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ABSTRACT

Poverty reduction rests on the mechanisms of horizontal and vertical solidarity and on prevention and repair of social risks. In this contribution, we argue that in contemporary welfare states the poverty-reducing capacity of existing social security systems perceive inherent limitations. Focusing on Belgium, we present and discuss empirical indications of a persistent (over a period of at least 30 years) decline in poverty reduction through social transfers, particularly among households who are highly dependent on such transfers. Firstly, we show that prevention and repair have failed to contribute to a reduction in the proportion of work-poor households who are highly dependent upon social security and face a high (rising even) poverty risk. Secondly, we find that that given the fragmentation of social risks – in terms of both ex-post poverty outcomes and ex-ante social stratification – horizontal redistributive mechanisms through risk pooling have become less obvious, especially in respect of unemployment. Thirdly, it appears that the mechanisms of vertical solidarity also face inherent limitations. In a final section we summarize some important research questions for the future and potentially worthwhile policy avenues to resolve the question of how social policymaking might succeed in the future where it has failed in the past.

Keywords: active welfare state, welfare state restructuring, social spending, cash benefits, at-risk-of-poverty rate, poverty reduction, work poor households

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"A gap is not the same thing as a crack, my boy. Gaps are part of nature, part of the way things are. (…) A crack is a break in the order of nature."
(J.M. Coetzee, The Childhood of Jesus, 2013, p. 176)

1. Introduction

The most significant observation in the past forty years of poverty research is that developed welfare states are no longer succeeding in reducing income poverty among the working-age population despite employment growth, persistently high levels of social spending and steady, though somewhat slower, economic growth[1]. Relative to the poverty thresholds, minimum income protection for families in an active life phase is now less adequate than it was in the 1990s. Not surprisingly, poverty among households that are highly dependent on social benefits would also appear to be on the increase, a trend that first manifested itself in the 1980s and that continues to this day. This raises the question of how social policymaking, despite bleak overall prospects, might succeed in the future where it has failed in the recent past. However one approaches this question, clearly it touches on the very functioning of social security systems. Although poverty alleviation is neither the principal nor the primary purpose of social security, there is no denying that it is among the most potent poverty-reducing redistributive tools at welfare states' disposal. Hence the question of how to deploy this tool more efficiently features quite prominently on academic research agendas as well as in regional, national and international policy discourse. However, in this contribution, we argue that the poverty-reducing capacity of existing social security systems perceive inherent limitations. While social security undoubtedly is and must remain a very important tool in combating poverty, and while efforts must continue to improve its adequacy and efficiency, this limitation calls for a critical reflection on the validity of the underlying policy paradigm.

[1] OECD, 2008, 2011; Brandolini and Smeeding, 2009; Banting and Myles, 2013; Jenkins, Brandolini et al., 2013; Kenworthy, 2011; Cantillon, 2011; Cantillon and Vandenbroucke, 2014.

2. Poverty and social security: A matter of pre-distribution[2] and redistribution

Social security systems are geared first and foremost to (more or less) maintaining acquired living standards in the presence of societally recognised social risks such as unemployment, illness and old age. Hence their purpose is to ensure that all working people and their families are adequately protected against excessive income loss in the case of ill-health, job loss or retirement, and thereby to safeguard society as a whole against instability in the event of unexpected economic or social shocks. The principal toolset is modelled after private insurance: in return for a financial contribution to the system, the insured are entitled to certain benefit levels when affected by a covered risk. In the case of social security systems, however, the insurance principle is complemented (to varying degrees) with the principle of solidarity.

First, unlike in private insurance, there is no linkage of risk and contribution levels: ex-ante high-risk groups pay the same contributions as ex-ante low-risk groups. In the case of unemployment or work incapacity, for example, the higher-skilled pay the same proportional contributions as the low-skilled, even though their actuarial risk is much smaller. And in health insurance, a healthy 25-year-old pays the same as a 75-year-old heart patient. This way, social security systems offer an element of *horizontal* solidarity (from low-risk to high-risk groups) that is much stronger than under ordinary insurance schemes. Second, social security systems incorporate techniques to provide adequate protection for those whose earned income and/or working careers have not enabled them to accumulate sufficient entitlement rights: uncapped proportional contributions on wages are for example combined with a system of minimum and maximum benefits; some benefits are adjusted for household composition; long-term unemployed parents are entitled to higher child benefits, and legal pension entitlements are also accumulated during (equivalised) periods of unemployment and work incapacity. These (and other) techniques provide an element of *vertical* solidarity from higher to lower incomes.

Horizontal and vertical redistributive mechanisms[3] serve the two traditional goals of social security systems, i.e. to ensure (up to a certain level) that *acquired living standards* are maintained on the one hand and to provide adequate minimum income protection on the other. Between these two goals, there are inherent tensions. Systems that are geared strongly towards protecting acquired living standards according to an

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2 Hacker, 2011.

3 We use the term 'mechanisms' in order to distinguish with horizontal and vertical redistribution as 'outcomes'. As will be discussed in due course, horizontal redistributive mechanisms can lead to vertical redistribution and vice versa.

actuarial logic will be less concerned with vertical income redistribution, which then becomes a matter of taxation and social assistance schemes. Conversely, systems that put minimum income protection first will provide fewer guarantees of maintaining the acquired living standard of higher earners, leaving this aspect largely to private insurers.
More recently, and increasingly emphatically since the second half of the 1990s, social security has been assigned a third objective, i.e. social risk *prevention*, primarily through labour market integration. Although social security systems, like private insurance schemes, have always necessitated accompanying measures in order to deal with 'moral hazard' and system abuse (e.g. the former Belgian system of unemployment benefit cards), 'prevention' is increasingly evolving from a purely supportive social security function to a *social security objective in its own right*. Social security systems are thus deployed as a means not just of damage compensation, but also damage prevention and repair. In the European jargon, the combined goal of income guarantee and prevention is captured by the phrase 'active inclusion'. With this, a second tension manifests itself in the goals of social security, namely between decommodification (i.e. breaking individuals' dependency on the labour market by the provision of social protection) and recommodification (i.e. the reverse process, at least to the extent that the requirement of greater economic self-reliance is imposed through lower or less accessible benefits).

So how does poverty alleviation fit into the above(-)mentioned objectives and *modi operandi* of social security systems? First and foremost, it should be noted that combating poverty is not just about vertical redistribution. Although vertical solidarity – particularly guaranteeing a minimum income to low-income households that have accumulated insufficient social rights – is obviously an important operational principle for reducing poverty, *the poverty reducing capacity of social security systems depends partly (primarily, even, in some branches) on means of horizontal redistribution, prevention and repair*. The rationale of the underlying policy paradigm goes as follows: a) poverty situations are best prevented through universal risk sharing (by means of horizontal redistributive mechanisms); b) in addition, mechanisms of vertical solidarity can ensure adequate social protection for those who have contributed insufficiently to the risk-pooling system; c) the notion of universal risk sharing also provides the necessary legitimacy among higher-income categories for them to be willing to contribute to vertical redistribution schemes; d) prevention and repair will reduce the number of needy families, thereby releasing resources for enhancing responses to old and new needs through horizontal and vertical redistribution (see figure 1).

