



Zero poverty society: on how to lift the social floor.

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This talk

- This talk is about minimum income protection, largely based on a forthcoming book with Sarah Marchal (OUP, 2023)
- Where does it stand?
- Why is it so low?
- How can we do better?



A brief reminder of recent policy thinking in Europe and America



Post-war welfare state expansion

- First three post war decades see vast expansion of social insurance and health care provisions
- 1960s/70s: national final safety net provisions introduced in many countries
- Energy price shocks plunge the rich world into recession with unemployment levels and social spending bills rising to (what were believed to be) unsustainable levels
- The welfare state becomes to be seen as a co-culprit: 'overgenerous' benefits became to be seen as part of the problem



1990s-2000s: jobs will do the job

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



Before the financial crisis 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, often did not yield sizeable 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 income support matters
- 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



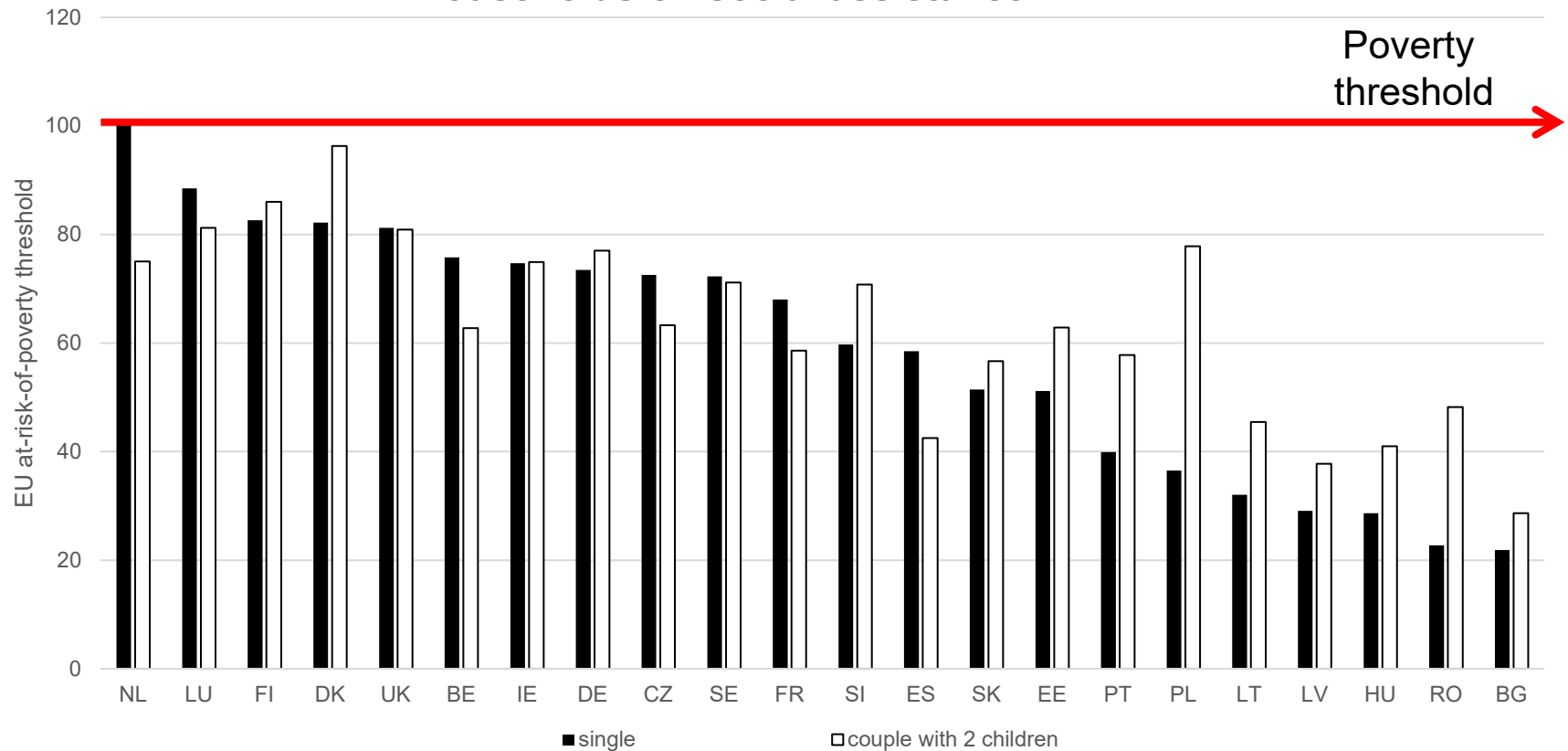
The spread of social safety nets

- Most rich countries now have safety nets of last resort: means (and sometimes asset)-tested cash benefits to ensure a minimal living standard.
- Italy, Spain and Greece (hard hit by the financial crisis, then COVID) introduced these as national schemes very recently
- Benefit levels and eligibility criteria laid down in law: people can exercise a right to financial support. But local discretion
- And not unconditional: people are required to look for work and to accept jobs; they are made to sign contracts to that effect



Yet guaranteed minimum incomes fall well short of EU's own poverty threshold!

Net disposable income relative to poverty threshold
Households on social assistance



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

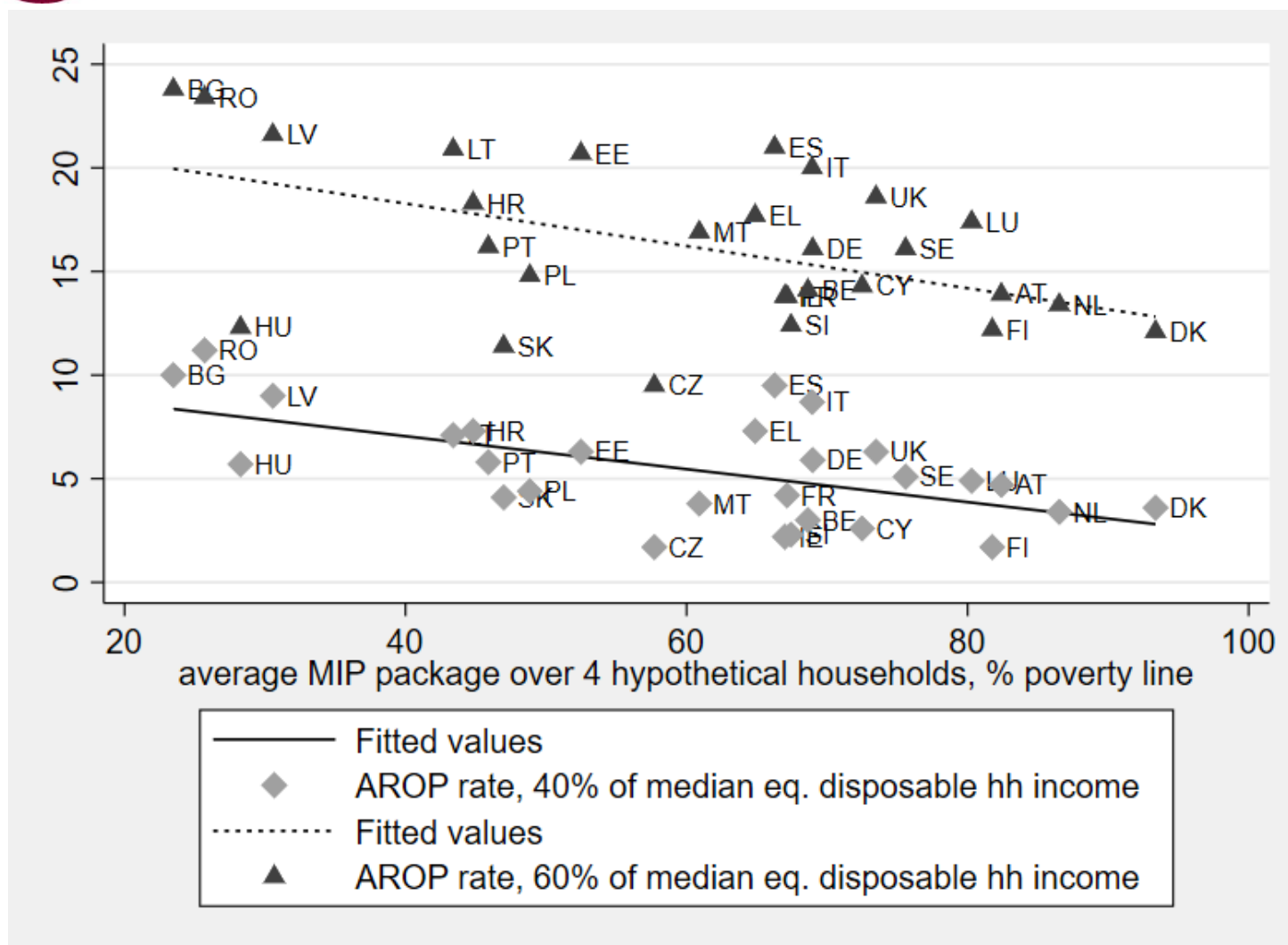


Plus: non-take up is very high

- Studies estimate non-take up as high as 50 to 60 per cent, and more
- Lack of outreach, active detection
- Rule complexity, application complexity
- Intrusive, demeaning and stigmatizing application and assessment procedures



Relationship between MIP 'on paper' and observed poverty outcomes not very strong



