



# GINI

## Struggle for Life: Social Assistance Benefits, 1992–2009

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GROWING INEQUALITIES' IMPACTS

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# Abstract

This paper looks at the level of the minimum income guarantees for able-bodied persons at working age and assesses benefit trends since the 1990s. Our dataset comprises 25 EU countries (EU27 except Cyprus and Malta), 3 American States (Nebraska, New Jersey and Texas) and Norway. The degree of welfare erosion is measured by three indicators: real benefit trends, benefit trends relative to the development of average wages and benefit trends relative to changes in median equivalent income. We therefore assess net disposable income of families relying on social assistance, taking account of the impact of i.a. child benefits and housing allowances. A central question in this paper is the extent to which trends in social assistance benefit packages are linked to the statutory mechanism that is being used to adjust benefit levels.

It appears that most legal systems are quite insufficient to keep benefit levels in line with the general living standard. The broad picture that emerges is indeed one of eroding benefit levels relative to the general living standard, although the trend is less uniformly negative from 2001 onwards. In the 1990s we see the comparative level of welfare of social assistance recipients decline almost everywhere. In many countries social assistance payments have continued to decrease relative to average wages after 2001, although less uniformly so. In the countries where benefits did keep pace with average wages or median equivalent income, this was generally because governments (consciously) increased benefits over and above the evolution of the average living standard, either by a one-time reform, or through subsequent ad hoc raises.



# 1. Introduction

The adequacy of minimum income protection is high on the policy agenda in Europe today. The EU2020 Strategy, as agreed by the Council in June 2010, has made the reduction of poverty and social exclusion one of her top priorities. By 2020, the number of people living in poverty should be reduced by 20 million. Poverty is measured here as an aggregate based on three indicators: the financial poverty risk (i.e. the share of households with a net income below 60 per cent of median standardized income), the extent of material deprivation (i.e. households that were unable to afford four out of nine previously determined items) and the number of households with a low work intensity (i.e. households whose members are either jobless or in work for just a few months per year). With the first two indicators the notion of minimum income protection has come to the fore again.

The necessity of minimum income guarantees has been recognized not only in policy circles but also by academic researchers (Atkinson, 2010; Frazer and Marlier, 2009; Nelson, 2011). Declining benefit generosity is often seen as a partial explanation for why poverty in Europe has not decreased over the past decades and why the Lisbon Agenda failed in making any progress on the relative income poverty dimension (Atkinson, 2010; Cantillon, 2011; Vandenbroucke and Vleminckx, 2011). The EU indicators show indeed an elevated and rising poverty risk among the unemployed in Europe. Moreover there is a good deal of evidence that significant retrenchment has taken place in social protection arrangements in many countries, leading to restricted access and reduced benefit levels (Barberis and Baumann, 2010; Kangas and Ritakallio, 2007; Korpi and Palme, 2003; OECD, 2007; Starke and Obinger, 2009) Means-tested social safety nets have not been able to escape this so-called welfare state backlash. Nelson (2011) has demonstrated that the adequacy of social assistance benefits has deteriorated almost continuously between 1990 and 2008, most particularly in the Nordic countries and Central and Eastern Europe.

In this paper we look at the level of the minimum income guarantee for able-bodied persons in EU-countries, and assess benefit trends since the 1990s. This paper joins the ranks of a host of previous comparative studies on levels and trends of minimum income protection (Behrendt, 2002; Bradshaw and Finch, 2002; Cantillon, Van Mechelen, Marx, and Van den Bosch, 2004; Eardley, Bradshaw, Ditch, Gough, and Whiteford, 1996; Kuivalainen, 2005; Nelson, 2011; Sainsbury and Morissens, 2002). However we expand on these studies in at least three ways. First, this paper provides a recent and detailed overview of social assistance benefit trends – detailed, that is, country-by-country. The focus is on cross-country variations rather than on the variation among groups of countries that are deemed to represent different welfare regimes (like for example in Nelson 2011). In addition, our analyses are based on original data drawn from a large network of national experts. Finally, this paper aims to shed some

light on the extent to which the degree of welfare erosion is linked to the statutory mechanism that is being used to adjust benefit levels. Social benefits that are regularly adjusted by means of wage indexes or baskets-of-goods-and-services, are they less prone to retrenchment than social benefits that are merely linked to a price index? The analysis reveals some dimensions of social assistance benefit trends that have not been fully brought to light in other studies.

The degree of welfare erosion is measured here by three indicators: real benefit trends, benefit trends relative to the development of average wages and benefit trends relative to changes in median equivalent income. Average wages are a standard benchmark to set social benefit levels against (Bradshaw and Finch, 2002; Eardley, et al., 1996; Nelson, 2008). The advantage of using median equivalent incomes as a benchmark is that we will be able to gauge the extent to which minimum incomes now provide more or less protection against poverty than a decade ago. The idea is indeed increasingly gaining ground that adequate minimum income schemes must be set at at least 60 per cent of median equivalent income (European Parliament, 2010; Nelson, 2011).

This paper is structured as follows. In the following section we briefly describe the assistance schemes selected for this paper and look at the size of the claimant population. Section 3 presents our data. In section 4, we look at the cross-country variation in social assistance benefit levels in 2009. Section 5 assesses the trends in benefit levels between 1992-2009. A final section concludes.

## 2. Social assistance schemes for the able-bodied

European social safety nets emerged within the context of comparatively small and sovereign nation states. Consequently, there cannot be found a single mode of assistance provision. Attempts have been made to map out the differences between (and within) countries with regard to the institutional set-up of and the social rights guaranteed by the minimum income scheme(s) (see for instance Bahle, Hubl, and Pfeifer, 2011; Eardley, et al., 1996; Frazer and Marlier, 2009; Gough, 2001; Kuivalainen, 2005). These studies generally look at the general social assistance scheme, that is open to all people who fall beneath a certain level of income or resources, or use a more encompassing definition of minimum income schemes that also includes categorical schemes, that target more specific categories among those with insufficient resources (e.g. the disabled or the elderly).

This paper differs from these studies in at least two ways. First, our purpose is not to provide an encompassing taxonomy of minimum income schemes. Instead, we focus on trends in minimum income benefit levels. Second, the scope of the current paper is limited to social assistance schemes for the able-bodied of working age. Contrary to the studies mentioned, we have first defined a group at risk (for this paper, the working-aged able-bodied who fall outside the social insurance scheme and are without a job) and then look at the protection level offered to this group by the applicable minimum income scheme. This approach allows us to compare functional equivalent schemes across countries. Table 1 provides an overview of the schemes selected based on this risk-type approach.

Generally, the needs of able-bodied working aged persons who have not built up sufficient rights to benefit from the unemployment insurance scheme are addressed within a general assistance scheme. However, there are some important exceptions, in which a categorical scheme caters for this target group. In the *United Kingdom, Ireland, Germany, Finland* and *Hungary*, there is a specific programme in place for those who are able-bodied but not (or no longer) entitled to contributory insurance benefits. In the first four countries, means-tested support for the able-bodied is incorporated into the unemployment scheme. In Hungary there is a specific scheme aimed at non-able bodied persons as well as those who are no longer entitled to social insurance benefits (e.g. unemployment insurance). However, this scheme offers no protection to all able-bodied persons. Able-bodied people that have never built up a contributory record, are entitled to regular social assistance only after active cooperation with a job centre during at least one year. *Greece* lacks any sort of general or categorical safety net for the able-bodied. People's needs are mainly addressed within different categorical schemes, but not for healthy people who are work capable.



In addition, most of the schemes mentioned in Table 1 are determined at the national level. However, some important exceptions exist (for a detailed description, as well as a discussion on the benefits and dangers of this institutional set-up, see Kazepov, this volume). In three EU countries social assistance is a regional competence: *Italy*, *Spain* and *Austria*.<sup>1</sup> This paper draws on social assistance benefit levels in, respectively, Milan, Catalonia and Vienna. It should be noted that results cannot be easily extrapolated to Italy, Spain and Austria as a whole. This is especially true for Italy and Spain where regional variations are substantial. In both countries there are numerous regions where the guaranteed minimum income is much less generous than in Milan and Catalonia (Arriba and Moreno, 2005; Rodríguez Cabrero, 2009; Saraceno, 2006). In *Sweden* and *Norway* too, the setting of social assistance rates is largely devolved. In both countries municipalities are relatively free to set their own rates although there is a national assistance framework. In Sweden, national guidelines merely define the minimum level of social assistance, while in Norway, national guidelines are not even binding. The estimates in the tables below are based on the scale rates prevailing in respectively Stockholm and Oslo. In *the US*, part of the benefit package is determined at the federal government level. Benefit amounts provided through the Supplemental Nutrition Assistance Program (SNAP) - which provides food budgets to working and non-working families on low incomes that can be spent only in specified stores and on specific food products - are largely set by the federal government though statutes, regulations, and waivers provide State agencies with numerous policy options. Moreover, within the Temporary Assistance for Needy Families (TANF) programme which provides cash benefits to families with children, the states are also able to determine largely their own course. In addition, the US states are empowered to organise additional social assistance schemes (the so-called general assistance). In some states, families that are no longer entitled to TANF see their SNAP entitlements supplemented with general assistance. Finally, states differ in the degree to which social assistance recipients are required to pay taxes, especially local property and other non-income taxes. Here we present social assistance benefit levels in Nebraska, New Jersey as well as Texas. Nebraska is one of the states where federal schemes are supplemented with comparatively generous state benefits, while Texas is among the states where welfare provisions are limited.

