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**The Paradox of the  
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State. Growth,  
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Poverty in the Lisbon  
Era**

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# The Paradox of the Social Investment State. Growth, Employment and Poverty in the Lisbon Era<sup>1</sup>

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## ABSTRACT

After 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 stagnated 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 ambivalence of the Lisbon Strategy and its underlying investment paradigm.

Keywords: social investment state, poverty, social security, social policy, employment, Lisbon strategy

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<sup>1</sup> Cantillon, B. (2011), 'The Paradox of the Social Investment State. Growth, Employment and Poverty in the Lisbon Era', *Journal of European Social Policy* (forthcoming).

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”? What can be said about the effectiveness of the underlying social investment strategies? 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 Laeken Summit during the Belgian Presidency of the EU in 2001. 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<sup>2</sup>.

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. In section 3 I argue that this poverty standstill is at least partially attributable to less adequate social protection for an almost stable number of jobless households. Section 4 concludes.

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

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

Poverty is a relative, multidimensional and graduated notion (Atkinson et al., 2002: 78). It is relative because it is defined in relation to the general level of prosperity in a country or population group at a given point in time. It is multidimensional because it does not consist merely of an insufficiency of resources, but also encompasses cumulative deprivation in relation to income, housing, education, and health care. And it is

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<sup>2</sup> [http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_and\\_social\\_policy\\_indicators/omc\\_social\\_inclusion\\_and\\_social\\_protection](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_and_social_policy_indicators/omc_social_inclusion_and_social_protection)

graduated because there are different circumstances and depths of poverty. Additionally, the temporal aspect of poverty should be underlined: being poor for a period of a month is less problematic than being poor for many years.

Hence poverty 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 utilization, 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.

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. The fact that, at the 2001 Laeken Summit, a consensus was reached to set the poverty threshold at 60 percent of median equivalized income suggests that relative income poverty enjoys legitimacy in the richer countries of the EU. However, the question remains whether this is also the case in the poorer Member States of Eastern and Southern Europe.<sup>3</sup> Certainly the conclusions reached by the European Council in

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<sup>3</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 in this respect and should therefore become a priority (Storms and Van den Bosch, 2009; Bradshaw et al., 2008; Borgeraars and Dahl, 2010; EAPN, 2010).

2010 in relation to poverty targets would appear to cast some doubt on the legitimacy of the 60 percent threshold.

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” (European Commission, 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 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 cumulative disadvantage that cannot be resolved through 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.

Taking this perspective we must be aware of the fact that the relative income measure has inherent shortcomings, that may lead to overlooking some failures and/or successes. For example, the method cannot take into account the increase in home ownership<sup>4</sup> occurring in many countries, nor the changes in the offer and price of public services, nor increased ‘asset-based welfare’ (Doling et al., 2003).

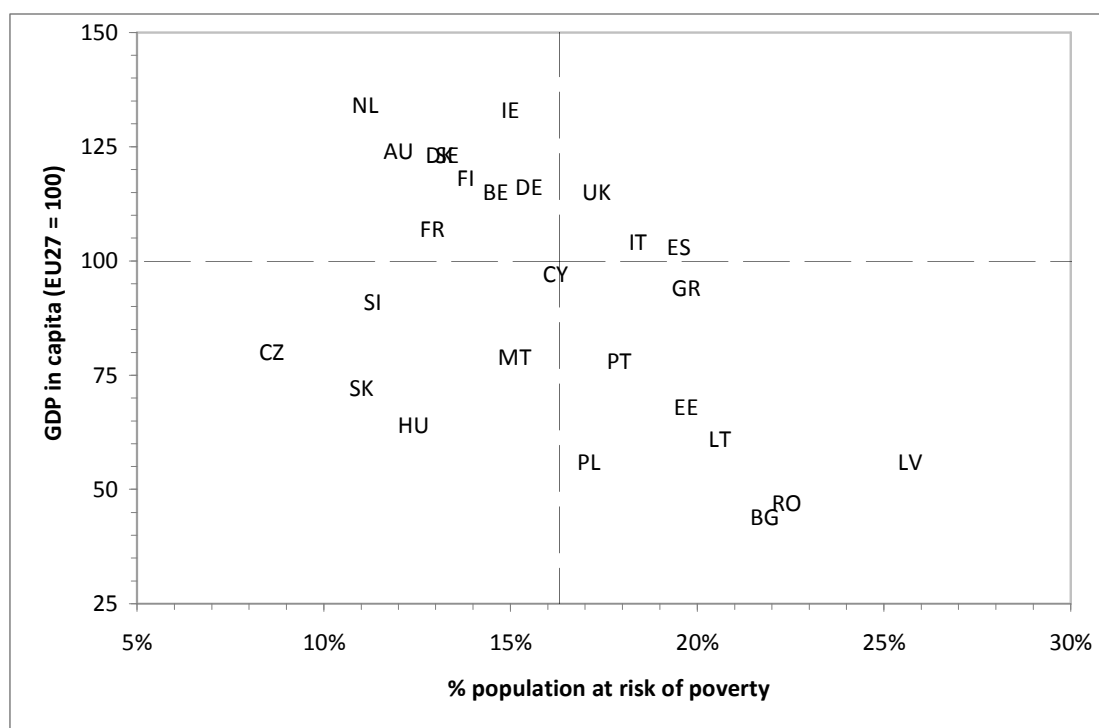
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<sup>4</sup> See Doling and Ford, 2003.

