Social Investment Package

COMMISSION STAFF WORKING DOCUMENT

Evidence on Demographic and Social Trends
Social Policies' Contribution to Inclusion, Employment and the Economy

Accompanying the document


Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020

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7. SIZES, COMPOSITIONS AND EFFECTS OF BUDGETS FOR SOCIAL POLICIES: SOCIAL INVESTMENT, PROTECTION, AND ECONOMIC STABILISATION.

The sizes and compositions of social budgets are very diverse in the EU, reflecting the various national contexts, such as different emphases given to the three functions of investment, protection and stabilisation of social policies. Well-designed adequate and sustainable social policies combining these three functions can indeed lead to efficiency gains and notably better employment and poverty outcomes. In the current crisis, social policies have in general provided strong economic stabilisation, though there are signs of it weakening. There are also significant differences among Member States showing potential for gains in the effectiveness and efficiency of social spending, for instance through investing in early childhood education, the use of activating and enabling policies to tackle poverty and unemployment, and the varying modes of financing of social policies.

7.1. The sizes and structure of social budgets

Social systems in EU Member States are very diverse. At EU level, social protection expenditure accounts for almost 30% of GDP, though this varies greatly from around 18% in Bulgaria, Estonia, Latvia and Romania, to as much as 32% in Denmark, France and the Netherlands.\(^\text{118}\)

While all pre-2004 Member States (except Luxembourg) spend at least 25% of their GDP on social protection, all post-2004 Member States spend less than this.

Figure 7.1 — Social protection expenditures in EU Member States in 2010 (% of GDP)

![Social protection expenditures in EU Member States in 2010 (% of GDP)](source: ESSPROS)

The make-up of social protection spending also varies greatly. The largest component is old-age pensions, accounting in 2010 for 11% of EU GDP, or nearly 40% of EU social protection expenditure. The lowest levels are in Ireland and Luxembourg (only around 6% of GDP), and the highest in Italy (nearly 15% of GDP).

\(^{118}\) For more information on expenditure on healthcare see European Commission Staff Working Document – Investing in Health SWD(2013) 43
In the EU as a whole, the second-largest budget item is **sickness and healthcare**, which accounts for more than 8% of GDP (or nearly 30% of social protection expenditure), though it ranges from 4% of GDP in Latvia, Bulgaria and Romania to 12% in Ireland and nearly 11% of GDP in the Netherlands.

Spending on **disability** amounts to slightly over 2% of GDP on average in the EU. In Denmark (where the share of social protection expenditure on health care is among the lowest), the share of spending on disability is the highest in the EU (nearly 5% of GDP), while Ireland (where the share of spending on healthcare is among the highest in the EU) has one of the lowest shares of expenditure on disability (slightly over 1% of GDP).

**Family/child benefits** account for a little over 2% of GDP in the EU on average, ranging from around 1% of GDP in Poland, Malta and the Netherlands to as high as 4% in Denmark, Luxembourg and Ireland.

Spending on **unemployment benefits** is below 2% of GDP in the EU on average and ranges from under 0.6% in Poland, Malta and Romania to as much as 4% in Belgium, Spain and Ireland.

The share of the **social investment function** also differs among Member States. While the investment function covers different approaches under the same umbrella, as highlighted by Morel, Palier and Palme (2012) or Van Kersbergen and Hemerijck (2012), it can be misleading to allocate different types of social expenditures specifically to one of the three functions of social policies (investment, protection and stabilisation), though some types of expenditures are more directly linked to the investment dimension of social policies.
An estimation of the size of social investment expenditure can, for instance, be made using the methodology proposed by Hemerijck (2012), which combines active labour market policies, childcare, education, research and rehabilitation as a proxy for social investment expenditures. In this approach, the remaining social protection expenditure such as old-age and survivor's benefits, unemployment-related benefits and disability benefits, healthcare and housing are gathered in a second category of remaining social expenditures.

These estimates highlight that social investment policies have been put into practice to a different extent across Member States, with levels of more investment-oriented social expenditures being higher than the EU average (7.5 % of GDP) in some continental Member States (BE, FR, NL and AT) and in IE and CY and reaching more than 10% of GDP in northern Europe (DK, FI and SE), also reflecting higher overall shares of expenditures in GDP. In contrast, they are relatively low in some southern and eastern Member States (BG, RO, CZ, EL and SK) and in LU. The related share of more social investment-oriented social expenditures reaches 21 % in EU on average and is higher than 25 % in northern Member States (DK, FI, SE) and in the Baltic Member States (EE, LV and LT) and CY. It is lower than 20 % in EL, IT and LU.
Figure 7.3 — More social investment oriented vs. remaining social expenditures in 2010 (% of GDP)

Note: expenditures are expressed in GDP percentage points (left axis), while the share of more investment-oriented social expenditures is expressed as a percentage (right axis). More investment oriented social policies combine active labour market policies, childcare, education, research and rehabilitation as a proxy for social investment expenditures.

7.1.1 Trends during recent decades

From the mid-1990s until 2007, social protection expenditure in the EU grew in line with rising overall incomes, with the result that its share remained relatively stable. But with the crisis and a sharp drop in GDP, social protection expenditure played its role of cushioning the effects of the crisis, acting as an economic stabiliser. Spending rose significantly as a share of GDP in 2008 and 2009, while starting to decline slightly with the (temporary) recovery of 2010.
On average in Europe, the structure of expenditure by function remained relatively stable (Figure 7.5). In spite of an ageing population, the share of expenditure on old age and survivors remained virtually stable since 1995, while the share of expenditure on family benefits actually increased slightly. The share of expenditure on housing and social exclusion remained very stable throughout. In the period before the crisis, the share spent on healthcare, sickness and disability benefits rose, while during the crisis unemployment benefits, logically enough, accounted for a growing share of spending.
7.2. Social policies have contributed to economic stabilisation in the crisis

Social expenditure is a powerful stabiliser of economic activity as it helps to sustain effective demand during slowdowns and more particularly recessions, primarily through sustaining household incomes (through higher benefits as a response to a decline in wages, and via lower taxes), but also thanks to a lower need for increases in precautionary savings during economic slowdowns.

The cyclicality both of total social protection expenditure and of different types of benefits varies significantly across Member States. Unemployment benefits respond strongly to the cycle, followed by social exclusion, housing and family benefits. Pensions are generally considerably less anti-cyclical, as are sickness and disability benefits.\(^\text{119}\)

7.2.1 Social protection significantly helped to mitigate the impact of the crisis

There is strong evidence of the significant role that social spending played in sustaining gross household disposable income during the 2008-2009 recession in most EU countries.\(^\text{120}\) However, while social protection played an important role in mitigating the effects of the crisis, this role came up against clear limits.

In the first phase of the crisis, social protection played an important role in sustaining household incomes. In the eurozone, net social benefits and reduced taxes contributed

\(^{119}\) See European Commission (2012) Employment and social developments in Europe 2012, chapter 3 (Welfare systems) for a detailed analysis of the stabilisation function of social policies by country, highlighting the diversity of the impact of the crisis and of welfare responses across the EU.

\(^{120}\) See European Commission (2012) Employment and social developments in Europe 2012
positively to the change in gross household disposable income (GHDI) during 2009 and in the first two quarters of 2010 (Figure 7.6).

However, in the second phase, this effect started weakening. At the end of 2010 and during 2011, the contribution of social benefits to the change in gross household income lessened and started being negative, while in the first quarter of 2012 it was positive again. This may have occurred because of the phasing-out of entitlements, along with some improvement in the economic outlook in some Member States, as well as because of fiscal consolidation measures that reduced the level or duration of benefits, or because eligibility rules excluded some beneficiaries from some schemes.121

Figure 7.6 — Contributions of components to the growth of nominal gross disposable income of households (eurozone)

Since the beginning of the crisis, social protection expenditure has gone through two distinct phases, 2007-2009 and 2009-2011, as has gross household disposable income (GHDI, see Figure 7.7). In 2007-2009, cash expenditure increased in all countries covered except Hungary, while in-kind expenditures increased in all except Latvia, Hungary and Bulgaria. Despite this, GHDI decreased in 10 of the 26 Member States for which data are available. The largest declines were observed in Hungary, Estonia and Latvia (between 6% and 15%). Social expenditure was able to cushion the fall in incomes in almost all Member States.

There are significant differences between countries that experienced similar GDP shocks, not only as regards the scale of change in social protection expenditure, but also in the change in GHDI. For instance, while Italy and Finland had similar GDP shocks and increased their cash social protection benefits in a similar proportion, GHDI increased in Finland while it decreased in Italy. In the Czech Republic, spending on cash benefits

increased slightly less than in the Netherlands, but only in the Czech Republic did GHDI rise.

**Figure 7.7 — Change in real GHDI and real social protection benefits, 2007–2009 and 2009–2011 (%)**

Source: ESSPROS and National Accounts

Note: Member States are grouped according to the size of the GDP shock in the initial phase of the crisis 2007-2009.

Social protection has been more effective at sustaining households’ income during the crisis than overall tax systems (Figure 7.8). Between 2007 and 2009, the positive effect of changes in social transfers on GHDI was three times stronger than that of taxes on average in the EU, but between 2009 and 2011, the effects of both were close to zero.

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122 For Lithuania, Hungary, Romania and Bulgaria, GHDI data are only available until 2010. GHDI data for Luxembourg are not available for 2009–2011. GHDI data for Malta are not available. National currencies deflated by HICP, DG EMPL calculations.
### Figure 7.8 — Impact of social transfers and taxes on GHDI in 2007–2011

<table>
<thead>
<tr>
<th></th>
<th>Actual change in GHDI (in %)</th>
<th>Contribution of social transfers to change in GHDI (in pps)</th>
<th>Contribution of taxes to change in GHDI (in pps)</th>
<th>Change in GHDI if social transfers and taxes stayed at 2007 value (in %)</th>
<th>Actual change in GHDI (in %)</th>
<th>Contribution of social transfers to change in GHDI (in pps)</th>
<th>Contribution of taxes to change in GHDI (in pps)</th>
<th>Change in GHDI if social transfers and taxes stayed at 2009 value (in %)</th>
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Source: National Accounts, DG EMPL calculations.

