Major Disparities in Households' Ability to Make Ends Meet

Comparative analyses of the material standard of living in the European Union

With the expansion of the European Union from 15 member states to 25 in 2004 and then 27 in 2007, the community has in many respects become more heterogeneous. The enlargement to include the former state-socialist countries of Eastern Europe has massively increased wealth disparities within the European Union, even more than the "southern expansion" of the community in the 1980s.[1] This development presents the policy of European integration with huge challenges and raises the question of how, in light of the increased inequality in living conditions, social cohesion can be guaranteed across national borders, and conflicts of interest can be minimized. A further issue from the German perspective, in view of the economic challenges in past years and the stagnation of real incomes for significant segments of the population, is how the Germans' standard of living compares with that of other Europeans.

Working with various objective and subjective indicators, the present paper examines how the material standard of living in Germany currently compares with that of other member states of the European Union. This question is examined from three different perspectives:
- How does the level and distribution of household incomes differ?
- How widespread are financial problems and material deprivation, and are there large segments of the population who lag behind the normal standard of living?
- How are the actual incomes judged subjectively, and to what extent are they considered adequate from the perspective of the population in the different countries?

The empirical analyses underlying the paper are based on the micro-data of the "Community Statistics of Income and Living Conditions" (EU-SILC) for 2006,[2] and include 23 of the current 27 EU member states.[3] Unless individual countries are being considered, the following analyses use a classification system which compares Germany to two groups of countries: the EU-15 countries, not including Germany, and the Eastern European member states admitted in the framework of the eastern expansion of the EU (Estonia, Latvia, Lithuania, Poland, Slovenia, the Slovak Republic, the Czech Republic, Hungary).

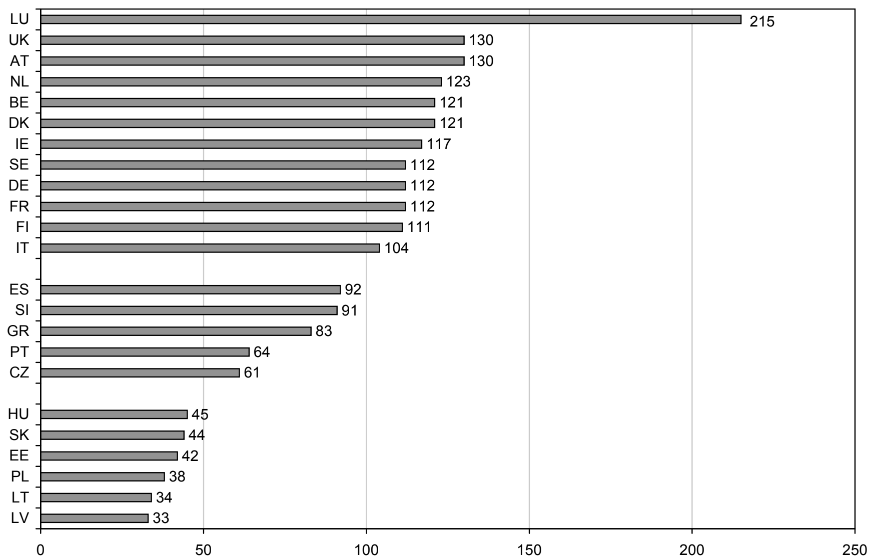
Huge income disparities within the expanded European Union

The financial resources of households and hence their potentially attainable and actually attained material standard of living are decisively – if not exclusively – determined by their regular net household income. In order to take into account the differences in household size and structure as well as the differences in purchasing power between the countries, comparisons are based on equivalent household incomes, expressed in purchasing power parities or PPPs.[4] This reveals huge disparities in income within the expanded European Union: in the wealthiest European country, Luxembourg, the average income of private households as measured against the median is more than six times as high as in Latvia, the poorest of the EU member states being considered here. But even in Austria and the United Kingdom, those countries with the highest incomes after Luxembourg, available household incomes are still four times as high as in Latvia.

