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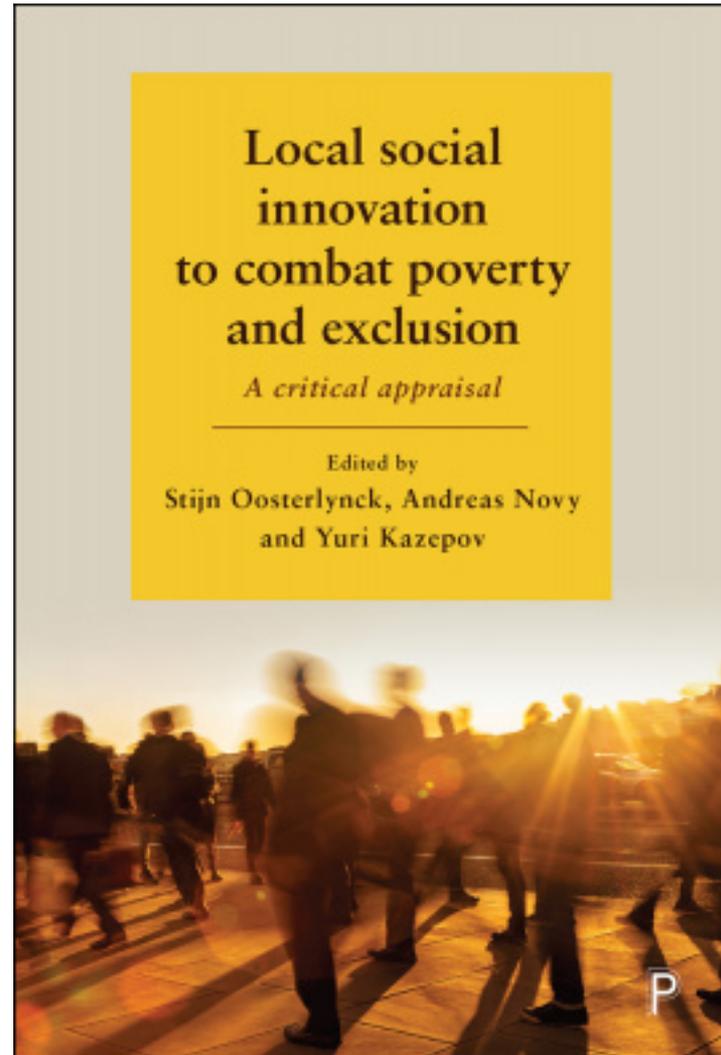
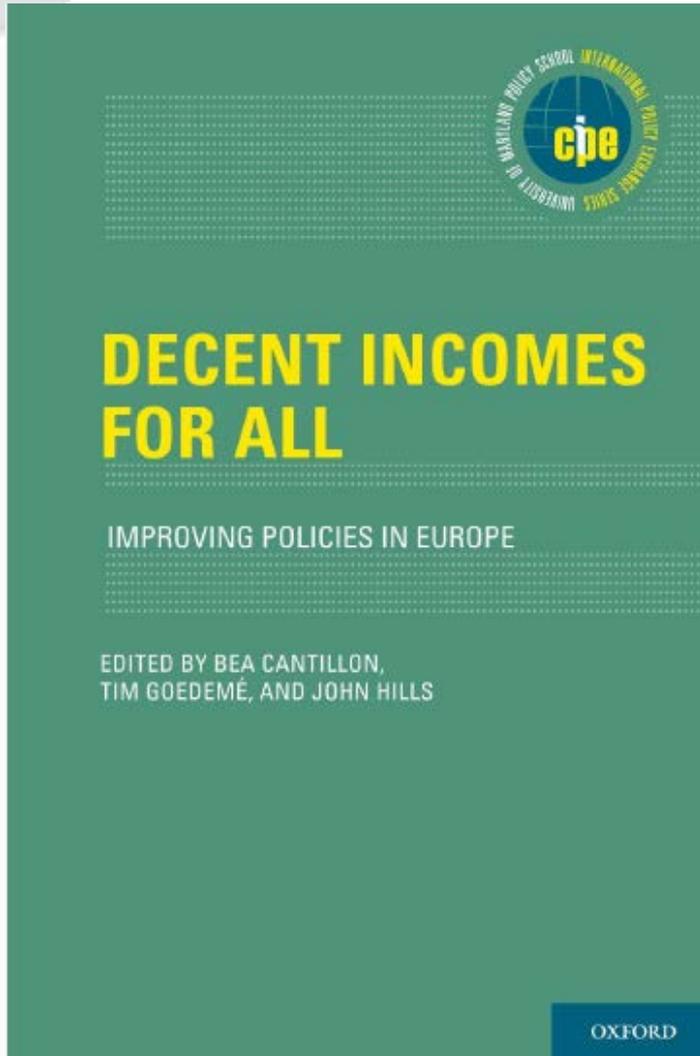
CASE Welfare Policy and Analysis
Seminar

London School of Economics
13 March 2019

- Introduction and background
- Overview book contents
- Conclusion
- Future

- Poverty Reduction in Europe: Social Policy and Innovation
- ImPRovE project (FP7), 2012-2016
- 12 research groups
- Including CSB, CASE, ISER, TARKI, ...

