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from: The Social Protection Committee  
to: Permanent Representatives Committee (Part I) / Council (EPSCO)  
Subject: The social impact of the economic crisis and ongoing fiscal consolidation: third  
Report of the Social Protection Committee (2011)  
- Endorsement of main messages

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Delegations will find attached the main messages of the Social Protection Committee on the above subject, with a view to the session of the Council (EPSCO) on 17 February 2012.

These main messages will be considered under the agenda item "Europe 2020 Strategy".

The full report can be found in doc 5858/12 ADD 1.



**The Social Protection Committee**

**THIRD REPORT ON THE SOCIAL IMPACT OF THE  
ECONOMIC CRISIS AND ONGOING FISCAL CONSOLIDATION**

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**MAIN MESSAGES**

Against the current unfavourable economic context, the third report from the Social Protection Committee (SPC) on the social consequences of the crisis offers an insight on the impact of the economic recession on the social situation in the EU. It provides a unique analysis on trends affecting the demand for unemployment benefits and social assistance based on original data gathered by the SPC on the number of benefit recipients. This data collection is complemented by a questionnaire on recent policy actions taken by Member States in response to the crisis.

## MAIN FINDINGS

### 1. Close to 2 million more people at risk of poverty or social exclusion in 2010

Most recent data available for the EU 27 on the population at risk of poverty or social exclusion, as defined by the Europe 2020 social inclusion target, show that 115.5 million people living in the EU (23.4% of the EU population) were at risk of poverty or social exclusion in 2010. This represents an increase of close to 2 million compared to 2009, and it is likely that this situation has worsened further in a number of Member States

### 2. The depth of poverty and social exclusion has worsened

- At-risk of poverty increased significantly only in 2 Member States, it decreased in 4 Member States and it remained stable in 19. Yet, as this indicator is a relative income poverty measure, its dynamics depends on the chosen income poverty threshold, which in turn is influenced by the general level of income and its distribution in the population. Applying different poverty thresholds (40%, 50% of the median income) allows confirming that within the population living below the standard poverty threshold, more people have dropped to the bottom of the income distribution since the beginning of the crisis. The depth of poverty has worsened significantly during the crisis in some countries when comparing 2009 and 2010 data.

- **345 000 more people are living in severe material deprivation (SMD) in 2010 compared to 2009**

SMD did not improve in 20 Member States, increased in 3 Member States and decreased in 3 Member States.

- **Sharp increase in the number of households with very low work intensity (LWI)**

3 million more people were living in households with LWI signalling the danger of their long-term exclusion from the labour market. LWI rose significantly in a number of countries reflecting the deterioration of the labour market situation.

### **3. Significant segment of those having a job are poor**

Work is not enough for lifting oneself out of the risk of poverty for a significant segment of the population as 8.5% of the EU working population in 2010 is considered “working poor”.

### **4. Increased dependence upon social benefits**

While data from the SPC survey show that in the majority of countries the number of unemployment benefit recipients has been going down in 2011, in a number of Member States an increase in social assistance schemes beneficiaries has been registered. The causality of these two phenomena still needs to be studied in details, but it suggests that pressures on social protection systems remain high and there could be shifts from unemployment benefits to social assistance benefits given the adverse economic climate and the low job opportunity in many Member States.

## 5. **Over-indebtedness deepens and threatens access to housing**

The crisis reduced the disposable income and impaired the capacity of households to meet their financial obligations and in particular to make timely loan repayments. The SPC collected evidence showing a growing number of debt rescheduling procedures being registered in some Member States next to a very high number of petitions for debt cancellation. This could potentially lead to housing exclusion if measures are not taken. Member States also reported difficulties experienced by households in repaying utility bills in time.

## 6. **National policy responses to the economic crisis**

### 6.1 Continued focus on activation policies

In a majority of countries the fight against poverty and social exclusion continues to be pursued mainly through labour market inclusion and activation policies. Reported measures include better targeting of support to unemployed (long-term unemployed, low-skilled, ethnic minorities, migrants, youth, and women), wages subsidies, short working time arrangements, support for enrolment in vocational training and educational programmes to maintain and improve skills, and strengthening public employment services.

