persons.[6] To obtain the overall poverty line the cost of the food budget was multiplied by the reciprocal of the food share (i.e. the food-ratio method). The poverty line varies with demographic composition of families. Although there have been some minor changes in the methodology over time, the poverty lines currently used are essentially the same as those developed in the 1960s. Currently, there are 48 poverty lines depending on family size and the age of household members. These thresholds are annually adjusted for inflation.[7] Every year, an inflation adjustment is made using the consumer price index for urban consumers (CPI-U), which is the same for the whole USA.

The official poverty rates are annually estimated by the Bureau of Census using the March Supplement of the Current Population Survey (CPS). The poverty status of a family is obtained by comparing its gross annual income to the poverty line of that family type. The welfare indicator only includes 'money' income (i.e. earnings and money transfers). In-kind transfers such as food stamps or the consumption of public goods are not included. Housing allowances and capital gains (or losses) are also not included in the income aggregate. The demographic characteristics determining the poverty line are based on the current household situation while the welfare indicator reflects total family income of the previous (tax) year.

2.3   Application of both poverty measurement methods

The above discussion reveals a number of information requirements which need to be satisfied in each dataset to enable an application of both poverty measurement methods to European countries and the USA. Firstly, to obtain Orshansky poverty estimates for the European countries we need a welfare indicator that is comparable to the one used in the USA and we need to convert the absolute Orshansky poverty lines to comparable values in each of the European countries. Secondly, in order to obtain Laeken poverty estimates

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[6] Orshansky found that the average share of food expenditures was about one third of family income. Also note that this is the average food share of the *total* population of families and not *low-income* families.
[7] The thresholds are available for each year on the website of the Bureau of Census on www.census.gov/hhes/www/poverty/threshld.

for the USA we need a welfare indicator that is comparable to that being used in Europe. Thirdly, the definition of total household income used in the Orshansky indicator differs from that used in the Laeken poverty rates. The main difference is that the Orshansky poverty rates are calculated using gross income while the Laeken poverty rates are calculated using net household income. Fourthly, the Laeken and Orshansky methods use different equivalence scales to adjust for household size and household composition and thus require different identification variables. In the Laeken methodology household income is adjusted using the modified OECD equivalence scales while the Orshansky methodology uses a different set of equivalence scales by distinguishing a specific poverty line for each of the 48 household types.

The ideal approach for comparing both poverty methods on Europe and the USA would require that household data are collected in the same way in both regions (using the same sampling design, questionnaires, data cleaning, methods for constructing variables etc.). Moreover, these data would have to provide all relevant variables needed to compute the poverty rates according to both methodologies (gross income, net income, basic cost of living in each European country etc.). Given time and budget restrictions, we followed a more pragmatic approach. We selected household budget surveys for both regions that are reasonably comparable in terms of collection and variables (see section 0). Secondly, we used purchasing power parity (PPP) rates to convert the Orshansky thresholds to the price levels in each of the European countries. The main rationale for this choice is that the current USA thresholds are based on the cost of living in the 1960s and that the construction of up to date thresholds reflecting the cost of living in each country (including the US) would constitute an ambitious research project in itself. Our method is further explained in section 0 while the limitations and alternatives are discussed in Notten and de Neubourg (2007b). Furthermore, we decided to use net household income as the principal welfare indicator for the calculation of both Laeken and Orshansky poverty rates. The main reason for using net income is that it better reflects disposable income i.e. the income that a household has at its disposition to finance household

expenditures.[8] For the rest, we followed the methodologies as explained above. This implies that the Orshansky poverty rates have been calculated using different equivalence scales than those used for the Laeken poverty rates. The impact of equivalence scales on absolute and relative poverty rates is also studied in Notten and de Neubourg (2007b).

We compare the Orshansky and Laeken indicators using various poverty measures such as the percentage of poor individuals (poverty incidence), the percentage of individuals living in long term poverty (chronic or long term poverty incidence) and the mean proportionate income shortfall in the population (poverty gap). We decompose the poverty incidence of various groups in the population by gender, age, household type and main source of income. We also study the impact of various transfers on Orshansky and Laeken poverty rates.

3.   Making poverty rates between Europe and the USA comparable

The Laeken and Orshansky poverty rates are mainly based on two household surveys: the European Community Household Panel (ECHP) and the USA section of the Cross-National Equivalent Files (CNEF-PSID). We complemented these datasets with information from other sources such as the Panel Study on Income Dynamics (PSID), Bureau of Census, Federal Reserve, Eurostat and the OECD. In sections 0 and 0 we describe the main datasets (ECHP and the CNEF), explain how we supplemented these datasets with information from the above mentioned sources and how we further prepared the data for the comparative poverty analysis. In section 0 we discuss a number of issues related to the cross-national comparability of both datasets.

3.1   European Union - ECHP

The ECHP is a harmonized household budget survey for 15 European Union (EU-15) member states collected over 8 waves from 1994 to 2001. The ECHP contains

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[8] This implies that our US Orshansky poverty rates will differ from the official poverty rates as published by the Bureau of Census.

information for the following countries: Belgium, Denmark, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, Netherlands, Austria (1995-2001), Portugal, Finland (1996-2001), Sweden (1997-2001) and the United Kingdom. The data provide cross-section and longitudinal information on household and individual level on topics such as income, education, housing, health and social relations. Comparability of the ECHP data is achieved through common survey structure and procedures, common standards on sampling requirements and where possible on data processing and statistical analysis as well as the use of a 'blue-print' questionnaire used as point of departure for all national surveys. For most of the countries the surveys were collected using a harmonized questionnaire. For Germany, Luxembourg, Sweden and United Kingdom the national surveys of these countries were converted into ECHP format.

We base our analysis on the User Data Base (UDB) of the ECHP which consists of a series of separate files.[9] For each wave, there is a household and an individual file. These files hold the variables that have been derived from the household and individual questionnaires. The register file includes information on every household and individual that has been interviewed over time.[10] The longitudinal link file contains some time-fixed and wave specific variables on every individual. This information needed for constructing a panel. Finally, there is a country file which includes some country level variables such as exchange rates, consumer price indices, purchasing power parities and population size.

We first extracted all relevant information from these files and constructed a single database.[11] This household level database holds information on the demographic characteristics of the household and its income (for each country and wave). We also

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[9] For more detailed information on the UDB, we refer to the ECHP UDB manual (Eurostat, 2003a) and the EPUNet ECHP user guide (Euro Panel Users Network, July 2004).

[10] Individuals that were present in the first wave (1994 for most countries) were re-contacted every subsequent year. These 'sample' persons and the households they were living in were interviewed. We compared the number of 'sample' persons for each country in the first (available) wave with those in wave 8. In Ireland, only 43% of the 'sample' persons were interviewed in wave 8. In Belgium and Denmark retention rates were about 65% while in the other countries retention rates were above 70% (5 countries) or 80% (7countries). Low retention rates are of concern because they may reduce the representativeness of the sample (as compared to the countries' population). To counteract this potential problem the cross-section and longitudinal weights are adjusted in every wave.

[11] We used the 'ECHP extract' Stata ado-file written by Philippe van Kerm (CEPS/INSTEAD, Differdange, Luxembourg) and available on http://www.Vankerm.net/stata (retrieved February 2006).

created a number of household variables indicating the total number of males and females in the household as well as the number of household members by age category (age 0-15, age 16-24, age 25-49, age 50-64 and above age 65). These variables were first created in the register file and then merged to the household level file using the appropriate identification variables (country, wave, household identification number).[12] We did not need to generate an income variable for the Laeken indicators because the total income variable in the ECHP has been constructed following the income definition used in the Laeken indicators. This income variable represents total net household income in the year previous to the survey. We also generated a variable indicating total gross income using the net/gross factor (hi020) provided in the ECHP as well as income variables indicating pre-transfer income (one excluding all social transfer income and another excluding all non-pension transfers). We further converted the 48 poverty lines[13] from 1993 to the national living standards of the member states. Finally, we generated a variable that identified each household in a particular wave with one of the 48 USA household level poverty thresholds. Other required variables were already present in the User Database.

Although the data are on a household level, and we determine the poverty status also at this level, we establish the relative poverty line and calculate the aggregate poverty measures by counting each individual. We use the household cross-section sample weights multiplied by household size to get representative estimates for the national population.

To analyze long term poverty, we determined the poverty status at a household level and thereafter continued the analysis at an individual level. We therefore expanded the household level file to an individual level by merging the individual level identification variable and some other variables (gender, age, whether individual is present in household in a particular wave) from the longitudinal file into the household file. To get

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[12] Because there was no household interview date we could not calculate the exact age. Instead we subtracted the age from the year of the wave from the person's birth year.

[13] The equivalence scales are included in the poverty lines instead of being applied to household income. There are 48 different household types specified and each household type has its own poverty line.

representative population estimates, we used the longitudinal weights from the ECHP for the analysis of poverty dynamics.

3.2   United States – CNEF-PSID

Although the official USA poverty estimates are calculated using the March supplement of the Current Population Survey (CPS), we use the Panel Study of Income Dynamics (PSID). The PSID data are available in two formats; the original ones that can be downloaded from the website of the PSID and the so-called Cross-National Equivalent Files (CNEF). The CNEF contains equivalently defined variables for the Panel Study of Income Dynamics (PSID), the German Socio-Economic Panel (GSOEP), the British Household Panel Study (BHPS), and the Canadian Survey of Labour and Income Dynamics (SLID). The most interesting feature of the equivalent files is that they provide a set of constructed variables that are can be used for cross-national comparisons while these variables are not directly available in the original surveys. This is particularly relevant for household income, the welfare indicator for both the Orshansky and Laeken poverty rates. The CNEF data include imputed variables for the tax burden and thereby allow the construction of pre tax and post tax income. This information is not readily available in the PSID or in the CPS. Moreover, using the CNEF also means that the CNEF-PSID variables are harmonized with two datasets that are also the basis for the ECHP data of these countries (GSOEP and BHPS).[14] A final reason for preferring the PSID-CNEF above the CPS is that the PSID is a panel and thereby also allows the estimation of long term poverty rates.[15]

The PSID is a nationally representative longitudinal dataset containing information on individual and family level on economic and demographic topics such as income, employment, family composition and residential location. Started as an annual survey in

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[14] For more information we refer to the PSID website (http://psidonline.isr.umich.edu/) and the CNEF website (http://www.human.cornell.edu/che/PAM/Research/Centers-Programs/German-Panel/Cross-National-Equivalent-File_CNEF.cfm).

[15] Another alternative would have been to use data from the Luxembourg Income Studies (LIS). However, the LIS data are not available for a subsequent range of years nor, do they allow for longitudinal analysis.

1968, the PSID became a biennial survey since 1997.[16] We use the CNEF-PSID data from 1994 to 2001 with gaps for 1998 and 2000. Next to a range of demographic and labour variables, the CNEF includes pre tax income variables such as labour income, asset income, transfer income (private and public), social security income and private retirement income (income from the year previous to the survey). It also includes variables on income taxes and social security contributions.

The CNEF data are stored by wave in individual level files which also include household level variables. We merged all waves into one file using the unique person identifier (x11101ll). We created a number of household level variables indicating the total number of household members by age category and gender. We also supplemented the CNEF data with some additional variables from the PSID.[17] This is possible because the CNEF includes the relevant identifiers to match individuals and households in the CNEF with those in the PSID. We obtained the following variables from the PSID: whether a household received food stamps last year and how much, whether a household received heating subsidies from the government and how much and whether the household's dwelling place was owned, rented, or neither of both.

We generated the following variables:
- A variable specifying 48 household types that are needed to match the household with the official United States thresholds.
- A variable that indicated the household weight using the modified OECD equivalence scales. The modified OECD scales give a weight of 1 to the first adult in the household, 0.5 to every additional adult and 0.3 to every child aged below 14.
- Two total income variables; one that is consistent with the Laeken definition and one largely consistent with the official USA poverty methodology:
- A variable using the Laeken household typology.

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[16] In 1997, the original sample was reduced from about 8,500 families to 6,168 and the sample was refreshed by adding a sample of 441 post 1968 immigrant families (the latter are not included in CNEF). The weights are adjusted in every wave to account for sample attrition.
[17] The PSID variables can be downloaded electronically using PSID's Datacenter (http://psidonline.isr.umich.edu/, retrieved October 2006).