## 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, with focus on the population 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 of Northern and Continental Europe form 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) encompasses 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 and GDP per capita (2008)



- - - EU27 average

Source: Eurostat and EU-SILC, 2009 (income reference period 2008).

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 is no 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 (see f.i. Caminada et al., 2010). 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 with a comparatively low at-risk-of-poverty rate.

### ***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 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 employment 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 be able to cope with rising budget deficits, high structural unemployment and/or rising poverty. In trying to overcome the perceived choice between budgetary restraint, income equality and employment growth (coined by Iversen and Wren as the 'social service trilemma') all hope was 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 (Esping-Andersen, 2001; Gilbert, 2004; Morel et al., 2009; Morel et al., 2011).

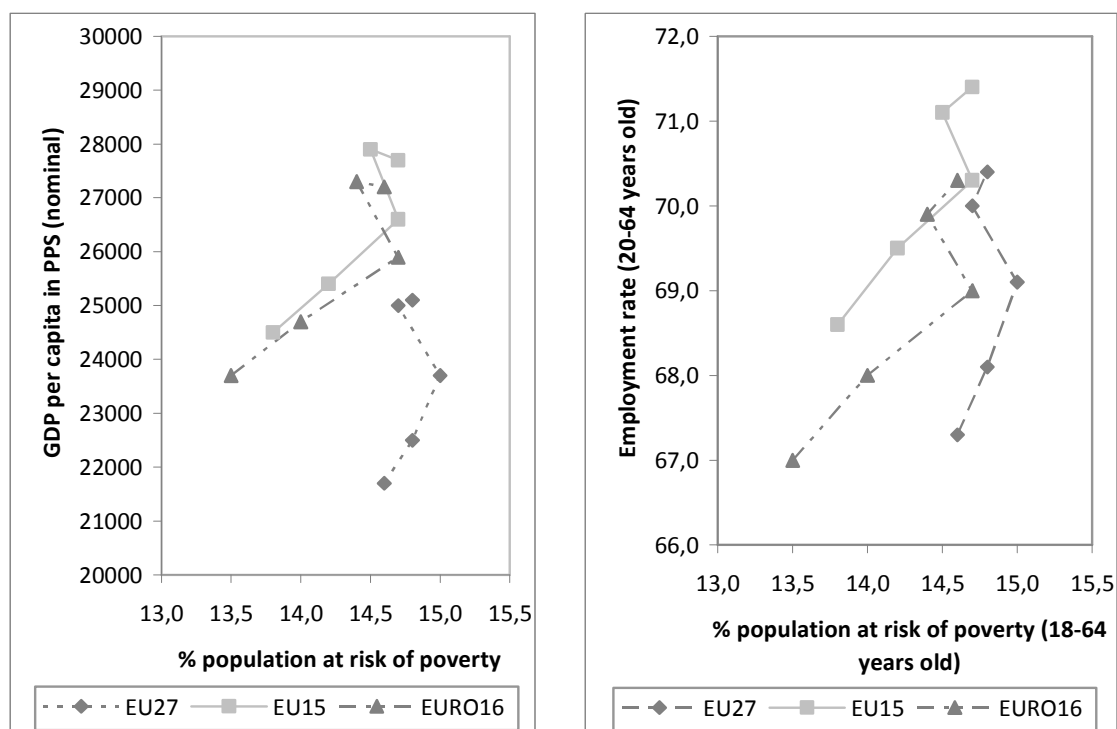
Again, though, this new era in welfare state history failed to reduce relative poverty rates. In view of the lengthy policy implementation time, the advent of economic crises in the 1990s and budget cuts to address deficits accrued over time, this was initially not perceived as problematic. In fact, 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 also 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 (Atkinson et al., 2010; Goedemé, 2010). On average, for the working-age population, the indicators seem to suggest that the poverty rates remained largely unchanged. Figure 2 plots the at-risk-of-poverty rates against employment and GDP in the 2000s. Broadly speaking, the EU27,

the EU15 and the Euro zone displayed similar trends: while GDP per capita and employment rose, the share of the active-age population below the poverty threshold did not decrease. Only Ireland and Poland displayed a significant decrease between 2004 and 2008 while in Bulgaria, Germany, Latvia and Sweden the at-risk-of-poverty increased with more the three-percentage-points. Except for a significant increase in the poverty risk of single parents<sup>5</sup>, not much changed to the structure of the at-risk-of-poverty: the groups with a high risk are typically work-poor households, unemployed, lone parent families, large families and tenants.

