

Why has social security become less pro poor?

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Table of contents

ABSTRACT.....	1
1 Introduction	2
2 Have Tensions Between the Objectives of Social Protection Increased?	2
2.1 Poverty Reduction and the Social Distribution of New and Old Risks	3
2.2 Poverty Reduction versus Prevention	4
2.3 The Legitimacy of Poverty Reduction	5
3 Setting the Scene: Work-intensity and Changes in Poverty Reduction by Social Transfers.....	6
4 The Dependent Variable: What was the Role of Policies?	13
4.1 Effort and the Responses to Declining Needs	13
4.2 Household Work-intensity and Changes in Benefit Generosity.....	14
5 More Adequate Minimum Income Protection: Potential and Constraints.....	20
6 Conclusion	22
References	24

ABSTRACT

The present paper argues that we are witnessing an increase of the tensions between the three main goals of social security systems (poverty alleviation, securing living standards and prevention) and that, as a consequence, the poverty-reducing capacity of social transfers has come under pressure. The paper focuses on the working age population in 25 EU countries and on the good years before the crisis. Three different data sources are used: ECHP, its successor EU-SILC and the German SOEP. The paper augments the traditional pre-post approach by considering more direct policy indicators such as spending levels, observed average benefit levels and theoretical tax benefit packages and by focussing on the distinction between work-poor and work-rich households.

We find that in many countries the relative decline in poverty reduction has primarily affected work-poor households. This observation is confirmed by more direct policy indicators. It may support the hypothesis that in many countries the poverty alleviation function of social protection has come under pressure as a consequence of a shift of attention towards preventing benefit dependency by recommodification on the one hand and 'securing living standards' for working families on the other hand.

1 INTRODUCTION

Social protection systems traditionally serve a dual purpose: to maintain acquired living standards in the event of the materialization of social risks (*protection*) and to combat poverty by guaranteeing adequate minimum incomes (*poverty reduction*). More recently, these goals – which are basically instances of damage compensation – have been complemented with a third objective, namely to foster ‘active inclusion’ as a means of preventing or rectifying damage (*prevention*). Although this third aspect is present in any insurance system, it has only come to the fore more prominently and explicitly in the context of social protection since the 1990s.¹ Instruments deployed to this end may range from guidance for unemployed or disabled persons towards economic self-reliance, ‘making work pay’ and benefits designed to facilitate the combination of work and family life (‘carrots’) to disincentives for prolonged benefit dependency (‘sticks’). There are inherent tensions between these three primary purposes of social security. More specifically, as a consequence of the emergence of new social risks (Bonoli 2006) on the one hand and of the need to develop employment strategies in order to reduce benefit dependency on the other it may have become more difficult to pursue the goal of poverty reduction. It is against this backdrop that the present paper explores trends in poverty reductions and the impact of policies with a focus on the good years before the crisis.

The paper begins with a discussion of the relationship between the three primary objectives of social security as previously defined. Subsequently it briefly summarizes the main trends in poverty reduction by social transfers during the years covered by the European Community Household Panel (ECHP) 1995-2001 and the Survey on Income and Living Conditions (SILC) 2005-2008. Then, in an attempt to identify the impact of *policies* and to tackle the ‘dependent variable problem’ (Clasen 2007), it focuses subsequently on changes in the adequacy of social protection with respect to work-poor and work-rich households, on changes in policy effort vis-à-vis these population groups, on changes in average benefit levels as measured in the surveys and on changes in calculated disposable incomes of a set of standard family types. The fifth section examines with micro-simulation the conditions under which it is possible for European welfare states to guarantee adequate minimum incomes to non-working groups. The final section summarizes and concludes.

2 HAVE TENSIONS BETWEEN THE OBJECTIVES OF SOCIAL PROTECTION INCREASED?

Social protection (i.e. cash transfers through social insurance and social assistance) is undoubtedly the most important tool that welfare states have at their disposal for redistributing income. Much more so than taxation, schemes for transferring income from the healthy to the sick (sickness benefits), from the young to the old (old-age pensions), from those in work to the out-of-work (unemployment benefits), and from childless families to families with children (child benefits) contribute to a reduction of income inequality in society (OECD 2008; 2011). Their impact on poverty reduction is generally also considered to be very substantial (for a comparison with the impact of in-kind spending, see Verbist and Matsaganis 2012). If one assesses the distributional capacity of social transfers in the conventional way – by comparing poverty rates before and after transfers – on

¹ In a 1992 recommendation to the Council, three primary objectives were formulated at the European level: 1) minimum income protection; 2) earnings related income protection with a view to safeguarding the acquired standard of living; and 3) social and economic integration.

average they account for a reduction in poverty rates of between 17 and 25 per cent (European Commission 2010).

There are however inherent tensions between poverty alleviation and other purposes of social protection. Systems that are focused strongly on universal maintenance of acquired living standards (i.e. protection) are inevitably less preoccupied with providing adequate (targeted) minimum incomes: such systems are, after all, reliant on insurance principles whereby benefits are linked to the accumulation of social rights through social contributions. Similarly, activation (an important component of prevention) can conflict with the notion of guaranteeing a minimum income, particularly if minimum incomes are seen to create unemployment traps or if it is considered that non-conditional benefits provide insufficient incentives for actively pursuing alternatives to benefit dependency. *Arguably, the tensions between the objectives of social protection have, over the past decades, become more pronounced, partly because of the emergence of 'new' social risks, partly because of the persistence of structural unemployment, high benefit dependency and the ensuing need for work-centred social security reforms.* This section elaborates upon the link between poverty reduction by social transfers, the changing distribution of social risks and the legitimacy of social redistribution.

2.1 POVERTY REDUCTION AND THE SOCIAL DISTRIBUTION OF NEW AND OLD RISKS

The redistributive and poverty-reducing capacity of social insurance systems is primarily a side-effect of horizontal solidarity schemes between individuals who find themselves in different conditions of life (healthy vs. sick, employed vs. unemployed, families with children vs. childless families etc). Even the Anglo-Saxon or Beveridgean system was not expressly designed for the purpose of combating poverty. Already in 1907, Beveridge asserted that “any scheme [...] must be free from the attempt to make their enjoyment dependent upon poverty. Otherwise it does become no better than a new form of Poor Law relief. ...” (cited in Beveridge 1954, 56). This rings even more true for the Continental, Bismarckian systems and for the so-called ‘demogrant’ insurance systems providing coverage for all, as in some of the Scandinavian countries.

The closer the association between the insured conditions with low income, the greater the extent of vertical redistribution induced by systems of horizontal solidarity. Consider the example of unemployment: as the risk of unemployment is the greatest among the low-skilled (who, in consequence of mechanisms of homogamy, are moreover more likely to have a low-skilled partner and therefore are at a higher risk of household work poverty), unemployment insurance has a strong vertical redistributive effect (Heady *et al.* 2001). Child benefits, on the other hand, are far less redistributive. Parenthood is distributed rather evenly across the population. Moreover, since children from more privileged families tend to study longer and in greater numbers, compensation is concentrated to some extent among the better-off strata. Unless corrections have been incorporated into their design, child benefit schemes are therefore less pro poor. Similarly, one may expect benefits designed to facilitate the combination of work and family life (such as parental leave schemes) to have a less pronounced vertical redistributive impact, as this particular new social risk, by its very nature, affects those in work, and specifically members of work-rich dual-income households. The relationship between horizontal and vertical redistribution is, in other words, determined to a considerable extent by the social distribution of those affected by the risks concerned: the greater the concentration among weaker socioeconomic groups, the stronger the redistributive and poverty reducing effect of the insurance scheme, and vice versa.

The existence of strong father-son social gradients for social risks that are statistically likely to induce poverty has been demonstrated time and again (e.g. O'Neill and Sweetman 1998; Feinstein 1993; Pintelon *et al.* 2013; Cappellari and Jenkins 2002; Nilsson 2012). ‘Bad’ social risks such as

unemployment, low work-intensity and illness continue to be significantly socially stratified, including (albeit to a lesser extent) in countries that are considered good examples when it comes to effectuating great(er) social equality. As we demonstrated elsewhere (Pintelon *et al.* 2013), the strongest intergenerational background effects are found in relation to ill-health and living in a jobless household.

By contrast, risks related to the combination of work and family are inversely socially stratified. This is due largely to educational homogamy and the dual-speed emancipation movement (Cantillon 2013). Indeed, although in varying degrees, in virtually all developed welfare states we observe multi-speed emancipation: the emancipation of highly educated women is reaching completion while poorly educated women still face major obstacles in this respect, especially when young children are involved (Gornick 1999; Cantillon *et al.* 2003). This implies that work-related risks associated with the combination of work and family life are characterized by a clearly different social stratification than unemployment, illness or work-poverty.

The divergent social stratification of social risks – i.e. the combination of work and family mostly among middle and higher-income groups, and unemployment, ill-health and joblessness mostly in the lower social classes at the bottom end of the income distribution – may be expected to have an impact on the capacity of social protection systems to alleviate poverty. If – in a work-oriented policy framework – one focuses strongly and more generously on the work-life balance and other work-related risks on the one hand and on the fight against unemployment traps on the other, the poverty-reducing function of social security may be compromised.

2.2 POVERTY REDUCTION VERSUS PREVENTION

Against a background of budgetary constraints, the emergence of new social needs, the cost of ageing and health care since the mid-1990s, almost all countries implemented policies designed to reduce benefit dependency through employment-centred welfare reform. However, at the *individual* level there was a remarkable stability in caseloads (see Vandenbroucke and Diris 2013). Ageing, the feminization and the ensuing increase of the labour force, in-work benefits and other new social benefits (parental leave, career break benefits etc) and the sluggish decrease in household joblessness accounted for only minor decreases or quasi-stability in individual social security dependency rates in many countries. Therefore, the pressure to diminish caseloads and the associated spending remained invariably high.

