



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL,
THE EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND
SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Concerning a consultation on action at EU level to promote the active inclusion of
the people furthest from the labour market**

AIM OF THE COMMUNICATION

The European Council of March 2005 has relaunched the Lisbon strategy by refocusing on growth and employment with the goal of contributing to social cohesion. While the European Employment Strategy has the lead role in implementing the employment objectives of the Lisbon strategy, greater social cohesion is also a key element for the success of the Lisbon strategy. Conversely, the success of the European Employment Strategy is key to the achievement of greater social cohesion.¹

The fight against poverty and social exclusion is a central concern of the European Union and its Member States. At the launch of the Lisbon strategy in March 2000, the Council asked Member States and the European Commission to take steps to make a decisive impact on the eradication of poverty by 2010. The Member States have shown strong political commitment and many actions have been taken at both EU and national levels. But the fight against poverty and the integration of people excluded from the labour market remain a real challenge for the enlarged European Union. The goals of the revised Lisbon strategy cannot be realised if we continue to “waste” a large proportion of our single most precious resource: human capital.

Comprehensive social assistance policies are in place in most Member States and activation policies have been implemented to bring excluded people back to the labour market, but there is still a sizeable 'hard core' of people with little prospect of finding a job who, for that reason, remain at high risk of falling into poverty and social exclusion. For those who find themselves furthest from the labour market, Minimum Income (MI) schemes can be the only way to escape extreme poverty; yet, while performing this indispensable function, MI schemes must also promote labour market integration of those capable of working. The main challenge is thus to ensure that social protection policies effectively contribute to mobilising people who are capable of working while achieving the wider objective of providing a decent living standard to those who are and will remain outside the labour market.

This communication thus has two goals:

- First, to review the progress achieved in the context of an enlarged Union towards the aim of fostering labour market access for those who are excluded (Part 1).
- -Second, based upon this review, to launch a public consultation on possible guidelines for action at EU-level, with a view to promoting the active inclusion of people furthest from the labour market (Part 2). This consultation is based on Article 138 of the Treaty.

¹ See "Guidelines for the employment policies of the Member States (2005-2008)", OJ L 205 of 6.8.2005, p. 21.

- By so doing, this communication responds to the new Social Agenda for the period 2005-2010, which confirmed that the Commission would launch a Community Initiative on minimum income schemes and the integration of people excluded from the labour market, after due Impact Assessment procedures have been observed. It also sets out to address the concerns regularly expressed by the European Parliament when reviewing the implementation of the Lisbon strategy.

1. FIGHTING POVERTY AND EXCLUSION FROM THE LABOUR MARKET: A CONTINUING CHALLENGE FOR THE UNION.

1.1. Action at Member State level

Sophisticated social protection systems have been developed in EU Member States with the aim of providing insurance against social risks such as sickness and unemployment and preventing and fighting poverty and social exclusion. In line with the policy shift during the nineties at EU level towards active schemes, income support schemes have been increasingly subject to activation criteria to minimise disincentives to paid employment and avoid poverty traps.² As a consequence, the consistency between income-support schemes and activation policies has been improved. In many Member States, the entitlement to benefits has been made conditional on active job search, availability for work or participation in training. In some instances, this takes the form of an individual contract stipulating the duties of the recipient in terms of the participation in an agreed path of re-insertion into employment. In an increasing number of countries financial incentives are being improved with the aim of ensuring a strong incentive to take up work. For instance, tax credits have been made available to workers in low-paid employment as an income top-up conditional on carrying out paid work, and at the cut-off point where benefits would normally have been withdrawn, payments now are gradually phased out in order not to discourage work effort. Also, special measures to facilitate access to basic services and goods, such as healthcare, child-care, decent housing or even food (in the most extreme cases of material deprivation), have been designed and implemented to favour the insertion of disadvantaged persons into mainstream society.

