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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE
EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**on a Commission Recommendation on the active inclusion of people excluded from the
labour market**

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1. THE FIGHT AGAINST EXCLUSION AND POVERTY: AN EU PRIORITY

Combating social exclusion and poverty is among the priorities of the European Union, whose action in this area is based on Article 137 of the EC Treaty. With regard to fundamental social rights, the latter provides that 'the Community shall support and complement the activities of the Member States in [...] the integration of persons excluded from the labour market'. Two Council Recommendations¹ dating back to 1992 express the Member States' determination to promote the right of all to basic resources and to preserve the quality of their social protection systems. The Member States have implemented those Recommendations progressively and more recently with the support of the Open Method of Coordination (Social OMC), on social protection and social inclusion which is linked to the Lisbon Strategy for jobs and growth and the European Employment Strategy (EES).

The Guidelines for the employment policies of the Member States (e.g. Integrated Guideline No 19) emphasise the necessary interaction between employment policies, social services, social protection and tax systems with a view also to mobilising those furthest from the labour market and capable of working. Nonetheless, rates of poverty and long-term unemployment have not fallen significantly. Other negative indicators (e.g. number of early school-leavers and those living in jobless households) confirm the emergence of new social risks linked to changes in our societies, as highlighted by the social reality stocktaking conducted by the Commission in 2007². Despite the progress made, national policies have not always identified the right response to the growing complexity of multiple disadvantages affecting vulnerable persons furthest from the labour market.

Greater attention has been paid at Community level to the design and effectiveness of the systems in use in the Member States. This is shown in particular by the Joint Reports on Social Protection and Social Inclusion, the Commission's Social Agenda for 2005-10, the two public consultations launched by the Commission in 2006 and 2007³, the common objectives on social inclusion under the OMC adopted by the 2005 European Council (and confirmed in 2008), the conclusions of the EPSCO Council meeting of December 2007 and the subsequent work in the Social Protection Committee⁴. The social partners' recent commitment to negotiating an autonomous agreement promoting the integration into enterprises of those furthest from the labour market is also worth noting.

¹ Council Recommendation 92/441/EEC (OJ L 245, 26.8.1992, p. 46) and Council Recommendation 92/442/EEC (OJ L 245, 26.8.1992, p. 49).

² SEC(2008) 1896.

³ COM(2006) 44; COM(2007) 620.

⁴ Council Conclusions 16139/07 and SPC orientation note on active inclusion of 3 July 2008.

All this work has produced a broad consensus confirming that the European Union can and must give new impetus to the fight against exclusion and poverty while fully respecting subsidiarity. The 1992 Council Recommendation on sufficient resources and social assistance in social protection systems is still a reference, provided the principles set out therein are better implemented and integrated into a more comprehensive strategy, involving common principles for inclusive labour markets and access to quality services addressing the special situation of those excluded from society and the labour market. A holistic approach involving all actors concerned, better indicators and monitoring and evaluation procedures will ensure that synergy between those three pillars produces the best results by integrating into employment more of those who are currently excluded.

By issuing a Recommendation and this accompanying Communication, the Commission is following up its announcements at the start of the second consultation in 2007, in the July 2008 Communication on a renewed Social Agenda and in the Communication on reinforcing the Social OMC. The concept of active inclusion the Commission is presenting here fits in perfectly with the Lisbon Strategy and the integrated approach that it advocated for the renewed Social Agenda based on three principles: opportunities, access and solidarity. It also complements the Commission work to promote flexicurity and to respond to demographic developments and to the challenges of globalisation by easing transitions for all and mobilising the forces of production.

2. ACTIVE INCLUSION: THE NEED FOR FURTHER ACTION

2.1. The socio-economic context: the persistence of poverty and joblessness and growth of multiple disadvantages

Getting a job is the safest route out of poverty for those who can work. But the difficulty for some of accessing that route seems to be hardly diminished by economic growth and rise in employment. Long-term unemployment still amounts to 3%. 16% of the population is at risk of poverty (see figure 1 in the annex), one in five live in substandard housing. Even more worrying for the future, the percentage of children at risk of poverty stands at around 19% and the percentage of early school-leavers is still high at about 15%. The percentage of people living in jobless households remained stable at around 10% between 2000 and 2005 before falling by one percentage point thereafter, with almost no decline (0.3 percentage points) in the number of jobless households with children.