Governments aiming to reduce caseloads can rely on negative incentives (shorter duration of unemployment benefits, targeting, punitive measures...) and/or positive incentives (in-work benefits, tax credits, counselling...). On the one hand, people experiencing difficulties in navigating their way to the labour market may be assisted by a broad range of policy instruments, ranging from in-work benefits, tax reductions and job subsidies to individual counselling, working-time flexibility and childcare (Barbier 2005 and Lindsay *et al.* 2007). On the other, 'activation' may imply the use of 'sticks' and the elimination of dependency traps by lowering benefits and tightening eligibility criteria. Depending on the design of the programmes involved and depending on the impact of these measures on the number of work-poor households, these kinds of policy reforms may, to a greater or

lesser extent, compromise the poverty alleviating capacity of social protection systems (Clasen and Clegg 2011; Bonoli 2011; De la Porte and Jacobson 2011).²

2.3 THE LEGITIMACY OF POVERTY REDUCTION

Much has been written about legitimacy and the relationship between *universalism and selectivism, horizontal and vertical redistribution* of social protection schemes. A progressive design of social benefits through targeting of low-income groups is more efficient, on condition that the level of protection offered is adequate. However, the prevailing assumption in the social security literature is that targeting (i.e. more vertical redistribution) exerts downward pressure on the level of protection offered (Rosenberg 1982; Goodin and Le Grand 1987; Alber 1988; Sainsbury 1991; Esping-Andersen 1994; Rosanvallon 1995; Barr 1992, 755-757). Walter Korpi and Joakim Palme have labelled this premise the 'paradox of redistribution': "the more we target benefits to the poor... the less likely we are to reduce poverty and inequality" (Korpi and Palme 1998, 663). The underlying reasoning is that, compared to universal insurance programmes envisaging horizontal redistribution, selective poverty programmes tend to generate weak results due to their limited political legitimacy. The conviction that selective systems suffer from a lack of legitimacy is forcefully expressed in the often cited assertions that 'services for the poor are poor services' (Titmuss 1969) and that 'programs for the poor become poor programs' (Rainwater 1982, 42), or that 'good targeting leads to program shrinkage' (Grosh 1992).

However, an important caveat applies with regard to research into the relationship between generosity on the one hand and universalism/targeting on the other. It usually considers the totality of social cash transfers, without distinguishing between, for example, parental leave, child benefits or unemployment benefits. Aspects that have definitely been neglected in this debate are the *type* of risk against which cash transfers are deployed, the social distribution of the risks concerned and – at the same time – which segments of the income distribution those risks tend to affect. The argument that the broad middle classes are more willing to pay for universal protection systems resonates quite differently depending on whether one is considering unemployment or child benefits, work-poor households or work-rich households. Long-term unemployment is after all a highly selective risk affecting primarily the low skilled, ethnic minorities and socio-economically more vulnerable groups. As higher-skilled groups are far less exposed to this risk, it seems unlikely that targeting within unemployment benefit schemes would be detrimental to their willingness to pay; quite the contrary in fact. On the other hand, the argument seems much more pertinent in the context of so-called 'new' social risks that are distributed more evenly across the population (such as old age, parenthood and the combination of work and family life). In this line of reasoning it may be expected that downward pressures on benefit levels may have been stronger in relation to risks typically affecting

² Note that in contrast to individual caseload trends, the share of households receiving cash transfers (pensions excluded) – diminished almost everywhere in the EU, but most notably in Denmark, Finland and Belgium. In most Western European countries, household caseloads continued to decline between 2004 and 2007. The share of household in receipt of cash transfers was also cut considerably in Poland and the Slovak Republic. However, most Central and Eastern European countries saw a rise in caseloads. This was most notably the case in Hungary, Latvia and Lithuania, but also in Ireland. From 2004 and 2007, in many countries household caseloads declined not only among work-poor households but also among the higher work-intensity group. The divergent trends regarding individual and household caseloads can be explained by individualization on the one hand and/or by a concentration of benefit recipients within households on the other hand. This observation is important when considering changes in average benefit levels at household level. We come back to this issue in section 4.2.

vulnerable groups (such as long-term unemployment) whereas the logic of universalism may have been more prevalent in the context of pensions, universal child benefits or parental leave.³

Interesting, therefore, is the more recent work from Whiteford (2008), Kenworthy (2011) and Marx *et al.* (2013) who have, on empirical grounds, called into question the ‘paradox of redistribution’. Using OECD data relating to a larger set of countries, Whiteford concludes that the relationship between universalism and redistribution actually turned negative halfway through the first decade of the new millennium. Kenworthy, relying on LIS data, found that the positive relationship between universalism and redistribution declines strongly over time. For the set of countries studied, he actually found no evidence for 2005 of any relationship between size and pro poorness. Kenworthy’s intertemporal analysis suggests that these observations are due to two underlying explanatory dynamics. Danish cash spending became more selective, but expenditure levels remained high, whereas US spending remained low but became more universal (particularly as a result of the increasing proportion accounted for by pensions and EITC, albeit means-tested, but aimed at the employed who are not in the lowest income group). On the basis of his findings, Kenworthy formulates a revised size/targeting hypothesis, suggesting that, as long as there is a universal system of cash transfers, policymakers have the option of incorporating greater selectivity towards the weakest without compromising the overall volume of the redistribution mass. Previously in the literature, this was termed ‘targeting within universalism’ (Skocpol 1991).

To conclude, we may argue that there are reasons to suspect that the poverty-reducing function of social security may have been compromised by a) a differential social distribution of old and new social risks (old risks such as unemployment are strongly overrepresented in the lower-skilled social segments of the population, while new, work-related, risks are more prevalent among work-richer(er) families), b) persistent high benefit dependency and the ensuing need for employment-centred welfare reforms (through combating unemployment traps on the one hand and making work more attractive on the other) and c) a differential middle-class political legitimacy of social protection against social risks affecting work-poor and work-rich(er) families. We therefore hypothesize that (1) the poverty reducing capacity of social transfers has decreased in many countries and (2) this trend has affected work-poor households more than the work-rich.

3 SETTING THE SCENE: WORK-INTENSITY AND CHANGES IN POVERTY REDUCTION BY SOCIAL TRANSFERS

With a view to improving efficiency, containing cost and adapting the systems to new social risks, most welfare states have implemented various reforms (see Hemerijck 2013). Social protection systems, which form a strong buffer against the negative consequences of successive economic crises (see Vandenbroucke and Diris 2013), have allowed themselves to be transformed into sometimes quite potent instruments of activation and of employment support through various in-work benefits (Clasen and Clegg 2011). Moreover, they have supported the transition to dual earnership through all kinds of new benefits that facilitated the conciliation of work and family life. And, in many cases, additional forms of protection have been introduced for (not easily insurable) ‘new social risks’ (Bonoli 2005; Taylor-Gooby 2004), such as divorce and lone parenthood. Even the supposedly inert

³ In addition to the dangers of legitimacy loss and, consequentially, downward pressure on the generosity and adequacy of social protection, another major drawback of targeting that is described extensively in the literature is its potential impact on the labour supply through the creation of poverty traps (Atkinson and Micklewright 1991; Deacon and Bradshaw 1983; Atkinson and Mogensen 1993; OECD 1994).

Bismarckian systems have adapted – albeit generally more slowly than the other types of systems – to the new social, economic and demographic circumstances (Palier 2010). These policy changes may have driven divergent evolutions in terms of the poverty alleviating capacity of social transfers. Size clearly matters when it comes to reducing income poverty. Hence, to the extent that cost containment has led to shrinkage, it is likely to have impacted negatively on the poverty-reducing capacity of social transfers, unless such an effect is offset by greater efficiency. As selective targeting may enhance the (relative) protection of vulnerable work-poor households, it may be seen to strengthen the pro-poorness of social security systems. Conversely, trends towards activation and recommodification may have compromised the pro-poorness of social protection if such measures mainly affects work-poor households at the lower end of the income distribution. The effects of new benefits that facilitate the conciliation of work and family life depend on the changing distribution of work over work-poor and work-rich households, and – concurrently – on the social stratification of these risks (Cantillon 2011).⁴

Striking the right balance between solidarity and insurance, vertical and horizontal distribution, protection, poverty reduction and prevention is a challenge for all social protection systems. So how have they fared in this respect over the past decade? What has the outcome been of the shifts that the various systems have undergone in response to a drastically changed social and economic environment? How has the poverty-reducing capacity of social protection evolved? Although the OECD continues to consider these questions in a number of influential reports (OECD 2008 and 2011), and notwithstanding the fact that the EU indicators designed for the Lisbon 2010 strategy and currently underlying the Union's 2020 strategy refer among other things to the impact of benefits on poverty, such distribution issues appear to have somewhat faded into the background of policy discourse.⁵ Save for a number of important recent studies (Brandolini and Smeeding 2009; Kenworthy 2008 and 2011; OECD 2008 and 2011; Jenkins, Brandolini *et al.* 2013), this would appear also to be the case in research. It is our impression that the literature today is focused overwhelmingly on issues relating to the effectiveness of activation measures, on the distributional impact of services and on assessing the effects of new benefit schemes on the combination of work and family, and far less so than in the 1970s and 1980s on questions of redistribution and the impact of social protection on poverty.

The current section considers the evolution of the poverty-reducing impact of social transfers among the working-age population in two time frames, 1995-2001 and 2005-2010. Two different data sources are used: the *European Community Household Panel* (ECHP) and its successor the *European Union Statistics on Income and Living Conditions* (EU-SILC).⁶ As some authors have recently called into question the validity of EU-SILC data for Germany (Frick and Krell 2010; Goedemé, 2013; Hauser 2008), use is also made of the German Socio-Economic Panel Study (SOEP). Textbox 1 provides an overview of the central concepts used and how they were operationalized.

⁴ See Vandenbroucke and Diris (2013) for a further elaboration of the issue.

⁵ Employment and Social Developments in Europe (2011) contains a brief note on the impact of taxes and benefits on income inequality.

⁶ In this paper, we make use of the ECHP waves 1995 to 2001 and the EU-SILC waves 2005 to 2008. Please note that each survey contains information on household incomes from the previous year. There are however two exceptions: the United Kingdom (refers to 'current income') and Ireland (12 months previous to the interview). Figures from the ECHP and the EU-SILC are not entirely comparable due to differences in variable definitions used – for more information on both data sources, see Decancq *et al.* (2013).

Textbox 1. Central Concepts and Their Operationalization

AROP rate = at-risk-of-poverty rate. Headcount of individuals (aged 20-59) whose income falls below the at-risk-of-poverty threshold – 60 per cent of median equivalent income of total population.

Social transfers = all active-age cash benefits accruing to individuals aged 20 to 59, i.e. unemployment benefits, sickness/invalidity pay, social assistance, family-related allowances and/or housing allowances (pensions excluded). This broad definition of social transfers corresponds to the notion that benefit schemes often act as communicating vessels.

Pre-transfer AROP rate = at-risk-of-poverty rate calculated by removing all active-age cash benefits (except pensions) from households incomes.⁷

Absolute poverty reduction = the percentage-point difference between the pre-transfer AROP rate (see above) and the AROP rate (see above).

