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# Eu Social Cit

European Social Citizenship

## The Future of Social Citizenship in the EU

*Edited by*

**Maurizio Ferrera**

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## 5. The View from the Bottom: The case of Social Inclusion, Minimum Incomes and the Social Funds

*Bea Cantillon and Gianna Maria Eick*

Reaching the three social inclusion targets of the European Pillar of Social Rights (EPSR) Action Plan is the litmus test for the success of the EPSR. The targets include an employment rate of at least 78%, at least 60% of adults attending training courses every year and lifting 15 million people out at risk of poverty or social exclusion. To attain these goals all the principles and rights defined in the EPSR are involved. Prima facie, the EPSR puts forward a balance between employment, equal opportunities and social protection. Concerning employment, the EU-level policies reiterated in the EPSR are nested in the social investment approach, including equal opportunities and active labour market policy. Regarding fair working conditions, many novel or substantially updated legislative initiatives were launched, for instance relating to work-life balance and minimum wages. In the area of social protection and inclusion, multiple principles highlight the importance of well-functioning, accessible and adequate social protection systems. However, initiatives mostly rely on soft law even if the social funds are relevant to consider. While the Minimum Wage Directive serves as a foundational element for elevating the social safety net, the EU could and should do more by extending both power resources (including instrumental ones, to address the challenge of non-take up) and output production resources. The failure of the Europe 2020 Strategy on the poverty reduction front should not be repeated.

### 5.1 Disappointing poverty trends, social protection and the inadequacy of minimum incomes

The empirical evidence on poverty trends in the past decades points to qualified successes in terms of employment, lifelong learning and gender equality but less in terms of the reduction of the number of people at risk of poverty or social exclusion. A significant employment growth and defeminization of poverty among the working-age population went along with a marked precarisation of low-skilled men and women. Particularly striking is the rise in the risk of poverty among jobless households (Cantillon, Goedemé, and Hills, 2019; Fischer & Strauss, 2021).

Consistent with poverty among jobless households, minimum income protection falls short in virtually all Member States (see most recently Gãbos and Tomka, 2022; Aerts et al, 2022). Results of assessments based on comparisons between the disposable incomes of households dependent on social assistance and the 60% at-risk-of-poverty threshold are confirmed by studies that have used comparable reference budgets (Goedemé, Penne et al, 2017). There are, however, massive disparities across the EU. Some Eastern European countries cluster at the very bottom with benefit levels below half of the poverty line, indicating severe exposure to poverty for non-working households with no

social insurance or other entitlements. In most countries, trends over time do not show any improvements, on the contrary. Gàbos and Tomka (2022) concluded that ‘recent changes around 2009-2013 seem to constitute a part of an overall trend of decline in benefit levels compared to median incomes which already started long before the financial crisis’. Comparisons across time in Europe and beyond suggest indeed that the inadequacy of minimum income protection is a long-standing and fairly universal problem in mature welfare states (Cantillon, Goedemé, and Hills, 2019; Cantillon, Marchal, and Luigjes, 2019). At least in part, this seems to be a structural problem related to the weak labour market position of lower-skilled, the sluggish growth of low wages and the fact that in many countries for families with children, minimum wages are inadequate (Cantillon, Parolin, and Collado, 2020; Hick and Marx, 2022). Hence, achieving adequate minimum income protection assumes great efforts going far beyond merely the increase and optimization of social assistance benefits. The entire fabric of society is involved: adequate minimum wages and social protection, affordable services, and individual support. Efforts are, moreover, very unevenly distributed between countries: poorer countries must deploy far more resources, both quantitatively and qualitatively, than richer countries. Hence, binding agreements at the European level on adequate social minimums presuppose greater solidarity, between and within countries.

## 5.2 Democratic demand for adequate European minimum incomes

Guaranteeing a basic level of income security is not only necessary to achieve the social inclusion targets, it would also enhance legitimacy, especially among lower socioeconomic status groups. A few articles have examined the levels and predictors of a means-tested European minimum income proposal (Baute and Meuleman, 2020; Roosma and Van Oorschot, 2020; Eick, forthcoming). On average, two of three respondents support the means-tested European minimum income benefit. However, sizable cross-national differences exist. Notably, respondents in southern and eastern EU countries are more likely to support the proposal, whereas those in the north and west are more ambiguous about it. Similar trends can be observed on the individual level. Eick (forthcoming) shows that amongst almost all Member States the support for a means-tested European minimum income benefit is significantly more pronounced amongst lower socioeconomic status groups (measured in terms of income, employment, occupation, and education). Cash-benefits are known to be less popular amongst higher socioeconomic status groups, particularly on the EU level. First, this could be because higher socioeconomic status groups benefit more from social services, such as education. Second, cash benefits might appear more expensive to the higher socioeconomic status groups since the perceived link between tax or insurance payment and social investment is more indirect. Third, it is also evident that lower socioeconomic status groups are more in need of immediate poverty relief, such a minimum income, while higher socioeconomic status groups can afford to prioritise more future-oriented policies.

