



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 17 November 2011

17050/11

**SOC 1008
ECOFIN 781**

COVER NOTE

from:	Council Secretariat
to:	Permanent Representatives Committee / Council (EPSCO)
Subject:	"The Europe 2020 social dimension: delivering on the EU commitment to poverty reduction and inclusion (2011)": Opinion of the Social Protection Committee - Endorsement

Delegations will find attached the above-mentioned SPC Opinion, as finalised by the Committee on 14 November 2011. This Opinion will be submitted to the EPSCO Council on 1 December 2011, under the agenda item "Contribution to the European Council (9 December): Implementation of the Europe 2020 Strategy in the field of Employment and Social Policy".



The Social Protection Committee

OPINION ON :

THE EUROPE 2020 SOCIAL DIMENSION

**DELIVERING ON THE EU COMMITMENT TO POVERTY
REDUCTION AND SOCIAL INCLUSION
(2011)**

I. Key messages

1. New figures available from the 2010 EU Statistics in Income and Living Conditions (EU-SILC data) show that the living conditions and employment situation of households in the EU are not improving. There is a greater risk that the economic crisis will seriously deteriorate the situation of our most vulnerable citizens by increasing their exposure to severe material deprivation.
2. Although up till now the worst effects of the crisis have been mitigated by our social security systems which protected the most vulnerable from bearing the brunt of the consolidation measures, there is a need to ensure that this can be sustained in the future.
3. The 2011 Social Protection Committee (SPC) review of the social consequences of the crisis reveals marked impacts, as shown by the growth of recipients of minimum income, social assistance and housing benefits. Social security schemes are under increasing pressure due to the prolonged economic crisis. Their capacity to cushion any unequal impact of the crisis and to reduce inequalities should be fully exploited. Their role in protecting the most vulnerable remains crucial and must be among the highest current EU priorities.
4. It is therefore essential that effective policies are designed allowing our social protection systems to continue offering protection and improving people's employability. This is crucial not only for the sake of social justice, but also because in the long run Europe will need all citizens to play their part in the social and economic development to support and finance the needs of an ageing society.
5. Reforming social protection and pension schemes and adapting them to demographic changes should continue with the view to maintain their long-term sustainability and adequacy. Stimulating the creation of quality jobs should be a priority. Work should always pay. Adequacy of pensions proves crucial for maintaining the living standards of persons above pension age.

6. Every effort should be made to deliver on the June 2010 poverty and social exclusion reduction commitment of the European Council. The SPC therefore calls for an increased attention to the quality of consolidation measures that need to be responsive to the social needs of all generations, and to preserve the capacity of social protection systems to withstand economic shocks.

II. The opinion

Three years ago, the global financial and economic crisis triggered the most serious economic recession the EU has ever faced. Some 114 million people living in the European Union (23% of the EU population) were at risk of poverty or social exclusion in 2009¹. Economic and employment growth is weak. Long-term unemployment is on the rise. Measures to consolidate fiscal positions and to cut deficits have taken place in a context of sluggish recovery and falling revenues².

¹ The definition corresponds to the sum of persons who are: at risk of poverty and/or severely materially deprived and/or living in households with very low work intensity. Persons are only counted once even if they fall in more than one of these categories. Persons **at risk of poverty** are persons with an equivalised household disposable income below the at-risk-of-poverty threshold, which is set in each country at 60% of the national median household equivalised disposable income (after social transfers). Material deprivation covers indicators relating to economic strain and durables. **Severely materially deprived** persons have living conditions severely constrained by a lack of resources; they experience at least 4 out of the 9 following problems: 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) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, and/or ix) a telephone. **People living in households with very low work intensity** are those aged 0-59 living in households where working-age adults (18-59) work less than 20% of their total work potential during the past year.

² http://ec.europa.eu/economy_finance/eu/forecasts/2011_autumn_forecast_en.htm

While fully recognising the need for fiscal consolidation, the Social Protection Committee (SPC) stresses the need to monitor the social consequences of the crisis and to find new ways of strengthening confidence in the social dimension of the Europe 2020 strategy³. This task becomes all the more important as a recent consumer confidence indicator and Eurobarometer surveys show that EU citizens are much more worried about future income prospects in 2011 compared to 2008⁴.

Figures from the 2010 wave of the EU SILC, only available for 24 Member States, substantiate further these trends and offer useful insight into the impact of the crisis. It must be underlined that these data are based on income and on the monthly employment situation of households over the year 2009, thus the recent deepening of the crisis is not yet fully captured.

1. Trends in poverty and social exclusion

The evolution of the share of the population living in poverty or social exclusion, according to the definition of the June 2010 European Council shows a generally stable picture with respect to 2009. However, more in-depth analysis of the components of this indicator shows that even though the share of people at-risk-of poverty is generally stable, this is due to a large extent to the decrease in the median household income, rather than to stabilisation in the income and living conditions. To further support this, the SPC observes increasing shares of people living in households with very low work intensity or being exposed to severe material deprivation in a number of countries. The upcoming detailed SPC report on the crisis developments in Member States will bring new and relevant insights.