Overall in the EU, social protection expenditure was generally rising until 2009, when retrenchments started, especially in countries most in need of fiscal consolidation. Benefits provided in kind (chiefly services) were affected the most. Cutting or freezing the level of services in areas such as healthcare, training, housing or childcare is likely to have a long-term detrimental effect on the employability of workers and on their capacity to participate fully in society. The more fiscally resilient Member States have been better able to preserve such services. This tends to accentuate the large variations that already exist in the effectiveness of social protection systems across the EU. Nevertheless, further research would be needed to better assess the effectiveness of more investment-oriented social expenditures in weathering the effects of the crisis.

#### 7.3 Adequacy of budgets and the scope for efficiency gains

The size, structure and design of social policies all matter for the performance of welfare systems. Well-designed, adequate and sustainable social policies combining the three main functions of social protection are efficient in reaching social and economic

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123 Data are only available until 2010.

*Actual change in GHDI* is the percentage change in GHDI in the year of interest compared to the first year of the given period.

*Contribution of social transfers to change in GHDI* is the percentage change in GHDI due to changes in social transfers and taxes, calculated as the ratio of the change in GHDI to the change in social transfers and taxes.

*Contribution of taxes to change in GHDI* is the percentage change in GHDI due to changes in taxes, calculated as the ratio of the change in GHDI to the change in taxes.

*Change in GHDI if social transfers and taxes stayed at 2007/2009 value* is the percentage change in GHDI that would have occurred if social transfers and taxes remained at their levels in 2007/2009.
outcomes, and can indeed lead to lower poverty and exclusion and better labour market outcomes.\textsuperscript{124}

There are nevertheless significant differences among Member States as regards the effectiveness and efficiency of spending on social policies, both in terms of both poverty reduction and labour-market friendliness. This suggests that there is room for efficiency gains. Long-term trends suggest that the countries with the highest welfare spending are not those with the highest public debt.\textsuperscript{125}

Building on recent academic work by Anton Hemerijck, it seems that countries with higher budgets for policies that focus more on social investment\textsuperscript{126} and indeed higher total budgets for social policies, are associated with better outcomes in terms of poverty and of employment (Figures 7.9 and 7.10). Countries with higher budgets for more social-investment oriented policies fare better in terms of employment and monetary poverty, suggesting that more investment-oriented social policies may be particularly efficient in raising employment levels and reducing poverty levels.

**Figure 7.9 — Social investment and employment rates (2010)**

Source: Eurostat, DG EMPL calculations.


\textsuperscript{125} See European Commission (2012) *Employment and social developments in Europe 2012*

\textsuperscript{126} The approach taken here derives from the work of Hemerijck (2012) who attempts to measure budgets for social investment by combining the budgets for those policies that have greatest investment focus. He combines budgets for active labour market policies, child-care, education, research and rehabilitation. The analysis excludes rehabilitation due to lack of data. In this approach, the remaining social expenditures contain social protection benefits such as old-age and survivor’s benefits, unemployment-related benefits and disability benefits, healthcare, family benefits in cash and housing benefits.
Indeed, simple regressions suggest that for every additional 1 % of GDP spent on more investment-oriented social policies (as calculated according to the above), the employment rate is around 1.7 point higher, while the link with total social protection expenditures is weaker (0.5 point higher). Conversely, 1 % of GDP spent on more investment-oriented social protection expenditures is associated with an almost 0.6 point lower at-risk-of-poverty rate, while the link to total social expenditures is around 0.2 point.

These very stylised elements suggest that an approach that integrates both social investment and other social protection is needed. For instance, social investment can be particularly effective in improving employability. This in turn creates the prerequisites for further economic and employment growth which will give room for better social policies, therefore reducing risks of poverty in the longer term. Conversely, remaining social expenditures can support people effectively, especially during a crisis.

Further work in terms of analysing the impact of social investment and in particular its cumulative impact on employment and the at-risk-of-poverty rate would be useful. This is because social investments are particularly valuable when they are ongoing and consistent. Social investment leads to a gradual accumulation of human capital in terms of literacy and skill acquisition. This in turn leads to high-quality employment being created in growing economic sectors.\footnote{See Nelson, M and Stephens, J.D. (2011) ‘Do social investment policies produce more and better jobs?’ in Morel, N; Palier, B; and Palme, J. (eds.) Towards a Social Investment Welfare State? Polity Press.}

7.3.1 Early intervention and breaking the transmission of disadvantage

Intergenerational disadvantage can be explained by a range of factors. As discussed earlier, children in low-income backgrounds earn lower incomes later on in life. Environmental and cultural factors also play important roles in outcomes for children. Most of the factors influencing intergenerational disadvantage are linked to the main actors responsible for investing in children’s upbringing, namely parents, whose socio-economic status has a strong influence on their capacity and resources to invest in their children, governments and other social institutions.
Intergenerational mobility appears to be highly influenced not just by the degree of investment in children, but also by the rate of return on this investment, which is highest in the very early years of childhood. Recent developments in neuroscience have further emphasised the determining influence of investment in pre-school years (especially before the age of three), during which most of the essential cognitive and social skills are formed. These years appear to be those with the highest rate of return on education achievement and overall human capital investment in children, especially through health and education intervention. Benefits for children from disadvantaged backgrounds are even more marked.

Results from the OECD's PISA assessment of students at age 15 show that, for most countries, students who have attended pre-primary education do better than those who have not. This strongly suggests that early education can improve education outcomes and overall skill levels later on in life. This has profound consequences in terms of human capital stock and overall labour force competitiveness.

Figure 7.11 — Influence of pre-primary education policies on PISA results, 2009

![Figure 7.11](image)

Source: OECD (2012)\(^\text{128}\)

There is, however, a large divergence between some EU countries in terms of investment and participation in pre-primary education. For instance, enrolment in education at the age of four is 100% in France, while only slightly over 50% in Greece. While there has been a trend among Member States and OECD countries in general to increase enrolment in early education between 2005 and 2010 (such as FI, DK, DE, SI, EE, AT, and PL) there has been a worrying decline in some Member States (EL, CZ, IT).

Better investment in children can also contribute to significant savings in the longer term, since the public expenditure needed to correct the consequences of childhood poverty throughout a person's life-span is significantly higher than that necessary to improve their life chances by support provided during childhood.

Source: OECD (2012)\textsuperscript{129}

\textsuperscript{129} OECD (2012) 'Education at a Glance 2012' table C1
7.3.2 Lifelong learning, training and up-skilling to improve outcomes in adulthood

As shown in Section 6.3, education has a major influence on risk of unemployment. Apart from initial educational attainment, training, lifelong learning, up-skilling and training measures (either while employed or unemployed/inactive) can boost positive transitions on the labour market. Measures to improve employability are particularly relevant in times of high unemployment, when people may lose jobs in declining occupations and need to be trained for new occupations. This is seen to apply specifically to older workers. In the case of the Netherlands, Van der Heul (2006) found that the effectiveness of training increased for older workers at a time of high unemployment. At the time of the study, 2003, the majority of the unemployed not only found a new job, but even a new job in a different sector. However, Ecorys and IZA (2012) have found that re-training needs to be accompanied by job search assistance in order to be effective. The average adult participation in lifelong learning in the EU is 8.9 %.  

Transition rates from short- and long-term unemployment can be analysed separately, depending on whether or not the unemployed person has had access to lifelong learning in the previous year. The results suggest that participation in lifelong learning can increase the frequency of positive transitions (from unemployment or inactivity to employment) and reduce the frequency of negative transitions (staying in unemployment or in inactivity).

In particular, the transition rate out of unemployment to employment is 6 points higher for those having had some lifelong learning opportunities (37 % vs. 31 %), as also mirrored in a lower persistence rate in unemployment (44 % vs. 49 %).

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131 In the EU-LFS, the indicator on lifelong learning denotes the percentage of persons aged 25 to 64 who received education or training in the four weeks preceding the survey. The information collected relates to all education and training, whether relevant to the respondent’s current or possible future job or not. It includes formal and non-formal education and training. This means general activities in the school/university systems but also courses, seminars, workshops, etc. outside the formal education system, regardless of the topic.
7.3.3 Fighting poverty and exclusion, the impact of consolidation measures and benefit coverage and take-up

The design of the tax-benefit system is crucial in determining how and to what extent it affects income inequalities and redistributes resources to the poor. Within this, two key factors stand out: the progressivity of taxes and the degree of targeting and conditionality of benefits (which can create disincentive effects if badly designed), while a number of other factors are also at stake (such as for instance the choice of various tax bases and the existence of various tax exemptions).

Social transfers other than pensions reduce poverty risks to various degrees across Member States (ranging from a poverty reduction effect of 50% or more in some countries to 25% or less in others). This largely reflects differences in total expenditure, which vary from 7.5% to 20.5% of GDP when pensions are excluded (see Figure 7.15), but the composition of expenditure and the quality of interventions also play an important role. The evidence shows there is much variation across Member States in net cash support to low-income households.
Figure 7.15 — Relationship between social protection spending (excluding pensions, relative to GDP) and relative reduction in the share of population (aged 0-64) at risk of poverty (as a percentage) (2010)

Source: ESSPROS and EU-SILC.

Means-testing of social benefits can reduce social spending while more effectively protecting those most vulnerable. However, attention should be paid to potential work disincentives, low benefit take-up and stigmatisation associated with targeting if badly designed.

A recent Euromod paper illustrates the importance of well-designed child and family benefits. It explores the extent to which a country’s effectiveness in reducing child poverty can be attributed to the size of family cash transfers (i.e., benefits and tax instruments alike) or to their design. The results confirm that the impact of the level of expenditure is significant. Nevertheless, effectiveness is highly dependent on the composition of the measures (universal, categorical, income selective) and the design of policies (thresholds, benefit size determination, etc.). The balance between benefits in cash and in kind also matters. Subsidies for childcare reduce the risk of poverty among children, make the overall income distribution less unequal, and are fiscally progressive. These effects are reinforced if a more dynamic perspective is adopted: subsidising childcare helps improve human capital and achieve higher female employment, both leading to greater prosperity and a more equitable income distribution.

