

# research

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# paper

**Putting the fight against  
poverty and social  
exclusion at the heart of  
the EU agenda:**

*A contribution to the Mid-Term  
Review of the Europe 2020  
Strategy*



**Ose**  
PAPER SERIES

Hugh Frazer  
Anne-Catherine Guio  
Eric Marlier  
Bart Vanhercke  
Terry Ward (\*)

(\*)

**Hugh Frazer** is from Maynooth University (Ireland), **Anne-Catherine Guio** and **Eric Marlier** from the CEPS/INSTEAD Research Institute (Luxembourg), **Bart Vanhercke** from the European Social Observatory (OSE, Belgium) and **Terry Ward** from the Brussels-based Applica Research Company (Belgium).

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## Introduction

In March 2014, the European Commission launched the *Mid-Term Review* of the Europe 2020 Strategy with its Communication "Taking Stock of the Europe 2020 Strategy" (European Commission, 2014a). The review provides a very important opportunity to assess progress towards the Europe 2020 headline target of reducing the number of people at risk of poverty or social exclusion by at least 20 million by 2020 and to put in place measures to strengthen European Union (EU) and Member States' efforts to achieve this goal. The Council of the EU acknowledged in March 2014 that progress towards the EU target has not materialised and emphasised that "the current situation requires stronger resolve to stay on course with Europe 2020 strategy and strive to deliver on the target. It is important that Member States strengthen their efforts to contribute to the achievement of that essential EU commitment". Likewise, European Commission President-elect Jean-Claude Juncker, in setting out his Political Guidelines for the new Commission, highlighted the weakness of the EU's social side and stressed the need to tackle inequality. He declared "*I am a strong believer in the social market economy. It is not compatible with the social market economy that during a crisis, ship-owners and speculators become even richer, while pensioners can no longer support themselves.*"

It is thus clear that there is a growing consensus that the social dimension of the Europe 2020 Strategy has been disappointing and that urgent action is required to rectify this if the EU poverty or social exclusion target is to be achieved. Deciding what changes need to be put in place will be a key challenge to be addressed during the mid-term review of Europe 2020. This paper aims to contribute to and inform the debate on how best to meet that challenge. It explains where the poverty or social exclusion target fits into the Europe 2020 Strategy and reviews what has happened since the target was agreed. It then identifies the main factors that explain the lack of progress to date. Looking to the future, it suggests what will be the key policies and programmes that will need to be pursued by the EU and Member States if the EU target is to be attained. It also highlights key issues that will need to be addressed to better assess the performance of social policies and improve their social outcomes.

## 1. Europe 2020 and the poverty or social exclusion target

### 1.1 Europe 2020 building blocks

The European Union (EU) is now almost halfway into the Europe 2020 Strategy, which is intended “to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion” (European Commission, 2010). Concretely, Europe 2020 builds upon three integrated pillars: macroeconomic surveillance, thematic coordination (in areas such as employment, education and social inclusion) and fiscal surveillance under the Stability and Growth Pact.

Thematic coordination combines EU priorities with:

- a) EU quantitative headline targets in five key policy areas (employment, research and development, climate and environment, education as well as poverty and social exclusion), which include in particular:
  - *“aiming to raise to 75% the employment rate for women and men aged 20-64, including through the greater participation of young people, older workers and low-skilled workers and the better integration of legal migrants (...);*
  - *improving education levels, in particular by aiming to reduce school drop-out rates to less than 10% and by increasing the share of 30-34 years old having completed tertiary or equivalent education to at least 40%;*
  - *promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion.” (European Council, 2010) <sup>(1)</sup>;*
- b) seven EU “flagship initiatives”, including the ‘European Platform against poverty’, EPAP);
- c) ten “Integrated guidelines for the economic and employment policies of the Member States”, consisting of six “Broad guidelines for the economic policies of the Member States and of the Union” and four “Guidelines for the employment policies of the Member States”. The latter include Guideline 10 on “Promoting social inclusion and combating poverty”.

The different building blocks of the Strategy are organised around the “European Semester”, which starts every year with the Commission identifying the key economic challenges and priorities through its Annual Growth Survey (AGS). Member States then draft their National Reform Programmes and Stability and Convergence Programmes, in which they set out the actions they

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1. The Council of the EU refers in different places to this target as “poverty or social exclusion target”, “poverty and social exclusion target” or also “social inclusion target”.

will undertake. These programmes are then assessed by the Commission, and this assessment results in draft Country Specific Recommendations (CSRs). These draft CSRs are discussed and amended by the respective EU Committees preparing the work for the Council of the EU (hereafter "Council") <sup>(2)</sup>, and are ultimately adopted by the Council. Although most of the CSRs focus on economic and employment reforms, an increasing proportion of them also address social protection and inclusion issues, including combating poverty and social exclusion <sup>(3)</sup>.

Importantly, a new surveillance and enforcement mechanism entered into force in December 2011 as part of the so-called "Six-pack" legislation, which reinforces economic governance in the EU and the euro area. The *Macroeconomic Imbalance Procedure (MIP)* relies on the following main elements:

- a) an early warning system, which is based on a "MIP Scoreboard" and currently consists of:
  - 11 "headline indicators" whose purpose is to identify and monitor external and internal macroeconomic imbalances (including unemployment rate); and
  - 26 "auxiliary indicators" that provide additional information on aspects related to the general macroeconomic situation (including long-term unemployment rate, youth unemployment rate, proportion of young people "not in employment, education or training" (NEET) as well as the Europe 2020 "at risk of poverty or social exclusion" indicator together with its three components [income poverty, severe material deprivation and (quasi)joblessness] <sup>(4)</sup>.
  - The Scoreboard is published in the Alert Mechanism Report that marks the starting point of the annual cycle of the MIP;
- b) a preventive action, which allows the Commission and the Council to adopt preventive recommendations at an early stage before the imbalances become large. Crucially, these recommendations are embedded in the package of CSRs which the Commission puts forward in the context of the European Semester (see above);
- c) a corrective arm, which applies in more severe cases: an Excessive Imbalance Procedure (EIP) can be opened for a Member State if it is found to have excessive imbalances. The corrective arm for euro area countries can lead to a fine (of up to 0.1% of GDP).

Equally importantly, the Six-pack introduced what is termed "reverse qualified majority voting" (RQMV) for most of these sanctions. Reverse qualified majority voting implies that a

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2. The main EU committees involved in this process are the Social Protection Committee (SPC), the Employment Committee (EMCO) and the Economic and Finance Committee (EPC). The first two Committees report to the "Employment, Social Policy, Health and Consumer Affairs" (EPSCO) Council formation and the latter to the "Economic and Finance" (ECOFIN) Council formation.
  3. For a more detailed description of the Europe 2020 architecture, see Vanhercke (2011, 2013); and for a discussion of Europe 2020 key social challenges, see Marlier, E., Natali, D. and Van Dam (2010).
  4. For the exact definition of the Europe 2020 "at risk of poverty or social exclusion" indicator, see Annex 3.

recommendation or a proposal of the Commission is considered adopted by the Council unless a qualified majority of Member States vote against it. In practice, it is very difficult for Member States to form a blocking majority.

The second pillar of the Europe 2020 Strategy, which has been considerably strengthened since it was launched, is fiscal surveillance under the Stability and Growth Pact (SGP). It is supposed to contribute to strengthening fiscal consolidation and fostering sustainable public finances. First of all, the abovementioned Six-pack strengthens the SGP and more particularly the Excessive Deficit Procedure (EDP), which applies to Member States that have breached either the deficit or the debt criterion (sanctions under the EDP are also adopted via RQMV). During 2012, Member States furthermore agreed on the two additional Regulations – also known as the “Two-pack” – which introduce additional coordination and surveillance of budgetary processes for all Eurozone members, thereby reducing considerably their margin of manoeuvre.

### ***1.2 Renewed ambitions for reducing poverty and social exclusion***

In 2010, with the adoption of the Europe 2020 Strategy (<sup>5</sup>), the EU, for the first time, set a quantitative target for the reduction of poverty and social exclusion and thus made tackling poverty and social exclusion a key element of EU policy in line with the Lisbon Treaty (<sup>6</sup>). As described above, this is not the only Europe 2020 social target – the targets adopted on employment and education are also highly relevant from an anti-poverty perspective. In addition, Europe 2020 also stresses the importance of developing childcare and thus takes on board the still to be achieved Barcelona targets on the availability of childcare facilities (<sup>7</sup>).

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5. European Commission (2010), Europe 2020: A strategy for smart, sustainable and inclusive growth, Communication COM(2010) 2020, Brussels: European Commission; European Council Conclusions of 17 June 2010.
  6. The status of social policy making in the EU was significantly enhanced with the Lisbon Treaty which came into force in December 2009. In particular, Article 9 of the Treaty on the functioning of the EU (the so-called Horizontal Social Clause) states that “In defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health”. It therefore requires that the implications for social policy objectives should be explicitly considered when formulating policies in all areas. The Treaty also guarantees the freedoms and principles set out in the Charter of Fundamental Rights and gives its provisions a binding legal force; this concerns social as well as civil, political and economic rights. Yet, it should be emphasised that social policy remains the competence of Member States. So, even if the EU does contribute to social policy developments, the institutional and political obstacles to such contributions are important. (See Marlier, Natali and Van Dam 2010 for a discussion of these and other major EU social challenges.)
  7. In 2002, at the Barcelona Summit, the European Council set the targets of providing childcare by 2010 to (1) at least 90% of children between 3 years old and the mandatory school age; and (2) at least 33% of children under 3 years of age. In addition the European Council conclusions of May 2009 on a strategic framework for European cooperation in education and training are also relevant as they set the target that by 2020, at least 95 % of children between four years old and the age for starting compulsory primary education should participate in early childhood education.



The range of issues covered by the Europe 2020 headline targets reflects the fact that at the heart of the Europe 2020 Strategy is an emphasis on socio-economic coordination. This is clear from the aforementioned overall objective of the Strategy: in highlighting inclusive growth alongside smart and sustainable growth, the focus is put on "*fostering a high-employment economy delivering social and territorial cohesion*" and "*empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and social protection systems so as to help people anticipate and manage change and build a cohesive society*". In other words, at the time when it was launched, Europe 2020 provided an all-encompassing political agenda that gave considerable visibility and importance to social protection and social inclusion as well as education and (un)employment issues.

The intention is that Europe 2020's objectives and targets should be mutually reinforcing. Thus, progress on reducing poverty and social exclusion is expected to contribute to progress on other priorities such as, in particular, economic and employment growth, environmental sustainability and overcoming educational disadvantage. Equally, progress in these other areas is intended to help to reduce poverty and social exclusion.

The implication of this from a social inclusion and anti-poverty perspective is that in developing policies to combat poverty, the EU and Member States should be ensuring that they are also contributing to the pursuit of the EU's overall objectives on economic growth and to its targets in areas such as employment and education. Equally, they should be considering the social impact of their economic, employment, education, environmental and other policies and be developing them in ways that contribute to achieving the EU's poverty or social exclusion target - however challenging this may seem in the context of the present economic conditions, the constraints on public finances and the ongoing fiscal consolidation measures.

From a social policy perspective, it is clear that, when they are well designed, policies that help to prevent and reduce poverty and social exclusion do more than just protect people in need and guarantee their basic economic and social rights and their right to live in dignity. They should also be an investment in building the capacity of people to achieve their full potential and to participate actively in society and the economy, so that they are not dependent on social benefits and contribute to the growth and general well-being of society. They are thus an important contributor to social cohesion and sustainable economic and social development as well as an expression of social solidarity.

In order to strengthen the social investment approach, a key challenge will be to identify clearly how investment in strong social policies can contribute to economic and employment growth and sustainable development. The following are just a few examples of the key ways that well-

designed policies can help to achieve economic growth as well as the EU poverty target are as follows:

- a) effective social protection systems enable the labour market to be more flexible by supporting people making transitions. Also, by ensuring that people do not fall into poverty if they become unemployed, social protection systems prevent them becoming too distant from the labour market and increase the likelihood of their being able to take up jobs when they become available. They can also play a key role in easing the movement from education and unemployment into work;
- b) policies which prevent children from growing up in poverty and social exclusion are key to ensuring their long-term health and well-being as well as their successful participation in education so that they become productive contributors to the economy and active participants in society in the future;
- c) accessible and affordable early childhood education and care policies which promote child well-being and development are vital to addressing child poverty and they also enable more parents (especially women) to participate in the labour market;
- d) investment in areas such as health services, social services and housing services improves people's health and well-being, thereby reducing long term demands on public services and thus pressure on the economy <sup>(8)</sup>. They also have significant potential for job creation, particularly in the context of an ageing population;
- e) policies which aim to prevent and reduce educational disadvantage lead to people achieving better qualifications and ultimately finding better-paid jobs;
- f) policies which counter discrimination and which aim to overcome particular barriers faced by some people (for instance people with a disability or people from a migrant or ethnic minority background) increase the possibility of them accessing jobs and contributing to economic growth;
- g) policies which reduce poverty and social exclusion are important in reducing crime and anti-social behaviour, which are serious drags on social cohesion and economic development;
- h) policies which protect the rights of workers can also contribute to growth by reducing their vulnerability to losing their job and creating an environment which is more conducive to work effort and productivity.

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8. As regards health, it is also important to note that investing in measures more generally to tackle social and economic inequalities and to reduce poverty and social exclusion are an investment in improving health and reducing health inequalities. For instance, an EU report on health inequalities shows that social inequalities in health are strongly associated with social disadvantage. Member States with lower levels of social protection tend to have a higher rate of self-reported bad or very bad health (European Commission, 2013a).

## 2. Developments and drivers of poverty and social exclusion <sup>(9)</sup>

### 2.1 Structural developments

The comparative analysis of poverty and social exclusion in EU countries shows that the high risk of poverty in the EU is primarily the consequence of the way society is organised, and resources produced and allocated. Taken together, three main factors are key to understanding overall poverty trends and the policy responses to them.

First, *economic recessions in Europe* for at least three decades have structurally changed the allocation of resources to workers and increased the risk of poverty as a result of unemployment, extension of part-time and temporary jobs, and pressure towards reduced wages (increasing divergence between productivity and wage levels). It is thus far from certain whether renewed economic growth in the EU would by itself suffice to reduce poverty significantly.

Second, most EU countries have experienced *increasing income inequalities*, and particularly large income gains among the 10% top earners (Bonesmo Fredriksen, 2012; Piketty, 2014). Poverty as a social phenomenon is closely linked to general inequality in society while the level of inequality depends on the collective values in society and legitimacy of the state and public institutions to reduce the different types of inequality, including through progressive income taxation (the more equal societies in Europe tend to have the lowest levels of poverty).

Third, *consecutive reforms in national welfare systems* have generally introduced stricter eligibility criteria, lower levels of benefits, the abandonment of universalistic principles of social security systems, thereby increasing the risk of “new” forms of poverty hitting particularly some more vulnerable groups (such as the low skilled, people with disabilities, minority ethnic groups...). Indeed, in some Member States, the fiscal consolidation packages introduced during the crisis have hit low income groups more than others <sup>(10)</sup>.

### 2.2 Overview of main trends (2008-2012)

Increased numbers at risk of poverty or social exclusion <sup>(11)</sup>: As mentioned above, the Europe 2020 Strategy includes a poverty or social exclusion target. When it was agreed upon in June

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9. Except where stated otherwise, the source of the figures is the web-site of Eurostat, the statistical office of the European Union. The figures were downloaded on 30-31 July 2014. Except if stated otherwise, EU figures relate to the EU-27 average, i.e. they do not include Croatia. This also applies to the rest of the paper.

10. See, for instance, the estimates of the incidence of the measures implemented in Estonia, Lithuania and Portugal that were made by the EUROMOD microsimulation model of households and their sources of incomes (Avram *et al* (2012) and De Agostini *et al* (2013)).

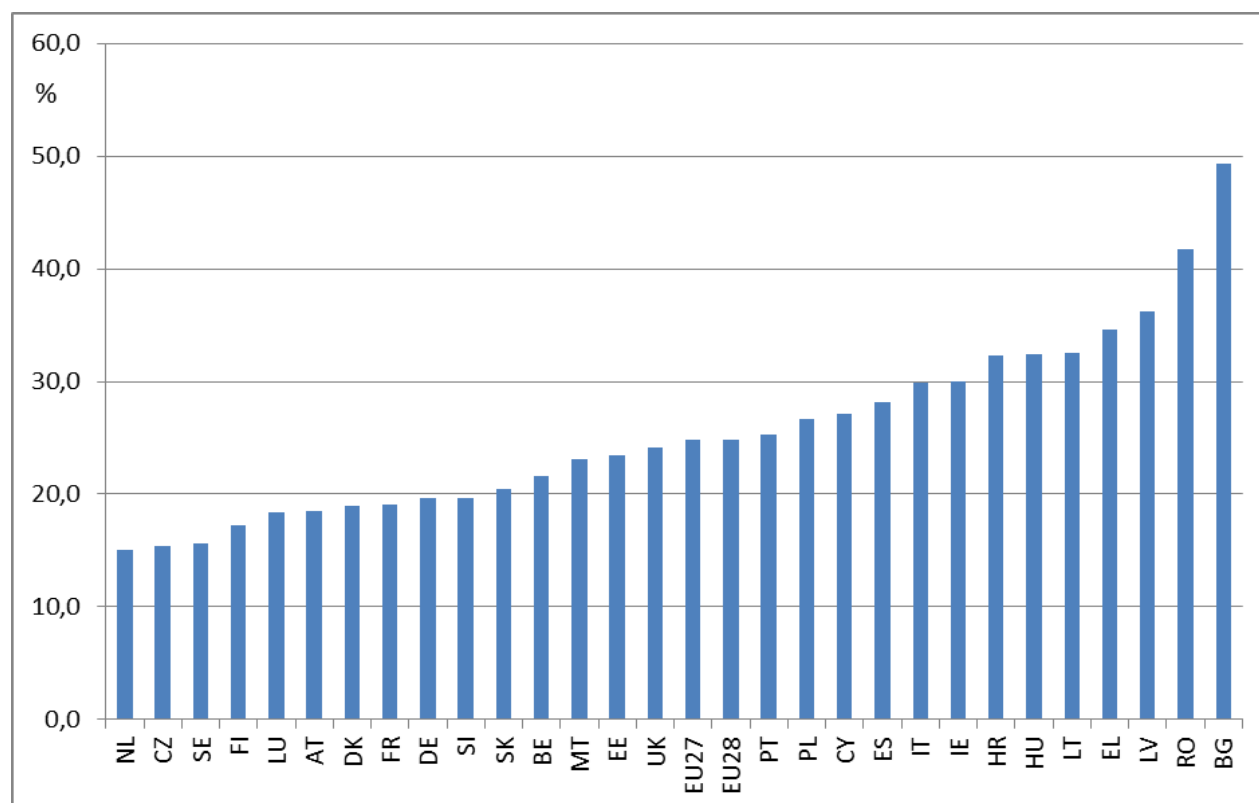
2010, the most recent EU-SILC data available were those collected in 2008 which is thus the reference year for the EU target <sup>(12)</sup>. According to these data, the number of people in the EU-27 at risk of poverty or social exclusion was 116.4 million and the target will thus consist of lowering this number to 96.4 million by 2020 – i.e., a reduction of 17.2%. In the period prior to the economic crisis, there was a steady decrease in the number of people at risk of poverty or social exclusion. The percentage of the EU-27 population at risk of poverty or social exclusion fell from 25.7% (124.3 million) in 2005 to 23.7% (116.4 million) in 2008 (baseline year for the Europe 2020 target). There was a further fall reported in 2009 to 23.2% (114.3 million). However, the impact of the crisis has reversed the downward trend and led to a rise in the numbers at risk to 24.8% by 2012 (123.1 million), a rise of 6.7 million people since 2008 <sup>(13)</sup>.