Figure 1. Combating poverty through social security.

Central to the social security paradigm is the notion of horizontal redistribution from ex-ante lower-risk groups to ex-ante higher-risk groups. Under Belgium's child benefit system, for example, just 6% of the overall expenditure mass is distributed in accordance with the kind of selective criteria that are characteristic of vertical redistribution (i.e. increased child benefit for long-term benefit claimants and lone-parent households). Thus, the reduction in child poverty through child benefits (which is quite sizeable; see among others Cantillon et al., 2013 and Vandenbroucke, 2013) is only marginally accounted for by mechanisms of vertical solidarity and selectivity. It is achieved mainly through the mechanism of general horizontal redistribution between families with and without children. The *extent* to which horizontal solidarity reduces poverty depends on the ex-post distribution of social risks or, put differently, on the connection between realised risks and needs. For example, as low-income groups face higher risks of illness and unemployment than higher-income groups, the horizontal solidarity implied in these social insurance systems also effectuates vertical redistribution from rich to poor. Due to the close association between risk and need (as measured at household level), these insurance schemes have a greater poverty-reducing impact than, say, career break benefits, which are typically claimed by members of dual-earner households in the higher income brackets.

Horizontal redistribution is founded on the notion of 'considered self-interest': every individual contributes to a system of collective risk-spreading. On the strength of theoretical and empirical insights (including Korpi and Palme's influential – though recently contested – theory of the ‘paradox of redistribution’[4]), it is often assumed that this approach provides a) a quality of protection that meets the expectations of a broad middle class (in line with the adage that ‘services for the poor become poor services’) and b) a level of legitimacy whereby middle and high-income groups are prepared to contribute to the system, including to elements explicitly aiming to achieve ‘unconditional’ vertical solidarity (e.g. minimum benefits requiring no proportional contributions).

These means of vertical redistribution – from high to low incomes – are intended to ensure that insurance remains affordable for high-risk and low-income groups and that the level of protection offered is adequate for insured persons who have contributed insufficiently to the system. The effectiveness of vertical redistribution mechanisms in reducing poverty depends to a considerable extent on the selection criteria applied. These largely determine a) the take up of benefits (the more complex and stigmatising the administrative requirements for claimants, the lower the actual take up of selective benefits), b) whether or not unemployment traps present themselves (e.g. by providing minimum benefits that approximate too closely to the lowest wages in the labour market, which can in turn induce further neediness) and c) the extent to which selectivity actually contributes to adequate protection levels for the most needy households (categorical selectivity is, for example, less effective in this respect than income selectivity, at least if social security operators possess sufficiently accurate and up-to-date information on incomes).

The link between prevention and poverty reduction, finally, depends on a) the approach taken (e.g. too strong a focus on keeping benefits low in order to make work pay can induce poverty) and b) the success ratio of these approaches, particularly in respect of reducing the number of households with low work intensity and typically low household income and high poverty rates.

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4 See Kenworthy, 2011; Whiteford, 2008; Marx et al., 2013.

Table 1. Poverty reduction, techniques and objectives of social security.

Techniques Objectives	Instruments	Expected impact	Draw backs
Horizontal redistribution: guaranteed standard of living	-equivalence of contributions/benefits -no linkage of risk and contribution	Dependent on linkage of risk (ex post) and need	Budgetary burden
Vertical redistribution: Ensuring adequate minimum income protection	-minimums/maximums -uncapped proportional contributions on wages -household modulation -taxation -means-testing	Dependent on: -effectiveness of the design -take up -generosity of minimum benefits -impact on unemployment traps	- not always gender-neutral -unemployment traps -legitimacy to higher- income groups
Prevention and repair:	-carrots: general or selective reduction of contributions; care leave; education and training; -sticks: monitoring, punitive measures, low and/or degressive benefits	Dependent on success of active labour-market policy for households with low(er) work intensity	-costprice -job availability

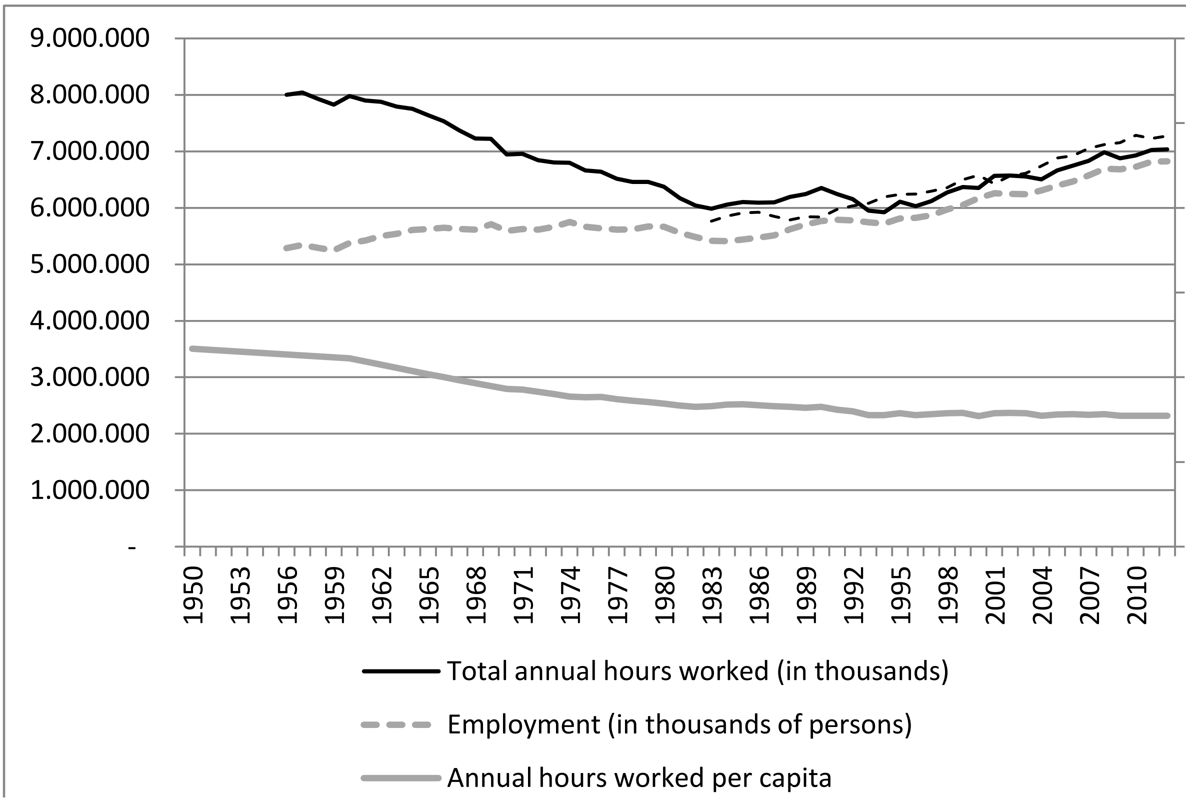
3. Social security as a flexible buffer against the tide of change in the labour market: Recalibration of goals and operational principles

In the 1970s, social security sailed into choppy waters, as the system began to feel the full impact of a series of momentous social, economic and demographic evolutions that would result in a profound shift in the scale, the nature and the spread of social risks. We refer to the accelerated switch from industry to services, the slow movement of the baby-boom generation through the active life phase, the growing labour market participation of women, and the individualisation and destabilisation of households.

