

Towards a territorial social agenda for the European Union¹

Report Working Paper of

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I. European social policy and social inclusion

Different views on the role of the European Union converge today in arguing that greater attention should be paid to the social agenda.

Motivations vary from a concern that high and non-decreasing inequality and mounting fears over the challenges of globalisation, now fuelled by the financial crisis, could jeopardise economic integration and monetary unification (*market-compensating motivation*), to the proposition that national welfare provisions are becoming increasingly constrained (by the EU's own budgetary rules and tax competition)² calling for greater direct EU involvement (*political-economy motivation*), to the long-standing argument that all EU citizens should participate in the benefits of the Union and that the EU's very existence is based on the expectation of equal opportunities for all its citizens (*federal motivation*). In rethinking the role of cohesion policy, whose social dimension is germane to its origins and is clearly stated in the EU Treaty, it is necessary and useful to examine whether and how cohesion policy could give a more forceful and effective contribution to the social agenda.

An effective way of doing this is to address the issue with reference to a central objective of social policy: *social inclusion*. A very important source of discontent for European citizens is the Union's failure to reduce inequality, poverty and deprivation in important dimensions of their life, and to address their fears, partly linked to the integration of markets and to fast-moving innovation: fear of staying or falling behind, fear of failing to participate in a fast-changing economic, social and cultural life, fear of losing identity.. The demand for social inclusion – a concept used and developed in the European debate - captures the “aspiration to participate” that many EU citizens feel is un-fulfilled today.

The facts are clear. At a macroeconomic level, we observe in Europe a clear reduction in the gaps of unemployment rates between countries and an overall regional convergence of the average GDP per capita largely determined by between-countries convergence. But when we come to individuals, no improvements are observed, by any measure of social inclusion; inequality is concentrated spatially and is also relevant in rich regions; overall inequality is largely due to inequality within regions, rather than to inequality between regions.

On average, income inequality, after a decline up to 2000, has risen since then, reflecting a rise in a majority of countries, a stability in a few, and a reduction in a very few³. The risk of poverty has been stable in the last decade at 15-16%⁴. Existing studies show marked increases in inequality at the top end of the distribution. Available information also shows very large shares of individuals in condition of deprivation in more than one relevant dimension of their well-being. As for the sub-national situation - barely covered

² This, the argument goes, would be now particularly relevant since globalisation has increased the chances of domestic social problems.

³ See Atkinson, T. and Brandolini, A. (2008). See also Haryes, T. (2007).

⁴ Risk of poverty refers to a disposable income adjusted for household composition below 60% of the national median: “risk” refers to the fact that whether or not “poverty” materialises depends on other features of any individual's life (see below for the concept of multidimensionality). See Eurostat, “At-risk-of-poverty rate after social transfers – total” available at: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,45323734&_dad=portal&_schema=PORTAL&screen=welcomeref&open=/&product=REF_SD_SC&root=REF_SD_SC&depth=3.

by empirical analysis – a study conducted on ‘90s data shows high variance of poverty rates (measured relative to 50% of median income) within each European country⁵. This high variance persists even when for each region, rather than a unique national median income; the regional median income is adopted as a standard: even relatively rich areas show high “poverty” (Greater London showed a 20.1% against 10.1 in Wales or 4.7 in Lorraine). Polarisation of inequalities is not well captured by inter-regional disparities in per-capita income since there is very high inequality within each region. A recent study on Central and Eastern European countries shows that “the contribution of intra-regional inequalities to overall inequality largely outweighs inter-regional contribution”⁶.

There is, therefore, demand all over Europe for addressing the problem of social inclusion, which is serious, not improving, spatially concentrated and widespread in all regions. Whether the motivation for a revitalised social agenda is a market-compensating, a political-economy or a federal one, social inclusion would appear to be an appropriate objective on which to focus. An effective and visible EU policy for social inclusion could allow a problem that is relevant and measurable to be addressed.

Two further reasons back the choice of social inclusion as a focus for the social agenda. First, social inclusion is one of the declared objectives of the EU, embodied in the draft Treaty⁷, and it represents an original contribution of this level of government to European policy-making, i.e. a clear-cut EU policy domain. Second, on institutional and operational grounds, the opportunity exists to build on the basis of the conceptual and operational framework developed by the Process through which the EU has been addressing social inclusion – the Social Protection and Social Inclusion Process.

The mission of social inclusion has so far been primarily entrusted by the EU to the Social Protection and Social Inclusion Process, based on the Open Method of Coordination (OMC). That is, an intergovernmental means of governance, recognised in the draft Treaty, based on the voluntary cooperation of Member states, and resting on “soft law” mechanisms, such as guidelines, indicators, best practices and the incentive of peer pressure. In this context, important results have been achieved, on the methodological side, in setting measurable indicators of social inclusion (the Laeken indicators, now revised) as well as guidelines for mainstreaming the social inclusion concern in all policy fields⁸. Furthermore, as it emerges from an examination of the Joint Reports⁹, the Process has indeed enabled the EU (Commission and Council) to develop an outline of a EU vision for some social inclusion themes (such as child poverty and immigration); it has promoted a debate based on facts and figures, and through the preparation of national action plans, has alerted the attention of some countries where

⁵ See Jesuit, D., Rainwater, L. and Smeeding, T. (2002).

⁶ See Förster, M., Jesuit, D. and Smeeding, T. (2005).

⁷ The new Treaty on European Union, after stating at article 2 (the first article on content) that “the Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities”, and setting in article 3 as the Union’s aim “peace, its values and the well-being of its people”, “free movement of people” and “internal market”, writes that the Union “shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child”(italic added).

⁸ See in particular Atkinson, A.B., Cantillon, B., Marlier, E. and Nolan, B. (2005). See later in the text.

⁹ See also Daly, M. (2008).

this issue has not been not tackled or is largely ignored. Nevertheless, the results of the social inclusion process fall short of the demand.

With reference to the serious situation of inequality and deprivation sketched before, the 2006 Joint Report on Social Protection and Social Inclusion concluded that a gap exists between “the objectives and aspirations of Member states and the actual implementation of policies”. Similar conclusions are to be found in the Commission’s 2008 Communication on “A renewed commitment to social Europe”¹⁰. In spite of its aim, the process has failed to mobilise a wide range of actors, and to raise widespread political interest. It has remained largely elitist and its significant methodological advances have remained largely untapped.

The framework has also had a limited impact on the use of cohesion policy resources. In the 2007-2013 period, only 2.9 per cent of them is being spent on “improving the social inclusion of less favoured persons” (mostly on integration into employment). Significant other resources are being spent on “social infrastructures” (4.9 per cent) – the majority on education and health, but also on child care and housing – and on other infrastructures that can be of great relevance for addressing deprivation and inequalities (6.3 per cent on management, distribution and treatment of water, and 1.8 per cent on management of household and industrial waste). But they do not necessarily respond to an objective of social inclusion, nor are they necessarily integrated at local level with the provision of other services comprehensively aimed at bringing some communities/cities/regions out of social exclusion traps. The concern that the issue of social inclusion should be taken care of in all other interventions of cohesion within policy (whether they be transport or education) is also not at the centre of policy attention (with the possible exception of urban programmes)¹¹.

Both the demand and the pre-conditions for evaluating a radical step thus exist: making social inclusion a priority task of cohesion policy¹². This note explores the rationale and the conditions for this choice.

First of all, some conceptual issues will be dealt with concerning what we mean exactly by “social inclusion”, why policy is called on to address this issue, and what this policy should be about. The long term EU debate and engagement on these issues, started back in 1992¹³, and, boosted by the Council decisions in March (Lisbon) and December (Nice)

¹⁰ “In spite of the European Council’s commitment in 2000 “to make a decisive impact on the eradication of poverty” there are no signs of an overall reduction in poverty rates in the EU. And health inequalities (shorter lives, worse health status in disadvantaged groups) persist” (p. 4).

¹¹ Based on the experience started with the original Urban Pilot Projects for London and Marseilles, an explicit and often substantial reference to “urban deprivation” is included in these programmes.

¹² We set aside here the issue of how to strengthen the OMC. It is well known that the OMC in general, while promoting an appropriate policy frame, innovative for all Member countries, is fragile and has not yet been proved to deliver adequate results. The discussion is open on whether the recent OMC reform, the recognition of OMC in the new Treaty, the attempt of mainstreaming the objective of social inclusion in different policy fields might really improve the effectiveness of OMC in pursuing the mission of social inclusion. The issue is relevant, since successful mainstreaming, accompanied by a stream of perspective impact evaluations, could gradually build the necessary expertise for the mission of social inclusion to be truly and irreversibly incorporated in Member countries’ policy-making.

¹³ See Marlier, E., Atkinson, A.B., Cantillon, B. and Nolan, B. (2007).

2000 and in December (Laeken) 2001¹⁴, has led to a concept of policy for social inclusion that can be summarised as follows¹⁵:

- guaranteeing access for all to the basic resources, rights and social services needed for participation in society and promoting participation in the labour market;
- fighting extreme forms of exclusion and exclusion of the most marginalised people and groups;
- involving in the policy process all levels of government and relevant actors.

The idea of social inclusion that emerges from these propositions, and from the words of the old and of the draft Treaties, presents some clear features: a multidimensional notion of people's well-being (income poverty or access to employment are only some of the relevant aspects to consider); a view of inclusion as both an interpersonal concept (reducing disparities among people by addressing the most disadvantaged ones) and a threshold concept (achieving given standards for all people); an almost explicit notion of EU citizens' rights; a participatory approach to the promotion of social inclusion as an integral part of its very definition.

These features are coherent with the idea that social inclusion is an objective "per se". It is one of the tenets of the European Union that all EU citizens should participate in the benefits of the Union and that the Union should increase social inclusion. The very existence of the Union is, in a significant way, justified for its citizens by the fact that the EU is responsible for ensuring their rights "with appropriate account being taken of Europe's responsibilities in the world as a whole"¹⁶.

On the other hand, the wording of the above-mentioned propositions, their changes through time¹⁷ and the way in which they have been implemented, suggest that they might often have served as a rhetorical device to seal a compromise among very different views on the European Union and on why the EU should care about social issues, what social inclusion actually is, and how it should be tackled.

Further fuzziness has been originated by the instrumental "efficiency view" of social inclusion, whereby the EU is obliged to care about social issues in order to preserve the path to market integration or monetary unification; a view which seems to have

¹⁴ The December 2001 Council, run by a very active Belgian Presidency, endorsed a set of 18 indicators for social inclusion, which have later been expanded and that have made the Open Method of Coordination in the social inclusion field operational, providing the basis for information and analysis at EU-wide level. See Atkinson, A.B., Cantillon, B., Marlier, E. and Nolan, B. (2002) and Frank Vandenbroucke's foreword to this volume.

