



**The Year 2000 International Research
Conference on Social Security**
Helsinki, 25-27 September 2000



"Social security in the global village"

**Back to basics:
The case for an adequate minimum guaranteed income in
the active welfare state**

Bea CANTILLON & Karel VAN DEN BOSCH

***Centre for Social Policy
University of Antwerp (UFSIA)
Belgium***

**INTERNATIONAL SOCIAL SECURITY ASSOCIATION (ISSA)
RESEARCH PROGRAMME**

CONFERENCE HOSTS: FINNISH ISSA MEMBER ORGANIZATIONS

Back to basics: the case for an adequate minimum guaranteed income in the active welfare state

Bea Cantillon

Karel Van den Bosch

University of Antwerp (UFSIA)

Centre for Social Policy

Summary

One of the most important social problems is low labour market participation among those over 50, and among the low-skilled in general, leading to high rates of dependency on social security and social assistance, which threatens social cohesion.

The link between unemployment and poverty is not clear-cut. In many countries rapidly growing unemployment in the seventies and early eighties did not lead to more poverty. Some countries experience high poverty rates at the same time as high (non-subsidised) employment.

These empirical findings lead us to two important policy conclusions. Of strategic importance on the road from 'more work to less poverty' is, firstly, the extent to which new jobs are filled in by members of work-poor households. The second strategic policy factor is the extent to which the social security system continues to provide protection for those who, despite all social activation strategies, are left without a job. The European Union should play an important role in this regard, through the process of 'benchmarking', both in terms of poverty, and in terms of effective minimum income protection.

1. Introduction

At the heart of what many have called the 'crisis in the welfare state' lies a disruption of the balance between the three major social institutions of capitalist society: the family, the market and government. Two important transitions, one economic, the other social, underlie this evolution. The so-called post-industrial or post-fordian transition leads to often-painful movements in the labour market, from manufacturing to services and from low skilled to high-skilled jobs. Demand for low-skilled labour has declined sharply in virtually all OECD-countries, including those experiencing strong job growth. Indeed, most newly created jobs are highly qualified jobs in the services sector.

At least as important is the simultaneous sociological transition, i.e. the 'individualisation' of society, of which the emancipation of women is undoubtedly the most significant manifestation. Its consequences are far-reaching. *Firstly*, the emancipation of women caused the labour force to grow spectacularly. This inevitably led to serious imbalances in the labour market, as a result of which the socially and economically most vulnerable (i.e. low-skilled men and women) were left in a precarious situation. *Secondly*, so-called 'carework', which used to be performed 'naturally' and for nothing by the female homemaker, was given a

considerable price tag. Insofar as this work was not ‘marketed’ and/or socialised, it disappeared in the black economy, or resulted in abuse of unemployment benefits or a double – often too demanding – day’s work for dual-income couples.

The response from policymakers to this fundamental economic and social change has been mixed. In low employment generating welfare states on the European continent some groups have been shielded from unemployment and most have been successfully protected against income poverty. At present, these welfare states are faced with three main problems. First, economic activity among men aged 50 to 65 has been greatly reduced. Secondly, the low skilled are increasingly the group that alone faces the risk of unemployment (or of low wages when in employment). Thirdly, a large proportion of the active population is dependent on social benefits for their livelihoods. This entails high costs. Moreover, long term benefit dependence often leads to social exclusion: a large group of people, consisting mostly of low skilled, is at risk of sliding into a meaningless life of benefit dependency.

It has therefore been clear for some time that social policy must be aimed at reducing levels of benefit dependency by creating more jobs, by guiding long-term benefit dependants to the labour market, and by increasing the productivity capacity of the long-term unemployed through training. These are the basic ingredients which, partly as a result of European guidelines, have been incorporated into the national policies of most member-states of the European Union.

And yet, politicians should be wary of oversimplifications. For to claim that more jobs is the surest road to less poverty, lower social expenditure and less social exclusion is all too easy. After all, research suggests that more jobs will not automatically lead to less poverty and that a properly conceived activation policy presupposes *other* rather than *lower* social expenditure.

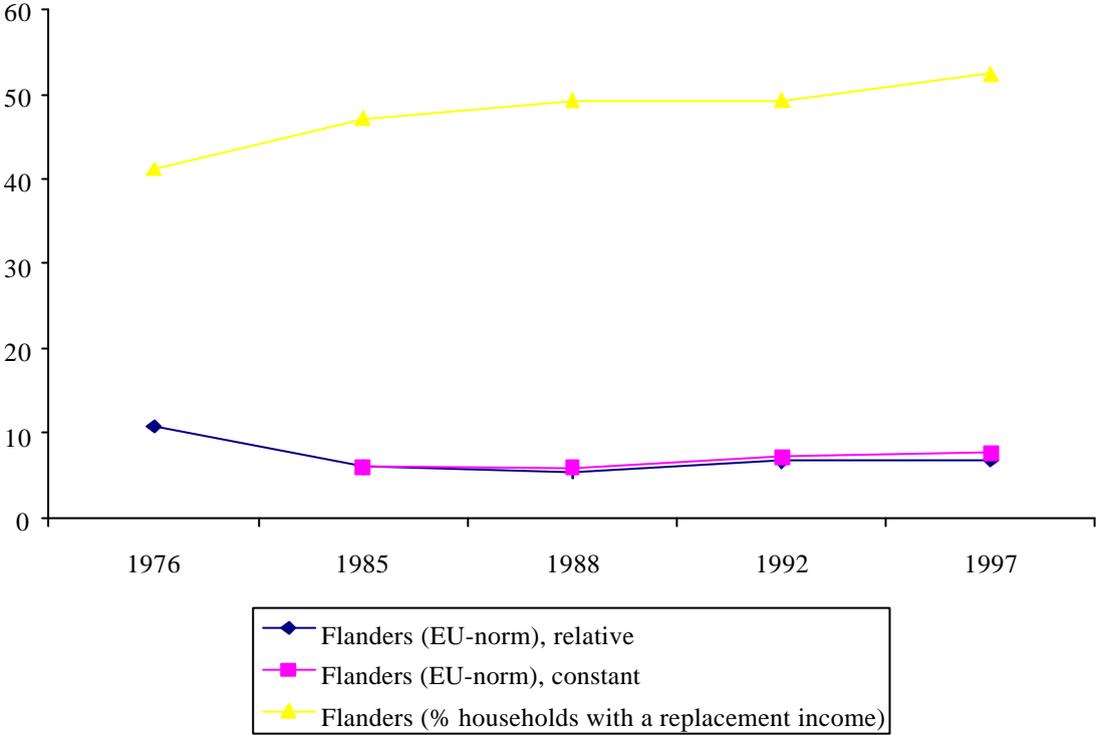
2. The obstacles on the course from ‘more jobs to less poverty’