Increasing divergence between Member States: Although the overall trend has been upwards during the crisis, the impact varies significantly across countries. The crisis has further exacerbated the differences in the national proportions of people confronted to the risk of poverty or social exclusion. In 2008, the distance between the two extremes, namely the Netherlands and Sweden with 14.9% of the population at risk and Bulgaria with 44.8%, amounted to 30 percentage points (pp). This gap rose to 34.3pp in 2012, from 15% in the Netherlands to 49.3% in Bulgaria. Between 2008 and 2012, significant increases are evident in the countries most affected by the economic crisis (EL, IE, ES, IT, CY, LV, LT, EE <sup>(14)</sup>) as well as in countries with some of the lowest proportions of people at risk of poverty or social exclusion and solid welfare systems (DK and LU). High rates have persisted, and risen further, in a number of Central and Eastern European countries which have some of the biggest challenges related to poverty and social exclusion (BG, HU). Malta also registered a large increase (+3pp). The risk of poverty or social exclusion remained more or less unchanged or rose by relatively little (by 1pp or less) in BE, CZ, FR, NL, AT, SK, SE, FI and the UK, while it fell very slightly in DE and PT. It declined significantly in only two countries (PL and RO). The countries contributing most to the increase in the overall number, partly because of their population size, are IT (with an increase of 3.1 million) and ES (increase of almost 2 million) as well as, to a lesser extent, the UK (1 million), EL (750 thousand)

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11. This indicator, which is used for the Europe 2020 poverty and social exclusion target, consists of the combination of three indicators: the number of people living in an income poor household, the number of people living in a severely materially deprived household and the number of people aged 0-59 living in a (quasi-)jobless household (see Annex 3 for the detailed definition).
  12. The *European Union Statistics on Income and Living Conditions (EU-SILC)* is an instrument aimed at collecting comparable cross-sectional and longitudinal multidimensional microdata on income distribution and poverty, social exclusion and living conditions. See: [http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu\\_silc](http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc)
  13. There are no figures for EU-28 for 2005-2009. However, the EU-28 percentage in 2012 remains the same at 24.8% as for the EU-27 though the numbers of people affected rise to 124.4 million with the addition of Croatia.
  14. See Annex 2 for a list of EU countries' official abbreviations.

and FR (600 thousand). The divergence between Member States is highlighted in Figure 1 (see also Table A1 in Annex 3).

**Figure 1: Proportion of people at risk of poverty or social exclusion rates, %, Total population, EU-28, 2012 (survey year)**



**Source:** EU-SILC, Eurostat online database, 30-31 July 2014.

Note: The income reference year is assessed on the basis of the total household income in the calendar year prior to the survey year (i.e. 2011 here), except for the UK (survey year) and Ireland (12 months preceding the survey). The reference year for "(quasi-)joblessness" is the same as the income reference year. (Given that the EU poverty or social exclusion target is a number rather than a percentage, Table A1 in Annex 3 shows the numbers of people at risk in each Member State for 2008 and 2012.)

Particularly high risk for some people: As well as divergence between (and within) countries increasing during the crisis, it is also important to note that some sections of the population have been affected more than others. For instance, young adults (18-24) have experienced a much greater rise in the risk than the population as a whole while the risk for elderly people has declined significantly (see Table 1). Even though the rise in the risk for children has been much smaller than that for young adults, children remain the age group next most at risk of poverty or social exclusion. Other groups, such as people with a disability and people from an ethnic minority and/or migrant background (especially Roma and other excluded groups), who were already at a high risk of poverty and social exclusion have also been particularly affected during the crisis.

**Table 1: Trends in poverty or social exclusion risk, proportions (%) and numbers (million), EU-27, 2008-2012 (survey years)**

| Age                 | 2008  | 2012  | Evolution 2008-12 |
|---------------------|-------|-------|-------------------|
| <b>Total</b>        |       |       |                   |
| - %                 | 23.7  | 24.8  | + 1.1             |
| - million           | 116.4 | 123.1 | + 6.7             |
| <b>Less than 18</b> |       |       |                   |
| - %                 | 26.5  | 28.0  | + 1.5             |
| - million           | 25.2  | 26.2  | + 1.1             |
| <b>18-24</b>        |       |       |                   |
| - %                 | 28.3  | 31.6  | + 3.3             |
| - million           | 12.2  | 13.3  | + 1.1             |
| <b>25-54</b>        |       |       |                   |
| - %                 | 21.0  | 23.9  | + 2.9             |
| - million           | 44.2  | 50.0  | + 5.8             |
| <b>55-64</b>        |       |       |                   |
| - %                 | 26.1  | 26.1  | + 0.0             |
| - million           | 15.5  | 16.6  | + 1.1             |
| <b>18-64</b>        |       |       |                   |
| - %                 | 23.0  | 25.4  | + 2.4             |
| - million           | 71.9  | 79.9  | + 8.0             |
| <b>65+</b>          |       |       |                   |
| - %                 | 23.3  | 19.2  | - 4.1             |
| - million           | 19.2  | 16.8  | - 2.3             |

**Source:** EU-SILC, Eurostat online database, 30-31 July 2014.

Note: The income reference year is assessed on the basis of the total household income in the calendar year prior to the survey year, except for the UK (survey year) and Ireland (12 months preceding the survey). The reference year for "(quasi-)joblessness" is the same as the income reference year.

**Rise in severe material deprivation and (quasi-)joblessness:** Severe material deprivation, which had fallen from 10.8% of the population in 2005 to 8.2% by 2009, rose to 9.9% by 2012. The proportion of people living in (quasi-)jobless households which had declined significantly from 10.4% to 9.1% between 2005 and 2008 rose again to 10.4% by 2012. There was an increase in (quasi-)joblessness between 2008 and 2012 in 12 Member States with increases above 10pp in SE, EL, HU, SK and PL. Among the countries that have experienced a sharp rise in the at-risk-of-poverty-or-social-exclusion rate, the increases in Cyprus, Hungary and Italy resulted mainly from a rise in the severe material deprivation rate, while the increases in Bulgaria, Ireland and Spain mainly reflected the growing share of the population in (quasi-)jobless households; in Greece, Latvia and Lithuania they reflected an increase in both (quasi-)joblessness and severe material deprivation (see European Commission 2013c). These evolutions have very concrete consequences on people's daily living conditions. A recent study (Guio and Pomati, 2014) shows that, as the deprivation level increases households tend to first cut back on their annual holidays and use up their savings (resulting in inability to face unexpected expenses), then they are unable to afford new furniture, spend a small amount of money on themselves and enjoy regular leisure and social activities. As their resources decline even further they become unable to afford meals, keep their home adequately warm and avoid arrears, and possibly even two pairs of all-weather shoes. The study also shows that this deprivation sequence is similar across the EU.

Rise in income poverty: Changes in the at-risk-of-poverty rate for the EU-27 have been less significant in general but an overall increase over the period 2008-2012 is evident. The overall rate was broadly unchanged between 2005 and 2010 (16.4%), and increased slightly in 2011 (to 16.9%) remaining the same in 2012. Again, there are marked differences across the EU. At-risk-of-poverty rates increased by most in HR (3.2 pp) and EL (3pp), countries hit hard by the crisis where the risk of poverty was already high.

Increase in depth of poverty risk: As well as looking at trends in the numbers at risk of poverty, it is also important to look at what has happened to the depth or severity of the risk. It is particularly worrying that the poverty risk gap, i.e. the extent to which the income of those at risk of poverty fall below the poverty risk threshold, rose by 1.7 pp on average over the period 2008-2012 and increased in more than half the Member States, in some countries substantially (ES, DK, EL, BG, EE, HR, CY, HU, EE (<sup>15</sup>)).

Growth in housing exclusion and homelessness: There have been significant increases in housing exclusion and homelessness in several Member States during the crisis. The proportion of households reporting to be overburdened by housing costs in the bottom income quintile, i.e. among the 20% of the population with the lowest income, increased in the EU-27 from 30.9% in 2008 to 35.2 in 2012 (<sup>16</sup>). In as many as 17 countries, increases were larger than 2.5 pp. In AT, LT, DK, BG, IE, EE, ES and EL increases vary between 11 and 26.5pp. Although there are no comparable data across the EU, there is clear evidence that the deterioration in economic conditions has resulted in an increase in the weight of housing costs in household budgets in many countries. A general trend of increasing homelessness in much of the EU has been highlighted by the Social Protection Committee (2013) in an analysis based on the results of a questionnaire on homelessness and housing exclusion sent to SPC members, and by the European Federation of National Organisations working with the Homeless (FEANTSA, 2012 (<sup>17</sup>)). More recent data from a variety of Member States indicate "*an ongoing trend of increasing homelessness in many contexts*" (see SPC, 2014a).

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15. Austria would also fall into this group but this may be due to the break in the statistical data series.

16. Housing cost overburden is defined as the percentage of the population living in a household where the total housing costs (net of housing allowances) represent more than 40% of the total disposable household income (net of housing allowances) presented by income quintile.

17. According to the 2012 FEANTSA monitoring report "*Homelessness remains a problem in all Member States and has increased in the past 1-5 years in 15 Member States. In some instances, this increase is closely linked to the financial and economic crisis. However, it is significant that homelessness has decreased in the Netherlands, Finland and Scotland as a result of integrated homelessness strategies. In some countries, the impact of the crisis on levels of homelessness has been limited by such integrated strategies.*"

Rise in indebtedness: An important feature of the rise in poverty and social exclusion has been the increase in household indebtedness. For over a decade, a long-term increase in the gross debt-to-income ratio of households has been a general phenomenon in almost all European countries, with the notable exception of Germany. As a result of the economic crisis, however, growing over-indebtedness has become both a cause and a consequence of poverty, pushing people into poverty, and preventing others from escaping from it. Thus, the overall share of households in EU-27 in arrears of payment (mortgage or rent, utility bills or hire purchase) increased slightly - from 10.4% in 2008 to 11.5% in 2012. The increase was larger for those with income below the at-risk-of-poverty threshold, rising from 21.6% to 24.6% over the period. The EU average again hides significant differences between Member States. In SI, HR, RO, LV, BG, EL and HU the share of households at risk of poverty in arrears of payment in 2012 ranged from 39.2% (SI) to 61.2% (HU), whereas it was only 8% in the UK.

### ***2.3 Non-employment - a major reason for present levels of at-risk-of-poverty-and-exclusion rates***

The rise in unemployment over the crisis period is a major reason for the increase in the number at risk of poverty or exclusion (AROPE) across the EU. This is highlighted by the fact that two thirds of the unemployed aged 18-64 in the EU-27 (the figure is the same for the EU-28) are at risk in 2012, 2.5pp more than in 2008 before the start of the crisis, the figure rising to over 75% in BG, HU and RO and to 86% in DE (Table 2). Moreover, half of all those in this age group not in employment (i.e. either unemployed or inactive) are similarly at risk, 3.5pp more than before the crisis, with only seven countries (MT, SK, FR, SI, LU, AT, CZ) having a figure (much) below 40%. This compares with just under 14% of those in work who are at risk, which is still just over 1pp more than in 2008. Nevertheless, the proportion of those in employment at risk is over 20% in HU, LV and EL and around a third in RO and BG.



**Table 2: Trends in the proportion of those aged 18-64 at risk of poverty or social exclusion by employment status, % of each group EU-27 and EU-28, 2008-2012 (survey years)**

|                | Total       |             | Employed    |             | Unemployed  |             | Not employed (unemployed or inactive) |             |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------------------------|-------------|
|                | 2008        | 2012        | 2008        | 2012        | 2008        | 2012        | 2008                                  | 2012        |
| Bulgaria       | 39.5        | 45.6        | 27.7        | 33.8        | 76.4        | 77.7        | 60.8                                  | 64.2        |
| Romania        | 41.0        | 40.2        | 34.1        | 34.0        | 71.7        | 75.7        | 52.0                                  | 51.7        |
| Greece         | 27.9        | 37.7        | 18.6        | 22.6        | 57.8        | 68.2        | 43.5                                  | 56.6        |
| Latvia         | 28.0        | 35.9        | 19.0        | 22.7        | 60.8        | 72.1        | 49.3                                  | 57.3        |
| Hungary        | 29.1        | 32.9        | 16.8        | 20.4        | 70.3        | 77.3        | 46.4                                  | 49.2        |
| Ireland        | 22.6        | 31.7        | 8.6         | 10.6        | 61.5        | 69.6        | 48.1                                  | 58.9        |
| Lithuania      | 24.5        | 31.7        | 14.0        | 17.4        | 61.5        | 72.7        | 48.8                                  | 56.1        |
| Croatia        | :           | 31.5        | :           | 14.5        | :           | 60.4        | :                                     | 49.6        |
| Italy          | 24.5        | 30.4        | 12.4        | 18.2        | 59.1        | 68.8        | 42.9                                  | 48.3        |
| Spain          | 22.1        | 29.7        | 13.0        | 14.7        | 51.3        | 62.7        | 41.3                                  | 50.7        |
| Poland         | 30.6        | 26.7        | 20.6        | 17.0        | 59.3        | 58.7        | 46.9                                  | 42.8        |
| Cyprus         | 18.9        | 25.8        | 12.4        | 18.0        | 34.7        | 55.3        | 34.7                                  | 41.2        |
| Portugal       | 24.5        | 25.6        | 16.6        | 13.8        | 51.8        | 59.4        | 41.7                                  | 47.0        |
| <b>EU-27</b>   | <b>23.0</b> | <b>25.4</b> | <b>12.5</b> | <b>13.6</b> | <b>64.7</b> | <b>67.2</b> | <b>44.1</b>                           | <b>47.6</b> |
| Estonia        | 17.5        | 24.2        | 9.1         | 12.8        | 67.9        | 66.7        | 41.5                                  | 47.8        |
| UK             | 19.7        | 23.8        | 9.8         | 11.7        | 75.8        | 71.5        | 51.5                                  | 54.9        |
| Belgium        | 20.1        | 21.6        | 6.7         | 6.7         | 58.1        | 58.4        | 44.6                                  | 47.0        |
| Denmark        | 17.1        | 21.5        | 5.7         | 7.1         | 62.6        | 59.4        | 46.7                                  | 52.2        |
| Germany        | 21.5        | 21.2        | 9.1         | 9.8         | 79.1        | 85.9        | 47.0                                  | 48.7        |
| Malta          | 17.5        | 21.1        | 7.2         | 10.4        | 53.1        | 70.2        | 32.4                                  | 37.2        |
| Slovakia       | 19.3        | 19.9        | 12.5        | 11.0        | 56.4        | 55.7        | 33.6                                  | 34.2        |
| France         | 18.8        | 19.8        | 9.6         | 10.3        | 58.7        | 56.7        | 37.2                                  | 39.1        |
| Slovenia       | 18.0        | 19.7        | 9.3         | 10.3        | 48.8        | 60.4        | 33.2                                  | 36.0        |
| Luxembourg     | 15.8        | 18.8        | 9.8         | 11.0        | 53.5        | 63.0        | 28.1                                  | 35.3        |
| Austria        | 18.4        | 18.4        | 9.7         | 9.4         | 70.5        | 65.4        | 37.3                                  | 38.0        |
| Finland        | 16.5        | 17.3        | 6.3         | 4.7         | 61.3        | 61.7        | 41.9                                  | 42.7        |
| Netherlands    | 15.8        | 16.5        | 5.4         | 5.6         | 72.5        | 70.8        | 38.2                                  | 42.6        |
| Czech Republic | 15.0        | 15.5        | 7.1         | 7.6         | 62.9        | 59.6        | 30.9                                  | 30.9        |
| Sweden         | 14.8        | 15.1        | 7.5         | 7.0         | 56.3        | 54.5        | 40.7                                  | 44.1        |

**Source:** EU-SILC, Eurostat online database, 30-31 July 2014. Authors' calculations.

Note 1: See Note in Table 1.

Note 2: Countries are ranked according to the 2012 "Total" national figures.

