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(Version to be revised following the Presidency Conference on 13-14 June 2005)

TAKING FORWARD THE EU SOCIAL INCLUSION PROCESS

Report

An Independent Report commissioned by the Luxembourg Presidency of the Council of the European Union

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Présidence luxembourgeoise du Conseil de l'Union européenne

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[NOT FOR CITATION *(see page 1 for details)*]

PREFACE

This Report is an *independent* document written at the request of the Luxembourg Government, in the context of the Luxembourg Presidency of the Council of the European Union during the first semester of 2005, but does not represent in any way the views of the Government of Luxembourg. It has been prepared with the cooperation of the European Commission, but does not represent in any way the views of the Commission or the European Union (EU). We, the four authors are writing in a strictly personal capacity, not as the representative of any Government or official body, free to express our own views.

We have been advised by a *Steering Committee* (see list of members in Annex 4) whose views have been of considerable value in preparing this version of the Report, which has been very substantially revised since the draft circulated to Steering Committee members and other Colleagues in March 2005. We should like to *thank*, in addition, for their most helpful comments and suggestions, Lidija Apohal Vučkovič, Laura Bardone, Fred Berger, Jasper Bloem, Jonathan Bradshaw, Chris Burston, Laurent Caussat, Didier Dupré, Olivier Dutheillet de Lamothe, Isabelle Engsted Maquet, Michael Förster, Hugh Frazer, Alessio Fusco, Bernard Gazier, Liz Gosme, Anne-Catherine Guio, Anne Hartung, Marie-Josée Jacobs, Pierre Jaeger, Jana Javornik, Bruno Jeandidier, Balázs Krémer, Peter Lelie, Michèle Lelièvre, Hanna Nicholas, Ramón Peña-Casas, Muriel Rabau, Jean-Claude Ray, Sylvia Rybárová, Armindo Silva, Elaine Squires, Holly Sutherland, Raffaele Tangorra, Johan Vandenbussche, Philippe Van Kerm, Jérôme Vignon, Brigitte Weinandy, Daphne White, Dorota Wijata, Elise Willame, Donald R. Williams, and Vytas Žiūkas. Isabelle Bouvy, Mireille Coos, and Lin Sorrell have provided invaluable secretarial help. *It should be stressed that the Report does not represent the views of members of the Steering Committee, nor of those thanked above. We take full responsibility for the judgments made about past and current policy and for the recommendations for future policy.*

Together with the high-level Conference on "Taking Forward the EU Social Inclusion Process", organised by the EU Luxembourg Presidency with the support of the European Commission (Luxembourg City, 13-14 June 2005), the Report forms part of a *project* established as an initiative of Marie-Josée Jacobs, Luxembourg Minister for Family and Integration. The *scientific coordination* of the whole project has been entrusted to the Luxembourg-based CEPS/INSTEAD research institute, and has been the responsibility of Tony Atkinson and Eric Marlier.

The Report aims to be *complementary* to the activities of official bodies in reviewing the Lisbon Agenda, the Social Inclusion Process, and the Open Method of Coordination in the social field. We have been anxious to avoid duplication of the work that has been, or is being, undertaken by the Commission, by the EU Social Protection Committee and its Indicators Sub-Group (ISG), and by other EU bodies. In preparing the Report, we have sought to take the position of outside, but informed, observers, assessing some of the strengths and weaknesses of the current processes, and considering how they may be advanced. It is to be hoped that this external assessment will be a helpful input into the 2005 official review procedure.

The present version of the Report is a *pre-final version* that will be finalised following the aforementioned Conference. The final Report, in which we will correct any errors and will refer to work drawn to our attention by the Conference's participants, will be available by mid-July at two addresses: one at CEPS/INSTEAD (www.ceps.lu/eu2005_lu/inclusion) and one at the Luxembourg Ministry for Family and Integration (www.fm.etat.lu).

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HIGHLIGHTS OF THE REPORT

- There has to be widespread “ownership” of the EU Social Inclusion Process, and the single most effective way of engaging public support is if the Process can demonstrate significant progress in reducing poverty and social exclusion in the EU.

- Chapter 1 sets the scene, and introduces the context and contents of the Report.

- Chapter 2 provides a brief historical account of the development of EU cooperation in social policy from the Treaty of Rome to the refocused Lisbon Strategy post-March 2005, leading up to the proposed designation of 2010 as the “European Year of combating exclusion and poverty”.

- Chapter 3 examines what can be learned about poverty and social exclusion from the rich body of evidence provided by the EU common social indicators, investigating the impact of Enlargement and the inter-relation between income and other dimensions of deprivation.

- Chapter 4 suggests how policy analysis in the Social Inclusion Process can be deepened, to help learn “what works”, using model family analysis and micro-simulation modelling to develop a “common analytical framework” to accompany the common indicators.

- Chapter 5 contributes to the dynamic process of developing the common social indicators, in the context of Enlargement, new data sources (EU-SILC) with a new income concept, and new policy concerns; it emphasises the development of non-income-related indicators on deprivation, housing quality/adequacy and homelessness, and the need to prune to avoid losing focus in a profusion of indicators.

- Chapter 6 considers the challenge of advancing the Social Inclusion Process in the context of the refocused Lisbon Strategy, and of embedding the Process in national policies and implementing a *social inclusion mainstreaming* through establishing a scheme of systematic policy assessments; it proposes the setting of targets, fundamentally restructured NAPs/inclusion, and working towards more “joined up” Government, on the basis of committed administrative and political leadership, and parliamentary scrutiny.

- Children mainstreaming, in the sense of viewing social inclusion from a child’s perspective, is a theme linking Chapters 3, 4 and 5, and suggests new approaches to both analysis and indicators.

LIST OF CHAPTERS AND ANNEXES

DETAILED TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

“‘A social Europe in the global economy: jobs and opportunities for all’, this is the motto of the second phase of the Social Agenda covering the period up to 2010”. (European Commission, 2005d, page 1).

“At its heart, the Lisbon strategy promotes the idea of a positive interaction between economic, employment and social policies. It aims at promoting a model of sustainable development for the Union which raises the standard of living of all European citizens by combining economic growth with a strong emphasis on social cohesion and the preservation of the environment. In so doing, it stresses the need to improve EU level coordination mechanisms in order to foster consistent and mutually reinforcing policies in the economic, employment and social areas” (European Commission, 2005b, page 2)

“Social inclusion policy should be pursued by the Union and by Member States, with its multifaceted approach, focusing on target groups such as children in poverty.” (Presidency Conclusions, European Council, Brussels, 22-23 March 2005, paragraph 36).

Chapter 1
Introduction

Social inclusion is one of the declared objectives of the European Union (EU). When, at the Lisbon Summit of March 2000, EU Heads of State and Government decided that the Union should adopt the strategic goal for the next decade of becoming “the most competitive and dynamic knowledge-based economy ... with more and better jobs and greater social cohesion”, it was important that the phrase “social cohesion” appeared in the same sentence as “most competitive economy”. The interpretation became clear when common objectives in the fight against poverty and social exclusion were set at the December 2000 Nice European Council. Key social ambitions of the EU were subsequently embodied in a first set of indicators of social performance adopted by EU leaders at Laeken (Belgium) in 2001. The importance of social inclusion policy, which “should be pursued by the Union and by Member States”, and of a “multifaceted approach”, were confirmed at the European Council in March 2005.

The aim of this independent Report is to describe the progress made since Lisbon with the EU Social Inclusion Process and to examine the challenges faced in taking forward the process in new circumstances. It raises questions and makes recommendations. The Report is designed to provide an input into the 2005 mid-term review of the Lisbon Agenda, and specifically into the evaluation by the Commission and the Member States of the operation of the *Open Method of Coordination (OMC)* in the field of social policy. If the EU is to make significant progress towards reducing the number of people at risk of poverty or social exclusion, then we need to know much more about “what actually works” in terms of social inclusion strategies. The need for “effective monitoring and evaluation provisions” in social policy was emphasised in one of the *key messages* to EU Heads of State and Government adopted in March 2005 by the *Employment, Social Policy, Health and Consumer Affairs* (EPSCO) formation of the EU Council of Ministers: “The forthcoming evaluation process, to take place in 2005, and the streamlining of processes due in 2006, should focus on strengthening the delivery of objectives, in line with the overall thrust of the mid-term review of Lisbon. The Member States and the Commission should particularly assess how national strategies can be made more effective by the use of targets, benchmarks and indicators, better links with economic and employment policies, effective monitoring and evaluation provisions” (Council, 2005).

This introductory Chapter describes the context within which the Report has been written, taking the March 2005 EU Presidency Conclusions as its point of departure. It outlines the contents of each Chapter and seeks to set the European debate in a wider global context. Since 2000, there has been significant progress in the EU approach to social inclusion. This progress has been made at a time when the EU itself has been changing dramatically, with the Enlargement from 15 to 25 Member States. And the evolution of the EU has taken place at a time when concerns about poverty and social exclusion have been growing in the world as a whole, notably on account of the adoption of the Millennium Development Goals. Within the EU, even during the period we worked on the report, the environment has changed, especially with regard to some important aspects of EU governance.

1.1 Setting the Scene: Persistent Problems and New Challenges

The Social Inclusion Process started from concerns about poverty and social exclusion in the EU that were far from new. Thirty years ago, the European Communities adopted the first European Action Programme to combat *poverty* (see Chapter 2 for a short review of the *Poverty* programmes). The Commission, in its Interim Report of 1989, estimated that in 1975 there were some 38 million poor people in the 12 countries that then constituted the Community (European Commission, 1989). Under Jacques Delors, the social dimension received more attention, based on a foundation of scientific research on poverty. The Final Report on the Second Programme, taking expenditure rather than income as the indicator of resources, reached the estimate for 1985 of 50 million poor people (see O'Higgins and Jenkins, 1990), based on the study carried out by the late Aldi Hagenaars, together with Klaas de Vos and Asghar Zaidi (1994).

At the same time there was increasing debate (see, for example, Room, 1995; Silver, 1995; Nolan and Whelan, 1996) about the underlying concepts. What is meant by the phrase, now used widely by the EU, “poverty and social exclusion”? In what sense is “social inclusion” the reversal of “social exclusion”? Do we mean poverty or “risk of poverty”? These issues go to the heart of our societal objectives, and it is not surprising that they are not yet fully resolved. Moreover, the debate has been widened by the recent Enlargement. How far, for example, are notions like social inclusion and social cohesion differently interpreted in the new Member States that previously had communist regimes? We cannot provide here an extensive discussion, but there are certain essential elements:

- We see the long-standing *social inclusion* objective of the EU as being concerned that all EU citizens participate in the benefits of economic integration and economic growth, with appropriate account being taken of Europe’s responsibilities in the world as a whole. The EU cannot be successful if significant groups are left behind as prosperity rises.
- The definition of *poverty* has therefore been based on the notion of *participation.* The EU Council of Ministers (hereafter the Council) in 1975 defined the poor as ”individuals or families whose resources are so small as to exclude them from the minimum acceptable way of life of the Member State in which they live”, with “resources” being defined as “goods, cash income plus services from public and private sources” (Council, 1975). In this sense, it is a relative definition.
- The move to “poverty and social exclusion” reflected a growing acceptance that *deprivation* is a multi-dimensional concept, and that, while poverty remains a major preoccupation, our concerns have to be broader. The European Commission, in its 1992 submission on *Intensifying the fight against social exclusion*, argued that the term “social exclusion” is more encompassing than the term “poverty”. The Commission suggested that social exclusion captures more adequately the “multidimensional nature of the mechanisms whereby individuals and groups are excluded from taking part in the social exchanges, from the component practices and rights of social integration” (European Commission, 1992, page 8).
- With this broader focus came an emphasis on *dynamics.* People are excluded not just because they are currently without a job or income, but also because they have little prospects for the future or for their children’s future. “When poverty predominantly occurs in long spells ... the poor have virtually no chance of escaping from poverty and, therefore, little allegiance to the wider community” (Walker, 1995, page 103). Just as poorer Member States aspire to converge on the EU average, so poorer EU citizens aspire to better individual prospects.
- The concept of exclusion introduces the element of *agency*. When René Lenoir coined the phrase “les exclus” in 1974 (Lenoir, 1974), he was concerned with those who were excluded from the French welfare state. In all countries, the design of social

protection, and way in which it is administered, exclude certain citizens. The State is a major actor, but it is not the only actor.

- Recognition of the limitations of an income measure has led to the EU adopting the term “at risk of poverty” to denote people living in households with incomes below the specified threshold.
- Finally, this Report is mainly concerned with those social indicators that are to be used in the EU Social Inclusion Process; or, put differently, in the social inclusion dimensions of the EU *streamlined* EU Social Protection and Social Inclusion Process (on the concept of “streamlining”, see Section 2.3). We often refer to them as indicators for “social inclusion” (i.e. indicators for use in the Social Inclusion Process) even though they all are obviously indicators for “poverty and social exclusion”. Sometimes, we also simply use the terms “social indicators”. All these expressions are thus used interchangeably and refer to the same indicators.

Over time, there have been great improvements in the data available to implement the different concepts. The most recent EU situation is summarised in the 2005 Joint Report on Social Protection and Social Inclusion “the numbers affected by poverty and social exclusion across the Union are very significant” (European Commission, 2005b, page 5). Despite an improvement in the second half of the 1990s, the risk of financial poverty remains sizeable, with 15% of the EU-25 population living at risk of poverty in 2001. There were almost 70 million people at risk, of whom more than half lived persistently on low relative income. Women are generally at higher risk than men. It is not just a matter of income. The Joint Report goes on to say “poverty and material deprivation are often compounded by an inability to participate fully in social life, as a result of an inadequate access to employment, education and training, housing, transport or healthcare” (*Op. Cit.*, page 6). Particularly at risk are young people without the skills to succeed in the labour market: in 2004 in the EU-25, 16% of people aged between 18 and 24 had exited the school system with only lower secondary education and were not following any training. In the EU-25 as a whole, in 2004, 10% individuals aged 18 to 59 were living in a jobless household (see European Commission, 2005c).[1]

These statistics relate to the EU as a whole, but within the EU there is considerable diversity. As is shown in Chapter 3, there is more diversity with regard to the risk of poverty among Member States of the EU than among states of the United States. This was true of the EU-15. The distribution of income is much less spread in countries such as Denmark, Sweden, Finland, Austria, where in 2001 the ratio of the share of the top fifth to the share of the bottom fifth is 3½ or less, than in Greece, Spain, and Portugal, where the ratio is 5½ or more (European Commission, 2004b, Table 6). The proportion of prime-age adults living in jobless households varied in 2004 from around 5% in Portugal to over 10% in Belgium, Germany, France and the UK (European Commission, 2005b, Table 5a). The proportion of early school-leavers not in education or training in 2004 was 10% or below in Denmark, Austria, Finland and Sweden, but above 20% in Spain, Italy, and Portugal (European Commission, 2005b, Table 6a).

The 2005 Joint Report on Social Protection and Social Inclusion concludes, “both perseverance and ambition are justified”. Perseverance is essential, as the EU has yet to make substantial progress in reducing the extent of poverty and social exclusion. We are still talking of tens of millions of people at risk. Ambition is justified “because the process of collective action by all stakeholders across the EU is now firmly anchored” (European Commission, 2005b, page 16). The machinery has been put in place, and expectations have been raised.

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[1] Updated national figures, as they become available, can be downloaded free of charge from the web-site of Eurostat, the statistical office of the European Communities: http://epp.eurostat.cec.eu.int/portal/page?_pageid=1090,30070682,1090_30298591&_dad=portal&_schema=PORTAL

To the long-standing concerns about the overall extent of poverty and social exclusion are now added new policy preoccupations. We are observing changes in the composition of the excluded population. Traditional priorities were with the elderly, lacking adequate pensions, and with unemployed breadwinners. A generation ago, awareness grew of the problems of single parent families, and of the disabled. Today we are witnessing renewed concerns about people who are working but who live in a household at-risk-of-poverty, and about children living at-risk-of-poverty, issues that are interconnected. We return to the issue of child poverty in Section 1.2 and in Chapters 3, 4 and 5.

Enlargement

The 2004 Joint Report on Social Inclusion noted, “with Enlargement, the Union will have to face new and comparatively greater challenges in promoting social inclusion” (page 10). Before accession, the Commission engaged in a bilateral cooperation process, which led to each new Member State drafting a *Joint Inclusion Memorandum* (JIM), with the aim of identifying the key social issues and the major policies in place or planned. In July 2004, the ten new Member States submitted their first National Action Plans on social inclusion (NAPs/inclusion, see Chapter 2). From the information contained in the NAPs/inclusion and in the EU analyses by the Commission and Member States, taking the form of *Joint Reports* and *Commission Staff Working Papers* (see Section 2.2), one obtains a picture of poverty and social exclusion in the EU and how it has been affected by Enlargement. In Chapter 3 we examine this in detail, showing how the impact of Enlargement differs across different dimensions of social exclusion.

At the same time, Enlargement, and the prospect of further new Member States beyond 2004, raises a number of issues. Just as the new Member States have had to adapt dynamically to the evolution of EU policy, such as the Lisbon Agenda, so the Union has to adapt to its augmented composition. There is now a considerably wider range of per capita incomes across Member States. How does this affect the way in which we conceive and measure social exclusion? Do we need to reconsider the role of relative poverty risk and absolute deprivation? Enlargement has brought into the EU new societies with different histories and cultures, which are reflected in differences in social institutions. How do these affect the measurement of exclusion and the implications for policy? Policy learning can now draw on a richer variety of sources. Enlargement has also increased the concentration of Member States by size: the smallest third of countries in fact have fewer than 5% of the total EU population, whereas the largest third of countries have 80% of the population. Increased population concentration is going to raise more sharply the question as to whether we should give any additional weight to smaller countries when forming aggregate measures.

Global Poverty

This report is about Europe and the European Union. It is important however to bear in mind that issues of social exclusion present themselves to an even greater degree on a global scale. It was for this reason that, at the Millennium Summit in September 2000, the states of the United Nations set out a vision of a global partnership for development, directed at the achievement of specific targets. Specifically, 189 countries signed up to the Millennium Development Goals (MDGs). The concrete goals include the halving by 2015 of the proportion of people living in extreme poverty, halving the proportion hungry, and halving the proportion lacking access to safe drinking water. The objectives include the achievement of universal primary education and gender equality in education, the achievement by 2015 of a three-fourths decline in maternal mortality and a two-thirds decline in mortality among children under five. They include halting and reversing the spread of HIV/AIDS and providing special assistance to AIDS orphans. There is an evident parallel with the social indicators agreed by the EU at Laeken.

Achievement of these goals depends critically on the actions of the developing countries, but is also depends on the policies of rich countries. The European Union has a particular responsibility in this regard. Fears that the establishment of a customs union diverts trade, at the expense of third parties, have been expressed since the founding of the European Economic Community. James Meade (1962), for example, argued that the key test for the United Kingdom in deciding whether or not to join should be the treatment of Commonwealth countries. The Common Agricultural Policy is very important, but the impact on manufactures is also significant, with quantitative restrictions limiting the opportunities for the Newly Industrialising Countries (NICs). To this have been added concerns about the impact of domestic policy, such as subsidies, regional assistance and public procurement. In its enthusiasm to drive forward the European project, the Union has often emphasised the advantages to Europe’s citizens and downplayed the external impact.

Given the ambition of the EU to be an outward-looking, not a purely inward-looking community, it is therefore essential that its policy choices should be seen in a global context. The MDGs provide not only a point of reference but also a reminder that our concerns extend beyond the boundaries of Europe. As it is put in the Communication from the Commission on the 2005 Review of the EU Sustainable Development Strategy, “Europe’s future can only be seen in this global context” (European Commission, 2005g, page 3).

1.2 The March 2005 EU Presidency Conclusions and the Social Agenda 2006-2010

We are reviewing the Social Inclusion Process at a time when the European debate is dominated by the economic challenges faced by the EU. The Lisbon aspiration that Europe will become “a dynamic knowledge-based economy with more and better jobs” does not seem closer to realisation than five years ago. If anything, the challenge posed by globalisation seems greater. Job creation has proved elusive, and Member States are ever more concerned about the failure of their growth rates to match those of the United States. In November 2004 a High-Level Group chaired by Wim Kok reported on progress towards the Lisbon objectives and recommended that overriding priority be given to economic and employment growth policies (European Communities, 2004). The *Kok Report* argued that fulfilment of the social objectives would result from progress in these two areas: primacy should therefore be given to job creation.

The change in direction advocated by the Kok Group was reflected in the Spring Report prepared by the Commission for the March 2005 meeting of EU Heads of State and Government (European Commission, 2005a and 2005e). The March European Council in turn concluded that “it is essential to relaunch the Lisbon Strategy without delay and re-focus priorities on growth and employment. Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital” (par 5). At the same time, however, the European Council made clear that the other dimensions of the Strategy were to be retained. As may be seen from the paragraph 36 with which we headed this report, the Presidency Conclusions contained explicit references to the pursuit of social inclusion objective. The motto adopted by the Commission for the second phase of the Social Agenda underlines “jobs and opportunities for all” but calls for a “social Europe”. The Social Agenda 2006-2010 says that the Commission will “put forward the idea of a European Year of combating poverty and social exclusion in 2010” (European Commission, 2005d, page 10). We do not comment in this report on the refocused Strategy. We take the Presidency Conclusions as a point of departure, not as a subject for debate.

Here we seek to examine how the Social Inclusion Process can be advanced in the new context set by the March 2005 Presidency Conclusions and the Social Agenda 2006-2010. In this context, social policy has two roles. First, it contributes to combating poverty and promoting social inclusion, which remains an important objective of EU policy. While giving priority to employment and growth, the Presidency Conclusions safeguarded the three dimensions of the Lisbon Strategy. As it was put by Jean-Claude Juncker in a speech to the European Parliament in January 2005, "when we draw up the mid-term review of our strategy, we must keep its three dimensions together: economic, social, and environmental" (Luxembourg Presidency website). He went on "I say yes to competitiveness; I say no to abandoning our social and ecological goals". As set out by the Commission in the Social Agenda 2006-2010, modernised social protection is a key component of the Lisbon mid-term review: "Member States have already sought to make their national minimum income schemes more effective. However, many people are still in considerable difficulties and are obtaining neither employment nor the national minimum income protection" (European Commission, 2005d, page 10).

The second role is that social policy, if properly designed, can contribute to employment and economic growth. One of the unique selling points of Europe is that European social protection, in its diverse forms, allows structural change to be achieved without an unacceptable human cost. It is no accident that the European Communities had their origins, at least in part, in the need to restructure the basic (coal and steel) industries of Europe. This does not mean that the system of social protection devised for the 1950s and 1960s is appropriate today. Europe needs constantly to reform and renew its welfare state, but at the heart is a partnership, not an antagonism, between economic and social policies. This is recognised clearly in the subtitle of the 2005 publication by OECD, *How Active Social Policy Can Benefit Us All*. As the OECD report says, "while traditional social policy continues to be needed… this is not enough – it is also essential to emphasise an active approach that focuses on investing in people's productive potential" (OECD, 2005, page 39).

The approach that has been emphasised in the EU Policy Guidelines is that of seeking positive complementarities and synergies. In the 2005 proposed Employment Guidelines, the first states that "Achieving full employment, and reducing unemployment and inactivity, by increasing the demand for and supply of labour, is vital. This goes hand-in-hand with improving the attractiveness of jobs, quality at work and labour productivity growth, and reducing the share of working poor." (European Commission, 2005h, page 27).

Children Mainstreaming

The two roles of social policy are well illustrated by the explicit reference in the March 2005 EU Presidency Conclusions to child poverty (in paragraph 36) and, more generally, to investment in the youth of Europe. The European Council specifically adopted the European Youth Pact. The Pact – see Box 1.1 – calls upon Member States in their national social inclusion policy "to improving the situation of the most vulnerable young people, particularly those in poverty, and to initiatives to prevent educational failure" (Annex 1).

Box 1.1: The European Youth Pact (Summary from EU Presidency Conclusions)

“The Youth Pact aims to improve the education, training, mobility, vocational integration and social inclusion of young Europeans, while facilitating the reconciliation of working life and family life.”

“The European Council calls on the Union and Member States, each within the limits of its own powers and in particular under the European employment strategy and under social inclusion strategy, to draw upon the following lines of action:”

Employment, integration and social advancement

Education, training and mobility

Reconciliation of working life and family life

The emergence of child poverty as an EU issue is a good example of the dynamics of policy-making in the Union. When the first NAPs/inclusion were drawn up in 2001, only a few Member States highlighted the issue of children living in households at risk of poverty. The United Kingdom stood out for having adopted in 1999 a high-profile commitment to eradicating child poverty in 20 years and halving it in 10 years (Blair, 1999). But there was increasing recognition of the problem in other Member States in the next few years. As was observed in the 2004 Joint Report on Social Inclusion, “in most countries children experience levels of income poverty that are higher than those for adults” (European Commission, 2004b, page 17). The rate of risk of financial poverty for children in the EU-15 as a whole was 19% in 2001, compared with 15% overall. In Spain, Ireland, Italy and Portugal, the poverty rate for children was 25% or higher. In the UK it was 24%. The Joint Report notes the especial vulnerability of children in households where no one is in employment, but also draws attention to increasing concerns about in-work poverty. It should also be noted that all except three of the new Member States (Cyprus, Estonia and Slovenia) had child at-risk-of-poverty rates in excess of the adult rate.

The risks of poverty and social exclusion among children are important in their own right. They also have implications for the future; investment in children today is crucial for the “optimisation of human capital” to which the Presidency Conclusions refer (par 5). The essential nature of such an investment has been emphasised by the Commission. “Material deprivation among children must be a matter of serious concern, as it is generally recognised to affect their development and future opportunities” (European Commission, 2004b, page 17). This led the 2004 Joint Report to call for action to end “poverty and social exclusion among children as a key step to combat the intergenerational inheritance of poverty with a particular focus on early intervention and early education initiatives which identify and support children and poor families” (European Commission, 2004b, page 35). This also led the EPSCO Council to emphasise in their *Key messages* to the March 2005 meeting of Heads of State and Government, that “priorities for action [in the area of social inclusion] include preventing child poverty” (Council, 2005). In France, the report by the Conseil de l’emploi, des revenus et de la cohésion sociale (CERC) noted that child poverty was “vital for two sets of reasons. Most theories of social justice agree upon the duty for a society to compensate for the inequalities suffered by people who are in no way responsible for the situation they are in. This applies to children more than for any other persons. The second reason is that poverty suffered in one’s childhood increases the risk of being poor as an adult" (Conseil de l'emploi, des revenus et de la cohésion sociale, 2004, page 5). The report notes that half of poor children in France encounter major learning difficulties (page 101). It concludes "social justice goes hand in hand with efficiency when emphasising the importance of the fight against child poverty" (page 5).

A focus on children may appear to be ignoring the very real needs of other key groups, notably the elderly, who still face serious problems of poverty and social exclusion in a number of Member States. It is for this reason important to think in terms of the life-course as a whole. The interests of the old and the young are bound together, by macro-economics as well as by family ties. This led the High-Level Group on the future of social policy in an enlarged European Union to put forward a "new intergenerational pact" based on a "positive perception of the future and a new intergenerational balance" (2004, page 7). The policies proposed by the Group included a basic income for children, delivered by Member States, and measures to "allow young couples to have the number of children they desire". The intergenerational approach has been highlighted by the European Commission in the Social Agenda 2006-2010, which proposes a Green Paper on the intergenerational dimension, to analyse "the future challenges in the relations between the generations and in the position of families" (European Commission, 2005d, page 4). It was picked up in the first line of the Annex to the March 2005 EU Presidency Conclusions describing the European Youth Pact, which referred to the "background of Europe's ageing population". The Integrated Guidelines for Growth and Jobs (2005-2008), proposed by the European Commission, include as Guideline (17) "to promote a lifecycle approach to work" (European Commission, 2005h). The Commission Green Paper "Confronting demographic change: a new solidarity between the generations" calls for a global approach to the "working life cycle" (European Commission, 2005j, page 8).

The key role – for today's living standards and for tomorrow's productivity – leads us to take investment in children as the recurring case study of our report. It conveys a sense of dynamics to what otherwise sometimes appears a static picture. Chapters 3 to 5 cover a wide range of topics, but in each case a thread that runs through them is that of "children mainstreaming". We have used the word "mainstreaming" advisedly, rather than the words "target groups" that appear in the Presidency Conclusions. Our purpose is not to single out a particular priority group; poverty and social exclusion are unacceptable for all groups in society. Rather, our aim is to suggest, as with gender mainstreaming,[2] a perspective to approaching the general problem of poverty and social exclusion.

1.3 Contents of the Report

The next Chapter (Chapter 2) provides the social policy background to the Report; it presents a brief historical account of the development of EU cooperation in social policy from the Treaty of Rome to the refocused Lisbon Strategy post-March 2005. It describes what led up to the EU *social processes* that were launched following the Lisbon strategy, and more particularly the *Social Inclusion Process* and the *Open Method of Coordination* in the social field. It takes account of the 2004 Enlargement and the challenges faced by new Member States as a result of the developments that have taken place between the Copenhagen criteria of EU accession adopted in 1993 and the adoption of the Lisbon strategy. It discusses the role of indicators in terms of the Social Inclusion Process and presents the set of common indicators for poverty and social exclusion agreed to date, the wider *structural indicators* and the 2005 *mid-term review* of the Lisbon strategy. In each case, it seeks to flag the key issues for future consideration.

The report then consists of four main Chapters:

[2] On gender mainstreaming in the EU process, see, among others, Booth (2002), Atkinson and Meulders (2004), and van der Molen and Novikova (2005).

- Poverty and social exclusion in the EU (Chapter 3)
- Strengthening policy analysis (Chapter 4)
- EU indicators for poverty and social exclusion (Chapter 5)
- Taking forward the EU Social Inclusion Process (Chapter 6).

As indicated above, the risks of poverty and social exclusion remain core problems for the EU. Development of an effective strategy for fighting these problems requires a firm understanding of the underlying mechanisms. At the level of individual Member States, considerable efforts have been made to analyse the causes of poverty and social exclusion, and the findings are reflected, to varying degrees, in their National Action Plans. As part of the Social Inclusion Process, the EU has assembled a rich body of information about the different dimensions of social exclusion. This information has however not yet been fully exploited. The social indicators have not yet been used to “tell a story” about differences across Member States and about the relation between different dimensions of social exclusion. The impact of Enlargement has yet to be fully analysed. We therefore begin by asking in Chapter 3 how much one can learn just by restricting ourselves to the body of information now represented by the EU social indicators.

One conclusion from Chapter 3 is that we need to strengthen policy analysis. This applies in the case of the risk of poverty but also to other dimensions of social exclusion. In Chapter 4, we begin by examining the treatment of policy in the NAPs/inclusion and in the Joint Inclusion Reports. We ask how far this gives answers to the central questions. How far will the announced policies go towards achieving Europe’s social objectives? Are there realistic policies that could achieve these objectives? Chapter 4 sets out two main types of policy analysis: modelling the impact on representative families, and using household survey and/or administrative data to simulate the impact of policy changes. It argues that, by careful consideration of the institutional structure of social protection in each Member State, coupled with representative data for their populations, it is possible to provide a common analytical framework for policy analysis, to complement the EU common indicators. In this way, a real step forward can be taken in EU comparative policy analysis.

Social indicators play a key role in the policy analysis. In Chapter 2 we describe the social indicators agreed at Laeken in 2001 and summarise the outcome of the subsequent refinements and extensions. The development of indicators is a dynamic procedure, and in Chapter 5 we consider some of the ways in which it could usefully be taken further. Our objective is not to provide a full history of the evolution of the EU common social indicators, but to take the current indicators as our starting point and to look to the future. In the light of experience with the use of the common indicators, and in particular following on the accession to the EU of ten new Member States with relatively low average living standards, it is timely to revisit certain aspects of the content, presentation and use of the set of indicators to see whether improvements can be suggested, whether they can be further enriched and made more policy-relevant. Moreover, the new EU data source (*Community Statistics on Income and Living Conditions (EU-SILC))*, which is to become the EU reference source for income, poverty and social exclusion, raises some new issues regarding the EU common indicators already in use especially with regard to the income concept(s) to be used for calculating the income-based common indicators. Chapter 5 highlights the hazards of allowing a proliferation of indicators, and recommends a paring-back of the set of Indicators to enhance their impact, which is particularly important for the Primary/Headline Indicators. We also briefly discuss comparisons with non-EU industrialised countries.

In Chapter 6 we turn to the implications for carrying forward the EU Social Inclusion Process. How can the Social Inclusion Process be streamlined without losing the post-Lisbon momentum? The Chapter examines the potential role of target setting. Targeting was already in use at the EU level in the case of employment, and the March 2002 Barcelona European Council urged Member States to set national targets for social inclusion. Chapter 6 examines the use of targets at the national level in the NAPs/inclusion of Member States and what is involved in moving from indicators to targets at the EU level. A necessary condition to guarantee a credible and meaningful Social Inclusion Process is to truly embed it in domestic policy-making. Chapter 6 goes on to consider how progress could be made towards better anchoring the process in national policies, and towards better integrating social inclusion, employment and economic policies at the national level. In this context, the Chapter underlines the pivotal role of *restructured* NAPs/inclusion, which should therefore be preserved under the streamlined process, and makes practical suggestions regarding the way NAPs/inclusion could usefully be re-focused and re-organised in actual "action plans" (i.e. strategic planning documents). Following on from this, the Chapter emphasises the need for *joined up Government*, committed political and administrative leadership, and parliamentary scrutiny to guarantee a credible and meaningful Social Inclusion Process. It also discusses the need to establish a scheme of systematic policy assessments as well as the importance of raising the awareness of the EU Social Inclusion Process, and of further mobilising the different actors involved in the fight against poverty and social exclusion at both the national and EU levels.

The final Chapter (Chapter 7) summarises our assessment and recommendations. We hope that these conclusions will be of value to the Presidency, to the European Commission, to Member States, to NGOs, to the social science research community, and to the individual citizens of Europe. We should indeed emphasise the fact that this report has several target audiences. A few readers of the draft version criticised us for covering well-known material, such as the history of EU cooperation in social policy in Chapter 2. But while this material may be well-known to those who are actively engaged in the EU social processes, there are many who are unaware of, and interested in, the background. Indeed, other critics said that we had over-estimated the extent to which the EU social processes had penetrated even national ministries of social welfare. We agree that one of the limitations of the Social Inclusion Process to date is the low level of awareness. The adoption of the Social Agenda 2006-2010, for example, has not been widely reported in the press. We have therefore sought to make the report accessible to those not already engaged in these processes, and to those who are specialists in one, but not all, of the different dimensions. There is at present too little communication between specialists, and it is not easy to keep up with a rapidly changing field. Material which is familiar to one group is new to another. We also believe that it is important that the debate should not be limited to technical specialists. Many of the questions may appear largely technical, but behind such questions often lie fundamental matters of judgment. To give just one example, it may be thought that we can leave to statisticians the choice of the equivalence scale: the method by which incomes are adjusted to allow for differences in the composition of households. Yet the choice of scale may affect our view as to whether child poverty, or poverty among the elderly, should be our priority.

A diverse readership is therefore what we are deliberately seeking. We have therefore erred in the direction of inclusion, and apologise to those readers who have everything at their finger tips.

Chapter 2
The EU Social Inclusion Process and the Key Issues

Even though the founding fathers of the EU had expected social progress to evolve naturally from the economic progress generated by the Common Market, for many years the Single European Market and the European Monetary Union largely eclipsed the social dimension of the EU. It is only since March 2000, when EU Heads of State and Government adopted the *Lisbon strategy*, that social policy has truly become a specific focus of attention for EU cooperation. In this Chapter, the main emphasis is on the Lisbon strategy and the EU *social processes* that were launched in this context, and more particularly the *Social Inclusion Process*. But the Chapter begins in 1957 with the Treaty of Rome. We believe that it is important to understand the origins of EU cooperation in social policy, and the extent to which the current processes have roots in the past. Such a long-run historical perspective reduces the danger of being over-influenced by today's immediate political pressures.

2.1 The Long Road Towards EU Cooperation in Social Policy

In March 1957, when signing the Treaty of Rome establishing the European Economic Community, the then six Heads of State and Government resolved to ensure both the economic and the social progress of their countries by developing a Common Market, in the optimistic belief that the economic progress resulting from economic integration would automatically translate into social progress.

In the early days of the European Communities, social policy received little attention, and the Community organisations were provided with very limited powers in the social field. Social policy was, to a large extent, a means towards achieving other objectives. The restructuring of the coal and steel industries, through the European Coal and Steel Community, involved social measures in aid of training and to finance adjustment. There was concern with removing barriers to labour mobility and ensuring that differences in the costs of social protection did not prevent competition in the supply of goods. But in January 1974, the EU Council of Ministers (hereafter the Council) adopted its "Resolution concerning a social action programme" (Council, 1974). Since the adoption of this text, the Council has established various programmes to combat poverty and social exclusion.

The Poverty Programmes

First, the Council adopted its Decision of July 1975 concerning a programme of pilot schemes and studies to combat poverty, amended in 1980 by a Decision on a supplementary programme to combat poverty (Council, 1975 and 1980); this programme, which covered the period from December 1975 to November 1981, is better known as the *Poverty 1 Programme*. This was followed by the *Poverty 2 Programme* (Council, 1985), providing for specific Community action to combat poverty, covering the period from January 1985 to December 1988, and by the *Poverty 3 Programme* (Council, 1989b), establishing a medium-term Community action programme concerning the economic and social integration of the economically and socially less privileged groups in society, for the period from July 1989 to June 1994. In order to continue and extend the actions undertaken under Poverty 3, the European Commission submitted in September 1993 a proposal for a Council Decision establishing a medium-term action programme to combat exclusion and promote solidarity.[3] This *Poverty 4* proposal, which envisaged a programme to be implemented between July 1994 and December 1999, was not adopted by the Council due to opposition from Germany and the United Kingdom, whose objections were based on the *subsidiarity principle* and the lack of proof of the programme's effectiveness (the adoption required an unanimous vote in the Council).

The Poverty Programmes 1-3 allowed considerable progress to be made in the description, quantification and understanding of poverty and social exclusion. However, it is only from the end of the nineties, and even more so from March 2000 when the Lisbon strategy was launched, that social protection and inclusion have become *specific policy areas* for EU cooperation. In order to better understand the policy dynamic that has progressively led to this cooperation, it is worth looking at six "EU texts" that have played a particularly important role in this shift. The six key texts are set out in the Appendix to Chapter 2 (see Annex 3).

Six Key Texts

The first such text is a Council Resolution on "Combating social exclusion" (Council, 1989a) adopted in September 1989, that is a couple of months after the launch of the Poverty 3 Programme. In this Resolution, the Council emphasised that "combating social exclusion may be regarded as an important part of the social dimension of the internal market" and points to "the effectiveness of *coordinated, coherent development policies* based on active participation by local and national bodies and by the people involved". It highlighted the need for action at the then EEC level, as well as by Member States, undertaking "to continue and, as necessary, to step up the efforts undertaken *in common* as well as those made by each Member State, and to pool their knowledge and assessments of the phenomena of exclusion". We see therefore, sixteen years ago, two elements were already important: (i) the linking of social policies and economic policies (at that time, the completion of the internal market), and (ii) a role for the Community as well as the Member States in the social sphere. This was followed up in the Council Recommendation of June 1992 (the second text in the appendix) on "Common criteria concerning sufficient resources and social assistance in social protection systems", which urged EU Member States to recognise the "basic right of a person to sufficient resources and social assistance to live in a manner compatible with human dignity as a part of a comprehensive and consistent drive to combat social exclusion".

[3] European Commission, 1993b, not published in the Official Journal of the European Communities.

The form to be taken by Community involvement became clearer in a third text adopted one month later, in July 1992: a Council Recommendation on the "Convergence of social protection objectives and policies". Arguing that "comparable trends in most of the Member States may lead to common problems (in particular the ageing of the population, changing family situations, a persistently high level of unemployment and the spread of poverty and forms of poverty)", the Council recommended that this "de facto convergence" should be further promoted by establishing what was termed a *"convergence strategy"* and which consists basically of the identification of *"common objectives"*. The Recommendation suggests that these *"fundamental objectives of the Community"* should act as guiding principles in the development of national social protection systems, while stressing that Member States remain free to determine how their systems should be financed and organised. In other words, the Council acknowledged that Member States' systems are based on common values and objectives (see the third text in Annex 3). This laid the basis for the social policy dimension to be developed under subsidiarity.[4]

However, as we have seen from the rejection of the Poverty 4 Programme proposal, this approach did not immediately take root. This is an important lesson of EU history. While there is a strong line of continuity running through the development of EU cooperation in social policy, movement has not always been in one direction. This led the Commission to advance the argument, in the fourth text on "Modernising and Improving Social Protection in the European Union (European Commission, 1997), that social protection systems, far from being an economic burden, can act as a *productive factor* that can contribute to economic and political stability and that can help EU economies to perform better. The EU debate on the economic relevance of social protection had been launched a few months before the publication of this important Commission's Communication, at the conference on "Social policy and economic performance" organised under the Dutch presidency (Amsterdam, 23-25 January 1997). As stated by A.P.W. Melkert, the then Minister of Social Affairs and Employment of the Netherlands a few months later (Melkert, 1997): "by maintaining stability, social policy can actually contribute considerably to improving economic performance. New economic developments such as globalisation, may call for a certain amount of flexibility, but in no way should this lead to a dismantling of social protection. The maintenance of the fundamental principles of social cohesion and solidarity is not only a major social objective, but also an important productive factor. Social policies may have to be readjusted to economic developments, but at the same time they should maintain a high level of protection. Achieving such an even-handed policy is, in my view, the challenge of the new European social dimension for the next decade." (see also Fouarge, 2003)

These arguments undoubtedly contributed to the acceptance of the new legal base for the fight against social exclusion incorporated in the Treaty of Amsterdam signed in October 1997 (fifth text in Annex 3). Quoting again Melkert (1997), "with the Amsterdam Treaty the EU shall be more properly equipped to deal with social issues. The EU (…) will be an organisation able to stand upright when facing its task in the 21st Century. The resulting new social dimension should not only benefit European citizens, but also prove to be an asset for our economic performance."

A concrete implementation of this new legal base (the sixth text in Annex 3) was the July 1999 Communication by the European Commission on "A Concerted Strategy for Modernising Social Protection" (European Commission, 1999). In its conclusions of 17 December 1999, the Council endorsed the four broad objectives identified by the Commission: to make work pay and to provide secure income, to make pensions safe and pensions systems sustainable, to promote social inclusion and to ensure high quality and sustainable health care. The Council welcomed the Commission's proposal to establish a new "high-level group"; a group which became the EU *Social Protection Committee*. This

[4] For an extensive discussion of the development of the principle of subsidiarity in the EU, see Fouarge (2004).

Committee comprises high-level officials from the relevant ministries in each Member State and reports to the EU Ministers in charge of social policy: i.e. the EPSCO Council of Ministers. The Council recalled that “social protection which guarantees an adequate safety net for all citizens is also an *investment* in balanced economic development and a significant competitive advantage in a globalising economy and recognised that the aspects relating to finance are common to all the (above) objectives of social protection”.

With its December 1999 conclusions, the Council launched EU cooperation in the modernisation of social protection on the basis of “a structured and permanent dialogue, follow-up and *exchange of information, experience and good practice* between the Member States, concerning social protection”, while respecting the subsidiarity principle and in particular the Member States’ competence for the organisation and financing of their social protection systems. Equally important, the Council emphasised that “the aim of the European Union should be to ensure a link between economic and social development”. It is worth noting that the Council supported the Commission's suggestion to “associate the European Parliament with this process”, an association which has not yet been realised; we return to this “democratic deficit” in Chapter 6.

Conclusion

From this brief historical account, we can see that there has been quite strong continuity in the basic ideas underlying the development of EU cooperation in social policy: the setting of common objectives, with Member States free to determine how they are achieved, and an integrated view of economic and social policy-making, seeking to emphasise the positive ways in which social policy can contribute to economic performance. The fact that progress has been made unevenly should not be allowed to obscure the underlying continuity.

2.2 The EU Social Processes and the *Open Method of Coordination*

A major reason why, as from December 1999, Member States started cooperating at EU level in the field of social protection and inclusion policy, is the growing acknowledgement that national social protection systems face common challenges demanding reforms and modernisation – for instance, concerning the need to fight poverty and social exclusion, to ensure financially sustainable and socially adequate pensions and health care systems for an ageing population.

With the Amsterdam Treaty and then, one step further, with the Nice Treaty (signed in February 2001 and in force since February 2003), EU level cooperation and coordination processes have progressively developed to “support and complement” Member States’ activities in various fields relevant to social policy, which include “social security and social protection of workers”, “combating of social exclusion” and “modernisation of social protection systems”. For those fields, the Council, while taking into account “the diverse forms of national practices” under subsidiarity, is entitled to “adopt measures designed to encourage cooperation between Member States through initiatives aimed at improving knowledge, developing exchanges of information and best practices, promoting innovative approaches and evaluating experiences” (Nice Treaty, Articles 136 and 137)

As we have seen in the previous section, the links between the economic and social spheres were increasingly considered as being of central importance and as complementary. This was underlined in the strategic goal adopted at the March 2000 Lisbon European Council that the EU should become by the next decade “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion”. A part of the reasoning behind this core target is that the social dimension is expected to make an essential contribution to overall socio-economic policy. In June 2001, the Göteborg European Council agreed on a strategy for *sustainable development* by adding the environmental dimension to the original three pillars of the Lisbon strategy.

As emphasised in the Joint Report on Social Protection and Social Inclusion adopted by the Council in March 2005, "at its heart, the Lisbon strategy promotes the idea of a positive interaction between economic, employment and social policies. It aims at promoting a model of sustainable development for the Union which raises the standard of living of all European citizens by combining economic growth with a strong emphasis on social cohesion and the preservation of the environment. In so doing, it stresses the need to improve EU level coordination mechanisms in order to foster consistent and mutually reinforcing policies in the economic, employment and social areas" (European Commission, 2005b, page 2). Recent Commission thinking on social protection and social inclusion are reflected in the *Social Agenda* (European Commission, 2005d) and the *EU Sustainable Development Strategy* (European Commission, 2005f and 2005g).

Open Method of Coordination

The EU social "processes" that have been launched since the March 2000 Lisbon European Council are, in chronological order, the *Social Inclusion Process*, the *Pensions Process* and the *Health Care and Long-Term Care Process*. EU cooperation in the field of *Making Work Pay* is also under way, even if this cooperation cannot be considered as a "policy process" *per se* and if various aspects of this issue have already been, and will continue to be, addressed in the context of the Broad Economic Policy Guidelines and the Employment Guidelines. To date, EU cooperation in the social field therefore covers all four policy domains that the Council had retained back in December 1999, following on from the Commission's recommendations (see Section 2.1 above).

To take account of the diversity of national social protection systems, the Lisbon European Council, when introducing social policy as a distinct focus of attention for EU cooperation, agreed that the process should be advanced through an *Open Method of Coordination* (OMC), building on the experience with the Employment Strategy (see below). This OMC is a mutual feedback process of planning, monitoring, examination, comparison and adjustment of national policies, all of this on the basis of common objectives agreed for the EU as a whole. Through this *peer review exercise* (which involves the Commission and all Member States), and thus the sharing of national experience and good practices, all the countries can learn from one another and are therefore all in a position to improve their national policies. With this approach, the EU has found "a way that implies a credible commitment to a social Europe" which, provided certain conditions are met, "can *effectively* lead to social progress" (Vandenbroucke, 2002).

In its most developed form, open coordination is quite similar to the *European Employment Strategy* initiated in 1997 under the Luxembourg Presidency of the EU, whereby the European Council endorses each year a set of *Employment Guidelines* (proposed by the Commission) for the Member States, and monitors progress towards achieving the agreed objectives through reviews of *National Action Plans* for employment (NAPs/employment). A *Joint Employment Report* is then prepared jointly by the Commission and the Council on the basis of the national Plans. The European Employment Strategy has served to demonstrate how coordination at EU level, with agreed common objectives and monitoring procedures, can play a central role in the field of social policy[5].

[5] The NAPs/employment which Members States submit annually to the Commission since 1998, as well as the resulting Joint Employment Reports, can be downloaded from the web-site of the European Commission's Directorate General "Employment, Social Affairs and Equal Opportunities" (DG EMPL): http://www.europa.eu.int/comm/employment_social/index_en.html

Since Lisbon, open coordination is applied to the *fight against poverty and social exclusion*, with the first common objectives in this area set a few months later by the December 2000 Nice European Council. The detailed content of the Nice objectives and related implementation arrangements were confirmed by the EPSCO Council at their December 2002 meeting (Council, 2002), with a few amendments stressing the importance of setting quantitative targets in National Action Plans on social inclusion (see Chapter 6), the need to strengthen the gender perspective in those Plans (in the analysis of social exclusion and in assessing policy impact), and the risks of poverty and social exclusion faced by immigrants. The Social Inclusion Process is supported by a *Programme of Community action to encourage cooperation between Member States to combat social exclusion*, which was launched on 1 January 2002 for a period of five years. This programme aims at promoting policy analysis and the collection of statistics (e.g. the new *Community Statistics on Income and Living Conditions instrument (EU-SILC)*; see Chapter 5), the exchange of good practice, and the networking across Europe of NGOs and regional and local authorities active in combating the risks of poverty and social exclusion.[6]

During the summer 2001, the then 15 Member States submitted to the Commission their first NAPs/inclusion, covering the period 2001-2003. Drawing extensively from these Plans and their *peer review*, the first *Joint Inclusion Report* was then "jointly adopted" by the Commission and the EPSCO Council, and subsequently endorsed by the Laeken European Council of December 2001 (European Commission, 2002b). The second set of Plans (for the period 2003-2005) was submitted two years later, during the summer 2003, with the resulting Joint Report adopted by the EPSCO Council in March 2004 (European Commission, 2004b). The third round of NAPs/inclusion took place in July 2004, when all 10 new Member States submitted their first Plans for the period 2004-2006. These NAPs/inclusion, the analysis of which was presented in a *Commission Staff Working Paper* (European Commission, 2005c)[7], built on the work begun in 2002 when the then accession countries and the Commission started preparing *Joint Memoranda on Social Inclusion* (JIM). For each country, the JIM outlined the situation and the key policy challenges with regard to poverty and social exclusion and described the main policies and institutions in place. The 10 JIM were all signed in December 2003 and were subsequently summarised in a Commission Staff Working Paper issued in June 2004 (European Commission, 2004d). (This paragraph has referred to several different types of EU documents; Box 2.1 explains the recent changes in the status of different reports.)

Box 2.1: Status of Reports post-May 2004

As a result of the May 2004 Enlargement (and the related increase in the number of EU official languages), a large number of former *Joint Reports* (i.e. Reports adopted by both the Council and the Commission, and translated into all official languages) will be replaced by *Commission Staff Working Papers*. Even though their drafting will closely involve the Member States (in this specific case, through the Social Protection Committee), these documents will no longer be formal "joint" reports: it is only the Commission that will adopt them and they will not be translated into all EU official languages. As to the Joint Reports, they will have to be very short but will go on being translated into all official languages and will still be formally adopted by both the Council and the Commission.

6 The original and revised common objectives for social inclusion as well as detailed information on the Community action programme can be downloaded from the aforementioned web-site of the European Commission's DG EMPL.

7 The NAPs/inclusion as well as the resulting Joint Inclusion Reports or Commission Staff Working Papers can be downloaded from the aforementioned web-site of the European Commission's DG EMPL.

Open coordination was later launched in the field of *pensions*, with the agreement by the Laeken European Council of a first set of 11 common objectives. In the EU cooperation under the pensions' process, there are no national *Action Plans* but rather *Strategy Reports on pensions*, in which Member States present in detail how they expect to meet the common objectives. This slight difference in wording is justified by the fact that action in the field of pensions is expected to stretch over a much longer time frame (various calculations, including projections of public expenditure on pensions, are done at least up to the year 2050) and the strategic aspect is paramount. The first Strategy Reports were submitted in September 2002 by EU-15 countries, and the results of their examination (including *peer review*) by the Commission and the Council were summarised in a Joint Report endorsed by the 2003 Spring European Council. (In the case of pensions, both the EPSCO and ECOFIN Council's formations have to adopt the Joint Report, which is essential in view of the nature of the three dimensions covered by the pensions' common objectives: safeguarding the capacity of systems to meet their social objectives, maintaining their financial sustainability and meeting changing societal needs.[8]) A set of common indicators for pensions is being developed by the Indicators Sub-Group of the Social Protection Committee and should contribute to strengthening the pensions' process by providing objective criteria against which to assess progress of Member States. The next Strategy Reports, which will make use of several of these indicators, will be submitted in July 2005 by all 25 Member States of the enlarged EU. Their peer review (by both the Social Protection Committee and the Economic Policy Committee) is expected to take place in September 2005, and the final related Commission Staff Working Paper on adequate and sustainable pensions is planned for December 2005.

More recently, a looser form of EU policy cooperation on *health care and long-term care* was launched by the EPSCO Council of 4 October 2004 following on from the recommendations contained in the April 2004 Commission's Communication on *Modernising social protection for the development of high-quality, accessible and sustainable health care and long-term care: Support for the national strategies using the Open Method of Coordination* (European Commission, 2004a). The first Reports are short "Preliminary Policy Statements", rather than reports *per se*, submitted in April 2005 by all 25 EU countries. In these "statements", countries were asked to set out their views on what constitute the key challenges and the most important directions for the reform of health and long-term care systems, and to do so by reference to the three broad principles put forward in the Commissions' Communication - accessibility (based on the principles of universal access, fairness and solidarity), quality and long-term financial sustainability. With a view to contributing to the discussion on common indicators which will have to be developed in this area, countries were also invited to provide information on key indicators that are used in the monitoring and steering of health and long-term care systems. There is no planned formal synthesis or assessment report from the Commission of these policy statements. Nor is it envisaged to hold a peer review session.

Finally, the Social Protection Committee is working on the question of *making work pay* in order to identify the specific contribution which social protection systems can bring to this overall objective (e.g. regarding the incentive structures of benefit systems) – see European Commission (2003a).

The modalities of the future implementation of the OMC in the social area, including the role of the European Parliament in this context, are defined in the *Treaty establishing a Constitution for Europe*[9], which was signed on 29 October 2004 by the 25 EU Heads of State and Government. Under this yet-to-be-adopted Treaty, for social policy, including "social security and social protection of workers", "the combating of social exclusion" and "the

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8 The 2002 national Strategy Reports as well as the related Joint Report can be downloaded from the aforementioned web-site of the European Commission's DG EMPL.

