Exclusion from material resources: poverty and capability deprivation among older people in EU countries

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Introduction

The contexts in which the future generation of elderly will be living—and for which we have evidence on poverty and the shifts that are likely to happen in their future income entitlements—are precarious. The European pension systems still have a long way to go to reach the goal of securing financial sustainability, making it difficult to be completely optimistic about the future. The financial crisis of 2008/2009 (owing largely to individual banking disasters in various EU countries), the economic recession that followed during 2009 and 2010, and then the most recent public finance and Euro debt crisis, all have had an impact on employment, income and personal welfare of households (including older people and other members of their households). The declining income of many of the households (with and without older people) will render them to take help from the cheerful plight of the Dickensian character, Wilkins Micawber, whose guiding life principle “something will turn up” was indeed the expectations of a better fortune in due course, in circumstances that showed little prospects for enrichment and while it led him ultimately to a measure of happiness, it was not before a spell in prison!

The focus of this chapter is the exclusion from material resources that older people in EU countries experience, while picking through the conceptual, measurement and policy issues that help, and sometimes hinder, the realisation of the goal of enhancing social inclusion of older people. Thus, the current situation of older people’s social exclusion from material resources provides us a proxy for the base situation, and it will remain of particular interest to observe how contexts are changing across EU countries, regarding adequacy of pension provision, as a result of various different sorts of shifts and policy reforms happening in the EU countries (See Zaidi (2011) as well as Economic Policy Committee (2009a; 2009b) and Martin and Whitehouse (2008) for a detailed empirical analysis on the possible impact of pension reforms).

The chapter is premised on the idea that while social exclusion for older people can take many forms, being excluded from material resources is the key initial catalyst which either starts the process of involuntary detachment from participation in society or becomes an initial indicator of other forms of social exclusion. From a practical perspective, the inadequacy in pension income first reduces the standard of living below a decent level, and this denial of resources needed in old age impinges on the other social domains, and combines with other factors (e.g. frailty and onset of disability) common to the experience of old age, that impede their capacity to participate in the society where they live.

At its core, the chapter follows Scharf et al. (2005), who argue that the concept of ‘social exclusion can potentially represent a flexible and multi-dimensional tool for examining the degree to which older people in different environmental settings simultaneously experience varying forms of disadvantage’ (pp. 77). The same study – having reviewed a substantial body of evidence, in particular two prominent studies for the UK (viz. Burchardt et al. 2002 and Gordon et al. 2000) that have sought to operationalise social exclusion in a way that acknowledges the multi-dimensional nature of the concept of social exclusion – identified five domains of social exclusion that reflect the unique circumstances of older people (pp.78): Exclusion from material resources, Social relations, Civic activities, Basic services, and Neighbourhoods (see also, Keating and Scharf, Chapter 1, this
volume). Within the debate ‘how is exclusion from material resources measured’, our position is that it is akin to the established, arguably less complex, practices of operationalising poverty and multiple material deprivation (as mentioned by Scharf et al. 2005, with the citation of work by Evandrou (2000) and Gordon et al. (2000). The approach offered in this chapter is to use income as a primary measure of material resources, and then supplement it with wider measures of material deprivation that focus on personal capabilities of older people.

As emphasised by Atkinson (1989), the income-based approach has an obvious ethical appeal: in a fair and just society each ‘citizen’, whether old or not, has a right to a minimum income entitlement that is linked to the above-subsistence standard of living. The restrictions in labour supply, more evident in the current low economic demand, makes it ever more crucial that older persons are entitled to a minimum level of pension income without conditions that affect their self-respect (for example, without any social stigma linked with the means-tested receipt of income). This income-based approach is adopted in measuring poverty rates for older people in many different studies; in particular those for the European countries (for early studies, see O’Higgins and Jenkins 1989; Teekens and Zaidi 1990 and Hagenaars et al. 1994; and for more recent studies, see Atkinson et al. 2002; Atkinson and Marlier 2010), and also by OECD (see e.g. Förster 1994; OECD 2008, OECD 2009). Concerns can be raised about the extent to which exclusion from material resources, as measured by a lack of income, adequately describes older people’s social exclusion. A good deal of theoretical and empirical work has already been done in this respect arguing for the adequacy of income-based approaches (for a review, see Atkinson and Marlier 2010 and Zaidi 2008) and also whether consumption-based measure of welfare are conceptually and empirically better (for a discussion, see Zaidi and De Vos 2001).

This chapter also draws from a comparatively novel approach in bringing a new perspective into the picture: the availability of alternative levels of standards of living from which an agent had the freedom to choose. This idea of agency freedom forms the basis of the capability approach, as was put forward by Sen (see, e.g., Sen 1980), and this approach is adopted in this chapter to supplement income with additional information regarding personal capacities, or opportunities, within the sphere of material resources, of European older people (for an argument in extending the work towards the measurement of capabilities, see, also, Pedace et al. 2010; Hick 2009; Zaidi and Burchardt 2005).