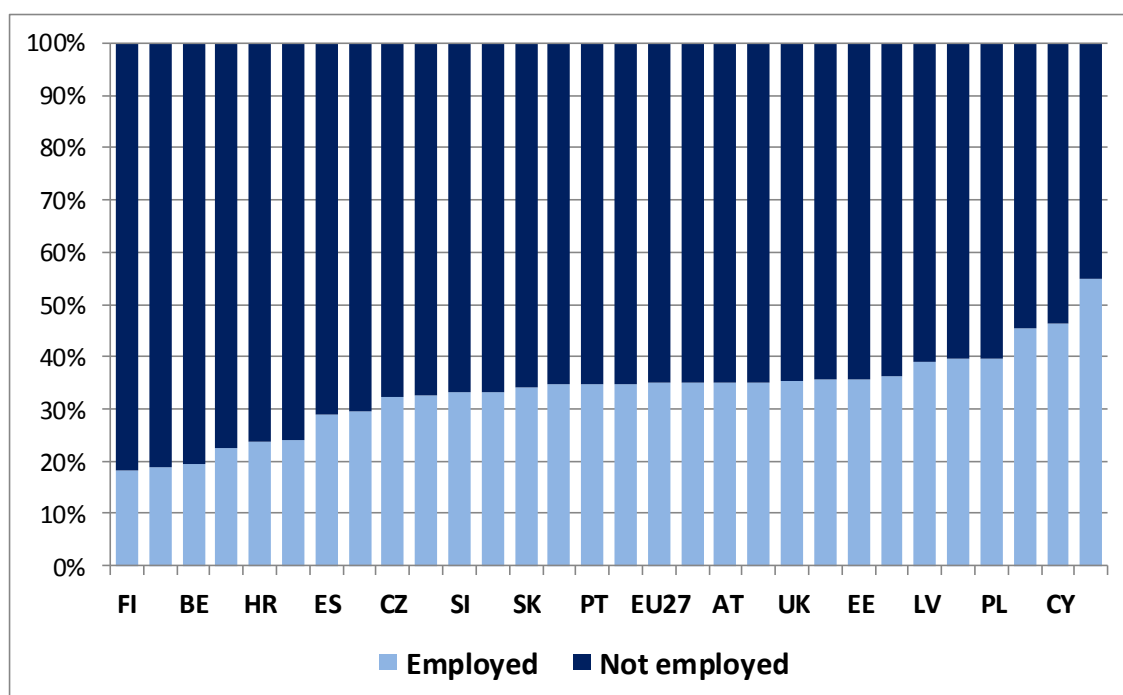
The differences in the AROPE rate among the non-employed between Member States reflect two factors. One is the level of benefits and coverage of social protection systems, which is discussed further below. The other, and no less important, factor is the household situation of the people concerned - in particular, the extent to which they share households with someone in work who is bringing earnings from employment into the household. Similarly, in the case of the employed, the differences in the AROPE rate reflect both the level of earnings of the people concerned and again their household situation, and the extent to which they need to support people not working as well as children.

The increase in the AROPE rate between 2008 and 2012 among those of working age but not in work is common to all EU Member States except three - RO and PL (where it falls) and CZ (where it remains unchanged). The rise is particularly pronounced in EL (by 13pp), IE (11pp) and ES (9pp). Accordingly, in these countries especially, but also elsewhere, the increase in the number out of work is accompanied by a significantly increased risk of poverty and exclusion among the people concerned, perhaps reflecting changes in the coverage of social protection systems and the income support provided.

There is also, however, a significant increase (1pp or more) in the risk among those employed in 15 countries. The increase is particularly marked in BG, CY and IT (by over 5pp) and only slightly less so in EL (4pp).

The high risk of poverty and exclusion among people of working age (18-64) who are not in employment means that they make up most of those at risk in this age group. In the EU-27 (and EU-28) as a whole, 65% of the total of working age at risk are out of work in 2012 (Figure 2). In six countries (NL, HR, DK, BE, IE, FI), the proportion is over 75% and in another 16 it is around the average or above. There are only six Member States, therefore, where the proportion of those aged 18-64 at risk of poverty or exclusion who are not in employment is much below 65% (LV, LU, PL, BG, CY, RO).

**Figure 2: Proportion of those aged 18-64 at risk of poverty or exclusion who are (not) employed, %, EU-28, 2012 (survey year)**



**Source:** EU-SILC, Eurostat online database, 30-31 July 2014.

Note: See Note in Figure 1.

Reading note: In Romania, 55% of the people who are aged 18-64 and who are at risk of poverty or exclusion are in employment.

As a consequence, in these six countries, a significant number of the AROPE people are in employment. In CY and BG, the proportion is over 45% and in RO, some 55%, almost certainly reflecting the relatively large number of people employed but working in subsistence agriculture or in small family businesses generating only low income.

The clear implication of the above is that to achieve, or to come close to achieving, the Europe 2020 poverty or social exclusion target of reducing the number of people at risk of poverty or exclusion by some 27 million as from 2012 (i.e. 123.1 million <sup>(18)</sup> minus 96.4 million; see Figure A2 in Annex 3) means concentrating policy efforts on those of working age who are not working. It implies, so far as possible, increasing the number of them in employment, though at the same time ensuring that they earn enough from working to raise their household income above the at-risk-of-poverty threshold and to prevent them being severely materially deprived. While, therefore, employment growth is a necessary condition for bringing down the AROPE rate, the jobs created need to be of a sufficient quality to avoid those taking them up simply moving from being non-employed poor to being working poor. Such a focus on those of working age who are not working will also help to reduce the numbers of children at risk of poverty or social exclusion. This will be especially the case if particular focus is given to those with children and if efforts to support them into work, including through adequate provision of affordable childcare, are complemented with improvements in child income support.

Equally, although people in employment account for a minority of those aged 18-64 who are at risk of poverty or social exclusion in all Member States except Romania, their numbers are still significant and they ought not to be neglected by policy-makers (in 2012, out of the 123.1 million at risk of poverty or social exclusion in the EU-27, some 43 million are in employment). While their number may be reduced as unemployment comes down, to the extent that their situation reflects their household circumstances and the fact they share households with people not working, it is still the case that for many of them, low earnings from employment are at the root of their predicament. If raising earnings (such as through minimum wage legislation) carries a risk of deterring companies from continuing to employ the people concerned or creating jobs for those at present not working, then the introduction or spread of in-work benefits is a measure to explore.

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18. 123.1 million in 2012 as opposed to 116.4 million in 2008.

## ***2.4 Evolution of key drivers of poverty and social exclusion***

Identifying clearly the factors that have contributed to the worsening poverty and social exclusion situation is an important challenge if the negative trends are to be changed. However, it is important to recognise that most of the drivers are not new but are structural problems which were already present prior to the crisis. Yet, many have been exacerbated by the crisis and the policy responses to it. Moreover, if poverty and social exclusion are to be tackled, it is important that **all** the drivers are addressed since they are interconnected. Instead of prioritising some of them over others, all need to be addressed in a comprehensive way.

Among the key factors are the following.

Long-term exclusion from the labour market: The rise in unemployment and especially long-term unemployment (i.e. unemployment lasting for a year or more) is the major factor in the rise in both the numbers at risk of poverty or social exclusion and the depth and severity of the risk. The overall unemployment rate rose from 7.0% in 2008 to 10.8% in 2013 with a particularly large rise for those less than 25 (from 15.8% to 23.5%). Over the same period, long-term unemployment rose from 2.6% to 5.1% of the active population, implying that in 2013 almost half of the unemployed (47.5%) have been out of work for a year or more. The proportion of those unemployed for two years or more (the very long-term unemployed) among the active population nearly doubled (from 1.5% to 2.9%). This does much to explain the fact that 16 Member States experienced a (statistically significant) rise in the share of people under 60 living in (quasi-)jobless households over the period 2008-2012 and 5 of them an increase of over 5pp – IE (9.7pp), ES (7.7pp), EL (6.7pp), LV (6.3pp) and LT (6.3pp) (though the Baltic countries have almost certainly experienced a decline since then).

Rising youth unemployment: The rise in income poverty amongst young adults is closely related to the very significant rise in youth unemployment (from 15.8% to 23.5% of those economically active between 2008 and 2013), double the increase in the rate for the population as a whole. While early school leaving significantly increases the risk of young people facing unemployment or in-work poverty, in practice there has been a decline in many countries since 2008, with 20 Member States registering reductions in the early school leaving rate by more than 1pp. However, early school leaving rates still vary widely (from as low as 4-5% in HR, SI, SK, CZ, PL to as high as 23.6% in ES in 2013). The reduction is in part attributable to a more difficult employment environment, which has encouraged young people to postpone their entry into the labour market (European Commission, 2014a). Nevertheless, reflecting the rise in unemployment, the number of young people (18-24) not in employment, education or training (NEETs) which had been shrinking up until 2008 (from 16.2% in 2005 to 13.9% in 2008), rose to 17.1% in 2012. A marked rise in

the NEET rate is particularly evident in countries where youth unemployment increased by most (EL, IT, ES, IE, CY, HR, RO, HU, PT and SI), the only consistent decline being in DE.

Increasing labour market segmentation and in-work poverty: Another important factor is growing labour market segmentation which is reflected in a rise in in-work poverty, the working poor amounting to a third of people of working age at risk of poverty (as well as of those at risk of poverty and exclusion – see below). An increase in in-work poverty was already evident before the crisis (from 8.2% in 2005 to 8.6% in 2008) and it has risen further since then (to 9.1% in 2012). The increase has been particularly marked for 18-24 year olds (+1.4pp between 2008 and 2012). The Social Protection Committee (2013) identified the “*widespread increase of the number of working poor in Europe*” and the “*rising poverty risk for (quasi-)jobless households*” as “*social trends to watch*”. This is a very good example of a structural problem that was growing prior to the crisis but has been exacerbated by responses to the crisis. In its *Employment Outlook 2014*, the OECD underscores the damaging effects of austerity policies, the need for demand side policies to improve labour markets, the need to limit wage reductions and on the contrary to improve wages, the importance of promoting job quality, the current and long-term damages created by atypical work especially temporary employment, and the importance of increased skills. Thus, the OECD concludes that “*further wage adjustment, especially given low inflation, would require painful wage cuts and could increase the number of working poor. A range of policies are needed to promote competitiveness, growth and job creation. In addition to sound macroeconomic policies to promote the recovery, these include: reforms to increase competition in the markets for goods and services; helping displaced workers shift to new areas of employment; and shoring up incomes of low-paid workers*”. The OECD furthermore concludes that “*better job quality should be promoted, overreliance on temporary work is damaging to individuals and the economy, and that both qualifications and skills matter for early labour market outcomes and beyond*” (OECD, 2014).

Rising income inequality: While across the EU as a whole income inequality has changed relatively little during the crisis it is increasing both within and across a significant number of Member States (especially in ES, HR, DK and EL), reflecting the rise in poverty or social exclusion (<sup>19</sup>). The highest inequalities remain in ES, EL, LV, RO, PT and BG where the median equivalised income of the richest 20% of the population is around 6 times (or more) larger than that of the poorest 20%. In many cases, this is linked to long-term trends of wage polarisation and labour market segmentation. However, increases in unemployment, especially at the bottom of the labour market, and the impact of fiscal consolidation are often important factors in some of the most affected countries (see SPC, 2014a).

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19. The income quintile ratio (S80/S20) in the EU-27 increased from 5.0 to 5.1 between 2008 and 2012. The Gini coefficient of equivalised disposable income fell from 30.9 in 2008 to 30.5 in 2009 and edged up to 30.6 in 2012.

## ***2.5 National policies - a key factor in the divergence of poverty and social exclusion trends***

In addition to the factors identified above, it is also clear that the divergent poverty and social exclusion trends across Member States are to a significant extent the result of some Member States making more substantial social investments in protecting people from poverty. Those that have invested most in strong social protection systems tend to have weathered the social challenges of the crisis better.

Inadequacy of some social protection systems: The role played by social protection systems in protecting people against the risk of poverty and social exclusion varies widely across countries and is an important factor in explaining differences in the number of people at risk across countries and in the changes which have occurred over the crisis period. In 2012, the efficacy of social policy in reducing poverty ranged from only 13.8% in EL to 60.1% in IE <sup>(20)</sup>. Over the 2008-2012 period, the poverty reduction capacity of social transfers declined in HU, CZ, SV, PL, SK, FR, RO, DK, DE and BG (by at least 3pp). At the same time, it increased (by 3pp or more) in PT, NL, MT, LU, IE, CY, ES, LT, EE, LV and the UK. Overall, social spending played a significant role of "automatic stabiliser" in sustaining gross household disposable income during the early phase of the crisis (2008-2009) but its contribution then lessened. *"From 2010 onwards, the automatic stabilisers became increasingly constrained, notably in those welfare states with very high levels of sovereign debt. In the first stage, the transfer systems mitigated the impact of the crisis on poverty; but in some countries the poverty-reducing impact of the welfare state was increasingly constrained when austerity measures took effect. Poverty reduction through transfers first increased in these countries – as one should normally expect – but then levelled off"* (Vandenbroucke with Vanhercke (2014); see also European Commission (2014b), Marchal, Marx and Van Mechelen (2011), Van Mechelen and Marchal (2013)). The rise in unemployment and the increase in the number of people living in (quasi-)jobless households during the crisis have put income support schemes under growing pressure. The Social Protection Committee has concluded that *"income support levels of last resort schemes are continuously worsening while the number of people counting on them is increasing. Furthermore, the adequacy of minimum safety nets is further affected by access limitation."* (SPC, 2014a)

Effectiveness of pension systems varies widely: The fact that older people have been less affected by the crisis than other age groups can be attributed primarily to the effectiveness of pension systems with 22 Member States seeing a fall of more than 1 pp in the share of elderly at risk of poverty or social exclusion between 2008 and 2012. However, the adequacy of pension systems

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20. The efficacy of social policy in reducing poverty is assessed by the comparison between the level of poverty risk before and after social transfers. Source: EU-SILC, Eurostat online database, 30-31 July 2014 (authors' calculations).

varies widely. Thus, the proportion of people aged 65 and over living in poverty or social exclusion in 2012 was close to 60% in BG and around a third or slightly higher in HR, CY, LV, LT and RO, while it was below 10% in LU and NL <sup>(21)</sup>.

Rising housing costs: Housing costs represent a significant share of household's income, especially for lower income groups. Between 2008 and 2012, the proportion of people who had to spend more than 40% of their total household disposable income on housing (i.e. the EU indicator of "housing costs overburden") remained stable at EU-27 level – 10.5% in 2008 and 11.2 in 2012. In seven countries, it increased by 2 to 4pp (AT, EE, IE, LT, LV, SE, SK) and in one country (EL) by 11pp. In three countries (CZ, RO, UK) it decreased by at least 2pp. Yet, during the same period, housing costs overburden rose by 5pp at EU-27 level (from 34% to 39%). 17 countries registered increases of at least 2pp and in seven of them (AT, BG, DK, EE, IE, EL, ES, LT, SK) increases ranged between 10 and 25pp <sup>(22)</sup>. In several countries, this evolution has led to increased demands for social housing and housing allowances. However, a lack of investment in social housing <sup>(23)</sup> has led to shortages in many countries. In several Member States, the rise in housing costs is a key factor in increases in housing exclusion and ultimately in increases in homelessness.

Disinvestment in public services increases poverty and social exclusion: Those countries which, as part of financial consolidation measures, have had the greatest disinvestment in public services and the largest reductions in social expenditure tend to have seen the greatest increases in poverty and social exclusion. Five countries showed a decline in real terms in social protection expenditure per capita between 2008 and 2011 (the latest year for which there are data) – Greece, Croatia, Hungary, UK and Lithuania. All of these countries showed an above average increase in the proportion of people at risk of poverty or social exclusion over the period – in Greece, Hungary and Lithuania, markedly so (by over 4pp as against an EU average increase of

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21. Source: EU-SILC, Eurostat online database, 30-31 July 2014.

22. Source: EU-SILC, Eurostat online database, 3 September 2014. No data available for Germany.

23. *"In LT, the number of families entitled to social housing has been constantly increasing between 2008 and 2012 (in 2012 it was 33% higher than in 2008), and multiplied by 3.4 times between 2004 and 2012. However, only a small share of the demand is satisfied - so, in 2012 only 3.4% of the entitled families accessed renting in municipal social housing. In LV, the number of housing benefits' recipients increased between 2009 and 2012. In 2012, the number of housing benefit recipients was 38% higher than in 2009. In FI, the number of recipients (households) of general housing allowances has increased in the 2009-2013 period, so that in October 2013 it was 31.8% higher its amount in January 2009. The rise between October 2012 and October 2013 was of 6.9%. Also, the number of applicants in social rental housing increased between 2008-2012 in FI, reaching over 100,000 applicants waiting for an apartment in 2012. However, the situation varies regionally and about 40 % of the population lives in the area where there are empty social rental dwellings. In FR, the total number of beneficiaries of housing allowances kept rather stable during the 2009-2011 period, and similar to the 2000 level. The amount of such benefits has however been increasing every year since 2006. The highest annual increase during the 2000-2011 period was in 2008, when it grew by 7.2% with respect to the previous year. Between 2010 and 2011, the total amount of housing benefits (in euro) grew by 3.3%. In PL, the total number of housing allowances paid out in 2012 was 0.7% higher than in 2011, while the total amount paid as housing allowances rose by 5.2% as compared to the 2011 amount."* (SPC, 2014a, pp. 58-59)

just over 1pp) <sup>(24)</sup>. There was an overall reduction of public investment of 15% over the 4 years 2008-2012 across the EU and one of 60% or more in Ireland, Greece and Spain. The same observation is also true of investment in human capital (Vandenbroucke with Vanhercke, 2014):

- a) "Government expenditure on health increased in real terms in most countries over the two years 2008-2010. (...) There was a more widespread reduction in 2011, especially in Greece where it was cut back by over 20%, taking the overall reduction over the period 2008-2011 to 28%";
- b) "government expenditure on education, widely considered to be important for future economic growth, has followed a similar pattern to spending on healthcare. Growth was maintained in most countries over the two year 2008-2010 but it came to a halt or expenditure was cut back in the following year. Real public expenditure on education, therefore, was lower in 2011 than in 2008 before the crisis in 10 Member States, most especially again in Latvia, Greece, Ireland and Estonia (though not Slovakia) and also in Romania";
- c) "the provision of childcare by governments is generally considered to be essential to make it possible for women with young children to pursue a working career and, accordingly, to be an important element in any policy for reducing child poverty as well as to ensure equality of opportunity between men and women. In 2012, real expenditure on child care was lower than in 2008 (...) in ten Member States, including all three Baltic States, Greece, Portugal and Cyprus." (Vandenbroucke with Vanhercke, 2014)

## ***2.6 Major consequences of increasing poverty***

The rise in poverty and social exclusion during the crisis has had (and continues to have) significant negative consequences for individuals, for social cohesion and for the long-term sustainability of the EU. Understanding the serious implications of these consequences for the future of the EU should help to motivate a stronger political response to addressing them as well as to addressing the growing divergence in social outcomes between Member States and to reinforcing solidarity between Member States. Thus, below some of the key consequences are identified in more detail.

