



EUROPEAN SEMESTER THEMATIC FACTSHEET

SOCIAL INCLUSION

1. INTRODUCTION

Fighting poverty and social exclusion is a key political priority for the European Commission. Since 2010, this has been included in Europe 2020, the EU strategy for growth and jobs, which is built around job creation and poverty reduction. One of the five headline targets of the strategy is to lift at least 20 million people out of the risk of poverty or social exclusion by 2020, thus reducing poverty from 116.4 million in 2008¹ to 96.4 million over the decade. In the aftermath of the global financial and economic crisis, however, Europe has drifted away from achieving its poverty target. Increased economic activity and improving labour market conditions have brought some general improvements in the social circumstances in most Member States since 2013.

The launch of the European Pillar of Social Rights gives new impetus to efforts for poverty reduction. The Pillar is expected to become the reference framework for screening employment and social performance of the Member States and to drive reforms at national level. More generally, it establishes a new compass for building a fairer Europe and for strengthening its social dimension, by providing direction in areas like social justice, upward social

mobility, as well as reducing poverty and income inequality.

The aim of this document is to provide a brief overview of social inclusion in the European Union². It is structured as follows: first, the concept and measurement of poverty and social exclusion are introduced; then, an overview of the current challenges in the EU is provided; finally specific policy levers enabling social inclusion are discussed.

Complementary thematic factsheets providing further insight into the policy area are those on *Active Labour Market Policies; Adequacy and Sustainability of Pensions; Health and Health Systems; Skills for the Labour Market; Tax Systems And Tax Administration; Wage-Setting Systems; Addressing inequalities.*

2. POLICY CHALLENGES: AN OVERVIEW OF PERFORMANCE IN THE EU COUNTRIES

2.1. Measuring poverty and social exclusion

Poverty and social exclusion represents a complex phenomenon and its measurement requires a multi-dimensional approach. Therefore, the EU uses a set of indicators to assess progress towards the EU poverty reduction target.

¹ Compared to the latest AROPE data available (year 2008) at the time the Europe 2020 strategy was agreed in 2010.

² The countries covered by the data in this factsheet are the EU28, unless otherwise specified.

The headline indicator measures the number of people at risk of poverty or social exclusion (AROPE). This condition is defined using three main sub-indicators:

- **at-risk-of-poverty** (relative or monetary poverty) measures the percentage of people living in a household with an equivalised net disposable income below the at-risk-of-poverty threshold, set at 60% of the national median (after social transfers). The 60% median threshold is conventional and represents the level of income that is considered necessary to lead a decent life. Persons with an equivalised net disposable household income below the threshold are considered to be at risk of poverty;
- **severe material deprivation** measures the share of people whose living conditions are constrained by a lack of resources and who cannot afford certain items which would normally indicate decent living standards in a given society. It describes the enforced inability to pay for at least four out of nine specific items³;
- **households with very low work intensity** measures the share of population aged 0-59 living in households where working-age individuals worked less than 20% of their total work potential during the past year.

People are considered at-risk of poverty or social exclusion if they suffer from at least one of the three dimensions of poverty described above. Some people are affected by two or even three types of poverty simultaneously. As a result, taking the sum of each indicator would result in double counting in certain cases (see Figure 1).

³ (1) pay rent/mortgage/utility bills on time; (2) keep home adequately warm; (3) meet unexpected expenses; (4) eat meat, fish or a protein equivalent every second day; (5) one-week holiday away from home; (6) own a car; (7) a washing machine; (8) a colour TV; (9) a telephone.

The Social Scoreboard, under the European Pillar of Social Rights, embraces the multi-dimensional approach of Europe 2020 and adds additional indicators to measure poverty. These are as follows:

- **severe housing deprivation**, measured as share of the population living in a dwelling which is considered as overcrowded, while also exhibiting at least one of the housing deprivation measures: (1) leaking roof; (2) no bath, shower or indoor flushing toilet; or (3) a dwelling considered too dark;
- **in-work at-risk of poverty rate**, measured as the proportion of people who are at work and have an equivalised net disposable income below the risk-of-poverty threshold, set at 60% of the national median (after social transfers).

Alongside the poverty indicators, **measures of income inequality**⁴ provide a broader perspective on social exclusion:

- **Gini coefficient** — the most commonly used measure of inequality. It measures the distribution of income within a country or a region. The higher the coefficient, the bigger the inequality, with a coefficient of 0 indicating perfect equality (everyone has the same income), while a coefficient of 100 indicates perfect inequality.
- **income share quintile ratio (also called the 'S80/S20 ratio')** — gives an indication of the disparity in incomes between the 20% of the population with the highest income (the top quintile) and the 20% of the population with the lowest income (the bottom quintile).