The difficulties and obstacles facing those at risk of poverty are cumulative: new social challenges, linked to the transition to a post-industrial economy, globalisation, demographic change and social trends such as greater individualisation have emerged in recent years. The reality of poverty and social exclusion has become even more complex: multiple disadvantages and deprivation, compounded by various risk factors such as a lack of basic resources, family problems, a lack of learning capacity and of digital skills, precarious health, inadequate and remote housing, exclusion from the information society, and a lack of social support, aggravated in certain cases by ethnic discrimination.

2.2. Adequacy and coverage of minimum income schemes still to be improved

Minimum Income (MI) schemes have undoubtedly had a positive effect on the reduction of poverty, albeit marginally in the case of several Member States. The figures show that social transfers in general have a significant impact in reducing the poverty rate, with an average

pre-transfer risk rate of 26%, compared with a post-transfer rate of 16% (See figure 2 in the annex).

They also suggest that social protection in countries without an established MI scheme like Greece and Italy has a more limited capacity in terms of reducing poverty. These facts point to the continued relevance of the 1992 Council Recommendation, and that its implementation needs to be improved.

In most Member States and for most family types, social assistance alone is not sufficient to lift beneficiaries out of poverty. As shown in figure 3 in the annex the UK is the only Member State where, once housing-related benefits are taken into account, the net income of social assistance recipients in all household types rises above the agreed EU definition of the at-risk-of-poverty threshold, i.e. 60% of median household income. Only in Denmark, the Netherlands, Sweden and Ireland do single-person households in receipt of social assistance emerge above the poverty threshold. In all other Member States they fall well below.

The effectiveness of MI schemes is determined not only by the amount of benefits but also by their specific design and delivery provisions. A significant percentage of those targeted by such schemes may not actually benefit from them, either because they do not claim their entitlements or for some other reason (non-eligibility, miscalculation of amounts, payment deadlines, penalties and suspensions, and benefit deductions for debt reimbursement).

Estimates of take-up rates of social assistance in UK, FR, DE and NL are in a range of 40% to 80%⁵. But the EU average shows a starker reality: only 18% of the non-working population at-risk-of-poverty is in receipt of social assistance (even if this figure must be qualified: it does not take into account receipt of other types of benefits⁶).

2.3. Improved consistency with active labour-market policies and access to quality services is needed

The 1992 Council Recommendation made it clear that MI schemes should be consistent with an incentive to work. In addition, in order to fight poverty effectively, they need to be integrated in a wider strategy, ensuring that beneficiaries have access to training and job support and to enabling social support. The evidence shows that there are still major shortcomings in those three areas, although several Member States are engaged in thoroughgoing structural reforms.

Work still does not always pay

The design of tax and benefit systems still generates significant disincentives against entering the labour market for some segments of the labour market, such as the low skilled with low earning prospects. Some Member States are already implementing reforms to make work more attractive than welfare but more needs to be done.

Recent OECD findings show that the extra income (compared with unemployment benefits) that an unemployed person can derive from taking up a new job is considerably reduced by an

⁵ Hernanz et al. (2004) *Take-up of welfare benefits in OECD Countries: a review of the evidence*; OECD Social, employment and migration WP no. 17.

⁶ 2008 Ecorys study commissioned by the Commission on active inclusion and Immervoll et al. (2004) *Benefit coverage rates and household typologies: scope and limitations of tax-benefit indicators*, OECD Social, employment and migration WP, no. 20.

average effective tax rate (AETR) of over 60% in almost all countries in all household types examined (See table 1 in the annex). This is due to the fact that when people start working, they not only have to pay taxes on their salaries but also lose the benefits to which they were previously entitled. This sort of work disincentive is addressed by recent policy developments in MI schemes, e.g. by combining adequate out-of-work support with in-work, such as the working families' tax credit (WFTC) in the UK and the planned adoption of a *revenu de solidarité active* (RSA) in France.

People most excluded from work need more personalised pathways to employment

People lacking basic learning capacities or suffering from long periods of unemployment do not easily benefit from standard training or rehabilitation policies. Moreover, once they are in employment, they are still in a vulnerable position in the absence of a supportive environment. Studies on transitions from unemployment to work, including fixed-term contracts, show that there is a hard core of working-age persons who remain unemployed and whose risk of joblessness increases with age⁷.

