



Zero Poverty Society: How to provide a decent income to all

**Departamento de Economía, Universidad de Sonora
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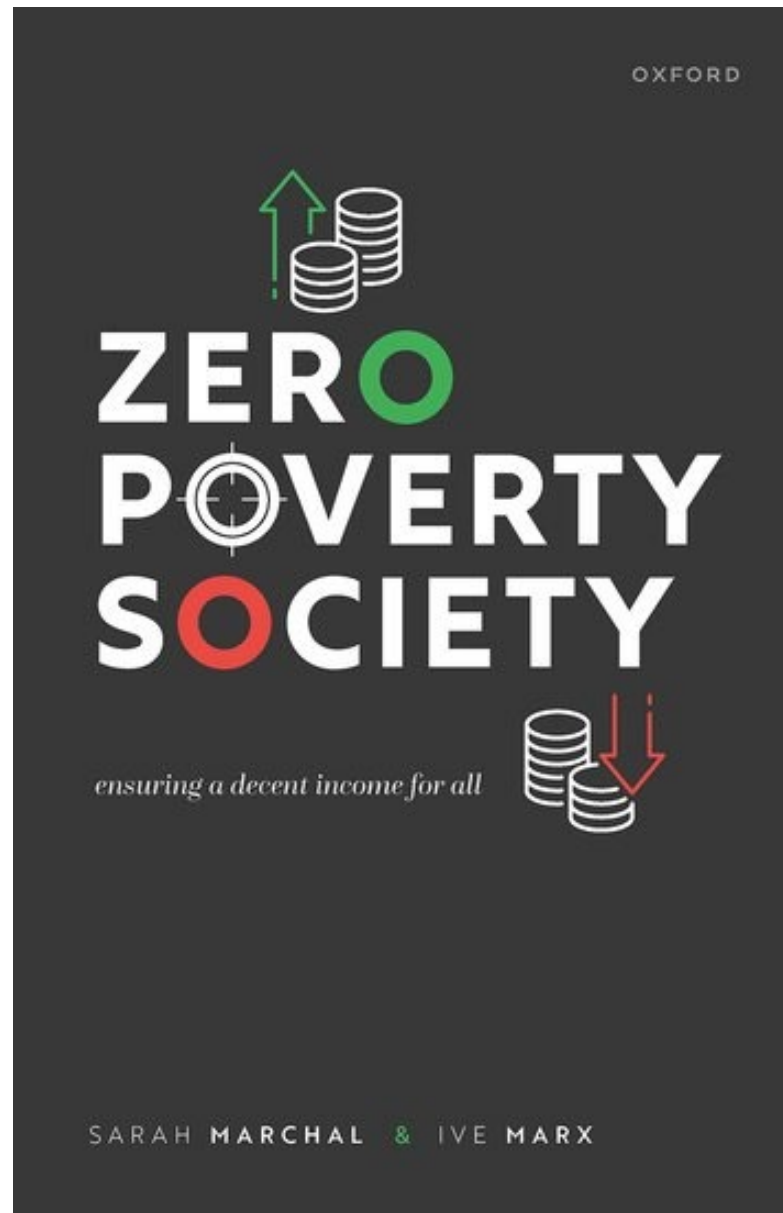
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Universiteit Antwerpen



This talk

- This talk is about minimum income protection in the rich world and the wider lessons it may hold
- Does poverty actually exist in the rich world?
- Where does poverty prevention, especially minimum income protection stand?
- What can be done better?
- Wider lessons?

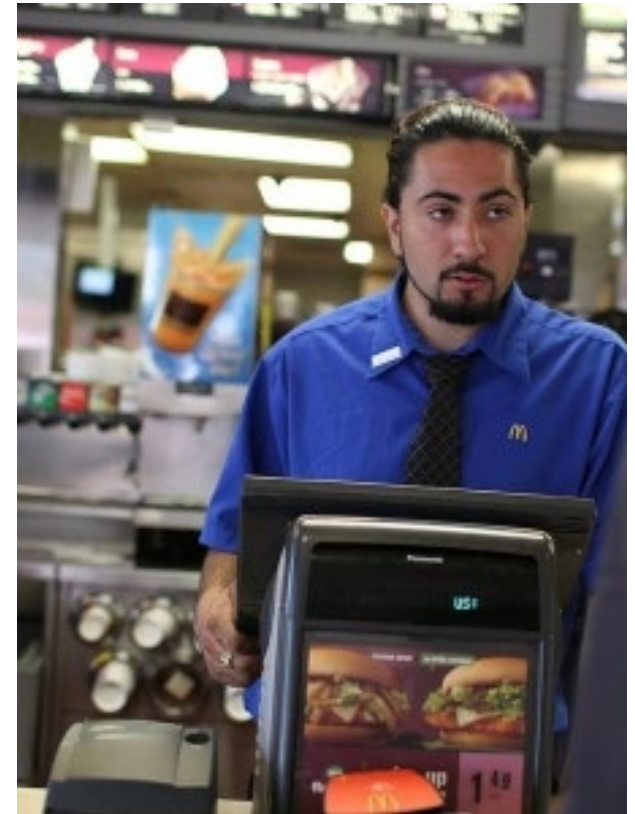




'Poverty' in the rich world



Who is “poor” in a rich society ?





Is poverty absolute or relative ?

- Views range from poverty is about “physical survival” to it is about “being able to achieve a credible place in the social universe”, i.e. being able to satisfy social obligations and expectations...
- Inevitably relative elements creep in as even the most “absolute” definitions take account of social norms and actual behaviour



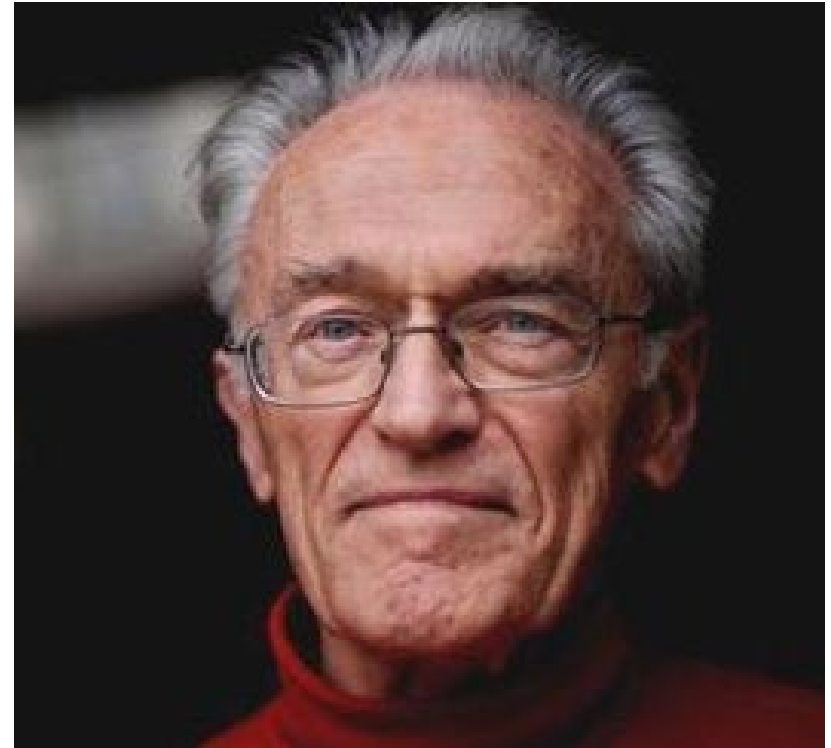
Is poverty absolute or relative ?

- Amartya Sen: there is an irreducible absolutist core in the idea of poverty
- Poverty is an absolute notion in terms of relevant capabilities: being sheltered, being clothed and having enough food, but also the capability to live without shame and the ability to participate in the activities of the community
- But the resource requirements to achieve these capabilities vary from one community to another and are *relative* in a double sense
 - Cost of certain resources differ a lot (e.g. food, shelter, clothing,..)
 - Actual need for certain resources depends on their frequency (e.g. phone)



*“The poor shall be taken to mean persons, families and groups of persons whose **resources** (material, cultural and social) are so **limited** as to **exclude** them from the **minimum acceptable way of life** in the **Member State** in which they live”*