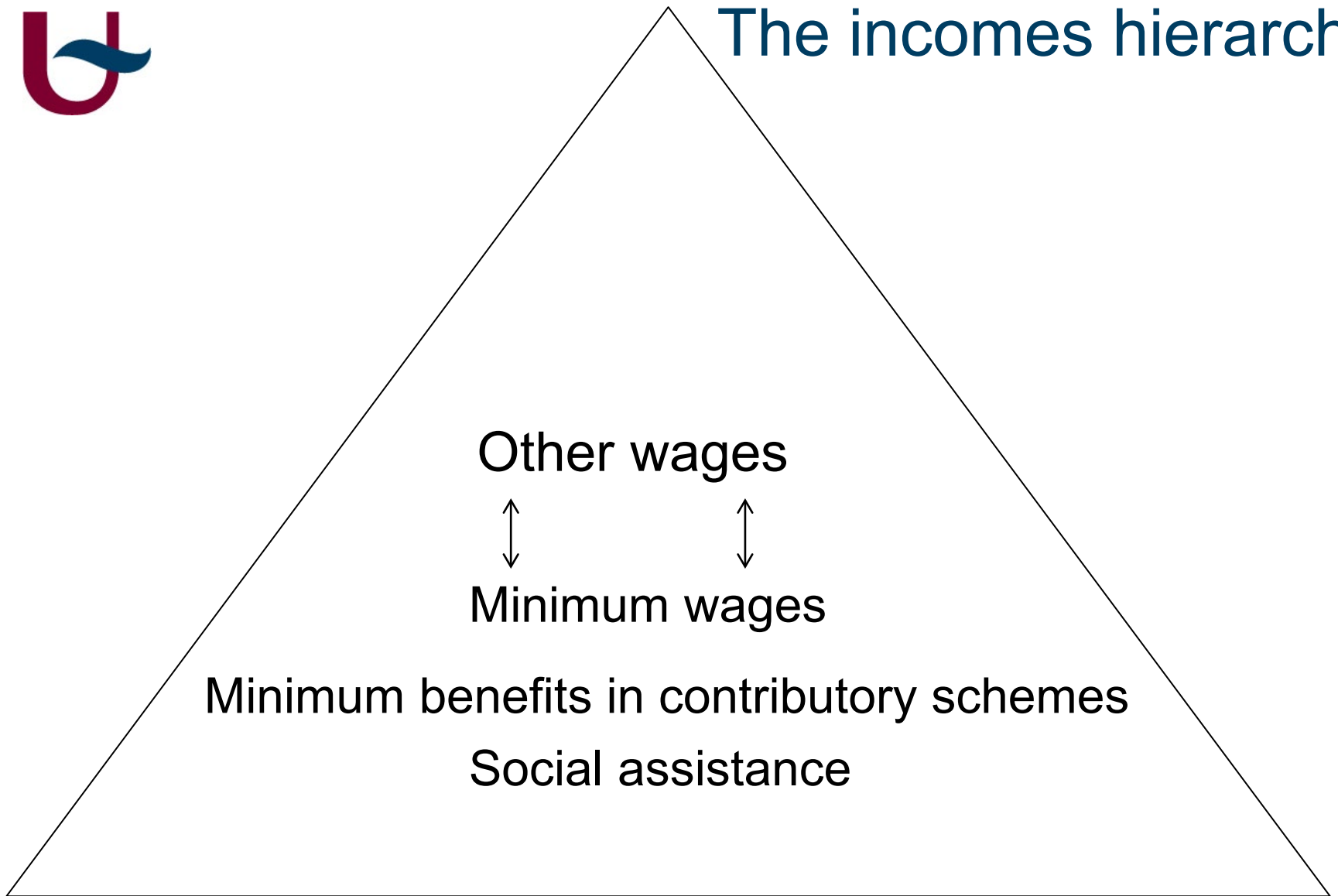


Why is minimum income protection so inadequate?

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

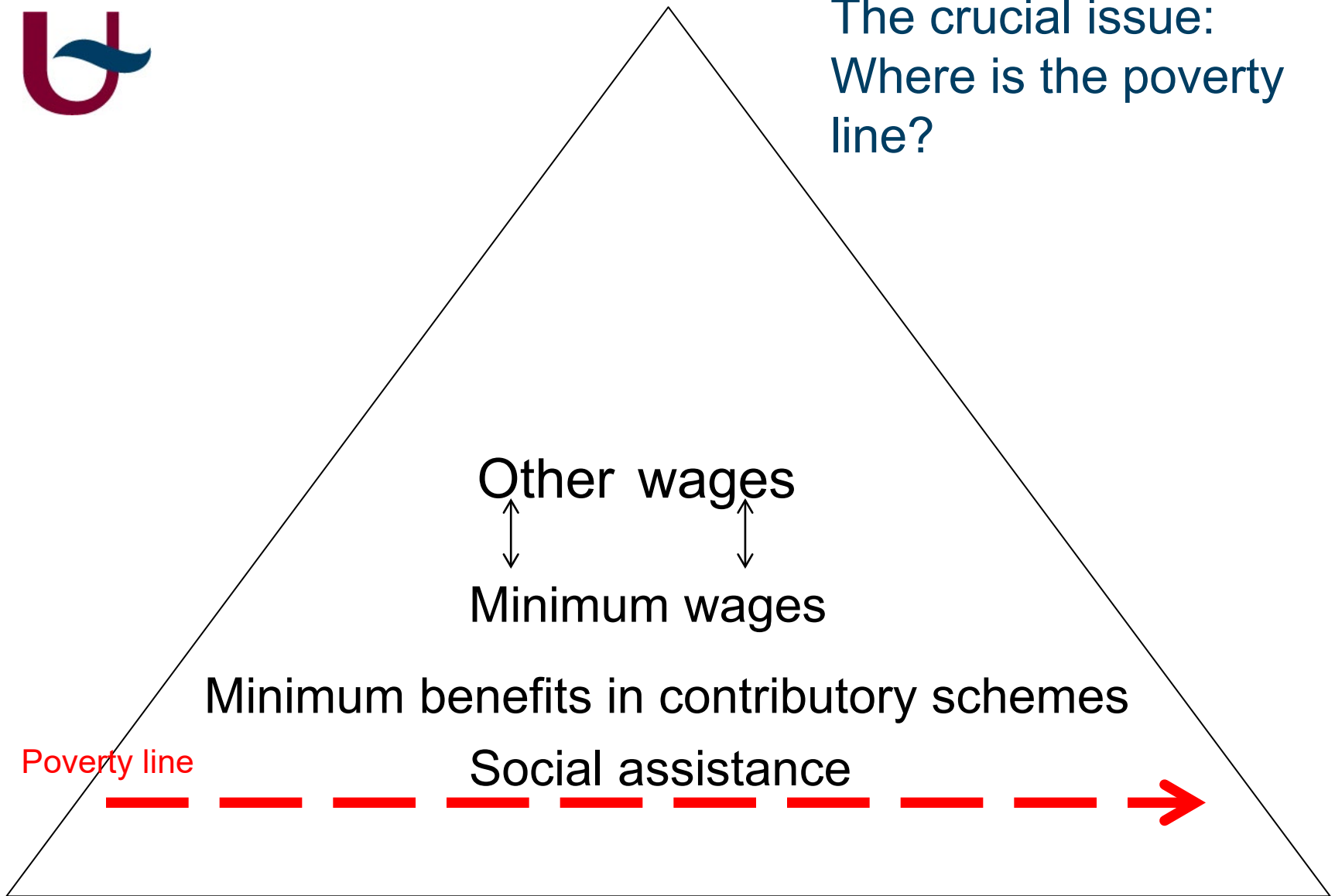


The incomes hierarchy



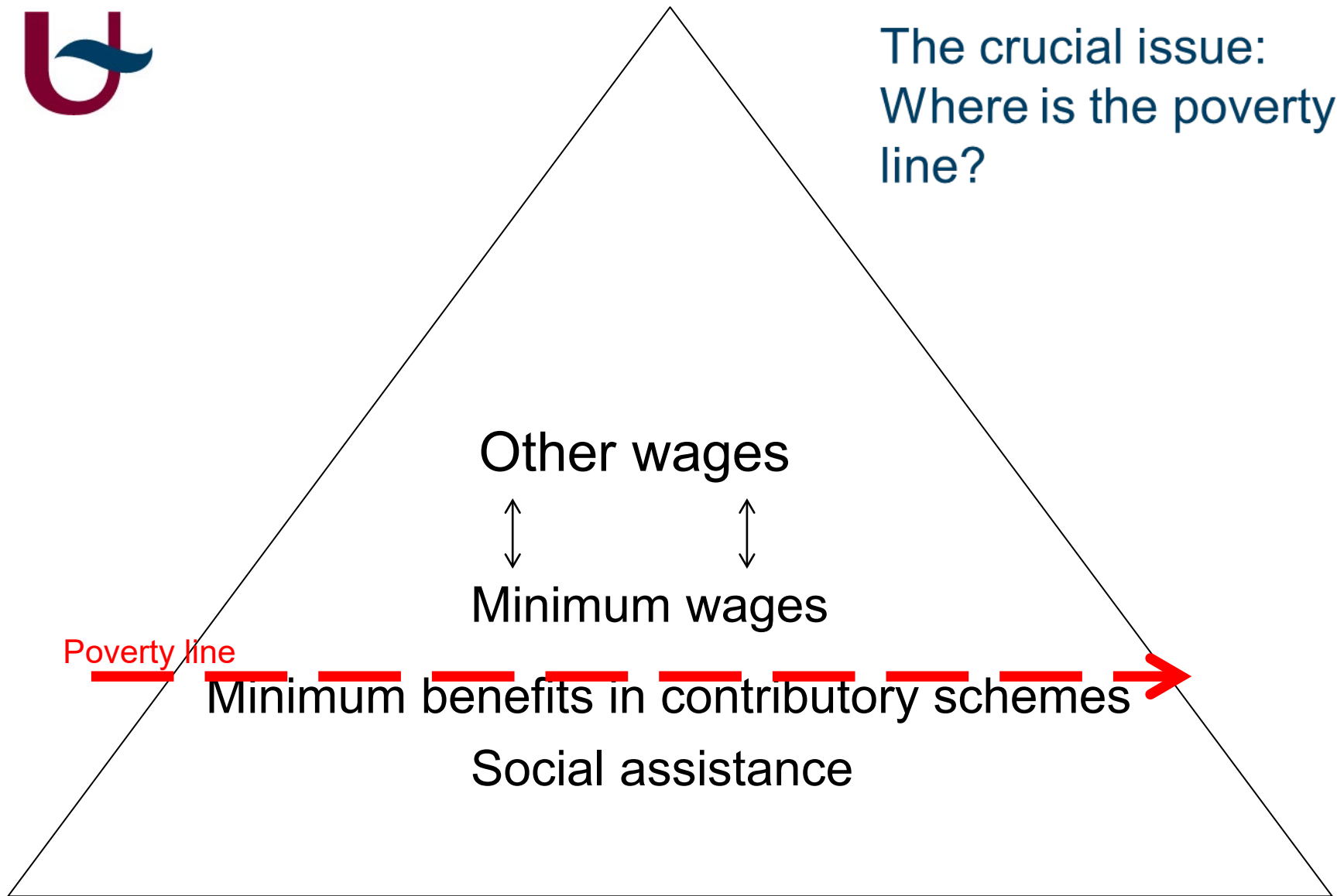


The crucial issue:
Where is the poverty
line?