Finally, Table 1 provides an indication for the large variation in size between the minimum income schemes for able-bodied working aged adults. It should be emphasized that these data draw on national sources which differ considerably with regard to the recipient unit (households, versus beneficiaries), the age categories included and the underlying assumptions. Therefore the results in Table 1 are merely tentative or illustrative.<sup>2</sup> According to Table 1, in about half of the European countries less than three per cent of the working age population receives a

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1 In Austria the responsibility for both the regulation and the financing of the social assistance scheme was in 2009 still entirely devolved to the regional level, though currently Austria is moving towards a more centralized system (Fink 2009).  
2 For a detailed discussion on the limits of administrative data on benefit reciprocity, see De Deken and Clasen (2011).

social assistance benefit. The most sizeable social assistance schemes for the able-bodied can be found in Austria, Ireland, Germany, and, most notably, the United States. The SNAP in the *United States* delivers benefits to more than ten per cent of the working age population. The data for *Austria* in Table 1 are based on the safety net in Vienna. The percentage of people in receipt of social assistance in *Vienna* is relatively large, even in comparison with other Austrian provinces. This is largely due to the large (and growing) number of unemployed who receive social assistance as a supplement to social insurance benefits (Fink, 2009). The countries with the lowest numbers receiving assistance include South European countries like *Spain (Catalonia)* and Eastern European countries like *Bulgaria, Czech Republic, Latvia, Lithuania* and *Poland*.

This cross-national variation in benefit receipt is due to a variety of reasons, such as differences in the number of (long-term) unemployed, the adequacy of social insurance arrangements, and the design of the social safety net. As far as the design of social assistance is concerned, Frazer and Marlier (2009) point to the relevance of the accessibility and conditionality of social assistance benefits, as well as the degree of non-take-up. Non-take-up is often caused by stigma associated with social assistance receipt. The restrictive access to assistance presumably plays an important role in explaining the modest reliance on social assistance in Southern and Eastern Europe. As Frazer and Marlier (2009) show, the coverage of assistance schemes in many Eastern Europe countries is small due to the low level at which the means test is set. General social assistance is only open to the very poorest. In addition, social assistance schemes here are largely discretionary. In many East-European countries, as well as in many Spanish regions, the right to social assistance is only a ‘weak’ right (Frazer and Marlier, 2009; Rodríguez Cabrero, 2009).



### 3. Data and methodology

This paper mainly draws on data derived from a data collection conducted by the Centre for Social Policy (University of Antwerp) through a network of national experts: the CSB-MIPI dataset (for a detailed description of the dataset, the network of experts, methodology, assumptions and limitations, see Van Mechelen et al., 2011). This dataset contains gross time series on various minimum income protection schemes for Norway, three US states and all EU-27 member states, except for Cyprus and Malta. Moreover, net disposable income (including family allowances and housing benefits) is calculated by means of model family simulations. Information on net benefit levels is available for 1992, 2001 and 2009 for most EU15 member states and for 2001 and 2009 for the CEE countries, Finland and Texas, Nebraska and New Jersey. Both the time span and the large number of countries as well as the inclusion of various minimum income schemes, make this dataset one of the more comprehensive datasets in its kind. In this paper we focus on social assistance benefit levels for the able-bodied. Marx, Marchal and Nolan (forthcoming) and Van Mechelen and Bradshaw (forthcoming) deal with the minimum income protection arrangements and child benefit packages for workers.

Using the model family approach full account is taken of taxes, social security contributions, family benefits and housing allowances (on the condition that they are non-discretionary). One of the limitations of this approach is that it does not allow us to fully gauge the living standard of social assistance recipients. Social assistance benefit packages typically also include additional payments for specific costs, in-kind benefits and/or free or subsidized services. Some of these benefits are hard to tackle in comparative research. In-kind benefits such as access to food banks and second hand cloth depots as well as additional cash benefits for specific costs like electricity, water or education are often locally regulated or highly discretionary. In addition, the financial value of associated rights that aim to reduce costs such as public transport fares and health care charges, is difficult to put in numbers, as the use of these services depends strongly on personal needs. This explains why we focus here on the benefit package that consists of basic social assistance payments, income taxes, local property and other non-income related taxes, social security contributions, family benefits and housing allowances. The US figures also include the electronic food stamps provided through the Supplemental Nutrition Assistance Program (SNAP).

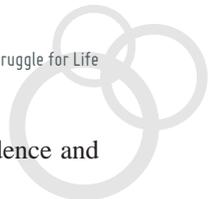
The CSB-MIPI dataset is innovative in the sense that it explores new ways to calculate housing allowances, that usually depend on housing costs. Assumptions with respect to housing costs are crucial when assessing the generosity of social assistance schemes, as housing allowances tend to constitute a substantial part of net disposable income. Most data on social assistance benefit packages overcome this difficulty by assuming a rented

accommodation with rental costs equal to 20 per cent of average earnings, which is assumed to approximate the average level of housing consumption across the OECD countries (Bradshaw and Mayhew, 2006; OECD, 2009b).<sup>3</sup> The OECD (2004) justifies this housing cost assumption on the grounds that, first, no practical alternatives are obviously preferable, and second, that it is transparent and easily understood. Nevertheless, there are several drawbacks. First, families of different size are likely to spend different amounts to housing while the standard of 20 per cent does not vary by household size (Bradshaw and Finch, 2002). Second, this housing cost assumption does not reflect the typical housing cost of low income families in many OECD countries. Households on minimum income benefits are likely to spend less than the average housing cost. Therefore, the CSB-MIPI data take into account empirically estimated housing costs. They draw on the assumption of a rental cost of two thirds of the median rent paid by households in the respective country. Households without children are assumed to rent a one-bedroom dwelling, households with two children a three-bedroom dwelling. Estimates of the median rent have been based on EU-SILC 2007, up rated with Harmonized Indices of Consumer Prices for housing (actual rentals only) made available by Eurostat. This approach leads to much lower housing cost estimates (and net benefit packages) as compared with the assumption of a rental cost equal to 20 per cent of average earnings. Where information on average housing costs or average housing allowance of social assistance recipients is available, it shows that the CSB-MIPI-estimates are somewhat low but closer to the average housing cost than the OECD-estimates (Van Mechelen, et al., 2011).

In this paper we present benefit packages of four model families: a single person household, a couple without children, a couple with two children and a lone parent with two children (seven and 14 year). We take both a cross-national and a cross-temporary perspective. Moreover we assess both cross-country and cross-temporary differences in purchasing power terms as well as in terms of more 'relative' measures. In order to compare the purchasing power of benefits cross-nationally, we use Eurostat's Purchasing Power Parities computed for 'household final consumption expenditure' (PPPs). Such PPPs level out the main cross country differences in currencies and prices. They are based on a relevant basket of goods and services. The purchasing power trends offered by benefits are evaluated through the use of general indices of consumer prices published by ILO. Such indices adjust for the development of prices, also in a basket of goods and services. The more 'relative' measures aim to gauge to what degree cross national differences are linked to differences in the average living standard or to what extent benefit levels have followed changes in the average living standard. We use two benchmarks to set minimum income protection against: the net average wage and the median equivalent net disposable income. The latter comes probably

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3 Nelson (2009) uses yet another method. Housing costs are based on the rent levels gathered by Eardley et al. (1996), who asked national respondents to fix typical rent levels for the most common type of tenure in a town of their country. These estimates refer to 1992, and have been uprated through the ILO rent indices.



closest to our understanding of the average living standard in society as it takes into account the incidence and proliferation of dual earner families. Comparisons between changes in benefit packages and median equivalent net income are also particularly important for assessing the degree to which benefits gain or lose potential to lift households out of poverty (Van Mechelen, et al., 2011).