¹⁵ See in particular: Council of the European Union (2000) and Commission of the European Communities (2005). See also Daly (2008).

¹⁶ See Marlier et al (2007).

¹⁷ Daly (2008) argues that the comparison of the definitions in 2000 and 2005 reveals instability in the underlying policy ideas, namely a narrowing down of the aim and a shift from the prevention of social inclusion – an expression used only in 2000 – to the guarantee of active inclusion – taken as an emphasis on work policies, as if work, by providing income, should be the only concern of a policy for social inclusion. While the stress on rights has actually been strengthened in the 2005 text, the change of language might indeed reveal an uncertain compromise and fuzziness in the underlying conceptual framework.

strengthened in the 2005 revision of the Lisbon process. While this view is certainly well-founded and has widened consensus for an EU social policy, it has also often obscured the policy objectives, has made accountability of results and public debate opaque (what is the ultimate goal of a policy for social inclusion?), and has led to mistaken policy choices whenever (often) the synergy between efficiency and equity has been overestimated, and the trade-off between them underestimated.

These observations call for a conceptual clarification of what objectives a social inclusion policy should actually pursue (section II). The clarification will also show that the agenda for social inclusion must be territorialised, as this is the appropriate way to truly take into account the context and circumstances on which social inclusion strongly depends (section III): this step will provide a conceptual basis for putting cohesion policy and its place-based methodology at the disposal of the social inclusion agenda. Finally, the trade-off and synergies, both at micro and macro level, between equity and efficiency will be clarified (section IV), a required step since both objectives can be pursued by cohesion policy and, as argued above, they should be clearly distinguished.

On the basis of these conceptual premises, and fully taking advantage of the methodological progress that the Process of Social Inclusion has allowed, the note will then move on to outline what a cohesion policy for social inclusion could actually be. For this step to take place, some profound changes need to be made in the design and in the governance of cohesion policy: an outline of the main changes will be discussed (section V).

II. Consolidating the conceptual framework and defining “social inclusion policy” in a clear-cut and operational way

Because there are multiple motivations for pursuing social objectives, and because there is a risk of lacking clarity, a common understanding of both social inclusion and a policy aimed at social inclusion, appropriate both from a conceptual and an operational point of view, is required.

The debate on equality is wide open and far from settled. But for our purposes, starting from the general principles agreed in the EU, we can make use of some documents recently produced by international and national institutions: the definitions suggested in the 2004 Joint Report on social inclusion; the policy oriented volume developed out of the 2005 Report on social inclusion¹⁸; a Report on “social cohesion” prepared for the Council of Europe¹⁹; a model that has been developed in the context of the World Bank reporting activity²⁰ in order to define the concepts of “equity” and of “equitable development policy“; an independent Review commissioned by the UK Government into the causes of persistent inequality in British society²¹, which draws on Amartya Sen’s capability approach.

These, together with the theoretical references on which they are based, allow us to sketch definitions of social inclusion, social exclusion traps and social inclusion policy

¹⁸ See Marlier et al (2007).

¹⁹ See Council of Europe (2008).

²⁰ See Bourguignon, F., Ferreira, F.H.G. and Walton, M. (2007), who build on Roemer’s framework.

²¹ See The Equalities Reviews (2007).

which could prove to be useful from an operational point of view. Let's start with social inclusion.

Social inclusion

Social inclusion can be defined as *the extent to which, with reference to a set of multidimensional outcomes (that define people's substantive opportunity to live according to their values and choices and to overcome their circumstances), all persons (and groups) enjoy essential standards, and disparities among persons (and groups) are socially acceptable, the process through which these results are achieved being participatory and fair.* "Full social inclusion" is a situation where, first, no one finds him/herself below the essential standards, and, second, opportunities are as equal as socially required. This definition presents several features that, by drawing and streamlining the propositions already in use in the EU context²², allow adequate clarity regarding the underlying conceptual framework and lend themselves to be operationalized.

First of all, the definition captures in two separate statements both a threshold and an interpersonal concept of inequality: a *threshold concept*, where society's achievement consists in guaranteeing *essential standards* to all, whatever their circumstances (i.e. persons' features that go beyond their will and choice: gender, social background, place of birth, people he/she has happened to grow with, etc.); an *interpersonal concept*, where society's achievement consists in making the *disparities* among persons (or groups) in those circumstances as close as possible to the disparity society considers acceptable. In the former concept, the thresholds are socially defined "rights" which depend on the social preferences and attitudes of society, which change through time²³; in the second concept a social benchmark is also defined. The two concepts are complementary but distinct. When disparities are reduced, the share of persons falling behind the threshold

²² See in particular the definition of social inclusion provided in the 2004 Joint Report on Social Inclusion (p.10): "a process which ensures that those at risk of poverty and social exclusion gain the opportunities and the resources necessary to participate fully in economic, social and cultural life and to enjoy a standard of living and well-being that is considered normal in the society in which they live. It ensures that they have greater participation in decision making which affects their lives and access to their fundamental rights"; where "poverty" is previously defined as falling below a level of income (and resources) not "acceptable in the society in which they live" and possibly causing "multiple disadvantages" in the different dimensions of well-being, and "social exclusion" is defined as a process through which poverty or other disadvantages prevent "full participation" in society (distance from job, education opportunities, decision-making, etc).. The definition of social inclusion adopted here embodies the conceptual achievements of the above definition: multidimensionality, the reference to society's norm and acceptability, the focus on the process. At the same time, by building on the definition of equity adopted by Bourguignon et al (2007), puts a strong emphasis on the result of a process, the extent by which market, social and public forces have in any moment in time reduced interpersonal disparities and the share of people falling below essential standards. This allows to move in a clear-cut way to the operational issues of defining the relevant dimensions, choosing the indicators, measuring them, setting policy objectives (further reducing the disparities and/or the share of people below the line).

²³ As the European Commission put it in the 2004 Joint Report on Social inclusion, "what is regarded as minimal acceptable living standards depends largely on the general level of social and economic development" (p. 14). The idea that individual deprivation should be defined with reference to a threshold determined with reference to what is "customary or at least encouraged and approved in the societies in which [individuals] belong" dates to the 1960s and later to Townsend (see Townsend, P. 1979). On the determination of such a threshold see below.

could increase and, conversely, when the essential standard is achieved by all (or by a growing share of persons), disparities could increase.

Second, both components refer to the *multiple dimensions of well-being*. It is by now relatively uncontested (as well as subject to world-wide efforts – as now reviewed and promoted by the OOED²⁴ and at the centre of the EU reflection) that no single dimension can capture a person’s well-being and thus his/her degree of inequality. Although income can be used as a useful measure for providing guidance on a preliminary ranking of outcomes both for individuals and territories, social inclusion is a multidimensional concept that, especially for policy purposes, should not be addressed solely by income indicators. The components of well-being which define social inclusion are the opportunities of a person to live a life worth living, including the opportunity to achieve the conditions that he/she considers relevant both for his/her well-being and independently of it, and the opportunity to widen his/her set of options. They include labour skills, which obviously play a relevant role by themselves and as a means to acquire income. But they also include: health, education, housing, legal and physical security, standard of living, income, labour conditions, self-respect, role in decision-making of family, community, society, etc.

Income does not summarise these dimensions. While it is a tool for achieving well-being, it is an imperfect one, since it cannot be converted into many aspects that comprise well-being and should not be mistaken as an end in itself. In the framework of Sen’s capability approach, the capacity of any individual to convert a given amount of any “commodity”, including money, into achievements that are relevant for his/her life – “what he or she manages to do or be” - depends on a combination of his/her (social and physical) circumstances and his/her access to other “commodities” often produced by policy (health and the quality of health services, innate skills and the quality of education, etc). The different dimensions are thus interdependent, in terms of their effects on well-being²⁵. Social inclusion can be defined only by referring to a range of factors that capture these interdependent dimensions²⁶. Several of these dimensions (food, education,

²⁴ Through the “Global project on measuring the progress of societies” (http://www.oecd.org/site/0,3407,en_21571361_31938349_1_1_1_1_1,00.html) started in 2004 and strengthened through the Istanbul declaration, the OECD is reviewing and promoting the efforts of several public and private institutions around the world to develop and to use in policy-making views of progress that are not focussed on either GDP, or other composite indicators, but on bundles of indicators. On the limits of composite indicators discussed in the EU context, see Marlier et al (2007), pp. 182-185.

²⁵ They are interdependent in terms of their effects on persons’ functioning and on the freedom to choose among functionings. As an example let’s consider three dimensions which are relevant, say, for a migrant worker: services/rules for the access to the labour market; level of competence; social norms affecting the worker “acceptance” in the place of migration. Concentration on any one of these dimension for assessing the extent of social inclusion could obviously be misleading. Observing or guaranteeing fair labour rules might not avoid the other two factors to bring about serious inequalities. The provision of income transfers as a compensation for lack of work might, on the other hand, produce very different results, even increase inequalities, as a result of the effect of the other two factors.

²⁶ The relevance of looking at multidimensional features of social inclusion rather than only at income can be appreciated by examining the results of the First European Quality of Life Survey. Income deprivation turns out to predict quite well the ranking of people according to a composite index of several types of deprivations, at least if EU countries are grouped in four income groups and individuals are grouped in four quintiles. But it turns out that one would not group the countries in the same way if it ignored income and looked at the other dimensions: in particular Spain, Malta and Cyprus would be included in a higher group, Greece and Portugal in a lower one, closer to Romania.

housing, health services, accessibility to decision-making, etc) are strongly effected by goods and services produced by the public sector.

Third, the reference to “*a participatory and fair process*” captures the concept that both the dimensions and the thresholds used in defining social inclusion must be established through a democratic participatory process, whereby all people are given a chance to develop an expectation and to voice it, information is exchanged, public scrutiny and criticism take place, and a consensus emerges, given the stage of development and the availability of resources, about which dimensions are relevant and what is “essential”²⁷. Democratic participation in decision making is the condition for making local choices more informed and adherent to people’s preferences and to allow citizens and collective local actors the freedom to experiment with solutions while exercising mutual monitoring²⁸.

Fourth, the emphasis on *circumstances*, as those features of a person whose effect on his/her well-being should be overcome if social inclusion is to be achieved, is a way to underline that social inclusion also concerns people’s outcome, but it should, as far as possible, focus on those features of a person’s life that depend on factors beyond his/her will. This emphasis corresponds to the idea that those differences in outcome and opportunities among persons that depend on their effort should not be a primary public concern. It also springs out of the awareness of the negative effect that addressing differences stemming from different levels of effort would have on people’s effort itself: a person’s incentive to address whatever condition could be improved by personal effort might be reduced if he/she knew that a collective/public effort would be made anyway to achieve the same end.