Employment significantly reduces the poverty risk. In Belgium f.i., while the poverty rate among work-poor families (i.e. households where no one has paid work) is around 16%, it is only 1% among work-rich households (where at least two adults are working) (Cantillon et al., 1999). On this evidence, poverty may be expected to drop, as more jobs become available. Yet, the relationship between work and poverty is not as linear as it seems, as one can infer from historical trends and from international comparative research. There are at least two obstacles on the course from more work to less poverty. The first lies in the fact that additional jobs will not automatically be filled in by members of vulnerable work-poor families. The second obstacle has to do with the extent to which an ‘activation policy’ can be coupled with adequate social protection for those who, in spite of all investment strategies, remain jobless.

1) The first obstacle: supplying jobs to work-poor households

Lets take as a starting point for this argument the evolution of the distribution of income and welfare in the period 1976-1988. Studies in Belgium had indicated neither a surge in inequality nor an increase in poverty, findings that contradicted the prevailing discourse on new poverty, growing inequity and the dualisation of society. At that time it was generally accepted that the 'economic crisis', and growing unemployment in particular, could not but have had negative consequences for the distribution of income and welfare. Yet, the dramatic increase in unemployment and the declining employment rate, from 58% in 1976 to barely 54% in 1985, seemed to coincide with a considerable drop in the prevalence of poverty in Flanders, from 10% to 6% (see figure 1).

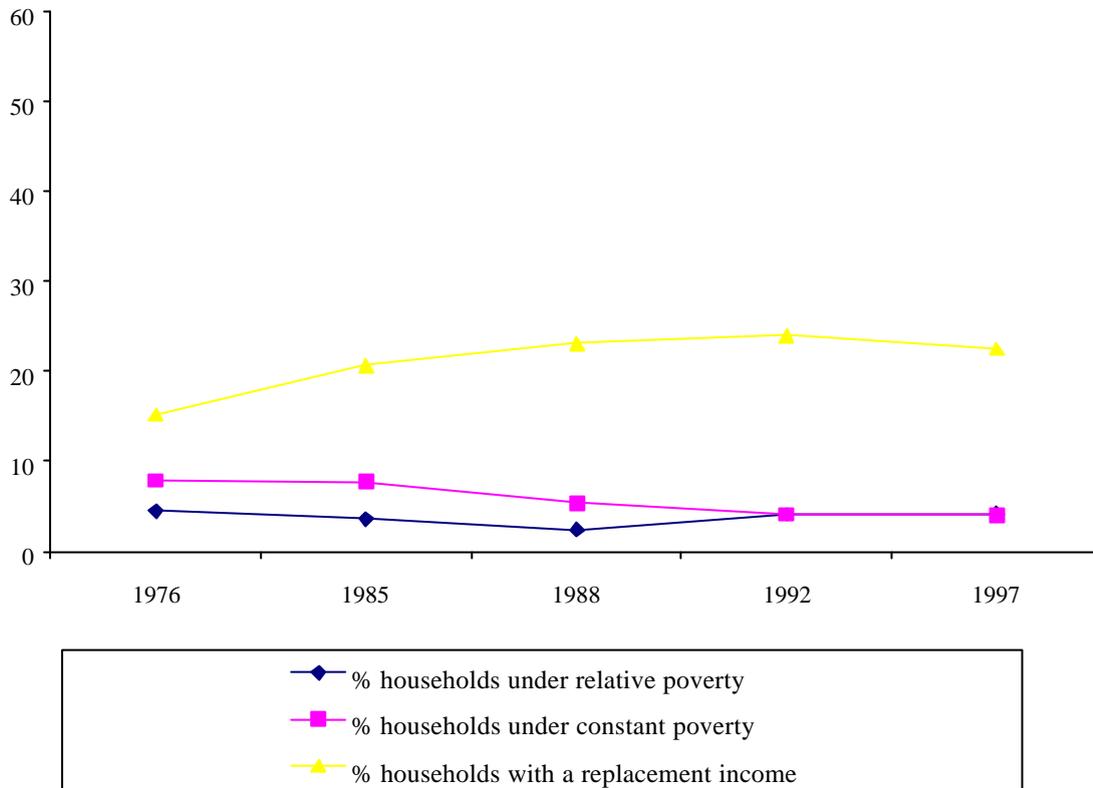
Figure 1. Poverty and benefit dependency in Flanders: percent of households under the poverty line and percent of households with a replacement income, Flanders, 1976-1997.



Source: Centre for Social Policy.

The principal explanatory factor for the enormous drop in poverty was the reduction in intragenerational inequities, due to an increase in the relative welfare of the elderly (Cantillon and Lesthaeghe, 1987). But poverty levels also declined among people of working age, from 4.5% in 1976 to 2.4% in 1988. Yet during that same period, the proportion of households receiving unemployment benefits increased from 15 to 23% (see figure 2).

Figure 2. Poverty and benefit dependency among households with heads under the age of 50, Flanders, 1976-1997.



Source: Centre for Social Policy.

There was a double explanation for this paradoxical development. On the one hand, rising unemployment was mostly affecting dual-income households, who usually received an income from labour besides benefits. This type of unemployment does usually not result in poverty. On the other hand, the prevailing social security system, with relatively generous benefits for single-income households, provided adequate protection against the ‘risk’ of unemployment. It is therefore no exaggeration to say that it was partly thanks to a more substantial social redistribution that the Belgian welfare state got through this period of economic and social transition without seeing greater social insecurity in the lowest income classes.

After 1988, the favourable poverty trend appeared to take a turn. Between 1988 and 1992, the relative poverty among households of working age increased from 2.4% to 4.1%. Although the 1990s saw the labour market recover and benefit dependency drop, inequities continued to grow and the poverty rate stabilised at around 4%. Importantly, absolute poverty was no longer declining. The best-off households saw their standards of living increase in this period. But – for the first time since we started collecting data- this was no longer the case for households at the bottom end of the income distribution.