Figure 2. GDP, employment and at-risk-of-poverty of the population on working age in the EU, 2004-2008



Source: Eurostat and EU-SILC, 2005-2009.

In spite of the uncertainty of the data, it seems safe to conclude that, taken together, the OECD and EU sources suggest an overall standstill since the mid-1990s insofar as financial poverty within the working-age populations is concerned (and a significant increase of the risk faced by lone parents with dependent children).<sup>6</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 headway in the

<sup>5</sup> Poverty risks among single parents with dependent children increased from 31 percent in 2004 to 35.6 percent in 2008 in the EU27 and from 30 percent to 36 percent in the EU15.

<sup>6</sup> The uncertainty of the data has recently received attention from Atkinson et al. (2010: 8-9). Apart from underlining 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 by Goedemé seem to indicate that even this threshold does not always correspond to a statistically significant difference in the case of EU-SILC 2008 (Goedemé, 2010).

fight against financial poverty among the working-age population. Against the background of the consequences of the ongoing crisis and of the upcoming ageing wave, the standstill raises questions about the effectiveness of social investment policies and – more particularly – about the feasibility of the EU2020 targets, especially insofar as the number of people at risk of poverty is concerned.

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

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 (now National Strategy Report on Social Protection and 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.

Against this background the overall 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: employment and incomes were on the rise; demographic dependency rates were still rather favourable; social spending remained high; passive welfare states were progressively transformed into so-called 'investment states' (Morel, Palier and Palme, 2009) while the fight against poverty was prominent on the political agenda's of regional, national and international bodies. 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 have poverty rates in most countries not gone down but either stagnated or even increased?

In the next section, I consider the relationship between growth of employment and the at-risk-of-poverty rates in the decade prior to the crisis. The focus is on the working-age population.

## **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 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<sup>7</sup>, migration<sup>8</sup>, 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 respect, but the time span covered by comparable data is too short for meaningful in-depth empirical analysis.

Nonetheless, the EU social indicators point to some important trends. One of the often discussed hypotheses is that the social investment state helps to increase employment, but it fails to reduce relative poverty because the employment rise encompasses too much jobs of “low quality” (notably temporary and part-time jobs, associated with lower pay). As a consequence, pre-transfer poverty (excluding pensions) and in-work poverty is expected to rise. The EU social indicators do however not support this thesis: pre-transfer poverty (excluding pensions) and in-work-poverty remained indeed largely unchanged<sup>9</sup>.

Yet, the indicators seems to support the idea that the lack of correlation between employment growth and poverty is due to the fact that employment rise occurs more in employment-rich households than in employment-poor households. The decrease of the shares of the working-age populations living in jobless households has indeed been much more

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<sup>7</sup> Obviously, the family structure has an important impact on household income distribution and poverty. Poverty risks are high for lone parents and one earner families while double income households face the lowest risks. The dramatic change in household composition in the 1970s and 1980s was therefore an important variable explaining poverty trends at that time. Although those trends persist to the present, clearly the speed at which the change is occurring has showed down considerably since the early 1990s. Although consequences for (pre-transfer) poverty trends result not only from the speed of change but also from where in the income distribution the changes occur, we may expect that the impact of family change became less relevant as a consequence of the slow down in the pace of change.

<sup>8</sup> The massive wave of migration in the EU over the past decades has almost certainly had an important impact. However, although poverty among immigrants is much higher than among non-immigrant populations a simulation for Belgium did not show a significant impact of immigration on overall poverty figures as measured by EU-SILC.

<sup>9</sup> According to the EU social indicators pre-transfer poverty remained largely unchanged at around 25 percent in the EU27, the EU15 and at 24 percent in the Euro area. Likewise, in-work-poverty displayed little change in most countries (exceptions are on the one hand Germany, Denmark and Spain where in-work-poverty increased from 4 in 2000 to 7 percent in 2008, from 3 to 5 percent and from 8 to 11 percent resp. and on the other hand Lithuania and Portugal where decreases are displayed from 14 percent in 2000 to 9 percent in 2008 and from 14 to 12 percent resp.).

moderate than might have been expected on the basis of rising employment figures.<sup>10</sup> This is confirmed by the work intensity indicator plotted in figure 3. This indicator refers to the number of months worked by working-age household members during the income reference year as a proportion of the total number of months they could theoretically have worked. Individuals are classified into work-intensity categories ranging from WI=0 (jobless household) to WI=1 (full work intensity). The number of people on active age living in jobless households has decreased slightly from 13 percent in 2005 to 12 in the EU27 and remained unchanged at 13 percent in the EU15. This contrasts with the increase in the number of job-rich households: within the working age population the share of people living in job-rich households rose from 44 percent in 2004 to 48 percent in 2008 within the EU27, from 45 percent to 49 percent within the EU15 and from 42 to 47 percent within the Eurozone. Clearly, job growth benefited households where one or more members were already in work more so than it did households where no one was in work. This is in line with the polarization hypothesis observed by Gregg, Scutella and Wadsworth (2004) and by de Beer (2007)<sup>11</sup>. Although the conversion of one earner families into two-earners has a dampening effect on poverty figures, it is clear that the increase of the disparity between individual and household based workless measures explains the lack of correlation between employment growth and poverty at least partly.