Size = the sum of social transfers (see above) relative to total disposable income as reported in the survey. Size refers to the redistributive effort of social protection schemes.

Households work-intensity (WI) = the average of individual work intensities in a household. The individual work-intensity is the ratio of the number of months worked during the income reference year by a working age household member to the number of months he or she could theoretically have worked. The ratio ranges from 0 (meaning that no-one at active age worked during the preceding year) to 1 (meaning that everyone at active age was full-time full-year employed).

Figure 1 summarizes trends in (post and pre-transfer) at-risk-of-poverty rates and poverty reduction in the case of the population at active-age⁸ in EU Member States. The most important poverty trends may be summarized as follows. *First*, it emerges that among the countries of the old Europe, Germany (according to SILC), Finland, Sweden and Greece have experienced significant increases in poverty risks in the 2000s, a trend that in the case of Finland and Denmark was also demonstrably unfolding in the 1990s. *Second*, likewise within the group of the 'old' Member States, data for Belgium, France, Denmark, the Netherlands and the Southern European countries indicate a general standstill, a pattern that, in the case of France, also predominated in the 1990s. *Third*, the UK and, even more so, Ireland have recorded a decline in at-risk-of-poverty rates among the population of active age. In the UK, this trend has manifested itself since the 1990s. *Fourth*, in many of the new Member States, poverty figures between 2004 and 2007 evolved favourably. This trend was particularly noticeable in Poland, Lithuania, Estonia and Slovakia, and it unfolded as part of a convergence process in at-risk-of-poverty rates across Europe (see Vandenbroucke and Diris 2013).

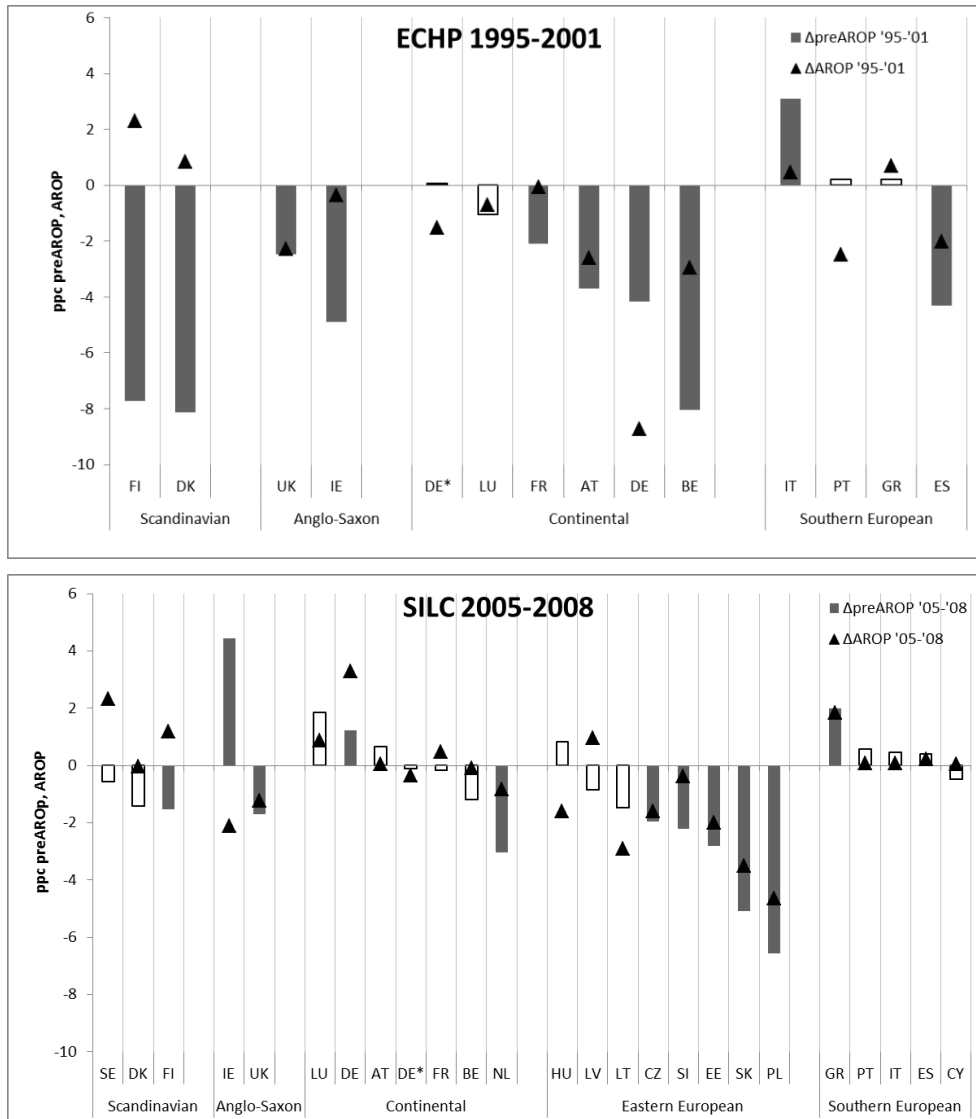
In addition, Figure 1 analyzes trends in post-transfer at-risk-of-poverty rates as a result of changes in both pre-transfer at-risk-of-poverty rates and the degree of poverty reduction. It shows that the *rise in poverty in Finland and Sweden in the 2000s (and, in the case of Finland and Denmark, also in the 1990s) is largely attributable to a decline in absolute poverty reduction*. As a result of the continuing rise in employment rates and the decline in the proportion of work-poor households (by 2.33 per cent in Sweden and 4.15 per cent in Finland), pre-transfer poverty dropped. However, a decrease in poverty reduction by social transfers meant post-transfer poverty actually increased. The *Danish*

⁷ The same poverty line is applied when calculating the pre- and post-transfer at-risk-of-poverty rate.

⁸ In the context of this study we limit the active age to 59 in order to avoid the possible impact of (pre) pensions which are driven by other considerations, both at the individual level as at the institutional level.

trends recorded in the 2000s are not statistically significant (with a 85% confidence interval). However, in the 1990s, the country did record a significant and substantial decrease in pre-transfer poverty, which was cancelled out entirely by a decline in poverty reduction through social transfers. *The Netherlands, Belgium and France* exhibited no significant changes in poverty rates, even though employment growth resulted in a lower proportion of work-poor households and hence in a drop in pre-transfer needs.

FIGURE 1. PERCENTAGE POINT CHANGE (PPC) AT-RISK-OF-POVERTY RATE (AROP) (PRE AND POST TRANSFERS) ACTIVE AGE POPULATION (20-59 Y.O.), IN THE 1990s (UPPER GRAPH) AND IN THE 2000s (LOWER GRAPH).



Note: DE* = DE SOEP; the grey bars indicate significant change.

Source: own calculations ECHP (1995-2001), EU-SILC (2005-2008) and SOEP.

The pattern observed in *Germany deviates from that seen in the abovementioned countries* in that it combines an increase in pre-transfer poverty risks with a decrease in income redistribution. According to SILC, the strong rise in poverty in Germany was driven by both an increase in pre-transfer poverty and a decline in poverty reduction by the social security system. Although this trend is not confirmed by the SOEP data, according to which recorded changes in the 2000s were not statistically significant, in the 1990s, the SOEP data do point to trends similar to SILC in the 2000s.

The strong drop in poverty seen in *Ireland* was driven entirely by an increase of poverty reduction by social security. As a result of weak labour market performance, the extent of pre-transfer poverty increased strongly. This was however more than offset by social transfers. In the *United Kingdom*, the decline in poverty in the 2000s was partly the result of lower pre-transfer poverty and higher poverty reduction by social transfers.

The decline in poverty in *Poland, the Czech Republic, Estonia and Slovakia* was driven entirely by (strongly) expanding labour markets and a drop in the proportion of work-poor households. The corresponding pre-transfer poverty rate declined. Generally speaking, in these countries *poverty-reduction decreased in absolute terms*. Only, in *Lithuania* and *Hungary*, poverty reduction increased.

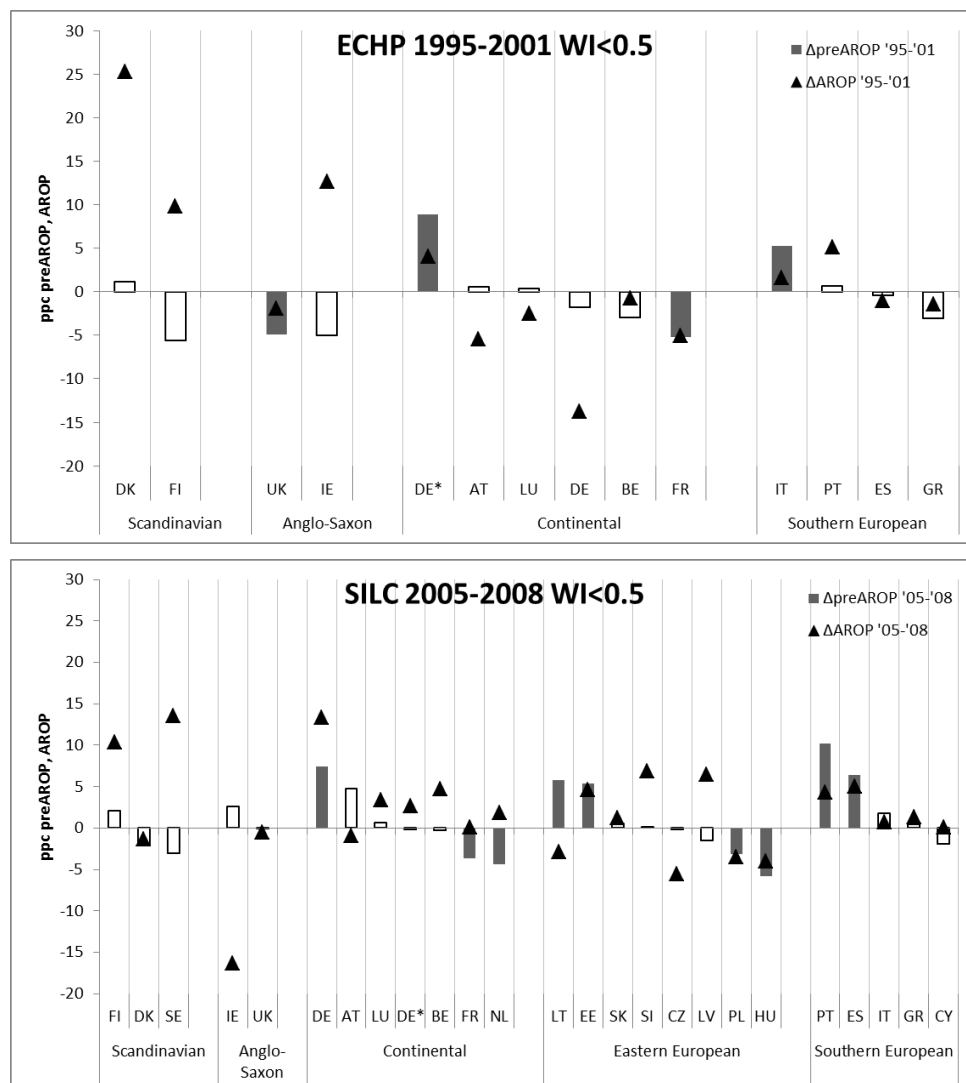
In sum, most European welfare states saw pre-transfer needs decline during the decades leading up to the crisis. However, whereas in some of the new Member States this trend went hand in hand with increasing poverty reduction by social transfers and hence with significant improvements in overall poverty risks, most of the 'old' Member States recorded either an increase or a standstill in poverty due to less redistributive social transfers.