First and foremost, there was the emergence of so-called '*new social risks*' (Rosanvallon, 1995; Bonoli, 2005; Taylor-Gooby, 2004) such as long-term unemployment, the combination of work and family, the inadequacy of single incomes in a dual-earner society, and rising divorce rates. Compared with the traditionally recognised social risks, *these new risks fit less easily into an insurance logic*: the risk of long-term unemployment, for example, is highly predictable, as it is statistically strongly correlated with educational level. Generally speaking, the distinction between 'risk', choice and behaviour is far less clear-cut for new risks than for old ones (cf. the risk of widowhood vs. the risk of divorce), while there is a more pronounced social fragmentation of risks in terms of both ex-ante social stratification and ex-post poverty (some risks, such as being low-skilled or unemployment, are ex-ante strongly concentrated in lower social groups at the bottom end of the income ladder and they are strongly correlated with ex-post poverty; other risks, such as the combination of work and family, tend to affect mostly dual-income households in the higher income categories of society and they are correlated far less strongly with ex-post poverty).

Second, the growth of the labour force would result in a significant structural imbalance in the labour market. In Belgium, the labour force grew from 3,800,000 in the early 1970s to 4,200,000 by the mid-1990s to 4,800,000 today. Welfare states in general (and Belgium in particular) were finding it hard to achieve anything near full employment. Although employment rates and the total labour volume (expressed in annual hours worked) have gradually increased since the second half of the 1980s, this increase has remained structurally insufficient in order for the previously lost ground to be made up (see figure 2). Especially the low-skilled and newcomers are finding it harder to fit into an economy that is increasingly geared towards individual creativity, knowledge and social skills.

Figure 2. The labour force, the employed and number of hours worked, Belgium, 1950-2012.



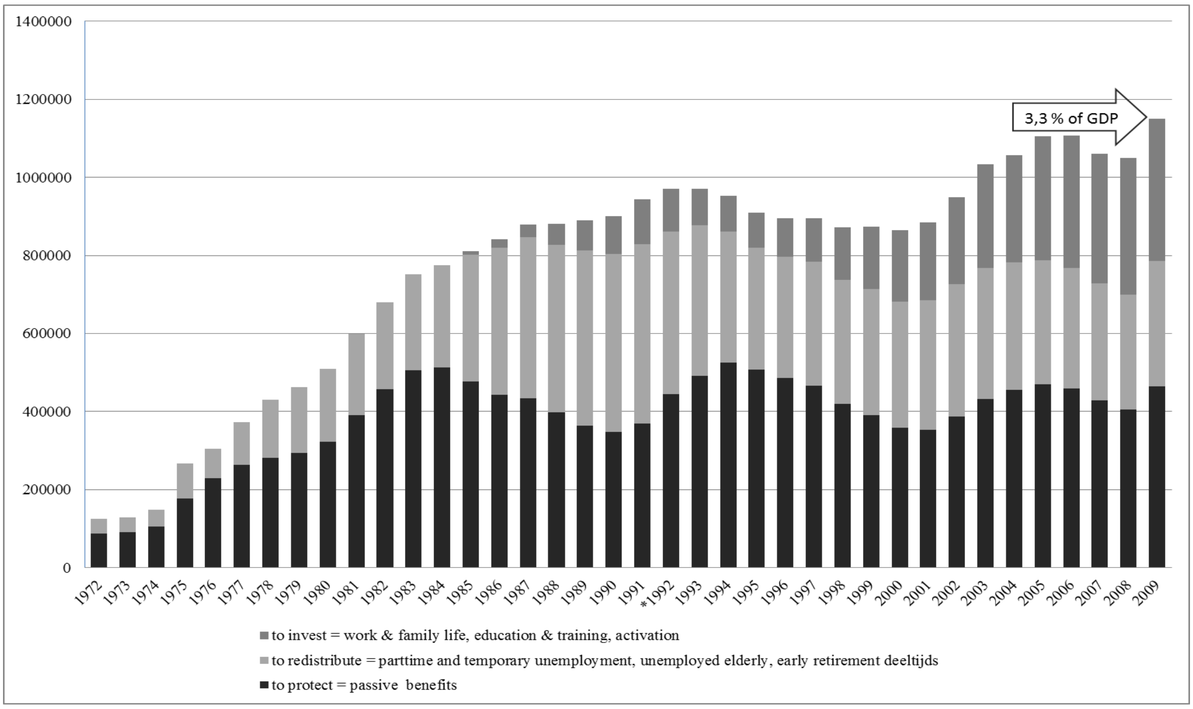
Source: Total Economy Database, The Conference Board & Groningen Growth and Development Centre, January 2008, http://www.conference-board.org/economics/; Labour Force: Labour Force Survey.

Figure 3 shows the concomitant changes in unemployment case load. In the 1970s, the initial response to strong unemployment growth was to provide passive benefits (the bottom sections of the bars in the chart below), followed increasingly by labour redistribution (especially from the old to the young through early retirement schemes; cf. the middle sections in the same bar chart) and subsidised employment by the government (e.g. traineeships, BTK, DAC …). In 1985, the proportion of benefit-entitled unemployed had risen to over 600,000 while the number of early retirees and unemployed persons in job programmes had exceeded 270,000. The number of clients of the national employment agency RVA now stood at around 877,000 (about a quarter of the labour force), a figure that would remain strikingly stable in the following decades. The associated price-tag was high: dependency rates, and thus spending, grew spectacularly. Under the employees' scheme, the ratio between benefit claimants and those in work rose from 44% in the mid-1970s to over 100% in 1985 (Cantillon, 1993). Expressed as a percentage of GDP, public social spending rose from 23.4% in 1970 to 35.9% in 1980[5]. As the coverage rate of social contributions declined rapidly (from around 77% of expenditures in the early 1970s to just 64% by the end of the decade) government was increasingly required to make up the shortfall. In other words, the imbalance in the labour market was translated directly into a public finance imbalance.

From the second half of the 1980s, social security was reformed in an effort to reduce public debt: the funding method was adjusted (contributions caps were abolished and social contributions on wages were reduced and partly replaced with consumer taxes); benefit amounts were not adjusted to the general rise in living standards (see below) which was partly compensated for by greater selectivity to the benefit of low-income households (primarily through adjustments for household composition) while new types of benefit were beginning to take shape, mainly with a view to facilitating the combination of work and family (e.g. the introduction of a career break scheme, which would subsequently be further expanded). Benefit dependency and the cost of social security stabilised at a high level, but spending growth had been curbed and government funding decreased.

[5] By way of comparison: in the 1960s, spending increased 18.4% in 1960 to 21.2% in 1965 and to 23.4% by 1970.