## 4. Social assistance benefit levels in 2009

The key objective of the schemes outlined above is to provide sufficient resources to those who have insufficient means of subsistence. Clearly views on what are sufficient resources are strongly related to the ideas and norms about what constitutes poverty. In its resolution of 20 October 2010 on the role of minimum income in combating poverty and promoting an inclusive society in Europe, the European Parliament ‘takes the view that adequate minimum income schemes must set minimum incomes at a level equivalent to at least 60% of median income in the Member State concerned’ (European Parliament, 2010). The European at-risk-of poverty line is thus put forward as a reference point to assess the adequacy of benefit levels despite the fact that the debate on whether this operationalization of poverty is appropriate has been revived recently as a result of the enlargement of the EU to the east (Fahey, 2007; Goedemé and Rottiers, 2011). Other, more relevant, benchmarks might exist, for example minimum budget standards. Minimum budget standards reflect the monetary value of baskets of goods and services which would correspond to the minimum acceptable way of life in society (Storms and Van den Bosch, 2009). However, since no EU-wide budget standards exist we assess the adequacy of social assistance benefits in the EU-member states against the at-risk-of poverty threshold (see Figure 1).

Social assistance benefit packages (including non-discretionary housing allowances and child benefits but excluding in-kind benefits and associated rights) are inadequate in protecting against poverty almost everywhere. Benefit levels are above the European poverty line only in Ireland (for single person households; before cuts were enacted in 2010) and in Denmark (for couples). In the remainder of the EU Member States social assistance benefit packages today are insufficient to protect benefit recipients and their households against poverty. In the Netherlands, Luxembourg, Austria (Vienna), but also in Latvia benefit levels tend to lie between 40 per cent and 50 per cent of equalized median household income. In the majority of countries social assistance payments are usually below 40 per cent of median income, though there is generally considerable variation among family types. This is even the case in richer Member States such as Belgium, Germany, France, Finland, Sweden, and the United Kingdom. In the Slovak Republic, Estonia, Bulgaria and Romania, benefit levels are typically set below half the poverty line. Our data confirm and reinforce the picture presented by other studies: social assistance is inadequate for poverty alleviation in most countries (Bahle, et al., 2011; Immervoll, 2009; Nelson, 2011). Cantillon (2011) has identified several factors explaining why the lowest benefit levels are far below the European poverty line in many member states: disagreement on the definition of adequate minimum income, the budgetary burden of

providing larger assistance benefits, concern over the tension between benefits and minimum wages and negative work incentives, etc.

Figure 1 also shows that families with children tend to be treated differently as compared to childless families. Most social assistance schemes provide extra amounts of money to families with children. In addition, social assistance claimants with children are usually entitled to means-tested and/or universal tax benefits and/or cash benefits (see Van Mechelen and Marchal, forthcoming). Child benefit packages of social assistance recipients are typically more generous than implied by the equivalence scale used to calculate the poverty line. As a consequence, net incomes of social assistance recipients in families with children are often higher relative to the poverty threshold than for single persons though there are some important exceptions (Ireland, the Netherlands, Belgium, Latvia, France, Spain, and Norway).

The (in)adequacy of social assistance is strongly related to the benefit levels in purchasing power terms (Nelson, 2011). As Figure 1 shows, in most CEE countries net income of assistance claimants are low not only relative to the poverty line, but also in more absolute terms. Moreover, CEE countries where social assistance benefits are relatively high as a percentage of median income, like Latvia and the Czech Republic, move down the rankings of countries in terms of purchasing power parities. Social assistance is also extremely low in the United States. In purchasing power terms, benefit levels are comparable to those in the CEE countries; in the case of Nebraska to the more generous ones like Latvia and the Czech Republic, in the case of New Jersey and Texas to those in the Slovak Republic and Estonia.

## 5. Social assistance benefit levels: trends

To what extent is the inability of social assistance schemes to provide adequate protection against poverty the result of benefit erosion during the past two decades? In principle trends in social assistance benefit levels are expected to be largely reflective of the statutory adjustment mechanism. In countries where benefit levels are linked to a price index, social assistance benefits may be expected to remain fairly stable at least in real terms. However, when wages grow faster than prices (as was the case in most countries until very recently), benefit levels subjected to such price-linking mechanisms may be more prone to welfare erosion than benefit amounts that are regularly adjusted to wage developments. This section first discusses the main statutory adjustment mechanisms for social assistance benefits that are applied in the EU and the US. Next, we look at the actual trends in benefit levels during the 1990s and, subsequently, during the 2000s. In the latter section, we attempt to shed some light on the impact of statutory adjustment mechanisms.

### 5.1. Indexation rules

Various mechanisms exist to increase or adjust benefit levels. Veit-Wilson (1998) identifies three broad categories. First of all, countries may rebase benefits. In a number of countries benefit levels are explicitly linked to a basket of goods and services. Every few years this basket may be re-assessed, for example, to correspond better to the minimum acceptable way of life in society. Secondly, benefits can be updated. This means that their level is kept in line with a previously specified index, like a price index or wage index. Thirdly, uprating refers to the fact of governments deliberately deciding to change benefit levels, independent from the index. Table 2 gives an overview of the systems that are being used for rebasing and updating benefits in 24 countries.

In just seven countries there is *no statutory adjustment* mechanism for social assistance benefits whatsoever, as the development entirely depends on ad hoc decisions (Ireland, Bulgaria, Estonia, Latvia, Lithuania, Poland and the Slovak Republic).

In the majority of countries the principle of keeping social assistance amounts in line with cost of living is put into practice by linking benefits to a price-index. In most countries there is a direct *price-index* linking of benefits (Norway, Sweden, Belgium, Czech Republic, France, Romania, Slovenia, UK and the US). There is considerable cross-country variation in the composition of this price index (for example, the United Kingdom benefits

are updated according a price index that excludes housing costs), in the thresholds that have to be crossed before indexation occurs or in the period between price adjustments, whether indexation occurs automatically or not, etc.

In Germany, Hungary, Finland, Luxembourg and Portugal, this price index is *combined* with a measure that aims to keep benefits in line with the general living standard, rather than with the cost of living alone. Moreover, in the latter three countries, benefits are only indirectly linked to inflation. Reference is made to old age pensions or minimum wages. Pure *wage indexation* is only applied in the Netherlands and in Denmark. Here too, there is considerable variation in the construction of the index: in the wage components that are included, in the economic sectors that are taken into account, whether wage development is fully or only partially taken into account, etc.

*Rebasing* (in addition to regular indexation) occurs mainly in the Scandinavian countries and Germany. The selection of goods and services that are included in the basket can be either normative or based on consumer surveys. In practice it is often a combination of both.

## 5.2. 1992–2001 – ‘Old’ EU member states

The dominant picture during the 1990s is one of social assistance benefit levels that increased enough to ensure steady purchasing power but not nearly enough to keep up with the movement of average wages. This picture draws on data for the so-called old EU member states, plus Norway.<sup>4</sup> Only for this set of countries, the CSB-MIPI dataset provides net benefit packages in 1992. As Figure 2 shows, social assistance benefits kept up with wage growth in only four countries: Denmark, Italy, and to a lesser degree, France and Luxembourg. Most striking is the markedly strong increase in social assistance benefits in *Denmark* (at least for a couple with two children), due to fundamental reforms of the tax and benefit system. The *Italian* data are based on the benefits actually received by social assistance claimants in Milan. These estimates are below the formal benefit rates in Milan but have grown substantially since 1992. It is hard to assess how representative this trend is for Italy as a whole. However, it is certainly the case that the Italian welfare system has undergone a fundamental transformation during the second half of the 1990s. An experimental minimum income scheme was launched in 29 municipalities and later enlarged to another 270 municipalities (Saraceno, 2006). The aim was to introduce a nation-wide general social safety net. However, in 2002 the newly elected government ran by Berlusconi declared against this idea and decided not to continue the ongoing experiment (Minas and Øverbye, 2010).

<sup>4</sup> Greece is not included as there is no assistance scheme for the able-bodied. Portugal is not included as its general assistance scheme was introduced only in 1996.

In the majority of West-European countries the nineties are marked by a significant erosion of social assistance benefits. Compared with average wages, they lagged most significantly behind in the *Netherlands*, *Norway*, *Sweden*, *Ireland* and the *United Kingdom*. Although we lack data on the trend in net social assistance benefit packages in *Finland*, the development of gross benefit rates vis-à-vis gross average wages suggest that in Finland too, welfare erosion during the 1990s was quite substantial (Van Mechelen, Marx, Marchal, Goedemé, and Cantillon, 2010).