So, why did poverty reduction decrease in these countries? Given that observed changes in poverty reduction depend in part on shifts in prevailing needs, the simple pre-post observations as such are not very informative about the possible impact of policy choices and the underlying trade-offs between protection, prevention and poverty reduction. After all, properly functioning systems of social security *automatically* respond to continuously changing needs as a consequence of economic and social changes (cyclical up and downturns, changing family structures), demographic changes etc. More particularly, changes in the number of work-poor and work-rich household may strongly impact the poverty reduction by social security systems. When, as it was the case in most countries in the period under review, the number of work-poor households decline, given the much stronger degree of poverty reduction among work-poor households than among work-rich families, this will automatically result in a decline in absolute poverty reduction. To control for changes in the shares of work-poor and work-rich households, we therefore turn to observed changes in poverty reduction among work-poor and work-rich households. Results are shown in Figures 2 and 3.

With regard to the *work-poor households* ($WI < 0.5$), three conclusions emerge. *First*, income poverty among work-poor households is extremely high, reaching levels of 70 per cent in Latvia, 55 per cent in Germany (according to SILC and SOEP), and more than 40 per cent in Finland, Belgium and Sweden. While there was no dominant trend in the 1990s, in the 2000s at-risk-of-poverty was rising in most of the countries considered – Ireland being a clear exception. *Second*, cash benefits are clearly very important for these households. Most countries succeeded in reducing poverty among the work-poor by between 20 and 40 percentage points through social transfers. Countries such as Denmark, Sweden, the Netherlands, Ireland and Hungary, were actually able to reduce pre-transfer poverty among work-poor families by over 50 per cent in this way. *Third*, in all countries experiencing substantial increases of income poverty within the group of work-poor households, – most notably in Finland, Sweden and Germany (SILC) –, changes in poverty reduction were the main determinant. Ireland is the only country where poverty reduction among work-poor households increased substantially. In general, in the 2000s within the population of work-poor households, relative poverty reduction declined in the Nordic (with the possible exception of Denmark) and in the Continental clusters (with the exception of Austria), while social protection for work-poor households

became more adequate only in Ireland, Spain, Portugal and in some of the new Member States (the Czech Republic and Lithuania) (see Figure 2).^{9 10}

FIGURE 2. PERCENTAGE POINT CHANGE (PPC) AT-RISK-OF-POVERTY RATE (AROP) (PRE AND POST TRANSFERS) ACTIVE AGE POPULATION (20-59 Y.O.), WORK INTENSITY < 0.5, IN THE 1990S (UPPER GRAPH) AND IN THE 2000S (LOWER GRAPH).



Note: DE* = DE SOEP; the grey bars indicate significant change.

Source: own calculations ECHP (1995-2001), EU-SILC (2005-2008) and SOEP.

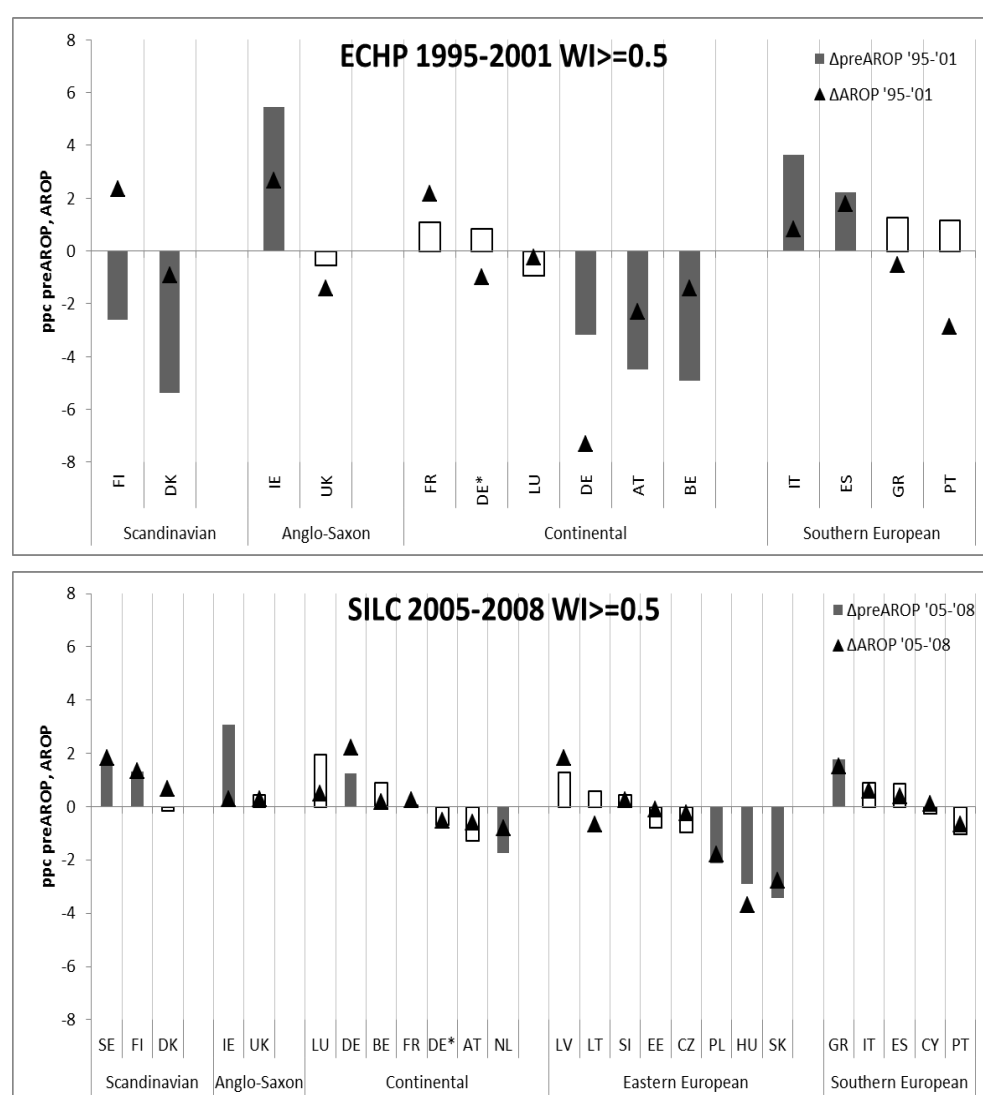
Among *work-rich households* the poverty risks are lower than those faced by work-poor families in all countries. Still, some countries had relatively many households with a work-intensity above 0.5 who are nonetheless at risk of poverty. In countries such as Latvia, Poland and Portugal such families

⁹ See Cantillon *et al.* 2012 (Table A4) for detailed data on each country.

¹⁰ There is however one remarkable counterexample, i.e. Germany in recent years. Whereas there was an increase in the average volume going to the work-poor, the observed poverty reduction declined, resulting in rising AROP rates. This apparent anomaly is explained by a sharp inefficiency in the allocation of resources going to the work-poor households.

faced a poverty risk of over 10 per cent. Changes in poverty reduction by social transfers were much less outspoken than in the case of work-poor households, though by and large they were in the same line. Although the notions of in-work poverty (defined at the individual level) and work-intensity (defined at the household level) partly reflect different realities, Figure 3 seems to suggest that changes in in-work poverty are associated not only with low pay but also with shortcomings in tax and benefit systems. Although increasing pre-transfer poverty (pointing to increasing vulnerability in the labour market) accounts largely for the increase in at-risk-of-poverty among work rich households (pointing to an increase of in-work poverty) in some countries, *declining poverty reduction by social transfers seems to have been an additional factor*. This was clearly the case in Germany (according to SILC), Finland (in the 1990s), Latvia and Sweden. In all these countries the increase in pre transfer poverty among work rich households was amplified by a decrease in poverty reduction by social transfers. Likewise, greater poverty reduction by social transfers accounted at least in part for decreasing in-work poverty in Hungary and in the UK (in the 1990s).

FIGURE 3. PERCENTAGE POINT CHANGE (PPC) AT-RISK-OF-POVERTY RATE (AROP) (PRE AND POST TRANSFERS) ACTIVE AGE POPULATION (20-59 Y.O.), WORK INTENSITY ≥ 0.5 , IN THE 1990s (UPPER GRAPH) AND IN THE 2000s (LOWER GRAPH).



Note: DE* = DE SOEP; the grey bars indicate significant change.

Source: own calculations EHP (1995-2001), and SOEP.

We may therefore conclude that a) in many countries the poverty reducing capacity of social security systems declined in the good years before the great recession and, b) work-poor households were more affected than work-rich households, though the direction of the changes was by and large the same.

4 THE DEPENDENT VARIABLE: WHAT WAS THE ROLE OF POLICIES?

The observed decline in many EU countries in poverty reduction among work-poor households on the one hand and the far less outspoken trends among work-rich households on the other are suggestive of varied policy focuses. Yet behind the changes in poverty reduction lie all kinds of compositional changes that may also have played a part. For example, one may expect that a decline in the number of work-poor households will not have been without consequence for the profile of that group. Conceivably, in countries with a low number of work-poor households what remains is a core of more long-term unemployed with institutionally lower benefits. This idea is supported by the results of Vandenbroucke and Diris 2013. They have shown “the extent of work-poverty (i.e. the share of individuals in work-poor households) has a *negative* impact on poverty rates within that group”. So, in order to gauge policy impact, we must dig deeper. Therefore, in what follows, we present analyses of, consecutively, changes in social protection *effort* (i.e. the size of social spending), changes in *average benefits for the population of work-poor and work-rich households*, and *changes in tax benefit packages* for these groups of households.

