MEASUREMENT OF INCOME DISTRIBUTION IN SUPRANATIONAL ENTITIES: THE CASE OF THE EUROPEAN UNION¹

Andrea Brandolini
Bank of Italy, Economic Research Department

22 November 2006

Abstract
Greater social cohesion is an explicit goal of the European Union. Progress is monitored considering the performance in each member country on the basis of national indicators; EU-wide estimates of inequality and poverty play no role. Yet this is a basic information to evaluate the progress of the Union toward greater social cohesion. This paper examines the methodological requirements of this evaluative exercise, and provides the first estimates of inequality and poverty in the enlarged European Union as if it was a single country.

JEL Classification: D31, C80.

Keywords: income inequality.

Contents
1. Introduction ........................................................................................................... 2
2. Conceptual problems in measurement ................................................................... 3
   2.1 Conversion to a common currency standard ......................................................... 5
   2.2 Differences in price levels ..................................................................................... 7
   2.3 Sample surveys vs. national accounts ................................................................. 8
   2.4 Using a common income equivalization procedure? ............................................ 10
3. Income distribution in the enlarged EU ................................................................. 11
   3.1 Data sources ......................................................................................................... 11
   3.2 Inequality .............................................................................................................. 13
   3.3 Poverty ............................................................................................................... 15
   3.4 Are inequality and poverty higher in the EU25 than in the USA? ...................... 17
4. Conclusions ........................................................................................................... 19
Appendix ..................................................................................................................... 32
References .................................................................................................................. 34

¹ I thank participants at the workshop ‘Inequality and Poverty Re-Examined’ held at Nuffield College, Oxford, September 2006, and, in particular, Stephen Jenkins and John Micklewright for very useful comments on a first draft of the paper. I also thank for very helpful comments Giorgio Gobbi and Luisa Minghetti. I am grateful to Paul Alkemade for his precious help with LIS data, and to Sarah Bruch, Janet Gornick, Kathleen Short and Tim Smeeding for their advice on the cost-of-living indices for the US states. A version of this paper is forthcoming in S. P. Jenkins and J. Micklewright (eds), Inequality and Poverty Re-examined, Oxford, 2007, Oxford University Press. The views expressed here are solely those of the author; in particular, they do not necessarily reflect those of the Bank of Italy.