The EU Statistics on Income and Living Conditions (EU-SILC) survey is the main source for statistics on income, poverty, social inclusion and living conditions. A key advantage of the survey is that it includes detailed data on

⁴ See the European Semester thematic factsheet on *Addressing inequalities*.

individuals and households collected in a harmonised manner across all Member States, thus allowing for cross-country comparisons. A key limitation is the existence of a two-year lag⁵ for data to become available for analysis and reporting.

2.2. Performance overview

The rate of poverty or social exclusion has decreased to the level it was before the 2008 financial crisis. In 2016⁶, around 118 million people, or 23.5% of the European population⁷, were at risk of poverty or social exclusion (see Annex, Table 1), while in 2012 the proportion of persons at risk of poverty or social exclusion in the EU was at almost 25%.

Monetary poverty remains the most widespread form of poverty in 2016, with close to 87 million people (or 17.3%) affected.

The number of people suffering from severe material deprivation declined for a fourth consecutive year. Preliminary data available for 2016 indicate that at 7.5% (or 37.8 million people) it has reached the lowest level recorded in the EU since 2005.

At 10.4% (or 38.8 million people), the level of low work intensity remains above the 2008 number (9.2%). Yet improved labour market conditions and increased economic activity led to the share of people living in jobless households decreasing for the first time in 2015, since 2008.

Despite the recently improving poverty situation, income inequality remains high, indicating ongoing concerns about fair distributional outcomes for the population. The S80/S20 ratio of

⁵ For example, in 2017 Eurostat publishes data for 2016 based on incomes for 2015.

⁶ Estimated data for income year 2015. At the time of this publication, data for Ireland was not yet available.

⁷ The total number of people at risk of poverty or social exclusion is lower than the sum of the numbers of people in each of the three forms of poverty or social exclusion. This is because some people are affected simultaneously by more than one of these situations.

income share has been following an upward trend in the recent years and is at 5.1 in 2016. An upward trend is also observed in the Gini coefficient, which stood at 31 in 2015.

The poverty and social exclusion results at EU level, calculated as a weighted average of the national results, hide considerable differences among Member States (see Figure 2). In 2016, almost a third of the population in four Member States was at risk of poverty or social exclusion: Bulgaria (40.4%), Romania (38.3%), Greece (35.6%) and Lithuania (30.1%). In contrast, the lowest levels were reported in the Czech Republic (13.3%), Finland (16.6%) and the Netherlands (16.7%) (see Annex, Table 1).

Poverty dynamics also vary across age groups and population background. A few groups in the society appear the most vulnerable: young people, children, people with disabilities, the unemployed and third- country nationals.

Close to a third of Europe's youth is exposed to an increased risk of poverty or social exclusion. Youth unemployment has declined for a third consecutive year and in 2016 stands at 18.7%. This rate is still above its 2008 pre-crisis levels (15.6%). At the same time, almost one third (30.5%) of young people (age 18-24) were at risk of poverty or social exclusion in 2016.

Children are another group at a greater risk of poverty or social exclusion. In 2016, the risk for children (0-17) stood at 26.4% — higher than the risk for working-age individuals (age 18-64, at 24.2%) or the elderly (age 65+, at 18.3%). The vulnerability of children is largely driven by the labour market status of their parents, especially when combined with limited access to social services and low income support.

People with disabilities are also significantly more at risk of poverty or social exclusion. Among people with disabilities in the EU, 30.2% (31 million people) were at risk of poverty or social exclusion in 2015, significantly more than

for those without disabilities (20.8%). This risk increases with the severity of impairment, reaching 36.7% of persons with severe disabilities in the EU in 2014.

The risk of poverty or social exclusion for the unemployed reached 67.1% in 2016. What is more, the number of long-term unemployed reached almost 48% of the total number of unemployed. This development is particularly worrying, as long periods of unemployment can lead to severe skills erosion and expose those experiencing them to an increased risk of poverty or social exclusion. Long-term unemployment also leads to many of those affected no longer being covered by any form of income support or social protection.

