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**Disambiguating  
Lisbon. Growth,  
Employment and  
Social Inclusion in  
the Investment  
State**

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# Disambiguating Lisbon. Growth, Employment and Social Inclusion in the Investment State

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## **ABSTRACT**

Over half way into the European Year for Combating Poverty and Social Exclusion, on the eve of the elaboration of policies designed to help reach the Europe 2020 target of lifting 20 million people out of poverty, it is important to take stock of the outcomes of the Lisbon agenda for growth, employment and social inclusion. The question arises why, despite growth of average incomes and of employment, poverty rates have not gone down, but have either stabilized or even increased. In this paper we identify the following trends: rising employment has benefited workless households only partially; income protection for the working-age population out of work has become less adequate; social policies and, more generally, social redistribution have become less pro-poor. These observations are indicative of the ambiguity of the Lisbon Strategy and its underlying investment paradigm.

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Over half way into the *European Year for Combating Poverty and Social Exclusion*, on the eve of the elaboration of policies designed to help reach the Europe 2020 target of lifting 20 million people out of poverty, I propose that we look back and take stock of the past ten years. What have we learned about social protection and poverty in Europe? How successful has the Lisbon Strategy been in trying to make the EU “the most competitive and dynamic knowledge-based economy in the world, capable of sustaining economic growth with more and better jobs and greater social cohesion”? And how should we interpret the common European social indicators with a view to formulating recommendations for the future?

My reflections are based largely on an analytical reading of the common social indicators that were approved at the 2001 Laeken Summit during the previous Belgian Presidency of the EU. These indicators underpin the Open Method of Coordination, they have served as a basis for estimations of poverty reduction targets, and they will no doubt prove indispensable in the monitoring process of the social agenda under the Europe 2020 strategy. I will rely on them in assessing past poverty trends and in analyzing the relationship between financial poverty, employment and social protection. All said indicators are reported on the EUROSTAT website.

This paper is organized as follows. Section 1 starts with a short discussion of the poverty concept and a justification of the focus on relative financial poverty. Section 2 deals with trends in employment, social protection and relative income poverty in the decade leading up to the present crisis. Although, during that period, the European welfare states experienced at least moderate economic growth and many EU Member States saw employment rates rise significantly, most failed to make progress in the fight against (relative) income poverty, particularly among the population of working age. I argue that this poverty standstill is attributable to less adequate social protection for an almost stable number of jobless households. In Section 3, the focus shifts to the new active inclusion approach that has become key to the social OMC since 2006. I consider this new concept and the balance between growth, jobs and social inclusion in the social indicators and in the new poverty reduction target. Section 4 concludes with some recommendations.

## **1. Poverty in rich and poor countries**

### ***1.1. The ambiguity of concepts***

Poverty is relative, multidimensional and gradual (Atkinson et al, 2001: 78). Hence it is essentially an ambiguous concept that can be understood in many ways. In the overarching portfolio of social indicators, agreed in the context of the Open Method of Coordination on Social Protection and Social Inclusion, this conceptual ambiguity is reflected in the fact that

account is taken of such diverse aspects as at-risk-of-poverty rates, at-risk-of-poverty gaps, persistent at-risk-of-poverty rates, long-term unemployment rates, jobless households, early school leavers, employment gaps of immigrants, material deprivation, housing indicators, unmet need for medical care, care utilisation, and child well-being. Likewise, the Europe 2020 poverty reduction target, as agreed by the European Council of 17 June 2010, is defined broadly, in terms of people who are at risk of poverty and/or materially deprived and/or living in households with low work intensity. I will return to this matter in Section 3.

In the present paper, however, the main focus is narrowed down to relative financial poverty as measured by the 60 percent of median equivalized income. This choice requires some justification.

Using the 60 percent of median income threshold implies that at-risk-of-poverty is defined relative to the standard of living in each Member State separately. Hence, what is regarded as a minimal acceptable way of life depends on the prevailing conditions of life and the level of social and economic development in the country concerned. It is however also evident that the relativity of poverty should not be overstated: one must take care to neither inflate the extent of poverty in rich countries, nor (and perhaps more importantly still) to deflate it in poorer Member States; the poverty notion must always relate to situations of severe economic hardship, including in the richer countries. The enlargement of the EU has moreover further underlined the need for a relative indicator of at-risk-of-poverty that is socially and politically acceptable to all. The at-risk-of-poverty threshold should be neither too high in rich Member States, nor too low in poorer ones. In order for it to retain its credibility, the indicator should accurately reflect what people need, given prevailing local patterns of living, in order to be able to participate minimally in social and economic life. In the richer countries of the EU, a threshold set at 60 percent of median income seems to meet this requirement and hence it enjoys a rather broad legitimacy. However, research is urgently needed to assess whether this is also the case in the poorer Member States of Eastern and Southern Europe.<sup>1</sup>

Having said that, it is my conviction that the notion underlying the relative at-risk-of-poverty indicator goes to the heart of the European social model. The European Commission framed its underlying rationale as follows: “the key challenge for Europe is to make the whole population share the benefits of high average prosperity” (EU, 2004). This is fundamentally different from the American poverty concept, where the official poverty line is based on the cost of a nutritionally adequate diet

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<sup>1</sup> More research is called for to assess the validity of the EU at-risk-of-poverty line, especially if the EU wishes to work towards agreements on a guaranteed minimum income in every Member State. EU-wide research on budget standards could be very enlightening and should therefore become a priority (Storms and Van den Bosch (2009)).

multiplied by a factor that takes account of non-food spending (up-rated in line with consumer prices) (Couch and Zaïdi, 2010). European concern is indeed not confined to “severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information”, as the United Nations rightly defines absolute poverty as a meaningful global concept (United Nations, 2009). Likewise, the European poverty notion is limited neither to situations where people suffer from a cumulation of disadvantage which cannot be reached by macro-policies (Dahrendorf, 1990) nor to instances of social exclusion in the sense of a permanent dependence on the State (Engbersen, 1991). Instead, it refers more broadly to people whose resources are so seriously below those commanded by the average individual or family in their country that they run the risk of being excluded from ordinary living patterns, customs and activities (Townsend, 1985). The final part of this poverty definition is particularly relevant in the context of the present paper. Europeans do not regard social protection purely as an anti-poverty instrument or as a means to alleviate destitution, but rather as a tool for preventing poverty from occurring in the first place. Social insurance schemes become effective – mostly non-selectively and without means testing – when certain social risks occur, in order to ensure that beneficiaries would not slip into poverty. For this reason, the adequacy of social protection should not be assessed on the basis of a very low poverty line. The at-risk-of-poverty threshold is more suitable for this purpose, as it constitutes the minimum income level that is considered necessary in order to avoid social exclusion.