9 The full text of the Treaty is available from the Official Journal of the European Union, 16 December 2004, C310.

modernisation of social protection systems" (see Part III, Articles III-209 up to III-219), as well as for public health (see Article III-278), the Commission is expected to encourage cooperation between the Member States within the strict limits of subsidiarity. If the OMC is not referred to by name, it is however exactly this procedure that is suggested in this context. The Commission is indeed encouraged to take "initiatives aiming at the establishment of guidelines and *indicators*, the organisation of exchange of best practice, and the preparation of the necessary elements for periodic *monitoring* and *evaluation*". The Commission expressed the view, in its May 2003 Communication (see below: European Commission, 2003c), that in creating a streamlined process in the social policy field, methods to involve the European Parliament as appropriate and practical should be seriously explored. It is therefore worth stressing that the Treaty explicitly mentions that "the European Parliament shall be kept fully *informed*" of those Union's initiatives, without further specifications; this could be a first step towards addressing the real problem of the democratic deficit involved by the current method. The Treaty, if ratified, by promoting intergovernmental cooperation in the social protection and inclusion areas, will *de facto* provide legitimacy to intergovernmental rather than Community actions. Notwithstanding the vagueness of its wording, the importance of the new Article I-15 on "the coordination of economic and employment policies" (Part 1 of the Treaty) should therefore not be undervalued in this respect as it opens the way to coordination (rather than intergovernmental cooperation) in the social field, by specifying that "the Union may take initiatives to ensure coordination of Member States' social policies".

Conclusion

EU cooperation in the field of social policy is thus under way in four different domains, with a significant difference in the degree and nature of cooperation from one domain to the other.

2.3 From Individual EU Policy Processes to a "Streamlined Strategy"

We have described above the four elements of the present social processes, which operate alongside the policies for economic policy and employment: the Broad Economic Policy Guidelines and the Employment Guidelines respectively. The reader can doubtless understand a desire for "streamlining".

In December 2002, the Council approved the European Commission's proposal to establish three-year cycles for the policy coordination and synchronisation of two of the three main pillars of the Lisbon strategy: the annual economic and employment policy coordination strategies. The policy coordination and synchronisation of these two Treaty-based strategies, or their "streamlining", was expected to translate into a *mutual feedback* between the streamlined components, allowing them to reinforce and complement each other and therefore to improve their effectiveness. At their June 2003 meeting in Thessaloniki, EU Heads of State and Government were presented for the first time with the two sets of Guidelines under the new streamlined procedure, covering the period 2003-2005 (European Commission, 2002a).

Based on the same logic, and with the objectives of strengthening the social dimension of the Lisbon strategy and enhancing the quality and coherence of the overall socio-economic governance of the EU, the Commission issued a Communication in May 2003 (European Commission, 2003c) proposing that the various *social policy processes at EU level* launched as a follow-up of Lisbon (described in the previous section) should be streamlined as from 2006. In October 2003, the Council endorsed the general approach suggested by the Commission under the condition that an agreement could be found between the Member

States and the Commission on the concrete implementation of the suggested streamlining, which includes: the future nature of the individual social processes, the concrete steps towards streamlining and their respective timing (see Social Protection Committee, 2003a). The timetable for policy coordination on social issues and that for the Treaty-based Macro-economic and Employment Strategies was to be synchronised from 2006 onwards, i.e. once the second round of the streamlined employment/ economic strategies is launched (for the period 2006-2008). This streamlining posited:

1. a *synchronisation* of the timetable for the various EU social processes, with that of the streamlined employment and macro-economic strategies; and
2. a *rationalisation* of EU cooperation in the field of social policy.

We were therefore to have had a "double streamlining": on the one hand, the streamlining of the EU social processes, and on the other hand, the synchronisation of the "streamlined social processes" with the "streamlined macro-economic and employment strategies".

Since then, however, the situation has altered. At the 2005 Spring European Council, the Commission proposed that "Integrated Guidelines" should bring together the Commission's recommendation for the Broad Economic Policy Guidelines and its proposal for the Employment Guidelines in a single coherent text to be adopted in summer 2005. There would be "a new cycle of governance" (European Commission, 2005i, page 2), starting in 2005 and to be renewed in 2008. On the basis of the Integrated Guidelines, Member States would then table "National Reform Programmes" in autumn 2005, which would cover a three-year period but could be reviewed in case of major changes in domestic politics. At the end of January 2006, there would be a First Commission Annual Progress Report and proposals for possible update of the Integrated Guidelines (European Commission, 2005h and 2005i). In autumn 2006 and autumn 2007, Member States would submit to the Commission a single report on progress in implementing these programmes. EU Heads of State and Government would review progress each spring and consider any necessary adjustment of the Guidelines on the basis of analysis presented by the Commission. An "EU Lisbon Programme" would be finalised by the Commission, covering all actions to be undertaken at EU level in support of the goals of growth and employment, in parallel with the preparation of the Integrated Guidelines setting out action at EU level. At country level, in order to improve coordination, delivery and awareness of the on-going reforms, Member States would be invited to designate a coordinator.

Alongside the new (2005) Lisbon governance cycle, there would be a simplification and streamlining of the reporting mechanisms under the Open Method of Coordination (OMC) (European Commission, 2005i, page 5). Separate reporting will continue as part of the OMC on social protection and social inclusion. The annual Joint Report on Social Protection and Social Inclusion would remain a separate document, not be integrated into the "renewed" Lisbon strategy, neither in the Member States annual reporting to the Commission, nor in the Commission's reports to the Spring European Council. This would mean that the OMC in the social field "would continue in full" (European Commission, 2005i, page 5), but that information relevant to the Lisbon strategy goals are also expected to be reflected in the national reform programmes. Those elements that create synergies for growth and jobs, for example, bringing more people into the labour market, modernisation of social protection systems or education and lifelong learning could be picked up by the Commission's Annual Progress Report since they are an essential element of the renewed Lisbon strategy.

Given this new structure, it is clearly important that the expected *mutual, reinforcing feedback* is monitored between the Broad Economic Policy and Employment Guidelines, on the one hand, and the OMC in the social field (including the Social Inclusion Process, which "should be pursued by the Union and by Member States, with its multifaceted approach"; 2005 *Spring Summit*), on the other hand. The OMC in the social field should contribute to achieving the goals of growth and jobs of the refocused Lisbon strategy; and, at the same time, policies to promote growth and jobs should contribute to promoting social cohesion and social inclusion which remains a key objective of the refocused Lisbon strategy. We therefore support the suggestion by the EU Employment Committee and the EU Social Protection Committee in their *joint opinion* on the 2005-2008 Integrated Guidelines for growth and Jobs, to explicitly clarify this: "In order to reflect the continuing importance of social cohesion as an integral part of the objectives of the Lisbon strategy, the following text should be added to recital (3) in the Council Decision on the Employment Guidelines: "*The strengthening of social cohesion constitutes also a key element for success of the Lisbon Strategy. Conversely, as set out in the Social Agenda, the success of the European Employment Strategy will contribute to the achievement of greater social cohesion*"." (Employment Committee and Social Protection Committee, 2005)

The proof of the pudding will obviously be in the eating, but four ingredients may stimulate these interactions between the two processes:

- At the country level, a lot of work is taking place in 2005 in the context of the OMC in the social field: the national "Preliminary Policy Statements on health and long-term care" and the "National Strategy Reports on pensions" (see Section 2.2), but also the Implementation Reports on the NAPs/inclusion (see Section 2.5). Countries should reflect on best ways to ensure that all this national material *feeds into* and *influences* the formulation of National Reform Programmes as of the autumn 2005.
- At the EU level, as of 2006, "the annual Joint Report on Social Protection and Social Inclusion should form an integral part of the annual review of progress leading up to the Spring European Council" (Employment Committee and Social Protection Committee, 2005). More concretely, we think that the annual refocused strategy "package" to be submitted to the *Spring Summit* should include the Joint Report, or at least, as has already been the case in 2005 (see above), the *key messages* contained in the Joint Report as summarised by the EPSCO Council.
- In developing the streamlining of the Social Protection and Social Inclusion Processes over the coming months, it will be important to already begin to synchronise and rationalise the processes with the "new cycle of governance" for the overall Lisbon strategy. Then, from 2008, there should be *full* synchronisation with the second round of the "new cycle". In particular this will mean that, once revised and streamlined common objectives covering social inclusion, pensions and health and long-term care are agreed (in spring 2006; see Section 2.5), Member States should produce their new NAPs/inclusion for the period 2006-2008.
- A true *mainstreaming of social inclusion* in national policy making will have to be implemented through establishing a scheme of systematic policy assessments. To this end, the impact of specific employment, economic and sustainable development policies on social inclusion should also be systematically monitored, so as to identify possible ways of adjusting such policies to strengthen their contribution to promoting social inclusion (see Section 6.7).

Conclusion

In this report, we concentrate on the continuing social processes, and particularly on the Social Inclusion Process, but taking account of the synergies for growth and jobs.

2.4 Enlargement

In June 1993, the Copenhagen European Council took a decisive step towards Enlargement, by agreeing that “the associated countries in Central and Eastern Europe that so desire shall become members of the European Union” and that “accession will take place as soon as an associated country is able to assume the obligations of membership by satisfying the economic and political conditions required”. It also defined the membership criteria (often referred to as the “Copenhagen criteria”), namely: “Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate’s ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.”

It is on this basis that, between 31 March 1994 and 10 June 1996, in chronological order, Hungary, Poland, Romania, Slovakia, Latvia, Estonia, Lithuania, Bulgaria, Czech Republic and finally Slovenia submitted their applications for EU membership; Cyprus and Malta had already applied in July 1990, and Turkey in April 1987[10]. In December 2002, negotiations were concluded with the ten countries that joined the EU in May 2004, the remaining countries having the intermediate status of “candidate countries”. On 25 April 2005, Bulgaria and Romania became “acceding” countries.

In the context of our Report, it is important to bear in mind that the EU that the new Members joined in May 2004 was very different from the European Communities of 1993. This is especially true of the field of social policy (for discussion, in the case of the Czech Republic, see Potůček, 2004). In Table 2.1, we set out some of the main developments since 1993 (most of which have been described earlier in the Chapter). Those moves form an integral part of the *EU acquis*, i.e. the detailed laws and rules adopted on the basis of the EU founding treaties which candidate countries have to accept and fulfil before actually joining the EU. This acquis includes of course the “soft” Open Method of Coordination, which was launched in Lisbon and has quite quickly developed over the last years as emphasised in previous sections. It has been a huge challenge for the 10 new Member States to board a (fast) moving train; and it will be even more challenging for the acceding/candidate and future applicant countries.

(Table 2.1 – see Annex 2)

2.5 The Mid-term Review of the Lisbon Strategy

In 2005, Member States and the European Commission will carry out the *mid-term review* of the Lisbon strategy. In this context, a major assessment of the Open Method of Coordination in the fields of pensions and social inclusion was launched at the beginning of 2005, in order to inform the decision to be taken by the Council in early 2006 concerning the implementation of a streamlined social process (i.e. covering the various EU social processes) – an implementation that will require both a consistent set of common objectives and appropriate working methods. The results of this assessment, which should involve all the relevant actors (i.e. the different levels of Government in Member States, EU institutions, EU and national social partners, and EU and national civil society stakeholders), will be summarised in a report to be drafted by the Commission. The Commission intends to present this report by the end of 2005 in the form of a technical annex to a Communication setting

[10] As to Croatia, it submitted its application in February 2003.

out its suggestions for revised common objectives and working methods for the streamlined social process.

The Commission's "evaluation report" will build on the following inputs:

1. The replies to a questionnaire which was sent to Member States at the beginning of 2005 and aims at assessing how effectively the Social Inclusion Process and the pensions' process have been conducted since they were launched, i.e. how these have impacted on their policies. Drafted by the Commission and finalised together with the Social Protection Committee, this questionnaire addresses the following issues: the added value of the Open Method of Coordination in the areas of social inclusion and pensions; the appropriateness of the present common objectives (see Section 2.2) in view of past experience and taking account of the 2004 Enlargement; the suitability of the existing common indicators to identify problems and challenges, to measure progress towards the common objectives and to serve as a basis for setting targets; the working methods used so far at both the EU and national level; an assessment of the future development of open coordination in the social field. Countries are expected to submit their completed questionnaire to the Commission by 30 June 2005.
2. Two reports which Member States have to submit in the course of 2005, in the framework of the Open Method of Coordination in the social field: the "Implementation Reports" on the NAPs/inclusion, in which countries explain how they have implemented the objectives they established in their NAPs/inclusion, and the National Strategy Reports on pensions.
3. The conclusions from international expert workshops, to take place in the course of 2005.
4. An evaluation of the aforementioned Community Action Programme on social exclusion (see Section 2.2).

During the first phase of the Lisbon strategy (2000-2005), the definition of objectives to be assigned to the social processes was the core concern. A concrete result of this comprehensive mid-term evaluation, addressing both the content to be delivered by the processes and the most appropriate methods to be used for this purpose, should be a stronger focus as of 2006 on the implementation of goals, the delivery of policy reforms, and the monitoring and evaluation of results. A key role is played here by the analysis of policy, on which we concentrate in Chapter 4.

The Social Agenda 2006-2010

Complementing the mid-term review of the Lisbon Strategy is the Social Agenda 2006-2010, a Communication from the Commission in February 2005 (European Commission, 2005d). The accompanying European Commission Press Release described the Social Agenda as "the social policy dimension of the refocused Lisbon growth and jobs strategy". The Press Release goes on to stress that "social policy has not been downgraded in importance. … we are more, not less, ambitious, about ensuring high social standards, good healthcare and a proper social net". In its Communication, the Commission states clearly that "the added value of the Social Agenda is beyond doubt. The Agenda makes it possible to facilitate the modernisation of national systems against a background of far-reaching economic and social changes. It supports the harmonious operation of the single market while ensuring respect for fundamental rights and common values" (European Commission, 2005d, page 2).

The Social Agenda, which drew on the Report of the “High-Level Group on the future of social policy in an enlarged European Union” (European Commission, 2004c) and the Kok Report on *Facing the Challenge* (European Communities, 2004), develops a two-pronged strategy. The first element is concerned with building the confidence of EU citizens. Here it emphasises an intergenerational approach, reflected in the European Youth Pact, to which reference has already been made in Chapter 1, and the social dimension of globalisation, citing the ILO World Commission on the Social Dimension of Globalisation, the commitments of the Copenhagen World Social Summit, and the Millennium Development Goals. The second element presents key measures under two main headings: employment, and equal opportunities and inclusion. The first of these refers both to the revamped cycle of the European Employment Strategy and to synergies with other instruments, notably the European Social Fund, which will provide support to the Employment Strategy. The second refers to the modernisation of social protection, the open method of coordination for health and long-term care, a Community initiative on minimum income schemes and the integration of people excluded from the labour market, the designation of 2010 as the “European Year of combating exclusion and poverty”, promoting diversity and non-discrimination, the establishment of a European Gender Institute, and a clarification of the role of social services of general interest.

Sustainable Development Strategy

At their 2005 *Spring Summit*, EU Heads of State and Government agreed to endorse in June 2005 a declaration on guiding principles for sustainable development, which could serve as a basis for renewing the current Sustainable Development Strategy adopted in Göteborg in 2001. The new Strategy would have to be adopted by the end of 2005. Since social cohesion forms an important part of sustainable development, and since the European Council has called for a more comprehensive and more ambitious approach, embodying targets and effective monitoring, the renewed Strategy may provide a way forward for the Social Inclusion Process.

Creating the (new) dynamic between the OMC in the social field, and the Broad Economic Policy and Employment Guidelines, as we described in Section 2.3, is in fact directly linked to this key issue of sustainable development. Such a dynamic is indeed “vital if real synergies are to be achieved between social, economic, employment and environmental policies so that they are mutually reinforcing and ensure really *sustainable development in all fields* – something that has been somewhat lacking to date” (Frazer, 2005).

Conclusion

The Social Agenda 2006-2010 and the renewed Sustainable Development Strategy provide the strategic context within which we can consider the elements of the Social Inclusion Process, such as the common social indicators, to which we now turn.

2.6 Commonly agreed Social Inclusion Indicators: Achievements to Date

To help the Member States and the European Commission with the monitoring of national and EU progress towards the EU common objectives in the area of social inclusion (see Section 2.2), the December 2001 Laeken European Council endorsed a first set of eighteen common indicators for social inclusion. The indicators, generally referred to as the *Laeken indicators*, are to be used by all the Member States in their NAPs/inclusion from the 2003 round of NAPs/inclusion and in the EU reporting on social inclusion.

The design of these indicators drew on a history of social science research dating back over 30 years. In the United States, this was represented by the official publication *Toward a Social Report* (US Department of Health, Education, and Welfare, 1969). For Europe, reference should be made to Delors (1971). In Scandinavia, the desire to move beyond purely monetary indicators of well-being led to a broader concept of social welfare (see Johansson, 1973, and Erikson and Uusitalo, 1987). More recently, important work has been undertaken on "The Social Quality of Europe" as part of an initiative during the Netherlands Presidency, reported in Beck, van der Maesen and Walker (1997); and by the EuReporting Project, co-ordinated by ZUMA at Mannheim, concerned with the conceptual basis for social reporting (see, for example, Berger-Schmitt, 2000). Berger-Schmitt and Noll (2000) provide a very clear account of the relation with concepts of quality of life, social cohesion, social capital, and social exclusion.

In the development of the EU common indicators, the key role has been played by the Indicators Sub-Group (ISG), in conjunction with the Commission, notably Directorate General "Employment, Social Affairs and Equal Opportunities" (DG EMPL) and the Statistical Office of the European Communities (Eurostat), and other bodies, in particular the OECD. The ISG consists of national delegations of experts, with a secretariat that is the responsibility of the Commission (DG EMPL). The ISG examines the technical issues and submits recommendations to the Social Protection Committee. These cover not only the Social Inclusion Process, but also the OMC on pensions, the OMC on health care and long-term care, as well as the studies of making work pay. The Social Protection Committee "Report on indicators in the field of poverty and social exclusion" (Social Protection Committee, 2001), prepared in 2001 by the ISG and adopted in Laeken in December 2001, set out the methodological principles underlying the construction of the common social indicators, and proposed the set of common Laeken indicators. The ISG has since then continued to work on these common social inclusion indicators with a view to refining and consolidating the original set as well as extending it. The ISG has been very much involved in the review of the 2003 and 2004 NAPs/inclusion as far as indicators, data and monitoring issues are concerned. A great deal of ground has been covered in developing the indicators. We refer to some areas of work below, but it is not within our remit to attempt a comprehensive evaluation of all the many areas investigated (which include homelessness, deprivation measures, premature mortality, and migration). Nor do we consider the work of the ISG with regard to the other processes (pensions, health and long-term care, and making work pay). Given the importance of the ISG, the Commission may consider an independent analysis of its operation. We only make two points here. The first is that it would be very valuable if the key working documents of the ISG including the meetings' minutes could be made available to the scientific community, along with the reports made to the Social Protection Committee when endorsed. The publication of the original report in 2001 has demonstrated the value of such transparency. Secondly, in view of the extent of inter-connections between different fields, in terms of topics covered (income, employment, health, housing and homelessness, education…) but also methodology and data sources, it is important that there be close liaison between ISG delegates and the national experts involved with other bodies, in particular EU (Council bodies, Eurostat Task Forces…) and OECD bodies, UN and other groups concerned with social statistics.

The Laeken Indicators

Social indicators are of course used for a variety of purposes. It is essential to stress that here the focus is on their use in one *very specific context*, namely as part of the Open Method of Coordination – that is with the purpose of facilitating international comparisons of *actual performances* achieved by national social policies, and hence improving mutual learning and exchange of good (and bad) practices among countries. For this reason, the selected EU indicators focus on social outcomes rather than the means by which they are achieved (e.g., the level of education attained rather than the total spending on schools); Member States, while agreeing on the indicators by which performance is to be judged, are left free to choose the methods by which these objectives are realised (under the *subsidiarity* principle). One country may achieve low poverty rates by active labour market policy; another may place more reliance on social transfers. Spending alone is not a guide. In one country transfers may be provided by the state; in another country transfers may be private. In one country, training may be associated with apprenticeships; in another, training may be part of the school system. Of course the distinction is not a rigid one, but in general the aim of the EU indicators is to measure social outcomes. There is, as we discuss later, a role for indicators relating to policy inputs (e.g. expenditure on social transfers). Input indicators have an obvious value when reporting on policy. But the performance indicators are concerned with outcomes.

The specific nature of EU (performance/outcome) indicators to be used in the Social Inclusion Process is reflected in the nine methodological principles set out in the Report, cited earlier, of the Social Protection Committee (2001) endorsed in Laeken. Of these principles, six refer to individual indicators (1-6) and three to the portfolio as a whole (7-9)[11]:

1. An indicator should capture the essence of the problem and have a clear and accepted normative interpretation: i.e. there must be agreement among countries that a movement in a particular direction or within a certain range is a positive outcome, which is to be assessed against past national performances (this is particularly important when we turn to the issue of setting targets – see Chapter 6).
2. An indicator should be robust and statistically validated.
3. An indicator should be responsive to policy interventions but not subject to manipulation.
4. An indicator should be measurable in a sufficiently comparable way across Member States, and comparable as far as practicable with the standards applied internationally.
5. An indicator should be timely and susceptible to revision.
6. The measurement of an indicator should not impose too large a burden on Member States, on enterprises, nor on the Union's citizens.
7. The portfolio of indicators should be balanced across different dimensions.
8. The indicators should be mutually consistent and the weight of single indicators in the portfolio should be proportionate.
9. The portfolio of indicators should be "as transparent and accessible as possible to the citizens of the European Union." (Committee's Report).

The agreement reached in Laeken contributed to making the OMC in the field of social inclusion truly operational, by providing policy-makers with a common basis on which the starting positions and progress over time in the different Member States in terms of key areas of social concern can be reliably compared. While evaluating the contribution of specific policy initiatives on the evolution of indicators will always be difficult (see Chapter 4), common performance indicators significantly enhance the scope for policy learning. Concentrating on outcomes means that Member States, in reporting on policy, are encouraged to relate those interventions to the desired/planned impact on outcomes, rather than simply present a catalogue of policy measures. Policy interventions can then play their appropriate role, as means to an end, rather than as they are so often presented, as if they were ends in themselves.

[11] The methodological approach taken in the 2001 Committee's Report was consistent with the broad thrust of recommendations contained in the study on EU indicators for social inclusion by Atkinson *et al* (2002) commissioned by the Belgian Presidency of the EU, though differing in some details. Readers interested in a detailed discussion of the nine principles can refer to this study, where they were originally proposed. For more information on the technical and political details of the process that lead to this agreement, see *inter alia* Atkinson, Marlier and Nolan (2004), Marlier (2003) and Politica Economica (2002).

This being said, it is worth emphasising that in order to highlight national specificities in particular areas, and to help interpret the common indicators, Member States are strongly encouraged to include *nationally-defined indicators* in their NAPs/inclusion. It should also be highlighted that the “performance” information conveyed by the EU common indicators need to be supplemented with other statistical background information that allow a better linkage between policies and social outcomes (see Chapter 4), and thus also a better assessment of policies’ efficiency, which matters not only at the national level but also at the international level (in the context of the *peer reviews* and the identification of good and bad practices).

Progress since Laeken - The Current State of the Art

The December 2001 Laeken European Council endorsed a *first set* of eighteen common indicators for social inclusion. Since that date, the Indicators Sub-Group of the Social Protection Committee has refined, consolidated and extended the original set. There are currently twenty-one such indicators as shown in Tables 2.2a-2.2b[12]. These indicators are organised in a two-level structure, consisting of *Primary Indicators* (indicators 1-12), covering the broad fields that have been considered the most important elements in leading to poverty and social exclusion, and *Secondary Indicators* (13-21), intended to support the lead indicators and describe other important dimensions of the phenomena. The numbering of the indicators follows that in European Commission (2005c).

The Primary Indicators encompass poverty risk (Indicators 1, 4 and 5), income inequality (Indicator 3), regional variation in employment rates (Indicator 6), unemployment and joblessness (Indicators 7 and 8), low educational qualifications or performance (Indicators 9 and 10), low life expectancy and poor health (Indicators 11 and 12). Although income-based indicators account for about half of the Primary Indicators, and although certain key dimensions are still missing, the set of indicators can be said to be multi-dimensional in its scope.

In each case, wherever relevant, meaningful and statistically robust, breakdowns of the indicators are given – see Tables 2.2a and 2.2b. In particular, *children* and the *elderly population* are now given a special focus within the EU indicators of social inclusion. It has been agreed that it is especially important not to base the examination of child poverty risk and social exclusion on a single at-risk-of-poverty indicator. This explains why a standard breakdown by broad age groups is now applied to most of the Laeken indicators. At the same time, as we discuss in Chapter 5, children mainstreaming may lead us to propose moving outside the existing set of indicators and developing specific child-focused indicators rather than simply rely on age breakdowns.

A *gender breakdown* is now also more systematically applied to the EU indicators, i.e. again each time where relevant, meaningful and statistically possible. It should be noted here that gender is important in terms of disaggregation, but also in the definition of indicators. The definitions chosen may not be “gender neutral”. For instance, the measurement of the poverty risk assumes that financial resources are equally divided among all those living in a household. All are poor or all are non-poor. In reality, household income may be unequally divided among household members. There may well be households, recorded as being above the risk of poverty threshold, where the women members are sufficiently disadvantaged relative to the men members that the women are in fact at risk of poverty although in a non-poor household.

[12] For detailed definitions as well as currently available national calculations on the basis of most recent data, see European Commission, 2005b. Updated national figures, as they become available, can be downloaded free of charge from the web-site of Eurostat, the statistical office of the European Communities: http://epp.eurostat.cec.eu.int/portal/page?_pageid=1090,30070682,1090_30298591&_dad=portal&_schema=PORTAL

The main changes from the set of indicators originally endorsed in 2001 are:

1. The inclusion of two new indicators: a Primary Indicator for the *low reading literacy performance of pupils*, which is based on the OECD *Programme for International Student Assessment (PISA)*, and a Secondary Indicator on the “in-work poverty risk”, i.e. the *working poor*.

2. The *illustrative values* for the “at-risk-of-poverty threshold” were already included in the original information, but are now shown as “indicators” in the list given in European Commission (2005c). They are obviously not indicators in the sense of the Laeken methodological framework briefly presented above, although we can appreciate the importance of keeping these values in mind when doing comparative analysis at the EU level, especially between “old” and “new” Member States.

3. A new breakdown has been added to the at-risk-of-poverty rate: the breakdown by the *work intensity of households* (WI), which usefully completes the information provided by the new working poor indicator. WI is calculated only for households with at least one working age person, whereas households composed solely of students are excluded from the calculation.[13] Poverty risks can then be calculated for the total population in different work intensity categories as well as for broad household types in different work intensity categories.

4. Finally, refinements to existing indicators (esp. on the indicator of *jobless households*; see Tables 2.2a-2.2b) and breakdowns (esp. on the calculation of the *most frequent activity status*) have been made. The “most frequent activity status” is now defined as the status that individuals aged 16 years and more declare to have occupied for more than half the number of months in the calendar year (the income reference year).

(Table 2.2a and Table 2.2b – see Annex 2)

Structural Indicators and Commission Spring Reports

As part of the Lisbon strategy, the European Commission was required to produce each year since 2001 a *Spring Report* to the Spring European Council (see, for instance: European Commission, 2005a). Those reports draw from the implementation reports of the annual economic and employment policy coordination strategies, i.e. the Broad Economic Policy Guidelines and the Employment Guidelines, as well as from the so-called *structural indicators*. The latter are proposed by the Commission and agreed upon by the Council, with the aim of allowing for an objective assessment of Member States’ progress towards the Lisbon European Council objectives; they were expanded at Göteborg and refined by subsequent European Councils. Structural indicators cover six domains: general economic background, employment, innovation and research, economic reform, social cohesion and environment.

In its October 2003 Communication on structural indicators, the Commission suggested a radically different approach compared with earlier years (see European Commission, 2003b); an approach which was broadly endorsed by the Council and was therefore applied to the 2004 and 2005 Spring Reports (Council, 2003). With a view to create greater clarity in the annual assessment of progress being achieved by Member States, the Commission now

[13] WI is obtained by dividing the number of months that all working age household members have actually worked during the income reference year, by the total number of months that they could theoretically have worked during that period of time (i.e. the number of months spent in any activity status by all the working age members of the household). Working age persons are persons aged 16-64 years that are not dependent children, with the latter consisting of all individuals aged 0-15 years as well as individuals aged 16 to 24 years that are both economically inactive and living with at least one of their parents. Individuals are classified into work intensity categories ranging from WI=0 (no one in employment, which is very close though not identical to the definition of the Laeken *jobless households* indicator) to WI=1 (full work intensity).

concentrates *primarily* on a shortlist of only 14 structural indicators (see Table 2.3), instead of the 42 indicators used in the 2002 and 2003 Reports.

(Table 2.3 – see Annex 2)

We have already emphasised that the multi-dimensional nature of social inclusion requires a broad range of indicators, more than the 3 indicators for this domain in the shortlist (at-risk-of-poverty rate, regional cohesion and long-term unemployment rate). The need to supplement the shortlist in order to better monitor structural reforms also applies to the other domains to be covered by the structural indicators. For this reason, the Commission maintains, in parallel to the shortlist, a publicly accessible database containing a larger number of indicators. To date, as far as "social cohesion" is concerned, this longer list contains the 7 indicators shown in Table 2.4, which are a subset of the Laeken indicators presented in Tables 2.2a and 2.2b. Where necessary, the more detailed indicators used in the individual policy processes (i.e. the Laeken indicators in the case of social inclusion) can obviously also complete the Commission's analysis.[14]

(*Table 2.4 – see Annex 2)*

2.7 Commonly agreed Social Inclusion Indicators: Issues

A number of issues relating to agreed indicators and their use need to be addressed. The first issue is that of coverage. There are gaps in the agreed indicators. To date, the EU indicators for social inclusion cover four important dimensions: financial poverty, employment and unemployment, health, and education including literacy. Even though there is no agreement yet on common indicators on housing, an important decision was made in Laeken on a common approach to be followed for this key area: since the 2003 round of NAPs/inclusion, Member States also have to report on housing quality, housing costs, and homelessness and other precarious housing. This housing element is also part of the Social Protection Committee's Report endorsed by EU Heads of State and Government in December 2001. In practice, however, the absence of a common indicator in the field of housing has meant that most NAPs/inclusion do not satisfactorily (if at all) address this essential dimension of social inclusion.

The second need is for the refinement of existing indicators. The necessity for further work on common indicators reflects the fact that in arriving at the current set of Laeken indicators, many significant choices had to be made, and while indicators should have a reasonable degree of stability in order to fulfil their monitoring function, the process of development is necessarily a dynamic one. A good example is provided by the EU definition of the risk of financial poverty, based on relative rather than absolute or fixed thresholds. In the context of an enlarged Union, however, we need to take account of the larger differences across countries in average living standards. This gives particular significance to the work of the Indicators Sub-Group on the difficult issue of building common *deprivation indicators*, which could also help to (partially) fill the current gap on the housing dimension (see Chapter 5).

Apart from the need to re-examine the indicators in an enlarged Union, there are other reasons why the choice of indicators should not be regarded as fixed in stone. These include the need to refine their definition but also their implementation on the basis of the concrete experience gained in employing them. For instance (see Chapter 4), the EU common indicators, which have to be performance (i.e. outcome) indicators for the reasons explained

[14] Comprehensive information on structural indicators including definitions and available national figures (for all Member States as well as candidate/ acceding countries) can be downloaded from: http://europa.eu.int/comm/eurostat/structuralindicators

above, need to be complemented with other statistical background information that allow a better linkage between policies and outcomes. These also include the need to respond to new issues and challenges generated by the constantly changing socio-economic situation, the need to better reflect the views of all relevant actors (social partners, non-governmental organisations, persons experiencing poverty or social exclusion, academics). Finally, the data at our disposal are also changing over time (e.g. the newly launched EU-SILC instrument, see Chapter 5), and progress in filling gaps in the social indicators depends crucially on the statistical infrastructure. As the Social Protection Committee (2003b) noted, “the use of indicators to monitor progress depends to a great extent on the availability of relevant and timely data. Thus (…) Member States may wish to identify gaps in existing data and to stress the need to develop further their statistical infrastructure”. Put differently, and this aspect is too often underestimated, improved *statistical capacity* – in terms of coverage, reliability and timeliness - is a necessary condition for the process to achieve its aims. As we will see in subsequent Chapters, apart from filling the gaps in available *data*, this calls for the building of specific *analytical expertise* at both national and EU levels (including expertise in our understanding of the determinants of social well-being); the commitment of resources by the Member States and the Commission will thus be indispensable.

For all these reasons, the composition of the set of EU social indicators will have to be regularly reconsidered, which means that new indicators may be added but also that existing ones will have to be amended or dropped since the number of common indicators should be kept limited (see Hills, 2002).

Use of the Indicators

The single most important issue surrounding the common social indicators is their use – or, more accurately, their lack of use. As was recognised in the 2004 Joint Inclusion Report, the indicators have yet to be “used to full advantage to assess performance in practice” (European Commission, 2004b, page 135). To date, the indicators have not penetrated sufficiently either at the level of the EU or within Member States. Despite the efforts made in the NAPs/inclusion and in their EU analyses by the Commission and Member States (Joint Reports and Commission Staff Working Papers), the potential of the social indicators has yet to be fully exploited. Yet the common indicators can play a number of key roles in the Social Inclusion monitoring framework, as we have tried to illustrate in Figure 2.1.

(Figure 2.1 – see Annex 1)

To be more concrete, we can identify four respects in which use of the social indicators has been disappointing. The first is the use of the indicators in a forensic manner to identify possible explanations of differences in Member State performance. With the exception of an interesting graph showing the correlation between risk of poverty and per capita social expenditure in 2000 (European Commission, 2004b, Figure 13), EU analyses contain little systematic cross-country analysis. There are, of course, many potential pitfalls in using cross-country analysis, well known from the social science literature, some of which we consider in Chapter 3.

The second application is in the individual NAPs/inclusion. Member States were requested to make use of the commonly agreed indicators in the 2003-2005 round. They did so to varying degrees. The 2004 Joint Inclusion Report noted that Belgium, Greece, Spain, Italy, Luxembourg, Portugal and Finland made extensive use of the Laeken indicators. In contrast, they note that, for different reasons, Austria, Denmark, Germany and the Netherlands “make only limited use” (European Commission, 2004b, page 134). Among the reasons are that the social indicators are not sufficiently closely related to policy measures, such as the national minimum income level, and that the Laeken outcome indicators are subject to other influences, notably the economic cycle. We understand these concerns, but believe that they can be overcome by the greater use of background indicators and by a systematic analysis of the underlying determinants. As indicated in Figure 2.1, national input indicators also need to be brought into the picture.

A fuller embedding of the social indicators within the NAPs/inclusion requires also that the EU indicators be related back to the national indicators used by Member States. It is clearly important that the results given at an EU-level can be reconciled with those obtainable from national sources where the latter are available, and that differences in definition be addressed. Put more concretely, people need to know how to relate the EU indicators, such as those in the Annexes to the Joint Report on Social Inclusion (European Commission, 2004b) and the Joint Report on Social Protection and Social Inclusion (European Commission, 2005b), to the “headline” national figures from national sources.

A number of Member States have made such reconciliation in their NAPs/inclusion. In the case of Italy, the Statistical Annex identifies three sources of difference. The first lies in the use of a different source in the national estimates: the Survey of Household Budgets carried out by the Italian statistical institute (ISTAT). The second is the use of consumption, rather than income. The Annex argues that “conceptually speaking, consumption is perhaps a better measure” (page 17), on the grounds that it is more stable with respect to income fluctuations and is less subject to under-reporting. They note that, “where there is a high rate of submerged employment ... there may be much reticence in declaring the real household income” (page 17). They expect to find that the measured poverty rate is lower using consumption expenditure, although the difference is not in fact particularly marked. The third difference lies in the definition of the poverty threshold. The national methodology applies the criterion that the poverty line for a childless couple is equal to the mean consumption per capita. The thresholds for other types of household are obtained by applying the equivalence scale estimated by Carbonaro. In contrast, the EU definition is 60% of the median equivalised income, using the modified OECD scale. The differences in equivalence scale mean, for instance, that a family with 2 children under 14 years of age is treated as equivalent to 2.1 single adults under the modified OECD scale and as 2.7 single adults under the Carbonaro scale.

The Dutch NAP/inclusion similarly examines the relation between the national minimum income, taken as a performance standard, and the EU common indicator. It identifies (page viii) the following differences:

- The national minimum is below 60% of the median.
- Students are not included as households with a minimum income in the Netherlands but they are incorporated in the EU definition.
- The EU definition is based on equivalised income, allowing for children in a way that is not accommodated with the minimum income, so families with children and an income just above the minimum are not included with the group of households on a minimum income.
- The minimum income is defined excluding housing benefit, whereas the EU definition includes as income any housing benefit received.

The consequences of these differences are considerable: more than half (53%) of those below the EU 60% norm in the Netherlands are not designated as people who must get by on a minimum income. Conversely, a quarter (27%) of those on minimum incomes in the Netherlands do not fall under the EU 60% median threshold. As is noted in the NAP/inclusion, this has consequences for the population composition. The EU definition identifies as at risk of poverty more working people, more youths (students) and more families with children.

We believe that the systematic examination of the relationship between the commonly agreed indicators and the national indicators should, as far as possible, be conducted for all dimensions, and that this will facilitate the wider application of the commonly agreed EU indicators. The two-way arrows on the left hand side of Figure 2.1 are important.

The third application is to increase the degree of “joined up Government”. The multi-dimensioned nature of the EU indicators for social inclusion not only reflects the fact that exclusion is a multi-dimensional concept, but also serves to underline the need for cooperation between different agencies of Government as well as, in some countries, between different agencies belonging to different levels of Government. The overlap between NAPs/employment and NAPs/inclusion is an obvious example. Policies to reduce long-term unemployment and joblessness require *inter alia* joint action by the ministries of employment and social affairs. All the indicators indeed potentially involve joint action by different agencies, and one of the latent functions of the OMC is to promote coordination not just across countries but also within countries. *Joined up Government* will become even more important if, as should be a key priority, NAPs/inclusion are integrated more clearly with policy formation (see Chapter 6). The EU choice to focus on social outcomes rather than the means by which they are achieved may help encourage joined up Government; it may foster a cooperative attitude between the different (national, regional, local) bodies that have competence in these areas, whereas as far as inputs are concerned these bodies could be more inclined to see competition for resources as a zero-sum game.

The fourth application is to target setting (see the centre of Figure 2.1). In the first round of NAPs/inclusion, submitted in 2001, only a minority of the then 15 Member States had outcome targets. Furthermore, not all these targets were systematically linked to indicators to be used for monitoring progress towards achieving them. A few did have high-level national targets, notably Ireland which already had such a target at the core of its National Anti-Poverty Strategy, framed in terms of a domestically developed measure of “consistent poverty”, which combines being at risk of poverty with experiencing basic deprivation. Overall, though, the setting of targets for key outcomes was rare and their coverage extremely patchy. The impetus for an enhanced role for targets in the next round of NAPs/inclusion came from the March 2002 Barcelona European Council, which stated that

“The European Council stresses the importance of the fight against poverty and social exclusion. Member States are invited to set targets, in their National Action Plans, for significantly reducing the number of people at risk of poverty and social exclusion by 2010.”

The thinking behind this, and a detailed elaboration of how Member States might approach target-setting, was contained in the Common Outline for the 2003-2005 NAPs/inclusion agreed upon between the Social Protection Committee and the European Commission (Social Protection Committee, 2003b). It was clear from the Common Outline that these statements of objectives and priorities were intended to go beyond the general and aspirational. It spelt out that quantified targets should be set for reducing the number of people at risk of poverty and social exclusion. These should draw as appropriate on the commonly agreed indicators. In Chapter 6, we examine how Member States responded to this request. Here we note that the setting of targets at either national or EU level represents a potentially important use for the commonly agreed indicators.

Figure 2.1 summarises some of the ways in which national and EU data, indicators and targets might be used in a complementary and integrated way to monitor progress and help take forward the EU Social Inclusion Process. It refers in addition to some of the methods of policy analysis examined in Chapter 4.

2.8 Conclusions

We began this Chapter with history. This has demonstrated the strong continuity in basic ideas underlying the development of EU cooperation in social policy: the setting of common objectives, with Member States free to determine how they are achieved, and an integrated view of economic and social policy-making, seeking to emphasise the positive ways in which social policy can contribute to economic performance. The fact that progress has been made unevenly should not be allowed to obscure the underlying continuity.

Since 2000, three EU social “processes” have been launched: in chronological order, the *Social Inclusion Process*, the *Pensions Process,* and the *Health Care and Long-Term Care Process*. (EU cooperation in the field of *Making Work Pay* is also under way, even if this cooperation cannot be considered as a “policy process” *per se* and if various aspects of this issue have already been, and will continue to be addressed in the context of the Broad Economic Policy Guidelines and the Employment Guidelines.) These three processes have been (or will soon be, in the case of Health) taken forward via the Open Method of Coordination. As far as the Social Inclusion Process is concerned, our main concern here, this has involved objectives set at the EU level, embodied in the commonly agreed social indicators, the preparation of NAPs/inclusion by Member States, and of the EU analyses by the Commission and Member States.

The aim of the present Report is to contribute to the 2005 mid-term review of the Lisbon Strategy, and to the taking forward of the Social Inclusion Process. We are seeking to do so in four main respects:

1. Demonstration of the potential for a systematic comparative analysis of the performance of Member States, using commonly agreed indicators (Chapter 3).
2. Investigation as to how policy analysis can be strengthened (Chapter 4).
3. Development of the social indicators to fill gaps, refine existing indicators, respond to Enlargement, and widen their use (Chapter 5).
4. Examine how the Social Inclusion Process can be taken forward, considering the role of target setting, and embedding the Process more firmly in national policies (Chapter 6).

Chapter 3
Poverty and Social Exclusion in the EU

3.1 EU Data on Poverty and Social Exclusion
3.2 Establishing the Baseline: EU Citizens at Risk of Poverty
3.3 Establishing the Baseline: the Multifaceted Nature of Social Exclusion
3.4 What can we learn from Cross-Country Comparisons?
3.5 Children Mainstreaming
3.6 Concluding Comment

During the second round of NAPs/inclusion, the Member States had, for the first time, to make use of the common indicators to underpin their analyses of the prevailing social situation and to measure any progress made in respect of the agreed objectives. So were expectations met in the NAPs/inclusion 2003-2005? This question has to be answered in the negative. While many countries did use indicators to provide a description of the state-of-affairs with regard to poverty and social exclusion, these descriptions were, on the whole, hardly integrated into the central part of the NAPs/inclusion, which deals with the strategic approach to combating poverty and social exclusion.

Arguably, one of the reasons for the limited framing of policies in relation to the common indicators in the NAPs/inclusion is that the social indicators have not yet been used for analytical purposes. In Sections 3.2 and 3.3, we examine the “baseline” situation with respect to poverty and social exclusion in the EU. This goes beyond the EU analyses in three ways. First, we explicitly compare EU-15 and EU-25, asking how Enlargement has changed the pattern of poverty and social exclusion. While the 2005 Joint Report on Social Protection and Social Inclusion (European Commission, 2005b) covers the EU-25, the Statistical Annex does not contain income-based indicators, mainly due to the transition between data sources (see below). This is important since a second departure here is to investigate the inter-relation between the different dimensions of social exclusion. How far, for example, is poverty risk correlated with deprivation in terms of education? (This is evidently a question that can be asked both at the level of countries and at the level of individuals; here we are looking at countries.) After presenting the evidence, we consider what conclusions, if any, can be drawn from cross-country differences (Section 3.4). It should be noted that we, on purpose, limit our analysis to the published EU common indicators; we do not, in general, attempt to consider other sources of empirical evidence (be it aggregate information or individual micro-data). Nor do we attempt to provide an overall explanation of poverty and social exclusion. Clearly, a full account requires a differentiated examination of the causes of poverty, based on a detailed and multidimensional analysis of the underlying data on individual households. Finally, as already explained in Chapter 1, we seek to draw together the discussion in Section 3.5 on children mainstreaming. Before seeking to interpret the evidence from the common indicators, however, we discuss the data sources from which many of the indicators are produced in Section 3.1.

3.1 EU Data on Poverty and Social Exclusion

As a result of the work of the Social Protection Committee, and its Indicators Sub-Group, in conjunction with Eurostat, DG EMPL and Member States, the EU has assembled a valuable dataset about poverty and social exclusion in the EU-25. There are other important sources of internationally comparable data, but here we concentrate on what can be learned from the EU sources. Key references are:

- The Statistical Annex to the 2004 Joint Inclusion Report (European Commission, 2004b), covering EU-15, the latest income data relating to the year 2000.
- The Annexes to the Commission Staff Working Paper, Report on Social Inclusion 2004 (European Commission, 2005c), covering the ten New Member States.
- Technical Annex to the 2005 Joint Report on Social Protection and Social Inclusion (European Commission, 2005b) covering EU-25 for non-income-based indicators.

As explained earlier, certain of the indicators appear as key Structural Indicators (see Tables 2.3 and 2.4). For example, the Commission Staff Working Paper in support of the report to the Spring European Council 2005 contained the at-risk-of-poverty rate (total, and for males and females) for 16 Member States and three acceding/candidate countries (Bulgaria, Romania and Turkey) for years varying between 2000 and 2003 (European Commission, 2005e, indicator 9.1).

Compared with ten years ago, we now have a rich body of statistical information for the EU-25, assembled with the intention of being, as far as possible, comparable across countries and across time. Although the limitations of the data are clearly signalled, and there has been less experience to date with the new Member States, the degree of comparability is high by international standards. Yet these data have not been very fully exploited. While the Joint Reports have used the common indicators to considerable effect to demonstrate the scale of poverty and social exclusion, the analysis tends to be uni-variate. There have been relatively few attempts to relate the different dimensions of deprivation – the *multifaceted* nature of exclusion highlighted in the March 2005 Presidency Conclusions.

In some documents, the common indicators have simply been included as an annex, with little reference being made in the main text. The data appear as simply an appendage. This is particularly the case with the Structural Indicators. In the case of the Kok Report (European Communities, 2004), for example, the Annexes show the relative performance of Member States (EU-25) according to the shortlist of Structural Indicators, and the relative improvement 1999-2003 (or the closest available period) for the EU-25 and the US. In the absence of any analysis in the text, readers may be tempted to make their own use of the data. Suppose for example that the reader were to take the employment rate (%), of central concern in the Kok Report, and the at-risk-of-poverty rate, of particular interest here, and to plot the latter against the former. What, if anything, could be concluded from such a bi-variate analysis? Are there not other forces at work? Suppose that the reader considers instead the *relative improvement*, in terms of the average annual percentage point change, in the two structural indicators, which can be plotted for EU-15. Does this neutralise the cross-country differences due to other factors? Or do differences in the timing of the observations for the 2 variables (income relates to 2000, employment to 2003) vitiate the comparison? In the absence of an explicit analysis, readers are left in the dark as to what, if anything, can be concluded.

One important reason for caution is concern for data quality. The two main sources for the EU-15 are the EU Labour Force Survey, for the employment-related and education common indicators, and the European Community Household Panel survey (ECHP), which has been the source for the income-related indicators and self-defined health status.[15] At the time of the first and second (EU-15) rounds of NAPs/inclusion, in 2001 and 2003 respectively, the ECHP was the sole harmonised EU data source on income; it was coordinated by Eurostat. The role of the ECHP has therefore been crucial, even if the reliability of its data for a number of countries has been questioned, and the results have been available only after a substantial lag and have therefore been criticised as out of date. As we describe in Chapter 5, the ECHP is being replaced by the newly launched *Community Statistics on Income and Living Conditions (EU-SILC)*. EU-SILC will be the EU reference source for income distribution and for the level and composition of poverty and social exclusion; and thus, in particular, the EU reference source for a large number of common indicators for social inclusion (including of course some of the structural indicators for social cohesion to be produced for the annual Commission's Spring Report). EU-SILC is coordinated by Eurostat and is expected to cover *inter alia* all 25 Member States by the end of 2005.

The European Community Household Panel (ECHP)

The ECHP is an EU harmonised cross-national longitudinal survey focusing on household income and living conditions in their multi-dimensionality. This survey ran from 1994 to 2001. In the first wave (1994) a sample of some 60,500 households, i.e. approximately 130,000 adults aged 16 years and over were interviewed across the then 12 Member States. In 1995 and 1996 respectively, Austria and Finland joined the ECHP. As from 1997, Sweden has provided the cross-sectional[16] data derivable from its National Survey on Living conditions so as to ensure a complete coverage of EU-15. A few countries carried out the survey for one more wave and therefore stopped ECHP data collection only after the 2002 wave.

In most countries the surveys were carried out using the harmonised ECHP questionnaire (blueprint questionnaire), with the sole exceptions being Belgium and the Netherlands where ECHP data came from an adaptation of existing national panels to satisfy the ECHP requirements. From 1997 onwards, the situation became slightly different; in Germany, Luxembourg and the UK the institutes in charge of the production of the ECHP converted national data surveys into ECHP format to replace the ECHP, creating thereby a significant departure from the full initial input harmonisation of the ECHP project. In the national converted data-files, some information appears as "missing" because it was not collected at all in the national surveys; in other cases, variables were not collected in the national surveys but could be imputed on the basis of similar variables.

Within each country covered by the ECHP, the surveys were carried out by National Data Collection Units (NDUs), i.e. either National Statistical Institutes (for 8 out of the 15 countries) or research centres (in 7 cases). The results of the interviews were then transmitted to Eurostat using a format very close to the questionnaire. These datasets were checked and formatted by Eurostat in a Production Data Base. This Data Base was used by Eurostat for weighting and imputing the data to be included in the Users' Data Base (UDB). The Users' Data Base is the standardised, anonymised and more user-friendly user version of the ECHP data. It is made available to researchers under ECHP research contracts signed with Eurostat.

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[15] More information on the ECHP, EU-SILC as well as the *EU Labour Force Survey (LFS)* and other EU harmonised surveys can be found on the Eurostat web-site: http://epp.eurostat.cec.eu.int/portal/page?_pageid=1090,1137397&_dad=portal&_schema=PORTAL

[16] Cross-sectional data are data pertaining to a given time or a certain time period, whereas longitudinal data are data pertaining to individual-level changes over time, observed periodically over a certain duration.

Three central features of the ECHP make this dataset a valuable source of statistical information for the Social Inclusion Process:

1. The multidimensional nature of the topics covered. The ECHP provides micro-data (i.e. data on individual persons and households) on a wide range of socio-economic topics, which include: income, demographics, education, employment, housing conditions, health, social life, and so on.
2. The longitudinal nature of the survey. Individuals who were members of a household in the first wave (the "sample persons") are followed over time allowing data analysts to examine how their circumstances change over time. The ECHP is therefore the data source for the at-persistent-risk-of-poverty indicator, which requires 4 years of observations (see Table 2.2a). More generally, it provides information on relationships and transitions over time at the micro level.
3. The cross-national comparability of the data. The ECHP is a harmonised and comparable dataset across countries, even though this is not strictly the case anymore for those countries using data derived from national sources (see above). This has been achieved through the implementation of common procedures at all stages - from the design of a harmonised questionnaire, harmonised definitions and sampling requirements.[17]

Consistency with National Sources

In this Chapter, we focus on the evidence provided by the published EU common indicators. It is however important that these results be compared with those obtained directly from national sources. Twenty years ago, there was a dearth of information on poverty and social exclusion. In various Member States, this has now been replaced by several sources, and we need to understand the relation between them. How do the figures cited here compare with the "headline" figures appearing in national newspapers? Do they tell the same story about trends over time? Eurostat has recognised this issue clearly and has initiated a number of studies. Callan and Nolan (1997), for example, compared the ECHP data relating to 1993 with those from other sources. In order to test the external validity of the ECHP, a questionnaire on national measurement of the risk of poverty was sent to national statistical institutes (Eurostat, 2000). We do not go into this question of consistency here, but wish to signal its importance.

In this respect, one significant point concerns the availability of the evidence about the EU common indicators. The fact that the Commission has published Statistical Annexes containing all the values, and that information is readily available on the Eurostat website, means that Europe's citizens have access to information about this key feature of their society. Moreover, the availability to researchers of the underlying EU micro-datasets (if as expected it materialises, at reasonable pricing conditions, for EU-SILC, but also for the Labour Force Surveys and the Household Budget Surveys) would mean that one could probe the published indicators and carry out other analyses including multidimensional analyses. All of this contributes to a more informed public debate, and allows campaigning groups access to information that in a different set of circumstances might have been confined to Government ministries. This is a little recognised, but important, contribution to mobilising the relevant actors.

[17] Eurostat has prepared a number of detailed documents on the ECHP: "blueprint" ECHP questionnaires, methodological documents, agenda and minutes of ECHP meetings, etc. For more information, see: http://forum.europa.eu.int/irc/dsis/echpanel/info/data/information.html

3.2 Establishing the Baseline: EU Citizens at Risk of Poverty

The common indicators of today are the direct descendants of the statistic on poverty in Europe that Jacques Delors used to quote widely, and the first role of the indicators is to establish the current extent of poverty and social exclusion. The statistics serve both as a measure of the seriousness of the social challenge and as a baseline to judge progress.

Figure 3.1 shows the at-risk-of-poverty rate for the 25 Member States, using in each case the most recent of the data given in the EU sources listed at the beginning of Section 3.1. It is comparable to Figure 1 in the 2004 Joint Report on Social Inclusion (European Commission, 2004b), which covered the EU-15. It draws on data from the ECHP, as described above. The ECHP did not cover the ten new Member States (referred to as *EU-10* in the Tables and Figures below). The figures for the new Member States we use in this Chapter stem from European Commission (2005c). With the *Joint Memoranda on Social Inclusion* (2004d), the new members developed a similar procedure to the NAPs/inclusion of the old Member States. To this end, they used national data sources where the methodology often differs from that applied in the European Community Household Panel, but has been agreed between individual countries and Eurostat while taking account of available statistical information. We do not comment here on the comparability of the statistics, taking them at face value, although it should be noted that the income reference year is 2002 (with the exception of Cyprus: 1997 and Malta: 2000), whereas the ECHP data used for most of the “old” Member States were collected in 2001 (income reference year 2000). This can affect the comparability of the results (European Commission, 2005c, page 23). Slovakia used a very recent micro-census (2003) as a data source for the social indicators, but these figures are provisional.

In a recent OECD study by Förster and d'Ercole (2005) data are presented for seventeen Member States[18], in addition to a range of non-EU members of OECD. In some cases, the sources are the same, but in quite a number the source is different: for example the use of household budget surveys. Within this group of countries the ranking according to Figure 3.1 is broadly confirmed by the OECD-figures, with the exception of Hungary: the OECD study shows the risk of poverty rate to be 14%, compared with a figure of under 10% in Figure 3.1.The Hungarian NAP/inclusion notes that “the reliability of income data is questionable. The data come from the National Statistical Institute (CSO) Household Budget Surveys, which tends to underestimate both the income and, in particular, the dispersion. The other available source, TÁRKI’s Monitor surveys, produce income data that appear more realistic, but with a small sample” (Government of Hungary, 2004, page 10). The Statistical Appendix to the NAP/inclusion gives an alternative estimate using the TÁRKI data of 13%. This qualification regarding the Hungarian data should be borne in mind in what follows, both with regard to the position of Hungary and to the potential limitations of poverty estimates for all Member States. We should also note the difference in the treatment of the value of goods for own consumption. [19]

(Figure 3.1 – see Annex 1)

[18] The Czech Republic, Hungary, Sweden, Germany, Denmark, Finland, the Netherlands, Austria, Luxembourg, France, Poland, the UK, Italy, Spain, Greece, Portugal and Ireland.

