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from: Social Protection Committee  
to: Permanent Representatives' Committee (Part I) / Council (EPSCO)  
Subject: The Social Dimension of the EU/EMU  
a) Social dimension of the Europe 2020 Strategy

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Delegations will find attached the above-mentioned SPC report for the exchange of views on the social dimension of the EU/EMU to be held by the Council (EPSCO) on 19 June 2014.



## Report to the Council on the social dimension of the Europe 2020 strategy

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### Part I – Development in the social situation in the EU since the launch of the Europe 2020 strategy

1. The commitment made in 2010 by the EU Heads of States and Government to lift at least 20 million people out of being at risk of poverty or social exclusion in the context of the Europe 2020 strategy was a significant step forward. It stressed the equal importance of inclusive growth alongside economic objectives for the future of Europe, and introduced a new monitoring and accountability scheme<sup>1</sup>.
2. As highlighted by the recent Communication from the Commission on "Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth," at the launch of the Europe 2020 strategy in 2010, the depth and length of the crisis were still largely unknown. Various scenarios were considered for the following decade, ranging from a return to "strong" growth, a scenario of "sluggish" recovery or the risk of a "lost decade". A lot depended on the ability of the EU to exit rapidly and strongly from the economic crisis. Four years on, it has become clear that the likely growth trajectory for the EU over 2010-2020 is closer to the second scenario (i.e. around 1.3% per annum). The economic output in the EU in 2014 is expected to reach the same level as in 2008, with losses from the downturns now offset by the ongoing recovery. However, the impact of the crisis is both immediate and longer-term: it has already cost Europe a loss in wealth but there is also a risk for the future growth potential.

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<sup>1</sup> COM (2010) 758 final

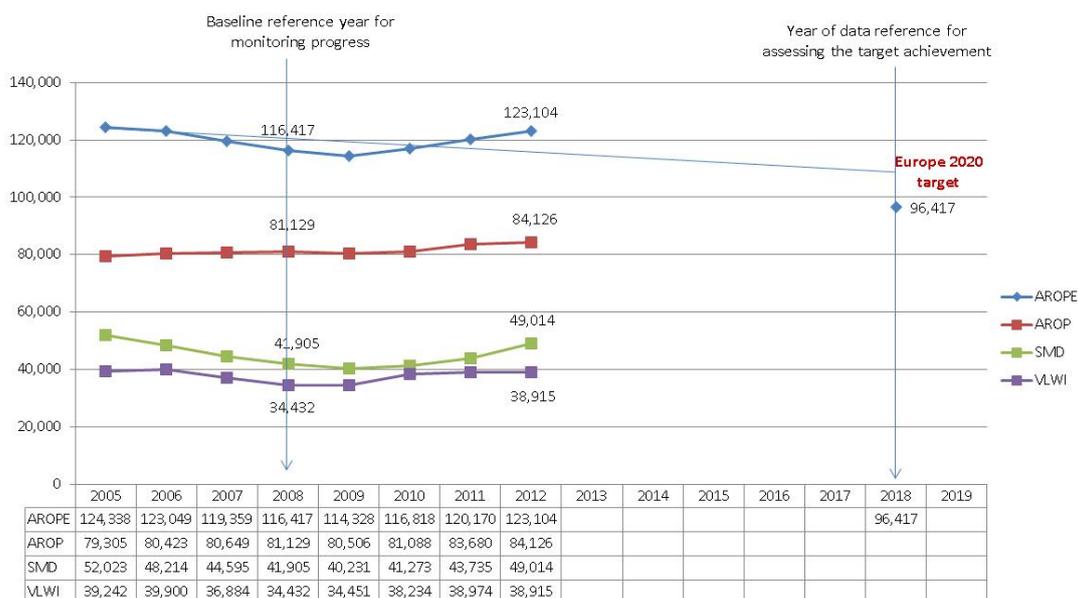
3. Unemployment has increased sharply in Europe as a result of the crisis, from a rate of 7.1% in 2008 to a peak of 10.9% in 2013. Given the time lag between recovery and net job creation, the unemployment rate<sup>2</sup> is expected to decline only slowly in the foreseeable future (10.4% in 2015). The situation has become more entrenched with time. Long-term unemployment has increased by 2.1 percentage points between 2008 and 2012 (from 2.6% to 4.7%) and above 1pp in 18 Member States. While the share of (quasi-) jobless households has stabilised in some countries in 2012, it remains a major issue in the countries mostly affected by the crisis. 16 Member States have significant increases since 2008 and for 1/3 of them the increase is above 5pp – IE (10.5pp), ES (7.6pp), EL (6.7pp), LV (6.4pp), LT (6.2pp), with the Baltics experiencing some improvement in the most recent period. This may point to an increase in the level of structural unemployment, which has far-reaching consequences for the labour force and the growth potential of the economy, and also for the political and social fabric of the EU – notably in terms of rising levels of poverty and social exclusion. In most Member States a higher share of women lives in (quasi-) jobless households and the crisis has not substantially reversed this.
4. On this background, social protection systems have been challenged in different ways:– in performing their automatic stabilizer and their protective function in the aftermath of income loss for a prolonged period of time but also in terms of significant social policy reforms undertaken in a number of countries, due, but not only, to strong fiscal consolidation efforts.
5. Since **the onset of the crisis, Europe experienced a persistent decline in the real gross disposable households' income (GDHI)**. In 2013, the gross disposable income of households continued to decline year on year in the Euro Area in real terms, but at a slower pace and nearly stabilised in the 3rd quarter, reflecting the evolution of labour market incomes. However, the growth of disposable household income in Europe, adjusted for inflation, still lags behind GDP growth, and it does so since the beginning of 2010. There is a danger that recovery does not benefit all parts of the economy equally, with households and individuals not benefiting much from improvements in the economy.