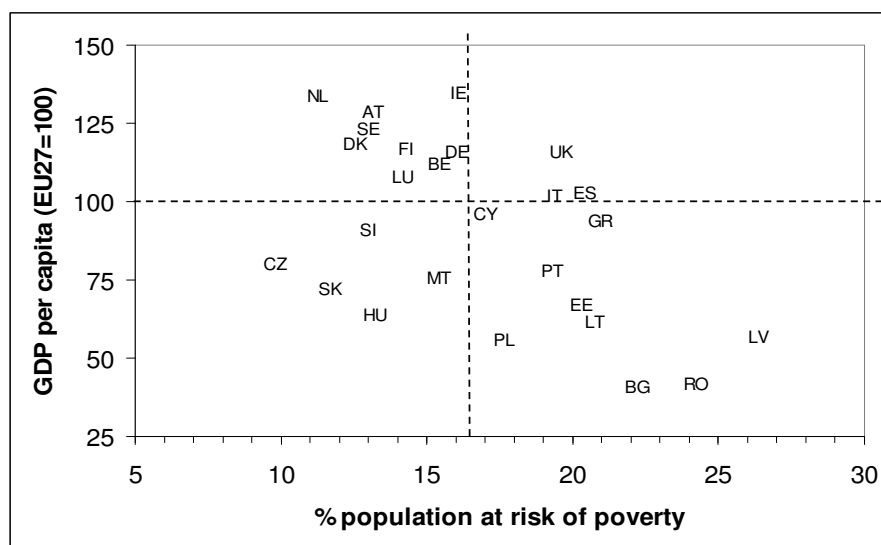
The reduction of relative income poverty requires macroeconomic and social policies. Unfortunately, this is not always well understood. The National Action Plans on Social Inclusion contain numerous references to social projects that are focused on very specific and often localized problems. Most of these projects are extremely important and necessary as complements to macro-policies; however, despite large and meritorious efforts, one should not expect them to have a significant impact on national at-risk-of-poverty rates. In order to achieve a better distribution of the fruits of economic growth and, in so doing, to reduce the number of relative poor, countries must develop sustainable growth strategies, effective employment policies and adequate social protection schemes.

## ***1.2. At-risk-of-poverty in the EU***

Figure 1 plots the key dimensions of social market economies – GDP and the way it is distributed – in the 27 Member States thereby focusing on the population at-risk-of-poverty those with low incomes. GDP per capita is expressed in purchasing power parities. Interestingly, all four combinations of income level and distribution occur within Europe: the countries in North and Continental Europe belong to the cluster of rich egalitarian countries (I); the rich inegalitarian cluster (II) is composed of the UK, Italy and Spain; the cluster of poor egalitarian countries (III) are

Malta, the Czech Republic, Slovenia, Slovakia and Hungary; the cluster of poor inegalitarian countries (IV) is made up of the Baltic States, Bulgaria, Romania, Greece, Poland, Portugal and Cyprus.

Figure 1. Population at risk of poverty (2008) and GDP per capita (2008)



- - - EU27 average

Source: Eurostat and EU-SILC

GDP per capita is expressed in purchasing power parities.

Luxembourg is an outlier with a GDP per capita of 276 percent of EU27 average. In Luxembourg, the population at risk of poverty is 13.4. Population at risk of poverty is provisional for FR and UK. GDP per capita is provisional for GR, 2007 data for RO.

The great diversity that exists in Europe in terms of income and relative poverty leads to two important insights. First, low relative income poverty does not seem to be an impediment to high GDP levels. On the contrary, a large majority of rich countries also attain the lowest number of relative income poor. This points to what is generally regarded as the common European vision for a society that combines economic growth and social redistribution as a productive factor. Second, there is no reason to assume that high GDP levels automatically trickle down to the lowest income groups. Within Europe, a minority of rich countries record relatively high income poverty. It is well known that, worldwide, there are other examples of rich inegalitarian welfare states to be found. Also worth noting here is that enlargement has evidently added a new cluster to the European constellation: relatively poor new Member States where the at-risk-of-poverty rate is comparatively low.

### **1.3. Trends in relative income poverty: the stylized facts**

In the world of Welfare Capitalism, empirical data from different sources show that country rankings – where the Scandinavian countries emerge as the best performers followed by the Continental European welfare states –

have remained more or less unchanged since the 1970s. Moreover, despite higher employment rates and increasing average incomes, nowhere has any substantial progress been made in combating relative financial poverty. After the post-war period, when, as far as we know, welfare states were successful in pursuing their core objectives of growth and redistribution, the status quo has persisted for over forty years. Yet few researchers and policymakers seem to be aware of the critical nature of this lengthy standstill.

Poverty trends during the 1970s and 80s are extensively documented: the explanation for the standstill in some countries and the rise in others lies in a number of significant socioeconomic changes (O'Higgins and Jenkins, 1990). The transition to a knowledge economy, changing family structures and the emancipation of women all caused momentous change to which the various types of welfare state regimes responded in different ways. It is no coincidence that, during this period, the focus of academic attention was on the identification of diversity and divergence between countries and the specification of different policy routes (Esping-Andersen et al., 1999; Scharpf and Schmidt, 2000). In the liberal welfare states, the shocks were primarily absorbed by flexible (labour) markets. Particularly in the 1980s, these countries experienced rather spectacular increases in income inequality and relative poverty (Förster, 1993; Hanratty and Blank, 1992). The Scandinavian countries, for their part, were best equipped against rising unemployment and they had also prepared most adequately for growing female labour market participation (Esping-Andersen, 1996). As a result, poverty in the Scandinavian welfare states remained unchanged at a comparatively low level (Ritakallio, 1994; Gustafsson and Uusitalo, 1990). In the so-called conservative welfare states of Continental Europe, the first line of defence consisted in the traditional social security systems. Here, too, poverty and income inequality remained remarkably stable. Consequently, until the 1980s, the dominant belief among poverty researchers was that the strong welfare states of the social-democratic and the Continental European types were able to cope satisfactorily with the negative impacts of the ongoing economic and demographic revolutions.

In the second half of the 1990s, however, welfare states began to alter their policy approach in order to cope with rising budgets, high structural unemployment and/or rising poverty. In finding ways to overcome the perceived choice between budgetary restraint, income equality and employment growth (coined by Iversen and Wren as the 'social service trilemma') all stakes were now placed on the so-called 'social investment strategy'. Recent literature refers to an activating welfare state, a 'new' social contract and a new social agenda behind which we discern a policy shift away from passive social protection and job security to employment security and a 'social investment agenda' aimed at reinforcing human capital.

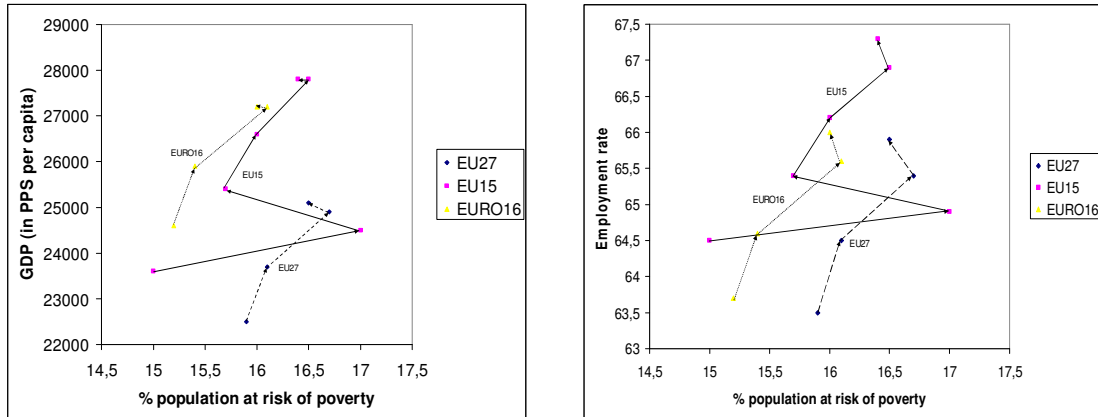
Again, though, this new era in welfare state history failed to reduce relative poverty rates. In view of the lengthy policy implementation time, the advent of economic crises in the 1990s and budget cuts to address deficits accrued over time, this was initially not perceived as problematic. In fact, the poverty standstill was considered to be a success of sorts: the welfare state institutions had not only shown themselves to be flexible and adaptable to the new situation, but they had once again proven to be a strong buffer against economic crises and the potentially detrimental impact of social and demographic transitions.