### 5.3 Shortcomings of EU initiatives aimed at improving social inclusion

From the sobering experiences in the past, it follows that if the three social inclusion targets of the EPSR Action Plan are to be taken seriously, and considering the opinion of the European population, an equal commitment to social protection and social investment is needed. The analysis of priorities in the implementation of the EPSR so far shows that this implies a strengthening of the initiatives regarding social protection and minimum incomes.

Although not directly, there are some binding hard-law instruments that implement the objective of combating social exclusion to which individuals may take recourse. The *directive on minimum wages* ensures access to minimum wages for an important number of people and may have an impact on the living conditions of work-poor households and the working poor. A couple of directives do include provisions that guarantee disadvantaged individuals a certain living standard. This is the case of unaccompanied children, asylum-seekers and refugees, or victims of crimes.<sup>2</sup> There are, moreover, a couple of instruments for people with disabilities, like the UN Convention on the Rights of Persons with Disabilities — to which the EU is a party — or Article 5 of the framework Directive 2000/78, which establishes a duty for reasonable accommodation for disabled persons.<sup>3</sup>

European Funding has proved instrumental in enabling national policies to provide basic needs (FEAD), finance temporary unemployment services during the Covid-19 pandemic (SURE) and require that at least 25% of the ESF+ funding is dedicated to the fight against poverty and social exclusion (Greiss, Cantillon, and Penne, 2021; Hermans, Greiss et al., 2021). While these and other available funds do not directly empower individuals, they may be instrumental in making their rights effectively available to them. European funds also finance important institutions like FEANTSA or EAPN, leading in the past to successful litigations before international bodies to defend their victims (ECSR, *FEANTSA v. NL*). The social funds can also initiate political processes toward binding agreements on social protection and minimum income protection (see Greiss, Hermans et.al, 2022).

Taken as a whole, however, there is a striking imbalance between employment and social investment related initiatives on the one hand and the instruments deployed in the domains of social protection and minimum income guarantees on the other hand. The vast majority of instruments regarding social inclusion and protection follow a soft-law approach, with very few instrumental resources to back these up. As soft-law instruments, the above are capable of triggering changes at the national level, but pressure on governments remain weak while without further (national) action, individuals cannot rely on them directly to gain access to a certain benefit.

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<sup>2</sup> Directive 2012/29/EU establishing minimum standards on the rights, support and protection of victims of crime.

<sup>3</sup> Council Directive 2000/78/EC establishing a general framework for equal treatment in employment and occupation [2000]OJ L 303.

Moreover, although the Council Recommendation on Minimum Incomes signifies progress on various fronts, there are also significant shortcomings such as its status as soft law, the very loose definition of benchmarks, the limited effectiveness of social assistance as a tool, challenges related to unemployment traps and informal work, non-take-up, and conflicts with employment strategies, as well as the significant diversity within the EU. Improvements are also necessary in the realm of social funding, particularly concerning the distribution of resources.

## 5.4 The Council Recommendation on minimum incomes

Together with the Directive on adequate minimum wages and the Council Recommendation on access to social protection, the Council Recommendation on adequate minimum income aims ‘at combating poverty and social exclusion by promoting adequate income support, effective access to enabling and essential services for persons lacking sufficient resources and fostering labour market integration of those who can work’ marks a further step in a long process to fulfil the right to adequate incomes for European citizens and, in doing so, to take the high road towards upward social convergence.

The Recommendation puts forward three benchmarks to assess adequacy: (1) the ‘national-at-risk-of poverty threshold’ (AROP), (2) the monetary value of necessary goods and services, including adequate nutrition, housing, healthcare and essential services, according to the national definitions and (3) a benchmark that Member States are free to define and which is ‘established by national law or practice and is of a comparable level as the previous two’. Importantly, the at-risk-of-poverty threshold is mentioned as the prime European benchmark for adequate minimum incomes. It defines adequacy as a percentage of median household income (in parallel with the Directive on minimum wages, where adequacy is defined as 50 or 60% of average or median wages, respectively). Notwithstanding shortcomings this commonly agreed and widely used benchmark is timely, statistically validated, measurably in a sufficiently comparable way, statistically robust and transparent. The second and third proposed benchmarks are, however, problematic: they are vaguely defined and do not allow cross-country nor intertemporal comparability.