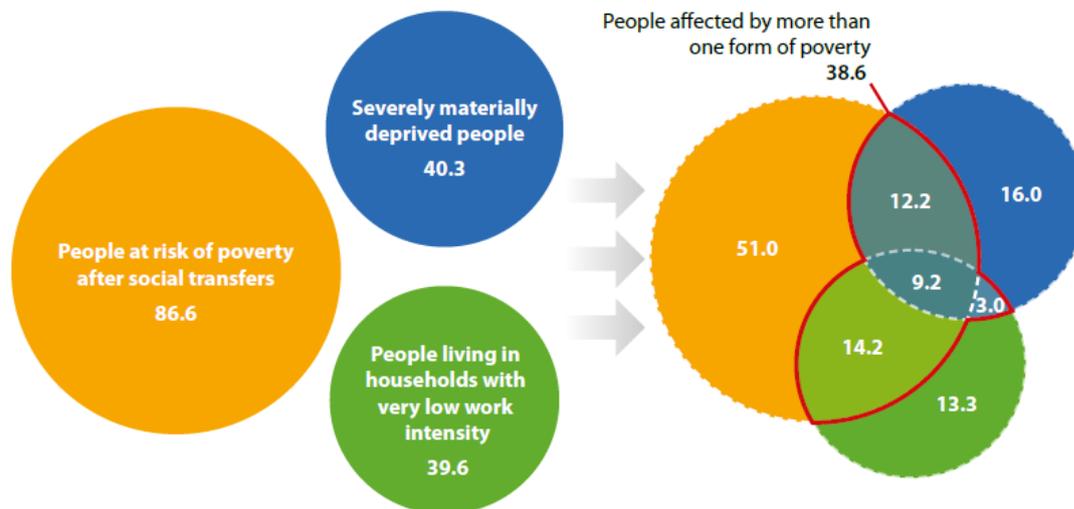
Being in employment does not always protect against poverty, as the increase in in-work poverty is another worrying development. In 2015, 9.5% of those who work were reported to have insufficient earnings — an increase on the 2008 levels⁸ (8.5%). This development is

influenced by the proliferation of temporary contracts and part-time jobs. These types of jobs are often associated with lower remuneration and lower work intensity — key drivers behind an increasing risk of poverty⁹. On the other hand, these types of contracts are strongly associated with trends in digitalisation of work, emphasis on better work-life balance and reintegration of women with children into the labour market.

The situation of the non-EU-born population in EU is especially relevant in light of the increasing need to respond to the inflow of asylum seekers. In 2015, the risk of poverty or social inclusion for the non-EU-born was estimated at 39.1% — almost twice the risk of the native born population (21.6%).

Other groups¹⁰ affected by poverty or social exclusion include single parents, families with multiple children, and minorities, such as the Roma.

Figure 1 – Number of persons at-risk-of-poverty or social exclusion analysed by type of indicators, EU28, 2015* (million)



Source: Eurostat (online data codes: t2020_51, t2020_52, t2020_53 and ilc_pees01)

* Intersections of the poverty indicators for 2016 were not available at the time of this publication

⁸ EU27, data for HR not available for 2008.

⁹ Employment and Social Developments in Europe (ESDE) 2016, p. 87.

¹⁰ Comparable EU data are not available for all of these groups.

3. POLICY LEVERS TO ADDRESS THE POLICY CHALLENGES

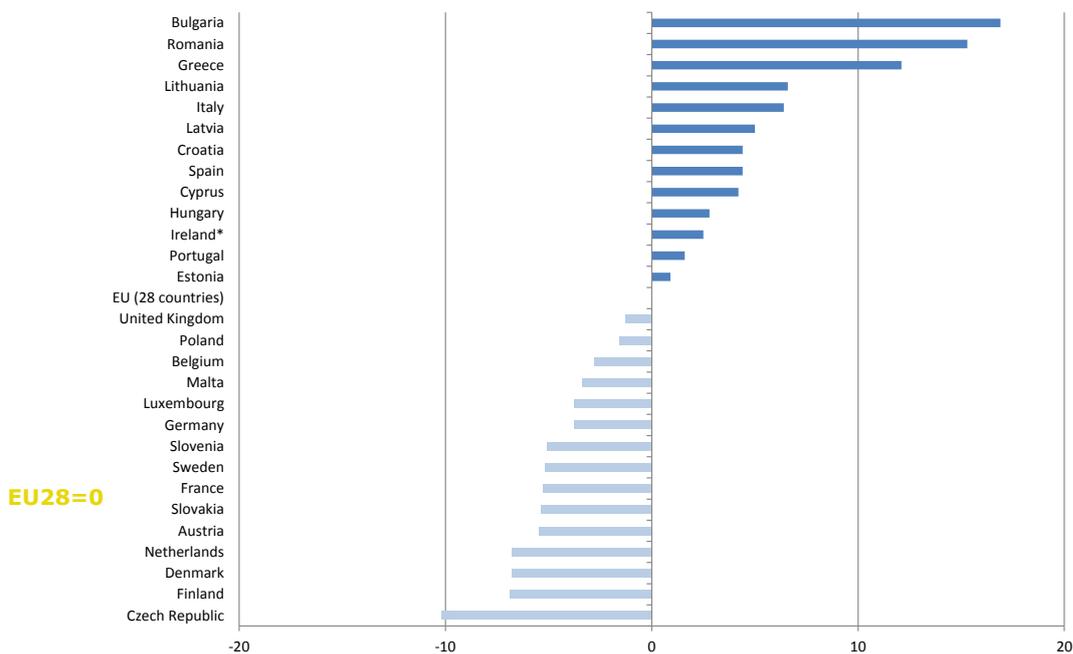
Preventing and reducing poverty social exclusion and inequality largely depends on the actions and reforms taken in the Member States.