- The two **central questions** driving the ImPRovE project were:
 - How can social cohesion be achieved in Europe?
 - How can social innovation complement, reinforce and modify macro-level policies and vice versa?
- <http://improve-research.eu>



- Starting point
 - EU discourse and ambitions in the area of poverty and social exclusion
 - Empirical observations
- Lisbon strategy (2000-2010)

“to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”

“Steps must be taken to make a decisive impact on the eradication of poverty”
- Europe 2020 (2010-2020)

“at least 20 million fewer people in – or at risk of – poverty/social exclusion”

- Focus on income poverty
 - Lack of decent disposable income as key element of poverty,
 - and key factor to get right in order to lift people out of poverty
- But also:
 - material deprivation
 - access and cost of essential goods and services (RBs)
 - national vs pan-European perspectives

Four parts:

Foreword Frank Vandembroucke

1. Income poverty in Europe: setting the scene
2. The role of social protection
3. New policy paradigms
4. Toward a decent social floor for all

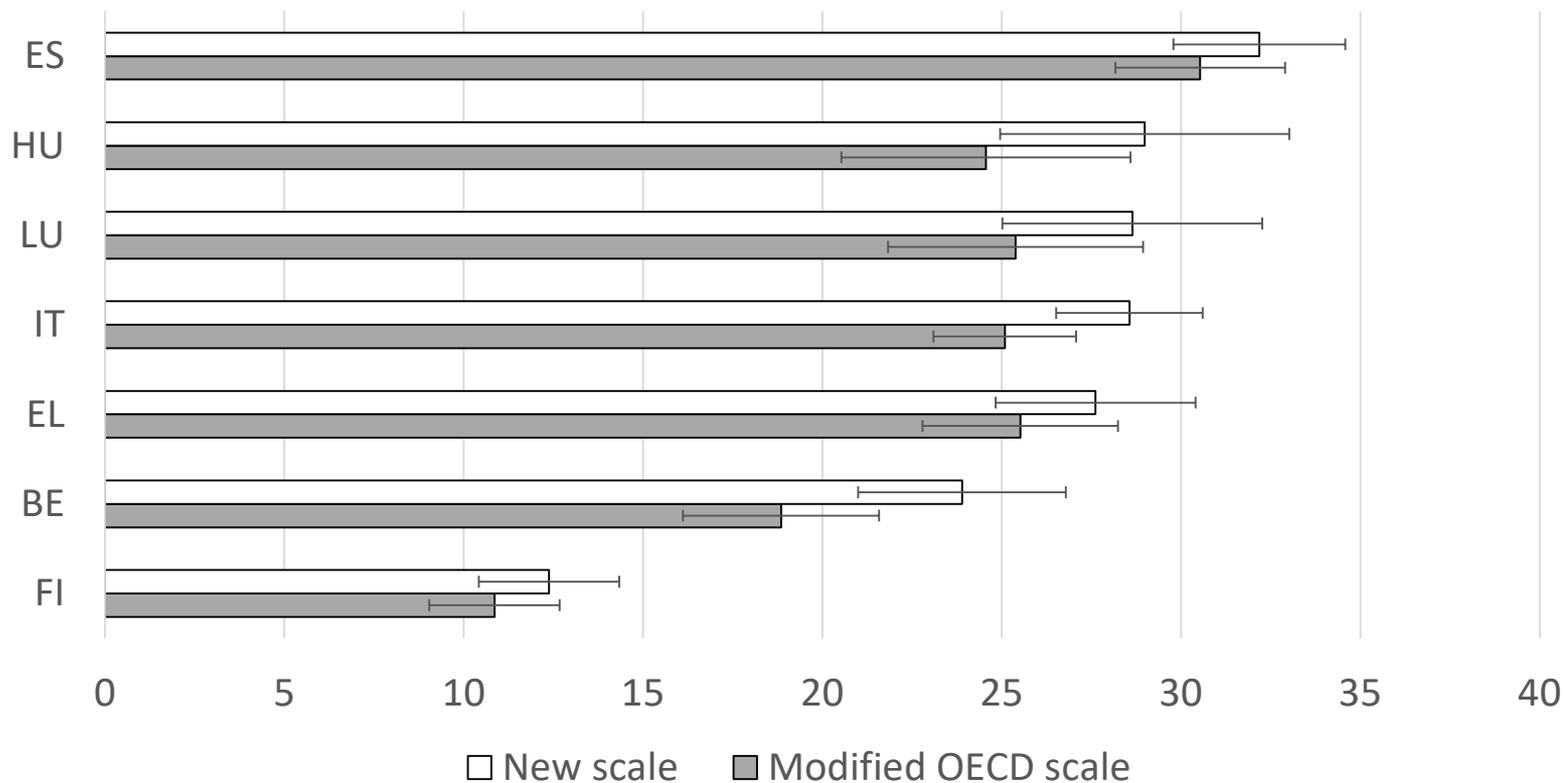
1. Setting the scene

What does it mean to have an income at the level of the poverty threshold?

- Show that conventional (60% median) AROP lines underestimate resources required for adequate social participation in several of the countries.
- The AROP line strongly underestimates needs of households in the poorest EU Member States and underestimates poverty among children everywhere.
- First concerted effort for comparable reference budgets across Europe