[19] So far, for EU-15 Member States, the indicators have been based on the definition of income not including value of goods for own consumption. This component will be included in EU-SILC from 2007 (see Chapter 5). However, for new Member States as well as Acceding and Candidate Countries, income in kind is in part included in the total income definition, as it is considered to be a more substantial component of the disposable income for these countries than is the case of EU-15 Member States, meaning that its exclusion would significantly underestimate the actual situation. Income in kind covers, when available in the national data sources, goods produced directly by the household through either a private or a professional activity (e.g. own production of food by farming households or a household whose leisure activity is connected with agriculture; products from hunting or fishing; withdrawals from stocks by trades people...). Services obtained free of charge as part of a professional activity are also classified as ‘benefits in kind’ (e.g. provision of housing, company vehicle, crèche facilities, free meals at work, etc.).

The EU overall percentage at-risk-of-poverty, defined as having an equivalised disposable income below 60% of the national median, is 15%. Extrapolated to the EU-25 population of 455 million, the figures suggest that a total of almost 70 million EU citizens are at risk of poverty. The countries in Figure 3.1 are ranked in descending order of the at-risk-of-poverty percentage. Countries where a high proportion of the population is below the threshold are Spain, Greece, Portugal, Ireland, Italy and Slovakia. The poverty risk in these countries is around 20%. Countries between 16% and 19%, with above average poverty risks are Cyprus, Estonia, Poland, Latvia, Lithuania and the UK. France and Malta are at the EU-25 average. Then come Belgium and Austria with rates of 12-13%. Finally, the best performing countries, with a risk of poverty around 10%, are the Czech Republic, Sweden, Denmark, Hungary, Slovenia, Finland, Germany and the Netherlands.

In Figure 3.1 we are treating all Member States individually; in forming the EU-wide at-risk-of-poverty rate, the countries are weighted by their population size. This is important in view of the large differences in population sizes. The EU-wide figure of 69 million is dominated by Germany, Spain, France, Italy, and the UK. As is noted by Morley, Ward and Watt, a large fraction “of EU citizens with incomes below 60% of the EU average are … to be found in the big five Member States” (2004, page 43). This is illustrated in Figure 3.2, where countries are ranked in increasing order of the absolute number of people estimated to be at risk of poverty, beginning with Luxembourg that contributes the smallest number (54,000 people) because its population is small and its risk of poverty rate is low. The graph highlights the degree of concentration. Only 10 million of the 69 million are to be found in the first 16 Member States. If one contemplates the risk of poverty in the EU, one tends to think of the Iberian Member States and Greece, or of the new Member States, but over half (some 40 million) live in France, Germany, UK and Italy.

(Figure 3.2 – see Annex 1)

How far do the conclusions drawn depend on the level at which the poverty threshold is drawn? Förster and d’Ercole (2005, page 22) note that the population tends to be clustered, so that the results can be sensitive to the precise choice of cut-off. Using the much stricter 40% of the median threshold, the overall percentage is some 5% or 22 million people living below the poverty line. If the Member States are ranked according to this standard, the positions change in some respects. Nevertheless, none of the worse-than-average countries leaps up to the group of better-performing countries or vice versa (the only exception being Cyprus). The only changes to occur either involve countries with high poverty risks improving their position slightly (Ireland, Portugal) or countries with a low poverty risk seeing their ranking deteriorate slightly (Germany, the Netherlands, Sweden, Slovenia and Belgium). Again, the 22 million are concentrated in the larger Member States: 15 million in total (or two-thirds) are in Germany, Spain, France, Italy, and the UK. The ranking of Member States by the (relative) median at-risk-of-poverty gap, i.e. the difference between the median equivalised income of people living below the 60% at-risk-of-poverty threshold and the value of that threshold (expressed as a percentage of the threshold), is in turn very similar to the 40% poverty risk ranking. At the same time, the median gap adds a valuable additional dimension, in that it indicates “how poor the poor are” and therefore aids our understanding of the position in individual Member States. The 2003 Luxembourg NAP/inclusion, for example, notes that the low value of this indicator for Luxembourg indicates that the risk of poverty is less intense: “a great part of the people below the line of risk of poverty have a disposable equivalent income relatively close to the threshold” (Government of Luxembourg, 2003, page 7). For the EU-15, the median poverty gap in 2001 was 22%, meaning that half of those at risk of poverty were at least 22% below the relevant at-risk-of-poverty threshold; or, put differently, had to live on an equivalised income of at most 47% of the median equivalised income in their country [(100-22)=78% of the 60% median threshold].

Diversity of EU Performance

The EU at-risk-of-poverty statistics are, in one sense, well-known. The overall total receives much newspaper coverage. But the variation across Member States merits closer attention.

First, there is the impact of Enlargement on poverty risk, measured according to the common indicator. It is interesting to observe that Enlargement has not appreciably increased the range of rates of poverty risk. It is true that the figure for the Czech Republic is below that for all EU-15 countries, but Finland and Sweden both recorded figures of 8% in 1997 (European Commission, 2004b, Table 1).

It is perhaps surprising that Enlargement has not led to greater diversity of outcome. Figure 3.3 plots the at-risk-of-poverty rates against the at-risk-of-poverty threshold, which is an indicator of overall living standards (being a proportion of national median income).[20] The threshold is here expressed in Purchasing Power Standards (PPS), which converts monetary indicators expressed in a national currency to an artificial common currency that equalises the purchasing power of different national currencies (including those countries that share a common currency). In other words, PPS is both a price deflator and a currency converter; it eliminates the differences in price levels between countries. The EU-15 countries are shown by crosses; the new Member States by triangles. As is clear from Figure 3.3, there is a distinct tendency among the EU-15 countries for the poverty risk to fall as we move from poorer countries to richer EU members. There are departures from a straight line (the graph shows the linear regression fitted to predict poverty risk for the EU-15 as a function of the median income), and it has been noted (see for example Morley, Ward and Watt, 2004, page 43) that countries with a more narrow income distribution, such as Denmark, tend to lie below the line, and countries with greater income dispersion, such as Ireland and the UK, tend to lie above the line.

On this purely statistical basis, the at-risk-of-poverty rates in the new Member States could be expected to be comparable to, or higher than, those in the poorer EU-15 countries. In fact, this is true for Cyprus and Malta, but the Eastern European new Member States have typically lower at-risk-of-poverty rates than would be predicted simply from their level of income, as may be seen from observations marked by triangles in Figure 3.3. Indeed, the Czech Republic has a rate just behind that of the best performer among the Member States.[21] On this basis, Enlargement has not added to the diversity of the EU.

(Figure 3.3 - see Annex 1)

The main conclusion to be drawn is that there was already considerable diversity within EU-15: there is "considerable variation across Member States" (European Commission, 2004b, page 14). The difference in the at-risk-of-poverty rate between the best performer (Sweden) and the worst (Ireland) is a factor of more than 2 to 1. The same diversity is exhibited by the degree of income inequality, measured by the common EU Indicator 3, the ratio of the income share of the top 20% to that of the bottom 20% (S80/S20). The income quintile ratio in EU-15 (European Commission, 2004b, Table 6) ranged from 3.0 in Denmark, to 6.5 in Portugal. Enlargement did not increase this range, although it is true that three of the new Member States (Czech Republic, Hungary and Slovenia) have income quintile ratios below 3.5 and that three (Slovakia, Latvia and Estonia) have ratios above 5.0.

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[20] The relation between the median and the mean, more usually taken as a measure of overall living standards, depends on the shape of the distribution.

[21] It may be noted that the study by Večerník (2004), using the same source shows a similar at-risk-of-poverty rate for earlier years in the 1990s.

Four different clusters of countries can in fact be identified in Figure 3.3:

1. Countries with a below-average poverty risk and above-average purchasing power (Austria, Belgium, Denmark, Finland, France (borderline), Germany, Luxembourg, the Netherlands, and Sweden),
2. Countries with a below-average poverty risk, but below-average purchasing power (Czech Republic, Hungary and Slovenia),
3. Countries with an above-average poverty risk and an above-average purchasing power (Ireland, Italy, Malta (borderline), and the UK),
4. Countries with an above-average poverty risk and a below-average purchasing power (Cyprus, Estonia, Greece, Latvia, Lithuania, Poland, Portugal, Slovakia, and Spain).

43% of European citizens live in cluster-1 countries, 5% and 27% live in the second and third clusters respectively, and 24% of Europeans live in the poor, high-risk, cluster-4 countries. This is indicative of the great diversity that exists in Europe in terms of income and income distribution.

How do differences within the EU compare with those in the United States? In order to allow comparison with poverty risks at State level in the US calculated by Jesuit *et al* (2002), using threshold set at 50% of median income in the State in question and shown in Figure 3.4, we use for the EU-25 in Figure 3.5 a threshold set at 50% of the Member State median,, so the rates of poverty risk are lower than those shown in Figure 3.1. Europe, as a whole, does significantly better than the US. Using the 50% threshold at State level, the median across Member States for the EU-25 amounts to 9%, compared to 16.5% across states for the US. The score for the best-performing EU Member State (the Czech Republic) is 4%, compared to 11% for the best-performing US State (Hawaii). Seventeen of the EU-25 countries have a lower risk of poverty than the best-performing US State. Likewise, if one compares the scores of the worst performers, Europe comes out on top: the poverty risk in Slovakia is 16%, compared to 22% in Washington DC. However, not unimportantly, the dispersion within the EU-25 (and especially within the EU-15) is much greater than within the US: the standard deviations are respectively 3.46 and 3.58 for the EU-25 and the EU-15, compared to 2.53 for the US. Other measures of dispersion are shown in Table 3.1. It is of course the case that there is greater dispersion in GDP per capita within the EU-25 than across states within the United States.

(Table 3.1 – see Annex 2)
(Figures 3.4 and 3.5 – see Annex 1)

Persistent At-Risk-of-Poverty

The longer people remain on low income, the greater their risk of becoming permanently excluded. Therefore, the persistent at-risk-of-poverty Laeken indicator, defined as the share of persons with an equivalised disposable income below the at-risk-of-poverty threshold in the current year and at least two of the preceding three years, is very informative. Figures, which are not yet available for the new Member countries, show that long-term income poverty is typically 40% below poverty risks measured at one point in time. Since one measure is part of the other, we would expect them to be associated, but the cross-country comparison shows a surprisingly high correlation between poverty risk and persistent poverty risk. It is true that Luxembourg has a higher persistent poverty rate than could be expected, given its rate of poverty risk, and that in Spain it is lower than expected, but in the other EU-15 countries there is a close relationship between the values of the two indicators. As far as the EU-15 is concerned, this confirms previous insights regarding the relationship between inequalities and poverty on the one hand and mobility on the other. Contrary to what sometimes is suggested, greater relative income poverty in a country does not appear to be compensated for by greater income mobility.

Summary

To summarise, the evidence from the at-risk-of-poverty indicators for the EU-25 suggests that:

- Around 15% of the EU population, or some 69 million people, are living at-risk-of-poverty.
- In the EU-15, half of those living at-risk-of-poverty had a shortfall larger than a fifth of the relevant threshold.
- Enlargement has not increased the degree of diversity of rates of poverty risk in the EU.
- But there was (in EU-15), and remains (in EU-25), considerable diversity in rates of poverty risk within the EU, and scope for Member States to improve their performance.
- The rate of persistent risk of poverty is closely associated across countries with the at-risk-of-poverty rate in any one year.

The evidence presented above must be interpreted carefully, taking account of the limitations of the methods and sources. International comparison of overall risks and depth of poverty is not an easy task. Besides the common problems relating to the measurement of household income, cross-national differences in social-economic and demographic structures make comparisons difficult. These may systematically affect the conclusions drawn. It has been argued that poverty risk in the Southern European countries may be relatively overstated. The Cyprus and Greek NAPs/inclusion pointed out that compared to other countries owner occupation in their country is high, particularly among the population at high risk of poverty. Taking the benefits from owner-occupation into account when the disposable income variable is computed would therefore reduce the overall rate of poverty in these countries more than elsewhere in Europe. Second: different NAPs/inclusion refer to the importance in the South of family solidarity that improves the subjective and objective situation of those living with an income below the poverty threshold. Third: the underestimation of the incomes of farmers and small businessmen is more of a problem in the Southern European countries. Fourth: the number of those living in homes for the elderly being larger in Northern Europe than in the Mediterranean, the exclusion from the ECHP-samples of old people in institutions means that old-age poverty rates may be understated.

Risk of poverty figures pertaining to the former socialist countries pose additional problems. There are difficulties in capturing information about income from the hidden economy, which arguably is more of a problem in the new Member States. Issues also arise from the definition of the common indicator. As is mentioned by the European Commission (2005c, page 21) and by different new Member States, a major limitation of the Laeken indicators in relation to these new Member States is the absence of an indicator regarding the very poor, which would provide insight into the degree of deprivation in these countries. Finally, a number of the new Member States questioned in their NAPs/inclusion the relevance of the standard equivalence scales (used to take account of the differing needs of households of different size and composition), when applied to their situation. We return to these points in Chapter 5.

3.3 Establishing the Baseline: the Multi-Faceted Nature of Social Exclusion

The 2005 *Spring Summit* Presidency Conclusions emphasised the multifaceted nature of social exclusion. In this section, we examine the common indicators that are not income-related. Analysis of social exclusion is often criticised for focusing too exclusively on income. We now examine the baseline for other dimensions and, in particular, ask how far they change the picture with regard to the relative performance of different Member States and with regard to the impact of Enlargement. Do the same countries perform well on non-income indicators? This is a question that can be asked at the level of individuals as well as countries: do the same people suffer from deprivation on other indicators as are at risk of poverty? We take up the issue of multiple deprivation in Chapter 5. Here the country is the unit of analysis.

The Technical Annex to the 2005 Joint Report on Social Protection and Social Inclusion (European Commission, 2005b) contains a number of non-income-related common indicators for the EU-25, and this is the source on which we draw here. In other words, we only consider indicators available for the whole EU-25, which means that we do not include the indicator on self-defined health status by income level (see Table 2.2a). As in the previous section, we do not consider the comparability of the data: we take them at face value. The indicators that we consider include all those in the long list of structural indicators for social cohesion (see Table 2.4), with the exception of regional cohesion (the dispersion of regional employment rates). As explained further in Chapter 5, we are unclear how to interpret cross-country differences in this indicator. Moreover, the 2005 Joint Report only contains data for the regional cohesion indicator for 16 of the EU-25 Member States. To these indicators we add life expectancy, although there are reasons to question whether it can be regarded as an indicator of social exclusion (see Atkinson *et al*, 2002, page 151), and an index of material deprivation from the Eurobarometer surveys.

Long-term Unemployment

There has long been concern about those who suffer long-term unemployment, defined in the common indicators as unemployment for at least 12 months on the ILO definition, expressed as a proportion of the total active population aged 15 years or more. Figure 3.6 shows the EU-25 ranked according to their rates of long-term unemployment (males and females combined). Luxembourg has the lowest rate, less than 1%, and Poland and Slovakia have the highest, with rates in excess of 10%. It may be noted that 17 of the 25 Member States have rates below the EU-25 average of 4%.

The location of the new Member States is marked with * in Figure 3.6 (and in other graphs). The new Member States constitute five of the eight countries with above average rates of long-term unemployment. In contrast to the risk of poverty indicator, the accession of the ten new Member States widened considerably the range of EU performance. Among the EU-15, the range is from 0.9% (Luxembourg) to 5.1% (Greece); this now extends to 11.1% in Slovakia. The standard deviation has increased from 1.6 to 2.7.

(Figure 3.6 – see Annex 1)

People Living in Jobless Households

A second important indicator of possible labour market exclusion is provided by the indicator of people living in jobless households. Here we concentrate on prime-age adults; we examine the position of children in Section 3.5.

Figure 3.7 shows the proportion of adults aged 18-59 living in jobless households (the data in general relate to 2004, but the figure for Sweden relates to 1999). The first immediately apparent feature is that the ranking of countries differs from that on long-term unemployment. It is true that Luxembourg appears among the best-performers and Poland among the least well-performing, but note the positions of Belgium and Hungary, previously both below the EU-25 average, but now second and third highest scoring countries. Even sharper are the moves of Sweden and the UK, with very low rates of long-term unemployment but above-average rates of adults living in jobless households. It is possible that these differences are due to definitional issues, or to data issues, but it is quite probable that the two indicators are identifying different dimensions.

Equally it is interesting to observe the position of the new Member States. Poland again extends the range, but Cyprus is now the best-performing on this indicator, and new Member States make up five of the best-performing eight countries. The standard deviation is increased by Enlargement, but only from 2.1 to 2.4.

(Figure 3.7 – see Annex 1)

Early School Leaving

One of the Primary Laeken indicators is the share of persons aged 18-24 who have only lower secondary education and have not received education or training in the 4 weeks preceding the (Labour Force) survey. Figure 3.8 reveals yet another pattern. The four best-performing countries with respect to adults living in jobless households (Cyprus, Portugal, Luxembourg and Spain) are now to be found with above-average proportions of early school leavers. Poland has one of the lowest rates of early school leavers. In this case, Enlargement has increased the spread, compared with EU-15, but primarily by adding four top-performing countries.

For the EU as a whole, the situation set out in Figure 3.8 should be a matter for concern, given the emphasis in the 2005 Spring Summit Presidency Conclusions on human capital investment. For 16 of the Member States, including all the larger ones, more than one person in ten aged 18-24 has only a low level of educational qualification and is not currently in education or training.

(Figure 3.8 – see Annex 1)

Life Expectancy

The life expectancies for males and females in 2002 are plotted in Figure 3.9, where countries are ranked according to the life expectancy of women, although it should be noted that the variation, at least since Enlargement, is greater for men. The diagram brings out how greatly the life-chances of Europeans differ across Member States. An average Latvian man lives 65 years, 13 years less than a Swedish man. In all former socialist countries, life expectancy is below the EU average (81 for women, 75 for men). In the EU-15, life expectancies are much more homogenous, ranging from 74 for Portuguese men to 78 for Swedish men (and from 80 for Danish women to 84 for Spanish women).

(Figure 3.9 – see Annex 1)

In the previous section, we plotted (in Figure 3.3) the at-risk-of-poverty rate against the risk of poverty threshold, taking the latter as a measure of the overall living standards, expressed in a common Purchasing Power Standard (PPS). This showed a distinct tendency for the poverty risk, measured by the EU 60% median indicator, to fall as we move towards countries with higher living standards. The new Member States did not however fit the EU-15 fitted line. In contrast, life expectancies in the EU-15 are not obviously related to median country incomes, whereas in the new Member States there is a stronger association if we plot the life expectancies of men or women against the risk of poverty threshold expressed in PPS. This is another example of a difference between the income-related and non-income-related indicators.

Material Deprivation

The final non-income indicator considered here is not an agreed common EU indicator, but is drawn from the Quality of Life in Europe series, Perceptions of living conditions in an enlarged Europe (European Commission, 2004f, Table 3). Deprivation is measured in Figure 3.10 in terms of the lack of consumer goods, namely television, video recorder, telephone, dishwasher, microwave, car or van, and PC. The rationale for such an indicator is considered in Chapter 5. The level of the bars shows the average score on the 7-item scale for the EU-25 (apart from Sweden, not covered in the data). We see that Malta, Cyprus, Slovenia and the Czech Republic score relatively well, but that, otherwise, the new Member States (all former socialist states) constitute a cluster with a relatively high degree of material deprivation. Only Portugal of EU-15 is comparable for its extent of deprivation, measured in this way. Greece, Spain and Ireland come next, but Enlargement has clearly widened the EU range for this non-income indicator.

(Figure 3.10 – see Annex 1)

Inter-Relation between Indicators

From our consideration of the different non-income common indicators, it should have been clear that they do indeed tell a different story about the relative social performance of the different EU-25 Member States. They also differ among themselves about the ranking of countries. We now take four of the indicators and explore more explicitly their interaction: the at-risk-of-poverty rate, long-term unemployment, adults living in jobless households, and early school leavers.

Figure 3.11 and Table 3.2 show the rankings of the EU-25 on the four common indicators listed above. There is considerable movement up and down as we move from one indicator to another. When the EU common indicators were first mooted, there was general agreement that they should be multi-dimensional. This view was held largely on *a priori* grounds: that it was right in principle. Now that we have the experience of values being given to the indicators, enriched by Enlargement, we can see that the multi-dimensional approach is indeed crucial. On the four dimensions shown in Figure 3.11, Member States find themselves rising and falling in the ranking. The four best performers on poverty risk all are placed lower on either long-term unemployment or the proportion of adults living in jobless households. Put differently, the Czech Republic, Denmark, Spain, Cyprus, Luxembourg, Hungary, Netherlands, Poland, Portugal, Slovenia, Slovakia, and Sweden all feature in the top four countries for one of the four indicators shown in Figure 3.11. Thus nearly half of the EU Member States can claim to be in the "top four".

(Figure 3.11 – see Annex 1)
(Table 3.2 – see Annex 2)

Rankings may be misleading, since, where observations are bunched, a country may lose several places on account of a difference only beyond the decimal point. An alternative is provided by the correlations of the indicator values. If the different indicators are highly correlated across countries, then this suggests that there is little value added from considering additional dimensions, at least in determining their relative performance. It should be emphasised that we are considering here countries as the unit of analysis. We learn nothing from these correlations about the extent to which risks are correlated at the individual level within any country. The at-risk-of-poverty rate may be much higher in countries with high rates of early school leavers, but this does not imply that individual early school leavers in country A are at high risk of poverty. In order to explore the latter correlation, we would have to go back to the observations on individual households.

If we look first at EU-15, then we see that the at-risk-of-poverty rate is positively correlated across the 15 Member States with the proportion of early school leavers, the correlation coefficient being 0.657 – see Table 3.3. This positive association is quite high: the correlation of the heights of fathers and sons is about 0.5. But it falls a long way short of a perfect correlation (1.00), and shows that the early school leaving indicator conveys definite additional information. Nor is early school leaving correlated with the labour market measures: the correlation for EU-15 is only 0.256 and with the proportion of adults living in jobless households, it is minus 0.623. The negative correlation means that countries with a high rate of early school leaving tend to have a lower proportion of adults living in jobless households. This confirms what is shown on the right hand side of Figure 3.11, where there are many crossings of the rankings. This may in part reflect the fact that young people entering work early still live at home, and hence reduce the incidence of jobless households, but, if so, this highlights the tension between different objectives.

(Table 3.3 – see Annex 2)

How does the at-risk-of-poverty rate correlate with the labour market exclusion indicators? First, as we have already noted, these indicators are not themselves highly correlated, the coefficient being 0.210. So that, while there is a modest positive association between poverty risk and long-term unemployment (correlation 0.406), it is not perhaps surprising that we find a different relationship between poverty risk and the proportion of adults living in jobless households. There is in fact a negative, low correlation between poverty risk and the proportion of jobless households (correlation -0.362). This is illustrated in the scatter diagram shown in Figure 3.12, where the crosses correspond to EU-15 (the triangles relate to the new Member States). If we highlight countries with a high level of joblessness, then there is some tendency to find different ones from those with a high risk of poverty.

(Figure 3.12 – see Annex 1)

The first of the correlations – between poverty risk and long-term unemployment – is virtually unchanged (0.421) when we consider the whole EU-25. However, the correlation with adults living in jobless households becomes -0.123, which essentially means that there is no statistical relationship – see the full set of points in Figure 3.12. If we highlight countries with a high level of joblessness, then they are more or less a random drawing from countries ranked according to the risk of poverty. The relation between poverty risk and early school leaving is reduced when we consider the full EU-25 to 0.40, from 0.67. The indicators become, in terms of direct correlations, less closely associated. In fact 0.42 is the largest absolute value in the correlation matrix for the EU-25. With Enlargement, the importance of considering multiple dimensions of social exclusion appears to have perceptibly increased.

We earlier identified four groups of Member States according to their risk of poverty and their overall purchasing power. In Table 3.4 we show the countries in the four groups, with in each case the at-risk-of-poverty rate and the values of the non-income-related indicators, taking for this purpose a wider set, including the gender breakdowns, life expectancy, and material deprivation. For each indicator we took as the standard the median across countries.[22] Better performing Member States are marked +; worse performing Member States are marked -. To gain further insight, those in the upper and lower quartile of countries are given an extra + or -, respectively. As this reveals, there are many different combinations. It is true, for example, that those on the left hand side, scoring well on poverty risk, tend to score ++ and + on the long-term unemployment rates, but so too do three of the four countries in the right hand group.

(Table 3.4 – see Annex 2)

Conclusions

In this section, we have seen

- The importance of a multi-dimensional approach to social exclusion has been borne out by the outcome of the indicator process. The figure of 69 million at risk of poverty in the EU-25 has received much attention, but we have to remember that there are 12 million long-term unemployed, 27 million prime-age adults living in jobless households, and 6 million early school leavers not in education. There is undoubtedly overlap, but this is not complete.
- The ranking of countries changes considerably as we move to non-income-related indicators, and within these indicators. Nearly half (twelve) of the 25 Member States are in the “top four” on one of the four indicators: poverty risk, long-term unemployment, joblessness, and early school leaving. Of these, five are new Member States.
- The impact of Enlargement differs across the different indicators. We saw in Section 3.2 that the new Member States had not increased the diversity of at-risk-of-poverty rates. Enlargement has however increased substantially the range of labour market performance, notably with regard to long-term unemployment. It has increased the differences in life expectancy, especially for men. In the case of early school leaving, in contrast, Enlargement has increased the range by adding a number of top performers.
- With Enlargement, the importance of considering multiple dimensions of social exclusion appears to have perceptibly increased.

3.4 What Can We Learn from Cross-Country Comparisons?

What can be learned from this rich set of cross-country data about the causes of poverty and social exclusion, and about the impact of policy? For some people, the answer is that we can learn little. The individual countries of the EU-25 are so diverse in their history and institutions that observed differences in performance contain no lessons for other Member States. That such differences are important is clearly true; one has only to consider the history of the past 50 years. The question is however one of degree. Any conclusions may have to be qualified, but is there really *nothing* that can be said?

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[22] The median is preferred to the EU-mean, because the mean is vulnerable to outliers.

Suppose, for instance, that one observes countries with high and low risk of poverty, and divides them into countries with high and low levels of policy effort to eliminate the risk of poverty. Suppose, for example, we observe high poverty/low effort countries, low poverty/high effort countries, and high poverty/high effort countries, but the remaining quadrant is empty – there are no low poverty/low effort countries. Then we cannot advise the Government of a high poverty/low effort country that increasing policy effort will reduce the risk of poverty, but we can say that there is no precedent for supposing that a low poverty/low effort outcome can be achieved. To seek this combination would be entering into uncharted territory.

The example just given is bi-variate (relating poverty to a single variable), whereas there can be little doubt that the explanation of poverty and social exclusion involves many variables. In the upper part of Table 3.5, we have assembled a selection of the background variables contained in the Joint Inclusion Reports. We take the four-fold grouping of Member States described earlier in Section 3.2, and ask how far the ++ etc are associated when we read down the table. Five of the six countries below the lower quartile for the employment rate (population aged 16-64), for instance, are to be found on the right hand side (high poverty risk). By considering such “likely candidate” variables, we can explore some of the possible linkages. However, while some cross-country econometric research proceeds by such a heuristic approach, there are good reasons for starting from the *a priori* mechanisms that one believes may be in operation and working through how it can be expected to affect the risk of poverty (or other outcome indicators). In this way, it is more probable that we identify the full range of factors in operation. This approach is illustrated by the study of Tsakloglou and Papdopoulos (2002). The basis for their econometric analysis of social exclusion is, on the one hand, the capability theory of Sen (1985), and, on the other hand, the theory of welfare regimes of Esping-Andersen (1990), Leibfried (1992) and Ferrera (1996). Tsakloglou and Papadopoulos (2002), using ECHP data for twelve EU Member States, find the extent of social exclusion to be related both to individual characteristics and to the nature of the welfare state regime.

The lower part of Table 3.5 illustrates a second approach, which seeks to explore the underlying causes via disaggregation. Here we compare the poverty risks of a number of at-risk-of-poverty groups with the average risks in the country in which they live. This way, we gain insight into the at-risk groups per country. If the subgroup is at greater risk than the national average, then the subgroup is marked “-” for that country; if the subgroup's risk is smaller, then it is marked “+”. If the group's situation deviates substantially from the national average, i.e. a poverty risk that is 25% lower or higher, then that subgroup is marked “+ +”or “- -” respectively. Despite the variety in the average poverty risk throughout the countries of the EU, the same high-risk groups appear in many Member States. Women, young people (16 to 24 year-olds) and those aged 65 and above, the unemployed and pensioners, as well as lone-parent households, households with three or more children, and single persons are all at a higher-than-average poverty risk in most countries. If we take single parent families, as an important example, then we see a minus sign in all columns except that for Finland, and in twenty cases there are double minus signs. Even in the countries with a relatively good poverty risk performance, seven of the nine have a poverty risk for single parents that is more than 25% higher than the national average. If we look at the position of couples with 3 children, then we find that in seventeen countries there are double minus signs. These are examples of groups that appear as particularly vulnerable to the risk of poverty across the EU-25.

Still, there are a number of important differences. In Belgium, Finland, Sweden and Cyprus the poverty risk for households with three or more children is (sometimes significantly) below the average. Child poverty is in most countries higher than the national average, but that is not the case in Belgium, Denmark, Finland, Sweden, Cyprus and Greece. Consequently, policies towards households with children in these Member States are of particular interest when it comes to establishing potential best practices. Similarly, in contrast to the majority of Member States where pensioners and single persons aged 65 and above have a strongly increased poverty risk, we find a below-average poverty risk for the elderly in a substantial minority of countries. This is the case in Luxembourg, the Netherlands, Italy, the Czech Republic, Hungary, Poland, Estonia, Lithuania and Latvia.

(Table 3.5 – see Annex 2)

Both of these elements – specifying a full set of candidate explanatory variables and disaggregation – have a role to play in developing an analysis of poverty and social exclusion. At the same time, there will be certain variables on which we wish to focus. Here we consider two such variables – social protection expenditure and employment – in relation to the at-risk-of-poverty rate.

Focusing on Social Protection?

There are good reasons to expect the level and effectiveness of social protection to influence, along with other factors, the at-risk-of-poverty rate. Arithmetically, for any given pre-transfer rate of poverty risk, social protection expenditure can be expected, depending on how well it is targeted, to reduce the post-transfer rate of poverty risk. (We return later to the issue of targeting, and to the fact that the pre-transfer risk may be affected by the extent of social protection.) The 2004 Joint Report on Social Inclusion contained a graph for the EU-15 relating the risk of poverty to social expenditure per capita (measured in PPS). For the EU-15, the Joint Report concluded that “the relationship between the level of expenditure in social protection and the risk of poverty is reasonably established on empirical grounds. … Member States with higher than average per capita social expenditure tend to show relatively lower risk of poverty, and vice versa” (European Commission, 2004b, page 51).[23]

A similar graph is shown in Figure 3.13 expressing social protection expenditure as a percentage of GDP. The EU-15 countries are again shown by crosses; the new Member States by triangles (although no data are available for social protection expenditure in Cyprus). The solid line shows a linear regression fitted to the observations for EU-15. Although the various countries are scattered around the diagram, one quadrant is empty, i.e. the quadrant that combines low social expenditures (below 20% GDP, as shown by the vertical line) with below-average risk of poverty rates (the average for EU-25 is shown by the heavy horizontal line). No EU-15 country has total social protection expenditure of 20% or below and at the same time achieves a risk of poverty rate below 15%. We are in the situation described hypothetically at the start of this section. If it is possible to attain low or moderate poverty rates without substantial social spending, then it has yet to be demonstrated by a European country.

(Figure 3.13 – see Annex 1)

Has the extension to EU-25 changed the picture? It is true that the lower left hand quadrant (low spending/low poverty risk) remains virtually empty (the Czech Republic has spending of 19.9% of GDP). At the same time, it is clear that, with two exceptions (Poland and Slovakia) the new Member States, shown by triangles, lie below fitted line for EU-15. If we fit a separate relation for the EU-10 (minus Cyprus), it proves to be parallel to that shown, some 5 percentage points lower. What are we to conclude from the fact that, other things equal, the same level of social protection expenditure (as % GDP) is associated with a risk of

[23] On this relation, see also the studies by Cantillon *et al*, 1997; Bradbury and Jäntti, 2001; Beblo and Knaus, 2001; Oxley *et al,* 2001, Jeandidier and Reinstadler (2002), and Förster (2004).

poverty that is 5 percentage points lower? Why should the new Member States be on a different relationship?

In seeking to answer these questions, we need to introduce other variables that can explain cross-country differences in poverty risk. After making the statement quoted above, the 2004 Joint Report goes on to immediately warn that "this simple correlation should not be taken as the only guide for policy action. A number of other equally relevant factors are at play in determining the share of the population falling below the poverty threshold, such as the extent to which the tax system responds to social equity objectives, the way in which the benefit system is structured by major branches, the targeting of welfare provision, the efficiency of services delivery, the age structure of the population, the business cycle, and the general pattern of income distribution and overall economic prosperity" (European Commission, 2004b, page 51).

All of these considerations rightly point to the need for a more textured investigation of the relation between poverty risks and overall social expenditures. The analysis needs to be (a) disaggregated by different categories of household and (b) accompanied by institutional details of different social protection schemes, and (c) accompanied by a range of other explanatory variables. Here we simply highlight three points.

First, we should stress the importance of the institutional structure of social protection expenditure, including the degree to which it is targeted to particular categories of recipient and to particular income groups. Welfare states differ in more respects than the size of total expenditures. If this were the only important characteristic, the policy recommendation might be simple: increase expenditure. However, things are not that straightforward; the degree of targeting and the method of financing are both important. As Oxley *et al* (2001) have argued, some countries achieve better "efficiency" in terms of child poverty risk reduction (i.e. poverty is reduced more for each Euro spent) by targeting more on low-income groups. The importance of institutional details is brought out in the comparative study of social assistance in Europe by Saraceno and colleagues (Saraceno, 2002). A simulation by Van den Bosch (2002) using Luxemburg Income Study data suggested that expanding welfare state expenditures within the existing social transfer systems will not always have a strong impact on risk of poverty rates[24]. The simulation did confirm the general intuition that more social spending generates less poverty risk. Nevertheless, the response of risk of poverty statistics to increased social expenditures was smaller than expected, indicating that in most countries poverty risks are far less sensitive to increases in social transfers than the cross-country pattern would suggest. This is due to various institutional factors. In Italy for instance – where poverty risk was found to actually increase with higher social spending – a large part of the social budget is devoted to pensions. In this country, increasing pensions has only a marginal impact on old age poverty risk whereas more households of active age are at greater risk of poverty on account of the increase in taxes and social security contributions. A comparative study by Callan *et al* (2004) focused on why Ireland has such a high proportion falling below relative income thresholds highlighted the role of social protection, but differences in both levels and structures compared with countries such as Denmark and the Netherlands with much lower numbers below such thresholds were seen to be important. The difference between levels and structure of spending is particularly important in post-communist Member States that have seen a major redesign of social protection.

[24] This simulation was conducted as follows. In each country, the social transfers received by working-age households were increased by the same proportion, such that they constituted 22 percent of aggregate income of all working-age households. (This is slightly more than the actual percentage of the best-performing EU Member State in the analysis, viz. Finland. Sweden was excluded from the simulation as its 29% transfer score would be too far off for the other countries.) At the same time, all income other than transfers was also adjusted proportionally, but in the opposite direction, so that average and aggregate total household income remained constant. Next, poverty rates were recalculated from the micro-data. This simulation is equivalent to an across-the-board and proportional increase in all social transfers, paid for by a proportional tax or contribution (bonus) on all other sources of income.

The second point to be stressed is that differences in the levels of social protection expenditure cannot be regarded as a final explanation; these levels themselves have to be explained. This has to be borne in mind when interpreting the aggregate relationship. It is not necessarily chance that has led some Member States to spend more. There may be third variables that lead, for example, to poverty risk being low and spending high, so that we cannot draw conclusions about the strength of the causal connection between spending and poverty from graphs such as Figure 3.13. The same may apply to the *structure* of social protection spending. The degree of targeting is a political choice, just as is the level of spending. Policy "effort" (how much money is spent) and the degree of "targeting" may be related as a result of the underlying political factors. As has been noted by Jeandidier and Reinstadler (2002), this may make it difficult to separate their effects in any empirical cross-country analysis.

The third point we want to highlight concerns the relation between social spending and the at-risk-of-poverty rate before transfers. As can be seen from Figure 3.14 (which covers EU-25 minus Cyprus), there is in fact little sign either that countries with high social spending have high pre-transfer poverty risk, or – interpreting the relation the other way round - that high poverty risk countries have high social spending. It is striking that 19 of the 24 Member States have pre-transfer risk of poverty rates between 35% and 45%. Maître *et al* (2005) conclude in a study of thirteen members of EU-15 that the pre-transfer risk of poverty is quite similar across welfare state regimes: social-democratic, liberal, corporatist and Southern. The status of pensions is rather different from that of other transfers, not least because of the role played by private pension schemes in certain Member States. Figure 3.15 shows the relation between the risk of poverty rate before transfers apart from pensions and the post transfer risk. The heavy line shows where the two rates would be equal. Figure 3.15 suggests there is within the EU-25 some relationship between pre-transfer and post-transfer poverty risk. Only Denmark succeeds in neutralising a very high pre-transfer income inequality by means of social redistribution to arrive at a relatively low poverty risk. The UK, Ireland and Poland have distinctively high pre-transfer risk of poverty rates and stay above-average post-transfer, while Finland and Sweden, the Czech Republic and Slovenia are low pre-transfer and stay low. At the same time, the correlation is quite low (around 0.20). The rest of the countries fall in a rather narrow range on pre-transfer risk of poverty but they diverge strongly post-transfer. For example, Belgium, Greece, Spain, France, Italy, Luxembourg, Austria and Portugal all are on 22-24% pre-transfer but end up on a range from 12% all the way up to 20% (see also Marlier and Cohen-Solal, 2000).

(Figures 3.14 and 3.15 – see Annex 1)

We have to remember, however, that the pre-transfer poverty risk is not an independent variable, because it is itself influenced by the level of redistribution. The level of poverty risk one would observe in the absence of the transfers in question almost certainly does not coincide with the level of poverty risk measured simply by subtracting transfers from disposable income. If benefits did not exist, then people would change their behaviour, including decisions about household formation and labour force participation. The calculations may show that the number of elderly people below the risk of poverty threshold would be twice as high if we subtracted from their incomes the state pensions in payment, but it does not follow that the state pensions have halved the risk of poverty. We do not know what would have been the incomes of the elderly in the absence of state pensions. If there were no pensions, then undoubtedly many older people would continue in employment for longer than at present; they would be more likely to live with their children rather than independently; they may have saved more for their old age. It is likely that the risk of poverty rate in the absence of state pensions would have been lower than the risk of poverty rate calculated by subtracting the state pensions currently paid. The observed pre-transfer distribution is thus – in principle - itself affected by social redistribution. What is not however clear is how far this operates differently across countries, or whether the effects identified are large in relation to the other macro-economic and demographic forces. (It should also be noted that we have taken no account here of the taxes necessary to finance the transfers.)

Focusing on Employment?

As noted at the beginning of this Chapter, a reader of the Kok Report (European Communities, 2004) may be tempted to take the employment rate, of central concern in the Kok Report, and the at-risk-of-poverty rate, of particular interest here, and to plot the latter against the former. Figure 3.16 shows the results of such an exercise using data from the Statistical Annex to the 2004 Joint Inclusion Report (European Commission, 2004b), covering EU-15, the latest income data relating to the year 2000, and the Annexes to the Commission Staff Working Paper, Report on Social Inclusion 2004 (European Commission, 2005c), covering the ten New Member States, the income data mostly relating to 2002. It should be noted that, rather than taking the employment rate data for the most recent available year, we have sought to match as far as possible the employment rate to the date on which the risk of poverty was observed.

(Figure 3.16 – see Annex 1)

For the EU-15, shown by crosses in Figure 3.16, there is a modest negative association between the employment rate and the at-risk-of-poverty rate: the solid line shows the linear regression, where the R squared is 0.34. Five of the new Member States lie approximately on this line, but overall there is a weak association for EU-25 (R-squared of 0.21). The dashed lines divide countries into those with above-average and those with below-average values. Although the greatest number of countries (19 out of 25) is found either in the quadrant indicating “below-average employment – above-average poverty risk” or in that indicating “above-average employment – below-average poverty risk”, there are also countries such as Belgium that combines low employment with a below-average risk of poverty. Ireland, Portugal, the UK and Cyprus, on the other hand, combine above-average risk of poverty rates with high employment.

In seeking to understand this cross-country pattern, it may be helpful to make explicit the different steps in the argument linking employment and the combating of the risk of poverty. Within any country, it is certainly true that the risk of poverty among those in paid work is far lower than among those who are not in paid work, certainly if one considers only the non-elderly. We cannot however assume that an increase in the employment rate would necessarily reduce the overall proportion at risk of poverty by an amount equal to that observed difference. The actual outcome may depart from this amount for several reasons. First, considering the person on their own, the outcome depends on the wage and in-work benefits received, relative to the replacement income currently paid. Here we have to confront the problem of in-work poverty. In its recent report, *Extending Opportunities*, the OECD argued that “poverty and social exclusion reflect more than lack of jobs. Many of the jobs available may not pay enough to lift households out of poverty, or may not provide career prospects to the workers who hold them. While the risk of falling into poverty is much higher for households with no adult in employment than for those where someone works, households with one or more workers represent a very substantial proportion of the income-poor in all OECD countries. … The fact that many of the “poor” hold jobs, at least for some part of the year, goes a long way towards explaining the lack of a significant cross-country association between relative poverty [and] employment rates” (OECD, 2005, page 128). In their recent study of in-work poverty in the EU, Bardone and Guio note “by adopting a common indicator of in-work poverty, Member States have finally acknowledged the importance of the problem of in-work poverty and are prepared to measure the extent to which participation in employment is not sufficient to escape income poverty. This certainly represents progress in the policy debate about the fight against poverty, where inactivity and in particular unemployment have long been the predominant labour market-related factors used to explain poverty" (2005, page 8). On an individual basis, they find that in the EU-15 around a quarter of the persons aged 16 and over at risk of poverty are in employment, or around 11 million workers (page 3).

Secondly, we have to consider the household context: it depends on whether or not the newly employed person lives in a household at risk of poverty. Job growth does not always benefit jobless households. In Ireland the proportion in workless households fell quite sharply when employment levels rose, as Table 17 of the 2004 Joint Report on Social Inclusion Statistical Annex show. The same table also shows the Netherlands having some decline – from 11% to 8% of working-age adults – in the most recent period. However, in a number of countries, employment growth over the past decades has not been to the benefit of workless households. According to Gregg and Wadsworth (1996), the rise in the UK employment rate during the 1980s and 1990s masked a polarisation between what they called work-rich and workless households. The proportion of working-age individuals in work had risen in the UK, but so had the proportion of households with not a single person in work. Job growth had mainly benefited households with already one person in work. De Beer (2001) has documented a similar dynamic in more detail for the Netherlands in the mid-90's. Employment growth may therefore add to the incomes of households above the poverty threshold, rather than those at risk of poverty.

Growth and Changes over Time

Drawing inferences from cross-country comparisons is subject, as we have seen, to the general objection that there are unaccounted for differences between the countries. Observing country A with an at-risk-of-poverty rate of 10% and an employment rate of 70% (or social protection spending of 30% GDP) does not mean that country B can achieve the same poverty rate by increasing its employment rate to 70% (or its social spending to 30%). This has led to the study of changes over time across countries, or "panels of countries". To the extent that the unobserved country differences are constant over time, we can neutralise them by focusing on the changes over time. We can ask how far *growth* in employment has contributed to social inclusion in the EU.

With such a panel of countries approach, we are seeking to learn from the directions of movement. In a single country context, Burgess, Gardiner and Propper (2001) studied the relation between risk of poverty and recorded unemployment in the UK in the years since 1971. As updated by Hills (2004, page 85), this shows that unemployment in the UK rose from 2% in 1973 to 10% in 1983 with virtually no change in the rate of poverty. The UK poverty rate then rose sharply in the next 10 years, whereas the unemployment rate in 1993 was again around 10%. Between 1993 and 2001, the unemployment rate fell back to the levels at which it started in the 1970s, but the poverty rate remained little changed. Hills concludes that, in the UK, "the relationship between unemployment and poverty just for those of working age is fairly weak" (2004, page 85).

The Annex to the Kok Report shows the changes in the common indicators for the EU-15, but not for comparable periods in the cases of poverty risk and employment, since the poverty data lag those for employment. We need to match up the time periods. Figure 3.17a shows the changes in the at-risk-of-poverty rate between 1994 (1997 for Finland and Sweden) and 2000, and in the employment rate. Portugal is not included as there is a break in the continuity of the employment series. The arrows mark in each case the direction of movement. The employment rate rose in every case except Austria, where it was already above the EU-average. In 5 of the remaining 13 EU-15 countries, the employment rate rose and the at-risk-of-poverty rate fell: Belgium, Greece, Germany, Italy and the UK. The slopes range from steep (Germany) to quite flat (Italy). They are counter-balanced by a further five countries where the employment rates rose but the at-risk-of-poverty rate was unchanged over the six year period: Denmark, Spain, France, Luxembourg and the Netherlands. And the at-risk-of-poverty rate rose in Ireland, Finland, and Sweden, where the employment rates rose at the same time. (The upward trend in poverty risk in Finland and Ireland is confirmed by the OECD figures used by Förster and d'Ercole (2005).) The picture is a mixed one.

(Figure 3.17a – see Annex 1)

The use of changes over time offers a potential solution to some of the methodological problems; at the same time, it introduces problems of its own. As has been noted in the panel data literature, the approach risks making the estimates more subject to measurement error (see, for example, Freeman, 1984). By weakening the signal, we are raising the noise to signal ratio. The estimates of the at-risk-of-poverty rate in any one year are subject to sampling error. No estimates of sampling error are at present given in conjunction with the common EU indicators (they would be a valuable addition, and we understand that Eurostat are planning to introduce them), but we may ask about the significance to be attached to a 1 percentage point change in the at-risk-of-poverty rate, as in Austria or Italy. In a panel study, this is even more complicated given that the measurement of changes over time may be sensitive to attrition from the panel.

More concretely, in the present application we have to confront the issue that, with a relative income threshold, policies to raise employment will affect not only the incomes of those at risk of poverty but also the median household income used to judge the risk of poverty. (The relative nature of the poverty line also complicates any use of the concept of the "poverty elasticity of growth" – see Bourguignon (2003).) As has been emphasised in the Irish context (Nolan, 1999), where there is strong overall income growth, relative poverty rates may rise even where those on low incomes are enjoying rising standards of living. We may therefore want to repeat the analysis taking a threshold anchored at a moment in time (as in Indicator 14). This is shown in Figure 3.17b, which has to be based on the shorter three year period 1997-2000 for which the anchored indicator is given in European Commission (2004b, Table 11). We now have a predominance of downward arrows to the right. In all countries anchored poverty risk declined, except in the Netherlands and Finland, where employment was on the rise but there was no change in the poverty risk. In this case, the picture is much more uniform. The debate about the "trickle down" benefits from employment growth may therefore depend in part on whether the poverty threshold is anchored in real terms or is increased in line with rising real incomes.

(Figure 3.17b – see Annex 1)

Changes over time may provide insights into the impact of social protection expenditure, discussed above. Most Member States have expanded their social protection programmes over the post-war period, and have seen over the same period considerable falls in their poverty rates. The expansion and maturing of pension schemes, for example, have meant that many more elderly enjoy financial independence. But again there are other factors at work. There has been a large increase in the size of the elderly population. A sizeable part of the increased social spending has been due to an expansion of scale rather than improvement in individual benefits. The proportion in poverty may have been changing for other reasons. Increased private savings and private pensions may have generated a reduction in poverty. There may be interdependencies. The expansion of social protection may have caused people to save less, and raised the pre-transfer poverty rate. All of this points once more to the need to understand the mechanisms in operation. The aggregate relation between social indicators and levels of spending, or other policy variables, is a "black box". We need to look inside the box if we are to be confident in drawing conclusions about the implications of pulling different policy levers.

Conclusions

To respond to the question posed in the title of this section, we believe that it is both necessary and possible to steer a course between two extreme positions. One extreme is to draw definite policy conclusions from simple correlations; the other extreme is to reject all statistical analysis of the EU common indicators. Here we have argued for a more textured approach. For example, we have suggested that one can learn by comparing the relationships found for EU-15 with those for the full EU-25; we have explored some of the consequences of comparing, not levels, but changes over time. There is no doubt that the process is complex, multivariate and needs to be disaggregated. We need to base any empirical conclusions on a theoretical framework linking the different mechanisms in operation.

3.5 Children Mainstreaming

To help draw together the threads of our analysis, and to respond to the stress laid on child poverty in the 2005 Spring Summit Presidency Conclusions, we end by considering children mainstreaming. As already explained, our purpose is not to single out children as a priority group, but to explore the general issues of poverty and social exclusion from the perspective of children.

Child Poverty

The seriousness of the issue of child poverty has come increasingly to be recognised in OECD countries (see, for example, Cornia and Danziger, 1997, and Vleminckx and Smeeding, 2001). Recently it has received a great deal of international attention as a result of the UNICEF Report Card, Child Poverty in Rich Countries 2005 (UNICEF, 2005). As summarised by Corak, "child poverty rates vary by more than a factor of ten across the OECD, from less than three percent to over 20 and almost 30%. These countries fall into four main groups, those with child poverty rates less than 5%, those with higher rates but still less than 10%, those with rates higher than 10% and as high as 20%, and finally two countries with more than one-in-five children being poor. In the strong majority of countries child poverty rates have actually gone up. In 16 of the 24 OECD countries the child poverty rate at the end of the 1990s was higher than at the beginning, and in only three countries has it declined to a measurable degree" (Corak, 2005, page 1). It should be noted that he is using a poverty threshold set at 50% of the median (rather than 60% as used as a Primary EU indicator). The two countries with child poverty rates in excess of 20% are the US and Mexico, but the UK, Portugal, Ireland and Italy are above 15%.

The OECD study by Förster and d'Ercole (2005) found that relative poverty rates (with 50% median threshold) are higher for children than for the overall population in most OECD countries, although with much variation across countries.

Changes in child poverty rates over time have been studied by Bradbury and Jäntti (2001) using data from the Luxembourg Income Study, covering eleven of the EU-15 countries, two of the new Member States, and seven other countries. In only five of these twenty countries was there a decline in the at-risk-of-poverty rate (using 50% of the median), although they caution against drawing firm conclusions and note the diversity of outcomes. In a study produced as part of a Nordic Research Council project, Ritakallio and Bradshaw (2005) have used the data from the European Community Household Panel (ECHP) to examine levels and changes in child poverty in the EU-15 countries from 1994 to 2000. The UK had the highest child poverty rate (defined using a 60% threshold) in 1994 but it had fallen by 2000, below the rates in Italy, Spain, Ireland and Portugal. The overall rate was lowest in the Nordic countries, but increases over the period are shown in the cases of Finland and Sweden, as well as in the Netherlands, France and Luxembourg. Ritakallio and Bradshaw (2005) go on to consider non-income-related indicators (see below).

We begin by considering the evidence about child poverty using the breakdowns in the 2004 Joint Report on Social Inclusion (European Commission, 2004b) and the Annexes to the Commission Staff Working Paper, Report on Social Inclusion 2004 (European Commission, 2005c). We are interested both in the risk of children living in poverty, and in the relationship between this risk and that of adults. As we discuss in Chapter 5, it must be remembered that the measurement of child poverty, and particularly the comparison with the adult rate, may be influenced by the choice of equivalence scale. The statement that children are at less risk than adults in country A may be reversed if we adopt an equivalence scale giving more weight to children. This is no theoretical curiosity. Foidart, Génicot and Pestieau (1997) showed using Belgian data that the effectiveness of family allowances in reducing poverty is sensitive to the choice of equivalence scale. Ritakallio (2002) has shown that moving from using the OECD equivalence scale to using the modified OECD scale (as in the EU common indicators) has the effect, in most countries, of reducing the proportion of children at risk of poverty.

Figure 3.18 shows the proportion of children living in households at risk of poverty. It brings together the evidence for the EU-15 with that for the New Member states, seven of which did not feature in the UNICEF study. The risk of poverty threshold is set here at 60% of the median. In all except the Nordic countries and Slovenia, the proportion of children at risk is in excess of 10%. In 8 Member States, the rate exceeds 20%, including UK (at that date), Italy and Spain. Of the 69 million people estimated to be at risk of poverty in the EU, some 12 million are children. As is noted by Corak, Lietz and Sutherland (2005), the severity of poverty differs from the incidence across countries. In Figure 3.18, we show the median at risk poverty gap alongside the poverty risk. This gives a somewhat different impression. The severity of income shortfall is not very different in the Nordic countries from that in Germany and Luxembourg. The child poverty risk is less in Spain and Greece than in the UK, but the median income shortfall is, if anything, larger in Spain and Greece.

(Figure 3.18 – see Annex 1)

In order to understand the specific circumstances of children in each Member State, we need to view the risk of child poverty in relation to the overall risk of poverty. Figure 3.19 shows that the relative risk is greater for children in the majority of Member States; indeed in 12 of the 25 the rate is more than 25% higher. This includes certain countries with a low overall rate of poverty risk, such as the Czech Republic, Luxembourg and the Netherlands. The 2003 Luxembourg NAP/inclusion notes that the "risk of poverty of people aged less than 25 years is higher than for the whole of the population" (Government of Luxembourg, 2003, page 6). We are justifiably concerned about the position of children.

(Figure 3.19 – see Annex 1)

Other Dimensions of Social Exclusion

Despite the aim to give as many breakdowns as possible, data are available only on non-income-related social inclusion indicator that relates directly to children in the sources we are drawing on: the proportion of children aged 17 and under living in jobless households. (The recently-adopted Primary Indicator on literacy of pupils also relates to children but was not included in those sources.) Figure 3.20 shows that, in contrast to the income-based measure, children are less likely to be living in jobless households than prime-age adults. In only the UK, Sweden and Ireland does the rate for children exceed that for adults by more than 20%.