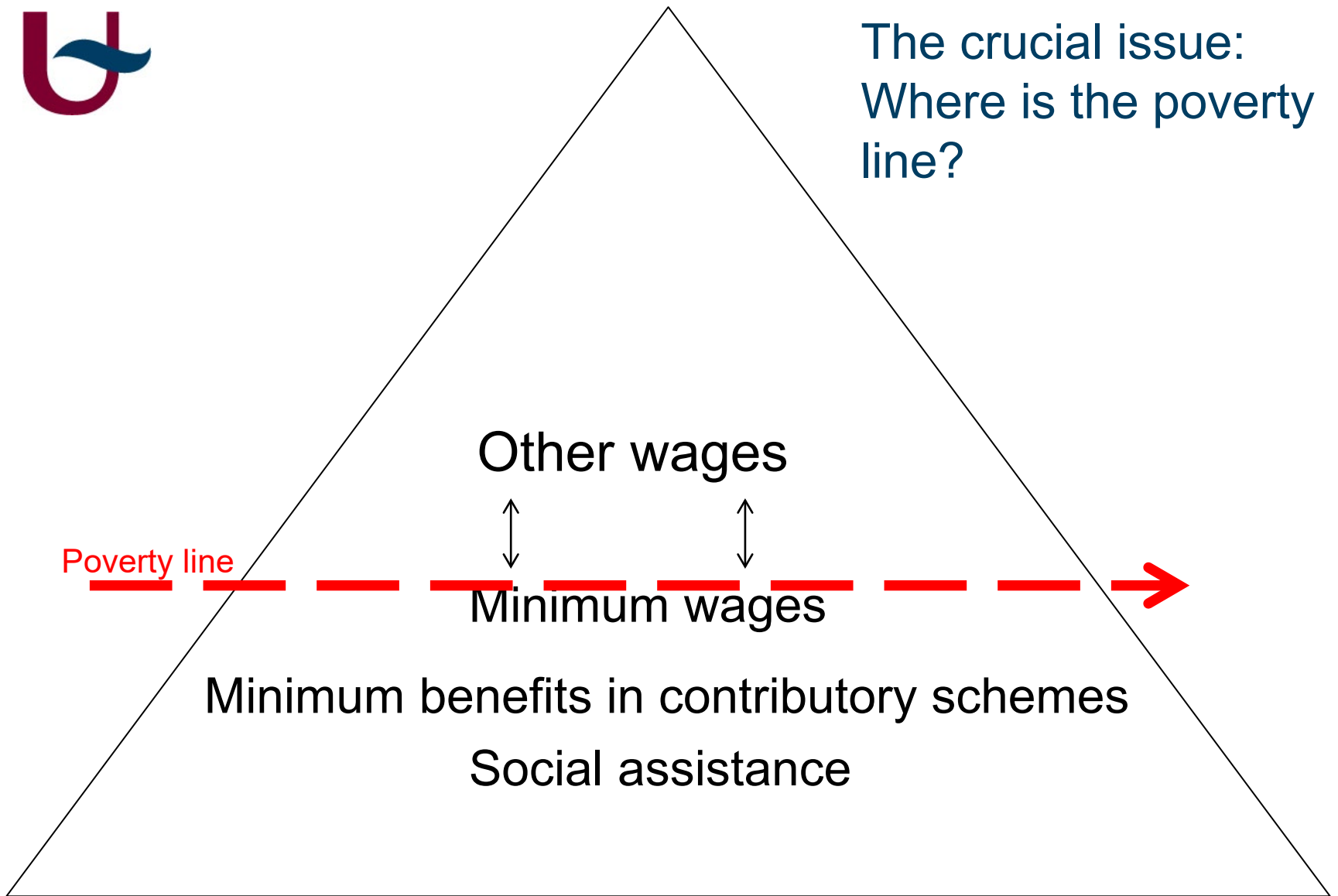


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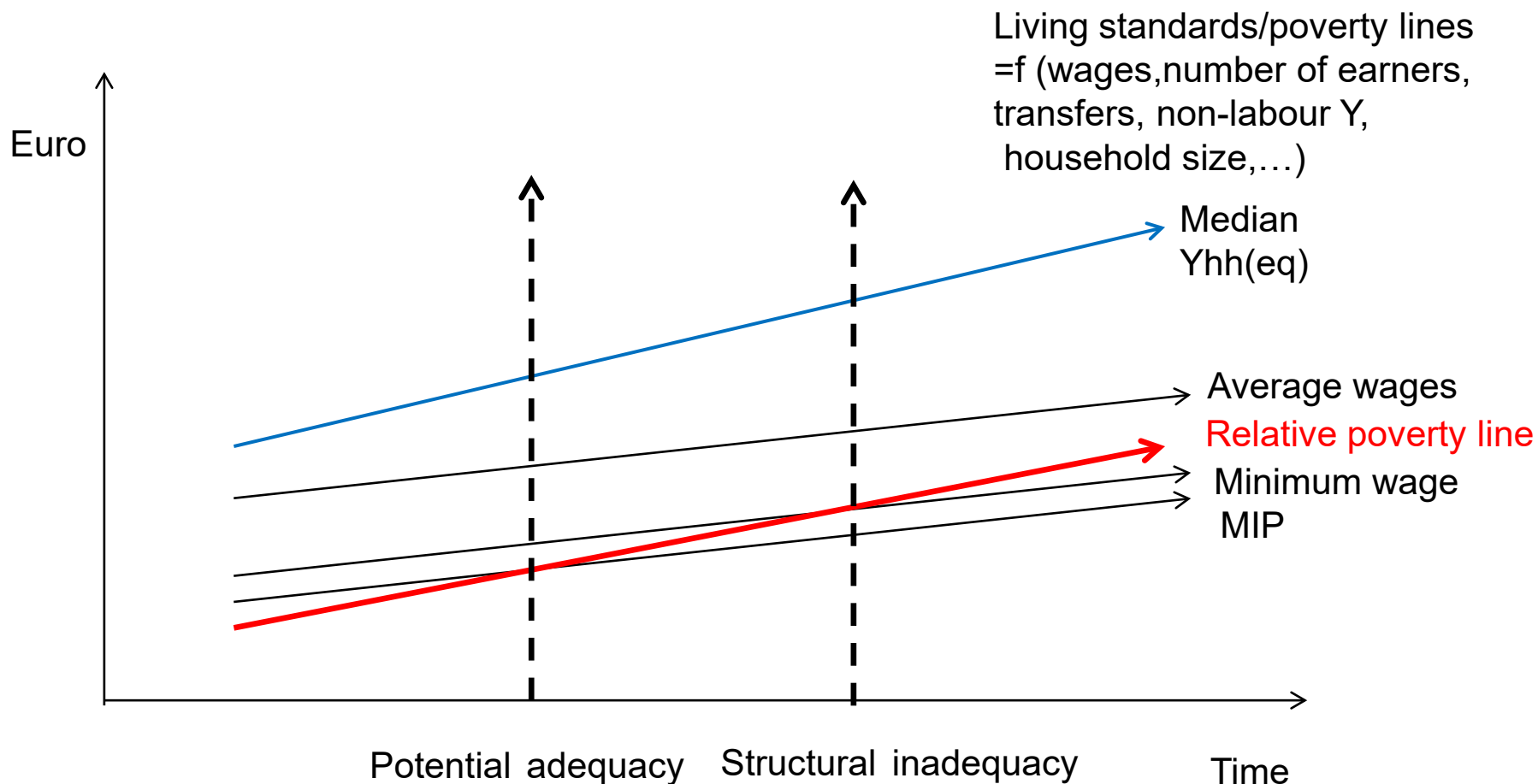


The crucial issue:
Where is the poverty
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Adequacy inherently difficult to maintain when living standards outpace wage growth...