- Variables indicating pre-transfer income; one excluding all social transfer income and another excluding all non-pension transfers.
- A variable indicating the Dollar-ECU/Euro exchange rate.[18]

4.   Comparability of main variables used in poverty analysis

We discuss three elements of our poverty analysis that have a key influence on the cross-national comparability of the results; definition of the household, the measurement and construction of household income and the conversion of Orshansky poverty lines to the price level of the countries in the ECHP. With respect to the household definition and household income we focus on the extent to which there are differences in these elements as they are measured in the ECHP and the CNEF-PSID data. For the Orshansky poverty lines we describe the followed methodology.

4.1   Definition of the household

In poverty analyses the household is often used as the unit of analysis as this is the level at which resources are typically shared. To obtain an indicator of household income (or another monetary welfare indicator) the income of all household members are added. If the joint household income falls below the poverty line, everyone living in that household is considered poor. Both Laeken and Orshansky indicators are using the household as the unit of analysis. For our purposes it is important to find out whether there are any differences in the definition of what constitutes a household in the ECHP and the CNEF-PSID as these differences may influence the poverty measures.

There is no formal definition provided in the codebook of the ECHP. Nevertheless, the codebook describes the possible relationships between members of household (Eurostat, 2003a). Next to family relationships, cohabitants, foster parents there was also a code for 'other' relationship. This suggests that the ECHP uses the common household definition

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[18] Obtained from the website of the Federal Reserve (http://www.federalreserve.gov/releases/g5a/, retrieved October 2006).

"individuals living together and sharing resources". Sweden is an exception. The Swedish data come from the Swedish Living Conditions Survey and this survey uses another definition, namely "people being taxed together". This implies that in Sweden only adults and their dependent siblings are part of a household (elderly or other persons present in the household but not filing a joint tax form are therefore not included). If these 'other' people in the household tend to have a lower (adult equivalent) income than of the individuals in the single tax unit, this may increase the Swedish poverty rates.

The household definition in the CNEF is directly taken from the PSID and represents what is called a 'family unit' (FU). The FU is defined as a group of people living together as a family. They are generally related by blood, marriage, or adoption, but unrelated persons can be part of a FU if they are permanently living together and share income and expenses (Hill, 1992).[19] The discussion above suggests that the household definitions used in the European and United States data are very similar.

4.2   Income

For the calculation of the Laeken and Orshansky poverty measures we predominantly use net household income as a welfare indicator, but for illustrative purposes we also estimated Orshansky poverty rates using an indicator of gross household income. As indicated above, total net household income the ECHP data is equivalent to the income definition as used in the Laeken indicators. In what follows, we first explain what income information is included in the ECHP, how the net and gross household income variables are constructed and whether there are methodological differences in the income variables between the countries in the ECHP. Thereafter, we explain how we constructed similar income variables for the United States in the CNEF-PSID and discuss the potential poverty impact of differences between the CNEF and ECHP income variables.

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[19] The definition of the family unit used in the PSID differs from that used by the Bureau of Census and their official poverty estimates. The Bureau of Census uses a stricter definition of family and excludes unrelated persons who nevertheless share resources with other individuals living in the same housing unit (Hill, 1992). This means that a cohabiting couple is treated as 2 different families while the PSID treats those individuals as a single family.

Income in the ECHP

Total net household income in the ECHP is composed of wage income and salary earnings, self-employment earnings, capital income, property/rental income, private transfers and social transfers. Social transfers are composed of pensions, unemployment benefits, family related allowances, sickness/invalidity benefits, social assistance, education allowances, housing allowance and any other personal benefits. In kind transfers or home food production are not included. The total income variable (hi100) represents the annual income of the household in the year previous to the survey. The ECHP also includes a household level variable that provides an estimate of the household tax burden. This estimate is obtained from a regression that includes the average tax rates of wage income for various household types. In other words, the estimated tax burden depends on the total household income as compared to the average income of similar incomes (Eurostat, 2002). We use this variable to obtain an indicator of gross income in the ECHP data.

Albeit harmonized, cross-country comparability of the ECHP data is not perfect. Some variables are not available for every country. Sometimes this is because the information was not collected and in other cases information is confidential.[20] For instance, in the German ECHP data, the values for various income subcategories are confidential but are included in the total income variable. For the UK, Netherlands, Spain and Austria the category 'lump sum earnings' is missing while information on social assistance is missing for the UK. For Austria, sickness benefits also include care allowances. Table 1 summarizes these income discrepancies for each country and indicates their potential effects.

Another issue is the fact that the Swedish, Danish and Finnish data are not obtained from surveys but based on register data. A study based on the comparison of Finnish register and survey data shows that the income distribution based on survey data reports higher

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[20] More detailed information on missing information can be found in the extensive variable description (Eurostat, 2003a).

income levels at the lower end of the distribution than register based data and vice versa for the top end of the distribution (Rendtel, Nordberg, Jäntti, Hanisch, & Basic, January 2004). If this is a general phenomenon, this implies that poverty rates are likely to be higher using register data than survey data. Despite these imperfections, the ECHP remains the best alternative for intra-EU poverty comparisons.

Income in the CNEF-PSID

The CNEF includes pre- and post government income where taxes and government transfers form the difference between the two. The basis for our net household income aggregate is the post-government income variable. This variable includes all income from labour, assets, social security pensions, private pensions, private transfers and public transfers and is adjusted to net values using an imputed tax variable. Gross household income includes the sum of all (gross) income sources mentioned above.

Overall, analysis of the PSID questionnaires and the CNEF algorithms suggests that the PSID takes similar income sources into account as the ECHP. The level of detail in the PSID questionnaires is somewhat higher for sources of asset and entrepreneurial income and we found different algorithms for the calculation of entrepreneurial income. It is therefore possible that the PSID values for these variables are somewhat different than if the ECHP methodology would have been applied.[21] The value of food stamps is included in CNEF transfer income while the ECHP labels such benefits as in-kind and does not include them. We think that the value of received food stamps should be included in our welfare indicator for two reasons. Firstly, the food stamp programme is one of the main programmes targeting poor households in the US; not including the value of these benefits would ignore this important poverty reduction effort. Secondly, food stamp benefits are issued as 'near money' in the form of an electronic debit card that can be used to purchase food items in a range of supermarkets. The CNEF does not include the value of housing and heating subsidies and education stipends are likely to be

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[21] A higher level of detail in questionnaires typically increases reported income from these sources. The calculation of entrepreneurial income of the PSID also includes certain aspects of asset wage income which can also be negative. It is not clear what impact this has on the values of these income sources.

underestimated because there is no specific question aimed at this income source.[22] The PSID includes variables indicating whether and how much heating subsidies were received. We retrieved this variable from the PSID and included it in the income estimate.

Even when questionnaires include similar questions on particular income sources, methodological differences in data collection and data cleaning may give rise to differences in recorded income. For instance, when income from entrepreneurial activities is negative, the ECHP sets the observed income from this source to zero. As a result, there are no negative observations in the ECHP for this income source while these are present in the PSID and the CNEF. To enhance comparability, we set any negative values from labour earnings to zero in the CNEF. Comparing poverty headcounts with and without the adjustment suggests that the impact of this adjustment on poverty statistics is negligible. Differences in top coding between the ECHP and CNEF-PSID are another issue. Top coding implies that when income exceeds a certain value it is replaced by the (lower) threshold value. In the PSID, the top coding was altered in 1999 (the thresholds were increased). In the ECHP only values above 99,999,990 were top-coded, two digits more than the current PSID. As top coding only affects the top of the income distribution and our poverty analyses depend on the lower half of the income distribution, we did not make any corrections.[23]

One of the reasons why we preferred to use the CNEF-PSID data above the original PSID or the CPS data is that the CNEF includes (imputed) indicators on households' tax burden and thus allowed to construct an after tax income indicator. The CNEF includes estimates of the households' federal and state income taxes and payroll taxes. The federal and state income tax burdens are imputed using the NBER TAXSIM model with the available PSID data while the burden of payroll taxes have been estimated using the tax rates

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[22] Education benefits or stipends, if obtained, are typically not in cash but provided in the form of a tuition waver or another fee reduction.

[23] However, this difference in top coding influences the Gini coefficient. If the PSID used the same top coding as the ECHP, the estimated Gini coefficients would be higher. Summary statistics on total income showed that the income of some households in the CNEF-PSID indeed was top coded but we could not find evidence that top coding actually cut-off top incomes in the ECHP.

reported by the Social Security Bulletin. Butrica and Burkhauser (1997) show in a comparison between the TAXSIM model and the PSID tax burdens that the mean and median tax burdens are very similar but that the TAXSIM model overestimates the tax burden at the higher end of the income distribution.[24]

An issue that is more likely to influence our USA poverty estimates is that the TAXSIM model also incorporates the higher deductions for low income families with children (Earned Income Tax Credit (EITC)). The EITC is one of the principal federal programmes targeted at the poor (together with food stamps and Medicaid). Especially at low income levels, the credit is considerable (the EITC can even exceed the value of income tax). The simulated tax burden assumes a 100 percent EITC take up rate but not all eligible households actually receive the EITC. According to a study of the Internal Revenue Service on participation in the EITC programme for the tax year 1996, up to 18% of the of the eligible individuals did not file a tax return (Internal Revenue Service, 2002). Because we do not know whether a household actually received EITC, the USA poverty estimates using net household income may be underestimating USA poverty rates. As the EITC is not available as a separate variable, we cannot estimate the potential poverty bias. The difference in Orshansky poverty rates between using net income and gross income is very small but this difference measures the complete tax effect. The small difference in poverty rates possibly masks larger flows of people moving into and out of poverty.

Perfect comparability cannot be achieved. In many cases the information needed to estimate the potential impact of differences in algorithms and other data issues is not available. Where possible we have made adjustments to the CNEF data that enhance comparability with the ECHP. Nevertheless, we think that both the ECHP and the PSID/CNEF have been designed to take into account those income sources that are relevant in the countries where the survey is held; in kind social assistance plays a much

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[24] Since 1992, the PSID data do not include an estimate for households' tax burden. Since then, the public user version of the PSID even contains fewer variables needed as inputs for the TAXSIM model. The overestimation of the tax burden for the more affluent households is mainly due to the use of standard deductions while richer households can have a higher deduction when they itemize the deductions.

larger role in the USA than it does in continental Europe. Education benefits and housing subsidies are more prevalent in European welfare states than they are in the USA where tuition wavers are more prevalent. Differences in the provision of public goods and services such as education and health care are important factors that ideally should be taken into account in poverty analyses. Generally speaking, the out-of-pocket costs of post-secondary education for a family with children are considerably lower in continental Europe than in the United States. To provide children similar education opportunities, US families thus need a higher income than continental European families. Ideally, such differences should be taken into account.

4.3   Orshansky poverty lines

The Orshansky thresholds, on the other hand, are distribution independent. These poverty lines can be obtained from the website of the Bureau of Census. We merged the poverty lines into the ECHP and CNEF data. For the USA data we included the Bureau of Census poverty lines for every year. As the household income variables in CNEF and ECHP provide and estimate of households' income in the year previous to the survey, we used the 1993 – 2000 USA poverty lines. For the ECHP we first converted the 1993 Dollar thresholds to the price level of each European country using the 1993 Purchasing Power Parity rates from the OECD.[25] Subsequently, we adjusted the 1993 thresholds to later years using the Consumer Price Index (CPI) from the country level files in the ECHP. Thus, we used the same price updating mechanism for the European Orshansky poverty lines. This method ensures that poverty lines are not influenced by year to year changes in the exchange rate. We constructed a variable that categorized each household in a particular wave as one of the 48 household types. Finally, we linked each household to their respective poverty line. The Laeken poverty lines depend on the income distribution and are thus only based on the income variable in both datasets.

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[25] We obtained the 1993 United States thresholds from the website of the Bureau of Census (http://www.census.gov/hhes/www/poverty/threshld.html, retrieved August 2005) and the purchasing power parities from the website of the OECD (http://www.oecd.org/std/ppp, retrieved October 2006)).