A second explanation lies in changes in the at-risk-of-poverty rate by work intensity. Figure 4 suggest slight increases in poverty risks, especially among jobless households. In the EU27, at-risk-of-poverty among work-poor households increased consistently from approximately 37 percent in 2004 to 39 percent in 2008. The Eurozone and the EU15 displayed increases from 36 to 40 percent. Likewise, poverty rates among other households with low work intensity show more upward than downward trends.

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.

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<sup>10</sup> All relevant indicators are published on the EUROSTAT website.

<sup>11</sup> According to Gregg et al. (2004), these stem from within household factors, rather than from changing household composition.

Figure 3. Work intensity – total population (18-64 years old), 2004-2008

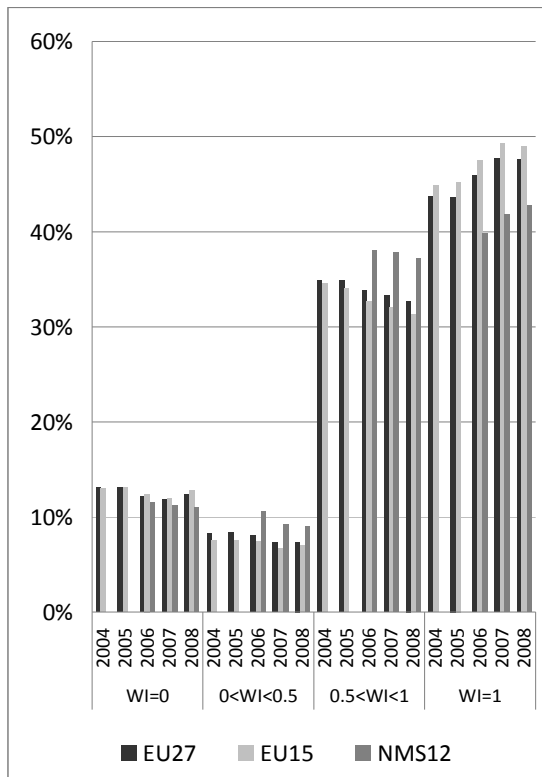
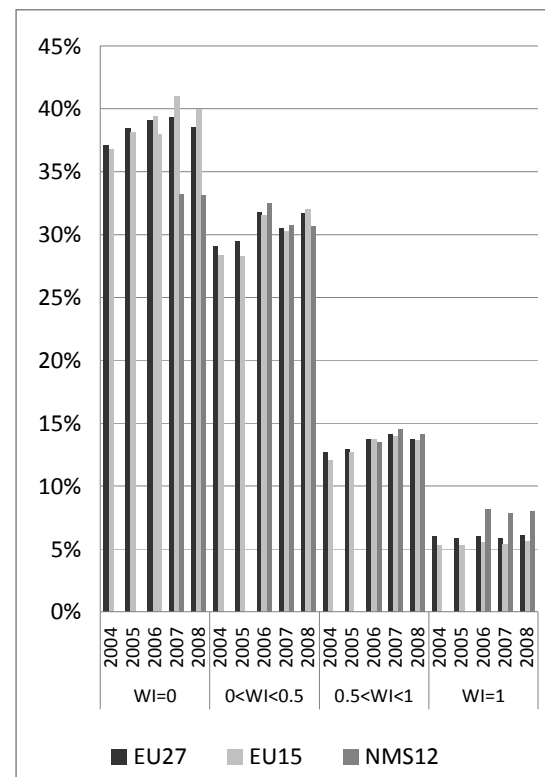


Figure 4. Poverty by Work intensity – total population (18-64 years old), 2004-2008



Source: Eurostat, EU SILC 2005-2009, income reference period 2004-2008.

For each working age person (aged 18 to 64) in the household that is not classified as a dependent child, two figures are computed, using the calendar of activities of the previous year:

- the number of months in the previous year for which the person has given information about her/his activity status (the "workable" months)
- the number of months in the previous year for which the person has been classified as 'at work'.

'At work' comprises:

- in paid employment, whether full-time or part-time
- including paid apprenticeship or training under special schemes related to employment
- in self-employment (with or without employees)
- including unpaid work in family enterprise

If the person is under 18 or over 64 or a dependent child (aged 18-24 years, living with at least one parent and inactive), both the 'workable months' and 'months worked' are attributed '0'.

- Note that the most frequent activity status for each month is based on a self-assessment by the interviewees. Therefore, it may not be entirely consistent with the ILO coding that is applied in the European Union Labour Force Survey.

- This indicator measures activity status at the household level. The social inclusion portfolio includes a secondary indicator that measures the at-risk-of-poverty rate by most frequent activity status.