The research questions addressed by adopting this methodological approach are: Does the use of income poverty combined with the capability deprivation approach capture the reality of contexts of material exclusion or social exclusion in general of European older people. Other subject matters discussed are: What insights can be drawn from the theoretical debates on the concept of social exclusion within the context of European Union over the recent past. Building on this discussion, the chapter seeks to illustrate the advantages associated with adopting an empirical method that uses both income and capabilities as the basis for measuring the exclusion from material resources of older people living in EU countries.

The rest of the chapter is organised in five sections. Section 1 reviews key conceptual and measurement issues, regarding poverty, deprivation and the broader theme of social exclusion. Section 2 describes salient features of three different approaches that are adopted in this chapter in measuring exclusion from material resources of older people in EU countries. Section 3 highlights the importance of income and the institutional context of pension policy in determining the social
inclusion of older people in European countries. The same section provides the empirical results of income-based poverty rates among older people and provides a discussion of labour market and pension policy contexts within which the risks of social exclusion among older people are higher. Section 4 discusses how the capabilities of older people can be approximated using the EU-SILC dataset and how these deprivation measures complement the income-based poverty measures for the purpose of measuring exclusion from material resources of European older people. Section 5 provides the conclusions.

And to the first of these sections we now turn: How is social exclusion defined and measured in the context of EU countries? How is exclusion from material resources measured and how it is akin to the established practices of operationalising poverty and deprivation?

1. Key conceptual and measurement considerations

The EU, as part of its 2020 strategy, identifies social exclusion as a process whereby individuals are pushed to the margins of society and prevented from participating fully by virtue of their poverty, lack of basic competencies and opportunities, or as a result of discrimination and structural inequalities. The exclusion process distances them from gainful employment, adequate income and education and training opportunities and/or access to social networks and services (drawn from the European Commission’s Joint report on Social Inclusion 2004 – European Commission 2004). This expression underlines how, within the context of European countries, exclusion from society is viewed as multidimensional and a much broader concept than the measure of financial poverty alone (notwithstanding the important role that such poverty plays in establishing social exclusion). An example is that, as part of its monitoring process, the EU adopted eight indicators of social exclusion, covering income poverty and material deprivation as well as unemployment, joblessness, education and health (Atkinson et al. 2002). This is also exemplified by the European Council’s definition of the headline target for the reduction of poverty and social exclusion in the EU2020 strategy on the basis of three indicators: the income-based at-risk-of-poverty rate, the multiple index of material deprivation and the percentage of people living in households with very low work intensity. These references highlight the value of complementing income poverty indicators with material deprivation indicators and also exclusion from the labour market. The focus on these multiple domains of social exclusion also highlights the diversity of the problems that EU Member States face and of the policy priorities they have set out in their social agenda for the future.

In general, the concept and definition of social exclusion varies according to the time, context and population subgroup in question (see, e.g., Keating and Phillips 2008). While sharing the multidimensional perspective as advocated for the poverty concept, the concept of social exclusion can also have different connotations. Whereas poverty is a state in which an individual or household may find itself, social exclusion is dynamic in nature and refers to a wide range of social situations and processes in which individuals, families and communities become excluded from full participation in the society within which they live (Robila 2006; Evans 1998; Room 1990, 1995). Likewise, while poverty can be restricted to a state of the ‘lack of material resources, especially income, necessary to participate’, social exclusion ‘refers to the dynamic process of being shut out, fully or partially, from any of the social, economic, political and cultural systems which determine the social integration of a person in society’ (Walker and Walker 1997).

The domain of exclusion from material resources reflects the central role played by income and other financial and material resources in determining individuals’ ability to participate in society. Also,
following Jordan (1996), individuals are most vulnerable when they have fewest personal capacities (e.g., hazards of childhood, old age, sickness, disability, or handicap) and material resources and these social risks do not necessarily threaten their exclusion from the society as long as they enjoy the protections afforded by membership of that society (Robila 2006). Thus, the context of the national welfare states as well as the backdrop of civil society and informal networks is crucial in safeguarding from social exclusion in old age.

Using the large international database of European Union Statistics on Income and Living Conditions (EU-SILC), the chapter provides empirical evidence on the income-based poverty for older people living across EU countries. It also draws insights from the capability approach in supplementing income-based measures with the additional non-monetary deprivation measures, but with a focus on ‘capabilities’, instead of realised outcomes. The arguments in favour of these choices are set out in the next section.

2. Approaches to measure exclusion from material resources

Three approaches can be identified in operationalising the concept of exclusion from material resources, within the context of older people living in European countries.

a. The income entitlement approach

The income entitlement approach is concerned with the level of resources an individual is entitled to or endowed with (see, Atkinson 1989), irrespective of whether they become available in the form of cash or commodities, whether they are privately attained or state-provided. Although the overarching objective of achieving a decent standard of living remains important, the advocates of this approach are not concerned with whether the required minimum standard is actually attained. The approach is all about the level of income entitlements, irrespective of how that income is disposed of by the individual in question.