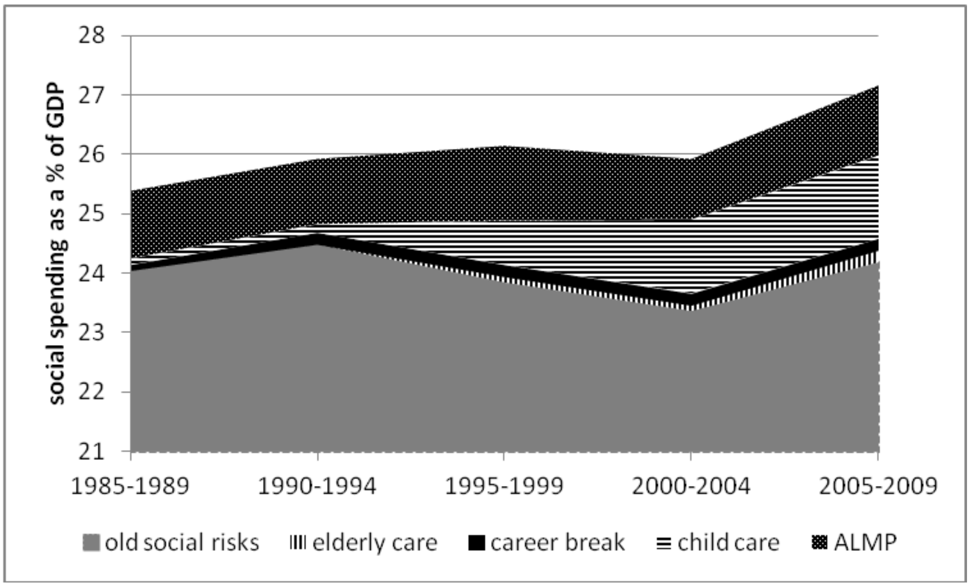
Figure 3. Number of persons receiving support from the national employment agency RVA (functional distribution), Belgium, 1972-2009.



Source: RVA annual reports, processed by CSB.

In order to cope with the persistent imbalance in the labour market, from the second half of the 1990s, a new dimension was added to the policy toolset: increasingly, the focus was shifted to an active labour market approach, characterised by job training and mediation. Figure 3 visualises the growing number of RVA clients under activation-based schemes (see the upper sections in the bar chart). During this period, the strategy of selectivity was largely abandoned, partly out of necessity, as an insurance system only allows a degree of income selectivity, and because selectivity based on household composition was considered to be a disincentive for female labour participation and a source of unemployment traps. Henceforth, much of the cost-savings would proceed in linear fashion, more specifically by not adjusting benefits to welfare growth. At the same time, greater emphasis was placed on notions such as ‘active inclusion’, activation and prevention: inactivity traps were tackled (by increasing net minimum wages through selective and/or general contributions reductions combined with a freeze of benefit amounts); stricter controls and punitive measures were implemented; employment rates were boosted by facilitating the combination of work and family through career break schemes, while low-productive household chores were increasingly subsidised through new social security programmes (first under the local employment agency scheme, subsequently under the very successful but expensive service voucher scheme). With employment rates rising, the burden of social spending decreased, which created room for pending on healthcare, pensions and new needs, especially childcare (see figure 4).

Figure 4. Social spending as a percentage of GDP (functional distribution), Belgium, 1985-2009.



* Spending on 'old' social risks is comprised mainly of healthcare spending, pensions, unemployment benefits, sickness and disability benefits, and child benefits.

Source: Meeusen and Nys (2014).

In conclusion, one could say that social security not only proved to be an effective buffer against the impact of successive crises and a severe and persistent imbalance in the labour market, but that it also succeeded in adapting itself to thoroughly changed circumstances, the emergence of new needs and changing norms and values in society. Gradually, a recalibration took place of the balance between the three previously described methods of social security. *Particularly in the 1980s, the vertical redistributive component was enhanced*: the distance between minimum and maximum benefits was reduced; household modulation meant benefits for multiple-income households were reduced, while on the contributions side funding was made more progressive by abandoning wage caps on the one hand and reducing social contributions on low wages on the other. The *social* aspect of insurance and the vertical redistributive dimension were given greater weight. Subsequently, *in the 1990s and 2000s*, the policy focus shifted towards more linear cost savings (primarily by severing the link between benefit amounts and welfare growth) and towards *prevention and repair* through labour market (re)integration, while the new social risk posed by the combination of work and family was addressed by the introduction of new horizontal redistributive systems and by subsidizing housework activities through social security.

4. The poverty-reducing capacity of social security under growing pressure

Given the previously described trends, the question arises: how has the actual *overall* poverty-reducing capacity of the social security system evolved? Earlier studies have found that, during the 1980s and up to the mid-1990s, poverty among work-poor households increased, suggesting that the effectiveness of social protection declined for the most social security-dependent. A 1999 study of changes in poverty and social security effectiveness in the period 1985-1997 found that the most significant increases in poverty had occurred among traditional high-risk categories, such as immigrants, the unemployed and households with incapacitated or low-skilled heads, single-income households and renters. At the same time, it found little evidence of change among low-risk groups. Among those in work and multiple-income households, the already very low poverty risk had actually further declined. On this basis, it was argued that the empirical evidence is suggestive of an even sharper division between households with an income from work and households on benefits, and that the effectiveness of replacement incomes for benefit claimants of active age declined, particularly insofar as unemployment benefit is concerned (Cantillon et al., 1999).

Table 2 analyses the trends in the subsequent period, i.e. the economically favourable years during the second half of the 1990s and the first half of the 2000s, up to the present crisis[6]. The focus is still on the population of active age. The findings point at a continuation of the trend observed in the 1980s and 1990s. In both eras of boom, absolute poverty reduction through social transfers declined. Pre-transfer poverty (i.e. poverty calculated on the basis of household income without social transfers) dropped through rising employment, but in consequence of a decline in the poverty-reducing capacity of the social security system, this favourable evolution did not result in declining poverty figures. Given that the evolution in pre-transfer poverty is strongly correlated with changes in the labour market, particularly the share of work-poor households (Vandenbroucke and Diris, 2014; Cantillon et al., 2012), the indications are that the social security system failed to translate improved labour market conditions into improved poverty rates. Insofar as employment growth was induced by less adequate protection for the unemployed and their families, the two trends are actually inherently connected. For that matter, Belgium is not the only country where this was the case: as we

[6] The post-transfer poverty risk measures the proportion of individuals living with a standardised household income under the poverty line (60% of the median standardised household income). The pre-transfer poverty risk measures the same, but based on household incomes excluding social benefits (i.e. without unemployment benefits, sickness and incapacity benefits, social assistance, family allowances and housing allowances). The difference between pre- and post-transfer poverty measures the absolute poverty reduction through social transfers.

have reported elsewhere, other countries experienced similar evolutions. (Cantillon and Vandenbroucke, 2014).

Table 2. Evolutions in poverty risks (post and pre-transfer) and the poverty-reducing capacity of social benefits by household work intensity (WI), population aged 20-59, Belgium, 1994-2000 and 2004-2007.