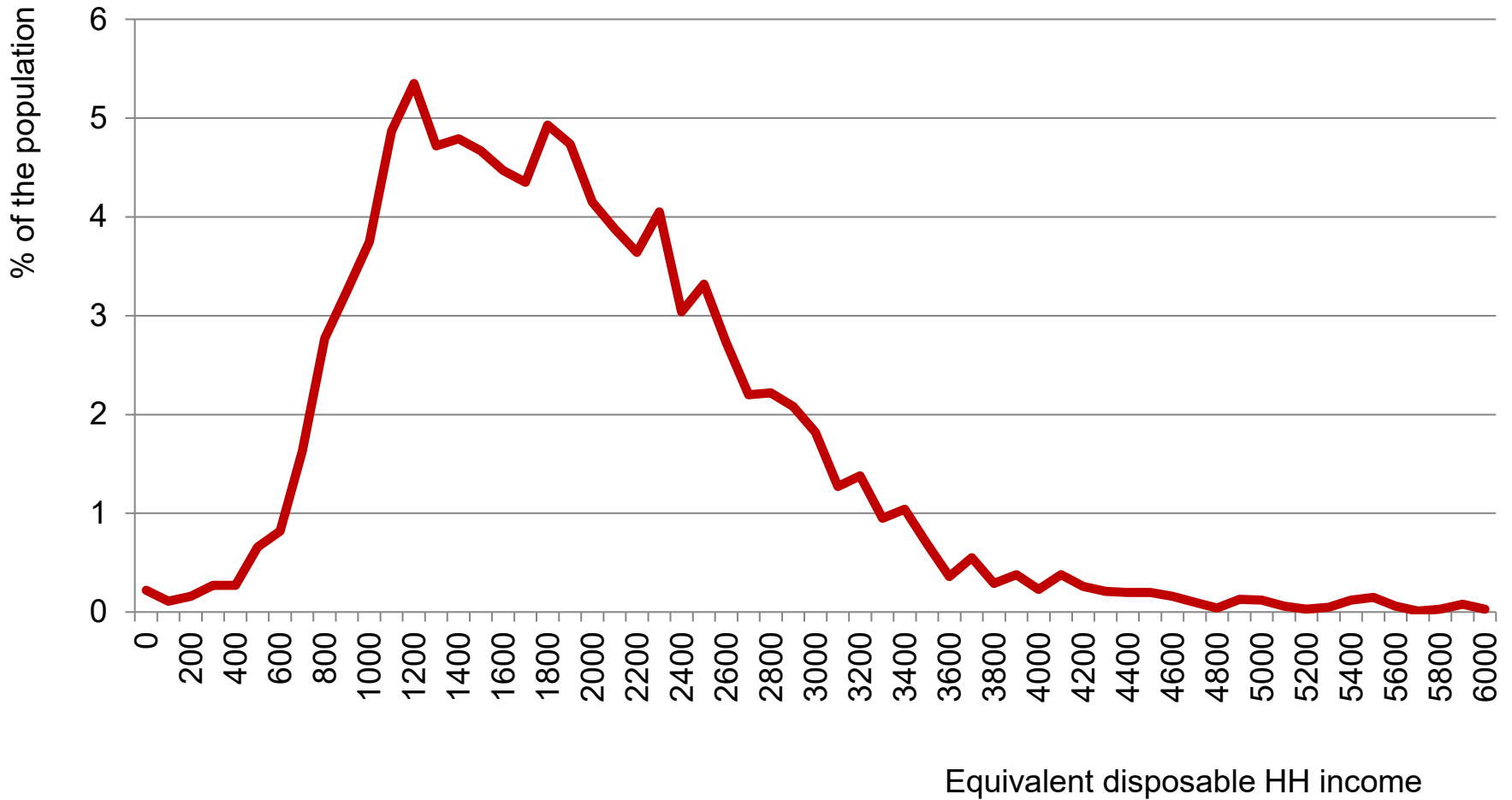
- Peter Townsend, 1979 -



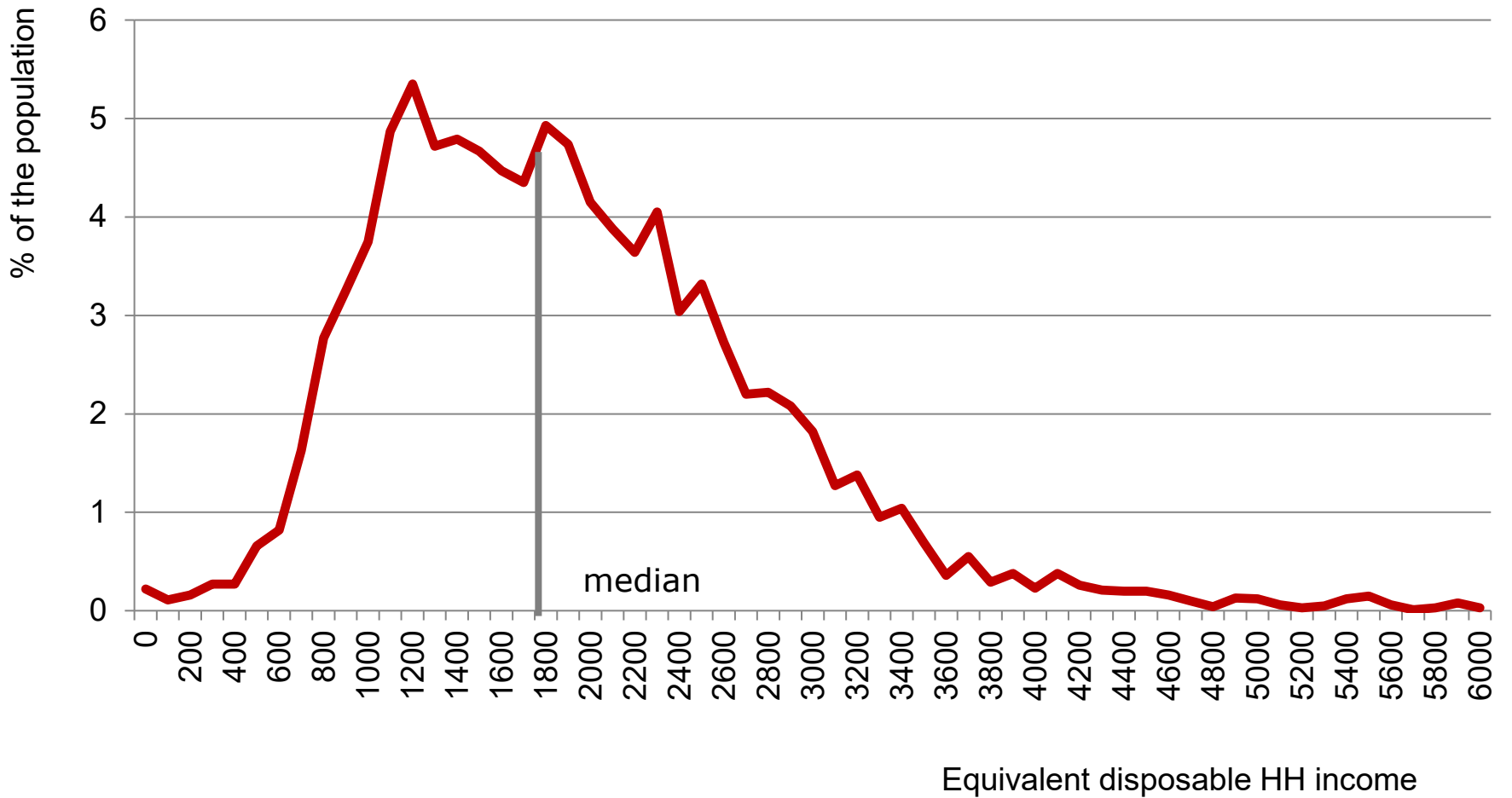


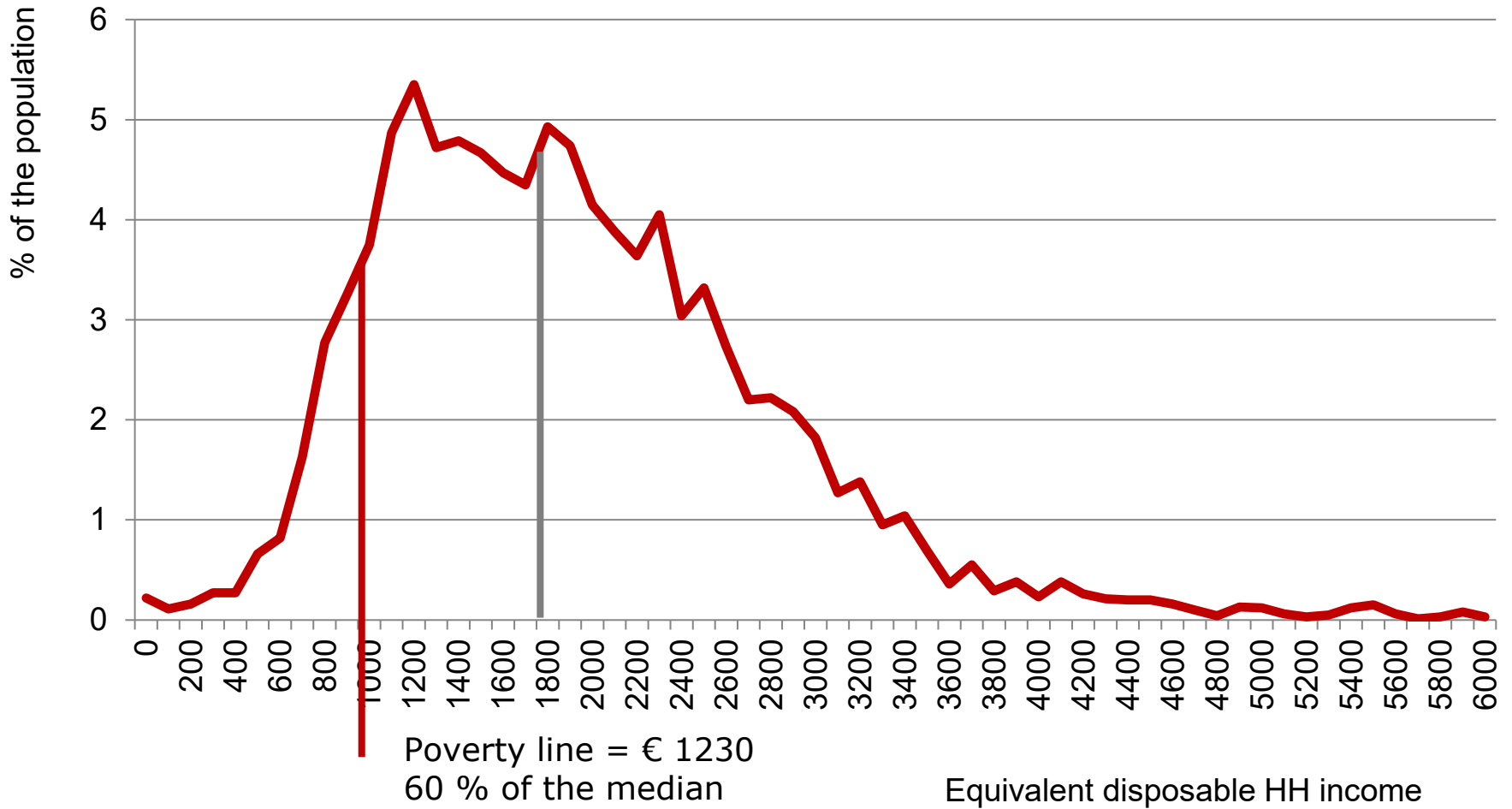
The 'official' EU measure: relative income poverty

- Share of people living in a household with a disposable income that is less 60 percent of median household income, adjusted for household size
- By far the most widely used measure in poverty research
 - In major part for pragmatic reasons (data availability)
- Since the EU Laeken summit the de facto official European poverty measure and a key indicator by which progress is measured in the sphere of the OMC Social Inclusion



Source: EU-SILC (Belgium)
Universiteit Antwerpen

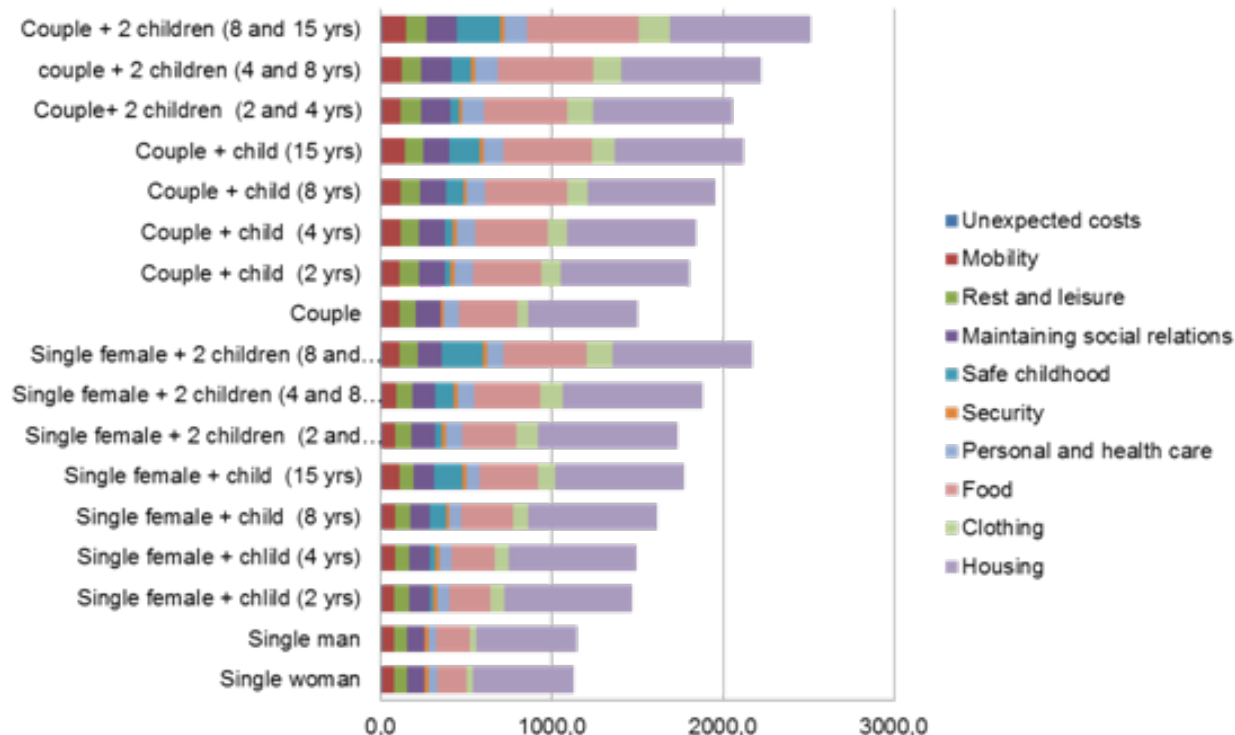






Reference budget method yields similar results, (at least in Belgium)..

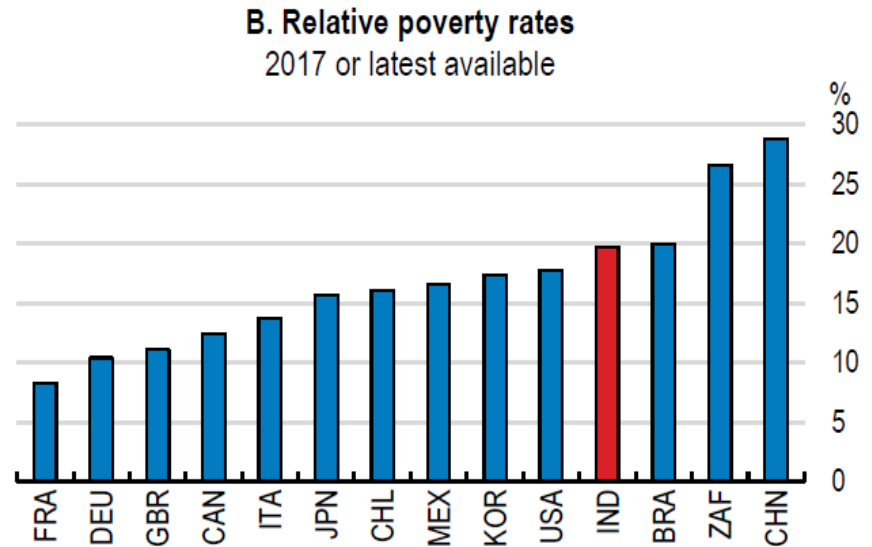
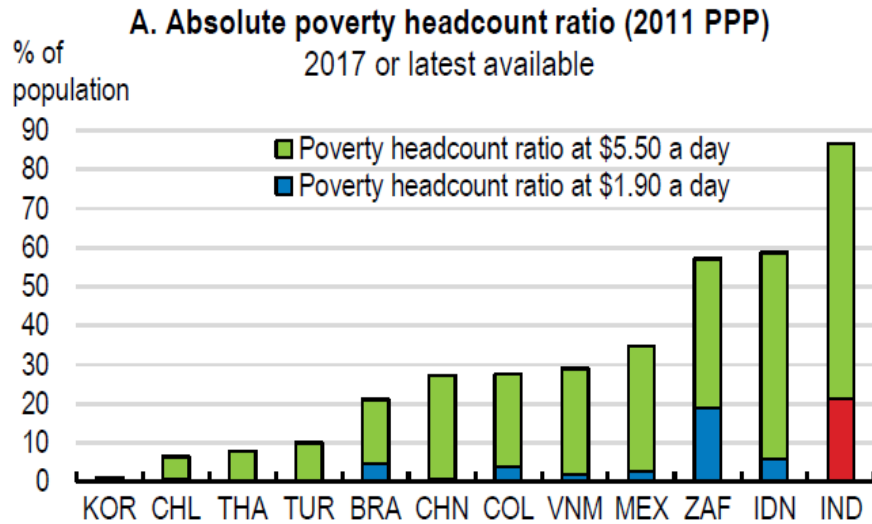
**Reference Budgets for 17 model families (good health, well informed, normal competences, non working adults)
monthly amounts, Flanders 2013, preliminary results ¹**



¹ preliminary housing data



But relative poverty is a more appropriate measure when basic needs are met





A brief history of recent policy thinking on poverty in Europe and America



Post-war welfare state expansion

- Most Western welfare states came to maturity in the post-WW2 era
- Social insurance and health care provisions expanded vastly in the three prosperous post war decades of restoration
- A symbiosis was assumed between a dynamic economy and adequate social protection
 - Social protection reduced worker resistance to change and fostered economic dynamism
 - A dynamic, growing economy provided the fiscal base for adequate social protection for those affected by social risks...