The EU's role is to support and complement the Member States' social inclusion and social protection policies, through policy guidance and financial support for reform efforts.

The EU's active inclusion¹¹ approach aims to: (i) help those who can work to find sustainable and quality employment; (ii) provide resources for those who cannot work that are sufficient to live in dignity; (iii) provide support for social participation. The approach is based on three components: adequate income support, inclusive labour markets and access to quality services.

- **Ensuring adequate income support for all**, while avoiding unemployment or inactivity traps for those who can work;
- **Creating inclusive labour markets** by providing opportunities for all to obtain a gainful employment and a living wage. Inclusive labour markets rely, among other things, on active labour market policies that improve the matching of workers to jobs and help keep the unemployed in contact with the labour market¹²;
- **Providing access to high quality healthcare¹³, social and other enabling services** can remove barriers to the labour market, thus addressing poverty and social exclusion. Childcare services, for example, enable parents to go back to work. Other specific programmes and services are used to reach the most excluded in society (homeless people, former convicts,

Figure 2 – People at risk of poverty or social exclusion (2016): standardised values



Source: Eurostat, EU-SILC, online data code: tsdsc100

* At the time of this publication, data for Ireland was not available, so 2015 number is used instead.

¹¹ See *Commission Recommendation on the active inclusion of people excluded from the labour market (2008/867/EC)* and *Commission Staff Working Document on implementation [SWD(2017) 257 final]*.

¹² See the European Semester thematic factsheet on *Active Labour Market Policies*.

¹³ See the European Semester thematic factsheet on *Health and Health Systems*.

the mentally ill, drug addicts) and support them by helping them reintegrate in society.

A number of other policy levers are available to Member States to improve their national social outcomes. For example:

- **Providing efficient and equitable education and life-long learning systems**¹⁴ to supply people with the skills they need to enter and progress in the labour market. Ensuring that children from disadvantaged backgrounds enjoy equal opportunities and that the low-skilled have adequate access to life-long learning;
- **Adopting tax policies**¹⁵ providing the right incentives for all actors (workers, employers and entrepreneurs) to fully engage in economic activities;
- **Wage-setting policies**¹⁶ ensuring adequate incomes, while considering effects on competitiveness and job creation;
- **Ensuring adequate and sustainable pensions**¹⁷, also through enacting 'active ageing' policies on employment, participation and independent living. On average in the EU, pensioners are more protected from the risk of poverty or social exclusion than the total population;
- **Adopting anti-discrimination legislation** addressing the barriers that specific groups may face in finding a job, a place to live or accessing their social rights.

¹⁴ See the European Semester thematic factsheet on *Skills for the Labour Market*.

¹⁵ See the European Semester thematic factsheet on *Tax Systems And Tax Administration*.

¹⁶ See the European Semester thematic factsheet on *Wage Setting Systems*.

¹⁷ See the European Semester thematic factsheet on *Adequacy and Sustainability of Pensions*.

4. CROSS-EXAMINATION OF THE POLICY STATE OF PLAY

4.1. Improving the efficiency and effectiveness of income support

Social transfers and taxes redistribute income between individuals and households. These can have a strong impact on poverty and income inequality. In 2015, expenditure on social protection benefits¹⁸ (excluding pensions) reduced the poverty rate in the EU from 25.9% to 17.3%. However, the impact of social protection varies greatly across the EU, from less than 7% in Bulgaria, Cyprus, Estonia, Greece, Italy, Latvia, Poland and Romania, to more than 25% in Belgium, Denmark, Finland and Ireland (see Figure 3).

In addition to the level of the social transfers, effectiveness and efficiency of the expenditure also play a role, i.e. that the expenditure delivers the best outcomes (effectiveness), at the lowest cost and with maximised spill-overs on employment and growth (efficiency).