Worryingly, though, no progress was made either in the following period, from the second half of the 1990s up to the current economic crisis. This time many social, economic and demographic circumstances were in fact favourable for a successful drive to reduce the proportion of people suffering from income poverty.

In *Growing Unequal*, the OECD concluded that “[o]ver the entire period from the mid-1980s to the mid-2000s, the poverty headcount increased in two-thirds of the OECD countries” (OECD, 2008: 129). The OECD also lists exceptions. *Specifically within the working-age population, however, it appears that, between 1995 and 2008, poverty either increased or – in the case of France – remained at roughly the same level* (see Table 5.4 of the OECD report). Admittedly, the OECD figures originate from different sources and are thus difficult to compare. Likewise, it is hard to interpret the evolution of the EU indicators, due to a switch of data sources and a change of income definitions. The EU indicators for the 1990s are based on the ECHP dataset, while those since 2002 are based on SILC. For several reasons, the figures derived from the two datasets are not comparable over time (see for an extensive discussion Marlier et al. (2007)). As, moreover, at least a three-percentage-point difference is required in order to attain statistical significance, great caution is called for. On average, for the working-age population, the indicators seem to suggest that the poverty rates remained largely unchanged since the second half of the 1990s. Figure 2 plots the at-risk-of-poverty rates against employment and GDP in the 2000s.



Figure 2. GDP, employment and at-risk-of-poverty in the EU, 2003-2008



Source: Eurostat.

In spite of the uncertainty of the data, it seems safe to conclude that, taken together, the OECD and EU sources suggest a standstill since the mid-1990s insofar as financial poverty within the working-age populations is concerned.<sup>2</sup> The empirical data seem to indicate that, in the most recent period, most rich and developed European welfare states have once again failed to make progress in the fight against financial poverty among the working-age population.

## 2. Employment, growth and the poverty standstill in the pre-crisis Lisbon term

The poverty standstill in the decade before the crisis is disquieting, because many social, economic and demographic circumstances were rather favourable for a successful drive to reduce poverty and social inequalities<sup>3</sup>: employment and incomes were on the rise; demographic dependency rates were still rather favourable; social spending remained high while passive welfare states were progressively transformed into so-called 'investment states' (Morel, Palier and Palme, 2009). If it was policymakers' intention to get people out of poverty by moving them into work, the expanding labour markets of the previous two decades would appear to have provided ample opportunity to achieve that goal. So why

<sup>2</sup> The uncertainty of the data has recently received attention from Atkinson et al. (2010: 8-9). Apart from underlying the importance of statistical significance, they provide some guidelines for defining which differences are also relevant for policymakers. In the case of the at-risk-of-poverty rate, a three percentage point difference is taken to be both statistically significant and policy relevant. However, estimates from Goedemé seem to indicate that even this threshold does not always correspond to a statistically significant difference in the case of EU-SILC 2008t, Goedemé (2010) Confidence intervals for relative poverty measures. An explorative analysis using EU-SILC 2008).

<sup>3</sup> Against the background of the consequences of the ongoing crisis and of the upcoming ageing wave, the standstill raises serious questions about the feasibility of the EU2020 targets, especially insofar as the number of people at risk of poverty is concerned.

have poverty rates in most countries not gone down but either remained stable or even increased?

In this section, I consider the relationship between growth of income and employment and the at-risk-of-poverty rates in the decade prior to the crisis. The focus is on the working-age population. I argue that the poverty standstill can be explained at least partially by the following trends:

- ❖ rising employment has benefited workless households only to a limited extent;
- ❖ income protection for the working-age population out of work has declined;
- ❖ social policies have become less pro-poor.

### ***2.1. Trends in employment and relative income poverty before the crisis***

The question of why poverty did not decrease in the period prior to the ongoing crisis is of course extremely difficult to answer. What was the counterfactual? What would have happened without new policies? The age and family structure of the population, global competition and technological innovation are all potentially strong drivers of increased poverty. Moreover, there are many possible reasons for the apparent absence of a relationship between increased employment, economic growth and poverty reduction: job growth may not have benefited jobless households, wage inequality and in-work poverty may have increased, and/or social protection may have become less adequate for those who remained out of work. Substantial data are required in order to disentangle all these possible determinants. EU-SILC is certainly informative in this context, but the timespan covered by comparable data is too short for meaningful in-depth empirical analysis.

Nonetheless, the EU social indicators point to some important trends. Pre-transfer poverty (excluding pensions) and in-work poverty have remained largely unchanged in many countries while the share of the working-age population living in jobless households have decreased slightly, albeit to a much lesser degree than might have been expected on the basis of rising employment figures.<sup>4</sup> The latter is confirmed by the work intensity indicator plotted in Figures 3, 4, 5 and 6. This indicator refers to the number of months that all working-age household members have worked during the income reference year as a proportion of the total number of months that they could theoretically have worked. Individuals are classified into work-intensity categories ranging from WI=0 (jobless

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<sup>4</sup> All relevant indicators are published on the EUROSTAT website.

household) to WI=1 (full work intensity). Within the 27, the EU 15 and the Eurozone, the number of jobless households without children has decreased slightly, while the share of jobless households with children has remained largely unchanged. This contrasts with the significant increase in the number of job-rich households: the share of job-rich households with dependent children rose from 15 percent in 2005 to 18 percent in 2008. The number of job-rich households without dependent children evolved similarly. Clearly, job growth benefited households where one or more members were already in work more than households where no one was in work. Here lies a first explanation for the lack of correlation between employment growth and poverty: rising employment benefited poor workless households only marginally.

A second explanation lies in changes of the at-risk-of-poverty rate by work intensity. Both for households with and without dependent children, Figures 4 and 6 reveal an increase in poverty risks, especially among jobless households. In the Eurozone and in the EU27, at-risk-of-poverty among work-poor households without dependent children increased from approximately 30 percent in 2004 to 35 percent in 2008. The already extremely high poverty risks of job-poor households with dependent children increased even further between 2005 and 2007.