The crisis of the 1970s

- After first oil price shocks, the rich world plunged into recession with unemployment and welfare bills rising to (what were believed to be) unsustainable levels
- The welfare state becomes to be seen as a co-culprit
 - ‘Overgenerous’ benefits and heavy handed state social regulation, together with (over)powerful unions became to be seen as part of the problem



The rich world turns to neo-liberalism: growth and jobs will do the job

- '92 Clinton runs on 'to end of welfare as we know it' -> AFDC reform ('96); EITC expansion "rewarding work"
- EU 1990s: "Third Way", "Active Welfare state" doctrines
- EU deploys "Lisbon Agenda": 'Jobs, jobs, jobs'
- Ambitious employment targets, but no poverty targets...



By early 2000s pendulum was at:
forget cash transfers, invest!

Esping Andersen et al. (2002) in a report on the future of the welfare state for the EU

"we explicitly advocate a reallocation of social expenditures towards family services, active labour market policy, early childhood education and vocational training"



But job growth, where and when it happened,
did not yield big reductions in poverty

- **The poor did not benefit enough:** job growth generally brought stronger increases in work-rich (single earner becoming dual earner) households than reductions in workless households
- ...while at the same time the adequacy of 'passive' income protection declined (through 'neglect'), leaving the workless even worse off
- A job is not always (and in some places increasingly less) an escape from poverty: **in-work poverty**



EU after the financial crisis: a new dawn for minimum income protection?

- “Europe 2020”: Jobs remain key...but also “poverty” target (sort of)
- The crisis “wake-up call”: realization that adequate transfers matter
- Minimum income protection regains prominence in discourse, e.g. European Parliament Resolution calling for adequate minimum incomes, etc



2016: EU Commission President Juncker calls for EU wide minimum wage and says “*EU needs to be Triple Social A*”

The New York Times | <http://nyti.ms/1141IV3>

EUROPE

More Children in Greece Are Going Hungry

By **LIZ ALDERMAN** APRIL 17, 2013

ATHENS — As an elementary school principal, Leonidas Nikas is used to seeing children play, laugh and dream about the future. But recently he has seen something altogether different, something he thought was impossible in Greece: children picking through school trash cans for food; needy youngsters asking playmates for leftovers; and an 11-year-old boy, Pantelis Petrakis, bent over with hunger pains.



2017 EU launches new “Pillar Of Social Rights”

- Social Pillar Principles 11-15 state need for adequate child benefits, unemployment benefits, minimum benefits and pensions
- Principle 14: “***Everyone lacking sufficient resources has the right to adequate minimum income benefits ensuring a life in dignity at all stages of life***, and effective access to enabling goods and services.”



The current state of minimum income protection in Europe



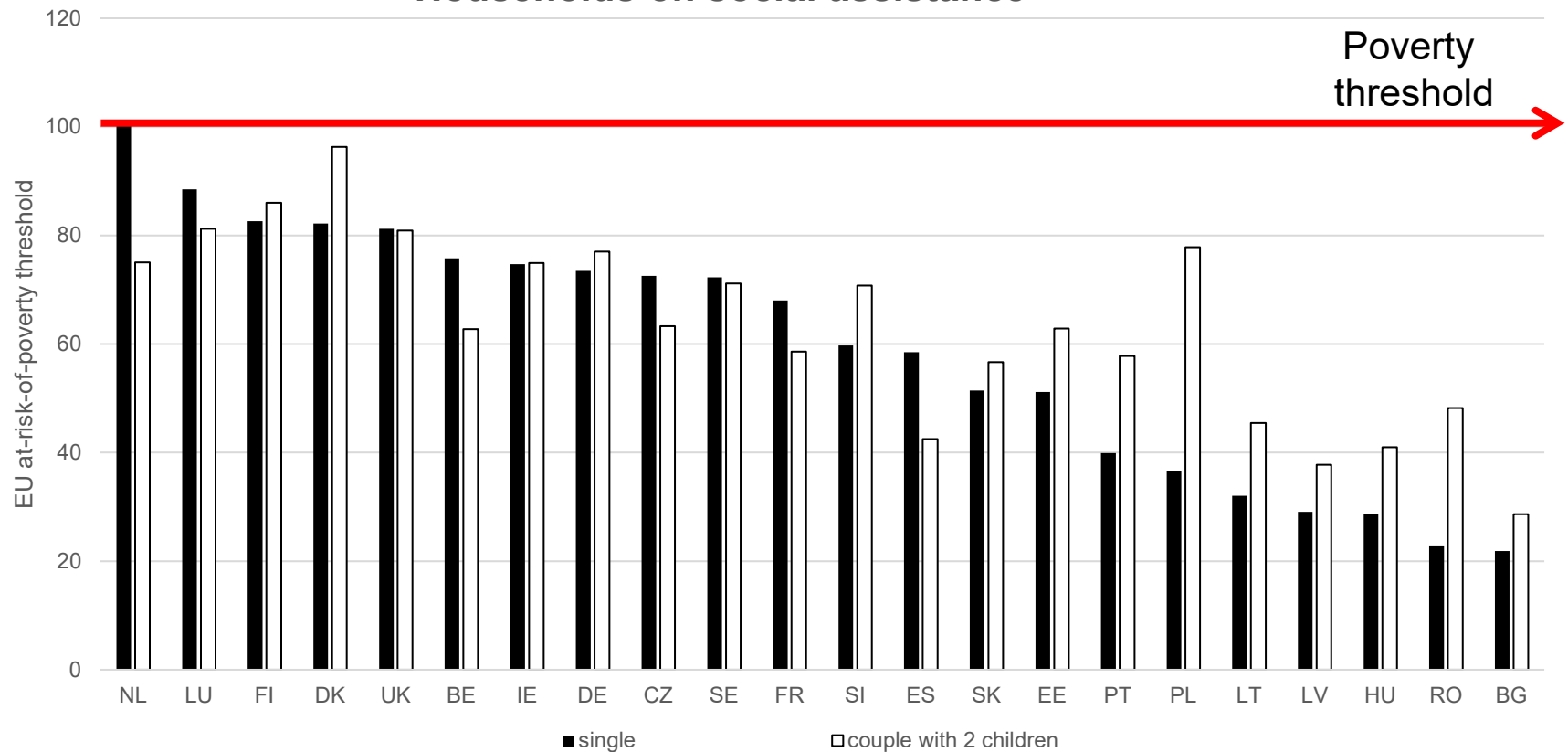
The spread of social safety nets in Europe

- Most Western welfare states now have safety nets of last resort: means-tested cash benefits that aim to ensure a minimal living standard.
- Italy, Spain and Greece introduced these as national schemes as late as mid 2010s
- Benefit levels and eligibility criteria are largely laid down in law: people can exercise a right to financial support.
- But not unconditional: people are required to look for work and to accept jobs; they are made to sign contracts to that effect



Guaranteed minimum incomes fall *well* short of poverty thresholds

Net disposable income relative to poverty threshold
Households on social assistance



Source: MIPI/HHoT estimates, see Marchal et al. (forthcoming)