These observations for Flanders lead us to the significant conclusion that *an increase in benefit dependency need not necessarily coincide with a rise in poverty and, conversely, that*

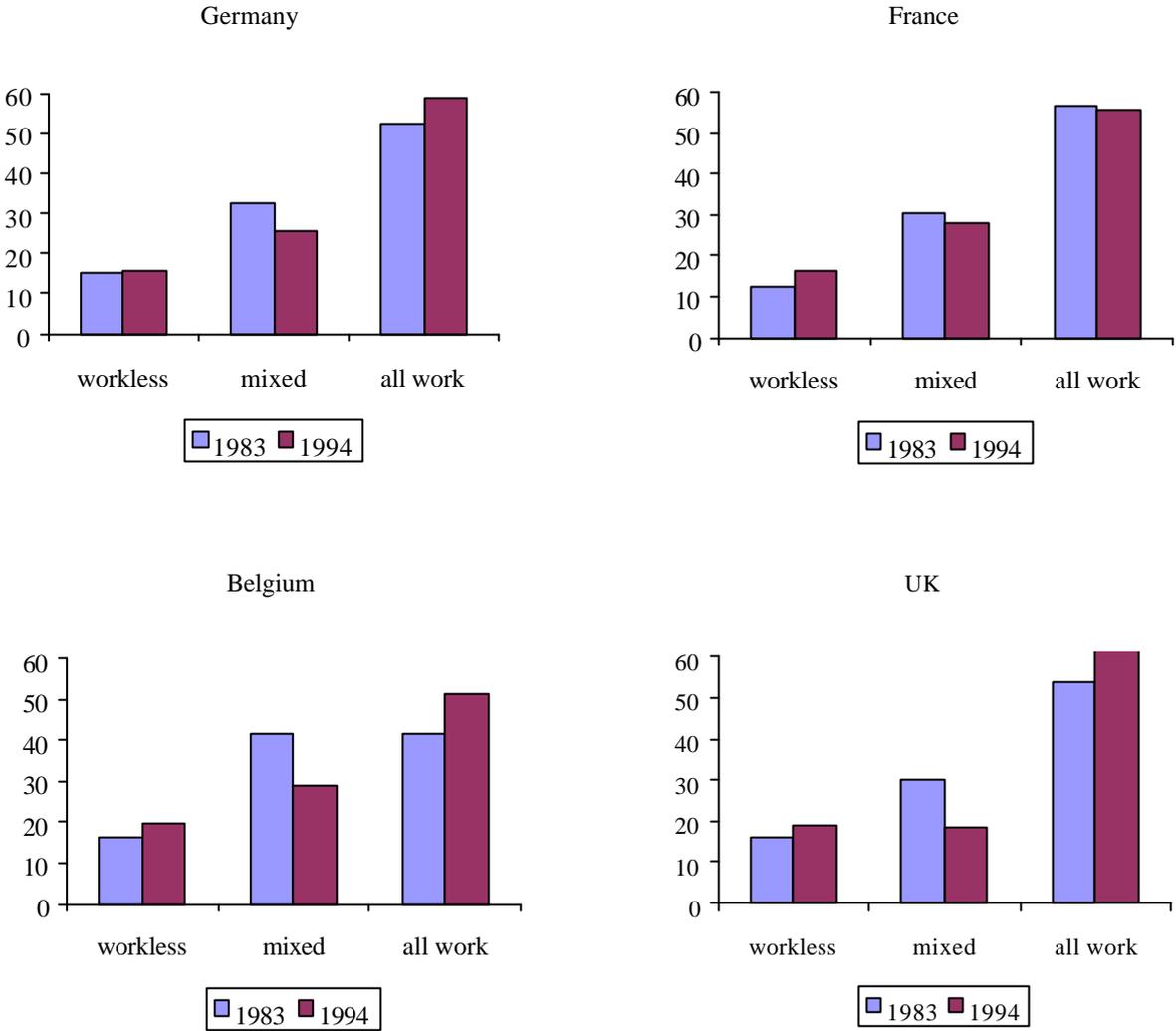
a drop in benefit dependency through job creation will not automatically reduce poverty levels. Similar observations have been made in other welfare states. In many countries on the European continent, growing benefit dependency in the 1970s and 80s did *not* coincide with growing poverty (see Cantillon et al., 1997; Atkinson, 1999). And recent Dutch studies have shown that (quite dramatic) job growth in the Netherlands has not resulted in a reduction of poverty, including long-term poverty. On the contrary, research suggests that there has been an increase since the beginning of the 1990s (de Beer, 1999; De Lathouwer, 2000). But why?

As far as the Netherlands is concerned, research indicated that the increase in labour participation was predominantly to the benefit of women (re)entering the labour market, as a result of which the number of dual-income households has increased considerably. Conversely, the number of households *without* an income from work has not declined. The same trend has been noticed in Belgium. A general reduction in benefit dependency saw the proportion of vulnerable work-poor households (wholly dependent upon replacement incomes) grow from 3% to 5%. Consequently one has, for some time now, seen a remarkable increase among unemployment benefit recipients in the proportion of single-income families, i.e. single persons and heads for whom the benefit represents the only source of income.

These findings appear to be universal. The OECD reports that between a third and half of all unemployed persons in the OECD belong to workless households (OECD, 1995). In the 1980s and 90s, many OECD countries saw this proportion increase. In Belgium, the proportion of households with two (or more) income earners grew from 42% in 1983 to 52% in 1994 (figure 3). At the same time, the proportion of households with no income from work increased from 16% to 20%. By comparison, over that same period in the UK, the proportion of multiple-income households increased from 54 to 62%, while the number of zero-earners rose from 6 to 19%. A similar polarisation has been observed in France, Germany and Luxembourg.

We conclude that, in many countries, rapidly growing unemployment did *not* lead to more poverty, because much of the unemployment occurred in financially more resilient dual-income households. Conversely, the more recently observed job growth appears not always to coincide with a drop in poverty, as proportionately fewer new jobs are supplied to work-poor households.

Figure 3. Proportion of work-poor and work-rich households in Germany, France, Belgium and the UK, 1983-1994.



Source: Gregg and Wadsworth (1996).