Figure 3. At risk-of-poverty (60% MD) by work intensity, households without dependent children, age 18-64

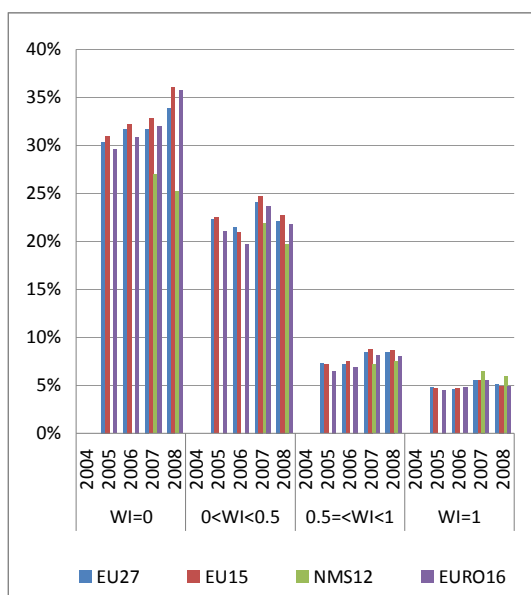


Figure 4. Distribution of households by work intensity, households without dependent children, age 18-64

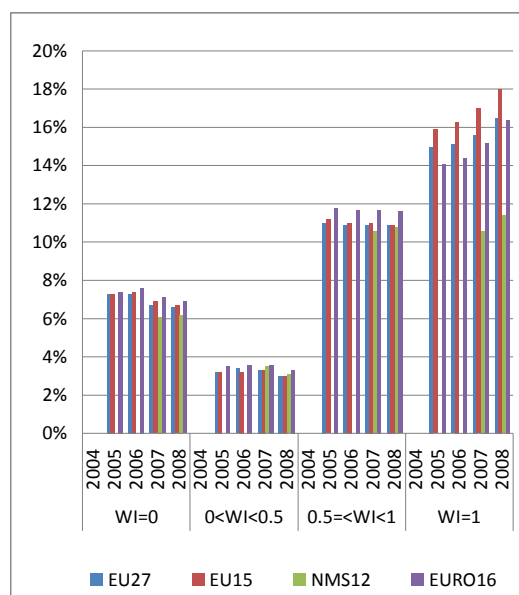


Figure 5. At-risk-of-poverty (60% MD) by work intensity, households with dependent children, age 18-64

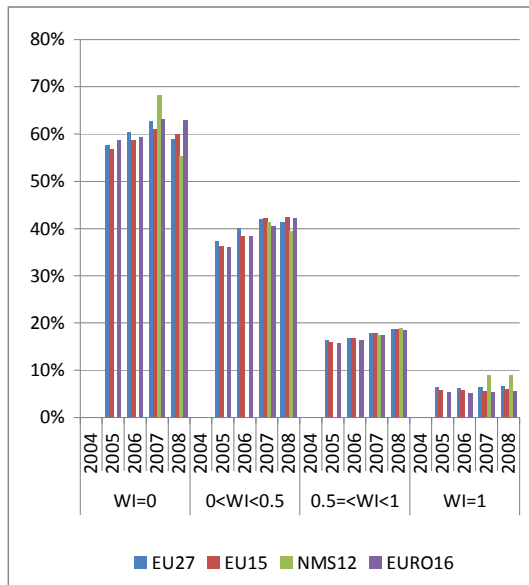
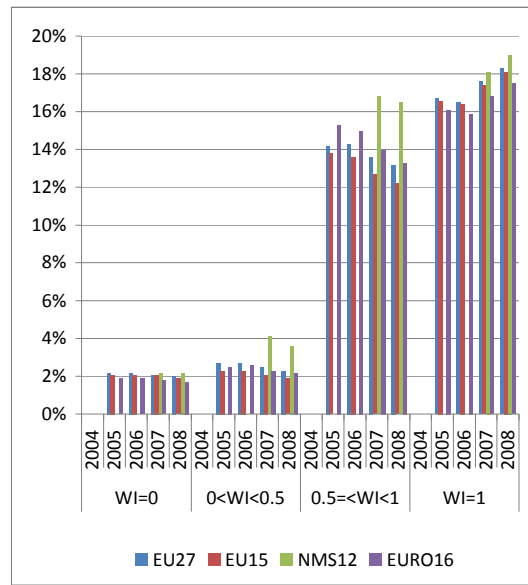


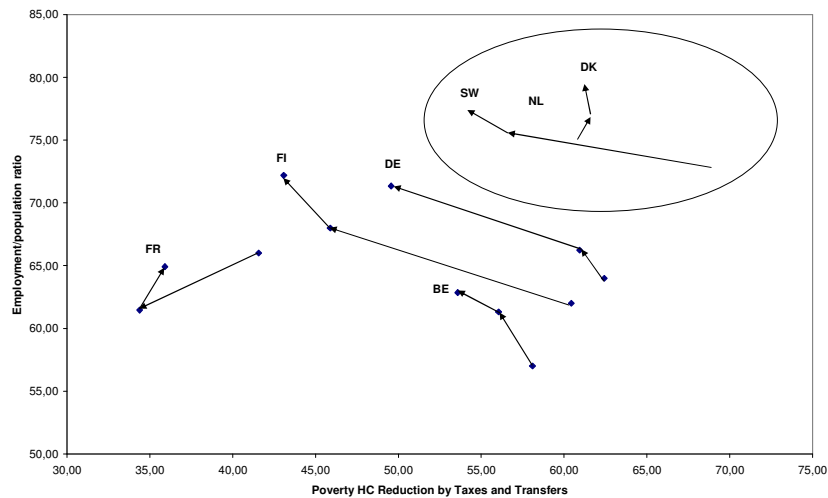
Figure 6. Distribution of households by work intensity, households with dependent children, age 18-64



Source: Eurostat.

The increasing at-risk-of-poverty among jobless households points at least in part to less adequate social protection for those who remained outside the labour force. This is confirmed by OECD figures on the reduction of income poverty through taxes and transfers in Finland, Sweden, Denmark, Germany, the Netherlands, Belgium and France between 1995 and 2005. The Netherlands and the Nordic welfare states seem to have outperformed the continental European countries throughout the entire period. However, particularly in Finland, Germany, Sweden and the Netherlands, the effectiveness of taxes and transfers seems to have been considerably and consistently reduced over time. Brandolini and Smeeding (2009), as well as Kenworthy (2008) and the OECD's *Growing Unequal* report reach similar conclusions.

Figure 7. Poverty head count reduction through taxes and transfers vs. employment ratio, 1995-2000-2005



Source: OECD, calculations by Koen Vleminckx.

The empirical data thus suggests that the discrepancy between employment growth and poverty trends can, at least partially, be explained by the fact that:

- rising employment benefited workless households only marginally;
- at-risk-of-poverty rates for households with low work intensity increased;
- poverty reduction through taxes and transfers decreased.