7.3.4 More effective and efficient policies: the case of combating child poverty

As illustrated in section 6.1, fighting child poverty requires action on several fronts through policies that need to be mutually supportive to ensure effective and efficient intervention. Figure 7.16 illustrates that point. It provides a summary of the main drivers of child poverty prevailing in different countries.

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Drivers are identified through three indicators, reflecting the exclusion of parents from the labour market (children in jobless households), in-work poverty (parents work but do not earn an adequate living), and the effectiveness of welfare support.

Depending on how these factors interact, countries can be grouped according to four major profiles associated with different combinations of intervention, leading to very different outcomes on child poverty. It shows that countries that combine adequate family support with measures to help parents find jobs have the best outcomes.

**Group A** includes the Nordic countries (Denmark, Norway and Sweden), Austria, Slovenia and Cyprus. Both the rate of risk-of-poverty and the child poverty gap are lower than in the rest of the EU. This can be attributed to sound performance on all fronts: the low proportion of children living in jobless or working poor households, and the relatively high impact of social transfers in reducing child poverty.

Nordic countries achieve these goals despite a high proportion of children living in single-parent households, thanks to good provision of childcare and a wide range of measures to help parents balance working life and family life. The impact of social transfers is relatively low in Cyprus, but strong family structures in which most adults are at work have so far played a protective role.

**Group B** includes Belgium, the Czech Republic, Germany, France, the Netherlands and to a lesser extent Lithuania and Estonia. These countries achieve relatively good to below-average poverty outcomes. The main matter of concern in these countries is the relatively high number of children living in jobless households, whereas children whose parents are working have very low risks of poverty. Among these countries, Germany and France are limiting the risk of poverty for children through relatively high and effective social transfers.

**Group C** includes Hungary, Ireland and the UK. The main concern in these countries is the very high number of children living in jobless households. In these countries, social transfers have a strong impact on reducing child poverty, which ensures a relatively low risk of child poverty in jobless households. However, analysis shows that the design of transfers, compounded by the lack of adequate, affordable childcare, create disincentives to work for specific family types, such as single parents, who account for more than half of all jobless households.

**Group D** comprises of southern European Member States (Greece, Italy, Malta, Portugal and Spain) as well as most of the eastern and Baltic countries (Bulgaria, Latvia, Romania, Poland and Slovakia). These countries face a high risk of child poverty and a high relative poverty gap for children. The in-work poverty risk among families is high. Important factors seem to be: insufficient work intensity and low earnings (in Latvia, Lithuania, Poland, Portugal and Spain). In these countries, the level and effectiveness of social spending are among the lowest in the EU. Family structures and intergenerational solidarity play a role in alleviating the risk of poverty for the most vulnerable children. Living in multi-generational households and/or relying on inter-household transfers, whether in cash or in kind, may partly compensate for the lack of government support to parents in the most vulnerable situations.
**Figure 7.16 — Relative outcomes of countries related to the main determinants of monetary child poverty**

<table>
<thead>
<tr>
<th>Drivers…</th>
<th>…level of child poverty</th>
<th>Countries</th>
<th>Tentative diagnosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of social transfers is high</td>
<td>Low risk of child poverty</td>
<td>DK AT SI FI SE (CY)</td>
<td>Lowest rates of child poverty thanks to a good balance between income support, labour market conditions and services that facilitate labour market participation of both parents.</td>
</tr>
<tr>
<td>Low share of children in jobless households</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low risk of poverty of children whose parents are working</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact of social transfers is relatively high</td>
<td>Medium risk of child poverty</td>
<td>CZ NL BE DE FR (LT EE)</td>
<td>Low to above average rates of child poverty thanks to a good income support, but the share of children living in jobless households is high.</td>
</tr>
<tr>
<td>Relatively high share of children in jobless households</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low risk of poverty of children whose parents are working</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact of social transfers is high</td>
<td>High risk of child poverty (low poverty gap)</td>
<td>IE UK HU</td>
<td>Average child poverty rates. The high impact of social transfers is mitigated by disincentives to work and lack of adequate and affordable child care for some categories of parents (e.g. lone parents)</td>
</tr>
<tr>
<td>High share of children in jobless households</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relatively lower risk of poverty Average level of in-work poverty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low impact of social transfers in reducing child poverty.</td>
<td>High risk of child poverty (high poverty gap)</td>
<td>PL LV RO BG SK PT IT EL ES MT</td>
<td>Highest rates of child poverty due to insufficient support for families, both in and out of work, in terms of income and services and poor access to quality jobs, especially for second earners.</td>
</tr>
<tr>
<td>Limited share of children in jobless households</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very high risk of poverty of children whose parents are working</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


### 7.3.5 The impact of consolidation measures

In the current context of fiscal consolidation in a number of Member States, the design of consolidation measures can also have an impact on the ability of social systems to deliver adequate, effective and efficient policies.

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133 Groups are obtained by cluster analysis based on scores related to the following variables: children living in a jobless household, children living in households at work and at-risk-of-poverty and the impact of social transfers on children’s risk of poverty. For each of these variables, the scores reflect both the situation of children in the country versus the rest of the population, and the situation of children in the country versus the rest of Europe.

LU has not been introduced in the classes as it is an outlier. Trends in risk of poverty rate indicate the trend in the risk-of-poverty rate between 2005 and 2010. Countries in brackets are to be considered as on the edge of the cluster.
Evidence based on micro-simulation provides insight into the likely impact of fiscal consolidation measures on the relative situation of the poorest segments of the population. Euromod has recently reviewed consolidation measures taken in nine EU Member States between 2009 and 2012, showing that the impacts on low-income groups were very diverse reflecting changes in personal taxes and VAT as well as cuts in spending on cash benefits and declines in public sector wages.

Many countries (Estonia, Greece, Spain, Latvia, Portugal and the UK) raised income taxes or social contributions. Many also increased VAT (Estonia, Greece, Spain, Lithuania, Latvia, Portugal, Romania and the UK). In terms of taxes, Greece also introduced an emergency property tax. Other measures remained limited to a few Member States only: minimum wages were cut in Greece; housing benefits were cut in the UK; care benefits were cut in Spain and limited in the UK; Lithuania and Latvia introduced cuts in maternity/paternity benefits. Lithuania also lowered social assistance benefits for those who are able to work, and reduced sickness benefits.

In a few countries, the situation of those on low incomes seems to have worsened more as a consequence of consolidation measures than some other segments (Lithuania, Estonia, Portugal). In other countries, fiscal consolidation measures had a more progressive impact (Spain, Romania, Greece, Latvia). Overall, consolidation measures had a significant negative impact on household income, and in some of these countries, the poorest segments of the population saw their incomes cut significantly (by more than 5% in Greece and Latvia).

The impact of consolidation measures can also differ for various categories of the population, especially for older people and children. Pensioners were more adversely affected in Greece, Latvia, Portugal and Romania. Unemployment benefits were reduced in Greece, Lithuania, Portugal and Romania. Child benefits were reduced in Estonia, Spain, Lithuania, Latvia, Portugal, Romania and the UK.

### 7.3.6 Coverage and take-up of social benefits

The degree to which Member State social systems provide effective protection to people in need varies greatly, in terms of the coverage, adequacy and duration of unemployment benefits, and other benefits. Worryingly, administrative data show that in several Member States, a growing number of people are no longer covered by benefits. This raises concerns as to the risk of crime and turning to the informal labour market to earn income.

There are very large differences across EU Member States in terms of coverage. Taking the example of unemployment benefits, the (pseudo) coverage rates of unemployment insurance can be assessed by comparing different sources, supplemented by information on the net replacement rates of unemployment benefits. In most Member States, different sources give relatively consistent results for coverage rates, though in some, such as Italy, Greece and Belgium, they vary significantly (with, for instance, differences ranging from 80 to 100 pps in coverage rates).135

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135 In SILC and LFS the coverage rates are always below 100% because in these surveys the people identified as unemployed are asked about whether they actually receive benefits (some of them might not be eligible, such as young people or those who have lost their entitlements, and some of them might not be claiming benefits). People that continue receiving benefits when they start...
In some Member States, such as Belgium, Austria or France, both coverage and replacement rates are relatively high, while in others, such as Germany or Finland coverage is high, but replacement rates are lower (around 45 %). In southern Member States, coverage of unemployment benefits is rather low (especially according to surveys) and replacement rates are above 50 % only in Portugal, 41 % in Spain and only 24 % in both Italy and Greece.

