



Exclusion from Material Resources among Older People in EU Countries: New Evidence on Poverty and Capability Deprivation

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Introduction and motivation

The income stress for many European households has become acute since 2008, and the situation calls to mind the plight of the Dickensian character, Wilkins Micawber, in the 1850 novel *David Copperfield*. Famous in the literature of another age – and one familiarly unkind to those lacking material wealth – Mr. Micawber possessed great optimism about what was needed to avoid poverty, without necessarily the means to achieve it. His guiding life principle, “something will turn up”, was indeed the expectation of better fortune in due course, in circumstances that showed little immediate prospects for enrichment, and while it led him ultimately to a measure of happiness, it was not before a spell in prison!²

The difficulties of maintaining such a cheerful optimism in 1850s England seem now to have found a parallel in the European economic climate of today. The recessions that followed in the wake of the financial sector crises have started to abate, as most European economies are returning to positive economic growth; what is not so clear is how steady or durable these developments are. Unemployment rates remain uncomfortably high, averaging at 10% for the EU during 2010 and 2011. Moreover, most EU countries have also now embarked on a series of budgetary consolidation measures (starting during late 2010, and taking on a momentum of its own during early 2011) and the impact of cutbacks required for fiscal consolidations on the vulnerable groups of the society, particularly children and pensioners, could be severe.

- ¹ This Brief is drawn from the chapter ‘Exclusion from material resources: poverty and capability deprivation among older people in EU countries’, prepared for the forthcoming book *From Exclusion to Inclusion in Old Age: A Global Challenge*, edited by Nora Keating and Thomas Scharf, The Policy Press, Bristol, the UK.
- ² Charles Dickens modelled Micawber on his father, John Dickens, who ended up in a debtors’ prison after failing to meet the demands of his creditors.

The contexts in which the future generation of elderly will live are precarious.³ European pension systems still have a long way to go to reach the goal of securing financial sustainability, in view of rising longevity and other shifts in society, making it difficult to be completely optimistic about the future.⁴ Thus, a picture of the current generation of older people's exclusion from material resources will provide us a proxy for the base situation, and it remains of particular interest to observe how these contexts vary across EU countries in terms of pension policy, adequacy of pension provision, and the public finance sustainability reforms adopted by EU countries.

Exclusion from material resources takes *primus inter pares* status

This Brief focuses on the exclusion from material resources that older people experience in the EU countries, and picks through the conceptual and measurement issues that help, and sometimes hinder, the realisation of the goal of enhancing social inclusion of older people. It 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 serves as the identifier for 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 factors (physiological, psychological) common to the experience of old age which impede older people's capacity to participate in the society where they live. Thus, the position taken in this Brief is that the exclusion from material resources domain acquires *primus inter pares* status within the context of measuring social exclusion for older people.

So, how is exclusion from *material* resources measured? Our position is that it is related to the established, arguably less complex, practices of operationalising poverty and material deprivation (as advocated by Scharf et al. [2005], with the examples of work by Evandrou [2000] and Gordon et al. [2000]). The approach adopted here uses income as a primary measure of material resources, and then supplements it with wider measures of material deprivation that focus on personal capabilities of older people.

3 See Zaidi (2011) as well as Economic Policy Committee (2009a; 2009b) and Martin and Whitehouse (2008) for evidence on shifts that are likely to happen in the pension income entitlements of future retirees.

4 See also earlier European Centre's Policy Briefs on this issue (Zaidi, 2010a; 2010b).

Command over resources (or income) not the sole basis of personal well-being

Our approach here also draws from a comparatively novel approach and brings in a new perspective into the picture: the availability of alternative levels of standard 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,⁵ and is adopted here to supplement income space with additional information regarding personal capacities, or opportunities, within the sphere of material resources of older people.

Sen emphasises the fact that command over resources (or income) should not be the sole basis of determining personal well-being, no matter how comprehensive and inclusive the definition of resources is. He argues that an individual's *opportunities* to achieve well-being are more important than the *actual outcomes*, and these opportunities are determined by their 'capability set' – the ability and freedom of individuals to perform a certain set of functionings, which are outcomes that a person wishes to achieve with the resources available. The 'capability' involves the full set of attainable alternative outcomes a person has the power or ability to achieve.