(Figure 3.20 – see Annex 1)

The importance of looking at other dimensions has been recognised in many national studies, including the measures of child poverty developed by the Department for Work and Pensions in the United Kingdom. In a comparative study of the EU-15 countries, Ritakallio and Bradshaw (2005) make use of the subjective questions in the European Community Household Panel (ECHP), and of the ECHP material deprivation measures (which differ from those considered in Figure 3.10). They show, for instance, that the percentage of children living in households lacking on one or more of the criteria ranged from 39% in the Netherlands to 89% in Greece and 90% in Portugal. (The nine criteria are adequate heating, annual holiday away from home, replacing worn-out furniture, afford new clothes, afford meat/fish, ask friends home, rent arrears, mortgage arrears, and savings.) The proportion lacking three or more items ranged from 9% in Denmark to 53% in Greece. Ritakallio and Bradshaw suggest that “in order to derive a measure of child poverty that is more reliable than purely income” (2005, page 10), we should consider those children who are classified as poor on two of the three dimensions: income, subjective poverty, and deprivation (three or more items on the 9-item scale). This does not greatly change the ranking of countries, with Denmark having the lowest score and Portugal the highest among the 12 EU countries covered, but it gives a quite different impression of the direction of movement. Their measure shows that child deprivation fell between 1996 and 2001 in all of the 12 countries except Denmark and Portugal.

Conclusions

In this, we have been following in the footsteps of the Indicators Sub-Group of the Social Protection Committee, which has agreed to give children and the elderly population a “special focus” (European Commission, 2004b, page 6), and has provided breakdowns by age wherever relevant and meaningful. This has been essential in highlighting the extent to which Europe’s children are living at risk of poverty, and that “in most countries children experience levels of income poverty that are higher than those for adults” (European Commission, 2004b, page 18).

At the same time, the main conclusion from this “case study” is that the present common indicators are of limited assistance, and tell us little about the non-income dimensions. As we have seen, examination of non-income indicators may change our assessment. This suggests that, as far as the EU common indicators are concerned, we need to approach the issue from the opposite direction: to start from the perspective of children and then consider the selection of indicators. We return to this in Chapter 5.

3.6 Concluding Comment

In this chapter we have deliberately limited our horizons, both theoretically and empirically. We have not attempted to give a structured account of the basic causes of poverty and social exclusion. We have not attempted a comprehensive review of the statistical evidence about poverty and social exclusion in the EU. We have not sought to compare the evidence with that available from national sources (although we agree that consistency with national sources is very important and needs to be studied). We have limited ourselves (with a few exceptions) to the EU common indicators, and have asked what we can learn directly from this source about the EU-25 countries. The Commission and the

Member States have invested in the production of these data, and we have sought to exploit them more fully.

Even within this narrow compass, the EU common indicators are a rich source of information about poverty and social exclusion in the EU-25. Although the data have to be used and interpreted with care, we have tried to show how they can be used to provide a baseline against which to judge progress, and to begin to explore the underlying mechanisms. In our analysis, the main conclusions of which have been summarised at the end of each section, we have explored the impact of Enlargement, contrasting the EU-15 and the EU-25, and have emphasised the multidimensional nature of social exclusion.

Chapter 4
Strengthening Policy Analysis

4.1 Policy Analysis in the NAPs/inclusion and Joint Inclusion Reports
4.2 Tools for Policy Analysis: Model Families Analysis and Micro-Simulation Models
4.3 Applying Policy Analysis to the EU Social Inclusion Process
4.4 Children Mainstreaming: An Application
4.5 Concluding Comment

The Laeken common indicators of social inclusion that we examined extensively in Chapter 3 are output indicators aiming to measure the extent of progress towards the common objectives of promoting social inclusion. To bring about a substantial improvement in the reported indicators requires long-term and structural policy efforts in the fields of economic growth, social protection, minimum wages, and employment. It has, moreover, to be recognised that the outcomes measured by the indicators depend partially on developments outside the control of Governments (such as trends in family formation and dissolution). This is the reason why most Member States highlighted in their NAPs/inclusion lists of policy measures and policy-related indicators, which can be more easily integrated within the development of a policy strategy, such as the number of unemployed or long-term unemployed persons who are assisted by some labour market measure, the number of available social housing units and the amount of minimum income benefits. What we need to do, however, is to link policy and outcomes. Crucial to the EU Social Inclusion Process is better understanding of this relationship. The purpose of this Chapter is to consider how this analysis can be strengthened. What are the key elements in establishing the relationship between policy measures, as listed in the NAPs/inclusion and their EU analyses by the Commission and Member States, and outcomes, as measured by the Laeken indicators? What are the strong and weak points of different types of analysis? How can they be applied at Member State and EU level?

We begin in Section 4.1 with a brief survey of the policy analysis presented in the NAPs/inclusion and Joint Inclusion Reports, identifying some of the directions in which it could be developed. For this purpose, it is necessary to make use of modern tools of policy analysis, and in Section 4.2 we examine two types of approach: model family analysis and micro-simulation models. The ground covered will be familiar to many readers, but, as stressed in Chapter 1, we would like to make the Report accessible to those who have not been engaged in the technical debates. In each case, we are trying to bring out the strengths and weaknesses of the different approaches. Here one is able to learn from other bodies with long experience of cross-country comparisons of policy, notably the OECD, with whom the European Commission is working jointly on policy analysis. In Section 4.3, we examine how the two methods can be applied to the EU Social Inclusion Process. Three types of application are considered: mapping the relation between Member State policies and the EU common indicators, projecting at a national level the future impact of policy reforms, and examining policy at the EU level. We describe how the analytical tools can be employed to develop a EU *common analysis*, so that we have a commonly agreed and defined analytical approach, alongside the agreed common indicators. To this point, the discussion is largely methodological, rather than dealing with substantial problems. In the final section 4.5, we take a particular problem – children at risk of poverty and social exclusion- and use this as a case study to help draw together the different threads of our earlier discussion.

4.1 Policy Analysis in the NAPs/inclusion and Joint Inclusion Reports

Central components of the Social Inclusion Process are the NAPs/inclusion of individual Member States, now including the new Member States, and the Joint Inclusion Report.[25] The first round of NAPs/inclusion had to be produced to a tight timetable, and with no precedent to guide their authors. The first Joint Inclusion Report of the Council and the Commission (European Commission, 2002b) was a substantial 226-page document, which represented a landmark in the history of the EU. As noted in the Executive Summary, "it is the first time that the European Union endorses a policy document on poverty and social exclusion" (European Commission, 2002b, page 9). The second round of NAPs/inclusion submitted in July 2003 maintained the momentum. They are certainly weighty. The NAP/inclusion for Denmark is (in English) 60 pages long; for Finland 68 pages; for Portugal 116 pages. Germany, whose first plan was a rather slender document, has a NAP/inclusion 2003-2005 that extends to 109 pages. The 2003 NAPs/inclusion for the EU-15 were reviewed in the Joint Report on Social Inclusion 2004 (European Commission, 2004b). In July 2004, the ten new Member States submitted their first National Action Plans. They are, like those for the existing Member States, extensive in their coverage. The NAP/inclusion for Estonia, for example, at 57 pages (in English) is one of the shorter; the NAP/inclusion for Hungary consists of 63 pages plus an appendix of 31 pages. The NAPs/inclusion for the 10 new Member States were analysed by the Commission in a Commission Staff Working Paper *Report on Social Inclusion 2004* (European Commission, 2005c).

The NAPs/inclusion and their EU analyses have been an important first step in advancing the Social Inclusion Process. At the same time, they can be further developed, particularly in the analysis of the relation between policy and outcome. Without in any way seeking to devalue the achievements of the NAPs/inclusion and their EU analyses, we can identify the following limitations:

- The concrete implications of policy actions are not typically assessed in terms of outcomes, and, specifically, in terms of improved performance according to the common Laeken indicators.
- We lack adequate accounts of the baseline policy situations from which the extent of policy departures can be assessed; it is hard to separate new from existing policies.
- The total effects of policies on social exclusion are not investigated, so that we cannot understand the interactions between different policies and the impact on poverty and social exclusion of policies that do not have social inclusion as their central focus.
- Member States have not sufficiently examined in their NAPs/inclusion how their social performance could be improved by the adoption of policies employed in other Member States.
- EU analyses have included quantitative analysis, as we have discussed in Chapter 3, but such analysis could be extended to an assessment of the likely impact of the policy choices of different Member States.

In identifying these missing elements, we are not asserting that they are completely absent from all the NAPs/inclusion and their EU analyses; rather we are suggesting that the analysis is in need of further development.

[25] An important element of the process on which we do not comment here are the reviews by national experts of their country's NAPs/inclusion. Only a limited number of these have been placed in the public domain, and it is hard to make a systematic analysis ; this would, however, be potentially of considerable interest.

Outcome Analysis

The NAPs/inclusion follow the framework laid down by the Social Protection Committee (see Social Protection Committee, 2003b). Section 3 of the Plans describes the strategic approach. In the case of Luxembourg, for example, the Government explains in its 2003 NAP/inclusion that it seeks "An active social state which does not provide all but which operates in a spirit of responsible solidarity in a open and participatory society which does not exclude anyone" (Government of Luxembourg, 2003, page 14). It goes on to explain that the Social Inclusion strategy is based on three pillars: education, active labour market policy, and social protection. In the case of Sweden, to take another illustration, the strategic section refers to "full employment and universal social insurance", "an ultimate safety net", and "integration".

Section 4 of the Plans typically refers to "policy" (some Member States refer to "political") measures. In the case of Sweden, for example, reference is made to (i) alteration to the rules concerning unemployment insurance, (2) a ceiling on childcare fees and increased parental leave, (3) the Equal Community initiative to combat discrimination in and exclusion from the labour market, (4) a reformed old-age pension system, (5) introduction of an extended health care guarantee, (6) a programme for improving health at work, (7) tightening of sickness benefits and transfer of part of the cost to the employer, (8) expansion of the pre-school programme, (9) actions to strengthen the protection of children at risk, (10) establishment of shelters for girls at risk from honour-related violence, and (11) support for the efforts of local authorities to combat homelessness.

As illustrated by the Swedish list, policy measures differ a great deal in their scale and specificity. The measures to improve access to health care have been allocated a total of SEK 3.75 billion over the period 2002-2004. The measures to encourage and support the work of local authorities on homelessness have been allocated SEK 30 million. The 2003 NAP/inclusion for Ireland refers to the € 14.2 billion Employment and Human Resources Operational Programme over the period 2000-2006, and to the € 65 million allocated since 1997 to Local Drugs Task Forces. In Germany, the 2003 NAP/inclusion refers to the fact that the Federal Government is allocating € 4 billion over 2003 to 2007 to the establishment of all-day schools, and that it is spending € 91 million a year on additional training places in the new Länder. Some measures are reckoned in billions; others are counted in millions.

We are not questioning these relative allocations; rather we are pointing to the problem of analysing policy initiatives that are very different in scale. Our central interest is in the link between the policies and the outcomes. How much, for example, will this policy reduce the number at risk of poverty? How do the costs of policy initiatives compare with the measured poverty gap? The scale is clearly a relevant consideration. One would not expect a measure directed at a small group of the population necessarily to have effects that show up in indicators for the population as a whole. One would be looking for its impact in terms of, say, the composition of the excluded population. Even here the impact may be hard to discern, perhaps because the relevant groups, such as the homeless, are not covered by the statistics to hand. It is quite possible therefore that some of the specific measures listed in the NAPs/inclusion cannot be analysed other than on a separate basis, without reference to the common indicators.

The example of risk of poverty reduction corresponds to one of the Laeken indicators. However, one major limitation of the NAPs/inclusion is that a number do not relate policy analysis to the Laeken indicators in any systematic way. Some Member States do make such comparisons. The 2003 NAP/inclusion for Luxembourg (Government of Luxembourg, 2003), for example, opens with a systematic comparison between the values of the indicators for Luxembourg with those for EU-15. But such systematic use of the Laeken indicators is rare. The Dutch report, for example, bases its examination of risk of financial poverty largely on the number of people who are dependent on the national minimum income and the development of that income. They say clearly “these indicators link best with the national policy surrounding the minimum income” (Government of the Netherlands, 2003, page vii). They recognise in the appendix that “in an EU context other indicators have been developed to compare the performance of the various countries”, referring to the 60% of median (and 40%, 50% and 70%) indicator, but argue that “the choice of a specific threshold is comparatively arbitrary” (page vii). In other cases, there is a disjuncture, where one part of the Plan deals with policies and a second part, often in an appendix, presents the social indicators. The indicators are not really embedded in the policy process. More specifically, we need to ask: will the announced policies lead to significant improvement in social indicators? In the case of the Hungarian NAP/inclusion, for example, there is reference to the extension of the eligibility of lone parents to the regular child protection benefit, and to the expected rise in the number of children receiving this benefit, described as “the most significant cash assistance to families” (Government of Hungary, 2004, page 50). But we need to know how much this can be expected to contribute to the elimination of the risk of child poverty. Or, to turn the question round, to which of the outcome indicators is a policy directed? Is a measure intended, for example, to reduce the extent of poverty or its depth?

Policy Baseline

In examining the policy proposals as a whole, we want to know how they are going to improve social performance. In making such an assessment, we need first to establish a baseline for policies. Reading the NAPs/inclusion, it is often difficult to discern just how far the policies represent departures relative to the status quo. For understandable reasons, Member States take up quite a large part of their NAPs/inclusion with a rehearsal of their existing policies. As the 2003 NAP/inclusion for Luxembourg notes, the 2 yearly NAPs periodicity should not get in the way of long-term strategic planning; as a result a number of the measures presented are a continuation of those covered in the 2001 NAP/inclusion (Government of Luxembourg, 2003, page 10). Separating new policies from existing policies is not therefore always easy.

The NAPs/inclusion are not always transparent on the policy baseline. The announcement of a “Programme for 2003-2005” does not always make clear whether this is the renewal of a programme in force or a totally new initiative. If we are asking how the NAP/inclusion can be expected to reduce, say, the proportion of families living at risk of poverty, then it is not always easy to list the precise measures that constitute the “policy change” from the baseline. The same applies to the timing. Policies are announced in advance of their enactment, and may be “re-announced” in the period before they come into force. It may not be easy to relate policy announcements to their starting dates; yet this is clearly relevant to determining their impact in terms of outcomes. The policy baseline has moreover to be dynamic. As has been brought out by Callan (2005), where wages and prices are rising, a neutral tax-benefit policy may be defined as one that indexes benefit levels, tax thresholds, and tax bands in line with rising incomes. This is then the benchmark against which policy change is to be assessed.

The next difficulty concerns the counterfactual for the outcomes. A Government may have set in train measures that will reduce the risk of poverty by 2 percentage points, but the underlying trend may be upwards. If, in the absence of the new measures, we could have expected the risk-of-poverty rate to rise by 2 percentage points, then the policy will only succeed in holding the line. If there is a target, say, to reduce the risk of poverty rate, then it will not be achieved. As has been noted in the UK (see Brewer *et al*, 2005), measures to help low-income families with children may have been successful, but have been working against a negative trend. In such a situation, the success of the policy would be found in the fact that child poverty did not become worse. This would not be detected by simply tracking changes in the outcome indicator. In other cases, the underlying trend may be favourable. The NAP/inclusion for Cyprus, for instance, notes that developments in the area of employment since 1997 "will have positively influenced matters - in the direction of lower risk of poverty" (Government of Cyprus, 2004, Annex, page 7).

Total Effect of Policies

It is evidently important to look at the total range of policies that impact on the problems of social exclusion. There is, first of all, a political risk that the NAPs/inclusion of national Governments will be selective in coverage, favouring those policy domains where their record is best. "Even as reports, the NAPs/inclusion are limited by the lack of balance. Most Governments have simply used them to 'showcase' their strongest anti-poverty policies" (European Anti Poverty Network, 2003, page 9).

A full coverage is equally necessary because of the inter-relatedness of different policies. Measures to improve access to jobs for single parents, for example, may raise their employment rate, but the impact on their income depends on the interaction with social transfers, housing benefits, educational grants, etc. The UK NAP/inclusion describes how the new Child Tax Credit introduced in April 2003 "provides a single seamless system of support for families with children" (Government of the United Kingdom, 2003, page 35). It will certainly clarify the situation where people move in and out of the labour market, but it remains the case that the income of the family will depend on other Government policies, such as those with regard to the minimum wage, housing benefit, and the availability of child care. It was also the case that the new Child Tax Credit replaced several other benefits, and it is the *net* effect of the change that is relevant.

A full picture needs to encompass measures that form part of the NAPs/inclusion and those which form part of the NAPs/employment. As is made clear in the 2004 Joint Report (European Commission, 2004b), we need to ask how the employment generation process will impact on the Laeken social indicators. For understandable reasons, Member States have sought to keep separate their employment and social inclusion measures. The 2003 Danish NAP/inclusion, for example, states that the action plan avoids "any overlaps with the corresponding action plan on employment" (Government of Denmark, 2003, page 3). However, an analysis of the social inclusion proposals cannot leave out of account the impact, positive or negative, of employment measures on the social inclusion indicators. The 2004 Joint Report points out that "both plans should be read together to get a fuller picture of the measures being taken to combat social exclusion through participation in the labour market" (European Commission, 2004b, page 44). As we have seen in the previous Chapter, nothing can be presumed in advance about the complex relationship between job creation and reductions in poverty and social exclusion. As is noted in the 2003 NAP/inclusion of Luxembourg, a challenge for the future is to develop the synergies between the NAP/inclusion and the NAP/employment (Government of Luxembourg, 2003, page 16).

Learning from others and Comparative Analysis

The peer review process is designed to encourage mutual learning as part of the Social Inclusion Process. At present, there are few signs that this is being actively pursued in a systematic way. We appreciate that national specificities, and indeed differences within Member States, with regard to policy institutions mean that it is difficult to apply one country's policies directly to another Member State. At the same time, countries can learn from each other. To begin with, one would expect Member States to identify the dimensions of social exclusion on which their performance is relatively less satisfactory, and to concentrate on these. One can then ask why performance is relatively less good. In part, the reasons can be found within the Member State, particularly where there are identifiable geographic differences within the country. But in part they may be identified by looking outside. The EU process provides a context with which they can ask why another Member State performs better on certain indicators. One would expect Member States to ask how far other countries had encountered similar problems and to examine their resolution of these problems.

The EU common indicators furnish a starting point for such a comparative analysis within the EU. As we have seen in Chapter 3, not all countries perform equally well or badly on all social indicators. As we saw there (Figure 3.11), 12 of the EU-25 feature in the top 4 for one of the indicators considered. It is true that Sweden, for example, is commonly among the top 4 countries for income-related indicators, and that Portugal is typically near the bottom. But, when we look at prime-age adults living in jobless households, we see that Sweden falls and Portugal rises to second place.

Such learning by national Governments need not, of course, be limited to the EU-15 or EU-25. The OECD provides a forum where EU members can learn from, for example, the US, Canada, Japan, Australia, and New Zealand. Insofar as the US has been in the lead in the globalisation of its economy and the development of Information and Communication Technologies (ICT), there is good reason to examine their experience, albeit in the context of different social priorities. The comparison with the US has indeed been explicit in the development of the Lisbon Agenda. The EU Structural Indicators (updated Annex to the 2005 Report from the Commission to the Spring European Council) include columns for Japan and the US. For 10 of the 15 structural indicators, values are given for these two countries in addition to EU-25 and acceding/candidate countries. These include long-term unemployment, and the three environmental indicators, but not, unfortunately, the at-risk-of-poverty rate. It would be helpful if the full set of structural indicators could be given (as a minimum) for Japan and the US, and if consideration could be given to developing values for the US for the long list of structural indicators for social cohesion. We return to this proposal in Chapter 5.

Policy Analysis

A valuable feature of the 2001 and 2004 Joint Reports has been their use of the common social indicators to make comparisons between Member States of their social performance, and to identify key trends and emerging challenges. The 2004 Joint Report, for example, referred to fears about the impact of the current economic slowdown (European Commission, 2004b, page 29). It identified as major factors: structural changes in the labour market, the impact of ICT, the ageing of the population, increased migration and growing ethnic diversity, family dissolution and the growing numbers of lone parent families, and higher labour market participation by women.

The NAPs/inclusion have, in many cases, identified vulnerable groups. Just to take one example, the Austrian NAP/inclusion lists children, women, families, people with disabilities, people requiring long-term care, asylum seekers, migrants, people with excessive debts, homeless people, and people who have committed criminal offences (Government of Austria, 2003, page 2). The significance of the different groups may vary from Member State to Member State, but this is one point of departure for policy analysis. We can imagine a matrix where these categories form the rows, and the columns constitute the policy actions affecting these groups – see Table 4.1 for an illustration. In each cell there would be an assessment of the impact of the policy in column i on the group identified in row j: for example, the extent to which the long-term unemployed benefit from family cash transfers. From such a matrix, we can see the totality of the policies affecting particular groups. The groups may of course overlap: children may live with a father who is long-term unemployed. We should also bear in mind that there are two ways of approaching the subject: from the direction of the policies and from the direction of the groups affected. As we stress in this report, children mainstreaming means not necessarily giving children priority, but approaching issues from their perspective: i.e. reading across the matrix not down. The same equally applies to gender mainstreaming.

(Table 4.1 – see Annex 2)

The key policy actions are manifold. One of the most important, but not the only, is social protection. Section 5.1 of the Joint Report refers to the relationship between the level of expenditure on social protection and the risk of poverty, which – together with its qualifications - we have considered in Chapter 3. In order to probe this correlation more deeply (as the Joint Report makes clear is necessary), we have to examine the underlying policy institutions. For example, the Joint Report refers to the increasing popularity of in-work benefits. Noting that the UK and Ireland have a long tradition of such benefits, the Report (European Commission, 2004b, page 56) goes on to describe developments in the Netherlands (increased tax credits), Belgium (bonus “crédit d’emploi”), France (“prime pour l’emploi”), Finland (earned income disregard) and Luxembourg. What, however, is not given is any quantitative analysis of the likely impact of these measures on poverty and social exclusion. This seems an essential next step in the policy analysis.

This question may be asked in the direction we have just discussed: policies to outcomes. What is the effectiveness of specified policies in achieving improved social performance as measured by the social indicators? In the NAPs/inclusion, Member States have set out their current policies and their proposals for policy reform. What will be the impact of policies, for instance, on the risk of poverty or the number of working poor or the proportion of jobless households? These questions consider the relation between

Policies ⟶ Indicators?

But it is also important to reverse the process and ask what changes in policy are necessary to achieve a specified reduction in different social indicators?

? Policies ⟵ Indicators

As discussed in more detail in Chapter 6, the Commission has in the past recommended the setting of targets. Two years ago, in its Communication to the Spring European Council in Barcelona, the European Commission proposed that the European Council should set the target of halving the at-risk-of-poverty rate from 18% to 9% by 2010 (European Commission, 2002c, page 16). This proposal was not accepted by the European Council, but it was evidently regarded as realistic by the Commission at that time. Part of the background research should therefore have been to ask – what measures need to be taken to achieve a halving of the risk-of-poverty rate? These measures may be indirect. Success in reaching the employment target is likely to reduce the proportion of jobless households. Where the jobs created are “good jobs”, then higher employment rates may bring with them success in reducing the risk of poverty. But will this reduction be sufficient to halve the risk of poverty rate? If the answer is “no”, then we have to consider in addition direct measures. We need to ask how these can be best designed and what scale of programme is necessary.

Input Indicators

There may here be an important role for *input indicators*: i.e. indicators of policy effort. Valid and comparable input indicators would obviously be of great value for the evaluation, comparison and analysis of social and economic policies. Recent developments at the EU level have enhanced the relevance of input indicators in the field of social protection significantly (see Cantillon *et al*, 2004). It is important that such indicators should be measurable in a *sufficiently comparable way across Member States.* Full comparability is an ideal that cannot normally be attained, since, even where data are harmonised across Member States, variations in institutional and social structure mean that there may be differences in the interpretation of the data. The extent of variations has been increased by the recent Enlargement: “the inclusion of new Member States will make the pension landscape, for example, more diversified than (…) in the EU-15” (Schmähl, 2004, page 8). Indicators that are over-sensitive to these structural differences or raise specific problems of interpretation for particular Member States should be avoided. The aim should be an acceptable standard of comparability.

In considering intermediate input indicators, we have to take account of the fact that household incomes are always income packages, implying that mostly they are the result of not one but several welfare state arrangements (e.g. minimum wages, social security transfers, childcare subsidies, tax credits and reductions). More precisely, they need to take account of interactions between parts of social protection system: changes in one arrangement may lead to changes in the entitlements in other programs (e.g. an increase in the minimum wage may mean a reduction in housing benefits). Secondly, the link between input indicators and relevant outcomes must be established (Atkinson, 2000). For example, a rise in the level of, say, minimum income protection in social assistance should be shown to lead to a meaningful reduction in poverty. This could be done in several ways, as we discuss below.

Conclusions

The NAPs/inclusion and Joint Inclusion Reports have contributed a great deal to advancing the Social Inclusion Process, but the policy analysis needs to be further developed. It lacks an adequate analysis of the baseline policy situation and a counterfactual for the outcome indicators; the total effects of policies on poverty and social exclusion need to be investigated, as well as the contribution of each individual policy; the policy analysis is insufficiently comparative. To help think further, we have suggested a matrix with vulnerable groups along one dimension and policy interventions along a second dimension.

4.2 Tools for Policy Analysis: Model Families Analysis and Micro-Simulation Models

We turn now to the explicit analysis of the impact of *policy change*. If a Member State announces a policy change, designed to combat poverty and social exclusion, how can we investigate its potential impact? There are many different types of policy analysis. Each has strengths in answering the questions identified in the previous section. Each type of analysis has weaknesses in that the analysis relies on assumptions or leaves certain questions unanswered. In this section, we describe two widely used types of analysis: model family analysis and micro-simulation models.

Model Family Analysis

An individual, when presented with a policy proposal, is likely to examine how he or she, and their immediate family, are affected. Suppose that the Government proposes an income tax credit for workers with children, and earning less than a specified amount, with a tapered withdrawal for a range of earnings above this amount. The person will ask – Am I eligible? If so, how much will I get? If I am eligible, how will this affect my decisions about choice of job? For example, the new proposal may affect whether or not I accept the promotion offered. If I am not eligible, then can I change my behaviour to qualify? The same questions, writ large, concern the policy analyst. The Government Minister will no doubt want to know the impact of the proposal on "model" individuals, chosen to be representative of the population. Suppose that we consider the impact on child poverty. The minister will want to see calculations for representative families with children who are currently below the poverty line. How much will they benefit? Will the proposal be sufficiently generous to lift them above the poverty threshold?

The model family approach basically involves calculating the financial consequences of fiscal and social policies for a set of hypothetical families. The calculations allow one to see the effect of policy variations; they allow one to examine the effects of changes in household circumstances, such as an increase in gross income (and hence calculate marginal tax rates). This technique starts with defining specific family types, making assumptions about the number of persons in the household, their age, their marital status, their status on the labour market, their gross earnings, their housing situation, etc. For these family types the amount of taxes and social insurance contributions is computed, as well as the amount of fiscal and social benefits, given existing welfare state arrangements. This way the net disposable income for each family type can be determined. The analysis may be conducted in terms that allow one or more variables to vary continuously, such as gross income, the results then being presented as functions of income (for example in the form of as graph depicting net disposable income as a function of gross income). Model family results thus reveal the level of social protection provided to households in various situations. The policy parameters may be the same for each household, or they may vary: for example, by geographical location (see below).

The usefulness of model families for comparative research on social policy is evident from the frequent use of this technique (e.g. Bradshaw *et al*, 1993). The OECD has been using the method for many years for several purposes such as calculating tax burdens (OECD, 2003), replacement rates for the short-term and the long-term unemployed (OECD, 2004), and support for families (OECD, 2005). As they say, "the results from the tax benefit models allow policy makers to see in detail how their policies might affect one family. This can be a powerful tool, in that aggregation can sometimes erase details important to the individual." (communication to the authors from OECD). By calculating net disposable incomes and by comparing them to income poverty lines, minimum and average wages, model family results can give a clear indication of the level of (minimum) income protection, and also the financial incentive to take up work associated with a package of fiscal and social measures. Therefore they are related to the main objectives of social protection: minimum income protection, maintenance of the acquired standard of living and promoting social participation, in particular labour market participation. They do not typically take account of the benefits from collectively provided services.

One strength of this approach is that model family calculations can bring together different elements of Government policy. The calculations of net disposable incomes take into account gross benefits and wages, income taxes, social contributions and local taxes as well as child benefits and housing benefits. So family models compute the financial consequences of a *package* of social protection measures, taking into account the interaction between various fiscal and social protection measures. The impact of a policy initiative to increase the employment rate of single parents, for example, will increase the earnings of the household by an amount that depends on the wage earned, which may be influenced by the minimum wage. The policy initiative will have consequences for the entitlement of income-tested transfers. Entry into employment may make the household eligible for in-work benefits. Figure 4.1 illustrates some of the different elements that may enter the calculation of net disposable income. They can take account of the fact that household incomes are income packages, combining incomes from different sources, accruing to different members of the household, and affected by several welfare state arrangements. The items shown in normal type are the specified characteristics of the household; the variables shown in italics are calculated as functions of these characteristics and the parameters of the tax and benefits systems.

Taking a broad view of policy instruments is especially important in comparative analysis, because what households have to pay for out of their after-tax income varies markedly across countries. There are significant cross-country differences in the cost for housing, health care, childcare, etc. Several studies indicate for instance that results differ significantly according to the treatment of housing costs (e.g. Kuivalainen, 2003). In their international comparison of child benefit packages, Bradshaw and Finch (2002) calculate – by means of the model family approach – net disposable incomes not only after taxes and social contributions but also after the benefits and costs for housing, health care, education and childcare.

(Figure 4.1 – see Annex 1)

In making these calculations, a number of key assumptions have to be made, and these need to be borne in mind when considering the results. Firstly, the *eligibility rules* can exclude certain categories from income protection. Working-age people refusing a job or training, for example, sometimes receive a reduced benefit or are suspended. In countries where these sanctions are effectively imposed (e.g. Germany, Denmark, Austria) social assistance is not a guaranteed minimum. Secondly, family models assume that all families claim and receive the benefits for which they are eligible. In other words, family models do not take into account the *administrative operation* of social protection measures and related *non-take-up rates*. Several studies indicate that non-take-up rates for social assistance benefits can amount to 20% and more (Hernanz *et al*, 2004; van Oorschot, 1995). Experience with means-tested benefits has shown that a significant proportion of those entitled to these benefits may not claim their entitlement. “The evidence reviewed in this paper suggests that low take-up of welfare benefits occurs across both countries and programmes. Estimates typically span a range of between 40% and 80% in the case of social assistance and housing programmes, and between 60% and 80% for unemployment compensation” (Hernanz *et al* , 2004, page 4). Non-claiming can reflect lack of information; it may reflect the compliance costs, notably time; in some situations receipt of means tested benefits may be perceived as stigmatising. Thirdly, in several countries, benefit levels are not set by the national Government but differ across the regions or even municipalities. There are several options to deal with cross-regional variations in social assistance benefits and/or housing benefits. Benefit levels can be based on (a) the national average (e.g. the average for Austria), (b) a representative case (e.g. the rate prevailing in Vienna) or (c) not be simulated. Finally, there are important benefits, notably those from collective services, which are typically omitted altogether. (These may also be expected to vary geographically.)

These considerations underline the twin problems of this approach: the selection of hypothetical family types and their aggregation to reach overall conclusions. Model family studies do not always make explicit their criteria for choosing family types. This can generate concern that they are tailored to the policy interventions under investigation, with the attendant risk that the analysis will neglect other vulnerable groups. In a comparison across countries, there is the possibility that the choice of hypothetical family types will be biased inadvertently in the direction of families favoured by the policies of one country. Countries differ, for instance, in their relative generosity to families with differing number of children, and a choice to look at families with 1, 2 and 3 children may ignore the differing fortunes of larger families. Moreover, in specifying the model families to be used in a comparative study, it is hard to avoid allowing a degree of discretion to the country respondents, reducing the degree of comparability achieved. We return in the next section to the criteria for the choice of family types.

So far two main ways have been used to synthesise the results of model family simulations into a few numbers. The first is to weight equally: for example, Kuivalainen (2003) and Nelson (2003) calculated the average benefit level for all model family types.

There seems little rationale for equal weights *per se,* and it seems preferable to use survey or administrative data to weight the different types. This then raises the issue of the choice of basis. The ranking of countries in terms of the child benefit packages, for example, may change significantly when weights for (say) Belgium, rather than weights derived from (say) UK data, are used.

If the model family findings were highly correlated across types of household, then this would not be so much of a problem. But this is not the case. Figure 4.2 shows the net social assistance levels, expressed relative to the EU risk-of-poverty thresholds, for four different household types. Even within a single branch, viz. social assistance, countries occupy substantially different positions, depending on the type of household. Social assistance regimes (in conjunction with family allowances and housing benefits) differ significantly in the way they treat families with children relative to childless families (see Bradshaw and Finch, 2002). In countries such as Germany, Portugal, Ireland, Austria, Belgium and Sweden net incomes for families with children on social assistance are higher than they are for childless families (as a percentage of the respective risk of poverty lines; see second box in Figure 4.2); in Denmark and the Netherlands the reverse is the case. Moreover, we have to consider variation not just with household composition, but also with labour market status, and other circumstances. We may want to make calculations for the unemployed out of work for less than 12 months, at least 12 months, and at least 24 months. We may want to distinguish between the jobless and pensioners. We may want to treat owner-occupiers separately from tenants.

(Figure 4.2 – see Annex 1)

These qualifications should be borne firmly in mind when using model family analysis. Nevertheless, this approach is clearly illuminating. Moreover, one major reason why the model family approach is frequently used in comparative research on social policy is that these models are relatively *easy to develop and to maintain*. Such models only consist of some carefully chosen fiscal and social regulations for a limited set of family types. The model family approach requires a minimum of empirical data (e.g. average earnings or average rent). Therefore it is fairly simple to keep model family results up-to-date and to construct time series. This is of particular significance when one considers their use by campaigning groups, often short of resources, and journalists. This last advantage is not shared by the second approach considered in this section: micro-simulation modelling.

Micro-Simulation Modelling

We now consider the potential contribution of tax-benefit micro-simulation models designed to investigate the impact of changes in taxes and benefits on disposable household income for a representative sample of the population. In contrast to the model family approach, the model starts from information about actual households, obtained from sample surveys or (anonymous) administrative records or a combination of the two sources. In other words, the elements shown in normal type in Figure 4.1 correspond to the situation of actual people, rather than being hypothetical. We start from the actual earnings, investment income, and private transfers. Obtaining this information is not necessarily straightforward, and micro-simulation is much more resource-heavy than the model family approach. Just to give one example, the income information recorded in the European Community Household Panel (ECHP) was in a number of countries net of income tax and social security contributions. Methods were therefore necessary to work back to gross income (see Immervoll and O'Donoghue, 2001).

Starting from the observed situation, we model the effect of changes in policy. From knowledge of the tax and benefit legislation, and administrative practice, we can calculate how the disposable income of a given household would be changed by a policy proposal. Take for example an income tax credit for workers, with children, earning less than a specified amount, with a tapered withdrawal for a range of earnings above this amount. The micro-simulation model allows us to identify the families eligible for this benefit and calculate the amount of benefit to which they would be entitled. The calculations then have exactly the same form as with model family analysis, following a schema like that set out in Figure 4.1. As with the model family analysis, the calculations can take account of the interactions between different elements of the tax and transfer systems. Not only can such a model calculate the level of fiscal and social costs and benefits for each individual, it can also provide information on the *coverage* of a certain measure. (For further discussion of this type of micro-simulation models, see *inter alia* Atkinson & Sutherland, 1988), Verbist, 2002, and Legendre *et al,* 2003.) Over the last two decades many such models have been developed in various European countries. (Sutherland (1998) gives an overview of national models in the EU in the first half of the nineties.)

As a micro-simulation model operates on a representative sample of the population, it is not necessary to make all of the *assumptions* required to define model families. The number of household members, their demographic and socio-economic characteristics etc. are provided by the source data. No assumptions have to be made regarding regional and local variations, provided the respondent's place of residence is known. Actual benefit receipt provides some evidence about take-up. At the aggregate level, the source automatically weights the different households, so that we do not have to confront the weighting issue described above. Moreover, the use of actual survey or administrative data forces the analyst to confront the diversity of household circumstances, which may be missed if we start by enumerating model families in abstract. An important example is that of multi-family households. There may be people living in the household, other than the family for whom the model calculation is made. The risk of poverty in the EU indicators is measured over whole households that may contain grown-up children, elderly parents, adult siblings, and unrelated adults. The presence of these other household members may heighten or lessen the risk of poverty. This is particularly important in that the extent, and form, of multi-family households varies across EU Member States; in Section 4.4, we cite the evidence regarding children given by Corak *et al* (2005).

The extent to which micro-simulation models enjoy an advantage over model family analysis depends, of course, crucially on the quality of the underlying data. The representativeness of the findings from micro-simulation may be open to question if there is not a sufficiently large sample, or if there is serious differential non-response. We may be able to get more accurate aggregate figures from model families weighted by results from administrative records than from a micro-simulation based on a highly unrepresentative sample survey. The accuracy of the calculations for individual households depends on there being adequate information about the relevant socio-economic characteristics. For example, the geographical information may not be sufficiently detailed to pinpoint the precise administrative authority. In some cases, due to the limitations of the input data, it is not possible to model particular transfers, such as survivor pensions and benefits and disability benefits. Policy initiatives may have attached conditions that cannot be verified with the available data or the policy may be restricted to groups of the population that cannot be identified. An example would be where the child tax credit is conditional on school attendance, as in Greece. This means that there are certain classes of policy change that cannot be simulated.

The accuracy of the simulation results depends also on the household responses being provided without serious error. This is one reason why it may not be possible to re-create the observed taxes paid and benefits received: the taxes and benefits calculated by applying the rules may not be equal to the amounts recorded. It is not the only reason for such a departure. In reality, the administration of taxes and benefits may not follow the formal rules. There may be mistakes in the calculations; the family may make an incorrect statement to the authorities of its income or other circumstances. Where it is not possible to reproduce in the simulation model the current levels of taxes and transfers, we have to take as the basis for the simulation the calculated figure; otherwise the results will confound errors and policy changes. The total cost of a policy proposal, for example, has to be calculated using the differences in the simulated figures before and after the policy change.

Moreover, we should not exaggerate the differences between model family analysis and micro-simulation modelling. It may be possible to infer something about the propensity to claim benefits from observed receipt, but the simulation of take-up still involves assumptions. Assumptions have to be made in both cases about the extent of tax evasion and benefit fraud. If distributional data are used to weight model family results, then the latter may produce satisfactory aggregate results.

In both cases – model family analysis and micro-simulation models – the calculations usually cover a wide range of benefits, and much of the direct tax structure, but they typically omit an important class of taxes (indirect taxes) and an important class of benefits (those provided by public services). The picture is to this degree a partial one. We may be missing important policy interventions that aid those faced with poverty and social exclusion; we may be overlooking the burden of indirect taxation on the same families. (To deal with the latter, the micro-simulation model would need to be extended to include data on expenditure patterns as collected in the Household Budget Surveys (HBS).)

Behavioural Change

In the model family analysis and the micro-simulation models just described, labour market behaviour is assumed fixed, which means that the models cannot allow for the effects of policy that operate via behavioural change. If a new working tax credit induces a lone parent to enter the labour force, then the resulting income gain is not recorded. Nor can the model be used to predict changes in the Laeken labour market indicators (indicators 7, 8, 19 and 20 in Tables 2.2a and 2.2b). For this reason, they are sometimes described as "static", and are criticised for not casting light on the behavioural changes with which policymakers are concerned.

This criticism is too severe in that both kinds of analysis can provide a valuable *input* into the analysis of behavioural change. One product of model family analysis can be calculations of the impact of policy change on the incentives faced by the family. For different possible variations in labour supply, or in savings behaviour, we can see how the policy change affects the return to extra effort or to extra savings. This is the *marginal tax rate*: the amount taken away from € 1 extra gross income as a result of the operation of the tax and benefit system. It should be noted that the deductions may arise either from taxation or from the withdrawal of income-tested benefits. If a family earns € 1 more, then its working families' tax credit may be reduced by, say, € 0.30. If, in addition, there is a social security and income tax of 20%, then the marginal tax rate is 50%. (Or, if the working credit is assessed on net of tax income, of 44%.) In the same way, we can calculate the impact of the policy change on the replacement rate: the relation between income out of work and income in work. The introduction of a working family tax credit, for example, raises incomes in work, and hence reduces the replacement rate. The same calculations can be made using micro-simulation models, so that we can obtain distributions of marginal tax rates. We can see how many people face a marginal tax rate of 50% or higher and whether these rates are to be found at the bottom of the earnings distribution, where people are in receipt of one or more means-tested benefits, or at the top of the earnings distribution, among those facing the top rates of income tax.

These calculations cast light on the implications for work incentives. They also allow us to highlight the many different dimensions of labour supply. A person can increase labour supply by working more hours, or by taking a job that requires more effort. These may both increase earnings, but the implications may be different. For example, if benefits are paid subject to an hours’ condition, then a person may become eligible by increasing working hours. A couple can increase its labour supply via an increase in the hours of the man or the woman. Again the implications may be different: for example, where husbands and wives are taxed independently. In the same way, savings can take different forms. A savings bank may offer both taxable and non-taxable accounts. A person can invest in shares that generate capital growth rather than dividends. A person can invest in extending their house rather than in financial instruments. The marginal tax rate may be different in all cases. For example, where transfers are subject to an assets test, certain classes of asset (such as owner-occupied houses) may be excluded.

The marginal tax rate calculations, however, take us only part of the way. They do not tell us what is predicted to happen to labour supply or savings as a result of the policy change. We cannot say that unemployment will fall by x%. We cannot say that there will be a y% reduction in the proportion of the population living in jobless households. For this we require a model of behavioural response.

In the case of labour supply, the literature is very extensive: the survey in the *Handbook of Labor Economics* by Blundell and MaCurdy (1999) has some 150 pages, and contains some 160 references in the bibliography. This econometric research has exploited the vastly improved micro-data from sample surveys and administrative sources. At the same time, there are several reasons why it is not straightforward to incorporate into micro-simulation models the findings of this literature:

i. Many of the estimates relate to a subset of the population.

ii. The estimates cover only certain dimensions of labour supply; it is easier to study variables like hours of work than variables like effort;

iii. Econometric models predict behaviour up to a stochastic disturbance term, and we need to consider how it is to be interpreted (a transitory variation, a fixed taste difference, a “mistake”);

iv. Households make multiple decisions and these are inter-related (for example the decision to return to work and to claim working tax credits);

v. It is not easy to explain to the users of the results the basis for the predictions.

It should be stressed that these are reasons, not for rejecting the approach, but for developing the research. They are a challenge. And models of labour supply have been fruitfully used to examine specific policy proposals, such as the study by Blundell (2001) of the UK Working Families Tax Credit. This shows that, by focusing on the groups targeted by the policy change (single parents and couples with children), the models may incorporate the behavioural reactions of particular interest to policy-makers. (There remains of course the risk that other, unexpected, responses will be overlooked.) In France, the study by Laroque and Salanié (2002) treats the participation decision of women, who are assumed to work full time or not at all, for women aged between 25 and 49 years old. This is a decision of particular interest to policymakers in view of the EU employment targets. They model both labour supply and labour demand, taking account of the minimum wage, in a way that provides a rich framework for analysis of income maintenance schemes (Laroque, 2005).

In seeking to incorporate empirically estimated behavioural responses into the analysis of the Social Inclusion process, the first necessary step is an agreement on the most important responses to be included. There is here a clear link with the EU employment and growth objectives. We have referred earlier to the EU employment targets, and these indicate that labour force participation is the key variable. In just the same way as we suggested in Section 4.1 that one could work back from poverty risk targets to the policies required to deliver these targets, so too we can imagine using a behavioural micro-simulation model to work back to the policy initiatives that could achieve a 70% employment rate in Member States currently below this level. (At the very least, it could help establish whether or not the employment increase is feasible.) Such a study may also cast light on the effect of such policies on the working hours of those already participating in the labour force, although, as noted above, labour supply has many dimensions, and it may be more difficult to capture the impact on key variables such as decisions about education and skill acquisition.

Gender and Income Sharing

The tools of analysis described above are, in our view, extremely valuable. At the same time, we should not lose sight of the fact that they embody a set of assumptions about our values and objectives. A good example of such an assumption is that about income-sharing within the household, which is very relevant to the gender dimension of poverty and social exclusion. The European Commission, in its discussion of social indicators, has stressed the gender dimension. As it was put by the Social Protection Committee in its submission to the Council Meeting of 3 December 2002 (Council, 2002), Member States are asked to "underline the importance of mainstreaming equality between men and women in all actions ... by taking into account the gender perspective in the identification of challenges, the design, implementation and assessment of policies and measures, the selection of indicators and targets and the involvement of stakeholders". On the revised Laeken indicator list, the majority of indicators are broken down by gender.

Yet the policy analysis does not fully take into account the gender dimension. Analyses based on survey data typically treat the household as a unit, assuming an equal sharing of financial resources within households. There are two important aspects here. The first is empirical: the actual distribution of resources within the household. The assumption of equal sharing does not necessarily reflect reality. The second issue is one of judgment: should individuals be dependent on the sharing of resources within the household? The answer to this second question may depend on whether we are concerned with *standards of living* or with *rights*. Sharing may ensure that women have a comparable standard of living, and the observed differences in money income may be the result of a mutual agreement, but it remains the case that people do not have the same entitlement as where the income comes to them directly. We may therefore, on a rights basis, be concerned with the share of income that they receive as of right.

There is therefore a case for complementing the existing indicators by a calculation that replaces the income-sharing assumption by one that seeks to allocate income to its recipient. For some income sources, such as joint savings accounts, there may be no obviously superior alternative to assuming equal division, but for other sources there is a clearly identified recipient. Indeed in some countries, entitlement to benefits, such as child benefit, is legislated in such a way as to influence the within-household distribution of income. (One purpose of the proposed calculation is that it would allow us to examine the impact of such provisions.) In the UK, calculations have been made by Sutherland (1997), where the individually identified incomes include earnings, self-employment income, maternity and sick pay, occupational and private pensions, social insurance benefits, maintenance payments, and student grants. The results demonstrate that the gender dimension of income distribution matters. In the UK in 1995-96, the gender composition is remarkably equal when incomes are calculated on a household basis, but on an individual basis there is a clear gender gradient. Women account for some 80% of those in the bottom income groups, and about

20% of those in the top income groups. This suggests that it would be valuable to study more closely the individual share of income by adults in a household.

Conclusions

Both of the approaches described in this section are important tools in the armoury of policy analysis. They are complementary, both having strengths and weaknesses. Micro-simulation modelling is richer in that it incorporates evidence about the distribution of household characteristics; and it automatically allows aggregates to be derived using distributional weights. The construction of such a micro-simulation model is however resource-intensive, and the validity of its results may depend crucially on the accuracy of the underlying data. The strongest selling points of the model family approach are clearly its simplicity and limited data requirements. Results can be produced and made up-to-date very quickly and without a sophisticated statistical apparatus. At the same time, they cannot fully reflect the variety of household circumstances; and there is no satisfactory method for aggregation unless recourse is had to distributional data.

The main shortcoming of both types of model, as typically employed, is the absence of behavioural change, and the techniques do not yet exist for behavioural responses to be introduced on a routine basis. In this case, there is a need for further research, a need that could be supported by the Community action programme to combat social exclusion (see Section 2.2) and that should be taken into account in the design of the 7th and subsequent EU RTD Framework Programmes. Finally, we have highlighted the gender dimension of the analysis, and proposed complementing the existing indicators by a calculation that replaces the assumption of income sharing within the household by one that seeks to allocate income to its recipient.

4.3 Applying Policy Analysis to the EU Social Inclusion Process

In this section, we consider how far the analytical methods described in Section 4.2 - model family analysis and static micro-simulation models - can be applied to the EU Social Inclusion Process. We appreciate that there are other approaches that could be adopted, but our aim is to show that the analysis can be deepened, not to cover all methods exhaustively. We consider three types of application: (1) mapping the relation between Member State policies and the EU common indicators, (2) projecting at a national level the future impact of existing and announced policies, (3) examining policy at the EU-level. In each case, we ask how the analysis can best be designed to inform the Social Inclusion Process, where we have in mind both the specification by the Social Protection Committee of the structure of the NAPs/inclusion to be submitted in the future by Member States and the analysis to be applied by the Commission in the Commission Services Document on Implementation.

We earlier described a matrix linking two of the key elements of the Social Inclusion Process: policy actions and vulnerable groups. To this two-way classification, we should add a third dimension: the measurement of performance on the EU common indicators. We shall be particularly concerned with the three-way linkage: policy, vulnerable groups, and indicators – see Figure 4.3. The 3-dimensional box is – literally – vacuous, and this is a key point. At the moment we tend to approach issues either from the perspective of policies, or from the perspective of vulnerable groups, or from the perspective of indicators. But the intersection – the contents of the cells – remains largely to be filled out.

(Figure 4.3 – see Annex 1)

Mapping the Relation between Member State Policies and EU Common Indicators

Both model family analysis and micro-simulation modelling stress the need to examine the totality of policies that impact on individuals and families. As explained in the previous section, there are inevitably policy variables that cannot readily be incorporated, but the aim is to be as comprehensive as possible. This means taking account of the full range of social transfers and taxes, and of the interaction between them: for example, that an increase in the minimum pension may reduce the amount of housing benefit to which a pensioner is entitled, or it may so reduce the entitlement that the person considers it no longer worth claiming. The OECD tax benefit models summarized in the annual publication *Benefits and Wages* “are designed primarily to examine the rules underlying each country’s system of taxes and benefits for the working-age population. [They] try to include *all* rules in a country which involve a monetary transfer, either from a wage earner to the Government or vice versa, as well as any other monetary exchanges which might be usual, such as required contributions to private funds” (communication to the authors from OECD).

The ambition of covering all policy instruments is not, of course, always easy to realize. In seeking to apply the analysis as part of the Social Inclusion Process, we have to recognize that there will be limits to the policy variables that can be included. In order to ensure comparability, this will require the specification by the Social Protection Committee of the policy scope. In the case of model family analysis, this can draw on the experience with the OECD/European Commission tax benefit model to specify the range of policy interventions covered in the common analysis. In the case of micro-simulation modelling, the coordination of national modelling exercises is more complex. In seeking comparability, it will be necessary to consider the limits imposed by national data availability on the extent to which individual variation in taxes and benefits can be calculated. It will be necessary to consider the procedures to be applied where the calculated and recorded values for taxes and benefits do not coincide. It will be necessary to consider the assumptions made about tax compliance and about benefit claiming.

On the second dimension – vulnerable groups – the two methods have rather different implications. For model family analysis, this raises the question as to how the model families are defined. As we have seen, model families are defined by a large number of assumptions: the number of persons in the household, their age, their marital status, their willingness and capacity to work, their income (from work, capital, etc.), their housing situation (home-owner or tenant, the size of the house, etc.), whether or not they claim benefits and pay taxes. The rationale for the choices is often not made explicit, and we can in fact distinguish two different, if complementary, ways of approaching the issue of definition. The first is to seek to understand how policy instruments work. This has been well described by the OECD in the case of *Benefits and Wages*: “the family models chosen are not meant to be representative: instead, by looking at identical household situations across countries, it is possible to focus on the *mechanics* of tax-benefit systems. The use of “typical” family models allows many of the determinants of tax and benefit amounts to be held constant while changing one household characteristic at a time.” (communication to the authors from OECD). A key aspect in this case is the comparison of the results for different model families.

A second approach is to choose model families that are representative, not perhaps of the population, but of the groups with which policy-makers are especially concerned. The model families are chosen to bring out the range of policy impacts on vulnerable groups. In this case, the categorisations given in the NAP/inclusion provides a natural starting point. Or, put the other way round, a list such as that cited from the Austrian NAP/inclusion furnishes a checklist against which the choice of model families can be assessed. On this basis, children, families and women are typically well represented. Other groups, such as asylum seekers or people with excessive debts, are less commonly taken as cases studied in model family analysis. There is, moreover, the issue that the appropriateness of a particular specification of model families may vary across countries. One Member State may have a high incidence of people requiring long-term care; another, with a younger population, may not regard this group as of high priority.

If model family analysis is to be useful in the Social Inclusion Process, then it will require agreement on the range of family types. The Indicators Sub-Group has already made a start in this direction with its specification of household types: households with no dependent children (single under and over 65, two adults, etc.) and households with dependent children (single parent family, two adults with differing numbers of children). But we need to specify the amount and sources of income (one earner versus two-earner, etc.), the housing status and housing costs, the ages of the children, the region, etc. In seeking to reach agreement among the EU-25 Member States on a set of model families, we suggest that both of the considerations outlined above – understanding the mechanics of policy, and the impact on vulnerable groups – are relevant. While the former can be considered on *a priori* grounds, agreement on the latter will depend crucially on consultation with Member States and with representatives of the groups concerned. This is a clear illustration of a case where the Social Inclusion Process can be made more participatory.

The position of a micro-simulation model is different. Indeed the data on which such a model is typically based provide a third way of identifying the model families that should be considered. Alternatively, it provides a check on the identification by Governments of vulnerable groups. Famously, one of the main contributions of the 1965 UK study by Abel-Smith and Townsend, *The Poor and the Poorest*, was to use survey evidence to highlight groups whose poverty had escaped public attention. The reverse is however also true. The list of vulnerable groups may help identify groups in the population of particular concern where it is necessary to over-sample in order to be able to study properly their individual circumstances. Reading the NAPs/inclusion, one sees that Governments are often concerned with groups for whom the typical sample survey would generate insufficient observations to yield reliable results. This is becoming of even greater importance as policy interventions become more targeted. Over-sampling is a technique that has often been employed, often in conjunction with the use of administrative data.

The third dimension concerns the common indicators. Here we can simply observe that the two methods for analysing policy are directed at the income-related indicators. They tell us directly nothing about the employment, health, or education dimensions. As discussed under the heading of “behavioural change”, they can tell us about the effect on work incentives, which may indirectly lead to changes in unemployment or joblessness, but any more definite application depends on future research.

We are not arguing that either form of analysis is a panacea. Neither can contribute directly to the understanding of the non-income dimensions of social exclusion; neither is straightforward to apply across the EU-25. At the same time, both offer possibilities for deepening the analysis of current policies and their relationship with the common indicators of social performance. Even with a relatively narrowly defined set of model families, we can learn about how individual households are affected by taxation and social transfers. This is a direct application of the OECD/EU analysis. Even if national micro-simulation models are not fully comparable, it would be a valuable exercise to set in parallel analyses of the impact of varying different components of the existing policy set. In this way, we can learn about the mechanics of policy impact.

Projecting Future Policy Impact

Model families and micro-simulation models can be used, not only to investigate current policy effects, but also to project the impact of new or proposed policies. Both treat policies parametrically, so that these parameters can be varied. We can compare the situation before and after a policy change. This comparison can be made at the individual level or, in the case of the micro-simulation model, at the level of the aggregate population. It is possible, in the latter case, to project the effect on the income-related common indicators. If, for instance, a country’s NAP/inclusion includes proposals for a new in-work benefit for families, directed at both employment and social inclusion objectives, then it would be reasonable to expect that this account would be accompanied by the results of a micro-simulation exercise identifying (a) the number of potential recipients, (b) the impact on their disposable incomes, and hence on the at-risk-of-poverty indicators, and (c) the effect on incentives to leave unemployment or to work longer hours. Such an exercise is likely to have been undertaken already within the national Government.