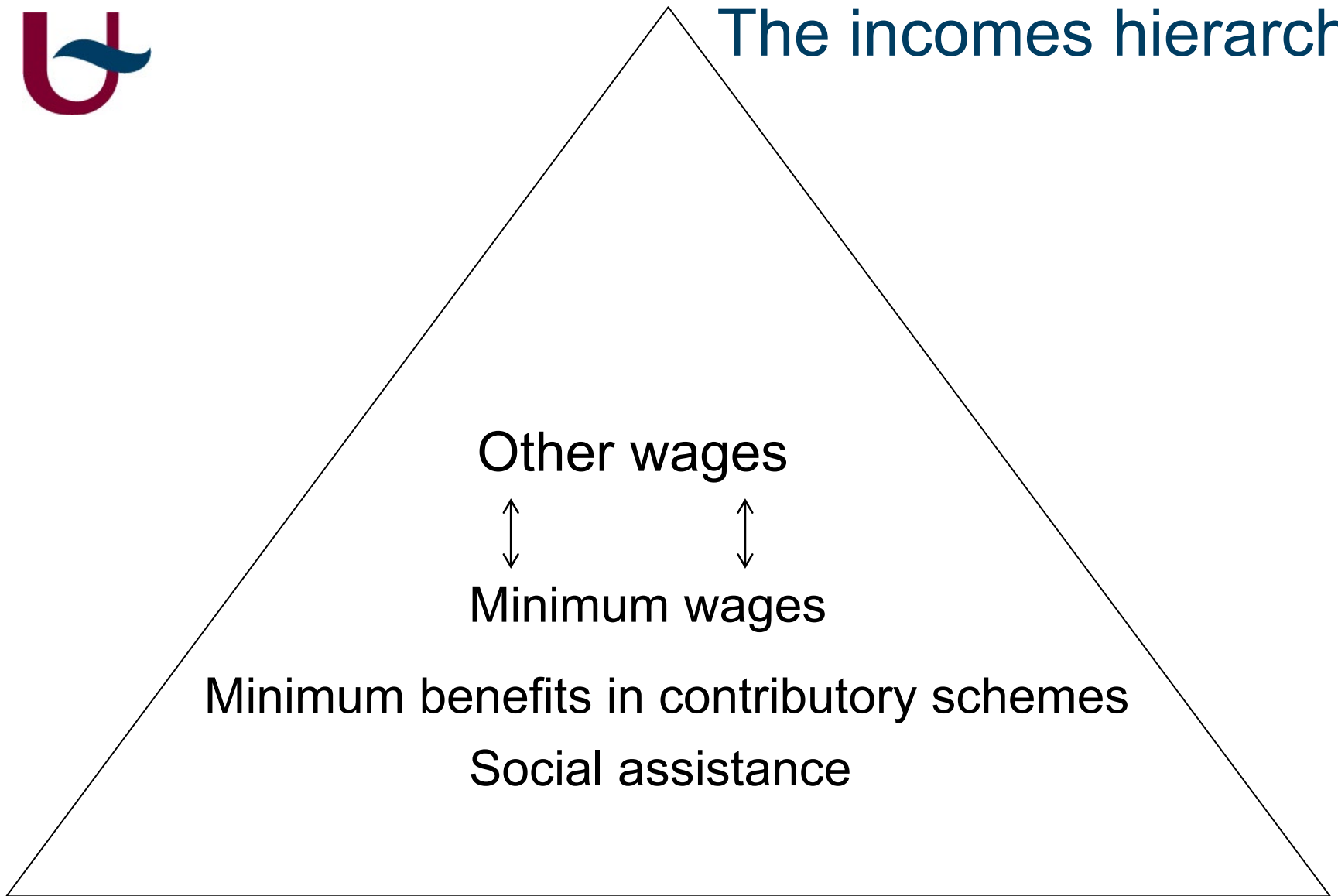


And why is that?

- Hyp 1. Politicians are cynics
- Hyp 2. Better poverty relief is too expensive
- Hyp 3. Other spending priorities, eg 'social investment'
- Hyp 4. There are more fundamental constraints