The Baltic States have both low coverage and low replacement rates. Those of Bulgaria and Romania are slightly higher. Coverage rates in the Czech Republic and Hungary are similar to those of Portugal and Spain, but replacement rates much lower. On the other hand, Slovakia and Poland have both very low coverage and very low replacement rates. Sweden, which has a universal basic income, has a similar coverage rate, but higher replacement rates.

to work are not taken into account in the surveys for this purpose. This is different in the administrative sources, which also include among the unemployment benefits recipients at work but still receiving benefits, so that coverage rates can thus exceed 100 %.
## Figure 7.17 - Unemployment insurance pseudo-coverage rates and net replacement rates (2009)

<table>
<thead>
<tr>
<th>Country</th>
<th>Coverage rate - administrative sources (in %)</th>
<th>Coverage rate - SILC (in %)</th>
<th>Coverage rate – LFS (in %)</th>
<th>Net replacement rate (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>88</td>
<td>74</td>
<td>50</td>
<td>52</td>
</tr>
<tr>
<td>Belgium</td>
<td>148</td>
<td>89</td>
<td>67</td>
<td>65</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>49</td>
<td>20</td>
<td>12</td>
<td>25</td>
</tr>
<tr>
<td>Cyprus</td>
<td>54</td>
<td>n.a.</td>
<td>26</td>
<td>n.a.</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>54</td>
<td>50</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>Denmark</td>
<td>55</td>
<td>85</td>
<td>51</td>
<td>63</td>
</tr>
<tr>
<td>Estonia</td>
<td>33</td>
<td>46</td>
<td>36</td>
<td>26</td>
</tr>
<tr>
<td>Finland</td>
<td>94</td>
<td>89</td>
<td>59</td>
<td>44</td>
</tr>
<tr>
<td>France</td>
<td>82</td>
<td>69</td>
<td>40</td>
<td>49</td>
</tr>
<tr>
<td>Germany</td>
<td>110</td>
<td>85</td>
<td>75</td>
<td>45</td>
</tr>
<tr>
<td>Greece</td>
<td>115</td>
<td>30</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td>Hungary</td>
<td>36</td>
<td>59</td>
<td>44</td>
<td>22</td>
</tr>
<tr>
<td>Ireland</td>
<td>62</td>
<td>n.a.</td>
<td>58</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>103</td>
<td>36</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Latvia</td>
<td>35</td>
<td>41</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Lithuania</td>
<td>31</td>
<td>18</td>
<td>27</td>
<td>21</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>33</td>
<td>52</td>
<td>31</td>
<td>29</td>
</tr>
<tr>
<td>Malta</td>
<td>46</td>
<td>41</td>
<td>25</td>
<td>46</td>
</tr>
<tr>
<td>Netherlands</td>
<td>67</td>
<td>55</td>
<td>n.a.</td>
<td>38</td>
</tr>
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<td>Poland</td>
<td>27</td>
<td>24</td>
<td>15</td>
<td>22</td>
</tr>
<tr>
<td>Portugal</td>
<td>n.a.</td>
<td>43</td>
<td>41</td>
<td>55</td>
</tr>
<tr>
<td>Romania</td>
<td>45</td>
<td>29</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Slovakia</td>
<td>16</td>
<td>30</td>
<td>10</td>
<td>21</td>
</tr>
<tr>
<td>Slovenia</td>
<td>40</td>
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<td>34</td>
<td>24</td>
</tr>
<tr>
<td>Spain</td>
<td>39</td>
<td>57</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Sweden</td>
<td>40</td>
<td>37</td>
<td>31</td>
<td>43</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>62</td>
<td>33</td>
<td>n.a.</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: coverage rates from EC/OECD database on benefit recipients, SILC and LFS; replacement rates from OECD Tax-Benefit Models

The duration of unemployment benefits also varies greatly across the EU. In Malta and Cyprus, the maximum duration of these benefits was five months in 2011. In the Netherlands, it was over 35 months.

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136 Assumptions of the OECD tax-benefit model: The net replacement rates summary measure is defined as the average of the net unemployment benefit (here without social assistance and cash housing assistance) replacement rates for two earnings levels (67% and 100% of average wage), three family situations and 60 months of unemployment.
Information on the relative size of incomes of people living on social assistance (including cash housing benefits) makes it possible to broaden the scope beyond unemployment benefits only. To compare the income of such households, including these benefits, with the median equivalised income for three household types, see Figure 7.19. In the EU, single parents with two children are on average getting higher social assistance benefits relative to the median income than single people without children or couples with two children (49% versus 42% for the latter two household types).

Only in three Member States (Ireland, Denmark and the United Kingdom) do all three model household types receive social protection benefits high enough to take them above the poverty threshold of 60% of median income. At the other end of the spectrum, there are Member States in which households do not even reach 40% of the median income (Greece and Spain; Bulgaria and Romania; Slovakia, Hungary and Estonia).

Of the old Member States, France has the lowest relative net income of people living on social assistance (on average for the three family types, it is 40% of the median income) and among the new Member States, Lithuania has the highest income (53% of the median income on average).

Note: No legal maximum of duration of unemployment benefit in BE.
Figure 7.19 — Net income of people living on social assistance relative to the median equivalised income, in % (including cash housing assistance) (2010)

<table>
<thead>
<tr>
<th></th>
<th>Single person</th>
<th>Lone parent with 2 children</th>
<th>Couple with 2 children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>0</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>14</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>Romania</td>
<td>17</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>23</td>
<td>33</td>
<td>30</td>
</tr>
<tr>
<td>Spain</td>
<td>35</td>
<td>33</td>
<td>25</td>
</tr>
<tr>
<td>Hungary</td>
<td>31</td>
<td>39</td>
<td>29</td>
</tr>
<tr>
<td>Estonia</td>
<td>32</td>
<td>34</td>
<td>31</td>
</tr>
<tr>
<td>Poland</td>
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<td>41</td>
<td>33</td>
</tr>
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<td>Portugal</td>
<td>26</td>
<td>42</td>
<td>43</td>
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<tr>
<td>Slovenia</td>
<td>30</td>
<td>53</td>
<td>44</td>
</tr>
<tr>
<td>Czech Republic</td>
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<tr>
<td>Belgium</td>
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<td>Malta</td>
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<tr>
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<td>77</td>
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</tr>
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<td>Germany</td>
<td>47</td>
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</tr>
<tr>
<td>Finland</td>
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<td>Netherlands</td>
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<td>Denmark</td>
<td>71</td>
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</tr>
<tr>
<td>Ireland</td>
<td>77</td>
<td>71</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: OECD Tax-Benefit model. Note: countries are sorted based on the average net income of three family types.

Matsaganis et al. (2008) explore the effect of non-take-up of benefits on the effectiveness of spending on social assistance in terms of poverty reduction, using Euromod for five Member States. They conclude that the design of the targeting of these benefits can have a significant negative effect both on reducing the proportion of the population at risk of poverty and on combating the poverty gap.

7.3.7  Labour-market friendliness of social protection spending

The labour-market friendliness of social systems is a key aspect of their effectiveness and efficiency. Social systems should shield people against labour market risks, while encouraging them to stay in jobs or go back to work. Active labour market policies are shown to have a positive influence on employment rates. The same holds for childcare services and the employment rate of women.

As a complement to income transfers and unemployment benefits, activation policies and ‘making work pay’ tend to improve a person’s chances of getting a job. A core element is the implementation of active labour market policies (ALMPs), in which, for example, the jobless are provided with education and training, as well as active ageing policies, where older workers are encouraged to stay working for longer, and provided with opportunities to do so. ALMPs combine social and economic policies as a means to achieve improvements. But the effectiveness of measures does vary and there are complementarities between active and other labour market policies.
Extensive literature is available on the effectiveness of ALMPs (see for instance European Commission 2006). It is commonly recognised that such policies facilitate a return to work, minimise long-term unemployment and decrease the loss of productive human capital. During the years 2000-2010, a number of Member States (Denmark, Finland, Sweden, Germany and the Netherlands, for example) engaged in reforms to modernise the welfare state. They aimed to reabsorb high levels of long-term unemployment and/or the swelling ranks of those on long-term illness or disability benefits because of the 1990s recession. A recent study found that countries that invested heavily in ALMP before the crisis saw their employment levels less severely impacted during the crisis.

Spending on and participation in ALMPs tends to decrease long-term unemployment (Figure 7.20). There is broad evidence that spending on or participating in ALMPs decreases the duration of unemployment after taking into account the economic cycle (e.g. Nickel and Layard, 1999). For instance, the Nordic and continental countries tended in 2009 and 2010 to have the highest levels of expenditure on ALMPs, coupled with the lowest persistence rates in unemployment, while central and eastern Member States, and some southern European countries such as Italy and Greece, spend little on ALMPs and generally have a high persistent rate of unemployment.

**Figure 7.20 — Persistence of unemployment and ALMPs expenditures**

![Persistence of unemployment and ALMPs expenditures](image)

Source: For persistence rate, DG EMPL calculations based on Eurostat, EU-LFS; for expenditures on ALMPs, Eurostat LMP database.

Both active labour market measures and other measures such as income support can play an important role in helping people to get back to work. For instance, it is possible to assess the degree to which registering with the national Public Employment Service and receiving unemployment benefits influences outcomes in finding jobs for the long-term unemployed.

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139 OECD (2012) *Employment Outlook*
141 Spending on active labour market policies includes categories 2-7 in the LMP database.
Evidence from longitudinal data from the EU-LFS shows that those who are registered and receiving benefits have a higher chance of returning to employment than unemployed people not receiving benefits, who may or may not be registered with the Public Employment Services (PES). Econometric analysis presented in the paper confirms that, all things being equal, receiving benefits does influence the likelihood of getting a job, and that registering with the PES alone is not sufficient. However, though registering with the PES is often a precondition for receiving benefits, it does not automatically ensure that a person will have access to services or programmes such as training that may be available.

Childcare provision is a key factor in enabling female employment and fostering labour market participation (see section 5). There is a strong correlation between the employment rates of women with young children and the proportion who have access to formal childcare, especially in the first three years of a child’s life (Figure 7.22), while the correlation is weaker for children aged between three and six years old.

The Figure presents the transitions for those people aged 15-74 unemployed the year before to unemployment (U), employment (E) or inactivity (I), depending on whether the person was registered with the national Public Employment Service (PES), and whether s/he was receiving unemployment benefits. The longitudinal data used here are based on yearly estimates for nine Member States: Estonia, Romania, Cyprus, Greece, Hungary, Italy, Malta, Sweden and Slovakia. As very few people receive benefits without being registered with the PES, the values for this category are not reliable and therefore not shown.

See Chapter 1 of European Commission (2012) Employment and social developments in Europe 2012, in particular Section 4.6 for related detailed econometric analysis, notably controlling for effects of various individual characteristics, such as education or age.
Source: EU-SILC and Labour Force Survey, DG EMPL calculations. Note: For a child to be considered as being in formal childcare, at least one hour per week of formal childcare is required.