2) Second obstacle: social protection for work-poor households

Although unemployment is generally regarded to be one of the principal causes of poverty, comparative international research has shown that there is not at all a linear relation between unemployment (including long-term unemployment) and poverty (Figure 4). One can distinguish between four different clusters of countries. The first encompasses such countries as Norway, Sweden and Switzerland, which in the mid-1980s had relatively low unemployment as well as a low financial poverty rate for the active population. A second cluster consists of the United States, Canada and Australia, where low unemployment coincides with a high poverty level. And a third cluster includes most continental European countries, all of which have relatively high unemployment levels combined with comparatively low poverty rates. Only in Ireland does a high unemployment rate coincide

with a high poverty rate. Nor is there a linear connection between the overall level of long-term unemployment and poverty at active age. In fact, the above-mentioned clusters are even more clearly defined.

Figure 4. Poverty and unemployment in OECD countries.

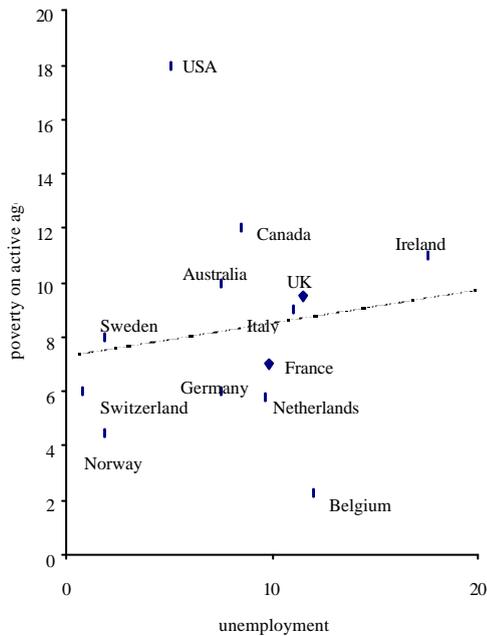
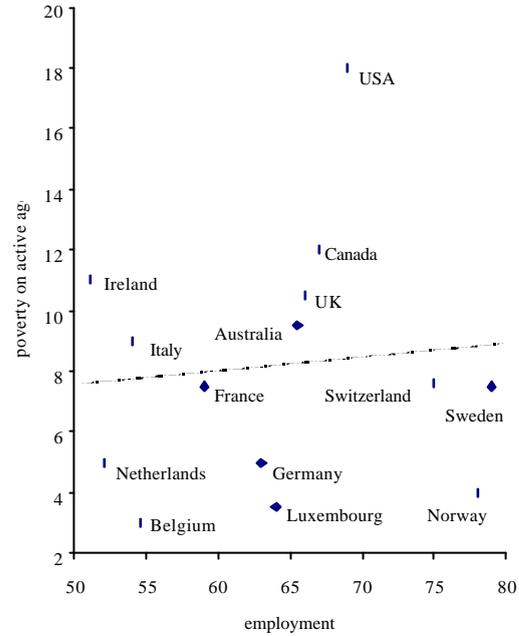


Figure 5. Poverty and employment in OECD-countries.

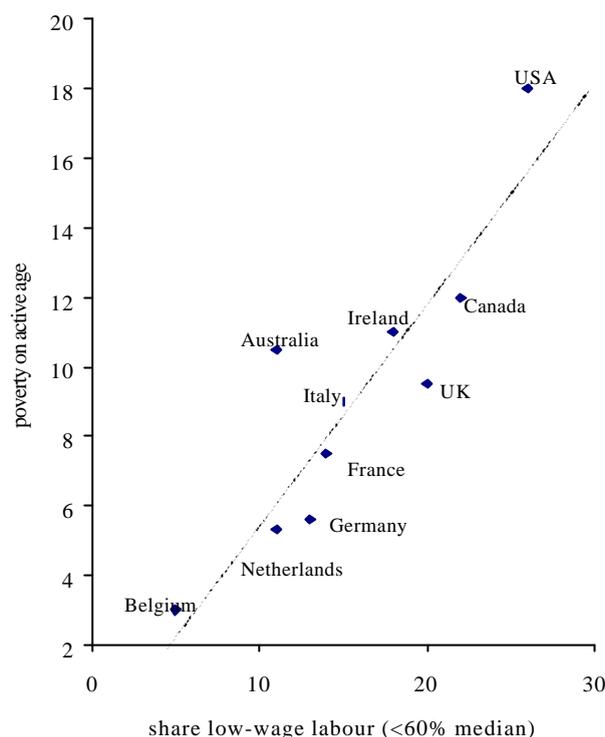


Source: Cantillon, 1999.

It is often suggested that more employment is the surest road to reducing poverty. But clearly high employment rates do not necessarily imply lower poverty levels (Figure 5). Only Switzerland, Sweden and Norway combine a very high employment rate (over 75%) with a low poverty level. Sweden and Norway have in the past pursued very active employment policies, unlike the United States, Canada and Australia, where one tries to boost employment by keeping benefit levels low and through local wage formation. However, the latter countries are confronted with the highest poverty rates in the OECD. At the other extreme we find the continental European states, such as Belgium, the Netherlands and Germany, which have relatively low poverty rates despite a relatively elevated level of non-employment.

A commonly heard explanation for this finding is the potential trade-off between employment and low wages. Countries with the highest non-subsidised employment levels, i.e. the US, Canada and Australia, also have the most substantial wage differences and largest low-wage sector (Figure 6).

Figure 6. Poverty and low wages in OECD-countries.