### 5.3. 2001–2009 — ‘Old EU Member States’

In many West-European countries social assistance benefits continued to decrease after 2001, at least if one compares with net average wage (see figure 3). In *Finland*, *Norway*, *Sweden* and *France* assistance payments grew at a slower pace not only than wages but also than median equivalent household income. This means that benefit levels became less adequate as an anti-poverty device. In most of these countries, social assistance benefits were below 60 per cent of median equivalent income already in 2001. In the course of the past decade, benefit rates moved further away from this poverty line. Nevertheless except for France these countries have adjustment mechanisms that take account of more than price indexation. In Finland, Sweden and Norway benefits are regularly reassessed on the basis of basket of goods and services. However it appears that in neither of these countries rebasing has been used to keep benefit amounts in line with the European poverty threshold. By contrast in the past changes in the ‘shopping’ basket have occasionally been used to down-rate rather than up-rate benefits (Nelson, 2008).

In contrast to the 1990s, there is no general tendency to welfare erosion since 2001. *Belgium*, *Ireland*, *Denmark* and the *Netherlands* saw their benefits rise faster than net average wages and median equivalent income between 2001 and 2009, after years of benefit erosion. Also in *Portugal* the level of the social assistance benefit package kept up with the development of both average wages and median equivalent household income. The positive developments in Denmark, the Netherlands and Portugal are mainly the result of favourable indexation rules (though in the period 2003-2005 Dutch social assistance benefits were frozen out of fear that strong wage growth would translate into increasing social expenditure). In Belgium and Ireland benefit levels increased more strongly than required according to the statutory adjustment mechanism. The stark increase in Ireland is a consequence of the governments engagement in 2002 to combat poverty (DSCFA, 2002). In Belgium, attention has increasingly been focused on the welfare evolution of social benefits as evidenced by the fact that since 2009 every two years the government sets an amount of resources that can be spend to adjust benefits to welfare evolution. However there is no statutory mechanism that determines which social benefits will be increased and by how much. This is

decided through collective agreement. In *Germany*, the Hartz IV reforms of 2005 went accompanied with a substantial increase in assistance payments for the able-bodied. Nevertheless, it remains unclear whether this reform also improved the actual level of welfare enjoyed by benefit recipients. Since the Hartz IV reforms low income households that are work capable are no longer entitled to general social assistance ('Sozialhilfe'), but they can claim a means-tested unemployment benefit ('Arbeitslosengeld II'). The level of this unemployment benefit is substantially higher than the basic amounts formerly paid in social assistance. The extra amount was introduced mainly to compensate for the abolishment of supplementary benefits (for specific expenses like schooling costs, medical costs, etc.) that were regulated and financed by the municipalities. Given that the level of supplementary benefits varied considerably according to municipality, the effect of the Hartz reforms on the level of the total social assistance benefit package also varied. The introduction of 'Arbeitslosengeld II' is likely to have caused an increase of the benefit package for able-bodied persons in the municipalities that belonged to the less generous category while it has caused welfare erosion in the more generous municipalities. The 2001 figure here is based on the average social assistance benefit rate in all Länder.

In the *United Kingdom* assistance payments for able-bodied people with children have grown more rapidly than for people without children thanks to increases outside of the statutory system. For families with children, the adequacy of benefit levels has increased since 2001 (as compared with the EU poverty line) whereas for childless households it has deteriorated. In *Austria* (Vienna) and *Spain* (Catalonia) too, the welfare development of social assistance benefits varies substantially according to family type. Here the picture for families with children is less favourable than that for families without children.

Trends in the UK and Austria – but also France (see above) – show that price indices are generally not sufficient to prevent welfare erosion, at least not in the pre-crisis era. When the standard of living rises more steeply than the overall price level, price linking does not result in benefits evolving in line with overall prosperity in society. No information on the indexation rules underlying the benefit changes in Catalonia was available.

A general conclusion is that statutory adjustment mechanisms often fail to keep benefit levels in line with the European poverty line. Even in countries where price indices are combined with rebasing mechanisms, social assistance benefit packages tend to decline compared to median income. Adjustment mechanisms based on a basket of goods do not guarantee that amounts keep up with the general level of welfare. They rather establish a link with a normative framework regarding the living standard of households that rely on minimum benefits. Linkage to a wage index is usually superior to price indexes from an anti-poverty point of view (as wages tend to grow faster than prices). However, even adjustments to wages do not always guarantee that benefits stay in line with median

income due to at least three reasons. First, wage indexes are typically based on the earnings in a specific segment and not the entire labour market (for example only private sector wages). Second, changes in median income not only depend on wage developments but also on factors such as trends in household joblessness and the development of multi-earnership. Third, indexation mechanisms can be easily bypassed, for example by temporarily freezing wage adjustments (as happened in the Netherlands) (Cantillon, et al., 2004).

Because of the deficiencies of most adjustment mechanisms, frequent policy interventions are required in order to prevent welfare erosion. In the countries where benefits were kept in line with the average living standard, this was generally because governments (consciously) increased benefits over and above the evolution of the average living standard, either by a one-time reform, or through subsequent ad hoc raises. Conversely, benefits cuts are not always necessary to reduce relative benefit levels. Non-intervention may lead in itself to a widening welfare gap.

#### 5.4. 2001–2009 — ‘New’ EU Member States

In Central and Eastern Europe too, there appears to have been considerable cross-country variation in benefit trends since 2001. There was a remarkable upsurge in social assistance benefit levels in Romania, Hungary, Latvia, Lithuania and Slovenia, not only in real terms but also in comparison to net average wage and median equivalent household income. Increases are not due to indexation mechanisms but have often been prompted by major reform moments. Both Slovenia and Romania reformed their social assistance schemes at the start of the decennium. The *Romanian* reform, framed in an anti-poverty strategy, tripled social assistance benefits (Vilnoiu and Abagiu, 2003). However, since this reform, benefit levels constantly decreased in real terms. Statutory price adjustments were only introduced in 2006/2007. In addition, benefits have recently been uprated as an anti-crisis measure. The *Slovenian* reform took place in 2001. This reform aimed at restricting behavioral conditions as well as at increasing social assistance benefits. Between 2001 and 2003 gross benefits increased by 41% in real terms. Since then, benefits remained quite stable in real terms thanks to the legal price linkage. *Hungary* reformed its social assistance scheme twice the last decennium, once in 2006 and once in 2009. The 2006 reform raised benefit levels; the 2009 reform introduced a stand-by allowance for persons deemed employable.<sup>5</sup> In *Latvia* and *Lithuania* there have been no radical welfare reforms between 2001 and 2009. However benefit levels have increased substantially due to ad hoc (i.e. not linked to the statutory adjustment mechanism) government decisions.

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<sup>5</sup> The stand-by allowance is not included in the CSB-MIPI data.

By contrast, social assistance recipients in Estonia, Poland, the Czech and the Slovak Republic saw their relative living standard decline. In two of these countries social assistance payments even lagged behind price movements. In the Czech and the Slovak Republic there have been intentional reforms that have cut back social assistance benefit levels. The *Slovak Republic* reformed its social assistance scheme in 2004. Social assistance has since consisted of one low basic allowance, that can however be supplemented by several categorical top-ups, that are generally conditional. For instance, the activation allowance that tops up the basic allowance is dependent on subscribing as an unemployed jobseeker and upon participation in activation programmes. Likewise, the allowance for parents with children is conditional on the children actually attending classes. For families that receive only the basic allowance plus health care supplement (i.e. the unconditional components of the social assistance benefit package) income support was severely cut down (see Figure 4). The *Czech Republic* introduced a new scheme of housing allowances for low income families in 2007, which replaced the housing allowance formerly provided through the social assistance scheme. This reform resulted in a real decrease of benefit levels for several family types. The strong decline in the value of minimum income protection in *Estonia* and *Poland* is not the result of cuts in benefits. Both countries lack a statutory indexation mechanism but benefit levels are regularly increased through ad hoc decisions. These increases are usually sufficient to keep benefit levels in line with price evolutions but not with the strong growth in wage and median income.

## 5.5. 2001–2009 – The United States

In the United States too there has been no uniform pattern since 2001 (see figure 5). First of all, there have been differences in trends across states. In states where childless families on low income mainly receive food stamps (like in Texas), the relative position of social assistance recipients without children has usually improved. This is a result of the recent increases in SNAP benefit levels in response to the economic crisis. By contrast, in New Jersey where families without children can receive general assistance as well as food stamps, cuts in general assistance payments have resulted in decreasing social assistance benefit packages. In addition, there have been differences across family types. The picture for families with children is usually more favourable than the one for families without children. On the one hand, social assistance recipients with children have not only benefited from the increases in SNAP entitlements; many states (like Nebraska, New Jersey as well as Texas) have also increased TANF benefit levels. On the other hand, general assistance payments for families without children have often remained stable in real terms (for example in Nebraska) or have even been reduced (for example in New Jersey).