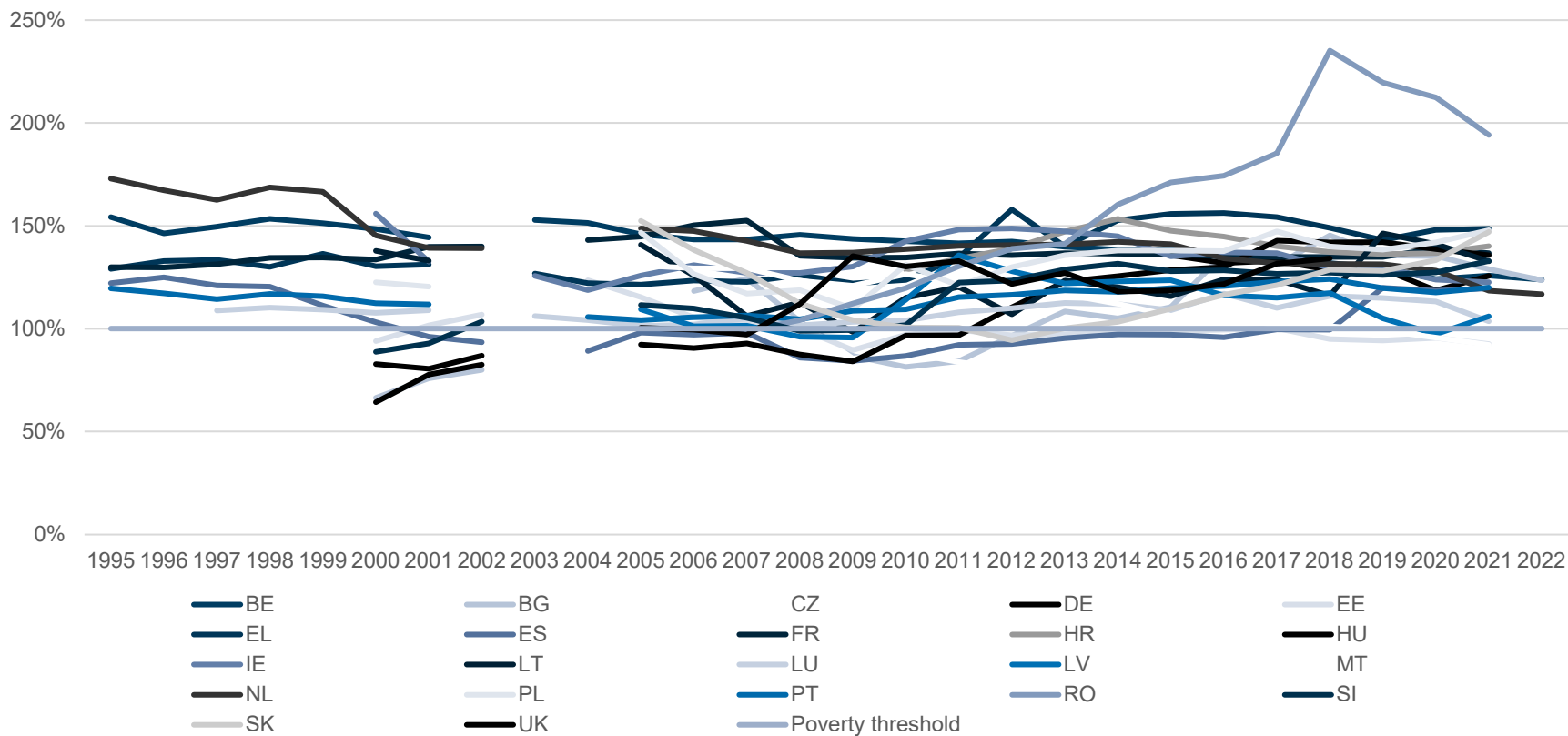






Minimum wages relative to the poverty line,

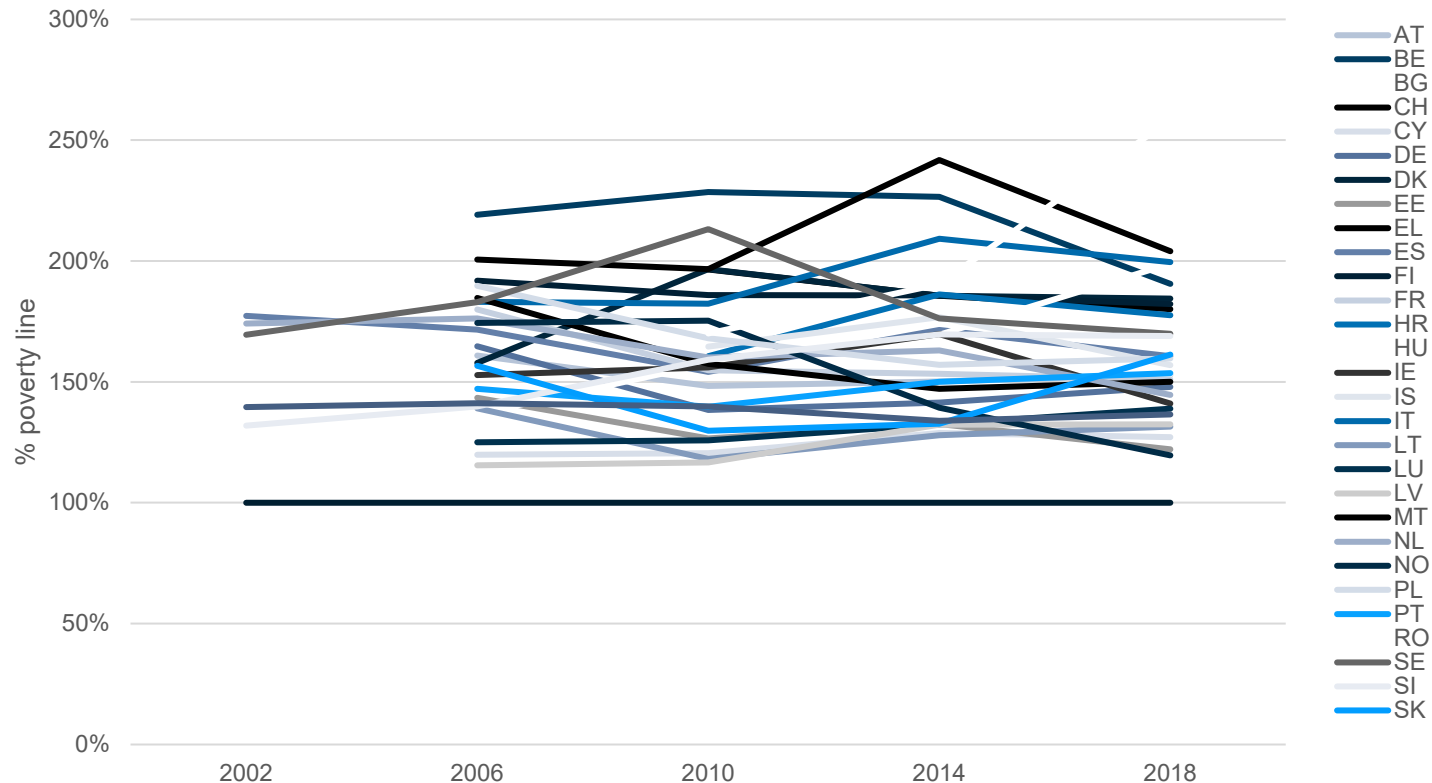
Minimum wages relative to poverty line, 1995-2022 (all countries)





Low wages (P10) relative to poverty line

Low wages (P10) relative to poverty line, 2002-2018 (all countries)





Where do we stand now?

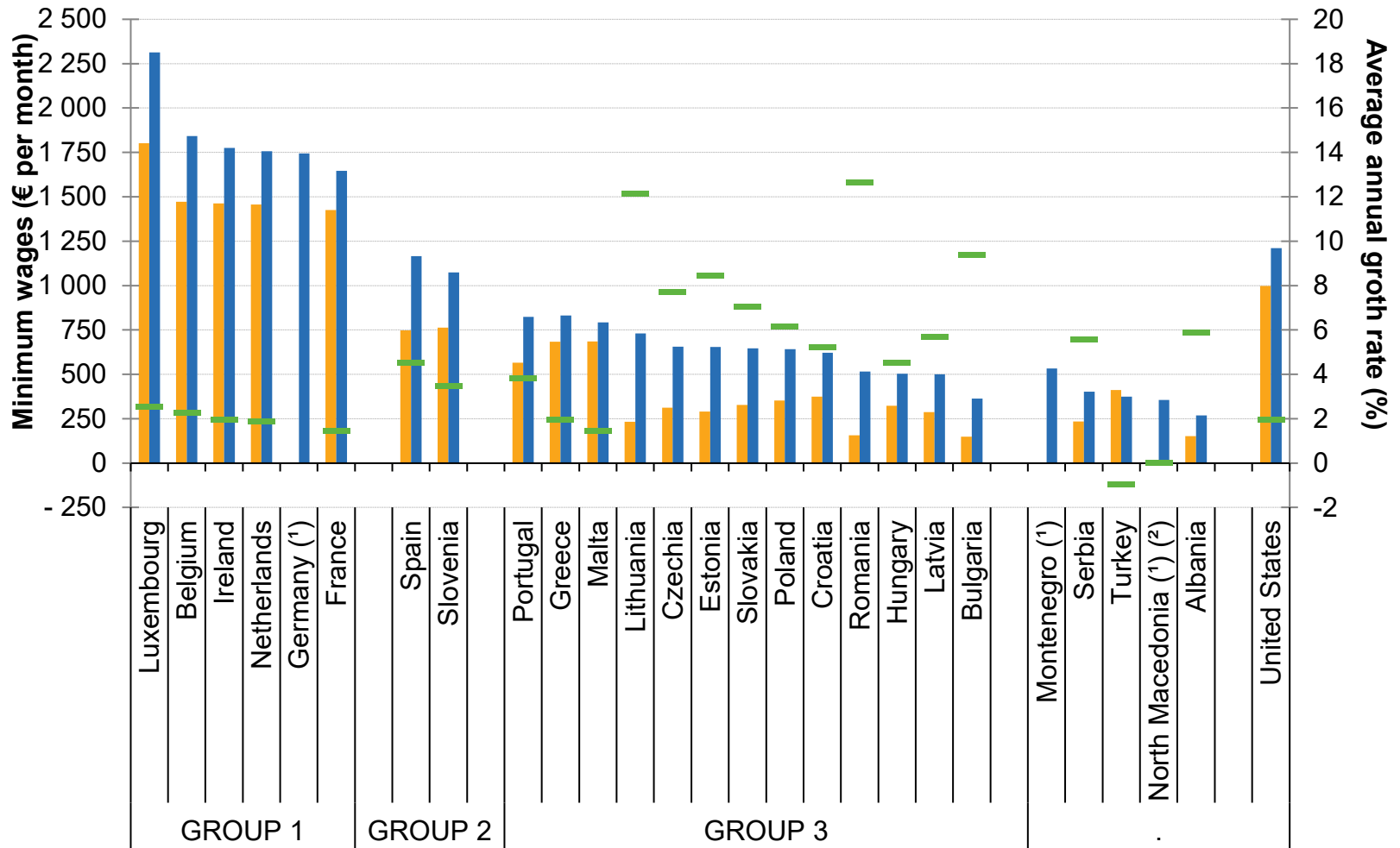


Minimum wages

- Nationally legislated minimum wages have proliferated throughout the rich world (US, 1938; EU mostly 1970s, UK 1999)
- All but the Scandinavian countries and Italy 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, July 2022 and July 2012

(€ per month and %)