While the emphasis on circumstances seems appropriate and worth being retained as a concern in policy designs (see below), one should not expect it to be satisfactorily operational since circumstances and efforts can be very hard to disentangle. In particular, the features of a person’s life which are “independent of choice” at any given moment include not only those which he/she inherited from the previous generation but also those which were the result of irreversible choices and effort the person made in his/her own past life²⁹. Furthermore, the effect of the same effort can produce very different

Furthermore, for some dimensions (particularly those effected by the provision of public services), the ranking of countries would be radically different from the ranking suggested by income (education and health being a very noticeable example where several new Member States have a higher position).

²⁷ See Sen, A. (1999).

²⁸ A process of democratic participation in decision making can be defined as one where citizens “exchange views and debate their supporting reasons concerning political questions” and where individual preferences and information are both revealed and transformed and concur to social choices with concrete effects on public action and on the delivery of public goods and services. This definition is adapted from Crocker, D.A. (2006) who attempts to bring together Sen’s capability approach and the deliberative democracy literature, while the section quoted is from Rawls, J. (1999). The additional feature mentioned in the text of “experimenting with solutions while exercising mutual monitoring” are taken from the concept of democratic experimentalism developed by Dorf, M.C. and Sabel, C.F. (1998); see also Cohen, J. (1996).

²⁹ While adopting Roemer’s distinction among efforts and circumstances, this point is clearly made by Bourguignon et al (2007), but its implications become clearer when advantages are multidimensional and a person’s features appear to be at the same time “outcomes” and “circumstances”: for example, in any given moment in the lifetime, the amount of education acquired by a person is both a source of well-being in itself and a way to produce income, as well as a circumstance – independent of the person’s current choice, although partly dependent on his/her past effort.

circumstances according to external, non-controllable factors³⁰. A well-known tension arises between not discouraging effort and addressing circumstances. Policy-making must be aware of this tension and address it, but should not expect to solve it neatly.

Cultural and social norms play an important role among the circumstances that one must pay attention to in defining and addressing social inclusion. Their nature makes a difference regarding the effects that other circumstances have on the capacity of a person to be well: negative and positive discrimination may or may not exist towards a person due to their ethnic origin, the colour of their skin, the dialect used, and obviously the place where the social relations take place; this in turn will have an effect on the way in which the other circumstances or the person's effort influence his/her well-being or even his/her very "capacity to aspire"³¹. This makes it clear why the definition of social inclusion refers to *groups* as well as to individuals.

Social exclusion trap

The framework that we have outlined above clarifies why social inclusion should be the objective of policy. This is the case whenever there are inadequate market and social forces at work, in the sense that adequate ones would allow individuals or groups to achieve or improve social inclusion by themselves, endogenously. The reversal of social inclusion we call here social exclusion³². A *social exclusion trap* can be defined³³ as *a situation where inadequate social inclusion is perpetuated, i.e. where either socially agreed essential standards are consistently denied to some and/or the difference of substantive opportunity, as defined above, is persistently (or even increasingly) divergent from what is socially acceptable*. What should be considered as "inadequate", "essential" or "acceptable" is obviously a social concept depending on the social preferences and attitudes of the society, which change through time.

Social exclusion traps can and do arise, as empirical investigation shows, because, "the various dimensions of inequality ... interact to protect the rich from downward mobility, and to prevent the poor from being upwardly mobile"³⁴. Several reasons can explain a trap. Four of them in particular can be singled out.

First of all, circumstances are transmitted inter-temporally from one generation to another, by both birth and place of birth and they tend to reproduce the same distribution of opportunities or absolute exclusion.

³⁰ Choices made in the past by a person, even if "efficiency maximising", can create very disadvantageous circumstances that one would not like to exclude from consideration for social policy: this is the case of the choice of acquiring skills in a job which turns out to be no more in demand as the result of exogenous shocks.

³¹ This is the case when "individuals internalise beliefs about their own inferiority, and adjust their ambitions downwards accordingly" (Bourguignon et al 2007).

³² If, as in the 2004 Joint Report on Social Inclusion, one primarily refers to social inclusion and social exclusion as processes, then different factors are at any point in time at work which can be identified as "inclusive" or "exclusive" (see the working-paper by Omtzigt, D.J. also annexed to the Report). But, given our definition of social inclusion as a measurable, continuous variable, social exclusion can be defined as its reversal.

³³ This definition and some of its motivations again closely follow those suggested by Bourguignon et al (2007), for the one-dimensional concept of equity.

³⁴ See Rao, V. (2006), quoted by Bourguignon et al.

Second, outcomes depend on past outcomes. In particular, people's efforts are not at all independent of outcome (i.e. of past effort and circumstances), so that past outcome tends to perpetuate itself³⁵. This effect is particularly strong when the repeated failure to achieve results by a group, or its relation to other dominant groups, leads it to internalize a self-depreciating belief.

Third, policy and institutions can themselves depend on past outcome. The political power to choose economic institutions depends on the political institutions and on the "*de facto* power" which, in its turn, depends on the distribution of resources. Elites which hold political power fail to pick up institutions that suit economic efficiency³⁶ or other interests when this choice would reduce their share of resources. They rather make policy choices that suit their share of the distribution. By doing so a recursive mechanism arises by which political and economic institutions reinforce each other and inequalities are perpetuated. The very provision of public goods and services is distorted by this mechanism.

These three factors can help explain the persistence of social inclusion within any given place or region. They tend to complement and compound each other. In particular, the persistence due to intergenerational transfers or to the influence that past outcome has on future outcome – the first two factors - would need to be endogenously reversed, a strong political willingness that the third factor often makes unlikely.

A fourth factor can explain why a whole place or region fails to develop and a high disparity tends to persist between almost all the citizens of that place and the rest of the population. It has to do with the very strong path-dependency that characterises several formal and informal institutions which trigger development by promoting peoples' engagement and cooperation: people's *agency* (or their capacity to act intentionally, thoughtfully and effectively in the pursuance of goals)³⁷; *social capital* (or any aspect "of social structure [which] facilitates certain actions of actors within the structure")³⁸; *institutional capacity* (or the capacity of public and private local institutions to govern and coordinate collective decision-making)³⁹; *democratic participation in decision making*, which is an explicit requisite of our definition of social inclusion. The less a place and its citizens have of these institutions, the less they are likely to have them in the future and to be able to exploit the existing productive potential; the more they will be excluded from progress taking place in other places and regions.

³⁵ For example, being born son/daughter of an entrepreneur of a particular firm entitles one to the tacit knowledge of acquiring day by day an idiosyncratic knowledge of "how to be an entrepreneur of that firm"; all other things being equal, that will make him/her more "indispensable" (in the sense of Hart's theory of the firm) than other persons, will make it efficient for the person to be in control of the firm, which will create an incentive for more effort, which will in turn produce a higher outcome.

³⁶ Elites would choose institutions that increase total output but makes them worst-off if only they could be guaranteed to be compensated. But the increase in the bargaining power of other agents ensuing from the redistribution - through the direct increase of their *de facto* political power and the likely increase of their *de jure* political power linked to a change in political institutions – makes it not credible that these agents would not use *ex post* this power to their own advantage. See Acemoglu, D., Johnson, S. and Robinson, J.A. (2005).

³⁷ See Sen, A. (1992).

³⁸ See Coleman, J.S. (1988).

³⁹ See Pyke, F., Becattini, G. and Segenberger, W. (1990), in particular the paper by Brusco, S.

Whatever its motivation, in order to get out of a social inclusion trap, a decisive move away is needed from endogenously determined choices. This change can sometimes take place because “political equilibria shift sufficiently to bring in governments – or reform groups within governments – that want to pursue”⁴⁰ change. This can take place both in a democratic context or through a revolutionary movement. Alternatively change needs an “exogenous intervention” by an external institution with enough power and credibility to act and to trigger internal actions. It can be the case of an international institution intervening in a state or a region, of a state intervening in a region, or of a federal or pseudo-federal level of government (like the EU) intervening in a state or a region. We call this exogenous intervention a “policy”.

Social inclusion policy

A social inclusion policy is defined as a long-term, permissible and mobilising, place-based (or territorial) strategy aimed at improving social inclusion in a set of multidimensional outcomes through the provision of public goods and services, by first guaranteeing socially agreed essential standards to all, and then by improving the well-being of the persons which are least advantaged.

By following closely the previous definition of social inclusion, this policy definition is open to being used pragmatically in policy-making by setting clear sub-optimal objectives (i.e. falling short of “full social inclusion”). First, the task of bringing every person above a critical level comes before the task of reducing disparities among individuals. Second, the interpersonal inequality task is tackled by first addressing the well-being of the least advantaged persons (in the Rawlsian max-min fashion followed, among others, by Bourguignon et al 2007).

The approach outlined here tackles social inclusion by directly targeting its different dimensions, i.e. by calling into action the public provision of goods and services that addresses the most basic and important dimensions: health, education, housing, legal and physical security, labour conditions, accessibility to places, etc. This, by definition, requires beneficiaries to play an active role in exploiting those goods and services: learning from education, being available to be cured, choosing public transport, availing oneself of the real services aimed at improving skills or work and entrepreneurial opportunities⁴¹. By aiming to bring all individuals above a given threshold in terms of their freedom to avail themselves of goods and services in given dimensions, this approach avoids the limit of policies aimed at selecting the “really needy”, and the ensuing resurrection of the category of the “poor”. But it obviously leaves open the question of how to choose the relevant dimensions and how to set thresholds (see below).

⁴⁰ See Bourguignon et al (2007).

⁴¹ Welfare policies providing benefits to unemployed conditional on their effort of removing the features that make them unemployed can be thought as a specific example of this policy for the dimension of labour opportunities.

The definition also qualifies the policy as *long term*, *permissible* and *mobilising*. Long-term refers not only to the time that is needed for results to be achieved, but to the permanent and not merely compensatory nature of the objectives to be set. It implies that short-term impact evaluations, aimed at assessing whether the policy made a difference and what difference it made, should be accompanied by long-term follow-up analysis. *Permissible* and *mobilising* both refer to the design of the process through which policy is pursued. The interventions and the policy choices should not only be technically feasible but must be considered legitimate and fair by society⁴²: the provision of those public goods and services which directly influence some of the fundamental dimensions of social inclusion – health, education, housing, etc – satisfy these requisites. The interventions should also be the result of mobilisation of all involved actors, in order to guarantee substantial democratic participation, as this is the only guarantee that they truly incorporate beneficiaries’ knowledge and preferences and that “permissibility” is truly assessed and not decided by isolated elites. The requisite of mobilisation has always been clearly spelled out in official EU documents regarding policies for social inclusion⁴³.