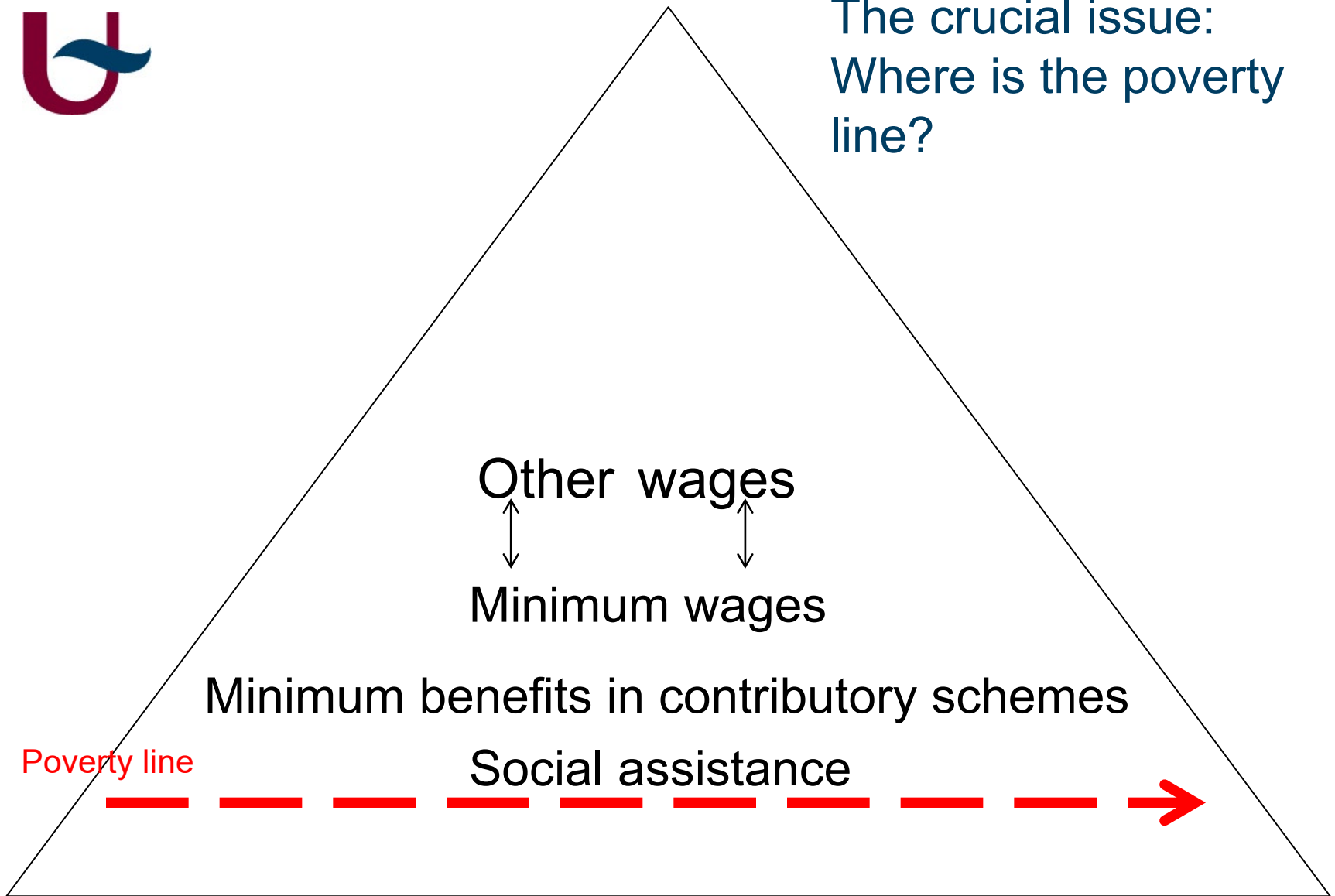


The incomes hierarchy



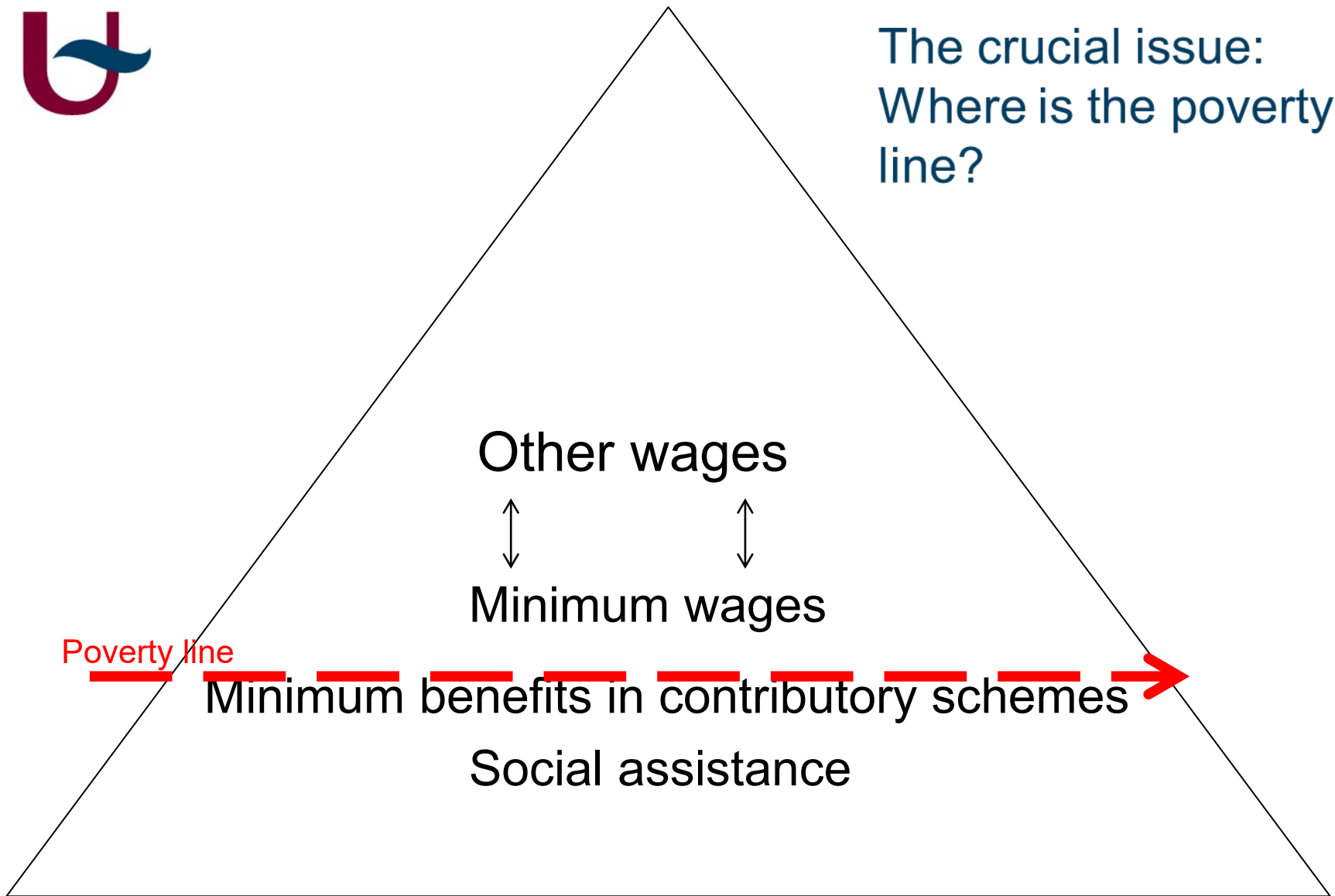


The crucial issue:
Where is the poverty
line?



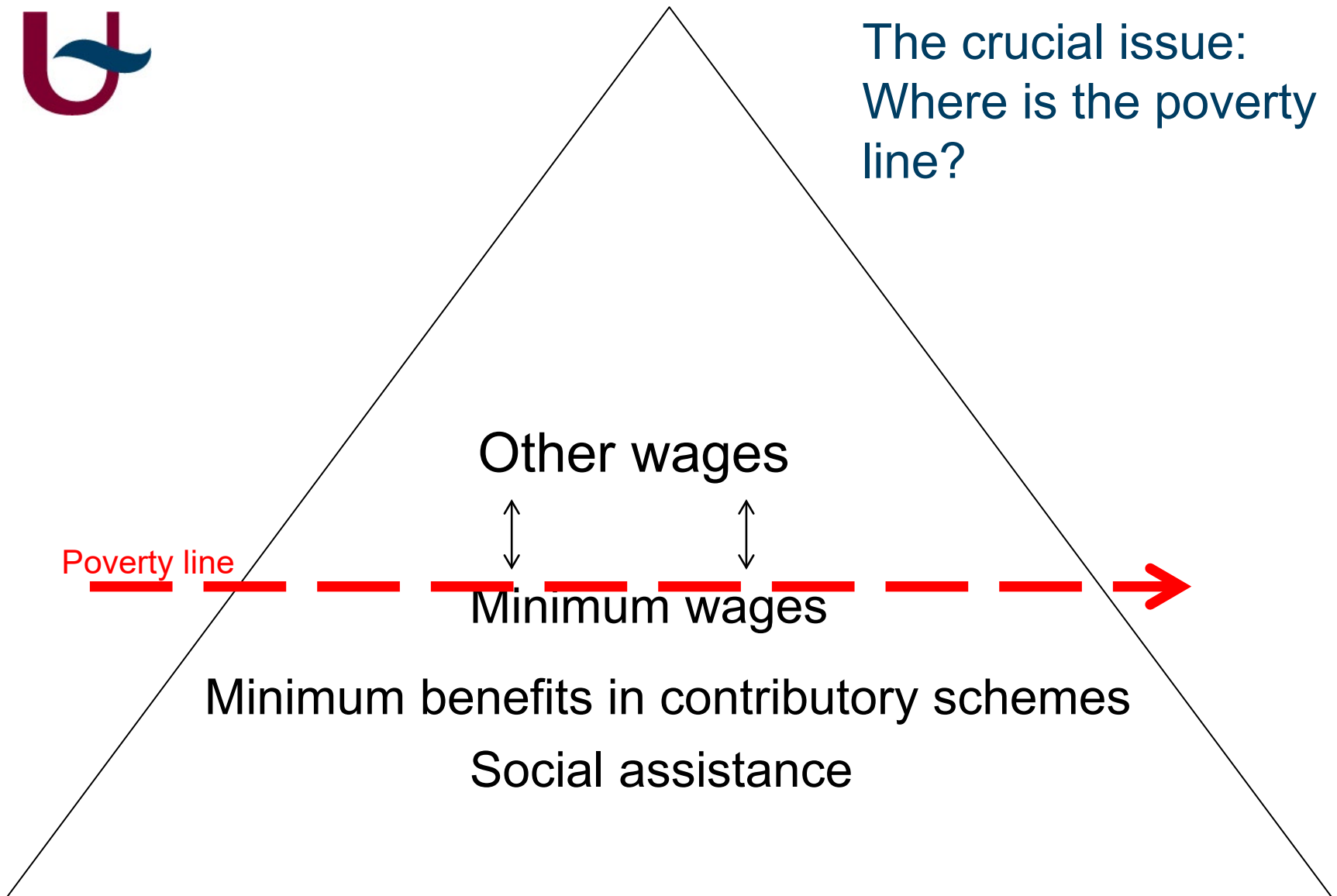


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Minimum income protection for people who work

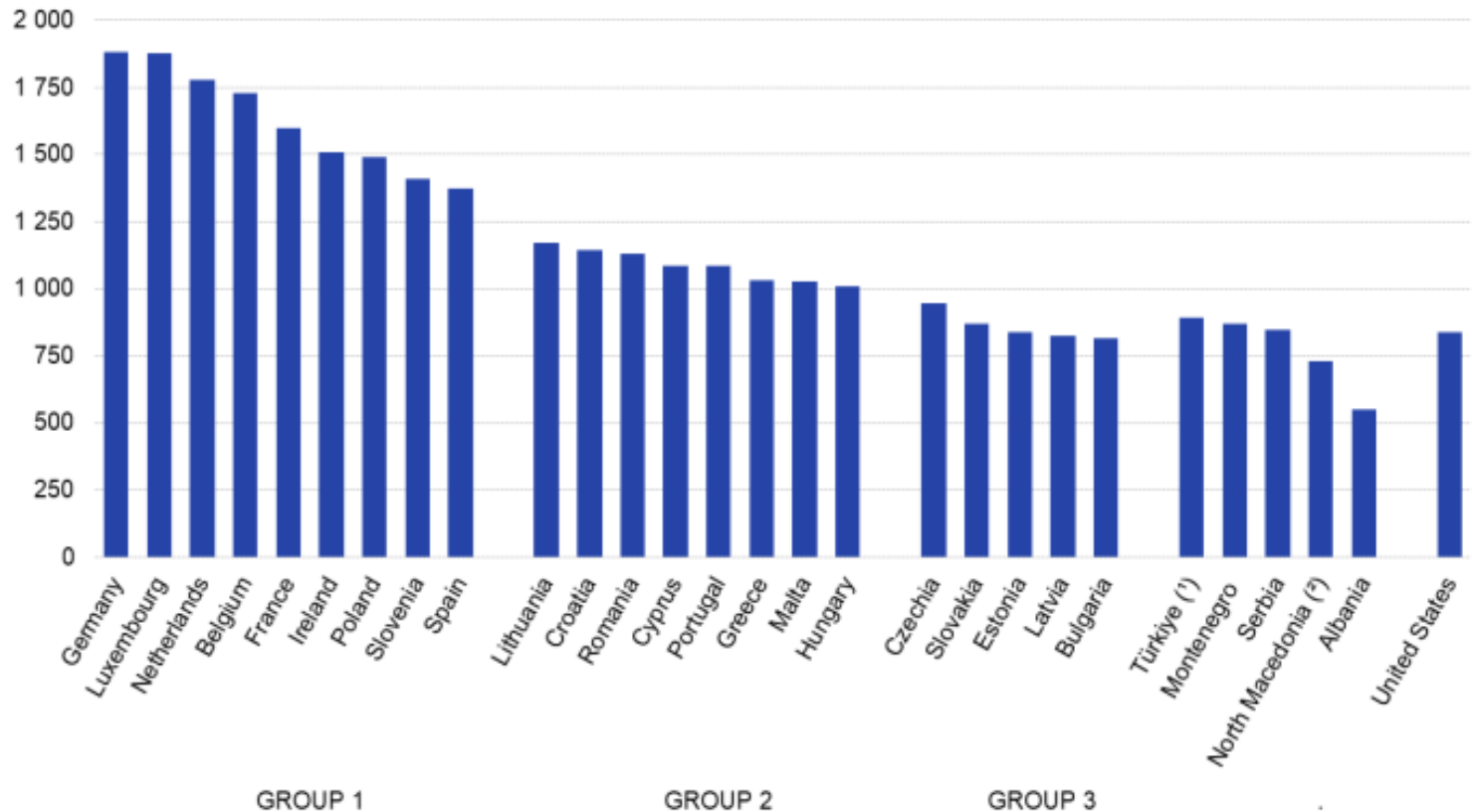


Minimum wages

- Nationally legislated minimum wages have proliferated throughout the rich world (US, 1938; EU mostly 1970s, UK 1999)
- All but the Scandinavian countries now have minimum wages, Germany being one of the last countries to introduce a national MW in 2015
- Following a shift in thinking away from the textbook neoclassical model towards the “new economics of the minimum wage”



Minimum wages, January 2024 (PPS per month)



Note: Denmark, Italy, Austria, Finland and Sweden have no national minimum wage.