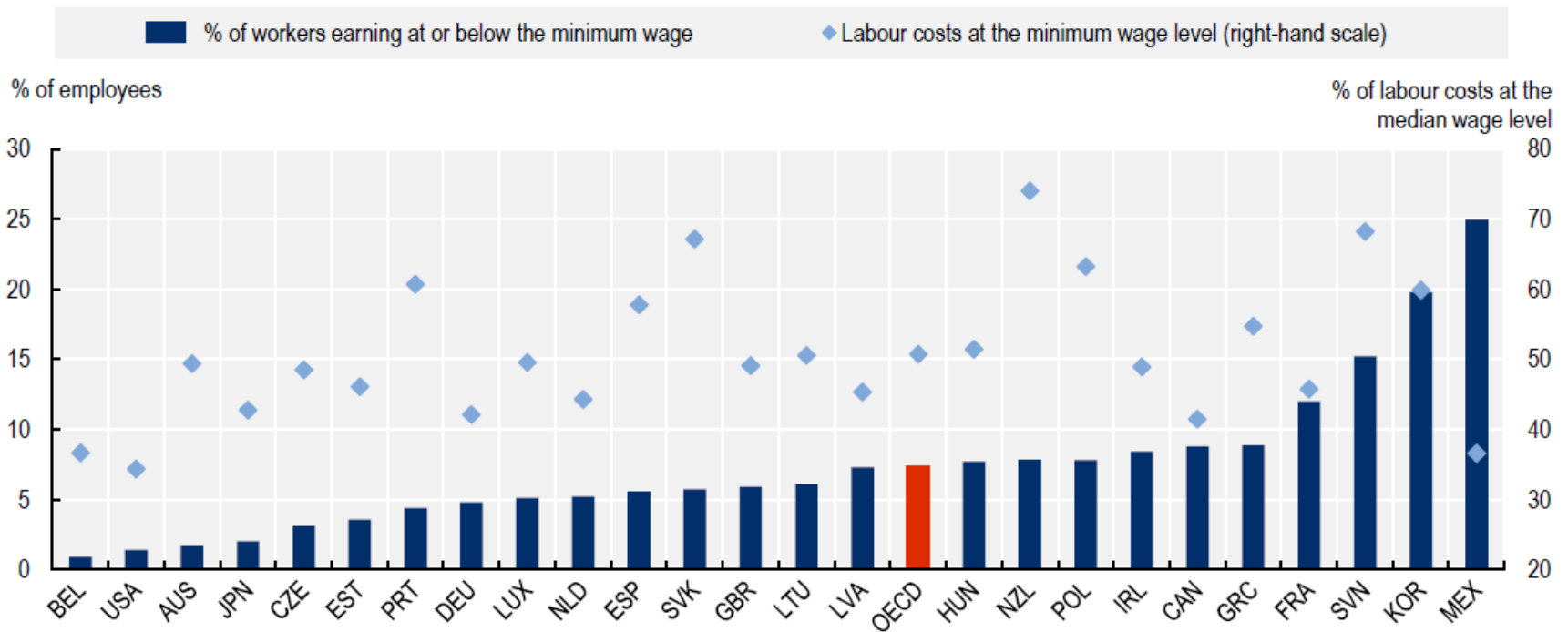
Note: Denmark, Italy, Cyprus, Austria, Finland and Sweden: no national minimum wage.

(1) January 2012 data and average annual rate of change not available.



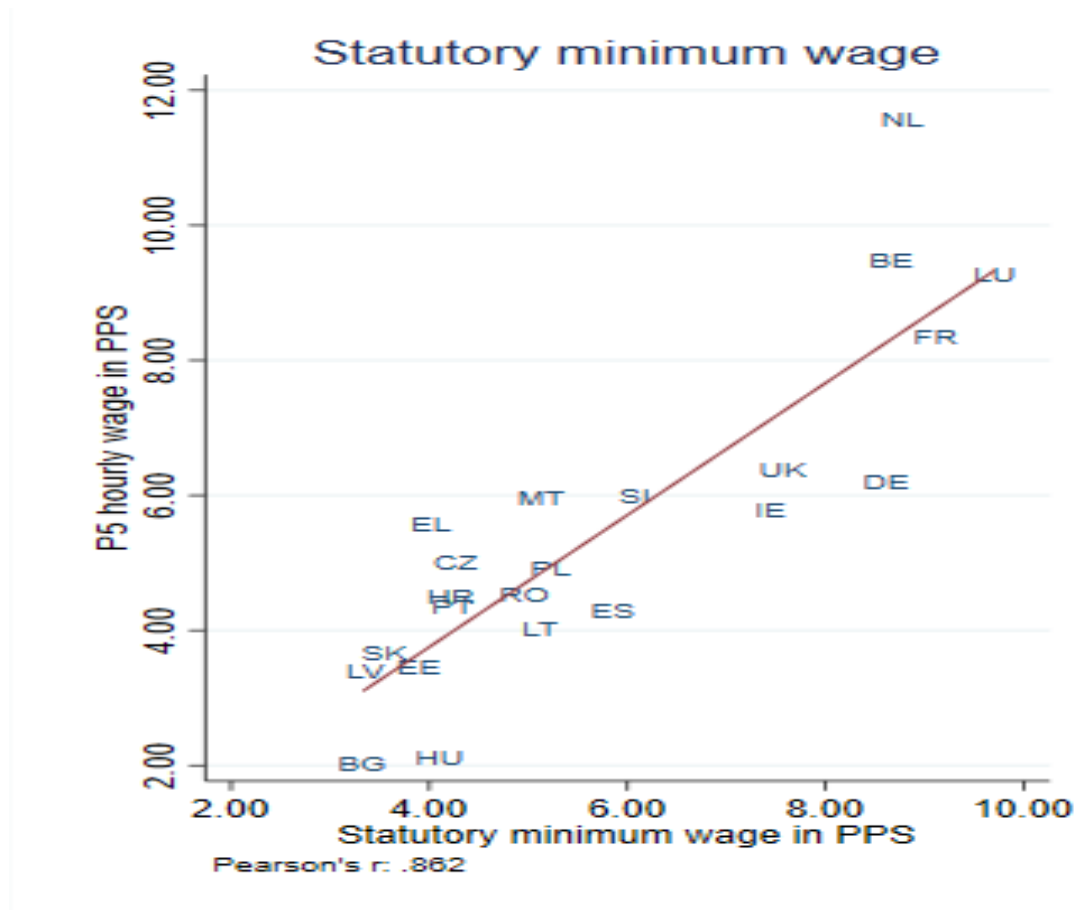
But remember: the share of the workforce actually working for the MW varies a lot

Number of minimum-wage earners and labour costs at the minimum wage level, latest year available





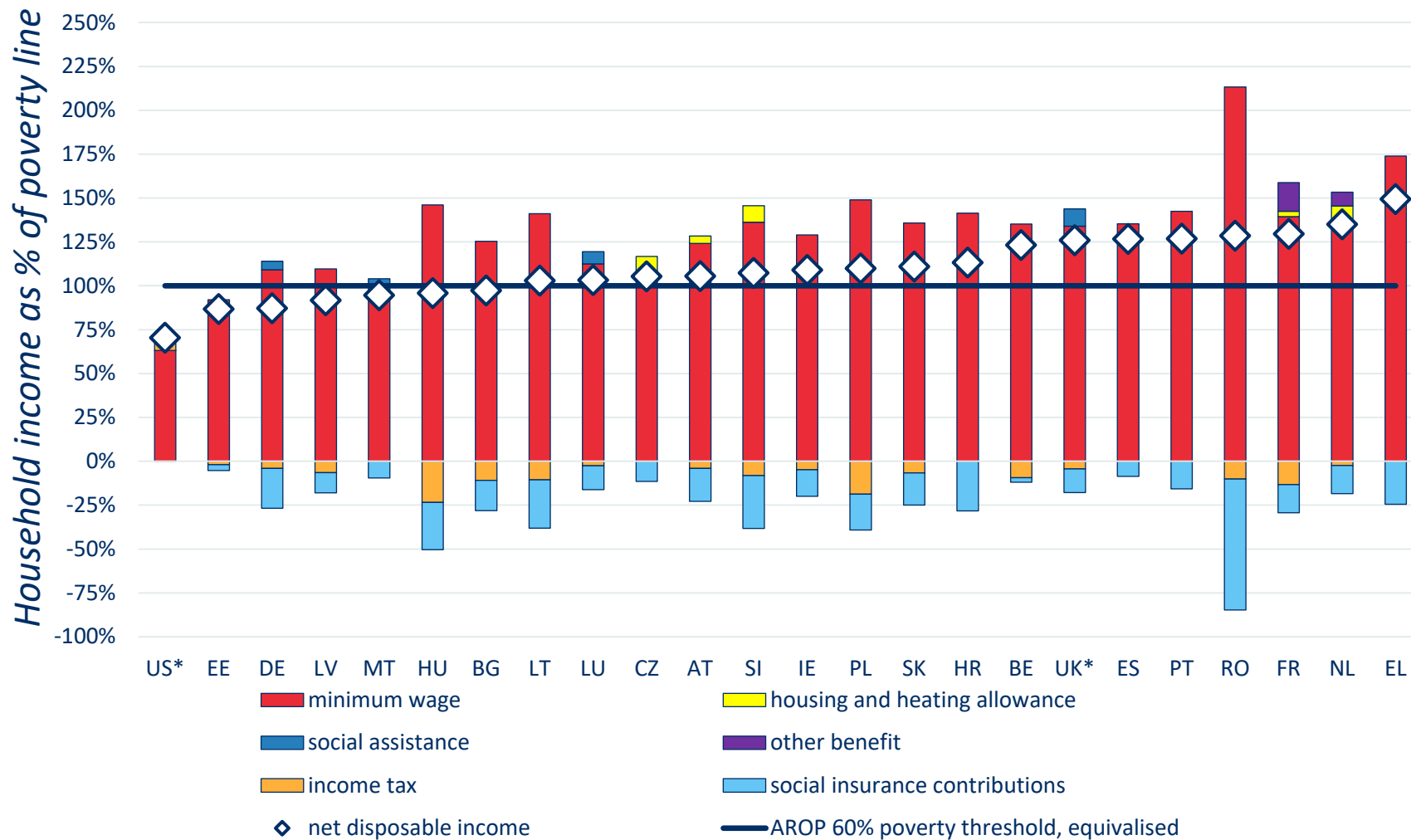
Still, MW's correlate strongly with actual wage floors..