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

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 and, more generally, to a decline of the redistributive capacity of the pre-crisis welfare states as public social spending remained high in almost all countries. This is confirmed by OECD figures on the reduction of income poverty through taxes and transfers (OECD, 2008). Brandolini and Smeeding (2009), as well as Kenworthy (2008) reach similar conclusions. How can this be explained?

First, it should be noted that the consistency of the trends over time and the fact that non-EU Member States were certainly also affected (OECD, 2008) 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>12</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 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; Morel et al., 2009 and Morel et al., 2011). This approach was evident in the Social Policy Agenda adopted by the European Union in 2000, which identified 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, flexicurity 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 emergence of new social risks (Taylor-Gooby, 2004; Bonoli, 2005).

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<sup>12</sup> The OMC was arguably also too ineffective to generate any significant impact (Barbier, 2010). An important weakness of the method remains that any such 'hard politics of soft law' (Van Hercke, 2010: 135) remains dependent on whether and to what degree a variety of actors at different levels engage in and appeal to the OMC to pursue their objectives.

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. According to some authors in the social investment approach, policies should shift from a striving for equality of outcomes to equality of opportunities: "*high rates of inequality, low wages, poor jobs or temporary deprivation are not a serious problem in and of themselves: they are so only if individuals become trapped in those circumstances or if they foster anti-social, exclusionary behaviours, such as criminality, dropping out, and so on*" (Jenson and Saint-Martin, 2003). In Giddens's view, social investment strategies would come to replace traditional welfare strategies. However, in an analysis of the "New Welfare State" undertaken in preparation of the 2001 Belgian Presidency of the Council of the European Union, Frank Vandenbroucke, Belgium's then Minister of Social Affairs asserts clearly that the "idea that the 'social investment state' can replace much of traditional welfare state is unrealistic..." (Vandenbroucke, 2002). According to Esping-Andersen (2002) "this may be regarded as naïve optimism, but, worse, it may also be counterproductive'.

In fact the figures presented in the previous section suggest that the hypothesis of a shift from passive social protection to activation and investment has been even more problematic than anticipated and is arguably partially responsible for disappointing poverty trends.

### *2.2.1. Is employment-related social spending less redistributive?*

As a percentage of GDP, overall social spending on the working-age population has remained high, even though 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 insofar as the *structure* of public social expenditures is concerned, though admittedly cross-country differences are quite substantial (Castles, 2008; Vandenbroucke and Vleminckx, 2011). There has indeed been a notable decline in the ratio of "old" 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. Could this explain part of the declining redistributive outcome of social policies?

The conventional way of looking at the redistributive capacity of welfare states is by comparing poverty rates before and after benefits and taxes. 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 (Coder et al., 1993; 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.

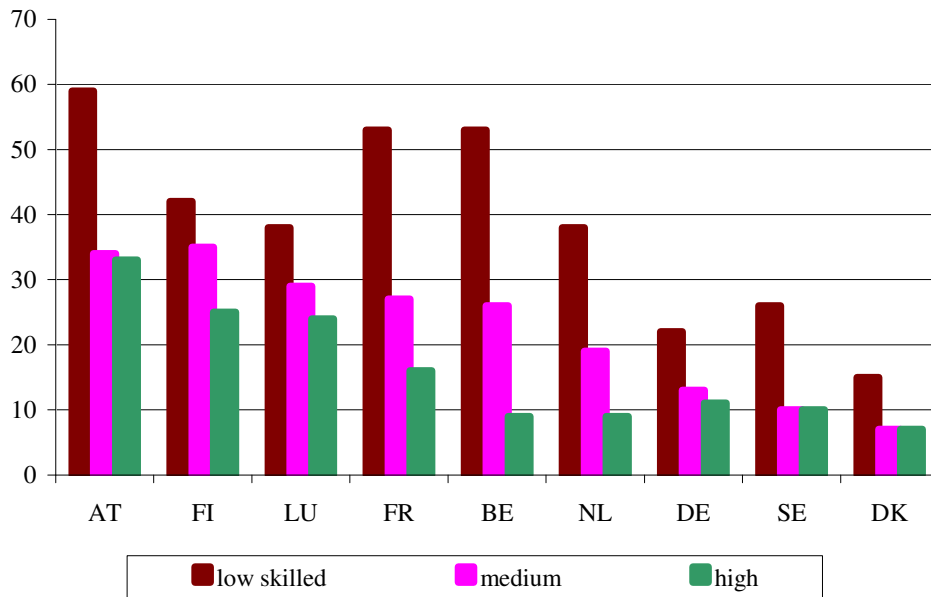
There are good reasons to assume that 'new policies budgets', more so than the traditional cash transfer, tend to flow to the higher income groups. First, because they are work-related and thus strongly income related. Second, because they make welfare states more service-oriented, and services are after 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).

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). Reflecting the interaction of gender segregation and class differentiation, 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, 2010). From the figure below, it is particularly clear for all countries that mothers (and fathers) with a low educational level make less use of formal childcare services because at least one of the parents is not working. The differences between low and high skilled ranges from nearly 30 percentage points in Austria to 10 in Denmark (for Germany, see Kreyenfeld and Hank, 2000). This implies that Matthew effects<sup>13</sup> can be at work in the distribution of the budgets for childcare: unless mitigated by the design of the service, the tariff and tax structure of parental fees, they will tend to flow more to skilled double-income families in the higher income.