## 5.6. Discussion

The broad picture that emerges is one of eroding benefit levels relative to the general living standard, although the trend is less uniformly negative from 2001 onwards. In the 1990s we see the comparative level of welfare of social assistance recipients decline almost everywhere, at least in the EU 15 countries for which we have data spanning the entire period. In many countries social assistance payments have continued to decrease relative to average wages after 2001, but there is a substantial number of exceptions. Social assistance payments seem to have gained ground in countries as diverse as Romania, Hungary, Latvia, Lithuania, Slovenia, Belgium, the Netherlands, Portugal and Ireland.

The poverty standstill in the 1990s and 2000s and thus the failure of the Lisbon agenda on poverty and social inclusion may come as no great surprise against the background of the erosion of social assistance benefit levels. But even more important was the fact that the erosion of social assistance benefits was part of a general welfare state backlash which also affected the access, generosity and conditionality of various social insurance programmes (Barberis and Baumann, 2010; Kangas and Ritakallio, 2007; Korpi and Palme, 2003; OECD, 2007; Starke and Obinger, 2009). The impact on poverty of social assistance benefit levels alone is after all modest due to several reasons (Cantillon and Van Mechelen, forthcoming). In most countries the role of social assistance in the overall protection system is marginal as income protection is primarily provided through social security programmes. As shown in Table 1, the share of social assistance claimants in the working age population is usually less than three per cent. Moreover, as social assistance benefit levels tend to be below 60 per cent of median income their relevance in explaining poverty trends (as measured by this poverty line) is inherently limited. They are more likely to have an impact on the poverty gap, or on non-financial measures of poverty like material deprivation (Nelson, forthcoming). Finally, the adequacy of assistance schemes does not solely depend on benefit levels but also on the accessibility and conditionality of the scheme and the degree of take-up. The increased focus on labour market activation therefore may have played a part too in the disappointing poverty trends, at least to the extent that it has resulted in the exclusion of those that do not comply with the increasingly stricter and strictly enforced training, job search and work requirements from income support (Cantillon, 2011).



## 6. Conclusions

Tackling poverty is at the centre of the EU2020 strategy. However, many EU Member States still fail to provide adequate protection against low income. First and foremost, not all EU countries have a social safety net that provides cash benefits to all needy people. This paper has focused on minimum income schemes for the able-bodied of working age. Such schemes are non-existent in a number of countries. For example, Greece lacks any sort of general or categorical safety net for this population group. The Hungarian protection system covers only part of the needy but healthy people of active age. Moreover, levels of minimum income protection are inadequate almost everywhere, if measured by the standards of the European Parliament, i.e. 60 per cent of median equivalent income.

The inadequacy of minimum income protection has even worsened during the past decades. In many countries assistance payments have not kept up with the development of average wages and median equivalent household income. However, net social assistance benefit levels have by and large eroded less over the last decade than during the preceding decade. While the overall picture for the 1990s was one of almost uniform erosion of benefit levels relative to average wages, at least for the EU15 countries for which we have data spanning the entire period, the picture is less uniformly negative from 2001 onwards. Although benefit levels have not kept pace with wages in all EU member states, assistance payments seem to have gained ground in a substantial number of countries, including Romania, Hungary, Latvia, Lithuania, Slovenia, Belgium, the Netherlands, Portugal and Ireland.

This paper has looked at the role of statutory adjustment mechanisms in the development of benefit levels. It appears that most legal systems are quite insufficient to keep benefit levels in line with the general living standard. In the countries where benefits did keep pace with average wages or median equivalent income, this was generally because governments (consciously) increased benefits over and above the evolution of the average living standard, either by a one-time reform, or through subsequent ad hoc raises. Price linkage has often failed to prevent benefits from deteriorating, especially in the pre-crisis era when the standard of living tended to rise more steeply than the overall price level. Wage indexes are superior to price indexes when it comes to countering benefit erosion. However, as we have seen, even adjustments to wages do not always guarantee that benefits stay in line with the poverty line.

The question of what is the best adjustment system is of course part of the discussion on what is the most appropriate way of defining an adequate minimum income. This paper has used 60% of median equivalent income as a reference point. A direct linkage of benefit levels to the development of median household income seems to

be an obvious option if measures of relative income poverty are used to assess the adequacy of minimum income protection. However, other, more relevant, benchmarks might exist, for example a minimum budget standard. In this case, the budget standard could be used to rebase benefits every few years, in combination with more regular adjustments on the basis of price or wages indexes. But, as the experience in a number of Nordic countries shows, in the case of rebasing it is important to ensure that the basket-of-goods-and-services accurately reflects the underlying views on the needs that must be fulfilled in order that people could lead a life compatible with human dignity. If not, there is a real danger that rebasing might be used to decrease the level of minimum income protection.

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# Tables and Figures

Table 1. Overview of European social assistance schemes and their size, 2009

COUNTRY	2009	SHARE IN WORKING AGE POP. (15-64 YR) <sup>a</sup>	REMARK
AT VIENNA	Sozialhilfe <i>Hilfe zur Sicherung des Lebensunterhalts</i>	6,6%	2007
BE	Leefloon	2,01%	June 2009
BG	Месечни социални помощи <i>Monthly social assistance</i>	1% <sup>b</sup>	
CZ	Hmotná nouze <i>Social need</i>	1,5% of households	June 2009
DK	Kontanthjælp	3,3% of population aged over 18 years	2008
EE	Toimetulekutoetus <i>Subsistence benefit</i>	2,1% (unemployed recipients, excl. pensioners and students receiving benefits)	2009
FI	Labour market subsidy Social assistance	2,7% 6,4% of total population	2009 2008
FR	Revenu de solidarité active	4%	June 2009; incl. working poor
DE	Grundsicherung für Arbeitsuchende - Arbeitslosengeld II (for persons that are deemed able to work) - Sozialgeld	ALGII: 9.17% Sozialgeld: 2.77% (of population younger than 65 yrs)	June 2009
HU	Rendszeres szociális segély and rendelkezésre állási támogatás	3%	2009 (total for both forms of the scheme)
IE	Jobseeker's allowance	6,7%	2009
IT MILAN	Minimo Vitale	n/a	
LV	Pabalsts garantētā minimālā ienākumu līmeņa nodrošināšanai <i>Guaranteed Minimum Income Level</i>	1,8%	2008
LT	socialinė pašalpa <i>Social assistance benefit</i>	1,6%	2008
LU	Revenu Minimum Garanti	3% of population aged 18-59 years	June 2009
NO	Sosialhjelp Oslo	3,36% of population aged 6-66 years	
NL	Wet Werk en Bijstand	2,5%	June 2009
PL	Temporary social assistance benefit	1,8%	2008
PT	Rendimento Social de Inserção	5,1%	June 2009
RO	Legea Venitului Minim Garantat <i>Law on the Minimum Income Guarantee</i>	276,314 households	June, 31, 2009
SK	Pomoc v hmotnej núdzi <i>Assistance in material need</i>	n/a	
SI	Denarna socialna pomoč <i>social assistance</i>	2,88% (+ exceptional sa) 3,16%	June 2009
ES CATALONIA	Renda minima de inserció (RMI) <i>minimum income for labour insertion</i>	0,64% of population aged 25-64 years (minimum age for RMI = 25)	Beginning 2010
SE	Ekonomiskt Bistånd <i>National defined part of Cash maintenance assistance</i>	6,3%	2008
UK	Job Seekers Allowance (Income based)	JS: 3,9%	Great Britain May 2009
US	No children: General Assistance and Food Stamps Children: Temporary assistance to needy families and food stamps	Food Stamps Nebraska: 7% New Jersey: 5.5% Texas: 12.5%  TANF: (numbers) Nebraska: 18888 New Jersey: 78657 Texas: 114,569	Food Stamps: 2010 TANF: on average for calendar year 2010

<sup>a</sup> Figures are not fully comparable. <sup>b</sup> Rough estimate.