As we have seen, a social inclusion policy can be initiated by an endogenous or by an exogenous intervention. However the policy comes about, it must address several problems. Among them the following three are particularly relevant:

- a) *Choice of dimensions and indicators*. It is all very well to agree that social inclusion policy should not be limited to the income dimension and that it should concentrate on those dimensions that can be directly influenced by the provision of public goods and services, but a problem arises of how to choose the set of dimensions on which to focus the interventions and a set of indicators to measure them. The risk of paternalism exists i.e. of the dimensions to be chosen from the outside without taking into account what people’s “values and choices” are. The same problem concerns the choice of indicators. The solution lies in the true mobilisation of citizens: it needs to be pursued through a clear-cut design of the process through which the choice is made, its accountability, and the continuous, resolute promotion of people’s “agency” and critical participation. All interested persons must be given a chance to develop voice and to promote their views. A competitive environment is also a necessary condition for this process not to degenerate into arbitrary decisions favouring specific categories of people. As has been made clear in the EU Process of Social Inclusion, it should also be the case that indicators used in focussing public debate satisfy a set of requisites: presenting a “clear and accepted normative interpretation”, being “responsive to policy intervention”, being statistically validated, etc⁴⁴.

⁴² See again Bourguignon et al (2007).

⁴³ On that see Marlier et al (2007), p. 231.

⁴⁴ See Marlier et al (2007), pp. 40-42. These requisites operate a severe selection on the dimensions that can actually be used in the policy process. Take for example the dimensions suggested by the UK Report “Fairness and Freedom: the Final Report of the Equalities Review”: longevity; physical security; health; education; standard of living (nutrition, clothing, housing, etc); productive and valued activities (access to employment, being able to care for others, etc); individual, family and social life; participation, influence and voice; identity, expression and self respect; legal security. For some of these dimensions operationalisation is prevented by the difficulty of satisfying some of those requisites. See also section V.

- b) *Choice of thresholds*. A similar problem exists for the identification of the essential standards, the thresholds which need to be chosen as the result of a “social agreement”. This task is made more difficult by the fact that thresholds are dynamic concepts that change through time: in rapidly evolving industrial societies where social expectations are ever-growing, the level of deprivation which society considers critical and which asks the policy to address *before* reducing disparities changes with time and is a matter for political institutions to define⁴⁵. Two approaches are often followed. One emphasizes people’s subjective judgements concerning whether and to what extent, in any given dimension, they are deprived according to their own expectation⁴⁶. However, since subjective measures reflect a “gap between expectations and realities” and “expectations may adapt ... in response to the realities of one’s life situation”⁴⁷, policy can make use of these judgments but should not rely on them. An alternative approach, used for the income dimension when a “poverty line” is established, consists in establishing the threshold from outside, based on academics’ and policy-makers’ analysis: here the risk is one of an elitist approach which contradicts the very concept of social inclusion – which should be achieved through a “participatory and fair process” – and does not elicit people’s preferences. The solution should be sought by designing a process that, by drawing on external assessments and eliciting individual preferences, allows local actors to develop views on their rights and to revise their expectations.
- c) *Coping with information incompleteness*. No policy-maker can be assumed to have the information that a satisfactory implementation of social inclusion policy assumes. The information on people’s opportunities and outcomes can only be approximated by indicators that often capture only some of the relevant features and generally do not refer to individuals but to groups. An understanding of whether the conditions for a social exclusion trap exist can be only tentative. A theory of how to bring about change is generally untested and tentative. There is therefore a need both to design a policy process where the collection of information and the “revelation” of preferences and knowledge by people play an important role, and where enough caution is exerted. More precisely, three conditions must be satisfied: a) once again, the policy approach must be *participatory* so as to allow the opportunity to build and to improve information; b) the policy approach must also be *cautious and experimental* so as to allow different policy alternatives to be tested and continuous adjustments to be made; c) *perspective impact evaluation* (for the short and long term), i.e. an impact evaluation designed at the same time as policy is designed with the participation of beneficiaries, must be extensively used in order to promote a continuous process of learning.

III. A further step: a “place-based” (or “territorial”) approach to social inclusion

Something is still missing from the outline of a social inclusion policy in section II. The definition of social inclusion policy explicitly refers to “*place-based (or territorial)*”

⁴⁵ On that see among others the report for the Council of Europe (2008), point 16.

⁴⁶ See for example the First European Quality of Life Survey, which suggests using these measures providing that research confirms it.

⁴⁷ See Marlier et al (2007).

strategy”, but no mention has so far been made to this aspect. This is what generally happens in the social policy agenda. Both in the conceptual literature and in institutional reports the relevance of “context” and “circumstances” in determining well-being is strongly stressed. However, the fact that much of this context is made by the “place” or the “territory” in which a person happens to have grown up and/or live is largely missed.

The way in which personal features matter for social inclusion and for the design of social inclusion policy depends on places, on the particular location where a person lives. The inherited social background, tacit or formal knowledge acquired in life, the ascribed socio-cultural group and gender; all these features have a different effect on well-being according to the other persons and to the material and non-material resources with which a person interacts. People’s preferences also strongly depend on places; they actually partly define what a “place” is. Even the standard of what a decent or socially acceptable level of well-being is in a given dimension depends on context.

In the social policy agenda, this is generally recognised only with reference to the close group in the contiguity of which a person shares his/her life – in particular the household: measures of inequality very often refer to this unit, while policy often takes this unit into account in measuring standards and designing interventions. But the place-based nature of circumstances and well-being also holds with reference to other members of a territorial community and to the territorial context as a whole (including both natural and cultural resources, and immaterial resources and public institutions).

First, the very measurement of social inclusion must take into account place. The socially acceptable threshold and the least advantaged persons to be addressed by social inclusion policy can only be properly identified by taking into account features of the place. Account must also be taken of the fact that both innate and acquired circumstances of the majority of people – except for a small although growing minority of highly skilled or talented (relative to existing demand) “de-contextualised” professionals – make the returns of their efforts dependent on place: their skills are often idiosyncratic to other people or to cultural or natural resources. The degree to which a person finds that his/her own innate or acquired features are satisfactory and gratifying is also often place-dependent. The territorial concentration of deprivation also matters: the higher the concentration, the more intense the deprivation, the more difficult it is to remove it.

Second, the two institutional causes of social inclusion traps are highly context-dependent. The elites on whose choice most public goods and services that influence social inclusion depend are local elites, which makes it likely that the ensuing deprivations show a very marked spatial pattern. On the other hand, the informal and formal institutions that are a requisite for development – agency, social capital, trust, democratic participation, etc. - and whose failure can be a source of widespread social exclusion, are also strongly context-dependent. In both cases only a policy strongly tailored to places can work, capable of promoting change in the economic institutions chosen by specific local elites, or to make up for the specific institutional failure of a place.

Third, policy effectiveness depends on place. The capacity to really access services and to make use of transfers strongly depends on conditions that are context-dependent. If a person's abilities are deeply embedded in the territory where they live, i.e. are highly idiosyncratic to its resources, any intervention promoting exit can be very costly in terms of their capacity to live well. On the other hand, if for some dimensions of well-being their abilities are particularly suitable to a different location, promoting exit can improve their well-being. Furthermore, strong externalities exist for policy interventions on each dimension, i.e. the effectiveness of any given "sectorial" intervention on one dimension of well-being depends on other "sectorial" interventions being made in the same place: the local level is where the integration of bundles of services can truly take place. Effectiveness of a policy for social inclusion depends on whether the context is truly taken into account.

The place-basedness of social inclusion is clearly reflected by its high spatial concentration at sub-national and sub-regional level. Existing - however limited - empirical analyses show, as we saw, that the polarisation of income inequality is not well captured by disparities in per-capita income between regions (defined at the NUTS 3 level) but takes place at sub-regional level. Spatial concentration of social inclusion occurs in small or big "pockets" both in urban, sub-urban or rural areas. These pockets often live side by side with areas of adequate or high standard of living.

Both in measuring social inclusion and in designing social inclusion policy, the territorial dimension must then be brought explicitly on board. A move must be made to bring together the social and the place-based or territorial agenda. In terms of the previous framework, let us call "place-based approach to social inclusion" an approach where the social agenda incorporates the territorial dimension: a) attention is given to the way in which the effect of circumstances on well-being and well-being itself depend on "places"; b) social policy is place-based, i.e. takes into account that the effects of interventions depend on the place where they are implemented and on other interventions made in that place (or in other places). In contrast to what is often claimed, this territorial perspective does not call for people not to move from their location. *It rather calls for people to be given a greater substantive freedom to either move and to make the most of moving, or to stay and make the most of staying.*

Unfortunately, the implementation of the territorial approach, as we can observe in the context of cohesion policy and in other policy experiences, often betrays its own motivation. By de-emphasizing the ultimate objective of individual well-being, by loosening the reference to persons, it can refer to places or territories almost as if they had a "preference function", a well-being of their own whose consequences on individuals gets lost. Substantial differences in the overall well-being of one territory compared to others can indeed signal the existence of inequalities among individuals, but they do not offer much guidance for policy. Even if the average gap were to directly represent the inequality of a whole group, since the group's collective disadvantage depended on some territorial features, the causal link should be brought to the fore before policy is designed.

If conceptual fuzziness prevails in conceiving the place-based approach, two different failures can occur. The endogenous political mechanism can prevail, as described above, so that the local elite uses the exogenous "territorial" intervention aimed at increasing social inclusion in order to further promote its interests, with a potentially negative or no effect on social inclusion. Alternatively, a strong form of paternalism can prevail,

through which objectives and interventions are set outside the location with dubious relation to the actual needs of the persons.

Summing up, it could be argued that policies for social inclusion run two opposite risks: focussing on individuals without taking into account the territory where they live (*de-contextualised individual approach*); focussing on territories without taking into adequate account the individuals who inhabit them (*depersonalised place-based approach*). Let's consider two sets of policy interventions that often present these limits.

The de-contextualised individual approach is often coupled with policy interventions such as automatic transfers to groups of persons identified by some of their personal features but independently of their territorial context (which changes the effects of those features). This can be a conscious choice, which has operational advantages, but one should be aware of its consequences, of the possibility that these interventions can have very different effects according to the local context, i.e. on different individuals, and then one should at least try to measure ex-post this bias. On the other hand, the depersonalised place-based approach is often coupled with a policy aimed at providing bundles of public goods and services (under the understanding that strong externalities exist and that the effect of one depends on others being provided) – this is again often the case of interventions occurring in the context of cohesion policy - but the issue of the equal opportunity of access to public goods by each person of the territory is underestimated, i.e. no adequate attention (or no attention at all) is paid to the distributive effect among individuals *within* a territory: the consequence of this choice should again at least be accounted for.