If one considers the relative income positions in relation to the median of all the countries under consideration here (graph 1), three groups of countries can be distinguished – on the basis of their income levels – within the European Union. The first group comprises 12 countries which are all characterized by an income level above the EU-23 median. With the exception of Italy, these are all EU-15 countries from northern and western Europe. Germany achieves a level of 112% of the EU-23 median, and is thus on the same level as countries such as Sweden, France and Finland. At the same time, however, it ranks well below the highest-income EU countries mentioned above. The second group includes countries with an average income level of 61% to 92% of the EU-23 median. This group consists of three southern European countries and the two economically most successful Central / Eastern European countries, the Czech Republic and Slovenia. The third group comprises six countries, all in Eastern Europe and all with an income level of less than 50% of the EU-23 median. The income level of these relatively poor EU countries ranges from 45% of the EU-23 median in Hungary to 33% in Latvia. These income disparities would be even more pronounced if exchange rates were used instead of purchasing power standards.

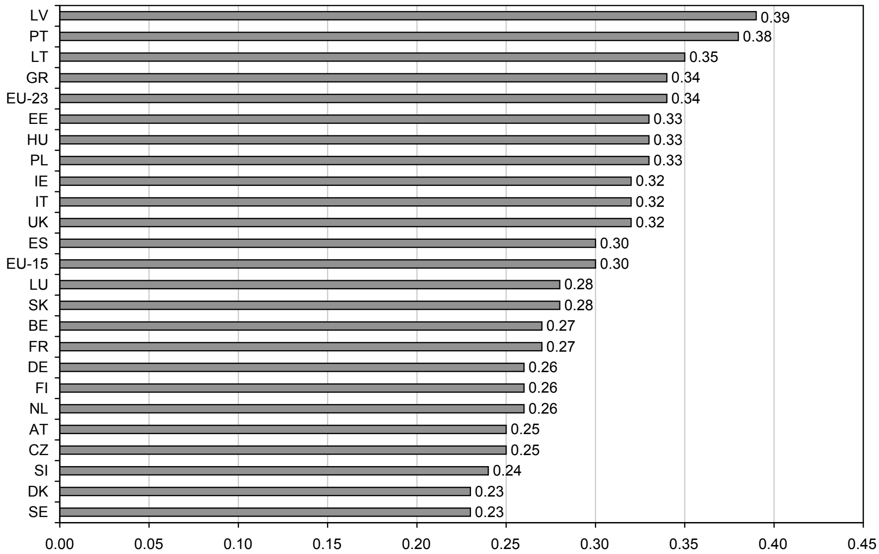
For a comparative study of living standards, it is important to consider income distribution as well as the average income level. Do the households of a particular country generally have similar incomes, or are there large income discrepancies between the poorer and the wealthier sections of the population?

Graph 1: Level of equivalent household incomes – 2006 (in % of the EU-23 median)



Database: EU-SILC 2006, own calculations (reference: persons in households)

Graph 2: Gini Index: a European comparison – 2006



Database: EU-SILC 2006, own calculations (reference: persons in households)

Income inequality is greatest in Eastern and Southern European countries

If we apply the Gini Index, a widely used tool for measuring income inequality, ranging from 0 (completely equal distribution) to 1 (extremely unequal distribution), it becomes clear that the European Union is extraordinarily heterogeneous in this respect as well (graph 2). While income inequality in countries such as Latvia and Portugal, with Gini Index values of nearly 0.40, reaches almost the same high level of inequality as the US, countries such as Sweden, Denmark, Slovenia, the Czech Republic and Austria, with Gini Index values of 0.25 or below, are characterized by a remarkably egalitarian distribution of household incomes. It is striking here that the countries with high levels of income inequality, i.e. a Gini Index of 0.30 or higher, are southern European, post-socialist societies, or countries which may be assigned to the category of liberal welfare states. By contrast, the countries with a relatively egalitarian income distribution – except for the Czech Republic and Slovenia – are all Scandinavian societies or countries belonging to the conservative type of welfare state, such as Germany.