To this end, EU Member States have often implemented various MI schemes in order to make up the shortfall between, on the one hand, individual and family income – whether earned from work or other social benefit – and, on the other, the guaranteed minimum. Several common characteristics may be identified:

- they ensure basic needs at minimum standards of living, providing assistance for individuals and their dependants, when no other source of financial support is available;
- they are non-contributory and tax-financed;
- for the most part, they are not time-limited, although they are assumed to be temporary;
- they require capable people to be available for work;
- they are means-tested and subject to some degree of discretion from authorities;
- their eligibility depends on age, and residence for a minimum specified period;

² The European Employment Strategy has been instrumental in this policy shift. Following the revision of the Lisbon strategy and the adoption of integrated guidelines, the Member States are now called upon to implement a full range of measures "to ensure inclusive labour markets, enhance work attractiveness and make work pay for job seekers, including disadvantaged people and the inactive" (Guideline 19).

- benefits usually depend on the household situation of the family and are often combined with other social benefits (housing, heating, child allowances).

Within this common framework, there is a large variety of MI schemes across EU Member States. They vary in terms of the level of the benefits, the extent of decentralisation of the system of delivery, the degree of discretion in interpreting the legal rules, the residence criteria, and the balance between a universal approach and an approach by social categories. They also vary greatly in terms of the extent to which basic income support is linked to other policy components, such as labour market policies and access to services. Nonetheless, they all perform, with varying degrees of success, an essential task for the functioning of society as well as the labour market

The good performance of social protection systems must be clearly recognised: without them, the risk of poverty would have reached unsustainable levels in most Member States and the Union as a whole. In the EU-25 Member States in 2003, according to provisional figures,³ the at-risk-of-poverty rate would have been 25%, i.e. 9 percentage points higher than the actual poverty risk, had social transfers⁴ (excluding pensions) not been implemented. But the overall situation as regards poverty and access to work for the most vulnerable continues to be a matter of huge concern. In 2003, 16% of the EU-25 population (approximately 72 million people) lived at risk of financial poverty.⁵ These figures underscore how difficult it is to make inroads in the fight against poverty and exclusion: in fact, since 1997, when these surveys began, more than half the share of the population exposed to poverty have lived consistently (i.e. during three of the last four years) on low relative income⁶. While having an income below the conventional threshold is neither a necessary nor a sufficient condition of being in a state of poverty, being at risk of *relative poverty* entails having limited access to the goods and services that are regarded as necessary to participate fully in any given society. The risk of falling below the at-risk-of-poverty threshold is higher for unemployed persons, inactive persons, single parents, the disabled and the chronically ill. An indeterminate number of people may thus suffer severe forms of deprivation and social exclusion, such as homelessness, drug addiction, alcoholism, lack of access to basic healthcare and illiteracy, aggravated in certain cases by ethnic discrimination and/or living in areas of multiple disadvantage. In the EU-25 in 2003, there were approximately 31.7 million people, representing 8.5% of the population of working age (15-64), who could be counted as excluded from the labour market. This number includes both the long-term unemployed and inactive persons who either became discouraged after repeated past job search failures or were willing to work but were not able to find a job, for a variety of reasons: disability or chronic illness, lack of basic skills, discrimination and/or family responsibilities.

³ In the absence of comparable data for 2003 for countries representing more than 75% of the EU25 population, Eurostat does not currently publish these statistics at EU25 level. The suggested values for the at-risk-of-poverty rate before and after transfers (25% and 16% respectively) are however similar to those for the latest year for which figures are currently computed and published (2001): 24% and 15% respectively. Per demography statistics, average population in EU25 was 452.5m, giving an estimate of 68m persons at risk.

⁴ Including all forms of social assistance, family allowances and unemployment benefits, but excluding pensions.

⁵ The percentage of the population living in households with an equivalised income below 60% of the national median. Given the conventional nature of the threshold, this indicator is usually referred to as a measure of *poverty risk*.

⁶ The last year for which comparable figures currently exist for the EU15 (not EU25) is 2000, when the rate was 9%.