To tackle this issue, some Member States (e.g. the Netherlands) have set about fully reshaping their reintegration and rehabilitation policies. Others are developing targeted labour-supply policies to reach out to those most excluded through instruments such as micro-loans or incentives for the social economy. Such worthwhile innovations in general require an integrated service delivery.

Enabling social support: a missing link

The absence of affordable childcare is a clear example of the hurdles facing some of those most excluded from work, especially lone parents with children. OECD estimations show that net out-of-pocket childcare costs represent 12% of the net income of a lone parent with two young children in half of the Member States for which estimates are available. That amount is close to the net benefit of moving from unemployment to gainful employment when the METR for lone parents is taken into account; it clearly constitutes a disincentive to work – and a poverty trap.

Health is an important requirement for participation in the labour market. People suffering from chronic health impediments cannot successfully participate in lasting employment⁸ or in training in preparation for employment. This is especially true of people at risk of poverty, who suffer more than average from ill health and who have less access to medical care (See table 2 in the annex).

Decent, stable, independent accommodation can also be an important condition for staying in employment. Although data on homelessness and non-decent housing are difficult to collect, there is some evidence that this is a growing phenomenon, in particular among young adults, who are affected more than average by unemployment or limited to temporary and fixed-term work contracts. Several NGOs in the EU address the needs of homeless people, including through support for stable employment. But they also report a vicious circle in that such support often remains unsuccessful owing to a lack of access to decent, affordable housing⁹.

⁷ *Employment in Europe 2004*, chapt. 4.

⁸ *Employment in Europe 2005*, chapt. 5.

⁹ FEANTSA report for the European Parliament 2008 and FNARS 'Manifesto for social inclusion' 2007.

3. TOWARDS AN INTEGRATED ACTIVE INCLUSION APPROACH BASED ON COMMON PRINCIPLES

3.1. An integrated approach for active inclusion

Design of the integrated approach

The previous analysis suggests that the active inclusion of people excluded from the labour market requires the design and implementation of a comprehensive strategy combining in an integrated way adequate income support, inclusive labour markets and access to quality services. Policy design should define the right mix of the three strands of the active inclusion strategy; take account of their joint impact on the social and economic integration of disadvantaged people and their possible interrelationships, including synergies and possible trade-offs.

Active inclusion policies should ensure consistency with the following objectives: 1) support the implementation of fundamental rights; 2) promote gender equality and equal opportunities; 3) address the complexities of multiple disadvantages and the specific situations and needs of the various vulnerable groups; 4) improve territorial cohesion taking into account local and regional circumstances; and 5) be consistent with a lifecycle approach to social and employment policies so that they can support intergenerational solidarity and break the intergenerational transmission of poverty.

For this integrated approach to be effective, coordination between public agencies and services needs to be enhanced. In addition, local, regional, national and EU authorities - with their particular roles, competences and priorities – also need to strengthen their cooperation. Furthermore, other relevant actors, including those affected by poverty and social exclusion, the social partners, NGOs and service providers have to participate actively in the development, implementation and evaluation of strategies.

3.2. Common principles for active inclusion

While active inclusion policies must reflect the different national situations, EU Member States face similar challenges as explained in section 2. Therefore, it seems appropriate to reach a consensus at EU level on a series of common principles for active inclusion. The ground for these principles has been prepared by the outcome of the Commission's public consultations and of intensive discussions with and among the Member States within the Social Protection Committee and the active contribution of the Employment Committee. These principles, which are specific for each of the three strands, could help Member States in the establishment and implementation of their integrated active inclusion strategies in order to make them more efficient and more effective. As indicated in July in its renewed social agenda the Commission considers that a recommendation on active inclusion could help to guide Member States in the establishment and implementation of their integrated active inclusion strategies.