The overall figure for the EU-23 region under consideration here is 0.34, a strikingly high value illustrating the large income disparities within the Union. Among the EU-15 countries, incomes are somewhat less unequally distributed (Gini Index = 0.30) than in the post-socialist, Eastern European countries (Gini Index = 0.33). At the same time, the extent of income inequality is generally attenuated by the fact that the calculation is based on equivalent incomes and purchasing power standards.

In order to shed more light on wealth disparities and differences in the standard of living, the following discussion will take a broader perspective, considering not just resources, but also the issue of how well Germans make ends meet compared with other Europeans. In addition to the level and the distribution of incomes, the ability to make ends meet and the standard of living achieved depend on various other factors, such as existing assets, the specific requirements of different types of household, differing aspirations, and frugal or less frugal lifestyles. How well or how poorly particular households are able to make ends meet may be measured by different objective and subjective indicators, focusing on the results of income use and the associated problems and deficits. The EU-SILC survey provides information on financial problems and payment arrears of households, the inability to afford certain commodities and expenditures, and perceived financial burdens. It also includes subjective assessments and statements about how well respondents are able to get by on their income, and about how high the minimum household income would have to be to "just make ends meet".

Almost one in ten German households reports payment arrears during the last 12 months

The occurrence of payment arrears is a "hard" indicator and an unmistakable sign that households are experiencing significant difficulties in making ends meet with the financial resources available to them. The survey covered the occurrence of arrears in mortgage and rent payments, electricity, gas and water bills, and consumer credit payments.

In Germany in 2006, 7% of households reported having been behind on such payments at least once over the last 12 months (table 1), most often on electricity, gas and water bills. In the other EU-15 countries the situation is generally quite similar to that in Germany. One country, however, differs considerably from the norm: Greece, where 31% of households had payment arrears at least once. The prevalence of payment arrears in the Eastern European EU countries is considerably higher than in Germany and the other EU-15 countries: here an average of 15% of households had fallen behind on one of the above-mentioned payments at least once over the course of the past year. As might be expected, the frequency of payment arrears increases as household incomes decrease: among households in the lowest income quintile, 12% in Germany said they had been behind on their payments at least once; in the other EU-15 countries the figure is 15%, and in the Eastern European EU countries it rises to 28%.

In addition to the occurrence of payment arrears as an indicator of a household's serious financial problems, indicators of material deprivation also provide information about people's ability to make ends meet and the areas in which they lag behind the general standard of living due to insufficient financial resources. This measure, originally established by the British poverty researcher Peter Townsend (1979), is used to investigate whether households – by their own account – can or cannot afford certain expenditures, activities, goods and consumables which are assumed to be part of the usual standard of living, or

Table 1: Payment arrears in private European households – 2006 (in %)

	Germany		EU-15, not incl. Germany		EU-Eastern Europe	
	Total	Lowest income quintile	Total	Lowest income quintile	Total	Lowest income quintile
Payment arrears involving:						
Electricity, water, etc.	5	8	5	10	13	26
Mortgage, rent	2	4	4	7	2	5
Consumer credit	2	3	2	4	3	5
At least one payment arrear	7	12	8	15	15	28

Database: EU-SILC 2006, own calculations (reference: households)

Table 2: Deprivation: durable consumer goods – Europe 2006 (in %)

	Germany		EU-15, not incl. Germany		EU-Eastern Europe	
	Total	Lowest income quintile	Total	Lowest income quintile	Total	Lowest income quintile
Cannot afford:						
Car	8	17	6	14	23	36
Computer	7	13	7	14	21	14
Television	1	2	0	1	1	4
Washing machine	1	2	1	3	3	8
Telephone	0	1	1	2	4	11
At least one of these goods	12	24	12	25	34	54

Database: EU-SILC 2006, own calculations (reference: households)

are considered more or less necessary for a "decent life" and for social integration.[5] Indicators of material deprivation, which are also important in the context of the "social inclusion process" in European politics, are ultimately aimed at identifying deviations from a "minimally acceptable way of life" (Atkinson et al. 2002; cf. also Whelan et al. 2008).