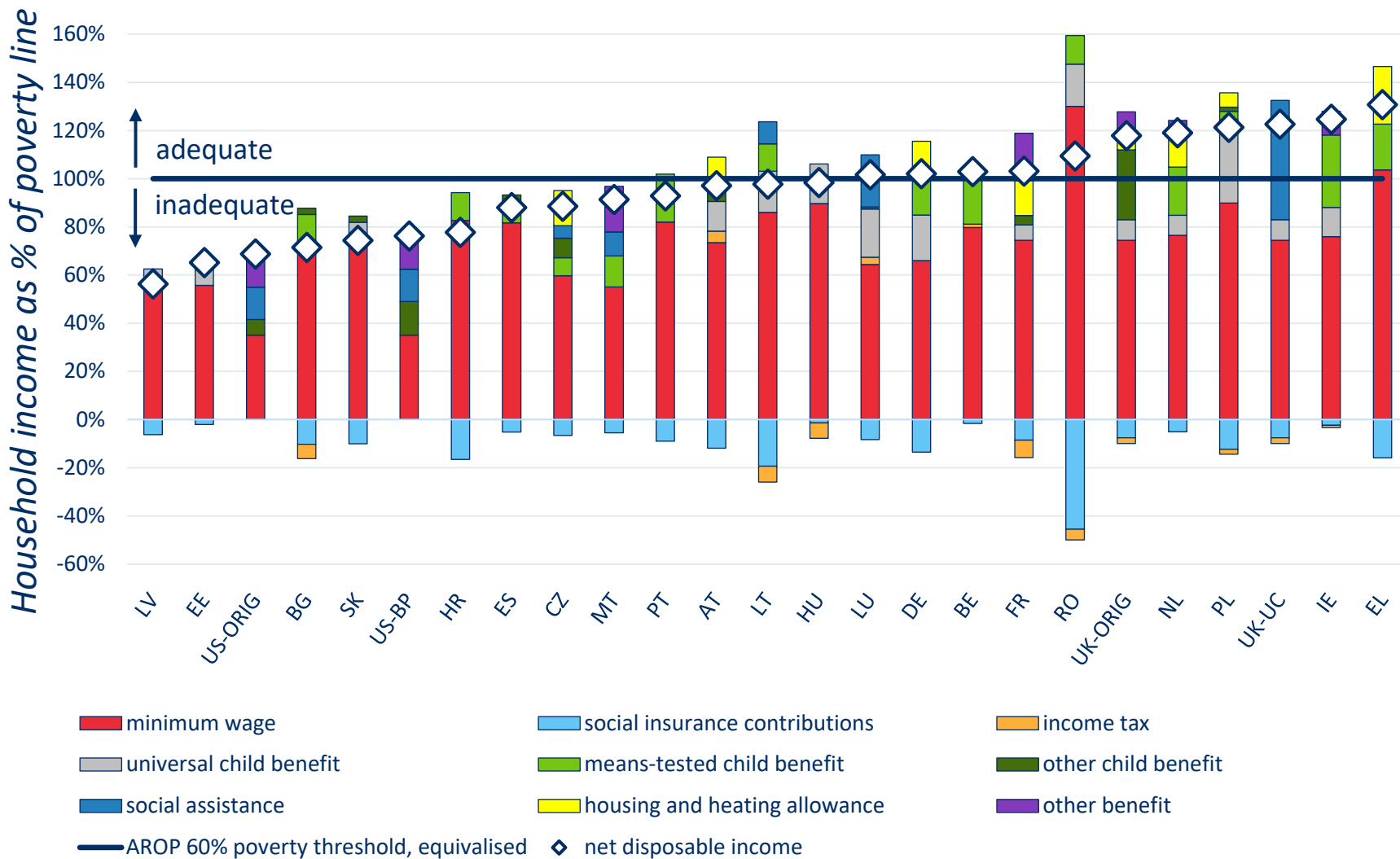


So how “adequate” are these?

Single person, working for the minimum wage



Single parent, two children, working for the minimum wage

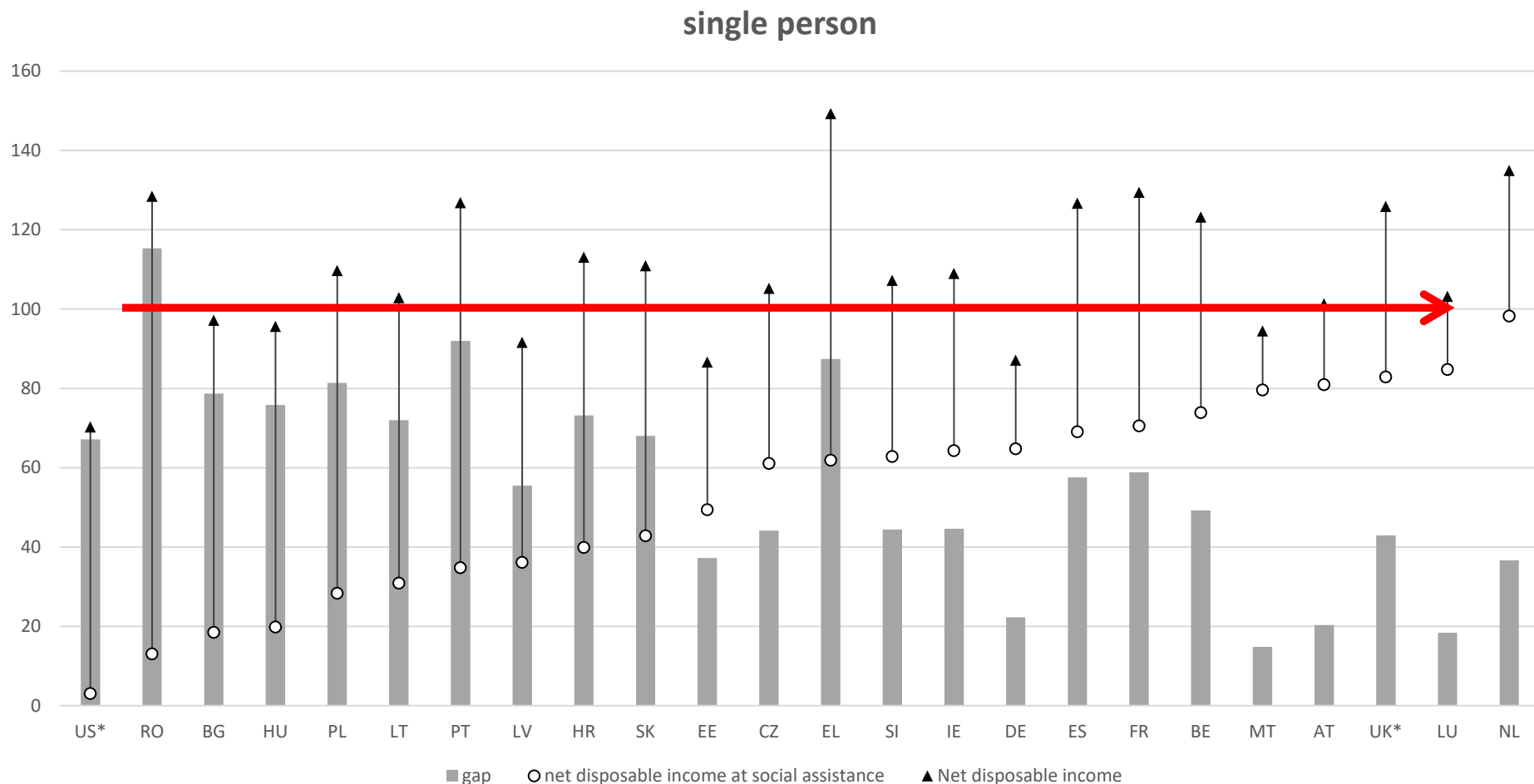




Out of work



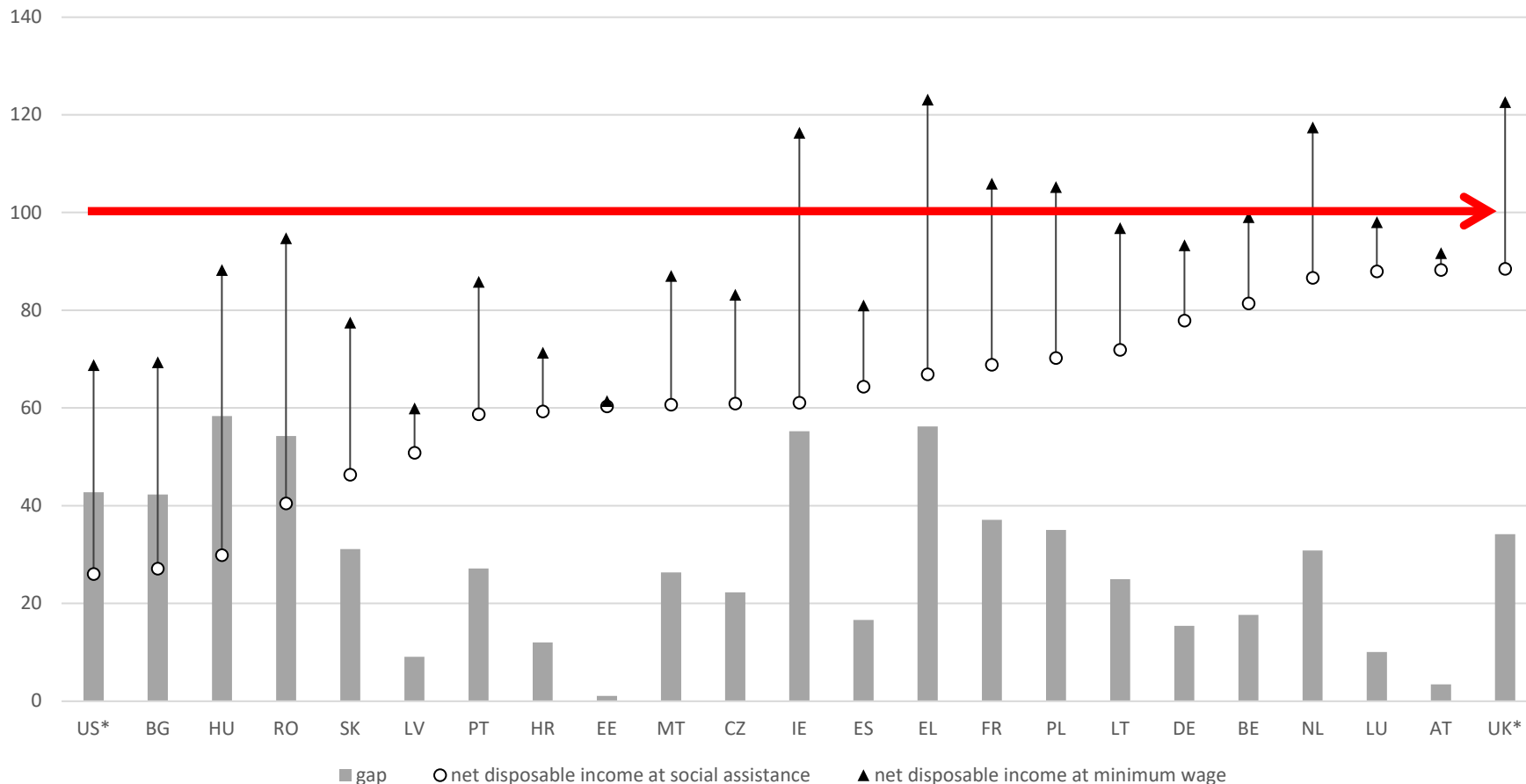
Guaranteed minimum incomes for out of work singles are generally far below the poverty line