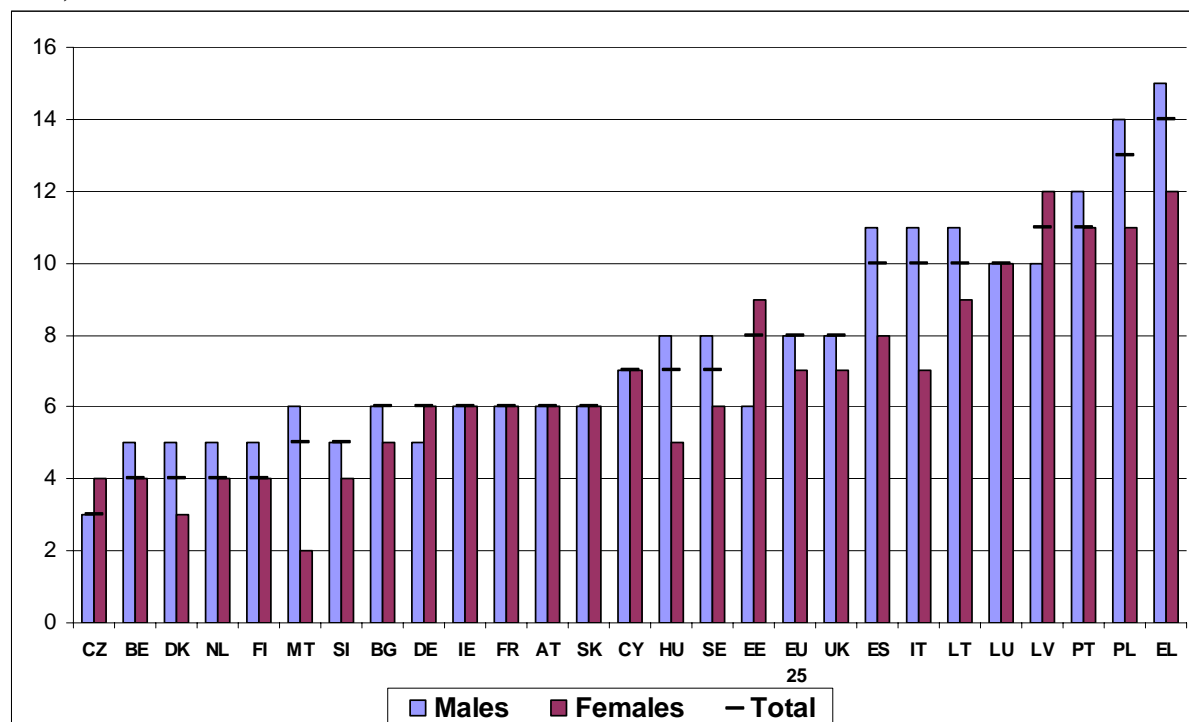
3.3. Implementation and monitoring of the common principles at EU level

The implementation of active inclusion strategies needs to be properly coordinated and monitored at national and EU levels if it is to be successful. To that end, the Commission welcomes the work in the Social Protection Committee. It proposes that by the end of the year Member States adopt Council Conclusions, based on the attached recommendation defining a set of common principles. These can form the basis for joint coordination and monitoring

work by the Commission and the Member States within the social OMC in close cooperation between the Social Protection Committee and the Employment Committee.