From the standpoint of the Commission, the Social Agenda 2006-2010 envisages that 2010 will be declared the European year of combating poverty and social exclusion. What are likely to be the prospects for poverty and social exclusion by that year? To answer this question, an exercise needs to be undertaken to project the evolution of EU social performance over the period up to 2010. In the first instance, this could concentrate on the overall risk-of-poverty indicator, although it would be very desirable to consider breakdowns of this total. This projection should take account of the present policies of Member States, and of the new policies embodied in the NAPs/inclusion. It should be interpreted using the results from studies of model families, chosen on a consistent basis across Member States. Such a projection will inform policymakers about the extent to which existing policies promise to generate significant progress towards reducing poverty and social exclusion. It should of course be noted that we are talking about the contribution of policy change; the actual evolution will also depend on economic forces and on demographic developments. Forecasting is a more ambitious undertaking, although it may be necessary if only to help fill the gap left by the move from the ECHP to EU-SILC as discussed in the next chapter.

The projection can make use of national simulation models, which will allow testing of progress towards the targets set by individual countries. For example, in the case of Spain, the stated aim was to reduce the number of people with a level of income below 60% of the average by 2 percentage points during the period of the plan. For Greece, the aim was that by 2010 the percentage of individuals at risk would be down to the EU-15 average. For Portugal, the aim was that the risk of poverty rate would be brought down by 3 percentage points by 2005.

The NAPs/inclusion stress learning from “good practice” as a means of developing future policies, and this could be further developed using the tools described here. In an informal way, learning from other countries has long been practised, as is well illustrated by the history of the diffusion of social insurance. More recently, a number of European countries have been influenced by the Earned Income Tax Credit of the United States. Here we have in mind a more formal process, where the parameters of the scheme of country A are translated to the context of country B. A good example is provided by the study by Callan *et al* (2004) of *Why is relative poverty so high in Ireland?* They consider the implications of introducing in Ireland a welfare system closer to that of Denmark, a country that has a low risk of poverty rate. In the same way, the study by Levy (2003) of Spain compares the child-targeted reforms in that country with the policies of Denmark, France, Germany and the UK. In the context of today’s EU, it could be interesting to make similar comparisons of countries with different policies, and countries with different social performance.

This kind of analysis can be conducted in terms of model families, which can be valuable in identifying some of the complexities. Suppose, for example, that we introduce in country B the higher child benefit found in country A. In country A, however, child benefit is taken into account in the assessment of income-tested housing benefit, whereas it is exempt in country B. Should we take account of the increase in assessing housing benefit in country B? Then there is the issue of revenue-neutrality. The higher child benefit has to be financed. We need then to model the increase using a micro-simulation model, in order to establish the net cost, allowing for any reduction in income-tested transfers or any increase in income tax revenue. For an equal cost comparison, an adjustment has to be made in some other policy variables, such as tax rates. The "policy swap" has to be precisely specified. It should also be noted that the comparison would not necessarily be the same as that obtained from the reverse operation. The reduction in risk of poverty in country A from applying B's policies is not equal to the increase in poverty in country B from applying A's policies. The impact of the policies depends on the distribution of the population, as does the cost.

EU-Wide Analysis

The EU social indicators published as part of the Joint Reports and Commission Staff Working Papers typically include the EU-25 or EU-15 average, calculated as a population-weighted average of the available national values. During his Presidency of the European Commission, Jacques Delors talked frequently about 50 million people in Europe being in poverty. In many other domains, the EU considers the Union as a whole, for example in the setting of the employment targets. In the economic sphere, Europe is moving to the construction of aggregate statistics: for example, total GDP for the Euro-zone. In the social field, too, there good reasons to carry out analyses at the EU level, asking how the combined actions planned by Member States will affect the total situation of the EU. Most importantly, it would bring together the Social Inclusion Process and the EU social cohesion policy, concerned with convergence of Member States. The whole thrust of cohesion policy is to see the Union as a whole.

Such an EU-wide perspective involves aggregating across the different national systems, and cannot readily be obtained alone by model family analysis, although such analysis could form one of the building blocks. Instead, we have to consider the case for constructing a micro-simulation model covering the EU as a whole. The feasibility of constructing such a EU-25 model has been demonstrated by the European micro-simulation model EUROMOD, developed for the 15 countries that were members of the EU prior to 2004 (Immervoll *et al,* 2000 and 2004, and Sutherland, 2001). The project, which was funded by the European Commission's Targeted Socio-Economic Research (TSER) programme, involved:

- establishing a micro-database for each country, in a number of cases drawn from the European Community Household Panel, containing the input variables necessary for tax-benefit calculations, together with variables to be used in analysis of model output;
- collection, coding and parameterisation of policy rules for the various tax-benefit systems;
- design of the model framework identifying common features applicable to all 15 Member States, allowing results to be produced for all countries or for a subset of countries;
- testing and validation of simulated outputs from the model (for example, comparison of income distribution and risk-of-poverty statistics with other sources, including national statistical series);
- documentation of the work done, by country.

The main output from an EU-wide micro-simulation model of this type would be a measure of household disposable income for each household in the sample for each country, with different tax and benefit parameters. It would allow the user to examine the effect on household disposable incomes of changes in policy, whether in one Member State alone or in all Member States. As such, it would provide an important tool for exploring the impacts of social and fiscal policies, and reforms to existing policies, on the risk of poverty, on the correlation of the risk of poverty with other variables, and on income inequality. This includes analyses of proposed changes in social and fiscal policies with reference to targets set by Member States for the reduction in poverty and social exclusion (discussed in detail in Chapter 6). In addition, it is possible to explore the relative effectiveness of policies across countries, facilitating Member States in learning from the experience of other countries.

Of course, micro-simulation models have inherent *limitations*, as we have seen in Section 4.2. Some of these become particularly significant when we consider the ambitious enterprise of constructing an EU-wide model. An important limitation is the cost involved in constructing and maintaining such a model for the EU. Developing a tax-benefit model requires time and money, and the cost has increased with the addition of ten new countries as a result of the May 2004 Enlargement. Therefore, one will need to make certain choices (regarding the extent of the model, a static or a dynamic model, inclusion or not of behavioural reactions, etc.). In this respect the model family approach is far less demanding in terms of construction and maintenance costs, and can therefore be kept more easily up to date. Since a model family analysis can be seen as forming one element in the construction of a micro-simulation model, it would be a natural first step, building on the work already underway.

The Weighting Issue

EU-wide social indicators complement, but do not replace, the indicators for individual Member States. EU-wide measures are, after all, dominated by the large Member States. In an EU with more than 450 million citizens, the performance of countries with populations of 10 million or less is not going to change greatly the overall rate. If 10% of the Swedish population were suddenly to fall below the risk of poverty threshold – a dramatic development for Sweden – the EU risk of poverty rate would rise by less than 0.2 percentage points. (For Luxembourg, with a population one twentieth of that of Sweden, the effect would be only 0.01 percentage point.) In contrast, if the UK were to reduce its risk of poverty rate to that experienced in the 1970s, then the overall EU rate would fall by some 1½ percentage points.

This consideration is becoming more serious for the EU in view of the increasing concentration of the population of the EU with successive Enlargements. If we were to take the original EU-6, then a third of the countries (the two largest countries) have 63% of the total population. In the EU-25, the largest third of countries have 80% of the population, whereas the smallest third of countries have fewer than 5% of the total EU population. The increase in the number of Member States may generate a natural tendency to focus on the EU aggregates, but the increased population concentration means that it is even more important to continue to monitor the performance of individual Member States. Otherwise, the experience of the smaller countries will be almost completely submerged in the aggregate measures.

In sum, we need both figures for individual Member States and totals for the EU as a whole.

Conclusions

Starting from a three-way linkage of policy, vulnerable groups, and indicators, we have seen that the purchase of the two analytical tools – model family analysis and micro-simulation modelling – on the common indicators is limited, at least in direct terms, to the income-related measures. With this qualification, the tools do nonetheless offer a way forward in developing the analysis. They provide a basis for incorporating a range of policies and their interactions, allowing us to learn about the mechanics of policy. The design of model families can reflect the vulnerable groups identified in the NAPs/inclusion, and the micro-simulation models can throw light on their quantitative significance.

More concretely,

- The systematic use of model family analysis by Member States in their NAPs/inclusion could be facilitated by agreement on the range of family types, building on the start already made by the Indicators Sub-Group with its specification of household types, and on the experience with the OECD/European Commission tax benefit model.
- Member States should be encouraged to present the results of micro-simulation modelling of policy initiatives, and an attempt made to coordinate national micro-simulation modelling exercises in the EU-25.
- Consideration should be given to the construction of a EU-wide micro-simulation model for all 25 Member States, which – building on the experience with common model family analyses - would provide an important tool for the assessment of the NAPs/inclusion and analysis of the likely impact of proposed changes in social and fiscal policies in achieving a significant reduction in the risk of poverty by 2010.

In this way, we can move towards adding an *EU common analysis* to the EU common indicators.

4.4 Children Mainstreaming: An Application

The 2004 Joint Report noted the “particular concern in several countries (e.g. UK, IRL, D, I, L, P, S) over the situation of children growing up in families on low incomes” (European Commission, 2004b, page 31). The Joint Report went on to call for a Key Priority to be “A focus on ending child poverty as a key step to combat the intergenerational inheritance of poverty with a particular focus on early intervention and early education initiatives which identify and support children and poor families” (European Commission, 2004b, page 36). As we have seen, the analytical methods discussed here are not well-suited to examine the impact of early intervention and early education initiatives, but they can usefully be applied to the risk of child poverty.

Mapping from Policies to Outcomes

“Governments have come under increasing pressure to make explicit and indeed to quantify the impact their budgetary decisions have on particular groups in society” is the opening sentence of the study by Corak, Lietz and Sutherland (2005) of the impact of tax and transfer systems on children in the EU-15. As they bring out, such calculations are not straightforward. In terms of the policy/group matrix, we cannot simply label some policies as “family benefits” and measure their size. Obviously, it is not simply a question of adding up spending on child cash and in-kind benefits and the cost of child tax allowances. One has to take account of the child element of other transfers, such as housing benefit. One has to take account of the fact that some child benefits are taxed under income tax, and that some are taken into account in assessing income-tested benefits.

It is for this reason that the broad reach of policy models is essential. The comparison made, for example, by Bradshaw and Mayhew (2005) of the tax benefit package in eight European countries (six from the EU-15) takes account of tax benefits, income-tested cash benefits, non-income-tested cash benefits, social insurance contributions, rent/housing benefits, local taxes and benefits, child care costs and benefits, social assistance, and guaranteed child support. Their model family calculations are based on a selection of family types (including, for comparison, a childless married couple) with a variety of earnings, related to the national average. The findings suggest that, when this range of policies is taken into account in each country, the differences in child benefit packages as a percentage of average earnings differ by a factor of about 2 to 1.

As we have noted, the selection of model family types can be informed by survey or administrative data covering the whole population. Corak, Lietz and Sutherland (2005) note that a significant proportion of children live in households where there are adults other than their parents. Such a household composition is not typically taken into account in model family analysis. The additional adult may be a sibling, a grandparent, or may be unrelated. In Spain and Portugal, for example, only 63% of children live in a household where there are no other adults (Corak, Lietz and Sutherland, 2005, Table 2). They go on to use the European micro-simulation model, EUROMOD, described above, to examine the child-contingent components in the tax transfer system. This involves recalculating the household disposable income as though there were no children present. The results show that the per capita spending per child, as a proportion of per capita household disposable income, was highest in Luxembourg, at 23%, followed by Austria and Belgium, and then a large group of countries (Ireland, UK, France, Germany, Denmark and Finland) with spending around 15%. In Greece and Spain, spending is less than 5%. Their results show the importance of including tax concessions and the tax treatment of transfers.

Analysing Policy Reform

The calculations above refer to the current situation. Policy analysis is particularly concerned with possible reforms. Here we take two concrete examples as to how the analysis could be applied to policy changes directed at child poverty.

In the previous section, we suggested the use of "policy swapping". What we have in mind is well illustrated by the study of Jeandidier *et al* (1995). This study takes the family benefit systems of five EU-15 countries (Belgium, Germany, France, Luxembourg, and Ireland) and compares their impact. The study uses a range of methods, including both model family analysis and micro-simulation based on a sample of French families. As the title of the article by Jeandidier (1997a) indicates, the results "arouse one's curiosity"; his study shows how the different methods can yield different insights into the impact of a policy issue, in this case the targeting of benefits in favour of single parent families. The study by Jeandidier (1997b) uses a sample of French households to simulate the impact of the child benefit systems of Belgium, France, Ireland and Luxembourg. Immervoll *et al* (2001) use the micro-simulation model EUROMOD to contrast the child benefit systems of the Netherlands and the UK, in each case applying to data for one country the other country's system on a revenue neutral basis. Family transfers in Southern Europe are studied by Matsaganis *et al* (2004).

Taking now a EU-wide perspective, suppose that the EU wished to halve the number of children in the EU living at risk of poverty, and that there was a political commitment to bring this about by requiring each Member States to provide a minimum income for children. This could be achieved under subsidiarity, with each state free to choose the method. The amount of the minimum would take account of the circumstances of each Member State, particularly the lower per capita incomes of the new Member States. It could be defined as a percentage of the Member State median equivalised income for each child (and possibly age-related).

Implementation would be left to Member States, and different Member States will make different choices. By considering a range of model families with children, it would be possible for Member States to determine the possible combinations of changes in policy parameters that would guarantee a minimum income for each child in their country. Tax allowances for children can be increased, or introduced; they can be accompanied by tax credits for those not subject to income tax. Child benefit, a universal cash benefit, is the most direct form of cash transfer. Child credits, income tested, may appear a more targeted mechanism, although such credits in practice suffer from incomplete take-up. Targeting may also be achieved by concentrating increased benefits on families already in receipt of social insurance or social assistance.

The choice between different possible policy combinations would undoubtedly be influenced by considerations of cost and of effectiveness. Using a micro-simulation model, it is possible to make estimates of the cost of different proposals. The net effect on the Government budget depends on the interaction between different elements: for example, an increase in child benefit may be partly offset by reduced social assistance payments. An integrated tax benefit model is necessary to take account of these feedback effects. The same model can be used to calculate the impact of different policy choices on the risk of poverty rate among children. It would be possible to plot the EU-wide risk of poverty rate as a function of the level of the child minimum, which would give a first-round measure of the policy change necessary to achieve a specified reduction in the risk of child poverty.

4.5 Concluding Comment

Strengthening policy analysis is essential for individual Member States and for the EU as a whole. Member States, responsible for the implementation of the EU social strategy, are centrally concerned with the effectiveness of policy measures. They need to know what works. They need to be able to learn from other Member States. For them a deeper understanding is required of the link between policy measures and outcomes. For the EU as a whole, policy analysis is essential to understand whether there are realistic policy options to achieve the EU social objectives. The Commission needs to be able to work back from the desired outcomes – such as reduced risk of poverty, or reduced proportions of jobless households – to the policies that can bring them about.

The aim of this Chapter is not to answer these questions, but to show some of the ways in which they can be answered, drawing on social science research. This has not yet fully penetrated the NAPs/inclusion and their EU analyses, which need to be further developed. For the most part one does not get a clear sense of exactly how the stated goals are to be achieved: broad approaches and detailed policies are often described, but the linkage between those and the achievement of quantitative outcome targets is left open. We lack an adequate specification of the baseline situation; the total effects of policies on poverty and social exclusion need to be investigated; the policy analysis is insufficiently comparative.

Chapter 5
EU Indicators for Poverty and Social Exclusion

5.1 EU-SILC and Income Measures
5.2 The Implications of Enlargement
5.3 Refining and Extending the Agreed Indicators
5.4 Presentation and Use of the Indicators
5.5 Children Mainstreaming: Looking to the Future
5.6 Concluding Comment

The set of performance/ outcome indicators adopted formally by the European Council at Laeken in December 2001, and developed since that date, is intended to play a central role in monitoring the performance of Member States in promoting social inclusion. The purpose of the indicators is to allow the Member States and the European Commission to monitor national and EU progress towards key EU objectives in the area of social inclusion, and to support mutual learning and identification of good (and bad) practices in terms of policies. This represents a major step forward in the development of EU cooperation in social policy, and has the potential to transform the framework within which Member States develop their national policies to tackle poverty and social exclusion. The Commission deserves recognition for the way in which it has made readily available the outcome of the indicator calculations. We would like to stress the value of such an independent assessment of the performance of Member States (see footnote 1).

The development of indicators is a dynamic process, and we should underline the importance of the work carried out in the past four years by the Indicators Sub-Group (ISG) of the Social Protection Committee (see Chapter 2). The work of the national delegations of experts, who make up the Group, and the secretariat provided by the European Commission Directorate-General on “Employment, Social Affairs and Equal Opportunities” (in close cooperation with Eurostat), has allowed the set of indicators (and breakdowns of these) to be considerably enriched. A prime example is provided by the progress made on in-work poverty, the new indicator on working poor and the breakdown of the risk of poverty by work intensity (see Bardone and Guio, 2005; Lelièvre, Marlier and Pétour, 2004).

Our objective here is not to provide a full history of the evolution of the EU common social indicators. We take the current indicators as our starting point (see Tables 2.2a and 2.2b), and do not describe the process by which they have been developed by the ISG. Rather, we are looking to the future. In the light of experience with the use of the common indicators, of changes in data availability, and in particular following on the accession to the EU of ten new Member States with relatively low average living standards, it is timely to revisit certain aspects of the content, presentation and use of the set of indicators to see whether improvements can be suggested, whether they can be further enriched and made more policy-relevant. Moreover, the new EU data source (EU-SILC – see below) raises some new issues regarding the EU common indicators already in use.

It should be stressed that we have not attempted to provide a comprehensive review of the EU social indicators; rather our aim is to highlight a number of key issues. The principles and considerations on which the selection of the current set of indicators was based have been discussed in Chapter 2, and these still apply in seeking to move forward. Since statistical capacity impinges directly on the indicators we focus first in Section 5.1 on the switch from the European Community Household Panel (ECHP) to the Community Statistics on Income and Living Conditions (EU-SILC), and its implications for the common indicators. The implications of Enlargement of the EU for the choice and use of indicators, are then addressed in Section 5.2. Enlargement has meant a much wider spread in terms of average income levels across the Member States, giving even greater significance to the convergence of average living standards. In addition, historic and institutional differences between the "old" 15 and the "new" 10 may have implications for the approach they would wish to take in framing social inclusion indicators. As we have seen in Chapter 3, extending the EU common indicators to the new Member States has led to a number of interesting changes in how we view poverty and social exclusion in the EU.

The move to EU-SILC, and Enlargement, provide the context for our examination in Section 5.3 of possible refinements of the social indicators and how we can seek to fill some widely acknowledged gaps in the coverage of the original set. The latter are in important areas where there were either no common indicators or those available were particularly limited, notably homelessness and housing, health, and non-monetary deprivation indicators. Finally, in Section 5.4, we turn to the presentation and use of the set of common indicators. This highlights in particular the hazards of allowing a proliferation of indicators, and recommends a paring-back of the set of Primary Indicators to enhance their impact. We also briefly discuss how crosscutting indicators can be used to build links between the different EU policy processes, and comparisons with non-EU industrialised countries. The final section considers the specific issue as to how indicators can contribute to children mainstreaming.

Our conclusions and recommendations are summarised at the end of each section.

5.1 EU-SILC and Income Measures

Reliable and timely indicators, reflecting the multi-dimensionality of poverty and social exclusion, are indispensable for monitoring Member States' performance in promoting social inclusion as well as for mutual policy learning and identification of good (and bad) practices. This means that having the required statistical infrastructure and capacity in place at both the national and EU levels is a necessary condition for the Social Inclusion Process to achieve its aims, and commitment by the Member States and the Commission of the resources required to build that capacity is indispensable.

In Chapter 3 we described the ECHP, which ran in 14 of the then 15 Member States (generally) from 1994 to 2001, and has served as the source for many of the commonly agreed social inclusion indicators to date. As explained there, the role of the ECHP has therefore been crucial for the first two rounds of EU-15 NAPs/inclusion (2001 and 2003), despite the fact that the reliability of its data for a number of countries has been questioned, the results have been available only after a substantial lag and have therefore been criticised as out of date, and in most countries it was not satisfactorily integrated with the national statistical systems. It is with the aim of solving these problems, of conforming to the internationally agreed definition of income (Expert Group on Household Income Statistics (The Canberra Group), 2001) and extending the data collection to the enlarged EU (and beyond) that the decision was taken to stop the ECHP and launch EU-SILC.

EU-SILC

EU-SILC is a major statistical development, even though it will obviously not allow filling in all the statistical data gaps for constructing the required national and EU indicators for the

Social Protection and Social Inclusion Process (see below). The investment made by all those concerned will transform the basis for social reporting in the EU. Indeed, its impact extends beyond the EU, since it will in time cover, in addition to all 25 Member States, a number of non-EU countries (including acceding and candidate countries), according to the following (provisional) timetable:

- EU-SILC was launched in 2003 on a gentleman's agreement basis in six Member States (Belgium, Denmark, Greece, Ireland, Luxembourg and Austria) as well as in Norway. Eurostat, in close cooperation with Member States national statistical institutes, are using this data to evaluate the full process of data collection and the computation of cross-sectional indicators. They are carrying out in-depth methodological investigation focused on survey quality, data cleaning and on the impact of the changes of source and (mainly income) definitions on the cross-sectional income-based Laeken indicators.

- It was then (re-) launched under a framework Regulation of the European Parliament and the Council[26] in twelve EU-15 countries (exceptions: Germany, The Netherlands and the United Kingdom) as well as in Estonia, Iceland and Norway.

- By the end of 2005, all EU-25 countries as well as Turkey, Iceland and Norway are expected to have launched it.

- Bulgaria and Romania are expected to launch EU-SILC in 2006, and Switzerland in 2007.

The first cross-sectional EU-SILC data for 12 "old" Member States, for Estonia as well as for Norway and Iceland, should be available in the Commission by the end of 2005; and data for all 25 Member States of the current EU, Norway and Iceland should be available by the end of 2006. As to the first 4-year longitudinal data required for the at-persistent-risk-of-poverty indicator, they will only be available by the beginning of 2010.

There will therefore be a significant data gap at EU level as well as, for several Member States (who relied solely or primarily on the ECHP), at national level. It is worth mentioning that for the interim period, EU-15 Members States who did not launch EU-SILC in 2003 have agreed to compute the cross-sectional income-based Laeken indicators on the basis of national data sources. The new Member States, with in-depth methodological help from Eurostat, are also supplying comparable indicators derived from national sources (often Household Budget Surveys). Thanks to these EU and national efforts, and despite the inevitable discontinuities and comparability problems caused by this mix of sources (and definitions), information on most common cross-sectional indicators is already available for the 25 Member States and can be used in reports on social inclusion (see European Commission, 2005c and Statistical Annex to European Commission, 2005b).

EU-SILC is to become the EU reference source for the level and composition of income, poverty and social exclusion, and hence for a large number of common indicators for social inclusion. As the ECHP and in fact most household surveys, it covers only people living in *private households*, which needs to be kept in mind when carrying out statistical analyses and when interpreting indicators within a given country as well as between countries. For instance, the impact of the exclusion from the samples of old people in institutions may be very different from one country to the next. Some vulnerable groups living in private households may also be underrepresented because they are not easy to reach. It is therefore important that statistical efforts be made at the national and EU levels to collect (better) statistical socio-economic information on these groups, which include people living in

[26] Regulation (EC) No 1177/2003 of the European Parliament and of the Council of 16 June 2003 concerning Community statistics on income and living conditions (EU-SILC).

institutions, people with disabilities, other vulnerable groups including the homeless (see Section 5.3), those with addiction problems etc.

In view of its central role in the monitoring of the Social Inclusion Process, it is important to bring out at this stage some issues that arise from the switch from the ECHP to EU-SILC. EU-SILC shares many of the same objectives as the ECHP, aiming at producing cross-sectional and longitudinal micro-data which are multidimensional in terms of the topics covered and are comparable across participating countries, but it uses a different approach to producing data across countries in terms of data harmonisation. As explained above, unlike the ECHP, EU-SILC is organised under a framework Regulation and is thus compulsory for all Member States. The aim of the Regulation (Article 1) is "to establish a common framework for the systematic production of Community statistics on income and living conditions (…), encompassing comparable and timely cross-sectional and longitudinal data on income and on the level and composition of poverty and social exclusion at national and European levels." EU-SILC is thus based on the idea of a *common framework* and no longer a *common "survey"* as was the case for the ECHP. In EU-SILC, unlike the ECHP, Member States are allowed to use both survey(s) and administrative registers, provided that all the cross-sectional data (and, separately, all the longitudinal data) are "linkable" at the micro-level[27]. They are however allowed to separate the cross-sectional element from the longitudinal element if they prefer, so the cross-sectional micro-dataset and the longitudinal micro-dataset may not necessarily be linked at the micro-level. Whereas the ECHP had to be a full panel survey, Eurostat recommends a rotational design in which an individual is followed only for four years (at the minimum) - though a full panel is still an option if a country prefers.

The priority of EU-SILC is to provide high-quality and timely *cross-sectional* information for the enlarged EU and the acceding/candidate countries (and certain other European countries); it is this priority, together with the willingness to anchor EU-SILC nationally (see below), that have determined its format and the resulting loss in the longitudinal data-sets compared with the ECHP. On timeliness, the Regulation describes in particular the dates by which cross-sectional and longitudinal data are to be delivered to Eurostat. As to the quality, the Regulation fixes a minimum effective sample size, and the obligation for countries to provide a detailed annual quality assessment report. Computation of systematic standard errors for the income-based indicators is also foreseen under the EU-SILC programme.

A New Concept of Income

An objective for EU-SILC is adherence as much as possible to the recommendations of the international Canberra Group (Expert Group on Household Income Statistics, 2001) on the definition of household income. This has led to significant changes compared with the income concept used in the ECHP. A key objective of EU-SILC is to deliver robust and comparable data on total disposable household income, total disposable household income before transfers (both with and without old-age and survivors' benefits), total gross income, and gross income at component level, whereas only net income (components and total) was required for the ECHP. Apart from this major step forward, which offers new opportunities for investigating redistributive effects, the EU-SILC income concept will include the following (contrary to the ECHP):

1. As from the launch of EU-SILC:
    - Inter-households transfers: not only the regular private transfers received from other households will be taken into account (they will be included in the income, as was

[27] As a reminder to readers, cross-sectional data are data pertaining to a given time or a certain time period, whereas longitudinal (panel) data are data pertaining to individual-level changes over time, observed periodically over a certain duration.

already the case in the ECHP) but also, which is new, the private transfers paid to other households are to be deducted from the income of the donor household. While this has attractions in avoiding double-counting, it stands in contrast with the move from net to gross income, and it may produce some misleading results in terms of poverty risk - a household making a substantial transfer may appear to be at risk, even when on a high cash income and making a discretionary transfer. For this reason, EU-SILC is rightly taking account solely of *regular* inter-households transfers paid and received (such as alimony and child maintenance). Ensuring that this regularity criterion is strictly respected will be important.

- Lump sum tax adjustments: they will have to be deducted from/ included in the household income.
- Company cars available for private use: they will be valued, and this amount will be added to the income from work under gross non-cash employee income.
- Reporting negative incomes (for self-employed) will now be possible, whereas negative self-employment incomes were put at zero in the ECHP.

2. As from 2007:
   - Imputed rent: another significant change from the ECHP is that the value of imputed rents (i.e. the money that one saves on full (market) rent by living in one’s own accommodation or in an accommodation rented at a price that is lower than the market rent or rent-free) will have to be estimated, and included in household income from 2007.
   - Self-consumption: the inclusion of the value of home consumption and of employer-provided benefits (on top of company cars).
   - Interest paid on mortgages.
   - Gross employers’ social insurance contribution, provided that results of feasibility studies are positive.

As noted above, a key priority for EU-SILC is strict adherence to the recommendations of the international Canberra Group (Expert Group on Household Income Statistics, 2001) on the definition of household income. At the same time, income is defined for a purpose, and the appropriate definition may vary with the purpose. This is in fact clearly recognised by the Canberra Group itself: “it is important to recognise at the outset that different measures of income may be the most appropriate or the best available for different analytical purposes” (*Op. cit.*, page 11). In three cases – negative incomes, self-employment income, and imputed rent on owner-occupied houses or accommodation rented at below market rent – we suggest that consideration be given to departing from the general recommendations of the Canberra Group when addressing the specific issue of measuring the risk of poverty.

- Negative incomes. While we welcome the richer data now available, there is a case for continuing to set negative incomes to zero in the analysis of poverty risk. If poverty risk is assessed in terms of standard of living, then it is not obvious what interpretation can be placed on negative values. It is after all not income itself that we are concerned to measure, but income as an indicator of risk. In our view, to use negative values would re-open the debate about “standard of living” interpretations of poverty versus “minimum rights” interpretations (see Atkinson *et al*, 2002, page 81). Calculations of poverty risk gaps would, in particular, be seriously affected. In any case, it would be useful if there were to be a report of the number of cases of negative incomes.

- The negative income issue suggests that the (always complex) issue of the income of self-employed could usefully benefit from a specific investigation. The Canberra Group refers to the "net operating profit or loss accruing to working owners of, or partners in, unincorporated enterprises" (page 118), which points to an accountancy logic. We understand that the current logic of data collection could usefully be extended, with only limited additional burden on those respondents concerned, to request first the accounts submitted for legal purposes, secondly tax declarations, and thirdly amounts that the self-employed draw regularly from the business. The last of these figures may come closer to "permanent income", and may be a better basis for measuring the risk of poverty.
- From the standpoint of measuring overall inequality, inclusion of estimates of imputed rent (as EU-SILC will seek to do from 2007) represents an attempt to capture the real differences in living standards between a household paying rent and another in owner-occupied housing on which no debt is outstanding. Failure to take this into account can mislead as to the relative situation of for example older people (many of whom own their own homes in many countries) versus young families or single adults who are either renting or are in the early stages of house purchase. At the same time, the rent imputed to the household is not in fact equivalent to cash income actually received, in that it cannot be used to meet other expenditure needs. From a social inclusion perspective, this means income including imputed rent could mislead as to the capacity of the household to avoid deprivation and social exclusion. We are talking here about situations in which income is being used as an *indicator* of poverty risk, not as a measure in its own right. Critics of the EU risk of poverty indicator could argue that the risk of poverty would be understated, pointing to the example of the old lady on a low income but owning and living in a large house. She does not have to spend on housing, but the substantial rent that would be imputed because of the size of the house is not available to pay for food, clothing or heating. In this respect, imputed rent seems to us different from the value of self-consumption and company cars. If the old lady in the example is cultivating 100kg of potatoes, then all of this *should* be included when assessing her standard of living. Arguing in the opposite direction is the fact that the elderly pensioner does enjoy *some* benefit from her house, and is better placed than her neighbour who is a tenant. We have noted in Chapter 3 the observation in the NAPs/inclusion for Cyprus and Greece that owner-occupation is high among the population at risk of poverty. It is for this reason that the United Kingdom has regularly published the Households Below Average Income series (UK Department for Work and Pensions, 2005) both before and after housing costs. In the latter case, the risk of poverty figure is calculated subtracting housing outgoings. We conclude that it is important to exercise care in using income including imputed rent and that consideration should be given to producing the common indicators without including imputed rent in the total income and/or after housing costs.

We appreciate that adopting any one of our suggestions would mean using a different income definition for different indicators. It would require careful explanation to readers why income is to be measured in one way for the risk of poverty indicators and in another way when measuring overall inequality, as with the income quintile ratio (Indicator 3 in Table 2.2a). However, not to do so might, we believe, expose the EU poverty risk indicators to unnecessary criticism. These issues will have to be debated within the Indicators Sub-Group, both conceptually and in the light of EU-SILC results (it would be a good subject for the international scientific conference on the new statistics proposed below).

In view of the major definitional changes between the ECHP (or national series) and EU-SILC, aimed at improving the robustness and comparability of income data, methodological work will be required before a link can (possibly) be made, for the common indicators, between the existing ECHP (or national) time series and the new EU-SILC ones. Some countries may have a relatively seamless transition, but some sharp discontinuities are inevitable. In-depth methodological investigation focused on the common indicators will then be required comparing the existing ECHP time series and the new EU-SILC figures. One can then envisage two distinct situations. The first is that the new EU-SILC series differs from the previous ECHP due to factors that can for the most part be understood and quantified. It may then be statistically possible to link the two series, in the same way that macroeconomic series such as unemployment or growth rates often have to be linked where there is a break in the series due to changes in methods. In other instances where substantial differences appear, no such robust statistical link may be possible – because it is not possible to say much more than that the figures are different. In effect, there may then be little alternative to simply taking the initial level shown by EU-SILC as the baseline against which progress is to be measured in the future. This has implications not just for tracking indicators, the focus of this Chapter, but also for setting targets that we discuss in Chapter 6. Some Member States may for this reason prefer to set targets based on national sources, but this will inevitably give rise to problems in making comparisons across countries. According to the agreement reached in Laeken, Member States are expected to compute the common indicators on the basis of EU data sets. If, on account of the transition to EU-SILC, Member States decide to use national rather than EU data, then it is important that the definitions of the indicators should always follow strictly those commonly agreed.

A Flexible Approach Aimed at Anchoring the Instrument Nationally

Because EU-SILC data can be collected from different sources, including administrative registers, the source is not based on the use of a harmonised questionnaire across all the participating countries, but on harmonised *target variables* that all Member States have to provide, agreed between the Commission and the Member States and then stipulated in compulsory regulations. Data for *primary* target variables are to be collected on an annual basis, whereas for *secondary* target variables data are to be collected every four years (or less frequently) from thematic modules. (The first such module, for 2005, is on the intergenerational transmission of poverty, the 2006 module is on social participation and the 2007 module is likely to be on housing.) The objective of this major shift in data collection, which encourages full use of existing national data sources (and thus allows for national sample designs), is to “anchor” EU-SILC in the national statistical systems - which is closely connected with embedding the Social Inclusion Process in national policies. This is indeed maybe the only way to ensure timeliness and quality/reliability of the data and hence acceptance of the figures (indicators) at national level, which is a *sine qua non* for further progress.

With such a flexible format, it is not difficult to see potential problems relating to harmonisation and non-comparability arising, which is why Eurostat and Member States are working together on the development of common guidelines and procedures aimed at maximising comparability. They do this through the aforementioned Council and European Parliament framework Regulation, adopted in 2003, and through a series of implementing Commission’s Regulations adopted under this framework. Apart from primary and secondary target variables, Commission’s Regulations cover definitions, fieldwork aspects, imputation procedures, sampling and tracing rules, and quality reports. This will require utmost care. Detailed examination by Eurostat, and the 6 Member States concerned (and Norway), of the EU-SILC data collected in 2003 (see above) is therefore of crucial importance. One vehicle for examining the transition (significant shift in data collection, major changes in the income definition…), and for advertising this major new statistical departure, would be for Eurostat to organise an international scientific conference on “The Transition from ECHP and national data sources to EU-SILC”. If this were to take place in the second half of 2006, then it would be able to already benefit from access to the first wave of EU-SILC data for a dozen countries.

Directly linked to the issue of statistical capacity building is the one of *data access arrangements*. The process of data being widely used by researchers, which requires in particular reasonable pricing conditions as well as appropriate documentation on survey and data processing, is an important route by which data are assessed and problems identified. Such use serves to raise the visibility and public acceptance of the data source. In this way, the data are embedded in national scientific communities. The access arrangements for EU-SILC, like those for other key EU statistical data sources such as the “Labour Force Surveys” (LFS), the “Household Budget Surveys” (HBS) and the “European Community Household Panel” (ECHP), should ensure its effective use by independent researchers. As highlighted by the Belgian Presidency in an information paper it submitted to the EPSCO Council of 8 October 2001: “Use of data by the scientific community leads indeed to significant improvement of the data and documentation; the data access issue is therefore also linked with data quality improvements”.

Assessment and Recommendations

1. The introduction of EU-SILC represents a major step forward in social statistics; the transition from ECHP will need to be taken carefully into account in the construction and use of social indicators; we recommend that Eurostat organise an international scientific conference on “The Transition from ECHP and national data sources to EU-SILC”, once the data from the EU-SILC exercise are available for a sufficient number of countries and validation tests have been completed.
2. We strongly support the efforts of Eurostat together with Member States to set in place appropriate data access arrangements for the scientific community. These arrangements, including the pricing conditions, should contribute to ensure effective and wide use of EU-SILC micro-data (and other key EU statistical micro-data sources), without breaching confidentiality rules.
3. When analysing EU-SILC data, and more generally data collected in most household surveys, it is essential to keep in mind that these data cover only people living in private households. Some vulnerable groups that are in fact living in these households may also be underrepresented because they are not easy to reach. We recommend that statistical efforts should be made at the national and EU levels to collect (better) statistical socio-economic information on these groups, which include people living in institutions, people with disabilities, other vulnerable groups including the homeless, those with addiction problems etc.
4. In using the EU-SILC income data, negative incomes should be set to zero in investigating poverty risk on a standard of living basis.
5. The treatment of the income of the self-employed could usefully benefit from a specific investigation; when measuring risk of poverty we may wish to replace accounting income by sums withdrawn regularly from the business.
6. It is important to exercise care in using income including imputed rent to measure the risk of poverty and consideration should be given to producing the common indicators without including imputed rent in total income and/or after housing costs.

5.2 The Implications of Enlargement

The issues raised by Enlargement relate most obviously to the income-based indicators. As we have seen, the main emphasis in those indicators has been placed on country-specific relative income thresholds rather than thresholds that are common across countries or over time. This is the case not only with the Primary at-risk-of-poverty indicator, and all the associated breakdowns, but also the Primary at-persistent-risk indicator, and the Secondary Indicators showing risk (and persistent risk) at alternative relative thresholds, the at-risk-of-poverty rate before social transfers, and the in-work poverty risk. This emphasis may, however, need to be revisited in the context of an enlarged Union. In considering this, we need to take account of both the average living standards and the degree of income inequality in the accession countries. The ten new Member States have average incomes that are much lower – in some cases very much lower – than the EU-15, but also, at least in some cases, relatively low levels of income inequality. New Member States may be inclined to place great weight on improving average living standards, with less concern about trends in income inequality and numbers below country-specific relative income thresholds.

An EU Income Threshold?

One response would be to introduce an income-based indicator (or, to avoid any confusion with the Laeken methodological framework, “statistics”) applying a common standard across the Member States rather than country-specific ones. Thus an income threshold could be set at say 60% of the median equivalised income across the European Union, expressed in purchasing power standards (for definition, see Section 3.2 above). The percentage in each country falling below that common threshold could be presented. It would also be possible to calculate an EU-wide poverty gap, being the shortfall from the common threshold, an indicator with a much more obvious interpretation than the present relative median poverty gap.

The adoption of a common EU threshold of course produces significantly different results from those reached with country-specific thresholds, with fewer falling below the common threshold in the richer Member States and a very substantial proportion falling below in the poorer of the new Member States. It would change the conclusions drawn in Chapter 3 regarding the concentration of poverty risk in large (but rich) Member States. In a study of the EU-12, using data from household budget surveys around 1988, de Vos and Zaidi (1998) showed the effect of moving from a country-specific risk of poverty threshold to a Union-wide threshold, taking in both cases 50% of the mean equivalised expenditures. They showed that the combined share of Germany, France and the UK in total persons at risk of poverty was 48% according to the country-specific criterion but fell to 33% with the EU-wide criterion. With the enlarged, and, in living standards, more diverse, EU-25, the effect can be expected to be larger. Förster *et al* (2003) showed the effect of using a common threshold for the EU-15 plus the Czech Republic, Hungary and Slovenia. Of the 74 million at-risk-of-poverty on this basis in 1999, 13½ million were to be found in the latter three countries. They went on to devise an “innovative” measure that combines a European-wide income threshold and country-specific deprivation thresholds (see Section 5.3 for a short discussion of the “consistent poverty” approach in an EU context).

How should such an EU-wide income threshold in fact be defined? First, should we take the EU-mean or the EU-median? At the national level, the Eurostat Task Force rightly recommended the adoption of the median in place of the mean (see Atkinson *et al*, 2002, page 94), and the Task Force recommendation was then followed by the ISG for the Laeken definition of the poverty risk indicators. There are strong arguments for maintaining the same choice at the EU level. Use of a percentage of the mean in this case could not easily be explained to users. Moreover, the relation between percentages of the median and percentages of the mean are likely to be different in the distribution among all EU citizens. In broad terms, in several Member States, 60% of the median approximates 50% of the mean, but, if the EU distribution is more skewed, this will not carry over to the EU as a whole. Choice of the median implies that Eurostat has to calculate it from the full, merged micro-data for all Member States in order to determine the threshold to be applied. It cannot work simply on the basis of reported mean incomes; nor can it use national medians, which cannot be simply added. This will be easily feasible with EU-SILC, and indeed is possible with the ECHP.

The second practical issue with an EU-wide threshold concerns Enlargement. The EU-wide risk of poverty statistics for 2005 could be based on the median income in EU-25, but what happens if there is further Enlargement? Should the possible accession of Turkey lower the EU-wide at-risk-of-poverty threshold? In our view, the regular EU-wide indicator should be calculated with a poverty threshold based on a fixed set of Member States, but the set would be reviewed at periodic intervals, to reflect Enlargement, this generating a discrete change in the statistics. The regular threshold would therefore evolve over time in line with the rise, or fall, in the income (expressed in purchasing power standards) of the median person in the fixed set of Member States. The location of the median would of course change depending on the growth of population in different Member States and on the evolution of national income distributions.

The third practical issue concerns the use of purchasing power standards (PPS). As has been emphasised in research on the monitoring of the poverty Millennium Development Goal, the relevant adjustment is one that relates to consumption, not national product in total, and one that is relevant to households at risk of poverty. As it is put by Deaton, "the consumption bundles of the poor are not the same as the average consumption bundle, and price movements in the latter can be different from price movements in the former, for example if the relative price of food increases." (2002, page 1.9). If we are going to place more reliance on the PPS adjustments, then their distributional salience needs to be addressed.

It may be suggested that the introduction of an EU-wide statistic could be achieved through the natural evolution of the Secondary Indicator (number 14 in Table 2.2b) showing the percentage falling below income thresholds held fixed in real terms over a period, described as the "at–risk-of-poverty rate anchored at a moment in time". However, this would not lead to a common threshold across Member States. Moreover, we are not suggesting a move from a relative to a fixed indicator. The envisaged EU-wide statistics would be related to the current EU-wide median income.

The 2005 EU-SILC data due to be available for all 25 Member States at the end of 2006 would allow the introduction of a new "2005 Lisbon mid-term social cohesion (or convergence) statistic", based on 60% of the EU-wide median, along the lines defined above. Should however we go down this route? The response depends in part on the approach taken to poverty (see Atkinson *et al*, 2002, page 81). On the view that combating poverty is concerned with ensuring the minimum rights of individuals, it seems reasonable to suppose that people have rights as EU citizens, and that, viewing the EU as a social entity, we would apply a poverty standard based on the median for the Union as a whole. Arguments can be made for such a perspective, in terms of the broader aims of the EU of promoting social cohesion within as well as across countries, and also in terms of the broadening of horizons in terms of the comparisons or reference groups that people have in mind in evaluating their own situation. On the other hand, if combating poverty is seen in terms of ensuring a minimum standard of living, then use of the same poverty standard in terms of purchasing power in each Member State would miss differences in the significance of goods in social functioning. An EU-wide approach misses some people in richer countries who are experiencing genuine exclusion from their own society, while counting substantial numbers in the poorer countries who are not experiencing such exclusion. For instance, the requirements for job seekers may be different in a rich European country from those in a less rich country.

Another argument sometimes advanced for country-specific rather than common thresholds is that convergence across countries and regions in overall living standards is a matter for other parts of the Union’s structures and processes, not for the Social Inclusion Process. This, however, seems to us a procedural, rather than a substantive, argument. Structures and processes can change, whereas we are concerned here with the fit between the underlying, very real phenomena of social inclusion/exclusion and the indicators employed to reflect them. This does not therefore appear to be a sound reason for rejecting an EU-wide approach. Indeed, an EU-wide income threshold would be a way of bringing together these separate EU processes.

Views are likely to differ about the desirability of applying an EU-wide threshold. In our view, the EU Social Inclusion Process should continue with its existing Primary poverty risk indicators, based on country-specific thresholds, but the Commission should complement these indicators with a background variable, not having the status of an indicator, based on an EU-wide threshold, along the lines described above.

Risk of Poverty and Absolute Measures

A move towards an EU-wide threshold might be seen as reverting to an absolute notion of poverty. The reasons why the EU has not gone down this route have been set out in the 2004 Joint Report on Social Inclusion: “an absolute notion is less relevant for the EU for two basic reasons. First, the key challenge for Europe is to make the whole population share the benefits of high average prosperity, and not reach basic standards of living, as in less developed parts of the world. Secondly, what is regarded as minimal acceptable living standards depends largely on the general level of social and economic development” (European Commission, 2004b, page 14).

It is nonetheless important to understand the meaning of the at-risk-of-poverty threshold in different Member States. A step in this direction has been taken with the inclusion in the presentation of the indicators of the value of the relative threshold (listed as Indicator 2). This is obviously valuable contextual information in interpreting the at-risk-of-poverty rate (even though it does not constitute a social inclusion indicator *per se* as already emphasised in Chapter 2).

It would however be possible to go beyond this. Taking the value of the at-risk-of-poverty threshold, the Indicator 2 (in this case in national currencies, not PPS), we can ask what this implies in terms of the actual standard of living achievable in each Member State. What can a family on 60% of the median income, adjusted for its household size, in each country actually consume? Contextual quantitative information on budgets could be provided to help understand the living standard achievable at the at-risk-of-poverty threshold in each Member State. It would also help investigate the potential problem with purchasing power adjustments identified above. If the price relativities were moving against the poor, then this would come apparent from the implied budgets. Moreover, this could valuably be supplemented by qualitative information on how families actually live. Such an approach would make more meaningful the otherwise arcane statistical procedures on which the risk of poverty indicator is based. It would be a good means by which Governments could engage those experiencing poverty and social exclusion, the member organisations of the European Anti-Poverty Network, and other bodies.

Non-Monetary Indicators

A second route to addressing differences in living standards is via non-monetary indicators seeking to measure deprivation directly. Income, while a key influence on capacity to participate, does not tell us everything we need to know about the resources or living standards of households. Some households on low income may be doing very much worse than others, for a variety of reasons relating to how both their resources and needs have evolved over time. This is evident from a variety of national studies (e.g., Nolan and Whelan, 1996) as well as from analysis of data for all the EU Member States participating in the ECHP. While looking at income over a number of years rather than at a single point in time is helpful, the use of deprivation indicators to supplement income-based measures represents a complementary strategy. Deprivation represents the inability to possess the goods and services and engage in the activities that are socially perceived as necessities in one’s society. This approach attempts to assess *enforced* deprivation directly by collecting data on the extent to which households possess certain commodities, can engage in certain activities or are subjected to financial pressures of different kinds, usually by asking survey respondents whether they have or cannot afford to have specific items or participate in certain activities. The existence, for example, of the measures of life expectancy (rather than socio-economic differentials in life expectancy) currently included in the Laeken set serve to capture a central aspect of welfare differences across countries and how these are evolving over time. But these are not sufficient on their own.

The fact that deprivation indicators can supplement information about income has become even more important in the context of the enlarged Union (see for instance Guio and Marlier, 2004). The Social Protection Committee saw considerable value in the development of these measures at EU level, on the basis that they can augment income-based measures in identifying those at risk of poverty, they provide a better understanding of the living conditions of the poor, and they give information about those domains where income-based indicators are less helpful. The possibility of using these non-monetary deprivation indicators to produce one or more common indicators for use at EU level has been the subject of extensive discussions in the Indicators Sub-Group since Laeken, and despite the difficulties it is in our view a feasible and valuable option.

This set of concerns leads us to examine in greater depth in Section 5.3 the scope for non-monetary indicators. Specifically, we propose “absolute” indicators of deprivation in relation to broad living standards and in relation to housing problems, with the same weight being given to each item across the Member States and over time. These would reflect both current differences across countries and trends over time in living standards and deprivation levels. They would be complemented by a deprivation indicator of broad living standards where weights vary across Member States and over time, a more “relative” perspective.

Subjective Measures of Financial Pressure and Broader Satisfaction

The accession of new Member States, with differing living standards and expectations, also serves to prompt some reconsideration of the role of subjective measures of financial pressure and broader satisfaction. Studies based on recent surveys have shown remarkably low levels of subjective satisfaction with various aspects of life in some of the new Member States (Fahey *et al*, 2004; Fahey and Smyth, 2004, and the series of reports on the quality of life in Europe published by the European Foundation for the Improvement of Living and Work Conditions in Dublin). It is critically important from both a national and EU perspective that the factors underlying these low levels of satisfaction be understood and where possible addressed. However, it may well be that issues relating to social inclusion are only a part of the story, and that these countries are going through a painful adjustment process which will take some time to work its way through, not only in economic terms but also in terms of attitudes and psychological well-being.

For the Social Inclusion Process *per se*, then, subjective assessments focused specifically on the degree of financial pressure (rather than life satisfaction more broadly) may have more direct value. These could be incorporated into non-monetary deprivation indicators of the sort discussed in detail earlier, and that would certainly be the simplest way to build them into the indicators process. However, the fact that a respondent feels the household is “having great difficulty making ends meet” evidently has to be interpreted carefully. Some high-income households may have extravagant tastes which they have difficulty affording, but that does not represent social exclusion. The poor may have small requirements just because they have adapted the expectations to a low standard of living. Rather than conflating different types of measures of “being poor” and “feeling poor”, it may be more helpful to keep the two distinct. The subjective measure may be seen as a “cross-check” on the income-related indicators. Treating them separately and examining the inter-relationships between household income, direct measures of living standards and deprivation, and subjective assessments of financial pressure is we think a more informative approach.

Equivalence Scales

The accession of new Member States has also led to questioning of the way in which income is adjusted for the size and composition of the household. This is conventionally done using what are called “equivalence scales”, and at present the same scale – known as the “modified OECD scale” – is employed for each country (see the note to Table 2.2a). This assigns a value of 1 to the first adult in the household, 0.5 to each other adult, and 0.3 to each child below the age of 14. Some such adjustment is clearly necessary – otherwise a single adult and a family of four on the same income would be treated as at the same risk of poverty – but the problem is to know precisely what adjustment to make. Economists and statisticians have studied this topic intensively for many years, but a consensus has not been reached on how best to construct equivalence scales. As a result, different scales are in use in different countries, often based more or less loosely on those implicit in the structure of social security support rates. Conventional practice in making comparisons across countries has been to employ one of a limited set of scales and apply these across the board; for a time the so-called “OECD scale” (where each additional adult in the household was given a value of 0.7 and each child 0.5) was widely used, but more recently the “modified OECD” scale has come to the fore at the EU-15 level. In contrast, the historical practice of a number of Member States was to use equivalence scales that gave greater weight to larger households (see Atkinson and Micklewright, 1992, Section 7.3). As it was put by Večerník, on the basis of his comparison of Czech scales with those found in the US, “children are not cheap in Czechoslovakia” (1991, page 7).

Reliance on equivalisation using any one scale is potentially misleading. If the “correct” scale were in fact very different, then this could have serious implications for the level of median equivalised income and thus the 60% of median at-risk-of-poverty threshold itself (or other proportions). It would particularly affect the measured *composition* of the population at risk. The results of Becker and Hauser (2001) show that in Germany in 1998 when using the original OECD scale the poverty rate for a married couple with 2 children was similar to that for single persons, but that with the modified OECD scale the poverty rate for married couples with 2 children was under half the rate for single persons. This can be critical from a policy perspective, since the conclusion that for example children or older people (often in single-adult households) are at particularly high risk can have a major impact on the way policy is focused, but may be dependent on the equivalence scale employed. (Trends over time in the pattern of risk are generally less sensitive.)

The problem of course is that we do not know the correct scale - and there is no reason to think that it would be the same in every country. The appropriate equivalence scale might be expected to vary with the structure of prices, in particular with the relationship between the cost of housing and other “fixed costs” of a household versus other goods and services. Where fixed costs are relatively low, as may be the case in a number of new Member States, then it may make sense to treat a second adult as adding 0.7 to the cost of living of a single person, rather than the 0.5 of the modified OECD scale. The appropriate scale depends on the extent of public versus market-based provision of housing, education, child care and health services. The “cost of a child” is greater in countries where parents have to pay for education.

Academic studies often present results using several different sets of scales, for example the “OECD” and “modified OECD” ones, but for cross-country comparisons almost always apply the same scale to each country. If however the equivalence scale is taken as varying with the composition of expenditure, as with a standard of living approach, then this implies in turn that we may expect the appropriate equivalence scale to vary with the average income level in the country. The share of food in total spending falls, according to Engel’s Law, as countries become richer. To the extent that food is largely “individual”, whereas recreational goods, say, are “shared”, this may point to a scale that gives more weight to larger households at low levels of average income. We need to consider whether there is a robust basis on which to say that a particular set should be applied in one country and a different one in another country. Eurostat has carried out some useful exploratory work on this for new Member States and acceding/ candidate countries (see Dennis and Guio, 2004). On this issue, see also Guio and Marlier, 2004.

In these circumstances, it seems desirable that some account should be taken of the potential sensitivity of the income-based social inclusion indicators to the choice of the equivalence scale. One way forward is to produce as *background information* the figures that might be most sensitive with both the modified and original OECD scales. This would certainly deepen the information base, though as addressed below we have serious concerns about the profusion of figures that has already taken place in the current set of common indicators and the possible loss of focus and impact. It is for this reason that we recommend that they be labelled “background information”. A second option – which could be pursued in combination with the first or on its own – is to put the onus on Member States which are particularly concerned about the relevance of the modified OECD scale in their own circumstances. Such countries could be encouraged and facilitated in producing alternative estimates of scales, and at risk indicators based on those could be included as useful country-specific third level indicators. Given the weak foundation on which reliance on a single common scale is based, and the difference it could make to key conclusions about at-risk groups, this is certainly worth pursuing. (The separate issue as to whether or not it is appropriate to treat everyone in a given household as having the same equivalised income has already been discussed in Chapter 4.)

Recommendations

1. The EU Social Inclusion Process should continue with its existing Primary poverty risk indicators, based on country-specific poverty thresholds; but the Commission should use the advent of EU-SILC for EU-25 to complement these indicators with a background “2005 Lisbon mid-term social cohesion statistic”, based on the median income in the EU-25 as a whole. It would not have the status of an indicator.
2. Contextual information, both quantitative and qualitative, should be provided to help understand the living standard achievable at the at-risk-of-poverty threshold in each Member State.
3. The scope for non-monetary deprivation indicators should be further explored (see Section 5.3).
4. Account could be taken of the sensitivity of income-based indicators to the choice of equivalence scale by producing as *background information* the figures that might be

most sensitive with both the modified and original OECD scales; Member States particularly concerned about the relevance of the OECD modified scale could introduce country-specific third level indicators, but these would not replace the Primary and Secondary Indicators.