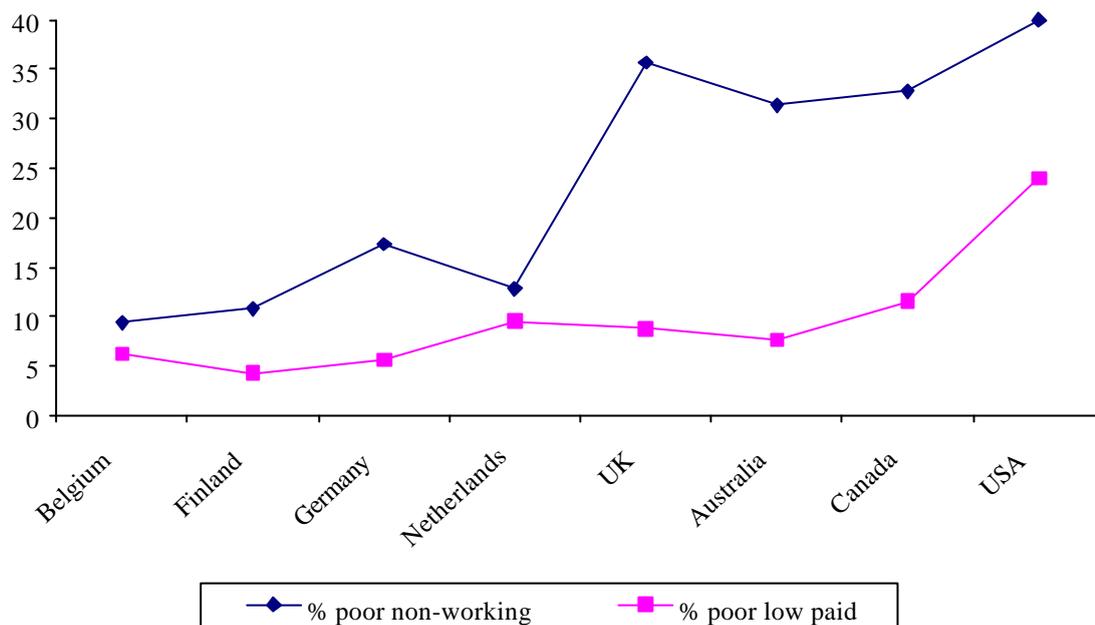


Source: Cantillon, 1999.

The strong cross-national correlation between the distribution of low-wage labour and poverty suggests that ‘poverty among the employed’ is more widespread in countries where low wages are most common. This is indeed the case, but only to a certain extent. Exclusively the high proportion of so-called working poor does certainly not explain the high poverty level in countries with high (non-subsidised) employment. The extent of poverty among the employed should not be exaggerated, even in countries where low-wage labour is relatively widespread. *What is much more striking is that poverty levels among the non-employed are very high in the Anglo-Saxon world.* The poverty rate among non-employed Americans of active age is 40% (Figure 7). That is about twice as high as the corresponding rate in any European country (with the exception of the UK), and about four times the level found in Belgium, Denmark, Finland or Norway. The cross-national differences are equally striking if one compares poverty rates among ‘workless’ households, which appear to be particularly high in such countries as the United States, Canada and the United Kingdom. Moreover, poverty at an active age is concentrated mostly in this category. In contrast to what one would expect given the low wages in the UK, 75% of the poor live in workless households.

We conclude that the high poverty level in countries with high (non-subsidised) employment is connected with an inadequate minimum protection for the employed (e.g. minimum wage) and –especially- for those who are out of work despite the high employment rate (e.g. minimum unemployment benefits and minimum welfare).

Figure 7. Poverty among the low-paid and non-working population in OECD-countries.



Source: Marx and Verbist, 1998.

3. Policy consequences

These empirical findings lead us to two important policy conclusions. Of strategic importance on the road from ‘more work to less poverty’ is, *firstly*, the extent to which new jobs are filled in by members of work-poor household. In the OECD-region this does not appear to occur automatically. This represents a first obstacle for a policy that strives to be employment generating and poverty reducing at the same time. The *second* strategic policy factor is the extent to which the social security system continues to provide adequate protection for those who, despite all investment strategies, are left without a job. Indeed, experience in work-rich countries has shown that we must take due consideration of the - as yet unresolved- issue of unemployment among the low skilled.

1) *Ingredients of a win-work strategy*

How can an activation and job-creation policy assure that newly created jobs are directed maximally to these work-poor, i.e. unskilled, households? Naturally, the suppression of the low skilled on the job market will be reduced if enough additional jobs are created. But both the Dutch and the Anglo-Saxon examples show that this does not suffice. Even in so-called ‘work-rich countries’ the low skilled makes up a large proportion of the unemployed. Moreover, experience in countries with high wage flexibility has shown that this simple market mechanism (i.e. declining level of low wages) does not lead automatically to more jobs for the low skilled. The hypothesis that cutting low wages will lead to a substantial increase in employment for the low skilled has been refuted in various empirical studies (see among others Glyn and Salverda, 2000; Nickell and Bell, 1995; Card, Kramarz and Lerner,

1996; Krueger and Pischke, 1997). Even in countries where the lowest wages have been cut considerably, unemployment among the low skilled remains an unresolved issue.

In other words, it would be simplistic to believe that job creation and wage cost reduction will inevitably lead to substantially more employment for work-poor households, for there are very fundamental factors at work here. The *technological revolution* is not neutral vis-à-vis schooling levels, but rather knowledge intensive. It leads to a relative drop in demand for low-skilled labour and a relative increase in demand for high-skilled workers. On top of that, there is the phenomenon of *globalisation*, which is affecting the world-wide scarcity of low-skilled labour to a greater degree than it is influencing the scarcity of high-skilled labour. Furthermore, all forms of *social regulation* (minimum wage, increase of labour costs through social security contributions, and the like) are most important to the lower incomes. And benefit dependency itself leads to the *erosion of skills and talents*. For all these reasons low-skilled persons, individuals with limited skills and experience, people with social handicaps and long-term benefit dependants have great difficulty finding their way to the labour market. They need help to get there.

The key question is: how should the gap be bridged between the perspectives of the employer and the worker, i.e. the gap between the excessive cost of simple, low-productive work in care or services and the inadequate earnings of the worker involved. Three possibilities present themselves. *Firstly*, one could substantially reduce the fiscal burden on low-productivity labour, both for the employer and for the employee. *Secondly*, benefits could be recycled. Passive benefits must be transformed into service labour that is meaningful to society. *Thirdly* (and in conjunction with the previous item), through direct, subsidised job creation for the low skilled, especially in the growing field of carework (for example, childcare outside of schools). All these possibilities boil down to the *subsidising of low-skilled labour*.