5. Exchanging official poverty measurement methods: results[26]

Existing poverty comparisons most often use relative concepts of poverty and are predominantly made with data from the Luxembourg Income Study (LIS) which does not have annual observations or a panel component. The OECD makes regular poverty assessments using relative poverty concept based on national micro-data (Förster & d'Ercole, 2005). Another exception is the work of Timothy Smeeding, who often analyses both absolute and relative poverty indicators studying the LIS data (T.M. Smeeding, 2005; T.M. Smeeding, Rainwater, & Burtless, 2000; T.M. Smeeding & Ross, 1997). This study is the first to analyze poverty in both regions using the official poverty methodologies and applying them to both regions. It is also the first to provide a comparison of long term poverty indicators between the USA and Europe. The aim of this section is to provide a general analysis of the poverty results. We focus on the differences between the Orshansky and Laeken poverty estimates using disposable income as a welfare indicator. We analyze poverty incidence and poverty gap estimates for the period 1993 – 2000 but we also include estimates for the incidence of long-term or chronic poverty.[27] We provide breakdowns in poverty incidence according to age, gender, household type and main source of household income, mostly taking 2000 as a benchmark year. Furthermore, we discuss the static effect of social protection benefits on Laeken and Orshansky poverty rates. The poverty measures are calculated using the appropriate weights meaning that these estimates presented below are representative for the whole population.

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[26] Our Laeken At-Risk-of-Poverty estimates for the ECHP are highly comparable with those reported on the Eurostat website (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,45323734&_dad=portal &_schema=PORTAL&screen=welcomeref&open=/&product=sdi_ps&depth=3). The difference between our Orshansky estimates for the US and those of the Bureau of Census (http://www.census.gov/hhes/ www/poverty/histpov/histpovtb.html) are larger. Although the poverty trends are similar, our estimates yield consistently lower results. This difference can be attributed to the fact that we use a different dataset. Gouskova and Schoeni (2002) indeed report that PSID income is higher than CPS income. This could explain why we find lower poverty rates than the Bureau of Census.

[27] Figure 1 also includes Orshansky poverty estimates using gross income. We incorporated these estimates merely for illustrative purposes as the official US poverty estimates are calculated using gross income.

5.1   Poverty incidence

The poverty incidence figures represent the percentage of poor individuals in a given country. Looking at the 2000 Orshansky poverty rates (Table 2 and Figure 1) four main groups of countries can be distinguished: a large group of countries with low to very low poverty incidence (below 7%) including Belgium, Denmark, Germany, France, Luxembourg, the Netherlands, Austria, Finland and Sweden; a second group with medium poverty incidence with the US, United Kingdom and Ireland (between 7 and 11%). The Southern European countries Italy and Spain show high poverty levels (17 and 19%) and Greece and Portugal very high levels (26 and 32%). In terms of Laeken poverty, differences in poverty rates between countries are smaller and range between 10% for Sweden and 24% in the US. The member states from Southern Europe, Ireland and the USA have high levels of relative poverty (between 19 and 24%) while the Northern European countries have lower levels (between 10 and 14%). France and the UK are somewhat in the middle of these two groups (with 15 and 17%).

Comparing the poverty incidence between the Orshansky estimates and the Laeken estimates over time, reveals some interesting observations. Although the ranking from low to high national poverty rates is to a large extent not extremely different, it is still not the same (Table 3). The Southern European countries (Italy, Greece, Spain and Portugal) together with Ireland form a group at the low end of the ranking. The Continental and Scandinavian countries form the top of the ranking but their mutual positions change over the years. Compared to the ranking using the Laeken estimates, the Orshansky estimates seem to produce a more stable pattern over time in Europe, while the Laeken estimates are subject to more volatility. The USA is ranked consistently at the lowest end in terms of Laeken poverty but occupies middle ranks for the Orshansky poverty rates.

The Orshansky estimates can by no means be interpreted as a linear transformation of the Laeken indicators or vice versa: in some countries there are large gaps between the lower Orshansky and the higher Laeken estimates and over time this gap may increase, remain constant or decrease. Large differences between Orshansky and Laeken are observed for

Belgium, Demark, Luxembourg, Austria and the USA in both 1993 and 2000. Differences are smaller for Sweden, Finland and the Netherlands but in these countries the gap is widening over time. Orshansky estimates produced higher poverty incidence figures for the Mediterranean countries and Ireland in 1993 but in the years thereafter the Orshansky poverty rates became lower than the Laeken poverty rates in Italy and Ireland (Spain shows a similar trend).

Trying to understand why these differences occur is not easy. One of the main elements is that the Laeken poverty line depends on the income distribution (median income) while the Orshansky poverty line is distribution independent. The degree of income inequality therefore also influences the level of the Laeken threshold but not of the Orshansky poverty line. Table 4 illustrates this point using a couple of indicators of income dispersion calculated using the Laeken equivalent adult income distribution. Firstly, in countries with a higher income inequality (higher Gini-index) such as Luxembourg and the US, the difference between Orshansky and Laeken poverty rates is large. Comparing both poverty lines to median income, gives 60 % by definition for all countries in case of the Laeken indicator, but a far smaller number for many of the other countries in case of the Orshansky. Luxembourg and the USA have Orshansky thresholds that are below 40% of median income while most of the Scandinavian and Continental European countries have values around 50-55%. Secondly, for the Mediterranean countries the Orshansky poverty lines are higher in value than the Laeken poverty lines, varying from 66% of median income in Spain to 91% in Portugal. Clearly, this explains why in these Southern European countries the Orshansky poverty rates are so much higher than those in the other countries. Nevertheless, the cases of Italy and Spain suggest that differences between the Laeken and Orshansky poverty rates are not just explained by the degree of income inequality and the levels of both poverty lines. In terms of these income dispersion indicators, Italy and Spain are quite similar but whereas Spain has approximately equal Laeken and Orshansky poverty rates, Italy's Orshansky poverty rate is 2.5 percentage points lower than its Laeken poverty rate. A third reason is the fact that the estimates are based on different adult equivalent income distributions: although we use net income to calculate both indicators, the Laeken and Orshansky indicators use

different equivalence scales to correct for differences in household size and demographic composition. All these elements play a role in trying to explain the difference in the poverty headcounts using Orshansky and Laeken technology.

To add another complexity, it is also clear that even changes in the poverty incidence over a relative short period (1993 – 2000) are far from similar (Figure 1).[28] In countries such as Ireland, Spain, Denmark, Greece and Italy, we find opposing trends in Laeken and Orshansky poverty rates. In the other countries, the poverty trends run parallel or show some divergence. Ireland is an extreme case; there was a very large decrease in Orshansky poverty rate during the nineties which was accompanied by considerable increase in Laeken poverty. In Sweden and Finland Laeken poverty increased while Orshansky poverty remained relatively constant at very low levels. In Denmark, Luxembourg and Austria poverty levels have been rather constant or slightly hovered around a certain level. Another group of countries show parallel decreases in Laeken and Orshansky poverty rates (Belgium, Germany, France, Italy, Portugal, and UK).

All in all the comparison of these two sets of indicators suggest that that the Laeken and Orshansky concepts really grasp related but different phenomena. Generally speaking, for the 'richer' countries the Orshansky poverty estimate is lower than the Laeken poverty headcount. However, in 'poorer' countries Orshansky poverty rates are higher than Laeken poverty rates but, over a longer period, the Orshansky poverty rates are typically moving downward in the direction of the Laeken poverty rates in these countries. Over shorter time periods, Orshansky and Laeken poverty indicators may or may not move less systematically. Notten and de Neubourg (2007b) further analyse these differences in poverty levels and identifies the various sources for the variance.

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[28] There is a considerable difference between the 1996 USA poverty rates calculated using the individual level data (using individual weights) or the household level data (using household weights multiplied by household size). Both methods can be used and normally yield only small differences, if any. The annual USA poverty results displayed in the figures and tables in the appendix are calculated using the household level data. However, using the individual level files Laeken poverty is 24.6% in 1996 compared to 21.7% using household level files. For Orshansky poverty this is 13% (versus 8.5% in the household level files). The difference in other years is negligible. We suspect that this difference may be related to the CNEF household weights in the 1997 survey (1996 income data). In 1997, the PSID sample was refreshed by a small sample of post 1968 immigrant families but this group is not included in the CNEF. To be sure, we ignore the 1996 results when we analyze USA poverty trends or differences with other countries.

5.2   Long term poverty[29]

Exploiting the panel dimensions of the datasets we also calculated long term Orshansky and Laeken poverty rates using the Laeken *at-persistent-risk-of-poverty* indicator. This indicator of chronic or long term poverty labels an individual as long term poor if he/she is currently poor and also lived in poverty in at least two out of three previous years. Compared to other groups in society, this group is of special concern because having low income levels for a long time not only implies the lack of an important source to finance current living standards, but also reduces investment opportunities in health, education thereby also reducing prospects of a better future (especially when asset levels are also low). Generally, the long term poverty levels are considerably lower than annual poverty rates; trends are much smoother but there are similar differences between Orshansky and Laeken indicators (Table 5).

Nevertheless, even if countries have similar poverty rates, their long-term poverty rates may differ. For instance, in countries such as Denmark, Germany, the Netherlands, Austria and Finland the Laeken poverty rates in these countries are about 10-11% but the long term poverty rates vary from 5.2% in Denmark to 7.1% in Austria. Long term poverty rates are also high for countries with both high Laeken and Orshansky poverty rates (Greece, Spain, Italy and Portugal). The relatively high long term poverty rates can, in addition to their correspondence to high annual poverty rates, also be explained by the fact that year to year income dynamics takes place in the relatively large left part of income distribution (but below the poverty line); it is less likely that changes in income at low income levels involve the crossing of the poverty line. A similar rationale holds for the observation that long term poverty rates are relatively lower for the Orshansky indicator. Nevertheless, it seems that differences in long term poverty shares between countries are not only related to differences in the level of poverty thresholds. For

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[29] The Laeken At-Persistent-Risk-of-Poverty rates for the ECHP countries are equal but in most cases higher than the percentages displayed on the website of Eurostat (but the trends are the same). We calculated these poverty rates according to the methodology described in *'Laeken' Indicators; Detailed Calculation Methodology* (Eurostat, 2003b). We could not find a reason to which this difference can be attributed.

instance, Luxembourg and France have similar long term Laeken poverty rates (8.6 and 8.7%) but the difference between annual poverty rates is about 3 percentage points (12.5 and 15.4%). The share of long term poor in France is higher than in Luxembourg. One obvious explanation for this is that the degree of income mobility differs between countries (including up and downward mobility).

5.3   Poverty gap

The poverty gap represents the average income shortfall below the poverty line over the total population.[30] It is an indicator for the depth of poverty. Using the Laeken indicator, the poverty gap is big in Southern Europe and USA (Table 6); it is small in the rest of Europe with the UK and Ireland taking a middle position. Using Orshansky, we find similar differences between countries in the poverty gap. The USA is the exception; the Orshansky poverty gap is now considerably lower than in Southern Europe. Over the period 1993 – 2000 the Laeken poverty gap declined in most countries, hovered around for the Netherlands and Sweden, but increased for Denmark, Finland and Ireland. Using Orshansky, even more countries show a declining trend; only for Finland the poverty gap increases. Ireland again stands out as a peculiar case with a decreasing Orshansky poverty gap and increasing Laeken poverty gap. Albeit a difference in magnitude, the trends in poverty gaps are similar to the trends in poverty incidence in most countries. Only in the Netherlands and Austria, the developments in poverty gap are more pronounced that those in poverty incidence.

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[30] The poverty gap in Table 6 cannot be compared with the Laeken Relative at-risk-of-poverty gap. Our calculations are based on the Foster Greer Thorbecke (1984) poverty gap which measures the mean proportionate poverty gap over *the total population* while the Laeken poverty Relative at-risk-of-poverty gap measures the mean proportionate poverty gap over *the poor population*. We chose the Foster Greer Thorbecke poverty gap because it satisfies the monotonicity axiom: "given other things, a reduction in the income of a poor household must increase the poverty measure" (p. 762). The Laeken poverty gap may violate this axiom.