1.2. Action at Community level

In 1992, the Council adopted two recommendations establishing as a common objective the guarantee of a minimum level of resources and setting out the principles and guidelines by which this objective could be achieved.⁷ A report from the Commission in 1999⁸ concluded that these recommendations had helped to structure and to encourage the debate between Member States on the role and development of MI schemes, had fostered the convergence of such schemes across Member States and that they had provided a basis for bringing about more systematic EU cooperation efforts in fighting social exclusion and poverty.

In 2000, the Nice European Council adopted common objectives for the implementation of the open method of coordination (OMC) in the field of social inclusion, which incorporated the objectives stated in the Recommendations. The first Joint Report, adopted in March 2002, concluded that thirteen Member States out of fifteen had developed a universal social assistance policy aimed at guaranteeing all legal residents a minimum income. The second Joint Report (of March 2004), together with the Report on social inclusion examining the National Action Plans of the 10 new Member States,⁹ highlighted the concern to minimise employment disincentives embodied in MI schemes¹⁰ and noted reforms intended to review eligibility rules as well as to introduce individualised paths of re-insertion into the labour market. On the other hand, some Member States were raising or maintaining the real value of MI levels, by setting targets or adopting some form of indexation, in view of the fact that benefits were often acknowledged to be rather low or to miss important segments of the population with no alternative income.

Following the revision of the Lisbon strategy and its renewed focus on employment and growth, it was agreed that the OMC on social inclusion and social protection would continue and that it would in particular "feed into" the Lisbon reporting process. The new Employment guidelines¹¹ – as part of the integrated guidelines package for 2005-2008 – address the problem of integration of those furthest from the labour market by encouraging Member States to introduce work incentives in support of preventive and active labour market measures, including early identification of needs, job search assistance, guidance and training as part of personalised action plans, to provide the social services needed to support the labour market inclusion of disadvantaged people and to contribute to social and territorial cohesion and the eradication of poverty (Integrated guideline No 19). Furthermore, the above guideline proposes a continuous review of tax and benefit systems, including the management and conditionality of benefits and reduction of high marginal tax rates, in an effort to make work pay and to ensure adequate levels of social protection.

The European Social Fund and the Community Initiative EQUAL support and encourage the Member States to make their policies more active with a budget for the period 2000-2006 of

⁷ Recommendations 92/442/EEC of 27 July 1992 and 92/441/EEC of 24 June 1992, respectively.

⁸ COM(1998)774 of 25 January 1999.

⁹ European Commission (2005): "Report on social inclusion 2005. An analysis of the National Action Plans on Social Inclusion (2004-2006) submitted by the 10 new Member States". Directorate-General for Employment, Social Affairs and Equal Opportunities, Luxembourg, February, 193 pp.

¹⁰ The 2004 Joint Report also stressed the challenge of "linking income support systems with policies to increase people's ability to access the labour market and to end long-term dependency". A careful design of tax, income support and minimum wage policies was also recommended in order to ensure that work pays sufficiently to lift people out of poverty (p. 36).

¹¹ See "Guidelines for the employment policies of the Member States (2005-2008)", OJ L 205 of 6.8.2005, p. 21.

about €60 billion, of which 9 billion for social inclusion. In the next programming period the ESF will continue to promote pathways to integration into employment for disadvantaged people while the principles of EQUAL will be "mainstreamed" into the ESF.

1.3. Achievements and emerging challenges

Despite the variety of their social security systems, all European countries face the challenge of adapting their policy configuration in order to make their economies more efficient. Labour market integration is the key objective, since employment is for many people the main safeguard against social exclusion, and the only measure that will 'pay for itself' in the long run. But for integration truly to succeed, employment must pay both for workers and for businesses. Successful policies to make work pay must find a proper balance within the "challenging triangle" of increasing work incentives, alleviating poverty and avoiding unsustainable budgetary costs.¹²

But it must also be borne in mind that social protection systems, beside supporting incomes, especially in times of recession, can also – and, when properly designed and implemented, actually do – help improve the functioning of labour markets: an effective social security net makes it possible to implement more flexibility in employment contracts and makes job search more efficient. The absence of a social welfare system – or its downsizing - could lead to losses in allocative efficiency.