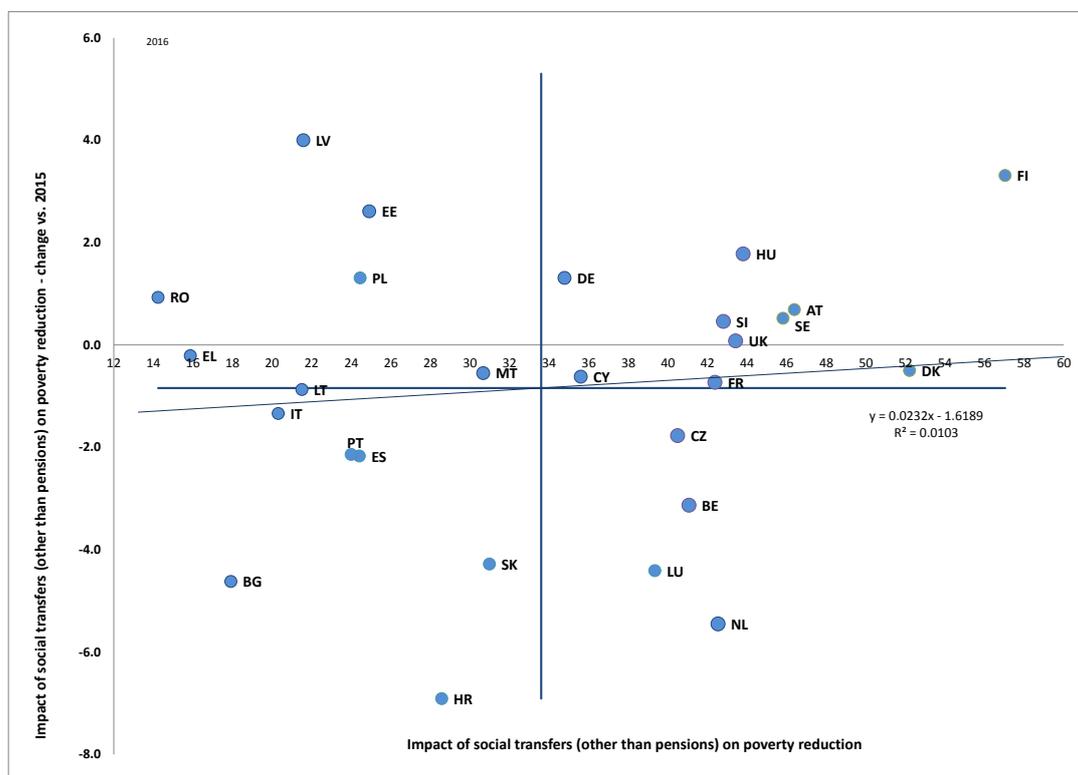
Differences in the effectiveness and efficiency of social spending depend on multiple factors. First, there is great diversity in the level of poverty and inequalities before social transfers, depending on the distribution of original income (i.e. earnings from work, including self-employment income, capital income and pensions¹⁹). Segmented and polarised labour markets²⁰ will typically produce high levels of inequality before transfers, which may require a higher degree of redistribution.

¹⁸ Social protection benefits by function include: old age & survivors benefits (pensions); sickness, health care and disability benefits; family and children benefits; unemployment benefits; housing and social exclusion benefits.

¹⁹ Pensions are regarded as original income because they redistribute income over the course of a life.

²⁰ Segmentation refers to a situation where a group of well-protected workers coexists with a group of workers in more poorly-paid, precarious jobs, without much opportunity for those in precarious jobs to progress towards better jobs.

Figure 3 – The impact of social transfers* on reducing poverty, 2016 and change vs. previous year



Second, significant differences in the size and design of social protection expenditure can help to explain differences in the redistributive effects, across income and population groups. Key features include the composition of expenditure by function and by type, the progressivity of taxation, the combination of universal and means-tested benefits and the 'labour market friendliness' of spending (i.e. to what degree it supports integration in the labour market and incentivises work).

4.2. Specific social protection areas

Besides the use of unemployment benefits²¹, **minimum income schemes** (e.g. safety nets of last resort) are used to support the most vulnerable people.

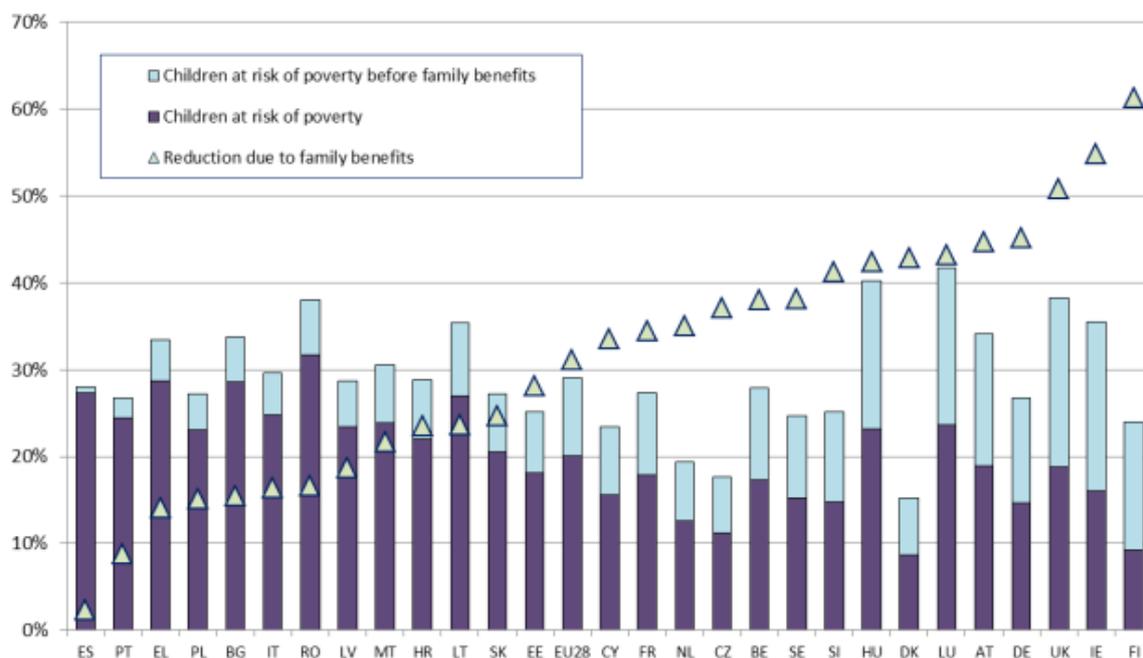
For optimum impact, the integration of these schemes with other policy levers is important. This involves:

- linking minimum income schemes with active labour market policies, to avoid any disincentives to work and inactivity traps;
- streamlining minimum income schemes with other social protection services (e.g. housing benefits, healthcare, childcare), so as to facilitate access, maximise take-up and ensure consistency (e.g. avoid duplication of benefits).

Child and family-support benefits can have a significant impact on reducing poverty among their beneficiaries. Their poverty-mitigating impact differs across EU Member States, with child and family benefits strongly reducing child poverty in Finland, Ireland, the UK and Germany, and with a low child poverty reduction in Spain, Portugal, Greece, Poland, Bulgaria and Italy.

²¹ See the European Semester thematic factsheet on *Unemployment Benefits*.

Figure 4 – Poverty reduction effect of family and child benefits for children aged 0-17



Source: Eurostat, EU-SILC UDB 2013

Minimum wage requirements are widely used across EU Member States to tackle in-work poverty.

However, in several Member States, minimum wages are below the poverty threshold. In 2016, 22 EU Member States had a national statutory minimum wage set by government.

In the remaining six EU countries, the wage floors were set in collective agreements often at sector level, covering a high share of the labour force. This was the case in Austria, Cyprus, Denmark, Finland, Italy and Sweden.

4.3. In-work poverty

In 2015²², the in-work at-risk-of-poverty rate (AROP) was stable at 9.5%, but remained higher than the 2008 level²³. The in-work at-risk-of-poverty rate varied greatly across the

EU, from 4.0% in the Czech Republic to 18.6% in Romania and 13.4% in Greece.

There are also differences between people active in the labour market: the self-employed have a higher risk of poverty than salaried workers, while part-time workers have a higher risk of poverty than full-time workers²⁴.

In comparison with standard workers, non-standard workers face a wage penalty. While some low-wage earners are able to compensate for lower wages with longer working time, involuntary part-time work intensifies the effect of lower wages.

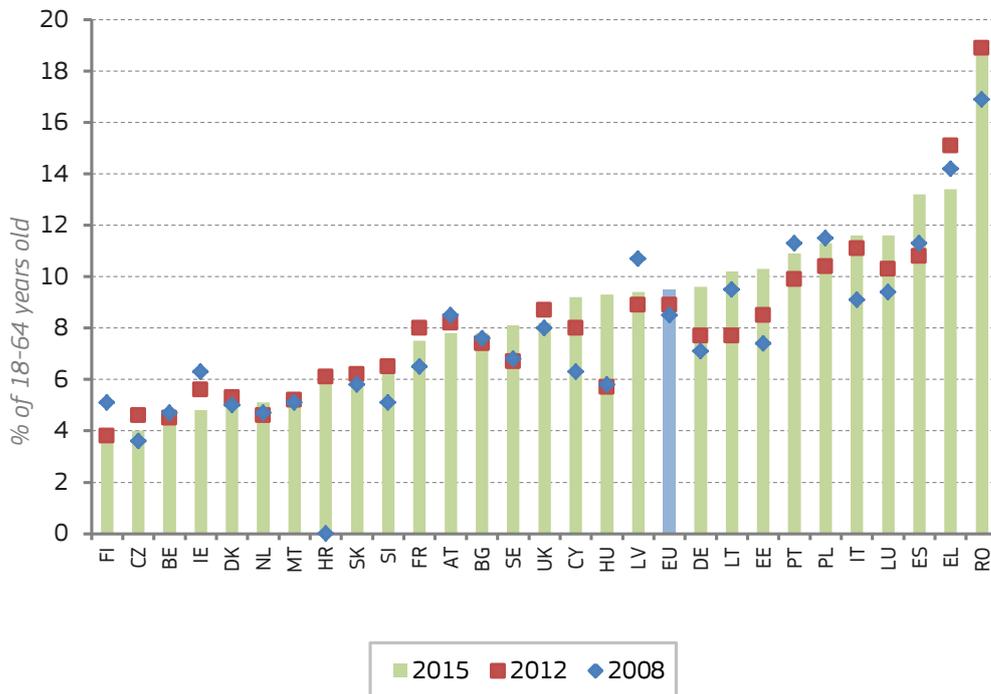
Other factors that influence the in-work poverty rate include household composition and the receipt of social transfers. The presence of other workers or older people in the household can bring additional income in the form of salaries or old-age benefits. Social transfers can increase the household disposable income and reduce the risk of in-work poverty.