	Post-transfer poverty risk			Pre-transfer poverty risk			Absolute poverty reduction through social benefits		
	1994-2000	2004-2007	2007	1994-2000	2004-2007	2007	1994-2000	2004-2007	2007
	ppn	ppn	%	ppn	ppn	%	ppn	ppn	%
Total	-3.0 ***	-0.1	11.2	-8.0 ***	-1.2	22.8	-5.1	-1.3	12.6
Work-poor (WI <0.5)	-0.8	4.7 **	42.2	-2.9	-0.3	80.5	-2.1	-5.0 **	38.3
Work-rich (0.5>=WI>=1)	-1.40	0.2	4.7	-4.9 ***	0.9	11.9	-3.5	0.7	7.2

***, ** and *: significant with a reliability of respectively 95%, 90% and 85%

Source: Own calculations based on ECHP (1995-2001), EU-SILC (2005-2008)

Indeed, there is empirical evidence to suggest that employment growth went hand in hand with and was probably partly induced by downward pressure on the protection level enjoyed by work-poor households. A 40% poverty risk among work-poor household is particularly high. Moreover, a further significant increase was recorded during the years prior to the crisis. Belgium's social protection system continues to succeed in substantially reducing poverty levels among the work-poor population – from 80% before social transfers to just over 40% after social transfers. However, particularly between 2004 and 2007, the degree of absolute poverty reduction dropped quite strongly. *Work-rich households* on the other hand faced a much lower poverty risk than work-poor households, and this figure remained fairly stable.

So our observations for the 2000s are very similar to evolutions reported for the 1980s and 1990s: the poverty-reducing capacity of the social security system has generally declined and work-poor households have been worse affected than work-rich(er) households. Similar (though not simultaneous) trends are observed in countries such as Sweden, The Netherlands, Finland and Denmark (Cantillon et al., 2013; Vandenbroucke and Diris, 2014). The persistence of the observed decline in the poverty-reducing capacity of the social security system for households of active age provides a strong indication of inherent problems with the very redistribution paradigm on which it rests.

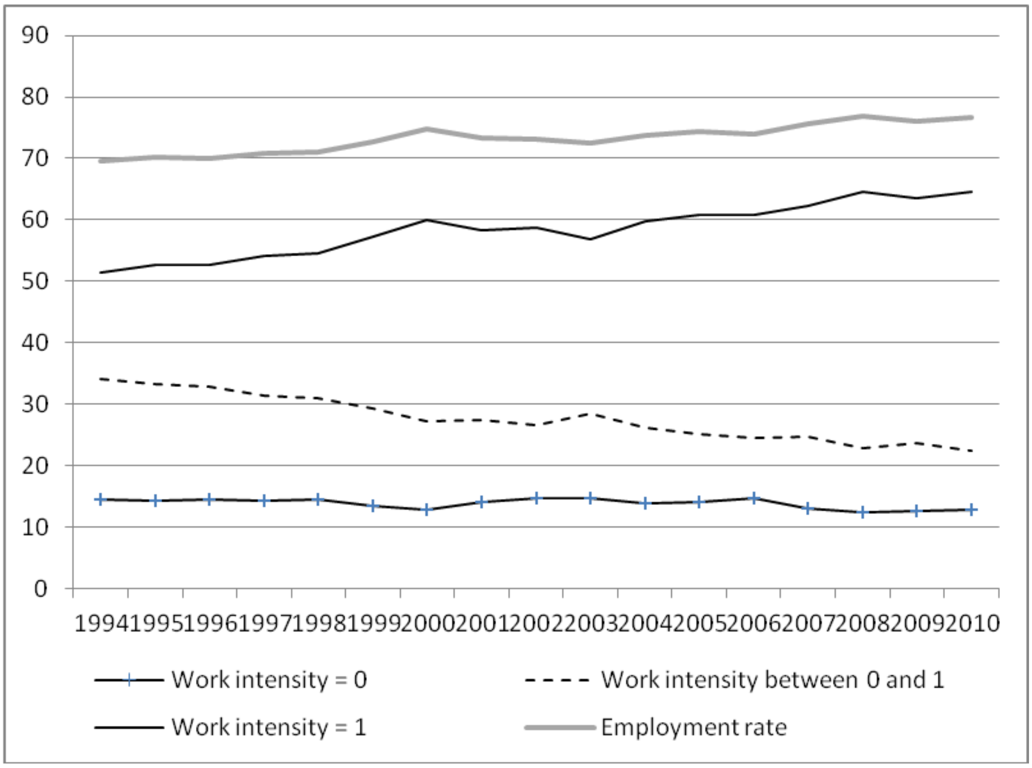
5. Back to the policy paradigm

As explained in the first section of this contribution, poverty reduction through social security rests on the mutually enhancing mechanisms of horizontal and vertical solidarity and on tools for avoiding benefit dependency (prevention and repair). The persistent (over a period of at least 30 years) decline in poverty reduction through social transfers, particularly among households who are highly dependent on such transfers, raises questions about the validity of this policy paradigm in today's matured welfare states. Prevention and repair have failed to contribute to a reduction in the proportion of work-poor households who are highly dependent upon social security and face a high (rising even) poverty risk. They have moreover exerted negative pressure on minimum income protection. Given the fragmentation of social risks – in terms of both ex-post poverty outcomes and ex-ante social stratification (see supra) – horizontal redistributive mechanisms through risk pooling have become less obvious, especially in respect of unemployment. The mechanisms of vertical solidarity, whereby social protection must be made sufficiently adequate for those who have been unable to contribute enough to the system, appears also to have inherent limitations.

a) Prevention and repair have failed to reduce the proportion of work-poor households

While the enhancement of the preventative and remediative functions of the social security system may have led to employment growth, such initiatives clearly failed to reduce the proportion of work-poor households. The proportion of work-rich households – where the full labour potential is deployed, i.e. where all members of active age hold a paid job – increased significantly, yet work-poor households (where just a small proportion of the work potential is deployed) participated far less in this job growth. This phenomenon, which is referred to in the literature as the 'polarisation in the labour market', is visualised in Figure 5 (see Corluy and Vandenbroucke, 2014). It should be noted here that the work intensity of household is highly socially stratified. Work-poor households typically have a weak social profile: they tend to consist of individuals with low-skilled parents working in lower-paid jobs and who are often low-skilled themselves (Pintelon, Cantillon, 2013; Corluy and Vandenbroucke, 2014). They are quite often unemployed or incapacitated and, increasingly commonly, (relative) newcomers (Corluy and Vandenbroucke, 2014). This discrepancy goes hand in hand with unequal opportunities in the labour market, with diminishing household size and with differences in terms of women's emancipation (low-skilled women in general and women from foreign backgrounds in particular tend to lag behind when it comes to economic empowerment). The close association between educational level and social segregation of work-poverty at household level imply that this is a very selective and statistically predictable risk that is consequently hard to insure against. After all, insurance only works for aleatory risks that are spread sufficiently broadly across the insured population.

Figure 5. Evolution of individual activity rates and of the proportion of work-poor and work-rich(er) households, Belgium, 1994-2010.