If we consider a selection of durable consumer goods, including telephones, televisions, washing machines, computers and cars, it is clear that only a small minority of households in Germany do not have these goods – which are now part of the general standard of living – because they cannot afford them (table 2). The only goods which a significant percentage of households report not being able to afford are cars (8%) and computers (7%). The other EU-15 countries show a similar pattern to Germany, but in the southern European countries Portugal and Greece, i.e. the two countries which have the lowest incomes, as well as high levels of income inequality, the percentage of households which cannot afford at least one of these goods is – at 27% and 23% respectively – considerably higher than in Germany, and higher than the EU-15 average. The percentages are also surprisingly high for Ireland and Finland (19% and 18%). As expected, the percentage of households which cannot afford such consumer goods is highest in the Eastern European countries. But whereas even there almost every household has a telephone, a washing machine and a television, approximately one-fifth of all households in these countries report not being able to afford a car or a computer.

The material deprivation measured in this way increases as incomes decrease; this becomes apparent if we look at the households in the lowest income quintile. In Germany and the other EU-15 countries, roughly one in four of these low-income households reports not being able to afford at least one of the goods cited; in the Eastern European countries this applies to more than half of such households.

The level of households' material standard of living is, however, not only determined by the ownership of durable consumer goods, but also depends on such things as housing conditions,[6] the quality of nutrition, and opportunities for risk protection. It also depends on what comforts and amenities a household can afford, above and beyond the absolute minimum.

Material deprivation is also widespread in wealthier EU countries

To cover these areas, the EU-SILC data also includes information on whether households can afford to heat their homes adequately, whether they can afford a meal of meat or fish (or a vegetarian equivalent) at least every second day, whether they are able to meet unexpected expenses, and whether they are able to have a holiday away from home for at least one week per year.[7]

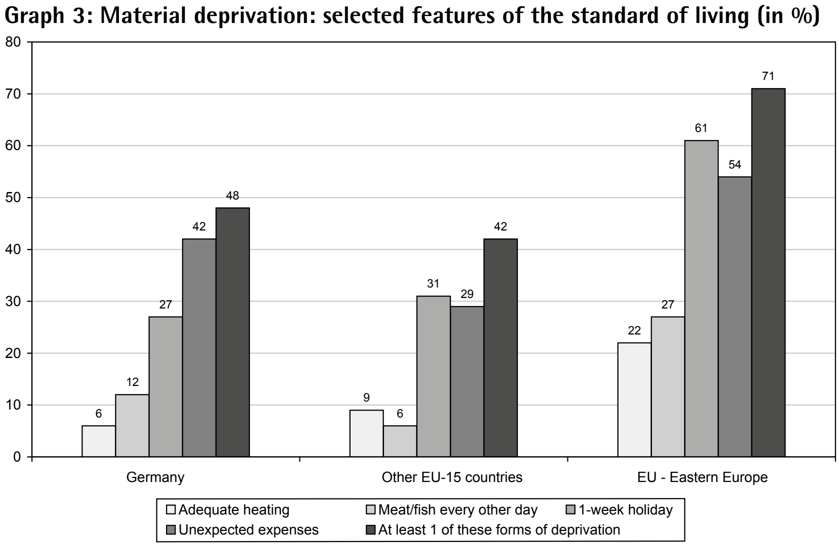
One surprising aspect of the findings is that material deprivation of this kind is widespread in mainstream society even in wealthier EU countries. On average almost half of all households in Germany report not being able to afford at least one of the expenditures cited (graph 3); in the other EU-15 countries the figure is 42%. Spain and Italy have similar rates of deprivation to Germany, while corresponding forms of deprivation are mentioned much less often in countries such as Luxembourg (21%), Sweden (24%) and the Netherlands (30%). Among households in the lowest income quintile, the percentage of those who report one of these forms of deprivation increases to three quarters in Germany and to two thirds of all households in the other EU-15 countries.

In the poorer Eastern European countries, the percentage of households affected by at least one of these forms of deprivation comes to over 70% of the total population and more than 90% in the lowest income quintile.