5.4 Age, gender and household type[31]

Disaggregating the poverty headcount figures can inform us about the characteristics of poor individuals. When discussing poverty according to age groups and family types, it should be noted that all the estimates are sensitive to the equivalence scales used.[32] According to Table 7, both indicators show that the middle age groups (25-64) have the lowest poverty risk in most countries while children and the elderly more likely to be poor. However, in countries such as the Netherlands, Italy and Luxembourg the risk of poverty seems to decline steadily after childhood. In some countries these age-poverty risk patterns are consistent across both poverty indicators (Italy, Netherlands and Austria) while in most countries the poverty risk of one age group may differ by poverty indicator. This seems to be the case especially for the elderly age group. Using the Laeken indicator, the poverty risk of elderly is much more pronounced than with the Orshansky indicator. In Denmark, France, Ireland, Finland and the UK persons above the age of 65 clearly have a higher than average poverty risk for Laeken poverty but less so for Orshansky poverty. In the USA and Germany, the poverty risk for the elderly is above average for the Laeken indicator and below average for the Orshansky indicator. This difference in poverty risk for the elderly may be explained by the existence of a basic pension for which each citizen is eligible, irrespective of his/her past contributions. This pension may not be very generous but it provides (a considerable) part of the resources to satisfy a minimum level of expenditures (close to the Orshansky poverty line). In Belgium, young children have a lower poverty risk according to the Laeken indicator but a higher Orshansky poverty risk while older children (age 16-25) clearly have a higher Laeken poverty risk but an average Orshansky poverty risk. What may partly explain a pattern in Belgium is that part of family allowances is provided as an (income) tax deduction. In countries such as Luxembourg, Denmark and the Netherlands older children typically move away from their parents' home at a younger age than their

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[31] In defining age groups and household types we followed the same definitions as used for the various decompositions of the Laeken poverty indicators. Table 15 and Table 16 also give the population shares by age group, gender and household type.
[32] In line with current international practice, the Laeken indicator is calculated using the modified OECD equivalence scales. The Orshansky method uses a different non-linear weighting scheme. In Notten and de Neubourg (2007b) we investigate the (impact of) difference in equivalence scales.

counterparts in Greece or Spain. Even though these children may still receive support from their parents and the state, they are counted as separate households. Moreover, even if children in this age group work, their earnings are still relatively low.

Poverty among children is an important topic as growing up in poverty may jeopardize investment in human capital and thus increase the risk of poverty in later stages of the life cycle. Table 8 illustrates trends in child poverty for children aged 0-15 years. Only in Denmark and Finland (no data available for Sweden), child poverty is considerably lower than overall poverty rates in all years using both Orshansky and Laeken estimates. In Belgium and Greece, the Laeken indicator points to lower child poverty rates in some of the years while the Orshansky indicator shows an above average poverty risk. In most other countries poverty among children is higher than overall poverty for the entire period according to at least one of the indicators and in most cases consistently according to both the Orshansky and the Laeken estimates. It should also be noted that in most countries child poverty is fluctuating; only Ireland shows a steady decline over the period of observation (Orshansky). In the Netherlands and the United States, the Laeken indicator shows a steady rise in child poverty and a widening gap with the average poverty rate. Also for Portugal the Orshansky indicator the gap with the mean poverty rate is increasing.

Compared to men, women have a higher poverty risk in most countries (except in the Netherlands and Luxembourg). Over time, the gap in male and female poverty rates has been declining in Germany and the Netherlands but it increased in Finland (especially for the Laeken indicator). In other countries the gap remained more or less constant. These patterns are similar for long term poverty, although for countries such as Denmark, Ireland, Austria, Finland, UK and the USA women are considerably more likely to live in long term Laeken poverty compared to men (Table 10). Only for the USA and to a lesser degree the UK, this large difference between male and female poverty is also found using Orshansky long term poverty.

Inspecting poverty incidence according family type reveals that particularly children from

single parent households, households with three or more children and other households with children have an increased poverty risk. Extremely worse off are single parent households (except in Finland and Denmark). Table 11 also shows that single person households have above average poverty rates. Overall, the Laeken and Orshansky measures indicate the same groups as above or below average, but again we can identify 8 cases in which the difference in poverty risk is considerable (couple with at least one person aged above 65 in Belgium, Denmark and the UK, households with three or more children in Germany, France, Sweden and the US).

5.5 Main source of income[33]

It is also interesting to disaggregate the population by the main source of household income. We distinguish between six main income sources (wage income, entrepreneurial income, pensions, unemployment benefits, other social benefits and private income). The figures in Table 12 reflect whether the main source of income contributes to having an income above the poverty line or not. Poverty among households with wage earnings is extremely low in Belgium and Austria and very low in most of continental Europe, Scandinavia and Finland. Albeit lower than average, the poverty incidence of working households is relatively more important in Southern Europe and the United States. Self employed are well off in Denmark, Finland, Germany, Ireland, Luxembourg, the Netherlands and the UK. In all other countries and especially in Southern Europe, they are overrepresented among the poor. In some countries the difference in poverty risk between households with wages as main source of income and self-employment are very large (Sweden, Greece, Austria) but in most countries this risk is only somewhat higher for self employed households.

In the United States households with pensions as main income source have higher than average poverty risk according to the Laeken indicator but lower than average for the Orshansky indicator. Differences between Laeken and Orshansky patterns are less pronounced in the European countries. Rich pensioner households are found in the

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[33] Table 17 gives the population shares by main source of income.

Netherlands, Luxembourg and Sweden; pensioners in all other countries are relatively more often poor; especially in Southern Europe and Ireland. This holds regardless of the estimator used (Orshansky and Laeken). In Denmark, Ireland and Finland differences in poverty risk for this group are more pronounced for Laeken poverty than for Orshansky poverty. Something similar can be observed for household receiving other social benefits as main income source in the Netherlands, Luxembourg and Sweden. However, the number of observations is often very small for the categories 'unemployment benefits', 'other social benefits' and 'private income'. These poverty estimates should thus be interpreted with care. People with private income are well off in Belgium, Finland and Luxembourg according to both poverty indicators. Households whose main income source is derived from unemployment benefits and other (often means tested) social transfers typically have the highest poverty risk.

5.6   Impact of social transfers

We assess the impact of social protection benefits is by evaluating the effect of such benefits on poverty rates (Table 13). Firstly, we calculate poverty rates without including the income from pensions and other social benefits. In a second step, we measure poverty including all market income and pensions but excluding other social benefits.[34] This indicator is also part of the group of Laeken indicators (At-risk-of-poverty rate before social transfers). This so-called static analysis abstracts from the behavioural effects that would occur if such benefits would not exist. For instance, without a pension, older persons would work longer or they may receive more support from younger family members. With respect to the US, as special remark needs to be made. Tax credits are an important tool used by the USA to assist low income families with children; at very low incomes households may actually receive more credit than their tax burden. Unfortunately, we only have an estimate of the net tax burden but we cannot distinguish between tax credits and tax burdens. This implies that the figures for the USA do not

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[34] All poverty rates are estimated using the same poverty lines. Thus, we use the Laeken poverty lines from the net income distribution to analyze the poverty reduction effects of social transfers on income.

reflect the poverty reduction impact of this policy measure. This particularly affects the poverty reduction effects of the 'other transfers' category.

Looking at the relative poverty reductions (Table 14), it is clear that pensions have the largest impact on poverty rates, particularly in Germany, Greece, France, Italy, Luxembourg, the Netherlands and Austria (poverty rates are reduced by more than 40% for these countries). Looking at Orshansky poverty, pensions even have a larger impact on poverty (in Luxembourg and Belgium even above 60%). Interestingly, if we rank countries according to the poverty reduction impact (from a large to small impact), Belgium and the USA are ranked much higher for Orshansky poverty than for Laeken poverty. Pensions in these countries are relatively more successful in reducing poverty at lower (Orshansky poverty line) income levels. In Italy, on the other hand, pensions have by far the largest Laeken poverty reduction of all countries but it only ranks in the middle for Orshansky poverty. In Denmark, Finland, Ireland and the UK the effect of pensions is much smaller, both in Laeken and Orshansky poverty.

The role of other social benefits (family allowances, other social insurance benefits and social assistance) on Laeken poverty is small in Southern Europe. Using both indicators, the role of other social benefits is large but decreasing in Finland and Denmark (Figure 2). In Ireland, other transfers are considerably more successful in reducing Orshansky poverty than in reducing Laeken poverty, while in Austria the situation is just the opposite. The figures clearly show that some countries rely more on pension benefits to reduce poverty while other countries such as Finland, Denmark and the UK rely more on other transfers.

6.   Conclusion

This appendix explained how we compared the official poverty measurement methodologies of the USA (Orshansky) and the EU (Laeken) and provided a general discussion of the poverty results. As the official US methodology is based on an absolute notion of poverty and the official EU methodology uses poverty as a relative concept, a

comparison of both methods provides insights into different poverty dimensions in these countries. Official poverty methodologies differ from other poverty measurement methods in the sense that the official ones are more often used as a benchmark to develop new policies as well as to evaluate the performance of existing programs. Potentially conflicting results between these methods put the desirability of current policies into a wider perspective.

The Laeken and Orshansky methodologies are compared by applying both methods on European and United States data. For the EU-15 we used the harmonized European Community Household Panel (ECHP) for the years 1994 to 2001. For the USA, we selected the Cross National Equivalent Files (CNEF-PSID, 1994-2001). The ECHP and the CNEF-PSID both have a cross-section and a panel dimension and are nationally representative. We obtained the US poverty thresholds from the Bureau of Census and converted the 1993 dollar thresholds to the Member States' currencies using 1993 Purchasing Power Parity (PPP) indices. After the conversion of the US thresholds to national purchasing power values, we updated the thresholds to other years using national consumer price indices. Even though the official USA poverty rates are calculated using gross household income, we used net income for both indicators. Based on detailed comparisons of the income components in the ECHP and the CNEF-PSID, we find that the net income variables in both datasets are very similar and can thus be used for cross-national comparative poverty analyses. Nevertheless, we identified two aspects should be kept in mind when making comparative analyses. Firstly, the use of register data for Sweden, Finland and Denmark may yield higher poverty estimates than survey data. Secondly, the assumption of 100% take up of low income tax credits (EITC) may underestimate USA poverty rates.

The discussion of the results pointed to considerable differences between the estimates based on Laeken indicators and the estimates based on an Orshansky type of technology. It was expected that in general Orshansky generates lower poverty estimates than the Laeken indicators. However, it is puzzling to find that a.) these differences are less systematic than expected and b.) these differences are not constant over time and in some

cases even have the reverse sign. That indicates that Orshansky indicators and Laeken indicators relate to the same phenomenon but from a possibly very different perspective. It is also noteworthy that the differences are more puzzling for the faster growing economies in the European Union. In Notten and de Neubourg (Notten & Neubourg de, 2007a; 2007b) we further analyze the nature and the background of these differences.