4.1 EFFORT AND THE RESPONSES TO DECLINING NEEDS

Figure 4 presents the percentage point change in benefit size (as a percentage of total disposable income in the survey) during the 2000’s.¹¹ The dominant pattern *in the 1990s* was one of decline or stagnation of spending levels for the active-age population, with substantial declines in Denmark, Finland, Sweden, Ireland, the UK, Austria, Belgium and Spain. The same basic evolutions are observed for the 2000s, except in Ireland, Hungary, the Czech Republic, Lithuania and Latvia, where the total amount in cash benefits increased relative to total disposable income – as reported in SILC.¹² In general, the size of social spending decreased most strongly in the ‘old’ welfare states. The decline in spending levels during the 1990s coincided with quite a strong convergence in social expenditure across the then EU Member States (Adelantado and Calderón Cuevas 2006; Schmitt and Starke 2011). However, this trend seems to have stagnated somewhat during the years before the crisis, especially across the enlarged EU, but also across the ‘old’ Member States (Caminada *et al.* 2010; Cantillon *et al.* 2012).

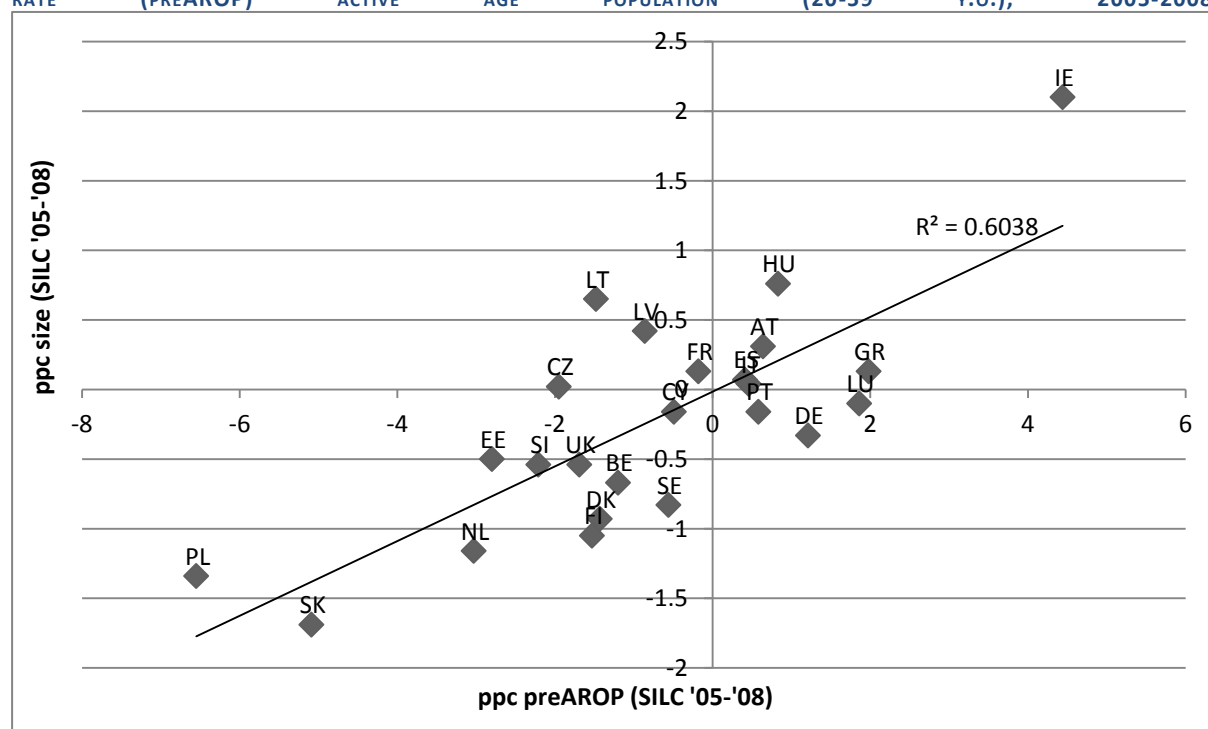
Figure 4 also visualizes the relationship between pre-transfer at-risk-of-poverty and total size of cash benefits. Clearly there is a substantial positive relationship between the two. Increases or decreases in pre-transfer poverty are associated with rising or falling social spending on cash benefits, which

¹¹ The empirical estimates of spending on cash transfers in both ECHP and SILC are broadly in line with ESSPROS data, although ECHP data tend to report some underestimation of real expenditures whereas SILC data slightly overestimate real size – albeit with exceptions. Notably for Germany and Spain, the 1994 ECHP substantially underestimates the real cash expenditures while the SILC data for Sweden, Ireland and especially Hungary probably yield an overestimation. As a result, the declining trend in Germany as reported by ESSPROS is not reflected in the survey estimates.

¹² The significant drop in expenditure on cash transfers has in many countries been accompanied by decreasing numbers of households receiving social benefits. (See Figure 2 in Cantillon *et al.* 2012, 14).

may be assumed to be due to two mechanisms, the relative importance of which is hard to determine. On the one hand, social security systems respond automatically to increases or decreases in social risks. In the booming years under consideration here the decrease of unemployment and of work-poor households resulted in declining spending levels. On the other hand, changing spending levels may also be attributable to *policies*. In Figure 4, a linear interpolation has been added of the relationship between size and pre-transfer at-risk-of-poverty. In doing so, we compare changes in national efforts with the ‘European welfare state technology’ (Vandenbroucke and Diris 2013). Welfare states below the regression line responded less generously than the ‘European technology’ to changes in pre-transfer poverty. More specifically, this was the case in the Nordic countries and in some of the continental and Southern European countries. Germany (according to SILC data) and Greece did not increase the size of social redistribution in line with increasing pre-transfer poverty. On the other side of the regression line, one observes the more generous responses in Ireland and in most of the new Member States. The evidence points at the hypothesis that *in a number of countries (mainly in the old Europe) the response of the social security system to increasing / declining pre-transfer needs has been less generous than in the EU social fabric, especially in those countries where indications were found for a decreasing poverty reducing capacity of social transfers systems*. This is suggestive for policy changes.

FIGURE 4. PERCENTAGE POINT CHANGE (PPC) OF BENEFIT SIZE AS A FUNCTION OF CHANGES IN PRE-TRANSFER AT-RISK-OF-POVERTY RATE (PREAROP) ACTIVE AGE POPULATION (20-59 Y.O.), 2005-2008.



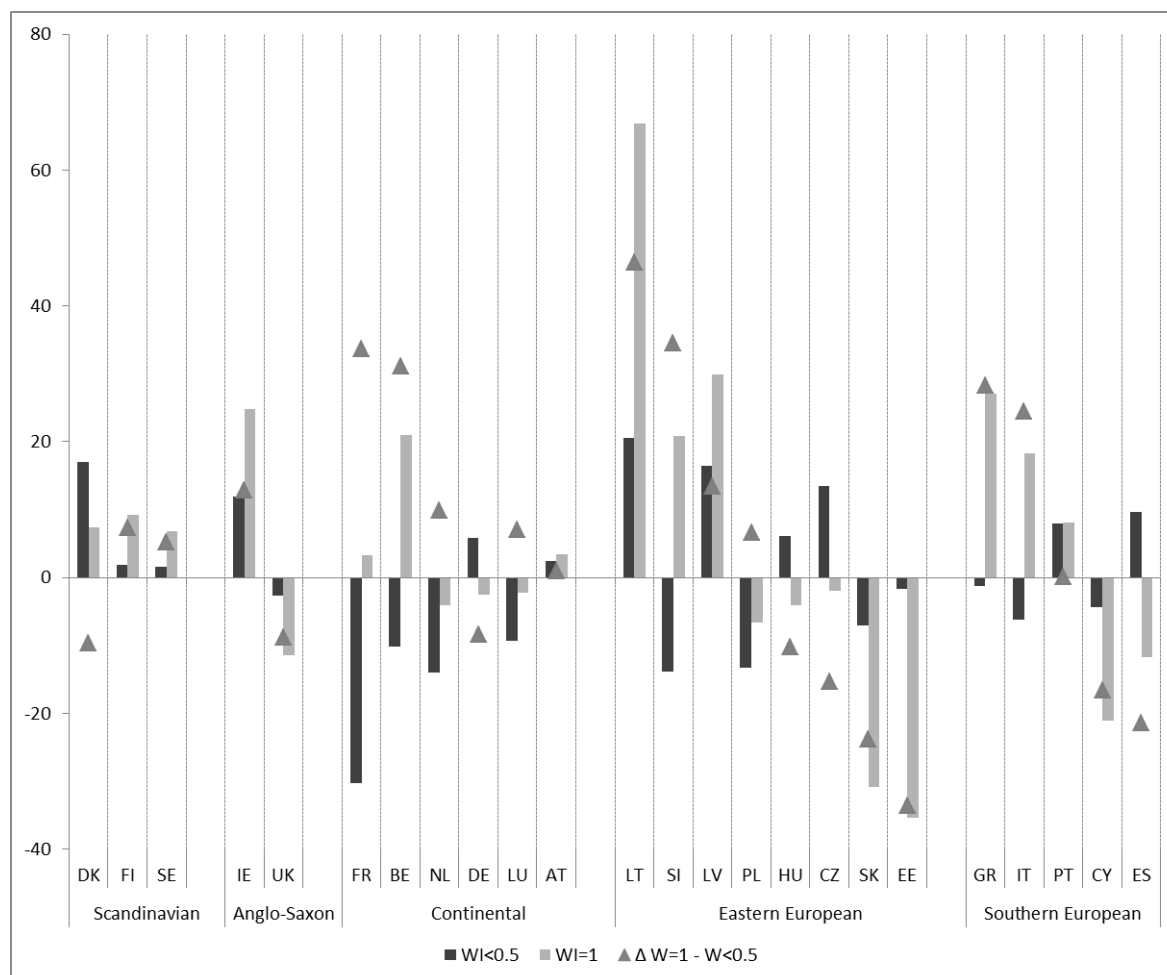
Source: own calculations EU-SILC (2005-2008).