Source: Labour force survey, processed by Vincent Corluy

b) Inadequate minimum protection for work-poor households has further eroded

Table 3 shows the evolution of minimum benefit amounts for household heads under respectively the social assistance, unemployment and disability schemes relative to per capita net national income (NNI), the gross wage mass in full time equivalents (FTEs) (hereinafter: gross average wages) and gross minimum wages. Comparison of the evolution of benefits with the evolution of NNI provides a tentative indication of the extent to which the social minimums have kept up with improvements in the general standard of living. However, three caveats are in place in here. First, NNI allows no correction for household composition and, consequently, neither for possible changes to the size of the benefits of scale that income pooling at household level offers in terms of consumption. Second, income from capital constitutes a substantial component of per capita national income. Its share in NI increased particularly strongly in the 1980s (see among others Van Rompuy, 2010). Ultimately, income from capital flows to private households, even if the initial beneficiary is an institutional entity (e.g. a private company). However, we know that assets, and hence income from assets, are distributed unequally among the population. Therefore, to assign this income proportionally on a per capita base is a considerable oversimplification. For this reason NNI is a rather weak indicator of the evolution of living standards at household level. A third caveat, and one of great relevance to our argument, is that NNI evolves with average wages and with employment levels. Although both factors impact on the average standard of living enjoyed by households (i.e. if growing employment results in more dual-income households, then the average standard of living increases even if average wages remain the same), NNI as a benchmark for the evolution of individual social benefits must be interpreted with some circumspection. For all of the above reasons, the comparison of social minimums with NNI is highly tentative.

So what *does* such comparison tell us? In the second half of the 1980s and during the 1990s, minimum social benefits for household heads lost substantial ground on NNI, lagging behind by no less than 22% in the case of disability benefits, by 24% in the case of unemployment benefits, and by 17% in the case of social assistance benefits. Only during the 2005-2009 period did disability benefits and the living wage catch up slightly (respectively 5% and 1%).

Next, in order to gain a better understanding of the significance of these trends, we consider the evolution of gross average wages in terms of full time equivalents (hereinafter: gross average wages). The average gross wage that we use here was calculated on the basis of national social security data regarding total gross wage mass and days/hours worked in terms of FTEs. Before 2000 the notion of FTEs took into account only the ratio of the number of days worked and the total of days that the person could, in theory, have worked. Since 2001 FTEs also consider the share of average hours worked per day vis-à-vis the full number of hours. This measure is more compatible than NNI with the fairness principle underlying the social security paradigm, according to which the income of wage earners and benefit recipients should grow at the same pace. Again, though, there is an important caveat. The evolution of individual average wages as a benchmark for the living standard of households takes no account of the impact of the growing number of wage-earners within households. In recent decades, the average standard of living has, after all, increased primarily thanks to the growth of the number of work rich households and the proliferation of dual-earnership, much less courtesy of rising individual wages (Cantillon et al., 1999). Indeed, table 3 indicates that since the second half of the 1990s the increase of real average wages has been very moderate compared to the increase of NNI.

Compared with these average wages, in the nineties and the early 2000s, *gross minimum wages* fell behind. Subsequently, they caught up on average wages. In their turn, in the 2000s, the social minimums caught up on gross minimum wages. Summarized, in the second half of the nineties the erosion of minimum social benefits compared with NNI is explained partly by the lagging of average wages compared to NNI and partly by a slower growth of minimum wages and benefits compared to average wages. The erosion is explained by average and minimum wages lagging behind NNI. Social minimum (with the exception of unemployment benefits) caught up on minimum wages.

Table 3. Evolution of Net National Income per capita, gross wage volume in FTE, gross minimum wages and social minimum benefits, Belgium, 1995-2012.

	Real growth rates: 1990=100						Amounts (per month)
	1995	2000	2005	2010	2011	2012	2011
NNI/capita	107	118	122	124	123	n.a.	2426
Gross Minimum wage as % van NNI/capita	97	86	83	85	84	n.a.	0,61
Disability as % van NNI/capita	98	87	87	96	96	n.a.	0,56
Unemployment as % van NNI/capita	98	87	86	88	87	n.a.	0,45
Social assistance as % van NNI/capita	98	87	88	93	92	n.a.	0,43
Gross Wage volume/FTE	108	113	115	117	116	117	2612
Gross Wage volume/FTE as % of NNI/capita	101	96	94	94	95	n.a.	1,07
Gross Minimum wage as % of wage volume/FTE	96	90	88	90	89	88	0,57
Disability as % of wage volume/FTE	97	91	92	102	101	102	0,52
Unemployment as % of wage volume/FTE	97	91	91	93	92	91	0,42
Social assistance as % of wage volume/FTE	97	91	93	98	97	98	0,40
Gross Minimum wage	104	102	101	105	103	103	14,44
Disability as % of minimum wage	101	101	105	114	114	116	0,92
Unemployment as % of minimum wage	101	101	104	104	104	104	0,73
Social assistance as % of minimum wage	101	101	106	109	109	111	0,71

Source: CSB – KOWESZ, EU-SILC (2005, 2009, 2010 and 2011)

(http://www.centrumvoorsociaalbeleid.be/index.php?q=onderzoeksopdrachten/1062)

Table 4 shows the evolution, over a shorter period of time, of the net incomes of some theoretical household types, taking into account child benefits, the cost of childcare and the burden of taxation and social contributions. During the 1995-2007, emphasis was clearly put on making work pay through repeated cuts in taxation and social contributions, especially for low-paid work (see also Bogaerts, 2008 and Vandenbroucke, 2013). The purchasing power of couples on two minimum wages rose by 12% between 1995 and 2007. In addition, much was invested in facilitating the combination of work and the family, including by increasing parental leave benefits. By way of example, let us consider in the table how the income of a single parent on half-time parental leave evolved: the recorded growth in the 1995-2007 period is 23%. The incomes of households on replacement incomes or social assistance benefits, on the other hand, grew more slowly. In real terms, the household income of long-term unemployed persons have remained more or less stable over the past decade (see also Van Mechelen and Bogaerts, 2008). Long-term unemployment benefits for the over-50s – a group that has been targeted in activation policies on account of the low labour participation rate of older workers – have shrunk in real terms. Not only were benefit amounts for this group cut, the exemption of older unemployed persons from the duty to seek work was revoked, the possibilities for early retirement were restricted, and a re-employment bonus for older workers was introduced. The increase in net minimum wages through lower taxation and social contributions and the higher employment rates did however create room – especially since the so-called generation pact – to somewhat adjust minimum social benefits after years of erosion (see also Table 3) to the general rise in living standards. Child benefits, on the other hand, did not catch up, and nor did social assistance benefits for single persons and unemployment benefits for the long-term unemployed. Not unimportantly, benefits for the incapacitated – such as pensions and sickness and disability benefits – have followed the rise in living standards more closely than benefits for those who are deemed to be more readily activatable – such as the unemployed and social assistance claimants.

Table 4. Real evolution of the net income of selected household types, in percent, 1995-2007.