Impact on individuals: The European Quality of Life Survey documents very significant negative impacts on the lives of some individuals and significant divergence between Member States (Eurofound, 2012a). For instance, people with low incomes are more likely to have experienced

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24. Source: EU-SILC, Eurostat online database, 3 September 2014.



negative financial consequences in the previous 12 months and to report more difficulties in making ends meet. They also report more problems with work-life balance, health and access to health services. Those people who are most vulnerable (people in the lowest income quartile, long-term unemployed...) show the greatest decline in subjective well-being between 2007 and 2011. Unemployment and long-term unemployment, in particular, have a huge impact on subjective well-being. This holds particularly true for young people: unemployment at a young age is likely to have lasting negative effects on future income and risk of unemployment due to the deterioration of human capital and employability ("scarring effects"), even setting aside the negative effects on individuals' health, well-being and job satisfaction (Eurofound, 2012b). Countries that report a better quality of life are those in the northern and western parts of the EU, while those expressing more disadvantages are mainly in southern, central and eastern Europe (Eurofound, 2012a).

Impact on social cohesion: The rise in racism and discrimination is both a consequence of poverty and social exclusion and a contributory factor to it. Eurofound (2012a) has reported an increased perception of rifts between racial and ethnic groups and a growing proportion of people identifying tensions between the rich and the poor. Such social tensions are especially evident among those who are most disadvantaged. Eurofound also notes that there is declining trust in public institutions, specifically in governments and parliaments at national level. This is particularly evident in the countries most affected by the economic crisis.

Impact on gender inequality: Women have a higher risk of poverty or social exclusion than men (25.7% to 23.8%) though during the crisis (2008-2012) the rate for males increased faster (+1.5pp) than for females (+0.6pp) <sup>(25)</sup>. However, it is important to note that even though the first "wave" of the crisis was a private sector crisis, concentrated in manufacturing and construction, which accordingly impacted more on the male dominated sectors of the economy (car industry, construction, etc.) subsequently the crisis extended to the public sector which has affected women more. Cuts in public sector jobs have had a marked effect on women's employment as women constitute on average almost 70% of public sector workers in the EU. Since 2010, women have experienced much the same increase in unemployment as men (for women, the unemployment rate in the EU as a whole went up from 9.5% to 10.8% and for men from 9.7% to 10.8%). The European Women's Lobby (2012) has produced evidence of the gendered impact of cutbacks in services and benefits and at the same time reduced funding for women's rights and gender equality. The conclusions recently adopted by the Council on "Women in the Economy" are then particularly welcome (Council of the EU, 2014a, § 15). Indeed, in its conclusions the Council acknowledges that women's over-representation in part-time work increases their risk of in-work poverty and calls upon the Member States and the Commission to

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25. Source: EU-SILC, Eurostat online database, 30-31 July 2014.

provide for a pillar on gender equality within the Europe 2020 governance framework. Finally, it should be noted that the generosity of the welfare state towards women varies greatly between countries. So, in 2012 the reduction in the risk of poverty for single-parents as a result of social transfers is less than 8pp in Greece and Croatia but more than 60pp in Ireland, the UK and Cyprus.

Impact on competitiveness and economic growth: In its "Employment and Social Developments in Europe 2012" report, the European Commission illustrates how difficult it is to estimate "*the wider consequences of poverty or exclusion, not just for individuals/households but for society as a whole, focusing on aspects such as the impact in terms of foregone earnings, human capital development and social unrest. While in the EU, there is currently no comprehensive study that quantifies the overall costs of poverty and social exclusion, several studies have evaluated the economic and societal costs of specific situations related to poverty, such as unemployment or NEET for the youth. Such approaches could be mobilised to provide estimates of the cost of poverty in Europe*" (European Commission, 2013d). According to a Eurofound (2012b) study on the NEET, covering EU-27 countries, "*in 2011, the economic loss due to the disengagement of young people from the labour market was €153 billion. This is a conservative estimate and corresponds to 1.2% of European GDP. There is great variation between Member States, but some countries are paying an especially high price of 2% or more of their GDP: Bulgaria, Cyprus, Greece, Hungary, Ireland, Italy, Latvia and Poland.*" According to another EU study, "*the impact of poor unemployed people getting jobs is estimated to account for around 1% of GDP in some Member States and to 0.5% of GDP or more in over half of the Member States*" (European Commission 2013e, p. 32 <sup>(26)</sup>). Canadian studies estimate the cost of poverty at 5.5 to 6.6% of GDP in Ontario (Ontario Association of Food Banks, 2008) and between 4.1% and 4.7% of GDP in British Columbia (Ivanova, 2011).

Loss of confidence in the EU: The rise in poverty and social exclusion is undermining confidence in the EU and is a significant contributory factor in the growth of euro-scepticism in many countries, as evidenced by the "anti-EU sentiment time bomb" (Natali, 2014) that became apparent during the recent European Parliament elections. As acknowledged by European Commission President-elect Jean-Claude Juncker "Europe has lost some of its credibility. The gap between the European Union and its citizens is widening. One has to be really deaf and blind not to see this." (Juncker, 2014) This is why some have coined the expression "excessive social imbalances": the EU is not simply faced with social problems that affect Member States very differently (thus creating *imbalances*), but these differences are *excessive* in that they threaten the monetary union as much as excessive economic imbalances (Vandenbroucke with Vanhercke, 2014). Continuing large social divergence between Member States will indeed steadily undermine the credibility of the European

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26. In this Commission document, see esp. Section 5.5 "The economic returns on social investment and the costs of unemployment, poverty and social exclusion".

project, and will further prompt reasoning in terms of “us” and “them” – “the South” versus “the North”. At the same time, it is encouraging that a recent Eurobarometer survey highlights that 78% of Europeans perceive “*helping the poor and socially excluded and enabling them to play an active part in society*” as an important initiative for overcoming the economic and financial crisis (Eurobarometer 2013).

### 3. Poverty or social exclusion targets at EU and Member State levels

In 2010, for the first time ever, the EU set a quantitative target for the reduction of poverty and social exclusion as one of the key targets of the Europe 2020 Strategy. This represented an important advance in putting poverty and social exclusion at the centre of EU policy making. Even though progress has been disappointing, its very existence has provided an important focal point for arguing for strong social inclusion policies. It has been a mobilising tool for civil society (Barcevicus *et al*, 2014) and provides a basis for regular reporting and monitoring progress on poverty and social exclusion across the EU (<sup>27</sup>). Understanding the impact of setting an EU target and learning lessons about the strengths and weaknesses of the subsequent setting of national targets can help to strengthen target setting in the next phase of the Europe 2020 Strategy.

#### 3.1 EU target

As described above and in Annex 3, the Europe 2020 poverty or social exclusion target is to reduce by 20 million the number of people at risk of poverty or social exclusion by 2020. The base line year for setting the AROPE target was 2008 when 116.4 million people were at risk of poverty or social exclusion. Thus, the aim is to reduce this number to 96.4 million by 2020 – i.e., a reduction of 17.2% relative to the 2008 baseline but one of 21.7% relative to the number in 2012.

At the time the target was set, there was some criticism of it for two main reasons. First, there was a suggestion that reducing poverty or social exclusion by only 20 million was lacking in ambition. Secondly, some people suggested that the (quasi-)jobless households indicator was more a factor explaining poverty and social exclusion rather than a measurement of them. However, many also recognised that its inclusion was a necessary compromise and that reduction in (quasi-)joblessness was important not only for reducing poverty but also for increasing social inclusion.

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27. As rightly emphasised by the President of the European Commission, José Manuel Barroso, “*the Europe 2020 agenda, in setting a social inclusion target, has highlighted three dimensions of poverty and social exclusion. It is also essential, however, that Member States – and the EU as a whole – continue to monitor performance according to the full set of commonly agreed social indicators underpinning EU coordination and cooperation in the social field.*” (Barroso, 2010)

Indeed, by encompassing not only low incomes relative to the norm in society but also joblessness and deprivation (i.e. the inability of households to afford/access items which most in society almost take for granted or to be free of financial stress) the target reflects the multi-dimensional nature of poverty and social exclusion.

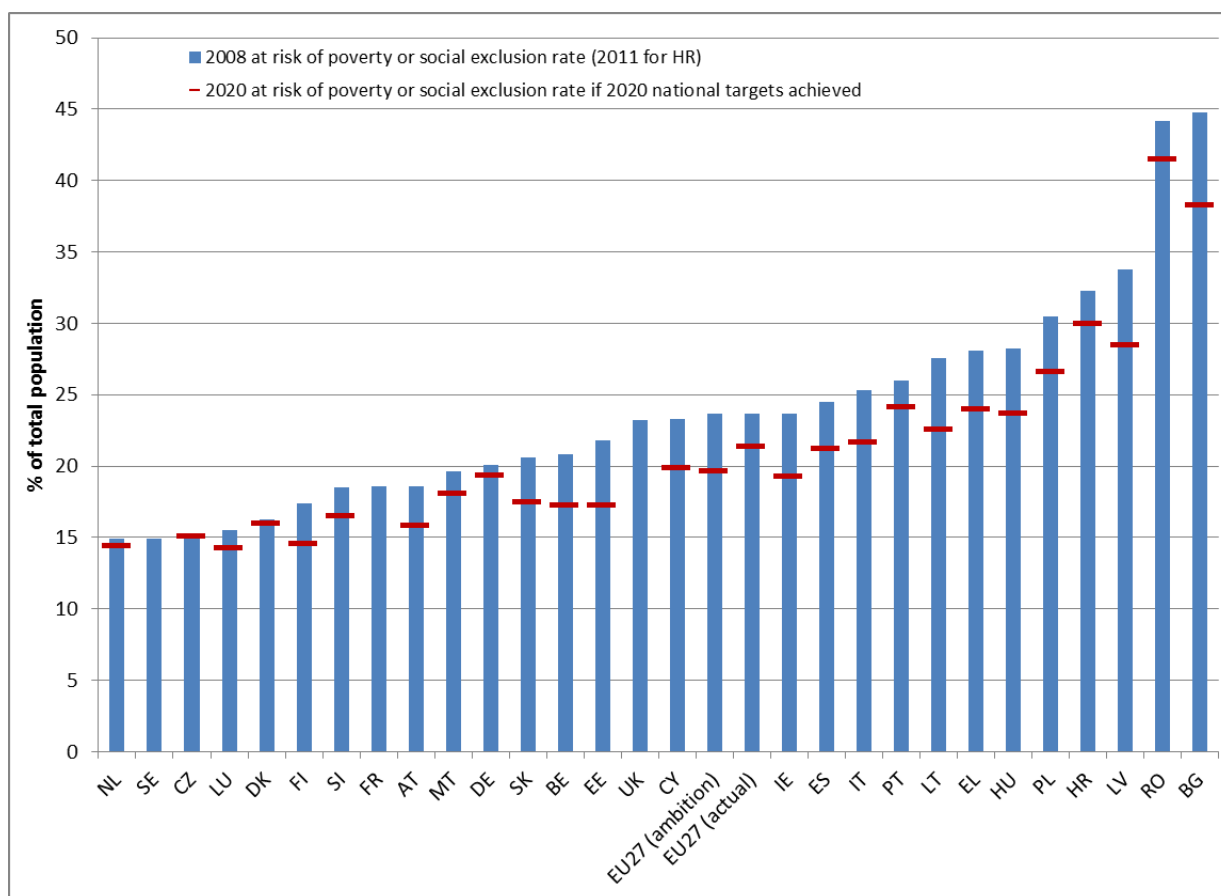
Another limitation of the target was claimed to be the risk of a “creaming” effect: i.e. that progress could be made towards a 20 million reduction without improving the position of those experiencing the most severe poverty and social exclusion (e.g. very long-term unemployed, Roma and other excluded groups, homeless, people with disabilities, some migrants) (see Walker, 2010).

### ***3.2 Inadequate national targets***

Even if all Member States reached the poverty or social exclusion targets they have set, the overall EU poverty or social exclusion target would not be achieved. Indeed, the sum of the national targets (EU-27) adopted so far by Member States would only reduce poverty or social exclusion by 12 million instead of the 20 million agreed upon by EU Heads of State and Government in 2010. This is set out in Figure 3. For each country, this figure shows the national target relative to the national situation, in terms of the proportion of the population at risk of poverty or social exclusion in 2008, the last year for which data were available when national targets were set.

In 2010, when setting its national poverty or social exclusion target(s) there was no requirement for a Member State to select one target which was in any way proportionate to the size of its total population or to its share of the 116.4 million at risk of poverty or social exclusion in 2008. The “sharing” among countries of the responsibility for reaching the overall EU target, albeit essential for the success of the process, was never a matter of agreement.

**Figure 3: At risk of poverty or social exclusion rates, Actual percentage in 2008 (survey year) and Targeted percentage for 2020, Total population, %, EU-28**



**Source:** EU-SILC and European Commission.

Note 1: See Note in Figure 1.

Note 2: SE and UK are not included due to the specificity of their national targets. FR has to agree a new target after its poverty strategy and related target ended in 2012. In DE, the target is one related to long-term unemployment and what the graph shows is thus the expected reduction in the level of at risk of poverty or social exclusion that will be reached if this target is achieved.

Reading note: In 2008, i.e. the most recent data available when the Europe 2020 poverty or social exclusion target was set in 2010, the EU-27 at risk of poverty or social exclusion rate was 23.7% (116.4 million). The ambition for 2020 is to reduce it by 17.2% (down to 96.4 million), or put differently (at population unchanged) to have an EU-27 at risk of poverty or social exclusion rate of 19.6% in 2020 – in the graph, this is referred to as “EU-27 (ambition)”. If we sum up all the national poverty or social exclusion targets set by countries, we arrive at an EU-27 at risk of poverty or social exclusion rate of 21.2% in 2020 –this is referred to as “EU-27 (actual)”.

It is evident that the national targets set by Member States differ significantly in relation to the prevailing proportion of the population at risk of poverty or exclusion at the time, which reflects the differing degrees of ambition they had for reducing the number of people at risk. The target set in Bulgaria, therefore, is much more ambitious than the target set in Romania, while in Portugal, it is much less ambitious than in Italy or Spain, three countries with relatively similar proportions of the population at risk.

Moreover, Member States were left “free to set their national targets on the basis of the most appropriate indicators, taking into account their national circumstances and priorities” (European Council, 2010). They did not have to use the EU at-risk-of-poverty-or-social-exclusion indicator or

any one of its component parts. However, almost all countries did even if in some cases the Europe 2020 target component they chose does not seem to reflect the most pressing problem facing them (see Table 3). Of the 24 of the 27 Member States setting national targets (exceptions: FR, SE, UK), 16 chose to focus on the same aggregate indicator as the overall EU one. Given that in some of these countries one of the three components of the overall EU aggregate indicator is much higher than the other components, it raises the issue of whether it might be useful for these countries to set an additional target as well as the overall at-risk-of-poverty-or-social-exclusion target. For instance, in HU, PL and SK the proportions of people at risk of severe material deprivation are significantly greater than the EU average than is the case for the at-risk-of-poverty or quasi-(jobless) indicators while in ES it is the at-risk-of-poverty indicator that is much higher and in BE it is the proportion of people living in (quasi-)jobless households that is substantially above average.

Of those that did not use the aggregate EU indicator, three selected the at-risk-of-poverty rate alone. BG and RO chose this indicator as the one to set as a target. However, though in both cases the at-risk-of-poverty rate was well above the EU average, it was much less so than was the case for the proportion of households experiencing severe material deprivation (which was 4-5 times above the average). In these cases, however, the high proportion reflects the low income per head in the country, which means that a significant reduction in the number depends largely on sustaining a high rate of economic growth. Only in EE is the target chosen in line with the apparent main problem.

IE opted for an indicator of consistent poverty, i.e. an indicator looking at people combining at-risk-of-poverty and deprivation whereas their biggest challenge is the proportion of people living in (quasi-)jobless households that is substantially above average. Latvia has chosen to set a target in relation to the at-risk-of-poverty rate and/or (quasi-)joblessness. While the at-risk-of-poverty rate was indeed well above the EU average in 2008, it was less so than the severe material deprivation rate, though the same consideration applies as for Bulgaria and Romania and in this case, the rate was below the EU12 average. The proportion of people living in (quasi-)jobless households, however, which is the other component of the target, was well below the EU average (as well as the EU12 average), so it does seem to be a major problem.