Does the income poverty combined with the capability approach capture the reality of contexts of disadvantage and deprivation among older people generally? What other insights can be drawn from the theoretical debates on the concept of social exclusion (within the context of European Union) over the recent past, and what data limitations, comparative problems and methodological approaches are emerging. These subject matters are essentially research questions, and some of them are also discussed in detail elsewhere (see, e.g. Pedace et al., 2010; Hick, 2009; Zaidi and Burchardt, 2005). The comparative strengths of various approaches to measure social exclusion of older people are set out elsewhere (see, e.g. Zaidi, 2011). Building on this discussion, this Brief illustrates some of 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 in EU countries.

5 Sen first outlined the capability approach in his Tanner Lecture at Stanford University in 1979 (Sen, 1980), and provided its formal description in several subsequent pieces of his later work.

How the Brief is organised?

The Brief is organised in four further sections. **Section 1** reviews key conceptual and measurement issues, regarding poverty, deprivation and the broader theme of social exclusion. **Section 2** 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 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 3** 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 older people. **Section 4** 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?

I. What are the relevant conceptual and measurement issues?

The definition used by the EU, and adopted as part of its Europe 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.

The above expressions underline 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 poverty plays in establishing and identifying 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. This focus on these multiple domains of social exclusion 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. Unlike poverty, a static 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*, although these social risks do not necessarily threaten exclusion from the society as long as they enjoy the social 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 are crucial in promoting social inclusion in old age.

Using the large international database of European Union Statistics on Income and Living Conditions (EU-SILC), the Brief provides empirical evidence on the income-based poverty for older people living across EU countries. It also draws insights from the additional non-monetary deprivation measures, with a focus on 'capabilities', instead of realised outcomes. The arguments in favour of these choices are set out in detail elsewhere (see, e.g., the forthcoming chapter by the author in Keating and Scharf (2011)).

2. Income-based measures of poverty provide the starting point!

The 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 redistributive 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 (arguably) 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.

Adopting the income-based 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 use the same data source, EU-SILC, as used in this Brief. 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).

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. Results for 2008 show that about 19% of all older people in EU member countries are at risk of being 'poor'. 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 1 highlights the variations observed across countries, broadly captured by the following three groupings of countries:

1. **Lower-than-average at-risk-of-poverty rates (16% or less):**

Ten countries fall in this category: Hungary (4%), Luxembourg (5%), the Czech Republic (7%), the Slovak Republic (10%), the Netherlands (10%), France (11%), Poland (12%), Germany (15%), Austria (15%) and Sweden (16%).

2. **Close-to-average at-risk-of-poverty rates (18-23%):** Nine other countries show older persons' poverty risk rates close to the EU average of 19%: Denmark (18%), Belgium (21%), Ireland (21%), Italy (21%), Slovenia (21%), Greece (22%), Malta (22%), Portugal (22%) and Finland (23%).

3. **Higher-than-average at-risk-of-poverty rates (more than 25%):** This 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 Estonia (39%), Bulgaria (34%), the United Kingdom (30%), Lithuania (29%), Spain (28%) and Romania (26%).

Figure 1:

At-risk-of-poverty rates
among older persons (65+),
EU-SILC 2008

EU27: 19%

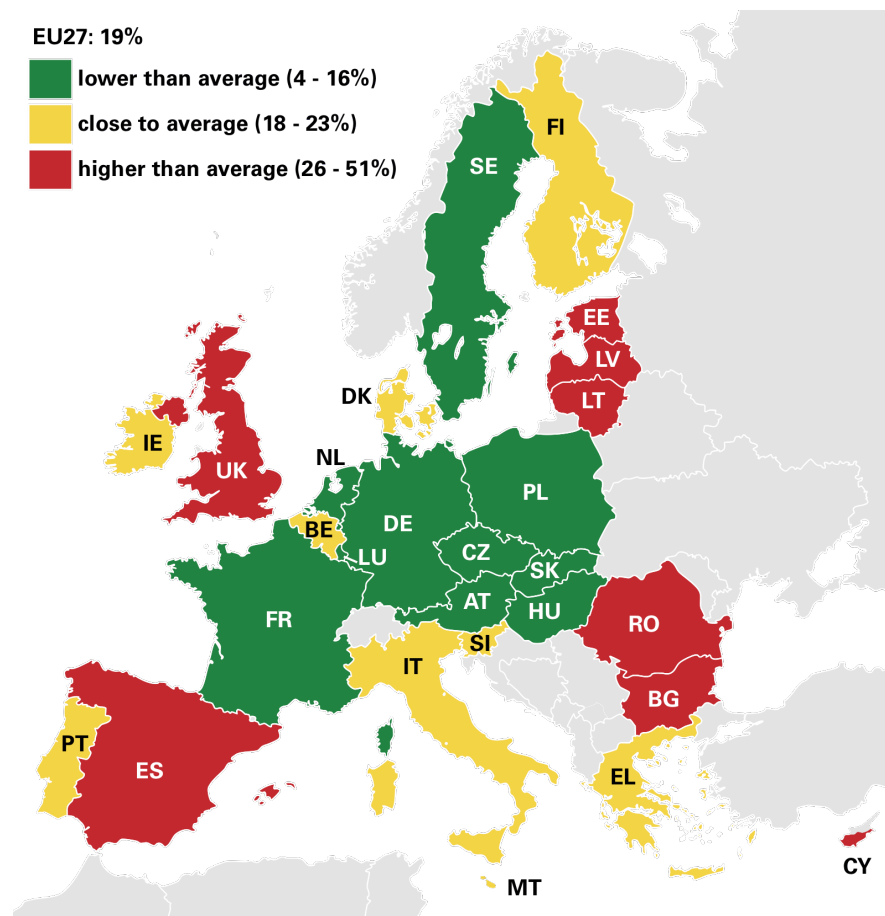
lower than average (4 - 16%)