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## 8.	Appendix: Tables

Table 1: Income components in ECHP by country

Country	Notes	Impact
Germany ECHP	Many income subcomponents are confidential (hi1111, hi1112, hi121, hi123, hi133, hi134, hi135, hi136)	No
Germany SOEP	Subcomponent 'other benefits' (hi136) is not available Subcomponent 'social assistance' (hi137) for waves 1-2 is not available	Underestimation of total income possible
Denmark		No
Netherlands	Subcomponent 'other benefits' (hi136) is not available	Underestimation of total income possible
Belgium		No
Luxembourg ECHP		No
Luxembourg PSELL	Subcomponent 'gross/net ratio' (hi020) is not applicable Variable 'housing allowance' (hi138) is zero at all observations	Cannot compute gross income
France	All subcomponents of income are in gross amounts Subcomponent 'gross/net ratio' (hi020) is available but not credible (mean value around 0.95, implying an average tax rate of about 5%)	Difference in poverty rates between gross and net incomes is too small to be credible. As the income data are collected in gross amounts, the net income estimate is probably too high).
UK ECHP	Subcomponent 'social assistance' (hi137) is not available	Underestimation of total income possible
UK BHPS	Subcomponent 'social assistance' (hi137) is not available	Underestimation of total income possible
Ireland		No
Italy		No
Greece		No
Spain		No
Portugal		No
Austria	Subcomponent 'sickness/invalidity benefits' (hi134) also includes care allowance for adult but not for children	Impact on income not clear.
Finland	All subcomponents of income are in gross amounts	No
Sweden	Subcomponent 'gross/net ratio' (hi020) is not available	Cannot compute gross income aggregate

Source: Eurostat (2003B)

Table 2: Poverty incidence per country (% of individuals, 1993-2000)

	Laeken								Orshansky (net income)							
	1993	1994	1995	1996	1997	1998	1999	2000	1993	1994	1995	1996	1997	1998	1999	2000
Belgium	16.7	15.9	15.3	14.2	13.8	12.8	12.9	13.3	8.4	7.4	6.0	6.1	5.9	5.4	4.8	3.6
Denmark	10.3	10.2	9.5	9.3	11.9	11.1	11.5	10.8	4.1	3.3	3.3	3.2	3.6	3.4	3.2	3.4
Germany	14.4	14.6	14.0	12.1	11.4	10.9	10.5	11.1	9.8	10.7	7.5	7.0	6.8	6.3	5.1	5.1
Greece	23.1	21.5	21.0	21.5	20.8	20.5	19.9	20.5	25.7	26.3	27.5	28.1	26.0	28.2	25.0	26.1
Spain	19.6	19.0	18.0	20.3	18.2	18.8	18.0	18.8	25.4	29.0	29.1	29.8	28.6	24.5	20.6	19.1
France	16.6	15.4	15.2	14.9	14.7	15.2	15.6	15.4	12.6	9.4	8.4	8.8	8.5	8.0	7.1	6.5
Ireland	16.8	18.6	19.5	19.1	19.2	18.5	20.1	21.4	30.1	25.3	25.3	20.1	13.7	13.3	12.6	10.6
Italy	20.4	20.4	20.1	19.5	18.0	18.0	18.4	19.3	22.7	23.2	28.0	23.0	19.4	18.0	17.0	16.7
Luxembourg	na[1]	13.2	11.8	11.4	12.2	12.7	11.9	12.5	na	1.1	0.7	0.7	1.0	1.0	0.4	0.6
Netherlands	10.0	11.3	11.7	10.5	10.3	10.7	10.4	11.3	7.1	8.6	8.4	6.1	6.8	6.8	5.6	6.6
Austria	na	13.4	14.0	13.0	12.9	12.0	11.7	11.9	na	6.1	5.2	5.8	6.2	5.8	3.9	4.8
Portugal	22.5	22.9	21.5	21.6	20.8	20.5	20.8	20.1	40.0	42.2	40.2	38.1	38.4	35.5	32.2	32.2
Finland[2][3]	na	na	8.1	8.3	9.4	10.7	10.9	11.4	na	na	4.1	4.5	5.1	5.7	4.6	4.9
Sweden[3]	na	na	na	8.9	10.4	9.5	10.9	10.4	na	na	na	7.1	7.9	6.7	7.3	5.7
United Kingdom	19.6	20.0	19.5	17.8	19.0	19.4	18.7	17.1	17.6	15.8	15.2	11.4	12.0	13.1	10.7	9.3
United States	24.0	24.0	23.8	21.7[2]	na	25.4	na	23.5	12.4	11.4	10.6	8.5[2]	na	13.0	na	8.7

Note: [1] Not available or not calculated. [2] There is a considerable difference between the 1996 poverty rates calculated using the individual level data or the household level data. The results displayed in this table are calculated using the household level data. Using the individual level files, Laeken poverty is 24.6% in 1996 and Orshansky poverty is 13%. The difference in other years is negligible. Given this difference, we ignore the 1996 estimate when we analyze USA poverty trends.
Source: Own calculations ECHP and CNEF-PSID

Figure 1: Poverty incidence per country (% of individuals, 1993-2000)
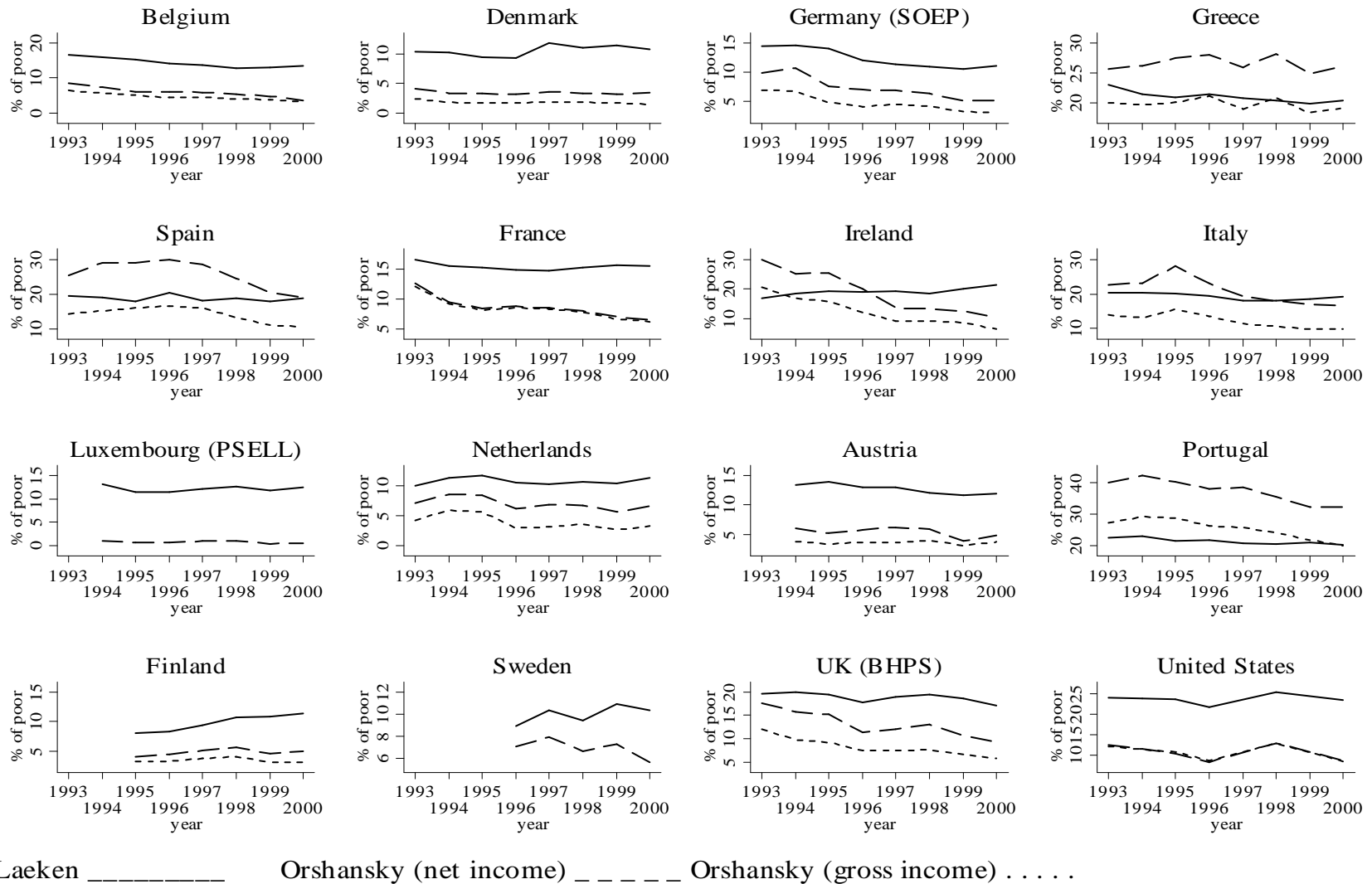
Laeken _____   Orshansky (net income) _ _ _ _ _ Orshansky (gross income) . . . . .

Note: To facilitate comparison of Orshansky and Laeken poverty trends within countries, we used different scales on the vertical axes. For the USA there are no observations 1999 and 1997.
Source: Own calculations ECHP and CNEF-PSID

Table 3: Poverty ranking based on poverty incidence (1993-2000)

	Laeken								Orshansky (net income)							
	1993	1994	1995	1996	1997	1998	1999	2000	1993	1994	1995	1996	1997	1998	1999	2000
Belgium	5	7	8	8	8	8	8	8	3	4	5	5	4	3	5	3
Denmark	2	1	2	3	5	5	5	2	1	2	2	2	2	2	2	2
Germany	3	5	6	6	4	4	2	3	4	7	6	7	7	6	6	6
Greece	11	12	13	14	15	14	13	14	10	12	12	14	13	15	14	15
Spain	7	9	9	13	11	12	10	11	9	13	14	15	14	14	13	14
France	4	6	7	9	9	9	9	9	6	6	8	10	9	9	8	8
Ireland	6	8	10	11	13	11	14	15	11	11	11	12	11	12	11	12
Italy	9	11	12	12	10	10	11	12	8	10	13	13	12	13	12	13
Luxembourg	na	3	4	5	6	7	7	7	na	1	1	1	1	1	1	1
Netherlands	1	2	3	4	2	2	1	4	2	5	7	6	6	8	7	9
Austria	na	4	5	7	7	6	6	6	na	3	4	4	5	5	3	4
Portugal	10	13	14	15	14	15	15	13	12	14	15	16	15	16	15	16
Finland	na	na	1	1	1	3	3	5	na	na	3	3	3	4	4	5
Sweden	na	na	na	2	3	1	4	1	na	na	na	8	8	7	9	7
United Kingdom	8	10	11	10	12	13	12	10	7	9	10	11	10	11	10	11
United States	12	14	15	16	na	16	na	16	5	8	9	9	na	10	na	10

Note: [1] Not available or not calculated.
Source: Own calculations ECHP and CNEF-PSID

Table 4: Indicators of dispersion and locus poverty lines (2000)

	# hh	# ind	Median income (in Euro)[1]	Gini	Gini (below median)	Laeken poverty line / median	Orshansky poverty Line / median	Laeken poverty rate	Orshansky poverty rate
Belgium	2,322	5,888	15,493	0.280	0.144	0.60	0.51	13.3	3.6
Denmark	2,278	5,129	20,620	0.216	0.139	0.60	0.50	10.8	3.4
Germany	5,474	13,733	15,760	0.253	0.142	0.60	0.54	11.1	5.1
Greece	3,895	11,208	7,119	0.328	0.200	0.60	0.80	20.5	26.1
Spain	4,948	14,270	9,034	0.327	0.191	0.60	0.70	18.8	19.1
France[2]	5,243	13,035	14,914	0.270	0.160	0.60	0.54	15.4	6.5
Ireland	1,757	5,558	14,271	0.288	0.182	0.60	0.51	21.4	10.6
Italy	5,525	15,979	10,401	0.294	0.201	0.60	0.66	19.3	16.7
Luxembourg	2,428	6,306	23,114	0.265	0.136	0.60	0.36	12.5	0.6
Netherlands	4,824	12,027	13,820	0.261	0.150	0.60	0.57	11.3	6.6
Austria	2,535	6,859	15,292	0.242	0.145	0.60	0.52	11.9	4.8
Portugal	4,588	13,237	5,983	0.369	0.187	0.60	0.91	20.1	32.2
Finland[2]	3,104	7,478	14,866	0.244	0.142	0.60	0.53	11.4	4.9
Sweden	5,085	12,045	16,353	0.242	0.142	0.60	0.54	10.4	5.7
United Kingdom	4,702	11,710	17,724	0.306	0.179	0.60	0.52	17.1	9.3
United States	4,453	11,761	24,785	0.394	0.228	0.60	0.39	23.5	8.8

Note: [1] Median income is expressed in Euros taking the average annual exchange rate in 2000 for each country. Thus, the values are not expressed in purchasing power parity (PPP). [2] Gross incomes.
Source: Own calculations ECHP and CNEF-PSID

Table 5: At-Persistent-Risk-of-Poverty rate (% of individuals, 1993-2000)