**Table 3: Situation in Member States in terms of the components of the at-risk-of-poverty or social exclusion indicator and the indicator(s) chosen as a target, EU-27, 2008 (survey year)**

|      | At risk of poverty<br>(ARP) | Severe material deprivation<br>(SMD) | (Quasi-) Joblessness<br>(JOBL) | At risk of poverty<br>(ARP) | Severe material deprivation<br>(SMD) | (Quasi-) Joblessness<br>(JOBL) | Indicator chosen for national target<br>(NI) |
|------|-----------------------------|--------------------------------------|--------------------------------|-----------------------------|--------------------------------------|--------------------------------|--|
|      | % Population                |                                      |                                | Relative to EU-27 average   |                                      |                                |  |
| EU27 | 16.5                        | 8.5                                  | 7.0                            | 1.000                       | 1.000                                | 1.000                          |  |
| EU15 | 16.2                        | 5.4                                  | 7.2                            | 0.982                       | 0.635                                | <b>1.029</b>                   |  |
| EU12 | 17.3                        | 20.7                                 | 6.4                            | 1.048                       | <b>2.435</b>                         | 0.914                          |  |
| BE   | 14.7                        | 5.6                                  | 9.1                            | 0.891                       | 0.659                                | <b>1.300</b>                   | AROPE  |
| BG   | 21.4                        | 41.2                                 | 6.2                            | 1.297                       | <b>4.847</b>                         | 0.886                          | ARP  |
| CZ   | 9.1                         | 6.8                                  | 5.7                            | 0.552                       | 0.800                                | <b>0.814</b>                   | AROPE  |
| DK   | 11.8                        | 2.0                                  | 6.4                            | 0.715                       | 0.235                                | <b>0.914</b>                   | JOBL   |
| DE   | 15.2                        | 5.5                                  | 8.6                            | 0.921                       | 0.647                                | <b>1.229</b>                   | Long-term                                    |
| EE   | 19.4                        | 4.9                                  | 4.0                            | <b>1.176</b>                | 0.576                                | 0.571                          | ARP  |
| IE   | 15.5                        | 5.6                                  | 11.5                           | 0.939                       | 0.659                                | <b>1.643</b>                   | Consistent                                   |
| EL   | 20.1                        | 11.1                                 | 5.6                            | 1.218                       | <b>1.306</b>                         | 0.800                          | AROPE  |
| ES   | 20.8                        | 3.6                                  | 5.2                            | <b>1.261</b>                | 0.424                                | 0.743                          | AROPE  |
| FR   | 12.5                        | 5.4                                  | 6.7                            | 0.758                       | 0.635                                | <b>0.957</b>                   |  |
| IT   | 18.7                        | 7.5                                  | 7.3                            | <b>1.133</b>                | 0.882                                | 1.043                          | AROPE  |
| CY   | 15.9                        | 9.1                                  | 3.8                            | 0.964                       | <b>1.071</b>                         | 0.543                          | AROPE  |
| LV   | 25.9                        | 19.2                                 | 4.2                            | 1.570                       | <b>2.259</b>                         | 0.600                          | ARP and/or JOBL                              |
| LT   | 20.0                        | 12.4                                 | 4.1                            | 1.212                       | <b>1.459</b>                         | 0.586                          | AROPE  |
| LU   | 13.3                        | 0.6                                  | 3.7                            | <b>0.806</b>                | 0.071                                | 0.529                          | AROPE  |
| HU   | 12.5                        | 17.9                                 | 9.6                            | 0.758                       | <b>2.106</b>                         | 1.371                          | AROPE  |
| MT   | 15.2                        | 4.3                                  | 6.8                            | 0.921                       | 0.506                                | <b>0.971</b>                   | AROPE  |
| NL   | 10.4                        | 1.5                                  | 6.4                            | 0.630                       | 0.176                                | <b>0.914</b>                   | JOB (for 0-64)                               |
| AT   | 12.3                        | 6.4                                  | 6.0                            | 0.745                       | 0.753                                | <b>0.857</b>                   | AROPE  |
| PL   | 16.9                        | 17.9                                 | 6.5                            | 1.024                       | <b>2.106</b>                         | 0.929                          | AROPE  |
| PT   | 18.5                        | 9.7                                  | 4.8                            | 1.121                       | <b>1.141</b>                         | 0.686                          | AROPE  |
| RO   | 23.3                        | 32.9                                 | 6.6                            | 1.412                       | <b>3.871</b>                         | 0.943                          | ARP  |
| SI   | 12.3                        | 6.6                                  | 5.4                            | 0.745                       | 0.776                                | 0.771                          | AROPE  |
| SK   | 10.8                        | 11.7                                 | 4.2                            | 0.655                       | <b>1.376</b>                         | 0.600                          | AROPE  |
| FI   | 13.6                        | 3.6                                  | 5.7                            | <b>0.824</b>                | 0.424                                | 0.814                          | AROPE  |
| SE   | 12.2                        | 1.5                                  | 4.2                            | <b>0.739</b>                | 0.176                                | 0.600                          |  |
| UK   | 18.7                        | 4.5                                  | 8.1                            | 1.133                       | 0.529                                | <b>1.157</b>                   |  |

**Source:** EU-SILC, Eurostat online database, 29 August 2014. Authors' calculations.

Note 1: See Note in Figure 1.

Note 2: AROPE means at risk of poverty or social exclusion (i.e. the indicator used for the national target is the same as the one used for the Europe 2020 EU target). EU15 refers to the EU before the 2004, 2007 and 2017 enlargements. EU12 refers to the 12 Member States that joined the EU in 2004 or 2007.

Note 3: Shaded figures are the highest ones relative to the EU-27 average.

Reading note: In Ireland, the proportion of people living in (quasi-)jobless households is 1.6 times higher than the EU-27 average.

The other two countries which have chosen (quasi-)joblessness as the target (DK and NL), have rates which are much higher in relative terms than those of the other two components of the EU indicator, even if below the EU average; so the choice seems justifiable.

Finally, the other country which has set a target other than the overall indicator is Germany, which has decided to focus on long-term unemployment. Though not a component of the agreed EU indicator, it is of course closely linked to its three components, in the sense that it is a major reason among people of working-age for them to be at risk of poverty, severely materially deprived and/or living in a (quasi-)jobless household.

### ***3.3 Lack of progress***

As we have seen earlier, the number of people at risk of poverty or social exclusion in the EU-27 has *not* been reduced, but has instead increased from 116.4 million in 2008 to 123.1 million (124.5 for EU-28) in 2012. The downward trend evident up to the 2008 survey continued in 2009 (i.e. the 2008 income year, falling to 114.3 million) but has risen steadily since then. Monetary poverty is the main contributor to the overall number and severe material deprivation has increased most rapidly, by 7.7 million people since 2010. (See Annex 3.)

While having an EU target on poverty or social exclusion has clearly been important in giving these issues higher prominence within EU policy making, the lack of progress on the overall EU target and on most national targets adopted in by Member States in response to it raises important issues as to whether the overall EU poverty or social exclusion target should be maintained or amended in light of experience. It is essential in our view that the *level of ambition* set in 2010 be kept unchanged and remains at the heart of any revision of the target, with renewed policy commitments and efforts at all levels (EU, national and sub-national) to achieve it. Yet, it does not mean that amendments should not be considered.

As far as the overall EU target is concerned, we would identify three issues that may be worth exploring:

- a) Material deprivation: When the Council of the EU adopted the new “at-risk-of-poverty-or-social-exclusion” indicator in 2010 to monitor progress towards the 20 million EU target, it also decided that the mid-term review of the EU target should include a review of its three components. Additionally, it stated that the mid-term review of the EU target should step up work on improved measures of material deprivation. In the meantime, EU funded in-depth analytical work has been carried out to improve the measurement of material deprivation at EU level and a concrete proposal for a revised indicator has been discussed within the European Statistical System and at the Social Protection Committee (Guio, Gordon and Marlier, 2012; Guio and Marlier, 2013). The analyses were performed on a thematic module on material deprivation collected in the 2009 wave of EU-SILC. New EU-SILC data have just become available, which will allow testing further the suggested revised indicator in the next months (especially its robustness over time).



- b) Base line: Another important issue is the baseline year for Europe 2020 which is 2008, the most recent data available when the Strategy was launched. The question arises as to whether a more appropriate year to use as a baseline year would be 2010 (the actual start date of the Europe 2020 Strategy) or 2009 (the year before the start when the number at risk of poverty or social exclusion reached its lowest level)? Whether the baseline year is changed or not, what should be the reference year for reaching the Europe 2020 target in view of the fact that despite important progress made in the timeliness of data, 2020 data will not be available before 2021 (and for two of the three sub-indicators, at-risk-of-poverty and (quasi-)joblessness, these data will relate in the main to the situation in 2019)?
- c) Interim target: Given the distance the EU is from achieving its target, the mid-term review may have to ponder whether it is still achievable by 2020 or whether the ambition should be maintained but with a target date extended beyond 2020 and an interim target for 2020. However, on balance this may not be wise as it would *de facto* imply a reduction in ambition and could dilute efforts to make a real impact on poverty and social exclusion. It is worth noting that when the original target was set, many people felt that it was not sufficiently ambitious given the scale of the problem being addressed. To now reduce it further is likely to send out the wrong political message.

Other issues worth investigating include the following:

- a) National targets: There are significant questions as to the appropriateness of the national targets set by some Member States. In particular, there is the issue of whether in future all Member States should be asked to set a target that uses the EU aggregate indicator (at-risk-of-poverty-or-social-exclusion) or at least one of its three component indicators, particularly if they face a particular challenge in relation to one of these three indicators.
- b) Burden sharing: The preceding analysis also raises issues about how the challenge of achieving the overall EU target should be shared between Member States. Thus a key issue for the mid-term review will be to decide whether the burden of achieving the overall EU target should be equally shared among countries or whether countries with the largest proportion of people at risk should be asked to reduce the figure by most and in this case how should the reductions in question be decided.
- c) Sub-targets: Another important aspect for consideration during the mid-term review is the setting of sub-targets. In particular, currently the Europe 2020 Strategy does not include a target on the poverty or social exclusion of children. In view of the growing importance being given to tackling child poverty and social exclusion (e.g. the February 2013 Commission Recommendation on investing in children), there is a strong argument for considering setting an EU child poverty or social exclusion target (see Annex 3 for some background statistical information relevant to this issue). Also, at national level, in order to enhance the specific nature of efforts to reduce poverty or social exclusion, there are

strong arguments for encouraging Member States to set sub-targets by population, age and gender and in relation to the aspects of poverty or social exclusion on which they most need to make progress (e.g. child poverty, housing exclusion and homelessness, long-term unemployment, youth unemployment, [quasi-]joblessness...).

- d) Creaming effect: Finally, also worth exploring further when considering the role of targets in the Europe 2020 Strategy is how to limit the risk of a “creaming” effect, i.e. that countries progress towards their national poverty or social exclusion target(s) without improving the position of people most at risk of poverty or social exclusion (see Walker, 2010).

#### **4. Moving forward policies at EU and Member State levels to achieve the EU target**

Improving and setting EU and national targets to combat poverty and social exclusion will be of little value if these targets are not accompanied by improvements in policies and policy making. Thus, a key challenge during the mid-term review of Europe 2020 will be to identify both which are the most important policies to strengthen and how to ensure that the necessary social policies are given a high priority in EU and national governance arrangements. The following are some of the key areas that, in the light of the preceding analysis, it will be important to focus on.

Multi-dimensional approaches are essential: Given the multi-dimensional nature of poverty and social exclusion there is no one single policy approach that will prevent and reduce poverty and social exclusion. Countries that are most successful combine a whole range of policies that are mutually reinforcing, ranging from employment activation and training, to adequate systems of income support and access to high quality services. However, the focus on poverty and social exclusion during the implementation of the Europe 2020 Strategy since 2010, to the extent that there has been one, has too often been from an overly narrow perspective. Employment activation has often not been complemented with the necessary investment in other policy areas and there is not sufficient recognition that for some people access to the regular labour market may not be a realistic option. (See Frazer and Marlier, 2013.)

Investing in economic and employment growth is key: Given that more quality jobs will be key to tackling two of the main causes of poverty, unemployment and in-work poverty, EU Member States urgently need to relax their fiscal consolidation policies, or target them better, and invest in a serious environmentally sustainable growth and jobs strategy, most especially in the southern countries but also elsewhere. Recent research on “Sustainable and Qualitative Growth” (SQG) in the EU proposes that the traditional focus on GDP growth should be complemented by an adherence to a wider range of qualitative indicators which more broadly characterise the well-

being of society as a whole (Sabato *et al*, 2014). A key part of this "Beyond GDP" strategy is investing in affordable housing, energy-saving/insulation priorities and social/health infrastructure (particularly early childhood education and care centres/health and social services) to ensure positive results on multiple Europe 2020 objectives: providing new jobs, investing in people (education and training, lifelong learning strategies), tackling climate change and reducing poverty (see EU Alliance for a Democratic, Social and Sustainable European Semester, 2014; see also Feigl *et al*, 2013). The European Citizen's Initiative "Invest in Education" points to the need to consider how tightly the SGP rules should be interpreted as regards government spending on education: it may very well be that the current rules provide for some room for manoeuvre in this respect.

Coherence is needed between economic, employment and social policies: Since the beginning of the Europe 2020 Strategy, the social dimension has been subservient to the economic and financial, and the focus has been much more on fiscal consolidation than on social inclusion (see various assessments of European Semester by the EU Network of Independent Experts on Social Inclusion, by EU poverty networks such as EAPN, Eurochild and European Social Network as well as by the European Trade Union Institute). The impact of economic, environmental and employment policies on social inclusion needs to be taken much more into account. There are two ways that this might be achieved. The first is by strengthening the social dimension of Economic and Monetary Union (EMU) with reinforced surveillance of social challenges alongside economic and employment challenges and a requirement that economic and monetary policies contribute to the achievement of the EU social objectives and to combating poverty and social exclusion. The development of a set of indicators to monitor progress on the social dimension of EMU is therefore important (the Social Protection Performance Monitor is a useful start and could be a valuable tool in this regard). Further enhancing the social and employment indicators of the Macroeconomic Imbalances Procedure (MIP) Scoreboard will be an essential further step towards mainstreaming social policy objectives in the overall governance architecture of EMU. The second is by increasing the use of social impact assessments (SIAs) to assess the impact on social inclusion of all policies introduced in the context of the Europe 2020 Strategy as well as that of fiscal consolidation packages. This plea is in line with a strong statement by European Commission President-elect Jean-Claude Juncker (2014), "*I (...) propose that, in the future, any support and reform programme goes not only through a fiscal sustainability assessment; but through a social impact assessment as well*". It should help to mainstream the EU's social objectives across all policy areas.

Social investment must be at the heart of the Europe 2020 Strategy: Increasing economic growth and ensuring the availability of quality jobs needs to be balanced and complemented by social policies which invest in building human capabilities. Such policies increase the capacity of people to take up jobs when they become available and increase the contribution they can make to economic growth as well as helping them to participate actively in society. The creation of jobs in areas such as health, education, social services, vocational training and child-care is an important

part of achieving the growth of employment required as well as an investment in a more cohesive society. The Commission's 2013 guidance to Member States on the "Social Investment Package" (SIP) sets out a strong case for the contribution that well-designed social policies can make to economic growth as well as to protecting people from poverty and acting as economic stabilisers (see European Commission, 2013) <sup>(28)</sup>. It provides a basis for putting social issues at the heart of the Europe 2020 Strategy: the SIP provides guidance to help reach the Europe 2020 targets by establishing a link between social policies, the reforms as recommended in the European semester to reach the Europe 2020 targets and the relevant EU funds. The SIP identifies policies designed to strengthen people's skills and capabilities and to support them so that they can participate fully in economic and social life. Key policy areas include education, quality childcare, healthcare, social services, training, job-search assistance and rehabilitation. There is considerable emphasis in the SIP on using resources more efficiently and effectively, which is essential given the constraints which exist on public finances and which are likely to continue to exist even if fiscal consolidation measures are moderated. It therefore encourages more evidence-based policy making and more assessment of the actual impact of policies to ensure that resources are used in a way that it is likely to achieve the best results. It also necessitates the collection of sufficient reliable data to make such assessment possible.

Tackling unemployment requires active inclusion approaches: The need for an active inclusion approach to tackling unemployment which integrates the three pillars of adequate income support, inclusive labour markets and enabling services is well documented but to date has been only weakly implemented in many Member States <sup>(29)</sup>. The SIP accordingly urges Member States to fully implement the Commission's 2008 Recommendation on active inclusion without further delay, including, where applicable, through the use of the European Social Fund (ESF) and European Regional Development Fund (ERDF). It is equally important, given the high level of unemployment of young people, to implement the Youth Guarantee through high quality integrated programmes.

Sustainability and adequacy of income support has to be strengthened: The economic crisis has made the role played by social protection schemes in both preventing people falling into poverty and supporting their (re)integration into the labour market even more important. However, the

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28. The SIP consists of a Commission Communication ("Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020"), a Commission Recommendation on "Investing in Children: breaking the cycle of disadvantage" and a series of Staff Working Documents on active inclusion, demographic and social trends, social services of general interest, long-term care, confronting homelessness, investing in health, social investment through the European Social Fund. All available at:

<http://ec.europa.eu/social/main.jsp?catId=1044&langId=en&moreLinks=yes>

29. See European Commission, 2008 and 2014e.

See also Frazer and Marlier (2013) and national contributions from the EU Network of Independent Experts on Social Inclusion on the *Assessment of the implementation of the European Commission Recommendation on active inclusion*. Available at:

<http://ec.europa.eu/social/main.jsp?catId=1025&langId=en&newsId=1823&furtherNews=yes>

coverage of such schemes and the adequacy of the income they provide vary widely across the EU and many fall well short of guaranteeing a sufficient income to live life with dignity. A key starting point is to ensure that all Member States have adequate minimum income schemes. The current initiative by the Commission in cooperation with the Social Protection Committee to develop a methodology to establish reference budgets <sup>(30)</sup> is of major potential importance in this regard as it should help Member States to design efficient means of income support that take account of social needs at national and sub-national levels. Such a benchmark of adequacy could also be used as a reference to set minimum wages. While many Member States have been reluctant so far, the EPSCO Council recently agreed to examine the possible usefulness of reference budgets (or similar instruments) and to assess the extent to which they can help in the design of efficient and adequate income support (Council of the EU, 2013).

Consideration might also be given to adopting an EU Framework Directive that would call for the gradual and flexible implementation of adequate minimum income schemes in all Member States, as suggested by the European Parliament and the European Economic and Social Committee (EESC). In the longer term, there may be a case for putting in place some means of redistributing resources between Member States to ensure that all countries are able to have effective social protection systems. (See Peña-Casas and Bouget, 2014; Frazer, Marlier and Nicaise 2010; Frazer and Marlier, 2009.) There may also be a case for establishing an EU-wide unemployment benefit scheme which would not only improve the protection available in some countries where the level of support provided is relatively low but would also have the added advantage of acting as an automatic stabiliser.

Tackling non-take-up of social benefits is equally an important policy challenge in all Member States. Though research is scarce, the evidence suggests that there is a wide gap between the number of people who appear to meet the eligibility criteria for receiving minimum social assistance and the number of people actually receiving it. Non-take-up is an increasingly crucial issue to overcome in order to ensure the efficiency of anti-poverty policies, as large numbers of poor households/ individuals do not claim social allowances for diverse reasons (Warin, 2010). A thematic in depth review organised in 2013 by the Social Protection Committee showed that *"while means-tested measures and a better targeting of benefits appears to be an important approach and certainly an area in which the exchange of experiences and good practices is helpful, the revision of the governance structures such as introducing central coordinating bodies is a less transferable practice. One-stops-shops and better combination of benefit schemes was an important point raised by several presentations as measures which improve outreach and take up"* (SPC, 2014a, p. 152). The Social Open Method of Coordination, *inter alia* through peer reviews and

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30. Reference budgets are priced baskets of goods and services that represent a given living standard. They are calculated for different household sizes and composition.

analyses by EU Networks of independent experts, provides a good means of exchanging knowledge and examples of good practice between Member States and should be used for exploring further these promising solutions to address non-take-up in the near future.