 close to average (18 - 23%)

higher than average (26 - 51%)

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. The income concept used is that of household disposable income (after social transfers), adjusted for household size by the modified OECD equivalence scale, and includes imputed rent for owner-occupied households.

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 July 2011. The same data source is used for all poverty statistics presented in this Brief, unless otherwise stated.



Other perspectives on the profile of older people poverty can also be analysed using the data available in the EU-SILC database, and the following analytical questions are relevant: How do poverty risk rates differ across older men and women? How do the younger cohorts of older persons (aged 66-74) fare in comparison to the oldest cohorts (75 or more)? How do different living arrangements of older households, specifically living as a single person or a couple, affect poverty rates? What are the underlying trends in the poverty risk rate for older persons and how do they compare with those for children? These issues of monetary poverty among older people are addressed in more detail elsewhere (see, e.g., Zaidi, 2010a). Following the debate, there remains the question of the degree to which older people in monetary poverty also experience exclusion in the capability domain (across EU countries). This issue is addressed next – it discusses how the capabilities of older people can be approximated and how the measures complement the income-based measures for the purpose of measuring exclusion from material resources of older people.

3. Approximation of capability deprivation of older people provides further insights

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 to 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).

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: [HSI40](#))
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 ([HSI20](#))

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 is still 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.

Table I:
Deprivation in the space of
capabilities for older people
in the EU, 2008