## ***2.2. Why did the distributional capacity of the pre-crisis welfare states decline?***

First, it should be noted that the consistency of the trends over time and the fact that certainly not only EU Member States were affected (OECD, 2009) point to common and structural developments in rich nations that started in the 1990s, i.e. well before the Lisbon Treaty. Hence the latter should certainly not bear all the blame.<sup>5</sup>

The Lisbon framework was embedded in the much broader notion of the social investment state or active welfare state, where investment in social policy plays a critical role as part of a virtuous circle combining adaptability, flexibility, security, and employability (European Commission, 2004). Recent literature refers to an 'activating', 'enabling' or 'developmental' welfare state, a 'new' social contract and a new social

<sup>5</sup> The OMC was arguably also too weak to expect a significant impact (Barbier, 2010).

agenda behind which we can discern a policy shift towards a 'social investment' agenda. Many authors have contributed to the analysis of the new social policy approach, which focuses on investment rather than on direct provision of economic maintenance, and on equal opportunities rather than on equality of outcomes (see among others Esping-Andersen, 2001; Gilbert, 2004 and Morel, Palier and Palme, 2009). This approach was evident in the Social Policy Agenda adopted by the European Union in 2000, which identifies as its guiding principle to strengthen the role of social policy as a productive factor. Social policy is thought to assist in the management of structural change while minimizing negative social consequences. Most Member States have experienced a shift in focus from passive social protection to activation and investment in education, more and better jobs and family-oriented services. There has been growing interest in social interventions in the fields of childcare, education and elderly care with a view to enhancing people's ability to work and to balance work and family life. Welfare states, designed to offer support against 'old social risks', have had to seek adequate responses to the new social risks (Taylor-Gooby, 2004; Bonoli, 2005; Hemerijck et al, 2010).

The concept of 'social investment' is however essentially ambiguous. Both Giddens's Third Way (Giddens, 1998) and the example of the Nordic countries, with high employment levels, generous social benefits and low poverty rates, constituted an important source of inspiration for the investment strategy. However, in Giddens's view, social investment strategies would come to replace traditional welfare strategies. Contra Giddens, in an analysis of the "New Welfare State" undertaken in preparation of the previous Belgian Presidency of the European Council, Esping-Andersen asserts: "The third way may be criticized for its unduly selective appropriation of social democratic policy. First, it has the tendency to believe that activation may substitute for conventional income maintenance guarantees. This may be regarded as naïve optimism, but, worse, it may also be counterproductive" (Esping-Anderson, 2002). In similar vein, Frank Vandenbroucke, Belgium's then Minister of Social Affairs, asserted in the same publication that the "idea that the 'social investment state' can replace much of traditional welfare state is unrealistic..." (Vandenbroucke, 2002).

However, the figures presented in the previous section suggest that the hypothesis of a shift from passive social protection to activation and investment has been more problematic than anticipated and is arguably partially responsible for disappointing poverty trends: by focusing one-sidedly on employment and growth, social spending has arguably become less adequate and less pro-poor.

### **2.2.1. Employment-related social spending is less redistributive**

As a percentage of GDP, overall social spending on the working-age population has remained high, although a slight increase in the first half of

the 2000s was followed by a somewhat more pronounced decrease after 2005. However, most countries have seen significant changes in the *structure* of public social expenditures. There has indeed been a notable decline in the ratio of transfers to overall social expenditures: statistics show an increase of the relative importance of 'new social spending' on childcare and other work-related aspects compared to traditional transfer payments" (Vaalavuo, 2011). Could this explain part of the declining distributional outcome of social policies?

Figure 8 compares poverty rates before and after benefits and taxes. This is the conventional way of looking at the distributional capacity of welfare states. However, this approach does not take into account spending on social services. Given the decline in the ratio of transfers to overall social expenditures, it misses a growing portion of the redistribution that is taking place in contemporary welfare states. Converting the use of services in household income is however very complex and requires a large amount of data (OECD, 2008). In broadening the scope of my reflection, I therefore necessarily take a fragmented approach, focusing specifically on child-care and other work-related spending. The key question is why at-risk-of-poverty has not decreased even though employment has risen and social spending has remained high.

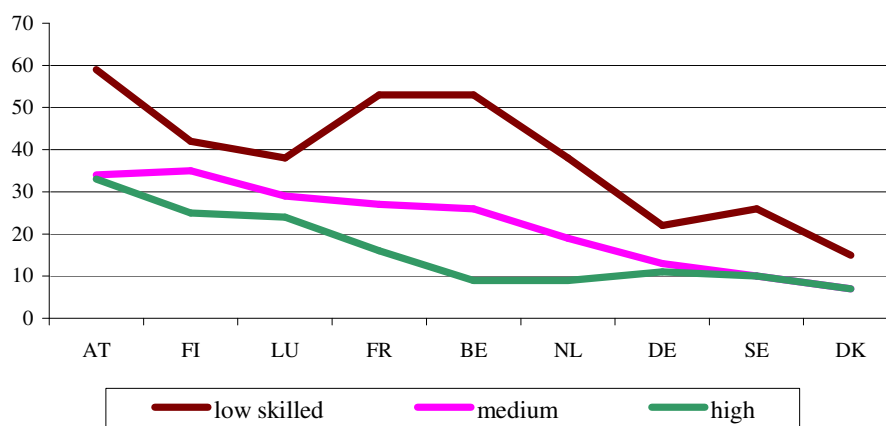
There are good reasons to assume that 'new policies budgets', more so than the traditional cash transfer, tend to flow to the higher income groups. First, because they make welfare states more service-oriented, and services are after all considered to be less redistributive than cash transfers. Esping-Andersen concluded on the basis of a recalculation of Marical *et al.*, 2006, 'that services are generally redistributive in an egalitarian direction, *albeit less so than are cash transfers*' (Esping-Andersen and Myles, 2009).

It is true that OECD sources report a strong equalising impact of services (Marical *et al.*, 2006; Vaalavuo, 2011). However, in reaching this conclusion, an insurance approach is adopted whereby social budgets are distributed on the basis of merely demographic characteristics of households. This approach is arguably useful for overall cross-country comparisons, but it clearly fails to take due account of the social stratification of social risks. When looking at the distributional impact of social programmes, this is evidently crucial.

This is especially true when it comes to work-related expenses. Taking childcare as an important example, the position of mothers in the labour market is clearly relevant, and, as it happens, this position appears to be strongly socially stratified. The lower the father's social class, the lower the daughter's educational level and participation in the labour market. This effect is reinforced by social homogamy: higher-skilled working women are often married to equally highly-skilled men and vice versa (Esping-Andersen, 2009). Public resources employed to facilitate the combination of work and family life (such as childcare or parental leave)

tend therefore to flow to higher income groups, mainly double-income families with better educational backgrounds and a higher earnings capacity (Ghysels and Van Lancker, 2009). From the figure below, it is particularly clear for all countries that mothers (and fathers) with a low educational level make significantly less use of formal child care because at least one of the parents is not working. This means that there is a considerable Matthew effect active in the distribution of the budgets for childcare: they tend to flow more to skilled double income families in the higher income bracket (Merton, 1968; Deleeck, 1983).

Figure 8. Own care through non-work differentiated according to the educational level in the rich egalitarian welfare states (Belgium, Denmark, Germany, Finland, France, Luxembourg, the Netherlands, Austria and Sweden)



Source: EU SILC 2007

To a greater or lesser extent, budgets for childcare thus have adverse distributional consequences: they tend to benefit the higher income groups more. Depending on the policy design and the social stratification of employment, one may similarly expect more or less adverse distributional impacts of other work-related social expenditures, such as in-work benefits, subsidies, tax credits, parental leave etc.