Guaranteed minimum incomes for out of work single parents are also inadequate (but less so)

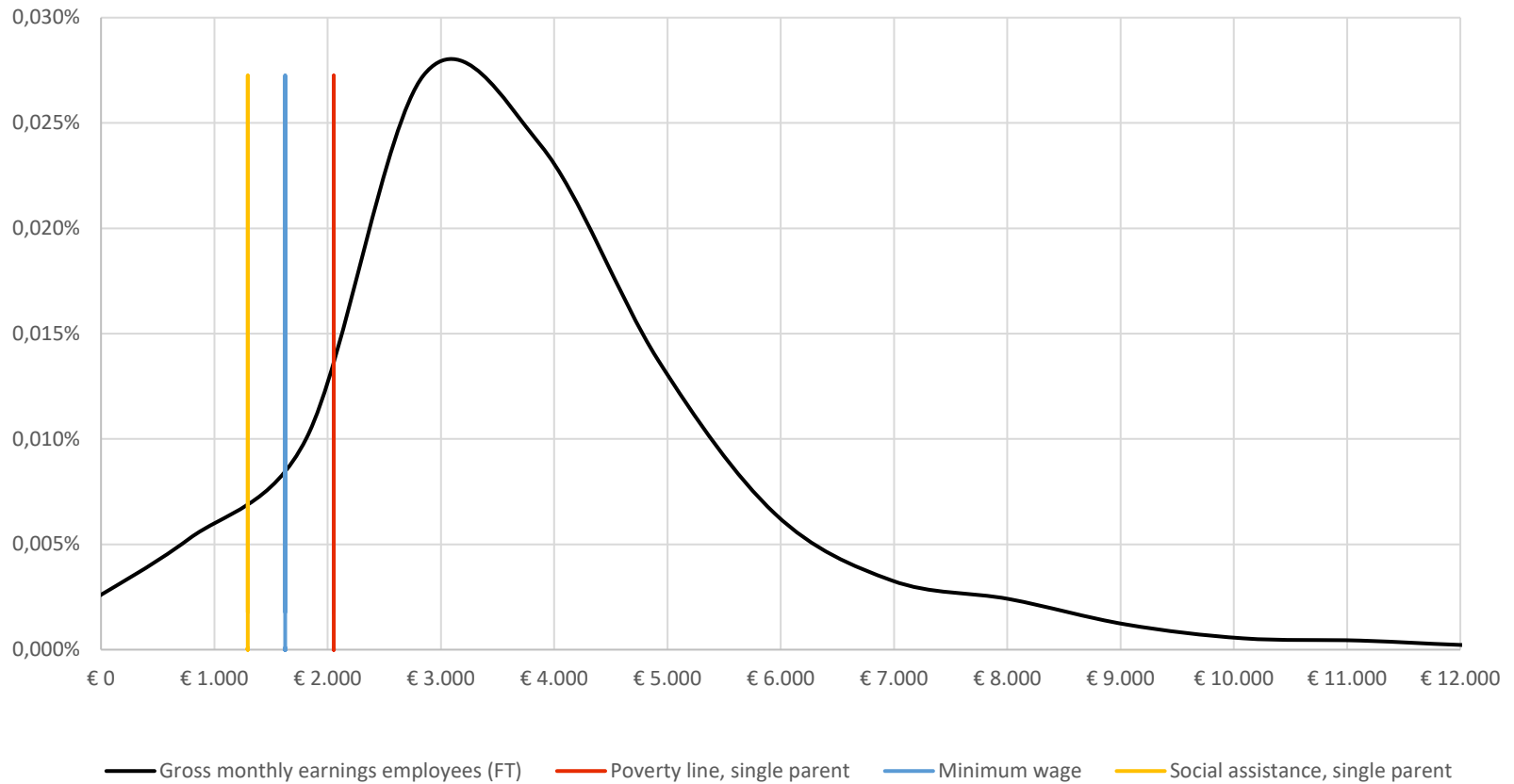
Single parent with 2 children





Incentive issues affect far more people as we push up out of work benefits and minimum wages

Belgium (2020)





Is there scope for (incremental) improvement?

- Wage floors set at the higher end of the currently 'workable' levels can provide adequate income to FT working single persons (and allows for near adequate SA), *but sole low paid earners 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:
 - Often cumbersome application procedures
 - 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



Less targeted alternatives

- More universal benefits (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 (so forget basic income)
- Some degree of **targeting within universalism** seems most realistic compromise



Next two graphs from "Income Support Policies for Single Parents in Europe and the United States: What Works Best?" with Elise Aerts and Zach Parolin



The ANNALS of the American Academy of Political and Social Science

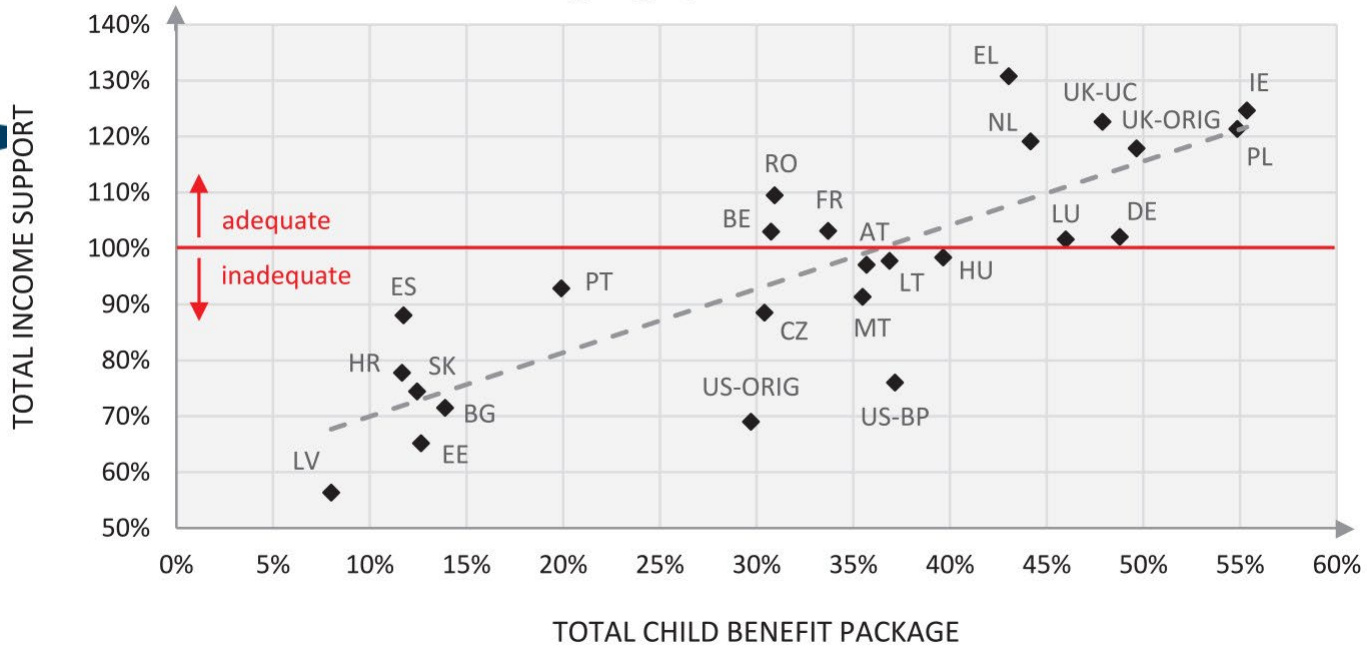
Volume 702, Issue 1: Single-Parent Families and Public Policy: Evidence from High-Income Countries