	Net income	Taxation and social contributions
Work intensity = 0		
Single social assistance claimant	6	0
Older couple (55 y.o.), both long-term unemployed, two children (19 and 20 y.o.)	-6	0
Single person, disabled	10	0
Work intensity = 0.5		
Couple (35 y.o.), one minimum wage and one short-term unemployment benefit, children (10 and 14 y.o.)	8	-33
Older couple (55 y.o.), one minimum wage and one long-term unemployment benefit, children (19 and 20 y.o.)	6	-40
Lone parent on half-time minimum wage, half-time career break	23	-79
Older couple (55 y.o.) one minimum wage and one disability benefit, children (19 and 20 y.o.)	19	-49
Couple (35 y.o.), one minimum wage, children (2 and 6 y.o.)	13	-103
Work intensity = 1		
Couple (35 y.o.), two full-time minimum wages, children (10 and 14 y.o.)	9	-41
Older couple (55 y.o.), two full-time minimum wages, children (19 and 20 y.o.)	12	-34
Older couple (55 y.o.), two full-time average wages, children (19 and 20 y.o.)		
Single parent, two children (2 and 7 y.o.), minimum wage(incl childcare costs)	11	-37

Source: 'Om de Balans van de Nieuwe Welvaartsstaat' (research project funded by the Dutch foundation GAK).

Table 5 represents the net income of the same household types but expressed as a percentage of the poverty lines. Insofar as the previously described social fragmentation of social risks is concerned, it suggests that the ex-post impacts of social risks on financial security vary strongly according to the work intensity of the household in question. Unemployment results in a situation just above the poverty line when it occurs in a household where the partner works at minimum wage or more, but well below the poverty line in a household where both partners are long-term unemployed. The distance between the two has, moreover, become significantly wider over the past fifteen years. While the figures need to be interpreted with some circumspection (since the poverty lines are calculated on the basis of different income surveys), they do seem to suggest that, between 1995 and 2007, the income shortfall of an older unemployed couple increased from 7% to 16%. By contrast, the incomes of households with two earned incomes and – to a lesser degree – of households combining benefits with an earned income grew relative to the poverty lines: the 'surplus' income (i.e. the proportion of the income above the poverty line) of an older couple with two minimum wages increased from 8% in 1995 to 15% in 2007. The previously mentioned polarisation in the labour market would thus appear to coincide with a *growing discrepancy between the living standard enjoyed by work-rich(er) households on the one hand and that of work-poor households* on the other.

Table 5. The net-income of selected household types in percentage of the poverty line (60% of median standardised income), 1995-2007.

	Belgium	
	1995	2007
Work intensity = 0		
Single social assistance claimant	71	72
Older couple (55 y.o.), both long-term unemployed, two children (19 and 20 y.o.)	93	84
Single person, disabled	94	98
Work intensity = 0.5		
Couple (35 y.o.), one minimum wage and one short-term unemployment benefit, children (10 and 14 y.o.)	101	104
Older couple (55 y.o.), one minimum wage and one long-term unemployment benefit, children (19 and 20 y.o.)	99	100
Lone parent on half-time minimum wage, half-time career bear	75	87
Older couple (55 y.o.) one minimum wage and one disability benefit, children (19 and 20 y.o.)	93	105
Couple (35 y.o.), one minimum wage, children (2 and 6 y.o.)	81	87
Work intensity = 1		
Couple (35 y.o.), two full-time minimum wages, children (10 and 14 y.o.)	116	121
Older couple (55 y.o.), two full-time minimum wages, children (19 and 20 y.o.)	108	115
Older couple (55 y.o.), two full-time average wages, children (19 and 20 y.o.)		
Single parent, two children (2 and 7 y.o.), minimum wage(incl childcare costs)	95	100

The poverty lines for 1995 and 2007 are incomparable as they are based on different income surveys. 1995 benefits are compared with the poverty line according to ECHP 1996 (1995 incomes); 2012 incomes are compared with the most recent poverty line, obtained from SILC 2011 (2010 incomes).

Source: 'Om de Balans van de Nieuwe Welvaartsstaat' (research project funded by the Dutch foundation GAK).

c) ... and bumps into a glass ceiling of minimums

Social security has, since the 1990s, exhibited a structural incapacity to enhance what is now an eroded and inadequate level of minimum financial protection. Indeed, comparison of minimum benefits with minimum wages indicates that there is no room for substantially increasing the former (i.e. up to the poverty line). Table 6 represents the ratio between the social assistance minimums for two types of single-income households (a lone parent and a single-income couple, both with two children), the poverty lines and the minimum wages. The table also gives the ratio between the income of a household on social assistance and income at minimum wage. The income of a two-child household on social assistance is 35 percent below the poverty line. Should this income be increased up to the poverty line through social assistance, then it would be 22 percent higher than the minimum wage, giving rise to a substantial unemployment trap. Even if minimum wage were entirely exempt from taxes and social contributions and the tax credit for dependent children were retained, the income of the two-child household on social assistance would be 17 percent higher than that of the household on a single minimum wage. This we can call the glass ceiling of minimum income protection in Belgium: although there is definitely still room to improve the situation of some household types, most minimum benefits approximate so closely to the minimum wage that there is little perspective of substantially and structurally improving the minimum protection offered to some families, particularly single-income households with children, in order to raise them to the poverty line. Minimum social benefits in other countries have reached similar limits. The margin for improving social assistance benefits is wider for lone-parent households than for couples, but here too the risk of creating unemployment traps looms.

Table 6. The glass ceiling of minimums, Belgium, 2001 and 2012.

	Couple with two children		Lone parent	
	2001	2012	2001	2012
Social assistance as a % of net minimum wage				
(1) under existing law	75%	79%	80%	83%
(2) without taxation or social contributions*	69%	77%	69%	75%
(3) assuming that social assistance benefits are raised to the poverty line	130%	122%	108%	100%
(4) combination of (2) and (3)	117%	117%	92%	90%
Social assistance as a % of poverty line	58%	65%	74%	83%

* with retention of tax credit for dependent children.

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

6. Conclusion

For the past thirty years, the social security systems of Belgium and other mature welfare states have struggled with inherent limitations to their redistributive function. Consequently, it has proven hard, if not impossible, to substantially improve poverty rates among the population of working age by means of greater efficiency in the deployment of resources. This raises questions regarding the policy paradigm underlying these social security systems, according to which a) poverty is best prevented through universal risk-sharing (horizontal solidarity); b) lower benefit dependency through prevention and repair will not only reduce the number of needy (work-poor) households, but also release resources for covering old and new risks; c) mechanisms of vertical solidarity may suffice to raise the level of social protection to such an extent that adequate coverage is provided for those who have contributed insufficiently to the conventional risk-pooling system; and d) universal risk-pooling induces the required perceived legitimacy among the higher-income groups in order for members of these groups to be willing to contribute. In the present article, we have argued that cracks have appeared in this paradigm following some momentous changes to the social, economic and demographic reality to which it relates. *First*: because of the selectivity and predictability of 'bad' social risks, i.e. that are statistically correlated with poverty situations (which is particularly the case for long-term unemployment and household work poverty), the horizontal insurance logic has become hard to maintain. *Second*: in consequence of the social fragmentation of social risks it is unlikely that for 'bad' social risks the perceived legitimacy of (vertical) redistribution is enhanced by universality: higher earners and higher-skilled individuals are, after all, hardly affected by such risks. *Third:* to the extent that employment growth does not induce a significant decline in the proportion of work-poor households and to the extent that 'activation policy' results in lower protection levels for these households, preventative and repairing measures can be at odds with the objective of poverty reduction. *Fourth:* considering the importance of avoiding unemployment traps, the boundaries of vertical solidarity are determined by the level of net minimum wages. In the case of single-income households (particularly with children), low earned incomes, and hence any replacement incomes based thereupon, have become structurally inadequate as a consequence of the very moderate increase of real gross average wages, the increase in the number of work rich households and the ensuing raising median household incomes. This is where social security reaches the glass ceiling of vertical redistribution.