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

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

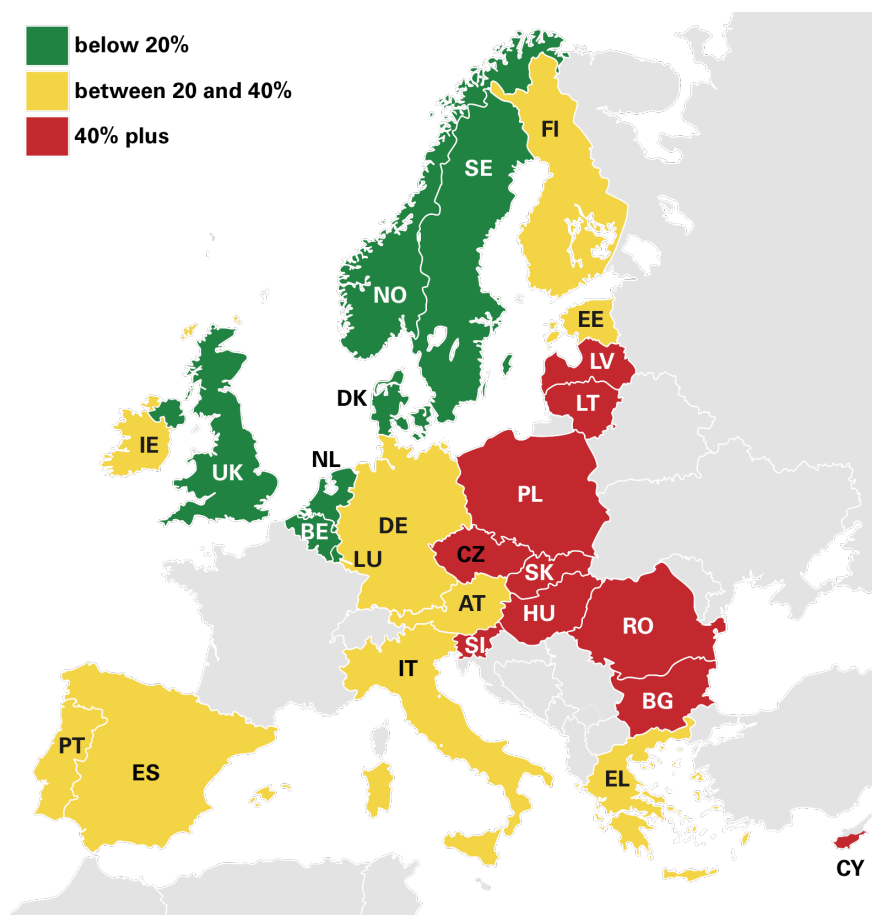
Country	Proxies for capabilities				
	1	2	3	4	5
	afford one-week holiday away from home	bear unexpected financial expenses	Ability to make ends meet	afford meal with meat every 2nd day	keep home adequately warm
Romania	87.1	47.5	51.7	27.4	29.5
Bulgaria	81.3	78.4	74.4	57.0	25.7
Lithuania	76.8	51.0	33.4	28.2	27.8
Slovakia	74.8	46.0	45.3	41.1	8.3
Poland	73.8	58.1	42.6	27.2	25.8
Hungary	73.4	60.1	39.8	29.1	11.5
Latvia	71.8	74.0	52.3	36.0	22.2
Portugal	70.6	27.4	46.8	6.0	40.0
Estonia	62.3	24.5	14.2	7.9	1.4
Greece	61.4	37.2	59.9	9.8	20.6
Cyprus	59.0	54.3	57.2	9.0	38.6
Czech Republic	50.9	40.4	28.6	15.4	8.3
Italy	44.4	31.2	36.8	8.4	12.2
Slovenia	41.8	48.0	26.7	18.1	7.1
Spain	38.9	31.1	27.5	2.4	5.6
Ireland	31.1	35.0	13.7	2.0	2.8
Belgium	28.2	17.3	21.6	4.2	6.2
Austria	27.3	24.6	12.1	17.6	5.5
Finland	18.9	24.2	4.6	4.1	2.2
Germany	17.7	22.7	3.6	8.9	4.0
Netherlands	17.1	16.0	8.9	2.1	1.7
United Kingdom	15.1	18.5	10.0	3.6	4.8
Sweden	13.1	13.8	6.0	2.6	1.5
Denmark	11.1	18.5	4.3	1.8	0.8
Luxembourg	5.8	10.3	3.2	0.9	0.4
Average	38.3	31.0	24.4	11.0	10.5

Based on results presented in Table I, the following results stand out:

- 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 one-third of all older citizens (38.3%) report that their households 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, more than two-thirds of older persons report lacking this capability, with six countries showing massive incapability in terms of holidaymaking, from 71.8% in Lithuania to 87.1% in Romania. Some of the Southern European countries also report high deprivation with respect to this capability: Portugal (70.6%), Greece (61.4%), Cyprus (59%) and Italy (44.4%). The Scandinavian and the Western European elderly are clearly better-off than the rest of Europe.