7.4 The financing of budgets for social policies

7.4.1 Overall shift from social contributions to general taxation

The relative importance of general government taxes, social contributions and other revenue for financing social protection varies greatly among Member States. Denmark and Ireland finance more than 60% of theirs from general government contributions,
while in Estonia or the Czech Republic, over 70% of funding comes from employers’ social security contributions (Figure 7.23).

**Figure 7.23 — Social protection financing structures (2010)**

In recent decades, the source of such financing in the EU has been shifting from social contributions towards government contributions (Figure 7.23). This trend was very apparent until the current crisis. Since 2008, both social contributions and government contributions have risen significantly as a share of GDP (reflecting the sharp decline in GDP). Government contributions to social protection systems have been slightly more dynamic than social contributions both in the years of the crisis (2009 and 2008) and in 2010, which was generally a year of recovery. In short, government contributions have had a bigger role in financing social protection expenditure over the last 15 years as an overall trend, and during the crisis, though to a lesser extent.

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144 General contributions include the category ‘other receipts’ which are generally in nature closer to taxation than to social contributions.

145 Covering social protection in a broad sense, as reflected in the harmonised European system ESSPROS. Other contributions are here taken together with general government contributions since their nature is generally less similar to social contributions.
Figure 7.24 — Trends in social protection financing structures (1995-2010)

Source: ESSPROS.

Note: Receipts from the Esspros category of 'other receipts' have been added to the ones from the category of government contributions.

These general developments went along with slow convergence in the financing structures among Member States over the last two decades (Figure 7.24). Member States with relatively high government contributions as a share of GDP financing social protection generally saw a decline (DK, SE or FI). Those with lower levels generally saw an increase (FR, RO, IT, PT, HU or DE). The same type of slow convergence can also be observed with social contributions.

Figure 7.25 — Trends in financing of social protection as a share of GDP (1995-2010)146

7.4.2 Potential significant distributional impacts

Social security contributions can be reduced by increasing income tax rates, by taxing income other than labour, or by increasing indirect taxation. For instance, in 2007, Germany increased VAT by 3 percentage points to finance a reduction in social security contributions (and a reduction in budget deficits). Some extra VAT revenues were earmarked for social protection. In France, the introduction of the CSG in the 1990s

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enabled taxation of capital income and replacement income to help finance social protection.

The specific case of a revenue-neutral shift from social contributions to VAT may have adverse redistributive effects for the lower income deciles and a favourable effect on the top deciles, since the former benefit less from a reduction in social security contributions and are more exposed to increases in prices. However, this can be counterbalanced by other measures, which can mitigate or even eliminate the regressive impacts of VAT, such as progressive changes to social security contributions or benefits and non-linear tax credits.147

7.4.3 Shifts in social protection financing and coverage of employment and life-course risks

A shift from social contributions towards general taxation also represents a shift from employment-based social protection (or insurance-based in a classical Bismarckian terminology) towards potentially more universal-based social protection provision (or of a more Beveridgean type in the classical terminology), since entitlements to social protection can be seen as less linked to earnings-related contributions. Furthermore, although social contributions and general tax revenues are sensitive to the business cycles, some Member States may have more room for a shift from social contributions to general taxes with smaller implications for the social protection entitlement structures.

Social protection expenditures can be grouped into three categories according to their link to individual employment histories and to whether or not they cover a life-cycle risk (see Figure 7.26), regrouping employment-related social protection provision (pensions, employment and disability), life-cycle and non-employment-related provision (health and family) and non-life-cycle and non-employment-related provision (housing and social exclusion).

147 The Mirrlees Review published by the Institute for Fiscal Studies (2011) found that, for instance in the United Kingdom, increasing all means-tested benefit and tax credit rates by 15% would counter the regressive impacts of VAT. Conversely, it found that applying zero or reduced rates of VAT to items on which poorer households spend a relatively large proportion of their budgets is a blunt instrument with which to help the less well-off, because richer households typically gain more in cash terms from these tax breaks than poorer ones.
While such a classification has some clear shortcomings, it can help to identify Member States whose relative share of social contribution revenues tends to exceed the relative size of employment-related social protection expenditure. This is the case for Estonia, the Czech Republic and the Netherlands and, to a lesser extent, Slovenia, Germany, France and Lithuania. In these countries, there may thus be more scope to shift social contributions to other tax bases than in other countries.

8. IMPROVING TIMELINESS OF DATA AND THE MEASUREMENT OF SOCIAL OUTCOMES

With the adoption of the Europe 2020 strategy, the European Union has placed the fight against poverty and social exclusion high on the political agenda. The reshaping of policy objectives through the Europe 2020 strategy brought to the fore the weaknesses of the statistics and indicators available to monitor poverty and inequalities. The lack of timely data on income and living conditions is a serious obstacle to the implementation of Europe 2020. The social consequences of the economic and financial crisis have made the lack of timeliness of data on the extent of poverty and social exclusion an even more burning issue — not least in the countries where the crisis...
has hit the hardest. In the conclusions of the December 2010 EPSCO, ministers of social affairs recognise the importance of this issue and 'invite the Commission to support, in collaboration with the Member States, the timely availability of valid indicators to monitor the social dimension of the Europe 2020 Strategy'.

The setting of the poverty and social exclusion target also helped to highlight the need to improve the measurement of poverty and social exclusion. This is expressed in the conclusions of the June 2010 EPSCO preparing the adoption of the Europe 2020 strategy, which proposed to 'strengthen the current instruments for measuring progress in the reduction of poverty and deprivation [...] and that the mid-term review of the EU headline target in 2015, [...] also include a review of the indicators, ... taking into account economic developments and improved measurement instruments.'

Implementation of the Europe 2020 strategy has shown some weaknesses hampering the monitoring of progress towards the EU’s social objectives. Taking into account non-monetary income in the definition of resources, including the value of publically provided services, is essential to capture the full impact of the welfare state, including public services, and to correctly identify groups worst affected by poverty.

The definition of material deprivation needs adjusting to reflect trends in living standards in the EU. Measuring and analysing the dynamics of poverty and exclusion will improve the design of policies and assess whether they have a durable impact on poverty reduction. Improving the measurement of the specific situations of women, children and young people, and of very severe forms of poverty and social exclusion (such as homelessness), will help monitor progress in addressing the social issues at the root of poverty and exclusion.

This section aims to identify the statistical and analytical gaps that hamper the monitoring and analysis of poverty and social exclusion. Improving measures and indicators in these areas would help reach a more accurate and timely diagnosis on which to base recommendations for policy intervention in the context of Europe 2020. Under the new programming period, the objectives of the ESF will be linked to those of Europe 2020 on employment and social inclusion and will support policies set out in National Reform Programmes in response to Country Specific Recommendations. More timely and more accurate data, together with efforts to develop poverty maps (see section 8.3.6), will help with programming and allocating the ESF and to monitor overall outcomes.

Three areas of improvement are explored: (i) improving the analysis, monitoring and dissemination of existing information; (ii) improving data collection systems at EU and national level; and (iii) supporting the development of methods and models and enhancing their use in policy making.

### 8.1 Harmonised EU statistics and indicators in support of the Europe 2020 target to reduce poverty and social exclusion

The EU target defines poverty and social exclusion on the basis of three main indicators: being at risk-of-poverty, being in severe material deprivation and people living in

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households with zero or very low work intensity (i.e. jobless or quasi-jobless households). It recognises the multi-dimensional nature of poverty and social exclusion, and allows account to be taken of the diversity of situations and priorities that prevail in the EU, in particular after the last waves of enlargement.\(^\text{152}\) An in-depth analysis of the indicator underpinning the target is available in the 2011 review of Employment and Social Developments in Europe.

The choice of the three indicators is the result of a negotiation between Member States with very different poverty profiles and different policy priorities. It also reflects the fact that monitoring poverty solely on the basis of the at-risk-of-poverty rate has major drawbacks.

One of the main drawbacks of the at-risk-of-poverty indicator is its ambiguous movement in periods of rapid growth or of crisis. The risk of poverty depends on the poverty threshold, which is determined by the general level of income and its distribution in the whole population. This threshold may change from one year to another as individual incomes change.

This is especially the case during an economic crisis. Wages are usually the first to decrease as the situation on the labour market gets worse — and many people see their market incomes reduced as they become unemployed. But other incomes, such as pensions and social benefits, do not adjust immediately. As a result, the median income, and therefore the poverty threshold, tends to fall. People earning an income slightly below the poverty line may move above it, even though their situation has not changed or may even deteriorated.

Statistical developments at EU level have supported work on social indicators. The development of social inclusion indicators and the adoption of the Europe 2020 target would not have been possible without significant EU investment in collecting comparable statistics on income and living conditions since the early 1990s.\(^\text{153}\)

EU-SILC (Community Statistics on Income and Living Conditions)\(^\text{154}\) is now the reference source at EU level for social statistics and has contributed to strengthening EU social policy coordination by underpinning the analysis and the comparison of Member States' performance in the social field. A key objective of EU-SILC is to deliver robust and comparable data on total disposable household income. Income components were defined to follow as closely as possible the international recommendations of the UN ‘Canberra Manual’.\(^\text{155}\) The corpus of comparative research and analysis based on EU-SILC is constantly growing and nurtures the policy debate at both EU and national level. EU-SILC has also allowed the development of the comparative micro-simulation model Euromod,\(^\text{156}\) which is a powerful tool for assessing the distributinal impact of reforms to the tax and benefit systems (e.g., the impact of fiscal consolidation) and analysing the effectiveness of policies.

\(^{152}\) For a more detailed presentation of the new target and the diversity of populations and forms of poverty it represents, see Chapter 3 of European Commission (2011) Employment and social developments in Europe 2011, (http://ec.europa.eu/social/main.jsp?catId=113&langId=en&pubId=6176&type=2&furtherPubs=yes)

\(^{153}\) The European Community Household Panel (1994 to 2001) was the first EU wide harmonised data collection exercise to cover all EU countries. It stimulated a wealth of comparative research and analysis that made possible and underpinned the development of the first set of EU social inclusion indicators adopted by the Laeken European Council in 2001. In 2005, the ECHP was replaced by EU-SILC.