While the at-risk-of-poverty threshold should be the leading benchmark for income adequacy it is necessary to elaborate a methodology that allows its contextualization, taking into account the large differences in living conditions across the union and the importance of the affordability of essential goods and services. To that end we recommend building on previous analytical and empirical work (Goedemé, Bosch et al, 2016; Goedemé, Storms et al, 2015; Menyhert et al, 2021) that attempted to develop cross-nationally comparable reference budgets in Europe in order to: a) clarify which necessities should be taken into account (i.e., how should the three necessities mentioned in article 5 of the Recommendation -adequate nutrition, housing and healthcare- be complemented?); b) develop a methodology to document how national reference budgets are constructed and calculated and whether the reference budgets used are robust across time; c) to study which data are needed in order to construct cross-national comparable reference budgets and to d) develop a methodology to construct reference budgets that can be compared, at least in a procedural way, across Member States.

Adequate minimum income assistance substantiates the social right defined in principle 14 of the EPSR. Although crucial of course for the people involved, it is, however, also important to emphasize that, at a macro-level, social assistance is only weakly related to AROP. In cross-country comparisons, the relationship between social assistance generosity (which is in most cases below the poverty threshold ) and working age at-risk-of-poverty is not very strong while, overall, the poverty reducing capacity of social insurance tend to be much higher than social assistance. This is related to the fact that the modus operandi of social assistance suffers from inherent problems, such as non-take up (see, among others, Bargain et al, 2012; Janssens and Van Mechelen, 2022), as well as high operational costs and discretion (De Wilde and Marchal, 2019). Social assistance is less preventative and more error-prone and, as such, offers less security than universal social protection. The inadequacy of social assistance benefits is also structurally linked to the fact that there must be some hierarchy between social assistance benefits, social insurance benefits, and minimum wages. The Recommendation puts forward essential strategies to correct these shortcomings, including adequacy, non-take-up and coverage. However, it should also be recognized that these problems are, to some extent, inherent to assistance systems. The path to adequate minimum incomes for all should, therefore, not only rely on social assistance. Adequate minimum wages, social insurance, child allowances, and affordable housing and services are equally essential.

The implementation of the Minimum Income Recommendation should, therefore, be evaluated together with the directive on minimum wages and the Recommendation on access to social protection for workers and self-employed. More specifically, we recommend the coordination of the implementation of the Recommendation with other social security and social protection measures, including the minimum wage, the minimum floors in social security and the evolution of the number of individuals covered by, respectively, social insurance and social assistance systems.

## 5.5 Social Funding

Increasingly, social funding is linked to the objective of social inclusion. According to the EPSR Action Plan, ‘Member States should make full use of the unprecedented EU funds available to support reforms and investments in line with the European Pillar of Social Rights’ (European Commission, 2021, 33). Also, the Council Recommendation establishes an explicit link with social funding:

*Union funds are available to support the implementation of this Recommendation. Within the European Social Fund Plus, established by the Regulation (EU) 2021/1057 of the European Parliament and of the Council (16), each Member State should allocate at least 25 % of the European Social Fund Plus to combat social exclusion. The European Regional Development Fund and InvestEU can equally support investments in enabling social infrastructure, such as social housing and early childhood education and care, as well as equipment and access to quality services. The Technical Support Instrument and the Recovery and Resilience Facility already support Member States in designing and implementing structural reforms in the area of minimum income.*

(Council Recommendation on minimum income ensuring active inclusion)



A staff working document (SWD(2022) 313 final) further specifies that ‘with a budget of almost EUR 99.3 billion for the period 2021-2027, the ESF+ maintains a strong focus on social inclusion, earmarking a dedicated allocation of at least 25% of the shared management resources for this purpose and at least 3% for addressing material deprivation’.

The link between ensuring adequate minimum incomes and social inclusion on the one hand and social funding on the other hand is potentially of great importance because earmarked social funding supports member states in their efforts to meet the objective of increasing social inclusion through the enhancement of their minimum income protection schemes; encourages and incentivizes Member States to take the necessary actions to implement the Recommendation and strengthen and accelerates the political process toward a directive on minimum incomes. After all, in order to avoid shifting responsibilities on safeguarding fundamental social rights from the national to the European level, earmarked social funding makes it necessary to create a social level playing field with, inter alia, minimum standards on minimum incomes.

Fundamentally, enhanced solidarity within Member States to increase minimum income protection cannot be decoupled from enhanced solidarity between Member States, and vice versa. The efforts to be made to increase minimum incomes are significant, especially in poorer countries where the budgetary cost of raising the social floors is very important (Vandenbroucke, Cantillon et al, 2013). Binding agreements on minimum income protection should therefore involve stronger elements of pan-European solidarity. Through budgetary support ESF+ could take on a pivotal role in that policy conundrum. Conversely, however, it also applies that supporting Member States with food aid, for example, presupposes compliance with minimum standards in order to avoid incentives to reduce their own policy efforts. Although the additionality principle is in place, which stresses that EU funding cannot replace national spending, by orienting social funding to poor countries, the risk of moral hazard is looming. The question is particularly pressing for FEAD, which Greiss, Cantillon et al (2021) described as a Trojan horse dilemma: FEAD might open up ways for the EU as an agent to fill the gaps of inadequate social protection systems. Therefore, a level playing field consisting of minimum standards for wages, social assistance and social insurance is a necessary precondition for the extension of the role of social funds and the increase of European solidarity.