The failure of the social and territorial agenda to communicate is well reflected on the empirical side by the lack of studies that combine and compare information on the interpersonal distribution of income (or specific features of well-being), with information on convergence/divergence of whole territories (either in terms of income or of non-income features)⁴⁸. As a result of that, the analysis of changes in interpersonal distribution loses sight of the effects on well-being stemming from the degree of concentration of deprivations; while the analysis of convergence loses sight of people's actual well-being. The ultimate mistake is made when a reduction in the gap of per capita income between two places or regions is taken as a signal that an improvement has taken place in social inclusion of the lagging area; viceversa, the social inclusion of the latter might well have worsened (as is the case if its catch-up has coincided with the top-middle class innovating and reaping the benefits of innovation).

Combining the social and the place-based agenda could thus be very fruitful. Cohesion policy, which is inherently place-based, offers a very good opportunity to do so. A territorialised agenda for social inclusion would also allow the three main problems that a social inclusion policy, as discussed before, must address to be tackled effectively: the choice of dimensions, the choice of thresholds, and the challenge of information incompleteness. First, a place-based approach offers a greater opportunity to truly implement a coherent participatory approach where the risk of paternalism is tackled. Second, it offers the appropriate tools for setting mechanisms and evaluation spaces where the methodology of experimentalism and impact evaluation can actually be implemented.

⁴⁸ See the working-paper by Monfort, P. annexed to the Report. A few exceptions have been previously quoted in this note.

Before seeing how the governance of cohesion policy should be streamlined and adjusted in order to achieve these results, a last conceptual issue must be considered: the linkage between efficiency and social inclusion.

IV. Social inclusion and efficiency: assessing synergies and trade-offs in the policy for social inclusion

The framework sketched so far helps address the issue of linkages between social inclusion and efficiency. This is particularly useful in order to overcome the fuzziness that has characterised in this regard both the design and the implementation of EU social policy, where, as we have seen, efficiency is often used as a motivation for the policy itself.

Efficiency is defined here as the achievement of full capacity or potential, i.e. the value of output that, given the immobile resources of a place, would be achieved if all the economic and institutional opportunities were exploited: it is the definition often implicitly used in the EU policy debate and similar to the one chosen in the context of the already mentioned World Bank reporting activity⁴⁹. It is also the definition best suited to describe one of the main objectives of EU cohesion policy: to promote growth in areas with unused potential. Promoting efficiency and promoting social inclusion can be considered as two ways to enhance well-being: the former concerns overall or average well-being, the latter refers to minimum standards or to some measure of interpersonal inequality. Faced, for example, in one area with a level of well-being (namely of per capita income) significantly lower than those of other areas with similar potential, a policy, namely cohesion policy, can either aim at raising the overall level of capacity utilization (efficiency) of the area, or can aim at improving social inclusion within the area. The relevant questions then are: What are the linkages between social inclusion and efficiency? How big is the space where social inclusion policy can also improve efficiency? When does a trade-off arise?

Two sets of linkages exist: one leads to synergies; the other leads to trade-offs.

A first synergy is linked to the fact that the very same factors responsible for a social inclusion trap can be responsible for an “inefficiency trap”, i.e. for a persistent underutilization of overall capacity. In the same way in which the intergenerational transfer of circumstances, past outcomes and endogenous policies (chosen by elites for distributive reasons) can “reproduce” in time a similar distribution of opportunities and outcomes, they can also keep overall outcome down. This effect can take place since the effort that people put into achieving higher outcomes also depends on those three factors - circumstances, past outcome, current policy – and it can then be depressed by “exclusion”.

⁴⁹ See again Bourguignon et al (2007), p. 240.

The classic example is education. The persistence of high social exclusion in education – if the (policy for) schools does not make up for it – reduces the utilization of the potential intelligence of the less educated and can negatively effect growth. Or, as suggested by a large literature⁵⁰, with imperfect capital markets high income inequalities tend to produce under-investment in human capital by those who lack the means, thereby both increasing inequalities and reducing investments in human capital and growth⁵¹. In a similar way, the intergenerational transfers of the control of firms or of any tacit managerial skill specific to some tasks, by excluding all the others from this advantage, can depress their incentive to make the most of their skills⁵²: inequality and inefficiency can go together. The depression of people’s capacity to aspire, owing to the persistence of some social norms, also produces negative effects on their innovative capacity and on productivity.

In the more macro-oriented debate, a similar positive macro-linkage between social inclusion and efficiency is known as the “market-strengthening linkage”, often employed in the European debate. It is argued that social policy should be seen as a way of enhancing efficiency via market strengthening or by improving people’s human capital or “civiness”. This view is clearly expressed in the March 2008 EU Joint Report on social protection and social inclusion process⁵³.

A second similar synergy is provided by the fact that social inclusion policy interventions aimed at strengthening the awareness or the capacity of local communities (of both public and private agents) can also promote the shift of internal political equilibria towards reform groups that are interested and willing to promote agglomeration effects that increase the incentive of local persons to increase their own effort.

A third synergy has to do with the possibility that high social exclusion directly or indirectly disrupts markets and prevents market-friendly policies, a “market-compensating” view of social policy, again widely employed in the EU debate. In particular, a high level of inequality is seen as the cause of social-political instability that disrupts economic and labour relations and rises uncertainty⁵⁴; it is also seen as the cause of redistribution policies which can reduce incentives to invest⁵⁵. As we have seen, these arguments have been used in Europe to advocate a stronger EU social agenda in order to prevent increased social exclusion from jeopardising the economic integration and monetary unification: this is made even more compelling – it is being claimed – by the constraints that EU budget rules are putting on national welfare budgets.

A further argument to support this market-compensating reading of social policies is made by those who argue that social interventions are necessary as part of a pro-active labour policy in order to soften workers’ resistance against rapid shifts of resources

⁵⁰ See for example Picketty, T. (1995).

⁵¹ This is the case unless very special assumptions are made.

⁵² Lack of the specific skill will make one less indispensable and less able to command a share of the returns, which, in turn, will reduce his/her effort. See Hart, O. and Moore, J. (1990).

⁵³ It is argued that “well ... designed social inclusion policies are productive factors” and that addressing the social inclusion of children “helps the future generations develop their full potential hence enabling them to contribute more to society and to economy”.

⁵⁴ See for example Alesina, A. and Perotti, R. (1996).

⁵⁵ See for example Benabou, R. (1996).

between sectors and between firms that are in turn required by innovation. Social transfers are seen as a tool to foster innovation, a role that would be amplified in Europe, compared to the US, by the inefficiency of European capital markets.

Under all these three perspectives, the same policy that aims to break the vicious circle of social inclusion can also have a positive effect on efficiency. But whether the conditions hold for this to be the case depends on specific situations. The impossibility of drawing any generalised conclusion is strengthened by the fact that a second set of linkages exists that can give rise to a trade-off.

First of all, greater social inclusion, even putting aside its macro effects (through higher taxation), changes the balance of negotiating power among all parts and is likely to make some people worse off and reduce their effort. Greater competence, less short-term pressure to get the means necessary to satisfy basic needs, greater self-confidence, all these effects of greater social inclusion increase the power of beneficiaries in the negotiation for the share of their return from effort, and will eventually reduce the share of the previously more advantaged persons, therefore reducing their incentive to make an effort. The overall effect on efficiency depends on whether the gains from the higher effort of some are greater/smaller than the losses from the lower effort of others. It can be argued that in really backward situations where the “empowerment” of the majority of people is meagre, and in situations where high negotiating power is held by “rentiers” the efficiency gains from an inclusive policy are more likely to exceed the losses, while more likely net negative effects should be expected in the short term than in the long term. But once again these are matters to be settled case by case by empirical analysis.

A second negative trade-off can emerge from the fact that, as argued before, it is operationally not possible to go very far in separating circumstances and efforts, i.e. the features of one’s life according to whether they depend or do not depend on one’s will. As a result of that, it can well happen that in the task of addressing the circumstances that cause disparities or the failure to enjoy essential standards, policy ends up reducing the incentive for effort, therefore reducing efficiency. In this case too the extent of the trade-off can be assessed only empirically, case by case.

Third, even if a given policy for social inclusion has a net positive effect on efficiency, it might well not be a satisfactory policy for efficiency, i.e. a better way would exist to use public financial resources if efficiency were the aim. This point can be clearly exemplified with reference to EU cohesion policy, where both efficiency/greater capacity utilisation and equity/social inclusion can be pursued. It can often be the case, both in backward and less backward areas, that a feasible strategy exists that can strongly build on the comparative advantages of an area by promoting a smaller, innovative and potentially very productive group of people with the possible result of not reducing significantly or even increasing inequality, at least in the short-medium term. From the point of view of social inclusion, this strategy is obviously inferior to a strategy that, by having a stronger effect on inequality, is less effective on efficiency.

This cursory view of the linkages between social inclusion and efficiency suggests three clear lessons.

First, whether a policy for social inclusion is also efficiency-enhancing depends on the balance of synergies and trade-offs, that in turn depends on specific contexts. No relation can be taken for granted and empirical investigation must every time be conducted to

monitor the relation. This is a further reason to make sure that adequate impact evaluation always accompanies experimentalism in this policy area.

Second, the policy objective – social inclusion – should be very clearly identified and not confused with efficiency. The two objectives can lead to different interventions and policy effectiveness, the quality of public debate and the learning process (so important in a context of high information incompleteness) require clarity on what the policy purpose is. Even if a social inclusion agenda were to be adopted with an efficiency motivation in mind – according to a market-strengthening or a market-compensating perspective - policy choices should be made by having as a reference only the social inclusion objective *per se*.

Third, a policy aimed at regional convergence, i.e. at reducing the income disparities among regions, even if successful, can easily miss both efficiency and social inclusion. It can miss efficiency, because it might well obtain convergence, not through a higher capacity utilisation of lagging regions but by hampering the utilisation rate of the best-performing regions. It can (likely) miss social inclusion because the reduction in the disparities of the average income level might well be accompanied by an increase of the within-region inequalities.

V. Using cohesion policy to build a place-based agenda for social inclusion in Europe

The analysis carried out in the previous sections provides the conceptual ground for the proposal that social inclusion should become, together with efficiency, a central and explicit objective of cohesion policy. The present situation in which a significant share of European citizens are excluded or fear exclusion from a fast-changing economic, social and cultural life and the threat this poses to the sustainability of the European Union demands it. Progress made by the Process of Social Inclusion in developing a workable framework offers the conditions for the proposal to be undertaken. The conceptual clarification has now suggested that a policy space in which a place-based (territorial) approach prevails is the appropriate space for pursuing a social inclusion agenda, as well as providing some clarification on how it should be done.