(1) PPS based on the MW level of July 2022 and on purchasing power parities 2022

(2) PPS based on the MW level of July 2021

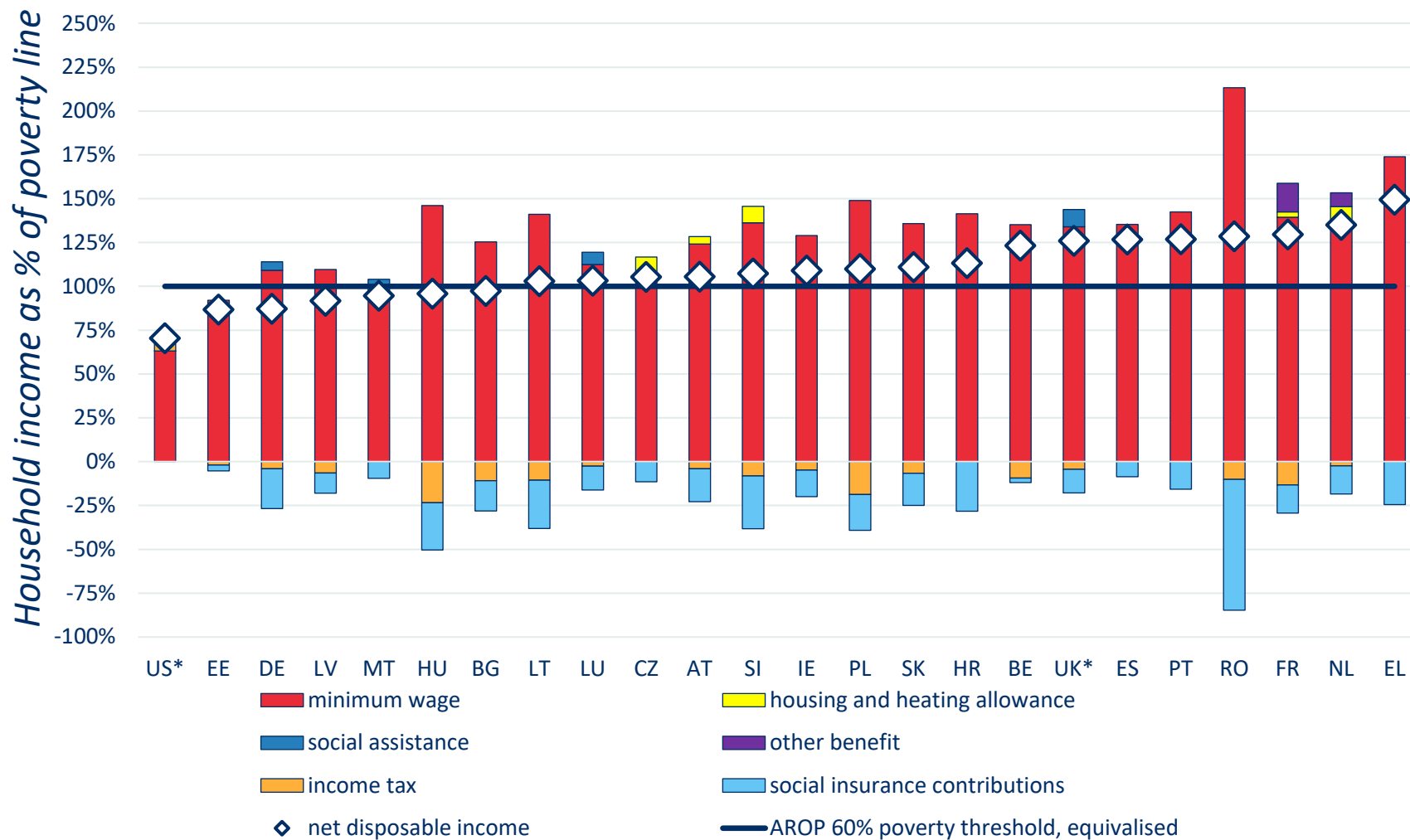
Source: Eurostat (online data code: earn_mw_cur)

eurostat

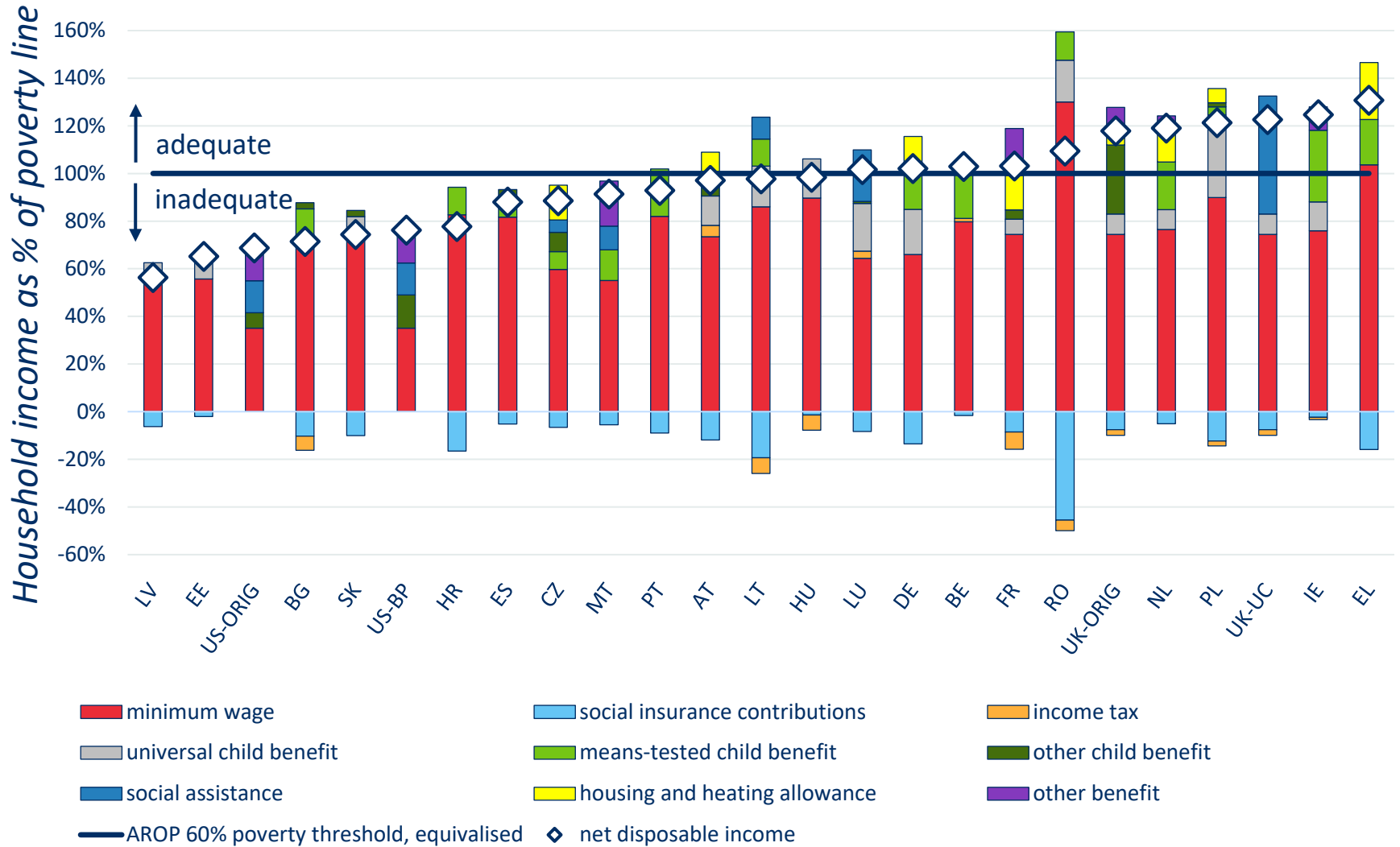


So how “adequate” are these?

Single person, working for the minimum wage



Single parent, two children, working for the minimum wage





Is there scope for (incremental) improvement?

- MWs set at the higher prevailing ranges can provide adequate income to FT working single persons (and allows for near adequate SA), *but those with children need supplementary income support*
- **So the optimal way of providing (supplementary) direct income support remains the other key question, with the issue of targeting vs universalism remaining at the forefront**



Targeted supplements?