²² 2016 data for EU28 and for Ireland are not available at the time of this publication.

²³ EU27, data for Croatia not available for 2008.

²⁴ ESDE 2016, p. 84.

Figure 5 – In-work poverty in 2008, 2012 and 2015



Note: Employed persons aged 18-68. No data for 2006 for Croatia (2009 used instead). 'EU' refers to EU27 in 2006, and to EU28 for the rest. Source: Eurostat, [ilc_iw01]

4.4. Access to quality services

Access to quality services such as childcare, housing, healthcare, long-term care, as well as education and training, contributes to social inclusion.

For instance, access to **quality and affordable childcare** is key to giving children the best chance in life, regardless of their social background, and eases their parents' integration in the labour market. Yet evidence shows that the most vulnerable children (e.g. children from low-income families or families that are furthest from the labour market, Roma children, children from migrant backgrounds, children with disabilities) generally participate less.

This low level of participation in childcare can be attributed to a range of factors such as availability and access (in particular in rural areas), affordability, eligibility and parental choice. For

example, the cost of childcare, combined with the low wages of parents, can also act as a major barrier to access to childcare services, e.g. in Bulgaria, the Czech Republic, Ireland, Latvia, Lithuania and Slovenia, where lone parents with low prospective wages are not sufficiently financially incentivised to participate in the labour market and do not use childcare services for their children. Adequate access to family services and other services is also crucial to ensure the well-being of children growing up in vulnerable situations.

Access to high quality healthcare²⁵ from an early age is indispensable for people to grow and live healthily and contribute to society. Poverty and inequality in access to healthcare may translate into illness, inability to work,

²⁵ See the European Semester thematic factsheet on *Health and Health Systems*.

dependency, increased poverty and exclusion. In the poorest EU regions, the risk of a child dying before his or her first birthday is over five times higher than in the richest regions, while in some Member States the gap in life expectancy between poor people and the well-off reaches 10 years. Particular attention is needed for people in vulnerable situations, such as older people and people with disabilities. By ensuring that such people have access to health services as close as possible to their community (including in rural areas), institutionalisation can be avoided.

Lack of affordable and quality housing is another concern for public policy. In 2015, 4.9% of the European population lived in households that faced severe housing deprivation²⁶, while 11.3% of the households spend more than 40% of their disposable income on housing.

A new profile of homeless people is also emerging. It consists of women, families with children, young people, and people from migrant backgrounds.

Policy levers to address the issue include access to social housing or housing assistance of good quality, protection against forced eviction, and the provision of shelter and services to the homeless to promote their social inclusion.

Date: 30.10.2017

²⁶ Measured as share of the population living in a dwelling which is considered as overcrowded, while also exhibiting at least one of the housing deprivation measures: leaking roof, no bath, shower or indoor flushing toilet, or a dwelling considered too dark.

ANNEX

Table 1 – People at risk of poverty or social exclusion 2008 and 2016

	% of total population		in thousands	
	2008	2016	2008	2016
EU *	23.7	23.5	115 908	117 951
Austria	20.6	18.0	1 699	1 542
Belgium	20.8	20.7	2 194	2 335
Bulgaria	44.8	40.4	3 421	2 890
Croatia	:	27.9	:	1 159
Cyprus	23.3	27.7	181	234
Czech Republic	15.3	13.3	1 566	1 375
Denmark	16.3	16.7	887	948
Estonia	21.8	24.4	291	318
Finland	17.4	16.6	910	896
France	18.5	18.2	11 150	11 463
Germany	20.1	19.7	16 345	16 035
Greece	28.1	35.6	3 046	3 789
Hungary	28.2	26.3	2 794	2 541
Ireland	23.7	:	1 050	:
Italy	25.5	29.9	15 082	18 095
Latvia	34.2	28.5	740	554
Lithuania	28.3	30.1	910	871
Luxembourg	15.5	19.7	72	114
Malta	20.1	20.1	81	85
Netherlands	14.9	16.7	2 432	2 797
Poland	30.5	21.9	11 491	8 221
Portugal	26	25.1	2 757	2 595
Romania	44.2	38.8	9 115	7 694

Slovakia	20.6	18.1	1 111	950
Slovenia	18.5	18.4	361	371
Spain	23.8	27.9	10 786	12 827
Sweden	14.9	18.3	1 367	1 799
United Kingdom	23.2	22.2	14 069	14 359