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<sup>2</sup> percentage of active population unemployed for more than a year.

6. As highlighted in the latest SPC report on the social situation in the EU<sup>3</sup>, the most recent EU SILC figures available for 2012 show that **the EU is not making any progress towards achieving the 2020 target on poverty reduction but is drifting away from the target trajectory**. Since 2008<sup>4</sup> there are 6.7 million more people living in poverty or social exclusion<sup>5</sup>, a total of 123 million people in EU27 or close to 1 in 4 Europeans in 2012. Poverty and social exclusion have increased in more than 1/3 of the Member States in both 2011 and 2012.

Evolution of the EU 2020 poverty and social exclusion target<sup>6</sup>



Source: Eurostat (EU-SILC) (extraction date: 29.01.2014), SPC (2013)

Note: AROPE – at risk of poverty or social exclusion rate; AROP - at-risk-of-poverty rate; VLWI - share of population living in very low work intensity households ((quasi)-jobless households); SMD - severe material deprivation rate. For the at-risk-of poverty rate, the income reference year is the calendar year prior to the survey year (i.e. 2011) except for the United Kingdom (survey year) and Ireland (12 months preceding the survey). Similarly, the very low work intensity rate refers to the previous calendar year (i.e. 2011) while for the severe material deprivation rate, the reference is the current year (i.e. 2012).

<sup>3</sup> <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7695&furtherPubs=yes>