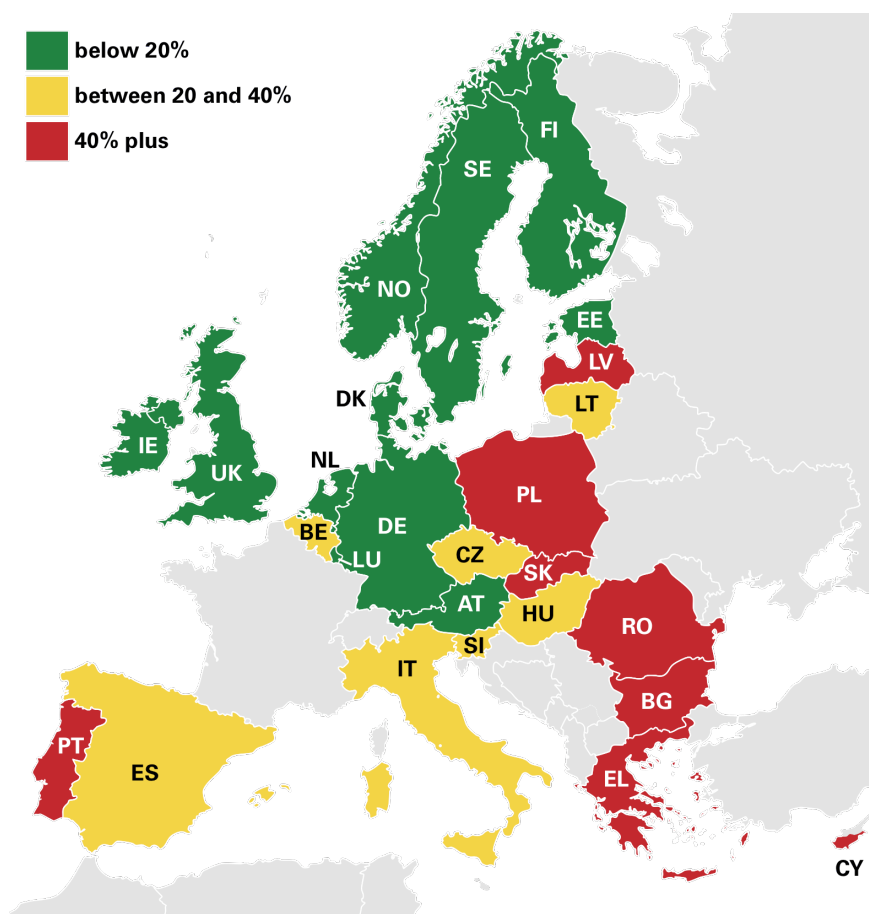
- The next capability analysed here refers to the capacity to face unexpected financial expenses by paying through household's own resources. Here, the term household's own resources means that the household does not need to ask for financial help from anybody else, the household account has to be debited 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 capacity to afford unexpected financial expenses. Results presented in Figure 2 highlight the fact that it is the Eastern European countries, as well as Cyprus, which fare worse than other countries. The improvement in relatively rich countries (in terms of GDP per capita) – such as the UK, Denmark and Spain – is also forthcoming in this change of emphasis towards the capability-based deprivation measures.

Figure 2:
Capability deprivation rate
for older persons (aged 65+)
across EU countries, on the
basis of the question about
'Capacity to face unexpected
financial expenses', 2008



- Another capability is approximated by the household'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'). Results presented in Figure 3 show that 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. Among the CEE countries, the Czech Republic, Hungary and Slovenia fare better in the making-ends-meet capability deprivation measure than that given by the capacity-to-face-unexpected-financial-expenses capability.

Figure 3:
Capability deprivation rate
for older persons (aged 65+)
across EU countries, on the
basis of the question about
'Ability to make ends meet',
2008



- In the other two remaining dimensions, the capability deprivation score is lower on average (close to 10%). One notable finding is that older persons in Southern Europe are least worse off across capability deprivation measures in being able to afford a meal with meat, chicken or fish (or vegetarian equivalent) every second day. 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.

4. Conclusions

The salient features of the European economic climate of today are not easy to view with optimism: an uncertain recovery from recession, uncomfortably high levels of unemployment, Eurozone debt crises and the longer-term challenges of population ageing and sustainability of social welfare systems – all make for hard reading. As the 2008 recession abates, most European economies are returning – uncertainly – to a positive growth. Even so, EU unemployment rates are uncomfortably high (average at 10% during 2011), common currency ties are testing the European community solidarity, while budgetary cutbacks initiated in many Member States will most likely be impacting strongly 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 populations supporting them declines – depends to a large extent on the political economy of social policy – 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 Policy Brief 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 exclusion 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 Brief, 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 in this Brief) for a more satisfactory snapshot of the material conditions of older Europeans.

Does the income poverty combined with the capability approach capture the reality of contexts of disadvantage and deprivation among older people generally? What other insights can be drawn from the theoretical debates on the measurement of social exclusion (within the context of European Union) over the recent past, and what data limitations, comparability issues and innovative methodological approaches are emerging. These subject matters are essentially research questions that this Brief points to and many of them are already addressed elsewhere. 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 are the 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 research on social exclusion experiences of older people will allow policymakers to be not just more informed in their decision-making but also in persuading the public that its own interest lies in facing the consequences of those impending policy reforms.

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About the European Centre for Social Welfare Policy and Research

The European Centre is a UN-affiliated intergovernmental organization concerned with all aspects of social welfare policy and research.

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- An international centre of applied social science and comparative empirical research on social policy and welfare
- An information and knowledge centre providing social science-supported social policy intelligence through a think-net
- A platform initiating future-oriented public policy debates on social welfare issues within the UN-European Region

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