\(^{154}\) EU-SILC Framework Regulation of the European Parliament and the Council (No1177/2003)

While EU-SILC helped to strengthen evidence-based policy-making at EU level, the intensive use of EU harmonised statistics has revealed some shortcomings of the survey, data gaps and new needs. The planned revision of the EU-SILC Regulation provides an opportunity to address these issues (see detailed discussion below).

Another important source of harmonised data is the European System of Social Protection Statistics (ESSPROS). The system gathers administrative data on social protection expenditure and receipts in a harmonised framework. It enables the size, structure and functioning of national social protection systems to be compared and analysed in detail.

Finally, the analysis of poverty and social exclusion and its determinants also relies heavily on the Labour Force Survey which provides the key statistics on employment, unemployment and inactivity. Information on the quality of jobs, on barriers to work, and on access to and participation in training is especially relevant for understanding such phenomena as labour market exclusion or in-work poverty. Household information is especially useful for analysing the impact of one person’s labour market status on other family members (e.g., jobless households).

**EU indicators enable monitoring and support diagnosis.** The common EU indicators are used for multiple purposes in support of EU-level social policy coordination. At EU level, they are the basis of regular reporting on the social situation of Member States in the context of the Joint/SPC Reports on Social Protection and Social Inclusion, as well as in the Commission annual review of Employment and Social Developments in Europe. The indicators are primarily used for descriptive and comparative purposes to show the relative position of Member States vis-à-vis the multiple dimensions of poverty and social exclusion. They also illustrate, as far as possible, the extent and composition of policy intervention (ESSPROS social protection data).

The indicators are also used to monitor the progress of Member States towards the policy objectives, though the lack of time series (in the first years of EU-SILC) and the significant time lag (nearly two years) of SILC and ESSPROS data clearly affect the relevance of the exercise for policy-making, especially in the context of the crisis. The issue of timeliness is discussed below.

Over time, the indicators sub-group of the Social Protection Committee has developed analytical frameworks in which indicators are combined to support a diagnosis of the main determinants of poverty and social exclusion. An example of such a framework, based on benchmarking, was developed and agreed in 2008 to identify the main determinants of child poverty in each country.

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156 See: [https://www.iser.essex.ac.uk/euromod](https://www.iser.essex.ac.uk/euromod)

157 An illustration of the value added of EU-SILC is the support provided by Eurostat in setting the Europe 2020 target on poverty and social exclusion. Without comparable and trustworthy micro-data available for all Member States, it would not have been possible for Eurostat to simulate the number of ‘poor and excluded’ (and their characteristics) that a given definition of the new indicator would capture. This information was a crucial element in the negotiations that led to the adoption of the poverty and social exclusion target, thereby securing the social dimension of the Europe 2020 strategy.

158 This refers to portfolios of indicators developed together with Member States to support the monitoring of policy coordination process at EU level (e.g. Indicators of social inclusion and social protection, European Community Health Indicators). See also European Commission Staff Working Document – Investing in Health SWD(2013) 43


The indicators are also used by a broad range of stakeholders at national and EU level, including national administrations, social partners, organisations representing civil society and academia.

In the context of the Europe 2020 strategy, the use of indicators has been improved by adopting EU and national targets (see above) and by developing a Joint Assessment Framework (JAF) to combine indicators and benchmarks to identify the main drivers of poverty and social exclusion in a given country.

Indicator-based diagnosis needs to be supplemented with detailed country-specific information (both quantitative and qualitative) to support the policy advice each country receives in ‘Country Specific Recommendations’. The JAF provides screening to give a country initial guidance on structural challenges and areas that may need attention, thus supporting the identification of key employment and social challenges.

8.2 Improving timeliness

The lack of timely information on trends, and on poverty in particular, is the main data gap hampering evidence-based policy-making. Since the crisis, it has become very clear that policy-makers at EU and national level do not have the tools to monitor the short-term social impact of economic shocks, or the effectiveness of policy responses. We need to capture changes in social conditions at an early stage, and to identify those who are worst affected by the crisis, as well as those who benefit most from a policy change.

The detailed nature of the EU-SILC survey together with the fact that crucial data, such as income or the calendar of activity,\(^{161}\) refer to the previous year\(^ {162}\) leads to significant delays in data availability of up to two years. Efforts are being made by the European Statistical System to shorten these delays while maintaining good data quality for the standard SILC delivery.

The Commission is currently exploring different ways to speed up the monitoring of social trends at EU level. A number of options have been identified and their feasibility will be assessed by the European Statistical System in 2013:

1. Early estimates of material deprivation (and possibly subjective poverty, monthly income) based on faster treatment of SILC data. Material deprivation measures are already more timely than income-based data, as they refer to the survey year (N-1) rather than to the ‘income year’ N-2. In addition, they could be treated faster and published earlier. Analysis also shows that the ‘economic strain’ dimension of material deprivation is quite responsive to the effects of economic shocks.\(^{163}\) This property could be reinforced by developing questions on a household’s current situation. A few countries\(^ {164}\) have published early estimates of the poverty rate based on faster treatment of survey data about one year after the end of the income year.

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\(^{161}\) ‘Calendar of activity’ refers to the monthly information about the activity status of an individual during a reference year

\(^{162}\) It should be noted that the reference year of the income to the previous year allows the best possible measurement as the respondent has the fiscal declaration at his disposal

\(^{163}\) For instance, items such as ‘ability to face unexpected expenses’ or ‘ability to afford a week of holidays away from home’ have been responsive to the crisis while the main indicator was still stable.

\(^{164}\) A few countries have already produced or are planning to produce early estimates (ES, CZ, PT, RO, AT, LV, NL, SK).
2. **Alternative indicators used as early warnings of deterioration in social trends:**

   - **The financial distress indicator** derived from the EU harmonised consumer surveys, collected monthly. This is well suited to signal significant changes in the financial situation of households, by broadly defined income groups (self-declared income quintiles). This indicator is very timely (a few months delay) and is currently published by DG EMPL in the European Employment and Social Quarterly Review.

   - **Monthly current income** could be collected in a high frequency survey and used as an indicator *per se*, providing timely information on trends in incomes and their distribution, for broad age groups. If collected in the LFS, the indicator would be available with a delay of three to six months. The feasibility of such a system is to be assessed by ESTAT with national statistical offices in 2013.

3. **Nowcasts of the poverty rate** and related measures based on micro-simulation (taking into account policy and economic/labour market changes as far as possible). Nowcasts are estimates that are similar to economic forecasts, and would be available in year N for income year N. (see box on nowcasting with Euromod). The Commission is also testing the possibility of using the monthly current income survey (or the financial distress indicator derived from EU harmonised consumer surveys) to predict trends in poverty. The gain in timeliness would depend on the frequency of the survey used to collect such auxiliary variables.

4. Another type of information that is important to policy-makers concerns the **behavioural response of households in reaction to an income shock** (due to unemployment, reduced working hours, separation, etc.), and the transmission channels through which household welfare is affected — labour markets, access to credit, government services. This is especially useful in a downturn.

5. **Trends in the disbursement of social benefits,** drawn from administrative sources, typically available on a monthly or quarterly basis can provide timely information on increased pressure on safety nets. However, such measures are not comparable across countries and there may be major breaks in series when policies or administrative rules change. The SPC is currently monitoring the variables on the number of social benefit recipients/new registrations for selected social benefits. Information on trends in the **number of clients of social services** (publicly provided, or through NGOs) — emergency services, shelters, soup kitchens, etc. — could also be collected more systematically and provide useful insight into pressure on social services. Currently, such information is only available on an ad hoc basis through service providers.

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**Nowcasting with Euromod**

165 Such a module has been run as a stand-alone survey or as a module in existing surveys (LFS, LITS) in a few EU and neighbouring countries (Bulgaria, Romania, Latvia, Croatia, Serbia) at the request of the World Bank.

166 Examples of variables that can be envisaged include: the share of people having to reduce their expenses (by type of expenses — food, healthcare education, housing, etc.); the share of people having to draw on their savings or go into debt; the share of people who increase their working hours because their partner has lost their job; the share of people experiencing difficulties in accessing essential services (healthcare, education, housing, banking, etc.).
The method uses the micro-simulation model Euromod to adjust market incomes with what is known about their development (wages, prices, etc.) and simulate the effects of the current design of the tax and benefit system in 2012 (level of benefit, duration, conditionality, etc.). Further data adjustments are made to account for labour market developments between 2007 and 2012 (e.g. increase in unemployment). The method doesn’t take account of demographic and other compositional changes. However, it makes it possible to predict the potential increase in the risk of poverty and other variables (including the poverty threshold) for the total population and specific sub-groups. It can also illustrate the contribution of different factors to the change, e.g. worsening labour market conditions or changes in the tax and benefit system.

The example below presents preliminary results to be interpreted with great caution. If they are confirmed, they would point to an increase in median incomes in LT and LV, probably due to the improvement of labour market conditions. At the same time, an increase in the risk of poverty among children and the elderly would also reflect measures taken to freeze/reduce some benefits (such as child benefits and minimum pensions) in these countries.