Here lies a first ambiguity of social investment strategies. If one wishes to increase labour force participation, then a policy is required that facilitates the combination of work and family life and, more generally, makes work more attractive. Obviously such a policy will first benefit those already participating in the labour process, but the underlying rationale is that others will follow suit. However, if job growth mainly converts single-earner families into dual-earner families, work-related social spending will tend to accrue to middle and higher income groups. This is especially true with regard to policies aiming to achieve a better work-family balance. So long as women's roles remain socially stratified and while there is no adequate support for those for whom the combination of work and family life is (temporarily) not an option (e.g. mothers and fathers of a disabled child, single mothers of difficult teenagers, unemployed, sick or disabled parents), the new-risk policy is bound to generate adverse distributional effects. Albeit to a much lesser degree, this is also the case in the

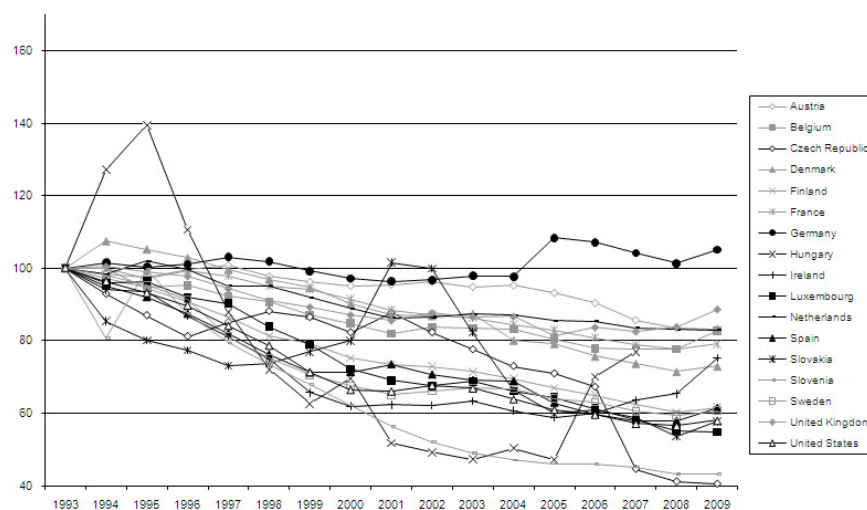


Scandinavian countries, the undisputed forerunners of the active welfare state.

### 2.2.2. Lower prioritization of social protection

Next we consider social assistance benefit levels in an attempt to assess evolutions in the generosity of traditional 'passive' income support.<sup>6</sup> It appears that, in the course of the 1990s, social assistance benefits for the working-age population lost ground in many countries. In the most developed welfare states in Europe, for instance, they decreased by 10 to 20 percent and by even more relative to average wages. The decline manifested itself not only in countries where the level of protection was initially relatively high (such as Sweden and the Netherlands), but also in those with relatively low benefit generosity (Belgium) (Van Mechelen et al., 2007). Following this general decline in the 1990s, during the Lisbon term some countries have actually succeeded in increasing social minimum incomes relative to average wages. This has been the case in Ireland, Germany, Belgium and the UK (Figure 9). This is pointing to the fact that the Lisbon Strategy was part of much broader and structural policy changes and should therefore not bear all the blame. However, with the exception of Germany, these increases have been insufficient to compensate for the previous declines.

Figure 9. The evolution in net disposable income of families\* on social assistance standardized for wage development in selected European countries, 1993-2009 (1993=100).



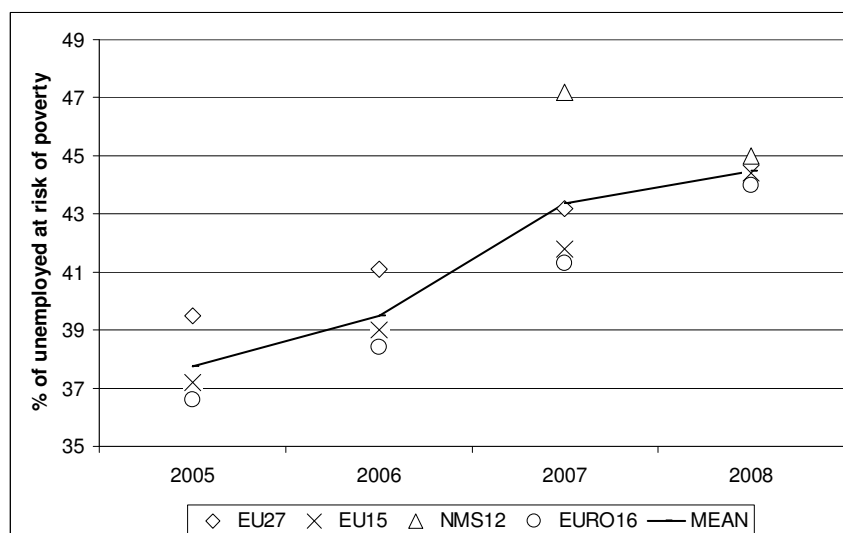
\* Average for single person household, lone parent with two children and couple with two children.

Source: Nelson, 2007 and 2008 (own calculations).

<sup>6</sup> Note the negative connotation of the notion 'passive income support': "The word 'active' speaks of the force of life's energy, whereas 'passive' suggest a state of mild depression" (Gilbert, 2005).

The generosity of social insurance benefits for the working-age population (especially unemployment benefits) has evolved similarly, but less sharply. According to OECD figures, between 2001 and 2008, average net replacement rates for the long-term unemployed and – albeit to a lesser extent – for persons at the initial stage of unemployment decreased in many countries. Moreover, many policy observers report a shift towards more means-testing (Weishaupt, 2010; Nelson, 2000). Although this may be also attributable to compositional changes, the dramatic increase in poverty among the unemployed is no surprise (Figure 10).

Figure 10. At-risk-of-poverty rates among unemployed (most frequent activity status) (threshold set at 60 percent of median income) in EU27, EU15, NMS12 and EURO16, 2005-2008



Source: Eurostat, based on EU-SILC (2004-2007).

Here we touch on a second ambiguity of the social investment strategy. The underlying idea was that growth, jobs and social cohesion are complementary goals. Contrary to Giddens's 'Third Way' as well as to some interpretations of the Lisbon Agenda, the investment state clearly does not succeed in evading political choices between growth, jobs, social protection and social cohesion (see also Atkinson, 2010).

As unemployment mostly affects the low skilled in the low-productivity sectors of the labour market, governments that want to reduce unemployment can rely on negative incentives (shorter duration of unemployment benefits, targeting, sanctioning...) and/or positive incentives (subsidies, tax credits, counseling, child care). Depending on the policy mix and design, the first-order effects of these policies are either higher public spending or more in-work poverty.

However, the EU indicators point neither to higher social expenditures on the working-age population nor to more in-work poverty. Instead, there are clear indications of decreasing benefit levels and increasing poverty among the unemployed. This supports Atkinson's thesis that policies have

sought to raise employment by reducing reservation wages (Atkinson, 2010: 13). Of course, people facing difficulties in finding their way to the labour market have been 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. On the other hand, 'activation' also implies the use of 'sticks', the fight against unemployment traps by lowering benefits and tightening eligibility criteria. Depending upon the design of the programmes, this has, to a greater or lesser extent, resulted in the financial exclusion of those who are not or cannot be activated. 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).