Jul 2022

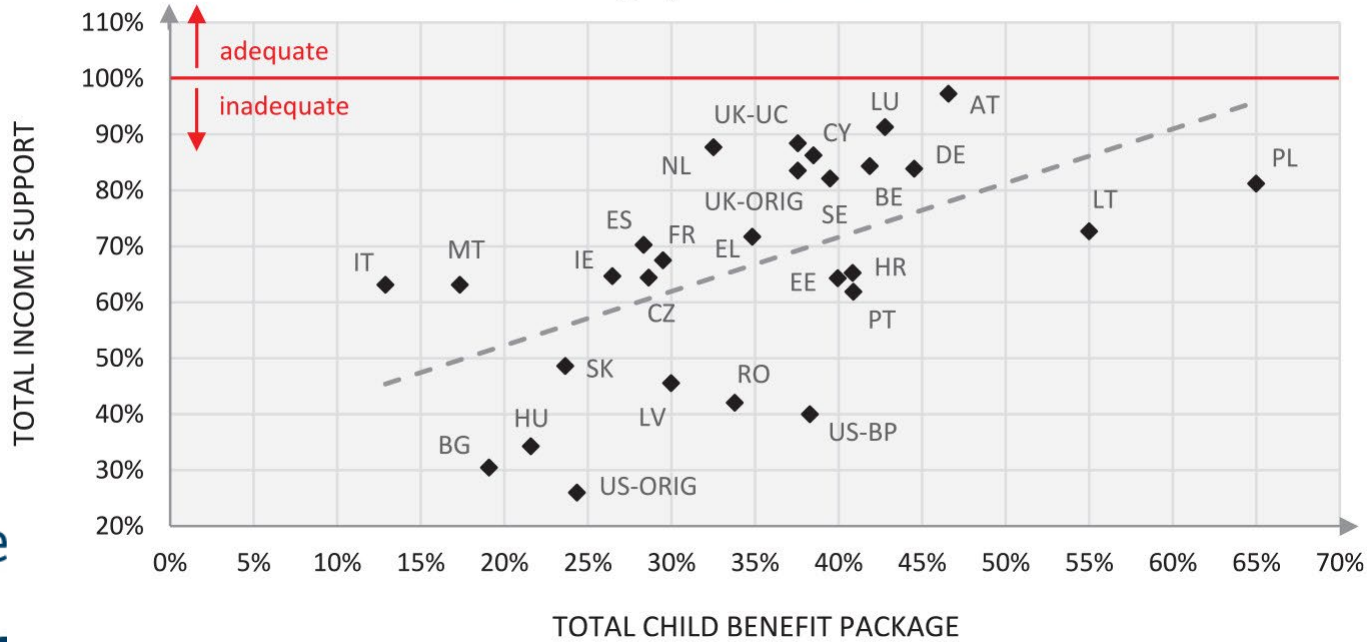
Pages 8-251



Working single parent with two children

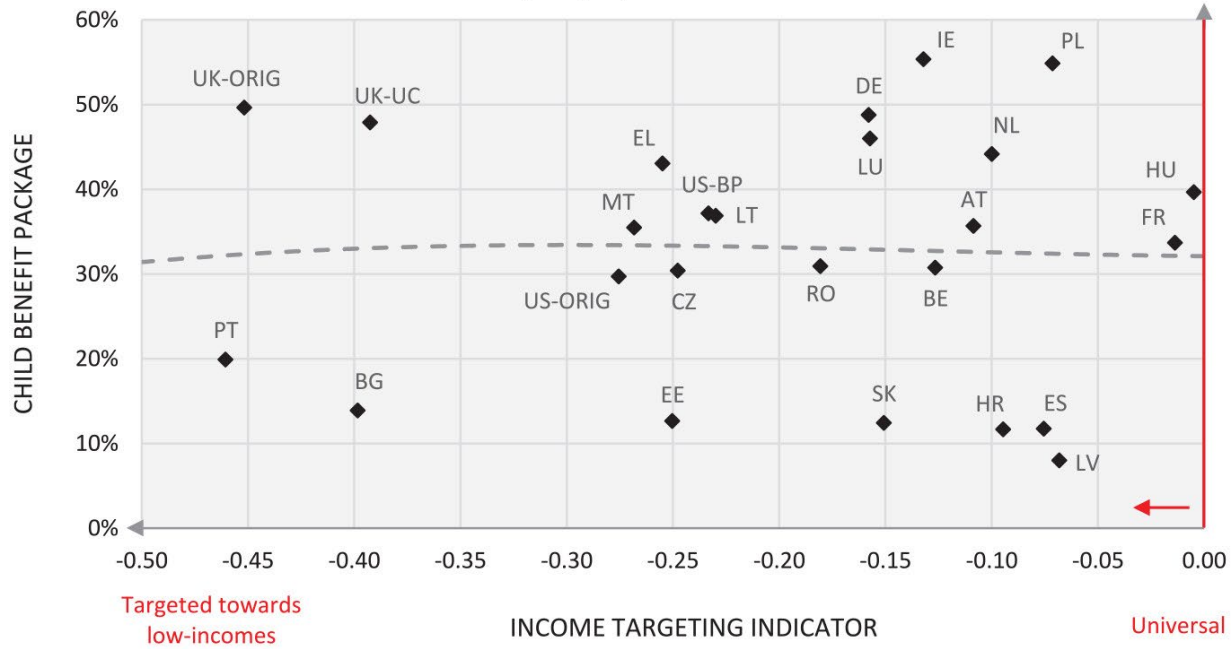


Jobless single parent with two children

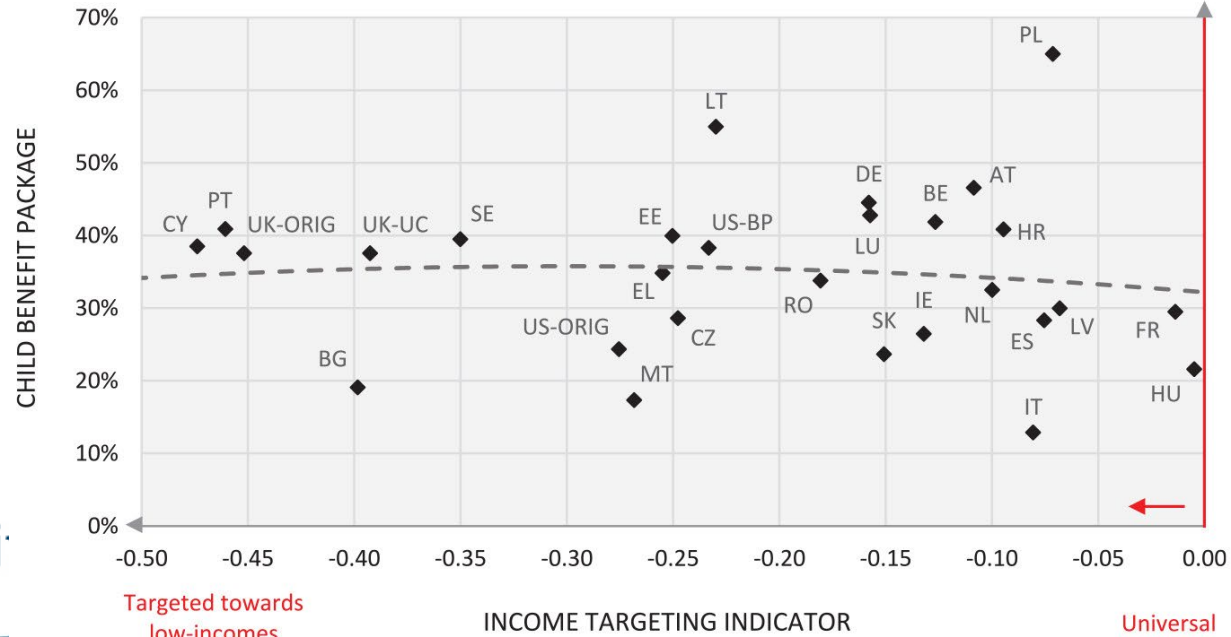




Working single parent with two children



Jobless single parent with two children





Concluding



A simple recipe for (more) adequate MIP

- Set wage floors as high as the labour market can take without adverse employment effects (EU's MWD important step!)
 - ensure periodic uprating (economic cycle allowing)
 - 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 income targeted supplements of various kinds, especially differentiated by housing situation, children's needs



Further (discussion) points

- Make access to MIP benefits as simple and as free from stigma as possible
- Limit case worker discretion but know that it has its advantages
- Do not obsess about control
- Integrated systems work better on paper than in reality
- Fiscalisation of MIP is not the way forward



Questions and comments!



extra

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

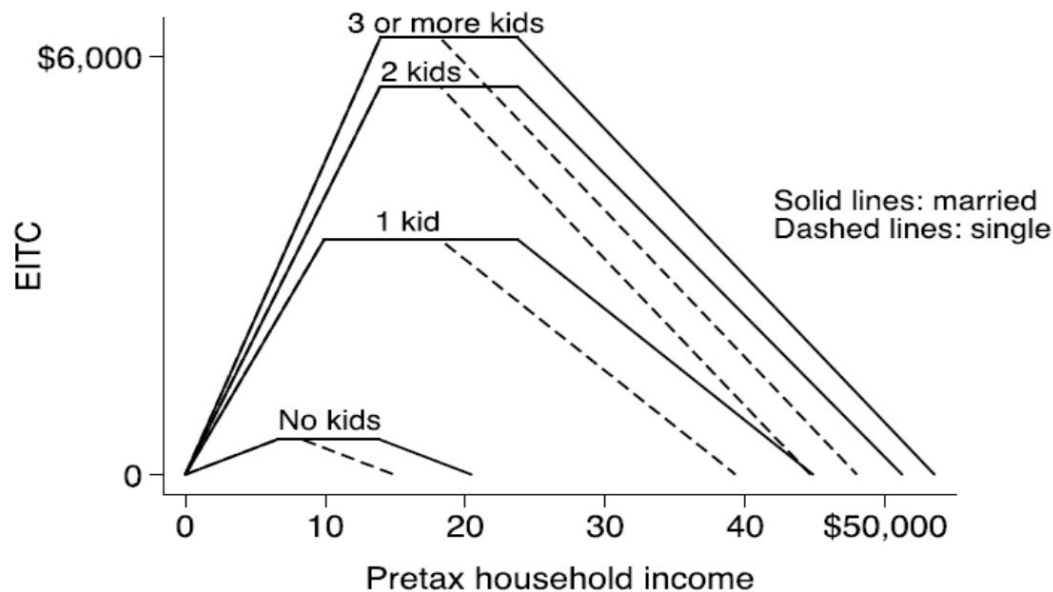


Figure 8. US Earned Income Tax Credit benefit structure

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?