	Laeken					Orshansky (net income)				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
Belgium	8.5	8.1	7.3	7.9	7.4	2.8	2.3	2.4	2.4	1.5
Denmark	4.2	4.2	4.8	6.2	5.2	0.8	0.6	0.6	0.5	0.7
Germany	5.8	6.3	6.1	5.7	6.1	3.0	3.2	3.1	2.7	2.4
Greece	13.5	12.3	13.0	13.4	14.2	17.9	16.2	18.3	18.6	19.0
Spain	11.4	11.0	10.7	10.8	10.5	19.8	19.9	17.7	15.6	14.0
France	8.7	8.4	8.5	8.6	8.7	4.3	4.1	3.5	3.0	2.5
Ireland	11.8	11.6	12.5	12.8	13.2	16.3	11.3	9.7	8.9	6.7
Italy	10.9	11.1	11.2	11.5	12.6	14.4	13.5	12.5	11.9	11.9
Luxembourg	na	7.8	7.6	8.1	8.6	na	0.0	0.1	0.1	0.1
Netherlands	5.5	4.9	5.5	5.0	5.3	2.8	2.7	2.3	2.0	2.1
Austria	na	6.9	6.8	6.7	7.1	na	2.3	2.3	2.1	1.7
Portugal	14.9	14.3	14.9	14.5	14.8	31.7	31.6	30.0	27.4	27.5
Finland	na	na	4.7	5.8	5.9	na	na	2.0	2.4	2.0
Sweden	na	na	na	na	na	na	na	na	na	na
United Kingdom	10.3	10.8	11.6	11.1	10.1	6.6	6.3	6.4	5.5	5.0
United States	13.8	na	na	na	na	5.1	na	na	na	na

Note: [1] Not available or not calculated. [2] After the poverty status of households in a particular year has been determined, the long term poverty rates are calculated on an individual level only including those individuals in the panel (with a positive longitudinal weight). Note that the annual poverty rates are calculated on a household level (albeit counting all individuals in the household) including all households with a positive household cross-section weight.
Source: Own calculations ECHP and CNEF-PSID

Table 6: Poverty gap (1993-2000)

	Laeken poverty gap								Orshansky poverty gap (net income)							
	1993	1994	1995	1996	1997	1998	1999	2000	1993	1994	1995	1996	1997	1998	1999	2000
Belgium	4.7	4.4	3.9	3.6	3.3	3.1	2.9	2.6	2.7	2.4	1.7	1.6	1.5	1.4	1.0	0.9
Denmark	2.0	1.9	1.9	1.9	2.5	2.4	2.4	2.5	1.0	0.8	0.9	0.7	1.0	0.9	0.9	0.9
Germany	5.6	5.4	4.1	3.3	3.1	2.8	2.6	2.6	4.4	4.4	2.7	2.1	2.2	1.9	1.6	1.3
Greece	9.0	7.5	7.2	7.5	7.0	6.7	6.5	6.5	10.0	9.1	9.3	9.6	8.7	9.3	8.1	8.1
Spain	6.3	6.0	6.0	7.0	6.0	6.0	5.3	5.8	8.2	9.1	9.5	10.3	9.2	7.8	6.0	5.7
France	5.2	4.0	3.7	4.0	3.7	3.6	3.6	3.7	4.3	2.6	2.1	2.5	2.3	2.0	1.8	1.8
Ireland	2.7	3.5	3.5	3.5	3.9	4.2	5.0	5.4	7.4	6.1	6.0	4.2	2.6	2.9	2.7	1.9
Italy	7.7	7.1	6.9	6.8	6.0	5.8	5.9	6.2	8.3	8.0	9.4	7.8	6.4	5.8	5.3	5.4
Luxembourg	na[1]	2.7	2.1	2.2	2.5	2.5	2.2	2.4	na	0.3	0.2	0.2	0.3	0.2	0.2	0.1
Netherlands	2.9	4.0	3.9	2.7	2.7	3.0	2.7	3.2	2.4	3.4	3.2	1.8	2.1	2.3	1.8	2.2
Austria	na	3.7	3.5	3.2	3.2	3.3	2.6	3.0	na	2.0	1.6	1.5	1.8	2.0	1.1	1.5
Portugal	8.8	8.1	6.9	6.7	6.5	5.8	6.2	5.6	15.7	16.0	14.3	13.2	13.1	12.0	11.1	9.9
Finland[2]	na	na	1.6	1.8	2.2	2.4	2.2	2.6	na	na	1.0	1.2	1.4	1.5	1.2	1.3
Sweden	na	na	na	2.5	2.9	2.6	3.4	2.7	na	na	na	2.1	2.4	2.1	2.6	1.8
United Kingdom	7.1	6.0	5.6	4.6	5.4	5.5	5.4	4.8	6.4	5.0	4.4	2.9	3.5	4.0	3.4	2.7
United States	9.1	8.7	8.3	7.6	na	9.3	na	8.5	5.1	4.4	3.9	3.2	na	4.8	na	3.1

Note: [1] Not available or not yet calculated. [2] These poverty gaps cannot be compared with the Laeken Relative at-risk-of-poverty gap. Our calculations are based on the Foster Greer Thorbecke (1984) poverty gap which measures the mean proportionate poverty gap over *the total population* while the Laeken poverty Relative at-risk-of-poverty gap measures the mean proportionate poverty gap over *the poor population*. The Foster Greer Thorbecke poverty gap satisfies the monotonicity axiom that "given other things, a reduction in the income of a poor household must increase the poverty measure" (p. 762), while the Laeken poverty gap may violate this axiom.
Source: Own calculations ECHP and CNEF-PSID

Table 7: Poverty incidence by age category (2000)

Age groups	Laeken						Orshansky (net income)					
	All	0-15	16-24	25-49	50-64	65+	All	0-15	16-24	25-49	50-64	65+
Belgium	13.3	12.1	11.6	9.6	11.5	25.5	3.6	4.3	2.1	2.9	3.6	5.4
Denmark	10.8	5.1	20.4	6.8	4.5	29.5	3.4	1.0	13.5	2.4	1.3	4.6
Germany	11.1	13.8	15.7	8.9	9.7	12.0	5.1	5.7	7.3	4.4	5.4	4.6
Greece	20.5	17.9	19.5	14.5	20.8	33.0	26.1	27.9	23.4	19.7	24.4	38.9
Spain	18.8	25.5	19.7	15.0	16.8	22.2	19.1	28.2	19.2	15.7	15.9	21.3
France	15.4	17.8	20.8	11.9	12.5	19.5	6.5	8.4	9.4	5.2	5.4	6.4
Ireland	21.4	25.8	12.5	17.4	16.0	44.3	10.6	13.8	7.0	9.1	8.1	17.1
Italy	19.3	25.0	24.8	18.2	15.7	17.4	16.7	24.7	20.1	16.3	12.4	13.5
Luxembourg	12.5	18.5	19.9	10.9	9.5	7.4	0.6	1.1	0.7	0.6	0.4	0.0
Netherlands	11.3	16.4	22.3	10.0	6.8	4.0	6.6	10.0	13.8	5.8	3.4	2.0
Austria	11.9	12.7	10.7	8.3	9.3	23.6	4.8	5.2	3.8	4.1	3.7	7.9
Portugal	20.1	27.5	18.1	15.3	15.5	29.7	32.2	44.4	30.5	25.1	25.0	44.1
Finland	11.4	5.8	23.1	7.3	8.5	23.4	4.9	2.0	15.4	3.6	3.9	5.6
Sweden	10.4	na	na	na	na	na	5.7	na	na	na	an	
United Kingdom	17.1	23.6	19.6	12.0	11.0	24.3	9.3	14.9	11.4	7.2	6.1	9.3
United States	23.5	32.6	29.2	19.8	13.5	24.4	8.7	13.5	11.0	7.1	4.4	7.8

Note: [1] Not available or not calculated.
Source: Own calculations ECHP and CNEF-PSID

Table 8: Poverty incidence for total population and children aged 0-15 (1993-2000)

	Laeken								Orshansky (net income)							
	1993	1994	1995	1996	1997	1998	1999	2000	1993	1994	1995	1996	1997	1998	1999	2000
Belgium (all)	16.7	15.9	15.3	14.2	13.8	12.8	12.9	13.3	8.4	7.4	6.0	6.1	5.9	5.4	4.8	3.6
Children age 0-15	19.6	15.6	15.3	13.7	12.7	11.7	11.5	12.1	11.3	8.0	7.1	7.0	6.4	5.9	3.9	4.3
Denmark (all)	10.3	10.2	9.5	9.3	11.9	11.1	11.5	10.8	4.1	3.3	3.3	3.2	3.6	3.4	3.2	3.4
Children age 0-15	5.5	5.4	3.6	4.7	4.8	5.7	4.1	5.1	2.6	2.1	1.5	2.1	1.8	2.3	0.8	1.0
Germany (all)	14.4	14.6	14.0	12.1	11.4	10.9	10.5	11.1	9.8	10.7	7.5	7.0	6.8	6.3	5.1	5.1
Children age 0-15	14.9	18.0	15.4	14.9	13.1	13.2	12.8	13.8	9.6	13.9	8.4	9.4	8.0	7.3	5.7	5.7
Greece (all)	23.1	21.5	21.0	21.5	20.8	20.5	19.9	20.5	25.7	26.3	27.5	28.1	26.0	28.2	25.0	26.1
Children age 0-15	21.3	18.1	19.3	17.6	16.8	17.2	18.6	17.9	26.9	24.9	28.3	28.2	25.6	29.3	28.2	27.9
Spain (all)	19.6	19.0	18.0	20.3	18.2	18.8	18.0	18.8	25.4	29.0	29.1	29.8	28.6	24.5	20.6	19.1
Children age 0-15	23.4	23.7	23.4	26.2	24.4	24.9	25.1	25.5	32.2	37.4	37.7	39.6	38.7	32.8	30.3	28.2
France (all)	16.6	15.4	15.2	14.9	14.7	15.2	15.6	15.4	12.6	9.4	8.4	8.8	8.5	8.0	7.1	6.5
Children age 0-15	17.6	16.0	16.0	16.2	16.5	17.5	17.6	17.8	14.5	10.6	9.6	10.0	10.3	9.5	8.9	8.4
Ireland (all)	16.8	18.6	19.5	19.1	19.2	18.5	20.1	21.4	30.1	25.3	25.3	20.1	13.7	13.3	12.6	10.6
Children age 0-15	25.0	25.8	26.6	24.8	23.1	20.9	22.1	25.8	41.3	35.3	34.8	27.5	18.8	16.8	15.3	13.8
Italy (all)	20.4	20.4	20.1	19.5	18.0	18.0	18.4	19.3	22.7	23.2	28.0	23.0	19.4	18.0	17.0	16.7
Children age 0-15	24.6	24.1	23.5	22.7	21.1	22.2	25.0	25.0	29.6	30.6	36.6	29.0	25.4	24.9	24.9	24.7
Luxembourg (all)	na	13.2	11.8	11.4	12.2	12.7	11.9	12.5	na	1.1	0.7	0.7	1.0	1.0	0.4	0.6
Children age 0-15	na	19.0	18.0	16.5	19.5	18.6	18.3	18.5	na	1.9	1.1	0.7	1.5	1.8	0.4	1.1
Netherlands (all)	10.0	11.3	11.7	10.5	10.3	10.7	10.4	11.3	7.1	8.6	8.4	6.1	6.8	6.8	5.6	6.6
Children age 0-15	10.1	12.7	14.4	12.5	13.6	14.0	15.1	16.4	7.7	9.7	10.8	7.0	9.9	9.2	8.4	10.0
Austria (all)	na	13.4	14.0	13.0	12.9	12.0	11.7	11.9	na	6.1	5.2	5.8	6.2	5.8	3.9	4.8
Children age 0-15	na	15.8	18.1	15.1	15.5	13.7	12.4	12.7	na	7.5	6.7	6.6	8.3	6.5	3.3	5.2
Portugal (all)	22.5	22.9	21.5	21.6	20.8	20.5	20.8	20.1	40.0	42.2	40.2	38.1	38.4	35.5	32.2	32.2
Children age 0-15	23.4	25.9	23.9	25.3	26.1	26.4	25.5	27.5	47.0	51.5	49.3	46.5	49.7	46.7	41.1	44.4
Finland (all)	na	na	8.1	8.3	9.4	10.7	10.9	11.4	na	na	4.1	4.5	5.1	5.7	4.6	4.9
Children age 0-15	na	na	4.6	5.1	4.9	7.3	5.7	5.8	na	na	2.0	3.0	1.7	2.5	1.7	2.0
United Kingdom (all)	19.6	20.0	19.5	17.8	19.0	19.4	18.7	17.1	17.6	15.8	15.2	11.4	12.0	13.1	10.7	9.3
Children age 0-15	27.7	28.7	27.8	26.8	28.8	29.3	27.5	23.6	27.8	25.4	24.0	20.3	21.4	22.3	17.9	14.9
United States (all)	24.0	24.0	23.8	21.7	na	25.4	na	23.5	12.4	11.4	10.6	8.5	na	13.0	na	8.7
Children age 0-15	29.8	28.0	29.1	27.9	na	32.6	na	32.6	18.0	16.0	14.3	11.9	na	17.7	na	13.5