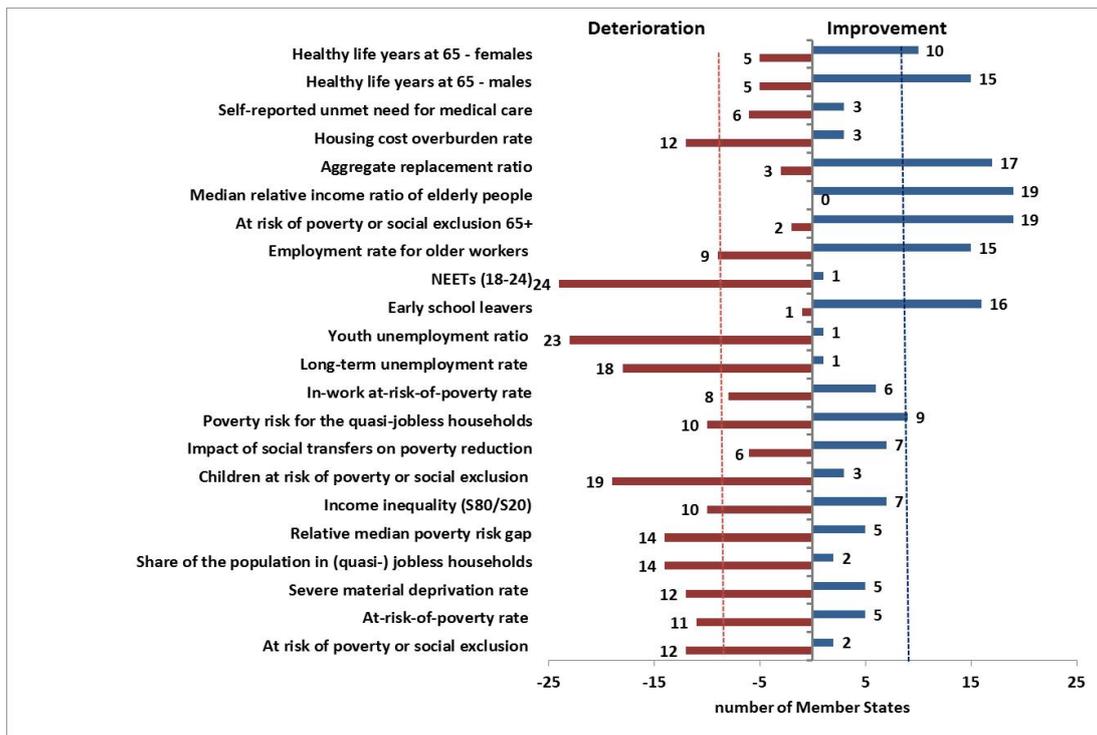
<sup>4</sup> the reference year, due to data availability, for when the target was adopted in 2010

<sup>5</sup> The definition of the EU poverty and social exclusion headline target is based on a combination of three indicators – the at-risk-of-poverty rate, severe material deprivation rate, and share of people living in very low work intensity households. It considers people who find themselves in any of these three categories and, while very broad, it reflects the multiple facets of poverty and social exclusion across Europe. This definition extends the customary concept of relative income poverty to cover the non-monetary dimension of poverty and labour market exclusion.

<sup>6</sup> Based on data for EU27

7. The Social Protection Performance Monitor (SPPM) (SPC, 2013<sup>7</sup>) shows the social trends to watch and areas of improvement since the launch of the Europe 2020 strategy. It highlights clear divergences in the EU, especially related to trends in the share of the working poor and the effectiveness of social transfers<sup>8</sup>, for which a more or less equal shares of Member States are seeing worsening and improvement.

**Social trends to watch and areas of improvement since the launch of the Europe 2020 Strategy (2008-2012)**



Source: Social Protection Performance Monitor (SPC, 2013), only statistically significant evolutions are considered, countries which are not included in the number of the red or blue bar are thus with stable performance in the period considered.

<sup>7</sup> <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7695&type=2&furtherPubs=yes>

<sup>8</sup> As proxied by the impact of social transfers on poverty reduction and the poverty risk of the (quasi-) jobless households

8. **This overall trend in increased share of Europeans living in poverty and social exclusion masks growing divergence between Member States.** Increases between 2008-2012 have been observed in the countries mostly affected by the economic crisis (EL, IE, ES, IT, CY, LV, LT, EE), have persisted in a number of countries which have some of the biggest challenges related to poverty and social exclusion (BG, HU) but have started becoming a trend also in countries with some of the lowest shares of AROPE and most performant welfare systems like in DK and LU. AROPE has remained more or less stable in CZ, DE, FR, NL, PT, SK and FI, while it has decreased in only two countries in the whole EU - PL and RO. Women have, on average, close to 2 percentage points higher risk of being at risk of poverty or social exclusion than men. During the crisis, in a number of Member States the situation of men worsened more than of women, leading to reduction of the relative difference but no real improvement in the situation of women.
9. **There are 26.5 million children in Europe who lived in poverty or social exclusion in 2012 or 1/5 of all people living in poverty or social exclusion.** The situation with respect to the beginning of the Europe 2020 strategy is very alarming with **19 Member States or 2/3 of all Member States seeing statistically significant increases in the rate of child poverty and social exclusion between 2008 and 2012.** In a number of countries, these increases are in the range of 6-8pp (BG-8.1pp, IE- 9pp and HU-7.5pp, LV-7.3pp, EL-6.7pp, MT-6.2pp, CY-6pp). Only three Member States (DE, PT and PL) recorded a decrease in their child poverty and social exclusion for the period 2008-2012.<sup>10</sup>

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<sup>9</sup> Latest data for IE refers to 2011.