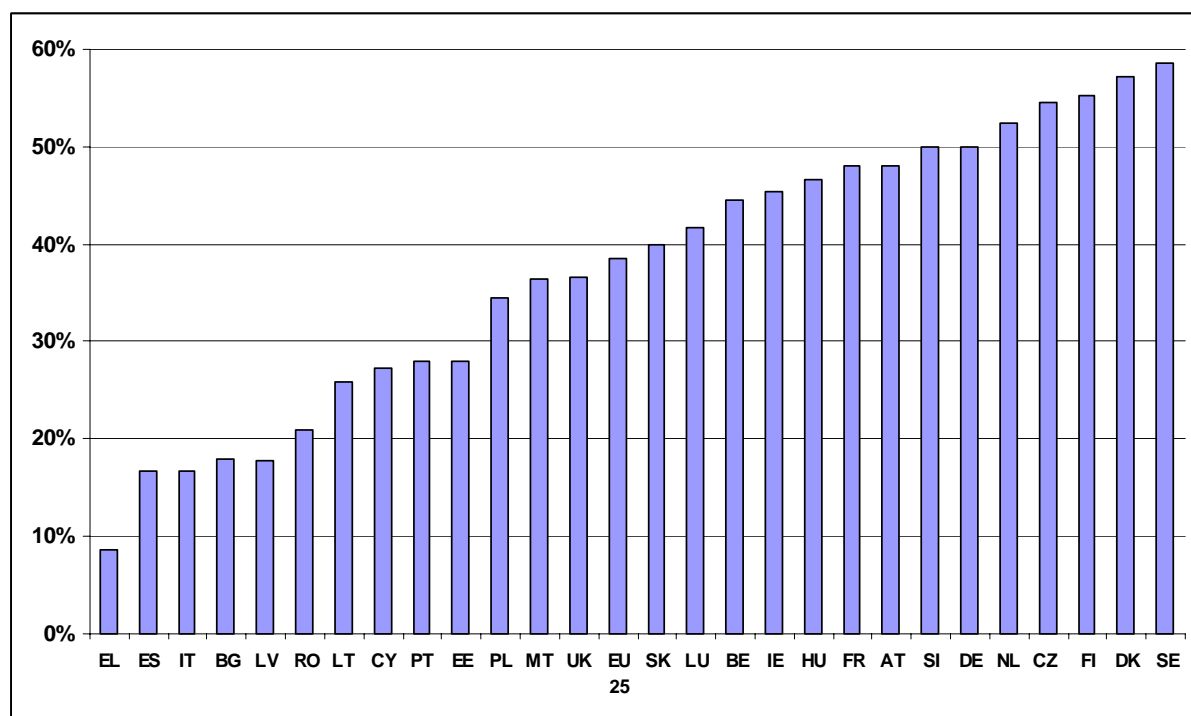
Progress made in the implementation of active inclusion strategies should then be presented in the Joint Reports on Social Protection and Social Inclusion as well as in the frame of the Lisbon Strategy. In addition, the Commission is ready to take the measures necessary to improve or establish the indicators for quantitative monitoring. The network of local authorities' observatories which will be financed by the Progress programme will also provide analysis of the development and implementation of active inclusion strategies at the local level and promote mutual learning.

Figure 1: At-risk-of-poverty rate for people at work by gender (population 18 and over)



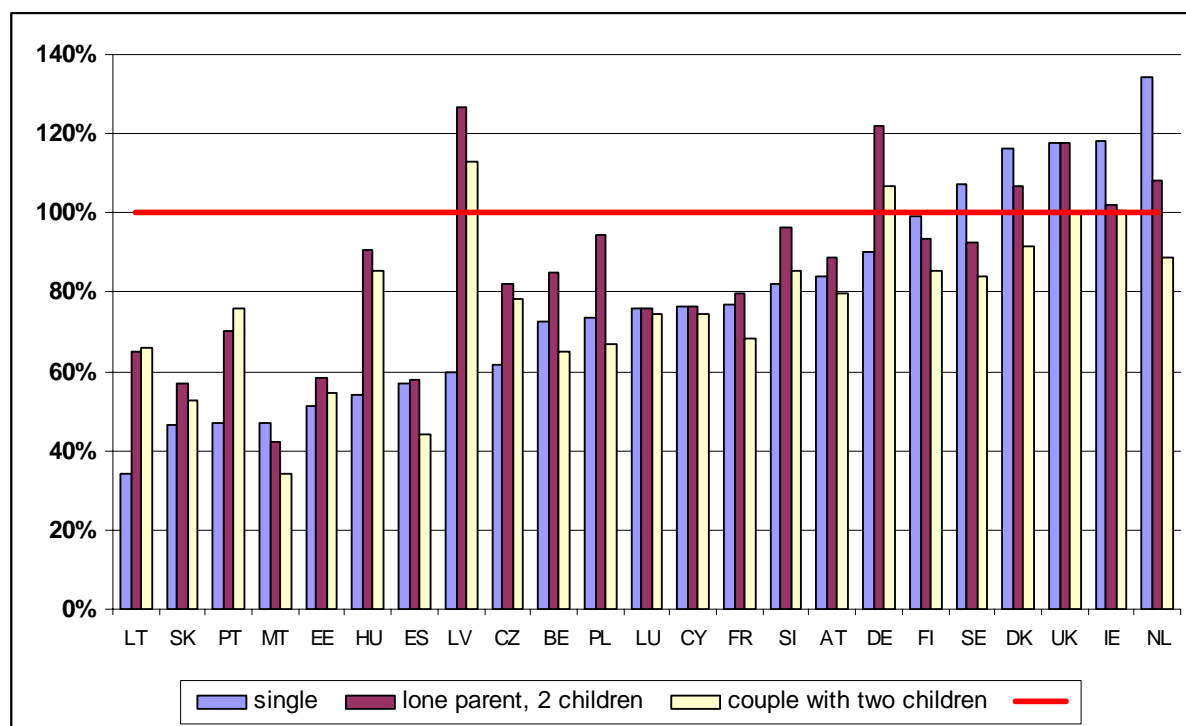
Source: EU-SILC (2006): income year 2005; except for UK (income year 2006) and for IE (moving income reference period 2005-2006) except for BG: national HBS 2006 (income data 2006). Data for RO not available