In 'The Trilemma of the Social Service Economy', Iversen and Wren argue that, as a consequence of the transition from an economy dominated by manufacturing production to one dominated by service production, modern welfare states are no longer capable of being successful in enhancing both employment and equality within a tight budgetary framework: "... governments and nations confront a three-way choice, or 'trilemma', between budgetary restraint, income inequality and employment growth. While it is possible to pursue two of these goals simultaneously, it has so far proved impossible to achieve all three. Private employment growth can be accomplished only at the cost of wage inequality. Therefore, if wage equality is a priority, employment growth can be generated only through employment in the public sector – at the cost of higher taxes or borrowing ..." (Iversen and Wren, 1998: 508). Iversen and Wren consider the relationship between wage inequality, service employment and changes in public outlays for wages as a proportion of GDP in Germany, the Netherlands, the US, Britain, Sweden and Denmark, leading them to identify three policy routes: "... countries dominated by social democrats display a commitment to equality and employment and a willingness to sacrifice budgetary restraint ... In the Christian democratic countries the goals of equality and budgetary restraint have assumed primary importance with visible costs in terms of employment growth. The neoliberal route rest on the free operation of markets and the associated outcome has been employment growth and budgetary restraint accompanied by increasing levels of inequality" (Iversen and Wren, 1998: 544).

It was not my intention to replicate Iversen and Wren's work: the focus in the present article is on post-transfer poverty trends, whereas Iversen and Wren's focus is on wage inequalities. However, the EU indicators suggest that welfare states have indeed been able to avoid the social service trilemma: social spending has been kept under control, wage inequalities have remained largely unchanged while employment has risen significantly. More empirical research is needed, but the trends in Europe do suggests that governments may have found a way out of the supposed

trilemma by lowering social protection for those who remain outside the labour market.

### **3. Active inclusion, social indicators and poverty targets: how to deal more adequately with ambiguities**

In the previous sections, I presented empirical evidence supporting the thesis that, in the recent past, priority has been given to growth and employment to the detriment of social protection. Arguably, this is the reason why poverty has remained high despite growth of income and jobs. The aim of the new active inclusion approach that has become key to the Social OMC since 2006 is to achieve a better balance between growth, jobs and social inclusion. In what follows, we consider this new concept and how the social indicators underpinning the social OMC and the new poverty reduction target deal with the ambiguities inherent in the Lisbon strategy.

#### **3.1. Active Inclusion**

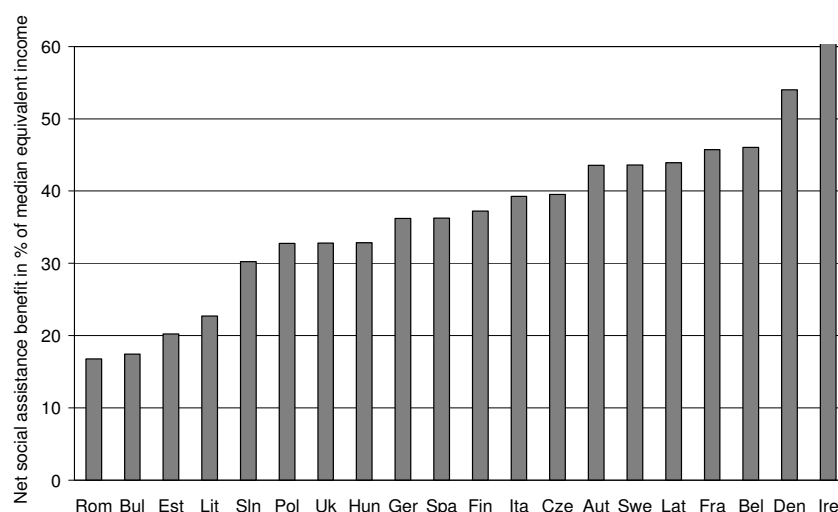
The aim of the active inclusion initiative is to encourage all Member States to design and implement policies that “should facilitate the integration into sustainable, quality employment of those who can work and provide resources which are sufficient to live in dignity, together with support for social participation for those who cannot” (European Commission, 2008). In a very good overview of EU reports on Active Inclusion, Frazer et al. (2010) identify five important reasons why active inclusion has become an important ingredient of the social OMC since 2006. All relate to the ambiguities discussed in the previous sections of this paper.

The most recent joint report on social protection and social inclusion stresses that “[b]alanced active inclusion strategies, combining adequate income support, access to the labour market and to social services, can reconcile the goals of fighting poverty, increasing labour market participation and enhancing efficiency of social spending” (Council, 2010). Although many countries have raised minimum benefits in the recent past, it is not certain whether, in practice, the new active inclusion approach is pushing governments towards a greater emphasis on social protection. Frazer et al. point to the fact that “in spite of the importance of ensuring an adequate minimum income for all, the minimum income pillar of the recommendation on active inclusion remains very underdeveloped. For instance, it is striking that in their 2008-2009 NAPs/inclusion most Member States did not prioritize the issue of an adequate income” (Frazer et al., 2010: 114).

Today, hardly any Member State provides minimum income benefits at levels sufficient to lift beneficiaries above the EU at-risk-of-poverty line (Figure 11). In twelve countries, benefit levels are lower than the austere

40 percent threshold. In only three countries do benefit levels exceed the 50 percent threshold.

Figure 11. The inadequacy of social benefits for single-person households, June 2009



Source: Herman Deleeck Centre for Social Policy (Van Mechelen et al., forthcoming).

The inadequacy of social (assistance) protection for the working-age population is amplified by the expansion of means-testing and by increasing conditionality. Weishaupt (2010) report a significant increase in means-tested benefit expenditures since the early 1990s despite a significant reduction in long-term unemployment. The importance of selective approaches to social protection has clearly increased in the past decades, particularly in relation to the unemployed. Moreover, access to social benefits for non-working able-bodied persons is becoming increasingly conditional on behavioural requirements, such as availability to work, job search activities and participation in insertion and integration programmes.

Access to adequate benefits is obviously important when faced with financial poverty. By far the most vulnerable groups in all welfare states are the non-employed of working age: poverty rates for workless households are particularly high in all countries, especially among those relying on the lowest social safety nets. Given the declining generosity of (minimum) income protection, the increase in poverty among the unemployed in almost all countries is not surprising (Figure 9). Of course, this evolution is driven not only by policy changes, but also by compositional shifts. Nonetheless, it is indicative of a widely neglected yet undeniably worrying trend.

Against the background of these data, it is clear that the recommendation to develop a 'road map on active inclusion from 2011' should be strongly endorsed. This would bring greater coordination and focus to the work on active inclusion and help to lift it onto a new level of effectiveness in the

coming period (Frazer et al., 2010: 134). Arguably, to be successful, a more balanced portfolio of social indicators is needed as well as a refining of the poverty reduction target, as will be discussed in the next sections.

### **3.2. Social indicators**

To help the Member States and the Commission in the monitoring of national and EU progress towards the EU common objectives in the area of social inclusion, the December 2001 Laeken European Council endorsed a first set of eighteen common indicators for social inclusion. These indicators were expected to be used by all the Member States in the NAPs/inclusion from 2003 onwards as well as in EU reporting on social inclusion.