Improving access to high quality services in areas such as education, healthcare and long-term care and other social services is essential for people to be able to develop and work to their full potential and is a key element of a social investment approach. For instance, ensuring a successful and sustainable growth strategy, particularly in southern countries, requires significant investment in improving human capital through education and vocational training. The Social Investment Package (SIP) encourages Member States to put in place the legislation and institutions that guarantee access to efficient, high quality and affordable social services and care facilities. An important challenge in this context is to ensure the delivery of personalised and integrated services through organisational arrangements such as one-stop shops or single/ central case-handlers.

Implement three pillar approaches to tackling child poverty and social exclusion: There is now a broad consensus that effective strategies to prevent child poverty and social exclusion and to promote child well-being need a three pillar approach: access to adequate income (through both employment and income support), access to high quality services and opportunities for participation. This is well reflected in the Commission Recommendation on Investing in Children (European Commission, 2013). However, many Member States still have a long way to go in implementing the Recommendation and recent reports from the EU Network of Independent Experts on Social Inclusion identify priorities in this regard for each Member State (Frazer and Marlier, 2014b).

Develop comprehensive approaches to support populations at high risk: The importance of developing integrated and comprehensive means of tackling poverty and social exclusion among the Roma and people experiencing housing exclusion and homelessness is well documented. In relation to the Roma, a start has been made with the requirement for Member States to develop National Roma Integration Strategies<sup>(31)</sup>. However, it is clear that much more needs to be done by many Member States. Greater use of EU Structural Funds to support national strategies can be important in the new period. Ensuring that reliable national and comparable EU data are available on the income and living conditions of Roma populations is equally important: current practice tends to obscure the extent of disadvantage and discrimination against Roma families at both local and national levels. (European Social Observatory and UNICEF, 2010; Frazer and Marlier, 2011).

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31. See European Commission, 2011 and 2014d.  
See also the EU Network of Independent Experts' 2011 country reports and synthesis report on *Promoting the Social Inclusion of Roma* (Frazer and Marlier, 2011). Available at:  
<http://ec.europa.eu/social/main.jsp?catId=1025&langId=en&newsId=1407&furtherNews=yes>

In relation to homelessness and housing exclusion (HHE), the importance of a comprehensive and integrated approach has been well documented, particularly by FEANTSA <sup>(32)</sup>. In its report on housing exclusion and homelessness the EU Network of Independent Experts (Frazer and Marlier, 2010) also emphasises the need for Member State strategies to prevent and reduce HHE to be integrated and comprehensive and to address structural factors (e.g. problems in the housing market including, in particular, shortages of adequate accommodation and the non-affordability of housing, the impact of joblessness and the effects of poverty and indebtedness), institutional factors (e.g. the risks facing people leaving institutions), family and personal problems (e.g. family breakdown, mental illness and drug abuse), as well as discrimination and the lack of legal status (e.g. the position of migrants and of ethnic minorities such as the Roma as well as other excluded groups). Strategies should be concerned with both preventing HHE arising and reintegrating those already experiencing HHE. (See also HHE recommendations included in Frazer and Marlier, 2014a).

Tackle inequality through more progressive tax policies: There is pressing need to develop a more comprehensive approach to reviewing the joint social, gender, equality and environmental impact of tax policies and to ensuring tax justice and adequate levels of redistribution, particularly through progressive taxation, in order to tackle growing inequalities. This is important, since there has been a rise in the burden of taxation. Although the situation varies strongly among Member states, recent data show that, on average for the EU-28, there has been since 2010 a rise in taxation (Eurostat, 2014). The structure of taxation is therefore of great significance. In the framework of the Europe 2020 Strategy (Integrated Guideline 1), the Commission has issued Country Specific Recommendations that propose to shift tax away from labour and switch to other types of taxes. The reduction of labour taxation is expected to contribute to the improvement of household income while potentially reducing in-work poverty and improving labour market incentives. The net effect depends however on the choice of taxes to be raised. Indirect taxes tend to be regressive – i.e., they hit those on low incomes hardest as their spending is a larger proportion of their income <sup>(33)</sup>. Environmental taxes have been found to be mildly regressive <sup>(34)</sup>. There is therefore a strong

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32. See more at <http://www.feantsa.org/>

33. So, for example, De Agostini et al 2013 show that, in each of the 12 EU countries for which they have analysed the effect of tax-benefit changes on income distribution since the beginning of the economic crisis, *“the effect of VAT is regressive across the income distributions”*. See also the Irish study by Collins (2014). (It should be highlighted that a number of countries have exemptions or lower rates for basic items such as food; the reason that VAT tends to be regressive is more that total spending is larger as a proportion of income.)

34. The review by the European Environment Agency (EEA), “Environmental tax reform in Europe: Implications for income distribution”, found that *“the distributional effects of environment-related taxes vary across Europe. Energy and carbon taxes tend to be weakly regressive in some countries and more strongly regressive in others, notably the United Kingdom”* (EEA, p. 6). See also Fullerton, Leicester and Smith (2010, p. 434), who find that *“a high fraction of low-income household budgets are spent on electricity, heating fuel, and transportation. Thus environmental taxes are often regressive.”*

case for considering progressive taxes on non-labour income, on wealth and on recurrent taxes on property.

The EU could support the implementation of progressive taxation by considering the inclusion of alternative measures of income inequality in the set of EU social indicators, as well as in monitoring instruments that build on these indicators such as the Joint Assessment Framework (JAF) jointly agreed by the Social Protection Committee (SPC), the Employment Committee (EMCO) and the European Commission <sup>(35)</sup>. The S80/S20, already included in the EU social indicators, compares the situation of the top 20% and bottom 20% of the income distribution. An increasing body of research, however, shows that inequality has increased dramatically between those at the top end of the income distribution and the rest of the population, notably the “middle class” (Atkinson and Piketty, 2010). The GINI coefficient, also included in the existing EU social indicators, does measure the extent of inequality over the entire income distribution but is not an easy indicator to grasp and does not show which particular parts of the distribution are changing if it registers an increase or reduction. Both represent obvious limitations in a policy process such as Europe 2020. The Indicators’ Sub-Group should explore the possibility of complementing the existing EU social indicators with additional income distribution statistics that better capture aspects which are important to consider (such as the ratio between the top decile of the distribution with the fifth decile [D9/D5] and the share of the top decile group).

Strengthen anti-discrimination and equality measures and improve policies to tackle gender inequalities: To ensure that sections of the population that have been most affected by the economic crisis (e.g. people with a disability, people from a migrant background and/or ethnic minority background) enjoy equality of opportunity and to counter the rise in racism and discrimination there is a need for the EU and Member States to strengthen measures in this area. As highlighted by the SIP, measures to remove barriers’ to the participation of women in the labour market are also important; these include the provision of affordable, good quality early childhood education and care as well as long-term care services for elderly dependents.

Strengthen social inclusion governance: If the Europe 2020 national poverty or social exclusion targets are to be achieved, in addition to making progress in specific policy areas, there is also a

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35. The JAF is an indicator-based assessment system, covering both general and specific policy areas under the Europe 2020 Employment Guidelines (i.e. Integrated Guidelines No. 7 to 10). It aims at facilitating the identification of key challenges in these areas thus supporting Member States in establishing their priorities, and it should contribute to an overall assessment of progress at EU level. The SPC and EMCO are committed to using the JAF as an analytical tool that can underpin multi-lateral surveillance and evidence-based policy-making, and also support Member States in establishing their reform priorities, benefiting from mutual learning and identifying good practices. For more information on the JAF, see inter alia: <http://register.consilium.europa.eu/doc/srv?!=EN&f=ST%2016984%202010%20INIT> ; and <http://ec.europa.eu/social/main.jsp?langId=fr&catId=89&newsId=972&furtherNews=yes>



need to strengthen governance of social inclusion measures. Key areas that have been suggested as requiring reinforcement at both EU and national (as well as sub-national) levels include <sup>(36)</sup>:

- a) stronger emphasis on social inclusion policies in the Annual Growth Survey;
- b) dedicated chapters of the National Reform Programmes on social inclusion objectives;
- c) more extensive Country Specific Recommendations for all Member States on tackling poverty and social exclusion and social impact assessments of all economic CSRs to ensure their consistency with social (inclusion) objectives;
- d) underpinning the social dimension of National Reform Programmes (NRPs) with ambitious National Social Reports (NSRs) for all Member States which outline detailed national strategies to reduce and prevent poverty and social exclusion;
- e) increasing the timely involvement of all key stakeholders (i.e. social partners, service deliverers, NGOs, academics and researchers, people experiencing poverty and social exclusion, etc.) in the development, implementation and monitoring of NRPs, NSRs and CSRs (all Member States could be asked to report on this involvement in an annex to their NRP);
- f) giving much more attention to the mobilisation and involvement of actors at regional and local levels as they are critical to addressing the delivery deficit at the heart of the Europe 2020's social dimension and ensuring the effective delivery of policies that will reduce poverty and social exclusion;
- g) raising public awareness and political status of the Europe 2020 Strategy and its social dimension through much more proactive communication strategies and through greater engagement of national (and regional) parliaments in monitoring and debating its implementation;
- h) enhancing the learning dimension of EU peer reviews in social protection and social inclusion by systematically involving national stakeholder representatives, either directly during the peer review or during a follow-up peer review with a smaller group of countries; there is scope, in addition, for providing clearer guidelines for the selection of *peer countries'* representatives, increasing quality control over Comment Papers and organising more peer reviews on policy challenges rather than on examples of good practice <sup>(37)</sup> (European Social Observatory and PPMI, 2012);

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36. See reports and recommendations from the EU Network of Independent Experts on Social Inclusion (Frazer and Marlier, 2013), the European Social Observatory and many EU stakeholders such as EAPN, Eurochild, European Social Network, the Platform of European Social NGOs, etc.

37. The purpose of this EU peer review programme is to foster open discussion and mutual learning between participating countries. Each peer review meeting is hosted by one country which presents a selected practice (e.g. a programme, a policy reform, an institutional arrangement) and is attended by experts from the European Commission, the participating "peer countries" and relevant stakeholders who provide feedback. Peer reviews help assess whether the practice discussed is effective, contributes to EU objectives and could

- i) ensuring that in the new programming period (2014-2020) *all* EU social funds effectively support EU social priorities and that they are *concentrated* on a limited number of social investment priorities, such as the modernisation of vocational training systems or increased effectiveness of labour market policies (which should be clearly reflected in the NRPs and the CSRs), to ensure that they reach a critical mass and that their impact is maximised.

## 5. Assessing performance of social policies and improving outcomes

### 5.1 Monitoring the performance of social policies

For over a decade, the EU has been developing indicators to monitor social developments across the EU. Such commonly agreed EU social indicators provide a means of identifying areas or trends which are likely to necessitate policy intervention, such as an increase in the number at risk of poverty, materially deprived or long-term unemployed. They also provide useful means of benchmarking, or comparing, developments in different Member States on a common basis. Although they are obviously not a substitute for detailed policy analysis or for proper policy evaluation, they provide a basis for assessing the effectiveness of policies implemented to tackle the trends concerned as well as pointing to the need for such detailed analysis or evaluation. Moreover, by being commonly agreed, readily measurable and easily understood, they also represent an essential basis for joint consideration by Member States of key issues which are of common importance for policy across the EU. (See European Commission web-page dedicated to EU social indicators <sup>(38)</sup>; see *inter alia* also Atkinson *et al*, 2002 and Marlier *et al*, 2007.) They also help to encourage the development of evidence-based policy making.

At present, there are four portfolios of EU social indicators:

- a) three thematic portfolios, aimed at monitoring the three sets of commonly agreed EU thematic social objectives – namely, the social inclusion objectives (the indicators included in the social inclusion portfolio include for example those considered at length in this paper), the pensions objectives (indicators in the pensions portfolio look in particular, but not solely, at pensions adequacy), healthcare and long-term care objectives (which are often difficult to separate in Member States since much healthcare goes to the elderly which are equally in need of long-term care); and

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be effectively transferred to other countries. For more information on EU peer reviews (including numerous peer reviews reports), see

<http://ec.europa.eu/social/main.jsp?catId=1024&langId=en>

38. <http://ec.europa.eu/social/main.jsp?catId=756&langId=en>

- b) one overarching portfolio, aimed at addressing the consistency between the social inclusion, pensions and healthcare and long-term care objectives as well as providing a means of monitoring the three overarching EU social objectives. The latter are as follows:
- “social cohesion, equality between men and women and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
  - effective and mutual interaction between the Europe 2020 objectives of smart, sustainable and inclusive growth, taking full account of the relevant social provisions of the Lisbon Treaty;
  - good governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy”<sup>(39)</sup>.

The EU social inclusion portfolio agreed upon at EU level includes the measures discussed above – poverty risk before and after social transfers (to address the issue of the effectiveness of social protection), intensity of poverty risk (relative median poverty risk gap), severe material deprivation, (quasi-)joblessness, in-work poverty risk, unemployment and long-term unemployment, S80/S20 and early school-leaving. It also includes other income statistics such as the risk of persistent income poverty (making use of the longitudinal component of EU-SILC) and the Gini coefficient as well as indicators covering non-income aspects of social inclusion – for example, healthy life expectancy and unmet need for healthcare (to measure health inequalities), “standard” (as opposed to “severe”) material deprivation, housing (cost and quality), literacy, low-educational attainment, employment gap of immigrants, dispersion of employment rates across regions (to measure regional cohesion) and joblessness (indicator based on the Labour Force Survey rather than the EU-SILC as the one used for the EU poverty or social exclusion target). It also includes indicators which are still under development, such as child well-being.

The use of indicators in the social policy area has been intensified since the adoption of the Europe 2020 Strategy by the increased importance of monitoring progress towards the targets set. At the end of 2010, the Joint Assessment Framework (JAF, already mentioned above), was adopted by EMCO and the SPC to contribute to the process. It comprises three components, which are still being developed:

- a) quantitative and qualitative assessment tools for identifying key challenges;
- b) a device for tracking progress towards the Europe 2020 headline targets on employment and social inclusion; and
- c) an Employment Performance Monitor (EPM).

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39. The most recent EU objectives for social protection and social inclusion were agreed in 2011 by the EPSCO Council. See: <http://ec.europa.eu/social/BlobServlet?docId=10803&langId=en>

In addition, a Social Protection Performance Monitor (SPPM) has been introduced to complement the EPM. It makes full use of the agreed EU social indicators while giving primacy to a limited number of EU social indicators best summarising the major social trends. It consists of three elements:

- a) a graph of the movement towards the AROPE target;
- b) a “dashboard” of key EU social indicators covering all three strands of EU cooperation in respect of social protection and social inclusion, with a focus on the overarching list of social indicators with a view to identifying the major trends and summarising both negative and positive developments in the social situation in the EU, highlighting those trends that show up in significant number of Member States;
- c) country profiles, examining the progress towards the national 2020 poverty or social exclusion targets in some depth as well as other major social developments as revealed by the indicators.

Finally, a “Scoreboard” has recently been introduced to reinforce the consideration of the social dimension in EU policy-making. This Scoreboard (which should not be mixed up with the “MIP Scoreboard” discussed above) was first presented as part of the 2014 Joint Employment Report which indicated that the purpose of the Scoreboard was *“to ensure greater visibility (of the social dimension) and make it easier to identify major employment and social trends that may affect the good functioning of the EMU and may warrant a closer follow-up within the European Semester”*. The Scoreboard is, therefore, intended to serve the political purpose of highlighting the main employment and social challenges in Member States and to identify the most serious problems at an early stage as well as drawing attention to any growing disparities of importance. Given this purpose, it will focus on a very limited number of headline indicators, initially the following six (as agreed by the Council in March 2014):

- a) the overall unemployment rate;
- b) the youth unemployment rate;
- c) the youth NEET rate (the proportion of those aged 15-24 not in employment, education or training);
- d) the change in gross household disposable income in real terms;
- e) the at-risk-of-poverty rate for working age population (18-64);
- f) income inequality as measured by the S80/S20 ratio.

The Scoreboard is intended to be an integral part of the SPPM and EPM.

Nevertheless, despite the valuable and increasingly important role that indicators play in monitoring social developments at EU and Member State levels, tracking progress towards achieving policy objectives and guiding policy, it is important to recognise their limitations. As indicated above, they should not, and cannot, be used as a substitute for evaluations of policy to assess its effects in achieving policy objectives and to distinguish these effects from other factors at work, though they can provide a very useful input into such evaluations.

In addition, the indicators that are at present used to monitor social developments and progress towards policy goals, in particular those based on EU-SILC (such as the Europe 2020 poverty or social exclusion target), involve a lengthy time lag between the period they relate to and the date when they become available and are thus not very helpful for identifying problems early on and thus enabling action to be taken to prevent them from deepening and escalating. At present, the latest data, which are those employed here, are those collected in 2012, which in practice in respect of the at-risk-of-poverty and quasi-joblessness indicators relate to the situation in 2011, which is now three years ago. (Even when the new EU-SILC data, those collected in 2013, become available towards the end of 2014, they will relate to 2012, i.e. a period two years previously.) Given the nature of the economic context, much could have happened in the three years since 2011, which in some cases mean that the conclusions for policy drawn from analysis of the latest EU-SILC data might no longer be relevant, or perhaps the situation could have deteriorated by so much since then that what appear to be suitable policy responses are no longer adequate.

It is important to recognise this and to take steps to overcome the problem so far as possible, both by making conscious efforts to speed up the data collection process - which indeed have already been made over the recent past thanks to major efforts by the European Statistical System (Eurostat and EU countries' national statistical offices) - and by finding ways to reduce its effect. This might be through "mini" surveys (which are quick to carry out) focused on the major indicators or through "now-casting" exercises which attempt to estimate the way in which the main indicators are likely to evolve by relating them to other developments for which the data are more timely (such as changes in employment and unemployment as provided by the more timely Labour Force Surveys)<sup>40</sup>. It might also be that there are national data which are more up-to-date than those produced by EU-level surveys which could equally shed light on how the situation in the country concerned is likely to have developed since the time to which the common indicators relate. This would help policy makers to do more to prevent problems deepening.