Unexpected expenses represent a major obstacle for more than 40% of German households

In Germany, adequate heating of the home is evidently only a problem for a small percentage of households. On the other hand, the proportion of households which report not being able to afford a meal of meat or fish at least once every other day is 12%, more than twice as high as in the other EU-15 countries. Given the traditionally high rate of savings in Germany, it also seems surprising that more than 40% of households (rising to 67% in the lowest income quintile), i.e. a significantly higher proportion than in the other EU-15 countries, are not in a position to meet unexpected expenses (defined as at least Euro 830 in Germany).[8] Slightly more than one quarter of all German households cannot afford to take at least a one-week holiday once a year; this applies to at least 30% of households in the other EU-15 countries and approx. 60% in the Eastern European EU countries. The comparatively low standard of living in the Eastern European

Graph 3: Material deprivation: selected features of the standard of living (in %)



Database: EU-SILC 2006, own calculations (reference: households)

Table 3: Subjectively perceived financial burdens (% "major burden") – Europe 2006

	Germany		EU-15, not incl. Germany		EU-Eastern Europe	
	Total	Lowest income quintile	Total	Lowest income quintile	Total	Lowest income quintile
Repayment of consumer credit	30	48	30	38	34	52
Housing costs	24	34	27	41	35	51

Database: EU-SILC 2006, own calculations (reference: households)

countries is also reflected in the fact that the percentage of households which cannot afford to heat their homes adequately and to have a meal of meat or fish at least once every other day is much higher there than in the rest of Europe (approx. 25% overall, and 34% and 48% respectively in the lowest income quintile).

Another way to study people's ability to make ends meet is to examine the subjective perceptions and assessments of the households themselves. In the context of the EU-SILC, various subjective indicators are used for this purpose. These relate to people's perception of financial burdens, and to the extent to which they think their household income is able to cover their needs.[9] Subjectively perceived financial burdens are measured using a three-point scale (none – some – major burden) relating to housing costs and the repayment of consumer credit. Roughly one in four households in Germany reports that housing costs are a major burden, and almost one third of all households regard the repayment of consumer credit as a major burden (table 3). Among low-income households in the lowest distribution quintile in Germany, these percentages rise to 34% (housing costs) and 48% (consumer credit). Compared with the other EU-15 countries, housing costs are generally less often seen as a major burden in Germany, while the repayment of consumer credit is more often seen in this way. Among the EU-15 countries, Italy and Spain are notable for their above-average percentage of households which consider themselves financially burdened: in both these countries, roughly half of all households report significant burdens in terms of both housing costs and credit repayment. In each of the Eastern European countries, roughly one third of all households – and half of those in the lowest income quintile – consider housing costs and the repayment of credit to be a significant burden.

One last "quasi subjective" indicator of how households make ends meet is the discrepancy between actual household income and the minimum income perceived by the household itself as sufficient to cover its specific needs.[10] Responses indicating whether and to what extent a household's actual income falls short of the subjectively perceived minimum income allow us to draw conclusions about how well or how poorly households, in their own estimation, are able to "make ends meet".

One quarter of all German households receive an income which they see as insufficient to "just make ends meet"

The first indicator to be considered here is the percentage of households whose income falls below the minimum income threshold defined for that particular household. This shows that even in the wealthier countries significant segments of the population find it difficult or impossible to make ends meet. For Germany the proportion of all households whose actual income falls below the self-defined minimum is 27%.[11] In the other EU-15 countries this figure is 34% and in the Eastern European countries 51%. At the same time, it should be taken into account that the minimum income defined by the households themselves rises with higher income levels and standards of living, not only within but also between countries.[12] This reflects differential aspiration levels, and possibly also cultural differences in lifestyle.

However, the response to the question of how well or how poorly households are able to make ends meet does not depend solely on the percentage of households whose actual income is lower than the self-defined minimum, but also on the degree of discrepancy or in other words the extent of the income deficit. For the households affected, the gap between actual income and self-defined minimum income is, according to our calculations, 25% on average of the actually attained equivalent household income in Germany, 33% of this income in the other EU-15 countries, and 45% in the Eastern European countries.