5.3 Refining and Extending the Agreed Indicators

The commonly agreed EU social indicators were described in Chapter 2 (see Tables 2.2a and 2.2b), where we noted that they are not fixed in stone. Since the establishment of the indicators at Laeken in 2001, a great deal of work has been undertaken by the Indicators Sub-Group of the Social Protection Committee, in conjunction with the Commission (especially DG "Employment, Social Affairs and Equal Opportunities" and Eurostat). The degree of progress made over the past 5 years is an impressive tribute to European co-operation, and it is too extensive to be documented in full here. Moreover, as explained at the beginning of this chapter, we do not wish to duplicate or go over the same ground. Rather, we point to some issues to be considered in this context, without aiming to systematically review and assess each of the indicators in use. We begin by considering three areas of the current indicators where we believe that we can add to the discussion in the light of experience and emerging data, and then turn to filling gaps in the coverage of the indicators. (The importance of the way the indicators are presented and of avoiding a profusion of indicators is dealt with in Section 5.4.)

Joblessness and the Working Poor

Reflecting the emphasis on employment in tackling social exclusion, a Primary Indicator measures the number of persons in "jobless households". As a result of the methodological work undertaken by Eurostat and the ISG, this indicator is based on a fundamentally improved definition compared with that originally agreed in Laeken. Jobless households are those where no-one is working, that is all adults are either unemployed or inactive, as shown by the labour force surveys carried out in Member States. This indicator is presented separately for children and persons of working age, since the focus of concern is when such individuals – rather than those beyond normal retirement age – are in households without direct contact with the world of work. As a summary indicator of the phenomenon, this indicator is well-framed and very useful. However, in-depth analysis is required to understand the range of rather different circumstances involved (relating to unemployment, illness, disability, caring in the home as well as employment "polarisation" among households – see, for instance, Iacovou, 2003). It is also essential to relate these to social exclusion and to income in particular, so including a breakdown by household position vis-à-vis the at-risk-of-poverty thresholds is particularly important. The new breakdown of the at-risk-of-poverty rate by the *work intensity of households* (see Chapter 2), which usefully complements the information provided by the new EU working poor indicator (Indicator 18 in Table 2.2b) already provides very useful information, even though the definition of "jobless households" and that of households with a work intensity equals to zero is not identical (though very close).

The breakdown of the at-risk-of-poverty rate by work intensity categorises persons falling below 60% of median income by the "work intensity" of their household, which is captured by the proportion of months in the last year worked by active age household members. As to the working poor indicator, it simply looks at the position of those individuals who are in work and at-risk-of-poverty– although whether they are at risk of poverty may of course depend on the labour force status of other adults in the household (if any) and on the number of dependents present in the household. Being "in work", for both the breakdown of the at-risk-of-poverty by work intensity and the working poor indicator, is defined in terms of number of months in work over the previous year (i.e. the income reference period), with only those reporting work as their “most frequent activity status” being counted as working. The “most frequent activity status” is the status that a person declares to have occupied for more than half the total number of months for which information on any status is available during the period concerned (i.e. at least 7 months, not necessarily in a row, where the person has provided information on his/her activity status over the entire reference year).[28] This definition is somewhat arbitrary, driven by the fact that the income measure on which poverty risk is being calculated is itself an annual measure.

Those categorised as “in work” include both employees and the self-employed, and in each case the individual might have been working part-time and/or for not much more than half the year in question. For this reason, the EU agreement on the working poor indicator embodies not only the definition of the indicator but also the various breakdowns by gender, age, whether the person is employed or self-employed, is working the full year or less, is working part-time or full-time… (see Table 2.2b and Table 14 of the Statistical Annex of European Commission (2004b), and Bardone and Guio, 2005). This seems an excellent precedent, and we would suggest taking it a stage further by proposing an additional breakdown that combines three of the dimensions. At present, we have the at-risk-of-poverty rates for one-way breakdowns, but we would like to see the at-risk-of-poverty rate for people satisfying three conditions:

- Employees: measurement of self-employment income is always questionable, as we discussed in Section 5.1, and this would purge the data of this problem.
- Working a full year, so as to exclude periods of unemployment or inactivity.
- Working full-time.

This breakdown is addressed at the particular concern about the situation where working full-time for the entire year still does not suffice to keep the person above the poverty risk threshold. The breakdown would be especially valuable if accompanied by the corresponding rate for those unemployed all year and those inactive all year; in order to ensure consistency between those three at-risk-of-poverty indicators, these calculations should however be limited to the same age group, the 18-59 year olds. It may be objected that this comparison will simply bring out the value of working. However, this is precisely the issue: how far does work, in the best possible conditions of being full-time and full-year, guarantee escape from the risk of poverty? In this context, it should be emphasised that low pay and working poverty are related but different concepts. A person may be low paid (according to a specified standard), but the household in which he or she lives may not be at risk of poverty; a person may not be low paid, but the equivalised total household income may leave the household below the at-risk-of-poverty threshold.

Long-term unemployment is seen as a key cause of poverty and social exclusion, so the percentage unemployed for a year or more is included as a Primary social inclusion indicator. The long-term unemployment share (within total unemployment) and an indicator of very long-term unemployment (at least two years) were also adopted as Secondary Indicators. The long-term unemployment rate is included among the Commission’s structural indicators, and a variety of other employment-related indicators are of course used in monitoring the European Employment Strategy. These are well-tested and easily understood measures also derived from the Labour Force Surveys, and the question we would raise is not about the way they are constructed but rather whether they all play a vital role in the set of social

[28] For a detailed discussion of this indicator (concepts and methods), which is thus much stricter in terms of months actually worked than the well-known official US and French definitions, as well as a description of the EU context in which it was agreed (Social Inclusion Process and European Employment Strategy), see Lelièvre, Marlier and Pétour (2004). See also Bardone and Guio (2005) for a detailed discussion of concepts and methods, and for the most recent in-work poverty figures relating to all EU-25 Member States. For a comprehensive and analytical review of the literature on working poverty, see Peña Casas and Latta (2004).

inclusion indicators – to which we will return in discussing the presentation of the common indicators below.

Education and Literacy

The common indicators in the education area are the share of 18–24-year olds not currently attending education or training and having achieved lower secondary education or less, which is a Primary Indicator; the proportion of the population of working age with a low educational attainment (measured as no higher than ISCED level 2), which is a Secondary Indicator; and a new Primary Indicator on low reading literacy performance of pupils, based on the OECD's *Programme for International Student Assessment (PISA)*[29]*,* agreed upon in February 2005. The latter represents the share of 15-year old pupils who are at level 1 or below on the PISA combined reading literacy scale. In the social inclusion context, literacy and numeracy are important because of their impact on both prospects in the labour market and ability to fully participate in society. An indicator providing a breakdown of this share by relevant socio-economic background would thus be even more valuable in the context of social inclusion, but there are serious doubts about the quality of the relevant information collected for some countries. It is hoped that this will be improved in the future, and in the meantime this indicator should be complemented with available recent national (level three) indicators showing the link between poor literacy and social background. It should be noted that these indicators only indirectly provide information about the early stage of the education process; we return to this aspect in Section 5.5 when discussing children mainstreaming.

More generally, it is also important that countries seek to concretely link in their background information low educational attainment/skills and social disadvantage, so that the strength of the relationships can be identified and policies framed in response. It is worth mentioning that when adopting the low reading literacy indicator, the Indicators Sub-Group (rightly) accompanied it "with a note of caution concerning the presentation and interpretation of results that should clearly indicate dispersion measures" (Indicators Sub-Group, 2005b). This calls for the building of statistical capacity in this important area of poverty and social exclusion, notably by Member States and the OECD working together to improve the information coming from harmonised surveys.

Measuring literacy only for the current school-age population is obviously very important given that they are the adults of tomorrow. However, it is too narrow, and comparable indicators on literacy for the adult population (especially the working-age population) would also be highly relevant in the context of social inclusion, as was again highlighted by the Indicators Sub-Group. Country experience with measuring literacy (and numeracy) among the adult population could usefully be exchanged, notably by Member States and the OECD working together to improve the information coming from harmonised surveys.[30] This measure is indeed complex. As discussed in Atkinson *et al* (2002), some important conceptual issues need attention. One major issue in terms of social exclusion is the unit of analysis: not only an individual's own literacy level but also those of other household members may affect their social functioning. Other issues include how literacy standards are to evolve over time as societies become more complex, whether the same standards should

[29] PISA is an internationally standardised assessment that was jointly developed by participating countries and administered to15-year-olds in schools. The survey was implemented in 43 countries in the first assessment in 2000, and in 41 countries in the second assessment in 2003; it covered all the then 15 Member States but only some of the 10 countries which joined the EU as of May 2004 (it should be noted that the results for the 2003 UK survey are however not available to date). It is expected that at least 58 countries will participate in the third assessment in 2006. This will include most of the current Member States (with the exception of Malta and Cyprus, which have not yet committed to doing so)); it will also include the four candidate countries, i.e. Bulgaria, Croatia, Romania and Turkey. It is to be hoped that Malta and Cyprus will be able to join the 2006 survey in view of the recent adoption of the common literacy indicator. Comprehensive information on PISA can be obtained from: http://www.pisa.oecd.org/pages/0,2966,en_32252351_32235731_1_1_1_1_1,00.html

[30] See for example results on literacy and numeracy among the adult population in France from the survey "Information et Vie Quotidienne" carried out by INSEE (Murat, 2004).

apply across the age distribution (when the needs of the work-place are not relevant to the retired, for example), and whether particular weight should be applied to the lowest levels of literacy proficiency.

A harmonised measure of the relationship between the educational attainment level of parents and their children would also be very valuable in capturing the intergenerational transmission of educational disadvantage and thus poverty and social exclusion. As discussed below, the specific module on the "intergenerational transmission of poverty" included in the 2005 wave of EU-SILC is likely to provide useful comparative information in this respect.

The Regional Dimension

The Laeken indicators, in an effort to give weight to the regional dimension, include as a Primary Indicator the variation in employment rates across regions as measured by the coefficient of variation across NUTS 2 regions. The logic of having a specific regional disparity indicator in a set designed to focus on social inclusion (rather than for example regional cohesion) was questioned by Atkinson *et al* (2002, pages 76-77). We noted the problem of comparing the degree of regional disparities across Member States. The number of NUTS 2 regions varies widely across Member States, with some having none or very few and thus not presenting figures for this indicator. In the Technical Annex to the Joint Report on Social Protection and Social Inclusion (European Commission, 2005b, Table 5a), no values are given for Denmark, Estonia, Ireland, Cyprus, Latvia, Lithuania, Luxembourg, Malta, and Slovenia. For the Member States where values are given, the dispersion of employment rates depends on the number of regions distinguished. Taken together, these considerations mean that international comparability, a key principle for common indicators, is not satisfactory. We appreciate that the regional variation in employment rates is one of the EU headline structural indicators, and the importance of regional cohesion and regional policy to the Union and individual Member States, but it requires careful interpretation.

For these reasons, we question the use of the regional variation in employment rates as a core *social inclusion* indicator. Moreover, we question whether a single regional indicator is sufficient to capture regional disparities. As has been demonstrated by Stewart (2003), the degree of regional variation differs across indicators. An alternative, proposed by Atkinson *et al* (2002), would be to give, as Secondary Indicators, regional breakdowns for all indicators of social inclusion where it is meaningful and data allow. (A breakdown of the at-risk-of-poverty and other indicators by urban versus rural areas would also be valuable: the EU-SILC primary target variable on the "degree of urbanisation" is likely to provide useful information on this dimension.) This would make explicit the number of regions identified, and the national figures would provide a point of reference. In this way, we would be giving more, not less, prominence to the regional dimension, since it could potentially feature all social inclusion indicators and not just employment. Identifying in this way the differences from the national proportions would highlight the situation of countries like Italy where living in a disadvantaged region may be one of the most important factors leading to poverty and social exclusion.[31] This recommendation may require an investment in statistical capacity, to provide samples of sufficient size and sufficiently representative at the regional level. The way forward may be to make full use of the information contained in administrative registers to complement the information collected in the context of EU-SILC and other household surveys.

[31] The value of examining the regional breakdown of different dimensions of exclusion is illustrated for Italy by Barca *et al*. (2004).

Migrants and Ethnic Minorities

In 2002, when revisiting the EU common objectives set in Nice for the Social Inclusion Process, the Council stressed the need "to highlight more clearly the high risk of poverty and social exclusion faced by some men and women as a result of immigration" (Council, 2002), which would require that appropriate indicators should be employed by Member States. Work has been undertaken on this subject within a number of Member States, as reflected in their National Action Plans. The 2001 Dutch NAP/inclusion, to give just one example, described an Integration Monitor. The Indicators Sub-Group has had a first discussion of this issue, based on a detailed and systematic methodological document presenting an *Overview of third level indicators used in the NAP Incl relating to the social inclusion of "foreigners immigrants and ethnic minorities"* (Indicators Sub-Group, 2004b), and has agreed to return to the issues. In considering this further, we need of course to bear in mind that, while there is considerable overlap, the two groups – migrants and ethnic minorities – are not identical, and that the issues may differ. It may be easier to make progress if they are kept separate.

As clearly shown in the Indicators Sub-Group document, it is evident that there are a number of technical problems in considering both migrants and ethnic minorities. In some countries there are legal or constitutional restrictions on collecting information on some of these groups. There are major problems of definition. Very definite limits may be imposed by sample sizes. (In this last case, the way forward may also be to make use of the information contained in administrative registers to complement the information collected in the context of EU-SILC and other household surveys). Here we do not attempt to discuss these problems. Instead, we would like to comment on the use made of such information where available in a meaningful form. As in the case of the regional dimension, rather than having a single separate indicator relating to migrants and ethnic minorities, we believe that it would be more informative to have for all indicators of social inclusion a breakdown by nationality or ethnicity, and recent migrant status. Useful examples of such an approach are to be seen in the NAPs/inclusion of some of the new Member States.

But, in contrast to the regional dimension, we do not believe that there is sufficient congruence across countries in the relevant categories for it to be sensible to seek to establish a common breakdown. Rather, we believe that Member States should be asked to supply two types of information. First, they should provide a breakdown by nationality and/or ethnicity and/or migrant status of all relevant common indicators (subject to meaningfulness as well as statistical and legal possibilities), employing, subject to certain guidelines, the breakdowns that make sense in their national context. Secondly, they should complement this with third level indicators reflecting the specificities of their national situation.

Homelessness

One of the most important areas not currently covered by the agreed indicators is housing, where data constraints are severe. The Social Protection Committee in its report endorsed by the December 2001 Laeken European Council (see Chapter 2) could only recommend that individual Member States in their NAPs/inclusion should present quantitative information on decent housing, housing costs, and homelessness and other precarious housing conditions, and that obtaining better comparable data and reporting on these topics be a priority. Homelessness is, of course, the most pressing concern in the housing area, and clearly one of the most serious and visible forms of social exclusion. It is, however, particularly problematic from a measurement point of view: both defining precisely what is meant by homelessness and then capturing that empirically are difficult in any country, and doing so in a consistent fashion across countries is even more challenging. At the conceptual level, homelessness could conceivably cover a very wide spectrum of circumstances, ranging from sleeping rough without a roof over one's head to living in overcrowded housing or without secure tenancy status. As far as measurement is concerned, gathering data on a small, mobile population which fluctuates for seasonal and other reasons is bound to be difficult, and conventional statistical tools are not designed to reach such populations. People who are homeless or living in very precarious and temporary accommodation tend not to be included in household surveys and other statistical data sources, which is why many countries rely on administrative sources and service providers for data, though this may give a partial or even misleading picture depending on the structures in place in the country.

Following the recommendations by the Social Protection Committee, a European Task Force was set up in 2001 by Eurostat to help the Commission and Member States tackle these complex housing issues, including both representatives of the national statistical institutes and non-governmental organisations active in this area. Despite a sustained focus on the area since then by the Commission and Member States, and a very valuable in-depth report on the topic by the French national statistical office INSEE (Brousse/Eurostat, 2004), it appears that progress towards anything approaching a harmonised measure of homelessness will be achievable but slow. This is readily understandable given the starting-point. There is not at present an agreed definition of the underlying concept of homelessness, an indispensable starting-point for a statistical framework for gathering data relating to that concept. The most useful data on homelessness at national level are generally gathered by public bodies in the course of administration of housing policies, and the nature of the data consequently varies with the institutional setting. It is simply not valid to place figures derived in such a fashion in a comparative table. Household surveys, the primary source for many of the common social inclusion indicators, miss those who are currently homeless because they are either not in the sampling frame in the first place or if in the frame will not be contacted (although retrospective questions about episodes of homelessness in the past can yield interesting information.) Special surveys of the homeless in particular countries, while producing very useful information, adopt different definitions and procedures and rarely produce data that is comparable across time, and even less so between countries.

Despite this point of departure and the difficulties in making progress, a measure of homelessness on a harmonised basis would be so valuable that its production should certainly be adopted as an objective. Progress can then be made incrementally. The first step would be an agreement on a common definition of what constitutes homelessness. The debate here largely centres on how narrowly or broadly the net is cast, with the range of views illustrated by the consultation process carried out as part of the Brousse report. Some respondents argued for a definition that focuses purely on those sleeping rough or in emergency accommodation, and not for example those living with friends or relatives, in short-stay accommodation, or in unsuitable/unacceptable housing. On the other hand, others argued for a definition that encompasses not only all those groups but also those threatened with eviction, or in insecure tenancy arrangements. (The range of different circumstances one might consider is illustrated for example in the typology put forward by FEANTSA[32], ranging from rooflessness at one extreme to forms of insecure and inadequate housing at the other.) The Brousse report puts forward an interim working definition which seems a sensible point of departure and would allow progress to be made. This would focus on those who are sleeping rough, in shelters or short-stay hostels, or other temporary accommodation because they do not have access to acceptable accommodation. It would not count as homeless those in insecure housing situations, such as without legal tenancy agreements or facing eviction orders, or those living in unfit or overcrowded housing – though insecure or inadequate housing could be measured separately. The next stage would be to agree on the preferred measure – providing for example a count of the number of persons experiencing

[32] FEANTSA stands in French for "Fédération Européenne d'Associations Nationales Travaillant avec les Sans-Abris", i.e. the European Federation of National Organisations working with the Homeless.

homelessness on a given night or nights, which could be expressed as a homelessness rate. The best approach to producing data relating to this agreed definition and measure, whether it be via the Census of Population, administrative sources or special surveys, could then be investigated. Although EU-SILC itself is not a suitable vehicle for data on homelessness, the philosophy underlying it - that harmonized target variables are tightly specified at EU level but national statistical offices have freedom to decide how best to collect the required information – is directly relevant. It is important that there be clear official responsibility, to ensure oversight of the collection of appropriate data in close collaboration with the organisations working in the area. As progress is made towards a harmonised measure that would serve as a Primary Indicator, Member States should in the meantime have to report on the basis of national statistics as a “level 3” indicator (as is already required under the December 2001 Laeken agreement), i.e. a national rather than common (EU) indicator.

Housing Quality and Adequacy

EU-SILC, like the ECHP before it, will produce harmonised measures relating to housing quality and housing deprivation that will also be important in a social inclusion context. In particular, this covers not only the presence or absence of basic amenities (such as a shower/bath and an indoor flushing toilet) and density/overcrowding, but also whether the household perceives problems in terms of the presence of damp walls, leaking roof, rot in windows, adequacy of lighting, exposure to noise, exposure to pollution, exposure to vandalism and crime. One useful approach to employing this information would be to construct an aggregate measure of poor or inadequate housing, based on an index counting the number of different types of housing-related “bads” the household reports. In the absence of a suitable alternative at present, such an indicator may be worth considering as a Primary Indicator, though there are significant issues to be addressed in constructing and using it which we discuss shortly when we come to the use of non-monetary deprivation indicators.

One important point that we emphasise then is that there is a distinction between poor housing and local environmental “bads”. Some of the EU-SILC indicators relate to problems in the neighbourhood, and empirical investigation using the ECHP has shown these are related only loosely if at all to problems with housing quality *per se* (see for example Whelan *et al*, 2002). This is an argument for treating the two phenomena separately and studying the relationship between them, rather than merging them into a single aggregate measure and obscuring their differing impacts. In the current context, where the major gap to be filled relates to poor housing, it would seem sensible to give priority to a measure of housing problems *per se*. Housing problems themselves, as captured in the ECHP, have also been seen to be rather loosely related to risk of poverty (in the sense of being below relative income thresholds) or other aspects of deprivation. Again the logic is that they should be clearly distinguished from other aspects of deprivation more generally and the inter-relationships with other forms of exclusion studied – which we shall have more to say about in discussing the use of non-monetary deprivation indicators more broadly below. A final issue, which also arises in the use of non-monetary deprivation indicators more broadly, relates to the point of reference: in effect, should the same standard be applied across all the Member States, or is a country-specific point of reference more appropriate in assessing “adequacy”? While housing is an area where specific considerations arise, we reserve discussion of this issue for the broader context below where specific recommendations are also made.

Concern has also been expressed about the burden imposed by housing costs, and the desirability of capturing situations where an “excess burden” is being imposed on the household by these costs. Such a concept needs to be interpreted and used with care. On the housing expenditure side, measures of financial “burden” associated with housing can be constructed by taking expenditure on housing (principal residence) as a proportion of total income. However, a household in the top half of the income distribution spending a substantial proportion of its income on housing may be regarded as having a significant burden, but not one that is directly relevant from a social inclusion perspective. In considering the situation of those further down the distribution but spending a sizeable proportion of their income on housing, the institutional context is all-important: in some cases that expenditure may be fully covered by social transfers included in income, in which case they do not represent an immediate burden for the household. Reliance on crude financial measures of “burden” can therefore be hazardous. It is worth exploring whether a measure of the “uncompensated burden” of housing costs that focused on those on low incomes could be constructed in a way that was meaningful across countries. One way of approaching this would be to subtract cash transfers aimed at covering housing costs from total household income, and calculate the proportion that the “uncovered” housing costs (that is, expenditure on housing less support received to cover it) comprise of that income.[33] Those with income “net of housing support” falling below some income threshold whose uncovered housing costs comprise more than a certain proportion of income (net of housing assistance) could be identified as seriously at risk of exclusion due to housing costs – with the appropriate income threshold and critical proportion themselves the subject of analysis. The difficulty may well arise that support for housing costs is not always distinguished from other forms of social transfer, but such an approach is well worth investigation, particularly with enhanced data that will become available from EU-SILC.

Health

The relevance of ill-health, both in terms of physical and of mental health, to social exclusion is evident. Yet, in the health area, the Social Protection Committee faced the very real difficulty that while a good deal of comparative data on health was available, very little of it had a specific focus on poverty and social exclusion. Two health-related indicators are included among the Laeken indicators (see Table 2.2a). The first is life expectancy at the ages of 0, 1 and 60, separately for males and females. The second is a measure of inequality in self-assessed health, calculated separately for persons aged 16-64 and persons aged 65 and over (and with gender breakdowns). This measure provides the proportions in the bottom and top income quintile groups of the population who classify themselves as in a bad or very bad state of health. The inclusion of these two indicators – both as Primary Indicators - was an attempt to reflect the importance of health in the social inclusion context, but they undoubtedly have serious limitations. A substantial amount of work on the topic has been carried out subsequently by the Indicators Sub-Group and Eurostat, in the context of both the Social Inclusion Process and the extension of the open method of co-ordination to health and long-term care. This has involved *inter alia* the collection of information from Member States on their available health indicators, including a very helpful discussion of methodological as well as data issues, which serves as a very useful basis for seeing where and how progress can be made (see Indicators Sub-Group, 2004a).

In terms of the first of the current indicators, the problem is not with the indicator itself but with its relevance to social inclusion. Differences in life expectancy across Member States are relevant to the social cohesion of the EU as a whole, but do not have anything to say about disparities within countries or the extent to which some individuals and groups in each country are disadvantaged or experiencing social exclusion. One country may have higher mortality than another, on account of dietary, smoking or other behavioural differences, but

[33] Suppose for example that a household in country A had total disposable income of € 1,000 with no cash housing assistance, and spent € 200 on housing, whereas a household in country B had total income of € 1,200 including € 200 in housing allowances, and spent € 400 on housing; the uncovered housing costs as a proportion of income net of housing support would be the same - (200/1000) in one case, and (400-200)/(1200-200) in the other. Note that for those repaying mortgages, one would probably want to include both interest and capital repayments as housing expenditure, since the latter, although it represents savings, is not discretionary in the shorter term; also for this specific purpose it would not seem appropriate to include imputed rent in household income.

this does not necessarily imply a problem of social exclusion within that country. Thus it is not mortality as such that is central in a social inclusion context but rather differential mortality – and more broadly differences in health - according to socio-economic characteristics. The only case that can be made for inclusion of life expectancy *per se* is in the context of Enlargement, and the generally significantly lower life expectancy in the new Member States. We noted in Section 5.2 the relevance of this specific indicator if one does want to capture overall living standards.

Substantial effort has recently gone into the development of measures of *quality-adjusted* life expectancy that take prevalence of disability into account, as part of the process of developing EU statistics and indicators in the field of public health. On that basis an indicator of Healthy Life Years/Disability Free Life Expectancy has now been incorporated into the long list of “structural indicators” (see Chapter 2). This is based on mortality tables combined with survey responses on the extent of disability at different ages. While this is potentially a very valuable indicator from a health perspective, in a social inclusion context it shares the limitation of (unadjusted) life expectancy of not capturing disparities across socio-economic groups. In addition, one has to be confident that disability prevalence in different countries is being captured reliably, but as discussed in Atkinson *et al* (2002, Chapter 8) the survey-based estimates currently available are subject to serious measurement problems and do not allow for a reliable comparison across countries.

The second health indicator in the Laeken set, based on self-assessed health, does aim to capture such disparities in health. Data for the “old” Member States has mostly been drawn from the ECHP, which also of course contains information on household income allowing persons to be categorised by income quintile. For the ten new Member States this indicator was not available for the National Action Plans on Social Inclusion they submitted for 2004-2006, but inclusion of the relevant data in the new EU-SILC means that it would be available across the Union in the future. However, the indicator itself seems problematic, certainly as employed to date. Self-defined health does provide a useful starting-point in the absence of data at EU level on for example premature mortality by socioeconomic groups, but it poses serious problems of interpretation. The variation across countries, and across income groups within countries, cannot necessarily be taken as a reliable reflection of underlying health.

The suitability of this indicator (recommended in Atkinson *et al*, 2002 as a reflection of the importance of the topic and in the absence of alternatives) clearly needs further investigation. Among other issues that arise, it is important to standardize the responses by age in some fashion, since the bottom quintile group may have poorer self-reported health status partly because it contains more people in older age groups, whereas the focus of the indicator is on the impact of income rather than age differentials. As a step in that direction, the Indicators Sub-Group recommended that figures for this indicator should be provided separately for those aged 16-64 and those aged 65 and over. Even within the working age population, however, there are patterns that are difficult to interpret meaningfully. The ability of the indicator to capture change over time in socio-economic health inequalities within countries is also unproven. There is a case therefore for seeking alternatives for future use.[34] While this is being pursued, it seems to us that the limitations of the current indicator are such that it should become a Secondary rather than a Primary indicator. While such a demotion may appear harsh, it may hasten development of a replacement.

The indicator of health inequalities that has played a key role in national monitoring and debates in some countries is socio-economic differentials in premature mortality. Mortality data broken down by socio-economic characteristics can either be derived from death

[34] This includes alternative ways of using the survey responses on self-assessed health, for example using different cut-offs to distinguish those in poor health, and comparing the top and bottom half of the income distribution rather than the top and bottom one-fifth.

registers directly, from a linkage between the death certificate and other registers containing socio-economic information, or from specific surveys based on sub-samples of the census. However, the available socio-economic information differs from one country to the next, and often relates to occupation which may not be the most relevant since at the time of death persons are often “retired” - income or educational attainment would probably be the most pertinent. This is a typical example of an area where statistical capacity building would be urgently welcome and where good practice on the use of administrative registers could usefully be exchanged. In mid-2004 Eurostat, further to a request by the Indicators Sub-Group, sent a questionnaire to Member States to collect information on the feasibility of a breakdown of premature mortality and life expectancy by socio-economic status. This is one of the areas singled out by the December 2001 Laeken European Council itself (together with the related measure of quality adjusted life expectancy, as well as access to healthcare which we discuss shortly).

We strongly believe that the development of an indicator of premature mortality by socio-economic status should be a priority at both the national and EU level. Significant progress may take a few years and a harmonised indicator of socio-economic differentials in mortality or life expectancy will not be immediately available, but our recommendation would be to give this very high priority and see what can be achieved. Given the data demands, and the fact that the indicator is likely to change slowly over time, it does not seem to us necessary for the indicator to be produced every year.

Progressing to the point where healthy life years could be compared for different socioeconomic groups would be enormously valuable, providing an indicator that could complement and deepen a measure of socio-economic differentials in mortality/life expectancy. From a social inclusion perspective, the impact that illness and disability have on ability to participate fully in the life of society is critical. Those with a chronic illness or disability may well face severe obstacles in obtaining access to schooling, employment, independent housing and other aspects of participation. However, in order to produce such a measure the same obstacles facing the production of harmonized measures of differentials in mortality have first to be overcome. In addition, one would have to be confident that disability prevalence is being captured reliably, not only across countries but now across socioeconomic groups within countries, and available survey evidence may not provide a reliable basis for doing so. Furthermore, while the relevant information was sought in the ECHP for “old” Member States and will be available from EU-SILC for both “old” and “new” Member States, it may not be available from other sources in some countries until the end of 2006 when EU-SILC data become available for all countries of the enlarged EU.

As well as inequalities in health, inequalities in access to health care and in particular failure to access care due to financial constraints are particularly salient from a social inclusion perspective. The Laeken European Council highlighted “access to public and private essential services” (including healthcare and education) as one priority for development, and the Indicators Sub-Group has singled out indicators capturing barriers to accessing healthcare for attention. The new EU-SILC instrument will provide important new information on this topic, focused on perceptions of difficulties in accessing health services arising from financial or other barriers. These will have to be evaluated as they come on stream but appear to have considerable potential, and early investigation of the first results from EU-SILC for the Member States for which they are available will be useful in this regard.

A complementary avenue is to monitor disparities in the utilisation of health care services across socio-economic groups, seeing utilisation as a proxy for access. This has been intensively researched in a series of studies by Van Doorslaer and colleagues using both the ECHP and national data sources (Van Doorslaer, Masseria and members of the OECD Health Equity Research Group, 2004; Van Doorslaer, Koolman and Jones, 2004; Van Doorslaer, Koolman and Puffer, 2001; Van Doorslaer *et al,* 2000). This has yielded valuable insights into how patterns of health care utilisation vary across the income distribution in different countries, and the extent to which influences on utilisation vary across countries and health care systems. Thus one can for example compare levels of reported health services utilisation for people of the same gender and age group but at different positions in the income distribution. This does not however take differences in "needs" other than those related to age and gender into account – and there is every reason to believe that needs themselves differ with income. Those on low income might well have higher levels of utilisation than those on high income (within a given age-gender group) but the difference in their needs might be even greater. One can try to incorporate "need" using the subjective assessments of health status reported by survey respondents, as Van Doorslaer and colleagues have done, but these responses are subject to the limitations discussed earlier. The capacity of this approach to distinguish changes over time in the access of different income groups to healthcare controlling for needs remains to be demonstrated. Nonetheless, measuring differences in the actual utilisation of healthcare services across income levels and socio-economic groups still has to be one important element in monitoring equity in access. From this perspective it is problematic that the information prescribed for collection via EU-SILC does not include actual levels of utilisation of different health services, such as general practitioners, specialists and hospitals, which were included in the ECHP.

It is worth noting in conclusion the relevance of broader European statistical developments in the health area for the Social Inclusion Process. Eurostat has been investing considerable energy into the development of public health statistics, and together with Directorate General SANCO of the European Commission has been developing the framework of what is known as the *European Health Survey System* (EHSS).[35] This incorporates: the *European Core Health Interview Survey* (which consists of the annual component on health included in EU-SILC and a *European Health Interview Survey* expected to be launched in 2007-2008 and carried out every five years, covering more elaborated modules on health status, health care and determinants of health); special surveys aimed at specific topics (where research groups may have a role to play in identifying the demands); and a database of certified standards and recommended reference instruments for health interview surveys. This is a most important development and one that promises valuable information for the Social Inclusion Process on health status and health care utilisation. It is to be hoped that the social inclusion perspective continues to inform the development of this broader framework.

Non-Monetary Indicators

In considering non-monetary indicators, we need to distinguish two reasons for their inclusion. The first reason is that they can supplement information about income, which is subject to mis-measurement and may not always be a reliable guide to "permanent income". Those on low income for a number of years face a very high probability of experiencing genuine poverty, and where longitudinal data are not available, direct measures of deprivation may provide a useful substitute. As we discussed in Section 5.1, the switch from the ECHP to EU-SILC may produce a particularly long gap in data on the prevalence of persistent low income, so that non-monetary indicators may help fill this gap. The second reason is that non-monetary indicators help to capture the multi-dimensional nature of poverty and social exclusion. Direct measures of deprivation are not simply another way of capturing persistent low income. Other factors also contribute to producing high levels of deprivation (see for example Whelan *et al,* 2004). In Chapter 3, we have seen how low is the correlation between the income-related and some of the non-income-related indicators. As

[35] For more information on EU public health statistics, see Eurostat web-site: http://forum.europa.eu.int/Public/irc/dsis/health/home. See for example Eurostat Working Group on "Public Health Statistics", meeting of 24-25 November 2004, *Statistics on health and health interview survey, disability and morbidity (HIS): European Health Survey System (EHSS) – Overview*, DOC ESTAT/D6/04/HEA/12-2.

discussed there, and in Section 5.2, non-monetary indicators have become even more important in the context of the enlarged Union. They can augment income-based measures in identifying those at risk of poverty; they provide a better understanding of the living conditions of the poor, and they give information about those domains where income-based indicators are least helpful.

Some fruitful approaches combine deprivation with low income, as in Ireland and Austria. If those falling below a relative income threshold are indeed "at risk of poverty" rather than "poor", then non-monetary indicators may allow us to hone in on the sub-set of those "at risk" who are in greatest need and should be prioritized in framing policy. This is certainly a strong motivation in the context of a particular country, where indicators appropriate to that society and point in time can be selected. Although not insurmountable, serious obstacles need to be overcome before this sort of "low income *and* deprived" ("consistent poverty") measure can be meaningfully employed in a cross-country context. We focus instead on the role non-monetary indicators can play as a complement to other social inclusion indicators, in particular in capturing differences in absolute levels of deprivation and in tracking change over time. This is something to which both Eurostat and the Indicators Sub-Group of the EU Social Protection Committee have already devoted considerable attention.

While accepting that poverty is relative, many would still see changes in real living conditions as relevant and not to be ignored in framing social inclusion indicators. The agreed set of common indicators complements the "at-risk–of-poverty rate" based on purely relative income lines with the value of that threshold for 2 different household types. In addition, a Secondary Indicator shows the percentage falling below income thresholds held fixed in real terms over a period (currently 4 years) described as the "at–risk-of-poverty rate anchored at a moment in time". The value of the relative threshold is obviously important contextual information in interpreting the at–risk-of-poverty rate, as we discussed earlier, and the anchored measure is very useful in capturing the impact of short-term changes in real incomes, but even taken together they may still fail to adequately capture and convey changes in living conditions. Deprivation indicators, on the other hand, seek to do so in a direct way, which can be easily understood and conveyed to a broad audience – which is one of the desiderata for EU social inclusion indicators. The substantial number of non-monetary items included in the ECHP has allowed this to be studied in some depth, and EU-SILC will also obtain information on a considerable (though more limited) range. It is therefore well worth focusing on how best to use this information. We discuss first the broad approaches that might be adopted, and then turn to more detailed issues relating to the selection and grouping of items. In doing this, we take account of the particularly valuable work carried out by Eurostat, and especially the document prepared to inform the February 2005 meeting of the Indicators Sub-Group (Indicators Sub-Group, 2005a). Our aim here is to present the issues at stake and point to what may be the most fruitful directions to pursue.

A straightforward approach is to take a set of suitable non-monetary items, look at deprivation levels in terms of these items across each of the Member States, and see how those levels change over time. Both individual items, and a summary index showing the number of "deprivations" experienced by a household, could be used. Because a common standard is being applied across countries, rather than a relative standard that takes the median level of living in the country into account, there will be much wider gaps between countries at a point in time than with for example relative income poverty rates, as results from the ECHP have demonstrated.[36] Furthermore, if the same set of items is used from one year to the next, then progress is being measured against a fixed standard rather than one that reflects the evolution of median levels of living over time. It may be argued that such an "absolute" approach is not appropriate, applying the same standard to countries with very different levels of income and living standards. It certainly would not be suitable as the only, or even the main, measure of

[36] See for example Eurostat (2000).

poverty and social exclusion, but as one in a set it has a real added value for the reasons explained above.

At the other end of the spectrum, non-monetary items could also be used to try to capture the underlying condition of exclusion due to lack of resources, using items which differed across countries – a purely relative approach, as it were. While attractive, this poses significant problems both analytically and in terms of ease of understanding. There is no agreed methodology for the selection of country-specific items tapping the same underlying phenomenon of social exclusion, and conveying to a general audience what such a varying set represents would be difficult.

It would seem preferable for the time being to take a common set of items across all the Member States, but apply them in a way that takes average levels of living in the country in question into account. This could be done for example by constructing a summary deprivation index in which each item is weighted by the percentage not experiencing enforced deprivation of the item in the country in question. So it would be a more serious deprivation to be unable to afford a particular item in a country where most people can afford it than in one where most people have to do without it. The key indicator could be a deprivation score, and mean deprivation scores could be compared across countries, with the gap between countries being narrower than for a summary index with items weighted equally across countries. Alternatively, the percentage scoring above a threshold level – to be determined – could be presented.

This can be seen as a summary measure of relative deprivation at a point in time. In looking at trends over time, the weights for each item in each country would adjust automatically as the extent of deprivation in the country on each item changed. Thus, continuing to be unable to afford an item that more and more people in one’s own country would be given an increasing weight over time. This might not be sufficient to capture changing living patterns and expectations over any prolonged period, so the set of items would have to be adapted at some point, but over say a five-year period there would be major advantages in focusing on a set of items that is common across countries and over time, but with varying weights. This would complement results from the previously described approach where the same items *and* weights are used across countries and over time, and we would advocate the use of both approaches to produce complementary deprivation-based social inclusion items – just as the purely relative and “anchored at a point in time” income-based indicators complement each other. The varying-weights version is not as transparent but can still be described and understood fairly easily.

This leaves the issue of the selection and grouping of items. This has already been analysed in some depth using data from the ECHP[37]. As far as a choice of items is concerned, some of the items available in the ECHP seem not to be transferable across countries – for example “buying second-hand clothes” seems culture-specific, and needing central heating seems geographically specific (which is why those variables have not been included in the EU-SILC variables). While such items have to be excluded, otherwise keeping the set as broad as possible helps to ensure that individual, potentially idiosyncratic items do not have undue influence on the results. Another issue is whether the items should be confined to “objective” possession/absence or non-participation or include “subjective” assessments of respondents about their own circumstances. However, this distinction is not as clear-cut as it might appear at first sight. Respondents’ assessments of whether they are doing without specific items or activities because they cannot afford them (as opposed to not wanting them) have considerable value, and we would favour using such information in framing indicators. The broad question included in the ECHP and EU-SILC about the extent to which the household has “difficulty making ends meet” is in a different category: rather than simply include it in constructing an indicator of deprivation, we would prefer to keep it distinct and study the relationships between

[37] See for example Eurostat (2000 and 2003), Whelan *et al* (2001 and 2002).

deprivation, income, and this measure of self-assessed economic strain. (The new EU-SILC includes the more specific question as to whether the household has the financial capacity to face unexpected *required* expenses, and the argument for including this in a non-monetary index seems stronger, along with for example being in arrears on utilities bills.[38])

We now turn to the way the selected deprivation items are used: should one simply present the numbers experiencing deprivation on each of the individual items, or should they be grouped into summary indices? If summary indices are employed, should all the selected items be aggregated into one overall deprivation index or is it preferable to group them, distinguishing different dimensions? As far as the first issue is concerned, simply focusing on the extent of deprivation on individual items certainly has the advantage of transparency: it can be easily understood by a wide audience that for example 10% of people in a particular country cannot afford to heat their home adequately or to have a car. Transparency is indeed a very important consideration in designing social inclusion indicators, as emphasised in Atkinson *et al* (2002). However, the essential interest here is not so much in the individual items *per se* as in the underlying situation of more generalised deprivation that they can help to capture. A useful analogy may be the way a battery of different survey responses can be used to categorise respondents by say personality type: any one response item may not be a reliable indicator, but taken together a set of responses can provide a very much more reliable basis for categorisation. For the same reasons we would place most emphasis on indicators produced from groups of individual items, with the individual items themselves presented as background information. From a practical stand-point this also has major advantages in seeking to develop indicators for the Social Inclusion Process, since it would not be realistic or workable to add ten or more deprivation indicators to the common set, but a small number of aggregate deprivation indicators would complement the existing set.

As far as the way items are grouped is concerned, we would emphasise that grouping items into sets or dimensions may produce more valuable indicators than simply adding them all up into one summary deprivation measure. Adding up items of for example housing problems and being unable to afford to eat properly may obscure the fact that these often affect different people and different types of people (an illustration of the hazards of using composite indicators that we discuss more generally later in this chapter). The evidence from the ECHP suggests that different dimensions can usefully be distinguished using for example factor analysis. While different methodologies may give somewhat different results, it seems from ECHP data analyses to date that a reasonably robust distinction can be drawn between at a minimum items relating to housing conditions, items relating to local environmental conditions, and items capturing broad living standards (in terms of food, holidays, "possession of durables").[39]

In terms of common EU indicators for social inclusion, these will now have to be based on the non-monetary items included in EU-SILC, and the work carried out recently by Eurostat is particularly helpful in this respect (Indicators Sub-Group, 2005a). Eurostat has indeed used EU-SILC data for the few countries that launched the instrument in 2003 (see Section 5.1) to check the consistency of the results of the factor analysis between EU-SILC and ECHP. They have done this through a "confirmatory factor analysis" on the SILC data, which has allowed them to test the adequacy of the factor structure identified through an "exploratory factor analysis" on the ECHP items that have been retained in EU-SILC. The results of Eurostat analyses are as shown in Table 5.1.

(Table 5.1 – see Annex 2)

[38] The question reads as follows: "Could your household afford an unexpected required expense of (*amount to be filled*) with its own resources?". "Own resources" means that: your household cannot ask for financial help from anybody; your account has to be debited within one month; and your situation regarding potential debts does not deteriorate (you cannot intend to pay on instalments or with a loan the expenses that you used to pay cash). The amount to be used is the national at-risk-of-poverty threshold for a one-person household.

[39] On these various issues, see for example Whelan *et al* (2001 and 2002) and Eurostat (2003).

As is generally the case with factor analysis, we think that the grouping of items should not be determined in a rigid fashion by the results of such analysis but should be informed by it and by what one is trying to achieve. In the present context, we would argue that the "economic strain" and "durables" items could probably be combined with little loss and some gain in simplicity, in that this combined index could then be the central focus in capturing deprivation broadly conceived while the housing measure would capture that specific aspect. It would also limit the number of common indicators. As to the neighbourhood/environmental problems measure, we think that it certainly provides very useful information. However, in view of its strong urban nature and the absence of a clear link between this measure and relative financial poverty, we would see this dimension as less central as far as the Social Inclusion Process is concerned. (It is certainly important to keep this dimension distinct from housing problems since these neighbourhood/environmental problems may often affect different households).

So in our view a productive approach to moving forward in using these non-monetary items would be to incorporate into the commonly agreed set of social inclusion indicators the following:

1. An "absolute" indicator of deprivation in relation to broad living standards (which would group the 9 items of dimensions 1 and 2 in Table 5.1) in the form of an aggregate index, with the same weight being given to each item across the Member States and over time.
2. A "more relative" indicator of deprivation in relation to broad living standards (in terms of the same items) in the form of an aggregate index, with the weight given to each item equal to the proportion not experiencing enforced deprivation.

In addition, as already discussed, to meet the need for an indicator of poor housing we would recommend

3. An indicator of housing problems in the form of an aggregate index (grouping the 4 items of dimension 3 in Table 5.1), with the same weight being given to each item across the Member States and over time – i.e. an "absolute" indicator.

All three indicators would provide a window onto living standards/social exclusion more broadly that complements the information provided by income-based measures – which as we discussed earlier would be particularly helpful in the context of the recent Enlargement (and future enlargements) of the EU. The two unweighted deprivation indices will provide a basis for comparisons of "absolute" levels across countries (for both living standards and housing), whereas the weighted index (for living standard) has a different objective – namely, to capture differences within countries in a way that incorporates the differing extent of relative deprivation associated with doing without different items.

In practice, it might well be best to introduce the "absolute" indicators first so they are widely understood before introducing the (even) more complex "more relative" variant. Breakdowns of these indices by broad age groups, gender, and whether the individual is at risk of poverty should also be presented. The percentage deprived in terms of the individual items which go to make up these indices, although not part of the set of common indicators, could be included as part of the key background/context material presented by Member States (and other items not in the common set but felt to be useful at national level would also add to the information presented).

Seeking to set deprivation thresholds and measure the number above those thresholds on different dimensions may be useful in the medium term but introduces another layer of complexity. In setting such thresholds, the approach adopted should be as transparent as possible. One straightforward method, analogous to that employed in deriving the relative income thresholds, would be to set deprivation thresholds at some proportion of the average level on the deprivation index – for example, anyone with a score more than 150% of the average is counted as "deprived". The difficulty in the deprivation context is that, to a far greater extent than income, households will be clustered on specific values of the index. This means that, even more than with income, the precise location of the threshold will have a marked impact on the numbers "deprived". This is an unavoidable feature of a measure constructed from a limited number of individual items, rather than anything to do with the way the threshold itself is set. It means that, at a minimum, results using several different thresholds need to be presented. A second issue is the point of reference for the threshold – should it be the average level of deprivation in the country in question, or across the EU as a whole? This clearly depends on the object of the exercise. We have suggested having both an "absolute" index and a more relative one weighting items to reflect their frequency in the country; following through this logic, the most relevant point of comparison in setting the threshold would seem to be the overall EU average for the former and the average in country for the latter. Given these complexities, however, it may be best initially to simply focus on scores on the deprivation indices – for countries and different population groups within them.

Recommendations

To summarise, our recommendations with regard to the refinement of the existing EU indicators and to the development of new indicators are:

1. In using the "working poor" indicator, it would be valuable to add a new breakdown of the at-risk-of-poverty rate focusing only on employees aged 18-59 in full-time employment for the entire reference year, with the corresponding rate for those aged 18-59 unemployed all year and those inactive all year.
2. The EU indicator of literacy needs to be extended to the adult, or at least working age, population.
3. The indicator of regional dispersion in employment rates suffers from methodological weaknesses and is not particularly salient in a social inclusion context; the regional aspects of the risk of poverty and social exclusion are of key importance and would be best reflected by including regional breakdowns for existing indicators, where possible and meaningful.
4. The specific at-risk position of migrants and ethnic minorities needs to be more systematically analysed by Member States; we believe that it would be best reflected not by a specific indicator, nor by seeking to establish common identical breakdowns, but by each Member State including breakdowns appropriate to their country of the common indicators, where possible and meaningful, complemented by third level indicators reflecting their specific situations; distinguishing the related but separate issues of ethnicity and migration may allow progress to be made.
5. Full use should be made of the potential contribution of administrative data to improve national and EU knowledge of the regional dimension and of the circumstances of migrants and ethnic minorities.
6. Progress on the introduction of an indicator for homelessness should be made incrementally. The first step would be an EU agreement on a relatively tight definition of homelessness. The next stage would be to agree on the preferred measure and the approach to producing data relating to this agreed definition and measure. It is important that official responsibility be clearly assigned to oversee the collection of appropriate data in close collaboration with organisations working in the area. As progress is made towards a harmonised measure that would serve as a Primary Indicator, Member States should in the meantime report on the basis of national statistics as a "level 3" indicator.

7. Priority should be given to the development of an aggregate "absolute" indicator of housing quality/adequacy, based on EU-SILC data as soon as these become available.
8. Priority should be given to the development of a harmonised indicator of premature mortality by socio-economic circumstances, to be produced on a regular but not necessarily annual basis.
9. An "absolute" common indicator of enforced deprivation in relation to broad living standards should be developed in the form of an aggregate index using data from EU-SILC; accompanied by a "more relative" (weighted) common indicator based on the same EU-SILC items.

5.4 Presentation and Use of the Indicators

As well as the content and coverage of the indicators, their presentation is critically important since they are intended to have a wide impact going well beyond those directly engaged in policy formation. From this perspective, we recommended in Atkinson *et al* (2002) that a restricted set of headline or primary common indicators be adopted, complemented by further commonly-agreed Secondary Indicators and nationally specific third-level indicators. This tiered approach was followed by the Social Protection Committee and then adopted in Laeken, but as the set has evolved there has been some loss of focus on headline indicators and thus a potential loss of impact. In addition, there are other important issues relating to presentation and use that need to be considered, including how best indicators can be used to forge links across the Union's different social processes (in the interests of streamlining: see Chapter 2) and between social, economic, employment, and environment processes (especially in view of the refocusing of the Lisbon strategy agreed upon by the March 2005 European Council). Even though the last consideration has guided the recommendations we are making in this section, we do not discuss in this report the issue of specific "overarching" indicators that could help analyse these links.

Presenting the Social Inclusion Indicators

The current set of common indicators comprises 12 Primary Indicators and 9 Secondary ones. Twelve are already probably being more than one would ideally wish for in a headline set. In addition, a range of breakdowns and decompositions of the at-risk population is also presented in the Primary set. As a result, the indicators published with the 2004 Joint Inclusion Report cover 24 detailed tables, of which a substantial proportion relates to the at-risk population. It is therefore a challenging task to extract the key figures, patterns and messages for those not familiar with these statistics.

To overcome this problem, it is worth considering some "streamlining" of the common indicators:

- A substantial paring-back of the indicators included in the Primary set.
- A mode of presentation that focuses attention more directly on this smaller Primary set, before turning to the supplementary, equally important and compulsory for all Member States, information provided by the Secondary set.
- In order not to lose the focus in the Secondary set, and to allow for the introduction of new indicators, some Secondary Indicators could be deleted allowing the total number to be kept reasonable (around 15).
- As is already the case to date, Member States would obviously be strongly encouraged to complement the Primary and Secondary EU indicators with national indicators.

- Where it is meaningful and data allow, all indicators should be broken down by the appropriate regional level and the degree of urbanisation, and by the appropriate (and legally permitted) nationality and/or ethnic groups, as part of the obligatory background material provided by Member States.

Concretely, thinking in terms of areas or dimensions of concern one might aim to have in the Primary set one (or maximum, two) headline indicator for each – for example income poverty, income inequality, employment (and unemployment), education, health, housing quality/adequacy, homelessness, general living standards/deprivation, and child well-being - together with breakdowns strictly limited to those appropriate in each case.

The at-risk-of-poverty rate would seem the obvious choice as the headline indicator in relation to income poverty, together with gender and broad age groups breakdowns as well as the illustrative values of the levels of the thresholds. All other breakdowns of the at-risk-of-poverty rate, the poverty gap and the 60% median based at-persistent-risk-of-poverty rate would be moved to the Secondary set. The 50% median based at-persistent-risk-of-poverty rate is, in our judgment, a candidate for deletion from the Secondary set, in order to keep a limited number of indicators in the common set but also in view of the small sample size from which it is to be drawn (especially with the move in most Member States from a full ECHP panel to a 4-year EU-SILC rotational panel; see Section 5.1). The 60% median based at-persistent-risk-of-poverty rate would remain as a Primary indicator, so the importance of persistence would still be recognised.

The income quintile ratio could remain as the headline income inequality indicator, supported by the Gini coefficient in the Secondary set as at present. As is currently the case, no breakdowns would be provided for these indicators.

As far as employment/unemployment is concerned, our proposal would be to keep in the Primary set the “Population living in jobless households” (separately for children aged 0-17 and prime-age adults, and for male and female), and the long-term unemployment rate (by gender and age). The retention of two Primary Indicators of labour market exclusion can be justified by the need to build bridges with the EU Employment Process. At the same time, we feel that these are sufficient. In the interests of pruning, we propose that the very long-term unemployment rate, which in a number of countries is concerned with very small percentages (0.3% in Luxembourg, for instance), and the long-term unemployment share, could be dropped from the Secondary set of common indicators for social inclusion. Regional cohesion (if included at all) would seem more appropriately a Secondary Indicator in the social inclusion context (despite its inclusion as a structural indicator more broadly).

On education, one might use early school leavers not in education or training as the Primary Indicator (broken down by gender), though it has a rather narrow focus in age terms; literacy among 15-year olds could be moved to the Secondary set, where the proportion of the adult population (aged 25 and over) with low education would also be retained.

In the health area we have seen that neither of the two current Primary Indicators seems satisfactory from a social inclusion perspective, though life expectancy clearly captures a central aspect of broader societal welfare. A harmonised indicator of socio-economic differentials in premature mortality, which would be our candidate for the headline set, is not immediately in sight; in the meantime overall life expectancy (by gender and separately at ages of 0, 1 and 60) might be the best option available for a headline health indicator.

Drawing on our earlier discussion of the development of indicators in the areas of housing and homelessness, the aggregate (“absolute”) indicator of housing problems may provide the most satisfactory housing headline indicator in the short term (with breakdowns by gender, broad age groups and at risk of poverty vs. not at risk of poverty); it should be complemented by an indicator on homelessness as soon as data at the EU level will allow (by gender and broad age groups).

One of the other two indicators we suggested based on non-monetary measures of deprivation (in relation to broad living standards rather than housing) could also be considered for inclusion in the headline set. Our proposal is that the “absolute” indicator, more readily available, would be the headline indicator (with breakdowns by gender, broad age groups and at risk of poverty vs. not at risk of poverty), whereas the more “relative” measure would be included in the Secondary set.

Finally, in the next section we suggest, from a children mainstreaming perspective, that there should be a child-focused non-income related indicator, to be included in the set of Primary Indicators.

Our proposals for paring back the indicators are summarised in Tables 5.2a and 5.2b, where we indicate the breakdowns we consider appropriate in each case.

(Tables 5.2a and 5.2b – see Annex 2)

Not all the indicators need be monitored on an annual basis. Less regular publication may be sufficient where structural change is slow, and it may only be possible on account of data limitations. As already noted earlier, some Secondary Indicators, derived via the thematic modules to be included in EU-SILC, could be for instance followed only every four years, this being the EU-SILC cycle. One example is the intergenerational transmission of poverty, which is the focus of the 2005 EU-SILC *ad hoc* module; another could be the link between poverty and social exclusion on the one hand, and social participation on the other, which will be the focus of the 2006 EU-SILC module.