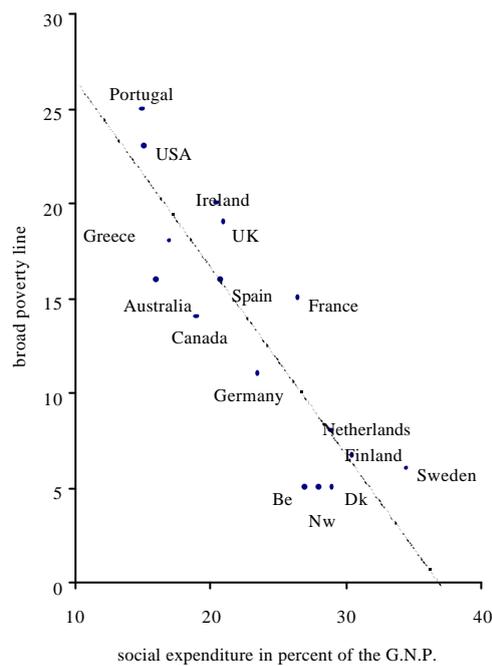
In addition, one notices that educational systems are still inadequate in developing the talents that are required in today's new economic and social environment. Despite a strong increase in levels of schooling, the democratisation of the educational system has stagnated in most countries (Shavitt and Blossfeld, 1993). Children from the lower classes still have (significantly) fewer opportunities for developing their personal skills than children from better-off families. This implies that many potentialities remain untapped. Especially in technical and vocational training, where youngsters often end up as a last resort after dropping out of mainstream education, the time seems right for a reassessment. In addition, substantial investments need to be made in the (re)activation of the potentialities of the large stock of long-term unemployed.

Therefore, the 'active welfare state' is not a cheap option (Vandenbroucke, 1999). An activation policy that also aspires to reduce poverty requires a reorientation (not a reduction!) of social expenditure, from merely passive transfers to a service-rendering care model that not only guarantees social security, but also uses and valorises talents maximally.

More generally, it appears that from a macroeconomic perspective there is a positive relationship between the volume of public social expenditure (social security and collective goods and services) and poverty. Poverty levels are the lowest in countries that spend the

most, and they increase (albeit not in a linear fashion) as the expenditure level drops (see figure 8). The more passive transfer-oriented appropriation of means in the Benelux countries generates the same results in terms of financial poverty as the more activating service-oriented public spending in the Scandinavian countries: the two regions realise a similar (low) poverty level. If anything, international comparative research has demonstrated that combating poverty requires high social expenditure. There is no reason to believe that this will not be so in the active welfare state.

Figure 8. Poverty and social expenditure in OECD countries.



Source: Cantillon, 1999.

2) *Back to basics: the imbalance between social and economic adequacy*

The second strategic element in poverty policy –even in the active welfare state- is minimum protection for those who remain without a job in spite of all social investment strategies. As experience has shown that, even in very work-rich countries, the problem of underemployment among the low skilled is quite persistent, an activation policy should be conceived as a complement rather than an alternative to a broad and comprehensive system of social protection. Freezing minimum benefits in order to combat unemployment traps, for example, will inevitably result in a widening gap between those holding a job and those who remain unemployed.

The most important lesson to be learnt here is that social security should never be allowed to deviate from its primary objective, i.e. to assure an adequate minimum income to those affected by a social risk. This is not an understatement. If one considers the (albeit slow)

welfare erosion of minimum benefits in Belgium (including assistance benefits), one cannot help but think that this is a consequence of the activation logic and the unconditional belief in a positive linear relationship between job creation and poverty reduction.

Since the mid-1990s, a relative loss of welfare has occurred for *all* minimum benefits, including social security benefits and benefits for the least well-off single-income households. Indeed, all benefits have lagged behind general welfare developments considerably. Measured in % of per capita National Income, all minimum benefits have shrunk continuously since 1983. And since the second part of the 1980s, benefits have been lagging behind wage developments too. The increase in poverty among work-poor households who are entirely dependent on social security is a direct consequence of this trend (See Cantillon et al., 1999).

Achieving a correct balance between rights and duties in the active welfare state presupposes that, besides an activation discourse, there should also be a discourse on adequacy. Although social security needs to aim at preventing risks, its single most important purpose is to assure subsistence in case of a social risk. Or, as Esping-Andersen recently warned:

“... contemporary policy fashion tends to stress far too narrowly the wonders of ‘activation’ while ignoring income maintenance” (Esping-Andersen, 2000).

The European Union should play an important role in this regard, through the process of ‘benchmarking’, both in terms of poverty, and in terms of effective minimum income protection.

4. Towards a European Poverty Line

In the modern state reducing poverty is a goal that is equally as important as the traditional economic goals: growth, price stability and employment. The European Union can play an important role in guiding the discourse and setting the agenda in the Member states. A very useful step in this context would be the introduction of a European poverty line. Such a move would establish an institution at the European level (such as the official poverty line in the USA) that consolidates the goal of poverty reduction and stimulates the development of social policies to tackle this problem. (cf. Atkinson, 1997) This implies that a consensus on four points should be reached among policy makers at EU level.

First of all, there should be agreement on the method of measurement: i.e. the approach used to develop a poverty line and the technical details of its empirical application. At present, there is within academia no consensus about the best method to measure poverty. Therefore it can be said that every poverty line is a convention, i.e. established on the basis of consensus between experts and policy makers. Three criteria should guide the choice of a European poverty standard. Of course, the norm must be proven to be statistically reliable and feasible. Furthermore, the chosen norm must be acceptable for the general public. This means that the method should be understandable, at least in its general principles, and also that, to a certain extent, the measurement of poverty should refer to an absolute definition of poverty, i.e. the inability to satisfy one’s basic needs. Finally, the norm must be relevant for policy-making; i.e. reducing poverty as measured by this norm must be a reachable goal.

When we evaluate the methods that are currently used to estimate or set poverty lines, we get the following result:

<i>Method</i>	<i>Statistical feasibility</i>	<i>Public acceptance</i>	<i>Policy relevance</i>
Statutory	Not feasible in all countries	High	Ambiguous
Relative	High	Low	Ambiguous
Subjective	Unreliable	High	Low
Food-ratio	To be researched: mid-long term	Probably high	Probably high
Budget	To be researched: long term	High	Probably high

Currently, three of these methods are used in international comparative poverty research: the statutory method, where the poverty line is defined by the level of minimum income thresholds in social assistance, social security or taxation, the relative method, where the poverty line is set at a certain percentage of average income in a country, and the subjective method, where the poverty line is derived from answers to a survey question about perceived minimum income needs. None of these three methods satisfies all three criteria. The potential of the other two methods for comparative research has yet to be confirmed. The food-ratio method as proposed by the commission which reviewed the official American poverty line is based on the actual expenditure on basic goods (food, clothing, housing) of a reference family. The budget method uses a basket or list of goods and services that are identified as essential consumer goods. Using prices for each item in the basket, the total minimum budget can be calculated (Bradshaw, 1993; Van den Bosch, 1997).