This overview of the findings shows that the majority of the new Eastern European EU member states are currently, on average, still well behind the EU-15 countries in terms of prosperity. For the Eastern European countries this is manifested not only in the level of household incomes but also in the considerable difficulties which households experience in making ends meet with the financial resources at their disposal. A correspondingly high percentage of households have payment arrears, suffer from material deprivation, and/or receive an income below the perceived minimum. For the population of the two economically strongest new member states, however, Slovenia and the Czech Republic, the situation is in some ways better than in Portugal and Greece, the two countries with the lowest standard of living within the EU-15. Germany, compared with the rest of Europe in terms of prosperity, tends to occupy a position roughly corresponding to the EU-15 average, and thus falls well behind Europe's top-ranking countries. These – depending on what indicator is used as the basis of assessment – are usually countries such as Luxembourg, Sweden, Denmark, the Netherlands and Austria.

1 *Cf. also Alber/Lenarz 2008.*
2 *The EU-SILC (Community Statistics on Income and Living Conditions) is part of the European Statistical System (ESS). On an annual basis, it provides comparable micro-data on incomes and various aspects of living conditions for the European Union member states and some additional European countries. The survey was first carried out in selected countries in 2004, and gradually expanded. The survey population consists of the private households of the member states and of all individuals who live in the households at the time of the survey. The total sample includes more than 200,000 households. In the individual EU countries the sample size for the 2006 survey is between approx. 3,600 and 21,000 households; in the case of Germany the 2006 survey sample comprises 13,799 households.*
3 *Bulgaria and Romania were not part of the EU-SILC surveys for 2006; the data for Malta are not present in the data set used here, and Cyprus has been disregarded because of implausibilities in some of the central variables used in our analyses. For the sake of simplicity, the 23 countries considered in this study will subsequently be referred to as "EU-23".*
4 *The household incomes are first converted into purchasing power standards (EU-27; 2005). The equivalization is based on the "modified OECD scale", which provides for the following weightings: first person in the household: "1"; additional persons under the age of 14: "0.3", additional persons above the age of 14: "0.5".*
5 *From this perspective, material deprivation is understood to be an "enforced lack of … items depicting material living conditions, such as housing conditions, possession of durables and capacity to afford basic requirements" (Guio 2009).*
6 *For a European comparison of housing conditions, cf. Noll/Weick 2009.*
7 *The Special Eurobarometer 279 (Wave 67.1, 2007) on the topic of "Poverty and Exclusion" investigated the extent to which the population sees it as necessary – for a decent standard of living – to be able to afford the expenditures which are cited here (and others). The response scale ranged from "absolutely necessary, no one should have to do without it"*

and "necessary", to "desirable but not necessary" and "not at all necessary". In Germany the following percentages of respondents regarded these things as "absolutely necessary" or "necessary": adequate heating of the home = 98%; being able to meet unexpected expenses = 67%; meal of meat/fish at least every other day = 63%; one-week holiday = 27% (own calculations).

8 *The predetermined level of expenses varies from one country to the next and equals 60% of the median of each country's net equivalent household income.*

9 *In the EU-SILC survey, the ability of households to make ends meet is directly addressed with the question "How does your household make ends meet with its monthly income?". Questions about "making ends meet" are a widely used survey tool, especially in the Anglo-Saxon world. Unfortunately, the formulations used for this question in the German survey were different in 2005 and 2006, and also differ so significantly from the English-language formulation that we feel the resulting data are unsuitable for comparative analyses.*

10 *The question is phrased as follows: "Please consider your current household situation as a whole. What do you think is the minimum monthly net income which your household needs in order to make ends meet?" In order to make a comparison with the actual household income, the values obtained were equivalized and converted into annual income.*

11 *In Germany, the equivalent household income of these households is 66% of the national median income and is thus slightly above the poverty line. The income which these households themselves see as the minimum necessary is 86% of the median.*

12 *Further analyses show that the level of the minimum income indicated by respondents is influenced not just by their actual income (which mainly determines their level of aspiration), but also and primarily by need factors.*

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Heinz-Herbert Noll and Stefan Weick, GESIS
Tel.: +49 621 / 1246-241 and -245
heinz-herbert.noll@gesis.org
Stefan.weick@gesis.org
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