Source: Van Mechelen et al. (2011, pp. 9-10)



Table 2. Statutory adjustment mechanisms relating to social assistance benefit standards in selected countries, 2008

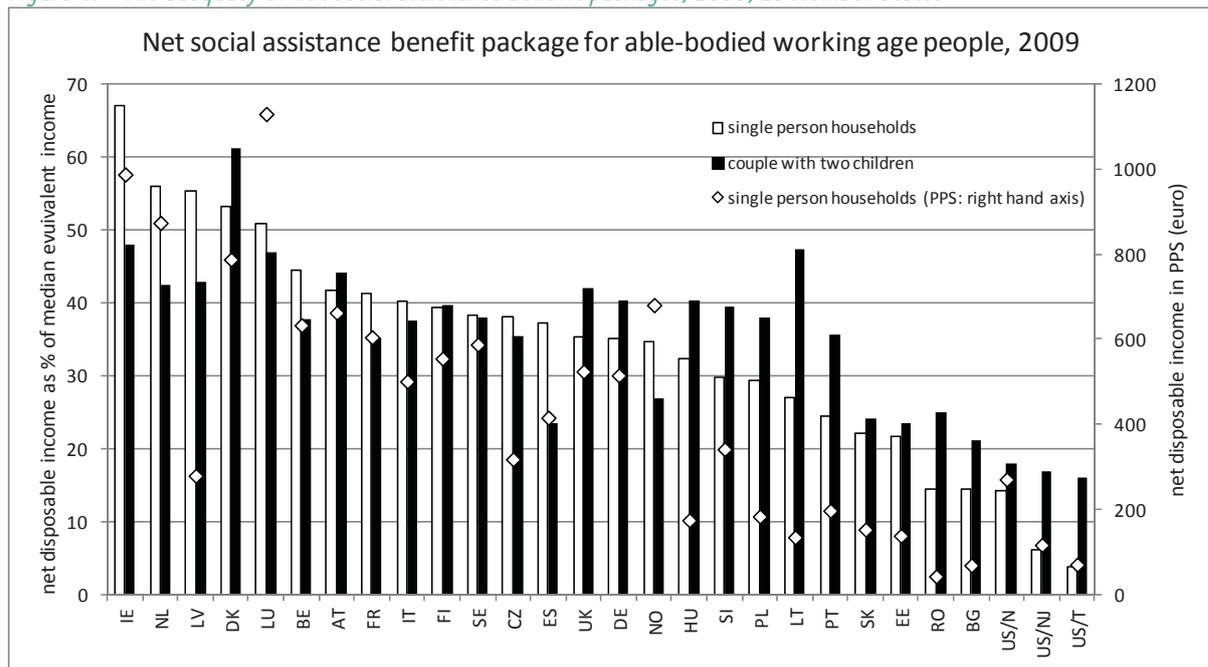
	NO REGULAR ADJUSTMENTS OR NO STATUTORY BASIS	REGULAR ADJUSTMENTS ON THE BASIS OF:			
		PRICE INDEX	WAGE INDEX	BASKET OF GOODS	OTHER
AUSTRIA (VIENNA)					Pensions <sup>a</sup>
BELGIUM		X <sup>b</sup>			
BULGARIA	X				
CZECH R.		X			
DENMARK			X <sup>c</sup>		
ESTONIA	X				
FINLAND					Pensions <sup>d</sup>
FRANCE		X			
GERMANY		X	X	X	
HUNGARY					Minimum old-age pension <sup>e</sup>
IRELAND	X				
LATVIA	X				
LUXEMBOURG					Minimum wage <sup>f</sup>
LITHUANIA	X				
NETHERLANDS					Net minimum wage <sup>g</sup>
NORWAY		X		X	
POLAND	X <sup>h</sup>				
PORTUGAL					Social pension <sup>i</sup>
ROMANIA		X			
SLOVAK R.	X				
SLOVENIA		X			
SWEDEN		X		X	
UNITED KINGDOM		X <sup>j</sup>			
US FOOD STAMPS		X		X	

Notes: <sup>a</sup> AT: pensions are indexed in line with prices; <sup>b</sup> BE: the adjustment index ('health' index) disregards costs of alcoholic drinks, tobacco products and fuel; <sup>c</sup> DK: the adjustment index (satsreguleringsprocenten) is predominantly based on wage development in the private sector; <sup>d</sup> FI: the earnings-related pension index is composed of both changes in the price level (weight of 80%) and in the earnings level (weight of 20%). Benefit amounts are also regularly reassessed on the basis of consumer behavior; <sup>e</sup> HU: since 2009 minimum old age pension is partly adjusted to wage development but only when GDP growth is above 3% and only if the governments decides so. Before 2009 benefits were linked to predicted increases in consumer prices and average earnings; <sup>f</sup> LU: the minimum wage is automatically adjusted to price movement. Every two years, the amount of the minimum wage is revised, (possibly) leading to additional increases; <sup>g</sup> NL: the minimum wage is linked to movements in contractual wages; <sup>h</sup> PL: In principle, benefit rates should be reviewed every 3 years in line with the costs of living of the 1st income quintile. However, this is not stipulated in the law. Last indexation occurred in 2006; <sup>i</sup> PT: the social pension is updated annually – since 2006 – and takes into account the price development and economic growth; <sup>j</sup> UK: the Rossi index disregards the cost of housing.

Remark: NO and SE: the adjustment mechanism applicable for the benefit level defined in the national guidelines. ES and IT: n.a.

Sources: (European Commission, 2011; OECD, 2009a, 2010; Social Protection Committee, 2006; UNION Biztosító, 2011; Van Mechelen, 2010)

Figure 1. The adequacy of net social assistance benefit packages, 2009, EU Member States

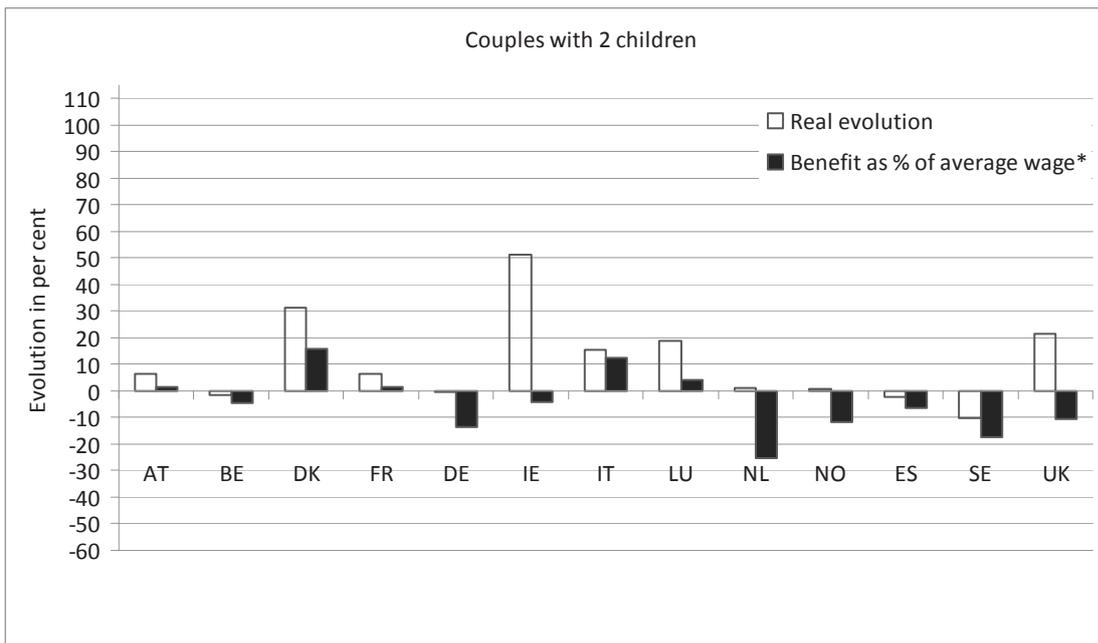
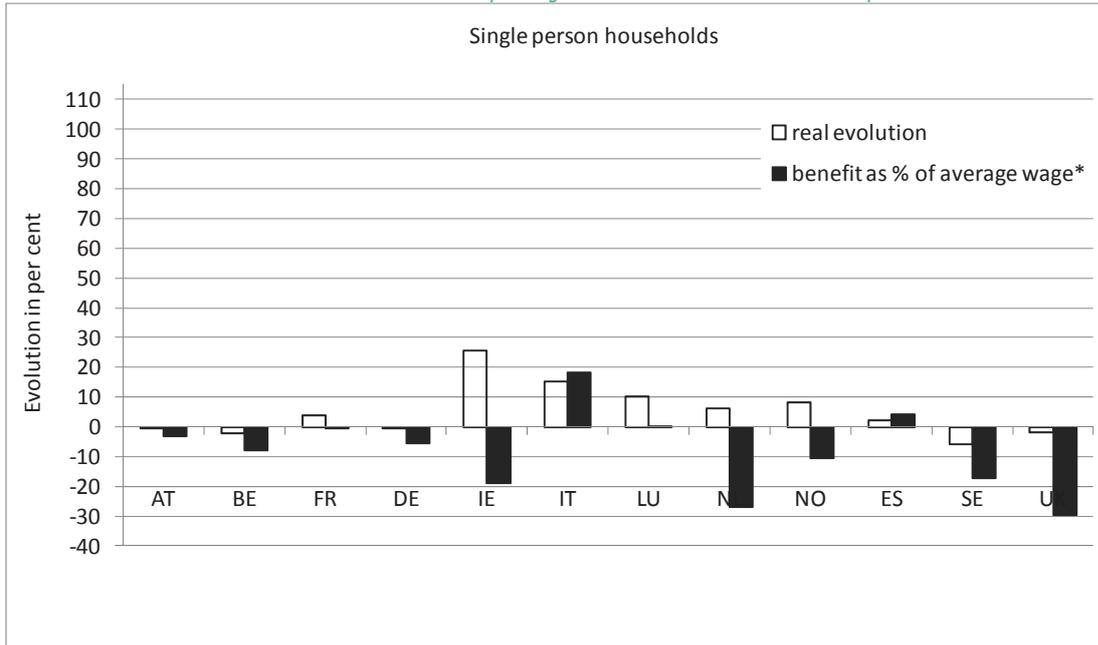


Note: In some countries, such as the US, Italy and Bulgaria, time limits apply, either formal or discretionary. In order to avoid additional assumptions, the levels displayed do not take these time limits into account.