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<sup>13</sup> "Matthew effect" refers to the phenomenon, widely observed across advanced welfare states, that the middle classes tend to be the main beneficiaries of social benefits and services (Deleek et al., 1983; Merton, 1968).

Figure 5. Own care through non-work differentiated according to the educational level of the mother in the rich egalitarian welfare states (Belgium, Denmark, Germany, Finland, France, Luxembourg, the Netherlands, Austria and Sweden)



Source: EU SILC 2007.

Depending on the policy design and the social stratification of employment, one may similarly expect more or less adverse redistributive impacts of other work-related social expenditures, such as in-work benefits, subsidies, tax credits, parental leave etc. Using data from the Labour Force Survey, Ghysels and Van Lancker (2010) found that in most countries<sup>14</sup> households with a low-educated mother use parental leave opportunities to a lesser extent than other households do. This would appear to be the cumulated outcome of unequal labour force participation and inequalities in the effective access to parental leave within the working population. More generally, the concentration of work-rich households in the middle and higher income brackets and the further polarization between work-rich and work-poor households suggests that many other in-work benefits in cash and/or in kind tend to be less pro-poor than traditional 'replacement' incomes.

Here lies a first ambivalence 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. As poverty is typically high in workless households, effective work-related spending is expected to be pro-poor at least in the long term. The poverty reduction effect of increasing mothers' labour force participation is indeed strong, and this is

<sup>14</sup> Exceptions are Austria, Hungary, Poland and Slovenia.

probably one of the most important factor in explaining why poverty is lower in the Nordic countries than in some continental European countries.

However, if job growth does not benefit work-poor households, as was the case in many EU countries (see figure 3 and 4), work-related social spending will tend to accrue permanently 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 redistributive effects. Albeit to a much lesser degree, this is also a reason for concern in the Scandinavian countries, the undisputed forerunners of the active welfare state.

As a consequence of the sometimes one-sided focus on investment and work, the redistributive aspect of social spending – as discussed in Julian Le Grand's classic book "The Strategy of Equality" – has been somewhat relegated to the background. Policymakers tend to enthuse about the expected short and long-term effects of reducing benefit-dependency, especially among women, and increasing equality of opportunities for their children (Esping-Andersen, 2009 and Heckman, 1974). Researchers, for their part, continue to diligently study and analyze the gender aspects (see f.i. Michel and Mahon, 2002; Lewis, 2009) and effectiveness of activation and work-related spending (see f.i. Card et al., 2010; Kenworthy, 2010). Concurrently, a tendency has developed in research and policymaking circles alike to ignore the question of redistribution. This evolution is understandable to some extent. Neither services nor work-related spending have after all a vertical redistributive purpose. Some argued forcefully that social investment aims to move beyond redistributive, consumption-based social welfare centred around benefits and rights, to one that, through investment in human capital, enhances people's capacity to participate (see also Jenson and Saint-Martin, 2003). If however it is true that 'new' spending - due to the gravity of social stratification of new and old social risks (Pintelon et al., 2011) and given that more vulnerable segments tend to find it hard to navigate their way to the labour market and/or 'utilization-based' benefits - is beneficial mainly to the socio-economically stronger groups, then it is unintentionally resulting in an adverse redistribution of resources.