As well as the way the indicators are presented, the way that they are best used also merits careful consideration. In judging the progress made by individual Member States, rankings on the different dimensions of social exclusion will be inevitable, and they have a role to play in bringing “peer pressure” to bear. However, “the purpose of the establishment of a common set of indicators is not a naming and shaming exercise (Vandenbroucke, 2002, page viii). Here we disagree with the proposal of the Kok Report, which said that in the case of the key Lisbon indicators, the European Commission should present league tables with rankings (1 to 25), praising good performance and castigating bad performance – “naming, shaming and faming” (European Communities, 2004, page 43). Indeed, the process can only work effectively with the co-operation of Member States, and this is unlikely to be engaged by castigation. In our view, the aim is not to rate relative performance but to help all Member States to do better. The Commission may wish to highlight the best-performing Member States on particular dimensions and encourage other members to emulate them and learn from their experience. It is important, moreover, to stress that the ultimate concern is with the level of performance achieved, and the consequences of policy choices. In the (unlikely) event that all Member States were performing equally badly, a ranking would give no indication of the need for action. Equally, in a situation where all countries are improving their performance, but with no changes in ranking, then no change would be recorded. Finally, indicators are measured with error, and rankings need to take the margin for error into account: one would not want to put too much weight, for example, on a difference of one percentage point in the at-risk-of-poverty rate. So, rankings are necessarily “fuzzy”, and their real value, rather than in crude headlines, is in pointing to underlying mechanisms and areas where policy can fruitfully be focused. We return to some of these issues in discussing the best way to set targets for promoting social inclusion in Chapter 6.

Composite Indicators

In addition to presenting the individual common indicators, is there a case for trying to summarise some or all of them in an aggregate, composite measure? The popularity of such an approach has been demonstrated by the most widely-known aggregate measure of this kind in current use: the UNDP Human Development Index (HDI), which is a composite of three basic components: longevity, knowledge and standard of living. The rationale given for this procedure in 1990, when it was published for the first time, was that “too many indicators could produce a perplexing picture – perhaps distracting policymakers from the main overall trends” (UNDP, 1990, page 11). The aggregation of separate indices for Gross Domestic Product (GDP), life expectancy and educational attainment has certainly served to broaden the focus from looking only at GDP and has therefore been an important step forward. There are, however, a number of reasons why we should not rush too quickly to reduce a multi-dimensional phenomenon to a single number.

To begin with, it is important to distinguish two different forms of aggregation. The first aggregation combines different characteristics at the individual level (e.g. persons or households), which are then summed over individuals to form an aggregate index. This is for instance the approach we suggested in Section 5.3 for calculating non-monetary indices of deprivation: the focus there is on multiple deprivation at the individual level. An approach based on household welfare then indicates how the separate deprivations should be aggregated into a single indicator for individual persons; alternatively a “counting” approach leads us to focus on those with n, (n-1), (n-2) ... deprivations (see Atkinson, 2003, for an analysis of the differences between these two approaches).

Instead of first aggregating across fields for an individual and then across individuals (first aggregation), the second approach aggregates first across people and then across fields. This second approach is thus a combination of aggregate indicators, as with the HDI. We now concentrate on this second approach - which inevitably involves making social judgments. The problem is illustrated in poverty risk/unemployment space in Figure 5.1 for seven hypothetical countries, ranging from A with low unemployment but high poverty risk to G with low poverty risk and high unemployment. Summation, as in the HDI, adds the two scores: the social welfare contours are therefore 45° lines, and country C is ranked the highest. Even with a linear social welfare function, however, there is no reason why the variables should be weighted equally. If we were to attach a greater weight to the risk of poverty than to unemployment, then country E could take over the lead. Moreover, why should we simply add? Alternatives to simple addition are considered, in the context of poverty indices, by Anand and Sen (1997). One limiting case is that of “Rawlsian” social welfare contours, where we rank countries according to the dimension on which they perform least well. The space is then divided into two. Above the 45° line, poverty risk has priority; below the 45° line, unemployment has priority.

(Figure 5.1 see Annex 1)

One problem with the choice of weights is that these may not conform with those embodied in national policy objectives. This has led Cherchye, Moesen, and Van Puyenbroeck (2003) to argue that the weights should vary across countries according to their own national priorities, as revealed in their performance. If a country regards risk of poverty as more important than unemployment, then we should weight poverty more highly when constructing the synthetic indicator for that country. Cherchye, Moesen and Van Puyenbroeck develop this approach by drawing a parallel with Data Envelopment Analysis in production theory. In essence, this involves asking how close countries are to the “efficiency frontier”, illustrated in Figure 5.1 by the frontier ACEG. All four of these countries score 100%, since none is dominated by another country. There is, for example, always a dimension on which Country E scores better than any other country (it beats G on unemployment and all the others on risk of poverty). They then devise a measure of the distance by which “non-frontier” countries fall short of the frontier, obtaining the weights by solving a linear programming problem. In effect, this is based on the “revealed preferences” of countries – see Figure 5.2.

(Figure 5.2 – see Annex 1)

The efficiency frontier approach is a good example of cross-fertilisation in social science, with a technique developed for one purpose being applied imaginatively to a quite different field. However, it is open to question whether policymakers would find the solution of a linear programming problem less perplexing than consideration of a number of separate indicators. It may appear to be offering a scientific resolution of what is at heart a political problem, ignoring the advice that “weighing together different welfare components should be avoided to the very last so as not to conceal dissensions in a ‘scientific’ model” (Erikson, 1974, page 279). We could drop the linear programming element, and simply rank each country on the dimension on which they perform best, measuring the distance from the best performance. But this would convey the message to national Governments that they did not need to make efforts to improve their performance on the other dimensions. Comparing Figures 5.1 and 5.2, we can see that there is a complete reversal of priorities compared with the case of a Rawlsian social welfare function. It is not obvious that this can be justified.

One feature of the objective functions described above is that, in certain situations, the pay-off to improving performance for a particular country can be concentrated on one of the two dimensions. A country judged according to its better performing indicator can only improve its position by doing even better on that indicator: it invests in success. If the social welfare function is Rawlsian, it can only improve its position by doing better on the dimension where its performance is less satisfactory. In both cases, there is a risk that countries will pursue “bang bang” policies, concentrating on a single objective, rather than a balanced approach to different dimensions of deprivation.

If combining different aggregate indicators into a single number is certainly appealing at first sight, this approach raises thus serious technical issues but also, and this is most fundamental for our purpose, political questions. Those technical and political issues become even trickier if such indicators are to be used for international comparisons and for measuring changes over time. For these reasons, even though composite indicators, like the Human Development index, undoubtedly can play a valuable role in certain contexts, we do not feel that they should be employed as part of the current EU Social Inclusion Process.

Using Indicators to Link EU Policy “Processes”

As well as playing a key role within the European Union’s distinct policy processes, indicators can help in building links across those processes. Naturally, the indicators employed in the different social processes and in the social, growth and employment processes have to reflect the specific concerns of the sphere in question, but they also have to fit together as a whole. As indicated earlier, this report does not consider “overarching” indicators: i.e. indicators providing bridges between the various social processes, and between the social process as a whole and other core EU policy processes. Nevertheless, it may be helpful to give some examples of how indicators can indeed build such bridges.

The Indicators Sub-Group of the Social Protection Committee, which is responsible for the development of the common social inclusion indicators, has equally been working on common indicators in the field of pensions. In assessing the adequacy of pensions, it is not difficult to see that the Laeken social inclusion indicators for older persons, and especially their at-risk-of-poverty rate, can play a central role. Similarly, the indicators being developed in the social inclusion field on premature mortality by socio-economic status and on access to health care (discussed in Section 5.3) are also of central importance in the field of health and long-term care. (Indeed, financial barriers to access to health care are also clearly relevant in assessing the adequacy of pensions.)

Turning to linkage between social inclusion, employment and economy, we have already noted the role of the Primary labour market exclusion indicators. In addition, the “working poor” indicator can play a key role as a bridge between these fields. The Employment Guidelines adopted by the Council in July 2003 for the period 2003-2005 set full employment, improving quality and productivity at work, and strengthening social cohesion and inclusion as the three general objectives of the *European Employment Strategy*. Guideline 8, on “Making work pay through incentives to enhance work attractiveness”, specifies the following: “Member States will reform financial incentives with a view to making work attractive and encouraging men and women to seek, take up and remain in work. In this context, Member States should develop appropriate policies with a view to reducing the number of *working poor*. They will review and, where appropriate, reform tax and benefit systems and their interaction with a view to eliminating unemployment, poverty and inactivity traps, and encouraging the participation of women, low-skilled workers, older workers, people with disabilities and those furthest from the labour market in employment. Whilst preserving an adequate level of social protection, Member States will in particular review replacement rates and benefit duration; ensure effective benefit management (…); consider the provision of in-work benefits, where appropriate; and work with a view to eliminating inactivity traps. In particular, policies will aim at achieving by 2010 a significant reduction in high marginal effective tax rates and, where appropriate, in the tax burden on low paid workers, reflecting national circumstances.”

Tackling this issue involves mobilising complex (and sometimes contradictory) actions in the social, employment and economic fields, but this is more likely to be achieved if the same indicator is being used across these processes. It is worth highlighting that this indicator was first adopted by the Social Protection Committee, and then taken on by the Employment Committee (see Lelièvre, Marlier and Pétour, 2004). This level of cooperation definitely represents an example of good practice, and underlines the importance of avoiding the emergence of different indicators of essentially the same phenomenon in different parts of the EU policy processes.

Comparisons with Non-EU Countries

In the previous Chapter, we made the obvious point that EU Member States could learn from comparisons with other industrialised countries, such as the US, Canada, Japan, Australia, and New Zealand. We noted that in 10 of the 15 cases, the EU structural indicators have been extended to include Japan and the US, but not, unfortunately, the at-risk-of-poverty rate. It would be helpful if the full set of structural indicators could be given, as a minimum, for Japan and the US, and if consideration could be given to developing values for the US for the long list of structural indicators for social cohesion.

More generally, as is argued by Room (2005), the Lisbon process starts from a global diagnosis but the indicators have remained largely rooted at an EU level. We recommend that the EU institutions consider, in collaboration with OECD, the extension of the common social indicators to include comparable data for (as a minimum) Japan and the US. In some cases, such as life expectancy, this should be possible using readily available comparable statistics. In the case of the income-related indicators, it will involve aligning the necessary US data with the EU-SILC process.

Conclusions

1. We suggest a pruning of the Primary set of indicators to a significantly smaller number, with one or (maximum) two headline indicators for each broad area – income poverty, income inequality, employment, education, health, housing and homelessness, general living standards/deprivation, and a new child-focused, non-income-related indicator (together with breakdowns, if and when appropriate, strictly limited to gender and/or broad age groups).
2. In the case of the Secondary set of Indicators, to make room for new indicators, we suggest dropping altogether three of the original Laeken indicators: the persistent at-risk-of-poverty rate set at 50% of median income, the long-term unemployment share, and the very long-term unemployment rate (it should be noted that the persistent at-risk-of-poverty rate at 60% remains, as does the long-term unemployment *rate*).
3. Whatever the value of composite indicators, such as the Human Development Index, in other contexts, we do not feel that they should be employed as part of the current EU Social Inclusion Process.
4. While some “peer pressure” is necessary to maintain the credibility and ambition of the EU Social Inclusion Process, the purpose of the common social indicators is not to name, shame and castigate Member States; and we warn against focusing unduly on country rankings on specific indicators. The aim is to help Member States to do better, and the focus should be on improving the performance of all countries.
5. We recommend that the EU institutions consider, in collaboration with OECD, the extension of the common social indicators to cover as the minimum the US, in view of the importance attached to policy learning (about what works and what does not work) from across the Atlantic, as well as Japan. Canada, Australia and New-Zealand could also usefully be covered.
6. We highlight the valuable role indicators can play in linking across the different social policy processes – with at-risk-of-poverty rates for the elderly and mortality by socio-economic circumstances as concrete examples – as well as between the EU social, economic and employment processes – with the working poor as an important example.

5.5 Children Mainstreaming: Looking to the Future

Since the initial list of indicators was prepared, growing attention has been paid to the position of children. The Social Protection Committee and its Indicators Sub-Group have increasingly moved towards “children mainstreaming”. As we have seen, the March 2005 EU Presidency Conclusions both explicitly referred to child poverty and announced the European Youth Pact, and these are important in the European Commission Social Agenda 2006-2010. In this section, we seek to draw together some of the threads of the earlier discussion by using the position of children as a case study.

As recognised in the Statistical Annex to the 2004 Joint Inclusion Report, “children and the elderly population must be given a special focus within indicators of social exclusion and poverty. In particular, it is recognised that it is especially important not to base the examination of child poverty and social exclusion on one single at-risk-of-poverty indicator (European Commission, 2004b, Annex, page 6). It is therefore recommended by the Indicators Sub-Group to “apply a standard breakdown by broad age groups to all Laeken indicators, where relevant and meaningful” ((European Commission, 2004b, Annex, page 6). Examining the indicators given in that Annex, we see that children (age group 0-15 or 0-17, depending on the indicator) are specifically identified for the following indicators:

- At-risk-of poverty rate (and Secondary Indicator of those below 40%, 50% and 70% of median)
- Poverty risk by household types (single parent households as well as 2-adult households with 1, 2 and 3+ children)
- Poverty risk by accommodation tenure status
- Persistent at-risk-of poverty rate (and using 50% median)
- Relative median poverty risk gap
- At-risk-of-poverty rate anchored at a moment in time
- At-risk-of poverty rate before social cash transfers
- Children aged 0-17 living in jobless households.

Moreover, the breakdown of the at-risk-of poverty rate by the work intensity of households is sub-divided between households with and without dependent children. And the indicator of low reading literacy performance, which had not yet been agreed at the time of the 2004 Joint Report, is focused on 15-year old pupils.

In fact, all except two (since the adoption of the literacy indicator) of these indicators relate to the risk of poverty.[40] The coverage of other dimensions of social exclusion apart from poverty risk is therefore, from the perspective of children, rather limited. From the at-risk-of-poverty indicators, the user can draw significant conclusions regarding the risk of child poverty, as we have seen in Chapter 3. At the same time, it is approaching the issue in the order – indicators, then breakdown. In our view, it would also be valuable to approach the table in the other direction – breakdown, then indicators. For example, a life course perspective suggests that we should consider the different, but inter-related, phases of the life-cycle. For each phase, there will be certain dimensions of social exclusion that are particularly pertinent. In part, these are household variables, such as housing quality and adequacy, and in this case the age breakdown approach will capture what is needed, when an indicator is adopted for this dimension. In other cases, the variables concern individuals, as is the case with health status and education. For an example of an approach to the social exclusion of children that starts from the needs to children, see Ben-Arieh *et al* (2000) and Aber, Gershoff and Brooks-Gunn (2002), the latter referring to the US.

As has been argued by Ruxton and Bennett (2002) in their report *Including Children?*, we need to look at poverty and social exclusion from a children's perspective. This leads them to emphasise, in addition to the dimensions already covered, other mediating factors which may influence later development, including the quality of neighbourhood services. They note the importance of the timing of periods of childhood spent at risk of poverty, and suggest that certain points of transition during childhood may be "particularly sensitive to the damage caused by poverty and exclusion. It is not sufficient to publish only one figure for the total number of under-16s or under-18s living in poor households" (2002, page 37). Their study also contains findings from a Euronet-coordinated project to listen to children's own views about poverty and social exclusion. From these and other considerations, we may wish to consider finer breakdowns of the child population where data allow. These may involve more age categories; they may distinguish rural and urban populations; they may give particular attention to single parent families, etc.

The present indicators do not therefore seem particularly well-adapted from the perspective of children. It is true that the difference between life expectancy at 0 and expectancy at 1 provides an impression of the extent of infant mortality (in the first year); and, in contrast to the life expectancy at 60, can be more properly seen as a measure of differential deprivation. There is a good case for considering the under-5 mortality rates, as

[40] Although we should note that the life expectancy indicator is calculated at 0 and 1.

investigated by Micklewright and Stewart (2001) in their study of child well-being in the EU and the impact of Enlargement. But consideration should be given to child health and not just mortality, and the present self-defined health status indicator relates only to those aged 16 years and over. In the same way, for education we need to look at younger ages. The early school leavers indicator relates to those aged 18 to 24, not to those missing primary education (see Micklewright and Stewart, 2001, for discussion of enrolment rates), or repeating their early secondary school years.

Children mainstreaming suggests starting earlier. We need indicators that reflect the current experience of children. We recommend in fact that there be a Primary Indicator which is "child-focused" (we left space for this indicator in our pruned set of Primary Indicators discussed in the previous section). This should relate to a non-income-related dimension, although we leave open the choice of dimension. To give an example, it would be very desirable to develop an indicator for the health of children. With the introduction of the European Health Interview Survey (see above), using existing data and fieldwork, it may be possible to build a module for child health. Or the child-focused indicator could relate to schooling, where we need direct measures of early school attendance and performance, to supplement the attainment measures at age 15 or later. These could cover school truancy or drop-out rates. The Key Priority focus on children in the 2004 Joint Report was particularly concerned with "early intervention and early education initiatives which identify and support children and poor families" (European Commission, 2004b, page 36). This suggests that we need to consider the evidence that can be assembled for educational performance at earlier ages. There are evidently serious difficulties in achieving comparable indicators, given the institutional differences across Member States, but Member States could be encouraged to include national indicators in their National Action Plans. These are an important part of human capital investment.

The essentially dynamic nature of the life course approach means that we should give explicit attention to the timing of different variables (an aspect to which we have already drawn attention and that is emphasised by Erikson, 2002). We are concerned about social exclusion both in terms of its immediate consequences and of its impact on future outcomes. We need to have forward-looking indicators, capturing the investment that is, or is not, being made in the future of children. Here there may be an important role for indicators of public services. Moreover, current indicators may measure the impact of past exclusion. For instance, the early school-leaving indicator may be interpreted as capturing the effects of *past* deprivation. The person aged 20 without educational qualifications in 2004 may have been the child of 10 in 1994 who was truant from school.

Inter-Generational Transmission of Disadvantage

An important element in the life course approach is the inter-generational transmission of disadvantage. As mentioned earlier, EU–SILC has included, as one of its annual thematic modules, a 2005 module focusing on the intergenerational transmission of poverty. Several distinct strategies have been employed by social scientists to capture the overall degree of association between the socio-economic circumstances of parents and their offspring. Sociologists have tended to concentrate on either educational attainment or occupation, whereas economists have tried to study income and earnings. All face challenges, both in data collection and in the interpretation of the findings.

The data issues have been extensively considered, notably those concerning the situation where retrospective information is being obtained in a cross-sectional survey from the offspring about the circumstances of the older generation many years ago. This makes the relationship between current and parental income, for example, particularly difficult to capture reliably via such an approach. Since the educational attainment level of their parents, or their occupation, are more likely to be known by offspring, the relationship between educational outcomes across the generations could be a better indicator of transmission on which to focus. Social class mobility, as captured by occupation-related information and categorised in a common framework such as the commonly-used Erikson-Goldthorpe class schema,[41] would represent an alternative. The comparison of mobility across countries has been an active research field (see Breen, 2004). In a number of Member States, for example the Czech Republic and the UK, there is concern about the differential chances of entering university education depending on the education of parents.

It is important, however, to remember that the indicator is being employed in a social exclusion context. We are not here concerned with mobility *per se*. We are interested in the parental background to the extent that it helps us understand why certain children are disadvantaged and why they are unable to acquire the skills and capabilities required in today's labour market. (We concentrate here on education.) It is here that the human capital perspective is invaluable. There is a great deal of difference between seeing mobility in terms of competition for a fixed number of scarce places and seeing mobility in terms of allowing the disadvantaged to join the better qualified. To use a sporting parallel, in the former case there is a swimming race; in the latter case we are seeking to ensure that all win swimming certificates.

This perspective helps resolve some of the understandable concerns about how to interpret parent-child correlations in a situation where the world of the parents was very different from that of the children today. For example, it is argued that the expansion of educational participation, and thus shifting proportions in different educational categories over time, makes it difficult to make sense of observed changes in the degree of association. If the level of educational attainment has intrinsic value, and is not simply a ranking device, then it can be expected to have a positive relation with the capacity of the children to themselves progress in acquiring education. This in turn provides an instrumental reason for concern with Indicator 9, the proportion of people aged 18 to 24 with only lower secondary education and not in education or training. A reduction in that score today pays dividends in the future.

Drawing conclusions about mechanisms from the observed association of status across generations depends on a degree of stability in the underlying structure. In the present EU, there are a number of countries where this assumption is questionable. As was noted by the Statistical Bureau of Latvia, "Latvia has experienced fundamental political and socio-economic changes (repression, communism, collapse of the Soviet Union). [This] could be a hindrance in analysing the factors of the respondents' and their parents' welfare and making conclusions about the intergenerational transmission of poverty" (communication to the authors).

Conclusions

In this section, we have explored some of the implications for the design of social indicators of approaching social inclusion from the perspective of children. Rather than developing the indicators and then seeking interesting breakdowns, we are starting from the needs of a potentially vulnerable group and asking what indicators are suggested. This leads us to propose a Primary Indicator which is "child-focused". This should relate to a non-income-related dimension, although we leave open the choice of dimension, which could be for instance child health or child educational performance/attendance at a younger age.

[41] This sees individuals as occupying a limited number of common positions in the social structure in terms of social power, based on possessing similar resources and consequently facing similar possibilities and constraints in terms of life-chances (see Erikson and Goldthorpe, 1992).

5.6 Concluding Comment

As we noted at the outset, the design of the EU common indicators is a dynamic process. The Laeken indicators were only the first step and it was recognised at the time that indicators needed to be developed for homelessness and that the health indicators needed to be enriched. The arrival of the new EU data source, EU-SILC, has provided an impetus to develop the indicators further, and we have suggested some respects in which there remain open questions. Enlargement has brought out new features, and we have considered the role of EU-wide indicators and of the new deprivation indicators that are under discussion. There are new policy concerns, which we have illustrated by reference to the risk of child poverty.

There are two points that we would like to emphasise in conclusion. First, the income-related indicators, whatever their limitations, are now relatively well developed, and the non-income-related indicators should now be the principal focus of attention. As we have shown in Figure 3.11, they present a rather different picture of the position of Member States, and the degree of correlation has been changed by Enlargement. Secondly, there is a natural tendency for indicators to proliferate, and we have ourselves suggested adding to the list. In order to retain focus, it is important that there be a regular pruning process.

Chapter 6
Taking Forward the EU Social Inclusion Process

6.1 Streamlining the EU Social Processes
6.2 The Role of Targets in the Social Inclusion Process
6.3 Key issues in Setting National Targets
6.4 Framing EU-Wide Targets
6.5 Embedding the Social Inclusion Process in National Policies
6.6 The Pivotal Role of *Restructured* NAPs/inclusion
6.7 Working Towards more *Joined up Government*
6.8 Mobilising all Relevant Actors and Bodies
6.9 Conclusions

In Chapter 2, we described the new context within which the Social Inclusion Process is now being taken forward. Alongside the new (2005) Lisbon governance cycle, there will be a simplification and streamlining of the reporting mechanisms under the Open Method of Coordination on social, protection and social inclusion (European Commission, 2005h and 2005i). The annual Joint Report on Social Protection and Social Inclusion would remain a separate document, not be integrated into the "renewed" Lisbon strategy, although information relevant to the Lisbon strategy goals are also expected to be reflected in the national reform programmes (see Section 2.3). Member States are due to submit in 2005 implementation reports on their NAPs/inclusion, in which they explain how they have implemented the actions established in the Plans.

In the preceding three Chapters, we have sought, in Chapter 3, to learn from the evidence about poverty and social exclusion from the common social indicators, to describe in Chapter 4 how policy analysis in the EU can be strengthened, and to develop in Chapter 5 the set of social indicators. In this Chapter, we ask how the EU Social Inclusion Process can be taken forward in the context just outlined. In particular, we consider two ways in which the process can be deepened. The first is the use of targets at national and EU level. The desirability of setting targets has already been recognised at the highest EU political level, at the Barcelona European Council in spring 2002. In this Chapter we look at the role which target setting has played to date in the Social Inclusion Process, and discuss how the setting of ambitious but achievable targets might assist the Process reach its full potential. This involves an examination of the varying roles assigned to national targets by different Member States in their National Action Plans on Social Inclusion, followed by consideration of key issues in pushing forward the use of national targets, and finally a discussion of how EU-wide targets might best be approached, balancing ambition and achievability.

The second form of deepening involves embedding the Social Inclusion Process more firmly in domestic policymaking. A necessary condition to guarantee a credible and meaningful Social Inclusion Process is to truly embed it in national and sub-national policy formation. In this context, the Chapter underlines the pivotal role of *restructured* NAPs/inclusion, which should therefore be preserved under the streamlined process, and makes practical suggestions regarding the way NAPs/inclusion could usefully be re-focused and re-organised in actual "action plans" (i.e. strategic planning documents). Following on from this, the Chapter emphasises the need for *joined up Government*, committed political and administrative leadership, and parliamentary scrutiny to guarantee a credible and meaningful Social Inclusion Process. It then discusses the importance of raising awareness of the EU Social Inclusion Process, and of further mobilising the different actors involved in the fight against poverty and social exclusion at both the national and EU levels.

6.1 Streamlining the EU Social Processes

As explained in Chapter 2, the Council decided in October 2003 to implement a “streamlining” of the EU social processes covering the fields of social inclusion, pensions, and health and long-term care. In its Communication (2003c), the Commission referred to *Social protection* rather than *Social protection and social inclusion*. However, to better stress the diversity and specificity of the social policy issues covered, and in line with the separate treatment of social inclusion and social protection in the Social Policy Agenda adopted by the December 2000 Nice European Council, the Commission and Member States have agreed that an explicit reference to both *Social protection* and *Social inclusion* was more appropriate. It is indeed essential that social inclusion not be seen as synonymous with social protection, but rather as an issue for economic and employment policy as well as social policy. Streamlining of open coordination in the social field was to have been accompanied by a synchronisation of the timetable for the various EU processes – social, employment and economic - but this “double streamlining” has not materialised in the present cycle (see Chapters 1 and 2), although it may be achieved in later cycles.

Even single streamlining (i.e. synchronising and rationalising existing individual EU social processes) poses a major challenge. What would be lost if we were to collapse the number of dimensions under consideration? How can critics be persuaded that streamlining is part of deepening, not weakening, the Social Inclusion Process? Can Member States and the EU (including the European Parliament) commit themselves, both politically and administratively, to work together towards ensuring the robustness of the individual EU social processes? Can they be anchored nationally and integrated with Member States’ policies? These are large questions. Here we begin, in this section, by considering the first.

Individual Social Processes

Could the various aforementioned requirements be satisfactorily addressed under a streamlined Social Protection and Social Inclusion Process that would not retain the specificity of each individual social process? Or, put differently, could the Member States and the EU build an effective streamlining, which would allow putting a stronger focus on delivery and synergies across the areas (social inclusion, pensions, and health and long-term care), without respecting the distinct *identity* and *visibility* of individual processes?

One could (rightly) argue that the real risk of weakening the individual processes is not so much their streamlining as the political options taken by individual Governments - either in the name of subsidiarity (“we know how to solve our domestic problems without help from the EU”) or in the name of very liberal/ anti-welfare ideologies. It is true that the decision to integrate NAPs/inclusion with national policy formation is first and foremost a national *political act*. Even under the yet-to-be-ratified *Treaty establishing a Constitution for Europe*, at least until the suggested Article I-15 is given some real flesh[42], the progress of the Open Method of Coordination will always depend on the voluntary adhesion of Member States based on the belief that it is useful for policy exchanges and does not create too many

[42] Article I-15 on “the coordination of economic and employment policies” (Part 1 of the Treaty) opens the way to coordination rather than intergovernmental cooperation in the social field (see Chapter 2, Section 2.3).

additional constraints. This being said, a Social Protection and Social Inclusion Process that would not respect (and in fact build upon) the specificity of the individual processes is likely to make this necessary political dynamic significantly more difficult and hypothetical. The reason is that the (currently) three social processes proposed for streamlining all have quite different characteristics and challenges. They relate to different populations, require the involvement of different stakeholders at national and EU levels, and are at different stages of maturity. The necessary involvement of the various EU-level Committees (those concerned with social protection and social inclusion, with employment, with economic policy coordination, with health and long-term care) and of the various Council formations also differs over these areas.

For all these reasons, an effective streamlining can only be achieved while retaining the specificity of each individual process and while further consolidating the various “acquis”. This has at least two important consequences:

1. In early 2006 (see Chapter 2, Section 2.3), the Council is expected to decide on the implementation of the streamlined Social Protection and Social Inclusion Process, which will require *inter alia* an agreement on a consistent set of common objectives. In view of the above, these objectives may not be reduced to a set of *across-the-board* objectives. Even though such objectives may certainly be very useful “cement” in the organisation of the various streamlined EU social processes, they would unavoidably be extremely broad objectives and would therefore have little relevance for concrete policy action. In other words, it is important that for each of the streamlined social policy areas, the respective “pillar” of objectives contains ambitious though realistic challenges along the lines of those defined in Nice (for social cohesion) and Laeken (for pensions). It is also important that *in addition to* these specific objectives, a limited number of broad (horizontal) EU across-the-board objectives be also agreed upon in order to help define the scope and ambitions of the unified social policy framework; this objective would need to be consistent and interconnected with the Broad Economic Policy Guidelines and the Employment Guidelines (the new Integrated Guidelines).
2. The essential critical analysis of the individual social processes requires *separate* reports (NAPs/inclusion, national Strategy Reports for pensions), providing detailed and contextualised information (see for instance Sakellaropoulos and Berghman, 2004, Vandenbroucke, 2002). In order to boost mutual learning and exchange of good (and bad) practices between countries, these reports need to be reviewed by Member States and the Commission in *specific* peer reviews, focused on a single process (e.g. only on NAPs/inclusion as far as the Social Inclusion Process is concerned), rather than *general* peer reviews (covering the various processes). The separate exchanges of information and peer reviews for each of these quite heterogeneous processes are key conditions for fruitful exchanges. Put simply, one cannot expect participants in peer reviews to have a range of expertise that covers all of the social domains. As we have argued in Chapter 4, policy analysis needs to become more, not less, professional.

NAPs/inclusion (restructured along the lines suggested in Section 6.6) as well as national Strategy Reports for pensions and future national Strategy Reports on health and long-term care should thus be maintained as *specific components of a unified social protection and inclusion framework*. This is the only way in our view to ensure a sufficiently incisive approach to policy evaluation. Moreover, preservation of the distinct *identity* and *visibility* of the individual social processes is crucial for an effective Open Method of Coordination: awareness of the process is a condition for public and political attention, which in turn is a *sine qua non* for successful open coordination. If, as we believe, the final goal of the open coordination is to improve performance of all the Member States and try to bring them all to a high level, then the awareness of the process has a role to play in bringing to bear the necessary *peer pressure*.

It should be noted that in March 2005, the first Joint Report on Social Protection and Social Inclusion was adopted by the Council (European Commission, 2005b). This Report replaces the Social Protection in Europe Reports, the Joint Reports on social inclusion and the Joint Reports on pensions. It has a central role to play in the Social Protection and Social Inclusion Process: it has to "streamline" the results of the individual social processes into a coherent social input from the EPSCO Council to the Spring European Council; and in doing so, it has to identify ways of improving implementation, delivery and synergies across the areas. The fact that this Report is prepared at the same time as the other reporting instruments in the run-up to the Spring European Council (in particular, the Guidelines' package for economic and employment policies and the Commission's Spring Report) should help ensure the consistency but also the complementarity between what should be a coherent social input and the parallel work carried out in the framework of the Broad Economic Policy Guidelines and the Employment Guidelines.

6.2 The Role of Targets in the Social Inclusion Process

Against the background of a Social Inclusion Process that is streamlined in the way described above, we can go on to consider the deepening of this process, beginning with the issue of target-setting. In the first round of NAPs/inclusion, submitted in 2001, only a minority of the then 15 Member States had outcome targets. Furthermore, not all these targets were systematically linked to indicators to be used for monitoring progress towards achieving them. A few did have high-level national targets, notably Ireland which already had such a target at the core of its *National Anti-Poverty Strategy*, framed in terms of a domestically-developed measure of "consistent poverty", which combines being at risk of poverty with experiencing basic deprivation (see Chapter 5). The UK presented a number of specific targets relating to the activities of different Government departments, as well as a commitment to eradicate child poverty; the Netherlands set targets for reducing early school leaving, illiteracy and "unhealthy life years"; and Sweden set out a target for reducing welfare dependency (as well as increasing employment). Overall, though, the setting of targets for key outcomes was rare and their coverage extremely patchy.

When it came to the second round of NAPs/inclusion, the March 2002 Barcelona European Council stated:

"The European Council stresses the importance of the fight against poverty and social exclusion. Member States are invited to set targets, in their National Action Plans, for significantly reducing the number of people at risk of poverty and social exclusion by 2010."

The thinking behind this, and a detailed elaboration of how Member States might approach target-setting, was contained in the Common Outline for the 2003-2005 NAPs/inclusion agreed upon between the Social Protection Committee and the European Commission. The point of departure was that Member States were encouraged to take into account lessons and weaknesses identified from the first round of NAPs/inclusion. In that light, more attention was to be given to, *inter alia*, setting clear objectives and specific targets for the reduction of poverty and social exclusion. To meet the EU objective of making a decisive impact on the eradication of poverty and social exclusion by 2010, an overall coherent strategy for tackling and preventing the risk of poverty and social exclusion should be presented. This should contain long-term objectives for the eradication of poverty and social exclusion. The priorities for the two-year period from July 2003 should also be specified.

It was clear from the Common Outline that these statements of objectives and priorities were intended to go beyond the general and aspirational. It spelt out that quantified targets should be set for reducing the number of people at risk of poverty and social exclusion. These should draw as appropriate on the commonly agreed indicators but also take into account other issues identified in the Report on indicators for social inclusion prepared by the Social Protection Committee and endorsed by the December 2001 Laeken European Council (see Chapter 2) - such as access to healthcare, housing and homelessness, literacy and numeracy. When necessary they should also draw on national data where these data reflect better those aspects of the risk of poverty and social exclusion that are a priority for a Member State, or where national data are more timely than those available on a comparable basis. The Common Outline emphasised the importance of statistical capacity in this context, since the setting of targets and indeed the use of indicators to monitor progress depends on the availability of relevant and timely data. Thus, as well as setting targets in their NAPs/inclusion, it encouraged Member States to identify gaps in existing data and to further develop their statistical infrastructure.

The Common Outline explained that such targets are important for a number of reasons. They can be a significant political statement of purpose; a goal against which to measure progress, a tool for promoting awareness of the process and mobilising support around it, and a focal point around which to concentrate effort (Social Protection Committee, 2003b). The distinction was drawn between outcomes versus policy effort targets, with a clear preference for the former: "Although performance or outcome indicators are strongly preferred, policy effort indicators could be used when performance or outcome indicators are not measurable." Given the multidimensional nature of poverty and social exclusion it would be useful to have targets that cover a number of key dimensions. For targets to make a political impact and to contribute to awareness raising, selecting a small number of headline or global targets for poverty reduction by 2010 should be considered, complemented by more detailed targets covering very specific aspects and intermediate targets that allow progress from one plan to the next to be assessed.

The targets envisaged for the NAPs/inclusion at this stage of the Social Inclusion Process are clearly national, rather than EU-wide targets. At the same time, it was envisaged that some Member States might make use of the common indicators to help them to benchmark their performance against other Member States – for example by using the average performance of the three best performing Member States on a particular indicator to set a benchmark of what it wants to achieve.

We review below the role that targets play in the NAPs/inclusion prepared by the 15 Member States submitted in 2003, and in the plans prepared by the ten countries newly acceding to the EU in May 2004. We then consider in the following section a range of issues in relation to such national target setting, many of them highlighted by the gap between the approach suggested in the Common Outline and the actual treatment of targets in the national plans.

Targets in the 2003 NAPs/inclusion in the EU-15

There was wide variation across the 15 EU members in the way they responded to the Barcelona European Council invitation to set targets in their 2003 NAPs/inclusion, as is illustrated by Table 6.1 (drawn from European Commission, 2004b). Overall there was certainly a greater emphasis on targets than in the first round, and a number of Member States set targets in terms of the Laeken common social inclusion indicators. Notably, Spain, Greece, and Portugal set quantified targets that include the "at-risk-of-poverty" rate (see Table 2.2a). The three countries in fact adopted similar structures in framing targets, setting out ten (Greece, Spain) or twelve (Portugal) main objectives, national social targets, or major challenges, of which the first related to the at-risk-of-poverty indicator. In the case of Spain, the stated aim was to reduce the number of people with a level of income below 60% of the average by 2% during the period of the plan. For Greece, the aim was that by 2010 the percentage of individuals at risk would be down to the EU-15 average. For Portugal, the aim was that the risk of poverty rate would be brought down by 3 percentage points by 2005.

(Table 6.1 - see Annex 2)

Several points are worth making about the way these targets are framed. To do so, we take the three countries – Spain, Greece, and Portugal – for purposes of illustration, but this should not be taken as implying criticism on our part. Indeed, the three countries are to be commended for having made a positive response to the invitation to set targets in terms of the Laeken indicators. The first point is that in setting a quantitative target, the exact definition of the indicator to be employed is critical. In this instance, only the Portuguese plan is entirely transparent, in that it also states that the base level for the indicator in question was 21% in 1999. For Spain, 60% of average income seems likely to refer to the median rather than the mean, since the former is employed in the Laeken indicators, but there is some scope for ambiguity; in the case of Greece the reference is simply to the percentage at risk of poverty: the 60% of median threshold is the central one employed in the Laeken set but 40%, 50% and 70% of the median are also included, so again the precise target is open to interpretation.

The second issue is the time-scale: both Spain and Portugal specify targets for the life of the current plan, to 2005, whereas Greece presents a target for 2010 that is consistent with the Lisbon agenda time-frame. Both approaches to specifying the time-scale have limitations: the former does not constitute a vision or medium-term societal goal, while the latter could be taken to imply, but does not state explicitly, intermediate goals for monitoring purposes along the way. Ideally, a fully worked-out strategy would include both the desired position to be reached by 2010 and a set of intermediate targets to allow progress towards that aim to be monitored, with a feed-back loop to allow policy to respond if it looks to be falling short.

The third issue is whether the target is framed in national or comparative terms: both Spain and Portugal specify a percentage point reduction in their rate, whereas Greece specifies an improvement vis-à-vis the EU average. Finally, and perhaps most importantly, there is little direct linkage between the poverty target and the strategy/policies elaborated in detail in the plans: it is not clear whether these represent a realistic response to the challenge of meeting the target and how this is to come about.

The target for the risk of poverty rate is distinctive even in these three plans in being directly framed in terms of one of the Laeken common indicators. The rest of the set presented in the Spanish plan mostly represent broad goals rather than quantified targets – such as improving coordination of policies, promoting reconciliation of work and family life, strengthening access to new technologies – or relate to specific policy measures, both common across many of the other Member States. The Portuguese plan does set out other quantified targets, relating to for example active labour market measures, childcare and minimum pensions, but these are mostly in terms of policy inputs rather than quantified outcomes.

The Greek plan is unusual in setting out other quantified targets linked to the risk of poverty. These include halving the poverty risk for the over-65s compared with the national average, tackling child poverty so that the situation in Greece for children will be better than the average for the seven best countries in the EU-15, and in terms of persistence ensuring that one in three of those currently at risk have escaped by 2010. It is also interesting that as well as reducing the risk of poverty rate, which is a purely relative measure, the Greek plan also has the aim that the average income of individuals at risk will have risen in real terms by at least a third by 2010. (Again it is worth noting that as stated these targets are not entirely unambiguous.)

Some other countries from the EU-15 did present in their NAPs/inclusion key targets in quantified terms relating to headline outcome indicators, but not framed in terms of a Laeken indicator. Ireland, for example, continued the approach adopted in its first report of highlighting the overall goal of reducing “consistent poverty”. Poverty on this indicator is to be brought below 2%, and if possible eliminated, by 2007. In pursuing this overall target specific attention is to be paid to particular vulnerable groups. Quantified targets in some other dimensions are also presented, notably in health and education. These include reducing by at least 10% the gap in premature mortality from specific causes between the lowest and highest socio-economic groups, and increasing completion of upper second-level education to 90% of the cohort by 2007. These then are examples of quantified outcome targets in other dimensions of social inclusion covered by the Laeken indicators, but once again using national rather than commonly agreed indicators. Some other targets set out in the Irish plan either relate to policy measures or variables – such as social protection levels – rather than outcomes, or are framed in broad aspirational rather than quantified form, again a common feature of many of the targets in the NAPs/inclusion from various countries. Furthermore, no link is made between the “consistent poverty” indicator and the Laeken “at-risk-of-poverty indicator” in the Irish NAP/inclusion.

The UK 2003 NAP/inclusion described the specific targets relating to the activities of different Government departments, set out at the time as part of the process of Public Service Agreements (PSAs). There were around 130 targets covering key areas and intended to focus on outputs and outcomes – for example raising standards in education, improving health etc. The UK NAP/inclusion then states that the National Action Plan sets targets based on the PSAs deemed most relevant to tackling poverty, as well as key targets set by the devolved administrations in Scotland, Wales and Northern Ireland. PSA Target 1 for the Department of Work and Pensions (DWP), for example, is concerned with child poverty and the UK highlights its commitment to ending child poverty, stating that this is the Government’s main focus. The aim is to halve child poverty by 2010 and to eradicate it by 2020. The UK Government has consulted widely on the appropriate measure to be used in monitoring progress, and, as a result, has decided to adopt a “tiered approach”, using a set of inter-related indicators, while keeping income at the core (UK Department for Work and Pensions, 2003). The document refers to the Laeken indicators (par 33), but does not give them any central role.

The NAP/inclusion for Belgium is interesting in explicitly discussing the rationale for the approach it adopts to target-setting. This states that the experience of other Member States (such as the Netherlands, the UK and Ireland) shows that formulation of global and central targets is not straightforward. For this reason, the Belgian plan has decided to work with specific targets, which have the advantage that they are more concrete and can be more easily attained by specific policy instruments, and are thus easier to address. Also, it argues, setting numerous and varied targets is a better response to the multidimensional character of poverty. Such an approach also has an analytic advantage, in allowing the areas where progress is and is not being made to be distinguished. Finally, and importantly in the Belgian context, this approach allows the responsibility to rest with the political level which has competency in the specific area in question. While subsidiarity is much discussed in relation to Member States, we tend to lose sight of the operation of this principle *within* Member States. The Belgian Plan does not then set out a list of the specific targets set, and the subsequent discussion relates to policy measures being implemented. So although the arguments for setting targets are articulated, no targets are in fact set out.

The NAP/inclusion for the Netherlands presents a series of “main objectives”, for most of which a set of targets are given, some broad and unspecific but others quantified. The latter are most common in what is labelled the "social participation" area, but turn out to relate for the most part to employment and unemployment. There are however some other quantitative targets, such as reducing waiting lists for care, reducing early school-leaving and increasing the life expectancy of people of low socio-economic status. Where the targets are concrete, the time-period involved is most often that of the plan, i.e. to 2005, but the one for life expectancy relates to 2020.

Most of the other NAPs/inclusion for the EU-15 make little use of quantified outcome targets, some having virtually no such targets at all other than those in the employment area that had already been adopted in the context of the European Employment Strategy. Sweden, for example, reiterates its targets of an employment rate of 80% and of halving dependence on social assistance between 1999 and 2004. It also expresses concern about the economic impact of sick leave from work, and aims to halve the number of sick days between 2002 and 2008. However, despite a lengthy description of objectives and policies in various areas, other quantitative targets are eschewed. The NAP/inclusion for Luxembourg also focuses on strategic approaches and detailed policy measures and budgetary allocations for different areas, rather than on quantitative outcome targets (with only a few exceptions). The Austrian NAP/inclusion presents a set of key targets which are mostly broad-ranging, such as better coordination of economic, fiscal, employment and social policies or adaptation of the social security systems to the changes in the labour market, and again the focus is on policy measures being implemented in different areas.

In the case of Denmark, the thinking behind the approach to targets is discussed in the following terms: "When mapping out the implications of new legislation, Denmark often applies indicators for changes in income distribution, and distribution considerations generally form an integrated part of economic-policy planning. However, no specific, quantitative targets are set for Danish income distribution development. Consequently, the above indicators do not constitute independent variables for economic policy. However, legislation and action plans, etc., prescribe certain quantitative targets, e.g. for the development in total employment, which may indirectly affect the development of the mentioned indicators. To some extent, other targets and indicators are applied in Danish social and employment policy – often in more specific policy areas. In terms of Danish policy aimed at the most disadvantaged and marginalised groups, the targets typically pertain to the scope of the effort and the range of offers in relation to these groups." (page 7). This approach can be interpreted in terms of the matrix set out in Chapter 4: it starts from a definition of vulnerable groups, but there is considerable distance between such a perspective and the placing of quantitative outcome targets for key dimensions centre-stage in the social inclusion strategy.

The NAP/inclusion for Finland also includes some discussion of the role of targets, when summarising the results of an evaluation of the previous plan whereby a range of experts submitted their views. In that context it was noted "Quantitative goals were considered advantageous in that they made the Plan more tangible, making it easier to monitor its implementation and to evaluate its impact. On the other hand, social exclusion is a multi-dimensional cumulative phenomenon and therefore difficult to reduce to specific targets. … The value of quantitative targets is linked to whether the selected indicators measure the right things and how reliable they are. … fixed-term targets (both qualitative and quantitative) were proposed, to be revised at regular intervals." (page 17). The Finnish plan itself then sets out national objectives across a range of areas, mostly relating to direction of change or broad goal – reduce need for income support, reduce poverty among families with children and prevent inheritance of social exclusion, reduce long-term unemployment, reduce differences in health between population groups, improve availability and quality of services.

The NAP/inclusion for Germany provides another example, using the Laeken Primary and Secondary Indicators as the framework to describe trends and identify vulnerable groups as other Member States do but not specifying quantitative targets, either for these or national indicators (again with the exception of the employment rate for women). Instead, broad political goals are set out:

- Securing Social Equilibrium, Improving Capabilities;
- Organising the Participation of People, Preventing Poverty and Social Exclusion;
- Strengthening Responsibility and Activating Existing Potentials; and
- Making Social Security Poverty-Proof.

In a similar vein, the French NAP/inclusion states that priority is to be given to:

- Restoring independence and dignity for the most vulnerable;
- Striking the right balance between protection and empowerment;
- Reactivating integration and access to economic activity;
- Promoting local initiatives and solidarity.

In a wide variety of areas, aims, strategies and new initiatives under the National Plan are described, but quantitative targets in relation to key outcomes are not set out. Similarly the NAP/inclusion for Italy sets out three main objectives in the fight against extreme poverty: to reduce the number of people living in conditions of extreme poverty; to increase local services for people living in extreme poverty, and to make the homeless "socially visible". Once again the quantified targets relate to the employment rate.

It is worth noting that assigning a limited role to target-setting does not necessarily reflect a lack of focus on quantifying outcomes. The French NAP/inclusion, for example, devotes particular effort to carefully specifying indicators used in tracking progress across different areas, and the Scandinavian countries and Germany provide other examples of countries that place considerable emphasis on quantitative indicators of progress and change. Indeed, some of the countries assigning a prominent role to targets are in a relatively weak position with respect to the depth and comprehensiveness of indicators available. The wide variation across countries in the role assigned to targets to date appears to reflect differing attitudes to the value and appropriate use of public pre-commitment to goals specified in terms of outcome indicators, rather than to the use of such indicators *per se*.

Targets in the NAPs/inclusion in the "New" Member States

The countries which joined the EU in 2004 drew up NAPs/inclusion for the period 2004-2006, following the aforementioned "Common Outline" put forward by the Social Protection Committee, and we now look at the stance they adopted to target-setting. Overall, we can see a similar spectrum to that described in relation to the EU-15, with those giving prominence to quantified targets for key outcomes towards one end, and those emphasising broad objectives and policy measures towards the other. Most of the new Member States are closer to the latter, but there are a number of exceptions, and targets framed in terms of the Laeken indicators themselves are actually more common than in the EU-15 (see Table 6.2, drawn from European Commission, 2005c).

(Table 6.2 – see Annex 2)

The NAP/inclusion for Estonia, for example, presents long-term objectives framed in broad terms – e.g. achieving the highest possible employment rate for the working-age population, preventing long-term unemployment – but also some quantified targets for 2006, when the current plan ends. These include not only targets for employment rates but also for the Laeken at-risk-of-poverty indicator – that no more than 15% fall below the relative poverty line (compared with 18% in 2003), and that the number of children below the relative poverty line be reduced by 2% compared with 2003. Other quantified outcome targets include school completion and life expectancy, while there are also targets set for social protection levels.

Poland's NAP/inclusion sets out a long list of objectives for the desired direction of change in key indicators, such as increasing the number of children participating in pre-school education, promoting tertiary education and adjusting it to the demands of the labour market, radically reducing extreme poverty, limiting long-term unemployment, extending average healthy life expectancy, and so on. Underpinning these are specific targets set out in the National Social Inclusion Strategy (NSIS) (also presented in Annex 2 of Poland's NAP/inclusion). For all these, the concrete indicator against which progress is to be made is specified; some examples being raising the percentage of youth in the relevant cohort in tertiary education to 60%, reducing the long-term unemployment rate to 5%, extending healthy life expectancy to the average level for EU countries, reducing the share of the population living below the subsistence minimum to 5%, and having the Gini coefficient no higher than the average level for EU countries.

The plan for Lithuania sets out a lengthy list of broad objectives, such as upgrading the labour market, expanding public healthcare etc., but some outcome targets are included, notably reducing the relative poverty rate of the poorest population groups by 5-10 percentage points by 2010 and eliminating "extreme poverty" – "Anyone short of food, shelter or warm clothes will be provided with these prerequisite means" (Government of Lithuania, 2004, page 24). (Neither of these targets is entirely transparent, in that it is not clear exactly what is intended in the first case nor how the relevant outcomes are to be measured in the second). Other targets include increasing employment and reducing the duration of unemployment, reducing school dropout, and increasing life expectancy.

In the case of Latvia, on the other hand, a very extensive list of long-term objectives is presented across various areas, and for each specific indicators are noted which will be used to measure progress. On these indicators, sometimes a specific target is given, but more often a desired direction of change is simply stated; indeed, sometimes just the indicator is specified and the desired direction of change is left implicit. The plan for Slovenia identifies target groups and key challenges and objectives in various areas, but includes only a few specific outcome targets to be achieved by 2006, in the employment field. In other areas most of the objectives are set out in very broad terms, such as reducing dependence on social transfers or easing access to health services for people with the lowest incomes. Very much the same is true of the Slovakian plan, which sets out for each area a list of target groups, targets, and indicators, but those targets are broad rather than specific and generally not quantified except in the employment area.

The Hungarian plan sets out a detailed list of targets in different areas, including not only employment but also increasing life expectancy and school completion. As far as poverty and social exclusion are concerned, though, most of the targets are either broad or relate to policy interventions – for example, revising and modernising social legislation, designing a social minimum and introducing general subsistence benefit, or improving the situation and life chances of children living in deep poverty by expanding benefits in kind and in cash. (Exceptions are reducing the number of homeless persons living on the street and reducing the dropout rate of young people from vocational training schools by 15%, and there are also some quantified output targets in the health area.)

The plan for the Czech Republic sets out key challenges – for example, to respond to ongoing structural change and its repercussions on the labour market, to support the long-term unemployed in seeking employment, to address disadvantage in education for groups at risk of social exclusion, to adapt the social protection and health care systems, and to improve access to affordable good quality housing – but not time-bound quantitative targets for outcomes in these areas.

The plan for Malta identifies a set of 12 "Key Priorities", and gives key data relating to each, but only specifies quantified targets for employment. The NAP/inclusion for Cyprus does not set such targets either, but does present a rationale for the approach taken: "Setting targets, at this point in time, would be premature (and possibly counter-productive), since Cyprus is at the stage of first production and evaluation of the statistical information. Given the lack of experience in the use of indicators, it is not known at which level of *effort* a particular *outcome* target corresponds to. An important point of the process which will take place within Cypriot society, during the period of execution of the NAP/inclusion, is the analysis, public discussion (with the involvement of all the players concerned) and finally, the adoption of a cohesive, ambitious and realistic set of targets for 2010." (Government of Cyprus, 2004, page 23)

6.3 Key Issues in Setting National Targets

We have seen that there was wide variation across the EU-15 Member States in their approaches to setting targets in their 2003 NAPs/inclusion. To some extent, this is not surprising, in view of the diversity across Member States in the extent and nature of poverty and social exclusion. Account has also to be taken of the diversity of institutional structures, particularly regarding multi-level Government. Nonetheless, having said that, and acknowledging the role assigned to targets by some of the new Member States in particular, one can only characterise as "disappointing" the overall response of Member States to the Barcelona European Council's invitation to set targets. This is the case across a range of dimensions, and it is worth considering these in some detail, with the approach suggested in the Common Outline for the NAPs/inclusion (Social Protection Committee, 2003b) as a useful point of reference.

First and foremost, most countries did not set what could reasonably be construed as targets "for significantly reducing the number of people at risk of poverty and social exclusion by 2010" (Presidency Conclusions, Barcelona European Council 15 and 16 March 2002), although a minority did so. Others either set out poverty objectives and priorities in a general, un-quantified way or specified quantitative targets that related either to policy inputs rather than outputs, or mostly to very specific rather than high-level outcomes. The Barcelona invitation to set targets flows directly from the Lisbon goal of making a decisive impact on the eradication of poverty and social exclusion by 2010, and has to be seen in the light of that concrete goal rather than in the abstract. This "decisive impact" has to be measurable and demonstrable to the citizens of the Union. By setting targets for 2010 that relate to high-level broad indicators of poverty risk and social exclusion, a Member State *inter alia* sets out a standard against which success or failure could be measured for the country in question. In the absence of such national targets, other benchmarks against which to assess the Lisbon agenda will be required. (Even a comprehensive set of national targets framed without reference to each other would not be the only point of reference in assess whether the Lisbon goal has been reached, but such a set would play a central role.)

The core role envisaged for targets goes beyond this, to playing a key role in the development of the anti-poverty strategies themselves. Setting targets is intended to serve as a spur to the development and implementation of strategies for attaining them. Tight linkage and coherence between targets and strategy is critical if targets are to be more than simply a statement of intent. Here again, this was followed through to a limited extent even in those Member States that did set out high-level targets in their NAPs/inclusion. For the most part one does not get a clear sense of exactly how the stated goals are to be achieved: both broad approaches and detailed policies are often described, but the linkage between those and the achievement of the quantitative outcome targets is left open. Filling in this gap is clearly a very real challenge, not least in analytical terms as we discussed in Chapter 4, but it represents a fundamental part of the development and implementation of national social inclusion strategies.