Individual income can be used as the measure of individual entitlements, and the entitlement to the minimum individual income may take varying levels of individual needs into account. Thus, different people may be entitled to different amounts of income depending upon their personal characteristics. For instance, the minimum income guarantee may include age and disability premia to account for differential needs of individuals. The adoption of this approach also places high importance to the description and explanation of institutional arrangements within which income rights are accumulated. The usefulness of such an approach is exemplified by the analyses of the theoretical replacement rates in the OECD flagship report Pensions at a Glance, (2009, 2011) where they make use of theoretical replacement rates for stylised workers to reflect on differences across OECD countries in terms of pension income entitlements. The same approach is adopted by the Indicators’ Sub-Group (ISG) of the Social Protection Committee (SPC) that is responsible for the formulation and definition of indicators to be used for monitoring countries’ progress towards the commonly agreed objectives of social inclusion, pensions, health and long-term care (see European Commission 2009 for more discussion on this approach).

b. The standard-of-living approach

The most widely-used direct measure of personal resources is given by a person’s attained standard of living, which takes income entitlement as its point of departure and introduces the idea that individuals, families and households differ in their conversion of resources to attain a given living standard. Thus, this approach accounts for not only the command over resources, as in the income entitlement approach, but also how those resources are used up in attaining a standard of living (for more discussion, see Zaidi 2008). Since individuals differ in their conversion of income into a certain...
standard-of-living, this approach emphasises what ends are achieved by the command over material resources and not just by a mere indication of what resources one is endowed with (as in the income-entitlement approach). Note here that it is only through a meaningful ‘manipulation’ of information on total household income, and their family size, that income can be used as an indicator of standard of living (cf. Ringen 1991, 1996). In this method, equivalent income is interpreted as the value to each person of the equitable share of potential consumption generated by the total household income.

Although the needs of a household grow with each additional member, the larger households benefit from economies of scale. For example, the needs for housing amenities will not be twice as high for a household with two members than for a single person. The equivalence scales assign each household type in the population a value that is in proportion to its needs, taking into account the economies of scale. The factors commonly taken into account in the needs to assign equivalence scale values are number of members of the household and whether they are adults or children. The equivalence scale used in this chapter assigns a value of 1 to the first household member, of 0.5 to each additional adult and of 0.3 to each child. This scale (called OECD-modified scale), first proposed by Haagenars et al. (1994), implies that two-member (both adults) household requires only 50% more income (not 100% more) to be on the same potential consumption value as a single person household, all other things being equal. This is the route that income has to take to be used as a measure of standard of living.

c. The capability approach

The third approach brings a new perspective into the picture: the availability of alternative levels of standard of living from which an agent had the freedom to choose from. This idea of agency freedom forms the basis of the capability approach, as put forward by Sen. Sen elaborated arguments for this change of focus in ‘Well-being, Agency and Freedom: The Dewey Lectures 1984’ (Sen 1985) and in ‘Justice: Means versus Freedoms’ (Sen 1990).

Sen’s many writings evolved a strong critique of the conventional views to the perception and measurement of well-being. He emphasises the fact that command over resources (or income) should not be the sole basis of personal well-being, no matter how comprehensive and inclusive the definition of resources is. Sen’s response to these limitations is given in his formulation of the capability approach. In this approach, he argues that an individual’s opportunities to achieve well-being are more important than the actual outcome, and these opportunities are determined by their ‘capability set’. By capability set, he means the ability and freedom of individuals to perform a certain set of functionings, which are outcomes that a person has achieved with the resources available. The ‘capability’ involves the full set of attainable alternative outcomes a person has the power or ability to achieve (a concept similar to the opportunity set concept as provided by Gasper 2007).

So, what are the implications of the above for the empirical method to be adopted in this chapter? It can be surmised here that the first two approaches operate within the income domain. The adoption of capability approach, on the other hand, supplements the income domain, by offering additional information regarding how (materially) capable older people are.

A useful distinction between alternative approaches comes also from Sen (1999) himself: the “direct approach” and the “supplementary approach”. The direct approach takes the form of directly examining and comparing standard of living outcomes as well as capabilities, and this may not be possible since it is empirically difficult to directly measure capabilities. The supplementary approach is the second-best option and it involves the use of traditional procedures of interpersonal comparisons in income and then supplementing it with capability considerations (for more discussion, see Pedace et al. 2010 and Zaidi 2008).
The empirical method adopted in this chapter employs the supplementary approach, by analysing income-based measures of poverty and also making use of other proxies for capabilities that can be observed in the dataset in use – The 2008 EU-SILC – see Box 7.1 for a description of the EU-SILC dataset. However, these SILC questions fall short of focusing on all the constraints that might prevent individuals from achieving certain outcomes (e.g. an older person might have the financial resources to go on holiday but might not do it because he is restricted in his mobility due to a physical disability). Thus, the proxies selected to measure capabilities do not account for older people’s capabilities in the full sense of Sen’s concept. However, they can be seen as ‘quasi capabilities’ (as mentioned by Hick, 2009) or proxies for capabilities since they give a sense of the freedom to achieve certain outcomes.