It is claimed here that a significant volume of cohesion policy resources should be used to implement a “social inclusion policy” aimed at progressively guaranteeing socially agreed essential standards to all European citizens (and then addressing the issue of interpersonal disparities), along the lines sketched in the previous sections. To this end, the full potential of the methodologies, practices and data on social inclusion developed in the context of the Open Method of Coordination should be exploited⁵⁶, and key changes should be introduced in the design and governance of cohesion policy.

Before outlining these operational issues, though, it is useful to provide clear-cut answers to the following two questions. Why should the EU go beyond the Open Method of Coordination and pursue directly, through its budget, a social inclusion policy? Why is cohesion policy a suitable “house” for an EU social inclusion policy?

⁵⁶ In the 2008 Communication “A Renewed Commitment to Social Europe: Reinforcing the Open Method of Coordination for Social Protection and Social Inclusion” the Commission argues that OMC in the field of social protection and social inclusion should be reinforced to make “full use of [its] potential”.

There are three closely connected reasons why the EU should have direct, financial responsibility in combating social exclusion traps, rather than limiting its function to the “moral suasion” of the Open Method of Coordination and leaving the role of “exogenous actor” to Member States

First and foremost, the mission of social inclusion is *inherent in the present stage of the European Union*: social inclusion must be addressed at the same scale level at which markets (of labour, capital and products) are integrated. The current situation where the EU has sovereignty over markets and liberalisation, and Member States have sovereignty over welfare is becoming increasingly unsustainable. A basic consideration of political economy suggests this. European citizens attribute to the direct action of the EU – and are often encouraged to do so by national politicians, eager to turn necessary institutional changes into external constraints - the mobility of people, increased competition, pressure on national budgets, with all their effects. For the legitimacy of the EU to continue those choices, European citizens must also see that effective action addressing their fears comes directly from Europe. The EU cannot allow social inclusion to be inadequately increased; if the OMC fails to increase it adequately (as it has) the EU must address the matter directly.

But the option of transferring to the EU the sovereignty for welfare interventions is unfeasible. The existence of cultural diversity and of strong national aspirations and models, as well as the lack of enough political legitimacy of the EU level of government, make this step impossible.⁵⁷ An EU place-based development policy can allow to overcome this situation. It can allow the EU level to set the general strategy, the priorities and the overall objectives and to supervise and promote actions aimed at results and learning. It can allow the national and regional governments to adapt the strategy and objectives to specific aspirations and institutions and to select projects. A truly place-based European policy could allow the EU to move beyond the obstacle which other more traditional space-blind social policies cannot overcome: the “wide heterogeneity of economic circumstances and social traditions across the EU”⁵⁸, that prevents (and will prevent for a long time) Member States to converge on any specific, single model of welfare.

A closely connected reason for a direct role by the EU has to do with externalities. The effectiveness of interventions in one Member State often strongly depends on appropriate interventions in other Member States. Serious failure to address social inclusion in one country can spill over to other countries, in particular through the free movement of people, in which case mobility fails to be a way through which single people find conditions more appropriate to their features, and becomes the source of increasing social tensions. A *coordinating role of the EU* is called for.

The third reasons for the EU to directly tackle social inclusion through a place-based approach is the comparative advantage of the EU in terms of *credibility*. The distance of EU-wide institutions from local contexts of individual Member States enhances EU credibility (compared to that of Member States) in playing a truly “exogenous role” in dealing with local social exclusion traps. With the EU playing a direct role, if this role is exercised thoroughly, less risk exists of interventions being captured by the local elites that might be responsible for the existence of the trap, or by new rent-seekers.

⁵⁷ See Sharpf, F.W. (2002) and D’Antoni, M., Pagano, U. (2008).

⁵⁸ See Bertola, G. (2007).

Furthermore, the complexity and the sophistication of the methodologies and skills required by social inclusion policy, while calling for good capacities at local and national level, also call for a *competence centre at global level* where measurements are validated, cross-country analysis and the comparison and diffusion of experimental interventions take place and general competences can accumulate and be used by all players. EU could aim at playing this role.

The fact that the EU has strong justifications for running, by means of its budget, a place-based social inclusion policy does not necessarily mean that the EU has the capacity to play this role. But, it is argued here, the competence that the EU has accumulated in the Open Method of Coordination and the untapped potential of cohesion policy could allow the EU to fulfil those functions. Let's consider these two aspects.

The methodology accumulated in the Social Inclusion Process

In playing a more direct role, the EU can take stock of the progress in methodologies and information that has accompanied the Social Inclusion Process, which is largely untapped.

This progress is clearly outlined in the volume “The EU and Social Inclusion” (by Marlier, Atkinson, Cantillon and Nolan)⁵⁹ and it can be briefly summarised as follows:

- The *multidimensional* nature of social inclusion calls for a measurement of both standards and inequalities with reference not only to income but to a large range of indicators representing the multiple dimensions of well-being. A *system of comparable indicators* across Member State has been built (the now-revised Laeken indicators⁶⁰) which aims to be “comprehensive” and “balanced” and covers the areas of: income, labour, education, material deprivation, housing and health. Indicators are mostly “objective”, but other sources on “subjective measures” exist⁶¹.
- The selection of the *indicators* has complied with the set of *requisites* previously anticipated (see section II), and ideas have been developed on how to move forward⁶²; the data for these indicators are now provided through Eurostat (EU-Community Statistics on Income and Living Conditions – SILC) mostly on the basis of sample surveys. The choice of the indicators has strongly reflected the main purpose of the exercise which is cross-country comparability, essential for the way the Open Method of Coordination and its reporting activities are built; but the collection of data by each Member States encourages them to strengthen the capacity to describe and analyse their situation.
- The view has consolidated that, in assessing disadvantages, reference must be made not only to *national standards* but also to the *standards of the EU as a whole* (EU-wide thresholds), at least as background contextual information of which policy action

⁵⁹ They are also reflected in the First European Quality of Life Survey.

⁶⁰ The revised set of Laeken indicators which are currently used in the OMC include: 11 so-called primary indicators at national level (poverty risk, labour conditions, education, housing, health, material deprivation, etc); 3 secondary indicators (a breakdown of poverty risk by persons' features; more on education); 11 context indicators (mostly measures of income and labour inequality).

⁶¹ See the First European Quality of Life Survey.

⁶² For details see below.

must take notice; EU citizens, in setting their expectations and perceiving their rights, first refer to their own national societies, but also increasingly take into account “European society” as a whole. This will increasingly be the case the more and the longer markets and currencies are unified. The actual spread of living standards across EU countries is very strong, with “the rich in the poorest countries [being] objectively as badly off, or worse off, than low or middle income groups in the richer countries and [feeling] accordingly”⁶³: this situation is likely to produce mounting pressures.

- The role of the *sub-national dimension* is strongly recognised, i.e. that disadvantages should not be measured only for Member States as a whole but also for each sub-national areas, given the very strong territorial concentration of inequality that exists in Europe; but due to data availability the revised Laeken indicators currently include only regional disparities in employment rates.
- On a more strategic ground, *impact evaluation*, *mobilisation of actors* and *mainstreaming* are strongly advocated. It is argued that, by developing an appropriate system of measuring and reporting, the concern for social inclusion should influence public interventions in all sectors. For that to happen, first a systematic practice of impact evaluation must be developed, second policy beneficiaries and the public at large must truly be mobilised. If that happens, systematic knowledge of how different interventions impact on social inclusion can be built up: by feeding this back to policy-makers and the public, permanent effects can be aimed for.

These views, and the system of indicators which has been built, can now represent a starting point in bringing together the social and the place-based agenda in the context of cohesion policy.

Coming now to the second question: what has cohesion policy in its turn got to offer a policy for social inclusion?

⁶³ This is the results brought to light by the First European Quality of Life Survey, p. 36.

The potential of cohesion policy and the need for change

First of all, cohesion policy is a well established EU policy with a significant financial endowment and with “equity” as one of its two historical missions. Second, a large share of cohesion policy consists in the provision of *public goods and services*, i.e. in the kind of interventions that a policy for social inclusion requires in order to address in every context the specific circumstances affecting social inclusion. Third, cohesion policy is inherently, at least in its intentions, *place-based or territorial*, i.e. its whole framework is geared, or at least should be geared, towards taking into account the conditions of “places”. Fourth, one of the common “mantras” of cohesion policy – often ignored – is that public goods and services should be designed and delivered in each place in *integrated territorial bundles*, a proviso that squares with a strategy of social inclusion which combines interventions concerning several dimensions of well-being according to observed circumstances. Fifth, cohesion policy is based on the *co-financing of national and regional strategies*: this is particularly suitable in fields - those of the production of public goods and services directly relevant for people’s well-being – which definitely fall (and in any foreseeable time ahead will fall) under the competence of national or regional governments (according to constitutional arrangements). Finally, the main features of the *governance* that should characterise cohesion policy - partnership and mobilisation; a strong system of indicators; evaluation and learning, etc - fit well with the requirements of a place-based policy for social inclusion, as suggested by the previous sections and by the principles developed in the OMC process.

All these features make cohesion policy a suitable base for a territorialised social agenda. But cohesion policy definitely falls short of its potential. Several of its general principles do not translate satisfactorily into actual practice on the ground⁶⁴. It is therefore the case that in order to use cohesion policy to pursue a place-based social inclusion agenda, significant changes must be introduced. Let’s consider four areas of change: a) the selection of policy priorities; b) the choice of indicators and standards together with impact evaluation and actors’ mobilisation; c) the choice and allocation of resources to territories and priorities; d) the other key features of the governance: conditionalities, Commission role and a high-level political debate.

Very few policy priorities: criteria for choice and the options of “children” and migration

A first move to be made in the realm of cohesion policy is to implement a real mainstreaming of social inclusion. In all the main fields of cohesion policy – starting with interventions in employment, but also transport and water infrastructures, environment or energy – a social inclusion assessment must be carried out for interventions made in these fields. In particular, in designing appropriate evaluations of their impact – a policy area that requires decisive strengthening - attention must be paid to the impact on inequalities, especially for those dimensions of people’s well-being which are more likely to be affected by them. This is relevant in the attempt to make social inclusion an ordinary aspect to examine and to debate publicly in all policy fields.

⁶⁴ On this issue see the general Report of which this note is an Annex.

But a substantial step forward can be made only if a significant share of the resources of cohesion policy is directly allocated to co-finance the achievement of the social inclusion objective in some clearly defined areas which are close to the preoccupation and interests of EU citizens. How to select a few priorities?