The principles for the construction of the portfolio of indicators were laid down in a book on 'Social Indicators: The EU and Social Inclusion', published in the context of the new Lisbon process during the former Belgian Presidency (Atkinson et al., 2001). The first principle was "*that the portfolio of indicators should be balanced across different dimensions*" (Atkinson et al., 2001: 25)<sup>7</sup>. Three levels of indicators were proposed. Level 1 would consist of a restricted number of lead indicators (around ten) for income, work, education, health and housing. Level 2 would support these lead indicators, providing greater detail, and describing other dimensions of the problem at hand. Level 3 would consist in indicators that Member States themselves had decided to include in their National Action Plans. Not unimportantly, the social performance indicators were concerned with outputs rather than inputs: "the aim is to measure social outcomes, not the means by which they are achieved" (Atkinson et al., 2001: 20).

The SPC's "Report on indicators in the field of poverty and social exclusion" (SPC, 2001) adopted in Laeken in December 2001 set out the first set of common indicators. Since then, the indicators sub-group (ISG) of the social protection Committee, in conjunction with DG EMPL and EUROSTAT, has continued to work successfully on these common social inclusion indicators with a view to refining and consolidating the original set as well as to extending it (Marlier et al., 2007).

With the introduction of material deprivation, significant progress has been made in the construction of the indicator portfolio, while a number of input indicators measuring the effort of policy intervention were added to the initial list of pure output indicators. However, the question arises whether the extensions fully reflect the balance between growth, employment and social inclusion. An overarching indicator on overall replacement rates of pensions was introduced, but not an equivalent

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<sup>7</sup> The second principle was that the indicators should be mutually consistent and that the weight of single indicators in the portfolio should be proportionate; the third referred to transparency and accessibility.

indicator on the replacement rates of unemployment benefits and other benefits for the working-age population. An indicator on the adequacy of minimum benefit levels (by comparing these levels with the at-risk-of-poverty threshold) is lacking. In-work poverty is a primary overarching indicator, while poverty of the unemployed is merely a breakdown of the secondary social inclusion indicator 'at-risk-of-poverty by most frequent activity status'.

### **3.3. Poverty reduction target**

At their March 2010 meeting, the EU leaders agreed that a poverty reduction target ought to be set. In view of the ambiguities that have been discussed in the present paper, it is no great surprise that the target that has since been adopted is a compromise between various opinions. It is based on a combination of three indicators: the at-risk-of-poverty rate, the material deprivation rate and the percentage of people aged 0-59 who live in jobless households. The target consists in a reduction by 20 million of the number of people who are at-risk-of-poverty and/or materially deprived and/or living in jobless households.

The Europe 2020 social inclusion/poverty reduction target is thus defined along the lines of growth, jobs and social inclusion: material deprivation is consistently higher in the poorest countries of the Union. This suggests that a growth strategy is needed in order to reduce material deprivation. Clearly, a decrease in the number of jobless households supposes an effective employment policy. Given the concentration of poverty within the workless population, adequate employment strategies and adequate social protection are both important in order to reduce the number of people at-risk-of-poverty. However, to give Member States the choice between *either* material deprivation *or* jobless households *or* at-risk-of-poverty may again create room for a devaluation of the social protection policy strand by prioritizing growth and employment strategies. Of course, priorities and targets need not be entirely homogenous across the Union. A certain degree of flexibility is undoubtedly needed. However, as in the past, the actual definition will "not prevent national and regional governments and social partners from buying in selective bits and pieces", as Frank Vandenbroucke recently concluded in his more general assessment of the Lisbon strategy (Vandenbroucke, 2011).

## 4. Conclusion

More than half way through the European Year for Combating Poverty and Social Exclusion, on the eve of the elaboration of policies designed to help reach the Europe 2020 target of lifting 20 million people out of poverty, it is important to take stock of the outcomes of the Lisbon Agenda for growth, employment and social inclusion. The question arises why, despite growth of average incomes and employment, poverty rates have not gone down, but have either stabilized or even increased. In this paper, we have identified the following contributory trends.

First, rising employment has benefited workless households only marginally. Consequently, the number of job-rich households increased while the numbers of jobless households remained largely unchanged.

Second, time series show a relative decrease in the level of social benefits (especially in the 1990s) and a shift towards more means-testing. Few if any Member States provide minimum income benefits at levels sufficient to raise beneficiaries above the EU at-risk-of-poverty line. Not surprisingly, then, the EU indicators show a dramatic increase in poverty among the unemployed and workless households in almost all Member States. In Europe, the number of poor unemployed persons rose on average from 37 percent in 2005 to approximately 45 percent in 2008.

Third, social policies have become less pro-poor. Statistics show that, relative to traditional transfer payments, there has been an increase in so-called 'new social spending' on childcare and other arrangements aimed at making work pay. Work-related spending tends to be less pro-poor, although much depends on the social gradient of employment and on the policy designs.

This points to a profound ambiguity in the Lisbon strategy and its underlying investment paradigm. Growth, job creation and social cohesion were assumed not to conflict with one another. However, the empirical evidence presented in this paper shows that, *in practice*, this has not been the case. The focus on employment has contributed to decreasing benefit levels and tightening eligibility criteria for those who remain outside the labour market, while policies aiming at 'making work pay' have mostly benefited higher income groups.

Adequate social protection remains part and parcel of any policy intended to reduce the number of relative income poor. It is true that the notion of poverty should not be reduced to low income as measured by the 60 percent of median income threshold. However, although poverty is intrinsically multidimensional, living in at-risk-of-poverty remains – even in rich societies – a serious handicap for achieving success at school, on the labour market and in family life. If Europe wants to become the world's most cohesive knowledge-based economy, ready to face the threat



of ageing populations, it is therefore crucial that it should combat income poverty and maintain and improve its social protection levels.

Inevitably, the Lisbon Agenda referred to essentially ambiguous concepts such as poverty, social inclusion and social investment. However, it seems that the Open Method of Co-ordination and the underlying portfolio of social indicators has failed to deal with this in an entirely balanced way. In fact, the indicator portfolio as it stands today does not fully reflect the ambiguity of the poverty/social inclusion concept. There is an overarching indicator on overall replacement rates of pensions, but no equivalent indicator on the replacement rates of other benefits. An indicator on the relationship between minimum benefits and the poverty thresholds is also lacking. In-work poverty is a primary overarching indicator, while poverty of the unemployed is merely a breakdown of the secondary social inclusion indicator 'at-risk-of-poverty by most frequent activity status'. The Europe 2020 social inclusion/poverty reduction target is defined in terms of people who are at risk of poverty and/or materially deprived and/or living in households with low work intensity. This may again create room for a devaluation of the social protection policy strand by allowing a prioritization of growth and employment strategies.

The EU 2020 Agenda must take stock of the failures of the Lisbon strategy. A 'disambiguation' is needed of the social indicators underpinning the Open Method of Coordination. This might be achieved by means of: a) an extension of the overarching indicator on pension replacement rates to other social benefits; b) a new overarching indicator on minimum benefits as a percentage of the poverty threshold; c) a new overarching indicator on poverty of the non-employed. Moreover, the poverty reduction target should be re-defined in such a way that Member States are compelled to make progress in reducing the number of people who are at-risk-of-poverty *and* materially deprived *and* living in households with low work intensity.

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