<sup>10</sup> For further analysis on the situation of the children - Frazer, H. and Marlier, E. (forthcoming), EU Network of Independent Experts on Social Inclusion, Synthesis Report on 'Investing in Children: breaking the cycle of disadvantage' An updated and finalised version will be published in Spring 2014. It will be available from:  
<http://ec.europa.eu/social/main.jsp?catId=1025&langId=en>.

10. As highlighted by the 2013 Joint Employment Report<sup>11</sup>, **poverty rates have increased significantly since 2008 in the South and periphery of the EU. This increase came on top of already high poverty risk levels.** Since 2009 at-risk-of-poverty rates have also increased in Member States in the North, albeit from a much lower level. Since the start of the crisis in 2008, the number of countries with worsening relative poverty is 11 with highest increases in HR (3.2pp), EL (3pp), SK (2.3pp) and SE (2pp)<sup>12</sup>.
11. **One of the most important indications** of the overall worsening in the poverty and social exclusion of the EU population **has been the deterioration in living standards.** 12 Member States have seen statistically significant increases in the share of their population living in severe material deprivation<sup>13</sup> in the period 2008-2012 (highest increases – LV (12.4pp), LT (6.7pp) HU (5.2pp) and EL (4p)). The countries most affected by the economic crisis are the ones seeing the worst trends – EL, LT, EE, CY, IT, HU but also MT.
12. As highlighted by the 2013 SPC report on the social situation in the EU and the Joint Employment Report, the crisis has substantially altered the dynamics of inequality and affected different sections of the population in different ways. **Income inequality is growing across and within Member States, particularly in the South and periphery of the EU. The highest inequalities remain in ES, EL, LV, RO and BG where the total equivalised income of the richest 20% of the population is more than 6 times that of the poorest 20%.** In many countries, **the crisis has intensified the long-term trends of wage polarisation and labour market segmentation, which together with less redistributive tax and benefit systems have fuelled rising inequalities.** High levels of unemployment (with the largest increases at the bottom of the labour market) and in some cases the impact of fiscal consolidation also explain the significant increases in inequalities observed in the countries most affected by the jobs crisis.

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<sup>11</sup> [http://ec.europa.eu/europe2020/pdf/2014/jer2014\\_en.pdf](http://ec.europa.eu/europe2020/pdf/2014/jer2014_en.pdf)

<sup>12</sup> In the case of SK and SE, this increase has been accompanied by an increase in the poverty threshold, a sign of overall improvement of median income levels.

<sup>13</sup> Share of population living in households lacking at least 4 items out of the following 9 items: i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, or could not afford (even if wanted to) vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone.

## **Part II– Implications for the mid-term review: improving the capacity of Europe 2020 to deliver smart, sustainable and inclusive growth**

13. As shown in section 1, Europe faces major social problems illustrated in the widening divergences, historically high levels of unemployment, increasing inequalities, poverty and material deprivation. These challenges adversely impact some countries more than others undermining long-term growth, social and political stability. The resulting social and economic polarisation weakens the cohesion of the European Union as a whole.
14. Against this background, the Europe 2020 strategy is the main strategic framework for pursuing a smart, sustainable and inclusive growth. These three mutually reinforcing objectives should remain as they capture the commonly agreed long-term priorities for the EU. More importantly they correspond to the expectations of citizens to be able to fulfil their full potential and see improvements in their living standards. Yet the economic crisis affected the prospects of the EU to deliver on the Europe 2020 objectives.
15. Therefore in the remaining years to 2020, the fight against poverty, inequalities, social and labour market exclusion should remain a high priority for Member States and the EU to deliver on smart, sustainable and inclusive growth. The strategy needs to support Member States in their efforts to strengthen social investment across policies. The focus should be on investing in human capital development, activating labour market participation, and improving the capacity of social protection systems to provide an effective protection against the risks people face across the life cycle.
16. The SPC welcomes the overall analysis of the Communication and in particular its holistic nature allowing for a comprehensive assessment of what remains to be done. The Committee is particularly pleased to see the call of the Commission to move away from emergency situation and to focus on the reasons for having a Europe 2020 strategy.