In a fully comprehensive policy for social inclusion, all the most pressing issues relevant for social inclusion could be tackled at once. But the EU budget is very limited, cohesion policy is only a share of it and social inclusion can realistically aim at securing only part of this share. Furthermore, the capacity is limited to building up, at EU and Commission level, the highly specialised human capital that is necessary to run such a policy all over Europe and actually add value. One could thus proceed as follows. A very few priorities – one or two - could be selected on which to concentrate a given earmarked share of cohesion policy resources: the EU would acquire responsibility and high visibility in the co-production of clearly identified “EU public goods”. The EU and the Commission would set the conditions for the use of earmarked funds and would “specialise” in these priorities, accumulating expertise and gaining credibility. As for the Member States, it would be entrusted to them, in agreement with their Regions (according to national arrangements), to choose both which of those European priorities to focus on (with the earmarked resources), and whether to invest other cohesion policy resources on other social inclusion priorities.

In the choice of the EU-wide priorities, different aspects should be taken into account: their EU-wide relevance, especially in terms of the issue being the object of unsatisfied expectations by European citizens; a converging political interest by Member States; the extent by which addressing that priority requires a place-based approach; the verifiability of results.

The definition of priorities could be *policy-based*, with reference to the different categories of public goods and services whose production addresses different dimensions of well-being (education, health, housing, etc). Alternatively, it could be *issue-based*, with reference to the different challenges which are relevant for European citizens (demographic changes, migration, etc). Choosing the first option would have the advantage of specialising the EU level in some clearly defined and measurable services. But its sectoral nature would betray the very premise on which a place-based approach is based: that the different dimensions of well-being are interdependent and that improvement in any dimension requires interventions in a range of public goods and services. Choosing the space of types and problems is preferable.

The choice of priorities should emerge from a high-key political debate involving Member States, the EU Parliament and the public at large. Here, as an example, the case for migration is briefly considered, which has already been at the centre of the EU debate.

Migration

One strong candidate is represented by “migration”, an extraordinary challenge for Europe. Migration into Europe and within Europe is driven both by a supply push and by a demand pull⁶⁵. The supply push come first from the differences in economic possibilities, income, quality of life and demographic trends between Europe and other world regions. It also comes from the very wide disparities of earning possibilities existing within Europe. On the demand side, together with a demand for specific skills, two more factors are at work: a generalised and increasing lack of labour force linked to demographic trends; the attempt of local European producers (in the agricultural and other traditional sectors) to withstand global competition by means of overly low salaries and working conditions that can be offered, sometimes illegally, to “labour from abroad”.

These migration flows, while representing an important life and economic opportunity, constitute a challenge for all the three categories of people involved. For the *people who migrate*: greater earnings can be accompanied by accelerated learning, more freedom and sometimes life chances. However, with the exception of high professionals and, partly, of skilled labour, they often find themselves in a weak position in the labour market, are forced to settle in disadvantaged (if not segregated) areas, might have problems in accessing public services and private services based on trust relations (such as credit), and are likely to bear the brunt of the fear of local residents. All these factors amount to less freedom. For the *people of the areas where migration inflows concentrate*: although some (or most) members of the community take advantage of cheaper labour, and some might feel enriched by the change, social services might get strained and infrastructures become inadequate, the general wage level might be pushed down, while some (or even most) members of the community might feel their identity and “values” threatened by change. For the *people of the areas mostly affected by migration outflows*: although some members of the community might benefit (sometimes greatly) from remittances and members might sometimes benefit from new knowledge and “values” injected by those who have migrated, social services might be discontinued or curtailed due to population reduction, and the potential of the area might drop due to the downward spiral that might be triggered in the demographic trend and in the “mood of the place” when a very high share of migrants is made up of young people.

The EU is considered by many European citizens as somehow responsible for these flows. Member States are willing to externalise national decisions; policy choices by any given country in the field of migration and their effects strongly depend on the policy choices of other EU countries.

⁶⁵ This point and the following ones were made by Papademetriou, D. and Zincone, G. in UniCredit Venice Forum 2008 “Migration from a national, European and global perspective”.

At the same time, there is strong pressure to deal with this issue in a country-specific way, especially in regulating flows and coping with integration. This political stance is due to the fact that the economic needs and preferences of countries and regions strongly differ in terms of required competence and place of origin, while radically different country- or region-specific cultural heritages push for different approaches (especially to integration). The challenges that migration represent for the identity issue is perceived and dealt with in many different ways. This situation, which is not likely to change in any foreseeable future, explains why the EU-wide debate and effort have led only to limited results: on legal immigration and the relations with third countries, on a common broad denominator (in the 2003 directive), and, through the European Pact on Immigration and Asylum (adopted by the European Council in October 2008), on controlling illegal immigration, making border controls more effective, constructing a Europe of asylum and creating a comprehensive partnership with countries of origin and transit. “There is no consensus in Europe about migrants’ entitlements or their integration into society”⁶⁶, and in particular on whether the equal enjoyment of rights by all might legally require differentiated treatments⁶⁷.

One similarity exists, though, across EU countries. Citizenship is *de facto* defined by the accessibility of people to basic services (education, health, public transport, etc); the arrival of “outsiders” puts this system under stress and causes the fear that this might threaten the quality or the continuation of these services. Adjusting them to the new situation in order to promote the inclusion of new-comers (allowing for their diversity) and prevent the exclusion of the existing users is a task common to all EU countries.

For the EU to respond to the mounting expectations in this field and to actually add value to immigration policy all over Europe, a strategy is called for that combines: a) coordination among Member States, so as to reap the benefits of externalities; b) a tailor-made approach whereby some general guidelines are enacted in different ways in different countries (or regions) and in different places (cities, rural areas, etc). A social inclusion policy enacted through cohesion policy could respond to these requirements by addressing the inequalities of opportunities and the failure to achieve essential standards which are linked to migration. It would do so by co-financing public goods and services according to strategies designed at national level and agreed with the Commission. It is a policy on which all countries and regions could agree, since the cohesion policy framework could allow it to be implemented in a way that is highly tailored to places.

An EU-wide social inclusion policy aimed at the issue of migration should address at the same time the problems of the four different categories of people mentioned above: the potential inequality of opportunities of migrating people and the limits in their access to socially acceptable essential levels of services; the falling behind or the fear of falling behind of people in the areas where inflows take place; the unequal opportunity to make informed choices by the people who are considering migrating; the falling behind or fear of falling behind of people who “stay behind” in the areas where outflows take place.

⁶⁶ See Report for the Council of Europe (2008), p. 23.

⁶⁷ See the ruling of the European Court of Human Rights as quoted by the Report for the Council of Europe (2008), p. 48.

For all these categories of people, cohesion policy could promote social inclusion by conditionally co-financing projects coherent with national strategies, making the most of the pillars previously mentioned: a) an *integrated approach* by which a bundle of public goods and services is promoted in each relevant place, addressing the dimensions of well-being most affected by migration; b) a *participatory approach* (characterised by an effort to ensure equal opportunities for participation) to allow people's preferences and competences to come to the fore on what to do and how; d) a strong advising/steering role of a *skilled technical policy community*, with both a horizontal network of local and national policy-makers and a strong EU "competence unit"; e) a *multi-level governance* aimed at continually reconciling the needs of tailoring interventions to places and of coordinating them and giving them European credibility; f) a cautious *experimental approach*, supported by recourse to prospective impact evaluation, in order to expand the limited understanding we have of the effectiveness of interventions by starting up a learning process.

Whatever the choice of priorities, a decision would have to be taken on whether to address policy solely towards the goal of promoting accessibility to essential standards or towards both this goal and the goal of reducing interpersonal disparities (thus including people who are above the essential standards). The advantage of the first option is that it responds to the most compelling needs and that, once the essential standards are defined (see below), the design and the monitoring of the policy is facilitated. An option would be to leave this choice to Member States. But a very clear-cut and publicly debated distinction must anyway be made between the two goals.

Indicators and standards, impact evaluation and mobilisation of actors

The use of *indicators* in a policy whose main goal is to increase the share of people who do not "fall behind essential standards" in a multidimensional space⁶⁸ is obviously central. It is only by measuring indicators and setting the standards that the policy can be designed, implemented and monitored. Obviously one encounters all the traditional limits of the use of indicators. Three are particularly relevant here. First, there is the risk of capturing only very partially – however "comprehensive" the search has been – the dimensions of well-being under consideration, measurability being the main constraint, therefore creating a bias in the policy. Second, there is the risk of choosing indicators in a top-down way, without embodying local information and measuring what is considered to be relevant by actual preferences. Third, there is the risk of interpreting changes in the indicators which have taken place while policy was being implemented as signals of the policy impact, while this is obviously not the case, the condition of *coeteris paribus* never holding. All these risks are commonly incurred by cohesion policy.

⁶⁸ Even the interpersonal goal is defined in relation to indicators.

Similar problems are incurred in setting *standards*, the “essential standards” for the different dimensions of well-being⁶⁹. First, when standards are set with reference to given indicators and are turned into policy targets, the policy bias mentioned above can become very relevant. This also opens up the ground for political manipulation. Second, the standards should reflect, as the definition of social inclusion stresses, a social agreement reached through a “participatory and fair process”: this requirement is hard to respect, and standards might well be set top-down and be quite far from actual preferences. Third, standards can be context-dependent (as for the requirements of housing according to climate): standards sometimes need to be adjusted according to context.

Mobilisation of actors and impact evaluation are concrete ways to tackle these risks.

Impact evaluation, possibly run through counterfactual methodologies, is the only way to properly investigate effects and to avoid misinterpreting indicators; and mobilisation of beneficiaries is the only way to make the results of impact evaluation be demanded and used. At the same time, mobilisation is also the way that first, local knowledge and preferences can be taken into account in the choice of indicators and standards; second, new place-specific indicators can be developed and standards can be set; third, pressure can mount to change established indicators and standards. Mobilisation and impact evaluation can together keep a check on the damaging effect of indicators not being truly comprehensive, by showing these damages, pressing for change in the indicators and complementing the indicators with qualitative assessments of “what really happens to deprivation in a given dimension”.

Indicators and standards, impact evaluation and mobilisation of actors represent then the three components of a dynamic process that never comes to a standstill, from the moment a new policy is implemented and new knowledge is produced. Improvement and results don’t come then through a process guided by one holistic subject, but rather through the interaction and possible conflict of different views. In this dynamic process all three components must be skilfully guided.