1. Setting the scene

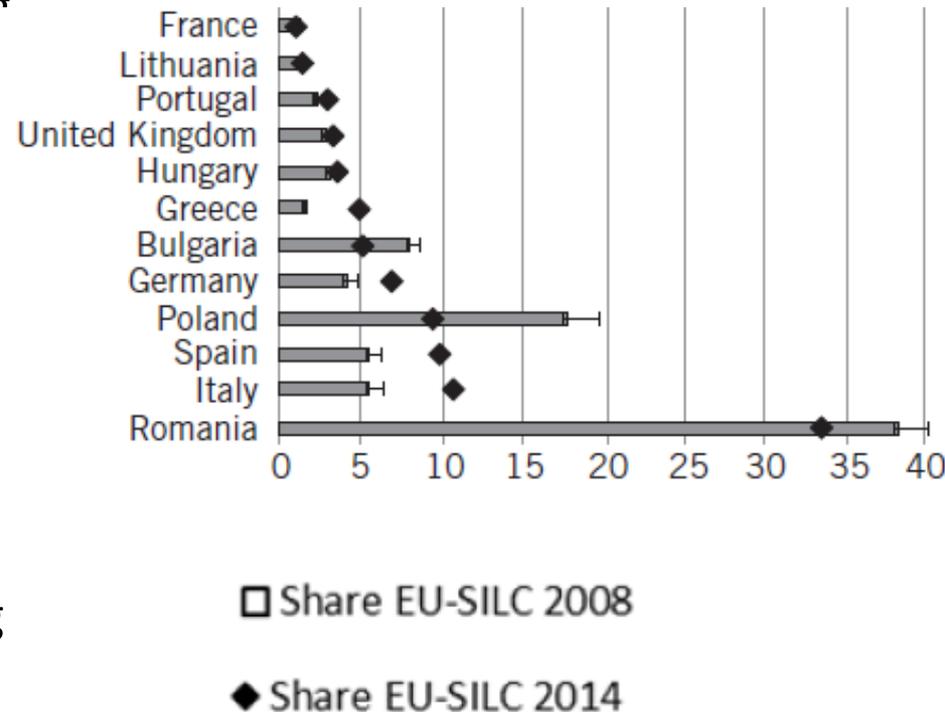
- At-risk-of-poverty among children (-18), EU-SILC 2014



1. Setting the scene

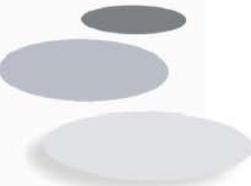
- Using a pan-European poverty line underscores the differences in living standards among Europeans with the lowest incomes in each country.
- Over time the bottom of the European distribution has changed, with improvements for more recent member states, but deterioration in the crisis-hit Southern states.
- Post-crisis, ‘upward convergence’ against a pan-EU line stopped being the norm.
- Need for solidarity within and between EU member states

Share in pan-European poverty gap



1. Setting the scene

- Before the crisis, rising employment levels did not mean falling poverty, but afterwards sharp employment falls were mirrored by rising poverty
- Overall, a 10 % point rise in employment was associated with a 2.9 % point drop in poverty rates. Allowing for differences between countries and varying patterns over time reduces the effect to 1.9 to 2.5 % points.
- However, relation between employment and poverty varies strongly across countries
- Poverty reduction depends on: overall employment growth; employment growth reaching low work intensity households; and the structure of social welfare systems countering income losses for low-employment households.



2. The role of social protection

Policy choices can make a difference

- The impact of social transfers on income poverty and material deprivation
- The contribution of tax-benefit policy changes to poverty
- Distributive effects of the crisis and austerity
- Employment-conditional earnings subsidies

2. The role of social protection

- Higher incomes – and therefore income transfers – are associated with lower deprivation as well as lower income poverty.
- The effect of a 1 % point change in disposable income via income transfers would be to reduce the number of items people suffer deprivation from by between 0.33% (UK) and 0.51% (Germany).
- The effect of all social transfers is a reduction in the average number of deprivation items by between 1.8 (Poland, UK) to 2.2 items (Greece, Germany)
- Effects on severe material deprivation (lacking 4 or more of 9 items) is even larger, with transfers reducing severe material deprivation by 13-22%-points.

2. The role of social protection

AROP60 and severe material deprivation before and after social transfers

Country	Measure	AROP rate		SMD rate	
		2008	2013	2008	2013
Germany	before	43	43	26	26
	after	16	16	5	5
Greece	before	42	53	25	42
	after	20	23	11	20
Poland	before	44	43	31	26
	after	17	17	18	12
UK	before	40	45	22	26
	after	19	16	4	8