Example of nowcasting the development of income distribution up to 2012 on the basis of SILC 2008 data (2007 incomes) — Change in indicator since income year of latest SILC statistics

<table>
<thead>
<tr>
<th></th>
<th>Median</th>
<th>Gini pts</th>
<th>AROP60 (all) pts</th>
<th>AROP60 (&lt;18) pts</th>
<th>AROP60 (65+) pts</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>12%</td>
<td>-0.3</td>
<td>0.6</td>
<td>-1.5</td>
<td>7.7</td>
<td>2010-12</td>
</tr>
<tr>
<td>Greece</td>
<td>-18%</td>
<td>1.6</td>
<td>0.1</td>
<td>2.3</td>
<td>-8.8</td>
<td>2010-12</td>
</tr>
<tr>
<td>Spain</td>
<td>-1%</td>
<td>0.1</td>
<td>0.0</td>
<td>1.0</td>
<td>-3.3</td>
<td>2010-12</td>
</tr>
<tr>
<td>Italy</td>
<td>1%</td>
<td>0.2</td>
<td>-0.2</td>
<td>-0.2</td>
<td>0.0</td>
<td>2009-12</td>
</tr>
<tr>
<td>Lithuania</td>
<td>8%</td>
<td>0.0</td>
<td>1.3</td>
<td>3.4</td>
<td>1.4</td>
<td>2010-12</td>
</tr>
<tr>
<td>Latvia</td>
<td>14%</td>
<td>0.9</td>
<td>1.3</td>
<td>-0.2</td>
<td>7.8</td>
<td>2010-12</td>
</tr>
<tr>
<td>Portugal</td>
<td>-3%</td>
<td>-1.4</td>
<td>-0.5</td>
<td>0.0</td>
<td>-2.1</td>
<td>2010-12</td>
</tr>
<tr>
<td>Romania</td>
<td>2%</td>
<td>-0.3</td>
<td>-0.3</td>
<td>0.0</td>
<td>-0.3</td>
<td>2010-12</td>
</tr>
</tbody>
</table>

Source: Euromod preliminary estimates — paper prepared for NetSILC2 conference December 2012. AROP60: at-risk-of-poverty rate (60 % of median)

The financial distress indicator

The Commission collects monthly information on consumer sentiment in the context of the programme of joint harmonised EU business and consumer surveys. These very timely surveys include a question on household financial situations, which has been used to derive a ‘financial distress’ indicator. The indicator focuses on households declaring that they had ‘to draw on their savings or go into debt in order to meet current expenditure’. Breakdowns are provided by household income quartile. These ‘financial distress’ data can provide a timely indication of trends in the share of the population whose households are facing financial difficulties, and how households in the different income quartiles have been affected by the crisis. The indicator shows that people with lower to middle income have seen their financial situation deteriorating faster than the rest of the population. In some countries, the gap is increasing very rapidly.

Furthermore, it can be used to some extent as an advance indicator of more established ‘hard’ indicators of trends in the social situation in many Member States, although the actual hard indicators it can predict depend on the particular Member State in question and there is no indicator/set common to all countries. The financial distress series may also help to signal when rather dramatic changes have occurred, i.e., when there are really noticeable developments in the underlying hard social indicators. Exploring its use as a key variable in a nowcasting model combined with a set of other potentially relevant, timely items seems worthwhile.

167 The EUROMOD model is currently being updated to refer to the latest SILC data available
Among the possible developments suggested above, some are well advanced (financial
distress indicator, nowcasts, SPC data collection, etc.); others are being investigated and
would require further investment. The Commission and the Member States would need
to identify the most promising avenues and set priorities for further developments
accordingly.

It is also important to identify what use can be made of potential higher-frequency
data on the basis of national experiences and empirical analysis. Member States’ current
practices can be used as a source of inspiration; and time series will be analysed to
identify the links between timely indicators and standard poverty and social exclusion
measures.

It is crucial to consider a communication strategy on how to use and present these
indicators\(^{168}\) at EU level and in the Member States. The role of each indicator selected
will need to be clarified, and the way in which they will relate to current measures of
poverty and social exclusion explained. Good practice in the macro-economic field, in
which a variety of indicators is used to assess and forecast the short-term developments
in the economy, may provide inspiration here.

8.3 Improving the measurements of social outcomes

Being poor is primarily being short of money, hence the current focus on measures of
income. However, there is a consensus that people who are deprived of dimensions of
life thought to be essential in society — quality education, health and healthcare,
employment, housing, access to public benefits, and social contacts — are also poor or
excluded. This is why EU-agreed social inclusion indicators (used in the JAF, the SPPM
or for the monitoring of the social OMC) go beyond income measures of poverty.
However, a lot remains to be done to properly capture important aspects of poverty and
social exclusion.

The definition of resources needs to take into account imputed rent and the value of in-
kind transfers. The definition of material deprivation needs to be adjusted to trends in
living standards in the EU. As the first set of longitudinal data becomes available, new
analysis illustrates the importance of capturing the dynamics of poverty and exclusion.
Finally, more work is also needed to reflect the gender dimension of poverty and
exclusion, as well as the specific stages of the lifecycle, especially childhood and youth.

Awareness-raising campaigns and the impact of the crisis have highlighted very severe
forms of poverty and social exclusion that persist within the EU, such as those facing
the homeless, the Roma or people living in isolated rural areas. Specific measurement
tools are needed to monitor their situation. The role of the EU in developing such tools
and their use by policy-makers needs to be reviewed.

8.3.1 Non-monetary income components

In 2001, the report of the Canberra Expert Group on Household Income Statistics\(^{169}\)
identified four areas as the most fruitful for pursuing a fairer and more accurate picture of
income distribution. These are (a) better estimates of property income, self-employment
income and own-account production, (b) imputed rent for owner occupied housing, (c)

\(^{168}\) In a few countries, nowcasts are produced for the sole use of policymakers, but are not published.
social transfers in kind or non-cash government benefits, and (d) capital gains (especially negative).

A number of academic publications have also underlined the importance of integrating **non-monetary income components into cash-based income measures**. First of all it can improve the comparability of distribution results across different population subgroups. For instance, the importance of non-cash income varies across age groups; this is true of in-kind benefits such as education and healthcare or of imputed rent which affect different population groups depending on the structure of home ownership. It can also improve comparability of results across countries, since cash and non-cash public transfers vary substantially across Europe, as does the extent and structure of home ownership.

'Social transfers in kind' are a type of income: they are goods and services provided by government and non-profit institutions for free or at subsidised cost. Obvious examples include healthcare, education, housing and childcare. They represent an economic advantage to the households that benefit from them, but since they have no directly identifiable monetary value, this advantage is very difficult to quantify. Research (See ESDE 2011) shows that most in-kind benefits have a redistributive role to the benefit of the poorest segment of the population. This is why Member States that invest significantly in benefits in kind wish this impact to be reflected in poverty measures.

Methodological work is currently being conducted by the Commission also taking account of the work done in the context of EU-financed projects (Net-SILC\(^ {170} \) and EC/OECD joint partnership\(^ {171} \)). Currently, there is no agreed or common standard for **valuing social transfers in kind** for the purpose of understanding the distribution of income. In the National Accounts, social transfers in kind are measured as the sum of costs. This valuation could serve as a starting point, but more information is needed on how total income is distributed across the population. Specific information on actual use of services (including health care) or on barriers to access may help in allocating the value of transfers in kind to different populations. Such information could be collected every five years, possibly in an EU-SILC module. The Commission, together with the European Statistical System, will explore this possibility in the context of the revision of the EU-SILC Regulation.

**Imputed rent** is meant to take account of the economic advantage that people get from occupying their own house or from living in subsidised housing. Given the very different home ownership structures in different European countries, not taking account of imputed rent can affect the comparability of poverty measures. The valuation of imputed rent is done in the context of national accounts and experts recommend that it be included in the definition of income (Canberra manual).

In the context of EU-SILC, all Member States are asked to estimate the value of imputed rent on the basis of a common methodology (since 2008). In principle, this variable can be added to the current definition of income. The impact on poverty rates and other distributional indicators is significant in all countries: it decreases at-risk-of-poverty rates by 1 percentage point on average in the EU, and by more than 2 percentage points in ES, IE, EL, IT and MT, but it increases them by 1 percentage point in DE and FR). The impact is especially strong when comparing different population groups. For instance, the

\(^{170}\) Net-SILC: a network for the analysis of EU-SILC financed by the European Commission (Eurostat) and bringing together data producers (national statistical offices) and data users.

\(^{171}\) EC/OECD joint partnership on the impact of publicly provided services on the distribution of resources.
risk of poverty of old people tends to drop significantly if the economic advantage they may draw from home ownership is added to their current disposable income.

While there is broad consensus on the importance of taking account of imputed rents to analyse and compare systems and the situation of different population groups, a number of issues are raised concerning their use in the measurement of poverty and call for further methodological and harmonisation work within the European Statistical System.

- The economic advantage derived from home ownership or subsidised rents is not entirely ‘liquid’. It is not obvious that imputed rents can entirely be used for consumption or savings. This is especially true of an old lady living in a large family house, or of people living in subsidised rented accommodation, most of whom are unable to afford housing on the private rental market. This also raises the question of whether primary incomes and their distribution would be the same if most of the population had to find housing on the private rental market.

- Imputed rents are not observed, and as such their value depends a lot on the model and assumptions used. It is also argued that while they are useful for analytical purposes, they are not suitable for descriptive statistics.

8.3.2 Improving the measurement of material deprivation

When adopting the targets of the Europe 2020 strategy, the Council asked for a revision of the material deprivation indicator by 2015, in the broader context of the mid-term target review. Currently, severe material deprivation is measured as the enforced lack of at least four items from the following list: ‘cannot afford (1) to pay rent/mortgage or utility bills, (2) to keep home adequately warm, (3) to face unexpected expenses, (4) to eat meat, fish or a protein equivalent every second day, (5) to take a one-week holiday away from home, (6) a car, (7) a washing machine, (8) a colour TV, or (9) a telephone.’ This indicator was adopted by the SPC as a complement to the relative poverty indicators based on current income, taking account of non-monetary resources. Because it is based on a single European threshold, this indicator is also a step towards a more ‘absolute’ measure of poverty. It captures the differences in living standards between countries, as well as the impact of growth on those standards in a given country.

The underlying idea is that the cumulative enforced lack of a given number of items reveals a latent trait in people’s living conditions, called material deprivation. However, the indicator adopted in 2009 had scope for improvement. The number of items was too low and some have become obsolete in today’s Europe (e.g. a colour TV, and a washing machine to some extent).