The *system of indicators* represents the “hardest” component of the triangle. A set of core indicators needs to be set that responds to the requisites designed for the Laeken indicators: the capacity to “capture the essence of the problem” and to have a “clear and accepted normative interpretation” (i.e. that “a movement in a particular direction ... is a positive outcome”); robustness and statistical validation; responsiveness “to policy intervention but not subject to manipulation”; being “timely and susceptible to revision”⁷⁰. Improvements to be made in this system of indicators are pointed out by Marlier et al (2007), which can be of great use in the context of cohesion policy: a) introducing a regional – one should add sub-regional - breakdown for as many indicators as possible, perhaps through greater recourse to administrative data; b) upgrading comprehensiveness (for education, housing, health, and income itself); c) increasing coverage of dimensions; d) promoting their use both by the community of “independent researchers” and the public at large.

⁶⁹ Once again similar problems exist in addressing the interpersonal goal, since targets must also be set.

⁷⁰ See Marlier et al 2007, pp. 40-42.

All these necessary improvements refer to a system of indicators whose main purpose is cross-country comparison. While there is no doubt that, in pursuing a social inclusion priority, cohesion policy should use and develop such a system, it is also clear that, in the context of cohesion policy, the scope for every country to develop additional national indicators grows wider – as already envisaged in the context of the OMC. But the opportunity and the need also arises for regions and communities to do the same. The scope for bottom-up design is obviously greater. The experience of many developing countries shows that this approach is feasible, that it can be integrated with the use of a few indicators used on a broader spatial scale.⁷¹ Similarly, a policy space at national and at local level must be promoted whereby national standards are developed. The promotion of these contributions should be a priority in policy implementation and a EU system of validation should be guaranteed to ensure for all indicators the requisites mentioned before. The feedback between the local and community level and the EU-wide level and the debate over core and community-based indicators would promote a comparison among levels of opportunities and outcomes in the different dimensions and would be part of the very process of determining what the socially agreed essential standards are.

The design of a reliable but flexible and mixed system of indicators is strongly linked to the design and implementation of a successful *mobilisation of relevant actors*. On this issue some ideas stem again from the experience of the OMC.

Marlier et al (2007) observe that, in spite of the annual Round Tables on Poverty and Social Inclusion and other steps, the EU strategic approach “still often appears far removed from what is happening on the ground” (p. 231). A greater involvement of the bodies representing both EU and national level social interests and horizontal citizens’ interests, including NGOs, is clearly necessary, pursuing the mandate of the 2002 European Council “to mobilise all relevant bodies”. But this should be a tool to achieve the ultimate goal of mobilising the potential beneficiaries of the policy in every place targeted by the policy itself. Conditions should be created for them to actively participate in the policy process, both in identifying place by place the most relevant dimensions to address and the way to measure them, in designing interventions and in assessing their effects. In order to move in this direction, Marlier et al (2007) suggest taking into account the experience of some pilot and demonstration projects of the ‘70s and ‘80s Poverty Programmes: They were small in scale and highly place-based, and succeeded in strongly involving local actors.

The requisites for achieving the goal of mobilisation should be identified and Member States should commit to them in agreeing on EU co-financing (see below). But the Commission should also undertake the task of directly raising public awareness and mobilisation by organising high quality forums, workshops, “conventions” in every country and in places where the priorities are particularly relevant: information and data should be analysed and debated and policy options and results should be presented and compared. These actions would greatly benefit from a well-organised participation of representatives of policy-makers and beneficiaries from other countries where similar problems are being addressed: this methodology is already part of the toolbox of cohesion policy, but is definitely underused and it has not so far relied, as it should, on a permanent think tank of experts in the priority at stake in the Commission (see below). In

⁷¹ See the working-paper by Alkire, S. and Sarwar, M. annexed to the Report, with particular reference to the case of the Philippines.

addition to that, the design and implementation of impact evaluation of as many local projects as possible, where beneficiaries would be strongly involved, would also make mobilisation stronger and concrete.

Prospective impact evaluation is the third pillar to be developed and widely applied. The idea is to submit most of the social-inclusion projects co-financed by the policy to impact evaluation, run as much as possible through counterfactual methodologies, i.e. by somehow estimating a benchmark of what would have happened had the project not been undertaken⁷². This evaluation should not be designed and implemented *after* the interventions are implemented, but it should rather be prospective, i.e. it should be designed while the objectives are being identified and the policy is being designed.

This is the way to make full use of the knowledge of independent experts in designing the methodology, to ensure that both beneficiaries and policy-makers know what the objectives are, considering the very strong risk that they “get lost” in the complex process of local partnership, and to design the policy and data collection in such a way that ex-post impact evaluation can actually take place. The learning process triggered by the design of prospective impact evaluation and fuelled by its results can improve policy changes and give rigorous grounding to the mobilisation process. The significant degree of uncertainty and error that very often characterises the results of impact evaluation should obviously be taken into account by never automatically linking any policy decisions to these results, but rather making them part of the policy debate, turning them into a challenge to better understand how to address the priority in any given place. Once again, Member States should commit to the use of this methodology and would be responsible, with regions and places, for designing and implementing it. But the Commission should have the opportunity, the in-house skill and the resources to launch impact evaluations of specific projects whenever it deems fit. And to promote a EU wide public debate on the results.

Allocation of resources to priorities and to countries, regions and places

If one were to abstract from both the path dependency that characterises the allocation of cohesion policy resources to Member States, and from any information constraint, the amount and allocation of resources to priorities, to Member States and to places should be based on the quantitative analysis of the extent and concentration of social inclusion. But abstracting from these two factors is not feasible. In particular, however inadequate the present criteria for the allocation of cohesion policy resources are – largely based on GDP per capita gaps, both at national and regional level – the conceptual and statistical basis for a radically different allocation criteria would be too weak to withstand a debate animated by strong political pressure. Given this constraint one could imagine an allocation mechanism based on the following premises: first, social exclusion clearly affects all areas, including those with an overall high efficiency and standard of living (non-lagging area); second, general backwardness (lagging areas) certainly implies a greater chance of social exclusion; third, the allocation within Member States must be decided, for any priority, at national level according to an analysis of indicators and context and through an open public debate.

Starting with these premises, the phases of the allocation process would look as follows. First, the priorities, the broad goals and the share of resources assigned to social

⁷² See the working-paper by Morton, M.H. annexed to the Report.

inclusion are agreed at EU-wide level and resources are allocated to both lagging and non-lagging areas: in this allocation current criteria and parameters could eventually be integrated by some synthetic measure of social exclusion. Then, after the Commission has turned these decisions into clear-cut strategic guidelines (see below), it would be up to each Member States, through an agreement with Regions and a process involving other levels of government and social partners, to propose an allocation of these resources for social inclusion to priorities and to areas of its country, based on an analysis of data and other available information. The Commission would assist, promote and follow this process, and it would finally have to agree on the country's choices and strategy before they are implemented. This point leads to the final set of key issues.

Conditionalities, Commission capacity and high-key political forum

Changes must be introduced in at least three other key features of cohesion policy governance for it to respond to the requirements of an effective place-based policy for social inclusion.

The first key issue concerns the existence of the conditions for the Commission to play credibly, on behalf of the EU, the “exogenous” strategic role that the conceptual framework calls for. In other words, the governance needs to give the Commission enough guarantees that its resources are used to finance interventions that are as effective as possible and coherent with the strategy. In the framework of cohesion policy this role is played by the “contractual arrangements” that Member States and Regions agree with the Commission in planning the use of the funds: these arrangements are today embodied in the Strategic National Framework prepared at the level of each country and in the Operational Programmes prepared by each managing authority. Whatever the documents where they are undertaken, these contractual arrangements need to be streamlined, simplified and tightened⁷³.

In this context a more effective role should be played both by *ex-ante conditionalities* on the institutional requisites that the Member State must respect for the EU to transfer the funds, and by *ex-post conditionalities* on the actual achievement of results.

As for *ex-ante conditionalities*, for each priority and by reference to the strategic guidelines that the Commission will have previously issued, a Member State would commit itself to a fully-fledged strategy which would include: a) the objectives to be pursued expressed for regional and sub-regional areas and with reference to a set of indicators (including the core EU ones); b) the rationale for this choice with an explanation of how the essential standards were established; c) an allocation of resources to priorities, regions and sub-regional areas (or a criteria for this step); d) the rationale for this allocation in relation to the objectives with reference to the main public goods and services on which interventions will concentrate; e) adjustments in national economic institutions that are deemed to be necessary for the whole strategy to be effective; f) the process through which indicators are measured and revised and standards updated, prospective impact evaluation launched and used, actors mobilisation pursued, as outlined above. The Commission would play a very active role, through a “priority task-force” (see below), in advising, assisting, promoting the choices of the Member States, and in constantly developing the methodological base available in the Open Method of

⁷³ See the Report, chapter V.

Coordination. Once the strategy is prepared, its actual implementation and the EU financing would depend on the Commission's agreeing and subscribing to the strategy.

This system should be accompanied by a system of ex-post conditionalities. The role that setting of standards plays in the policy for social inclusion opens up the possibility for making the policy more results-oriented. Every country should be required to inform the Commission, the other Member States (see below) and the European Parliament through well documented and short yearly Reports on the progress that is being made towards those standards. The political pressure that would come from this system could be strengthened by not fully pre-allocating the resources for the whole budget period. A system should be considered whereby the failure of a country to achieve the objectives originally established can lead either to a reduction of financing for the second period, and/or to the adoption of major changes in the strategy under Commission "supervision".

In order to strengthen the current system, two further changes need to be introduced.

First, *the Commission needs to acquire strong capacity in the core priorities*. The changes that we have envisaged require the Commission to act as a "think tank", playing a leading role in the international arena in the development of methodologies for measuring well-being and social inclusion in a multidimensional space, assess progress, favour debate, give guidance. They also require the Commission to act in a rather discretionary, and therefore technically authoritative fashion as a watch-dog for the implementation of the contract with Member States. These two roles, which could be played under the same roof, with an appropriate "Chinese wall" separating them, call in turn for the selection and training of high-quality human resources specialised in the priorities which will have been chosen, but also completely geared towards a truly place-based methodology.

Second, *high-key political status must be given to the EU-wide debate* on policy results. Such a debate is missing today in the realm of cohesion policy. The quality and the effectiveness of the place-based policy for social inclusion that this note has outlined, by contrast, requires an EU policy space where this high-key political debate can take place; where each Member State must come up with clear and convincing numbers and arguments on how it is spending EU resources, and where each Member State and each democratically elected representative of EU citizens can ask basic questions about the choices and results achieved by each country. If every Member State produced a short yearly Report on its progress towards the agreed targets, the Commission could write its opinion and send the two documents to both a high-key political forum, comprising all Member States, and to the Parliament. The Commission would use the results of the proceedings as the basis for further evaluating its own assessment of how the contracts are being implemented, and to take any necessary action. Compared to the experience of the Open Method of Coordination the debate would more directly and continuously involve the European Parliament and the public opinion.

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