Social protection policies need to be carefully designed, because, when the various aspects of social protection do not complement each other, they substitute for each other, and unintended consequences may follow. Since multiple disadvantages generate multifaceted exclusion, in practice the lack of policy integration is likely to cause even greater efficiency losses, and the weakest members of society are all the likelier to bear the brunt. There is no formula that can be invariably applied to all countries: trade-offs are unavoidable. Means-tested benefits might have adverse effects on labour supply and, while in-work benefits can reduce this risk, they depend on the availability of low-wage employment opportunities that cannot be taken for granted. Universal benefits have an income effect, but are not, in themselves, distortionary as regards the choice of taking up work. But ultimately, for some people taking up work will not be a viable option.

In fact, while public finance considerations will always be crucial in the decision to implement or strengthen one social assistance scheme or another, it has to be also borne in mind that the absence or insufficiency of income-support and MI schemes has to be offset against likely increases in the demand for other social programmes (such as family allowances) that would have to take on some of the burden of poverty relief, as well as the social and economic costs of aggravating ill-health and criminality.¹³

Comparisons across Member States show that the specific designs and delivery provisions of social assistance services and in particular of MI schemes are very important in determining their effectiveness. The existence of legal provisions is not sufficient to ensure that all people in real need enjoy the benefits they are entitled to receive, and particularly so in the case of minimum income protection and support for integration into the labour market. There is a real concern with the effectiveness of MI schemes, as a significant share of those targeted by such

¹² See COM(2003) 842 of 30 December 2003.

¹³ Fouarge Didier. "The costs of non-social policy", Report for DG EMPL, 2003.

schemes may not actually benefit from them, either because they do not claim their entitlements, or for some other reason (lack of compliance with eligibility rules, miscalculation of amounts, payment delays, sanctions and suspensions, deductions applied to benefits for the direct reimbursement of debts).¹⁴ There is also a risk that social assistance benefits may be paid to people who are not in need, because the scheme is poorly targeted. Fraud and abuse raise additional serious concerns among the authorities responsible for delivery and justify paying increased attention to the mechanisms of prevention, verification, detection, monitoring and control. Such concern has been a strong driver for greater decentralisation of delivery.

Considering the aim of bringing the most vulnerable into the labour market, evidence is mixed but still conveys the impression that progress can be achieved and much can be learned from good practice. Looking at the role of MI instruments, research shows that their interaction with aptly designed activation policies can generate positive employment effects, that job training in private firms or activation similar to ordinary work is the most promising approach and that young people and those with fewer social problems are the most likely to benefit. The benefits of such activation measures should not be measured only in terms of immediate employment effects. They may also help to make people fight social isolation and develop self-esteem and a more positive attitude to work and society. Less attention has been paid, on the other hand, to adequate access to social services that form a basic pre-condition for being available for work.

To sum up, evidence suggests that a comprehensive policy mix combining three elements is justified: (i) a link to the labour market through job opportunities or vocational training; (ii) income support at a level that is sufficient for people to have a dignified life; and (iii) better access to services that may help remove some of the hurdles encountered by some individuals and their families in entering mainstream society, thereby supporting their re-insertion into employment (through, for instance, counselling, healthcare, child-care, lifelong learning to remedy educational disadvantages, ICT training to help would-be workers, including people with disabilities, take advantage of new technologies and more flexible work arrangements, psychological and social rehabilitation). Such an approach may be termed *active inclusion*. To underpin policies in this domain and create conditions for achieving effective progress in curbing poverty and exclusion, it is fundamental that all these strands be interlinked. Without active support for labour market integration, there is the risk that MI schemes trap people in poverty and long-term welfare dependency. Without appropriate income support, there is the risk that active labour market policies or programmes fail to prevent widespread poverty and to deter people from seeking immediate means of subsistence by irregular means. Without social support measures there is a risk that activation rules will be implemented blindly and therefore ineffectively, without due regard for the particular needs of people at a disadvantage (single mothers, travellers and Roma, people in poor health or affected by psychological disorders). Finally, for such policies to be credible and gain public support, it is essential that they are carefully budgeted, that they do not put medium-term financial sustainability at risk and that they are shown to be cost-effective in the long term.