So conceived, ESF+, FEAD in particular, could become a powerful vehicle to enforce the implementation of the Recommendation, to gradually move towards a binding European framework on minimum income protection and to enhance European solidarity. In order to get there, however, the distribution of the funds should become more needs-based while the monitoring of the effectiveness of the funds should be improved.

The social funds, especially FEAD, tend to accrue relatively more to countries that have to make the greatest efforts to implement the Minimum Income Recommendation. There are, however, important deviations from this positive association, especially within the group of poorer countries: not all countries with similar social needs receive the same amount of funding. Moreover, from a pan-

European perspective, the solidarity brought about by the funds seems largely insufficient to achieve upward convergence.

Compared to the national poverty gap, the ESF budgets in poor countries are quite substantial: in some countries, the budget allows the reduction of the poverty gap by more than 50% (Hermans, Greiss et.al, 2021). FEAD budgets are much smaller but for poor countries they are not trivial (reflecting more than 2% of the poverty gap in the poorest countries). However, compared to the needs, the funds for poor countries remain limited.

Although ESF proclaims that ‘needs-based funding’ is applied for distributing the budgets, a great weight is however given to other factors linked to economic capacity and country-specific preferences. In general, this concurs with a needs-based distribution. However, the many departures from the trendlines suggest that a more deliberate, intentional and planned social needs-oriented distribution of the European social budgets should be considered. Moreover, even though the social funds accrue more to poor countries which are confronted with greater social needs, the solidarity involved is not strong enough in order to contribute to effective upward convergence. For the funds to be able to contribute to the implementation of the Recommendation and to help gradually move towards a binding European framework on minimum income protection, a better alignment of social funding with the differential efforts Member States have to make to comply with the targets is needed.

## 5.6 Key proposals

Without strengthening the framework for social inclusion and social protection, it will be difficult to meet the European social inclusion targets in the future. Substantively, this implies the need for:

- a stronger focus on the accessibility and adequacy of social protection and minimum incomes: employment and social investment objectives are now firmly anchored in the European social agenda; equivalent European embedding of social protection and minimum income guarantee is required.
- a ‘social inclusion proof’ implementation of social investment initiatives in the domains of employment, gender and the work-life balance: in implementing these strategies catering for the most vulnerable should be given priority.

More specifically, starting from the EU’s roles in the domain of social citizenship and social inclusion a three-pronged strategy could be pursued:

- A. To strengthen the EU’s role of guarantor further steps should be taken to move toward a framework directive on minimum incomes that would make the pivotal Principle 14 of EPSR enforceable by promoting the formation of a level playing field in terms of national minimum standards (implying the strengthening of individual power resources, e.g. as regards minimum income or unemployment benefits), in order to contain moral hazard and investing in further analytical work to define common benchmarks of adequacy and affordability.
- B. To strengthen the EU’s role of supporter social funding should be reinforced to:

- 1) enable national policies, especially in poor countries, to provide basic needs (FEAD), finance temporary unemployment services (SURE) and increase employability and job opportunities for lower-skilled individuals (ESF);  
in particular, FEAD might be used as a vehicle in a political strategy aimed at the implementation of the right to adequate minimum income protection for European citizens. However, if FEAD is to be used as more than a mere symbolic lever for the implementation of the EPSR, not only should the budgets be increased and distributed more according to the Member State's social and economic needs, the very functioning of FEAD should also be revisited: by focusing more on accompanying measures and by encouraging the use of food vouchers. By doing so, the instrumental resources of the poor might be strengthened;
  - 2) support public awareness by organisations like FEANTSA and EAPN;
  - 3) add strength to political processes that may eventually lead to binding agreements on minimum standards in social protection. This implies the enhancement of a needs-oriented distribution of ESF+ and targeting the funds more effectively through smart social conditionality rules. Given the great variation across Member States and their uneven capacity to meet minimum EU standards (the distance between minimum incomes and need is, for instance, greatest in poor Member States) the definition of such standards would imply agreeing on a modicum of cross-national subsidization.
- C. to strengthen surveillance and monitoring the use of social funding should be fully integrated into the monitoring process of the implementation of the Council Recommendation on adequate minimum Incomes and Distributional Impact Assessment (the 'DIA') should be used to capture the impact of social investment policies (e.g. the implementation of the Work-Life Balance Directive) for different income groups, including the most disadvantaged.