Another issue about the way targets are framed relates to the time-period involved. The Barcelona summit referred specifically to targets for 2010, consistent with the Lisbon agenda, but Member States more commonly set targets for the period of the current National Action Plan. Clearly both are needed: one would want to see high-level targets for 2010, together with shorter-term targets for intervening points to allow progress towards the longer-term goal to be monitored. It is also worth highlighting that a small number of headline targets may be much more effective as a motivating and mobilizing device than a large undifferentiated set including both very specific and very broad targets. The headline set might well be accompanied by a series of more detailed targets, but they should be clearly distinguished. (This would be consistent with the suggestion in Atkinson *et al* (2002) that the number of 'lead' indicators should be in the range 5–15.)

Similarly, a clear distinction needs to be drawn between outcome and input targets, currently often presented together without differentiation. The role of indicators relating to policy effort and inputs versus outcomes has already been discussed in Chapter 4, but here we wish to draw out the implications for target setting. Member States may well differ in their choice of methods by which common objectives are to be realized, and a primary focus on outcomes in framing targets is consistent with the core principle of subsidiarity. Targeting outcomes means that Member States, in reporting on policy, are encouraged to relate those interventions to the desired/planned impact on outcomes, rather than simply present a catalogue of policy measures as is the temptation for Governments. One of course also wants to know about the impact of specific policy interventions on the outcomes of interest, something that by its nature is often difficult to assess. However, with targets focused on key outcomes, input and impact-related indicators can then help countries to learn from each other about what efficiently works in improving those outcomes. They play their appropriate role, as means to an end, rather than as they are so often presented, as if they were ends in themselves.

Ambitious and Achievable Targets

General principles regarding the best way to frame targets also need to be given more prominence, as experience to date shows that they are often not fully reflected in the targets adopted. As well as being quantified, measurable and time specific, targets should be ambitious *and* achievable. This poses a real dilemma because it may be difficult, in the current state of knowledge, to actually decide what is realistic. However, the Open Method of Coordination focuses attention *inter alia* on cross-country comparisons, and the best-performing countries in particular domains serve to demonstrate what can be achieved. Initial conditions in each Member State and national institutional structures are, of course, extremely important, and long-term underlying societal trends such as demographic shifts and the reduction of the share of the population engaged in agriculture affect income inequality differentially in different countries. One needs to separate out the elements due to policy choice and design. As discussed in Chapter 4, there exist methods for this purpose. Analytic tools such as tax-benefit simulation can help in projecting forward benchmark scenarios against which the level of ambition of targets can be assessed. Significant scientific work is required in this complex area, and researchers have a major contribution to make in deepening the information base for decision-makers.

The problem of linking targets and policy is a major reason why Member States have made relatively little use of the commonly agreed social inclusion indicators in framing targets. Although the Common Outline suggested that this would be preferable where possible, the use of the common indicators in framing targets in the NAPs/inclusion was in fact very limited, with the notable exception of some of the new Member States. Clearly there are areas not currently covered by these indicators, such as housing and homelessness, which some Member States wished to highlight. Even if the scope of the common indicators is extended (see Chapter 5), there will remain areas where national measures represent the only option, but where possible use of the common indicators would be very helpful for the process as a whole. It is worth considering why this has not been the common practice to date. A number of factors may be at work. One reason is that some Member States may be more comfortable with targets framed in terms of outcomes that are domestically the focus of long-standing attention, whereas the common indicators may not be as familiar. National indicators may have a specific meaning in the Member State. The most important reason, though, may be that Governments are not confident that they have the policy levers to achieve targets framed in terms of the common indicators. How confident can they be, for example, that a stated reduction in the numbers below relative income thresholds or in income inequality is achievable and likely to be produced by implementing a specific strategy of policies? And what about other factors influencing the outcome that may develop adversely and make the target more difficult to reach? The perceived absence of clear linkages between national policies and the common indicators, and the uncertainty about the determinants of those outcomes, may thus be the greatest obstacles to the adoption of targets framed in terms of those indicators.

Policy-making is always surrounded by uncertainty, and there is much scientific work to be done to assist policy-makers, but it must be emphasised that this holds true in other areas where target setting has nonetheless been widely adopted. In the labour market area, for example, Governments have adopted targets for reducing unemployment and increasing employment without being entirely sure in advance how those targets are to be met. Setting a target is not a guarantee; it is a statement of the importance attached to the outcome in question and a commitment to implementing policies that have a serious chance of producing the desired outcomes. It is difficult to see how National Action Plans can be effective without stating at the outset what they aim to achieve, in terms of a limited set of key objectives and headline targets. While it is not imperative that these be framed in terms of the common indicators, it is essential – if mutual learning and peer review are to be meaningful – that at a minimum the links be made between these headline targets and the common indicators. To take one example, if a Member State sets a target for the numbers falling below a nationally-defined income threshold, the likely implications for numbers at risk of poverty according to the commonly-agreed definition in the Laeken indicators should also be brought out. In effect, the implied targets framed in terms of the common indicators should be spelt out quantitatively where possible, or if this is not possible they should at least be discussed in a qualitative way.

In our view, whether targets are framed in terms of national or commonly defined indicators is not the critical issue at this point in the evolution of the process. What matters most at this stage is that key outcomes are the focus for monitoring progress and setting targets. Ensuring that the relationship between inputs and outputs is put in proper perspective, moving away from a focus purely on inputs and actions, is the essential step. It would then certainly be helpful for those key outcomes to be based on common indicators or at least linked to common indicators, but bringing about the shift in focus is the critical advance.

The focus of our discussion to this point has mostly been on national rather than EU-wide targets (whereas EU-wide targets are at the centre of the Employment Strategy). The next step in our view is that there should be EU-wide targets set in terms of the agreed common indicators. We discuss in the next section how such EU-wide targets might be framed, suggesting in particular that the approach adopted in the European Employment Strategy –

of specifying a common level on a specific indicator that each country should seek to reach – may not be the best approach.

6.4 Framing EU-Wide Targets

In its Communication to the Spring European Council in Barcelona, the European Commission proposed that the European Council should set the target of halving the EU-wide risk of poverty rate from 18% to 9% by 2010 (2002c, page 16). While this proposal was not accepted, the setting of EU wide targets is likely to remain on the table as an idea. It is therefore important to ask – before there is any serious attempt to garner political support – what would be involved in such a EU-wide target. Would it be a sensible and productive approach? Can we learn from the example provided by the European Employment Strategy? (The Employment Strategy has established the goal of having 70% of the population of working age in each Member State at work by 2010.)

The crucial prior question is of course whether EU targets in the area of social inclusion would actually be a good idea: what would they add to national targets? We see two distinct and substantial arguments in favour. The first is that adoption of such targets would highlight that promoting social inclusion is a key aim of the Union itself. This could have a significant impact on the perception of the Union by its citizens, and assist in ensuring that social objectives are accorded due weight vis-à-vis economic and employment policy as the Union evolves. We have seen in this respect the political saliency of the EU employment target. The second is that Member States might well find it helpful in framing national targets and policies to have a broader frame of reference than the purely domestic one. Again the experience of the Employment Strategy suggests that a common framework for target-setting and policy review has helped Member States to make progress domestically. It may well be that a more ambitious approach, in terms of setting out what can and should be achieved, is encouraged by operating within such a common and comparative framework.

On the other hand, the introduction of EU-wide targets may be counter-productive. It makes no sense to proclaim targets where there is no realistic prospect that they are achievable. Targets can only play the roles described above if they are realistic. This brings us back to the crucial role of policy analysis. In order to establish whether targets are achievable, we need a demonstration of feasible policies to bring about the desired outcomes.

This in turn depends on how the EU-targets are formulated. We illustrate the general issues by considering a particular dimension/indicator: the risk of poverty. There are a number of possible forms that a European target for this indicator could take, including

1. a common target for all Member States (e.g. poverty risk down to x% in all countries), as with the Employment Strategy;
2. an overall target for the European Union, set in terms of the poverty rate for the EU as a whole (the proportion of the total EU population at risk of poverty);
3. different targets for each Member State, scaling poverty risk down to zero;
4. Member States asked to emulate the best performing Member States.

A common target would seem unrealistic given the existing wide differences in performance. Currently available figures for the EU show the percentage falling below the 60% of national median income threshold varying from high single figures up to over 20%. A common poverty target would be very challenging for some Member States and irrelevant for others. An EU-wide target, on the other hand, would in effect mean the largest Member States taking responsibility. As we have seen in Chapter 3, there is considerable concentration of the at risk population. Put differently, a situation in which a small country had a risk of poverty rate of 50% might make little difference to the EU-wide statistic but be incompatible with European social cohesion. The third method takes account of the existing differences. It would require say that a risk of poverty rate of 21% be reduced to 15% and one of 7% reduced to 5%. But in the latter case the required reduction might be small in relation to the measurement error, and there seems a case for a target of the fourth kind, which also seems in the spirit of the Open Method of Coordination. Member States would be set the target of closing the gap on, say, the best three performing countries. Such a criterion should be seen, not as a ranking exercise, but as an application of peer review. The UK Department for Work and Pensions refers in a footnote to such an approach in its report on child poverty: “possible ways to define being ‘among the best in Europe’ could include: having a relative child poverty rate no higher than the average of the best three countries in Europe; having a relative poverty rate no higher than the average of the best four countries in Europe; and, having a relative child poverty rate that was within 2 percentage points of the average of the best three countries in Europe. Achieving any of these on current definitions would mean having a poverty rate between that of Sweden and Denmark” (UK Department for Work and Pensions, 2003, footnote 22).

Does this mean that the three best performing Member States in terms of poverty risk can rest on their laurels? This would only be the case if they were also the best three performers on all other dimensions. (Even then, depending on the level of their performances, they would be encouraged to either remain (within a certain range) at the already achieved level or improve further.) As we have seen in Chapter 3, the rankings of Member States differ across indicators. Nearly half of the EU-25 countries are in the top four on one of the four indicators considered there. Social inclusion is inherently multi-dimensional, and that is precisely why a set of indicators seeking to capture key aspects was recommended by the Social Protection Committee and adopted by the Laeken European Council. Having explicitly recognised this central characteristic in agreeing indicators, it would be inconsistent to now seek to focus target-setting on one indicator, however important. Instead, following through on the approach adopted so far would point towards encouraging Member States to set targets across the dimensions. This would face Member States with complex and inter-related challenges but allow real progress to be registered in the different dimensions of social exclusion. Once again, rather than thinking in terms of targets representing a common level for an indicator across the Member States, it may be best to seek to emulate the best performing countries (an approach adopted in a few cases in the 2003/2004 NAPs/inclusion). National targets may also then be translated into regional or local targets.

6.5 Embedding the Social Inclusion Process in National Policies

So far in this Chapter, we have concentrated on the EU Social Inclusion Process and the interaction with Member States. We turn the spotlight now on deepening process within Member States, and ask how progress could be made towards better anchoring the process in national policies. We have identified a number of the key elements – diagnosis, policy evaluation, and definition of outcome indicators – and we want to suggest how these can be employed to aid the implementation of effective national strategies to combat poverty and social exclusion.

Ireland is the first Member State that adopted a national poverty reduction target. It did so in the context of its *National Anti-Poverty Strategy*, which was launched in 1997 (following on from the 1995 United Nations’ Social Summit in Copenhagen) and thus pre-dated the EU Social Inclusion Process. The way Ireland handled the EU process, a few years later, is therefore informative. The aim of the Irish National Anti-Poverty Strategy was to provide a framework for the efforts of various Government’s departments and agencies and for non-governmental actors. Based on a stated understanding of the key causes of poverty and social exclusion and an explicit definition of poverty, the Strategy set out both a global poverty reduction target and five sub-targets. The revision of the Irish Strategy was only due for completion in February 2002, i.e. several months after the deadline for submission to the Commission of the first (EU) NAPs/inclusion.

It is with this specific social reporting history in mind that we should interpret a recommendation which the Irish National Economic and Social Council, composed of representatives of Government and the Social Partners, made in a report issued in March 2003: the National Anti-Poverty Strategy “should be aligned fully with the EU NAPs/inclusion and should be included in the open method of coordination developing across the EU. As in other areas, there is good evidence that policies for tackling social exclusion in Ireland will benefit from the discipline and systematic comparison involved in participating in peer review at the EU level. It should be a once-off and not insurmountable challenge to subsume the timetable and review procedures of (the National Anti-Poverty Strategy) within those that have been adopted at the EU level for the NAPs/inclusion.” (Irish National Economic and Social Council, 2003, page 355)

This illustrates the added value which the Social Inclusion Process can have for national policies, and in fact does have in various countries. In this (potential) added value we also include the progress made by the new Member States before their accession, in the context of the *Joint Memoranda on Social Inclusion* (JIM) exercise. Thanks to this bilateral cooperation process (Commission/ individual country) already launched in 2002, the new Member States were able to submit their first NAPs/inclusion, and thus to fully participate in the Social Inclusion Process, only a couple of months after their accession. In this Chapter, we do not try to assess the impact that the Social Inclusion Process has actually had on Member States’ national policies. As mentioned in Chapter 2 (Section 2.5), this assessment will be done by the Commission, together with the Member States, as part of the evaluation report that it will produce by the end of 2005 in the context of the mid-term review of the Lisbon process. Our objective here is rather to put forward some practical suggestions on ways of helping to embed the Social Inclusion Process in domestic policy-making, so that national policies can benefit more substantially from its (potential) input.

In our view, NAPs/inclusion have a *pivotal role* to play in anchoring the Social Inclusion Process in national policies. It is only if NAPs/inclusion truly become instruments for furthering both the domestic and EU policy debate that the Social Inclusion Process can attain a credible and meaningful status. *In turn*, if the EU process gets this status both politically and popularly, and, as a result, becomes increasingly visible, then countries will more likely feel that they will be held to account for achieving the common objectives set for the EU as a whole.

6.6 The Pivotal Role of *Restructured* NAPs/inclusion

If NAPs/inclusion have a key role to play in anchoring the Social Inclusion Process in national policies, then they should be preserved, with their distinct *identity*, under the streamlined process to be launched as of 2006. In line with the agreed streamlining (see Chapter 2), NAPs/inclusion will then have to shift from a two- to a three-year cycle; with the next NAPs/inclusion to be then submitted to the Commission in 2006, for the period 2006-2009.

For NAPs/inclusion to play this central role, it is however essential that Member States no longer consider them essentially as a “reporting” exercise, mainly aimed at providing information to other Member States and the EU, but rather as a strategic planning exercise the goal of which is to actually develop an “action plan”. The NAPs/inclusion should not simply be catalogues of major and minor policy measures having some link with fighting poverty and social exclusion, as is often the temptation for Governments. The proper starting point is a diagnosis of the underlying causes of poverty and social exclusion. From this, one can develop an understanding of the potential policy responses, and the linkages between policies and outcomes. As we have seen in Chapter 4, there is at present a lack of penetrating policy analysis in both the NAPs/inclusion and their analyses by the Commission and Member States. There are tools that can be employed – model family analysis and micro-simulation modelling - and, while these have limitations, they offer the prospect of a first step in a systematic process of policy analysis.

The NAPs/inclusion need to be revised in both content and structure. To be more concrete, in order for NAPs/inclusion to develop into “action plans” they should be strictly objective-driven, and the EU common objectives may also need to be reviewed for this purpose (see below). NAPs/inclusion should concentrate on a carefully selected *shortlist* of key national policy objectives, expressed in terms of social outcomes (for the reasons already explained) and framed according to the relevant common objectives. In this highly focused framework, NAPs/inclusion should then solely consider those policy measures aimed at realising the short-listed national priorities, while keeping in mind the need to address all the relevant policy domains in deciding on the measures to be implemented. The selection of policy measures should systematically be based on ex-ante impact assessments (as discussed in Chapter 4). Countries would therefore need to develop their own social inclusion monitoring framework, responding to their national specificities, and including targets and indicators built on reliable and timely data; a national framework that should allow clear links with the general EU framework (in particular, the Laeken indicators and the Laeken methodological framework) and with the national frameworks of the other Member States (along the lines suggested in Figure 2.1). For this, countries would also need to build the required statistical and analytical capacity.

Once these policy measures are adopted, *headline* outcome targets should be set, with the number of such targets having to be small for them to make a political impact; they need to represent concrete statements of purpose and to contribute to awareness raising. As appropriate, headline targets should be complemented by more *detailed* targets covering very specific aspects, and by *intermediate* targets for the time-span of the measures (to allow progress from one NAP/inclusion to the next to be assessed and to serve policy planning purposes); they could also usefully be linked to relevant input targets. All those outcome targets (and possible related input targets) should be linked to concrete indicators for monitoring progress towards achieving them; some (not necessarily all) targets should ideally be framed in terms of the Laeken indicators.

Strategies put in place by countries would therefore need to be broad. As much as possible, they should follow a multidimensional approach cutting across and integrating a range of policy domains, calling for *joined up Government* (see Section 6.7) as well as the *active participation* of all the relevant actors and bodies (see Section 6.8). There has to be widespread “ownership” of the Social Inclusion Process.

We can summarise the above by stating that what we suggest for the *restructured* NAPs/inclusion is that they should follow a focused, targeted and monitored approach, based on what ought to become a “logical flow” (see Figure 6.1; see also Figure 2.1).

(Figure 6.1 – see Annex 1)

We are aware that moving from the current to the suggested NAPs/inclusion represents a challenging task for Member States. Countries would be asked to combine a multi-dimensional with a focused approach, in order to create a number of truly integrated strategies. For this, using the common objectives as their analytical framework, they should carry out a thorough multi-dimensional analysis of the national situation with regard to poverty and social exclusion across all important areas. On the basis of this analysis, they would then have to identify (and justify) the shortlist of key national policy objectives (say 3 or 4) for the period covered by the NAP/inclusion. This may require two-tier objectives: a first tier, consisting of a small number of absolutely fundamental objectives (e.g. concerning jobs, income as well as health and/or housing), and a second tier of important but less "immediate" objectives. Finally, for each key national objective, they would have to develop an integrated strategy, looking explicitly at how each main policy domain can best contribute to addressing it and how the different policy areas can mutually reinforce each other. As we have already discussed, academic research can play an important role. This applies particularly to the diagnosis of the causes of social exclusion and the analysis of the impact of policies on outcomes.

Reviewing the NAPs/inclusion

Re-focusing fundamentally NAPs/inclusion and then maintaining them under the streamlined process after 2006, as we have suggested above, is only sensible if NAPs/inclusion are properly reviewed. The method used for the preparation of the 2001 and 2003 (EU-15) Joint Reports on Social Inclusion, whereby the first draft report is produced by the Commission and then finalised between the Commission and the Council, should we think also be used for the analysis of future NAPs/inclusion. (This same method is used for the preparation of the Joint Employment Reports.) It should be noted that the draft Joint Report is produced by the Commission and then published as a Commission's Communication as a "Draft Joint Report". This way of analysing national contributions is indeed the critical element of the Social Inclusion Process in that it builds on all the components of the Open Method of Coordination: the EU common objectives, the common indicators, the peer reviews and the exchange of experiences and good (and bad) practices.

The final aim of the Open Method of Coordination is to improve performance by all Member States and, ideally, bring them all to a high level. To achieve this, hard-headed analysis is necessary. The European Commission, as the independent EU body, can and must play a central role in conducting such a critical evaluation. Together with the EU Social Protection Committee, it has to be the *driving force* of the Social Inclusion Process, and more generally of the whole open coordination in the social field. The Commission has a number of instruments at its disposal: the peer review process, specialist studies, and the EU documents summarising NAPs/inclusion. The last of these, whether "Joint Reports" *per se* or "Commission Staff Working Papers" (see Chapter 2), can be really useful *only* if they go beyond simple, purely descriptive reporting.

In the European Employment Strategy, country-specific recommendations may be issued upon a proposal by the Commission on the basis of the Joint Employment Report. This is a major difference with the EU Social Inclusion Process where, at the moment, this possibility does not exist. In our view, the time is now ripe to give the Commission the same possibility in the EU Social Inclusion Process, which could be seen in the context of the renewed Sustainable Development Strategy. Once it has assessed the individual NAPs/inclusion, the Commission should then have the power to make recommendations to Member States. This would give something very concrete for national policy makers to focus on and for the Commission to monitor. For the same reason, we believe that the "implementation reports" on the NAPs/inclusion (see Chapter 2, Section 2.5), in which countries are to explain how they have actually implemented the objectives they established in their NAPs/inclusion, are extremely useful as explicit requirements for Member States in relation to evaluation, monitoring and reporting; again, the Commission's monitoring role is essential here to ensure the ambition of the process. But in order for the Commission to carry out this function, it needs the necessary analytical capacity. The research already underway in collaboration with the OECD is an important building block (see Chapter 4), and it would be desirable if the techniques of comparison being developed could be applied to the review of the implementation of the NAPs/inclusion. The potential role of an EU-wide micro-simulation model in the evaluation of the NAPs/inclusion is discussed in Atkinson (2002).

EU documents summarising NAPs/inclusion may then be seen as providing a framework within which other actions may unfold: the analysis and monitoring of the impact of different policies, as well as the structured exchange of information, experiences and good (and bad) practices, which can evolve semi-spontaneously as the Open Method of Coordination matures.

As mentioned in Chapter 2 (Section 2.3), an important aim of the 2002-2006 "Programme of Community action to encourage cooperation between Member States to combat social exclusion" is to boost the exchange of experiences and good practices. In this context, the Commission has launched a peer review programme specifically focused on this aspect of the process. Contrary to the "general peer review" of NAPs/inclusion, organised jointly between the Commission and the Social Protection Committee (and already referred to several times in this report), each of these "good practice peer reviews" is hosted by the Member State which submits the practice for review. These highly targeted reviews, which therefore aim at supplementing the general ones, are carried out by a group of decision-makers from peer countries, European Commission's representatives, independent experts and stakeholders' representatives – who all share a special interest in the experience and transfer of the policy. They are intended to assess whether and how each reviewed policy, regarded as a good practice in a national context, can effectively be transferred to other Member States. For this reason, they are expected to be based on existing evaluation or early monitoring data even though, in the practices selected so far, this crucial assessment/ monitoring aspect may not always have sufficiently been present.[43]

To date, when people have considered the exchange of good practices, they have tended to have in mind policies rather than institutional or process issues (though not in the "transnational exchange projects"). In our views, however, good practices in terms of processes are at least as important, if not more, and should therefore be more systematically identified, especially in the areas of social policy monitoring and statistical capacity building. It should be noted that specific national characteristics, and therefore also related subsidiarity issues, are likely to be much less of an issue for these practices than for actual policies; the "transferability" of these practices among countries could then be much higher than that of specific policies. Some of the 31 projects of the current Transnational Exchange Programme[44] deal with process rather than specific policy areas. For example the Irish Combat Poverty Agency led project examines approaches to mainstreaming social inclusion in national policy making, and the UK University of Warwick led project looks at the role of local authorities and social inclusion and how to develop local anti-poverty strategies. Some of the aforementioned "good practice peer reviews" have also addressed process issues at local level, which include an examination of the question of the mobilisation of all relevant stakeholders and public authorities to tackle social exclusion.

6.7 Working Towards more *Joined up Government*

As already emphasised, combating poverty and social exclusion in its multi-dimensionality requires coordinated actions between various agencies of the national Government as well as, depending on national institutional arrangements, various agencies of the regional and/or local Governments. All the social inclusion policies indeed potentially

[43] For more information on peer reviews of good practices, see: http://www.europa.eu.int/comm/employment_social/soc-prot/soc-incl/prp_en.htm
Newsletters issued in this context can be downloaded for free from: http://www.peer-review-social-inclusion.net/

[44] See: http://www.europa.eu.int/comm/employment_social/social_inclusion/tep_en.htm

involve joint action by different agencies. NAPs/inclusion provide therefore a unique opportunity for all levels of Government to come to a shared focus on social inclusion, and to work together on setting shared outcome targets and developing related successful anti-poverty and social exclusion strategies; the Open Method of Coordination is thus to be seen as a means to promote coordination not just *across* Member States but also *within* individual countries. The EU choice to primarily focus on social outcomes rather than the means and financial resources by which they are achieved should ease the required cooperative attitude between the various bodies that have competence in these areas.

The extent of devolution of responsibility from the national to regional and/or local Governments varies across Member States, but the NAP/inclusion, together with its targets and indicators, provides a focus for all levels of Government. When Member States are setting national targets, it is to be hoped that lower-level Governments will be concerned to monitor the local performance. This is especially important where responsibility for provision of services etc. is being devolved to the local level, where it is important to monitor that this does not lead to new inequalities.

Streamlining makes joined up Government even more important, and a key objective of integrating NAPs/inclusion with national policy formation should be to ensure that a concern with poverty and social exclusion is *mainstreamed* into all policy areas – i.e. that every agency, belonging to the different levels of Governments, should be required to make tackling/ preventing poverty and social exclusion a core objective built into its annual work programmes and possible strategic plans (see below). In line with the approach agreed in Lisbon, it is essential in particular that Member States coordinate the preparation of the NAPs/inclusion and NAPs/employment, so that each reinforces and complements the other. To the extent possible, Member States should also indicate what budgetary resources are being committed to each major policy measure adopted in the context of the NAPs/inclusion and any additional resources that might be committed over the period covered by the NAPs/inclusion; in doing this, they should also specify the contribution of EU Structural Funds, especially the European Social Fund, whose potential in the fight against poverty and social exclusion should be exploited to the full. The targets set in the NAPs/inclusion "need to be borne more in mind by Member States when setting overall expenditure priorities, including the expenditure of Structural Funds. And more needs to be done to ensure that economic, employment and social policies are *mutually reinforcing*." (European Commission, 2004c, page 19) It is essential to see Government policy as a whole. The overall impact of the Government budget, for example, has to take account of the interaction between different policy measures.

To help anchor the Social Inclusion Process firmly in domestic policy-making, countries should aim at building the objectives and targets contained in their NAPs/inclusion into other core policy Government's documents such as national development plans, Government's programmes or Structural Funds Plans.

Implementing this in a coordinated manner requires a strong, committed political leadership at the national level. Political responsibility for the NAP/inclusion should be assigned to a single Minister whose activities in the context of the plan would be supported by an inter-ministerial committee; this committee should consist of ministers coming from all the relevant levels of Governments. Ideally, the committee would be chaired by the Prime Minister, who could more easily give overall political direction to the process. Political leadership at EU level would also be necessary. In our view, for instance, the Commissioner in charge at the European Commission should regularly discuss the implementation of the Social Inclusion Process at the Council; not only with the social affairs Ministers of the different Member States, but also with both Ministers responsible for Employment and Finance Ministers. And at their annual Spring European Councils, when discussing the shape of policies designed to drive progress with the Lisbon Strategy and the implementation of concrete actions to be taken in this context, EU leaders, together with the President of the European Commission should also specifically address the issue of progress made under the Social Inclusion Process.

This increased (committed) political leadership should go together with an increased parliamentary scrutiny, in order to satisfactorily cope with the *democratic deficit* of the Open Method of Coordination currently applied to the Social Inclusion Process and in fact to the OMC in general. (The Commission expressed the view, in its May 2003 Communication on the streamlining of the EU Social Protection and Social Inclusion Process (European Commission, 2003c), that in creating a streamlined process in the social policy field, methods to involve the European Parliament as appropriate and practical should be seriously explored.) For this reason, we think that NAPs/inclusion ought to be debated in national (and where appropriate regional) parliaments and that their actual implementation should be regularly monitored by the parliament(s) and relevant parliamentary committees. Similarly, the role of the European Parliament in scrutinising the whole process would have to be strengthened, and links between the European Parliament and national (regional) parliaments in this respect ought to be encouraged (possibly through the *Conference of Community and European Affairs Committees of Parliaments of the European Union* (COSAC), which aims to ensure cooperation between committees of the national parliaments dealing with European affairs and representatives from the European Parliament[45]).

Apart from strong political leadership at both the national and EU level, implementing NAPs/inclusion will obviously also necessitate strong administrative leadership and coordination. As is already the case in several Member States, countries we believe should have a committee of senior civil servants from all relevant departments to oversee the concrete implementation of NAPs/inclusion. Reporting to this committee, an inter-departmental group of officials should then coordinate the development of NAPs/inclusion as well as their implementation and monitoring on an ongoing basis (liaison officers responsible for the NAPs/inclusion in each ministry/ department could also usefully be appointed). This inter-departmental group would also be tasked with developing poverty and social exclusion impact assessments for policies not included in NAPs/inclusion and not specifically aimed at increasing social inclusion, so that policy proposals coming before Government all have to take into account the potential (positive or negative) impact they may have on poverty and social exclusion. Existing policies should also regularly be reviewed for their impact on poverty and social exclusion.

With the same logic and, as agreed in Lisbon, with a view to further integrating social inclusion, employment and economic policies, the same group could also usefully monitor and report on the impact of specific employment, economic and sustainable development policies on social inclusion; it could then systematically work at identifying possible ways (links/ synergies) of adjusting such policies to strengthen their contribution to promoting social inclusion. (We would like to emphasise that generalised and systematic impact assessments (rightly) form an integral part of the EU *Sustainable Development Strategy* launched at the June 2001 Göteborg European Council, as recalled at the Spring 2002 Barcelona Summit: “To promote sustainability, policy needs to become more coherent. In this context it is essential that ex-ante impact assessments of policies are performed. … A sustainability impact assessment should be carried out for all major internal and external policy proposals, analysing their economic, social and environmental consequences”.) A good example of the need for joined up thinking is provided by the research agenda identified earlier in the Report. We have argued that the strengthening of policy analysis and evaluation depends on social science research. At a European level, EU RTD Framework Programmes have supported such research, and this needs to be taken into account in the

[45] COSAC was created in May 1989 at a meeting in Madrid, where the speakers of the Parliaments of the EU Member states agreed to strengthen the role of the national parliaments in relation to the community process by bringing together the European affairs Committees. The first meeting of COSAC took place in Paris in November 1989.

design of the 7th and subsequent Framework Programmes. The potential support of the Community action programme to combat social exclusion (see Section 2.2) should also be exploited to the full.

Properly joined up Government, political and administrative leadership, parliamentary scrutiny, and research, should help ensure that the social dimension gets proper attention and is not treated as purely subsidiary. They should also help ensure that support and advocacy for the *three*-pillar strategy reaches beyond Governments through an extensive participatory approach, which brings us to the next section.

6.8 Mobilising all Relevant Actors and Bodies

A core objective assigned by the December 2000 Nice European Council for the EU Social Inclusion Process, and confirmed by the EPSCO Council two years later, is “to mobilise all relevant bodies”. In the conclusions of their 2004 Spring meeting in Brussels, EU leaders stressed that “support and advocacy for change must reach beyond Governments” and, in order to generate this support, they invited Member States “to build Reform Partnerships involving the social partners, civil society and the public authorities, in accordance with national arrangements and traditions”. They went on to declare that “such national Reform Partnerships should promote complementary strategies for change, addressing the broad range of policies - economic, social and environmental – encompassed by the Lisbon Agenda. These strategies should be reflected in clear national policies and objectives and should be taken into account by Governments in the course of preparing national contributions to the mid-term review of the Lisbon agenda.”

A participatory approach, at both the national and EU levels, contributes to disseminating knowledge and to greater transparency and awareness of the EU Social Inclusion Process; it is a necessary condition for making the process credible and meaningful, both politically and popularly. If the Social Partners are not fully engaged in the process, then it will stand little chance of ultimate success. It is therefore crucial that *all* aspects of the (national and EU) work on social inclusion are as open as possible to the active participation of the different non-governmental actors and bodies involved in the fight against poverty and social exclusion, including social partners; non-governmental and grass roots organisations at EU, national and local level, the socially excluded people themselves, and academics. Structuring and supporting such participation should be a key component of national strategies.[46]

Consultation

Significant efforts have already been made in this direction at EU level. An important one is the *European Round Table on Poverty and Social Exclusion* organised annually, with the support of the European Commission, by the country holding the Presidency of the EU in the second half of the year (around the 17th of October, i.e. the UN International Day for the Eradication of Poverty). These Round Tables allow EU and national actors and bodies involved in the fight against poverty and social exclusion to exchange information and views on the Social Inclusion Process, to discuss progress towards the Lisbon goal of making a decisive impact on poverty and social exclusion by 2010, and to suggest ways of further strengthening the process. The first such Round Table was organised by the Danish Presidency (Aarhus, Denmark, October 2002). It was followed by a second one organised by the Italian Presidency (Turin, Italy, October 2003) and a third one organised by the Dutch

[46] Such participation is enormously valuable not just in framing policies and strategies but also in measuring progress – see for example the report on poverty indicators by Horemans *et al* (2003) which tapped the views of those directly affected by poverty and social exclusion.

Presidency (Rotterdam, The Netherlands, October 2004). The next one will take place in October 2005 and will be organised by the United Kingdom Presidency.

Another important EU initiative in this context is the *European meetings of people experiencing poverty*, which aim at giving a voice to the poor and socially excluded people and are a first step towards their active participation in the Social Inclusion Process. They are also organised with the support of the European Commission and they largely build upon the expertise of EAPN. The first such meeting was organised by the Belgian Presidency (Brussels, December 2001). The Greek Presidency Conference "We also Participate in Europe!" (Brussels, May 2003) was the second such meeting and the Irish Presidency Conference "Participation of People Experiencing Poverty – From Theory to Practice" was the third one (Brussels, May 2004). The Luxembourg Presidency is organising the fourth such meeting in June 2005.

Twice a year, with these quasi "institutionalised" EU events (the Meeting of people experiencing poverty in the first half of the year and the Round Table on poverty and social exclusion in the second half), Member States together with the European Commission are therefore working towards an increased involvement of relevant actors and bodies in the Social Inclusion Process. In addition, as can be seen from the 2003 and 2004 NAPs/inclusion (respectively for EU-15 countries and the 10 new Member States), a majority of countries have also implemented strategies in this direction.

EU Demonstration Projects and Experiments

We have referred to current EU activities, but we can also draw lessons from the earlier Poverty Programmes. These Programmes, described briefly in Chapter 2, included pilot and demonstration projects. The Poverty 1 Programme for example supported some 60 action projects, which were intended to test out new methods to help the poor, to be relevant to more than one Member State, and for which it was a condition that the projects be "planned and carried out as far as possible with the participation of those concerned" (Dennett *et al*, 1982). They involved organisations such as ATD, London Voluntary Service Council, Irish National Committee on Pilot Schemes to Combat Poverty, and the Comité général d'Action des Marolles. It was widely believed that these projects, while small and local in scale, did much to heighten public awareness of poverty and social exclusion. There is a case for considering, particularly after the Enlargement, whether there should be a return to the direct funding of demonstration projects of this type.

The European Poverty Programmes carried echoes of the War on Poverty in the US, and a second US innovation from which the EU may learn is that of policy experimentation. Most celebrated were the negative income tax experiments of the 1960s and 1970s, when a sizeable sample of households were presented with an alternative tax/transfer schedule, and their behaviour was compared with that of a control group. Experiments have since been conducted in a number of countries, covering taxation, transfers, active labour market policies, and investments in human capital. The UK, for instance, piloted an earnings top-up scheme using test areas and control areas (UK Department of Social Security, 1995). It can be debated how much additional one learns about behavioural responses from experimental, as opposed to other forms of evidence (see for example, Killingsworth, 1983, Chapter 6), but the point that we wish to make here is that such experiments have the potential to generate considerable public engagement and interest. An EU experiment as to the relative effectiveness of different anti-poverty measures, involving those Member States willing to participate, might serve to raise the profile of the Social Inclusion Process as well as adding to our knowledge about behavioural responses (about which, as we suggested in Chapter 4, we have much to learn).

Actions by Member States

Despite these efforts, a lot remains to do for raising public and political awareness of the process, and we think that further efforts should be made to engage a wide(r) range of actors at both Member States' and EU levels, including steps to incorporate these events into the regular consultative processes, such as those involving the Social Partners. As has been argued by de la Porte *et al* (2001), there are grounds for adopting a positive perspective. There are already-present forces for "bottom-up" benchmarking, "drawing its dynamic from the pressures for accountability coming from below" (2001, page 303). In terms of national governance, there are action groups, and civil society organisations, with experience of lobbying government and of taking forward the public debate. For these groups, the European dimension offers opportunities.

There are therefore forces on which one can and should build. However, we believe that this stronger involvement of stakeholders will not be sufficient on its own to create the necessary awareness and, directly linked to this, the necessary political commitment to the process. In our view, what is needed (on top of what has just been mentioned) is that Member States, as part of their NAPs/inclusion, be required to develop a genuine public awareness raising *strategy*. The focus of national strategies should be on creating greater public awareness of the extent and nature of poverty and social exclusion in the country and the EU, and how the Social Inclusion Process is addressing the problem at both the national and EU levels. An objective of the national strategies should be to strengthen people's belief in (potential) valuable outcomes of the process or, put differently to embed the process in the hearts of EU citizens.

As a concrete example, this means, for instance, the translation into the national language(s) of concepts such as "social exclusion" and "social inclusion". The meaning of the EU lexicon, "Open Method of Coordination", "process", "mainstreaming", "national action plan" etc. would also need to be discussed/ debated in this context. Embedding the process in people's hearts requires indeed that they can understand not only its objectives but also its vocabulary. A second example is provided by the suggestion in Chapter 5 that contextual information, both quantitative and qualitative, should be provided to help understand the living standard achievable at the at-risk-of-poverty threshold in each Member State. Engagement of civil society in this process would help advertise the Social Inclusion Process.

On this very issue, it is worth mentioning the NAP/inclusion for Cyprus submitted to the Commission in July 2004. As already noted this NAP/inclusion did not set targets, contrary to the EU agreement reached at the 2002 Barcelona Spring European Council, on the grounds that it would be "premature (and possibly counter-productive) since Cyprus is at the stage of first production and evaluation of the statistical information. Given the lack of experience in the use of indicators, it is not known at which level of effort a particular outcome target corresponds to." And the NAP/inclusion concluded that "an important point of the process which will take place within Cypriot society, during the period of execution of the NAP/inclusion, is the analysis, public discussion (with the involvement of all the players concerned) and finally, the adoption of a cohesive, ambitious and realistic set of targets for 2010." (page 23).

Finally, it scarcely needs underlining that the single most effective way of engaging public support is if the Social Inclusion Process can demonstrate significant progress in reducing poverty and social exclusion in the European Union.

6.9 Conclusions

In this Chapter, we started from the streamlining of EU processes currently under way. There are concerns that this streamlining means a loss of post-Lisbon momentum. In order to allay such concerns, it is necessary that there be mutually reinforcing feedback between the economic/employment policy processes, on the hand, and the social processes, on the other. This has become even more important with the refocused Lisbon strategy agreed at the 2005 Spring Summit. Secondly, the streamlining of EU social processes, to be implemented as from 2006, has to be accompanied by measures to deepen the Social Inclusion Process. Streamlining alone will not automatically create this. It requires that countries and the EU commit themselves, both politically and administratively, to work together to take the process forward. An effective streamlining can only be achieved while retaining the specificity of each individual process, given that the three social processes proposed for streamlining all have quite different characteristics and challenges. NAPs/inclusion, as well as national Strategy Reports, should thus be maintained as *specific components of a unified social protection and inclusion framework*.

Against the background of a Social Inclusion Process that is streamlined in the way described above, we have considered the deepening of this process, beginning with the extension of target setting. Currently only a minority of countries have assigned a significant role to targets, and these may or may not be directly linked to the common EU indicators. Targets are far from being a panacea or a "magic bullet". The challenge is that of framing targets that are ambitious but realistic. This brings us back to the crucial role of policy analysis. In order to establish whether targets are achievable, we need a well-founded understanding of the causes of poverty and social exclusion, and a demonstration of feasible policies to bring about the desired outcomes. It requires that targets be properly designed. In the case of EU-wide targets, the approach adopted in the European Employment Strategy – of specifying a common level on a specific indicator that each country should seek to reach – is not the best approach for poverty and social exclusion. Rather, we recommend that Member States be set the target of closing the gap on, say, the best three performing countries. Such a criterion should be seen, not as a ranking exercise, but as an application of peer review.

The second form of deepening involves embedding of the Social Inclusion Process more firmly in domestic policymaking. In this context, the Chapter has underlined the pivotal role of *restructured* NAPs/inclusion, and made suggestions regarding the way NAPs/inclusion could be re-focused as actual "action plans" (i.e. strategic planning documents). The NAPs/inclusion can be really useful *only* if they go beyond simple, purely descriptive reporting; they have to meet the challenge of providing the basis for a sound critical analysis. The Chapter has emphasised the need for *joined up Government*, committed political and administrative leadership, and parliamentary scrutiny to guarantee a credible and meaningful Social Inclusion Process. It has then stressed the importance of mobilising the different actors involved in the fight against poverty and social exclusion, and incorporating them into the regular consultative processes.

Chapter 7
Conclusions: Assessment and Principal Issues

At their 2005 Spring meeting in Brussels, EU leaders stressed that "it is essential to relaunch the Lisbon Strategy without delay and re-focus priorities on growth and employment". They also reaffirmed that "social inclusion policy should be pursued by the Union and by Member States". In this Report, we have attempted to provide an analysis as to how the Social Inclusion Process can be taken forward in this new context, where active social policy can contribute both to economic goals and to the reaffirmed social inclusion objectives.

The conclusions are summarised below. In some cases we make definite recommendations, identified in **bold**, and in other cases identify key issues that need to be addressed. Both are intended to generate debate. Since we cover a lot of ground, we have highlighted what we think might be the five most important recommendations with an ➔ instead of a bullet point.

EU Cooperation in Social Policy

- One can learn a great deal from the history of the development of EU cooperation in social policy; "those who cannot remember the past are condemned to repeat it" (George Santayana).
- There is a quite strong continuity in the basic ideas underlying the development of EU cooperation in social policy: the setting of common objectives, with Member States free to determine how they are achieved, according to the principle of subsidiarity; and at the March 2005 Spring Summit of Heads of State and Government reaffirmed their intention of taking this forward.
- The EU has succeeded since 2000 in establishing machinery of the Social Inclusion Process, including the NAPs/inclusion, their analyses by the European Commission and Member States (Joint Reports and Commission Staff Working Papers), the agreement on, and construction of, the EU common indicators, as well as the exchange of learning and the identification of good (and bad) practices.

Poverty and Social Exclusion in the EU

- Examination of the rich information provided by the EU common indicators reveals considerable diversity in social performance in all dimensions; as appears from the figures of the best-performing EU countries, there is ample room for improvement on one or more dimensions of poverty and social exclusion in all Member States.
- The differences in ranking of countries on different indicators underlines the importance of a multi-dimensional approach, and this has become even more so with Enlargement.
- While the level of relative poverty in Europe is substantially lower than in the United States, the headline EU figure of 15% for the proportion of its citizens at risk of poverty remains unacceptably high.
- Much can be learned from the analysis of the common indicators, but the underlying processes are complex, multivariate, and need to be disaggregated; simple

correlations may be suggestive, but one cannot stop there, as we have seen from examining the relation between the at-risk-of-poverty rate and, on the one hand, social protection expenditure, and, on the other hand, employment growth.

- From the perspective of children, we need to approach the design of indicators from a different direction, not simply through age breakdowns; we need to develop new non-income-related indicators of the circumstances of children.

Policy Analysis

- The NAPs/inclusion and the EU documents summarising them (Joint Reports and Commission Staff Working Papers) have contributed a great deal to advancing the Social Inclusion Process, but the policy analysis needs to be further developed in those documents and through other instruments (peer reviews, "transnational exchanges" (see Section 6.6), and analytical reports).
- We lack an adequate analysis of the baseline policy situation and a counterfactual for the outcome indicators; the total effects of policies on poverty and social exclusion need to be investigated, as well as the contribution of each individual policy; the policy analysis is insufficiently comparative; we have suggested a matrix approach with vulnerable groups along one dimension and policy interventions along a second dimension.
- We have described two important tools for policy analysis that we believe could particularly strengthen the Social Inclusion Process. Model family has the merit of simplicity and limited data requirements. Results can be produced and brought up-to-date very quickly and without a sophisticated statistical apparatus. At the same time, they cannot fully reflect the variety of household circumstances; and there is no satisfactory method for aggregation unless recourse is had to distributional data.
- Micro-simulation models incorporate evidence about the distribution of household characteristics and automatically allow aggregates to be derived using distributional weights, but are resource-intensive and the validity of their results may depend crucially on the accuracy of the underlying data.

➔ Both tools have limitations, notably in the treatment of behavioural change and in focusing purely on income, but we **recommend** that a common framework be established by the EU for the analysis of Social Inclusion policy; consideration should be given to the construction of an EU-wide micro-simulation model for the enlarged Union.

- An EU-wide model family analysis would be a first step towards a common analytical framework, facilitated by agreement on the range of family types, building on the start already made by the Indicators Sub-Group with its specification of household types, and on the joint OECD/European Commission experience with tax benefit model.
- The strengthening of policy analysis and evaluation depends on social science research. We therefore **recommend** that the needs of the EU Social Inclusion Process be taken into account in the design of the 7th and subsequent EU RTD Framework Programmes. The potential support of the Community action programme to combat social exclusion (see Section 2.2) should also be exploited to the full.
- We **recommend** that analytical expertise be strengthened within national administrations and the Commission. Here again, the potential support of the Community action programme to combat social exclusion should be used.

EU Social Inclusion Indicators

- The introduction of EU-SILC represents a major step forward in social statistics, but the transition from ECHP will need to be taken into account in the construction and use of social indicators; we **recommend** that Eurostat organise an international scientific conference on “The Transition from ECHP and national data sources to EU-SILC”, once the data from the EU-SILC exercise are available for a sufficient number of countries and validation tests have been completed.
- We **strongly support** the efforts of Eurostat together with Member States to set in place appropriate data access arrangements for the scientific community to ensure effective use of EU-SILC micro-data (and other key EU statistical micro-data sources) without breaching confidentiality rules.
- The advent of the EU-SILC data raises a number of issues surrounding the definition of income: the treatment of negative incomes, self-employment incomes, and imputed rent on owner-occupied housing; we **recommend** that the issues be given fuller consideration, and have suggested a different approach from that currently planned; we believe that the definition of income should be tailored to the purpose for which it is used; this may mean different definitions for different purposes.
- The EU Social Inclusion Process should continue with its existing poverty risk indicators, based on country-specific poverty thresholds; but we **recommend** that the Commission should use the advent of EU-SILC for EU-25 to complement these indicators with a background “2005 Lisbon mid-term social cohesion statistic” based on the median income in the EU-25 as a whole.
- We **recommend** that contextual information, both quantitative and qualitative, should be provided to help understand the living standard achievable at the at-risk-of-poverty threshold in each Member State.
- In the light of the sensitivity of income-based indicators to the choice of equivalence scale, we suggest that *background* information be produced with both the modified and original OECD scales for the most sensitive figures; Member States particularly concerned about the relevance of the OECD modified scale could introduce country-specific third level indicators, but these would not replace the Primary and Secondary Indicators.
- We **recommend** that for the “working poor” indicator a new breakdown be added focusing only on employees aged 18-59 in full-time employment for the entire reference year; this should be accompanied by the corresponding rate for those aged 18-59 unemployed all year and those inactive all year.
- We **recommend** that the EU indicator of literacy be extended to the adult, or at least working age, population.
- The indicator of regional dispersion in employment rates suffers from methodological weaknesses and is not particularly salient in a social inclusion context; we **recommend** that the regional aspects of poverty and social exclusion be taken into account by including regional breakdowns (and breakdowns by the degree of urbanisation) for existing indicators, where possible and meaningful.
- The specific at-risk position of migrants and ethnic minorities needs to be more systematically analysed by Member States; we believe that it would be best reflected not by a specific indicator, nor by seeking to establish common identical breakdowns, but by each Member State including breakdowns of the common indicators, where possible and meaningful, on the basis of the national/ethnic breakdowns appropriate to their country, complemented by third level indicators reflecting their specific situation.

- We **recommend** that full use should be made of the potential contribution of administrative data to improve national and EU knowledge of the regional dimension and of the circumstances of migrants and ethnic minorities; in the latter case, we have noted that separating the different issues may allow progress to be made.
- We **recommend** that progress on the introduction of an indicator for homelessness be made incrementally; the first step would be an EU agreement on a relatively tight definition of homelessness; the next stage would be to agree on the preferred measure and the approach to producing data relating to this agreed definition and measure. It is important that official responsibility be clearly assigned to oversee the collection of appropriate data in close collaboration with organisations working in the area; Member States should in the meantime report on the basis of national statistics as a "level 3" indicator.
- We **recommend** that priority should be given to the development of an aggregate "absolute" indicator of housing quality/adequacy, based on data from EU-SILC as soon as data these are available.
- We **recommend** that priority should be given to the development of a harmonised indicator of premature mortality by socio-economic circumstances, to be produced on a regular but not necessarily annual basis.
- We **recommend** that an "absolute" common indicator of enforced deprivation in relation to broad living standards should be developed in the form of an aggregate index using data from EU-SILC; accompanied by a "more relative" (with country-specific weights) common indicator based on the same EU-SILC items.
- In the case of the Secondary set of Indicators, we suggest dropping altogether three of the original Laeken indicators: the persistent at-risk-of-poverty rate set at 50% of median income, the long-term unemployment share, and the very long-term unemployment rate; but the persistent at-risk-of-poverty rate at 60% would remain, as would the long-term unemployment *rate*.
- Whatever the value of composite indicators, such as the Human Development Index, in other contexts, we do not feel that they should be employed as part of the current EU Social Inclusion Process.
- We **recommend** that the EU institutions consider, in collaboration with OECD, the extension of the common social indicators to cover as the minimum the US, in view of the importance attached to policy learning (about what works and what does not work) from across the Atlantic, as well as Japan. Canada, Australia and New-Zealand could also usefully be covered.
- We note the valuable role indicators can play in linking across the different social policy processes – with at-risk-of-poverty rates for the elderly and mortality by socio-economic circumstances as concrete examples – as well as between the EU social, economic and employment processes – with the working poor as an important example.
- We **recommend** introduction of a Primary Indicator which is "child-focused" and related to a non-income-related dimension, although we leave open the choice of dimension, which could be child health or child educational performance/attendance at a younger age.

➔ We **recommend** a pruning of the Primary set of indicators to a significantly smaller number, with one or (maximum) two headline indicators for each broad area – income poverty, income inequality, employment, education, health, housing and homelessness, general living standards/deprivation, and a new child-focused, non-income-related indicator (together with appropriate breakdowns).

Taking Forward the EU Social Inclusion Process

- Streamlining offers the opportunity to advance policy-making, but we **recommend** that, within the streamlined Social Protection and Social Inclusion Process, each individual element keep its own identity and visibility, just as is the case in the "renewed Lisbon" guidelines covering the Broad Economic Policy Guidelines and the Employment Guidelines.

➔ We **recommend** that the NAPs/inclusion should be fundamentally restructured so as to become true strategic "action plans", not just a reporting exercise. They should contain a diagnosis of the causes of poverty and social exclusion, together with explicit analyses of the expected relation between policies and the delivery of outcomes. They should be strictly objective-driven.

- Such restructuring may require that the yet-to-be-adopted common EU objectives for the streamlined OMC in the social field be organised in a two-tier structure: a first tier, consisting of a small number of absolutely fundamental objectives, and a second tier of important but less "immediate" objectives. This would need to be addressed by countries and the European Commission in the 2005 mid-term review of the Lisbon strategy.

- While *peer pressure*, together with the identification of both good and bad practices, is necessary to maintain the credibility and ambition of the EU Social Inclusion Process, the purpose of the common social indicators is not to name, shame and castigate Member States; rather, the aim is to help Member States to do better, and the focus should be on improving the performance of all countries.

- So far, the peer reviews (though not the transnational exchange projects) have tended to focus on policies rather than institutional or process issues. However, good (and bad) practices in terms of processes are at least as important, if not more, and we therefore **recommend** that these should be more systematically identified, especially in the areas of social policy monitoring and statistical capacity building. Specific national characteristics are likely to be much less of an issue for these practices than for actual policies; the "transferability" of these practices among countries could then be much higher than that of specific policies.

➔ We **recommend** that when it has assessed the individual NAPs/inclusion, the Commission should then have the power to make recommendations to Member States, to which Member States would respond in their Implementation Reports on the NAPs/inclusion; this could be developed in conjunction with the Sustainable Development Strategy.

➔ The Social Inclusion Process has yet to be embedded in Member State decision-making and a true *mainstreaming* of *social inclusion* in national policy making will have to be implemented through establishing a scheme of systematic policy assessments. The impact of specific employment, economic and sustainable development policies on social inclusion should be systematically monitored, so as to identify possible ways of adjusting such policies to strengthen their contribution to promoting social inclusion.

- The Social Inclusion Process has so far had limited success in truly engaging key actors (Social Partners, NGOs and the scientific community) in most countries; we have made a number of suggestions as to how this could be advanced, including demonstration projects and experiments.

- Member States should develop their own social inclusion monitoring framework, responding to their national specificities, and including targets and indicators built on reliable and timely data collected by independent national and EU bodies.

- We believe that the setting of ambitious but achievable targets in NAPs/inclusion, has an important role to play in focusing policy development and highlighting social objectives.
- EU level targets are also worth serious consideration. In setting these targets, Member States and the Commission should learn from the European Employment Strategy, but the targets will have to be of different nature. We do not recommend that there be a target for the EU overall risk of poverty (or any other EU indicator), but that countries be asked to emulate the best performing Member States on several indicators, reflecting the multidimensionality of poverty and social exclusion.
- Most EU and national statistical data sources used in the Social Protection and Social Inclusion Process cover solely people living in private households. Some vulnerable groups living in these households may also be underrepresented because they are not easy to reach. We therefore **recommend** a continued investment, at both the national and EU levels, in collecting (better) statistical socio-economic information on these various groups (people living in institutions, people with disabilities, other vulnerable groups including the homeless, those with addiction problems etc.). The unique potential of administrative data should be exploited where appropriate.
- The Open Method of Coordination should do more to ensure joined up Government in the field of social policy, bringing together different agencies within national Governments (and, in countries where it applies, different levels of Governments), and bringing together national policymakers and the Commission. The European Parliament should be more actively involved in the OMC.
- The Social Inclusion Process will only succeed if there is committed political and administrative leadership at both national and EU levels. Increased (committed) political leadership should go together with an increased parliamentary scrutiny: NAPs/inclusion ought to be debated in national (and where appropriate regional) parliaments and their actual implementation should be regularly monitored by the parliament(s) and relevant parliamentary committees. Similarly, the role of the European Parliament in scrutinising the whole process will have to be strengthened, and links between the European Parliament and national (regional) parliaments in this respect ought to be encouraged.
- It is crucial to reflect on best ways to ensure, at both national and EU levels, a mutual, reinforcing feedback between the Broad Economic Policy and Employment Guidelines, on the one hand, and the OMC in the social field (including the Social Inclusion Process), on the other hand. We have made some suggestions on how these interactions between the two processes could possibly be promoted.
- There has to be widespread “ownership” of the Social Inclusion Process, and the single most effective way of engaging public support is if the Social Inclusion Process can demonstrate significant progress in reducing poverty and social exclusion in the European Union.