17. Against the background of persistent long-term challenges, the strategy needs to keep its long-term orientation and targets. The targets allowed a sense of focus and played as useful policy anchors steering the efforts of Member States toward the 2020 horizon. They should continue to drive the long-term efforts of Member States. More efforts are needed to reach them. Creating more jobs, reducing poverty and inequalities need to be addressed by using the full potential of the key functions of welfare policies (protection, automatic stabilisation and investment, ) emphasised by the Social Investment Package of the European Commission. At the same time, Europe 2020 should further consider the short-term effects of policies. Reducing the levels of unemployment, social exclusion and poverty should not wait for 2020.
18. The economic crisis brought to the fore the challenges of increasing poverty, deepening inequalities and widening divergences of economic performance and social standards. Further work is required by the EPSCO preparatory bodies on all these issues.
19. The crisis and the high levels of unemployment constrained progress towards the employment and in particular poverty reduction targets. Yet, the reasons for drifting apart from these targets need to be further explored: more analysis is needed on the impact of economic, budgetary and fiscal policies on the capacity of Member States to stay on course with their national targets and also on their capacity to improve the living standards of citizens, foster social cohesion, create more and better jobs and spur growth.
20. The EU should promote labour market inclusion for all and move away from an age-based approach which opposes different generations, whilst addressing the specific needs arising across the life cycle. The inclusion of under-represented categories of people in the labour market- such as the long- term unemployed, migrants and women- are necessary to address concerns arising from the shrinking of the working age population and thus boost smart, sustainable and inclusive growth.

21. The monitoring instruments<sup>14</sup> in place reveal growing disparities within the EU. This indicates that Member States are on a diverging path. In the remaining years to 2020, the EU needs to step up its efforts to reduce socio-economic disparities across the Union and work towards tangible improvements in social outcomes and living standards. In this respect cohesion policy plays an important role and the SPC welcomes the emphasis placed on human capital investments in the 2014-2020 multiannual financial framework.

## **Governance**

22. The deepening of economic coordination was not enough to ensure a coherent aggregate policy stance. This needs to be improved. Building on the strengthened economic governance, the capacity of the strategy to deliver smart, sustainable and inclusive growth will be enhanced by improving the social governance at EU level as well as the coordination of social policies<sup>15</sup>. Better coordinated and more coherent economic, employment and social policies have the potential to better deliver on the goals of the strategy. This will bring together interrelated and equally important policy objectives.

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<sup>14</sup> The scoreboard of employment and social indicators, the social protection performance monitor, the employment performance monitor and the auxiliary indicators added to the scoreboard of the Macro-economic imbalance procedure

<sup>15</sup> See SPC opinion on *Preparing the 2013 European semester – from evaluation toward recommendations for improvements*, Council document 13722/12, §Ic

23. The European semester is an effective framework for economic policy coordination. Yet as it moves beyond traditional macroeconomic and employment concerns<sup>16</sup> and it addresses a wide range of policies which are not economic, fiscal or financial, but are genuine social protection policies (pensions, health and long-term care), the Semester needs to adjust its instruments to the specificity of these policies and take into account the specific Treaty provisions applicable to them. Budgetary consolidation needs to be coherent with social goals and take into account the social implications of the different policy choices and their distributional impact across income groups, generations and time, as well as their impact on growth, social cohesion and job creation.
24. Member States have the main responsibility for delivering on the objectives of the strategy and for implementing structural reforms using the experience gained through the multilateral surveillance and the social open method of coordination. Major structural reforms and budgetary policies should be impact assessed and sequenced to minimise adverse effects.
25. There is a need for a clearer framework for interaction and for a stronger coordination between the different Council preparatory committees, Commission services and Council formations with responsibilities for the qualitative and quantitative assessment of the policies under their responsibility as well as between their preparatory bodies. This will guarantee a shared assessment on cross-cutting issues.
26. In accordance with national practices, social partners, civil society and other stakeholders should play an enhanced role in the implementation of Europe 2020 both at national and at EU level.

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<sup>16</sup> See Synthesis report of the Presidency on *Lessons from 2013 and way forward*, document 14618/13, p.5