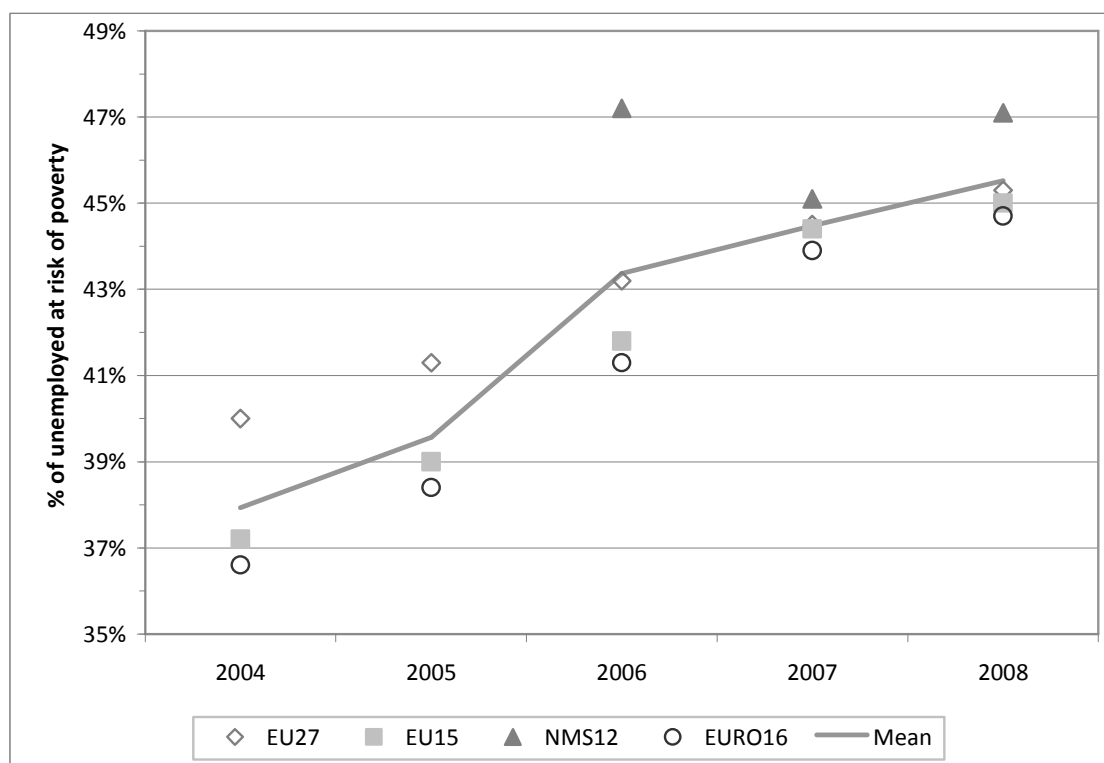
This mechanism needs not be regarded as a trade-off between redistribution and investment though: an appropriate policy design may no doubt help reduce or even neutralize such adverse effects. However, this will require both an adequate policy focus and sufficient insight into the direct and indirect pro-poorness of new policy measures. Child care in Sweden is a point in case: public funds flow in majority to families with lower incomes which have guaranteed childcare slots, on average more children and pay low parental contributions while higher income families

pay higher fees and fulfil their additional childcare demand with private care (see Van Lancker and Ghysels, 2011).

### 2.2.2. Lower prioritization of social protection?

Figures 3 and 4 indicate an increase in poverty risks among households with a low work intensity. This is confirmed by the strong increase in at-risk-of-poverty rates among the unemployed: on average within the Union from 40 percent in 2004 to 45 percent in 2008 (Figure 6). Although this is partly attributable to compositional changes, it most probably also points towards a decreasing adequacy of social protection for those who have remained outside the labour market.

Figure 6. At-risk-of-poverty rates among unemployed (most frequent activity status) (threshold income reference year set at 60 percent of median income) in EU27, EU15, NMS12 and EURO16, 2004-2008

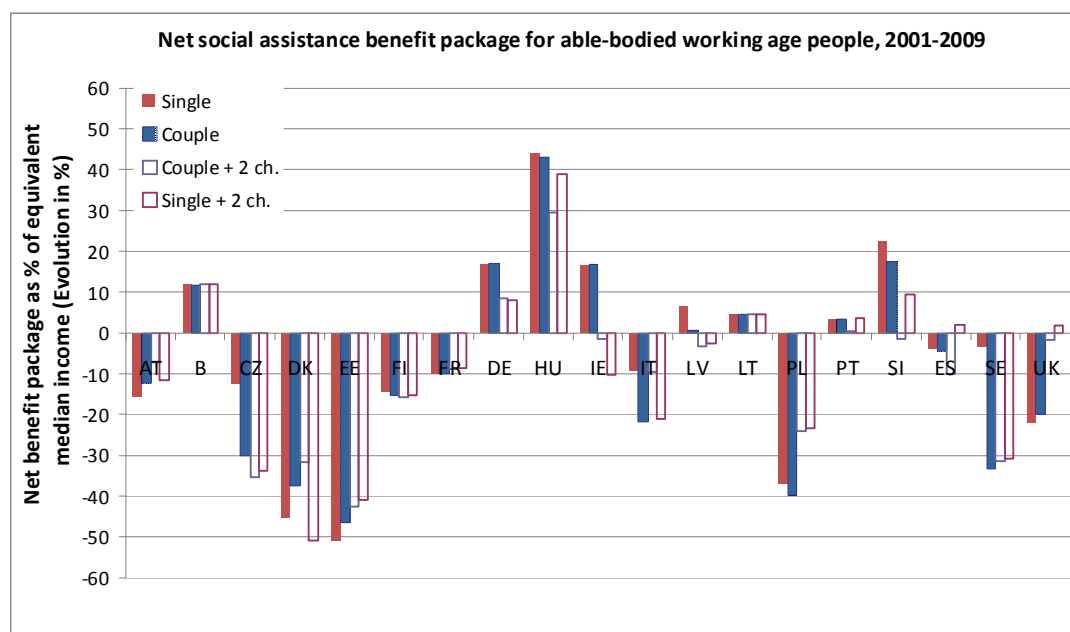


Source: Eurostat, based on EU-SILC (2004-2009).