Source: CSB-MIPI (Van Mechelen, et al., 2011), (Eurostat, 2011; U.S. Bureau of the Census and Bureau of Labour Statistics, 2011)



Figure 2. The trend in net social assistance benefit packages, 1992–2001, Western European countries

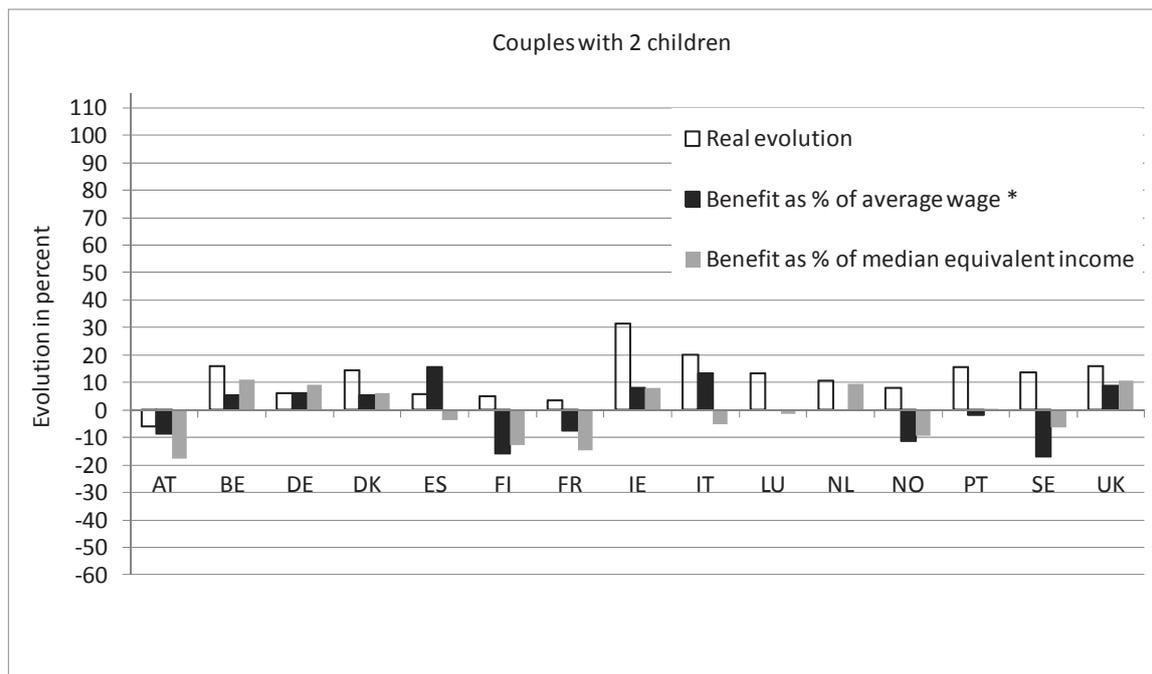
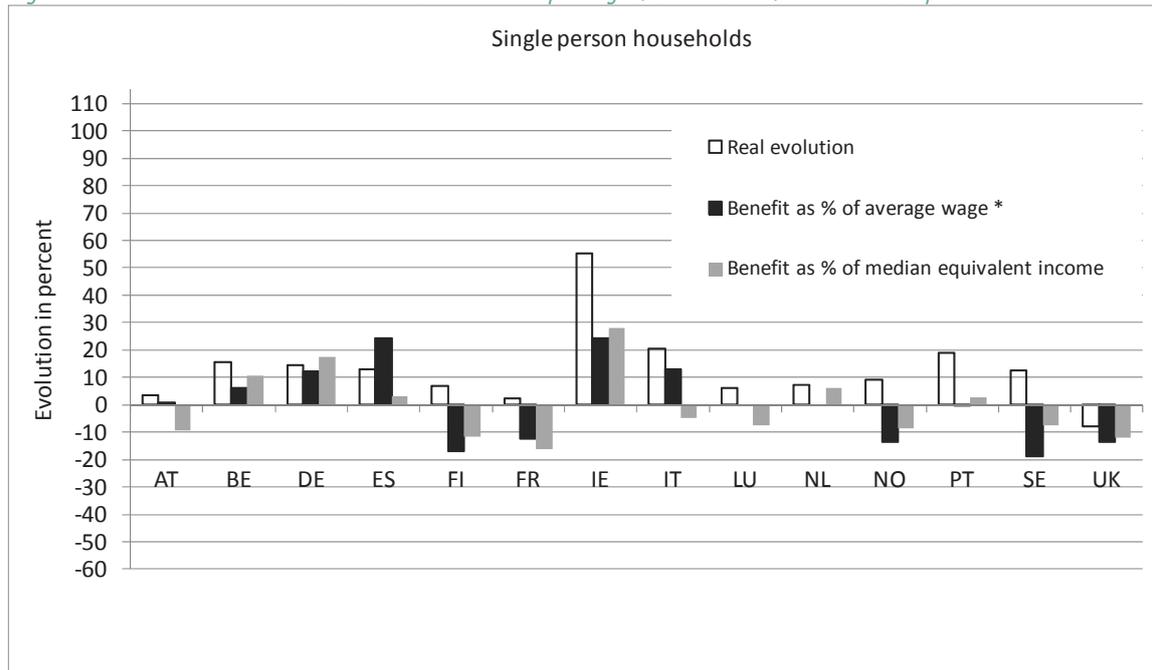


\* The ratio between the net disposable income of a household on social assistance and that of a one earner household on average earnings (net = including income taxes, local property and other non-income taxes, social security contributions, child cash benefits and housing allowances).

Note: data for a single person household are missing for DK.

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

Figure 3. The trend in net social assistance benefit packages, 2001–2009, Western European countries