2. The role of social protection

Microsimulation study

2001-2007; 2007-2011

BE, BG, EE, GR, HU, IT, UK

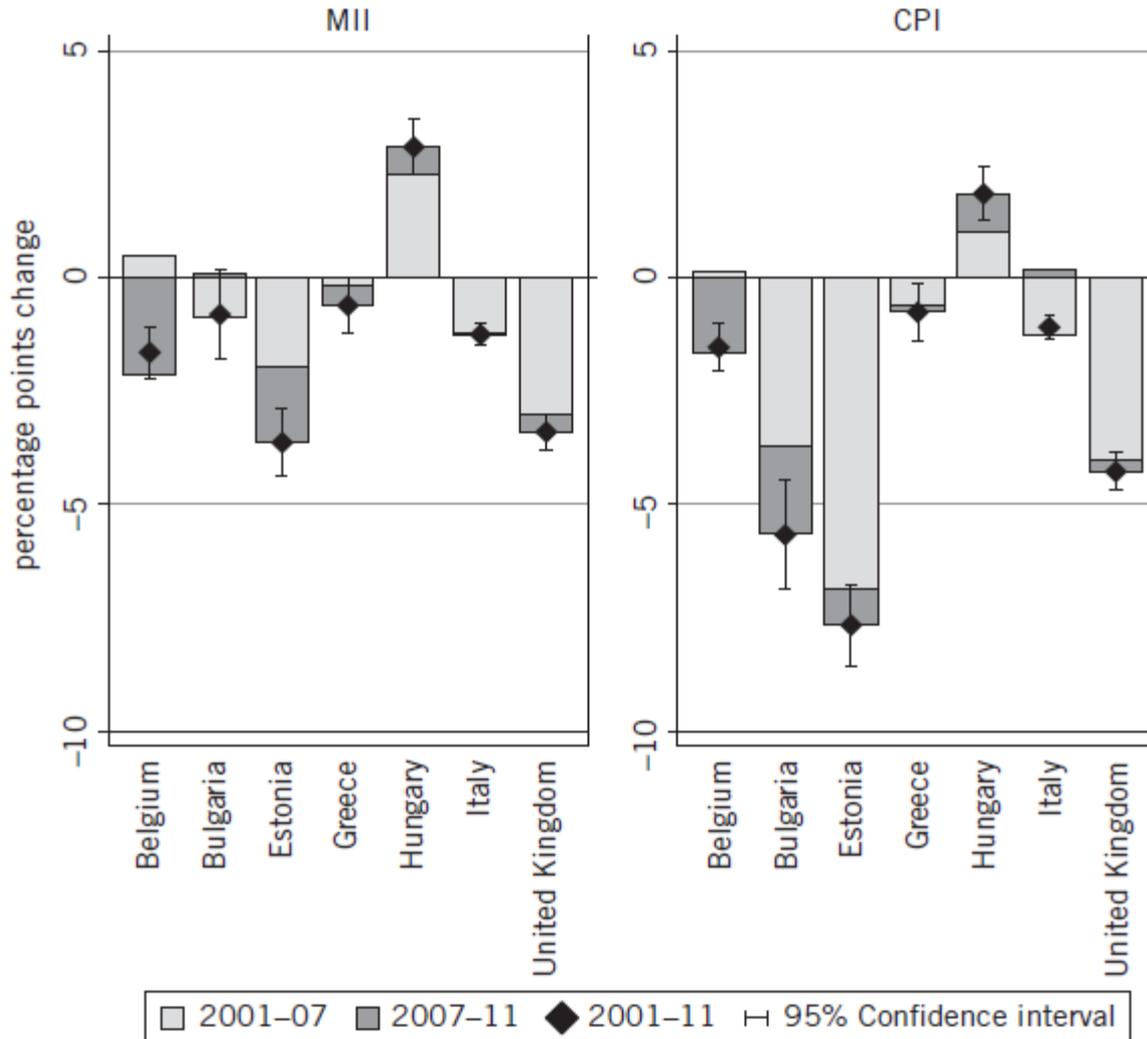
Tax-benefit policy changes achieved more in most countries in the 'good times' before 2007 than immediately after the crisis

2. The role of social protection

- 2001-11 was not an entirely “lost decade” for poverty reduction for the countries considered: in six of them, tax and benefit policy changes were poverty-reducing
- But more was achieved in most (but not all) countries in the ‘good times’ before 2007 than immediately after the crisis
- Some countries (eg UK, 2001-2007) made policy changes that both reduced poverty and raised net revenue (compared with the income-linked base)
- Governments often make changes to components of the tax-benefit system with opposite effects: they need to be seen together
- How money values of benefits and tax thresholds are adjusted (indexed) each year can have larger effects than structural reforms. If they do not keep up, other types of poverty-reducing policy have to work much harder.