¹⁴ A recent study covering 13 EU Member States, based on income data for the period 1993-1997, has found out that between 2 and 13% of the population in those countries have at some point lived below the national, more or less guaranteed, MIG level. (See Nicaise, I. *et al.*: (2004) Gaps, traps and springboards in European minimum income systems. HIVA (Katholieke Universiteit Leuven) and CRSP (Loughborough University), 134 pp.).

2. POSSIBLE GUIDELINES FOR FURTHER ACTION AT EU LEVEL

2.1. The challenge

Member States, with the active support of the European Union through Council recommendations, the Open Method of Coordination on social inclusion, the European Employment Strategy and the European Social Fund, have made progress both in extending basic assistance mechanisms and in promoting the access of the most vulnerable to the labour market. Nevertheless, the persistence of large numbers of people at risk of poverty and excluded from the labour market represents an inescapable challenge to the objective of social cohesion enshrined in the EU Treaty. Furthermore, it is vital that people outside the labour force, including the long-term unemployed, (re)-enter the labour market, and make the goal of a 70% employment rate a reality for the Union. Despite the diversity of situations and policies across the EU, therefore, action at European level, for instance in the form of common principles, basic requirements or other means of strengthening the 1992 recommendations, might add value to efforts by Member States by providing guidance as well as a common analytical framework against which individual achievements and policy instruments can be compared and assessed.

2.2. The consultation

In accordance with Article 138 of the Treaty, which sets out the conditions for presenting proposals in the area of social policy, this communication seeks to launch a consultation of the social partners at Community level on the guidelines presented in paragraph 2.3. Given the subject matter, this consultation will be widened to public authorities at all levels, because of their fundamental responsibility for designing, funding and administering policies aimed at the integration of excluded people; and to civil society organisations catering for the interest of persons targeted by such schemes and/or providing supplementary services to such persons.

At the same time, the communication is addressed to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions.

2.3. The guidelines

In order to map out possible directions for future action at European level in support of national policies to promote more effective integration of people excluded from the labour market, the Commission invites social partners, public authorities and other civil society stakeholders to give their opinions on the following issues:

- (1) Given the challenge for Member States to address social inclusion and in particular the integration of people furthest from the labour market, is there a need for further action at EU level, and if there is, what are the most useful ways by which the EU could complement and support the action at national level?
- (2) How should the Union build on the common ground agreed in the 1992 Recommendation to promote the rights and access to services needed for the integration of excluded people, taking into account the relevant policy innovations?

- (3) Is there any justification for action at EU level, based upon Article 137(1) (h)? In such a context, could the aspects concerning activation and access to the labour market be the subject of negotiation between the social partners?

2.4. Next steps

This communication constitutes the first step of the consultation process. As regards EU level social partners, it sets in motion the consultation process provided for in Article 138(2) of the Treaty. They are invited to give their opinions on the issues identified in paragraph 2.3. In order to involve other interested institutions and organisations at EU and national level, the communication will be made available on the Internet site of the Directorate-General for Employment and Social Affairs :

(http://europa.eu.int/comm/employment_social/consultation_en.html). All interested parties can send their comments or suggestions by e-mail to the following address only: empl-active-inclusion@cec.eu.int. Comments should reach us no later than [date of adoption +10 weeks]. The Commission will conduct a detailed examination of the contributions received and will make public its conclusions, on the basis of which it may proceed to the second phase of the consultation process, as established by Article 138(3).