Box 1: Main characteristics of the EU-SILC dataset

EU-SILC is a multi-dimensional dataset focused on income but at the same time covering housing, labour, health, demography, education and deprivation, to enable the multidimensional approach of social exclusion to be studied. It was launched in 2003 in seven countries under a gentleman’s agreement and later was gradually extended to all 27 EU countries and Iceland, Norway, Switzerland and Turkey — and tested in three further countries (Croatia, the Former Yugoslav Republic of Macedonia and Serbia).

All EU Member States are required to implement EU-SILC, which is based on the idea of a common ‘framework’ as opposed to a common ‘survey’. The common framework consists of common procedures, concepts and classifications, including harmonised lists of target variables to be transmitted to Eurostat.

Two types of annual data are collected through EU-SILC:
• cross-sectional data pertaining to a given time period, including variables on income, poverty, social exclusion and other living conditions. The data for the survey of Year N are transmitted to Eurostat by November of Year (N+1);
• longitudinal data pertaining to changes over time at the individual level are observed periodically over a four-year period. Longitudinal data are confined to income information and a reduced set of critical qualitative, non-monetary variables of deprivation, designed to identify the incidence and dynamic processes of persistent poverty and social exclusion among subgroups of the population. The longitudinal data corresponding to the period between Year (N-3) and Year N are to be transmitted to Eurostat by March of Year (N+2).

The total sample size for each year is around 500,000 observations, with a minimum of 10,000 observations per country. For the estimation of trends, a time period to a maximum of 6 years is available, but only for a few countries: BE, DK, IE, EL, LU, and AT (covering the period 2003-2008). For EU25 countries, there are only four years of trend data. Bulgaria and Romania are available only for the most recent year. The above information is taken from Wolff et al. (2011), who provide useful additional details about the EU-SILC database.

The next section presents the first set of results and also highlights the importance of income and the institutional context of pension policy in determining the social inclusion of older people in European countries. It also presents income-based analysis of poverty for the elderly people, and their subgroups, living across EU countries.

3. Income-based measures of poverty for the elderly in EU countries

a. The institutional context of pension policy and the income entitlement

Pension policy across EU countries plays an important role in the entitlement of incomes for older people. This objective is pursued through a multitude of national pension schemes that differ in their design, scope, coverage and also re-distributional elements (see OECD 2009, 2011). The schemes are
governed by public, quasi-public or private agencies and these governance arrangements have been subject to reforms in current times (See Whitehouse et al. 2010; Zaidi and Grech 2007). In addition, in many countries, separate tax-financed social assistance schemes supplement pension incomes for the objective of poverty prevention for older people.

The first and foremost objective of these pension policies is to facilitate provision of adequate levels of retirement incomes so as to ensure that people are able to redistribute income from working lives to retirement and thus prevent falling into poverty in their old age. In pursuing this objective, a particular challenge for policymakers is to ensure that groups experiencing non-standard employment patterns during working age also attain adequate levels of retirement incomes. Such groups include those people whose working lives show patterns of persistent low earnings, engagement in part-time and temporary work, significant career interruptions for unemployment or inactivity, or childcare related gaps in their employment record.

To analyse the individual income entitlement across EU countries, the so-called theoretical replacement rate (TRR) is used, calculated for those retiring in 2006 having accumulated pension rights under the current pension policies, by using the case of stylised male workers on average wage throughout their working careers. The TRR calculations are provided by the Indicators Sub-Group of the Social Protection Committee of the European Union, and they are carried out by respective countries. The calculations cover net pension entitlements from public pensions and mandatory private schemes as well as other private schemes with a significant role in the pension incomes of these retirees (see, for more details, see European Commission 2009).

TRR provide an evaluation of to what extent current and future pension systems ensure that the elderly have the resources to support adequate standards of living. TRR measure the extent to which pension systems enable typical workers to preserve their previous living standard when moving from employment to retirement.

**Figure 1: Theoretical Replacement Rate (net), for workers retiring in 2006 with a 40 years full career on average wages**

![Image of graph showing theoretical replacement rate](image)

Note: The theoretical replacement rate (net) is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking account of personal income taxes and social security contributions paid by workers and retirees. EU27 – unweighted average

b. Standard of living approach: Patterns of poverty risk among older people

Adopting the standard of living approach, one of the indicators that can be reliably measured from the data available is relative poverty. A widely accepted relative poverty measurement approach has been to use household income as the measure of well-being which counts poor individuals as those living in households where (equivalised) disposable income is below the threshold of 60% of the national (equivalised) median income (see, e.g., Atkinson et al. 2002).