³ Accordingly, the Polish Presidency organised, together with the EC, a conference on the *Innovative responses to the social impact of the crisis*, Wroclaw, 27 September 2011

⁴ http://ec.europa.eu/economy_finance/db_indicatos/

- **At-risk-of-poverty rates remain stable but household median income are decreasing**

The at-risk-of poverty indicator (AROP) shows little change between the 2009 and 2010 survey waves⁵. Of the 24 Member States⁶, for which data are available, only 2 show a significant increase in AROP. Conversely, 4 show a decrease, while in 18 Member States AROP remains stable. In times of economic crisis, this indicator must be interpreted with caution; it is a relative income poverty measure and it is influenced by the general level of income and its distribution in the population. It is highly dependent on the level of the poverty threshold. Between 2009 and 2010, the median income has fallen in all with exception of 6 Member States which has lowered the poverty threshold. As the economic crisis hits the working population first, this has two immediate effects: rising unemployment and lowering of wages. As a result, the median income edges down. At the same time social benefits remain stable, thus shifting the relative position of beneficiaries. People who had an income slightly below the poverty risk threshold in 2009 may then find themselves above it in 2010 even if their income did not increase – simply because the median income and thus also the poverty risk threshold dropped. It will be important to carry out in-depth analysis in order to better assess the impact of the crisis on the evolution of the level and depth of poverty and social exclusion.

⁵ Most recent results refer to EU-SILC 2010 wave with reference to income and labour market situation in 2009 and material deprivation situation in 2010

⁶ According to the regulation on SILC, results for all EU27 Member States should be available on 31.12.2011

- **Severe material deprivation (SMD) remains a problem**

In the 24 Member States for which 2010 data is available, the share of people who have seen their living standards deteriorate, as measured by the level of severe material deprivation (SMD), increased in 2010 by as much as 5.5 percentage points (pp) in LV, 4.4 pp in LT and 1.3 pp in HU, and it remains stable in AT, BE, the CZ, DK, EE, EL, FI, DE, ES, FR, IT, LU, NL, MT, PL, PT, SI, SK, and SE. BG and RO registered a decrease of SMD in 2010 compared to 2009.

- **Increasing shares of people are living in households with very low work intensity (LWI)**

The SPC survey carried out among Member States in the last quarter of 2011 found that for many Member States fighting poverty and social exclusion is strongly linked to labour market exclusion. LWI is on the rise in 10 Member States for which 2010 data are available. Against the background of rising unemployment, the increase in the share of people living in LWI households is highest in LV (5.5 pp), followed by EE (3.3 pp), ES (2.8 pp), LT (2.3 pp), SK (2.3 pp), DK (1.8 pp), PT (1.7 pp), FR (1.5 pp), IT (1.4 pp) and SI (1.3 pp).

- **In-work poverty affects a significant segment of the EU working population**

In-work poverty was at 8.5% in the EU in 2010. 2010 data shows that this remains a problem in a number of countries as the rates remain above 5% in BG, DE, DK, HU, EE, EL, ES, FR, IT, LV, LT, LU, NL, MT, PL, PT, SI, SE, SK and RO. Variables such as the level of wages, the number of hours worked, the household composition, contractual conditions, the presence of children in the households all influence the level of in-work poverty.

- **Child poverty and social exclusion is an increasing challenge**

There are already indications that the percentage of children living in poverty or social exclusion has started to increase in a number of countries in 2010 (for which data is available). This share has risen by more than 1pp in several Member States, namely AT, BE, CZ, DK, DE, FR, ES, LV, LT, HU and SK between 2009 and 2010. On the other hand, some Member States (BG, EL, LU, MT, RO) have made progress in reducing the percentage children at-risk-of-poverty or social exclusion.

- **People aged 65+ seem less exposed to poverty and social exclusion in the crisis**

Poverty statistics shows different patterns among the population aged 65+. The share of persons aged 65+ at risk of poverty or social exclusion has decreased in all 24 Member States for which 2010 data is available. Similarly, the at-risk-of-poverty rate for those aged 65+ is decreasing in a number of Member States (BG, BE, EE, ES, DK, FI, LV, LT, MT, NL, IT, SE, SK, RO). Severe material deprivation for people aged 65+ remains stable in most Member States in 2010 (AT, BE, DE, DK, EE, ES, EL, FR, LU, NL, HU, MT, IT, SI, FI, PO, PT, SE, SK). In 3 Member States in which the overall risk of poverty or social exclusion is decreasing, the share of persons aged 65+ exposed to material deprivation is on the rise (EE, LV and LT).