In the short term, a relative standard, calculated per Member-state (e.g. 60 per cent of the median family-income in each Member-state, adjusted with the OECD equivalence scale) seems to be the only feasible method. In the long term, the budget method appears to be the best option. The same basket will not apply within each country; rather, on the basis of common principles and guidelines, separate baskets should be defined for each country.

The second element on which an agreement should be reached at EU-level is the poverty rate that should be set as an aim for policy: i.e. the goal that can and must be set for the medium term. Although it remains a political decision which level of poverty should be aimed at, all decisions should take into consideration that the goal must be reachable by using available social and economical policies, and also that the goal should not exclude certain policies which might be used to fight poverty. It should do justice to the consequences of economic growth, which results in the same percentage income increase for everyone (this can be shown through the use of a fixed purchasing-power poverty line); it should do justice to the consequences of income redistribution (this can be shown by using the relative poverty line) as well as to the consequences of specific income transfers to target groups (this can be shown through mapping the relative poverty level per group).

Given that a relative poverty line is used for measurement (in the short term), the following policy targets seem realistic. At a minimum, poverty rates measured with fixed purchasing power poverty lines should decrease, per country. This means that the relative poverty line in a particular base year is updated using the index of consumer prices. Given sufficient economic growth, poverty measured with such poverty lines should decrease rather rapidly. This is illustrated in Table 1, which shows simulated poverty rates in the European Union in 2005 and 2010 under the assumptions that the incomes of all households grow with 1, 2 or 3 percent per year. At the optimistic assumption of 3 percent growth, poverty in 2005 would be more than halved relative to 1995, and in 2010 it would be reduced by more than two-thirds. At the more moderate assumption of 2 percent growth, poverty would be still more than halved in 2010. This is equally true for non-aged adults, children and aged persons.

Table 1. Simulated poverty rates in the European Union in 2005 and 2010 under various assumptions of income growth, using a constant poverty line.

<i>Year</i>	<i>1995</i>	<i>2005</i>			<i>2010</i>		
<i>Income growth per year</i>		<i>1%</i>	<i>2%</i>	<i>3%</i>	<i>1%</i>	<i>2%</i>	<i>3%</i>
All households	17,2	13	10,1	7,9	11,5	7,9	5,9
All individuals	16	12	9,4	7,4	10,6	7,4	5,4
Children	17,7	13,4	10,3	8	11,9	8	5,9
Non-aged adults	15,1	11,5	9,2	7,3	10,3	7,3	5,4
Aged persons	19,5	13,9	10,2	7,7	12	7,7	5,3

Note: Poverty line is 60 percent of median equivalent income in the base year (1995), which remains constant across the simulations. The assumption is that the incomes of all households grow in real terms at the rates indicated. Results for 1995 are measured poverty rates.

Source: Calculations by B. Van Hoorebeeck on the European Community Household Panel.

An additional policy target could be that relative poverty in the EU decreases through reducing relative poverty in countries where the level is above average, and relative poverty among risk-groups in each country (i.e. categories within the population with a percentage of poor above average, e.g. children, single-parent families, low-skilled, elderly) should also be reduced. (See CBS, 1999, for useful results on the distribution of poverty risk across population categories in the Member states of the EU.)

The third element on which a consensus among policy makers within the EU should be reached is an instrument that evaluates the performance of the social security and social assistance systems in the EU Member States. After all, the development of poverty rates is to a large extent the result of circumstances and developments beyond the reach of social policies. Therefore, a more direct evaluation of policies is required. A methodology can be developed that allows annual updating and international comparison of policy efforts, i.e. the input of policy, both on the macro and the micro-level. On the macro-level such input indicators measure the evolution of the total volume of social security and social assistance

outlays, as a proportion of GDP (general, per branch, per system and per function). Input indicators on the micro-level focus on the evaluation of individual reference benefit amounts (e.g. minimum and maximum unemployment benefits, minimum and maximum pensions). Their development is compared with indices of purchasing power, indices of average welfare, and poverty standards. The importance of social benefits is illustrated in Table 2, which is similar to Table 1; except that the assumption is made that social benefit do not grow in real terms, but only follow price increases. Unsurprisingly, poverty among aged persons hardly decreases under this assumption. But even among children and non-aged adults, the reduction in poverty is only half of what it is when all incomes, including social benefits, grow in real terms.

Table 2. Simulated poverty rates in the European Union in 2005 and 2010 under the assumption that transfer incomes do not grow, using a constant poverty line.

<i>Year</i>	<i>1995</i>			<i>2005</i>			<i>2010</i>		
<i>Market income growth</i>		<i>1%</i>	<i>2%</i>	<i>3%</i>	<i>1%</i>	<i>2%</i>	<i>3%</i>		
<i>Transfer income growth</i>		<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>		
All households	17,2	15,7	14,6	13,6	15,1	13,6	12,6		
All individuals	16	14,2	12,9	11,9	13,6	11,9	10,9		
Children	17,7	15,	13,3	11,7	14,3	11,7	10,2		
Non-aged adults	15,1	13	11,5	10,3	12,3	10,3	9,2		
Aged persons	19,5	19,1	18,7	18	18,8	18,3	18		

Note: Poverty line is 60 percent of median equivalent income in the base year (1995), which remains constant across the simulations. The assumption is that the incomes of all households grow in real terms at the rates indicated. Results for 1995 are measured poverty rates.

Source: Calculations by B. Van Hoorebeeck on the European Community Household Panel.

A limited set of non-financial indicators is the final element on which an agreement needs to be reached. Such indicators give a general insight in the non-income-related aspects of poverty as well as the policies that are useful in the fight against poverty. Poverty in its broad definition is a multiple-dimensional concept that covers many areas of life (UNDP, 1997). It is too simple to approach poverty only from a financial point of view, the more because poverty policies are part of a wider general social policy. Indeed, the importance of ‘non-cash benefits’ must be stressed that people receive within universal programmes (free education, National Health Service etc.). In order to be useful, these indicators should be limited in number, related to policy areas and based on indisputable statistics.