- Targeted income supplements can take many forms: additional child benefits, housing and heating allowances, child care allowances
- But also disadvantages and unknowns:
 - Substantial non-take up
 - Delayed payments
 - Administrative cost and complexity (especially in view of household composition and income volatility), cfr UC “disaster”
 - Work incentives in phase out zone?



Earned Income Tax Credit (EITC) a model o emulate?

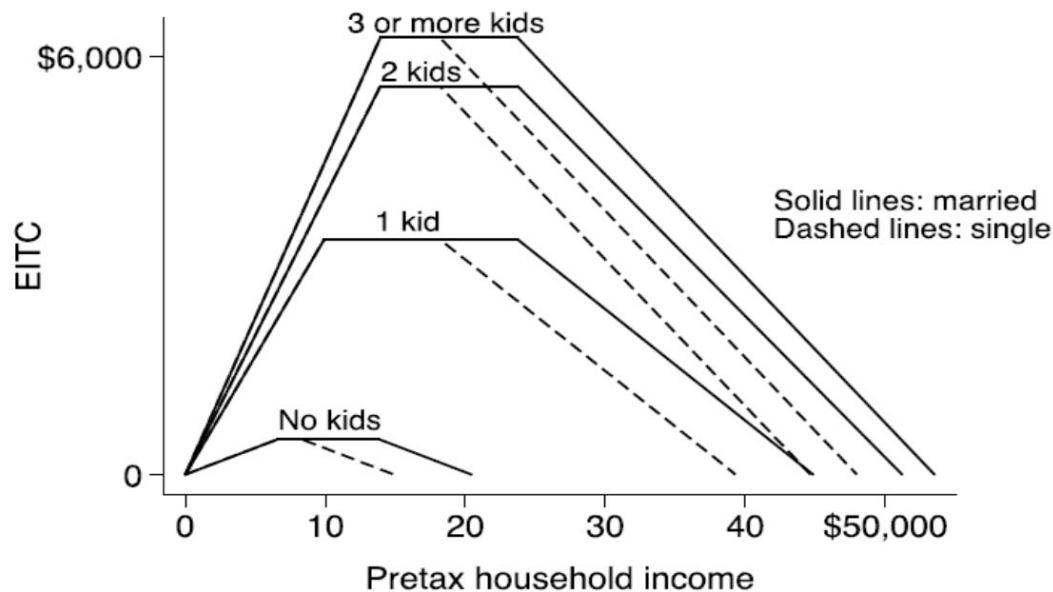


Figure 8. US Earned Income Tax Credit benefit structure

The benefit levels shown are for 2016. Data source: Tax Policy Center, "Earned Income Tax Credit Parameters."



EITC advantages, disadvantages and unknowns

- EITC: increased labour supply, reduced poverty in US
- But lots of non-take up, estimated a upwards of a fifth of potential recipients
- Delayed payments and effect on living standards
- Optimal use of payments?
- Wage erosion effects ? Employer capture
- Upward income mobility in phase out zone?



Less targeted alternatives

- More universal benefits (e.g. child benefits) provide
 - immediate, direct income support (no delays in payment, high take up),
 - are non-distortionary when it comes to work incentives
 - easy and cheap to administer,
 - and tend to enjoy robust political support once in place
- But such benefits do not come cheaply, especially at the levels that would be required to provide income adequacy for all
- Some degree of (categorical) targeting within universalism seems most realistic compromise

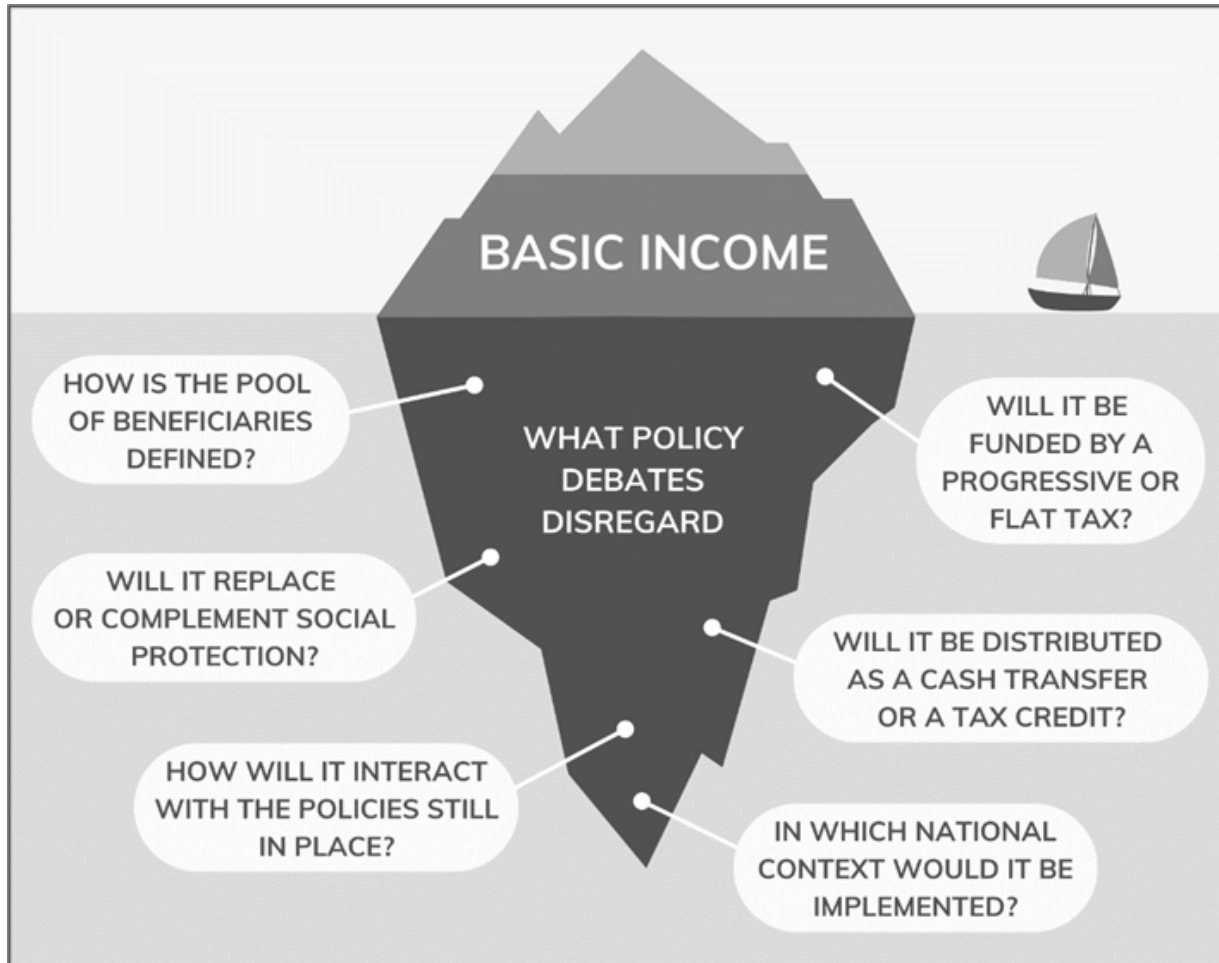


A basic income?

- Universal child benefits are a type of BI for children
- For which there is a cost compensation rationale, as children are public goods
- This logic cannot be extended to all adults
- People like BI, until they know what it actually implies (e.g. Swiss referendum)
- What is does is highly dependent on what it replaces!



Its simplicity is deceptive





UBI in the Netherlands

Panel B. Netherlands

NL	Baseline	Low		Medium		High	
		1) NMT	2) MT	3) TAX	4) SOC	5) PROG	6) FLAT
Inequality							
<i>Population</i>	0.2593	0.2559*	0.2587*	0.2441*	0.2773*	0.2212*	0.3117*
Poverty risk							
<i>Population</i>	11.6%	9.7%*	10.9%*	9.9%*	14.2%*	9.0%*	17.9%*
<i>Children</i>	13.5%	10.9%*	11.5%*	9.9%*	15.4%*	9.6%*	16.1%*
<i>Working age</i>	12.9%	10.7%*	12.5%*	11.3%*	16.3%*	10.0%*	18.0%*
<i>Elderly</i>	5.3%	5.1%*	5.2%	5.1%	5.7%*	4.9%	19.1%*



A simple recipe for (more) adequate MIP

- Set wage floors as high as the labour market can take without adverse employment effects; keep taxes and social security contributions on low earnings to a minimum
- Have (quasi-)universal child benefits as a first layer of supplementary income support
- Have targeted supplements for the most needy



Further lessons

- Make access to MIP benefits as easy and as free from stigma as possible
 - Simple online applications may help
- Limit case worker discretion but be well aware that it has its advantages – not every situation of need can be captured in rules
- Do not obsess about control



Questions and comments!