2. Rising inequalities in the EU

There is a perception among citizens of rising inequalities as revealed by Eurobarometers surveys. While the effect of the crisis on inequalities is still to be documented, an OECD analysis⁷ based on pre-crisis data shows that income inequality was rising in almost all of OECD countries until the late 2000s including in countries with solid record of low inequalities such as Denmark, Sweden and Germany (this evolution is measured on the basis of annual changes in the Gini coefficient between the mid-1980s and the late -2000s). According to the report, current tax and benefits policies succeeded to reduce the inequality for working-age adults by only about a quarter, while their corrective capacity in the 1990s was about 50% reduction in market income inequality. The report also highlights the importance of policies such as education, health or housing, which have a significantly greater redistributive effect than taxes and transfers.

When economic growth is decelerating, the overall income decline is first felt by low-income households, those falling out of work and young people. A 2011 report of the ILO demonstrated that it would not be possible to recover successfully from the recession unless social inequalities are addressed through well-designed policies⁸. As cost-containing measures restrain the redistributive role played by social protection systems, some social groups may experience different forms of deprivation. In this context, reduced inequalities and enhanced access to services and care would strengthen social cohesion and ensure social stability.

3. Towards consolidation measures responsive to social needs

As a result of the crisis, social protection systems have been confronted with rising expenditure and falling revenues. They have played a major role as automatic stabilisers since 2008. Persisting economic difficulties and the poor employment perspectives may, however, require adjustments in the provision of social protection, which could expose more people to greater economic uncertainty.

⁷ OECD (2011) : *Society at a glance : social indicators*, Paris

⁸ International Labour Organization (2011), *World of Work Report 2011, Making markets work for jobs*, Geneva

Many Member States report increased pressure on their social assistance schemes as people drop out from the regular social protection programmes for the unemployed, having lost their unemployment benefit entitlements after a prolonged period out of work. The 2011 SPC review shows that more than half of the Member States report an increase in the number of social assistance beneficiaries during the survey year. The range of this increase varies greatly. As at the same time the majority of Member States register a decrease in the number of unemployment benefit recipients, the SPC findings suggest that there is a shift towards social assistance schemes. This trend analysed together with the unemployment growth has important implications for the protection of workers' skills. If weakened, it will slow down labour potential when economic growth resumes as persistent high unemployment may result in a permanent loss of work skills.

In the current context, there is a need for a policy mix of labour market, tax and social protection policies to prevent people from facing labour market exclusion and poverty:

- Short-term priorities need to take into account long-term consequences of present measures. Maintaining family support, reconciling family and working life, combating child poverty and social exclusion and helping young people in their transition to the labour market is crucial. As children growing-up in poverty and social exclusion are less likely to realise their full potential as adults, action to prevent the inter-generational transmission of poverty are of utmost importance. This becomes even more urgent in view of the current and future demographic changes.
- Measures such as more use of in-work benefits and provision of adequate income support (wage subsidies, tax credits for the very low income earners) within active inclusion strategies could reduce inequalities, provide support to demand-rebalancing and encourage people to take up work.

- To address increasing economic uncertainties, Member States could, where appropriate, keep in place or reinforce arrangements to protect people from unemployment and falling incomes. There is also an economic case for this: as recently highlighted by the International Monetary Fund, pursuing further consolidation measures "at the expense of the disposable income of people with a high marginal propensity to consume" could have a negative effect on growth⁹. Yet, disincentives to work must be eliminated.
- Budget consolidation puts pressure on financing of social protection systems in general and on enhancing the cost-effectiveness of spending. Amongst others, social innovation and experimentation combined with mutual learning through the exchange of experiences can be valuable tools for Member States to shape their reforms. In this respect, the SPC highlights the importance of making full use of the Social Open Method of Co-ordination (OMC), as requested by the June 2011 EPSCO Council.
- The contributive role of pensions in providing adequate income is central for maintaining the living standards of the elderly and for reducing their risk of poverty. Reforms need to continue to align pension systems to the national demographic situation and to reduce early retirement schemes, thus enhancing the effective retirement age in order to ensure both long-term adequacy and sustainability.
- The strong need for timely information on the real impact of the crisis, allowing for the analysis of the dynamics of the income and living conditions of Europeans, calls for further efforts to collect and produce data. The role of the social OMC in this process is crucial.

⁹ IMF (2011) : World Economic Outlook Report 2011, *Global prospects and policies*, Washington

- The level of poverty and social exclusion registered before the crisis is likely to worsen unless social protection support continues reaching those most in need and active inclusion strategies are implemented and monitored. Addressing the social impact of the crisis is a common European challenge and the tools provided by the social OMC offer a unique opportunity for exchange, learning and action. The SPC stresses that every effort should be made to deliver on the commitment of the European Council on poverty and social exclusion reduction. The SPC therefore calls for an increased attention to the quality of consolidation measures that need to be responsive to social needs and preserve the capacity of social protection systems to satisfactorily withstand economic shocks.