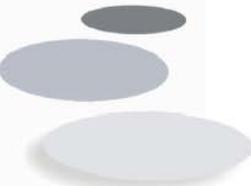
2. The role of social protection

Effect of policy changes on AROP60, 2001-2011



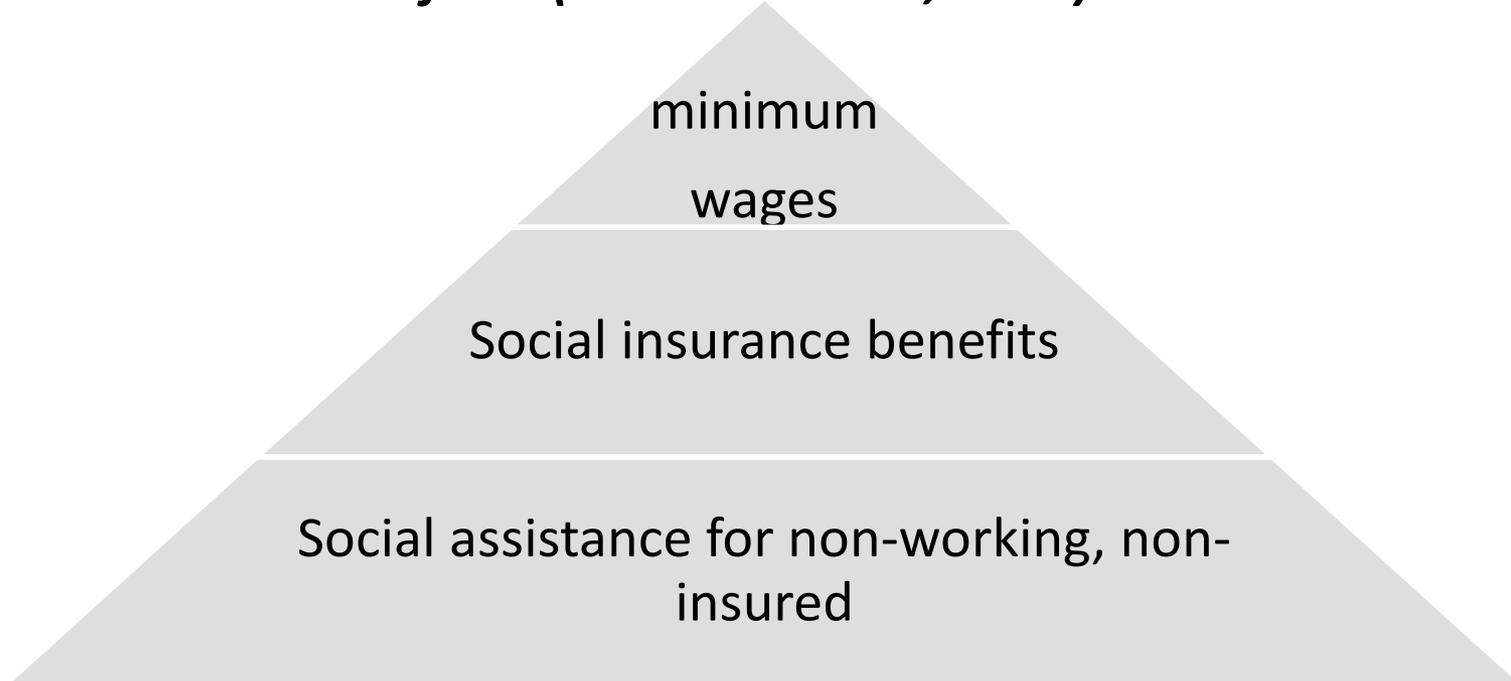
2. The role of social protection

- Broadly similar type of analysis for GR, ES, IT, LV, LT, PT, RO; 2009-2013.
- ***some austerity measures were ‘fair by design’ – but this depended on national choices***
- The composition of the poor changed, with fewer protected by social insurance based on past labour market participation.
- Direct tax and social insurance changes were generally progressive – but not in Greece in 2013
- Cuts in public sector pay had progressive effects, particularly in Greece, Portugal and the Baltic countries
- Effects of pension reductions and social benefit reforms depended on precise design. For instance, Latvia improved minimum incomes and Greece brought in more comprehensive child benefits. But cuts in minimum incomes and/or unemployment benefits damaged poverty in Portugal, Lithuania, Romania.



2. The role of social protection

Incomes and minimum wages in work act as a 'glass ceiling' to the social minimum floor (Cantillon et al., 2015)



=> working credits as a solution?

2. The role of social protection

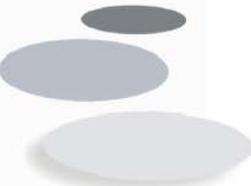
- The inadequacy of wage floors and downward pressures on low wages have constrained the social minimum floor.
- Earnings subsidies seem to deliver on the creation of employment incentives for the low-paid, while improving living standards.
- Their use has been greatest in English-speaking countries with weak collective bargaining, but has been expanding in others.
- The Belgian experience show how hard it is to create the right balance between employment and poverty goals. Budget AND design matter
- Individual-based in-work benefits generate stronger work incentives, but household-based ones have stronger poverty-reducing effects.

3. New policy paradigms

- Local place-based social innovation policies stress the role of participation in combating poverty. They reinforce social cohesions and empowerment beyond individual capacity building.
- They emphasise the importance of the relational and multidimensional characteristics of poverty
- They show how context-sensitive governance of social protection is needed.
- But cannot substitute for effective measures of social protection and redistribution

3. New policy paradigms

- Social investment: ‘enlightened path’ vs. ‘Third Way’
- By helping reduce the cost of subsidising jobs and of social protection for the poor, social investment strategies should be part of any anti-poverty programme.
- But poverty reduction and inclusion cannot be achieved just through activation, investment and promotion.
- Social investment is a complement for social protection, including adequate minimum wages, not a substitute.

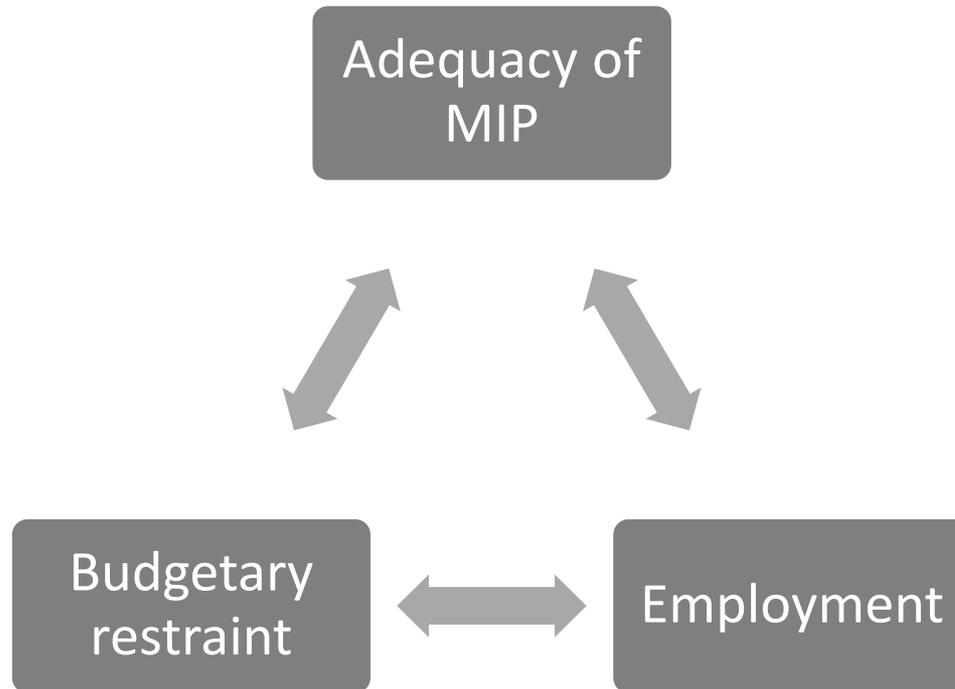


4. Toward a decent social floor for all

- Direct financial cost of closing the poverty gap
- How to design a good working tax credit scheme
- Role of EU to improve minimum income protection
- Lessons for the future

4. Toward a decent social floor

- Typically: compute poverty gap
- Financial work incentives \Leftrightarrow hierarchy of social floor
- Social trilemma