Figure 2: Impact of social transfers (excluding pensions) on reduction of poverty rate, 2006 - % of poverty rate before social transfers



Source: EU-SILC (2006): income year 2005, except for UK (income year 2006) and for IE (moving income reference period 2005-06).

Table 1: Net income of social assistance recipients — 2006 as a % of the at-risk-of-poverty threshold for 3 jobless family types, incl. housing benefits



Only countries where non-categorical social assistance benefits are in place are considered.
 Source: Joint EC-OECD project using OECD tax-benefit models, and Eurostat.

Table 2: Average effective tax rates for short-term unemployed persons (previous work at 67% of Average Wage, full-time) re-entering full-time employment – 2006 - percentages

	Single person, no children	Lone parent	One-earner couple, 2 children	Two-earner couple, 2 children
BE	83	77	73	75
CZ	63	62	69	73
DK	91	91	89	94
DE	76	87	85	90
EE	64	64	61	64
IE	77	12	88	53
EL	57	66	69	49
ES	80	80	79	82
FR	81	86	85	79
IT	72	63	61	71
CY	61	72	82	72
LV	88	100	100	85
LT	79	76	77	79
LU	88	86	102	86
HU	78	79	78	78
MT	61	64	68	34
NL	86	83	87	76
AT	67	72	81	76
PL	82	99	89	71
PT	82	87	85	85
SI	94	83	86	84
SK	44	35	30	49
FI	76	85	92	74
SE	87	91	95	87
UK	68	72	78	41

Source: OECD Tax-Benefit Models.

Table 3: Inequalities in access to health care (unmet need for care by income quintile for 3 reasons: too expensive, too long waiting time, too far to travel), SILC 2005

Inequalities in access to health care (unmet need for care by income quintile for three reasons: too expensive, waiting time too long, too far to travel), SILC 2006					
	1st quintile	2nd quintile	3rd quintile	4th quintile	5th quintile
eu25	6.2	4.1	3	2.5	1.7
be	1.8	0.4	0.2	:	0.1
cz	1.4	0.7	0.5	0.5	0.2
dk	0.2	0.3	0.2	0.2	0.2
ee	14.4	7	5.9	6.3	3.1
ie	2.7	2.1	2.4	1.9	0.7
gr	7.9	7.8	7.3	4.1	2
es	0.9	0.9	0.5	0.4	0.2
fr	4.3	1.4	1.2	0.3	0.6
it	9.2	5.1	4	3.1	2.1
cy	6.6	4.7	2.6	1.5	0.5
lv	28.9	20.5	10.2	9.8	5.9
lt	13.6	10.5	7.9	5.2	3.9
lu	0.8	0.1	0.2	0.2	0.4
hu	3.9	3.2	2.4	1.7	0.8
mt	3.4	1.9	1.6	1.2	0.8
nl	0.9	0.3	0.3	0.3	0.3
at	1	0.5	0.2	0.3	0.3
pl	13.3	11	8.9	7.2	6.4
pt	9.6	6.8	4.9	2.7	1.1
si	0.3	0.2	0.1	0.1	0.2
sk	6.4	3.4	2.2	1.5	0.8
fi	4.7	3.3	2.1	1.7	0.9
se	4.1	3.9	3.3	2	1.1
uk	2.6	1.7	1.5	2.4	1.5

Source: EU-SILC 2006. Data for Germany is not included because of a methodological bias in the data collection. Note: Data should be interpreted with care when comparing levels across countries, due to inconsistencies in the translation of the questionnaire used.