Making use of the 50 material deprivation items from the 2009 wave of EU-SILC, a proposal for a new indicator has been developed by a Eurostat Task Force on material deprivation172, on the basis of a detailed assessment of the dimensional structure of these 50 items, their suitability, validity, reliability and additivity. The list of items currently envisaged includes: not being able to afford some new clothes, two pairs of shoes, a meal with meat, chicken or fish every second day, to keep the home adequately warm, to pay for arrears (mortgage/rent, utility bills, hire-purchase instalments), to face unexpected expenses, the enforced lack of a personal car if needed, a computer with an internet connection, to replace worn-out furniture, some money for oneself, regular

172 Members of the Eurostat Task Force include representatives of national data producers (National Statistical Offices), of main users from DG EMPL, SPC-ISG and academia.
leisure activity, getting together with friends/relatives for a drink/meal monthly, one week’s annual holiday away from home.

This list would provide a solid basis on which to build the revised indicator. The main improvements are: (1) a higher number of items, which makes the indicator more robust and less sensitive to individual items, (2) the improved relevance of the items. This revised indicator would be in line with the Council definition of poverty and social exclusion, which considered as poor ‘the persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State to which they belong’.

8.3.3 The dynamics of poverty and social exclusion

Poverty is not a permanent state and individuals might stay/exit/enter or even re-enter into it again. From a political point of view, it is crucial to reach out to those in persistent poverty, to prevent those who might enter (or re-enter) poverty from doing so, and to help others to escape from it. Evidence shows (ESDE 2012) that very different patterns of the dynamics of poverty prevail in the Member States.

A better understanding of poverty dynamics would help to target those most at need and better prevent the others from entering into persistent poverty. The longitudinal dimension of EU-SILC, which is beginning to be exploited, is a significant source of greater understanding even if some technical issues have until now inhibited its full use.

The modernisation of household statistics is an opportunity to improve the tools for longitudinal analysis (both in EU-SILC and in the LFS). Areas for the improvement of longitudinal data in EU-SILC include: (1) revised design allowing for longitudinal indicators with better precision and more reliable breakdowns; (2) fine-tuning of variables that could help to better identify the trigger events (job loss, family separation, health problem, etc.), and their dates of occurrence and their impact on poverty and social exclusion; (3) Improving follow-up of people by carefully implementing tracing rules and keeping contacts between dates of interview; (4) Description of non-respondents and control for usual bias limiting panel data (attrition, censoring, non-homogeneous non response). Key variables helping to evaluate the impact of social policies and different welfare regimes on those transitions would also be extremely valuable.

8.3.4 Capturing the gender dimension of poverty

Ample empirical evidence and academic research document the relative disadvantages that women face on the labour market (gender pay gap, the “glass ceiling”, etc.) as well as for their integration in society. However, on-going work at EU level on the development of a Gender Equality Index has highlighted that poverty and income inequality indicators only partially reflect these disadvantages. The main reason is that most indicators aiming to measure access to resources (income, material deprivation) are based on the assumption of equal sharing of resources within the household.

Existing information could nevertheless be better used to monitor the specific situation of women. In EU-SILC, a number of variables are collected at the individual level, in particular some of the income components (e.g. earnings), some material deprivation items (including from among the new list of items envisaged) as well as variables measuring access to services, such as an unmet need for medical care (see also section on access to services). These variables could be analysed more systematically in the context
of standard poverty analysis, and specific indicators could also be defined and integrated in the regular monitoring framework.

8.3.5 Capturing the situations of children and youth

Children

Major steps have been taken in recent years to improve the way in which the situation of children is captured. In 2008, the SPC report on child poverty\footnote{European Commission (2008) Child poverty and well-being in the EU: current status and way forward.} reviewed existing data and indicators that could be used to analyse the situation of children and provided a diagnosis of the main determinants of child poverty. The report made 14 recommendations to improve the monitoring of child poverty and well-being in the EU. A number of these have already been followed up at EU level.

The child dimension of existing EU indicators in the field of social inclusion and health has been strengthened through the development of new age breakdowns, as well as by refining the low work intensity indicator.

Data collection on child-specific deprivation through the 2009 EU-SILC thematic module on material deprivation has been substantially improved, and includes 20 child-specific items. These have been used by the Eurostat Task Force (with the support of Net-SILC 2) to produce a child deprivation indicator.\footnote{The UNICEF has also used the child deprivation items collected in the SILC 2009 module to produce a child deprivation index, published in Report Card No 10. See: http://www.unicef-irc.org/publications/pdf/rc10_eng.pdf} The regular collection of the list of child deprivation items is currently being discussed in the context of the SILC revision.

The Commission\footnote{Child poverty and child well-being in the European Union, TARKI Social Research Institute Hungary and Applica Belgium, published in January 2010.} and the SPC\footnote{Social Protection Committee (2012), SPC Advisory Report to the European Commission on 'Tackling and preventing child poverty, promoting child well-being' 27 June 2012.} have carried out extensive work to identify a list of indicators best suited to monitor child poverty and well-being. On this basis, the Commission has identified a set of indicators for monitoring children’s situation in the Recommendation on Investing in Children, as part of the Social Investment Package.

Together with the OECD, the Commission has carried out a review of international surveys of children to identify what key indicators could be derived.\footnote{OECD (2012) An Evaluation of International Surveys of Children} DG RTD has launched a call for tender\footnote{See 'Towards a European longitudinal childhood and youth survey' http://www.2020-horizon.com/Towards-a-European-longitudinal-childhood-and-youth-survey-i763.html} to set up an EU-wide longitudinal survey of children.

Other new steps could be taken as regards data and indicator development.

The current EU-wide surveys do not satisfactorily capture the \textbf{status of children in the most vulnerable situations} (for example this cannot be measured by SILC) and they could usefully be complemented with information relating to children outside traditional households (e.g., alternative care), coming from vulnerable or ethnic minority backgrounds, migrant children, children from an ethnic minority background, children with a disability. There should be specific efforts dedicated to exploring possible data sources and methodologies to collect data on these children.

\begin{footnotesize}
\begin{enumerate}
\item[174] The UNICEF has also used the child deprivation items collected in the SILC 2009 module to produce a child deprivation index, published in Report Card No 10. See: http://www.unicef-irc.org/publications/pdf/rc10_eng.pdf
\item[176] Social Protection Committee (2012), SPC Advisory Report to the European Commission on 'Tackling and preventing child poverty, promoting child well-being' 27 June 2012.
\item[177] OECD (2012) An Evaluation of International Surveys of Children
\end{enumerate}
\end{footnotesize}
While there are already important indicators on the health status of children, data on one important dimension of health inequalities children face, the social gradient, are not easily available. This could become a priority in future work to enable appropriate assessment and monitoring of policy interventions.

Existing information on participation in childcare is not sufficient to give accurate information on affordability and quality aspects. These are crucial for supporting parents who go out to work, and for child development. Better measures on affordability may be developed to enable improved monitoring, better informed policy-making and better assessment of the long-term impacts of quality early childhood education and care services. The 2014 EU-SILC thematic module on material deprivation could be used for collecting more information on early childhood.

**Young people**

The at-risk-of-poverty or social exclusion measurement raises issues that are peculiar to the 18 to 24 age group. Indeed, becoming poor is closely linked to the timing of departure from the parental home. This differs a lot across Europe. Since poverty and exclusion are measured at household level, youth poverty rates are higher in countries in which young people have access to their own resources and lower in countries in which achieving autonomy is more difficult. Scope for improvement will be discussed in an ad hoc expert group on youth indicators set up by the Commission (DG EAC).179

In April 2010, the Employment Committee and its Indicators Group (DG EMPL) agreed on a definition and methodology for a NEET indicator to be used in the context of the Europe 2020 strategy. Young people aged 15-24 who are not in employment, education or training (NEETs) have a much higher risk of remaining unemployed, of experiencing poverty and/or of being socially excluded in the future than others in society.

**8.3.6 Measuring the most extreme forms of poverty and social exclusion**

In June 2010, the European Council called for more work on the measurement of severe forms of poverty and social exclusion. Specific methods are needed to capture the most severe forms of poverty. Methods include looking at more severe (lower thresholds, overlaps between deprivation and low income) and persistent forms of the existing measures of poverty. The analysis of the depth and duration of poverty and exclusion, as well as the accumulation of disadvantage reported in the ESDE 2012 could contribute to formulating of the most appropriate policy responses to severe poverty.

However, the main obstacle to measuring ‘extreme poverty’ is that our main sources (surveys, and to a certain extent registers) do not capture those who are most excluded from society. EU-SILC is not the appropriate tool for two main reasons.

1. EU-SILC only covers private households, which means that those most excluded from society (the homeless, people living in institutions such as prisoners, migrants, elderly, mentally ill) do not answer the SILC questionnaire.

2. The measurement of very low income through surveys or registers suffers from major quality problems, such as the treatment of negative income from self-employment, the high non-response among people in the most precarious situations, etc.

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Further work is needed on developing adequate measures of the different forms of extreme poverty. However, it is unlikely that a single indicator could capture what is at stake. A great deal of methodological work has already been carried out, not least to measure homelessness and housing exclusion, or the specific situation of the Roma. Concerning the Roma and other ethnic minorities, it has to be added that major legal and sociological barriers prevent the collection of statistics on ethnicity in most EU countries.

In the area of homelessness and housing exclusion, the Commission has asked Member States to collect specific information on the number of homeless people in the 2010 round of censuses (results due in 2013-14). The results of this data collection will be evaluated to assess the added value of such an exercise, and whether it should be repeated on a regular basis.

The Commission supports the development of relevant tools/infrastructure at national level through methodological work. The Commission is promoting the use of a harmonised nomenclature of situations of homelessness and housing exclusion (ETHOS), which should facilitate the compilation of data from different sources. It is also advocating the further involvement of national statistical institutes in the collection of data on homelessness, in partnership with service providers.180

The Commission is also investing (in cooperation with the World Bank) in the development of poverty maps that aim to identify local areas of multiple and severe disadvantage, including areas where there are large concentrations of Roma. Such tools can support better targeting of policy intervention for Roma (including through the ESF), and other population groups living in areas that face multiple disadvantages.