4. Toward a decent social floor

- Preserving work incentives does not come cheap! +/- twice the cost

Table 1. The cost of closing the poverty gap and PTR

Scenario	BE			DK			UK		
	Poverty head-count (%)	Cost of closing the poverty gap (%)	PTR at the bottom (%)	Poverty head-count (%)	Cost of closing the poverty gap (%)	PTR at the bottom (%)	Poverty head-count (%)	Cost of closing the poverty gap (%)	PTR at the bottom (%)
Current situation	15.0	-	70	12.9	-	67	15.4	-	59
Closing poverty gap (at withdrawal rate 100%)	0	2.2	77	0	3.2	76	0	2.5	72
Closing poverty gap at withdrawal rates BE 58%, DK 50% and UK 52%	0	4.2	70	0	7.1	67	0	5.7	59

Source: SILC and FRS 2012 and EUROMOD simulated data 2011

Note: at the bottom means average in the first three equivalised household income deciles; costs are estimated as a proportion of current total (non-equivalised) incomes.

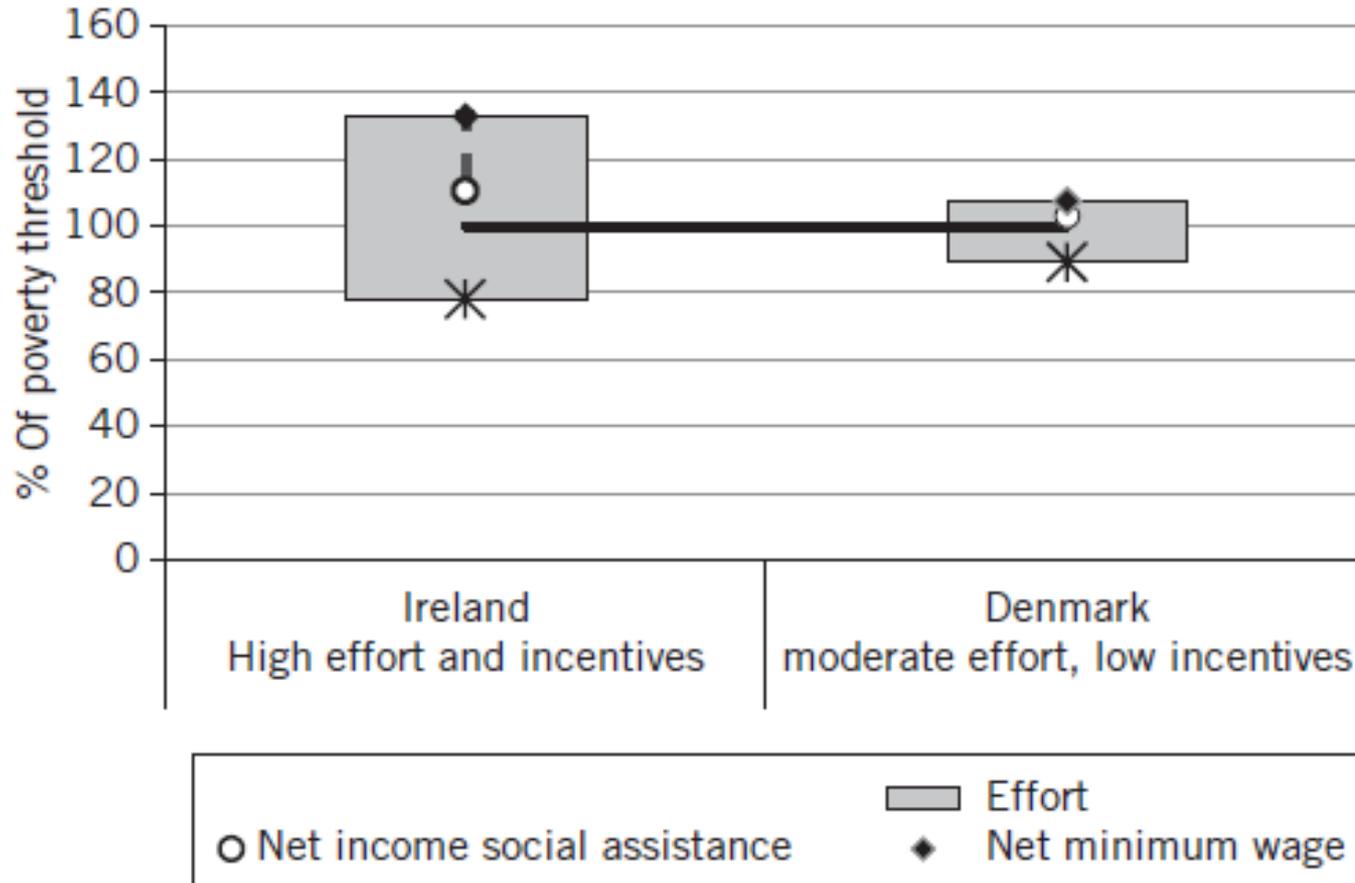
4. Toward a decent social floor

- Assuming complete effectiveness, eliminating poverty through social assistance alone while protecting incentives would cost 1.8 % of GDP in Belgium, 2.9% in the UK and 3.3 % in Denmark
- Intensive vs extensive margin
- These cost levels suggest policy also has to look at the drivers of rising wage/ market income inequalities, and the downward pressure on low wages
- Countries (e.g. UK) may also want to revise to what extent high financial work incentives are key to maintaining high employment