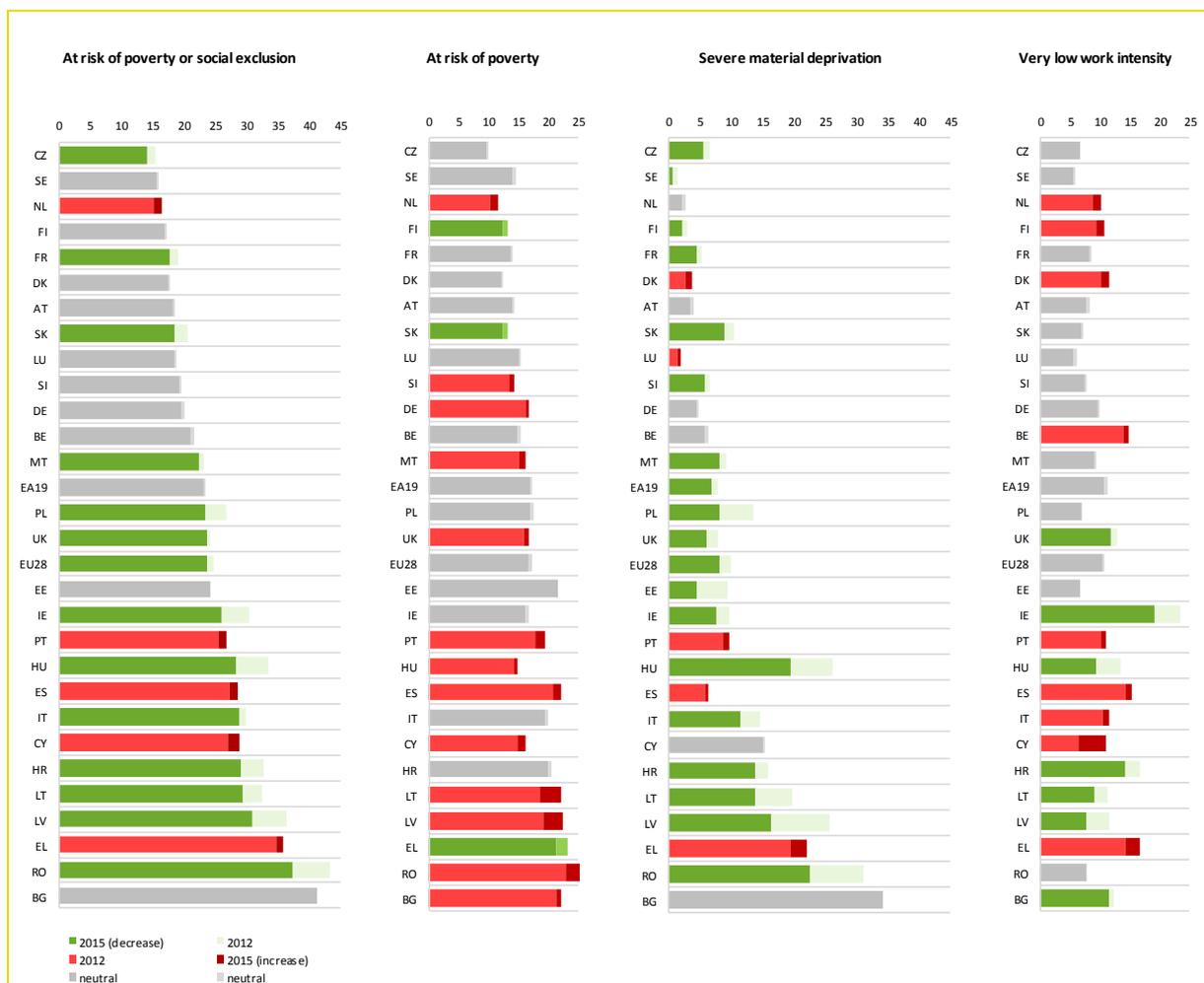
** Data for 2008 exclude HR, data for 2016 are estimated and exclude IE*

: not available

Source: tsdsc100

Table 2 — Poverty indicators: country comparison

At risk of poverty or social exclusion rate, at-risk-of-poverty rate, severe material deprivation (SMD) rate (% of population), very low work intensity (VLWI) households (% of population aged 0-59), EU, euro area and individual Member States, 2012-2015



Note: Green bars indicate a decrease between 2012 (where light green bars end) and 2015 (where dark green bars end). Red bars indicate an increase between 2012 (where light red bars end) and 2015 (where dark red bars end). Grey bars indicate little or no change. AROPE combines AROP, SMD and VLWI. The length of components' bars should not add up to the length of the AROPE bar, because components overlap in AROPE and in the individual components. The year refers to the EU-SILC survey year; 'income measures' is from the previous year; AROPE, AROP: income from the previous year; SMD: current year; VLWI: status in the past year. For Bulgaria and Estonia there are breaks in the series in 2014 (Bulgaria: AROPE, SMD; Estonia: AROPE, AROP, VLWI)

Source: Eurostat, EU-SILC (ilc_peps01, ilc_li02, ilc_mddd11, ilc_lvhl11)