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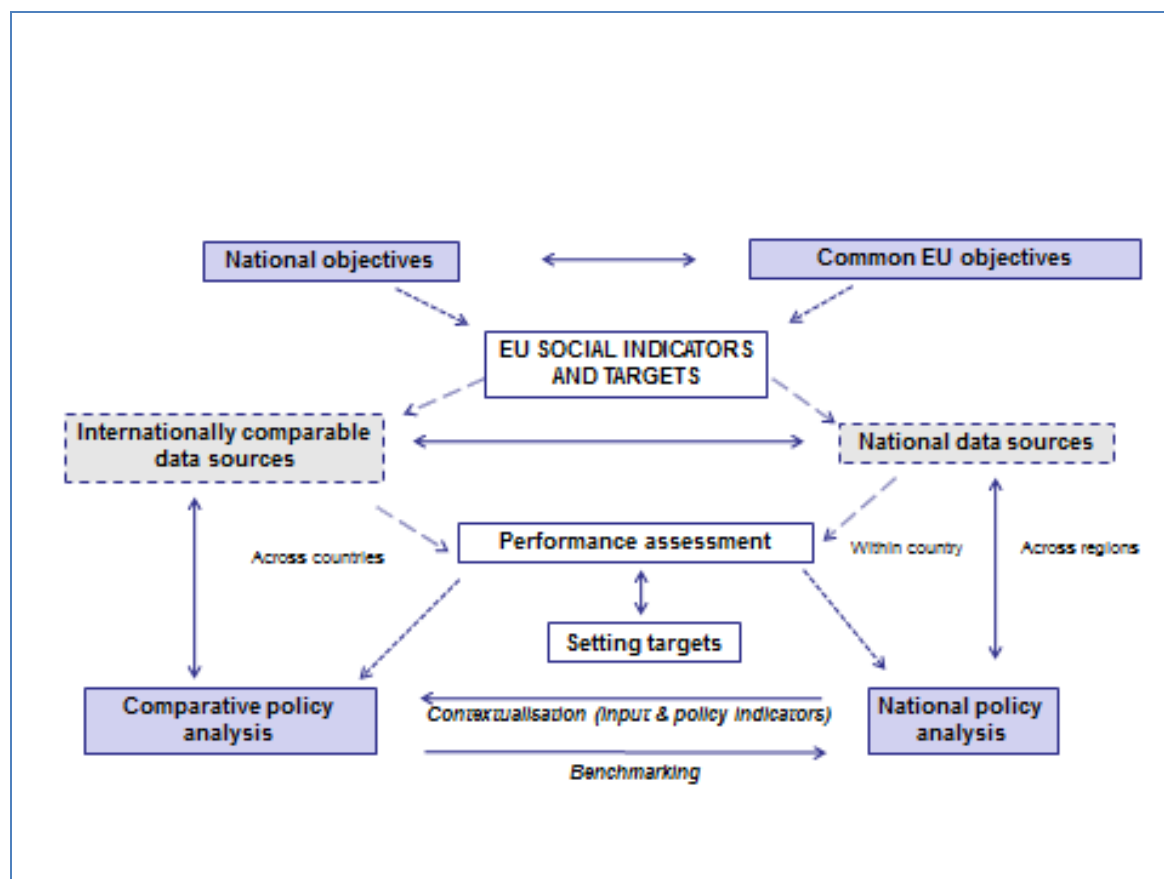
40. On now-casting, see for example what has been done with the EUROMOD microsimulation model Using EUROMOD to now-cast poverty risk in the EU in the context of the EU-funded "Second Network for the analysis of EU-SILC (Net-SILC2)":

[http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-RA-13-010/EN/KS-RA-13-010-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-13-010/EN/KS-RA-13-010-EN.PDF)

## ***5.2 Importance of contextualised benchmarking***

In this section, which draws heavily on Atkinson and Marlier (2010), we focus on the use of indicators in policy-making. These are elaborated in Chart 1. The EU cooperation in the social field (in particular the Social Open Method of Coordination) has demonstrated the importance of Member States adopting an objective-driven approach to social protection and social inclusion — agreeing common policy objectives for the EU as a whole (see above) that can be monitored according to a set of commonly agreed social indicators.

For this approach, structured around common policy objectives, to be effective, individual Member States need to develop their own social inclusion monitoring framework (performance assessment) in a way that adequately responds to the national (and possible sub-national) specificities. But the monitoring of the agreed objectives goes beyond national boundaries. A key contribution to the EU cooperation in the social field is made by peer assessment and comparative policy analysis. Member States' social performances are reviewed by policy-makers from other countries and also from the European Commission. In such a cross-country analysis, it is essential to ensure that specific policies are analysed in the context of the broad institutional setting in which they operate. As put by Atkinson and Marlier (2010), there is a need for "contextualised benchmarking" based on a "system-wide analysis" that puts in perspective outcome indicators with input and policy indicators.

**Chart 1: EU social protection and inclusion framework**

EU comparative analysis drawing on a set of common social indicators can be carried out in a number of ways:

- a) Internationally comparable indicators (left hand part of the chart) allow learning about the differential social performance of different countries. If a country, or a group of countries, has systematically better (or worse) social outcomes in a given area (e.g. in fighting school drop-out), then this pattern should be analysed.
- b) To move beyond that, and be in a position to draw conclusions about the policies applied, a proper comparative international policy analysis of social performance is needed. The results of such an analysis provide a valuable cross-reference for national assessments of performance. EU indicators may lead countries to measure and monitor more closely their national performances, possibly using national data sources, in which case, there may be issues of reconciling the results reached from different sources. If EU indicators show poverty as rising in a country when national statistics show a fall, there will undoubtedly be political issues that will need to be solved. EU experience shows that these problems are real, and can lead to useful debates about the quality of data collection and choice of definitions that can, in turn, lead to an improvement of the statistical capacity.

- c) Social indicators may also be used at sub-national level. This as well may lead to political conflict, particularly where measurements affect resource allocations (e.g. the sharing of tax revenues). But it may also contribute to more joined-up government. In a growing number of Member States, policies to combat poverty and social exclusion are the responsibility of multiple levels of government (national, regional, local), and there may not be a clear line of sight between those who fix the national objectives and those who implement the policies on the ground. Social indicators can contribute towards coordinating policy across different levels of governments.

Properly conducted comparative policy analysis can be a vehicle for mutual learning. National specificities, and indeed differences within countries, with regard to policy institutions make it difficult to apply one country's policies directly to another. A particular policy structure or intervention cannot simply be "lifted" from one country and applied in another, because the broader institutional context in which it operates may be critical to understanding why it is effective (contextualised benchmarking). At the same time, countries can learn from each other, identifying the areas where their performance is relatively less satisfactory. The reasons for poor performance may be found within the country, particularly where geographical differences are identified within the country, but in part they may be (better) identified by looking outside the country.

The next important step shown in Chart 1 is that of setting targets, which we have already extensively discussed above.

### ***5.3 Efficiency and effectiveness of social expenditure***

As noted above, the problems of public finances across the EU which the crisis has given rise to and the fiscal consolidation measures adopted by virtually all Member States have imposed tight constraints on public expenditure including for social protection and social inclusion purposes. Many of the policies for making progress towards meeting the poverty or social exclusion target involve public expenditure, even if ideally concentrated on social investment elements. At the same time, there is common acceptance of the need, enshrined in the EU Treaty, of ensuring the adequacy of income support for those unable to find work, incapable of employment or retired from working. In this context, there is an inevitable focus on increasing the efficiency of social policies and the cost effectiveness of the expenditure undertaken. The aim is to do more with less, or at least to improve the way that social protection systems operate and allocate resources in order to ensure that they are both sustainable and provide an adequate level of support.



Any attempt to do so, however, needs to start by recognising that social protection systems have a range of different functions. Not only do they play a key role in redistributing income over a person's lifetime, between income groups and between generations, but they are also important in strengthening human capital and removing barriers to labour market participation. They can equally help to moderate economic fluctuations by acting as automatic stabilisers – i.e. by injecting spending power into the economy through social transfers during cyclical downturns and, conversely, by taking spending power out of the economy during upturns.

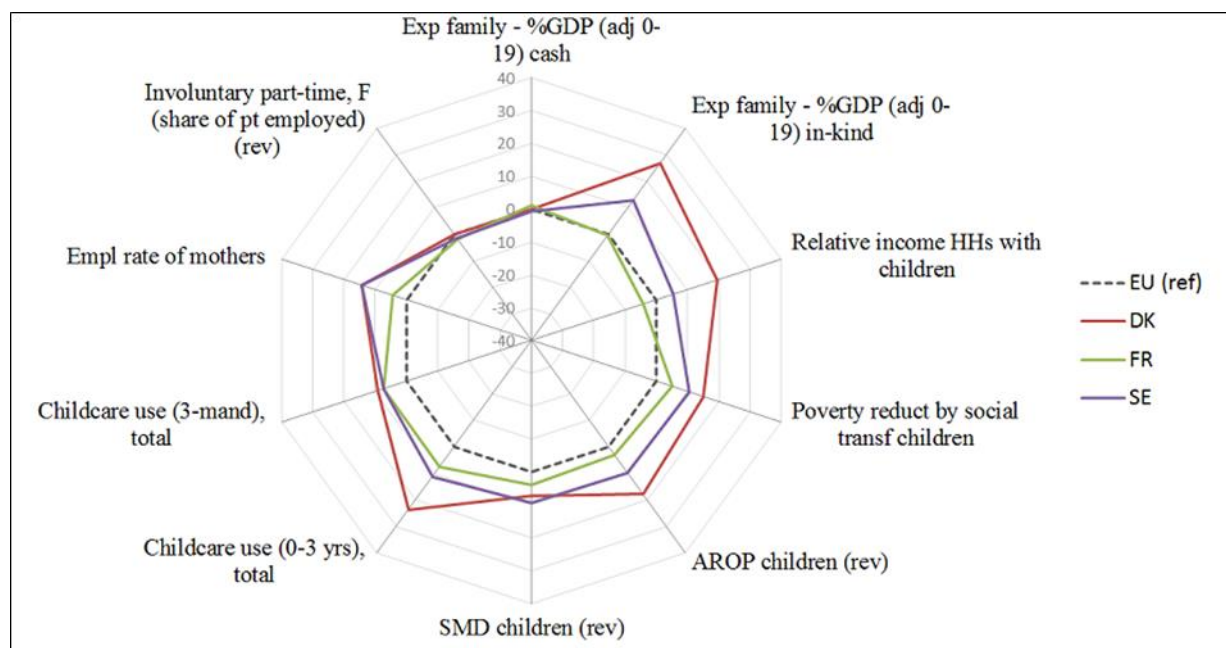
This multiplicity of roles, and objectives, makes it difficult to assess the efficiency and effectiveness of social protection systems since the objectives are not necessarily mutually consistent. Moreover, any assessment is further complicated by the fact that there are also a multiplicity of groups – children, older people in retirement, people with disabilities and so on – that require protection, or support of different kinds and by the fact that the support can be in cash terms or in kind. Furthermore, the way that systems are funded, the form in which support is provided and organised and the conditions which are attached to receipt have implications for both the behaviour of individuals (through the incentives they impart) and the functioning of the economy.

In the light of this range of considerations which need to be taken into account, it is legitimate to ask how far it is possible to evaluate the overall performance of different national systems of social protection and come to firm conclusions on the ways in which they could be better organised. This is even more so since the systems in place cannot be divorced from the context in which they operate, the institutional and legislative framework in which they are located and the norms of behaviour which have developed under the influence of historical experience and tradition. It is equally important to recognise that the features of national systems reflect the attitudes to social support and redistribution, which are shaped by many different factors, including prevailing circumstances and political thinking, and that these also influence the scope for reform.

Nevertheless, despite the difficulties attempts have recently been made by the Commission and the Social Protection Committee to carry out just such an overall assessment (see European Commission 2014b (esp. chapter 6) and SPC 2014b). While they may not fully meet their ambitions in view of the aforementioned complexity of the exercise, these attempts are valuable in drawing attention to the particular features of the different systems in place, to the differences in outcomes and to the possible links between the two.

It is unquestionably important, therefore, if systems are to be improved and made more effective, to point to the evident greater success of some strategies for tackling social challenges, such as minimising child poverty, than others (see Figure 4 for an illustration).

**Figure 4: Illustration of effectiveness and efficiency analysis, key child poverty determinants in Denmark, France, Sweden and the EU (reference)**



**Source:** Figure 3.4 of SPC 2014b.

Reading note: "FR, SE and DK spend roughly the same in terms of cash benefits, but report rather different levels of expenditure in kind (DK more than SE more than FR). While these Member States have similar outcomes in terms of poverty reduction, quite different final outcomes in terms of child poverty and social exclusion as such are observed (DK better than SE better than FR). The considerable differences in the employment rates of mothers thereby appear to be one mechanism underlying the observed differences in child poverty levels. In turn, the labour force participation of mothers seems to be, at least partly, driven by different levels of childcare use, which again are achieved with different levels of in kind expenditures." (SPC 2014b, p.51)

While there are inevitable limitations to how far such an overall analysis can distinguish the effects of policies from other factors and make specific recommendations for reform, they are undeniably useful in identifying areas and aspects of systems where changes seem to be called for and where more detailed analysis and evaluation should be carried out in order to determine the precise ways in which the system can be made more efficient and effective.

#### **5.4 Social innovation and experimentation**

The SIP stresses the need for "social innovation" to help identify innovations (or reforms) which should ensure the adequacy, efficiency and sustainability of social protection systems in a context of budgetary constraints. There is indeed a strong case for testing innovative policy approaches in particular locations, selecting the ones that prove to be most effective and scaling-them up to regional or national level. It is with this aim that, since 2009, initially through the EU "Programme for Employment and Social Solidarity" (PROGRESS) and since 2014 through the new EU "Programme for Employment and Social Innovation" (EaSI), the European Commission has

launched a number of calls for proposals aimed at financing social policy experiments. These consist of small scale projects designed to test policy innovations/ reforms through experimental or quasi-experimental methods, in order to see whether it is worthwhile adopting them more widely. It is important that the projects concerned should be planned, implemented and assessed using a rigorous methodology so as to ensure that the experiment is an effective one (J- Pal Europe 2011). Given the constraints on the availability of funding and the need to ensure that public finances are used in the most efficient way, it is also important, that they are in line with the priorities of the SIP and tackle challenges identified in the CSRs.

### ***5.5 A social investment index?***

As explained above, increasing emphasis is being placed on social investment as a means of achieving social policy objectives in a context where there are likely to be continuing constraints on public finances and funding social policies. Nevertheless, social policies have to continue to play the vital role of providing income support for those in need, which raises a question over the balance to be struck between objectives and between the various components of expenditure. Scientific literature usually distinguishes between social investment on the one hand and social consumption (or compensatory spending) on the other (Sipila, 2008). Such a distinction helps to shed light on the investment and protection functions of welfare programmes. This is particularly relevant when trying to understand the social investment turn of the European welfare states and the recent trends towards a "recalibrated" welfare state aimed at addressing both new and old social risks. A measure of the social investment effort of Member States (a "social investment index") would thus be related to the ratio between social investment and social consumption. The former is usually identified by the total spending on policies enhancing human capital (such as education, vocational training, family policies, and active labour market policies). The latter typically consists of old-age protection and passive labour market policies (European Commission, 2013c).

For Nikolai (2012), the social investment "turn" can be measured through the comparative analysis of total expenditure patterns, when countries give priority to social policies to either improve human capital or compensatory measures. Statistical analysis of the relationship between the two sets of policies (and spending) helps to measure the role of social investment in the broader welfare state. By looking at the distance of countries or country groups from the average relationship between the two, we can gain insights into the relative importance of investment versus compensatory social spending. Eurostat or OECD data on social expenditure and more specific publications on social policy and education are the usual source of information (see Nikolai for a detailed analysis).

A more precise social investment index was proposed by Sipila (2008), consisting of the difference between social investment (represented by total spending on education and family policies) and social consumption (represented by total spending on old age protection). Both are calculated as a percentage of GDP and are standardised to adjust for temporal and international differences in age structure. In particular, family expenditure is standardised to eliminate differences in the proportion of children, while old-age spending is standardised to take into account the differences in the proportion of the elderly. When analysing these indicators, it is important to look at both the rate and trends in social spending. A relative increase in social investment may be the result of either an expansion of spending on education and training or cutbacks in social protection (if investment in human capital does not change). Alternatively, the ratio between the two may remain constant, but expenditure on both consumption and investment may increase or decrease in tandem.

The above distinction between the two broad components of social expenditure is arguably, however, somewhat simplistic if social investment is conceived of in terms of how social policy measures are designed and what they are attempting to achieve rather than the way they are defined in functional, or economic, terms. For example, unemployment benefits, which provide essential income support for those out of work, can be regarded as a purely passive measure, but if they are organised in a way which encourages and supports job search, not only perhaps in the local area but also further afield, and the acquisition of new skills and competences, they can potentially become an integral part of an active strategy for helping people into work and a means of stimulating mobility. In this way, like investment, they can yield a social return on the funding provided. Conversely, some training programmes may be poorly designed and have little effect on the ability of participants to find employment. In such cases, the “returns” – both to individuals and society – may be negligible and though they may be classified as social investment they do not really serve an investment function.

Such a perspective is in line with how social investment is conceived of by the Commission: “*The investment dimension of a specific policy expenditure largely depends on its design features (conditionality, duration, etc.), on the specific national context (complementarity with other policies) and circumstances in time (economic cycle, growth path). For instance, childcare has a protection role, but it also has a significant investment dimension if well designed, i.e. enhancing the skills and inclusion of the individual*” (European Commission, 2013c). This, however, makes it complicated to divide policies, and the expenditure incurred in carrying them out, into consumption and investment in the way suggested above on the basis simply of the functions involved. Indeed, it could be misleading to do so and potentially damaging if policy recommendations, advice or guidance are based on such a division.