4.2 HOUSEHOLD WORK-INTENSITY AND CHANGES IN BENEFIT GENEROSITY

In order to gain better insight into the possible impact of effective policy changes over the past decades, we now consider the percentage-wise evolution of household average standardized benefits for three groups: households with a work-intensity below 0.5, households whose work-intensity equals 1, and an in-between group (Figure 5). ‘Standardized’ means here that a correction is

made for household composition using the modified OECD equivalence scales. Hence changes in household size do not impact on the evolutions observed. All households (with and without benefits) and all benefits (replacement income, assistance and child benefits) are considered.

FIGURE 5. TRENDS IN AVERAGE EQUIVALENT SOCIAL TRANSFERS* FOR THREE GROUPS: HOUSEHOLDS WITH A WORK INTENSITY BELOW 0.5, HOUSEHOLDS WHOSE WORK INTENSITY EQUALS 1, AND IN-BETWEEN GROUP, ACTIVE AGE POPULATION (20-59 Y.O.), 2005-2008. *



Average social transfers are equivalised according to the modified OECD equivalence scales in order to account for changes in household composition. In addition trends in average benefits are adjusted for the evolution of disposable income for the total population.

Source: own calculations EU-SILC (2005-2008).

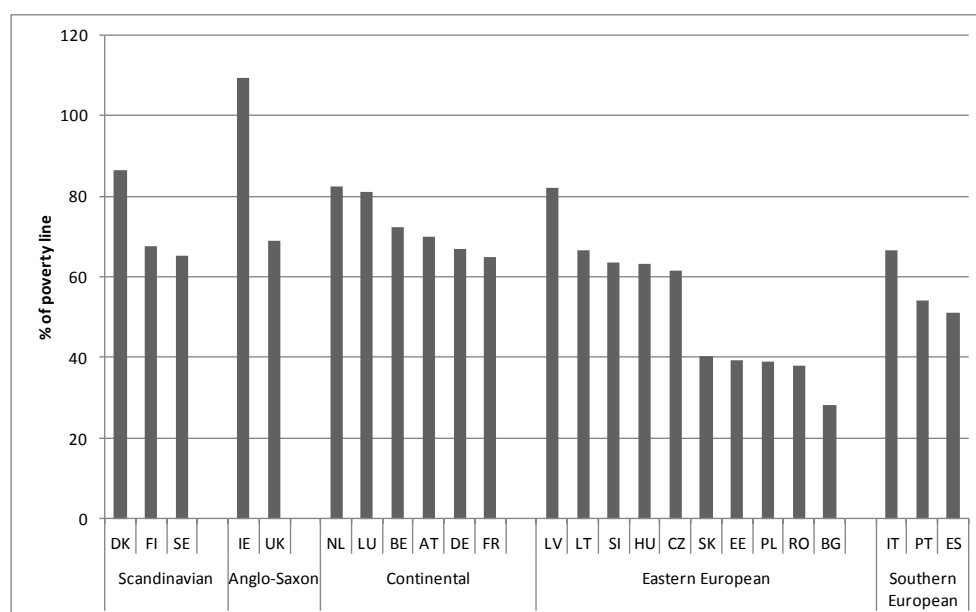
Clearly, work-poor and work-rich households were affected differently by the shrinkage in social expenditures between 2005 and 2008. In many countries where poverty reduction declined, average benefits for the work-richer group evolved considerably more favourably than those for households who failed to fully utilize their work potential. In Belgium, France and the Netherlands, the average benefit to work-poor households actually declined, while that to the work-rich group remained stable or even increased. In Finland, Sweden and Italy the average benefit to work-poor household did not change much while that to work-rich households increased. In a number of countries, we observe the opposite: in the United Kingdom, Slovakia, Estonia and Cyprus, work-rich families were affected more severely by declining average benefit amounts.

Although the trends are in no way unequivocal, changing average benefit levels may suggest that in a number of countries social protection evolved more favourable for work-richer households than for the work-poor. These trends may support the hypothesis formulated in the introductory section of this paper, namely that the poverty alleviation function of social protection may have come under pressure as a consequence of recommodification, on the one hand, and the need to develop work oriented benefits in order to make work more attractive and to enhance the work-life balance, on the other hand. However, these figures too should be interpreted with great circumscription.

Trends in average benefits per work-intensity group are after all also sensitive to shifts in the profile of the groups under scrutiny, including any changes that may have occurred in gravity and the type of social risks. The data presented in Figure 5 should therefore be treated with considerable caution as an indicator of changing welfare state generosity. We therefore now turn to *more direct indicators of policy changes*, using a *model family* approach. In Figures 6, 7 and 8 we look directly at the income levels of a specific group of benefit claimants, i.e. social assistance benefit recipients who are by definition work-poor. This exercise is based on standard simulations, i.e. the net income is simulated of a number of hypothetical households given the prevailing tax-benefit legislation in each country. The data draw on the CSB-MIPI dataset, i.e. a data collection conducted by the Centre for Social Policy (University of Antwerp) through a network of national experts (for a detailed description, see Van Mechelen *et al.* 2011). This dataset contains estimates of net incomes of several model families taking full account of social assistance, child cash benefits, taxes, social security contributions and housing allowances, on the condition that they are non-discretionary.

We start by scrutinizing trends in targeted minimum income protection. There is ample evidence of the inadequacy of minimum social benefits (OECD 2009; Nelson 2013; Van Mechelen and Marchal 2013). In many cases, minimum benefit levels are below 40 per cent of median equivalent income. This is not only so in the relatively new Member States, but also in older, usually richer Member States such as Belgium, Germany, France, Finland, Sweden, and the United Kingdom (see Figure 6).

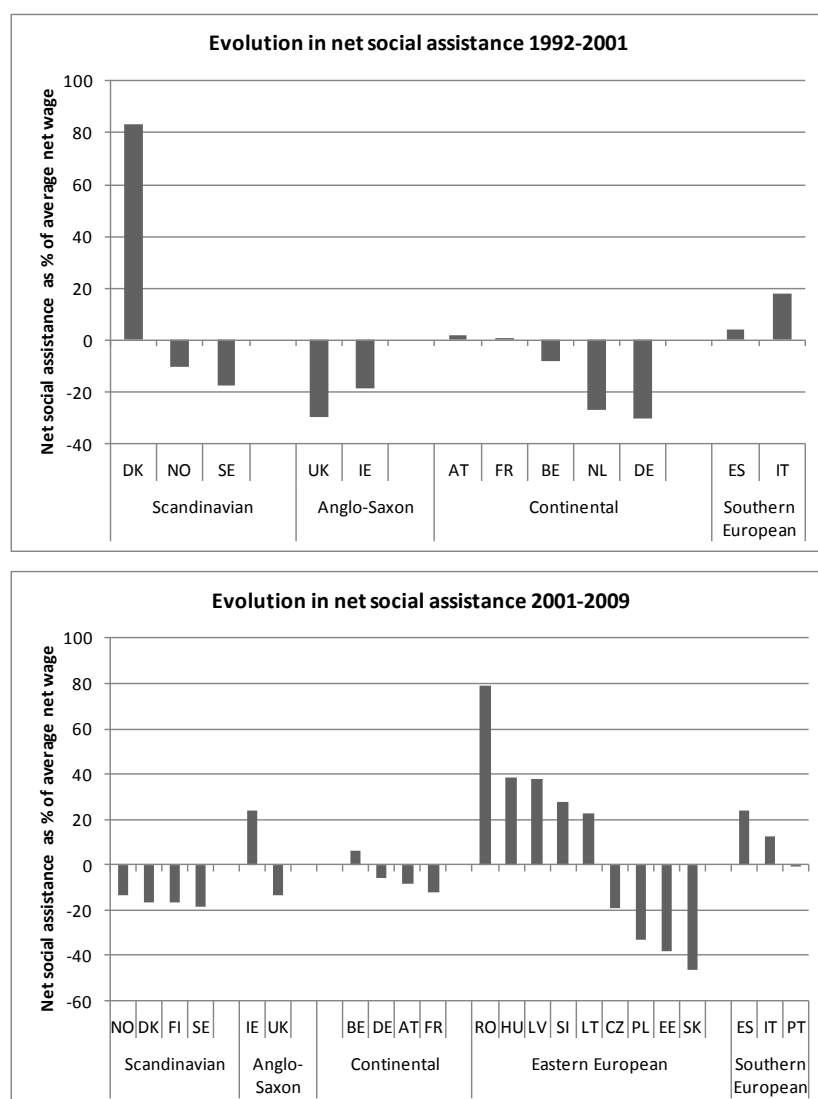
FIGURE 6. THE ADEQUACY OF SOCIAL ASSISTANCE: NET SOCIAL ASSISTANCE BENEFIT PACKAGES AS PERCENTAGE OF THE POVERTY LINE (60% OF MEDIAN EQUIVALENT INCOME), 3 MODEL FAMILIES, 2009.



Source: CSB-MIPI (see Van Mechelen *et al.* 2011).

With regard to social assistance, the overall picture for the 1990s in the EU15 was one of almost uniform erosion of benefit levels relative to average wages. Figure 7 shows the trend between 1992 and 2009 in the social assistance benefit package of a model family consisting of one adult (see Van Mechelen and Marchal (2013) for detailed explanation of methodology). Especially in Ireland, the Netherlands, Sweden and the UK, net social assistance benefits were unable to keep up with the rise in net average wages during the 1990s. In the 2001-2009 period, the pattern was far less unequivocal. In about half of the countries under consideration social assistance benefits rose more quickly than average wages. This was especially the case in Ireland and in post-communist countries with previously relatively low benefits, such as Hungary, Latvia, Romania and Slovenia. However, in other East European countries, such as the Czech Republic, Estonia, Poland and Slovakia, minimum benefits lagged behind average wages. Minimum protection also further declined relative to average wages in the Netherlands, the UK, Sweden, Finland and Denmark. Relative to median household income, the downward trends in minimum income protection were even more pronounced. In countries such as Italy, Spain and Lithuania benefits kept up with wages, but not with median income, and hence not with the poverty line (set at 60 per cent of median income). The adequacy of social assistance benefits thus decreased in many countries. This observation holds not only for single persons, but also for families with children (Van Mechelen and Marchal 2013).