4. Toward a decent social floor

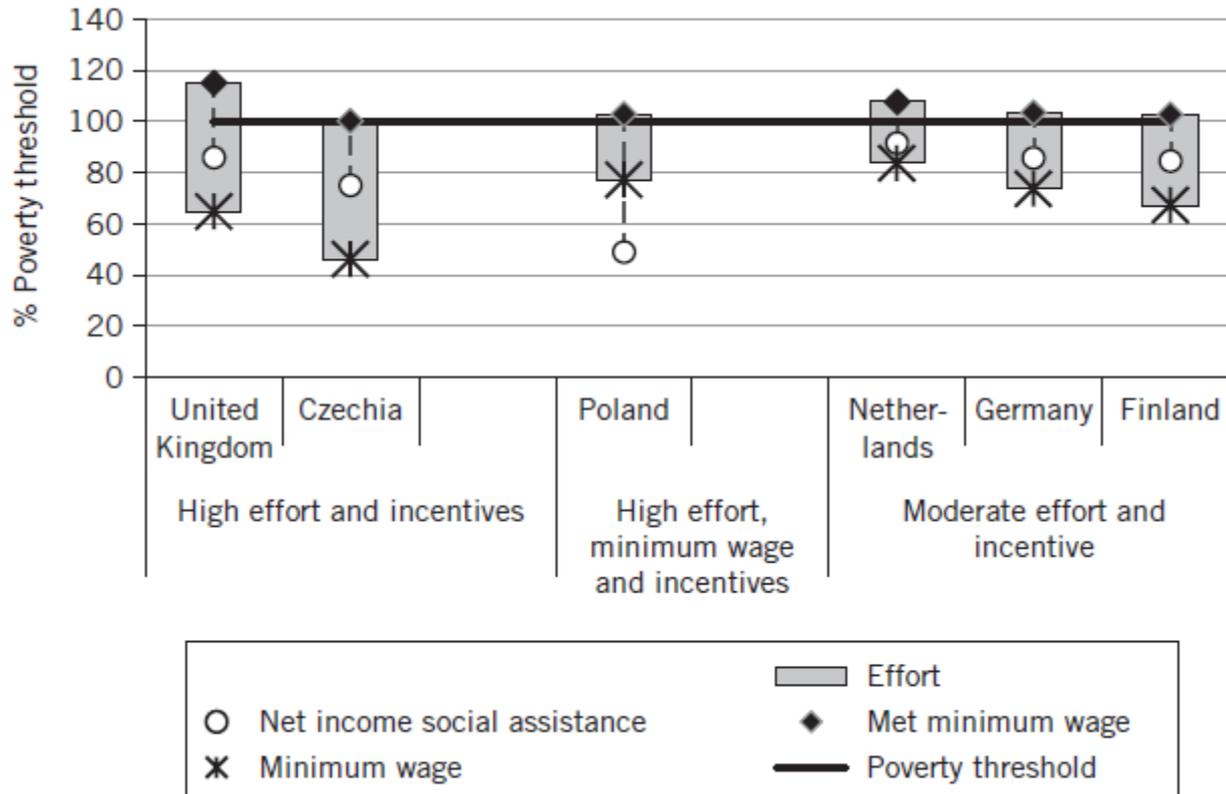
- EU has mostly focused on non-binding output indicators
- Lacks connection with policy mechanisms
- To move forward in the field of poverty reduction, input indicators would be good place to start: modest move from output to input governance (while respecting subsidiarity)
- Proposal to complement ‘Social Scoreboard’ (Pillar of Social Rights), reporting minimum wages and social protection floors as part of the monitoring process.
- A Europe-wide guideline on a well-conceived notion of adequate minimum income protection could impact not only minimum incomes, but also job quality at the bottom end.

4. Toward a decent social floor



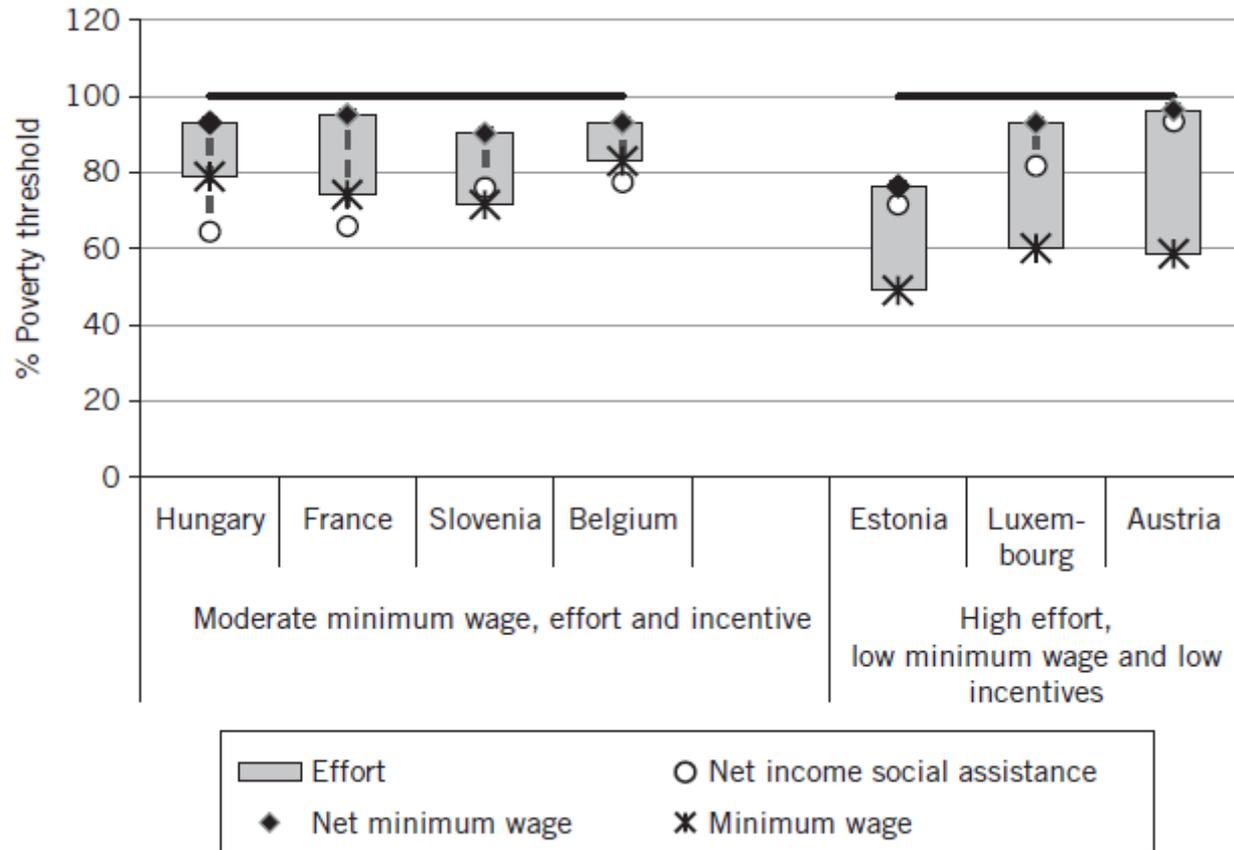
High road, Single parent with two children, 2012