Given the arbitrary nature of the poverty threshold in use, and the fact that having an income below this threshold is just one indication of having a low standard of living, this indicator is referred to as a measure of at-risk-of-poverty. This approach is adopted in all European Commission’s recent reports, which also uses the same data source, EU-SILC, as used in this chapter. The general approach of measuring poverty relative to a proportion of median income has also been adopted by the OECD in its most recent cross-country analysis of poverty and income distribution (OECD 2008).

Results for 2008 show that about 19% of all older people in EU member countries are at risk of being ‘poor’. In the context of this study, an older person is someone who is aged 65 or more, mainly for the fact that these people have reached the most usual statutory retirement age of 65 observed across many European countries. Altogether, about 16 million older people are at risk of poverty, approximating one-in-five of all 85 million older people living in EU countries.

Figure 2 highlights the variations observed across countries. Results are brought together so as to allow the poverty risk rates for three population groups – older people (aged 65+), working age people (aged 18-64) and the overall population – to be presented and contrasted across 27 EU Member States.

Figure 2: At-risk-of-poverty rates among people of retirement age (65+), working age (18-64) and the total population, using 60% of median income (national) as the poverty threshold, EU-SILC 2008

Note: At-risk-of-poverty rates are calculated as the proportion of persons living in households with an equivalised income below the poverty threshold, which is set at 60% of the national median equivalised income. Countries are ranked, from top to bottom, in decreasing order of income poverty rates of people of retirement age. The income concept used is that of household disposable income (after social transfers), adjusted for household size by the modified OECD equivalence scale.

Source: EU-SILC 2008 for all countries, except Bulgaria and Romania (National Household Budget Surveys). Results are drawn from EUROSTAT’s statistical database; date of extraction 08 January 2010. The same data source is used for all poverty statistics presented in this chapter, unless otherwise stated.
The country-by-country variations observed are broadly captured by the following three groupings of countries. The first group is the one which has lower-than-average at-risk-of-poverty rates (16% or less), and ten countries fall in this category. Hungary and Luxembourg, two contrasting countries in various respects, are identified as the least poor, followed by the Czech Republic, the Slovak Republic, the Netherlands, France, Poland, Germany, Austria and Sweden. The second group has the close-to-average at-risk-of-poverty rates (18-23%), and nine countries show older persons’ poverty risk rates close to the EU average of 19%: Denmark, Belgium, Ireland, Italy, Slovenia, Greece, Malta, Portugal and Finland. The third group is the higher-than-average at-risk-of-poverty rates (more than 25%). This last cluster of countries has eight countries, with Latvia and Cyprus standing out among the EU countries with the highest at-risk-of-poverty rates for older people (51% and 49%, respectively). Other countries with a higher-than-average at-risk-of-poverty rate for older people are two newest member of the EU (Estonia and Bulgaria), as well as the United Kingdom, Lithuania, Spain and Romania. What is striking here is the diversity of countries in each group, and how this fact alone suggests different reasons for their showing in the data.

So, some specifics of the results presented in Figure 2 will help explain these results better. Take, for example, the first group of countries where the older people poverty risk rate is lower than average.

- Within this group, the low poverty risk rate among older people for some countries is a reflection of a mature, generous and redistributive system of pension benefits: the Netherlands, Luxembourg, Austria, France and Sweden will fall in this category. For example, the Netherlands provides a strong social safety net in the form of a basic pension, which is paid at a single rate, regardless of people’s other resources. Moreover, the basic pension is payable to older people subject only to a residency test. Thus, those who had disruptive labour market careers are not affected in their full entitlement of the basic pension if they have lived in the country during their working age. The amount of basic pension is also reasonably generous: it is close to 31% of average earnings (in the Netherlands).

- Then, there are other countries within this low poverty risk rate grouping where there are other factors that underlie a low poverty risk rate among older people. For example, pension levels in four Eastern European countries – the Czech Republic, Hungary, Poland and the Slovak Republic – are not high, but older people fare better in comparison to the general conditions of low income observed in the country. Low poverty risk rates among older people in these four countries are partly due to large redistributive elements inherent in the guaranteed minimum pensions in some of these countries. These low poverty risk rates among older people are also an indication of a lower level of income inequality across older and younger groups of the population. Thus, low poverty among older people in these countries is partly a statistical artefact as an indication of the country-based relativity inherent in the poverty definition.

Taking the example of higher-than-average group of countries, the element of relativity in the poverty definition can be further explained.

- Poverty risk rates among older people for some of these countries are revealed to be high because the incomes of their working age populations have observed an unprecedented growth in the recent past. This is particularly true for Spain. Thus, despite the fact that pension incomes of older people have observed some real-term improvements – either because younger cohorts are retiring with better coverage of and returns from pension schemes, or due to real-term rises in the minimum guaranteed level of incomes older people are entitled to – older persons in Spain are nonetheless classified as being in a high poverty group. Thus, what has caused the classification of high poverty to attach to those of pension age in the modern-day Spain is largely due to improvements in the comparator group – the working age population.
The additional issues of monetary poverty among older people are addressed in more detail elsewhere (see Zaidi 2010, 2006). Following the discussion above, there is the question of the degree to which older people in monetary poverty also experience exclusion in the capability domain. This issue is addressed in the next section. It discusses how the capabilities of older people can be approximated and how these measures will complement the income-based measures for the purpose of measuring exclusion from material resources of older people.