Note: [1] Not available or not calculated.
Source: Own calculations ECHP and CNEF-PSID

Table 9: Poverty incidence by gender (2000)

	Laeken			Orshansky (net income)		
Gender	All	Male	Female	All	Male	Female
Belgium	13.3	12.1	14.5	3.6	3.2	4.0
Denmark	10.8	9.0	12.5	3.4	2.7	4.1
Germany	11.1	10.0	12.1	5.1	4.7	5.6
Greece	20.5	19.2	21.8	26.1	24.8	27.4
Spain	18.8	17.3	20.3	19.1	17.4	20.8
France	15.4	14.6	16.2	6.5	5.7	7.3
Ireland	21.4	20.0	22.7	10.6	10.3	11.0
Italy	19.3	18.7	19.9	16.7	16.0	17.5
Luxembourg	12.5	12.4	12.6	0.6	0.4	0.7
Netherlands	11.3	11.7	10.9	6.6	6.8	6.3
Austria	11.9	9.2	14.4	4.8	4.0	5.4
Portugal	20.1	20.1	20.1	32.2	31.3	33.1
Finland	11.4	9.1	13.6	4.9	4.1	5.7
Sweden	10.4	na	na	5.7	na	na
United Kingdom	17.1	15.1	18.9	9.3	7.9	10.6
United States	23.5	22.2	24.7	8.7	8.1	9.3

Note: [1] Not available or not calculated.
Source: Own calculations ECHP and CNEF-PSID

Table 10: At-Persistent-Risk-of-Poverty rate by gender (2000)

	Laeken			Orshansky (net income)		
	All	Male	Female	All	Male	Female
Belgium	7.4	6.4	8.4	1.5	1.1	2.0
Denmark	5.2	3.9	6.5	0.7	0.6	0.7
Germany	6.1	5.7	6.5	2.4	2.3	2.6
Greece	14.2	13.2	15.1	19.0	17.7	20.2
Spain	10.5	9.9	11.0	14.0	12.8	15.2
France	8.7	8.2	9.2	2.5	2.1	2.9
Ireland	13.2	11.5	14.8	6.7	6.1	7.2
Italy	12.6	11.9	13.2	11.9	11.4	12.4
Luxembourg	8.6	8.8	8.3	0.1	0.1	0.1
Netherlands	5.3	5.6	5.1	2.1	2.4	1.9
Austria	7.1	5.0	9.1	1.7	1.3	2.1
Portugal	14.8	14.2	15.4	27.5	26.5	28.5
Finland	5.9	4.1	7.6	2.0	1.5	2.5
Sweden	na	na	na	na	na	na
United Kingdom	10.1	8.8	11.4	5.0	4.0	5.9
United States (1996)	13.8	11.8	15.6	5.1	3.9	6.2

Note: [1] Not available or not calculated. [2] After the poverty status of households in a particular year has been determined, the long term poverty rates are calculated on an individual level only including those individuals in the panel (with a positive longitudinal weight). Note that the annual poverty rates are calculated on a household level (albeit counting all individuals in the household) including all households with a positive household cross-section weight.
Source: Own calculations ECHP and CNEF-PSID

Table 11: Poverty incidence by household type (2000)

Household type[1]	Laeken										Orshansky (net income)									
	All	1	2	3	4	5[2]	6	7	8	9	All	1	2	3	4	5[2]	6	7	8	9
Belgium	13.3	21.1	25.9	8.3	7.6	24.9	7.4	11.1	7.0	14.5	3.6	9.3	3.5	2.0	2.1	9.5	1.6	3.8	2.4	3.6
Denmark	10.8	36.3	22.3	5.1	7.0	9.9	10.1	2.2	4.5	3.5	3.4	20.9	1.4	2.5	0.0	3.3	0.2	0.2	1.3	3.3
Germany	11.1	18.5	7.1	8.4	5.4	35.8	8.9	6.7	21.0	10.9	5.1	12.6	1.8	5.4	1.6	28.5	5.1	3.5	4.8	1.4
Greece	20.5	31.9	35.5	17.3	17.6	37.1	8.1	14.1	27.2	23.0	26.1	45.2	37.7	23.8	18.3	37.5	11.4	22.0	39.8	30.8
Spain	18.8	31.6	23.9	14.0	7.6	42.1	17.8	22.9	33.7	18.1	19.1	40.3	19.7	14.4	6.4	45.0	16.8	26.0	36.6	17.2
France	15.4	21.9	16.1	10.6	12.3	35.4	10.1	12.0	24.0	14.5	6.5	15.8	2.5	5.5	3.2	23.6	3.0	4.9	9.1	5.4
Ireland	21.4	57.1	36.6	13.8	7.6	41.6	16.6	16.6	37.2	9.7	10.6	39.3	4.3	5.0	0.9	31.6	7.1	9.1	20.8	3.8
Italy	19.3	23.9	14.4	11.6	14.6	22.8	13.1	21.0	37.8	24.1	16.7	25.2	6.7	9.8	11.3	22.8	10.0	20.1	37.0	21.2
Luxembourg	12.5	8.9	7.8	6.1	4.8	34.8	13.0	14.6	23.8	25.5	0.6	1.4	0.0	0.1	0.0	2.4	0.6	0.7	2.0	0.2
Netherlands	11.3	11.7	4.6	3.8	9.0	45.4	10.2	9.3	17.4	18.5	6.6	10.4	2.3	1.6	2.4	34.1	3.7	5.3	10.7	10.4
Austria	11.9	22.6	17.5	9.9	6.8	23.1	6.6	7.2	24.5	8.9	4.8	9.2	7.7	5.9	2.0	15.2	2.7	1.5	9.3	3.2
Portugal	20.1	38.9	32.4	13.3	9.8	39.1	9.0	15.0	49.0	22.8	32.2	60.9	44.3	21.9	12.8	56.5	17.2	25.5	62.8	43.4
Finland	11.4	35.5	7.5	5.1	9.8	10.7	4.6	5.3	4.8	6.7	4.9	20.8	0.3	2.3	1.3	4.9	1.6	1.1	2.1	0.9
Sweden	10.4	21.9	4.0	5.4	na[3]	15.6	5.4	6.0	10.9	na	5.7	16.6	0.8	3.2	na	7.5	1.8	2.0	3.3	na
United Kingdom	17.1	29.1	17.1	8.6	5.4	50.3	8.3	11.8	29.9	13.2	9.3	18.9	2.8	5.3	1.9	36.2	2.9	6.3	20.2	3.8
United States	23.4	27.6	9.8	16.7	11.7	53.4	14.1	17.9	37.7	30.1	8.7	13.8	2.8	3.1	2.6	30.7	2.1	5.7	12.3	10.4

Note: [1] Definition household types: 1 One person household

2 Two adults, no dependent children, both adults under 65 years

3 Two adults, no dependent children, at least one adult 65 years or more

4 Other households without dependent children

5 Single parent household, one or more dependent children

6 Two adults, one dependent child

7 Two adults, two dependent children

8 Two 2 adults, three or more dependent children

9 Other households with dependent children

[2] For category 5 the number of observations is often very small. These poverty rates should be interpreted with care. [3] Not available or not calculated.
Source: Own calculations ECHP and CNEF-PSID

Table 12: Poverty incidence by main income source of household (2000)

Main source income[1]	Laeken							Orshansky						
	All	1	2	3	4[2]	5[2]	6[2]	All	1	2	3	4[2]	5[2]	6[2]
Belgium	13.3	3.7	20.5	25.6	63.1	56.3	8.1	3.6	0.4	11.5	6.9	26.1	12.6	4.4
Denmark	10.8	5.4	1.2	29.6	32.2	34.4	16.9	3.4	2.1	0.3	4.7	7.4	19.4	15.5
Germany	11.1	5.9	5.9	14.9	56.9	49.7	27.3	5.1	2.0	2.7	6.0	39.1	30.1	21.7
Greece	20.5	9.2	26.6	33.7	na	55.6	35.8	26.1	13.5	33.8	40.0	na	66.0	42.0
Spain	18.8	12.1	19.6	30.5	79.9	45.2	20.1	19.1	12.8	20.2	29.4	77.5	45.9	19.7
France	15.4	9.9	19.0	19.2	39.5	67.7	36.2	6.5	3.1	8.8	7.0	25.4	43.2	31.2
Ireland	21.4	10.8	10.3	51.5	77.4	74.4	35.7	10.6	4.7	3.6	18.0	63.0	45.3	33.3
Italy	19.3	13.9	25.5	21.4	55.5	62.2	38.6	16.7	11.9	24.4	17.4	47.6	51.5	38.1
Luxembourg	12.5	11.0	0.6	8.2	90.1	45.7	5.2	0.6	0.4	0.0	0.0	0.0	3.8	0.0
Netherlands	11.3	7.9	8.5	4.9	16.3	45.7	45.9	6.6	4.1	4.7	2.3	8.9	30.5	41.7
Austria	11.9	4.7	23.1	25.4	67.5	47.3	63.9	4.8	1.1	9.9	9.7	40.0	26.4	52.9
Portugal	20.1	12.7	19.7	36.2	52.1	72.3	21.5	32.2	24.6	34.0	49.7	56.9	77.7	29.3
Finland	11.4	5.4	6.0	26.8	38.2	30.1	10.2	4.9	2.7	2.7	5.6	23.3	18.9	8.8
Sweden	10.4	5.3	51.7	9.4	26.6	36.6	32.1	5.7	2.7	34.4	4.1	9.9	22.9	32.1
United Kingdom	17.1	7.9	5.9	25.3	87.2	54.3	30.6	9.3	4.3	3.6	9.3	42.9	35.7	25.6
United States	23.4	19.0		26.5	93.2		33.8	8.7	6.0		7.7	76.9		19.6

Note: [1] Main source income: 1 Wages and Salaries
2 Self employment or farming
3 Pensions
4 Unemployment benefits
5 Other social benefits
6 Private income

[2] For categories 4, 5 and 6 the number of observations is often very small. These poverty rates should be interpreted with care. [3] Not available or not calculated. [4] For the USA we cannot distinguish between wages / earnings from self employment and unemployment benefits / other social benefits
Source: Own calculations ECHP and CNEF-PSID

Table 13: Poverty incidence using income but excluding social benefits (2000)

	Laeken			Orshansky (net income)		
	Before social transfers	Before social assistance[2]	Disposable income	Before social transfers	Before social assistance[2]	Disposable income
Belgium	36.8	22.4	13.3	28.6	10.9	3.6
Denmark	30.3	20.6	10.8	25.5	11.7	3.4
Germany	37.9	20.7	11.1	30.7	12.4	5.1
Greece	38.9	22.7	20.5	42.8	27.8	26.1
Spain	36.4	23.3	18.8	35.8	23.2	19.1
France	41.0	24.4	15.4	33.3	15.2	6.5
Ireland	35.2	29.5	21.4	26.1	19.5	10.6
Italy	41.4	21.9	19.3	38.1	19.2	16.7
Luxembourg	40.3	23.1	12.5	22.2	6.9	0.6
Netherlands	35.0	20.4	11.3	29.7	15.0	6.6
Austria	37.7	21.8	11.9	27.0	11.0	4.8
Portugal	36.4	24.4	20.1	47.3	37.5	32.2
Finland	39.1	28.2	11.4	30.2	17.3	4.9
Sweden	na	na	10.4	na	na	5.7
United Kingdom	38.5	27.6	17.1	32.0	18.7	9.3
United States	32.5	24.4	23.4	18.7	9.9	8.7