4. Toward a decent social floor



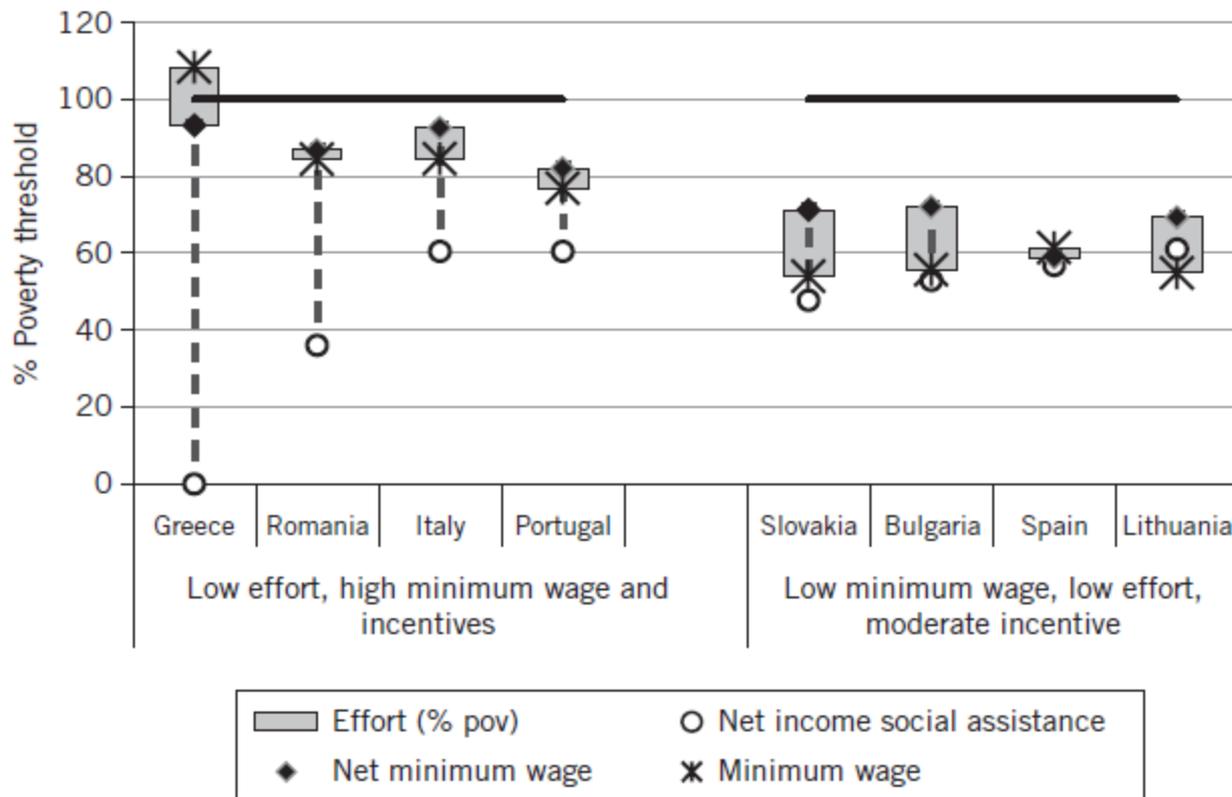
Middle road, Single parent with two children, 2012

4. Toward a decent social floor



Low road, Single parent with two children, 2012

4. Toward a decent social floor



Low road, Single parent with two children, 2012

Some key take-home messages

- Poverty reduction is hard, but not impossible (political choice!)
- Anti-poverty strategies have to be embedded in a broader range of realistic social, employment and economic policy objectives – at national, Eurozone, and EU levels. And *vice versa*.
- Increased social benefits are constrained by differentials between income in and out of work, with much higher costs if work incentives are protected.
- Inadequate indexation of transfers behind living standards means lost ground.

Some key take-home messages

- One size does not fit all – challenges differ between countries and policy effectiveness of particular instruments varies between them.
- Countries have made different choices both before and after the crisis. Some did make poverty-reducing policy changes in the good times, and some austerity measures have reduced rather than increasing inequality.
- Action that raises market incomes for those in low-paid work reduces the pressure on social transfers.
- There is no single magic bullet, but each component can make a contribution – and has done in different member states in the recent past.

- Brexit
- Ageing
- Climate breakdown and global perspective:
 - Realising a decent income for all within planetary boundaries