4. Approximation of capability deprivation of older people

In supplementing the income space, a valuable use can be made of additional information available in the EU-SILC database. This information is derived from responses to enquiries about older people’s capabilities (opportunities) in achieving well-being, instead of merely the outcome as shown by income or other such metric.

This line of enquiry has become possible with the help of EU-SILC survey questions such as: ‘Capacity to afford paying for one week annual holiday away from home’ and ‘Capacity to afford a meal with meat, chicken, fish (or vegetarian equivalent) every second day’. These and related other questions focus on the ‘affordability’ of some important aspects of standards of living of older people. The ‘affordability’ refers clearly to the meaning "ability to pay" – viz. "the household has the resources to afford" – regardless of whether the household wants it or not at that particular moment, and whether the activity had actually occurred or not.

Although useful, these questions fall short of providing information on all the constraints that might prevent individuals from achieving certain outcomes related to their personal well-being. For example, an older person might have the financial resources to go on holiday but he/she might be restricted from doing it due (say) to a physical disability. Thus, these questions lack the full information content to account for older people’s capabilities in the fullest sense of Sen’s concept – they can at best be referred as the proxy measures selected to approximate older people’s capabilities (see Hick 2009 and Pedace et al. (2010) for more arguments on this line of thinking).

Selecting relevant dimensions on the basis of the available data is also proposed by Alkire (2007). Guidelines in choosing the relevant capabilities are also provided by others: the list of capabilities used in the Equalities Review (2007); Nussbaum’s (1999) list of central human capabilities and the study investigating the capabilities that matter to older people by Grewal et al. (2006). We select five relevant questions from the EU-SILC 2008 database in determining the capability of older people across EU countries and in extending our work on income-based poverty and social exclusion of older people. They are:

1. Capacity to afford paying for one week annual holiday away from home (question code in the EU-SILC dataset: HS140);
2. Capacity to afford a meal with meat, chicken, fish (or vegetarian equivalent) every second day, regardless of whether the household wants it (HS050)
3. Capacity to face unexpected financial expenses by paying through its own resources? (HS060)
4. Ability to keep home adequately warm (HH050)
5. Ability to make ends meet (HS120)

The analysis unit for these questions is household, based on the personal interview with the household respondent. The first four questions are asked with a possibility of either YES or NO response. If at least one household member lacks the capability (say, to go for holidays) the answer should still be mentioned as "NO". For older persons who have the resources required but for other reasons (say, frailty) they cannot join the other household members the answer should be "Yes".

The fifth question ‘ability to make ends meet’ is responded with answers graded from 1 (“with great difficulty”) to 6 (“very easily’). These responses provide richer information about the extent of ability in making ends meet – for reasons of consistency the data has been reworked in order to provide congruence with the other four questions.

Below, in Table 1, we report average incidence rates of ‘NO’ for each of these five capabilities, for the subgroup of older persons (aged 65+) in each country. Next, in Figure 3, we also report how often an average older person is deprived (out of a possible maximum of 5). These results are referred to as the average capability deprivation count. Also, results are presented on what proportion of older persons are deprived in at least three out of total five (see Figure 4); these results are referred to as the capability deprivation rate.

Based on results presented in Table 1, it is clear that the capability with respect to paying for one week annual holiday away from home is particularly low among older citizens of EU countries. In excess of two-thirds of all older citizens (38.3%) report that their household lack adequate resources to afford the holiday. There are wide variations across EU countries, and older persons in CEE countries are particularly worse off in this respect. In the majority of CEE countries, two-third of older persons report lacking this capability, with Romania, Bulgaria, Lithuania, Slovakia, Poland, Hungary and Latvia faring particularly bad – having capability deprivation in excess of two-third of all older people. Other CEE countries, such as Estonia and the Czech Republic, are not much better. Some of the Southern European countries also report high deprivation with respect to the capability to pay for one week holiday away from home, especially Portugal, Greece and Cyprus where close to 60% is deprived. The Scandinavian and the Western European elderly are clearly better-off than the rest of Europe.

The next capability analysed here refers to the capacity to face unexpected financial expenses by paying through household’s own resources. Here, the term household’s own resources means that the household does not ask for financial help from anybody else, the household account has to be debited within the required period and the situation regarding household’s potential debts will not deteriorate. Results included in Table 1 shows that close to 31% of older persons living in EU countries lack the capability to afford unexpected financial expenses. Again, the CEE countries fare worse than other countries, alongside Cyprus and Greece.