### 6.2 Income support is a preferred option for a great majority of countries

Income support measures are widely used to contain in-work poverty and prevent the fall into poverty of those losing their unemployment entitlements. One of the observed trends is to provide short-term income support measures. Reported measures include provision of benefits to low-income pensioners, low income working households, long-term unemployed, persons with disabilities and recipients of social assistance, increase of unemployment benefits for unemployed couples with children, increase in subsidies to welfare institutions, increase benefits for disabled persons and increased benefits to students from low-income families.

A second cluster of measures includes loosening of the eligibility criteria for qualifying for unemployment benefits, the extension of their duration and the enhancement of their adequacy. A third cluster of measures includes focused income support for households with children to break the poverty transmission cycle between generations as well as measures designed to support children in disadvantaged situations with the view to allow them fulfilling their potential through educational initiatives.

### 6.3 Pension reforms deepen to guarantee sustainability and adequacy

Eleven Member States reported measures taken recently to address pension sustainability and adequacy. They aim at rising effective retirement age or its advancement against initial plans, equalising the pensionable age for men and women, providing incentives to prolong working lives, tightening the exit to early retirement, increasing contribution rates to pension funds (public or private), revising pension indexation, temporarily freezing of the level of pension benefits. Yet Member States have maintained full indexation for basic, guarantee and minimum pensions to mitigate the risk of poverty and material deprivation for low income and vulnerable older people.

## MAIN POLICY MESSAGES

### **1. Improved resilience of social protection systems is needed to withstand prolonged economic shocks**

Social progress and promotion of social protection are among the aims of the EU<sup>1</sup>. Social protection systems are a growth-enhancing factor. Given the depth of the economic crisis and its duration, the resilience of social protection systems must be improved to enable them to continue providing protection to the entire population. Utmost attention needs to be paid to the quality of fiscal consolidation measures which must be responsive to social needs of all generations and preserve the capacity of social protection to cushion any unequal impact of the crisis and to satisfactorily withstand economic shocks.

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<sup>1</sup> Article 3 of the Treaty on the European Union.

**2. Maintaining income support at adequate level is effective in offsetting the worst effects of the crisis and in spurring aggregate demand**

Using adequate income support measures can be an effective guarantee against precariousness and social exclusion. The overall effect of these measures impacts positively on household's resilience to falling income and on aggregate demand as it maintains certain propensity to spend among consumers and enables an automatic economic stabilisation.

**3. Fighting unemployment is challenged by low job creation and insufficient implementation of active inclusion measures**

Both incentives and opportunities are needed to reduce the level of long-term unemployment. A better design and integration of adequate income support, inclusive labour markets and access to quality services can substantially improve skills and employability of those outside the labour market. It is of critical importance to combine activation measures and permanent investment in human capital to maintain workers' knowledge and skills.

**4. Mitigating inequalities is key to ensure a fair distributional impact of austerity programmes and to restore confidence in the inclusive growth**

There is a danger that the direct effects of the crisis, along with the austerity measures taken to address it, could interact with, and worsen, existing inequalities of income and access to services. Social measures embedded in well-designed fiscal consolidation plans which allow for redistributive effects can contribute to the reduction of inequalities by preserving the life-time chances of current and future generations through an intergenerational approach. Social protection transfers and investing in the provision of quality services (such as affordable childcare, education, and other social services of general interest) remain crucial to employability prospects and social mobility of different income groups as they indirectly reduce inequalities.

## **5. Overall effects of changes in the financing of social protection need very careful analysis**

In the quest for more jobs, some Member States envisage shifting the financing of their social protection systems away from labour. This can benefit growth and improve the job creation capacity of the economy. However, there is a need for a broad and careful analysis of the overall impact of this shift on both the financing of social protection systems and their ability to provide adequate benefits given the increased demand for social security and the diversity of social security systems in the EU.

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