5. Conclusion

The link between unemployment and poverty is not clear-cut. In many countries rapidly growing unemployment in the seventies and early eighties did not lead to more poverty, because much of the unemployment occurred in financially resilient dual-income households. Conversely, the more recent job growth appears not always to coincide with a drop in poverty, as relatively few of those new jobs are supplied to work-poor households. Some countries experience high poverty rates at the same time as high (non-subsidised) employment, apparently due to inadequate minimum protection for the employed, but especially for those who are out of work despite the high employment.

These empirical findings lead us to two important policy conclusions. Of strategic importance on the road from 'more work to less poverty' is, firstly, the extent to which new jobs are filled in by members of work-poor households. Social policy must be aimed at reducing levels of benefit dependency not just by creating more jobs, but in particular by guiding long-term benefit dependants to the labour market, and by increasing the productivity capacity of the long-term unemployed through training. The second strategic policy factor is the extent to which the social security system continues to provide protection for those who, despite all social activation strategies, are left without a job. An adequate safety net of minimum income protection in social security and social assistance remains of crucial importance to prevent poverty. The European Union should play an important role in this regard, through the process of 'benchmarking', both in terms of poverty, and in terms of effective minimum income protection.

References

- ATKINSON, A.B. (1997), *Poverty in Europe*. Oxford: Blackwell.
- ATKINSON, A.B. (1999), 'The distribution of income in the UK and OECD countries in the twentieth century', *Oxford Review of Economic Policy*, vol. 15, no.4, pp. 56-75.
- ATKINSON, A.B. (2000), *A Welfare State for the 21st century – Ageing Societies, Knowledge Based Economies and the Sustainability of European Welfare States*. Reports Prepared for the Portuguese Presidency of the European Union, pp. 85-119.
- BEVERIDGE, W. (1942), *Social Insurance and Allied Services*. London: HMSO.
- CANTILLON, B., LESTHAEGHE, R. (1987), 'Generatie, gezinsvorm en inkomen: ontwikkelingen in Vlaanderen 1976-1985', *Tijdschrift voor Sociologie*, 2-3, p. 201-138.
- CANTILLON, B. (1990), *Nieuwe behoeften naar zekerheid. Vrouw, gezin en inkomensverdeling*. Leuven, Acco, 502p.
- CANTILLON, B., MARX, I., VAN DEN BOSCH, K. (1997), 'The Challenge of Poverty and Social Exclusion', in: OECD (ed.), *Towards 2000: The New Social Policy Agenda*, Paris: OECD.
- CANTILLON, B. (1999), *De welvaartsstaat in de kering*. Kapellen: Pelckmans.
- CANTILLON, B., DE LATHOUWER, L., MARX, I., VAN DAM, R., VAN DEN BOSCH, K. (1999), 'Sociale indicatoren 1976-1997', *Belgisch Tijdschrift voor Sociale Zekerheid*, jrg.41, 4, p.747-800.
- CANTILLON, B., GHYSELS, J., VAN DAM, R., MUSSCHE, N. (2000), *Skills, Gender Equality and the Distributional Impact of Female Labour Market Participation in the Three Worlds of Welfare Capitalism*. Seventh International Research Seminar, Foundation for International Studies on social security (FISS), Sigtuna, Sweden, 17-20 June.
- CARD, D., KRAMARZ, F., LERNIEUX, T. (1996), 'Changes in the Relative Structure of Wages and Employment', *NBER Working Paper 5487*.
- CBS (1999), *Social Reporting: Reconciliation of Sources and Dissemination of Data: Recommendations on the Measurement of Social Exclusion and Poverty and a Blueprint for a Periodic Publication*, Heerlen: Centraal Bureau voor de Statistiek
- DE BEER, P. (1999), 'De paradox van banengroei en armoede', *ESB*, p. 950-952;
- DE BEER, P. (1999), 'Misvattingen en taboes van het inkomensbeleid', in: BECKER, F. e.a. (eds.), *Hedendaags kapitalisme*. Twintigste Jaarboek voor het democratisch socialisme. Wiardi Beckmanstichting / Arbeiderspers, Amsterdam;
- DE BEER, P. (1999), 'Werk en armoede', *Armoedemonitor*, p. 111-138.
- DE LATHOUWER, L. (2000), 'Meer werk is geen garantie voor minder armoede en minder ongelijkheid. Kritische reflecties bij het Nederlandse poldermodel vanuit België', in: Salverda, W. (ed.), *De toekomstwaarde van het Nederlandse model*. (Te verschijnen).
- DELEECK, H. (1992), *De Architectuur van de welvaartsstaat*. Leuven: Acco.
- GLYN, A., SALVERDA, W. (2000), 'Does Wage Flexibility Really Create Jobs?', *Challenge*, Jan-Feb, p. 32-43.
- GREGG, P., WADSWORTH, J. (n.d.), *It takes two: Employment Polarisation in the OECD*. London: Centre for Economic Performance, London School of Economics.
- KRUEGER, A., PISCHKE, J.-S. (1997), 'Observations and Conjectures on the U.S. Employment Miracle', *NBER Working paper 6146*.
- MARX, I., VERBIST, G. (1998), 'Low-paid work and poverty: a cross-country perspective', in: BAZEN, S., GREGORY, M., SALVERDA, W. (eds.), *Low-wage employment in Europe*, Edward Elgar.

- NICKELL, S., BELL, B. (1995), 'The Collapse in the Demand for the Unskilled Across the OECD', *Oxford Review of Economic Policy*.
- OESO (1995), *Employment Outlook*. Parijs: OESO.
- SHAVITT, Y., BLOSSFELD, H.P. (1993), *Persistent Inequality. Changing Educational Attainment in Thirteen Countries*. Boulder: Westview Press.
- SWEENEY, J. (1998), *Why hold a job? The labour Market choice of the low Skilled*. Leuven: KULeuven.
- VANDENBROUCKE, F. (1999), 'De Europese sociaal-democratie en Labours Derde Weg', *Samenleving en Politiek*, nr. 3.
- VANDERWEYDEN, K. (2000), 'Loopbaanonderbreking: een legitiem systeem?', *Samenleving en politiek*, 7 (3): 30-37.