In this context, it is worthwhile to consider evolutions in the generosity of traditional 'passive' income support, starting with the safety nets. However, data on social assistance are subject to severe limitations, given the existence of elements of conditionality, income and assets tests, discretionary and in-kind benefits, local variation etc. Consequently, data on levels of and trends in social assistance differ substantially: according to Nelson's Minimum Income Protection Interim Data-set (Nelson, 2007), social assistance has declined in the last two decades. The MIPI data from

the Herman Deleeck Centre for Social Policy paint a more nuanced picture: relative to average wages and living standards, gross social assistance benefit levels have, by and large, eroded less in the past decade than during the preceding ten years. While the overall picture for the 1990s was one of almost uniform erosion across the Union (with the exception of the Netherlands and to a much lesser extent Austria and France), the picture is less uniformly negative from 2000 onwards. Between 2001 and 2009 assistance payments seem to have gained some ground compared to median equivalised income in a number of countries, including Belgium, Germany, Hungary, Slovenia, Portugal and Lithuania. In Austria, the Czech Republic, Denmark, Estonia, Finland, Italy, France, Poland, Sweden and the UK, however, net minimum benefits have shrunk relative to equivalent median income with at least 10 percent (see figure 7).

Figure 7. Net social assistance benefit package for able-bodied working age people, 2001-2009



Source: Van Mechelen, N. et al. (2010) *The Evolution of Social Assistance and Minimum Wages in 25 European Countries, 2001-2009*. Antwerp: Herman Deleeck Centre for Social Policy.

As regards unemployment benefits, OECD figures show that, between 2001 and 2008, average net replacement rates for the long-term unemployed and for persons at the initial stage of unemployment decreased in many countries. Moreover, policy observers report a shift towards more means-testing and more conditionality in many states (Weishaupt, 2010; Nelson, 2007; Scruggs, 2008).

Here we possibly touch upon a second ambivalence of the social investment strategy. As unemployment mostly affects the low skilled in the low-productivity sectors of the labour market, governments aiming to reduce unemployment can rely on negative incentives (shorter duration of unemployment benefits, targeting, sanctioning...) and/or positive

incentives (subsidies, tax credits, counselling, child care). Of course, people experiencing difficulties in navigating 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 (Barbier, 2005 and Lindsay et al., 2007). On the other hand, 'activation' also implied the use of 'sticks', and the ending of unemployment traps by lowering benefits and tightening eligibility criteria. Depending upon the design of the programmes, this may have, to a greater or lesser extent, resulted in the financial exclusion of those who are not or cannot be activated. Data on benefit generosity and conditionality support Atkinson's thesis that policies have sought to raise employment at least partially by reducing reservation wages (Atkinson, 2010: 13). 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). Vandenbroucke and Vleminckx (2011) refers to "re-commodification" as the redistributive "downside" of the social investment strategy.

In 'The Trilemma of the Social Service Economy', Iversen and Wren (1998) 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, the UK, 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 was on wage inequalities. However, the EU indicators

and the EU-SILC data 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 (see also Kenworthy, 2008) while employment has risen significantly. More empirical research is needed, but the trends in Europe do suggest 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. Conclusion**

In this article, I have sought explanations for the stylized empirical fact that, despite higher average incomes, increased employment rates and high levels of social spending, most European welfare states have failed to make further progress in the fight against (relative) income poverty, particularly among the working-age population. The following contributory trends were identified.

*First*, rising employment has benefited workless households only marginally. Consequently, the number of job-rich households has increased while the number of jobless households has remained largely unchanged. *Second*, poverty among the unemployed and workless households has increased in almost all Member States. *Third*, new work-related spending – which tend to be less pro-poor – has increased, while the generosity of traditional ‘passive’ income support declined.

Certainly, the empirical data are difficult to compare and many questions remain open. Cross-country differences are significant and the time span under review is very short. Further empirical analysis of the relationship between financial poverty and the capacity of social policies for social investment and redistribution is therefore needed. However, this article presents arguments supporting the thesis that the shift from the old redistributive welfare state to a social investment state has been more difficult than expected and may at least in part be responsible for disappointing poverty trends.

That is not to say that contemporary welfare states are not in need of powerful policies aimed at promoting inclusion through work and more equality in education and in the labour market. On the contrary: the reason why some countries (typically the Scandinavian welfare states) continue to perform better in terms of financial poverty is arguably that they are more successful in precisely these policy areas (although in most of the countries concerned poverty rates have admittedly increased in the recent past).

However, our analysis suggests that contemporary welfare states should take more adequate account of the highly stratified nature of ‘new social risks’ and of the continuing need to protect people against the even stronger stratified old social risks.

The conclusion must be that an adapted version of the old redistributive agenda should again become focal in social policymaking, thereby prioritizing adequate minimum income protection and the reinforcement of the redistributive capacity of social programmes. Against the background of the ongoing population ageing and the continuing impact of the recent financial crisis, welfare states must face up to the urgent challenge of increasing efficiency. Moreover, even in rich societies, living in at-risk-of-poverty remains a handicap for achieving success at school, in the workplace and within family life. Therefore, adequate social security and efficient social redistribution are part and parcel of any effective investment strategy.

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