Note: [1] The threshold (poverty line) is calculated on the basis of the income distribution after transfers. [2] Pensions are included in income but other social transfers are not. [3] Not available or not calculated.
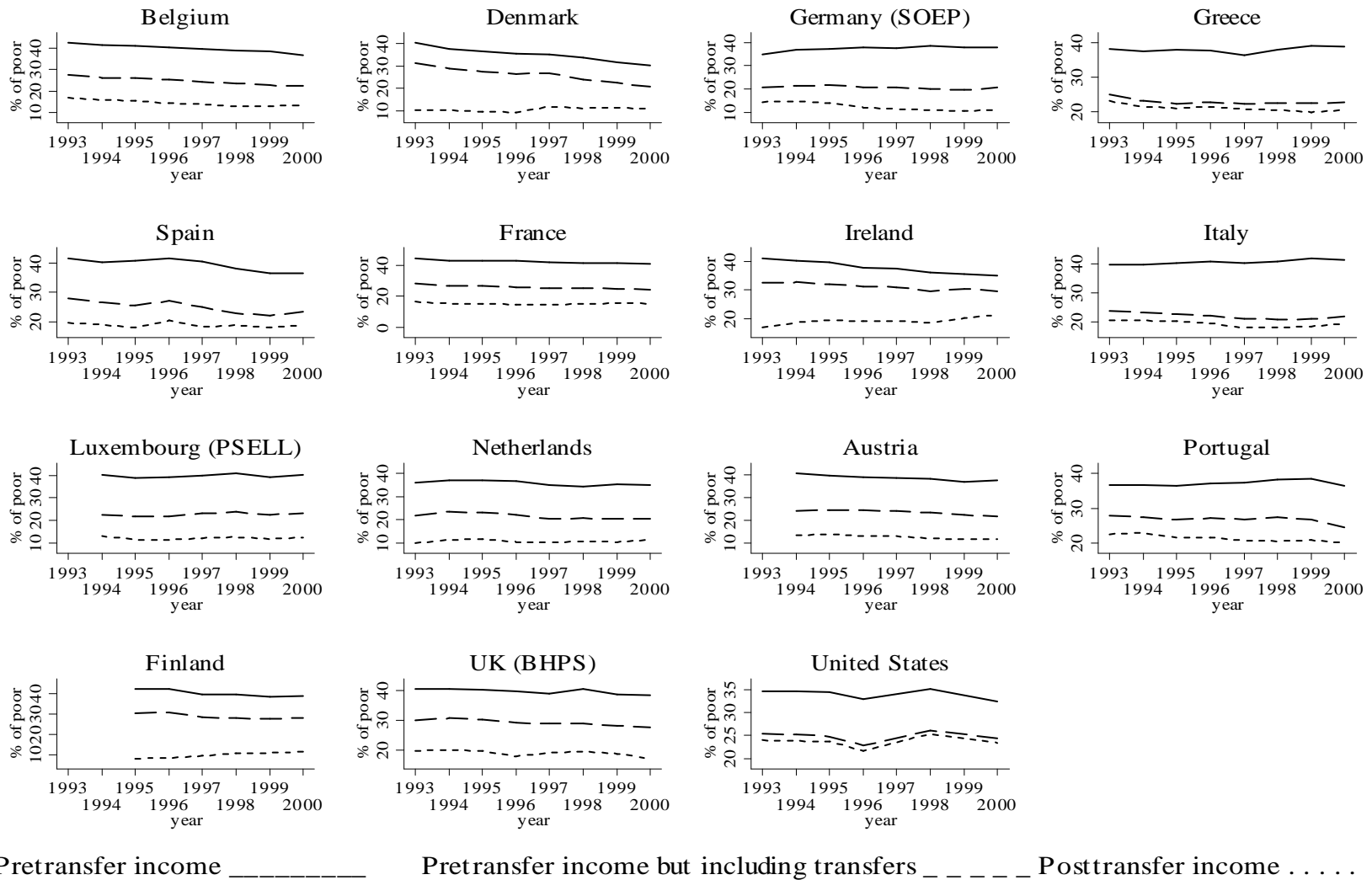Source: Own calculations ECHP and CNEF-PSID

Table 14: Poverty reduction impact of social transfers (2000)

	% reduction in poverty rates of social transfers (as compared to pre transfer poverty rates)							
	Laeken				Orshansky (net income)			
	Pensions		Other transfers		Pensions		Other transfers	
	% effect	rank	% effect	rank	% effect	rank	% effect	rank
Belgium	39.3	8	24.5	8	62.0	2	25.4	8
Denmark	31.9	11	32.6	2	54.3	5	32.5	3
Germany	45.4	2	25.4	7	59.7	3	23.6	9
Greece	41.7	6	5.6	14	34.9	13	4.0	15
Spain	36.1	9	12.3	11	35.3	12	11.4	11
France	40.5	7	21.9	10	54.2	6	26.2	7
Ireland	16.1	15	23.2	9	25.1	14	34.1	2
Italy	47.0	1	6.4	13	49.4	7	6.6	13
Luxembourg	42.6	3	26.4	4	69.1	1	28.4	6
Netherlands	41.8	5	25.9	6	49.3	8	28.5	5
Austria	42.2	4	26.3	5	59.3	4	23.1	10
Portugal	33.1	10	11.8	12	20.7	15	11.2	12
Finland	27.8	13	42.9	1	42.7	10	40.9	1
Sweden	na	-	na	-	na	-	na	-
United Kingdom	28.2	12	27.4	3	41.4	11	29.5	4
United States	25.0	14	3.0	15	47.1	9	6.1	14

Source: Own calculations ECHP and CNEF-PSID

Figure 2: Laeken poverty trends using income excluding social benefits (2000)

Pretransfer income _____   Pretransfer income but including transfers _ _ _ _ _ Posttransfer income . . . . .

Note: To facilitate comparison of Orshansky and Laeken poverty trends within countries, we used different scales on the vertical axes. For the USA there are no observations 1999 and 1997.
Source: Own calculations ECHP and CNEF-PSID

Table 15: Population shares by gender and age groups (2001)

	Gender		Age groups				
	Males	Females	0-15	16-24	25-49	50-64	65+
Belgium	48.5	51.5	19.2	11.0	36.2	16.7	16.9
Denmark	49.5	50.5	20.1	10.2	35.9	19.0	14.7
Germany	49.2	50.8	15.6	10.2	36.0	20.0	18.2
Greece	48.3	51.7	14.7	11.9	34.2	19.1	20.1
Spain	48.9	51.1	15.8	13.0	38.3	15.9	17.0
France	48.6	51.4	19.3	11.8	35.7	16.9	16.3
Ireland	49.2	50.7	23.4	15.5	35.6	14.3	11.0
Italy	48.6	51.4	15.5	10.4	37.1	19.9	17.0
Luxembourg	48.8	51.2	18.6	10.3	40.0	16.6	14.5
Netherlands	49.6	50.4	20.1	10.7	38.6	17.6	13.0
Austria	48.4	51.6	18.5	10.4	38.5	17.4	15.2
Portugal	48.3	51.7	18.2	14.3	36.1	16.4	15.0
Finland	48.6	51.4	19.6	11.1	34.6	19.8	14.9
Sweden	na [1]	na	na	na	na	na	na
United Kingdom	47.6	52.4	19.8	10.0	33.7	18.5	18.0
United States	48.1	51.9	23.1	12.4	37.7	15.9	10.9

Note: [1] Not available or not calculated. [2] The 2000 poverty rates are based on wave 8 (2001). Income in wave 8 represents household income in the *previous* year (2000).
Source: Own calculations ECHP and CNEF-PSID

Table 16: Population shares by household type (2001)

Household type[1]	1	2	3	4	5	6	7	8	9
Belgium	9.9	12.3	11.0	11.7	3.3	9.8	20.2	12.8	9.0
Denmark	10.7	11.7	20.4	7.3	1.8	11.8	18.1	9.4	8.8
Germany	17.1	9.7	11.1	17.2	2.1	9.2	13.3	7.3	13.1
Greece	6.9	11.9	7.1	21.6	1.5	9.6	22.0	4.5	15.0
Spain	5.3	8.9	6.4	22.4	1.1	6.4	15.0	7.3	27.2
France	9.9	11.2	11.1	11.5	3.4	11.8	21.5	10.8	8.8
Ireland	7.3	5.1	5.0	14.9	2.7	5.6	13.7	17.2	28.5
Italy	7.4	9.0	6.3	25.7	1.1	10.8	16.0	7.4	16.5
Luxembourg	10.9	10.0	14.4	18.0	1.3	10.6	15.0	7.6	12.3
Netherlands	15.6	8.6	20.0	8.3	3.6	7.7	20.2	9.3	6.8
Austria	12.8	7.0	10.2	16.5	2.6	9.1	14.9	6.3	20.7
Portugal	3.7	7.7	5.8	21.4	1.5	11.1	14.9	6.6	27.4
Finland	17.9	9.0	13.7	8.4	2.9	10.4	16.8	13.6	7.3
Sweden	20.7	10.5	16.2	na	8.4	11.0	20.1	13.0	na
United Kingdom	13.2	11.4	15.8	11.7	5.8	9.1	14.8	8.8	9.4
United States	13.6	14.6	7.2	8.4	6.8	9.2	14.2	10.3	15.8

Note: [1] Definition household types: 1 One person household

2 Two adults, no dependent children, both adults under 65 years

3 Two adults, no dependent children, at least one adult 65 years

4 Other households without dependent children

5 Single parent household, one or more dependent children

6 Two adults, one dependent child

7 Two adults, two dependent children

8 Two 2 adults, three or more dependent children

9 Other households with dependent children

[2] Not available or not calculated. [3] The 2000 poverty rates are based on wave 8 (2001). Income in wave 8 represents household income in the *previous* year (2000).

Source: Own calculations ECHP and CNEF-PSID

Table 17: Population shares by main income category (2001)

	Wages & Salaries	Self – employment	Pensions	Unemployment benefits	Other social benefits	Private income
Belgium	65.7	2.7	21.5	3.5	4.3	2.3
Denmark	74.2	4.0	15.5	0.8	5.0	0.5
Germany	63.9	6.4	21.9	2.1	4.1	1.6
Greece	47.6	25.5	23.7	0.1	1.1	2.0
Spain	60.8	14.1	16.8	1.7	3.4	3.1
France	65.7	6.9	21.1	1.2	4.0	1.1
Ireland	67.8	11.6	10.2	3.2	6.6	0.7
Italy	55.1	16.6	24.0	0.9	1.9	1.6
Luxembourg	71.2	3.2	18.2	0.3	6.3	0.9
Netherlands	70.3	3.1	15.9	0.7	9.1	1.0
Austria	70.9	6.6	17.4	0.5	3.5	1.0
Portugal	65.4	13.7	15.0	0.9	4.2	0.9
Finland	67.5	6.4	14.9	2.7	7.5	1.0
Sweden	67.0	1.9	19.9	1.2	9.7	0.3
United Kingdom	61.1	6.2	19.0	0.4	11.3	2.1
United States [1]	82.0		11.4	2.8		3.9

Note: [1] For the USA we cannot distinguish between wages / earnings from self employment and unemployment benefits / other social benefits. [2] The 2000 poverty rates are based on wave 8 (2001). Income in wave 8 represents household income in the *previous* year (2000).
Source: Own calculations ECHP and CNEF-PSID

Table 18: Population shares panel by gender (1997-2001 panel)

	Panel 1997-2000 (# of individuals)	Male	Female
Belgium	5,000	48.8	51.2
Denmark	3,907	49.9	50.1
Germany	11,550	49.0	51.0
Greece	9,260	48.2	51.8
Spain	11,511	48.6	51.4
France	10,696	48.4	51.6
Ireland	4,916	49.3	50.7
Italy	13,338	48.7	51.3
Luxembourg	4,793	48.2	51.8
Netherlands	8,464	49.2	50.8
Austria	5,894	48.5	51.5
Portugal	10,721	48.1	51.9
Finland	5,905	49.0	51.0
Sweden	na	na	na
United Kingdom	9,355	46.7	53.3
United States (1996)	9,297	47.1	52.9

Note: [1] Not available or not calculated. [2] The 2000 long term poverty rate is based on the 1997-2001 panel.
Source: Own calculations ECHP and CNEF-PSID

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