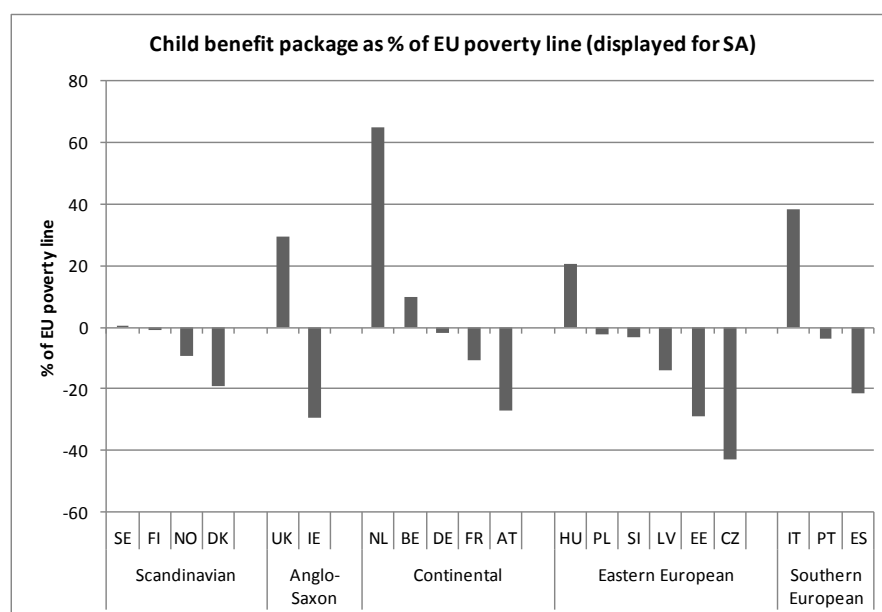
FIGURE 7. TRENDS IN NET SOCIAL ASSISTANCE BENEFIT PACKAGES, SINGLE PERSON HOUSEHOLDS, 1992-2001 / 2001-2009.



Source: CSB-MIPI (see Van Mechelen *et al.* 2011).

Whereas *child benefit packages* were able to escape welfare erosion until the 1990s, over the past decade their adequacy has declined in a majority of countries (Van Mechelen and Bradshaw 2013; Gauthier 1990; Kamerman and Kahn 2001). Figure 8 shows the evolution of the child benefit package of a couple with two children on social assistance. The child benefit package here consists not only of child cash benefits and child tax benefits or allowances which reduce the direct tax liability in respect of children, but also includes housing benefits and social assistance top-ups that take account of the presence of a child (see Van Mechelen and Bradshaw (2013) for detailed explanation of methodology). In most countries child benefit packages have decreased relative to the poverty line. This holds true not only for social assistance recipients, but also for other low-income families such as single-earner households on average or minimum wage and for double-income families. The gap between the child benefit package of a social assistance recipient and the poverty line has increased by more than 20 per cent in countries such as Austria, Spain, the Czech Republic, Estonia and Ireland, and by more than 10 per cent in France, Denmark and Latvia. The main exceptions are Hungary, Italy, Lithuania, the Netherlands and the United Kingdom where the child benefit package of families on social assistance has grown faster than median equivalent income (Van Mechelen and Bradshaw 2013).

FIGURE 8. TRENDS IN CHILD BENEFIT PACKAGES, COUPLE WITH 2 CHILDREN, 2001-2009.



Source: CSB-MIPI (see Van Mechelen *et al.* 2011).

4.3 The composition of tax-benefit packages

Table 1 shows the evolution of net disposable incomes for a broader range of work-poor and work-rich families in Belgium and the Netherlands. Similar to the figures above, this table draws on model family simulations. Table 1 provides evidence that the stark decline in average equivalent benefits for work-poor families between 2008 and 2005 shown in Figure 5 is not merely a result of the changing profile of work-poor families but also of shifting policy priorities, at least in Belgium and the Netherlands.

TABLE 1. TRENDS IN NET INCOME, 13 MODEL FAMILIES, 1995-2007 REAL EVOLUTION IN %.

	Belgium	Netherlands
WORK INTENSITY = 1		
Lone parent, full time employed, minimum wage	11	191
Two earner couple (minimum wage), 35y.	9	15
Two earner couple (minimum wage), 55 y.	12	2
Two earner couple (average wage), 55y.	5	1
WORK INTENSITY = 0,5		
One earner couple (minimum wage), 35y., one partner short term unemployed	8	-4
One earner couple (minimum wage), 55y., one partner long term unemployed	6	-7
One earner couple (average wage), 55y., one partner long term unemployed	-1	-5
Lone parent, career reduction 50%, minimum wage	23	10
One earner couple (minimum wage), 55y., one partner long term disabled	19	-5
WORK INTENSITY = 0		
Social assistance recipient, single person, 18y.	6	-56
Both partners long term unemployed (minimum wage), 49y.	13	-7
Both partners long term unemployed (minimum wage), 55y.	-6	-7
Both partners short term unemployed (minimum wage), 49y.	0	n.a.

Note: With the exception of young social assistance claimants, all households are assumed to have two children. The age of the children is assumed to be 10 and 14 for couples aged 35 years, and 18 and 25 for couples aged 49 or 55.

Source: Herman Deleeck Centre for Social Policy.

The data for Belgium show that, for households with (relatively) high work-intensity, income protection improved between 1995 and 2007. Further simulation results for work-rich families earning a minimum wage suggest that their real incomes have risen substantially thanks to the reduction in social contributions. The income situation of working *lone parents* observed in Table 1 increased over the period considered, in consequence of a combination of measures, such as the increase in affordable childcare provisions, the increase in compensatory benefits for parents making part-time use of care leave provisions and the introduction of a child cash benefit aimed specially at lone parents. Government policy in Belgium in the 1995-2007 period was clearly geared towards, on the one hand, work-rich households with a low earnings potential and, on the other, a number of specific high-risk groups such as lone parents on parental leave, but also the work-incapacitated. The income of households on an average wage, on the one hand and work-poor households dependent on benefits on the other, increased far less strongly. Older work-poor households actually saw their benefits decline in real terms.

The differential treatment of work poor and work rich households can also be observed in the Netherlands.. For one thing, in the Netherlands, too, low-income households with high work-intensity saw their income grow quite considerably. This was occasioned by a reduction in social contributions and the introduction of a health care allowance to compensate low income families for the cost of health care insurance. Moreover, the incomes of households with a low(er) work-intensity and those working at average wage developed much less favourably. However, the focus of activation policy – at least insofar as financial incentives are concerned – was not so much on the older unemployed as on young social assistance claimants. A further difference with Belgium is apparent from the fact that not a single at-risk group mentioned in Table 1 saw a marked improvement in the level of minimum income protection enjoyed. Dutch policy would appear to have been geared entirely towards households with a high work-intensity and low pay. This also holds for lone parents: while the income after deduction of child daycare costs of a lone parent in *full-time* employment at minimum wage increased almost threefold (thanks to the introduction of a child daycare allowance for low-income families, with a supplement for lone parents), the income of lone parents in *part-time* employment rose by barely 10 per cent (due to the fact that the child daycare allowance was cancelled out almost entirely by cuts in career-break benefits).

5 MORE ADEQUATE MINIMUM INCOME PROTECTION: POTENTIAL AND CONSTRAINTS

The most important conclusion to be drawn from the above is the striking – and in many countries rising – inadequacy of social protection for individuals living in households with a low work-intensity. This may point at the tension between the adequacy of income protection, for those who remained outside of the labour market on the one hand, activation and work-centred welfare reform on the other hand, as elaborated in the first section of this paper, and lend credence to the notion that policies have sought to raise employment at least partially by reducing reservation wages (see among others Atkinson 2010). Arguably, the focus on employment has weakened traditional (passive) social protection as “much of the thrust of labour market reform has been by reducing the level and coverage of social protection and tightening the conditions under which benefits are paid” (Atkinson 2010, 15; see also Vandenbroucke and Vleminckx 2011).

The growing inadequacy of social benefits raises the question of whether it is possible (and, if so, under which conditions) to guarantee an adequate minimum income protection given the high number of people who are structurally excluded from the labour market and the necessary activation policies, which inevitably also include the fight against dependency traps. Otherwise stated: is it possible to reduce poverty among work-poor families and to simultaneously create employment and reduce social spending? Figure 9 presents a tentative calculations of the cost of implementing adequate minimum benefits while reducing the number of households with work intensity lower than 0.5. The total cost of an increase in minimum incomes to the 60 per cent poverty threshold would amount to almost EUR 82 billion, which corresponds to 1.46 per cent of total disposable income in the EU.¹³ Clearly the financial effort required for all countries to attain the 60 per cent level is considerable. Moreover, it would be unequally divided between the Member States. In Austria, the Czech Republic, Cyprus, Finland, France, the Netherlands and Slovenia, the measure would require less than 1.0 per cent of total disposable income; in Bulgaria, Spain, Italy, Latvia, Lithuania, and Romania, it would require over 2.0 per cent. The budgetary impact of increasing minimum benefits across to the Union to 40 per cent of median standardized income would represent some EUR 21 billion, ranging from 0.07 per cent of disposable in the Cyprus to 0.94 per cent in Romania. Obviously, these differences in simulated costs are correlated with the numbers of work-poor households, the level of prevailing minimum wages and with the actual levels of means deployed in social security systems.