Another capability is approximated by the household respondent’s assessment of the level of difficulty experienced by the household in making ends meet. A household may have different sources of income and more than one household member may contribute to it. The idea underlying this question is with which level of difficulty the household is able to afford its usual expenses. Close to one-fourth of EU older persons report their ability is compromised by lack of adequate resources (i.e. they make ends meet either ‘with great difficulty’ or ‘with difficulty’). The relative situation of countries is roughly the same as for the previous two dimensions: CEE countries and southern European countries fare consistently worse than others, whereas Scandinavian and the Western European elderly are better-off than the rest of Europe.

In the other two remaining dimensions, the capability deprivation score is lower on average (close to 10%). The notable exceptions are that older persons in Southern Europe are not equally worse off in being able to afford a meal with meat, chicken or fish (or equivalent vegetarian) every second day. Note here that in this question the situation in which the household has the capacity to manage food expenses by borrowing is considered equivalent to the situation in which household manages to pay through its own resources. With respect to the ability to keep home adequately warm, older people in Slovakia, Hungary, Estonia, the Czech Republic and Slovenia do better than what could be expected given their relative situation with respect to other capability domains.
Table 1: Deprivation in the space of capabilities for older people in the EU, 2008

<table>
<thead>
<tr>
<th>Country*</th>
<th>1: afford one-week holiday away from home</th>
<th>2: bear unexpected financial expenses</th>
<th>3: Ability to make ends meet</th>
<th>4: afford meal with meat every 2nd day</th>
<th>5: keep home adequately warm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>87.1</td>
<td>47.5</td>
<td>51.7</td>
<td>27.4</td>
<td>29.5</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>81.3</td>
<td>78.4</td>
<td>74.4</td>
<td>57.0</td>
<td>25.7</td>
</tr>
<tr>
<td>Lithuania</td>
<td>76.8</td>
<td>51.0</td>
<td>33.4</td>
<td>28.2</td>
<td>27.8</td>
</tr>
<tr>
<td>Slovakia</td>
<td>74.8</td>
<td>46.0</td>
<td>45.3</td>
<td>41.1</td>
<td>8.3</td>
</tr>
<tr>
<td>Poland</td>
<td>73.8</td>
<td>58.1</td>
<td>42.6</td>
<td>27.2</td>
<td>25.8</td>
</tr>
<tr>
<td>Hungary</td>
<td>73.4</td>
<td>60.1</td>
<td>39.8</td>
<td>29.1</td>
<td>11.5</td>
</tr>
<tr>
<td>Latvia</td>
<td>71.8</td>
<td>74.0</td>
<td>52.3</td>
<td>36.0</td>
<td>22.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>70.6</td>
<td>27.4</td>
<td>46.8</td>
<td>6.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Estonia</td>
<td>62.3</td>
<td>24.5</td>
<td>14.2</td>
<td>7.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Greece</td>
<td>61.4</td>
<td>37.2</td>
<td>59.9</td>
<td>9.8</td>
<td>20.6</td>
</tr>
<tr>
<td>Cyprus</td>
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<td>57.2</td>
<td>9.0</td>
<td>38.6</td>
</tr>
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<td>Czech Republic</td>
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<td>40.4</td>
<td>28.6</td>
<td>15.4</td>
<td>8.3</td>
</tr>
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<td>Italy</td>
<td>44.4</td>
<td>31.2</td>
<td>36.8</td>
<td>8.4</td>
<td>12.2</td>
</tr>
<tr>
<td>Slovenia</td>
<td>41.8</td>
<td>48.0</td>
<td>26.7</td>
<td>18.1</td>
<td>7.1</td>
</tr>
<tr>
<td>Spain</td>
<td>38.9</td>
<td>31.1</td>
<td>27.5</td>
<td>2.4</td>
<td>5.6</td>
</tr>
<tr>
<td>Ireland</td>
<td>31.1</td>
<td>35.0</td>
<td>13.7</td>
<td>2.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Belgium</td>
<td>28.2</td>
<td>17.3</td>
<td>21.6</td>
<td>4.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Austria</td>
<td>27.3</td>
<td>24.6</td>
<td>12.1</td>
<td>17.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Finland</td>
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<td>4.6</td>
<td>4.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Germany</td>
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<td>22.7</td>
<td>3.6</td>
<td>8.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Netherlands</td>
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<td>16.0</td>
<td>8.9</td>
<td>2.1</td>
<td>1.7</td>
</tr>
<tr>
<td>UK</td>
<td>15.1</td>
<td>18.5</td>
<td>10.0</td>
<td>3.6</td>
<td>4.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>13.1</td>
<td>13.8</td>
<td>6.0</td>
<td>2.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>11.1</td>
<td>18.5</td>
<td>4.3</td>
<td>1.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5.8</td>
<td>10.3</td>
<td>3.2</td>
<td>0.9</td>
<td>0.4</td>
</tr>
<tr>
<td>Average</td>
<td>38.3</td>
<td>31.0</td>
<td>24.4</td>
<td>11.0</td>
<td>10.5</td>
</tr>
</tbody>
</table>

* Data for France and Malta are not available in the EU-SILC 2008 database.