The cracks that have appeared in the post-war redistribution system necessitate fundamental reflection on how to move forward. In recent years, two new concepts have appeared increasingly prominently on the theoretical and practical policy agendas (see in particular the recent EU

Social investment packages 2013): social investment on the one hand (Morel et al., 2012; Bonoli and Natali, 2012; Cantillon and Vandenbroucke, 2014) and, on the other, social innovation (Oosterlynck et al., 2013; Banerjee and Duflo, 2011). It is beyond the scope of this contribution to discuss the respective merits and limitations of these strategies. Suffice it to say that neither of the new strategies *as such* should be expected to induce substantial progress in the fight against poverty. After all, combating poverty requires a substantial degree of structural redistribution, which cannot be realised through small-scale and local socially innovative practices alone, however important and successful these may be (Ravallion, 2012). Social investment, on the other hand, requires a lot of time and it must contend with the great gravitational pull of social inequality (Cantillon, 2013). If implemented one-sidedly, moreover, such a strategy can turn against those who, for whatever reason, have fallen by the wayside of education and the labour market (Cantillon and Van Lancker, 2012 and 2013). The new policy routes must therefore be considered *in conjunction with redistribution through social security*: they should be implemented as additional instruments in the redistributive toolset represented earlier in Figure 1. In other words, social security, social investment and social innovation should not be seen as competing policy focuses, but rather as complementary instruments in an encompassing policy toolset, to be applied jointly under a new, coherent system towards social progress. Here lie some important research questions for the future. Does social investment open up prospects for enhancing the redistributive capacity of the social security system? Do local initiatives hold potential for facilitating and revitalising the failing structural redistributive tools? Or might they further compromise structural social redistribution? The answers are by no means obvious. Hence further reflection and research are called for.

Social security systems remain important redistributive tools whose efficiency in fighting poverty can certainly be enhanced. Moreover, in the Belgian setting, there is still room for raising the level of minimum protection for some household types. However, in order to make substantial progress in the fight against financial poverty, it is necessary to go beyond the traditional remedies of greater efficiency, targeting, prevention and repair. As the crux of the problem lies in the inadequacy of low wage as the single household income and hence the inadequacy of any replacement income derived thereof, there is a genuine additional need for schemes designed to alleviate certain costs facing singles and single-income households as well as dual earners, including the cost of child-rearing, healthcare or housing. In the same line of reasoning developed by Vandenbroucke (2013) this would imply that, within the social security toolset, greater weight is assigned to so-called 'cost-compensation' benefits as supplements to individual replacement incomes. By way of conclusion, we mention two potentially worthwhile policy avenues to this end. First, it would appear that child benefit is an important, yet undervalued, tool for combating poverty. It provides a means of breaking through the glass ceiling of minimum benefits and of complementing the incomes of households whose earned incomes or replacement incomes are inadequate. Universal child benefit schemes (within which selective differentiation is required) can complement incomes without creating unemployment traps. Second, as many low-income households struggle with the cost of housing, closer attention should be paid to the benefits of rent subsidies. In many countries, rent subsidies succeed in raising minimum benefits to a more generous level than that offered under the Belgian system.

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Annex

Table A.1: Evolution of Net National Income per capita, gross wage volume in FTE, gross minimum wages and social minimum benefits, Belgium, 1975-2012.

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
NNI/capita	100	104	104	107	109	111	107	105	103	105	107	112	114	120	125	128	131	132	133	135	137	136	140	143	146	151	150	152	152	156	156	160	164	161	152	158	157	
Gross Minimum wage as % of NNI/capita	100	97	98	99	95	93	97	103	108	106	101	99	96	90	87	84	83	84	84	82	82	83	79	78	75	73	73	72	72	70	70	68	67	68	76	71	71	
Disability as % of NNI/capita	100	97	98	102	108	108	113	112	117	115	110	108	104	98	95	93	94	94	93	91	91	90	88	87	84	81	81	84	83	81	81	79	81	83	93	90	89	
Unemployment as % of NNI/capita	100	97	98	99	95	93	97	105	105	103	98	97	93	88	83	82	83	83	82	80	81	80	78	77	74	72	74	73	73	71	71	69	67	68	75	72	72	
Social assistance as % of NNI/capita	100	104	118	127	122	130	136	135	141	145	147	147	145	139	134	133	133	133	132	129	130	128	125	124	120	115	116	119	121	116	116	114	112	116	128	123	122	
Gross Wage volume/FTE	100	103	106	108	110	111	112	111	109	107	104	105	105	105	107	109	113	115	117	117	118	118	119	120	122	123	125	126	126	126	125	127	130	128	130	128	127	128
Gross Wage volume/FTE as % of NNI/capita	100	98	101	101	101	100	105	105	106	101	97	94	92	87	85	85	86	87	88	87	86	87	85	84	83	82	83	83	83	81	80	80	79	79	85	81	81	
Gross minimum wage as % of wage volume/FTE	100	99	97	98	94	92	92	98	102	104	104	106	104	103	102	99	96	97	96	95	95	95	93	93	91	89	88	87	87	87	87	86	84	85	89	89	88	87
Disability as % of wage volume/FTE	100	99	97	101	107	108	108	106	111	113	113	115	113	112	111	109	109	108	106	105	106	104	104	104	101	99	98	100	101	101	101	99	103	104	109	111	110	111
Unemployment as % of wage volume/FTE	100	99	97	98	94	93	92	99	99	102	102	103	102	101	98	96	96	96	93	92	93	92	92	92	89	88	88	87	88	88	88	87	85	86	88	90	89	88
Social assistance as % of wage volume/FTE	100	106	117	125	120	130	129	128	133	143	152	157	158	159	158	155	155	153	150	149	150	148	148	148	144	141	139	143	146	143	145	143	142	147	150	152	151	152
Gross Minimum wage	100	101	102	106	103	103	103	109	111	111	108	111	109	108	109	108	109	112	112	112	112	112	110	112	110	110	109	110	110	110	109	109	109	109	116	113	111	111
Disability as % of minimum wage	100	100	100	103	114	117	117	109	109	109	109	109	109	109	109	111	113	111	110	110	111	109	111	111	111	111	111	116	116	116	116	116	122	122	122	126	126	128
Unemployment as % of minimum wage	100	100	100	100	100	100	100	101	97	97	98	98	98	98	96	98	100	98	97	97	98	96	98	98	98	98	101	101	101	101	101	101	101	101	99	101	101	101
Social assistance as % of minimum wage	100	107	121	128	128	141	141	131	131	137	146	148	151	154	154	157	161	157	157	157	159	156	159	159	159	159	159	165	167	165	167	167	168	172	169	172	172	175

Source: CSB – KOWESZ

(http://www.centrumvoorsociaalbeleid.be/index.php?q=onderzoeksopdrachten/1062)