It equally makes it complicated to devise an indicator to capture the effort devoted by Member States to social investment and to monitor developments in this over time. In addition, it is important to recognise that measuring the amount of effort (i.e. the amount of investment) made by Member States while important, is only part of the picture. To properly assess social investment efforts by countries one needs to complement comparative analysis of spending patterns with the monitoring and evaluation of the actual outcomes of that investment. This requires identifying Member States' performance on the basis of key outcome indicators which cover all relevant areas (social protection and inclusion, economy, education, employment). In other words, there is no easy short-cut to proper evaluations of policies in different areas to identify their effects, and effectiveness, and to distinguish the extent to which they serve a social investment purpose.

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## Annex 2: EU countries' official abbreviations

| EU countries prior to 2004, 2007 and 2013 Enlargements (EU-15) |                 | EU countries post 2004, 2007 and 2013 Enlargements |                |
|--|-----------------|--|----------------|
| <b>BE</b>  | Belgium         | <b>2004 Enlargement</b>                            |                |
| <b>DK</b>  | Denmark         | <b>CZ</b>  | Czech Republic |
| <b>DE</b>  | Germany         | <b>EE</b>  | Estonia        |
| <b>IE</b>  | Ireland         | <b>CY</b>  | Cyprus         |
| <b>EL</b>  | Greece          | <b>LV</b>  | Latvia         |
| <b>ES</b>  | Spain           | <b>LT</b>  | Lithuania      |
| <b>FR</b>  | France          | <b>HU</b>  | Hungary        |
| <b>IT</b>  | Italy           | <b>MT</b>  | Malta          |
| <b>LU</b>  | Luxembourg      | <b>PL</b>  | Poland         |
| <b>NL</b>  | The Netherlands | <b>SI</b>  | Slovenia       |
| <b>AT</b>  | Austria         | <b>SK</b>  | Slovakia       |
| <b>PT</b>  | Portugal        | <b>2007 Enlargement</b>                            |                |
| <b>FI</b>  | Finland         | <b>BG</b>  | Bulgaria       |
| <b>SE</b>  | Sweden          | <b>RO</b>  | Romania        |
| <b>UK</b>  | United Kingdom  | <b>2013 Enlargement</b>                            |                |
|  |                 | <b>HR</b>  | Croatia        |

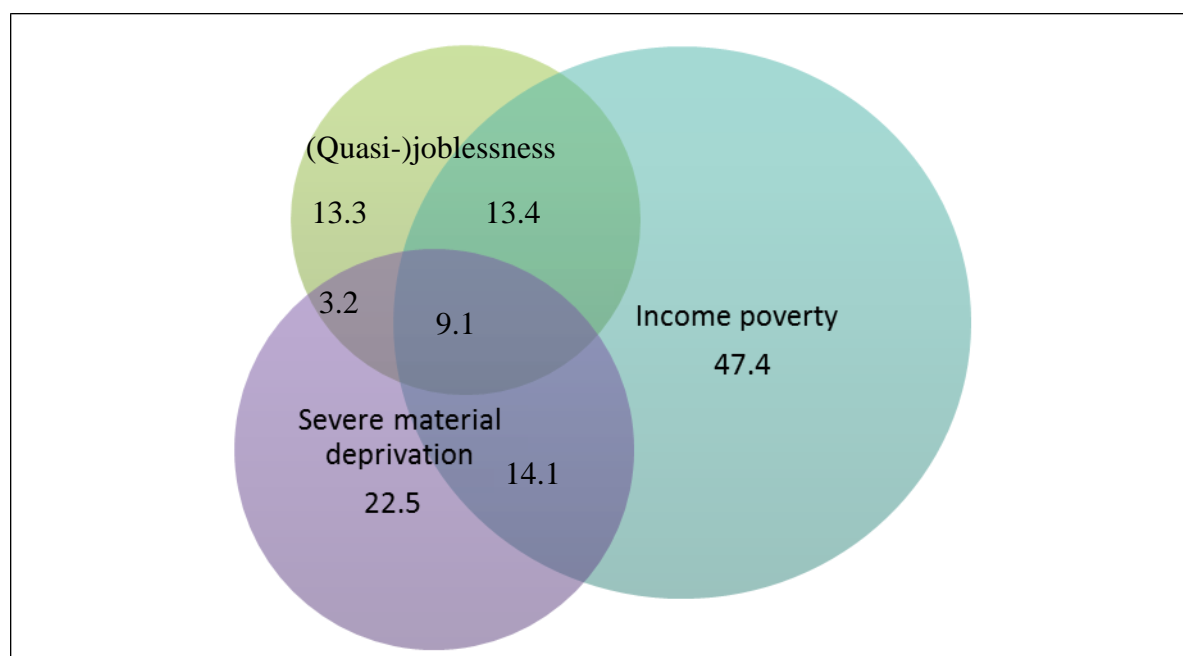
In EU averages, countries are weighted by their population sizes.

### Annex 3: The Europe 2020 indicator of “at risk of poverty or social exclusion” (AROPE)

The Europe 2020 indicator of “at risk of poverty or social exclusion” consists of the union of three indicators (Figure A1):

- The number of people living in an income poor household, i.e. persons with an equivalised household disposable income below the poverty risk threshold (which is set at 60% of the national median equivalised household disposable income [including social transfers]);
- the number of people living in a severely materially deprived household, i.e. a household that experiences at least four out of the nine following deprivation items – the household cannot afford (i) to pay rent or utility bills, (ii) to keep home adequately warm, (iii) to face unexpected expenses, (iv) to eat meat, fish or a protein equivalent every second day, (v) to have a week holiday away from home during the year, (vi) to have access to a car, (vii) to have a washing machine, (viii) to have a colour TV, or (ix) to have a telephone; and
- the number of people aged 0-59 living in a (quasi-)jobless household, i.e. people aged 0-59 who are not students and live in households where, on average, the adults work less than 20% of their total work potential during the income reference year (i.e. the year prior to the survey).

**Figure A1: Distribution of the number of people at risk of poverty or social exclusion according to its three sub-indicators, Million, Total population, EU-27, 2012 (survey year)**



**Source:** EU-SILC, Eurostat online database, 30-31 July 2014.

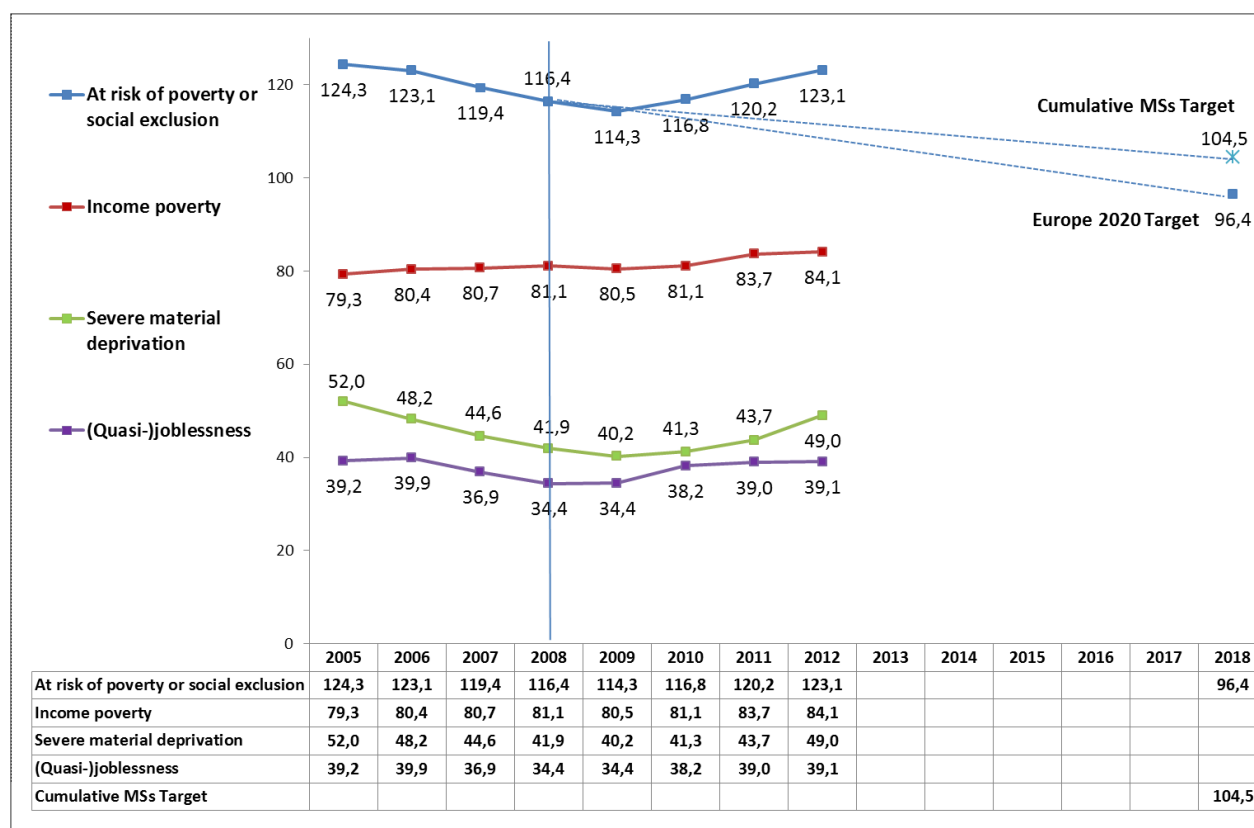
Note: See Note in Table 1.

Reading note: In 2012, 123.1 million people in the EU-27 were at risk of poverty or social exclusion. Among them, 9.1 million were at risk of poverty, severely materially deprived and living in (quasi-jobless) households.

As mentioned above, the Europe 2020 Strategy includes a poverty or social exclusion target based on this indicator - to lift at least 20 million people out of the risk of poverty or social exclusion. When EU leaders adopted this target in June 2010, the most recent data available were those collected in 2008 which is thus the reference year for the EU target. In 2008, the number of people in the EU-27 at risk of poverty or social exclusion was 116.4 million and the agreed target therefore consists of lowering this number to 96.4 million by 2020 – i.e., a decrease by 17.2%.

Figure A2 shows the trend that will be needed at EU level if the target is to be achieved (the years on the graph are the survey years, i.e. the 2010-2020 trend is from 2008 data to 2018 data). This trend clearly shows that the EU is currently not on the right track. More concretely, the European Commission has estimated that, based on recent trends and according to the latest projections, the target is unlikely to be met and the indicator might remain close to 100 million (European Commission, 2014a, Annex II). Except if the social inclusion objective of Europe 2020 is taken seriously by all EU Member States. Yet, from the most recent annual Social Protection Committee report, this also is not encouraging. Indeed, even if all Member States were to achieve the poverty or social exclusion targets they have set as their contribution to achieving the overall EU target the target would not be achieved: the sum of the national targets (EU-27) set so far by Member States would only reduce poverty or social exclusion to 104.5 million (SPC, 2014a). Table A1 shows the distribution of the number of people at risk of poverty or social exclusion in each of the 28 EU countries for 2008 and 2012.

**Figure A2: Number of people at risk of poverty or social exclusion (Europe 2020 poverty or social exclusion indicator and its three sub-indicators), Million, Total population, EU-27, 2005-2012 (survey years)**



**Source:** For the “Cumulative Member States’ Target” (i.e. the sum of the national targets [EU-27] set so far by Member States), Social Protection Committee 2014a. For all other figures, EU-SILC, Eurostat online database (30-31 July 2014).

Note: See Note in Table 1.

Reading note: In 2008, the reference (survey) year for the Europe 2020 poverty or social exclusion target, 116.4 million people were at risk of poverty or social exclusion in the then 27 EU countries. 81.1 were at risk of poverty (i.e. income poor), 41.9 were severely materially deprived and 34.4 lived in (quasi-)jobless households. The sum of these three figures is higher than 116.4 because a number of persons at risk of poverty or social exclusion rates combine two or even all three difficulties considered.

**Table A1: Trends in the number of people at risk of poverty or social exclusion, thousands, Total population, EU-28, 2008-2012 (survey years)**

|                | 2008    | 2012    |
|----------------|---------|---------|
| EU-28          | :       | 124,488 |
| EU-27          | 116,418 | 123,118 |
| Belgium        | 2,194   | 2,356   |
| Bulgaria       | 3,421   | 3,621   |
| Czech Republic | 1,566   | 1,580   |
| Denmark        | 887     | 1,057   |
| Germany        | 16,345  | 15,909  |
| Estonia        | 291     | 311     |
| Ireland        | 1,050   | 1,378   |
| Greece         | 3,046   | 3,795   |
| Spain          | 11,124  | 13,090  |
| France         | 11,150  | 11,760  |
| Croatia        | :       | 1,370   |
| Italy          | 15,099  | 18,194  |
| Cyprus         | 181     | 234     |
| Latvia         | 740     | 731     |
| Lithuania      | 928     | 975     |
| Luxembourg     | 72      | 95      |
| Hungary        | 2,794   | 3,188   |
| Malta          | 81      | 94      |
| Netherlands    | 2,432   | 2,492   |
| Austria        | 1,532   | 1,542   |
| Poland         | 11,491  | 10,128  |
| Portugal       | 2,757   | 2,667   |
| Romania        | 9,418   | 8,907   |
| Slovenia       | 361     | 392     |
| Slovakia       | 1,111   | 1,109   |
| Finland        | 910     | 916     |
| Sweden         | 1,367   | 1,519   |
| United Kingdom | 14,069  | 15,078  |

**Source:** EU-SILC, Eurostat online database, 30-31 July 2014.

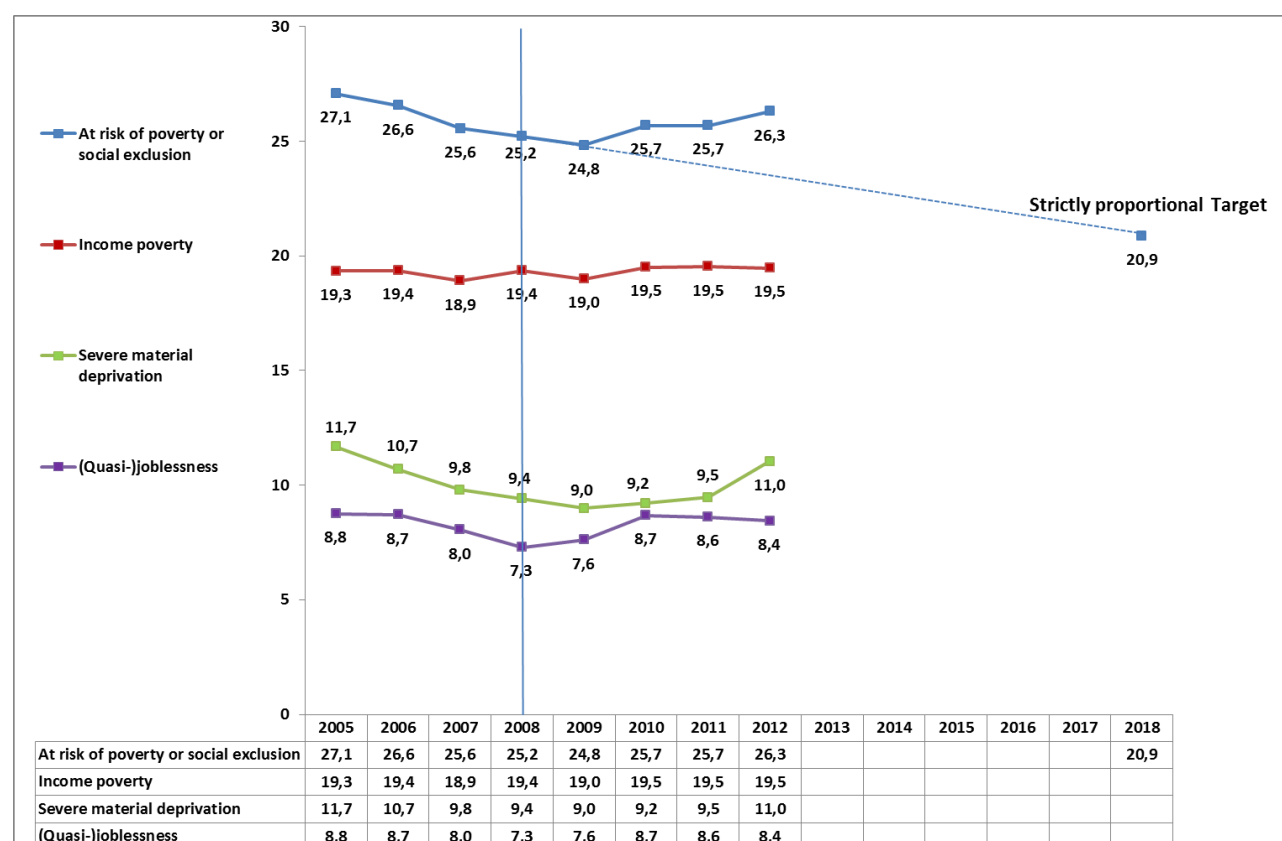
Note 1: See Note in Table 1.

The Europe 2020 Strategy currently does not include an EU poverty or social exclusion target in relation to the specific situation of children even if a number of EU Member States have adopted children targets at the national level. Yet, it is worth looking at the agreed EU poverty or social exclusion target from a child perspective. This is what Figure A3 does by replicating Figure A2 and assuming that exactly the same effort would be made for children – i.e., a decrease of 17.2% of the number of children at risk of poverty or social exclusion over the period 2010-2020 (2008-2018 survey data) which means going from 25.2 million down to 20.9 million. Of course, because of the urgent need to invest more in children and also because children are largely overrepresented in the population at risk of poverty or social exclusion, this strictly proportional effort should not be



considered sufficient. However, this trend already provides a useful starting basis for reflecting on the implementation of the European Commission Recommendation on Investing in children (European Commission, 2013b). An important lesson that can be drawn from both Figures A2 and A3 is the significant increase in the number of people at risk of poverty or social exclusion (including children) since the EU poverty or social exclusion target was agreed upon in 2010.

**Figure A3: Number of children at risk of poverty or social exclusion (Europe 2020 poverty or social exclusion indicator and its three sub-indicators), Million, Children 0-17, EU-27, 2005-2012 (survey years)**



**Source:** EU-SILC, Eurostat online database, 30-31 July 2014.

Note 1: See Note in Table 1.

Note 2: The "Strictly proportional Target" is obtained by reducing the number of children at risk of poverty or social exclusion by 17.2% in line with the agreed Europe 2020 poverty or social exclusion target that concerns the total population.

Reading note: See Figure A2.