1. Capacity to afford paying for one week annual holiday away from home
2. Capacity to face unexpected financial expenses
3. Ability to make ends meet
4. Capacity to afford a meal with meat, chicken, fish (or vegetarian equivalent) every second day
5. Ability to keep home adequately warm

Source: own calculations using EU-SILC 2008 (August 2010 version)

Figure 4 reports the average capability deprivation count for older persons across EU countries, i.e. how often an average older person is deprived (out of a possible maximum of 5). This is the simplest form of aggregation of results across different domains (as presented in Table 2). The average deprivation count is around 1.2, showing capability deprivation in one dimension only for an average older person in these EU countries. This average masks wide variations across EU countries. The CEE
countries (with the exception of Estonia, Slovenia and the Czech Republic) as well as Portugal and Greece show much higher capability deprivation count than that observed for Scandinavian and Western European countries. Older people in Bulgaria report in excess of three capability deprivations, whereas those living in Latvia, Romania, Poland, Cyprus, Lithuania, Slovakia, and Hungary have two or higher capability deprivation count. These results, as well as those reported in Table 1, identify that the material resources available to older persons in CEE countries as well as in some southern European countries (particularly Portugal and Greece) fall short for a good majority of older persons.

**Figure 4: Average capability deprivation for older persons (aged 65+) in EU countries, out of the total of five chosen aspects, 2008**

![Average capability deprivation chart](chart.png)

Source: EU-SILC 2008, own calculations

Note: see notes of Table 2

Source: own calculations using EU-SILC 2008 (August 2010 version)

Results presented in Figure 5 adopt a different sort of aggregation, by calculating the capability deprivation rate, defined as the capability deprivation in at least three domains (out of total five domains included in Table 2). On average 20% of EU’s older people can be considered deprived in terms of capability. In Bulgaria, the deprivation in terms of capability is highest: 74%. Other CEE countries also perform badly in this indicator, since six more CEE countries have a deprivation incidence higher than 40%: Latvia (55%), Romania (48%), Poland (45%), Slovakia (45%), Lithuania (41%) and Hungary (41%). Portugal and Greece and also Cyprus are well above the average. On the other end of the spectrum, Western European and Scandinavian countries have a high capability among their older persons. These results confirm the findings of the individual domains (as reported in Table 2) and that of the capability deprivation count (as presented in Figure 4).
Figure 5: Capability deprivation rate for older persons (aged 65+) in EU countries, defined as deprivation in at least three out of the total of five chosen aspects, 2008

Note: see notes of Table 2
Source: own calculations using EU-SILC 2008 (August 2010 version)

5. Conclusions

As the 2008 recession abates, most European economies are returning uncertainly to a positive growth. Even so, EU unemployment rates are uncomfortably high (averaging at 10% during 2011), common currency ties are testing the European community solidarity, while budgetary cutbacks initiated in many member States are (most likely) impacting on the public benefits and services for vulnerable groups (particularly, children and older people and people with disabilities). The impact on future generations of elderly – cohorts which are growing in number just as the working population cohorts supporting them will soon start declining – depends to a large extent how current problems are viewed at each country level and resolved with policy reforms, and how such initiatives are supported by European level initiatives.

This chapter examined the picture for the current generation of older people, with particular reference to their exclusion from material resources, an absence which triggers and identifies other forms of exclusions for older people. Income is used as a primary measure of exclusion (following mainly the arguments given in Atkinson 1989), but Sen’s ideas, emphasising agency freedom and capability aspects of welfare, are also adopted. Sen’s capability approach guides us to measure the ability or freedom people have in achieving the outcomes they value, and indicates ways forward in terms of addressing the conceptual and methodological challenges associated with the measurement of exclusion from material resources for older people.

When this approach is adopted in this Chapter, what emerges is a degree of variation in the relative ranking of countries according to which of the two measures is adopted. The capability approach measures alter significantly the relative ranking of EU countries when compared with the income-
based measure. Eastern European EU countries fare much worse in terms of capability deprivation of older people, while the Western European countries improve in their relative standing. What emerges is the clear methodological implication that income-based measures provide only an incomplete picture and must be complemented with non-monetary measures (such as capability deprivation measures reported here) for a more satisfactory snapshot of the material conditions of older Europeans. The adoption of the capability approach offers a step in the right direction as it leads us to adopt a conceptually richer method. But, questions remain whether the capabilities chosen in the EU-SILC database to measure deprivation for older people right ones? For example, if we had the choice, we would choose questions asked about older people’s ability in general, not just their financial capability, to achieve outcomes they desire. Moreover, further questions needed to be added to the current set of questions related to other key capabilities dimensions (e.g. health and availability of informal social support). Suffice to say here is that improvements in the comparative on social exclusion experiences of older people will allow policymakers to be not just more informed in their decision-making and also in persuading the public that its own interest lies in facing the consequences of those impending policy reforms.
References


Zaidi, A. and T. Burchardt (2005), Comparing incomes when needs differ: Equivalisation for the extra costs of disability in the UK, *Review of Income and Wealth* Series 51, Number 1, March