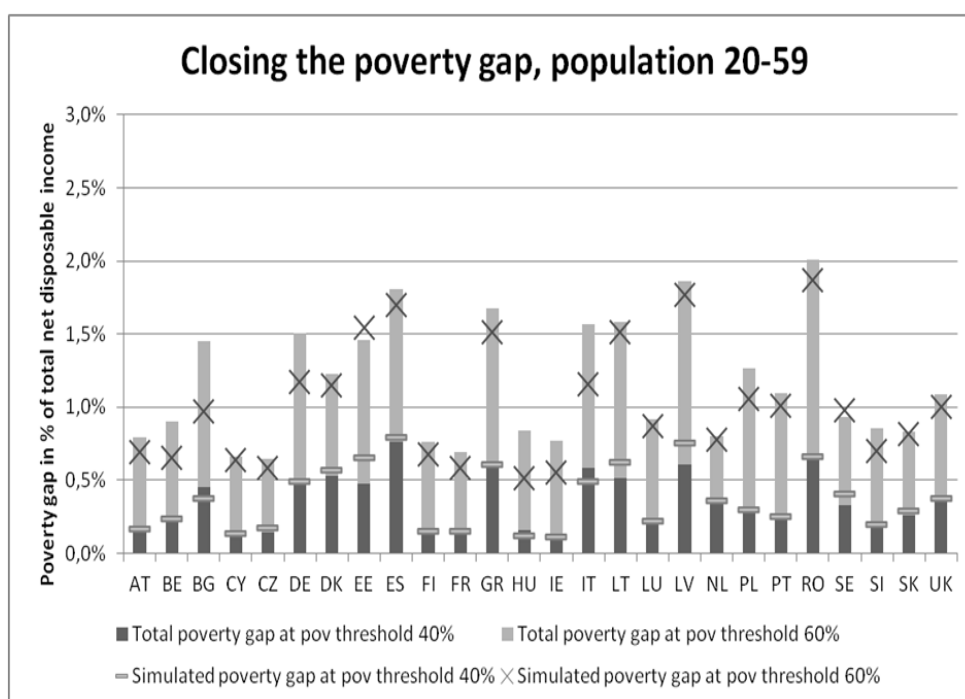
What would be the cost of the introduction of adequate minimum income protection if countries were able to devise successful activation policies and – in so doing – to push down their number of work-poor households? Figure 9 illustrates the budgetary impact of an increase in minimum income protection assuming that the proportion of households with low work-intensity (< 0.5) were cut to 7.8 per cent of the population aged 20-59 years in all Member States, i.e. the average proportion in the top-5 performers (Slovakia, Sweden, Estonia, and Lithuania).¹⁴ Under the admittedly bold

¹³ The budgetary impact of an increase in minimum social benefits on the national EU poverty thresholds is estimated as the sum of the poverty gaps of all persons aged 20-59 years. The cost obtained is presented as a proportion of the sum of the disposable incomes of the total population. It should be emphasized that many practical and technical aspects are ignored in this exercise, so that the result is an approximation and therefore merely illustrative. For example, it is implicitly assumed that introducing such a guaranteed minimum income will affect neither taxes paid nor other benefits claimed by the households. It is also assumed that the poverty threshold is fixed.

¹⁴ This idea also underlies the active inclusion strategy of the European Commission. In its recommendation of 3 October 2008 on the active inclusion of people excluded from the labour market, the Commission links adequate income support to other priorities such as inclusive labour markets and access to quality services. The Commission calls on the

assumption of constant poverty gaps in both work-intensity groups, the cost of an increase in minimum social benefits to 60 per cent of median equivalent income would amount to 66 billion, i.e. 1.18 per cent of European net disposable income (as compared to 82 billion prior to the reduction in the share of work-poor households). Evidently, the impact of active inclusion policies on the poverty gap would be strongest in countries with a high proportion of work-poor households. In countries such as Bulgaria, Hungary, Italy and Ireland – where about 20 per cent of working-age households is work-poor – the total poverty gap may be reduced by 30 to 50 per cent by cutting back current levels of low work-intensity to about 8 per cent (under the assumption that the poverty line remains unchanged). However, in others the number of work-poor households scarcely influences the size of the poverty gap. In Spain, Romania, Lithuania, Estonia and Latvia, the poverty gap would remain large even if the share of families with low work-intensity were to be reduced to 8 per cent. In the latter three countries, the work-intensity of households is already relatively high, hence one should not expect spectacular employment effects. Here the poverty gap mainly reflects the inadequacy of current income protection arrangements. In sum, *although active labour market policies can and should play a crucial role in reducing poverty gaps across Europe, income protection schemes remain an important instrument for improving welfare state poverty alleviation*, even if countries could manage to get their number of work-poor families back to the levels of the best performing countries.

FIGURE 9. THE TOTAL POVERTY GAP OF INDIVIDUALS AGED 20-59 (% OF TOTAL DISPOSABLE INCOME) AT POVERTY THRESHOLDS 40% AND 60%, BEFORE AND AFTER A REDUCTION OF THE SHARE OF HOUSEHOLDS WITH WORK INTENSITY LOWER THAN 0.5.



Note: we assume that poverty risks in both work intensity groups are unaltered.

Source: own calculation EU-SILC 2008.

Member States to adopt measures to ensure that able-bodied person receive help to re-enter or to stay in the labour market.

The previous hypothetical situations assume that there is no trade-off between generosity and the extent of low work intensity. A Europe-wide introduction of social assistance minimums equal to 60 per cent of national median income would create severe financial ‘inactivity traps’ in no fewer than ten Member States: in Bulgaria, Estonia, Slovenia and Lithuania, the net income of a single benefit recipient would be between 25 per cent and 30 per cent higher than the equivalent income of a single person working at minimum wage; in Spain and the Czech Republic, the relative advantage of the benefit claimant would amount to between 14 and 16 per cent (Cantillon and Van Mechelen 2012; Vandenbroucke *et al.* 2013). Somewhat reassuring, the large differences in the severity of the dependency trap coincide with a great diversity in activation measures and minimum wages (Van Mechelen *et al.* 2011; Marx, Marchal *et al.* 2013). In some Eastern European countries, a genuine activation policy would appear to be lacking thus far. Clearly, here an increase in benefit amounts would appear to be feasible only if minimum wages are increased and a new balance is struck between the rights and duties of benefit claimants.

6 CONCLUSION

We may summarize the main results as follows. First, as the *whole active-age population* is concerned one may conclude that in the nineties the redistributive impact of social transfers declined significantly in the traditionally strongest welfare states in the Nordic cluster. In the 2000s figures signal that similar trends may have prevailed not only in the North but also in many of the old Member States on the Continent, albeit to a much lesser extent. Conversely, the Anglo-Saxon countries (most notably Ireland) and some countries in the clusters of the new Member States in the 2000s and of the Southern States in the nineties displayed *increases* of poverty reduction by social protection. In all, in the period prior to the great recession, Europe’s social security systems remained important devices in the fight against poverty, but as a consequence of declining poverty reduction in many nations, few countries are to be found where the advantages out of the favourable pre crisis employment conditions were translated in declining poverty rates.

Second, considering *work-poor households* in particular, in most of the old Member States significant and substantial decreases in relative poverty reduction through social transfers occurred. Income poverty among work-poor households increased accordingly.

Third, although social transfers are obviously less important for *non work-poor households* and changes over time were less outspoken than in the case of work-poor households, it is clear that inadequate social protection is not an unimportant factor explaining *in-work poverty*. The figures shown in this paper give some mild support to the hypothesis formulated by Marx and Nolan (2013) that in-work poverty is associated not only with low pay but to some extent also with low work-intensity at the household level and with shortcomings in tax and benefit systems.

Fourth, more direct policy indicators such as changing spending levels, observed average benefit levels and theoretical tax benefit packages for work-poor and work-rich households suggest that – where applicable – the relative decline in social transfers has primarily affected work-poor households. *These trends may support the hypotheses that in many countries the poverty alleviation function of social protection has come under pressure as a consequence of recommodification on the one hand, and the need to develop work oriented benefits in order to make work more attractive and to enhance the work-life balance, on the other.*

Micro simulation and in-depth study of country-specific policy trajectories may provide more insight in the question whether and how it is possible to reduce poverty among work-poor families and to simultaneously create employment and reduce social spending. On the basis of the analyses presented in this paper, the conclusion can only be that the experience in the EU before the crisis is

indicative of tough trade-off inherent to ‘active inclusion’ strategies that should not be taken lightly. So, having arrived at this point, the question arises how work, social redistribution and poverty reduction can be reconciled. How can a maximization of employment and an effective egalitarian agenda be made compatible? Three considerations are in place here.

First, differences in social redistribution observed between individual countries are quite considerable, both in terms of *levels* and *trends*. Although a reduction in the poverty alleviation by social protection has been the dominant (but not unequivocal) pattern, the countries of Scandinavia continue to provide an example of how low poverty, high employment and economic performance can be combined with a strong social redistribution. Although the adequacy of Nordic social protection decreased, the poverty reducing capacity is still among the highest in Europe (in 2008 only preceded by Hungary and Ireland).

Second, poverty is clearly more prevalent among jobless households, who typically comprise between 10 and 20 per cent of the working-age population. Poverty risks among this population group are generally very high, even though considerable differences between countries are observed. Comparison between countries suggests two things: first, the proportion of work-poor households may probably be reduced to 10 per cent according to the examples of Slovakia, the Czech Republic and Denmark; second, guaranteeing adequate minimum incomes to the apparently ‘non-condensable’ groups of work-poor households is not altogether impossible, provided that the policy design is efficient, genuine activation measures as well as adequate minimum wages and an appropriate level of social redistribution are put in place. Given the limited economic strength of the poorer countries of Europe and the fact that they usually face a wider poverty gap, they will obviously need to proceed gradually in introducing adequate minimum income protection. The simulations that have been shown in this paper clearly demonstrated that *although active labour market policies can and should play a crucial role in reducing poverty gaps across Europe, adequate income protection schemes and social redistribution remain an important instrument for improving welfare state performance*.

Third, social budgets are clearly not always deployed efficiently. It has been established that there is generally a negative relationship between spending levels and poverty risks: successful anti-poverty measures clearly require important distributional efforts (Vandenbroucke and Diris 2013). However, some countries achieve much lower poverty rates despite similar social spending levels. The design and structure of social programmes are obviously important, so that certain Member States attain greater ‘efficiency’ in terms of poverty risk reduction than others.

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ImProvE: Poverty Reduction in Europe. Social Policy and Innovation

Poverty Reduction in Europe: Social Policy and Innovation (ImPRovE) is an international research project that brings together ten outstanding research institutes and a broad network of researchers in a concerted effort to study poverty, social policy and social innovation in Europe. The ImPRovE project aims to improve the basis for evidence-based policy making in Europe, both in the short and in the long term. In the short term, this is done by carrying out research that is directly relevant for policymakers. At the same time however, ImPRovE invests in improving the long-term capacity for evidence-based policy making by upgrading the available research infrastructure, by combining both applied and fundamental research, and by optimising the information flow of research results to relevant policy makers and the civil society at large.

The two central questions driving the ImPRovE project are:

How can social cohesion be achieved in Europe?

How can social innovation complement, reinforce and modify macro-level policies and vice versa?

The project runs from March 2012 till February 2016 and receives EU research support to the amount of Euro 2.7 million under the 7th Framework Programme. The output of ImPRovE will include over 55 research papers, about 16 policy briefs and at least 3 scientific books. The ImPRovE Consortium will organise two international conferences (Spring 2014 and Winter 2015). In addition, ImPRovE will develop a new database of local projects of social innovation in Europe, cross-national comparable reference budgets for 6 countries (Belgium, Finland, Greece, Hungary, Italy and Spain) and will strongly expand the available policy scenarios in the European microsimulation model EUROMOD.

More detailed information is available on the website <http://improve-research.eu>.

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