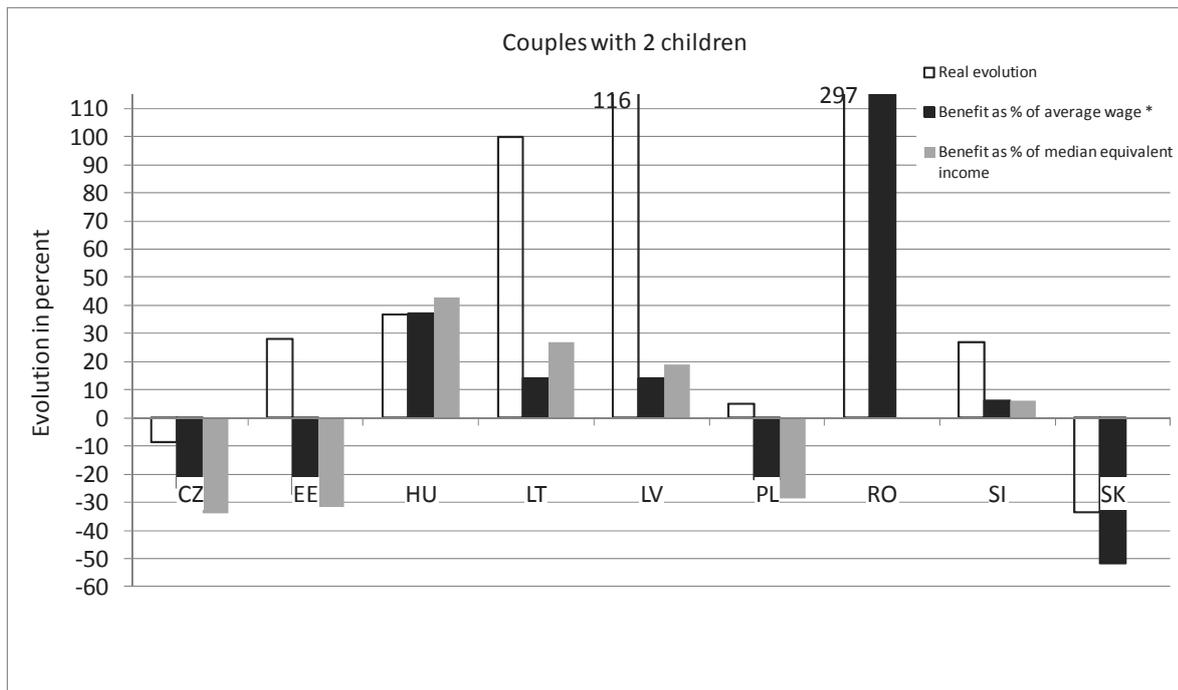
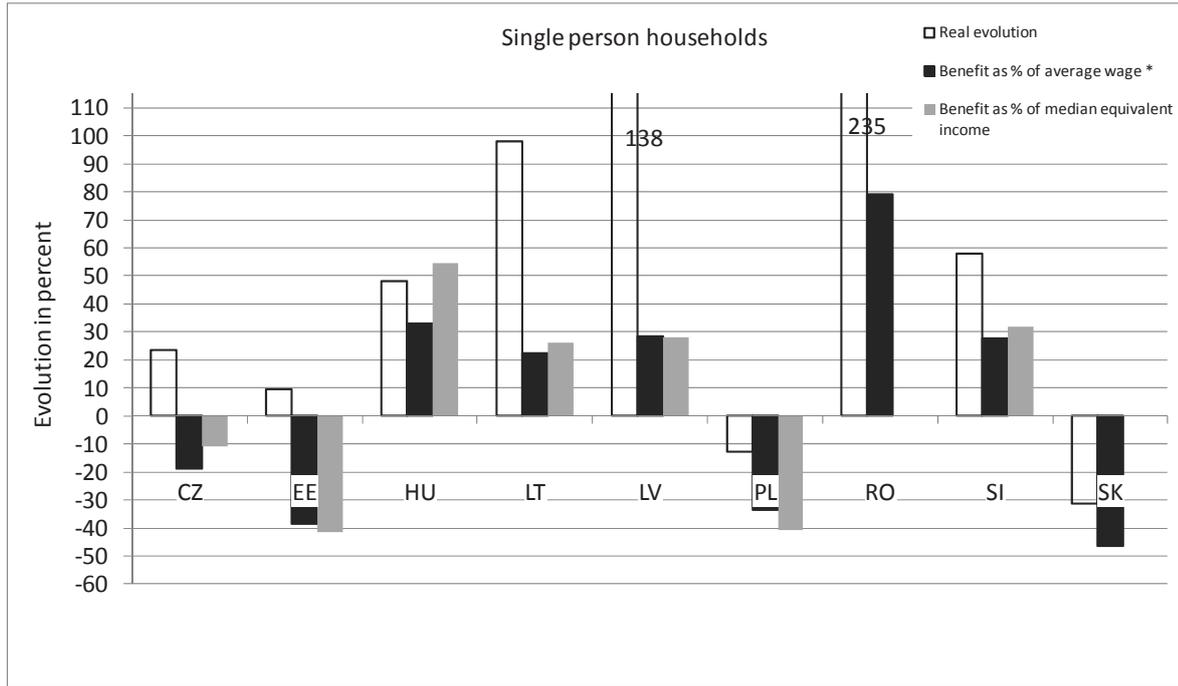
\* The ratio between the net disposable income of a household on social assistance and that of a one earner household on average earnings (net = including income taxes, local property and other non-income taxes, social security contributions, child cash benefits and housing allowances).

\*\* Data on median equivalent income for 2001 are based on ECHP for most countries, and a variety of data sources for the Eastern EU member states. For 2009, all data are based on EU-SILC, which uses a partially different income concept.

Source: CSB-MIPI (Van Mechelen et al, 2011), Eurostat (2011)



Figure 4. The trend in net social assistance benefit packages, 2001–2009, Central and Eastern European countries and 3 US States

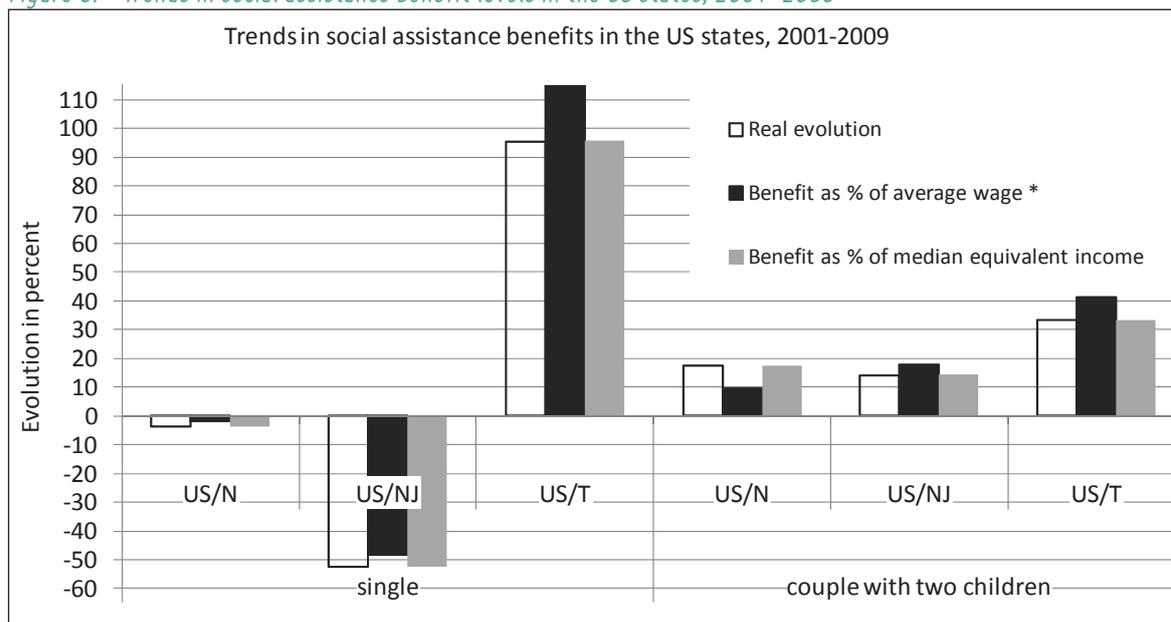


\* The ratio between the net disposable income of a household on social assistance and that of a one earner household on average earnings (net = including income taxes, local property and other non-income taxes, social security contributions, child cash benefits and housing allowances).

\*\* Data on median equivalent income for 2001 are based on ECHP for most countries, and a variety of data sources for the Eastern EU member states. For 2009, all data are based on EU-SILC, which uses a partially different income concept.

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

Figure 5. Trends in social assistance benefit levels in the US states, 2001-2009



Note: N: Nebraska, NJ: New Jersey, T: Texas

Source: CSB-MIPI (Van Mechelen, et al., 2011), (Eurostat, 2011), (U.S. Bureau of the Census and Bureau of Labour Statistics, 2011)



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# Information on the GINI project

## Aims

The core objective of GINI is to deliver important new answers to questions of great interest to European societies: What are the social, cultural and political impacts that increasing inequalities in income, wealth and education may have? For the answers, GINI combines an interdisciplinary analysis that draws on economics, sociology, political science and health studies, with improved methodologies, uniform measurement, wide country coverage, a clear policy dimension and broad dissemination.

Methodologically, GINI aims to:

- exploit differences between and within 29 countries in inequality levels and trends for understanding the impacts and teasing out implications for policy and institutions,
- elaborate on the effects of both individual distributional positions and aggregate inequalities, and
- allow for feedback from impacts to inequality in a two-way causality approach.

The project operates in a framework of policy-oriented debate and international comparisons across all EU countries (except Cyprus and Malta), the USA, Japan, Canada and Australia.

## Inequality Impacts and Analysis

Social impacts of inequality include educational access and achievement, individual employment opportunities and labour market behaviour, household joblessness, living standards and deprivation, family and household formation/breakdown, housing and intergenerational social mobility, individual health and life expectancy, and social cohesion versus polarisation. Underlying long-term trends, the economic cycle and the current financial and economic crisis will be incorporated. Politico-cultural impacts investigated are: Do increasing income/educational inequalities widen cultural and political ‘distances’, alienating people from politics, globalisation and European integration? Do they affect individuals’ participation and general social trust? Is acceptance of inequality and policies of redistribution affected by inequality itself? What effects do political systems (coalitions/winner-takes-all) have? Finally, it focuses on costs and benefits of policies limiting income inequality and its efficiency for mitigating other inequalities (health, housing, education and opportunity), and addresses the question what contributions policy making itself may have made to the growth of inequalities.

## Support and Activities

The project receives EU research support to the amount of Euro 2.7 million. The work will result in four main reports and a final report, some 70 discussion papers and 29 country reports. The start of the project is 1 February 2010 for a three-year period. Detailed information can be found on the website.

[www.gini-research.org](http://www.gini-research.org)





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